Decision 18-12-021 December 13, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $34,559,200 or 16.29% in the year 2018, by $8,478,500 or 3.43% in the year 2019, and by $7,742,600 or 3.03% in the year 2020.	Application 16-07-002

DECISION ADOPTING THE 2018, 2019, AND 2020 REVENUE REQUIREMENT FOR CALIFORNIA-AMERICAN WATER COMPANY

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DECISION ADOPTING THE 2018, 2019, AND 2020 REVENUE REQUIREMENT FOR CALIFORNIA-AMERICAN WATER COMPANY

Summary

This decision resolves California-American Water Company's General Rate Case Application for Test Year 2018 and authorizes a revenue requirement of $224,130,800[1] for Test Year 2018 compared to California-American Water Company's request of $232,837,500.[2] The table below illustrates the revenue requirement for the 12 months beginning January 1, 2018, for each of California-American Water Company's districts.

Ratemaking District	Adopted Revenue Requirement	Percent Change in Revenue Requirement
Larkfield	$3,116,400	5.58%
Sacramento	$54,614,400	13.02%
Monterey	$58,615,334	4.9%
Consolidated Monterey Satellite Systems	$1,584,566	n/a
Monterey Wastewater	$3,325,700	0.01%
Ventura	$37,495,500	1.00%
Los Angeles	$34,445,900	9.18%
San Diego	$30,933,100	6.61%

This proceeding is closed.

[1] The revenue requirement approved by this Decision is based on the results generated by California-American Water Company's Results of Operations model.

[2] Exh. CAW-51 at 7 (Table 1).

1. Procedural Background

On July 1, 2016, California-American Water Company (Cal-Am) filed Application (A.) 16-07-002 seeking to increase revenues for water and wastewater service in each of its districts statewide for the years 2018 through 2020. The application also seeks approval of 19 special requests, including requests for authorization for various fees, surcharges, programs, mechanisms, balancing and memorandum accounts, district consolidations, and tariff modifications.

The Commission's Office of Ratepayer Advocates (ORA)[3] and the Las Palmas Wastewater Committee (LPWC) timely filed protests to the application and are parties to the proceeding. In addition, the County of Los Angeles (LA County), the City of Thousand Oaks (CTO), the City of Coronado (Coronado), the City of San Marino, the Central Coast Coalition of Communities for Wastewater Equity, the Butterfield Riviera-East Community Association, and the Monterey Peninsula Water Management District (MPWMD) have all requested and been granted party status in the instant proceeding.[4]

A prehearing conference (PHC) was held on September 12, 2016. During the PHC the parties discussed the scope of the proceeding, the schedule, and times and locations for public participation hearings (PPHs).

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[3] The Office of Ratepayer Advocates was renamed the Public Advocates Office of the Public Utilities Commission pursuant to Senate Bill 854, which the Governor approved on June 27, 2018. As the party was known as ORA for the majority of this proceeding, that abbreviation is retained in this decision.

[4] The Mark West Area Community Services Committee and the California Water Rights Association (jointly) submitted a late protest. Both organizations were provided with an opportunity to file a motion to late-file the protest but did not do so, and therefore, were not afforded party status.

On October 10, 2016, Cal-Am filed an update to its application and a motion to include post-application modifications concerning Meadowbrook Water in the 100-Day Update, which was granted by Administrative Law Judge (ALJ) ruling on December 28, 2016.

The Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued on October 17, 2016 setting forth the issues, category, need for hearing, and schedule for the proceeding. The Scoping Memo excluded from the scope several special requests that Cal-Am had made in its application.

On December 6, 2016, Cal-Am filed a motion to modify the scope of the proceeding. Cal-Am's motion requested that the scope be modified to include two of the special requests excluded by the Scoping Memo. ORA filed an opposition to Cal-Am's motion on December 14, 2016 to which Cal-Am filed a reply on December 28, 2016.

On January 13, 2017, the assigned Commissioner issued an Amended Scoping Memo and Ruling modifying the scope of the proceeding to include the issue of whether Cal-Am should be authorized to establish an Advanced Metering Infrastructure/Leak Adjustment Balancing Account and modifying the schedule to provide parties with additional time to submit testimony.

Seven PPHs were held in December 2016 and January and February 2017. In addition, over 800 letters, e-mails, and calls regarding the application were received by the Commission. A summary of these letters and e-mails and comments from the PPHs is described in the next section of this decision.

Evidentiary hearings were held from May 2, 2017 through May 12, 2017.

Cal-Am, ORA, CTO, and LA County filed opening briefs on June 6, 2017. LA County filed a reply brief on June 16, 2017 and Cal-Am, ORA, and CTO filed reply briefs on June 20, 2017.

On June 6, 2017, Cal-Am filed a motion for interim rate relief, which was granted by ALJ ruling on September 8, 2017.

On June 12, 2017, Cal-Am, LPWC, and MPWMD filed a joint motion for adoption of a partial settlement agreement on Monterey issues in the General Rate Case (GRC). On August 18, 2017, Cal-Am and Coronado filed a joint motion for adoption of a partial settlement on San Diego issues in the GRC. These partial settlement agreements are addressed in Section 4 of this decision.

On June 29, 2017, Cal-Am and ORA filed a joint motion introducing Exhibit JOINT-1 and requesting that JOINT-1 be moved into evidence. JOINT-1, Attachment 1 to the joint motion, provides an agreed list of issues in this proceeding that are undisputed by Cal-Am and ORA. An ALJ Ruling issued on August 7, 2017 ruled that JOINT-1 would be considered as a list of stipulations between Cal-Am and ORA.

An ALJ Ruling issued on September 13, 2017 directed ORA to file and serve a reasonableness review report relating to the Los Padres Dam Fish Passage Project. ORA filed its report on October 31, 2017 and Cal-Am filed its response to ORA's report on November 20, 2017.

On November 14 and November 28, 2017, Water Division hosted technical conferences to review the ratemaking models used by the parties in this proceeding.

An ALJ Ruling issued on February 23, 2018 addressed admission of the exhibits related to the Los Padres Dam Fish Passage Project and requested comments regarding Cal-Am's request for a moratorium on new connections in the Laguna Seca Subarea. Cal-Am filed comments regarding the Laguna Seca Subarea moratorium on March 20, 2018.

An ALJ Ruling issued on January 22, 2018 directed parties to meet and confer on a proposed schedule for additional written testimony, evidentiary hearing, and briefing concerning any anticipated impacts of the Tax Cuts and Jobs Act (TCJA)[5] on Cal-Am's revenue requirement for the 2018 test year and following years. An ALJ Ruling issued on February 13, 2018, adopted a schedule for additional written testimony, evidentiary hearing, and briefing on issues related to the TCJA. An ALJ ruling issued on March 28, 2018 (March 2018 Ruling) subsequently modified the schedule.

The March 2018 Ruling set a technical workshop to discuss the TCJA impacts and directed Cal-Am to submit supplemental testimony on questions from the ALJs. The technical workshop on the TCJA impacts was held on April 17, 2018. Evidentiary hearings on issues related to the TCJA were held on April 17-18, 2018.

Cal-Am and ORA filed opening briefs on issues related to the TCJA (Opening Brief on Taxes) on May 4, 2018. Cal-Am, ORA, and CTO filed reply briefs on the TCJA (Reply Brief on Taxes) on May 14, 2018.

At the evidentiary hearings, the ALJs had also directed Cal-Am to submit additional information on the calculation of specific TCJA impacts. Cal-Am timely served this information on May 30, 2018.[6]

On May 31, 2018, the assigned Commissioner issued a Second Amended Scoping Memo and Ruling, which revised the procedural schedule and extended

[5] The TCJA was signed into law on December 22, 2017 and became effective on January 1, 2018.

[6] Cal-Am's Updated Reasonable Estimate of its Unprotected Excess Accumulated Deferred Income Taxes (Exh. CAW-61).

the statutory deadline for the proceeding to the end of 2018 in order to examine the impacts of the TCJA.

Water Division hosted an additional technical conference on July 10, 2018.

On August 10, 2018, the assigned ALJs issued a ruling adopting confidential modeling procedures and a protective order to govern the results of operation modeling process to be administered by the Water Division to generate tables needed for decision support in this proceeding. The ALJs issued a ruling adopting an amended certificate of compliance for the protective order on August 13, 2018.

On October 22, 2018, Cal-Am filed a motion for transitional rate relief requesting authorization for Cal-Am to revise tariff schedules and cancel present schedules upon the effective date of the 2019 escalation year filing, and true-up its interim rates through the effective date of the 2019 escalation year rates.

2. PPHs and Correspondence

Seven PPHs were held in different locations within the service territories of Cal-Am in connection with the GRC application. The PPHs were held in order to receive comments from the utility's customers regarding the impact of the application on them. In addition, over 800 letters, e-mails, and calls were received by the Public Advisor's Office of the Commission concerning Cal-Am's rates and other issues in the application.

Almost all of the comments at the PPHs and the correspondence received by the Commission expressed opposition and concerns regarding Cal-Am's requested rate increases, including the following: the rate increases are not

justified; rates are already too high;[7] water rates are increasing higher than the Consumer Price Index (CPI); and the rate increases pose difficulties for those on fixed incomes such as senior citizens. Several members of the public commented that water restrictions cause hardships and that it was unfair for rates to increase when customers are using less water. Several speakers and letters expressed opposition to Cal-Am's requested increases for its proposed implementation of Advanced Metering Infrastructure. Several speakers and correspondence stated that people have no choice but to receive water service from Cal-Am and that its parent company, American Water Works Company, Inc. (American Water), has significant profits.

There was strong opposition to Cal-Am's proposed consolidation proposal from the Thousand Oaks/Newbury Park area. Nearly every participant at the well-attended Thousand Oaks PPH spoke out against consolidation and a large majority of the 800+ letters received by the Commission were those opposing the proposed Southern Division consolidation, including letters from California State Senator Henry Stern, Assemblymember Jacqui Irwin, members of the County of Ventura Board of Supervisors, and councilmembers from the City of Thousand Oaks. Several speakers at the PPH held in Monrovia also opposed the proposed Southern Division consolidation. Several speakers at the Rancho Cordova PPH and letters received also opposed the proposed Northern Division consolidation. Among other things, commenters opposing consolidation pointed to differences in water supply, differences in costs of services, the disparity in rate increases by

[7] Although the Commission received letters addressing high rates from customers across Cal-Am's districts, it particularly received numerous letters that mentioned the high rates and recent rate increases in the Monterey District.

area under the proposed consolidations, and the unfairness in having residents in certain areas subsidize others.

At the PPHs in Seaside and Chualar, speakers raised issues specific to the passive sewer systems (Spreckels and Oak Hills), including issues regarding the lack of upgrades to the 120-year old sewer system. Speakers noted that the costs for active and passive wastewater systems should not be considered together because the costs of running a passive wastewater system are significantly less than the costs to run an active wastewater system. However, issues specific to the active wastewater systems were also raised at the PPHs with one speaker arguing that the rates between the active and passive wastewater systems should be rebalanced.

Speakers at the Monterey PPH stated that Cal-Am had not sent notices of the PPH to the passive wastewater ratepayers of Monterey County and also objected to the fact that the application was not readily available. Speakers at the Thousand Oaks PPH and several letters received stated that the PPH notice for Ventura County contained inaccurate statements.

The Commission also received several letters opposing Cal-Am's proposed moratorium on new connections in the Laguna Seca Subarea, which stated that customers had not received adequate notice of the proposed moratorium. The Commission received one letter in support of the moratorium, which stated that further development in the area would be detrimental.

3. Standard of Review

3.1. Standard of Review for GRCs

As the applicant, Cal-Am bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.[8] The utility "has the burden of affirmatively establishing the reasonableness of all aspects of its application. Intervenors do not have the burden of proving the unreasonableness of [the utility's] showing."[9]

CTO argues that the clear and convincing evidence standard should apply to this case.[10] Although prior Commission decisions have stated the standard of proof as one of clear and convincing evidence, the Commission has clarified in recent decisions that the standard of proof the applicant must meet in rate cases is that of a preponderance of evidence.[11] Preponderance of the evidence usually is defined "in terms of probability of truth, e.g., 'such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[12]

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[8] In the Rate Case Plan for Class A Water Utilities (Decision (D.) 04-06-018), the Commission stated that: "A utility's application for a rate increase must identify, explain, and justify the proposed increase." (D.04-06-018, Appendix at 5.) The application must be supported by testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

[9] D.06-05-016 at 7.

[10] CTO Opening Brief at 8-9.

[11] D.14-12-025 at 20-21 ("It is clear from a review of D.12-11-051, D.11-05-018, and D.09-03-025 that the standard of proof that a utility has to meet in a GRC is one of preponderance of the evidence."); *see also* D.08-12-058 at 18-19, fn. 28 (discussing the origin of the mistaken citations to a "clear and convincing" standard in rate applications).

[12] D.08-12-058 at 19, citing Witkin, Calif. Evidence, 4th Edition, Vol. 1, 184.

ORA argues that the following issues have made it difficult for ORA to evaluate the reasonableness of some of Cal-Am's requests in this proceeding: (1) Cal-Am's failure to provide necessary documents during discovery; (2) Cal-Am's inclusion of new information and new requests in rebuttal testimony; and (3) Cal-Am's substitution of witnesses during hearings.[13]

Although ORA claims that Cal-Am failed to fully respond to many of ORA's data requests, ORA did not file any motions to compel. Therefore, the Commission cannot evaluate whether Cal-Am's responses to data requests were adequate. However, we note that since Cal-Am has the burden of proof in this proceeding, it is incumbent upon Cal-Am to provide the information necessary for the Commission to evaluate the reasonableness of its requests. We deny several of Cal-Am's requests where Cal-Am has failed to provide sufficient information to justify its requests.

We agree with ORA that it is prejudicial and improper for Cal-Am to make new requests in its rebuttal testimony. With respect to new information provided in rebuttal testimony, we find in certain instances that consideration of the new information would be prejudicial to parties and should be given little weight. However, in other instances, we find that the new information is appropriate to provide updated information and to rebut testimony from other parties.

With respect to ORA's argument regarding Cal-Am's substitution of witnesses, this objection was addressed during the evidentiary hearings and the hearings proceeded. To the extent that a witness was evasive or not able to

[13] ORA Opening Brief at 6-11.

answer questions regarding the subject matter, these factors go to the credibility of the witness and the weight that this Commission gives to that witness's testimony.

3.2. Standard of Review for Settlements

With respect to any settlement agreement, pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure,[14] we will only approve settlements that are reasonable in light of the whole record, consistent with the law, and in the public interest. Proponents of a settlement agreement have the burden of proof of demonstrating that the proposed settlement meets the requirements of Rule 12.1 and should be adopted by the Commission.[15]

Before us in this proceeding are two partial settlements that are contested among the active parties. The Commission's policy is that contested settlements should be subject to more scrutiny compared to an all-party settlement. As explained in D.02-01-041:

> In judging the reasonableness of a proposed settlement, we have sometimes inclined to find reasonable a settlement that has the unanimous support of all active parties in the proceeding. In contrast, a contested settlement is not entitled to any greater weight or deference merely by virtue of its label as a settlement; it is merely the joint position of the sponsoring parties, and its reasonableness must be thoroughly demonstrated by the record.[16]

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[14] Unless otherwise specified, subsequent references to a rule are to the Commission's Rules of Practice and Procedure.

[15] D.12-10-019 at 14-15; D.09-11-008 at 6.

[16] D.02-04-041 at 13.

4. Proposed Settlements

4.1. Partial Settlement Agreement Between Cal-Am, LPWC, and MPWMD

On June 12, 2017, Cal-Am, LPWC, and MPWMD filed a joint motion for adoption of a partial settlement agreement on Monterey issues in the GRC (Monterey Settlement),[17] which resolves all disputed issues between Cal-Am and LPWC and Cal-Am and MPWMD.

The following sections of the Monterey Settlement address Las Palmas Wastewater Issues:

- Section 3.1 – Water Quality Sampling
- Section 3.2 – Pond Cleaning
- Section 3.3 – Chemical Treatment
- Section 3.4 – High Cost Fund (Special Request #14)
- Section 3.5 – Semi-Annual Meetings
- Section 3.6 – Annual Summary

The following sections of the Monterey Settlement address MPWMD issues:

- Section 4.1: Special Request #5 – Removal of the 10% Recovery Cap on Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA) Balances
- Section 4.2 – Advanced Metering Infrastructure (AMI) Investment in Monterey
- Section 4.3 – Special Request #8 – AMI Balancing Account
- Section 4.4 – Monterey District Leak Adjustment/Uncollectible Expense

[17] The Monterey Settlement is attached as Exhibit A to the June 12, 2017 joint motion.

- Section 4.5 – Non-Revenue Water Reward Penalty in Monterey
- Section 4.6 – Laguna Seca Sub-Basin Moratorium
- Section 4.7 – Monterey Annual Customer Consumption
- Section 4.8 – Special Request #14 - Proposed Wastewater Active Service High Cost Fund
- Section 4.9 – Monterey District Emergency Rationing Memorandum Account
- Section 4.10 – Laguna Seca Tariffs Rates
- Section 4.11 – Non-Residential Audit/Rates and Best Management Plan Rate Determinates

ORA filed comments opposing the Monterey Settlement on July 12, 2017. ORA argues that the settlement agreement does not serve the public interest and is not supported by the record in this proceeding. ORA argues that Cal-Am is the only party that provided testimony on several of the settled issues, and therefore, that the settlement is not a true compromise of the settling parties' positions and instead represents Cal-Am settling with itself. ORA also notes that the motion is deficient as it does not comply with Rule 12.1(a), which requires that the motion be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application.

On July 27, 2017, Cal-Am and MPWMD filed reply comments in support of their joint motion. On the same day, Cal-Am also filed a Motion to Accept Late Filed Comparison Exhibit in Support of Partial Settlement Agreement on Monterey Issues in the General Rate Case.

Cal-Am's motion to accept the late filed comparison exhibit is denied. Cal-Am fails to justify the late-filing of the exhibit. Granting Cal-Am's motion prejudices other parties since the late-filing would occur after the time for parties to file responses to the motion for adoption of the Monterey Settlement.

We find that the sponsoring parties fail to demonstrate that the Monterey Settlement is reasonable in light of the whole record or in the public interest. A major factor in determining whether a contested settlement is reasonable is the extent to which the settlement is supported by parties representing the affected interests.[18] The Commission will also consider whether the Settlement Agreement represents a fair compromise of the settling parties' positions and interests.[19]

Neither LPWC nor MPWMD had previously addressed or taken a position on most of the issues contained in the Monterey Settlement. LPWC had not previously addressed the Las Palmas Wastewater issues set forth in Sections 3.1, 3.2, 3.3, 3.5, and 3.6 of the settlement. MPWMD had not previously addressed or taken a position on the MPWMD issues set forth in Sections 4.2, 4.3, 4.4, 4.6, 4.9, 4.10, and 4.11 of the settlement. In addition, MPWMD was previously in agreement with Cal-Am regarding Special Request #5 (addressed in Section 4.1 of the settlement). In contrast, several of these issues were actively contested and litigated by ORA. Based on the record before us, we cannot conclude that the settlement agreement is fairly representative of affected interests or represents a reasonable compromise of the parties' respective litigation positions.

Based on the foregoing, we find that Monterey Settlement fails to meet the requirements of Rule 12.1, and therefore, deny the June 12, 2017 joint motion for adoption of a partial settlement agreement on Monterey issues in the GRC. The Settlement Agreement provides for Cal-Am to work in good faith with LPWC to address future concerns regarding the Las Palmas wastewater collection system.

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[18] D.07-03-044 at 259.

[19] *Ibid*.

Despite the rejection of the settlement, we expect Cal-Am to continue to work in good faith to address any future concerns.

4.2. Partial Settlement Agreement Between Cal-Am and the City of Coronado

On August 18, 2017, Cal-Am and Coronado filed a joint motion for adoption of a partial settlement on San Diego issues in the GRC (Coronado Settlement).[20] The Coronado Settlement addresses the following issues:

- Section 3.1 – AMI Investment in the San Diego District
- Section 3.2 – Strand Water Pipeline Replacement
- Section 3.3 – Coronado/Imperial Beach Recycled Water Project
- Section 4.1 – Southern Region Consolidation
- Section 4.2 – Southern Division Consolidated Rate Design

LA County filed comments on the partial settlement agreement on September 15, 2017. ORA and CTO filed comments on the partial settlement agreement on September 18, 2017. Cal-Am filed reply comments on October 3, 2017 and Coronado filed a joinder to the reply comments on the same day.

In its comments on the settlement agreement, LA County argues that the settlement agreement, as it relates to the deployment of AMI, should be rejected because it is not reasonable in light of the record, is inconsistent with the law, and not in the public interest.

ORA opposes the proposed settlement agreement with respect to AMI implementation, replacement of the Strand Water Pipeline Replacement Project, the Coronado/Imperial Beach Recycled Water Project, and Southern Division rate consolidation and rate design. ORA argues that the settlement agreement

[20] The Coronado Settlement is attached as Exhibit A to the August 18, 2017 joint motion.

should be rejected because it is not in the public interest or supported by the record in this proceeding. ORA also argues that Coronado did not provide any testimony or evidence on the settled issues or the issues were not in dispute between Cal-Am and Coronado, and therefore, that the settlement is not a true compromise of the settling parties' positions and instead represents Cal-Am settling with itself.

CTO contests sections 4.1 and 4.2 of the partial settlement agreement, which address the southern region consolidation and rate design. CTO argues that the settling parties have failed to carry their burden of proof with respect to these issues in the settlement agreement. CTO also argues that the settlement is not reasonable in light of the whole record, is not consistent with the law, and is not in the public interest.

We find that Cal-Am and Coronado have failed to demonstrate that the Coronado Settlement meets the requirements of Rule 12.1 and should be approved. Cal-Am and Coronado did not provide the comparison exhibit required pursuant to Rule 12.1(a). Cal-Am and Coronado have also failed to demonstrate that the settlement agreement is reasonable in light of the whole record or in the public interest.

With the exception of the Coronado/Imperial Beach Recycled Water Project, Coronado had not previously expressed a position or provided testimony on the issues included in the Coronado Settlement. The Coronado Settlement merely expresses support for Cal-Am's proposals with regard to AMI investment in the San Diego District, the Strand Water Pipeline Replacement Project, and the Southern Region consolidation. These issues were actively contested and litigated by opponents of the Coronado Settlement. Based on the record before us, we cannot conclude that the settlement agreement is fairly

representative of affected interests or represents a reasonable compromise of the parties' respective litigation positions.

In addition, the Commission's consideration of the new proposal set forth in the Settlement Agreement (i.e. the new Southern Division consolidated rate design) would also be prejudicial to the parties that actually litigated and contested this issue. Since Coronado had not previously expressed a position on this issue, there is nothing in the record to suggest that the new proposal is anything other than Cal-Am taking a second bite at the apple. It is prejudicial to the parties that had a demonstrated interest in this issue and were actively litigating this issue to, in effect, have to respond to a new proposal by Cal-Am so late in the proceeding.

Based on the foregoing, we find that the Coronado Settlement fails to meet the requirements of Rule 12.1, and therefore, deny the August 18, 2017 joint motion for adoption of a partial settlement on San Diego issues in the GRC.

5. Water Customers, Consumption, and System Delivery

5.1. Water Consumption

To develop its consumption forecasts, Cal-Am used a two-year (2014-2015) average with the exception of the Sacramento District and Monterey main system forecasts.[21] For Sacramento, Cal-Am based projected water sales on 2015 recorded data to take into account a recent meter retrofit and introduction of a three-tiered rate design in that district.[22] For the Monterey main system, Cal-Am originally based its projections on 2014 recorded consumption in order to be

[21] Exh. CAW-2 at 16-17.

[22] *Id*. at 17-18.

consistent with its application in A.15-07-019.[23] In D.16-12-003 issued in A.15-07-019, the Commission chose to base the rate design on "the most recent data available," which at that time was 2015 recorded consumption.[24] Therefore, Cal-Am now recommends basing the Monterey consumption forecast on the most recent data available in this proceeding, which is the actual recorded consumption for 2016.[25]

ORA is supportive of basing the Monterey consumption forecast on 2016 actual recorded consumption provided that data from the first four to five months of 2017 demonstrates a continuous decline in consumption.[26] Otherwise, ORA recommends that the consumption forecast be based on 2015 actual consumption data.[27] ORA does not dispute the consumption forecasts for Cal-Am's other districts.[28]

Cal-Am subsequently provided consumption data for its Monterey main system for January 2016 through May 2017.[29] This data supports that consumption continues to decline. Given the declining consumption pattern in the Monterey District, we agree that the most recent data available is likely to be the most accurate. There are large undercollections of the WRAM/MCBA in the

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[23] *Id*. at 18-19.

[24] D.16-12-003 at 51.

[25] Exh. CAW-20 at 9-10, Attachment 1.

[26] ORA Opening Brief at 131.

[27] *Ibid*.

[28] Exh. ORA-4 at 8-11. ORA's recommended consumption forecast for the Sacramento District had varied from Cal-Am's consumption forecast due to differences in customer forecasts. (*Id*. at 10.) As discussed further below, Cal-Am and ORA are now in agreement as to the customer forecast for the Sacramento District.

[29] Exh. CAW-47.

Monterey District and it is imperative to develop an accurate forecast to limit future undercollections.[30] Therefore, we find it reasonable to base 2018 consumption for Cal-Am's Monterey main system on 2016 recorded consumption. We also find reasonable and approve Cal-Am's methodology for forecasting annual consumption in its other districts.

5.2. Average Number of Customers

D.07-05-062 provides that customer forecasts for Class A water utilities should be based on a five-year historical average by customer class with adjustments if an unusual event occurs or is expected to occur.[31] Cal-Am employed a 2011-2015 five-year historical average by customer class for all of its Districts with the exception of its Sacramento, Monterey water and wastewater, and Los Angeles San Marino service areas. Cal-Am's reasons for deviating from the five-year historical average include accounting for the impacts of a meter retrofit program in Sacramento, acquisitions, developer growth, and a current growth moratorium for the Monterey main system.[32]

ORA did not oppose Cal-Am's customer forecasts with the exception of the forecasts for the Spreckels Wastewater District, Las Palmas, Dunnigan Water Works, and Geyserville Water Works.[33] Cal-Am accepted ORA's adjustments to

[30] The WRAM tracks the difference between recorded and Commission authorized water revenues. The MCBA tracks differences between recorded and Commission authorized amounts for purchased water, power, and pump taxes.

[31] D.07-05-062, Attachment 1 at A-22 and A-23.

[32] Exh. CAW-2 at 11-16.

[33] Exh. ORA-4 at 2-8.

the customer counts for these service areas.[34] With ORA's adjustments, the total customer count by district is as follows:

- Sacramento – 62,639
- Larkfield – 2,432
- Monterey – 40,138
- Toro – 415
- Southern – 70,547[35]

The methodology used to develop these customer forecasts is consistent with the guidance provided in D.07-05-062. There is agreement between Cal-Am and ORA as to the customer forecasts and we find the forecasts to be reasonable.

5.3. System Delivery

Total system delivery requirements are based on the forecast of total water sales plus an additional amount of production for distribution system non-revenue water. Non-revenue water is the difference between annual water sales and annual water produced and delivered to the distribution system. To develop total system delivery requirements, Cal-Am adds the five-year average amount of non-revenue water to the consumption forecast for each service area except its Sacramento and Monterey Districts.[36] Cal-Am uses a five-year average amount of non-revenue water rather than an average percentage because non-revenue water is based on factors that are not volumetrically driven.[37] Cal-Am does not use a five-year average of non-revenue water in its Sacramento

[34] Exh. CAW-20 at 5.

[35] Joint-1 at 1-2.

[36] Exh. CAW-2 at 21 & 23.

[37] *Id*. at 22.

and Monterey Districts but rather estimates amounts based on the forecast of production due to unmetered sales in these service areas.[38]

ORA does not object to Cal-Am's methodology for calculating system delivery forecasts.[39] We find Cal-Am's methodology for calculating the system delivery forecasts to be adequately justified and reasonable. The final system delivery forecasts are dependent on the adopted water consumption and customer forecasts, which are discussed above.

5.4. Laguna Seca Subarea Moratorium

Cal-Am requests a moratorium on new service connections for the Laguna Seca Subarea, which consists of the Ryan Ranch, Hidden Hills, and Bishop systems.[40] A judgment entered in the Monterey County Superior Court adjudicated and limited rights to produce groundwater from the Seaside Groundwater Basin.[41] Pursuant to the Seaside Groundwater Basin Adjudication, the operating yield for the Laguna Seca Subarea is reduced to 0.00 Acre Feet (AF) in 2018.[42] Cal-Am has produced far in excess of the available operating yield and currently pumps its wells located within the Laguna Seca Subarea at the discretion of the Seaside Basin Watermaster.[43] Cal-Am contends that a moratorium is justified to ensure that pumping is allowed to continue pending the Monterey Peninsula Water Supply Project (MPWSP) going on-line. Cal-Am

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[38] *Id*. at 23.

[39] Joint-1 at 2.

[40] Exh. CAW-11 at 8.

[41] *Id*. at 6; *California American Water Co. v. City of Seaside*, Monterey County Superior Court Case No. M66343.

[42] Exh. CAW-11 at 6.

[43] *Id*. at 10-11.

intends to supply the Laguna Seca Subarea systems in the future with water from the Monterey Main System but can only do so once the MPWSP has gone on-line and the State Water Resources Control Board's (SWRCB) Cease and Desist Order (CDO) is lifted.

No party opposed Cal-Am's proposed moratorium. However, the Commission received several letters from members of the public stating that they had not received notice of Cal-Am's proposal.[44] The letters state that the proposed moratorium substantially affects the interests of property owners in the area without adequate notice and opportunity to be heard.

We are concerned regarding the lack of notice of the proposed moratorium to members of the public and affected customers. Cal-Am did not provide notice of the moratorium in its application or in any of the customer and public notices required pursuant to Rule 3.2. Rather, the request can be found in Cal-Am's testimony, which is not readily available to the public. Cal-Am is correct that a utility makes numerous requests in a GRC and that a utility is not necessarily required to provide specific notice to customers of each request. However, the proposed moratorium is not a proposal that merely affects rates but in this specific instance, potentially affects property interests. We find that those affected by the proposed moratorium should receive appropriate notice and an opportunity to be heard prior to any moratorium being imposed.[45] Cal-Am's

[44] The Commission received these letters after the PPHs and evidentiary hearings had been held.

[45] For example, in seeking a moratorium for its Monterey Main system, Cal-Am filed a separate standalone application requesting this relief and served notice of the application and proposed moratorium on its customers in the Monterey District. (Amended Application in A.10-05-020 at 18-19.)

proposal that it will file a subsequent advice letter establishing the moratorium and provide all Laguna Seca Subarea customers with notice of the advice letter filing is inadequate as this proposal does not give the public the opportunity to be heard until after the Commission authorizes the moratorium.

Moreover, we find that Cal-Am does not present sufficient information that supports that a moratorium is necessary. Cal-Am states that there is no "water shortage emergency" pursuant to Water Code Section 350 *et seq.*[46] Rather, Cal-Am contends that it is seeking the moratorium because the amount of water allocated to the Laguna Seca Subarea by the Seaside Basin Water Adjudication is insufficient.[47] However, given that Cal-Am indicates that it already has been operating in excess of the available operating yield and will continue to do so, it is unclear that a moratorium is strictly necessary.[48] Cal-Am is required to replenish the excess production either through payment of a replenishment assessment to the Watermaster or through the importation of non-native water to the Seaside Basin.[49] Cal-Am does not explain why this arrangement would be infeasible for any new connections.

Based on the foregoing, we reject without prejudice Cal-Am's proposed moratorium on new connections for the Laguna Seca Subarea. Cal-Am may renew this request in a new application or in its next GRC if it provides appropriate notice to potentially affected customers.

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[46] Cal-Am Comments Regarding Notice of Laguna Seca Subarea Moratorium, dated March 20, 2018 at 3.

[47] *Ibid*.

[48] Exh. CAW-11 at 10-11.

[49] *Id*. at 11.

6. Revenues, Rate Design, and Consolidation Issues

6.1. Regional Rate Consolidation Proposals

Cal-Am proposes to create three regions: Northern, Central, and Southern, and consolidate the rates within those regions. Cal-Am generally contends that benefits of a more consolidated system of rates include: (1) improved affordability; (2) better incentives for standard water quality; (3) better incentives for larger water companies to purchase small water utilities, including those that are underperforming or at risk; and (4) lowered administrative and regulatory costs.[50]

6.1.1. Northern Division

6.1.1.1. Consolidation of Larkfield District into Northern Division

Cal-Am requests that the Commission authorize Cal-Am to over time consolidate the Larkfield District into the rest of the Northern Division for ratemaking purposes. Cal-Am's Northern Division currently consists of five specific water ratemaking tariffs: (1) the Sacramento general metered tariff, (2) the Larkfield general metered tariff; (3) the Dunnigan general metered tariff; (4) the Geyserville general metered tariff; and (5) the Meadowbrook general metered tariff.[51] The Commission decisions approving the Dunnigan, Geyserville, and Meadowbrook acquisitions have already authorized Cal-Am to fully consolidate these areas with the Sacramento District for ratemaking purposes, which would leave Larkfield as the only area with a separate tariff.[52]

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[50] Cal-Am Opening Brief at 7; Exh. CAW-2 at 42 & 44-50.

[51] *Id*. at 57.

[52] D.15-11-012 (Dunnigan); D.16-11-014 (Geyserville); D.16-12-014 (Meadowbrook).

The combined Sacramento, Dunnigan, Geyserville, and Meadowbrook service areas serve over 59,000 customers and Larkfield serves just 2,400 customers.

Since the rates in Larkfield are higher than those in most if not all other areas that will compose the Northern Division, Cal-Am proposes to keep the current revenue requirement in Larkfield constant at the level in effect at the time of consolidation and to recover any additional awarded revenue requirement that is generated by the requests in this case in the rates of the fully consolidated Northern Division. The Larkfield tariff rates would differ from current rates based on use of a fixed revenue requirement, and changes to the projected average consumption per customer and other rate design modifications. According to Cal-Am, the results of the revenue requirement consolidation reduces the average customer bill in Larkfield by about 4% and only increases the average customer bill in Sacramento by 0.8%.[53]

Cal-Am contends that its consolidation proposal will result in rate stabilization for the Larkfield District. Cal-Am also argues that a combined revenue requirement, over time, will better allocate the cost of service over a broader customer base, thus reducing the impact of operation, maintenance, and administrative costs in small single Districts. Cal-Am argues that the consolidation makes sense from a water supply standpoint as most source water is from wells, the same divisional staff will operate and manage the Districts, and Larkfield is close to Geyserville, which was consolidated into the Northern Division rate structure.[54]

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[53] Exh. CAW-2 at 59.

[54] Cal-Am Opening Brief at 9. The Larkfield District is approximately 18 miles from Geyserville service area. (D.16-11-014 at 4.)

Cal-Am's proposed Northern Division consolidation is unopposed and we find that Cal-Am has adequately justified its proposal. As noted by Cal-Am, the Commission has recently approved the consolidation of several smaller water systems into the Sacramento District. Larkfield is similarly situated to these smaller water systems and we do not find justification for treating Larkfield differently. In addition, the record reflects that the consolidation will result in rate stabilization for the Larkfield District while resulting in minimal average rate impacts for customers in the Sacramento District.[55] Therefore, we approve Cal-Am's proposed Northern Division consolidation and proposed rate design for the Larkfield District.[56]

6.1.1.2. Meadowbrook District Rates

Cal-Am's consolidation request also includes changes for the rates in Meadowbrook. In D.16-12-014, which approved the Meadowbrook acquisition and consolidation of Meadowbrook into the Sacramento District, the Commission ordered Meadowbrook customers to be moved onto the Sacramento rate design in 2018. Cal-Am states that Meadowbrook would experience a rate increase of approximately 236% if it were to shift to the Sacramento district rate design in this GRC's test year.[57] In order to ease the burden for these customers, Cal-Am proposes to maintain the current Meadowbrook rate design through 2020, the end of this GRC cycle.[58] Cal-Am would develop a separate revenue

[55] Taking into account the effects of the TCJA and revised cost of capital, the average customer bill in Sacramento is projected to increase by $0.03 as a result of the proposed consolidation. (Exh. CAW-51, Attachment 2.)

[56] Exh. CAW-2 at 37, Table 10.

[57] Cal-Am Opening Brief at 10.

[58] *Ibid.*

requirement specifically for Meadowbrook that is in keeping with Cal-Am's authorized rate of return and allowing a certain level of expenses to operate the system. Cal-Am would then subtract the Meadowbrook specific revenue requirement from the overall Sacramento revenue requirement before rates are calculated for Sacramento customers under their own rate design. Cal-Am's proposed change to the Meadowbrook rates is unopposed.

Given that Meadowbrook customers will experience an approximately 236% rate increase if shifted to the Sacramento district rate design in 2018, we find reasonable and approve Cal-Am's proposal to maintain the current Meadowbrook rate design through 2020.

6.1.2. Central Division

Cal-Am requests approval to move all of the Monterey non-Seaside Basin/Carmel River aquifer-supplied systems except Chualar to a single tariff for ratemaking and tariff purposes. The satellite systems that would be consolidated are Ambler, Toro, Ralph Lane, and Garrapata. Currently, Ambler and Toro each have about 400 customers, Ralph Lane has 27 customers, and Garrapata has approximately 50 unmetered customers.[59] No parties opposed this request.

Cal-Am believes consolidation is appropriate because these service areas are all managed and operated by the same staff, are close together geographically, and have similar water sources (mostly water produced from wells).[60] Cal-Am contends that consolidating all customers will provide further economies of scale, which will provide greater stability in rates as there will be

[59] Exh. CAW-2 at 39-40.

[60] *Id*. at 61.

more customers over whom to spread costs.[61] Cal-Am also asserts that the proposed consolidation will increase operational efficiencies, decrease administrative costs, and avoid customer confusion.[62]

We find reasonable and approve Cal-Am's unopposed request to consolidate the Ambler, Toro, Ralph Lane, and Garrapata systems for ratemaking and tariff purposes, as well as Cal-Am's proposed rate design for the consolidated Monterey Satellite Systems.[63] These systems all have very low customer counts and we find that consolidation will result in greater stability in rates because there will be a larger number of customers over whom to spread costs.

6.1.3. Southern Division

Cal-Am's application proposes to combine all of the revenue requirements and costs of service for the Los Angeles County, San Diego County, and Ventura County Districts for ratemaking purposes. The Los Angeles County District has 24,694 customers, the San Diego District has 18,528 customers, and the Ventura District has 19,416 customers.[64] In order to mitigate the rate impacts of the consolidation on customers in the Los Angeles area, Cal-Am's proposal retains about 66% of San Diego and Ventura's variable costs within just those two Districts, which equates to approximately $27 million in variable costs being

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[61] *Ibid*.

[62] *Id*. at 60.

[63] Exh. CAW-2 at 40, Table 12.

[64] Exh. CAW-2, Attachment 5.

retained in the two districts.[65] Cal-Am states that these variable costs would potentially be folded into the Southern Division in its next GRC.[66]

Cal-Am contends that its proposed Southern Division consolidation meets the objectives of the Commission's Water Action Plan to streamline regulation and ensure a balancing of rates with consideration given to timely infrastructure replacement.[67] Cal-Am also contends that its proposal will enable it to better meet the objective of providing essential water use at reasonable rates and simultaneously be able to provide appropriate conservation signals to those that choose to use larger amounts of water.[68] Cal-Am also notes that all of the Districts are already managed by the same regional staff and in today's computer age are relatively close to one another.[69]

CTO opposes Cal-Am's proposed consolidation for the Southern Division and contends that Cal-Am has failed to carry its burden of proof with respect to this proposal. CTO argues that Cal-Am has failed to demonstrate that its proposed Southern Division consolidation would yield the benefits listed above. CTO also argues that Cal-Am's proposal does not yield just and reasonable rates because: (1) the proposal does not consolidate all costs but requires the Ventura and San Diego Districts to continue to bear part of their purchased water costs, totaling approximately $27 million; (2) the Ventura District is the only area that would be treated worse under consolidation with the average residential bill in

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[65] *Id*. at 35.

[66] *Ibid*.

[67] Cal-Am Opening Brief at 14.

[68] *Id*. at 14-15.

[69] *Id*. at 15.

Ventura more than doubling over three years under the consolidation proposal as opposed to without consolidation; and (3) the proposal would result in rate disparity between Cal-Am and the two other water purveyors in the City of Thousand Oaks, all of which have similar infrastructures and buy and deliver the exact same imported State Water Project water from the exact same supplier at the same price.[70]

We agree with CTO that Cal-Am has failed to meet its burden of proof with respect to its Southern Division consolidation proposal. Cal-Am generally asserts that its proposed Southern Division consolidation advances various public interest objectives but does not address the specific facts and circumstances for its Southern Division. Moreover, Cal-Am does not address the public interest benefits that would be achieved in light of proximity, rate comparability, water supply, or operation of the districts, as required pursuant to D.14-10-047.[71]

Cal-Am argues that consolidation will spread large near-term and future capital investments over a much larger customer base, thereby ensuring a balancing of rates while enabling timely infrastructure replacement. Although

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[70] CTO Opening Brief at 1-2.

[71] In 1992, the Division of Ratepayer Advocates and Class A water utilities jointly developed a set of policy guidelines to be considered in district rate consolidations. In 2014, the Commission in D.14-10-047 concluded that proponents of consolidation were not required to meet the threshold criteria established in the 1992 guidelines or any other set of prescriptive guidelines. However, D.14-10-047 requires that all proposals should, at a minimum, address the public interest benefits that are achieved in light of the (1) proximity, (2) rate comparability, (3) water supply, and (4) operation of the districts that are proposed for consolidation. (D.14-10-047 at 17 (Finding of Fact (FOF) 4).) D.14-10-047 states that other public interest factors that may be addressed include, but are not limited to, balancing investment, conservation, water quality, impacts on low income customers, general affordability, and the duration of any subsidies resulting from consolidation. (*Ibid*.)

consolidation does result in a leveling of the rate impacts for the district with higher plant and infrastructure costs, not all of the districts within the Southern Division would benefit from this arrangement. There are significant differences in water supply for the three districts in the Southern Division. 100% of the supply for the Ventura and San Diego Districts is imported water.[72] In contrast, in the Los Angeles District, on average, 10-15% of the water supply is imported.[73] Given these circumstances, the Ventura and San Diego Districts are unlikely to ever benefit from the pooling of plant and infrastructure costs.[74]

It is undisputed that under Cal-Am's consolidation proposal, Ventura customers would be subsidizing customers in other districts during this GRC cycle.[75] Under Cal-Am's current proposal, in addition to sharing responsibility for the Los Angeles District's fixed and variable costs, the Ventura and San Diego Districts would retain 66% of their variable costs (the imported water costs).[76] Cal-Am provided bill impacts of the proposed consolidation on the customers in each service area assuming present rates and revenue requirements. The average monthly residential bill in Ventura would increase by 12.2% without consolidation and 25% with consolidation.[77] Based on information provided in

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[72] Exh. CAW-14 at 14-15.

[73] *Id*. at 15.

[74] In this proceeding, Cal-Am proposes capital costs of $22.5 million for the Ventura District, $66.8 million for its Los Angeles District, and $23.2 million for its San Diego District. (*See* CTO Opening Brief at 6 citing CTO Exhs. 5-7.)

[75] CTO Opening Brief at 11-14; Cal-Am Reply Brief at 97.

[76] Although Cal-Am states that that these variable costs may potentially be folded into the Southern Division in its next GRC, this is not what Cal-Am has currently proposed and we evaluate the consolidation proposal as proposed.

[77] Exh. CAW-2, Attachment 1. Taking into account the effects of the TCJA and revised cost of capital, the average monthly residential bill in Ventura would increase by 10.6% without

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Cal-Am's PPH notices, the average monthly residential bill in Ventura would increase 32.06% over a three-year period with consolidation as opposed to a 14.61% increase without consolidation.[78] With consolidation, all other districts in the Southern Division would see a decrease over the same three year period.[79] The disparate rate impacts on the Ventura District may be even greater when taking into account the additional annual pass-through surcharge for purchased water, which could add up to an additional charge of 9% or more over three years.[80]

Cal-Am fails to demonstrate that this subsidization is reasonable or justified with respect to its Southern Division. In other instances, the Commission has found that subsidization is reasonable where there is need for rate relief and the subsidization results in minimal rate impacts.[81] Cal-Am does

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consolidation and 22.5% with consolidation compared to the average bill as of February 1, 2018. (Exh. CAW-51, Attachment 2.)

Cal-Am argues that a solitary focus on the average monthly residential bill is not appropriate to determine whether there is or is not bill impacts and that the data set should be considered in other ways, including observing the bill distribution mode or the median bill amount and usage. (Cal-Am Opening Brief at 19.) However, when presenting its consolidation proposal and when providing notice of its consolidation proposal to customers, Cal-Am presented bill impacts solely in terms of the average monthly bill. (Exh. CAW-2 at 66 and Attachment 1; Exh. CTO-14, Attachments B-D.) Cal-Am did not provide data regarding the mode and median until its rebuttal testimony, which is prejudicial to other parties. Given the prejudice to other parties and the fact that Cal-Am itself relied on the average bill impacts in justifying its proposal, we find it appropriate to consider the average bill impacts in assessing the bill impacts of the proposed consolidation and give little weight to the data presented in rebuttal testimony.

[78] Exh. CTO-14 at Attachment E. The information in the PPH notices predated, and therefore, does not take into account impacts of the TCJA and revised cost of capital.

[79] *Ibid*.

[80] CTO Opening Brief at 12-13.

[81] In D.00-06-075, the Commission approved Southern California Water Company's request to consolidate rates for eight of its water Districts. In that case, the Commission found that the

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not make this demonstration with regard to its proposed Southern District consolidation. Cal-Am does not argue that there are any high cost or affordability issues in the Southern Division that would need to be addressed through consolidation. There is no evidence of high cost or affordability issues in the Southern Division pursuant to the tests adopted in D.14-10-047.[82] Moreover, given differences in water supply, future costs for each district could vary significantly resulting in a district significantly subsidizing another district.

Cal-Am also argues that eliminating area specific cost of service ratemaking will assist in conservation efforts. Cal-Am states that since many costs of a water provider are fixed, the higher the water use, the lower rate, which in turn increases the amount of water that customers tend to use for discretionary applications.[83] Cal-Am contends that consolidation will assist in structuring rates to send the proper incentives in such areas. Cal-Am fails to explain how this analysis would apply to its Southern Division in light of the fact that two of the districts rely 100% on imported water and would retain 66% of these variable costs under Cal-Am's proposal. Furthermore, given the leveling impacts on rates, consolidation also has the potential to undermine efficient

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benefits of consolidation outweighed the disadvantages given the need for rate relief in some smaller, high-rate districts and the relatively modest impacts of consolidated rates in the other districts. (D.00-06-075 at 23-26.) The Commission concluded that consolidated rates for these districts "if properly implemented does not create unreasonable rates, nor does it constitute undue discrimination." (*Id.* at 25.)

[82] Exh. CAW-2 at 69-70 and Appendix 5; CTO Opening Brief at 18.

[83] Cal-Am Opening Brief at 23.

water use and conservation efforts by weakening price signals in high cost areas.[84]

Lastly, although Cal-Am asserts that lowered administrative and regulatory costs are a benefit of consolidation, Cal-Am witness Stephenson testified that Cal-Am has not accounted for or quantified any cost savings as a result of the consolidations proposed in its GRC application.[85] The districts are already managed by the same regional staff.[86] However, Cal-Am does not propose to consolidate operations for the three districts.[87]

Based on the record in this proceeding, Cal-Am has failed to demonstrate that the proposed Southern Division consolidation is reasonable or in the public interest. We do not find consolidation to be reasonable given the differences in water supply for the three districts in the Southern Division. Moreover, the proposal would result in Ventura District customers subsidizing customers of other districts and we do not find this subsidization to be justified. Therefore, we deny Cal-Am's proposal to consolidate its Southern Division. Given that we do not adopt Cal-Am's proposal to consolidate the Southern Division, we also do not adopt Cal-Am's proposed rate design for the consolidated Southern Division.[88] No party had made a proposal for a standalone rate design for the districts in the Southern Division. Therefore, with the exception of the removal

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[84] The Commission has previously stated that "introducing a subsidy that could skew the value of water should be done with great caution." (D.08-05-018 at 39.) In prior proceedings before the Commission, Cal-Am had argued that for a rate policy to be sustainable, all customers must be signaled with the actual cost of service. (D.16-12-026 at 44.)

[85] Reporter's Transcript (RT), Vol. 11 at 684-685.

[86] Exh. CAW-2 at 65.

[87] Exh. CTO-4, answers 4(d) and (e).

[88] Exh. CAW-2 at 29-30, 32.

of the seasonal differential in the Los Angeles District discussed below, the current rate design and tier breakpoints for the districts in the Southern Division shall remain in effect for this GRC period.[89]

6.1.4. Productivity Factor

ORA argues that a prudently managed business should improve productivity and efficiency. ORA notes that the U.S. Bureau of Labor Statistics calculates that multifactor productivity in the private nonfarm business sector grew 0.9% annually from 1987 to 2015.[90] ORA also notes that the New York Public Service Commission (NYPSC) typically imputes a 1% reduction (and in one GRC adopted a 2% reduction) to a utility's forecasted expenses to reflect the expectation that with prudent management, the productivity and operational efficiency of utilities should improve.[91]

ORA argues that Cal-Am's forecasted expenses do not contain any explicit adjustment for increases in productivity and that a 1% adjustment is reasonable regardless of whether or not the Commission authorizes increased consolidation.[92] ORA argues that if additional consolidation is approved, an additional percentage should be imputed to account for the additional opportunity for cost savings.[93]

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[89] *Id.* at 29-30, Table 4.

[90] Exh. ORA-8 at 9, fn. 10.

[91] *Id*. at 9.

[92] *Id*. at 10. ORA applied the 1% adjustment to forecasted 2018 expenses with the exception of uncollectibles, variable quantity expense, depreciation, tax expenses, or expenses for wastewater operations. (*Id*. at 10, fn. 13.)

[93] *Id*. at 10.

Cal-Am argues that ORA's recommended productivity adjustment factor is speculative, unsupported, and inconsistent with experience, practice, and precedent. Cal-Am argues that ORA's across-the-board, general productivity adjustment is neither necessary nor appropriate because Cal-Am already accounts for productivity improvements and that Cal-Am's estimating methodologies are consistent with the Rate Case Plan.[94] Cal-Am also argues that ORA cites to no specific, direct improvements in productivity to account for the reduction. Cal-Am notes that there are certain expense items such as general liability insurance, worker's compensation, rent, pension expense, other post-retirement benefits, most maintenance expenses, Federal Unemployment Tax Act (FUTA) and State Unemployment Insurance that are not likely to be reduced.[95] Cal-Am states that there is no Commission precedent for a productivity adjustment factor and that ORA's reliance on a decision by the NYPSC is inappropriate because the case facts and circumstances of that case are distinguishable from this case.[96]

We find that ORA fails to provide adequate justification for the adoption of a productivity factor. ORA states that a 1% productivity factor is reasonable regardless of whether consolidation is approved but provides no explanation as to how efficiencies and cost savings would be gained for the specific expenses to which ORA proposes to apply the factor. In contrast, Cal-Am puts forth several examples of expenses that are unlikely to be reduced even with increased operational efficiencies. ORA fails to explain why it would be reasonable to

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[94] Cal-Am Opening Brief at 24-25.

[95] *Id*. at 26, fn. 83.

[96] *Id*. at 28-30.

apply a 1% productivity factor across-the-board to these expenses. Therefore, we see no reason to deviate from our previous practice of forecasting Cal-Am's expenses on an actual cost category basis.

We also do not find justification for imputing an additional 1% productivity factor in instances where consolidation is approved. As discussed above, we approve Cal-Am's proposed Central and Northern Division consolidations and reject Cal-Am's proposed consolidation of its Southern Division. Cal-Am does not anticipate any regulatory or administrative savings from the consolidation of its Central or Northern Division during this GRC period.[97] ORA makes general arguments regarding why consolidation should result in cost savings from improved efficiency and reduced administrative burden but does not provide any explanation as to why a 1% productivity factor adjustment would be reasonable based on the particular facts and circumstances of the approved consolidations. Therefore, we do not find that the record supports adoption of a 1% productivity factor for the Central or Northern Division during this GRC period.

6.2. Elimination of Los Angeles Seasonal Pricing Structure

Cal-Am requests to eliminate the seasonal pricing differential for its Los Angeles District to achieve a single set of year-round rates. Cal-Am contends that eliminating the seasonal pricing will simplify the rate structure, making it easier for the company to maintain and for customers to understand, while at the same time encouraging customers to conserve water year-round.[98] Cal-Am

[97] *Id*. at 32-33.

[98] Exh. CAW-2 at 28.

explains that the seasonal rate structure was adopted as part of a settlement, that the Los Angeles District is the only district in the Southern Division with seasonal rates, and that the region experiences smaller temperature variances than other Districts with no seasonal pricing.[99]

ORA does not object to this proposal and agrees that the Commission should authorize Cal-Am to terminate seasonal pricing in its Los Angeles District.[100]

We find Cal-Am's proposal to eliminate the seasonal pricing structure in the Los Angeles District to be reasonable. The proposal is adequately justified and no party opposes the request. Therefore, Cal-Am's request to eliminate the seasonal pricing structure in the Los Angeles District is granted.

6.3. Three Tier Rate Design in Sacramento District

Cal-Am's Sacramento District is currently on a moderate two-tier residential rate design, which Cal-Am introduced in 2015 after its meter retrofit program. In this GRC, Cal-Am proposes to expand the rate structure to three tiers in order to continue sending conservation signals to customers.[101] Cal-Am proposes that the width of Tier 1 shrink by about half to approximate the annual average and push more consumption into the second and third tiers. Cal-Am's proposed Tier 2 breakpoint would capture 91% of total consumption in the first two tiers, leaving the top 9% of water use to be captured in the proposed third

[99] *Ibid*.

[100] Exh. ORA-4 at 33-34.

[101] Exh. CAW-2 at 36.

tier.[102] Cal-Am proposes rate differentials of 86% of the Standard Quantity Rate (SQR) for Tier 1, 115% of SQR for Tier 2, and 180% of SQR for Tier 3.[103]

ORA agrees that the Commission should authorize Cal-Am's request to shift the rate design for its Sacramento District from two tiers to three.[104]

We find Cal-Am's proposed rate design for its Sacramento District to be reasonable. The proposed rate design will make essential levels of indoor water use more affordable by reducing Tier 1 rates while sending signals for customers to conserve. Moreover, no party opposed the proposed rate design. Therefore, we approve Cal-Am's requested changes to the residential rate design for the Sacramento District. Cal-Am should provide appropriate information and outreach regarding the new rate design to high usage residential customers that are likely to reach Tier 3 usage and experience higher rates under the more steeply differentiated rate structure.

7. District Expenses

7.1. General Approach to District Expenses and Treatment of Outliers

Cal-Am begins its projection of district expense costs for the test year and subsequent years based on a five-year historical average, escalated for inflation. Cal-Am then makes specific adjustments to the initial projection based on

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[102] *Ibid*.

[103] *Ibid*. The SQR serves as the base rate from which conservation rates are developed and is calculated as follows: (50% of fixed costs + all variable costs)/projected total units of water sold = the price for each unit of water. (*Id*. at 32.)

[104] Exh. ORA-4 at 33; Joint-1 at 3.

consideration of the business, regulatory, and operational circumstances associated with that expense.[105]

ORA recommends that the Commission calculate authorized Operations and Maintenance (O&M) expenses for Test Year (TY) 2018 by: (1) incorporating an objective process to identify and remove outlier data; and (2) averaging all five years of recorded data, excluding the outliers.[106] ORA identifies and removes outlier years from the calculation of O&M expenses. ORA defines an outlier year as any year in which an account's total recorded expenses fell more than one standard deviation outside the 5-year average.[107] ORA argues that its proposed methodology provides consistency and a more accurate forecast.

Cal-Am argues that ORA's methodology should be rejected because: (1) it improperly skews TY forecasts downward by only removing high outliers while not removing low outliers; (2) it fails to take into account that certain expenses do not take place every year; and (3) it fails to address Cal-Am's justifications for deviating from the five-year average for certain expense items.[108]

We decline to adopt the blanket approach proposed by ORA for forecasting all O&M expenses. ORA's proposed methodology fails to consider that there may be legitimate reasons why a forecast should not be based on the five-year average. Cal-Am generally projected expenses based on a five-year historical average escalated for inflation but provided justification as to why

[105] Exh. CAW-10 at 23-33.

[106] Exh. ORA-6 at 4.

[107] *Ibid*.

[108] Cal-Am Opening Brief at 37-38.

exceptions should be approved for certain expenses.[109] ORA does not provide any explanation as to why the justification provided by Cal-Am for deviating from the five-year average for a given expense category is insufficient. ORA itself makes recommendations for expenses that deviate from strict application of a five-year average for various reasons (e.g., chemicals expenses,[110] certain district rent expenses,[111] and materials and supplies for the Ventura District[112]). Rather than adopt a blanket approach for all expense categories, we find it reasonable to analyze each expense category to determine the appropriate forecast for that category.

In developing the expense forecasts, we also do not find justification for removing all high "outlier years" as defined by ORA with the exception of the outlier years for "Misc. Maint. – Transmission & Distribution – Service" for the Sacramento District.[113] We agree with ORA that the recorded expenses for 2011 and 2012 for this expense line item should not be considered in developing the TY forecast. Cal-Am explains that it charged expenses for completing a conversion from flat rate to metered service to this line item in 2011 and 2012.[114] The record does not reflect that there are comparable amounts of conversions planned for this GRC cycle. Therefore, we find it more appropriate to base the forecast for this line item on the escalated 3-year average from 2013-2015. With

[109] Exh. CAW-10 at 23-33.

[110] Exh. ORA-4 at 25-26.

[111] Exh. ORA-9 at 1-8.

[112] Exh. ORA-7 at 1-6 & 1-7.

[113] Exh. ORA-6, Attachment 3.

[114] *Ibid*.

respect to the other outlier years that ORA proposes be removed from expense forecasts, unless stated otherwise in this decision in the sections addressing specific expense categories, we find that Cal-Am has adequately justified including these expenses in developing the TY forecasts. We find reasonable Cal-Am's explanation that these expenses may not occur every year but still could occur over the next GRC cycle as a part of normal operations. Furthermore, ORA acknowledges that it erroneously adjusted some line items related to safety or SWRCB regulations.[115]

7.2. Inflation Multiplier

Unless otherwise noted, all inflation rates used by Cal-Am are based on ORA's monthly Escalation Memorandum (ORA Escalation Memo) as of May 2016[116] except for the non-labor factor for 2016. Cal-Am proposes to use a non-labor escalation factor of 2.3% for 2016.[117] Based on actual 2016 experience and the fact that the average CPI was 2.5% for the last 12 months ending in January 2017, Cal-Am argues that ORA's original inflation estimate of -1.5% for 2016 does not reflect a reality upon which to base test year forecasts.[118] Cal-Am also argues that ORA's inflation factors are only required to be used in escalation years and that traditional estimating methodologies such as historical averages, trends, and specific estimates may be used to forecast test year expenses.[119]

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[115] ORA Opening Brief at 47-48.

[116] "Office of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2016 through 2020 from the May 2016 IHS Global Insight U.S. Economic Outlook," dated June 20, 2016. The May 2016 ORA Escalation Memo can be found as Attachment 4 to Exh. ORA-6.

[117] Exh. CAW-10 at 23.

[118] Exh. CAW-29 at 25.

[119] Cal-Am Opening Brief at 38-39; D.04-06-018, Appendix at 7.

ORA argues that the Commission should adopt a uniform and objective method of applying escalation rates for all categories. Although ORA's expense forecasts use rates from the May 2016 Escalation Memo, ORA recommends that the Commission adopt the inflation rates from ORA's most recent Escalation Memo available at the time the final decision in this proceeding is adopted.[120]

We find that Cal-Am provides inadequate justification to use a non-labor escalation factor of 2.3% for 2016. Cal-Am's recommendation is based in part on CPI but Cal-Am fails to explain how CPI, which measures consumer goods and services, would provide a reasonable basis for determining the inflation rate for all non-labor expenses.[121] Moreover, we agree with ORA that there is a lack of justification for selectively choosing which rates to use from ORA's Escalation Memo. Therefore, we find that inflation rates should consistently be based on ORA's Escalation Memo.

Due to the timing of their testimony, both Cal-Am's and ORA's expense forecasts use escalation rates from ORA's May 2016 Escalation Memo. Given that these numbers are over two years old, we agree with ORA that updated numbers should be used. Although ORA recommends that the Commission adopt the inflation rates from ORA's most recent Escalation Memo available at the time the final decision in this proceeding, we find that it is reasonable to use a more recent memo available at the time of the issuance of the proposed decision. We do not expect there to be significant changes to the rates in the Escalation Memo in the span of a couple of months, whereas knowledge of the actual

[120] Exh. ORA-6 at 6.

[121] ORA's Escalation Memo generates its factors from a composite index of ten Wholesale Price Indexes for material and supplies expenses. (*Id*. at 5.)

inflation rates to be applied prior to adoption of the final decision will enable the parties and the Commission to better assess and more readily implement the necessary rate changes. Therefore, we take official notice of and adopt the escalation rates from ORA's August 2018 Escalation Memo.[122] Unless otherwise specified, all inflation rates shall be based on the rates in the August 2018 Escalation Memo.

7.3. Purchased Water

Cal-Am forecasts purchased water costs for 2018 and 2019 primarily based on estimates of total production, district operations assessments of sources and uses of produced and purchased water, and the current prices and assessments from water provider agencies.[123] Cal-Am explains that if production values are changed, the costs tied to that production have to be reviewed in their entirety as the sources and uses of water can also change.[124] Cal-Am argues that its system operators are the most knowledgeable people to determine the best supply mix between different sources of water given demand, water quality, and other considerations.[125]

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[122] The August 2018 Escalation Memo is attached as Appendix C to this decision. Official notice of the August 2018 Escalation Memo is taken pursuant to Rule 13.9 and Ev. Code § 452(h). Rule 13.9 authorizes the Commission to take official notice of such matters as may be judicially noticed by the courts pursuant to Evidence Code section 450 et seq. Ev. Code § 452(h) provides that judicial notice may be taken of "facts and propositions that are not reasonably subject to dispute and are capable of immediate and accurate determination by resort to sources of reasonably indisputable accuracy." Consistent with Ev. Code, § 453(a), parties are provided with an opportunity "meet" the request for official notice in their comments on the proposed decision.

[123] Exh. CAW-10 at 24.

[124] *Ibid*.

[125] Cal-Am Reply Brief at 60-61.

ORA argues that the historical information presented in Cal-Am's workpapers is unverified and unreliable, and that forecasts based on this information would grossly overstate total purchased water costs. ORA argues that there is significant variance between the volume of purchased water reflected in billing invoices and the recorded historical volumes reflected in Cal-Am's workpapers.[126] ORA specifically cites to the discrepancy between the billing invoices and workpaper for the Sacramento District. ORA argues that if Cal-Am does not provide invoices to substantiate its forecast, the Commission should reduce the volumes forecasted by Cal-Am by 387.7% for all of Cal-Am's districts.[127]

We find ORA's recommendation to reduce Cal-Am's volume forecasts in each of its districts by 387.7% to be drastic and do not find a reasonable basis for such a reduction. Cal-Am acknowledges that there were errors in recorded purchased water volumes in its workpaper for the Sacramento district but explains that it subsequently corrected these errors and that the errors never had any impact on the forecasted purchased water costs.[128] ORA's methodology is likely to significantly underestimate purchased water costs. The difference between adopted and recorded purchased water costs are tracked in the MCBA.

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[126] ORA Opening Brief at 120 citing Exh. ORA-28.

[127] ORA Opening Brief at 122. According to ORA, 387.7% represents the ratio of Cal-Am's projected purchased water volume from the City of Sacramento for 2016 (2,553 AF) to the recorded purchased water for the 12-month period from July 2015 to June 2016 per billing invoices from the City of Sacramento (658.46 AF). (ORA Opening Brief at 122 citing Exhs. ORA-28 and ORA-29.) There appears to be an error in this calculation since the billing invoices reflect total hundred cubic feet (CCF) usage of 298,587.8, which would convert to 685.46 AF. (Exh. ORA-28; ORA Opening Brief at 120.)

[128] Cal-Am Reply Brief at 60.

To the extent there are differences between the adopted and recorded costs, customers would be credited or surcharged the difference. ORA's methodology is likely to result in a large surcharge to be collected from customers in the future. ORA also does not address the impact its recommendation would have on Cal-Am's supply mix.

We have reviewed and find Cal-Am's purchased water forecasts for the TY to be reasonable with the exception of modifications to certain purchased water unit costs described below. Cal-Am must substantiate its purchased water costs in its MCBA filing. Therefore, we do not find it necessary for Cal-Am to provide additional documentation regarding its purchased water costs at this time. In response to ORA's data requests, Cal-Am provided updated purchased water unit prices.[129] Cal-Am indicated that it was amenable to updating these numbers in its hundred-day update but did not do so.[130] We find that Cal-Am's forecasts should be modified to reflect the updated purchased water unit costs in Cal-Am's data responses to ORA found at Attachment 3 to Exh. ORA-4. To the extent that these costs were subsequently modified in an advice letter filing approved by the Commission, Cal-Am may use the most recent costs authorized by the Commission. Cal-Am may incorporate all approved 2017 purchased water costs in its revenue requirement. Any costs approved for 2018 and beyond should continue to be recovered through purchase water offset surcharges until the next GRC.

[129] Exh. ORA-4, Attachment 3.

[130] Cal-Am Opening Brief at 40.

7.4. Chemicals

Cal-Am forecasts its chemicals district expenses for its water districts for TY 2018 by first developing a metric of chemical use per unit of production for each chemical type in each district. This chemical use per unit is then multiplied by the test and attrition year production estimates to derive the total chemical amounts required. These amounts are then multiplied by the price per chemical, which is escalated for inflation, to arrive at the total cost.[131] Cal-Am generally uses a three-year average (2013 to 2015) to determine the chemical use per unit and price per chemical[132] but in some cases uses a two-year or one-year average. Cal-Am argues that this methodology allows the chemical costs to follow what will likely be incurred based on varying production levels.

ORA argues that Cal-Am's methodology overstates its chemical costs because it does not conduct the average calculation properly.[133] ORA also argues that Cal-Am's methodology creates unnecessary complexity and is more susceptible to errors with no added benefits.[134] ORA instead recommends a methodology that calculates chemical costs by taking the total chemical costs and dividing this amount by the total production within each district to get a combined chemical cost per production unit. This combined chemical cost per production would then be multiplied by the forecasted water production to arrive at the chemical cost forecast.[135] ORA also recommends that Cal-Am use

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[131] Exh. CAW-10 at 25.

[132] The price per unit was based on an escalated three-year average.

[133] ORA Opening Brief at 123.

[134] *Ibid*.

[135] Exh. ORA-4 at 25-26. The combined chemical cost per production is based on a three-year average (2013-2015).

the most updated ORA Escalation Memo inflation rates at the time of the final decision to calculate the forecasted amount of chemical expenses.[136]

We agree with ORA that Cal-Am's methodology potentially overstates chemical costs. Cal-Am acknowledges that its methodology has resulted in the overstatement of certain chemical expenses but argues that its original forecasts are still reasonable because these overstatements only negligibly alter the forecasts.[137] Cal-Am also argues that its granular chemical-by-chemical need analysis is superior to ORA's methodology because it incorporates the most up-to-date regulatory standards and operational requirements.[138] Cal-Am's methodology tracks not only to a specific type of chemical but also to specific sizes of the container for the specific type of chemical.[139] This level of granularity is unjustified, especially where it results in the overstating of costs.[140] Although ORA cites to examples where use of a one-year average results in the overstating of costs, Cal-Am does not point to any line items in its chemicals expenses forecast where a one-year or two-year average would be appropriate based on new regulatory standards or operational requirements.

Based on the record before us, we find reasonable and adopt ORA's methodology for forecasting Cal-Am's chemical expenses in its water districts for TY 2018. Since the chemical costs for Monterey Wastewater are not tied to water

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136 *Id.* at 26.

137 Cal-Am Opening Brief at 41.

138 Cal-Am Reply Brief at 61.

139 Exh. ORA-4 at 22.

140 Exh. CAW-29 at 27-28.

production, the TY 2018 chemical costs shall be based on a three-year escalated average of total expenses.[141]

7.5. Uncollectibles

Cal-Am estimates its uncollectibles costs based on a five-year historical average uncollectible percentage.[142] The percentages are determined by dividing annual recorded uncollectible costs by recorded revenue. The five-year average is then applied to the revenue forecasts in each year to develop the overall cost. Cal-Am records uncollectible expense at the total company level and then allocates the expenses to each district based on the number of customers.[143]

ORA argues that it is not reasonable to apply a uniform ratio of uncollectible expenses for each district because this method may result in attributing uncollectible costs to districts disproportionate to their actual contribution to the total uncollectible expense. ORA proposes that Cal-Am use a five-year average of actual historical percentage of uncollectible expenses for each district.[144]

We find reasonable and approve the forecast for uncollectible costs for TY 2018 based on Cal-Am's proposed methodology. Cal-Am's methodology for forecasting uncollectible costs is consistent with how these costs have been allocated in the past and we do not find justification in the record for deviating from past practice. ORA's analysis of this issue demonstrates a lack of understanding of how Cal-Am accounts for these costs. For example, ORA's

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[141] *Id*. at 27; Exh. ORA-4 at 26.

[142] Exh. CAW-10 at 26.

[143] Exh. CAW-29 at 28.

[144] ORA Opening Brief at 126.

analysis mistakenly treats expenses allocated to each district pursuant to Cal-Am's methodology as actual expenses for each district.[145] Moreover, Cal-Am contends that ORA's proposal is unworkable because these costs are recorded at a company-wide level. ORA did not make its proposal until its opening brief, and therefore, the feasibility of ORA's proposal is not addressed in the record.

7.6. Leak Adjustments

Cal-Am includes leak adjustments in its uncollectibles account. For its Monterey District, Cal-Am used a two-year average of recorded leak adjustments in 2014 and 2015 to calculate the expected costs in the test year.[146] Cal-Am contends that the two-year average is appropriate because the rate design for this district changed in late 2013. For its other districts, Cal-Am used 2015 as the basis for its forecasts since that is the first year leak adjustments were captured.[147] Cal-Am then reduced these projected expenses for all of the districts in which it is requesting AMI to account for the potential impacts related to AMI. Cal-Am contends that the higher forecasts should be used if the Commission does not approve AMI.

Throughout this proceeding, ORA did not oppose Cal-Am's leak adjustment forecasts with two exceptions: (1) ORA opposed AMI, and therefore, did not incorporate Cal-Am's projected savings from implementing AMI in the forecasts; and (2) ORA opposed Cal-Am's forecast of $3,017,419 for its Monterey District and instead recommended a leak adjustment annual amount of $59,252 based on the average number and dollar amount of leak adjustments in other

[145] Exh. ORA-4 at 27-28; Exh. CAW-29 at 28.

[146] Exh. CAW-10 at 26-27.

[147] *Id*. at 27.

districts.[148] In its opening brief, ORA recommended that the Commission adopt ORA's leak adjustment forecast as shown in ORA-4, Table 2-5.[149] For the first time in its reply brief, ORA argued that the Commission should deny Cal-Am's leak adjustment expense entirely until Cal-Am is able to provide strict leak adjustment guidelines and verifiable data that can be printed upon request.[150]

7.6.1. Districts Other than Monterey

As discussed below, we deny Cal-Am's request for implementation of AMI. In the event that AMI is not approved, Cal-Am requests that the forecasts for all of Cal-Am's districts except the Monterey District be based on 2015 leak adjustments. ORA did not oppose these forecasts.[151] There is no evidence that the 2015 leak adjustments would overstate leak adjustments for the TY in these districts. We find these forecasts based on 2015 data to be reasonable and adopt these forecasts.

7.6.2. Monterey District

With respect to the Monterey District, ORA argues that this district has an anomalously high recorded leak adjustment relative to Cal-Am's other districts.[152] ORA argues that the 2014 and 2015 recorded information is not reliable for forecasting future leak adjustments due to rate design changes in the Monterey District adopted in 2016 in D.16-12-003.[153] ORA also argues that

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[148] Exh. ORA-4 at 29 & 31.

[149] ORA Opening Brief at 130-131.

[150] ORA Reply Brief at 12.

[151] Exh. ORA-4 at 29, Table 2-5.

[152] *Id*. at 29-30.

[153] *Id*. at 30.

Cal-Am's recorded information is not reliable because Cal-Am's leak adjustment process in Monterey is subject to abuse.[154]

Cal-Am argues that a leak adjustment forecast for Monterey based on the average number and dollar amounts of non-Monterey leak adjustments is not reasonable and would result in substantially underestimating this expense category. [155] Cal-Am explains that its Monterey District has steeply inclined tiered rates, and therefore, that bills with excess usage will be significantly higher than bills in other districts. Although the Commission recently adopted rate design changes for Cal-Am's Monterey District in D.16-12-003, Cal-Am argues that it is still reasonable to base the TY forecast on 2014 and 2015 recorded adjustments because once new rates are adopted in this GRC, the top tier rates in this GRC period will be very similar to the top tier rates in the historical periods used for forecasting.[156]

Cal-Am also argues that ORA's claims of abuse of the Monterey leak adjustment process are unfounded.[157] Cal-Am argues that the Commission should consider the unique circumstances in its Monterey District and the need for a flexible leak adjustment policy to ensure that customers are not unnecessarily harmed. Cal-Am notes that when the Commission previously authorized Cal-Am to track leak adjustments in a memorandum account, the

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[154] *Id*. at 31, Attachment 6. ORA points to five signs of abuse: (1) records indicate there were duplicate recorded leak adjustments; (2) no evidence that Cal-Am complied with its own internal confidential policy; (3) demonstrated weaknesses in Cal-Am's internal confidential policy; (4) evidence of billing errors classified as leak adjustments; and (5) lack of supporting documentation for the leak adjustments. (*Id.* at Attachment 6; *see also* Exh. CAW-34 at 9-13.)

[155] Cal-Am Opening Brief at 43-44.

[156] Exh. CAW-33 at 32-33.

[157] Cal-Am Opening Brief at 45.

Commission authorized the tracking of revenue shortfalls attributable to adjustments for "leaks, rate tier adjustments, billing adjustments, goodwill, and disputed bills."[158] Cal-Am claims that although there were errors in the leak adjustment documentation provided by Cal-Am to ORA in a data request, it has since reviewed and verified its leak adjustments records and provided an accurate list of these leak adjustments and has determined based on random sampling of the leak adjustments that its records have a 95% accuracy rate.[159]

We agree with Cal-Am that the rate design and rates for its Monterey District are not comparable to those in its other districts, and therefore, that it is not reasonable to use data from the non-Monterey districts to develop the forecast for Monterey. However, we also find that Cal-Am has failed to demonstrate the reasonableness of its leak adjustment practices or recorded leak adjustments in its Monterey District.

Cal-Am defines leak adjustments as "a credit provided to customer[s] for abnormal water use caused by presumed leaks that occasionally occur after the customer meter on the customers' property."[160] The leak adjustment is the difference between the actual water bill and the adjusted water bill.[161] It does not appear that Cal-Am has any verifiable guidelines or standards for the issuance of leak adjustments. It is also unclear what types of high usage would qualify for a leak adjustment that would be categorized under this expense.[162]

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158 *Id*. at 45-46 citing Resolution W-4951 at 8.

159 Cal-Am Opening Brief at 46-47.

160 Exh. CAW-33 at 25.

161 *Ibid*.

162 Reporter's Transcript (RT), Vol. 11 at 667:14-22, 670:18-22; RT, Vol. 12 at 711:25-712:9.

Each regulated utility of American Water establishes leak adjustment guidelines for its service territory.[163] ORA provided evidence of Cal-Am's leak adjustment guidelines for Monterey as of 2013 and argued that the guidelines are susceptible to abuse.[164] According to Cal-Am, the general guidelines for its Monterey District permit local operations to approve an adjustment outside the normal process.[165] Cal-Am argues that this discretion and flexibility is necessary due to the steeply inclining block rates in the district. Cal-Am states it recently revised the leak adjustment guidelines for Monterey in January 2016, however, Cal-Am did not provide many details of these revised guidelines.[166]

Cal-Am recorded leak adjustment expenses of $2.3 million in 2014 and $3.7 million in 2015 in its Monterey District.[167] Although Cal-Am claims that its leak adjustment records support the calculation of these amounts, given the lack of information regarding the circumstances under which these adjustments were granted, the Commission cannot determine whether it was reasonable for Cal-Am to provide these adjustments.

The Commission previously determined that leak adjustments benefit ratepayers and that Cal-Am should be able to recover the revenue lost due to billing adjustments.[168] However, in authorizing a memorandum account for

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163 Exh. CAW-34 at 8.

164 Exh. ORA-4-C, Attachments 6 and 8; RT, Vol. 12 at 714:11-16.

165 Exh. CAW-30 at 15-16; Exh. CAW-34 at 8-9 & 10-11.

166 *Id*. at 9.

167 Exh. ORA-4 at 31, Table 2-6.

168 D.12-06-016 at 50.

these expenses, the Commission determined that in order to recover these costs in rates, Cal-Am would have to demonstrate that:

> (1) it acted prudently when it incurred these revenue shortfalls; (2) the level of booked revenue shortfalls is reasonable; (3) the revenue shortfalls incurred are not covered by other authorized rates; and (4) it is appropriate for ratepayers, as a matter of policy, to pay for these categories of revenue shortfalls in addition to otherwise authorized rates.[169]

We are mindful of the unique circumstances in the Monterey District and that some flexibility in the leak adjustment policy in the Monterey District may be justified. However, given the high dollar amounts of these expenses, the expenses must be supported by adequate documentation to enable the Commission to review the expenses for reasonableness. This expense category must also be sufficiently defined for the Commission to assess whether it is reasonable for these costs to be borne by all ratepayers. For example, it would not be reasonable to expect ratepayers to subsidize serial high users. However, under Cal-Am's current leak adjustment practices, there is no assurance that this is not occurring.[170]

In Special Request #8, Cal-Am requests authority to establish an AMI/Leak Adjustment balancing account. This special request is linked to Cal-Am's proposal for AMI implementation. Although this decision denies Cal-Am's proposal for AMI implementation, we find it reasonable to establish a balancing account for leak adjustment expenses in Cal-Am's Monterey District. Given the high dollar amounts of these expenditures, the variability in recorded

[169] Resolution W-4951 at 10 (Ordering Paragraph (OP) 3).

[170] Pursuant to Cal-Am's January 2016 revised leak adjustment guidelines, customers are no longer limited to one leak adjustment every 24 months. (Exh. CAW-34 at 12.)

expenses,[171] and Cal-Am's failure to adequately justify previous expenditures, we find that additional scrutiny of these expenses via a balancing account is appropriate.

ORA opposes Special Request #8 and argues that Cal-Am would have no incentive to control these costs if given a balancing account.[172] We find that there must be some incentive for Cal-Am to incur only reasonable leak adjustment expenses during this GRC cycle, particularly given the lack of evidence that a reasonable leak adjustment policy is currently in place. Therefore, we find it appropriate to establish the Monterey leak adjustment balancing account as a one-way balancing account to be reviewed for reasonableness in the next GRC. All leak adjustment expenses found unreasonable will be removed from the balancing account and if the annual balance found reasonable is less than the annual budget established below, the difference will be refunded to ratepayers in the next GRC. Given the variability in expenses over the five-year period between 2011 and 2015, we find it reasonable to establish the five-year 2011-2015 average of $2,370,879 as an annual budget for the balancing account.[173] This amount may be included in base rates during this GRC cycle subject to refund based on the difference between the authorized amount and actual costs incurred. As required in the prior GRC, we require Cal-Am to continue to

[171] Exh. ORA-4 at 31, Table 2-6.

[172] ORA Opening Brief at 145-146.

[173] Exh. ORA-4 at Table 2-6.

separately identify billing adjustments in workpapers for all WRAM and GRC filings.[174]

We also direct Cal-Am to propose a leak adjustment policy for its Monterey District in its next GRC. The Commission will review the proposed policy to determine whether it is susceptible to abuse and whether it would be reasonable for ratepayers to pay for the leak adjustments provided pursuant to the policy. We recognize that exceptions to a general policy may be warranted in some circumstances, however, Cal-Am must be able to provide adequate justification and supporting documentation for leak adjustments, particularly those that are large and exceptional.

7.6.3. Non-Revenue Water Reward/Penalty Mechanism

ORA argues that there is evidence that Cal-Am incorrectly adjusted usage in connection with leak adjustments, which would impact Cal-Am's calculations for its Non-Revenue Water (NRW) Reward and Penalty Mechanism established for its Monterey District.[175] Under this mechanism, Cal-Am is rewarded if it has less NRW than the target level. Cal-Am is penalized if it has more NRW than the target level. Any rewards or penalties are added or subtracted, respectively, from the WRAM balance. ORA recommends that the Commission suspend Cal-Am's NRW reward/penalty mechanism until the next GRC and that the mechanism should not be continued unless Cal-Am provides evidence that its

[174] Amended Partial Settlement Agreement in A.13-07-002 (2013 GRC Settlement) at 146. The 2013 GRC Settlement is attached as Attachment A to D.15-04-007.

[175] ORA Opening Brief at 128-129. NRW Reward and Penalty Mechanism is also referred to as the Unaccounted for Water Reward and Penalty Mechanism.

annual reward calculations are not being inflated through some manipulation of the leak adjustment process or a laxity in established guidelines.

Cal-Am argues that ORA's recommendation was made for the first time in its opening brief, which prejudices Cal-Am's ability to respond through testimony or to cross-examine ORA's witnesses on this issue. Cal-Am states that this mechanism has been in place for over a decade and argues that it should not be suspended based on a proposal raised for the first time in briefing. Cal-Am also argues that the evidence cited by ORA in support of this proposal is not dispositive. According to Cal-Am's witness Stephenson, reducing customer usage is not an option in the Monterey District because actual water loss is tracked by the State Water Resources Control Board and reducing customer usage would result in an increase in water loss for which there are penalties under the NRW reward/penalty mechanism.[176]

We do not find evidence in the record that Cal-Am is improperly manipulating its leak adjustment process to affect calculations of its NRW reward/penalty mechanism. This issue was raised for the first time in ORA's opening brief, and therefore, the record does not contain information regarding the impact of leak adjustments on any recent rewards or penalties Cal-Am may have received under the mechanism. Moreover, it is unclear why Cal-Am would have an incentive to decrease customer usage under the mechanism. The purpose of the mechanism is to provide Cal-Am with strong financial incentives to reduce unaccounted for water.[177] Reducing customer consumption would result in an increase in water loss, which would increase the likelihood of a

[176] Exh. CAW-32 at 26.

[177] D.09-07-021 at 56.

penalty under the mechanism. In addition, the Commission recently examined data concerning the NRW reward/penalty mechanism and found no evidence of data manipulation by Cal-Am.[178]

MPWMD also recommends that the NRW target levels be adjusted as a result of lower consumption in the Monterey District.[179] Cal-Am did not propose any changes to the last adopted NRW level arguing that a reduction in consumption does not necessarily result in a decrease in the level of water loss.[180] Cal-Am also argues the NRW levels should be set at a reasonable level and enforce the idea of controlled NRW rather than being constantly adjusted.[181]

We agree with Cal-Am that a decrease in consumption does not necessarily correspond to a decrease in water loss levels. However, as noted by Cal-Am, the purpose of the NRW mechanism was to incent Cal-Am to conform with what was expected in the control of water loss.[182] The Commission approved the current levels nearly a decade ago in D.09-07-021 and they are ripe for updating. According to Cal-Am's response to Minimum Data Requirement (MDR) II.E.2, the 5-year average NRW level for the Monterey Peninsula for 2011-2015 is 6.84% with levels of -0.4% in 2014 and 5.6% in 2015.[183] Cal-Am

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[178] D.16-12-003 at 19-21.

[179] Exh. MPWMD-2 at 11.

[180] Exh. CAW-2 at 24.

[181] Exh. CAW-25 at 65.

[182] *Ibid*.

[183] MDR II.E.2, Attachment at 3. The Revised Rate Case Plan requires Class A water utilities to submit standardized MDRs as part of their GRC applications. (D.07-05-062 at 22 (OP 1).) The purpose of the MDRs is for a utility to submit sufficient information in its GRC filing to promote sound decision-making. (*Id*., Attachment A at A-21.) Cal-Am's MDRs for this GRC are appended as Exhibit B to the Application.

forecasts NRW levels for the Monterey Peninsula of 7.1% for 2018, 2019 and 2020.[184] Given this information, we find that the current 9% NRW level for the Monterey District is no longer a reasonable target level.

In the Monterey Settlement, Cal-Am and MPWMD had agreed that the NRW level for the Monterey District should be set at 7.0% of total water production.[185] Although we reject the Monterey Settlement for the reasons discussed above, based on recorded information and forecasts provided by Cal-Am, we find a 7.0% NRW threshold to be a reasonable upper threshold above which a penalty calculation will be determined. Given California's strong interest in conserving water resources and the constrained water resource situation in the Monterey District, we find it reasonable to set a lower NRW threshold below which rewards would be calculated to incentive Cal-Am to further reduce NRW levels. We will establish a lower threshold of 5.0% for calculating rewards. The revised NRW reward/penalty mechanism for the Monterey District will create a deadband between 5.0% and 7.0%, inclusive, for which NRW results will neither accrue a penalty nor earn a reward. Cal-Am has demonstrated recent performance in controlling NRW levels within this range as evidenced by its 2015 recorded NRW and its 2011-2015 average NRW. The lower 5.0% threshold provides a reasonable objective, as demonstrated by Cal-Am's 2014 NRW result, in which above average performance is rewarded. Therefore, we adopt an upper NRW threshold of 7.0% of adopted production levels above which penalties accrue and a lower NRW threshold of 5.0% of adopted production levels below which rewards are earned in the Monterey District.

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[184] MDR II.E.2, Attachment at 3.

[185] Monterey Settlement at 15.

7.7. Comprehensive Planning Study and Geographic Information Systems

Cal-Am requests an overall budget of $1,289,352 in 2018 for: (1) tasks related to Comprehensive Planning Studies (CPS) and the preparation of associated planning reports for each of its districts;[186] and (2) maintenance of Geographic Information System (GIS) system plans, maps, drawings, and other records as required pursuant to Commission General Order 103-A.[187]

ORA argues that Cal-Am's forecasts for CPS/GIS work products in previous GRCs have been much higher than its actual expenses in these areas. ORA notes that Cal-Am incurred just 44% and 20% of its proposed CPS/GIS expenses in the two most recent Test Years, 2012 and 2015, respectively.[188] ORA also argues that given the fifteen year planning horizon and five to eight year cycle for preparing the CPSs, and given that the next cycle of UWMPs will be due in 2020, it is unnecessary for the Commission to authorize additional funds to update the CPS or UWMP in this GRC cycle.[189] ORA recommends that the Commission approve Cal-Am's forecasted GIS expenses of $654,160 for TY 2018 as a reasonable budget for all CPS/GIS related tasks.[190]

Cal-Am argues that its proposed CPS/GIS budget for 2018 is justified based on the CPS/CBA study work that is planned for 2017, 2018, and into early

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[186] The typical tasks conducted under this budget usually include: CPSs; Emerging-Need Project Evaluations; Condition Based Assessments (CBAs); Urban Water Management Plans (UWMPs); and Strategic Capital Expenditure Plans. (Exh. CAW-12 at 193.)

[187] Exh. CAW-12 at 194-195; Exh. CAW-31 at 8. For TY 2018, $635,191 is budgeted for CPS expenses and $654,160 is budgeted for GIS expenses.

[188] Exh. ORA-6 at 7.

[189] *Id*. at 7-9.

[190] *Id.* at 10.

2019. In March 2017, Cal-Am awarded CPS/CBA work to three firms and Cal-Am anticipates that these studies will be completed by the end of 2018.[191] Cal-Am argues that given that CPSs were last conducted in 2012 or 2013 for all of its districts, the completion date of 2018 falls within the typical five to eight year cycle for CPSs.[192] Cal-Am also states that it is also likely to perform supplemental studies in the next several years under the CPS/GIS expense line item.[193] Cal-Am further argues that ORA's focus solely on the 2012 TY and 2015 TY for CPS and CBA related study expenses is not reasonable since these studies are multi-year undertakings that can take anywhere from 18 to 24 months to complete.[194]

We find that Cal-Am has adequately justified its proposed budget for TY 2018 with respect to CPS-related tasks. Cal-Am's anticipated timeline for completing the CPS/CBA studies fits within the typical five to eight year cycle for these studies and will require work to be undertaken in this GRC cycle. The only information in the record regarding recorded CPS/GIS expenses are for TY 2012 and TY 2015, which was provided by ORA. We agree with Cal-Am that CPSs involve multi-year studies, and therefore, that a single year of recorded expenses is not a reasonable basis for determining a budget. A five-year historical average of CPS/GIS expenses is not available because these costs were not treated as expenses until 2012.[195] Given this lack of information regarding

[191] Exh. CAW-31 at 5.

[192] Cal-Am Reply Brief at 19-20.

[193] Exh. CAW-31 at 6.

[194] *Id.* at 8.

[195] Exh. ORA-6 at 6.

recorded expenses, we find Cal-Am's proposed CIS budget to be reasonable based on the documentation Cal-Am provided regarding the CPS/CBA work it has awarded that is to be completed in 2018.

On the other hand, we find that Cal-Am has failed to adequately justify its budget with respect to GIS work products. There is a lack of information in the record regarding Cal-Am's recorded expenses specifically for GIS work products. The only information available in the record indicates that Cal-Am significantly underspent its forecasted budget in 2012 and 2015 for the overall CPS/GIS category. Cal-Am recorded CPS/GIS expenses of $603,103 in 2012 and $269,560 in 2015.[196] In light of past recorded expenses, we do not find Cal-Am's proposed 2018 budget of $654,160 for just GIS work products to be reasonable. Cal-Am indicates that regular preventative maintenance and licensing costs are part of the continuing GIS budget for 2018 and 2019 but does not provide adequate justification for budgeting for other GIS work products in this GRC cycle.[197]

Given Cal-Am's justification for its budget for CPS-related tasks, we do not find it reasonable to reduce Cal-Am's forecasted CPS/GIS budget by 49% as recommended by ORA. On the other hand, although Cal-Am has adequately justified its budget for CPS-related tasks, Cal-Am has failed to adequately justify its budget related to GIS-related tasks. Therefore, we find reasonable Cal-Am's forecasted budget of $635,191 for CPS-related tasks for 2018 but reduce Cal-Am's forecasted GIS budget of $654,160 for 2018 by 50% to approve a total budget of $962,271 for CIS/GIS expenses for TY 2018.

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[196] *Id*. at 7.

[197] Exh. CAW-31 at 7-8.

7.8. Tank Painting Expense

Cal-Am proposes certain tank improvement projects, including tank painting expenses, as part of its tank maintenance program.[198] Cal-Am contends that the tank maintenance program maximizes the life span of the tanks and reservoirs throughout the state, as well as implements improvements to meet existing and future laws, codes, and regulations.[199] The following is a summary of Cal-Am's funding requests for the deferred tank improvement projects that Cal-Am proposes during this GRC cycle:[200]

District	**2018**	**2019**	**2020**	**Total**
San Diego	$0	$0	$688,460	$688,460
Los Angeles	$177,958	$35,920	$193,560	$407,438
Ventura	$22,145	$21,920	$38,024	$82,089
Monterey	$409,471	$1,090,240	$599,635	$2,099,346
Sacramento	$17,600	$28,200	$115,700	$161,500
Larkfield	$4,300	$9,400	$5,100	$18,800

ORA states that Cal-Am has not completed a significant number of tank painting projects that were authorized and funded into rates over the last two GRCs.[201] ORA also notes that Cal-Am is requesting additional funding in this GRC for a number of tank painting projects that were previously authorized and

[198] Cal-Am's tank maintenance program involves both capital and deferred expenditures. (Exh. CAW-12 at 196.) The deferred expenditures include tank painting (also referred to as tank coating) improvements. Examples of capital improvements are sanitary, structural, or safety improvements. Cal-Am's request for capital expenditures for its tank maintenance program is addressed in the Plant Recurring Project discussion in Section 11.1.4, below.

[199] *Id*. at 196.

[200] *Id*. at 197-200, Tables 6A-6F.

[201] Exh. ORA-1 at 12-13.

funded in its 2013 GRC.[202] ORA argues that no additional funding should be provided for these projects in this GRC since the projects were previously funded but Cal-Am has not yet completed these projects. ORA agrees with Cal-Am's requested tank painting projects and related expenses for 2018 and 2019 for all of Cal-Am's districts with the exception of the Monterey County Water District.[203] ORA recommends that the Commission reject Cal-Am's request for funding for five proposed projects in this district, which were previously funded in rates, and reduce Cal-Am's requested budget for 2018 and 2019 from $1,499,711 to $55,395.[204]

Cal-Am argues that the timing of when a specific tank can be rehabilitated and/or painted is dependent on a number of factors, which may cause a shift in the timeframe of when a specific tank can be painted.[205] Cal-Am also argues that ORA fails to take into account that Cal-Am started an additional seven tank projects in 2016 in its Monterey District that are scheduled for completion by the first half of 2017 and have incurred expenses of approximately $1,427,000 in 2016.[206]

Although Cal-Am did not spend funds on the specific projects that the Commission previously authorized for its Monterey District, Cal-Am did spend funds on additional projects in that district. We find reasonable Cal-Am's explanation that the timing of when a specific tank can be rehabilitated and/or

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[202] *Id*. at 13.

[203] *Id*. at 14-16, Table 1-5.

[204] *Id*. at 16.

[205] Exh. CAW-21 at 3-4.

[206] *Id*. at 4.

painted is determined by a number of factors that may result in reprioritization of which tanks will be rehabilitated and/or painted. ORA does not dispute the value or need for tank painting. ORA also states that it is not necessarily opposed to the seven additional projects that Cal-Am started in 2016.[207] Based on the foregoing, we find reasonable and approve Cal-Am's proposed 2018-2019 deferred tank improvement projects and associated budgets for its Monterey District. We direct Cal-Am to report in its next GRC whether the seven additional tank projects begun in 2016 in its Monterey District were in fact completed.[208]

There is no dispute with respect to the 2018-2019 deferred tank improvement projects and related budgets that Cal-Am proposes for its districts other than its Monterey District. We find reasonable and approve these proposed projects and related budgets.

Consistent with past practice, Cal-Am proposes that the deferred tank improvement project expenses be deferred and amortized to expense of five years for study costs and ten years for all other tank painting costs.[209] ORA did not oppose this practice. We approve the continued use of this practice for the deferred tank improvement project expenses approved in this decision.[210] In order to better evaluate the reasonableness of future forecasts for these expenses,

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[207] ORA Opening Brief at 80.

[208] The seven additional tank projects are: Lower Pasadera Tank, Upper Pasadera Tank #1, Upper Pasadera Tank #2, Huckleberry Tank #2, Boots Tank, Forest Lake Tank #1, and High Meadows Tank #1. (Exh. CAW-21 at 4.)

[209] Exh. ORA-1 at 9-10, fn. 31.

[210] A list of the approved deferred tank improvement projects is attached as Appendix D to this decision.

we direct Cal-Am to provide information regarding historic expenditures for these expense line items in its next GRC.

Although Cal-Am proposes deferred tank improvement projects for 2020, ORA did not evaluate these projects or take a position on the prudency or reasonableness of the expenses for these projects. ORA argues that 2020 is not a forecasted test year pursuant to the Rate Case Plan or Revised Rate Case Plan and that the Commission should avoid giving the perception of endorsing another test year.[211] ORA cites to sections of the Rate Case Plan and Revised Rate Case Plan that state that all rate base items shall be subject to two test years and an attrition year.[212] The deferred tank painting expenses are not rate base items that would be subject to the two test years and an attrition year. Rather they are expenses, which pursuant to the Rate Case Plan and Revised Rate Case Plan, are subject to a single test year and two attrition years.[213] In any event, ORA's argument that 2020 is not a forecasted test year for these expenses is well taken, and therefore, we decline to review or approve any additional projects for 2020.[214]

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[211] *Id.* at 30-31.

[212] *Id*. at 31.

[213] D.04-06-018, Appendix at 2; D.07-05-062, Attachment A at A-19.

[214] Given that ORA did evaluate the projects proposed for 2019, we find adequate justification for approving these projects.

7.9. District Rent Expenses

With a few exceptions, Cal-Am used a five-year inflated average of recorded expenses from 2011-2015 to project test year rent expenses, which include leases of district office equipment, office space, storage, etc.[215]

ORA generally agrees with Cal-Am's rent expense estimates with the exception of three recommended adjustments to Cal-Am's projections:[216]

1. Adjustment of the San Diego corporate office rent expenses to reflect the cost of the new lease.
2. Adjustment of the Folsom Booster Station property taxes by using a three-year escalated average of recorded taxes and removing the $19,047 in property taxes paid in 2015 from the five-year inflated average.
3. Removal of one-time rent and equipment expense items from Cal-Am's five-year inflated average in the Larkfield and Sacramento districts.

Cal-Am agrees with ORA's adjustments.[217]

There is no dispute regarding the rent expense forecast. We have reviewed and find reasonable Cal-Am's rent expense estimates with the adjustments recommended by ORA.[218]

7.10. Citizens Acquisition Premium

In 2001, the Commission approved Cal-Am's acquisition of Citizen Utilities Company of California at a purchase price that was above the net book

[215] Exh. CAW-10 at 32; Exh. ORA-9 at 3-6.

[216] ORA Opening Brief at 14-15; Exh. ORA-9 at 1-8.

[217] Exh. CAW-29 at 31; Joint-1 at 3.

[218] *See* Exh. ORA-9 at 2, Table 1.1.

value.[219] The Commission authorized the acquisition premium to be amortized mortgage-style over 40 years beginning in 2002. In D.12-06-016, the Commission authorized a revenue requirement schedule for the Citizens Acquisition Premium.[220]

Cal-Am and ORA agree that the revenue requirement for the Citizens Acquisition Premium was set for the remainder of its 40-year life in D.12-06-016.[221] Both parties also agree that changes to the federal income tax rate would affect the premium.[222] As discussed further below, although Cal-Am and ORA previously disagreed on the issue of the federal income tax rate, subsequent to the passage of the TCJA, Cal-Am and ORA are in agreement that a 21% federal income tax rate should be used for ratemaking purposes for 2018 and 2019.[223] We approve Cal-Am's methodology for calculating the Citizens Acquisition Premium but find that modifications to Cal-Am's original estimates should be made to incorporate the new federal income tax rate of 21% and the revised rate of return adopted in D.18-03-035.[224]

7.11. Purchased Power

Cal-Am calculates purchased power costs by estimating the total kilowatt hour (kWh) usage multiplied by the cost per kWh for each district.[225] Cal-Am uses 2015 data from Cal-Am's power providers to divide kWh usage by 2015

[219] D.01-09-057 at 66 (FOF 3) and 73 (OPs 1, 3, 4).

[220] D.12-06-016 at 17.

[221] Exh. CAW-33 at 64; Exh. ORA-9 at 16.

[222] Cal-Am Opening Brief at 51; ORA Opening Brief at 17.

[223] Cal-Am Opening Brief on Taxes at 3; ORA Opening Brief on Taxes at 2.

[224] *See* Exh. CAW-33 at 64-65, Attachment 11.

[225] Exh. CAW-10 at 25.

production to determine a kWh/CCF metric for each district. It then multiplies this metric by the corresponding estimated water production quantities in 2018 and 2019 to develop total kWh usage estimates for those years. Similarly, the cost per kWh is calculated by taking the 2015 cost per district and dividing it by 2015's kWh usage. These district costs per kWh are then escalated each year of the rate case cycle for inflation. Cal-Am explains that it uses 2015 data because it contains the most up to date pricing from power providers and is more representative of the costs to be incurred.[226]

ORA agrees with Cal-Am's methodology to tie the estimated variable costs of purchased power with the estimated volume of water produced, as well as to use the 2015 recorded purchased power costs as the basis for the forecast.[227] ORA and Cal-Am further agree that the forecast should be calculated based on the most updated ORA Escalation Memo inflation rates at the time of the final decision.[228]

We find reasonable and adopt Cal-Am's methodology for forecasting Purchased Power costs except that, for the reasons explained above in Section 7.2, the forecast shall be based on the inflation rates in ORA's August 2018 Escalation Memo.[229]

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[226] *Ibid*.

[227] Exh. ORA-4 at 18.

[228] Joint-1 at 4. Although Cal-Am and ORA agree on the methodology to calculate purchased power costs, specific numbers differ based on different assumptions regarding the volume of water produced.

[229] Actual purchased power costs are balanced through the MCBA.

7.12. Materials and Supplies for the Ventura District

Cal-Am estimates materials and supplies (M&S) amounts for TY 2018 and 2019 by escalating a five-year average of recorded M&S amounts from 2011 through 2015. In order to have an estimate that reflects the current operational process in the Ventura District, ORA recommends that certain expenses for 2011 and 2012 be excluded in developing the M&S forecast, which would reduce Cal-Am's requested M&S budget for the Ventura District by $29,154.03 for TY 2018.[230] Cal-Am agrees with ORA's recommendation.[231]

There is agreement between Cal-Am and ORA that the M&S budget for the Ventura district should be reduced by $29,154.03 for TY 2018 and we find this reduction to be reasonable and supported by the record.

8. Cal-Am Company Expenses

8.1. Labor Expenses

8.1.1. Payroll Expenses

Cal-Am requests $22,603,533 for its test year 2018 labor forecast.[232] ORA objects to the methodology Cal-Am used to forecast the 2018 labor expenses and recommends that the Commission adopt ORA's 2018 labor forecast of $19,413,281. [233]

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[230] ORA Opening Brief at 18; Exh. ORA-7 at 1-6 & 1-7.

[231] Cal-Am Reply Brief at 16.

[232] Exh. CAW-25 at 17. The $22.60M figure is Cal-Am's request for 2018 Base Labor expenses. Base labor expense is comprised of salaries/payroll expenses, overtime expenses, and capitalized expenses. Capitalized expenses are a credit to labor expense, and therefore, reduce base labor expenses.

[233] Exh. ORA-3 at 1.

For Cal-Am's forecast of base labor expenses for 2018, Cal-Am escalated its 2016 estimated salaries by the expected wage increases for non-union employees and the union-negotiated wage increases for union employees.[234] The escalation factors that Cal-Am used, based on escalation rates for non-union employees, are 3.5% in 2017, 3.2% in 2018, and 2.94% in 2019. These escalation factors, according to ORA, are higher than the escalation factors that Cal-Am used for union employees, which are 2.25%-2.5%.[235] ORA recommends that a single escalation factor be used for all employees, so that there would not be a wage gap between union and non-union workers. ORA recommends using the escalation factor of 2.5%, which is consistent with the 2.5% escalation factor that the 2015 GRC decision adopted for all employees.

We agree with ORA's use of 2.5% to annually escalate salary expenses to the 2018 forecast. According to Cal-Am, this is the highest union negotiated wage increase. Cal-Am argues that the union positions have different incentive mechanisms than those needed to fill management positions.[236] Even though union positions and management positions have different incentive mechanisms, we do not find justification for escalating labor expenses for non-union positions by as much as 1% more than the highest negotiated union increases, since the same labor escalation factor of 2.5% was used for both union and non-union employees in the last Test Year 2015 GRC decision.[237]

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[234] Exh. CAW-10 at 6.

[235] Exh. ORA-3 at 1-2.

[236] Exh. CAW-29 at 5.

[237] Exh. ORA-3 at 3.

In addition, ORA argues that the base salary figure Cal-Am used, Cal-Am's estimated 2016 salary budget, does not yield an accurate forecast. Cal-Am's recorded 2015 salary expense is $21,994,190.[238] Given Cal-Am's labor forecast methodology, ORA argues that Cal-Am's estimated 2016 labor budget is $2.2 million or 12% more than its 2015 labor recorded costs.[239] ORA is concerned with this requested increase given that Cal-Am's recorded labor expense increased by a range of only 0% to 4% from 2011 to 2015.[240] Thus, ORA recommends using the 2015 recorded payroll expense as the base figure to forecast the 2018 labor expense, yielding a recommended 2018 labor expense of $19.41M.

Cal-Am argues that the recorded 2015 salary expense is not an appropriate basis for the forecast because it does not reflect the various staff changes and accounting changes that occurred in 2016. Cal-Am explains that, in 2016, it transferred one employee from the American Water Works Service Company to Cal-Am, added new employees through acquisitions, moved the costs for conservation employees from the conservation budget to district labor budgets, converted conservation intern positions into full time positions, and added five new positions in the Monterey County District that are needed to increase efficiency and ensure safety.[241] [242]

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[238] Exh. CAW-43.

[239] Exh. ORA-3 at 2.

[240] *Ibid.*

[241] Cal-Am Reply Brief at 23-24.

[242] Exh. CAW-17 indicates that three full-time positions were added from the acquisition of Meadowbrook: an operations supervisor, a certified system operator, and an administrative position.

While Cal-Am asserts that the large increase from 2015 recorded to its 2016 budgeted salary expense is a result of the additions of new positions, Cal-Am fails to offer any additional details that show how these added positions make up for the large 12% differential between its 2015 recorded and 2016 estimated labor expenses. Based on the record in this proceeding, it is also unclear what is the total number of new positions that Cal-Am claims it added in 2016. In testimony, Cal-Am indicates that, not including the conversation staff positions, it increased its number of employees from 292 to 295, which is a total of three new positions.[243] Yet in reply briefs, Cal-Am indicates that, not including conservation staff positions, as much as nine positions were added.[244] [245] For these three or nine positions that Cal-Am claims it added in 2016, Cal-Am does not provide any details regarding the costs of each of these positions, which are necessary for the Commission to examine the cost reasonableness of these new additions. Cal-Am thus fails to also show that these added positions are cost reasonable. Because there is inadequate record evidence regarding these new and transferred positions, the Commission cannot determine the reasonableness of the change between Cal-Am's 2015 recorded and 2016 estimated salary expense. Thus, we adopt ORA's proposal of using 2015 recorded salary expenses for a basis to forecast 2018 labor expenses.

As explained above, we also adopt ORA's proposal of escalating the 2015 recorded salary expenses by 2.5% annually to forecast the 2018 labor expenses.

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[243] Exh. CAW-10 at 7.

[244] Cal-Am Reply Brief at 23-24.

[245] Cal-Am indicated that 1 position was transferred from American Water, 5 positions were added in Monterey, and 3 positions were added from the acquisition of Meadowbrook. (*See* Exh. CAW-17.)

With this method, we adopt a 2018 salary expense forecast of $23,685,339 and 2018 base labor expense forecast of $20,596,885.[246]

With respect to the conservation staff positions, as discussed below in Section 17.1, we find that Cal-Am has not adequately justified moving the conservation staff expenses to the district operations labor budgets and find that these expenses should remain in the conservation budgets.

ORA does not oppose the methodologies Cal-Am used to forecast its 2019 and 2020 labor expenses. We adopt Cal-Am's methodology to forecast its 2019 and 2020 labor expenses.

8.1.2. Incentive Compensation

Cal-Am offers short-term and long-term incentive compensation programs. The short-term incentive compensation program is the Annual Performance Plan (APP). The long-term incentive compensation program is known as the Long-Term Performance Plan (LTPP). The LTPP program consists of expenses for Restricted Stock Units (RSU) and Performance Stock Units (PSU). For the test year 2018 expenses, Cal-Am requests $2,732,059 for the APP and $649,824 for the LTPP.[247]

ORA recommends that the Commission reduce Cal-Am's request for APP expenses by 50%, because 50% of Cal-Am's APP metrics align with corporate financial goals and do not provide benefit to ratepayers. ORA also recommends that the Commission disallow Cal-Am's request for RSUs and approve only 50% of the request for PSUs. According to ORA, RSUs are stock options, which

[246] The 2018 base labor expense figure of $20,596,885 includes salaries, overtime, and capitalized expenses.

[247] Exh. CAW-25 at 50.

provide benefits to shareholders but not ratepayers, and PSUs are incentives with only 15% of the performance goals that benefit ratepayers.[248]

Cal-Am explains that incentive compensation is part of the total compensation. Cal-Am also argues that the compensation study conducted by Willis Towers Watson shows that its total compensation is reasonable and that, if incentive compensation were removed, Cal-Am's total compensation would not be competitive.[249]

In recent GRCs, the Commission reduced the expenses requested for incentive compensation when performance goals benefit both shareholders and ratepayers.[250] Cal-Am's 2018 Proxy Statement states that the 2017 APP performance goals are based on (1) Adjusted Earnings Per Share (50%), (2) Customer Satisfaction (15%), (3) Occupational Safety and Health Administration (OSHA) Recordable Incident Rate (7.5%), (4) Days Away/Restricted or Job Transfer Rate (DART) (7.5%), (5) Environmental Leadership (10%), and (6) Operational Efficiency Improvement (10%).[251] Upon reviewing the performance metrics that Cal-Am historically used for its APP, we find that shareholders and ratepayers equally benefit when these metrics are met because the safety, environmental, and operational goals benefit ratepayers while the financial goals benefit shareholders. Therefore, we find that shareholders should also share 50% of the costs in funding the APP and reduce Cal-Am's APP request by 50%.

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[248] ORA Opening Brief at 60-61.

[249] Cal-Am Opening Brief at 57.

[250] D.15-11-021, D.14-08-032, D.13-05-010.

[251] Cal-Am's 2018 Proxy Statement at 42-43.

As for the LTPP, the performance goals for the PSUs have been (1) Relative Total Shareholder Return, (2) Compounded Adjusted Earnings Per Share Growth, and (3) Operational Efficiency.[252] Similar to the APP performance goals, these goals benefit both shareholders and ratepayers. Shareholders should also bear 50% of the costs in funding the PSUs. Thus, we approve 50% of Cal-Am's request for PSUs.[253] RSUs are shares of stock that are subject to vesting and possibly other restrictions. We agree with ORA that payouts for RSU incentives target primarily shareholder benefits and disallow Cal-Am's request for RSU expenses.

8.1.3. Severance

Cal-Am requests $114,941 for its 2018 forecasted severance expense.[254]

ORA recommends that the Commission disallow this expense, arguing that severance benefits are excessive and should not be funded. According to ORA, Cal-Am employees receive pension and other retirement benefits when they resign and, therefore, should not be given severance benefits. Cal-Am argues that severance expenses are normal costs of doing business and are necessary to mitigate potential legal costs related to employee termination.[255] The Commission agrees that severance expenses are normal costs of doing business that can help the Company avoid unnecessary legal expenses. Thus, the Commission finds that funding severance expenses is reasonable.

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[252] *Id*. at 45-46.

[253] ORA Opening Brief at 60.

[254] *Id*. at 62.

[255] Cal-Am Reply Brief at 26.

ORA also objects to Cal-Am's forecasting methodology. Cal-Am developed its 2018 severance forecast by taking the average of recorded costs from 2011-2015 and then escalating the average to 2018. ORA recommends that the Commission remove the 2011 expenses from Cal-Am's forecast calculation. ORA argues that the 2011 expense is an outlier, relative to the five years of recorded expenses from 2011 to 2015, that artificially inflates the historical average. With the expenses from 2011 removed from the forecast calculation, all else constant using Cal-Am's formula, ORA calculates that the forecasted severance expenses in 2018 should be $53,294.

Cal-Am argues that the 2011 severance expense is not an outlier. Cal-Am argues that severance costs vary from year to year, based on the necessity to replace underperforming employees. Cal-Am further argues that, because the 2011 severance expense of $332,661 is very similar to its 2016 severance expense of $364,524, the 2011 severance expense is not an outlier.[256]

In reviewing the 2011-2016 actual recorded expenses, there are large variances in the severance expenses from year to year. They were $8,922 in 2015, but $364,521 in 2016, an increase of forty-fold over a one-year period. Cal-Am does not provide any explanation for these large variances. Given the large variances in the annual recorded data and the lack of explanation for these variances, the Commission cannot ascertain whether the 2011 expense is an outlier, even if the 2016 expense is similar to the 2011 expense. It may be possible that both the 2011 and 2016 expenses are outliers.

[256] Exh. CAW-25 at 61-62.

Given Cal-Am's lack of explanation for the large variance, we do not find it reasonable to include the 2011 expense in the forecasted average. At the same time, we do not find ORA's approach of excluding the 2011 expense from the forecasted average to be reasonable. Since severance costs vary significantly from year to year, as demonstrated by the recorded data from 2011-2016, depending on the need to replace underperforming employees, using the recorded historical averages may not be the most accurate method of forecasting severance expenses. But given the lack of other alternatives presented in the record, we find it reasonable to approve the average of Cal-Am's and ORA's forecasts, or $84,118, for Cal-Am's 2018 severance expense.

8.2. Employee Expenses

8.2.1. Pension Plan Expense

Cal-Am's Parent Company, American Water, derives the forecast for pension plan expenses by using an actuarial projection that its consultant, Willis Towers Watsons, calculated. It then allocates the forecasted expenses to Cal-Am based on Cal-Am's estimated share of the costs. Cal-Am's portion is calculated by applying a percentage allocation factor, 5.05%,[257] to American Water's forecast. The 5.05% was based on the actual allocation Cal-Am received in 2015.

Cal-Am and ORA agree that using actuarial projections provides a reasonable method to forecast the test year 2018 pension expense budget. Cal-Am proposes to use the most recent available data, the actuarial projections for 2018. Based on Towers Watsons' actuarial projections, Cal-Am requests $2,085,650 for its 2018 pension expense.

[257] Exh. CAW-10 at 12.

ORA recommends using the 2016 actuarial projection instead, which would result in a forecast of $1,777,680. ORA argues that Cal-Am's recorded pension costs have been decreasing over the past three years, which it demonstrates in the table below.

Table 2-1[258]

	Recorded $					Cal Am Estimated $		
	2011	2012	2013	2014	2015	2016	2017	Test Year 2018
Pension	2,678,626	3,798,243	2,832,725	1,362,905	1,024,814	1,777,600	2,211,900	3,110,800
% Change		42%	-25%	-52%	-25%	73%	24%	41%

ORA argues that because of the declining trend in pension expenses, Cal-Am's actual costs have been below its authorized budget, resulting in an overcollection of approximately $4 million as of 2015 in the pension balancing account.[259] ORA further argues that its recommended forecast of $1,777,680 is a good estimate because it is similar to the average of the past three years of recorded pension expenses from 2013 to 2015.

The Willis Towers Watson's actuarial projections are not part of the record of this proceeding. Cal-Am did not provide information as to how Willis Towers Watson derived these results, such as the variables or inputs used, the methodology used, or if these results contain any margin of error. Therefore, because the Commission cannot determine whether these projections can provide an accurate forecast, the Commission will not use Willis Towers

[258] Exh. ORA-3 at 10.

[259] ORA Opening Brief at 63.

Watson's actuarial projections to forecast Cal-Am's 2018 pension expense. Instead, given the declining trend in pension expenses that has resulted in the current overcollection in the pension balancing account, the Commission finds it reasonable to determine the 2018 pension expense by averaging 2013-2015 recorded costs, or $1,740,148, and then escalating this average to 2018 dollars using the 2016 and 2017 escalation factors. Therefore, the Commission approves a 2018 pension plan expense of $1,799,788.

8.2.2. Stock Purchase Plan

Cal-Am requests $51,922 for the forecasted 2018 expense of the Employee Stock Purchase Plan (ESPP).[260] The ESPP provides Cal-Am employees, both full-time and part-time, the opportunity to buy common shares of American Water stock at a 10% discount off the New York Stock Exchange price. ORA proposes that the Commission disallow any of the ESPP expenses, arguing that the ESPP program is a form of additional compensation that does not provide any benefits to ratepayers.[261]

Cal-Am argues that the Commission has previously approved a similar program for Suburban Water Systems in D.09-03-007. In that decision, the Commission noted that the program increases employee retention and raises equity capital.[262] Cal-Am further explains that the ESPP is an employee benefits program to assist with recruiting and retaining high-quality employees. The ESPP was instituted after American Water discontinued its pension plan.

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[260] Exh. ORA-3 at 11-12.

[261] *Ibid*.

[262] Cal-Am Opening Brief at 59.

The Company's shareholders have a high degree of control over the parameters of the ESPP program, including the amount of discount they choose to give to their employees and the price of the shares of stock. Furthermore, the benefits of the program are disproportionately greater for the Company than for ratepayers. The inherent incentives presented in the program are for the employees to align their goals with shareholders through sharing ownership of the stocks. Because the ESPP program disproportionately benefits shareholders more than ratepayers, the Commission finds that ratepayer funding for the ESPP program is not reasonable. Thus, the Commission disallows funding for the ESPP program.

8.2.3. Group Insurance Expense

In testimony, Cal-Am proposed to forecast its 2018 group insurance expense by escalating its 2016 budget, which its actuarial consultant, Aon Hewitt, estimated, with a factor of 9.5% for 2017 and 8.4% for 2018.[263] These escalation factors are within the 7%-10% range that Cal-Am's consultant, Willis Towers Watson, predicts insurance costs will increase in the next few years.[264] Based on this methodology, Cal-Am forecasts that its 2018 expense is $3.8 million.[265]

ORA proposes using the 2015 recorded cost as the base year and then applying the escalation rates forecasted by the Information Handling Services Global Insight's (IHS) Employment Cost Index to derive the 2018 forecast. The IHS escalation rates are 3.1% in 2016, 4.5% in 2017, and 5.0% in 2018.[266]

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[263] Exh. CAW-10 at 26.

[264] Exh. CAW-1 at 9.

[265] Exh. CAW-5 at 12.

[266] Exh. ORA-3 at 12-13.

ORA opposes using Cal-Am's 2016 budget because it is 30% more than the actual cost that Cal-Am incurred in 2015.[267] Cal-Am in turn opposes using the 2015 recorded cost because the 2015 recorded cost does not account for the employee transfers and additions that occurred in 2016.[268]

In its Opening Brief, Cal-Am proposes a different forecast methodology. Instead of using the 2016 budget, which Cal-Am initially proposed in testimony, Cal-Am proposes to use its 2017 budget per employee and then escalating it with a 2018 escalation factor of 7.5%, an escalation factor that is recommended by Willis Towers Watson. Cal-Am explains that its Parent Company, American Water, negotiates the insurance rates for Cal-Am. Since American Water's 2016 budget closely approximated American Water's actual 2016 recorded cost, Cal-Am argues that its 2017 budget should also be able to accurately forecast its actual 2017 cost.

Because a budget is always an estimate and does not always align with actual incurred costs, using the actual recorded cost as a basis for a forecast is more accurate than using an estimated budget. Although American Water's estimated budget was close to its actual cost in 2016, historical data shows that American Water's budgeted costs were not always close to the actual costs. For example, in 2013, American Water's budget for the health plan costs of its union members was approximately 20% more than the actual cost.[269] Since we find using recorded costs is more accurate than using estimated budgets as the bases for forecasts, we find it reasonable to use Cal-Am's most recent recorded cost,

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[267] ORA Opening Brief at 64.

[268] Cal-Am Opening Brief at 60.

[269] Exh. CAW-29, Attachment 4.

not its 2017 estimated budget, as a basis to forecast its 2018 group insurance expense. Cal-Am's most recent recorded group insurance expense is from 2015.[270]

Recorded data shows that American Water's 2015 recorded group insurance cost is very similar to its 2016 recorded cost, with a difference of less than 1%.[271] Since American Water procures group insurance on behalf of Cal-Am, and American Water's 2015 recorded group insurance cost is very similar to its 2016 recorded cost, we find it reasonable to conclude that Cal-Am's 2015 recorded group insurance cost should also be able to closely approximate its 2016 cost.

Cal-Am argues that its 2015 recorded costs do not account for the insurance costs of new positions that were added in 2016. But, as explained in Section 8.1.1. Payroll Expenses above, Cal-Am has failed to clarify how many additional positions were added in 2016 and to provide an adequate showing to demonstrate that these positions are cost reasonable.

Thus, we find it reasonable to approximate Cal-Am's 2016 cost with its 2015 recorded costs and to inflate this by escalation factors for 2017 and 2018. We determine the 2017 and 2018 escalation factors for the group insurance expense below.

For the 2017 and 2018 escalation factors, the Commission is not convinced that ORA's IHS Global Insight Employment Cost Index estimates or Cal-Am's

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[270] Even though Cal-Am provided the actual group insurance costs American Water incurred in 2016, it did not provide the group insurance costs that Cal-Am incurred in 2016.

[271] Exh. CAW-29, Attachment 4. Historical data also shows that American Water's 2015 recorded per employee cost is similar to its 2016 recorded per employee cost as well, also with a difference of less than 1%.

estimates provided by Willis Towers Watson provides an accurate forecast. ORA and Cal-Am did not accurately forecast the group insurance escalation rate for 2016. ORA forecasted that group insurance costs would increase by 3.1% in 2016, while Cal-Am forecasted that the 2016 escalation rate would be 6%. But, American Water's actual rate of change in 2016 is less than 1%, significantly different from both parties' forecasts. ORA's and Cal-Am's 2016 escalation forecasts are significantly different from the actual escalation rate American Water experienced in 2016.

The Commission recognizes the difficulty in forecasting annual insurance expenses given the significant variability and volatility in insurance costs, which we shall discuss in more detail in Section 16.1 (Special Request #2: Group Insurance Balancing Account). We find that ORA's and Cal-Am's forecasts fall within a reasonable range of the annual insurance escalation rates seen in the historical data for 2011-2016.[272] Because we are not convinced that either party is more accurate than the other, we find it reasonable to adopt the average of ORA's and Cal-Am's escalation estimates. The Commission adopts 7.0% and 6.7% as the escalation factors for 2017 and 2018, respectively.[273]

8.2.4. General Liability Insurance Expenses

Cal-Am's forecast for general liability insurance is calculated by taking the average of 2014 and 2015 expenses and then applying escalation factors to the average to arrive at a test year 2018 estimate. Cal-Am asserts that general

[272] Cal-Am's historical group insurance expense data can be found in Exh. CAW-29, Attachment 4.

[273] For 2017, 7.0% is the average of ORA's 4.5% and Cal-Am's 9.5%. For 2018, 6.7% is the average of ORA's 5.0% and Cal-Am's 8.4%.

liability expenses have been steadily increasing in recent years and expects the increases to continue.[274] Cal-Am's 2018 forecast for general liability insurance expenses is $2,067,732.[275]

ORA recommends that the forecast be developed by applying the three-year average increase over 2011-2014 of recorded expenses.[276] ORA also recommends that $13,000 of general liability insurance expenses for the San Diego County District be removed from the forecast. The $13,000 expenses were incurred in 2011 from a settlement for an issue between the Company and its employees. Thus, ORA argues that ratepayers should not pay for these expenses. Under these recommendations, ORA derives a forecasted 2018 expense of $1,808,680 for general liability insurance.[277] Cal-Am agrees with ORA's recommendations.

We find it reasonable to use the three-year average increase over 2011-2014 of recorded expenses to forecast Cal-Am's 2018 general liability expenses. We also find it reasonable for Cal-Am to remove $13,000 of expenses Cal-Am incurred for a 2011 settlement of disputes with its employees. Therefore, we approve $1,808,680 for Cal-Am's 2018 general liability insurance expenses.

8.2.5. Other Insurance and Workers Compensation

Cal-Am explains that its forecast for PUC account 794 injuries and damages includes the forecasted costs for (1) workers compensation and

[274] Exh. CAW-10 at 13-14.

[275] Exh. ORA-9 at 10-12.

[276] Exh. ORA-9 at 10.

[277] *Id.* at 12.

(2) injuries and damages. Cal-Am's forecasts for these expenses are calculated based on a five-year average of recorded expenses. ORA does not dispute these forecasts. We find these forecasts to be reasonable and approve these forecasts.

8.3. Regulatory Expense

Regulatory expenses, which are tracked in Account 797, are costs Cal-Am incurs related to participating in and managing Commission proceedings or proceedings involving other regulatory agencies.[278] Cal-Am requests to recover $3,559,073 of regulatory expenses over three years.[279] Cal-Am derives its forecast based on the timing of current and upcoming proceedings, the complexity of these proceedings, and cost data for outside counsel and consultants.

ORA recommends that the Commission authorize $1,274,323 in funding, reducing Cal-Am's request by nearly two-thirds.[280] ORA recommends reducing or eliminating the following expenses: (1) consultant expenses; (2) legal fees; (3) witness preparation expenses; (4) expenses supporting the cost of capital proceeding; and (5) expenses for a compensation study.

ORA performed a comparative analysis of the three largest California Class A water utilities and concluded that Cal-Am's request, in terms of requested regulatory costs per connection, is higher than that of other Class A water utilities. Cal-Am's request of $6.80 per service connection is four times more than the average amount requested by the other Class A Water Utilities, which is $1.57 per service connection.

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[278] Cal-Am Opening Brief at 63.

[279] *Id*. at 62.

[280] ORA Opening Brief at 65.

Cal-Am argues that ORA's comparison analysis does not consider the number of Commission proceedings that Cal-Am participates in and the complexity of those proceedings. Cal-Am also asserts that the utilities ORA used in the comparison analysis are larger and that the lower costs per connection may be due to the economies of scale that are prevalent in the water industry.[281]

Cal-Am requests that the Commission evaluate the reasonableness of Cal-Am's request based on Cal-Am's expected regulatory obligations and needs. In addition, Cal-Am is concerned that ORA only considered the regulatory needs and costs associated with GRCs while the funding requested for this account includes costs for managing all Commission proceedings, not limited to only GRCs.

We find that Cal-Am's forecast, calculated based on the timing and complexity of proceedings Cal-Am expects to participate in and manage, reasonably predicts the regulatory expenses Cal-Am will incur. ORA's comparative analysis is informative but does not provide as strong of an indicator of Cal-Am's expected expenses. As such, we approve Cal-Am's requested 2018 regulatory expense forecast, but with modifications to the specific regulatory expenses discussed below, in Section 8.3.1 through Section 8.3.5.

8.3.1. Consultant Expenses

Cal-Am forecasts that the cost for regulatory consultants during the three-year rate case period will be $632,500. ORA recommends that the Commission approve $95,000 instead. ORA argues that Cal-Am's forecast is 162% higher than its last authorized amount of $241,140.

[281] Exh. CAW-29 at 14.

ORA recommends that the Commission deny Cal-Am's request of: (1) $235,000 for Dave Stephenson, former Director of Rates for Cal-Am who retired in 2015; and (2) $73,000 for Lisbeth Hether, former Cal-Am financial analyst who retired in 2015. ORA argues that Cal-Am's nine full-time staff in the Rates Department can perform the duties of these consultants.

ORA also recommends denying $108,000 of funding for Anne Watson, a former Commission ALJ. ORA requested invoices for services that Anne Watson performed between 2012 and 2016 but Cal-Am only provided ORA with invoices dated between August 2013 and May 2014. These invoices totaled $66,000, about half of the requested funding. ORA argues that these invoices provide little details on the services Ms. Watson performed, and are insufficient to demonstrate that her services benefited ratepayers.

ORA also recommends reducing Cal-Am's funding request of $35,000 for Ken Parris, who is an experienced data analyst and statistician that supports the analysis of revenues, bill days, revenue modeling and rate design. ORA states that the invoices for Mr. Parris only amounted to $5,720 for the first half of this rate case proceeding. Thus, ORA recommends that the Commission fund only $10,000 for Mr. Parris, which is double the amount Cal-Am incurred for the services he performed in the first half of the proceeding.

ORA also recommends that the Commission deny Cal-Am's entire request of $96,500 for the Utility Consulting Group (UCG) to provide continuous maintenance and improvement to the Results of Operations (RO) model. Cal-Am hired UCG to develop the RO model for this proceeding. ORA argues that the modeling cost should be a one-time cost, which ratepayers already funded. Furthermore, because Cal-Am has been able to critique whether the RO model was working correctly, ORA argues that Cal-Am should have sufficient

knowledge in-house to update and maintain the RO model on its own, without any help from UCG.

Cal-Am argues that it has been and expects to continue to participate in multiple, complex Commission proceedings. Cal-Am's active participation in Commission proceedings requires the support from both its Rate Department staff and outside consultants. Cal-Am asserts that its staff is unable to handle the entire load of regulatory work, given the size, quantity and complexity of Cal-Am's proceedings, especially when proceedings overlap.[282] Cal-Am argues that it often uses consultants to fill in when its Rate Department does not have the resources to meet its regulatory obligations during peak periods. In addition, Cal-Am relies on the expertise of outside consultants, like Ken Parris, to provide expertise that it does not have in-house. Cal-Am also argues that the service provided by UCG is not a one-time service, but instead is continual. This continuous service is necessary to maintain the quality of the RO model and to improve the overall functionality of the RO model for the next GRC, specifically to make the improvements that ORA requested.

We determine that it is reasonable to provide funding for Cal-Am to hire consultants. There is a lack of evidence that these consultants perform work that is duplicative of the work Cal-Am staff is performing. We find it reasonable for Cal-Am to hire additional consultants to supplement its Rate Department staff during peak periods where its staff cannot meet its regulatory obligations. It is prudent to hire consultants rather than full-time staff to perform work that is periodic during peak seasons. It is also prudent to hire consultants with

[282] Cal-Am Opening Brief at 65.

specialized skills, such as Dave Stephenson, Lisbeth Hether, and Ken Parris, to perform work that Cal-Am's staff may not have the in-house expertise to do. However, since Cal-Am did not demonstrate that services provided by Anne Watson are beneficial to ratepayers, we will disallow $108,000 of funding for her services.

We also find it reasonable to approve funding for Cal-Am to hire UCG to provide continual improvements and support to the RO model. Even though Cal-Am understands how to operate the model, making improvements to the RO model, including the improvements that ORA requested, and providing continual maintenance support require additional specialized skills that Cal-Am does not necessarily have. Thus, we find it reasonable to approve $96,500 in funding for Cal-Am to hire UCG to provide continuous improvements and maintenance of the RO model.

Therefore, we approve $524,500 for Cal-Am to hire regulatory consultants, to be amortized equally over the next three-year GRC period.

8.3.2. Legal Fees

Cal-Am's 2018 forecast for legal expenses is $1,316,173, based on the workpapers included in Cal-Am's RO model.[283] ORA argues that, based on the calculations presented in the workpapers, Cal-Am derived its 2018 forecast by applying a 5.9% escalation to its authorized expenses of $1,242,845 in the 2015 general rate case.

[283] Exh. ORA-3 at 25.

ORA recommends that the Commission authorize only $110,000 for Cal-Am's legal expenses.[284] ORA reviewed Cal-Am's invoices for legal expenses incurred between August 2012 and February 2016 that are related to the 2013 GRC. The total expense billed in the invoices is $344,277, which paid for 700 hours of billed legal work. Since $344,277 are the only expenses substantiated by invoices, ORA argues that Cal-Am's recorded legal expense is only $344,277 in its previous GRC cycle, which is $971,896 less than Cal-Am's 2018 forecast.[285] Furthermore, ORA asserts that Cal-Am spent $200,000 of the $344,277 expenses on defending a Rule 1.1 violation. Arguing that expenses for defending a Rule 1.1 violation should not be funded, ORA recommends that the Commission approve $110,000 for Cal-Am's 2018 expense.[286]

Cal-Am argues that ORA's estimate of Cal-Am's incurred outside legal expenses, which is $344,277, only relates to work performed for GRCs. But Cal-Am's forecast includes services for work that will need to be performed for other Commission proceedings as well.

First, ORA argues that Cal-Am has not demonstrated that the legal expenses and services of outside attorneys are necessary or have been used in the most efficient and cost-effective manner. ORA concludes, after reviewing Cal-Am's invoices for legal services, that the work outside legal services perform are similar to normal regulatory work that Cal-Am's in-house attorneys perform, resulting in duplicative funding. Furthermore, ORA argues that, since the

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[284] ORA Opening Brief at 65.

[285] Exh. ORA-3 at 26. Examples: Description of service mentions "Order to Show Cause" hearing.

[286] ORA opening brief at 65.

number of Cal-Am's in-house attorneys has increased, Cal-Am should use its own in-house attorneys and should not need to hire outside counsel to perform the work.

Cal-Am argues that there is no duplicative funding because it factored in the work its in-house legal staff will perform when developing its forecast for outside counsel expenses. Furthermore, Cal-Am explains that, given the volume and complexity of the Commission proceedings that Cal-Am participates in, it cannot rely only on its in-house counsel to perform the work, especially when there are overlapping proceedings. Cal-Am uses outside counsel to manage its workload. Also, Cal-Am argues that the complexity of certain matters requires the experience and expertise of outside counsel.

Second, ORA argues that some of the legal work performed by outside counsel are related to work in defending the Rule 1.1 violation issued in A.13-07-002. ORA recommends that the Commission remove these costs from Cal-Am's forecast. ORA argues that it is inappropriate for the company to recover expenses from ratepayers for defending violations of the Commission's rule and also that this is a one-time, non-recurring expense.

ORA argues that the description of services performed by outside counsel provided in the invoices, in conjunction with the timeline of filings with the Rule 1.1 violation, suggest that some of the contracted legal services may be related to helping Cal-Am defend the Rule 1.1 violation.[287] ORA argues that Cal-Am's redactions of the invoices made it difficult to identify with certainty the work that was performed for the Rule 1.1 violation. Subsequently, ORA issued a

[287] Exh. ORA-3 at 26. Examples: Description of service mentions "Order to Show Cause" hearing.

data request to Cal-Am, asking the company to identify the services pertaining to the Rule 1.1 violation. According to ORA, Cal-Am's response to the data request failed to clearly identify these invoices. ORA asserts that, even though the invoices are redacted, the description of the services provided in the invoices is sufficient to demonstrate that these are legal fees associated with defending the Rule 1.1 violation. Based on the description and timing of the services on the invoices, ORA estimates that $200,000 of the $344,277 is related to the Rule 1.1 defense.

Cal-Am argues that ORA's estimate of the outside counsel services performed in defense of Cal-Am's Rule 1.1 violation is unreliable, because ORA did not take into account events unrelated to the proceeding.[288] Furthermore, Cal-Am explains that those redactions in the invoices are based on attorney-client privilege.

Third, ORA argues that the billed hourly rate for the attorney services of Lori Ann Dolqueist, at $567-578 per hour, is too high. Instead, ORA recommends an hourly rate of $385 per hour, which is based on D.15-10-025 (Park Water Decision)'s approval of an hourly rate of $350 per hour, adjusted for inflation.[289]

Cal-Am argues that the Park Water Decision used rates approved for intervenor attorneys with similar experience to assess the reasonableness of attorney rates. While Cal-Am does not necessarily agree with pairing the market rate for utility regulatory counsel with the rate the Commission approved for intervenor counsel, Cal-Am argues the rate of Lori Ann Dolqueist, at $567-$578

[288] Exh. CAW-29 at 18.

[289] D.15-10-025 is the decision issued in the Application of Park Water Company for Rehearing of Resolution W-4961 to Approve Recovery of a Surcharge of $174,643 for Costs Recorded in Various Conservation Memorandum Accounts.

per hour, is comparable to the rate of $575 an hour for an intervenor regulatory attorney with 13+ years of experience. Since Lori Ann Dolqueist has nearly 20 years of experience practicing before the Commission, Cal-Am argues that her billable rate is reasonable.

We agree with Cal-Am that it is reasonable for Cal-Am to hire outside counsel to meet regulatory demands, especially during periods when proceedings overlap. As with regulatory consultants, it is prudent for Cal-Am to hire outside counsel rather than hiring additional in-house counsel to meet periodic high demands. It is also prudent for Cal-Am to hire outside counsel that have the experience and expertise its in-house counsel may not have to address complex matters.

We find that ORA's estimates of Cal-Am's actual incurred outside legal expenses were related only to the GRC expenses, but Cal-Am's forecast are for services performed for all Commission proceedings that are not limited to the GRC.

We also find the billable rate of Cal-Am's outside counsel to be reasonable, as it is comparable to the billable rate the Commission funds intervenor attorneys with commensurate experience.

Although we find it reasonable to approve funding for Cal-Am's outside legal counsel, we do not find Cal-Am's forecast to be reasonable. Cal-Am argues that it factored the work performed by its in-house staff when developing its forecast. Yet, it did not present the methodology it used to forecast these expenses or justify why that methodology is reasonable. Based on the workpapers included in the RO model, it appears that Cal-Am escalated its previously authorized expense of $1,242,845 by 5.9% to arrive at its 2018 forecast of $1,316,173. The expenses authorized in the 2015 GRC form the basis of Cal-

Am's 2018 forecast and a portion of the 2015 expenses were used for defending the Rule 1.1 violation. Cal-Am also did not explain why 5.9% is a reasonable escalation factor.

ORA's estimate of $200,000 is a reasonable estimate of the outside legal expenses Cal-Am used in defending the Rule 1.1 violation. Cal-Am argues that ORA's estimate is not accurate, because ORA's estimate is derived from invoices for services conducted for all proceedings and did not control for services not related to the Rule 1.1 defense. Cal-Am further explains that, to the extent that there were costs related to the Rule 1.1 defense included, such costs would be only a small fraction of the outside counsel expenses. Cal-Am acknowledges that a small fraction of the expenses may be related to the Rule 1.1 defense but did not provide any information showing which of the ORA identified costs were not used in defending the Rule 1.1 violation or demonstrating why they were not related to the Rule 1.1 violation. As a prudent manager, Cal-Am should have this information readily available but did not provide adequate information to rebut ORA's estimate. Cal-Am has the burden to demonstrate that ORA's estimate of $200,000 is not accurate or to bring forth the actual amount of expenses spent on the Rule 1.1 defense. Therefore, we find ORA's estimate to be reasonable.

Since the expense related to Rule 1.1 defenses brings no ratepayer benefits and is a non-recurring expense, we find it reasonable and direct Cal-Am to remove from its 2018 legal expense forecast formula the costs it incurred for defending the Rule 1.1 violation in its 2015 GRC or $200,000. In other words, the 2018 forecast for outside legal expenses shall be determined by first removing $200,000 of costs for defending a Rule 1.1 violation from the previously

authorized 2015 GRC expense of $1,242,845 and then escalating this amount by the 2016 and 2017 escalation factors approved in this GRC.

8.3.3. Witness Training and Preparation Expenses

Cal-Am requests $52,165 for witness training and preparation expenses. Cal-Am incurs these expenses when it hires counsel to prepare witnesses for evidentiary hearings. This amount is developed based on 80 hours of billable hours for counsel to train witnesses at an hourly rate of $652.07. [290] ORA recommends that the Commission deny funding for this expense. ORA argues that: (1) the attorney billable rate is too high; (2) there is double recovery of these expenses in the Legal Fees category; and (3) witness preparation is not needed given the experience of Cal-Am's witnesses.

We find that preparing and training witnesses for evidentiary hearings is a necessary exercise, regardless of the experience of the witnesses. ORA and Cal-Am both had counsel prepare their witnesses before going to hearings. We find that the costs incurred for preparing and training witnesses before hearings are normal and reasonable regulatory expenses.

However, we share ORA's concern about the possibility of double recovery of these expenses in the Legal Expense category. ORA states that it found witness training expenses included in the invoices of Cal-Am's outside counsel expenses. Cal-Am did not sufficiently explain why and how witness preparation expenses that should belong to this category of expense appears in the invoices of outside counsel, which are funded through the Legal Fees category.

[290] Exh. ORA-3 at 29.

In addition, we agree with ORA that the billable rate Cal-Am used to forecast this category is high. According to ORA, this forecast was based on an attorney billable rate of $652 per hour.[291] As discussed in the previous section, Section 8.3.2 Legal Fees, we find it reasonable for experienced counsel like Lori Ann Dolqueist, with nearly 20 years of experience practicing before the Commission, to charge a rate of $567-$578 per hour. Cal-Am also indicates that these expenses, in addition to legal fees, include costs of travel, meals, lodging and materials related to preparing witnesses for hearings. The costs of travel, meals, lodging, and materials for counsel to provide witness training should be not forecasted based on an attorney's normal billable rate but should be based on the expected costs of the travels or meals.

In reply brief, ORA argues that Cal-Am should use its in-house counsel to train and prepare witnesses rather than hiring outside counsel. Because ORA raised this argument for the first time in its reply brief, Cal-Am did not have an opportunity to respond to this proposal and we decline to consider it.

Given the concerns of double recovery, the high billable rate used in the forecast, and the fact that the cost of travel and meals should not be forecasted based on an attorney's normal billable rate, we find it reasonable to approve funding for half of the hours Cal-Am requested at a rate of $575, which is the established rate for intervenor regulatory attorneys with 13+ years of experience.[292] Thus, we approve $23,000 for Cal-Am's witness preparation expenses.[293]

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[291] *Ibid*.

[292] Resolution ALJ-329.

[293] 40 hours x $575/hour = $23,000

8.3.4. Cost of Capital Proceeding Expenses

Cal-Am requests $288,911 for expenses incurred for preparing, filing, and managing its Cost of Capital proceeding.[294] ORA recommends that the Commission deny funding for these expenses. Cal-Am is scheduled to file its next Cost of Capital proceeding in 2020. Because Cal-Am was granted an extension of its Cost of Capital proceeding in 2015 and 2016 but received funding for it in its 2013 GRC, ORA argues Cal-Am may again ask for an extension for its next Cost of Capital proceeding in 2020. Alternatively, ORA recommends funding of $60,000 for a consultant.[295] Cal-Am argues that ORA's $60,000 is a proposal that is unsupported by the record.

We find it reasonable to fund Cal-Am's expenses for its 2020 Cost of Capital proceeding. We cannot predict whether Cal-Am will need to request a delay for its filing. However, given that we expect Cal-Am to file its next Cost-of-Capital proceeding in 2020, this is a reasonable expense. ORA's recommendation of funding only $60,000 for a single consultant for the Cost-of-Capital Proceeding is not substantiated by the record of this proceeding. We approve the entire funding request of $288,911 for Cal-Am's Cost of Capital Proceeding expenses.

8.3.5. Compensation Study Expenses

Cal-Am requests $200,000 to conduct a compensation study for its next GRC.[296] ORA recommends denying funding for the study. ORA questions the need for a compensation study and the frequency of such a study. Cal-Am has

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[294] Cal-Am's Results of Operations Model, "ALL_CH04_O&M_WP_Reg Exp", Tab "Summary".

[295] ORA Opening Brief at 68.

[296] Exh. ORA-3 at 31.

been conducting a compensation study every GRC cycle. ORA asserts that the Commission has not ordered Cal-Am to conduct such a study or at that frequency. Furthermore, ORA argues that the study did not present data in a helpful manner, such as distinguishing the amount of compensation provided to employees and the amount authorized for recovery in rates. ORA also asserts that Willis Towers Watsons, Cal-Am's consultant performing this study, refused to give the source data to ORA because Towers Watsons claims that the data is proprietary.

Cal-Am cites to several Commission decisions that ordered regulated utilities to conduct compensation studies, such as the general rate case proceedings of Apple Valley Ranchos Water Company, San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), Pacific Gas and Electric Company (PG&E), and Southern California Edison Company (SCE).[297]

A compensation study is an important tool to give the Commission an independent analysis and evaluation of how a utility's compensation performs against its peer and the industry markets. Given the numerous instances where the Commission has ordered a compensation study done at a rate of once per GRC cycle, we find it reasonable in this instance for Cal-Am to conduct a compensation study during this GRC cycle.

We are concerned by ORA's assertion that it was unable to access the source data for the study. In future filings where a compensation study is done,

[297] D.12-09-004 (Apple Valley Ranchos Water Company 2012 GRC), D.13-05-010 (SDG&E and SoCalGas 2012 GRC), D.92-12-057 (PG&E GRC), D.04-07-022 (SCE 2003 GRC).

Cal-Am shall make available to the Commission and its staff, with appropriate protections for any confidential information, the source data or any underlying data for the study that is in the possession of or accessible by Cal-Am. Cal-Am shall provide supporting testimony to its compensation study to identify the portion of compensation that is funded by ratepayers and the portion that is not.

9. Service Company (American Water) Expenses and Rate Base

9.1. Service Company Expenses

Cal-Am requests $12,703,945 to recover Service Company expenses for test year 2018. Service Company expenses are the costs that Cal-Am's Parent Company, American Water passes to Cal-Am for corporate services that it provides to Cal-Am. These Service Company costs are allocated to Cal-Am's nine districts based on each district's share of Cal-Am's total customers.

A Commission-approved contract sets the guidelines for the corporate services that Cal-Am receives from American Water. These corporate services include central lab services for water quality tests, accounting, finance, human resources services, and call center services.

Cal-Am develops its forecast for the Service Company costs by first deriving its share of American Water's forecasted corporate services expense. Cal-Am derives its share by applying a percentage allocation factor to the 2016 budgets of each of American Water's business functions that provide service to Cal-Am, thus producing the forecasted 2016 Service Company costs. Cal-Am then escalates the 2016 Service Company Costs by 2017 and 2018 inflation factors to obtain the test year 2018 forecast.[298]

[298] Exh. ORA-2 at 37-38.

Cal-Am explains that, where possible, American Water will charge services directly to Cal-Am for services directly benefiting Cal-Am. But, where direct charging is not possible, American Water allocates the costs to Cal-Am based on factors such as the number of employees, net plant, reserves, or the number of customers that the operating company has.[299] The budget of each business function is derived by forecasts based on using both direct charging and allocation factors.

ORA makes the following recommendations regarding Service Company expenses: (1) The Commission should approve Service Company costs based on the three-year average of recorded allocation factors; (2) The Commission should adopt a test year 2018 Service Company labor forecast by escalating the recorded 2015 labor expense data by labor inflation factors; (3) The Commission should adopt ORA's adjustments to Cal-Am's forecasted employee incentive plans for the Service Company; (4) The Commission should disallow recovery of costs related to the Business Development function; and (5) The Commission should remove ratepayer funding for charitable donations at the Service Company level.[300]

9.1.1. Allocation Factors

Cal-Am applies the 2015 recorded percentage allocation factor for each business function's 2016 budget to forecast 2016 Service Company costs. ORA recommends that Cal-Am use the three-year average of the recorded percentage allocations from 2013 to 2015 because Cal-Am's historic recorded allocation percentages fluctuate from year to year. ORA cites to the example of the

[299] Exh. CAW-10 at 19.

[300] Exh. ORA-2 at 34.

Regulated Ops Business Function, where the allocation factor was 1.66% in 2013, 1.75% in 2014, and 4.73% in 2015.

ORA also argues that American Water has recently acquired subsidiaries, increasing its number of customers by 24% over the 2013-2015 period. American Water's recent acquisitions should have changed the percentage allocation factors for each of its subsidiaries, including Cal-Am. But, over the same 2013-2015 period, while Cal-Am's number of customers increased minimally, Cal-Am's allocated percentage of total Service Company costs increased from 5.3% to 5.8%. ORA argues that averaging the three years of recorded allocation factors takes into account the dynamic changes of these allocation cost shifts.

Cal-Am disagrees with ORA's recommendation, arguing that the Service Company costs exhibit a clear trend. Because of this trend, Cal-Am argues that averaging the past three years of allocation factors is not appropriate. ORA rebuts Cal-Am's argument, contending that Cal-Am provided no details, evidence, or statistical trend analysis to demonstrate that the Service Company costs exhibit a trend.

Cal-Am further supports its proposed forecasting method by explaining that American Water has been able to track costs directly associated with Cal-Am since 2012 and has since increased the portion of direct charged costs to Cal-Am. Because of the trend towards increased direct charges, Cal-Am asserts that the most recent available allocation percentage is the best predictor of future allocations.

We find that there is no clear trend exhibited by the historical recorded percentage allocation factors. Rather, the historical data sometimes exhibits random variances, as demonstrated by the Regulated Ops Business Function example. Although there may be an increase in the amount of direct charges,

since allocation factors for each business function are derived based on a mix of direct charging and various allocation formulas, it is difficult to segregate which costs are directly charged and which charges are based on an allocation formula.

We also find that American Water's recent acquisitions should lead to shifts in allocations. To account for the dynamic cost shifts that should result from American Water's recent acquisitions, we find it reasonable for Cal-Am to use an average of the recorded percentage allocation factors from 2013-2015, instead of using the recorded 2015 percentage allocation factor, to derive its share of American Water's Service Company expenses.

9.1.2. Service Company Labor Expenses

Cal-Am develops its 2018 Service Company labor expenses by first applying the recorded 2015 percentage allocation to the 2016 American Water's labor budget, thus producing Cal-Am's share of costs for 2016. Cal-Am applies an annual inflation factor of 2.78% and 3.24% for 2017 and 2018, respectively, to the 2016 Service Company labor forecast to obtain the 2018 Service Company labor expenses.

ORA proposes a different methodology to derive the 2018 Service Company labor expense forecast. ORA recommends escalating Cal-Am's 2015 recorded Service Company labor expenses, instead of American Water's 2016 labor budget. For escalation rates, ORA recommends using the most updated labor inflation factors published in ORA's monthly escalation memo (ORA's labor inflation factors) at the time of the final decision. ORA argues that using its published labor inflation escalation rates is appropriate because the utilities use

ORA's labor inflation rates for escalation during the attrition years, pursuant to the Rate Case Plan decision.[301]

Cal-Am opposes ORA's recommendation. Cal-Am argues that, by using the 2015 recorded labor expenses, ORA's recommendation does not factor in the anticipated personnel movements or promotions that the Company forecasted for 2016. Cal-Am further argues that, because American Water's service is a contracted service, it is appropriate to use a composite inflation factor rather than ORA's recommended labor inflation factors.

In rebuttal testimony, Cal-Am provided the Service Company costs it incurred and recorded in 2016.[302] ORA recommends that the Commission disregard this data, arguing that ORA has not been able to verify Cal-Am's 2016 recorded data, partly because Cal-Am delayed submitting its required 2016 Annual Report to the Commission.

We find that using recorded costs as a basis provides better forecasts than using budgeted costs. Even though ORA has not yet verified the 2016 recorded data that Cal-Am provided, it is the best number offered in the record to approximate 2016 actual costs and we find this to be a reasonable basis for the forecast.

Even though American Water provides services to Cal-Am based on a contract, American Water is not an outside contractor for Cal-Am but is Cal-Am's Parent Company. It is not appropriate for Cal-Am to use the composite inflation factors to escalate Service Company labor expenses because the composite inflation factors are for escalating costs of contracted services.

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[301] D.07-05-062 at A-19.

[302] Exh. CAW-20, Attachment 9.

Rather, because the Service Company labor expenses are labor costs that American Water expects to incur, it is more appropriate for Cal-Am to use labor escalation factors for escalation.

The Rate Case Plan decision, D.07-05-062, directs the utilities to use ORA's labor inflation rates for escalation during the attrition years. Therefore, we find it reasonable for Cal-Am to use ORA's labor inflation factors for the escalation of 2017 and 2018 labor expenses. Cal-Am shall forecast its 2018 Service Company labor expenses by escalating its recorded 2016 Service Company labor expenses with the 2017 and 2018 labor inflation factors published in ORA's August 2018 Escalation Memo.

9.1.3. Service Company Incentive Compensation

Cal-Am includes a forecast of $1,161,390 for its share of American Water's costs on APP, Compensation Expenses on Stock Options (PSU), and Compensation Expenses on Restricted Stock Units (RSU).[303]

ORA makes two major recommendations. First, ORA proposes to use a different forecasting methodology to derive Cal-Am's share of costs by first applying a three-year average percentage allocation factor to American Water's 2015 recorded data to derive a proxy for Cal-Am's 2016 costs, and then applying ORA's labor inflation factors for escalation to this proxy. Second, ORA recommends reducing American Water's APP forecasts by 50%, American Water's PSU forecasts by 50%, and disallowing all American Water's RSU forecasts. ORA applies these reductions to its recommended APP and RSU forecasts, which ORA derives using its recommended forecasting methodology.

[303] Exh. ORA-2 at 48.

In Sections 9.1.1 Allocation Factors and 9.1.2 Service Company Labor Expenses above, we found it reasonable to apply a three-year average percentage allocation factor to derive Cal-Am's share of Service Company expenses and to escalate recorded 2015 data by ORA's labor inflation factors to obtain Cal-Am's 2018 forecast. ORA's recommended forecasting methodology for the Service Company Incentive Compensation expenses is consistent with the Commission directives in the above two sections. Therefore, we direct Cal-Am to forecast its 2018 Service Company Incentive Compensation expenses by first applying the average 2013-2015 recorded percentage factor to American Water's 2015 recorded expenses, and then escalating these figures by the 2017 and 2018 labor inflation factors in ORA's August 2018 Escalation Memo.

In Section 8.1.2 Incentive Compensation for Cal-Am Company Expenses above, we found it reasonable to fund only 50% of Cal-Am's APP and PSU and to disallow funding of Cal-Am's RSU expenses. For the same reasons, we approve only 50% of Cal-Am's Service Company APP and PSU forecasts and disallow funding for Cal-Am's Service Company's RSU expenses. The APP and PSU forecasts shall be calculated by the forecasting methodology described in this section.

9.1.4. Business Development Function

Cal-Am requests $208,185 for Cal-Am's share of American Water's Business Development expenses for 2018.[304] Cal-Am argues that Business Development costs are reasonable because ratepayers benefit from the acquisitions that the Business Development unit promotes. Cal-Am asserts that

[304] Exh. ORA-2 at 50.

the acquisitions lead to increased economies of scale and improved costs of capital. Furthermore, Cal-Am argues that the Commission and the California Legislature have encouraged large water companies to acquire smaller ones because these acquisitions will likely serve the public interest.[305] ORA questions whether and how ratepayers realize these benefits, and thus, recommends denying recovery of any of American Water's business development expenses.

Cal-Am has not met its burden of proof in demonstrating that ratepayers obtain increased economies of scale and lower costs of capital as a result of the acquisitions that the Business Development unit promotes. Therefore, Cal-Am's request for funding for its Business Development unit is denied.

9.1.5. American Water's Charitable Contributions

Cal-Am and ORA agree that the Commission should remove funding for Cal-Am's share of American Water's charitable contributions. This is consistent with our long-standing policy of excluding charitable donations from rate recovery.[306] Therefore, Cal-Am shall remove any funding for its share of American Water's charitable contribution expenses.

9.2. Service Company Rate Base

Cal-Am calculates its forecast for the General Office (GO) rate base based on its share of American Water's forecasted rate base. American Water's rate base consists of traditional plant items, such as office equipment, and Information Technology (IT)-related investments and projects. For test year 2018, Cal-Am forecasts a weighted average rate base of $20,761,007.[307] After

[305] Cal-Am Opening Brief at 77.

[306] D.04-07-022 at 210.

[307] Exh. ORA-2 at 22.

developing its forecasted rate base, Cal-Am then calculates a return on the rate base. The return on rate base is calculated by applying the pre-tax cost of capital to the forecasted weighted average GO rate base amount.

ORA makes the following recommendations to Cal-Am's forecasted Return on GO rate base: (1) reduce Cal-Am's GO plant by amounts that exceed the cap set by the Commission for the Business Transformation Project; (2) reduce Cal-Am's IT-related plant allocation percentage, which Cal-Am uses to determine its share of American Water's IT expenses; and (3) reduce Cal-Am's pre-tax cost of capital rate to reflect the 15% federal income tax rate that ORA originally forecasted for 2018.[308]

9.2.1. Business Transformation Project Adjustments

In D.12-06-016, Cal-Am's 2010 GRC, the Commission approved funding for American Water's Business Transformation (BT) project. Under the BT project, American Water implemented an integrated enterprise resource planning software, SAP. D.12-06-016 capped total recovery for the BT project at $13,258,000. The Commission approved an additional $4,573,200 for the BT project in Cal-Am's 2013 GRC as part of a settlement agreement, raising the cap to $17,831,200. [309] D.15-04-007 further authorized additional IT investment plant additions for 2014 and 2015 in the amounts of $414,000 and $634,800, respectively, as a result of a settlement agreement.[310]

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[308] Before the passage of the TCJA, ORA forecasted that the 2018 federal corporate tax rate would be reduced to 15%.

[309] Exh. ORA-2 at 22.

[310] ORA Opening Brief at 26.

ORA argues that Cal-Am overspent the cap for the BT project in 2014 and 2015. ORA asserts that Cal-Am spent $1,869,468 in 2014 and $2,243,964 in 2015 on the BT implementation. After considering the additional amounts authorized in D.15-04-007, ORA contends that Cal-Am spent $3,064,632 over the BT project cap and recommends removing these overspent amounts from Cal-Am's GO rate base.[311]

Cal-Am argues that the $1,869,468 in 2014 and $2,243,964 in 2015 are not related to the BT implementation and are hence not subject to the cap. Cal-Am asserts that these are costs related to Cal-Am's IT enhancements and upgrades, including those to enhance the functionality of the SAP base platform or provide new functionalities. These costs are for tools that improve field work orders, enable customer notifications, support integration of new customers, enhance billing and collections, and assist with meter data management.[312] Cal-Am asserts that these costs are not subject to the BT project spending cap because the cap applies to the original BT implementation costs for the rollout of SAP, and does not apply to the costs of future enhancements to SAP. Cal-Am describes these IT enhancements and upgrades as normal and ongoing system improvements that are "common (in) any prudent company."[313] In rebuttal testimony, Cal-Am provides detailed recorded cost data to demonstrate that these costs are for the enhancements of SAP.[314]

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311 Exh. ORA-2 at 23. $3,064,632 is the sum of Cal-Am's BT expenditures in 2014 and 2015 ($1,869,468 + $2,243,964) minus the additional amounts approved in D.15-04-007 ($414,000 in 2014 and $634,800 in 2015).

312 Cal-Am Opening Brief at 78.

313 *Id*. at 7.

314 Exh. CAW-20, Attachment 3, 4, and 5.

ORA argues that the data Cal-Am provided do not show that these costs are unrelated to the BT project. ORA further argues that Cal-Am fails to provide any invoices of these IT upgrade projects or any documentation comparing the original BT project costs and these IT upgrade costs. In addition, ORA argues that, if these costs are for necessary IT enhancements and upgrades, then Cal-Am should have forecasted these costs in its GRC. During evidentiary hearings, Cal-Am witness Sherrene Chew testified that these were costs that resulted from Cal-Am spending more on IT expenditures related to SAP than the Commission approved in the previous GRC. While on the witness stand, Ms. Chew could not explain why Cal-Am did not forecast these additional IT enhancement costs in the previous GRC.[315]

Regardless of whether these contested costs relate to the BT project or additional IT projects to enhance the SAP system, these costs exceed the amount the Commission approved in Cal-Am's previous GRC. These costs relate to IT enhancements which Cal-Am asserts are normal and ongoing upgrades that are typical in any prudent company's IT infrastructure. Because these IT upgrades are part of normal operations, Cal-Am should have forecasted the costs of these IT system upgrades as part of the GRC. Cal-Am fails to provide any reason why it did not forecast these costs in its previous GRC.

Because these expenses are normal operating expenses for which Cal-Am should have received approval in a prior GRC before spending, the Commission will need to examine whether Cal-Am incurred these costs prudently and reasonably before allowing Cal-Am to include these in the rate base for recovery.

[315] RT, Vol. 10 at 544.

Cal-Am fails to meet its burden of proof of demonstrating that these costs were prudently and reasonably incurred. Cal-Am fails to provide any invoices documenting these costs, any project plans for these additional IT upgrades, or any further documentation other than its internal recorded costs. Therefore, we disallow Cal-Am from recording the $1.455 million and $1.609 million it incurred in 2014 and 2015, respectively, for these IT upgrade and enhancement costs in its Service Company Rate Base.[316]

9.2.2. Reducing Cal-Am's IT-related plant allocation percentage

ORA recommends that the Commission adopt 5.33% as Cal-Am's share of American Water's IT-related and BT Project costs for 2016-2018. Cal-Am's percentage allocation for the BT project has been based on Cal-Am's percentage of customers relative to American Water's total number of customers. ORA argues that Cal-Am's number of customers relative to the total number of American Water customers has decreased due to recent acquisitions by American Water's other subsidiaries, Pennsylvania American Water and New Jersey American Water. ORA thus recommends that the percentage allocation for IT-related projects, including the BT project, should decrease accordingly.

ORA further argues that, for purposes of calculating the allocation of Service Company costs, water and wastewater services provided by subsidiaries should be counted as separate customers because these services require additional Service Company support costs even if a customer receives both

[316] $1.455 million equals $1,869,468, the amount Cal-Am spent on BT in 2014, minus $414,000, the amount which D.15-04-007 authorized for 2014. $1.609 million equals $2,243,964, the amount Cal-Am spent on BT in 2015, minus $634,800, the amount which D.15-04-007 authorized for 2015.

services. After accounting for the recent American Water acquisitions and counting water and wastewater services as separate customers, ORA calculates that Cal-Am's proportion of customers relative to the total number of American Water customers should be 5.33% from 2016-2018.

Cal-Am argues that ORA's recommendations raise issues of retroactive ratemaking and tax normalization violations. Cal-Am argues that these costs are investment costs that American Water has already incurred and allocated to subsidiaries. Cal-Am subsequently recorded these costs as plant in its books, which have been depreciated and recovered. Cal-Am explains that the 2013 GRC changed its original allocation from 5.06% to 5.51%, but the 5.51% allocation factor was applied for prospective costs.

We find that ORA's recommendation to change the allocation factor for 2016 and 2017 would result in retroactive ratemaking, and therefore, do not make any changes to the factor for 2016 and 2017. However, we find that the allocation factor for 2018 should be changed to reflect American Water's recent acquisitions and the subsequent decrease in Cal-Am's proportion of American Water's customers, and therefore, direct Cal-Am to use the 5.33% ratio to allocate American Water's 2018 IT-related plant costs, including for the BT Project.

9.2.3. Cal-Am's Cost of Capital and Tax Rate Used to Derive Return on GO Rate Base

ORA takes issue with the tax rate that should be used to calculate the return on the Service Company's rate base. Since the time that parties originally served testimony, additional testimony and briefs addressing the most recent federal income tax rate ordered by the TCJA and the most recent cost of capital ordered in D.18-03-035 were submitted. Cal-Am shall use the most recent federal income tax rate ordered by the Tax Cuts and Jobs Act and the most recent cost of

capital ordered in D.18-03-035 when calculating the return on the Service Company's rate base.

10. Taxes

10.1. State Tax Deductibility for Federal Tax Rate

Cal-Am can deduct the California Corporate Franchise Tax (CCFT) expenses that it incurred in the previous year from its current year federal tax expenses. Cal-Am and ORA agree that the prior year 2017 CCFT can be deducted from Cal-Am's Test Year 2018 federal income tax expenses. But the parties disagree on how the 2017 CCFT deduction amount should be determined.

ORA recommends using the 2017 CCFT deduction amount the Commission adopted in rates. ORA's recommendation of $3.761 million is the 2017 CCFT deduction amount the Commission adopted through an advice letter which Cal-Am filed in November 2016.[317] ORA argues that using the adopted CCFT deduction amount is consistent with the method the Commission adopted in D.89-11-058. According to ORA, D.89-11-058 is the Commission's last decision that definitively addressed the methodology for calculating the prior-year's CCFT deduction. Cal-Am disputes ORA's recommendation, arguing that D.89-11-058 approved using the adopted CCFT amount because companies at that time did not have the resources which they do today to easily run the RO model and obtain an estimated CCFT amount.

Cal-Am proposes to use an estimate of the 2017 CCFT amount, or $2.061 million, for the deduction. Cal-Am calculated this estimate by estimating the 2017 taxable income and then applying the applicable tax rate. Cal-Am argues that the estimated 2017 CCFT is the more accurate forecast because it uses

[317] The Advice Letter adopted rates for 2017, which became effective January 1, 2017.

the most current information available. ORA criticizes that the estimated taxable income amount is derived from estimated expenditure amounts which the Commission has not yet adopted and is thus inappropriate.

The Commission finds it reasonable to use the adopted CCFT deduction amount of $3.761 million to deduct from Cal-Am's 2018 federal income taxes. Since ratepayers funded a higher 2017 CCFT amount in rates than Cal-Am currently estimated, it is only fair that ratepayers reap the benefit of using the deduction that they funded.

10.2. Ad Valorem Taxes

Cal-Am made an error in its original workpapers regarding ad valorem tax expense. It has provided corrected ad valorem tax data resulting in a $1.2 million reduction in ad valorem tax expense from the figures that appeared in its application.[318] ORA agrees with Cal-Am's corrected forecast for ad valorem tax expense.[319] The Commission adopts Cal-Am's correction in its calculation of the ad valorem tax expense.

10.3. Federal Unemployment Tax (FUTA)/Payroll Taxes

Cal-Am's forecasted payroll tax expenses include the forecasted expenses for the FUTA. Cal-Am's Test Year 2018 FUTA forecast includes a penalty of $84 per employee. Cal-Am argues that the penalty is imposed on all California corporations due to California's "unpaid federal loans" related to the California State Unemployment Insurance fund being depleted. ORA recommends removing the FUTA penalty from the forecast, arguing that California is on

[318] Cal-Am's response to Data Request ORA MC8-004, Q.1.

[319] Exh. ORA-2 at 17.

schedule to repay its federal loans in full before 2018, according to the California Employment Development Department, so that no penalty will be imposed for the 2018 tax year. Removing the FUTA penalty would result in a reduction to Cal-Am's Payroll Tax FUTA expense of approximately $25,200 in TY 2018. Cal-Am accepts ORA's recommendation regarding FUTA. The Commission finds it reasonable for Cal-Am to remove the FUTA penalty from its 2018 forecasted FUTA expense.

10.4. Tax Cuts and Jobs Act (TCJA)

10.4.1. Background

The TCJA was signed into law on December 22, 2017 and became effective on January 1, 2018. The TCJA has several provisions that impact Cal-Am's forecasted revenue requirements: (1) Reduction of the federal corporate income tax rate from 35% to 21%; (2) Repeal of Internal Revenue Code Section 199, which consequently eliminates the Domestic Production Activities Deduction (DPAD); (3) Elimination of accelerated bonus depreciation for plant acquired and placed in service after September 27, 2017; and (4) Increase to the portion of taxable income a water utility receives from advance deposits and contributions.

According to Cal-Am, these provisions impact Cal-Am's revenue requirement forecast in several ways. First, the reduction in the federal corporate income tax rate lowers Cal-Am's current tax expenses, thus lowering its forecasted 2018 revenue requirement by $7.8 million. The reduction in the federal tax rate also lowers the revenue requirement needed to recover the San Clemente Dam costs by $764,000 in 2018.[320] Second, the federal tax rate

[320] Calculated over a 20-year amortization period beginning on January 1, 2018. *See* Section 15.1.1 San Clemente Dam Balancing Account and Special Request #11.

reduction also lowers Cal-Am's deferred income tax expenses. As a result, Cal-Am now has an excess reserve in its deferred income tax account, which is the Accumulated Deferred Income Tax (ADIT) account. Third, the elimination of the DPAD increases Cal-Am's income taxes, an opposite effect compared to the federal tax rate reduction. The removal of this deduction increases its revenue requirement by $348,000 in 2018. Fourth, the repeal of acceleration bonus depreciation also increases Cal-Am's income taxes, thus increasing its 2018 revenue requirement by $250,000. Last, the TCJA increases the portion of money that the utility receives from advance deposits and contribution (Advances and Contributions) that is subject to taxation. Cal-Am has yet to determine the effects of the increases to the taxable portion of the Advances and Contribution on its revenue requirement.

10.4.2. Federal Corporate Tax Rate Reduction

The TCJA reduced the federal corporate income tax rate from 35% to 21%, effectively reducing Cal-Am's current and deferred federal income tax expenses. Cal-Am's 100-day update forecast calculated income tax expenses based on a 35% federal income tax rate. Subsequent to the passage of the TCJA, Cal-Am and ORA agree that Cal-Am should use the 21% federal income tax rate to calculate its federal tax expenses for test year 2018 and test year 2019.

The Commission finds it reasonable to adopt the 21% federal corporate tax rate. After reflecting the reduction in the federal income tax rate in the results of operations model for 2018 through 2020, Cal-Am states that its forecasted

revenue requirement for 2018 decreased by approximately $7.8 million, compared to the 100-day update forecast.[321]

Prior to the passage of the TCJA, Cal-Am and ORA disputed the federal tax rate. These discussions are outdated and irrelevant with the passage of the TCJA.

10.4.3. Elimination of the Domestic Production Activities Deduction

The TCJA repealed the DPAD, which was provided by Section 199 of the Internal Revenue Code, for tax years beginning after December 31, 2017. Cal-Am's 100-day update forecast included the DPAD as part of its revenue requirement. After removing the DPAD, Cal-Am states that its 2018 revenue requirement increased by approximately $348,000, compared to the 100-day update forecast.[322] The Commission finds it reasonable and adopts the removal of the DPAD from Cal-Am's revenue requirement forecasts.

Prior to the passage of the TCJA, Cal-Am and ORA disputed the appropriate calculation of the DPAD. These discussions are outdated and irrelevant with the passage of the TCJA, which eliminated the DPAD.

10.4.4. Repeal of Bonus Depreciation and Special Request #12

The TCJA eliminated bonus depreciation for assets acquired and placed into service after September 27, 2017. In accordance with the TCJA, Cal-Am applied a 37.5% bonus depreciation factor for 2017, reflecting nine months of bonus depreciation (January through September) at a rate of 50% bonus

[321] Exh. CAW-51 at 7.

[322] *Ibid*.

depreciation. Cal-Am removed bonus depreciation for all plant additions after 2017. After reflecting these changes, Cal-Am states that its 2018 revenue requirement increased by approximately $250,000, compared to the 100-day update forecast.[323] We find it reasonable and adopt the removal of bonus depreciation for assets acquired and placed into service after September 27, 2017.

Given the elimination of bonus depreciation, Cal-Am recognizes that there is no longer a need for a memorandum account to record the impacts of bonus depreciation. Thus, Cal-Am withdraws Special Request #12, under which it requested to maintain the Tax Act Memorandum Account to record the impacts of bonus depreciation.[324] ORA also concurs that the Tax Act Memorandum Account should be closed. We agree that the memorandum account is no longer necessary, and therefore, direct Cal-Am to close the Tax Act Memorandum Account.

ORA asserts that authorities are still interpreting the TCJA law to determine whether assets with construction that began before September 27, 2017 but were placed in service after the date are still eligible for bonus depreciation. Cal-Am acknowledges that there is a possibility that these assets may still be eligible for bonus depreciation but explains that these assets must have a binding contract signed before September 27, 2017 and Cal-Am must have incurred costs for these assets on or before this date. After the Internal Revenue Service (IRS) clarifies eligibility of bonus depreciation for the uncertain conditions mentioned

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[323] *Ibid.*

[324] The Tax Act Memorandum Account was established to record the bonus depreciation impacts resulting from the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

above, Cal-Am shall record any remaining impacts of bonus depreciation in a Tax Memorandum Account that shall be established following the guidelines given below.

10.4.5. Adjustment to the San Clemente Dam Revenue Requirement

With the reduction of the federal corporate tax rate, Cal-Am will need to recalculate the San Clemente Dam Balancing Account revenue requirement. This is discussed in length in Section 15.1.1 (San Clemente Dam Balancing Account and Special Request #11).

10.4.6. Excess Accumulated Deferred Income Tax Account (ADIT)

The TCJA's reduction of the federal corporate tax rate significantly lowers Cal-Am's deferred income taxes. Deferred income taxes are the differences between the income tax expenses the utility paid and the income tax expenses the utility calculated for ratemaking purposes.[325] These differences are recorded in the ADIT account.[326] ADIT tracks the money that the utility had collected from ratepayers to pay for future federal income taxes.

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[325] Treasury Regulations § 1.167(l)-1(h)(1)(iii) provides that the amount of deferred income tax is the "excess . . . of the amount the tax liability would have been had a subsection (l) method been used over the amount of the actual tax liability." A subsection (l) method includes the straight-line method of depreciation used here for ratemaking purposes.

[326] ADIT records the difference between the tax expenses that the utility paid, which was calculated based on accelerated depreciation, and the tax expenses the utility would have paid if it depreciated the assets on a straight-line method. For ratemaking purposes, utilities depreciate assets based on a straight-line method to calculate the revenue requirement. Under straight-line depreciation, the recovery of the value of the asset is amortized equally throughout its asset life. For tax purposes, however, the utilities pay for tax expenses based on an accelerated depreciation schedule.

Because the tax rate change has reduced Cal-Am's deferred income taxes, Cal-Am has a net excess reserve in its deferred tax account, the ADIT. This means that Cal-Am's ADIT balance, which were collected from ratepayers assuming a 35% future tax rate, is currently more than the income taxes Cal-Am will have to pay in the future, which will be based on the reduced 21% tax rate. While Cal-Am and ORA agree that this net excess reserve needs to be returned to ratepayers, Cal-Am and ORA disagree on the time frame over which the money should be returned.

Excess reserve of deferred taxes can be grouped into two categories: excess deferred taxes derived from "protected" assets (Excess Protected ADIT) and those derived from "unprotected" assets (Excess Unprotected ADIT). The Excess Protected ADIT must follow the normalization provisions of the TCJA, but the Excess Unprotected ADIT do not need to follow the TCJA's provisions for normalization.[327,328,329]

10.4.6.1. Excess Protected ADIT

Cal-Am asserts that, under the normalization provisions of the TCJA, a regulated utility must use the Average Rate Assumption Method (ARAM) to compute normalization for the "protected assets," unless it can substantiate that it does not have the records to do so, in which case it can use the Reverse South Georgia Method (RSGM).[330, 331] Cal-Am had been using the RSGM for

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[327] Exh. CAW-52 at 4-5.

[328] The Tax Normalization rules are governed by Internal Revenue Code Section 168(i)(9).

[329] Tax normalization means computing the income tax component as if the amounts of timing difference transactions recognized in each period for ratemaking purposes were also recognized in the same amount in each such period for income tax purposes.

[330] Exh. CAW-52 at 5-6.

normalization. After the TCJA passed, Cal-Am has been in the process of determining whether it can switch to using ARAM. In the event that it cannot switch to ARAM, Cal-Am states that the IRS may allow it to use RSGM if Cal-Am can sufficiently substantiate that it did not have the capability to use ARAM. Cal-Am expects to be able to make that determination by the end of 2018.[332]

Because Cal-Am has not been able to determine whether it will be able to use ARAM or is permitted to use RSGM, Cal-Am proposes to track the excess deferred taxes in the 2018 Tax Accounting Memorandum Account and return the excess in the next general rate case. The 2018 Tax Accounting Memorandum Account was established to track the impacts of the TCJA.[333] Cal-Am asserts that if it returned the Excess Protected ADIT to ratepayers more rapidly than over what is allowed under ARAM, or RSGM if permitted, it would violate IRS normalization rules.[334] Furthermore, Cal-Am argues that if it violated the tax normalization rules, it might lose the ability to take accelerated depreciation in perpetuity. Taking accelerated depreciation has allowed Cal-Am to defer income taxes. Deferring income tax expenses through accelerated depreciation, Cal-Am

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[331] *See* Exh. CAW-53 at 5. "ARAM accrues or builds an ADIT balance based on the statutory rate for the tax year in which the deduction is claimed and reverses the ADIT balance using the calculated average rate (the cumulative ADIT balance divided by the cumulative book tax temporary difference). The RSGM method constantly remeasures ADIT balance using the enacted statutory rate that is expected to be in effect when the underlying temporary difference turns around. Under RSGM, if there is a change in the statutory rate that requires prior ADIT balances to be adjusted resulting in an excess or deficiency balance being recorded, then that amount is recorded to a regulatory liability or asset (account) and is normalized or amortized over the remaining life of the underlying temporary cumulative book to tax difference."

[332] Cal-Am Reply Brief on Taxes at 7.

[333] Exh. CAW-49 at 4-5.

[334] Cal-Am Opening Brief on Taxes at 12-13.

argues, has been a source of zero-interest financing for ratepayers and the utility.[335] Thus, Cal-Am proposes, because Cal-Am has yet to determine whether to use ARAM or RSGM, to track the Excess Protected ADIT in the 2018 Tax Accounting Memorandum Account until the next general rate case to avoid a risk of a normalization violation.

ORA opposes Cal-Am's proposal to defer returning the deferred excess taxes until the next general rate case. Instead, ORA proposes that Cal-Am begin returning the Excess Protected ADIT in 2018, using the amortization method that the Commission find reasonable. ORA argues that, since the Securities and Exchange Commission recommends that companies have no more than one year from the TCJA enactment to provide reasonable excess tax reserve estimates, Cal-Am should be able to finalize its normalization method and refund the excess tax reserves to ratepayers by the end of 2018. In reply briefs, Cal-Am estimates that it will be able to determine whether it will use ARAM or RSGM.[336]

In determining the appropriate method to refund the Excess Protected ADIT, the Commission must consider the IRS tax normalization rules and the serious penalty of a normalization violation. Because Cal-Am has not yet determined whether it can use ARAM or be permitted by the IRS to continue using RSGM, the Commission would subject Cal-Am to a normalization violation if it ordered Cal-Am to return the protected ADIT more rapidly than allowed. A normalization violation can cause the utility to potentially lose its ability to take accelerated depreciation in perpetuity, thus eliminating a source of zero-interest financing for both the utility and ratepayers. As such, the

[335] *Id.* at 15-16.

[336] Cal-Am Reply Brief on Taxes at 7.

Commission will allow Cal-Am to retain the Excess Protected ADIT in the Tax Memorandum Account, which Cal-Am shall establish according to the guidelines outlined below in Section 10.4.9 (Two-Way Tax Memorandum Account), until the end of 2018, the time which Cal-Am will be able to determine the normalization methodology to use.

We direct Cal-Am to file a Tier 3 advice letter by June 30, 2019 to refund the 2018 Excess Protected ADIT, which should have been recorded in the Tax Memorandum Account, to ratepayers as a bill credit, based on the size of the customer's meter. Cal-Am shall file a Tier 3 advice letter by June 30, 2020 and a Tier 3 advice letter by June 30, 2021 to refund the 2019 Excess Protected ADIT and the 2020 Excess Protected ADIT, respectively, to ratepayers as a bill credit, based on the size of the customer's meter. Each refund shall be amortized evenly over a period of one year. Each advice letter shall include any necessary revenue requirement adjustments to rate base caused by the return of the ADIT balances. In each advice letter, Cal-Am shall also provide calculations and supporting documentations that demonstrate: (1) an estimation of Excess Protected ADIT for each year; (2) how the Excess Protected ADIT balances were calculated for each year; and (3) the normalization method used (e.g., ARAM or RSGM). Cal-Am is not required to return the Excess Protected ADIT balances faster or sooner than allowed under IRS normalization rules.

10.4.6.2. Excess Unprotected ADIT

Since the tax normalization rules do not govern how a utility normalizes the Excess Unprotected ADIT, the Commission can direct Cal-Am to refund the Excess Unprotected ADIT without risk of the utility committing a normalization

violation. Cal-Am estimates that its Excess Unprotected ADIT is $7.1 million.[337] ORA recommends that the Commission direct Cal-Am to return the Excess Unprotected ADIT immediately to ratepayers, over the current GRC cycle, 2018-2020. Cal-Am proposes to retain the Excess Unprotected ADIT in the 2018 Tax Accounting Memorandum Account and return it to ratepayers in the next general rate case. Alternatively, Cal-Am proposes that if the Commission determines that the Excess Unprotected ADIT should be returned to ratepayers during this GRC cycle, the Commission should amortize the Excess Unprotected ADIT based on the average life of each of the assets. Cal-Am argues that this method of amortization eliminates intergenerational inequities. In addition, if the Commission was to refund the Excess Unprotected ADIT in this GRC, Cal-Am recommends that the Commission apply the refund to the under-collected Water Revenue Adjustment Mechanism and Modified Cost Balancing Account (WRAM/MCBA) to reduce the under-collection in these accounts.

The Commission finds that the Excess Unprotected ADIT belongs to ratepayers and should be returned to ratepayers in the earliest manner possible. There are generally two methods to return excess deferred taxes to ratepayers: normalization and flow-through. Under normalization, ratepayers will receive the refund in equal amounts through equal periods of each affected asset's life. This is similar to Cal-Am's proposal of amortizing the refund based on the average life of each asset. Under flow-through, ratepayers will receive the refund immediately, or during the same period that the refund is recognized.

[337] Exh. CAW-61 at 1.

During the last Commission proceeding, Order Instituting Investigation 24 (OII 24), which evaluated these methodologies for all regulated utilities, the Commission, in Decision D.84-05-036, determined that flow-through is the appropriate method for refunding tax benefits to ratepayers.[338] In that decision, the Commission also considered issues of intergenerational inequities under flow-through versus normalization and ultimately decided that the regulated utilities will use flow-through to return excess tax reserves to ratepayers.[339] Since then, the Commission has not made any policy to deviate from this practice. Even though Cal-Am argues that flowing through the refunds in the immediate period presents issues of intergenerational inequities, these arguments were already considered in Order Instituting Investigation (OII) 24. Absent any arguments that were not considered in OII 24, the Commission determines that Cal-Am shall "flow-through" the Excess Unprotected ADIT, $7.1 million, to ratepayers.

The Commission finds it reasonable and directs Cal-Am to refund the entire $7.1 million of Excess Unprotected ADIT to ratepayers as a bill credit, based on the size of the customer's meter. Cal-Am shall amortize the refund equally over the 24-month period from 2019 to 2020 and request to refund the Excess Unprotected ADIT via a Tier 2 advice letter filed by June 30, 2019.

10.4.7. Implementation Costs of the TCJA

Cal-Am asserts that it will incur significant costs to implement the TCJA. These costs include the costs to make changes to PowerPlant, the utility's fixed

[338] D.84-05-036 at 10 & 16 (Conclusion of Law 6).

[339] D.84-05-036 at 9.

asset system, and PowerTax, the system the utility uses to determine whether it has the asset vintage records to implement ARAM. American Water Works Service Company (American Water), its Parent Company, is making these changes and incurring these costs currently. After completing these system changes, American Water will then pass these costs to Cal-Am, based on Cal-Am's proportionate share of the costs that is determined in their shared service agreement. Because of this arrangement, Cal-Am asserts that it does not have the information on the amount of the implementation costs and, thus, cannot provide a forecast of these costs in this proceeding.

Cal-Am proposes to record the TCJA implementation costs in the 2018 Tax Accounting Memorandum Account. Cal-Am argues that memorandum account treatment of these expenses is consistent with Commission policy, since these expenses are caused by an event of an exceptional nature not under the utility's control, could not have been reasonably foreseen, are substantial in terms of the amount of money, and yield ratepayer benefits.

ORA argues that the Commission should not allow Cal-Am to record implementation costs for the TCJA in the 2018 Tax Act Memorandum Account. ORA asserts that compliance with tax law is a cost incurred in the ordinary course of managing the utility and, thus, should be accounted for in the forecast of expenses in this GRC. ORA is concerned that there would be double recovery of the tax implementation costs. Furthermore, ORA asserts that Cal-Am has not sufficiently address why these implementation costs could not be forecasted in this current proceeding.

While the Commission agrees that the TCJA implementation costs are caused by an exceptional event outside of management's control and may yield ratepayer benefits, Cal-Am has not sufficiently addressed why these

implementation costs cannot be forecasted in this proceeding and why these costs are substantial in terms of the amount of money that Cal-Am will incur. Even though American Water, its Parent Company, is making the system changes and incurring the costs to implement the TCJA, Cal-Am has failed to sufficiently demonstrate why American Water cannot forecast the costs of these system changes, with which Cal-Am could have used to derive a forecast of its implementation costs. As such, Cal-Am fails to show that these costs could not have been reasonably forecasted, or foreseen, in this proceeding. Because Cal-Am did not provide an estimate of how much these implementation costs are, Cal-Am also fails to demonstrate that the magnitude of these costs is substantial. Thus, the TCJA implementation costs failed to meet these two general criteria the Commission has used for memorandum account treatment. Therefore, we deny Cal-Am's request to track the implementation costs for the TCJA in a memorandum account.

10.4.8. Advances and Contributions

Cal-Am receives money deposits from real estate developers or builders to build water main extension projects for new connections. These deposits, for ratemaking purposes, are called advances for construction or contributions-in-aid-of construction. They are a source of income to the utility, of which a portion is taxed. In the past, only the portion of the deposit for the service line that connects the utility's main line to the connection was taxable income to the utility. The TCJA now subjects all the advances and contributions that the utility receives to be taxable income.

Cal-Am asserts that these changes may subject developers to higher deposit amounts, which puts Cal-Am at a competitive disadvantage with other municipal service areas. Cal-Am requests that the Commission conduct a

workshop to consider a comprehensive approach to address the change to advances and contributions imposed by TCJA for all the water utilities. Thus, Cal-Am proposes to record any changes to the advances and contributions caused by the TCJA in the 2018 Tax Accounting Memorandum Account, until the Commission has addressed this issue for all the water utilities.

There are currently no plans for the Commission to examine these impacts comprehensively for all water utilities and this proceeding is not the appropriate venue for such a request, since this request would impact all water utilities. Thus, we do not find it necessary for Cal-Am to record these impacts in a memorandum account and deny Cal-Am's request to track the impacts of the TCJA on advances and contributions in the 2018 Tax Accounting Memorandum Account or in any memorandum account.

10.4.9. Two-Way Tax Memorandum Account

In several recent general rate case proceedings,[340] the Commission has directed utilities to establish a two-way Tax Memorandum Account to record the differences between the income tax expense authorized in the GRC proceedings and the tax expenses utilities incur. Similar to the tax memorandum account ordered in these proceedings, Cal-Am shall also establish a two-way Tax Memorandum Account to track any revenue differences resulting from the differences in the income tax expense authorized in the GRC proceedings and the tax expenses it incurs. The purpose of this memorandum account is to increase the transparency of the utility's incurred and forecasted income tax expenses to

[340] SDG&E's and SoCalGas's 2016 GRC (A.14-11-004); Liberty GRC (A.15-05-008); PG&E's 2017 GRC (A.15-09-001).

the Commission, so that the Commission can more closely examine revenue impacts caused by the utility's implementation of various tax laws, tax policies, tax accounting changes, or tax procedure changes. This will help the Commission review the reasonableness of the utility's election of various tax options, such as tax policies, tax procedures, or tax accounting changes. The account shall have separate subaccounts detailing the differences between tax expenses authorized and tax expenses incurred, specifically resulting from (1) net revenue changes, (2) mandatory tax law changes, tax accounting changes, tax procedure changes, or tax policy changes, and (3) elective tax law changes, tax accounting changes, tax procedural changes, or tax policy changes. The account shall remain open and the balance in the account shall be reviewed in every subsequent GRC proceeding until a Commission decision closes the account.

Currently, Cal-Am has the 2018 Tax Accounting Memorandum Account, which it established pursuant to a request from the Commission's Water Division to record the full impacts of the TCJA.[341] Cal-Am proposes to retain the 2018 Tax Accounting Memorandum Account for this general rate case cycle to record (1) the excess deferred taxes, both the Excess Protected ADIT and Excess Unprotected ADIT reserve, (2) bonus depreciation for the limited assets where eligibility for bonus depreciation is uncertain, (3) implementation costs of the TCJA, particularly for PowerPlant and PowerTax, and (4) the impacts of TCJA on advances and contribution. As discussed above, the Commission denies Cal-Am's requests to record the Excess Unprotected ADIT, the implementation

[341] Exh. CAW-51 at 2-3.

costs of the TCJA, and the impacts of the TCJA on advances and contribution in the 2018 Tax Accounting Memorandum Account.

In the sections above, the Commission finds reasonable and allows Cal-Am to record in the two-way Tax Memorandum Account (1) the Excess Protected ADIT until the end of 2018, and (2) bonus depreciation for the limited assets where eligibility for bonus depreciation is uncertain because construction for them began or a contract for them was signed before the September 27, 2017 date. Cal-Am shall record these items in separate subaccounts in the two-way Tax Memorandum Account described above. Cal-Am shall also transfer the balances of these items recorded in the 2018 Tax Accounting Memorandum Account to the Tax Memorandum Account.

In its Supplemental Testimony responding to the ALJs' March 2018 Ruling, Cal-Am stated, that a two-way tax memorandum account, similar to the one described above, would be able to record the full tax impacts of the TCJA, which the 2018 Tax Accounting Memorandum Account was tracking.[342] Because the two-way Tax Memorandum Account can record the full impacts of the TCJA, the 2018 Tax Accounting Memorandum Account is no longer needed. Cal-Am shall close the 2018 Tax Accounting Memorandum Account.

[342] The March 2018 Ruling asked whether a two-way tax memorandum account similar to the one ordered in D.16-06-054, the decision addressing San Diego Gas & Electric Company's and Southern California Gas Company's General Rate Case proceedings, would record the full impacts of the TCJA. The tax memorandum account ordered for Cal-Am in this decision is similar to the one ordered in D.16-06-054.

10.4.10. Notification of Material Tax Changes

Similar to the directives ordered in recent general rate case proceedings,[343] Cal-Am shall notify the Commission of any tax-related changes, any tax-related accounting changes, or any tax-related procedural changes that materially affect, or may materially affect, revenues by filing a Tier 1 advice letter with the Water Division. A material affect shall be defined as a potential increase or decrease of $500,000 or more, which is about a 0.2% of Cal-Am's 2018 revenue requirement. The failure to disclose such changes in a timely fashion undermines the integrity of the regulatory process and may amount to a violation of Rule 1.[344]

10.4.11. Formulaic Error related to Method 5

In its testimony addressing the TCJA, Cal-Am found a formulaic error in the rate base calculation for Method 5. Pursuant to D.89-11-058, Method 5, which is a method of accounting to address the taxation of the advances and contributions, requires Cal-Am to reduce its rate base by the accumulated deferred taxes related to the portion of contributions and advances that was subject to federal taxation. Under this method, Cal-Am will need to subsequently add the associated accumulated deferred revenues back to the rate base. The formula error inadvertently was deducting, instead of adding, the accumulated deferred revenues from the rate base. Along with changes to reflect the impacts of the TCJA, Cal-Am also made a change to the Results of Operations

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[343] SDG&E's and SoCalGas's 2016 GRC (A.14-11-004); Liberty GRC (A.15-05-008); PG&E's 2017 GRC (A.15-09-001).

[344] *See* D.16-06-054 where the Commission recently addressed the definition of "materially affect" in the context of implementation of a Tax Memorandum Account for SDG&E and SoCalGas. In D.16-06-054, the Commission determined that the amount that would materially affect revenues is any amount over $3 million, which is about 0.1% of the utilities' respective revenue requirements.

model to correct this formula error related to Method 5. Cal-Am states that, as a result of this correction, its 2018 forecasted revenue requirement increased by approximately $299,500, compared to its 100-day update revenue requirement.

We find reasonable and adopt Cal-Am's corrections to the formula error in its Results of Operations model related to Method 5.

10.4.12. Summary

We find reasonable and adopt the following: (1) the reduction of the federal corporate income tax rate from 35% to 21%; (2) the removal of the Domestic Production Activities Deduction; (3) the repeal of Bonus Depreciation; (4) the refund of the $7.1 million of Excess Unprotected Accumulated Deferred Income Tax, amortized evenly over the 24-month period in 2019-2020; (5) Cal-Am's formula corrections related to Method 5 in the Results of Operations model; and (6) the new rate of return ordered in D.18-03-035.

Within 30 days of the issuance of this decision, Cal-Am shall file a Tier 2 advice letter with the Water Division, with an effective date of January 1, 2018. The purpose of the advice letter is to: (1) Close the Tax Act Memorandum Account; (2) Close the 2018 Tax Accounting Memorandum Account; (3) Establish the two-way Tax Memorandum Account; (4) Transfer the balance for the Excess Protected Accumulated Deferred Income Tax and bonus depreciation for those assets with uncertain eligibility statuses from the 2018 Tax Accounting Memorandum Account to the two-way Tax Memorandum Account; and (5) Close the Cost of Capital Memorandum Account.[345]

[345] The revised rate of return is addressed in Section 14, below.

In addition, Cal-Am shall file three separate Tier 3 advice letters by the dates specified above to refund the 2018 Excess Protected Accumulated Deferred Income Tax, which were recorded in the Tax Memorandum Account, the 2019 Excess Protected ADIT, and the 2020 Excess Protected ADIT.

Cal-Am shall also file a Tier 2 advice letter by June 30, 2019 to refund to ratepayers the $7.1 million in Excess Unprotected Accumulated Deferred Income Tax amortized equally over the 24-month period from 2019 to 2020.

11. Plant

11.1. Common Plant Issues

11.1.1. Advanced Metering Infrastructure (AMI)

Cal-Am requests Commission approval to implement a 2-way AMI system in Cal-Am's San Diego, Ventura, Monterey, and Los Angeles County service districts, which include approximately 108,600 residential, commercial, and industrial retail water customers, in total.[346] Cal-Am's capital funding request for AMI implementation is as follows:[347]

District	PID	2018 Plant Expenditure	2019 Plant Expenditure	2020 Plant Expenditure	3-Yr Total
Ventura	I15-510038	$473,055	$2,165,986	$828,913	$3,467,954
Los Angeles	I15-500056	$635,591	$2,931,733	$1,121,438	$4,688,762
San Diego	I15-300012	$490,903	$2,320,468	$886,266	$3,697,637
Monterey	I15-400104	$999,686	$4,970,608	$1,892,677	$7,862,971
Total		$2,599,235	$12,388,795	$4,729,294	$19,717,324

[346] Cal-Am Opening Brief at 84. Cal-Am is not proposing AMI in its Sacramento and Larkfield districts because Automated Meter Reading (AMR) systems were only recently installed in those areas. AMR solutions allow for specially equipped vehicles to drive by a meter to conduct readings, and therefore, can provide more timely information than manual meters.

[347] Exh. CAW-12 at 150, 160, 164 & 166.

Cal-Am also requests approximately $0.3 million in the San Diego district, $0.3 million in the Los Angeles district, $0.5 million in the Ventura district, and $0.3 million in the Monterey district for additional annual O&M expenses related to AMI.[348]

AMI collects hourly water consumption data that is managed, stored, and available for posting to a web portal and mobile application. Cal-Am contends that its AMI proposal will improve operations, enhance customer service, and advance efficiency and conservation efforts.[349] Cal-Am notes that the Commission recognized AMI's benefits in D.16-12-026, including the capability of AMI to "harness and communicate data to manage water production and purchase, identify and stop leaks, protect drinking water quality by promptly identifying backwash incidents, produce data that yield more accurate forecasts, and provide customers and water system operators timely information."[350] Cal-Am contends that its AMI plan is reasonable and well-supported and builds on the company's experience with two AMI pilot projects in its Monterey and Ventura districts.

ORA opposes Cal-Am's request for full deployment of AMI in the Los Angeles, Ventura, San Diego, and Monterey districts. The Commission has stated that the costs of installing meters, enabling AMI data collection, communication, and analysis are to be treated as construction costs.[351] ORA

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348 Exh. CAW-10 at 27; Exh. ORA-10 at 11, Table 1-E.

349 Cal-Am Opening Brief at 84.

350 *Id*. at 86 citing D.16-12-026 at 61-62.

351 D.16-12-026 at 66.

contends that similar to other projects proposed in rate cases, the AMI projects should be evaluated to determine whether they are cost effective and provide a benefit to ratepayers.

ORA argues that Cal-Am has not provided sufficient evidence to assess whether AMI is: (1) cost effective for ratepayers; (2) effective in detecting leaks, results in a higher rate of customers fixing leaks than those customers without AMI meters, and results in a decrease in customer billing adjustments; (3) at least as cost effective as other methods of conservation and leak detection; and (4) effective at detecting backflow.[352] ORA argues that it is not prudent to authorize funding for full deployment in the 4 districts before Cal-Am's ongoing AMI pilots in Ventura and Monterey are completed, the results fully evaluated, and the net benefits to ratepayers measured and demonstrated.[353]

LA County also argues that the Commission should reject Cal-Am's request for full-scale deployment of the AMI program because Cal-Am has not demonstrated that the cost of its proposed AMI program provides commensurate benefits to ratepayers. LA County contends that the AMI pilot programs have not yet returned results that justify such a robust investment in AMI and that more empirical evidence is needed before AMI is rolled out on a broader scale.[354] LA County notes that the Ventura pilot with 1,288 customers did not "go live" until February 2017 and that the Monterey pilot with its sample size of 200 volunteer customers in a district with approximately

[352] ORA Opening Brief at 76.

[353] *Id*. at 70.

[354] LA County Opening Brief at 3-4.

40,0000 connections is too small a sample size to draw any meaningful conclusion about the effectiveness of the AMI.

Cal-Am argues that a cost-benefit analysis is not required before approval of AMI implementation.[355] Cal-Am is mistaken. In D.16-12-026, the Commission found that AMI offers benefits that traditional meters cannot and directed Class A water utilities to make proposals for a schedule to transition existing customers to AMI meters in their next GRC application or in a separate standalone application.[356] Although D.16-12-026 recognized the general benefits of AMI, D.16-12-026 does not provide a blank check for AMI implementation. Citing the "potential benefits of AMI," the Commission stated in D.16-12-026 that AMI "can be a prudent investment of ratepayer dollars."[357] The Commission indicated that it would decide on the appropriateness of each utility's AMI proposal in the respective GRC or standalone application in which the proposal was made.[358]

Cal-Am has the burden of affirmatively establishing that its proposed project is just and reasonable, which would include consideration of the cost effectiveness of the project and whether it provides a benefit to ratepayers.[359] The Rate Case Plan requires all significant capital additions to be identified and

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[355] Cal-Am Opening Brief at 100-101.

[356] D.16-12-026 at 81 (FOFs 11-12), 85-86 (OPs 7 and 9).

[357] *Id*. at 64.

[358] *Id.* at 85-86 (OP 7).

[359] Pub. Util. Code, §§ 451 and 454; D.10-04-027 at 8.

justified, including need analysis, cost comparison and evaluation, conceptual designs, and overall budget.[360]

We find that Cal-Am has failed to demonstrate that its proposal to deploy AMI in its San Diego, Ventura, Monterey, and Los Angeles County service districts is cost-effective and that the potential benefits of deploying AMI in these districts justify the requested costs. Cal-Am does not provide any cost-benefit analysis and instead argues that the general benefits of AMI justify the requested costs. Because Cal-Am does not provide any quantification of these benefits, we are unable to conclude that the benefits of AMI justify Cal-Am's requested costs. For example, Cal-Am generally contends that AMI will advance efficiency and conservation efforts. There is no estimate as to what extent leaks or high usage will be reduced as a result of AMI, and therefore, we are unable to determine whether the amount of conservation that will be achieved through AMI justifies the requested costs.

Cal-Am states that the amount of customer leak adjustments is an example of the value associated with leak detection and that it currently provides customer leak adjustments of approximately $3 million per year.[361] Cal-Am contends that because AMI is expected to help identify leaks earlier, the amount of leak adjustments will be reduced.[362] However, Cal-Am itself acknowledges the uncertainty involved in estimating the level of leak adjustments due to AMI.[363] Moreover, there is a great deal of variability in the amount of leak

[360] D.07-05-062, Appendix A at A-26.

[361] Exh. CAW-13 at 54.

[362] Cal-Am Opening Brief at 89.

[363] Exh. CAW-5 at 32; Cal-Am Opening Brief at 167.

adjustments in the four districts in which Cal-Am is proposing to deploy AMI. In 2015, the Monterey County District had recorded leak adjustments of $3.7 million, whereas the other districts had leak adjustments of less than $35,000.[364] In districts other than Monterey, it is unlikely that the value of reducing customer leak adjustments would justify the costs Cal-Am is requesting for its AMI plan.

In addition to failing to quantify the benefits of AMI, we find that Cal-Am does not fully account for all costs associated with its AMI proposal. Cal-Am requests a capital budget of $ 19,717,324 for 2018-2020 and estimates increased O&M costs of approximately $1.4 million a year related to AMI implementation. However, there are likely to be additional costs associated with deployment of AMI. For example, Cal-Am's AMI plan would accelerate meter replacements for approximately 18,400 meters and Cal-Am's application does not specify what ratemaking treatment it is requesting for the costs associated with these meters.[365] There would be additional costs associated with the AMI plan to the extent that ratepayers would continue to pay for these meters.

Another example of costs that Cal-Am fails to account for are costs related to customer opt-outs. Cal-Am acknowledges that some customers will want to opt out of AMI and that customer opt-outs can result in higher costs and increased operating complexities.[366] In D.16-12-026, the Commission directed that utilities' AMI proposals should include policies consistent with those established in D.14-12-078 regarding customers' ability to opt out of AMI meter

[364] Exh. ORA-6 at 29 (Table 2-5).

[365] Exh. CAW-13 at 46.

[366] *Id*. at 62.

installations.[367] Cal-Am's AMI plan does not include a proposal for addressing customer opt-outs and does not take into account costs associated with customer opt-outs.

There is also a lack of certainty regarding Cal-Am's cost estimates. Cal-Am is considering two options in regards to its operation of the AMI network.[368] The first option is for Cal-Am to purchase, own, deploy, operate and maintain its own network. The second option is to utilize the AMI networks of other utilities already located in its service area. Cal-Am does not specify which option it would pursue and acknowledges that its cost estimates under each option are preliminary.[369]

Moreover, Cal-Am does not provide specifics regarding the technology that it intends to use, including any evidence regarding the reliability or expected life of the technology Cal-Am intends to use. Therefore, there is insufficient information for us to assess whether the project will be cost effective over the life of the project. It is also unclear whether technologies such as AMR would be more cost-effective while providing comparable leak detection and data communication benefits.[370]

Although AMI has the capability to provide benefits that traditional meters do not provide, this does not mean that implementation of AMI is

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[367] D.16-12-026 at 86 (OP 9).

[368] Exh. CAW-13 at 58.

[369] *Id*. at 58-59.

[370] In D.16-12-026, the Commission stated that the utilities' AMI Proposals "may identify districts or areas where the existing or anticipated communications infrastructure and other factors indicate that AMR would be substantially more cost-effective than AMI, and deploy AMR if comparable leak detection and data communication benefits can be achieved." (D.16-12-026 at 65.)

justified at any cost. Cal-Am must still meet its burden of proof of demonstrating that the project is reasonable, cost-effective, and beneficial to ratepayers. Cal-Am states that "AMI represents a significant capital investment…"[371] We find that Cal-Am has failed to provide sufficient information regarding the benefits and costs of its AMI plan that justifies this significant capital investment. Therefore, we deny Cal-Am's request for widescale deployment of AMI in its San Diego, Ventura, Monterey, and Los Angeles County service districts and associated O&M expenses related to AMI.

Cal-Am's pilot AMI pilots are ongoing and the Ventura pilot, which has over 1,000 customers, may yield better information regarding the benefits of AMI. The Ventura pilot went live during the pendency of this proceeding, and therefore, there is insufficient information in the record that enables us to make findings based on that pilot. If results from the pilots support that AMI is cost-justified, Cal-Am is encouraged to make a new proposal for AMI implementation in a future application or GRC. In making any new proposal, Cal-Am should consider the particular circumstances of each district. For example, the variance in leak adjustments suggests that AMI may be more justified in districts such as Monterey than in others.

11.1.2. Recycled Water Projects

Cal-Am requests that the Commission approve additional initial planning dollars for proposed recycled water projects as follows: $100,000 in consulting expenses for the Sacramento Recycled Water Project (I15-600091); $800,000 in consulting expenses for the Baldwin Hills Recycled Water Project (I15-500059);

[371] Cal-Am Opening Brief at 94.

and $925,000 in consulting expense for the Coronado/Imperial Beach Recycled Water Project (I15-300016).[372] Cal-Am intends to use the additional initial planning dollars to gather information in order to submit Tier 3 advice letters for final approval of these three projects pursuant to the process adopted in D.14-08-058.[373] Cal-Am also requests expedited Tier 3 advice letter treatment for these recycled water projects.[374]

ORA opposes Cal-Am's request for additional initial planning dollars for these projects. ORA argues that the request for these funds was not included in Cal-Am's original application but was presented for the first time in rebuttal testimony without any break-down of the requested costs or any documentation justifying the reasonableness of the funds requested.[375] ORA also argues that there is significant uncertainty regarding these projects and that the construction for each project would likely not begin until the next rate cycle.[376] ORA contends that Cal-Am can request to recover these additional consulting fees when it files the advice letters for these projects, where the cost of the projects can be reviewed for prudency.

Cal-Am's request for additional initial planning dollars for its proposed recycled water projects is denied. Cal-Am's application as originally filed did not include this request. Cal-Am improperly makes this request for the first time

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[372] Exh. CAW-21 at 20-21, 28, and 23.

[373] In D.14-08-058, the Commission authorized water utilities to file advice letters for approval of recycled water projects, provided that the project meets certain eligibility criteria. (D.14-08-058 at 33-34 (OPs 20 & 21).)

[374] *See* discussion below on Special Request #10.

[375] ORA Opening Brief at 77.

[376] Exh. ORA-1 at 24.

in its rebuttal testimony, which prejudices other parties and does not provide customers notice of the rate impacts associated with this request.[377] Furthermore, Cal-Am fails to justify the reasonableness of the amounts requested for this GRC cycle. As noted by ORA, Cal-Am is not precluded from pursuing the proposed recycled water projects and seeking recovery of costs associated with these projects either via an advice letter pursuant to D.14-08-058 or in its next GRC.[378]

11.1.3. Engineering Overhead

Cal-Am proposes to calculate Engineering Overhead by determining an overall engineering overhead number[379] and then allocating this overhead to each of its investment projects based on the direct cost incurred for each project as a percentage of the total direct cost incurred for all projects.[380] (E.g., if a project had 2% of the total actual direct costs for all projects, then 2% of the engineering overhead pool of dollars would be allocated to that project.) If a specific capital project is eliminated, then the engineering overhead for that project which would not change if the direct project cost is reduced or eliminated would be reallocated to other remaining projects.[381] Cal-Am contends that this is

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[377] *See* D.04-03-039 at 84-85; ORA Opening Brief at 78.

[378] Exh. ORA-10 at 6-7.

[379] The overall engineering overhead is based on detailed calculation within the RO model for the capitalized labor, labor benefits, workers' compensation, payroll taxes, transportation costs, and other costs that have been historically capitalized and not charged directly to capital projects. (Exh. CAW-26 at 3.) The amount of the overall engineering overhead changes as these costs change based on the use of a three-year average of recorded amounts. (*Ibid.*)

[380] Exh. CAW-4 at 9. In previous cases, the Engineering Overhead was provided by the Engineering Department and was included in the total cost of each capital investment project. (*Ibid*.) In the current case, the Engineering Department provided only the direct cost for each capital IP project and the RO model is used to calculate the Engineering Overhead. (*Ibid*.)

[381] *Id.* at 10; Exh. CAW-26 at 3-4.

a more accurate approach for calculating Engineering Overhead because the calculation uses the capitalized costs that are developed in the RO model. Cal-Am notes that the Commission has previously authorized this methodology for Golden State Water Company.[382]

ORA argues that it is not appropriate to allocate a set total amount of overhead. ORA recommends that overhead costs be determined for each individual project and only be included in the budget if the project is authorized.[383] ORA also recommends that if the project is authorized at a lower budget amount than the requested amount, that the overhead amount for the project be reduced proportionally.[384] ORA's methodology prevents reallocation of engineering overhead to other capital projects if a specific project is adjusted.

Cal-Am argues that ORA's recommendations fail to recognize that the majority of engineering overhead costs are fixed and would not be eliminated if capital projects were reduced.[385] Cal-Am contends that 86.59% of the total costs for 2018-2019 are for labor and benefits and should be deemed fixed costs.[386] Cal-Am contends that the reductions in overhead recommended by ORA would require Cal-Am to layoff engineers and other construction staff or have the engineering staff charge their time to O&M expense instead of capital.[387]

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382 CAW Opening Brief at 114 citing D.08-01-043 at 33 and D.08-08-031 at 5.

383 Exh. ORA-1 at 30.

384 *Ibid*.

385 Exh. CAW-26 at 4.

386 *Id.* at 5.

387 *Ibid*.

We find reasonable Cal-Am's proposed methodology for calculating the overall engineering overhead and allocating this overhead to each of its investment projects based on the direct cost incurred for each project as a percentage of the total direct cost incurred for all projects. The overall engineering overhead is based on a detailed calculation within the RO model based on the three-year average of recorded costs. Calculating the overall engineering overhead using Cal-Am's proposed methodology will result in a more accurate overall number since the overall number would be automatically adjusted as certain costs within the RO model (e.g., pensions, group insurance, and Other Post Employment Benefits (OPEB)) are adjusted.

We also find reasonable Cal-Am's proposed methodology to reallocate engineering overhead to other projects if the direct project cost of a specific project is reduced or eliminated provided that the engineering overhead only includes indirect costs that would not change if the direct project cost is reduced or eliminated.[388] Such indirect costs are fixed costs, which would not be reduced or eliminated based on reduction or elimination of a project's direct costs. Therefore, we do not find reasonable ORA's recommendation to prevent reallocation of these costs.

[388] Exh. CAW-4 at 10; Exh. CAW-26 at 3-4. Cal-Am explains that engineering overhead are costs that have been historically capitalized and that are not charged directly to capital projects. (Exh. CAW-26 at 3.) However, it is unclear why Cal-Am then asserts that 86.59% of the total costs for 2018-2019 should be deemed fixed costs. (*Id*. at 5.) Cal-Am distinguishes between engineering overhead, which includes indirect project costs, and direct overhead, which is charged to a specific project. (Exh. CAW-4 at 8-9.) Although it appears that direct overhead costs are not included in engineering overhead, to the extent that there are any direct costs included, such costs shall not be reallocated if a project's costs are reduced or eliminated.

11.1.4. Plant Recurring Projects

Recurring project (RP) capital expenditures are primarily for smaller unforeseen operational capital investment tasks and routine every year-type of projects. Cal-Am divides its RPs into seventeen areas.[389] Cal-Am budgets the RPs by taking into consideration the inflation adjusted five-year historical average of the specific RP, as well as the results from the 2013 GRC to determine consistency.[390] Since the 2010 GRC, the Commission has authorized Cal-Am to manage its various district RP budgets to an overall budget number, with flexibility to reallocate funds among individual RP line items as necessary over the course of the year and Cal-Am proposes to continue this approach in the current GRC period.[391] Cal-Am proposes the following total RP budgets per district:[392]

[389] Exh. CAW-12 at 24-29.

[390] *Id.* at 24.

[391] *Ibid.*

[392] Exh. ORA-1 at 24-26, Table 1-6. These RP budgets represent the total cost, which include calculation of engineering overhead and contingency, and are subject to adjustment based on calculation of engineering overhead and contingency. (*See* Exh. CAW-12 at 29.)

District	2018	2019
Los Angeles	$4,579,289	$4,899,832
San Diego	$1,159,265	$1,137,233
Ventura	$2,817,684	$2,765,843
Monterey Water	$3,014,976	$2,938,954
Monterey Wastewater	$272,058	$259,265
Toro	$135,690	$131,882
Garrapata	$52,930	$50,441
Sacramento	$4,038,620	$3,060,991
Larkfield	$345,830	$329,563
Total	$16,416,342	$15,574,004

ORA recommends that the Commission adjust Cal-Am's proposed RP budget for the Los Angeles, Sacramento, and Monterey districts for the capitalized tank improvements RP category because of Cal-Am's history of not using the authorized funding or its inconsistent use of the authorized funding for these projects.[393] ORA states that it generally does not oppose the reallocation of funding among individual RP categories based on the needs of the system in a particular year but is concerned that Cal-Am is not utilizing the funding for these projects that are approved in rates and paid by ratepayers.[394]

Cal-Am opposes the adjustments recommended by ORA to the proposed total RP budgets for Los Angeles County, Monterey County Water, Sacramento County, and Garrapata Districts. Cal-Am generally believes that its more recent

[393] Exh. ORA-1 at 25-26.

[394] ORA Opening Brief at 80-81.

performance with respect to the RP budget items (especially the Tank Rehabilitation Item R expense) provides an appropriate basis for a reasonable budget for 2018-2019. Cal-Am also notes that ORA has agreed with Cal-Am's proposed total RP budgets, including the specific RP line items for the remainder of its districts.

There is no dispute as to the RP budgets for 2018 and 2019 for Cal-Am's San Diego, Ventura, Toro, Monterey Wastewater, and Larkfield Districts.[395] We find these budgets to be reasonable and supported by the testimony submitted by Cal-Am and ORA. The RP budgets for the remainder of Cal-Am's districts are discussed below. All of the RP budgets adopted in this decision are subject to adjustment based on calculation of engineering overhead and contingency, as appropriate. Cal-Am may continue to manage its various district RP budgets to an overall budget number, with flexibility to reallocate funds among individual RP line items as necessary over the course of the year.

11.1.4.1. Los Angeles County District

The only dispute regarding Cal-Am's proposed RP budget for its Los Angeles District is with respect to the capitalized tank rehabilitation RP line item. Cal-Am requests $1,119,251 and $1,098,616 for 2018 and 2019, respectively, in the capitalized tank category.[396] ORA recommends no funding for the 2018-2019 period for the RP budget related to capitalized tank rehabilitation because Cal-Am spent $0 for this RP category for the 2010-2015 period.[397]

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[395] The RP budgets for the 2020 attrition year for each of Cal-Am's districts shall be calculated pursuant to the rate case plan adopted in D.04-06-018, as modified by D.07-05-062.

[396] Cal-Am Opening Brief at 118-119.

[397] Exh. ORA-1 at 25.

Cal-Am argues that its proposed budgets are reasonable and that ORA's proposed reductions fail to take into account more recent work completed for the capitalized tank rehabilitation line item in 2016 and planned for 2017.[398]

Cal-Am fails to adequately justify its requested capitalized tank rehabilitation budget for 2018-2019 for the Los Angeles District. It is undisputed that Cal-Am spent $0 on this RP category for the 2010-2015 period. With respect to the recent work completed in 2016 and planned for 2017, these costs would be recorded in 2016 and 2017 and would not impact the budget for 2018 or 2019. The only project that Cal-Am mentions that would carry over into 2018 is work on the Lamanda Reservoir but Cal-Am does not provide any cost estimates of the work for 2018. Given that there is evidence that Cal-Am spent approximately $684,000 on this category in 2016,[399] we do not find reasonable ORA's proposal to approve no funding for this RP category for this GRC cycle. Given Cal-Am's historical spending in this RP category and the lack of information regarding the work planned for 2018, we find reasonable and approve 25% of Cal-Am's requested budget for 2018 and 2019. There is no dispute with respect to the other line items in Cal-Am's proposed RP budget for its Los Angeles District. We find the budgets for the other line items to be reasonable and supported by the testimony submitted by Cal-Am and ORA.

11.1.4.2. Monterey County Water District

The only dispute regarding Cal-Am's proposed RP budget for its Monterey Water District is with respect to the capitalized tank rehabilitation RP line item. Cal-Am requests $455,263 and $446,869 for 2018 and 2019,

[398] Cal-Am Opening Brief at 118.

[399] Exh. CAW-21 at 8.

respectively, in the capitalized tank category.[400] Cal-Am's argues that its proposed budget is reasonable based on the three-year average spend for 2014-2016.[401]

ORA recommends that the Commission instead adopt an annual budget of $157,240 and $153,502 for 2018 and 2019, respectively, due to Cal-Am's inconsistent spending pattern for this RP line item.[402] ORA's recommendation is based on a five-year average (with cost inflation to the appropriate year) of Cal-Am's recorded annual expenditure for capitalized tank rehabilitation in Monterey for the 2011-2015 period.

Given Cal-Am's inconsistent spending in this area, we find reasonable and adopt ORA's recommendation to base the 2018-2019 budget for capitalized tank rehabilitation on a five-year average (with cost inflation to the appropriate year) of Cal-Am's recorded annual expenditures. Although ORA recommends that the Commission use the five-year average for the 2011-2015 period, in recognition of Cal-Am's recent spending pattern in this category and given that the record contains information regarding Cal-Am's spending for 2016, we find it reasonable to base the 2018-2019 budget on the five-year average for the 2012-2016 period.[403] There is no dispute with respect to the other line items in

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[400] Cal-Am Opening Brief at 119.

[401] *Ibid*.; Exh. CAW-21 at 10. Cal-Am erroneously calculates the three-year average for 2014 to 2016 based on expenditures for 2013, 2014, and 2016. (Exh. ORA-1 at 114 (Attachment 6); Exh. CAW-21 at 9.) The three-year average for 2014, 2015, and 2016 is $313,937. (Exh. ORA-1 at 114 (Attachment 6); Exh. CAW-21 at 9.)

[402] Exh. ORA-1 at 25-26.

[403] Cal-Am had capitalized tank rehabilitation expenditures of $0 in 2012, $364,444 in 2013, $306,672 in 2014, $0 in 2015, and $635,138 in 2016. (Exh. ORA-1 at 114 (Attachment 6); Exh. CAW-21 at 9.)

Cal-Am's proposed RP budget for its Monterey Water District. We find the budgets for the other line items to be reasonable and supported by the testimony submitted by Cal-Am and ORA.

11.1.4.3. Sacramento County District

The only dispute regarding Cal-Am's proposed RP budget for its Sacramento District is with respect to the capitalized tank rehabilitation RP line item. Cal-Am requests $105,859 and $103,908 for 2018 and 2019, respectively, in the capitalized tank category.[404] Cal-Am argues that these proposed budgets are justified based on recognition of the planned tank activities in 2017 for the Sacramento District.[405]

ORA recommends that the Commission instead approve an annual budget of approximately $47,409 and $46,281 for 2018 and 2019, respectively, due to Cal-Am's inconsistent spending pattern for this RP category.[406] ORA's recommendation is based on a five-year average (with cost inflation to the appropriate year) of Cal-Am's recorded annual expenditures for capitalized tank rehabilitation in Sacramento for the 2011-2015 period.

Although Cal-Am claims that its proposed budget is justified based on additional tank inspections planned for 2017, there is no information in the record regarding actual recent expenditures in this category for the Sacramento District. Given Cal-Am's inconsistent spending in this area, we find reasonable and adopt ORA's recommendation to base the 2018-2019 budget for capitalized tank rehabilitation on the five-year average (with cost inflation to the appropriate

[404] Cal-Am Opening Brief at 120.

[405] Exh. CAW-21 at 10-11.

[406] Exh. ORA-1 at 26.

year) of Cal-Am's recorded annual expenditures for the 2011-2015 period.[407] There is no dispute with respect to the other line items in Cal-Am's proposed RP budget for the Sacramento District. We find the budgets for the other line items to be reasonable and supported by the testimony submitted by Cal-Am and ORA.

11.1.4.4. Garrapata District

Cal-Am's 2018 and 2019 RP budgets for Garrapata are based on its 2015 expenditures. Cal-Am argues that the 2015 expenditures provide an appropriate basis for the RP budget because Cal-Am acquired the Garrapata system in 2013 and initial spending was limited due to the fact that it had to bill rates for Garrapata based on historical rates in place.[408]

ORA recommends that the Commission adopt an annual RP budget of $30,424 and $29,701 for the years 2018-2019, respectively.[409] This recommendation is based on a two-year average of Cal-Am's actual RP expenditures in 2014 and 2015 (escalated to the appropriate year).

Cal-Am spent $10,810 in 2014 and $41,021 in 2015.[410] $18,495 of Cal-Am's expenditures in 2015 were for new meters, which is a RP line item that Cal-Am does not budget for in 2018-2019.[411] Therefore, we do not find justification for basing the 2018-2019 budget on 2015 expenditures alone. Rather, we find reasonable and adopt ORA's recommendation to approve an annual RP budget

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[407] Unlike for the Monterey District, the 2016 recorded expenditures for the Sacramento District are not part of the record of this proceeding.

[408] Cal-Am Opening Brief at 120.

[409] Exh. ORA-1 at 27.

[410] *Id*. at 115.

[411] *Ibid*.; Exh. CAW-12, Attachment 7 at 8.

for 2018-2019 based on the two-year average of Cal-Am's actual RP expenditures in 2014 and 2015 escalated to the appropriate year.

11.1.5. Used and Useful Assets

In D.84-09-089, the Commission stated, "Over the years, this Commission has closely adhered to the 'used and useful' principle, which requires that utility property be actually in use and providing service in order to be included in the utility's ratebase."[412] Cal-Am and ORA agree that this is controlling precedent and that assets that are no longer "used and useful" should be removed from rate base so that ratepayers are not paying for assets for which they are not receiving service.[413] However, Cal-Am and ORA disagree as to which assets should be deemed not used and useful and removed from rate base. Cal-Am and ORA also disagree as to the accounting method by which the assets should be removed from rate base.

ORA recommends that the Commission remove from customer rates the net book value of all existing infrastructure and associated real property that is not "used and useful" nor expected to become "used and useful" before the 2018 TY. ORA identifies a list of infrastructure and land that it contends should be deemed not used and useful.[414] The total amount ORA recommends be removed

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[412] D.84-09-089, 16 CPUC.2d 205, 228, 1984 Cal. PUC LEXIS 1013, *71-72; *see also* Pub. Util. Code §§ 701.10, 455.5.

[413] Cal-Am Opening Brief at 121; ORA Opening Brief at 109.

[414] Exh. ORA-6 at Attachments 7 and 9. ORA's list includes assets and associated land that Cal-Am identified in its response to MDR II.D.7. as not used and useful for the past five years and in the proposed test year. ORA also deems an asset not used and useful if: (1) there have been two years (January 1, 2014 to December 31, 2015) of zero production; and (2) there is no existing plan to return the asset back to service by TY 2018.

from rate base is $3,213,646 ($1,299,678 of infrastructure, $195,561 of land associated with infrastructure, and $1,718,407 of land values).[415]

Cal-Am reviewed the list of infrastructure and land that ORA identifies as not used and useful. Based on this review, Cal-Am separates the list into three categories:[416]

(1) Category 1 assets are utility plant assets that are not used and useful, will never be used and useful again, and have no other existing used and useful plant on associated land.

(2) Category 2 assets are utility plant assets that are not currently in active use but will be used and useful in the near future.

(3) Category 3 assets are utility plant assets that are still used and useful.

Cal-Am contends that the Category 2 and 3 assets should remain in rate base. The only assets that Cal-Am contends are not used and useful, and therefore, should be removed from rate base are Category 1 assets. Cal-Am's proposed accounting treatment for the Category 1 assets based on retirement of the assets results in a total rate base reduction of $178,027.

11.1.5.1. Plant Assets

11.1.5.1.1. Category 1 Assets

Cal-Am identifies the following facilities as Category 1 assets:

- Scarlett #8, Manor #2, Toro #3, San Carlos #2, Russell #2, and Russell #4 in Monterey County;
- Vernon #2, Guess, Lamanda, Oak Knoll, Richardson #1, and Rosemead in Los Angeles County; and

[415] Exh. ORA-6 at 25.

[416] Exh. CAW-24 at 22 and Attachment 2.

- Sandalwood, Conrad, and Montezuma in Sacramento County.[417]

There is no dispute between Cal-Am and ORA that these facilities are currently not used and useful nor expected to be used and useful in TY 2018 and should be removed from rate base.[418] The only dispute is regarding the appropriate accounting treatment for these facilities.

Cal-Am argues that the proper accounting treatment for the Category 1 assets is to retire these facilities from Cal-Am's books and to move the associated land to non-utility plant. Cal-Am argues that pursuant to Commission Standard Practice U-38-W, Uniform System of Accounts for Class A Water Utilities, the original cost of the facilities should be deducted from both utility plant in service (as a credit) and accumulated depreciation (as a debit), which creates a net zero impact to rate base.[419] The associated land is deducted from utility plant in service only (as a credit) since land is not a depreciable asset, which creates reduction in rate base equivalent to the book value of the land. Cal-Am states that it has identified $1,477,839 in historical cost worth of asset and $178,027 worth of associated land that belong in Category 1. Pursuant to Cal-Am's proposed accounting treatment for the Category 1 assets, Utility Plant in Service will decrease by $1,655,866 and Accumulated Depreciation will decrease by $1,477,839, which creates a total rate base reduction of $178,027.

ORA argues that Cal-Am's proposal to retire these assets was made for the first time in its rebuttal testimony and that there is no analysis in the record as to

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[417] *Id*. at Attachment 2.

[418] Cal-Am Opening Brief at 122; Exh. CAW-24 at 22 and Attachment 2; Exh. ORA-6 at Attachment 7.

[419] Standard Practice U-28-W (November 2016) at A60 (Utility Plant Instruction 12.B.(2)).

whether these assets can ever be expected to provide service, and therefore should be retired for financial reporting purposes.[420] Since the Category 1 assets will not be used and useful before TY 2018, ORA argues that the appropriate accounting treatment is to remove the net book value and associated land value of the assets from rate base. ORA states that its recommendation focuses on the proper ratemaking for these assets during this rate case period while Cal-Am's proposal focuses on the long-term financial reporting and disposition of these assets. ORA contends that if an asset becomes used and useful in the future, it can be returned to the Plant account and be included in rate base in the future. The Category 1 assets have a total net book value of $716,627 and associated land book value of $178,027.[421] Therefore, ORA's recommended treatment for the Category 1 assets would result in a total rate base reduction of $894,654.

Cal-Am fails to demonstrate that all of the assets listed under Category 1 should be retired. Although the record supports that the Category 1 assets are not currently used and useful nor expected to be used and useful in TY 2018, with the exception of Richardson Well #1 in Los Angeles County, there is insufficient information in the record to determine whether these assets will never be used and useful again, and therefore, should be retired. ORA's witness had recommended the removal of the Category 1 assets from rate base because of information Cal-Am had provided that these assets were not used and useful nor expected to be used and useful by TY 2018.[422] ORA did not address whether

[420] ORA Opening Brief at 112-113.

[421] Exh. CAW-24 at 22 and Attachment 2.

[422] Exh. ORA-6 at 16-18, 21.

these assets would never be used and useful again.[423] Cal-Am in rebuttal testimony asserted that these assets would never be used and useful again, and therefore, should be retired.[424] However, Cal-Am failed to provide any specifics as to why these assets would never be used and useful again and why retirement of these assets would be appropriate, especially where the assets are not fully depreciated and may not have reached the end of their useful life.

With respect to Richardson Well #1, there is evidence in the record that this well has not been used and useful in the last five years and is not expected to be used and useful in the TY because the well has been formally abandoned.[425] Because this well has been formally abandoned, it is reasonable to conclude that the well will never be used and useful again and we find it appropriate to retire this asset from Cal-Am's books. The original book value of Richardson Well #1 is $106,742.[426] Consistent with the accounting treatment for retired utility plant set forth in Standard Practice U-38-W, the original book value shall be credited to utility plant in service and debited from the accumulated depreciation reserve.

With the exception of Richardson Well #1, we do not find sufficient justification in the record to find that the Category 1 assets will never be used and useful again, and therefore, should be retired pursuant to the accounting treatment set forth in Standard Practice U-38-W. However, since the record supports that these assets are not used or useful nor expected to be used and useful in TY 2018, we find that the net book value of these assets totaling

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[423] ORA Opening Brief at 113.

[424] Exh. ORA-24 at 22. Cal-Am's application did not request that these assets be retired.

[425] Exh. ORA-6 at 17 and 95.

[426] Exh. CAW-24 at Attachment 2.

$666,649[427] and associated land value totaling $178,027 should be removed from rate base.

11.1.5.1.2. Category 2 Assets

Cal-Am identifies the following facilities as Category 2 assets:

- Garrapata #1 Well in Monterey County;
- Arlington Well, Oswego Well, Roanake Well, and Fish Canyon Well in Los Angeles County; and
- Oakberry Well in Sacramento County.

Although these assets are not currently used and useful, Cal-Am contends that these assets should be retained in rate base because there is an identified plan to return these assets to active service.[428]

ORA contends that infrastructure deemed not "used and useful" should be removed from plant unless there is a documented plan to return the item to service by TY 2018. ORA recommends that the net book value and associated land value of the assets identified under Category 2 be removed from rate base. The Category 2 assets have a total net book value of $415,796 and associated land book value of $17,023.[429]

The record supports that the Arlington Well and Garrapata #1 Well are likely to be used and useful in this GRC cycle. The Arlington Well is projected to be returned to service by the end of 2018 and the plan to return this project to service is sufficiently documented in the record.[430] The Garrapata #1 site was

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[427] This figure represents the net book value of all Category 1 assets ($716,627) minus the net book value of Richardson Well #1 ($49,978). (*Id.* at Attachment 2.)

[428] Exh. CAW-24 at 24-25; Exh. CAW-30 at 8-9.

[429] Exh. CAW-24 at Attachment 2.

[430] *Id*. at 24; Exh. ORA-6 at 91-92.

rehabilitated in 2014 and Cal-Am intends to return this well into active service once approval is granted by the State Water Resources Control Board.[431] Therefore, we find it reasonable to retain these assets in rate base for this GRC cycle.

With regard to the Oakberry Well, Cal-Am states that the well is currently inactive due to groundwater contamination and has been identified for treatment. We find that there is conflicting information in the record regarding the plan to return this well to active service. Cal-Am's witness Hofer testified that this project is currently in the design phase and that the estimated timeline for completion/start-up is mid-year 2018.[432] However, Cal-Am's witness Schubert testified that the project to treat groundwater contamination in the Lincoln Oaks water supply wells, which includes the Oakberry well, is scheduled for completion by the end of 2017 and that it is possible that the Oakberry well may be inadequate "size-wise" to accommodate the treatment equipment being considered.[433] Based on the foregoing, we find insufficient information in the record that supports that this asset will be used and useful during this GRC cycle. Therefore, we find that that the net book value of this asset of $33,294 and associated land value of $4,972 should be removed from rate base for this GRC cycle.[434]

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[431] Exh. CAW-30 at 8.

[432] Exh. CAW-24 at 25.

[433] Exh. CAW-12 at 139.

[434] Exh. CAW-24 at Attachment 2.

The Oswego Well, Roanoke Well and Fish Canyon Well are not projected to be returned to service during this GRC cycle.[435] These assets will not be used and useful during this GRC cycle, and therefore, we find that the net book value of these assets totaling $163,070 and associated land book value totaling $3,987 should be removed from rate base for this GRC cycle.[436]

11.1.5.1.3. Category 3 Assets

Cal-Am identifies the following facilities as Category 3 assets: Chettenham Well in the Sacramento County District and Green Meadow Booster Station in the Ventura County District. Cal-Am argues that these assets are still used and useful and that the facilities and associated land should remain in rate base. Cal-Am argues that the Green Meadow Booster Station is a used and useful asset due to its continued role in providing backup emergency service and that the Chettenham Well is a used and useful asset due to its continued role as a monitoring well.[437]

In its response to MDR II.D.7, Cal-Am identified both the Chettenham Well and Green Meadow Booster Station as not used and useful for the past five years or in the proposed TY.[438] Since Cal-Am identified these assets as not used and useful in its MDR response, ORA recommends that the net book value and associated land value of the assets be removed from rate base.[439] The Category 3

[435] *Id*. at 24-25.

[436] *Id*. at Attachment 2.

[437] Cal-Am Opening Brief at 124-126; Exh. CAW-24 at 26.

[438] Exh. ORA-6 at 18.

[439] ORA Opening Brief at 110.

assets have a total net book value of $167,254 and associated land book value of $512.[440]

Cal-Am argues that the Green Meadow Booster Station should not be removed from recorded plant because it remains used and useful as an emergency backup asset. Cal-Am explains that although the booster station does not currently operate under normal system conditions, it serves as an emergency backup in the event of a main break.[441] Cal-Am cites to instances where the Commission previously determined that facilities that provide back-up emergency services may be considered used and useful in providing utility service.[442]

The mere fact that an asset could potentially be available to provide emergency utility service alone is insufficient to deem that asset as used and useful. The Commission has previously found that there must be a reasonable need for the backup assets. For example, in D.05-12-020, the Commission found that backup generators were used and useful where the utility demonstrated a reasonable need for the backup generators.[443] In D.01-02-059, the Commission determined that facilities which were previously used and useful in providing emergency back-up residual fuel service were no longer used and useful when the back-up facilities were no longer needed for system reliability.[444]

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[440] Exh. CAW-24 at Attachment 2.

[441] Cal-Am Opening Brief at 124; Exh. CAW-24 at 26.

[442] Cal-Am Opening Brief at 124-125 citing D.05-12-020 and D.12-06-040.

[443] D.05-12-020 at 44.

[444] D.01-02-059 at 2-3.

In MDR II.D.7, Cal-Am identified the Green Meadow Booster Station as not used and useful in the last five years and the proposed test year. Moreover, in a data response to ORA, Cal-Am identified the Green Meadow Booster Station as not used and useful due to "obsolescence."[445] Although Cal-Am in rebuttal testimony later characterized this asset as an emergency backup station,[446] there is no evidence that the Green Meadow Booster Station is reasonably necessary as an emergency backup station. Rather, the evidence indicates that the station is obsolete and surplus. Based on the foregoing, we find that Cal-Am has failed to demonstrate that this asset is used and useful and should be retained in rate base.

Cal-Am argues that the Commission should find that the Chettenham Well is a used and useful asset due to its continued role as a monitoring well.[447] The well is currently inactive due to perchlorate contamination.[448] Cal-Am states that the well is sampled on a regular basis with the results being sent to Aerojet to aid in the tracking of the contamination plume.[449] Cal-Am also contends that if the contamination plume ever reaches the nearby Rockingham Well, treatment could be installed at the Chettenham site to allow continued service to the area.[450]

Cal-Am cites to previous Commission decisions where the Commission authorized monitoring wells to be included in rate base.[451] In the examples cited

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445 Exh. ORA-6 at 149.

446 Exh. CAW-24 at 26.

447 Cal-Am Opening Brief at 125.

448 Exh. CAW-24 at 26.

449 *Ibid*.

450 *Ibid*.

451 Cal-Am Opening Brief at 125-126 citing D.84527 and D.10-06-038.

by Cal-Am, the Commission authorized monitoring wells to be included in rate base because they provided useful information related to the utility's operations.[452] In contrast, there is no indication that the Chettenham Well provides information useful to the utility's operations. Rather, it appears that the perchlorate monitoring the site provides is for Aerojet's benefit rather than ratepayers' benefit. There is also no evidence that the well would be used and useful as backup supply in this GRC cycle. Finally, as with the Green Meadow Booster Station, Cal-Am indicated in its response to the MDRs that the Chettenham Well was not used and useful for the past 5 years and in the proposed test year.[453] Based on the foregoing, we find that Cal-Am has failed to demonstrate that the Chettenham Well is used and useful.

Since we find that the Chettenham Well and Green Meadow Booster Station are not used and useful, we find that the total net book value of these assets totaling $167,254 and associated land book value totaling $512 should be removed from rate base.

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[452] In D.84527, the monitoring well included in rate was to be used to report on water levels in monthly reports to the Commission due to concerns regarding degradation of the ground water aquifers by sea water intrusion. (D.84527 at 37, OP 6.) In D.10-06-038, the Commission approved a settlement agreement that included in rate base costs associated with a monitoring well that provides useful information regarding the status of the aquifer, water quality and engineering evaluation for a future groundwater production well. (D.10-06-038 at 19.)

[453] In a data response to ORA, Cal-Am identified the Chettenham Well as a "facility out of service at least 24 months." (Exh. ORA-6 at 117.) In that same data response, Cal-Am did identify Well #6 as a site containing a monitoring well. (*Ibid*.) Given that Cal-Am did identify a site with a monitoring well in this data response, we find it telling that Cal-Am did not identify the Chettenham Well as such.

11.1.5.2. Land Assets

ORA argues that costs for real property on which used and useful infrastructure items are located should be included in Cal-Am's recorded plant land accounts and that all other land should be excluded from recorded plant.[454] ORA recommends that the Commission remove $195,561 from recorded plant to account for parcels of land currently included in recorded plant on which there is no used or useful infrastructure. As discussed above, we find that $178,027 of land associated with Category 1 assets, $8,959 of land associated with Category 2 assets, and $512 of land associated with Category 3 assets should be removed from rate base.

In addition, ORA recommends that the Commission remove $1,718,407 ($199,024 and $1,519,382 from the Ventura and Sacramento Districts, respectively) from recorded plant to account for the land value of "to be determined (TBD)" properties that Cal-Am could not identify by parcel number in its recorded plant land accounts. ORA argues that Cal-Am has failed to meet its burden of justifying all costs and proposed rates because Cal-Am is unable to separately identify all of the "TBD" costs included in rate base and demonstrate the "used and useful" status of the real property on an individual property basis.[455]

Cal-Am argues that it is challenging to parse out individual land parcels because individual parcels can sometimes be consolidated into one Assessor Parcel Number by the respective county or other jurisdiction.[456] Cal-Am argues

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[454] ORA Opening Brief at 114.

[455] *Id*. at 115.

[456] Exh. CAW-31 at 47.

that it has since substantiated TBD land values of $199,024.26 in the Ventura District and $355,338 in the Sacramento District and that these amounts should be retained in rate base.[457] Cal-Am also requests additional time to provide substantiating documentation for the remaining TBD land values in the Sacramento District. Cal-Am asserts that it is reasonably confident that the remaining TBD land values in the Sacramento District fall into one of six asset categories.[458]

We find that Cal-Am has adequately substantiated $199,024.26 of TBD land values in the Ventura District and $355,338 of TBD land values in the Sacramento District. Therefore, we find it reasonable to retain these land values in rate base.

With regard to the unsubstantiated TBD land values of $1,135,370 in the Sacramento District,[459] we find that Cal-Am has failed to meet its burden of proof to demonstrate the used and useful status of this property. Therefore, we find that these land values should be removed from rate base. We do not find justification for providing Cal-Am with additional time to substantiate these land values. Cal-Am has had ample opportunity to substantiate these land values during the pendency of this proceeding. If Cal-Am is able to substantiate the used and useful status of this property in the future, Cal-Am may present this information in its next GRC.

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[457] *Id*. at 46, 48, and Attachment 6.

[458] *Id*. at 48.

[459] Of the $1,519,382 in TBD land value in the Sacramento District, Cal-Am identified $355,338 of used and useful plant sites and $28,674 of plant sites not owned by Cal-Am. (*Id*. at 48.) The remainder of the $1,519,382 totaling $1,135,370 remains unsubstantiated.

11.2. Sacramento District Projects

11.2.1. Elverta Road Bridge Water Main (I15-600007)

Cal-Am requests that the Commission retain the previously approved $348,000 in construction costs for the Elverta Road Bridge Water Main Relocation carryover capital project in rate base.[460] Once Sacramento County widens an existing bridge on Elverta Road, Cal-Am will be required to relocate an existing water main on the bridge pursuant to its franchise agreement with the County. Cal-Am states that construction of this project has been delayed because of project delays from Sacramento County and that the bridge widening is tentatively planned for 2019.[461]

ORA argues that the Commission should remove the cost of this project from rates.[462] While ORA does not oppose the need for the project, ORA argues that this project has been approved and funded into rates in previous rate case cycles, that it is uncertain whether Cal-Am will be able to complete the project in 2019, and that it is unfair for ratepayers to pay for this cost when the project is still not complete. ORA contends that in the event that Cal-Am is able to complete the project in 2019, it may request recovery of the project costs in its next GRC.

This project has not been completed despite being funded in multiple rate cycles and Cal-Am does not provide sufficient information that demonstrates that this project is likely to be completed in 2019. Therefore, we find that this project should be removed from rate base. Cal-Am may request recovery of the

[460] Exh. CAW-12 at 63-64.

[461] Exh. CAW-31 at 12.

[462] ORA Opening Brief at 95-97.

project costs in a subsequent GRC when Cal-Am can demonstrate the project has been completed and is used and useful.

11.2.2. Arden Intertie (I15-600051)

Cal-Am requests that the Commission retain the previously approved $2,557,725 in construction costs for the Arden Intertie carryover capital project in rate base.[463] This project would construct a booster station, piping, meter vault, and appurtenances to interconnect Cal-Am's Arden system with the City of Sacramento. According to Cal-Am, the project has been delayed due to difficulties in acquiring land for the booster station and the strong reluctance by adjoining property owners to sell a portion of the property or provide an easement. Cal-Am states that based on a change in ownership in a key piece of property and a meeting with the Land Use Authority of Sacramento County, it has re-commenced work on this project by soliciting an engineering consultant to start design and permitting activities. Cal-Am states that this capital project has a very strong likelihood of being completed either before or by the end of 2019.[464]

ORA argues that the Commission should remove the cost of this project from rates.[465] While ORA does not oppose the need for the project, ORA argues that this project has been approved and funded into rates in previous rate case cycles and that it is uncertain whether Cal-Am will be able to complete the project in 2019. ORA contends that in the event that Cal-Am is able to complete the project in 2019, it may request recovery of the project costs in its next GRC.

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[463] Cal-Am Opening Brief at 130. Although Cal-Am's Opening Brief states that the previously approved budget was $2,557,725, Cal-Am witness Schubert testified that the total approved budget was $2,398,034. (Exh. CAW-12 at 65.)

[464] Exh. CAW-31 at 16.

[465] ORA Opening Brief at 97-98.

This project has not been completed despite being funded in multiple rate cycles and Cal-Am does not provide sufficient information that demonstrates that this project is likely to be completed by the end of 2019. Therefore, we find that this project should be removed from rate base. Cal-Am may request recovery of the project costs in a subsequent GRC when Cal-Am can demonstrate the project has been completed and is used and useful.

11.2.3. Antelope 1 Million Gallon Tank, Booster Station, and Well (I15-600073)

Cal-Am requests that the Commission retain the previously approved design and permitting costs of $500,000 for the Antelope 1 Million Gallon Tank, Booster Station and Well capital project in rate base.[466] Cal-Am's settlement agreement with ORA in the 2013 GRC allowed for the cost to purchase the land estimated at $150,000. The property Cal-Am initially located for the tank has recently been rezoned into a flood plain and Cal-Am is in discussions with the adjoining property owners to acquire additional land so the original proposed project site is usable for the design and permitting requirements of the project. Cal-Am expects to start design and permitting for the project in 2020 followed by construction commencing within the next GRC timeframe (i.e., 2021-2023).[467]

ORA argues that the funds for designing the project should not be authorized at this time due to the uncertainty in the acquisition of land to make the proposed project site acceptable.[468] ORA also argues that Cal-Am is delaying the proposed design and permitting schedule to 2020, which falls outside the

[466] Exh. CAW-12 at 142-143.

[467] *Id*. at 143.

[468] ORA Opening Brief at 99.

forecasted period of plant and rate base in this GRC.[469] ORA further contends that the cost for the land should not exceed the threshold of $150,000 established in the settlement from the previous rate case unless Cal-Am provides justification for supporting the increased cost, which would be reviewed in Cal-Am's next GRC.[470]

Due to uncertainty regarding Cal-Am's ability to acquire the land necessary for the proposed project and due to the fact that Cal-Am does not expect design and permitting to begin until the 2020 attrition year, we find that the costs for this project should not be included in rate base for this GRC cycle and that the costs and need for the project, including the cost of the land acquisition, should be reviewed in Cal-Am's next GRC.

11.2.4. New Lincoln Oaks Well (I15-600093)

Cal-Am requests that the Commission approve the New Lincoln Oaks Well project at the original cost estimates of $236,266 in 2018 and $1,128,117 in 2019.[471] The project is scheduled to begin with design dollars in 2017 (approximately $50,000), followed by construction beginning in late 2018, with the goal of completion by the end of 2019.[472]

ORA argues that the Commission should disallow funding for this project. ORA contends that when Cal-Am first requested the well as part of its 2009 rate case (A.09-01-013 et al.), the need for the well was based on the 2006 CPS. ORA argues that the well is no longer needed because the 2012 CPS shows that there is

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469 *Ibid*.

470 *Ibid*.

471 Cal-Am Opening Brief at 131.

472 Exh. CAW-12 at 190.

a maximum day demand firm capacity surplus in the Lincoln Oaks service area through 2025.[473]

Cal-Am does not dispute that the 2012 CPS shows a maximum day demand firm capacity surplus in the Lincoln Oaks service area through 2025.[474] Although Cal-Am contends that this project is still warranted for other reasons,[475] we do not find it reasonable to retain the capital dollars related to this project in rate base given the findings of the most recent CPS.[476]

11.2.5. Water Level Monitoring Program (I15-600085)

Cal-Am requests approval of its cost estimates of $277,308 in 2018 and $264,817 in 2019 for its Water Level Monitoring Program in the Sacramento District.[477] As part of the project, Cal-Am plans to conduct a study that will identify all wells that can be equipped with level monitors within the Sacramento District and install well level monitoring at 15 of the most critical well sites. Cal-Am argues that this project is critically important because wells within the Sacramento District either have old and unreliable water level monitoring equipment or do not have any equipment at all. Currently, Cal-Am records aquifer levels on a monthly basis and operators have to manually check water levels at well sites.[478] Cal-Am states that installation of water level monitoring

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[473] Exh. ORA-1 at 55.

[474] Cal-Am Opening Brief at 132.

[475] *Id*. at 131-132.

[476] Cal-Am's witness Schubert testified that the CPS is the primary tool for the evaluation and determination of capital investment needs. (Exh. CAW- 12 at 8.)

[477] Exh. CAW-31 at 31.

[478] Exh. CAW-12 at 186.

equipment will assist in improving operational efficiency of the wells and alert operators if drawdown levels become too great.[479]

ORA argues that the Commission should not authorize funding for this program until Cal-Am's planned study is complete.[480] ORA argues that uncertainties regarding the project, such as which wells need level monitors and which wells should be prioritized, highlight why the study should be completed before the funding is authorized. ORA also notes that Cal-Am is currently monitoring water levels manually and that this project is a matter of convenience to improve operations. ORA contends that if well monitors require replacement prior to the completion of the study, the recurring project budget can be used for these costs.

We agree with ORA that Cal-Am has not provided sufficient information regarding this project for the Commission to fully evaluate the need and prudency of the costs for this project. Cal-Am has not identified which wells need and can be equipped with level monitors. Moreover, Cal-Am fails to demonstrate that its current method of checking water levels is inadequate or that the operational efficiencies that may be gained from the project justify the requested costs. Therefore, we do not authorize Cal-Am's requested funding for this project.

11.2.6. Well Rehabilitation Program (I15-600071)

Cal-Am requests that the Commission approve Well Rehabilitation Program costs of $809,179 in 2018 and $2,543,810 in 2019 for a total of $3,352,989

[479] *Ibid*.

[480] ORA Opening Brief at 103.

over the 2018-2019 period.[481] Cal-Am states that it has been implementing this program for several GRC cycles and that ORA does not dispute the need for the program.

While ORA does not dispute the need for the program, ORA recommends that the Commission authorize a budget of $3,105,045 for the 2018-2019 period. ORA's recommendation utilizes average recorded costs of recently completed well rehabilitation projects in the Sacramento District to determine an estimated unit cost for the individual wells that will be rehabilitated in the 2018-2019 period.[482]

Cal-Am argues that ORA's recommendation is based on a new and arbitrary methodology that misrepresents the expected total estimated cost to perform well rehabilitation work in the Sacramento District because it fails to capture the wide variance in cost between various wells throughout the district. Cal-Am's cost estimate is based on an initial assumption of improvements typically needed at each well site. Cal-Am argues that its methodology has proven to be a solid basis over the last 12 years to forecast the likely cost of this program.[483]

We find Cal-Am's methodology for estimating costs for the Well Rehabilitation Program to be reasonable given that rehabilitation costs for various wells throughout the district are expected to widely vary and Cal-Am's methodology takes into consideration the unique characteristics of each well to be rehabilitated. Moreover, this methodology has been used to estimate costs for

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[481] Cal-Am Opening Brief at 133.

[482] Exh. ORA-1 at 56.

[483] Exh. CAW-31 at 32.

this program for the past 12 years and ORA does not argue that past expenditure levels for this program have been unreasonable. There is no dispute that this program is needed. Therefore, Cal-Am's cost estimates for this program for the 2018-2019 period are approved.

11.2.7. Dunnigan Water System Improvements Project (I15-600089)

Cal-Am acquired the Dunnigan water system in 2015 and Cal-Am states that there are a number of operational and regulatory deficiencies in the system.[484] Cal-Am originally requested $924,776 in 2018 for the following improvements to the system: (1) Supervisory Control and Data Acquisition (SCADA) improvements; (2) converting unmetered connections in the system to metered connections; and (3) seismic retrofitting of two existing tanks and treatment plant.[485] The seismic retrofits involved at the treatment plant include seismically retrofitting the four tanks within the treatment building.[486] Cal-Am has since reconfigured the existing system, thereby avoiding the treatment building and the need for making seismic improvements on the four tanks located within the treatment building.[487] Cal-Am and ORA are in agreement that funds related to the seismic retrofitting of the four tanks at the treatment building should not be authorized and that the Commission should therefore

[484] Exh. CAW-12 at 188.

[485] Exh. ORA-1 at 56.

[486] *Id*. at 56-57, fn. 183.

[487] Exh. CAW-31 at 33; Exh. ORA-1 at 57.

authorize $815,736 for this project.[488] We find this approach to be reasonable and approve a budget of $815,736 for 2018 for this project.

11.3. Larkfield District Projects

11.3.1. Londonberry Drive Creek Crossing (I15-610009)

Cal-Am requests that the Commission approve the revised total estimated cost for the Londonberry Drive Creek Crossing carryover capital investment project of $915,500 in 2020 and allow Cal-Am to include the project in its rate base.[489] The Londonberry Drive Creek Crossing project addresses a service reliability concern by replacing an 8-inch diameter asbestos cement pipe that is currently exposed in the Mark West Creek. In Cal-Am's last GRC, the Commission authorized a total of $444,000 in 2015 and 2016 for this project.[490] According to Cal-Am, analysis of the significant construction challenge and permitting issues relating to crossing the Mark West Creek and associated wetlands has led Cal-Am to revise its cost estimates and timing for the project.[491] Cal-Am now projects that design of this project would commence in 2019 with construction being completed by the end of 2020.[492]

ORA argues that additional funding above what was previously authorized for the project should not be authorized in the current GRC due to the anticipated cost overrun over the original approved project cost and increased

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[488] Joint-1 at 8; Exh. CAW-31 at 33; Exh. ORA-1 at 56-57.

[489] Cal-Am Opening Brief at 134.

[490] Exh. ORA-1 at 60.

[491] Exh. CAW-12 at 147-148.

[492] *Id*. at 148.

uncertainty in the project.[493] ORA argues that Cal-Am may request to recover the cost of this project in its next GRC once it has completed the design of the project and provided a revised cost estimate which incorporates the findings from reports generated during the design and permitting process. ORA notes that the schedule for the project would not be affected because Cal-Am will file its next rate case in 2019 and the project is not expected to be completed until 2020.

While there is no dispute as to the need for this project, there is uncertainty regarding the schedule and costs for this project. Cal-Am acknowledges that permitting issues are challenging for this project.[494] Multiple permits are required from multiple state and federal agencies and there is no evidence that Cal-Am has even initiated the permitting process.[495] Moreover, the cost estimates are subject to change during the design and permitting process. Even under the schedule outlined by Cal-Am, this project would not be completed until the 2020 attrition year. Based on the foregoing, we find that this capital project should be removed from rate base for the current GRC period and addressed in the next GRC if the design and permitting processes are sufficiently advanced to allow the Commission to review updated cost estimates.

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[493] Exh. ORA-1 at 60-62.

[494] Exh. CAW-31 at 18.

[495] *Ibid*.; Exh. ORA-1 at 61.

11.4. Monterey District Projects

11.4.1. Well Rehabilitation Program (I15-400093)

Cal-Am requests that the Commission authorize capital costs of $2,261,974 for the Monterey well rehabilitation program for the 2018-2019 period.[496] Cal-Am argues that the project was approved in prior GRCs and is necessary to maintain the performance and reliability of the Monterey system source of active supply wells.[497] Cal-Am's proposed annual budget is based on the average recorded cost of well rehabilitation projects completed between 2012 and 2013.[498]

ORA does not object to including funds for the well rehabilitation program.[499] However, ORA contends that Cal-Am's proposed budget double-counts the overhead for these projects by: (1) including overhead costs in the recorded projects which are averaged to develop the estimated construction costs for the proposed project; and (2) applying cost-mark-ups to the construction cost of the project that includes a separate line-item for overhead.[500] ORA argues that the Commission should remove the overhead amounts from the recorded costs prior to averaging these costs, which would result in a budget of $2,216,162 for this project.[501]

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496 Exh. CAW-21 at 12.

497 Exh. CAW-12 at 166-167.

498 Exh. ORA-1 at 65.

499 ORA Opening Brief at 106.

500 Exh. ORA-1 at 65-66.

501 *Ibid*.

Cal-Am argues that no overhead cost was included in any of the listed line items shown in the capital cost estimate and that no double-counting of overhead costs has occurred.[502]

We have reviewed the workpapers and find no evidence of double-counting of overhead costs for the project. Therefore, we find reasonable and approve Cal-Am's requested capital costs for this project.

11.4.2. Booster Station Rehabilitation Program (I15-400090)

Cal-Am requests that the Commission approve a budget of $1,084,249 in the 2018-2019 period for the booster station rehabilitation program in the Monterey County Water District.[503] Cal-Am argues that the project was approved in prior GRCs and will allow Cal-Am to maintain its booster pump stations in the Monterey County Water District.

ORA does not dispute the need for the project but recommends that the Commission authorize a budget of $885,404 for the 2018-2019 period. Cal-Am provided low and high-end estimates for the construction costs of this project and Cal-Am's request is based on the high-end estimate.[504] ORA argues that since Cal-Am uses a contingency line item to account for unforeseen issues that may arise during the design and construction of the project, the Commission should approve a budget based on the low-end construction cost estimate provided by Cal-Am.[505]

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[502] Exh. CAW-21 at 12.

[503] Cal-Am Opening Brief at 135-136.

[504] Exh. ORA-1 at 67.

[505] *Ibid*.

We agree with Cal-Am that there is a distinction between a cost estimate and a contingency.[506] Cal-Am claims that its higher cost estimate is appropriate because its historical experience with this type of program has shown that unanticipated costs do occur on these types of projects.[507] However, there is a lack of information in the record as to what accounts for the range in Cal-Am's construction cost estimates. Cal-Am estimates low-end and high-end construction costs of $483,333 and $716,667, respectively, for the 2018-2019 period.[508] Based on the record before us, we find construction costs in the mid-point of this range to be reasonable. Therefore, we approve a budget of $600,000 in construction costs plus the cost add-ons (contingency and overhead) for the 2018-2019 period.

11.4.3. Los Padres Dam Fish Passage Project (I15-400049)

The Los Padres Dam Fish Passage Project (FPP) is a floating weir surface collector and bypass conduit system that allows for downstream passage of threatened steelhead trout at the Los Padres Dam. Originally approved as an advice letter project as part of the Monterey 2010 GRC, the Commission re-approved the FPP as a $4.2 million advice letter project in Cal-Am's 2013 GRC. The 2013 GRC Settlement approved in D.15-04-007 stated that the capital project "may be added to rate base once it is completed and in service, after ORA has completed a reasonableness review of this project in the next GRC."[509]

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[506] Cal-Am Opening Brief at 136-137.

[507] Exh. CAW-21 at 13.

[508] Exh. ORA-1 at 67, fn. 211.

[509] 2013 GRC Settlement at 207.

Cal-Am determined the FPP to be substantially complete and placed into service in December of 2015.[510] At that time, Cal-Am moved the accrued capital cost of $5,051,932 into utility plant in service (UPIS), which according to Cal-Am is the amount reflected in its GRC workpapers.[511] Cal-Am now recognizes that $518,442 of that amount was previously authorized for recovery. Therefore, Cal-Am recommends that $518,442 be deducted from 2015 UPIS and that it be allowed to recover $4,533,490 in this proceeding.[512]

ORA argues that the Commission should reject Cal-Am's request to add the FPP costs to rate base in this GRC for the following reasons: (1) Cal-Am has been unable to account for the total project costs of $5,375,190 and continues to estimate project costs of $531,287; (2) of the $4,843,903 in costs itemized in Cal-Am's workpapers, only $4,644,588 of those costs are supported by invoices or other documentation; and (3) $931,740 in invoices submitted by Cal-Am in support of the FPP costs match invoices it previously submitted in support of requests for recovery of the Endangered Species Act (ESA) Memorandum Account balances, which the Commission has already authorized for recovery in D.15-04-007.[513] ORA recommends that Cal-Am be given an opportunity in its next GRC or in a separate application to demonstrate that all

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[510] Exh. CAW-48 at 4.

[511] *Id.* at 2 and 4.

[512] *Id*. at 2. Cal-Am originally stated that the project's total recorded capital expenditure amount is $5,375,190. (Exh. CAW-12 at 80.) Cal-Am later stated that the project was closed in July 2016 at a total cost of $5,439,337. (Exh. CAW-48 at 6.) However, Cal-Am only seeks cost recovery of the amounts included in 2015 UPIS and states that the additional costs accrued after the facility was placed in service should be included for recovery in the next GRC. (*Id*. at 4-5 and 10.)

[513] Exh. ORA-31 at 1.

previously-recovered costs have been removed and to provide documented support for the FPP costs being requested.[514] In order to mitigate the possibility of Cal-Am making duplicative recovery requests in the future, ORA also recommends that Cal-Am be required to establish a system that assigns unique identifiers to purchase orders and invoices in order to distinguish between costs that are tracked in memorandum accounts, assigned to advice letter projects, or accounted for in Cal-Am's general revenue requirement in its GRC.[515]

Cal-Am contends Cal-Am's GRC workpapers for this project reflect costs of $5,051,932. We find no record of these itemized costs in the workpapers. Rather, as noted by ORA, we find that the workpapers for this project itemized $4,830,048 in costs.[516] Cal-Am later submitted workpapers to ORA itemizing costs totaling $4,843,903 and additional estimated contractor costs of $531,287. Cal-Am fails to adequately explain what accounts for the $5,051,932 in costs that Cal-Am initially sought to recover in this case. Cal-Am does not currently seek recovery for the full costs of the FPP and it is unclear specifically which costs it included in the $5,051,932. Therefore, we are unable to review all of these costs for reasonableness. Cal-Am does provide explanation and justification for $4,843,903 in costs.[517] Of these costs, which we were able to review, we find $4,272,854 to be reasonable and adequately justified. If Cal-Am is able to substantiate additional costs for the project, it may seek recovery of these costs in the next GRC.

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514 *Id*. at 9.

515 *Ibid*.

516 *Id*. at 5.

517 Exh. CAW-48, Attachment A.

Of the $4,843,903 in costs that Cal-Am itemized, we find that the following costs are not adequately justified or supported by the record: project charges via check requests and employee purchase-cards ($30,330), accrued sales and use tax ($1,956), and project costs paid after original Invoice Support PDF version produced ($20,321).[518] Although Cal-Am claims that some of these invoices were provided to ORA, these invoices are not found in the record of this proceeding. Therefore, we deduct these costs totaling $52,607 from the total project costs. Although there is no invoice support for indirect overhead, labor and labor overhead, and capital expenditures accrual, we find these costs to be reasonable in light of the overall project cost. Moreover, given that the overhead costs are internal costs, we find it reasonable that there is no invoice support for these costs.

Of the $4,843,903 in itemized costs, we also deduct $518,442 of FPP costs that the Commission previously authorized for recovery. In Cal-Am's last GRC, the Commission authorized the transfer of $1,018,090 of ESA related costs from Construction Work in Progress (CWIP) to the Consolidated Expense Balancing Account (CEBA). ORA identified $477,778 worth of invoices that ORA claims were included in that transfer and also included in documentation supporting recovery for the FPP.[519] Cal-Am agrees that these amounts, which are associated with two work orders, were previously approved and states that additional internal costs, overhead, and permitting costs totaling $40,664 related to the same work orders were previously approved.[520] Since the evidence demonstrates that

[518] *Id.*, Attachment A at 2.

[519] Exh. ORA-31, Attachment 4.

[520] Exh. CAW-48 at 7 and Attachment B.

$518,442 of the requested FPP costs were previously authorized for recovery, we find that these costs should be removed from Cal-Am's FPP request.

In the last GRC, the Commission also authorized a balance transfer of $889,797 from Cal-Am's ESA memorandum account to the CEBA for recovery. ORA identifies a list of invoices totaling $453,962 that ORA claims were authorized for recovery in the ESA to CEBA transfer and also used by Cal-Am to substantiate its pending FPP recovery request.[521] Cal-Am claims that these amounts were removed from the ESA prior to the transfer to CEBA. We find a lack of evidence to support ORA's claim that the identified invoices totaling $453,962 were previously authorized for recovery in the ESA to CEBA transfer. Moreover, with the exception of one invoice for $159, all of the invoices identified by ORA appear to be duplicates of invoices that we are removing from FPP costs in connection with the CWIP to CEBA transfer.[522]

For the reasons explained above and based on the record of this proceeding, we authorize recovery of $4,272,854 in FPP costs. ORA notes that Cal-Am filed Advice Letter 1168 on June 7, 2017 seeking $4.2 million related to FPP. Water Division has since rejected this advice letter and we find no record of any pending advice letter seeking recovery of FPP costs. Therefore, we do not find that authorizing recovery of FPP costs in this proceeding would result in double recovery of these costs.

[521] Exh. ORA-31, Attachment 4.

[522] *Ibid.*

11.5. Los Angeles District Projects

11.5.1. Redrill Winston Well at Danford Reservoir (I15-500032)

Cal-Am requests that the Commission recognize the Redrill Winston Well at Danford Reservoir capital project as an Advice Letter (AL) project with a total estimated cost of $3,566,000.[523] If Advice Letter status is not acceptable at this time, then Cal-Am requests recognition of the estimated implementation dollars in the 2019 GRC. Cal-Am also asks the Commission to disregard ORA's recommendation to remove this capital project's costs from rate base.

This project was originally approved in the 2010 GRC (A.10-07-007) at an approved budget of $3,566,000. To date, Cal-Am has expended $97,146 on this project while the total project budget is $2,140,000.[524] According to Cal-Am, this project is on hold awaiting an update from the San Gabriel County Water District, which is contesting where the new well is to be drilled.[525] Cal-Am is also looking into an alternate site for re-drilling the well.[526] Cal-Am expects site construction to be completed by late summer 2019.[527]

While ORA does not oppose the need for the project, ORA argues that the Commission should not authorize funding for this project due to uncertainties regarding the project such as the lack of a confirmed location or necessary permits for the well.[528] ORA also raises concerns about Cal-Am submitting

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[523] *Id*. at 10.

[524] Exh. CAW-12 at 37.

[525] *Ibid*.

[526] *Ibid*.

[527] *Ibid*.

[528] Exh. ORA-1 at 34; ORA Opening Brief at 87-88.

projects as AL projects separate from its GRC application because if the AL projects are approved, the proposed rate increase in the GRC application would not accurately represent the rate increases that customers will experience over the rate case cycle.[529] ORA argues that Cal-Am should not be able to recover the cost of the project until it is placed into service and providing a benefit to the ratepayers. ORA notes that if Cal-Am is able to complete the project, Cal-Am may request to recover the cost of the project in its next GRC.

Given the uncertainties regarding this project, including the lack of a confirmed location for the well, we do not find it reasonable to retain the project's costs in rate base for this GRC cycle. Moreover, we do not find justification for approving this project as an advice letter project at a budget of $3,566,000. There is insufficient information in the record to justify the reasonableness of this budget. Although a budget of $3,566,000 was approved in the 2010 GRC, Cal-Am states that the current project budget is $2,140,000.[530] If Cal-Am is able to complete the project, it may request to recover the costs for the project in a subsequent GRC where the prudency of the costs can be fully reviewed.

11.5.2. Purchase Groundwater Rights (I15-500042)

Cal-Am requests $221,846 in 2018 and $2,118,532 in 2019 to purchase groundwater rights in the Los Angeles District.[531] Cal-Am argues that the purchase of groundwater rights under this project will result in the best long-term, least-cost water that will benefit the Los Angeles County District

[529] ORA Opening Brief at 88.

[530] Exh. CAW-12 at 37.

[531] Exh. CAW-31 at 23.

customers.[532] Cal-Am states that the number of potential water rights available for sale in the various groundwater basins will be very limited and that the timing of these opportunities is unique and generally unknown.[533] Cal-Am contends that by having the flexibility to purchase water rights when the rare opportunity arises, Cal-Am will be able to secure sufficient additional groundwater rights for future supply purposes over a long-term horizon.[534]

ORA argues that the Commission has previously authorized funding for groundwater rights and that Cal-Am inappropriately used the authorized funding to acquire new water systems.[535] ORA notes that there are separate and distinct recovery methods for the acquisition of new water systems.[536] ORA also argues that Cal-Am's proposed project does not include any safeguards to ensure that there is a limit on the unit cost for purchasing water rights.[537] ORA states that denial of Cal-Am's request for funding would not prevent Cal-Am from acquiring water rights, as it can request to recover any costs associated with the acquisition in a subsequent rate case. Therefore, ORA argues that the Commission should deny Cal-Am's request. If, however, the Commission decides to authorize funding for groundwater rights, ORA argues that the Commission should specifically prohibit Cal-Am from using these funds to acquire new water systems.

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[532] *Id*. at 22.

[533] Exh. CAW-12 at 102; Exh. CAW-31 at 21.

[534] *Ibid*.

[535] ORA Opening Brief at 89-90.

[536] *Ibid*.

[537] Exh. ORA-1 at 36.

In response to ORA, Cal-Am argues that it did not misuse previously authorized funds and that these funds were only used for the portion of a water system acquisition that related to prescriptive water rights.[538] Cal-Am also argues that there are safeguards with respect to the unit cost for purchasing water rights because Cal-Am must prove market value for the purchase of the water rights.[539]

Los Angeles County argues that it is not prudent to grant Cal-Am's request for funding to purchase new groundwater rights during this GRC cycle.[540] Los Angeles County argues that there is no need for Cal-Am to purchase new water rights at this time given declining water sales and given that Cal-Am has been able to meet system-wide demand within the district. Los Angeles County also argues that the costs of groundwater rights are speculative.

In response to Los Angeles County, Cal-Am states that despite record levels of conservation in the 2015-2016 fiscal year, the Los Angeles district was still nearly 1,400 acre-feet short of water rights to meet demand.[541] Cal-Am also argues that purchasing additional groundwater rights would allow Cal-Am to reduce reliance on imported supplies, which is a reasonable and prudent course of action for any water purveyor in Southern California wary of future restrictions to supply.[542]

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[538] Cal-Am Reply Brief at 47.

[539] *Ibid*.

[540] Los Angeles County Opening Brief at 5.

[541] Exh. CAW-24 at 4.

[542] *Ibid*.

It is not possible to make a determination that the purchase of groundwater rights will result in the best long-term, least-cost water that will benefit Cal-Am's customers absent information regarding the costs and circumstances of acquiring specific groundwater rights. Cal-Am would only purchase groundwater rights if and when they become available. Cal-Am's witness testified that potential water rights available for sale in the various basins will be very limited and that sales are infrequent.[543] Given the speculative nature of this proposed project, both as to costs and timing, we do not find it reasonable to approve Cal-Am's requested budget for groundwater rights. This determination does not preclude Cal-Am from acquiring groundwater rights. Cal-Am may request to recover any costs associated with the acquisition in a subsequent GRC.

11.5.3. Reconstruct Rosemead Operations Center (I15-500060)

Cal-Am requests that the Commission approve $312,362 for design work in 2018 and construction costs of $2,398,682 in 2019 for the Reconstruct Rosemead Operations Center project in the Los Angeles County District.[544] Cal-Am contends that the original Rosemead office building, which was constructed in 1962, is in a severely deteriorated condition and has a number of deficiencies.[545] Cal-Am's cost estimate is based on construction of a new operations center, however, Cal-Am intends to conduct a value engineering analysis between two

[543] Exh. CAW-12 at 101; Exh. CAW-31 at 21.

[544] Cal-Am Opening Brief at 140.

[545] Exh. CAW-12 at 157-158; Exh. CAW-24 at 10-13; Exh. CAW-31 at 24-25.

options, constructing a new operations center and retrofitting the existing building, prior to beginning construction on the project.[546]

ORA does not dispute the need for the project but argues that the Commission should only authorize the design dollars associated with the project and not the estimated cost of the entire project.[547] ORA argues that the Commission should not approve the cost for the entire project until Cal-Am has considered all possible alternatives to address the operations center's alleged deficiencies in a cost-effective manner and to get the full scope and cost of the proposed project.[548] ORA also argues that only allowing the design dollars would minimize the uncertainties related to the design and permitting phase of the project. ORA provides an example of a previous operations center project completed by Cal-Am in its San Diego District, in which the final cost of the project exceeded the original estimate by 68%.[549]

Cal-Am argues that its cost estimates are reasonable and that is more prudent to continue moving the project forward into construction rather than going into a "hold" position while all options are fully examined.[550] Cal-Am contends that any cost impacts due to additional permitting requirements can be mitigated by using a design-build project delivery method.[551] Cal-Am also argues that it is not appropriate to compare this proposed project with the

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[546] Exh. CAW-12 at 159; Exh. CAW-31 at 24.

[547] ORA Opening Brief at 90-91.

[548] ORA Opening Brief at 91.

[549] *Ibid*; Exh. ORA-1 at 36-37.

[550] Cal-Am Opening Brief at 141.

[551] *Ibid*.

renovation of the Imperial Beach Operations Center in its San Diego District because in contrast to the Rosemead Operations Center, the Imperial Beach Operations Center was leased by Cal-Am and there were a number of unknowns about the building when design of the renovation commenced.[552]

We find that Cal-Am has failed to justify the reasonableness of its overall budget for the project. The Rate Case Plan states: "All significant capital additions shall be identified and justified, and must include need analysis, cost comparison and evaluation, conceptual designs, and overall budget."[553] Cal-Am did not conduct or provide the required cost comparison and evaluation for this project. Cal-Am states that it is considering two options for the project but only provided a cost estimate for one of the two options.

However, we find that Cal-Am has adequately justified the need for this project and there is no dispute between Cal-Am and ORA that this project is needed.[554] Therefore, we find it reasonable to approve Cal-Am's requested design dollars for 2018, which will enable Cal-Am to develop the full scope and cost estimate for the entire project. Cal-Am may seek Commission approval of the construction costs for the project in a subsequent GRC provided it is able to justify the reasonableness of these costs.

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[552] *Ibid*.

[553] D.07-05-062, Appendix A at A-26.

[554] Exh. CAW-12 at 157-158; Exh. CAW-24 at 10-13; Exh. CAW-31 at 24-25.

11.6. San Diego District Projects

11.6.1. Silver Strand Main Replacement (I15-300010)

Cal-Am requests $2,998,671 for 2018, $6,597,145 for 2019, and $6,500,000 for 2020 for the Silver Strand Main Replacement project.[555] This capital investment project is related to the replacement of approximately 52,000 linear feet of 16-inch diameter transmission main, which was originally installed in 1912. This water main has a history of eleven main breaks since the 1980s and there is evidence of increased risk to the overall system operation.[556] The overall investment project will take more than one GRC timeframe to complete, and therefore, Cal-Am believes it prudent to separate the project into phases.[557] In this GRC cycle, Cal-Am plans to undertake the first phase (Phase A), which includes design and permitting for the entire length of the investment project and also replacement of 5.7 miles (30,096 feet) of transmission main. The second phase (Phase B) would encompass the replacement of the remaining approximately three miles (21,120 feet) of transmission main and would take place during the next GRC. Cal-Am states that construction is planned to begin in the second half of 2019 but that the actual start date could change to 2020 or later.[558]

ORA recommends that the Commission approve a budget of $6,655,434 over the 2018-2019 period for this project.[559] ORA's recommended budget includes funding for the design of the entire project, as well as replacement of

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[555] *Id*. at 12.

[556] Exh. CAW-12 at 109.

[557] *Id*. at 110.

[558] *Id*. at 111.

[559] Exh. ORA-1 at 46.

two miles of main. ORA argues that it is reasonable to authorize a replacement of two miles for the 2018-2019 period based on the original proposed replacement rate of approximately one mile per year over a ten-year period.[560] ORA argues that Cal-Am's replacement rate is not realistic due to the uncertainty in the scheduling of the project, challenges in construction, and Cal-Am's start date for the project.[561] ORA also notes that Cal-Am's requested budget does not take into account any additional funding provided by the U.S. Navy due to the portions of the main that the Navy needs to relocate for the Navy Coastal Campus Project.

Cal-Am has adequately justified the need for this project and there is no dispute that this project is needed. We find Cal-Am's proposed accelerated replacement rate and requested budget for 2018-2019 to be reasonable.[562] The fact that a replacement rate of 1-mile per year was previously proposed is not dispositive. The record supports that a rate of 5.7 miles over this GRC cycle is attainable.[563] Given that this project will take place in a high traffic area and the risk of failure to sections of original pipeline, we find Cal-Am's proposed accelerated replacement schedule to be preferable to the original ten-year replacement schedule. Furthermore, we find that Cal-Am's budget request does not include the portions of the main that will be replaced through the Navy's

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[560] The original scope of the project was to replace the full span of the approximately 10-mile Silver Strand main over a ten-year period. (*Id*. at 44.)

[561] *Id*. at 45.

[562] Pursuant to the Rate Case Plan and Revised Rate Case Plan, all rate base items are subject to two test years and an attrition year, and therefore, this decision does not approve a budget for 2020. (D.04-06-018, Appendix at 2; D.07-05-062, Attachment A at A-19.)

[563] Exh. CAW-31 at 11-12.

Coastal Campus Project, and therefore, that the funding from the U.S. Navy has no impact on Cal-Am's budget request.[564]

11.6.2. Coronado Reliability Supply Project (I15-300014)

Cal-Am requests that the Commission recognize the original estimated preliminary engineering and initial design costs of $648,092 in 2018 and $623,110 in 2019 for the Coronado Reliability Supply Project.[565] This project includes a study and analysis of recommended improvements to reduce the potential of catastrophic failure of a 20" transmission line that runs from San Diego to Coronado.[566]

ORA recommends that the Commission allow $341,315 in the 2018-2019 period for the initial design and preliminary engineering component of the Coronado Reliability Supply Project.[567] ORA contends that the Commission should not authorize the full amount requested by Cal-Am because of uncertainties regarding what improvements are necessary.[568] ORA argues that Cal-Am's requested costs include construction costs and that it is more prudent for Cal-Am to first conduct the study and analysis portion of the project to determine the project's full scope and most cost-effective alternative before pursuing construction.[569]

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564 Cal-Am Reply Brief at 49.

565 Cal-Am Opening Brief at 143.

566 Exh. CAW-12 at 163.

567 ORA Opening Brief at 95.

568 *Ibid*.

569 *Id*. at 95-96.

Cal-Am notes that ORA does not dispute the need for the project. Cal-Am contends that ORA's recommended reductions are based on a misunderstanding of the component costs of the project. Cal-Am states that this project would not involve any construction efforts during this GRC cycle but would only involve preliminary engineering work, design, and permitting activities.[570]

Cal-Am claims that ORA misinterprets the component costs of this project, however, Cal-Am fails to cite to any evidence in the record that supports its claim. In its reply brief, Cal-Am cites to an excel file attached to a data response, which is not in the evidentiary record.

There is no dispute as to the need for this project. There is also no dispute that initial design and preliminary engineering costs totaling $341,315 for 2018-2019 should be allowed for this GRC cycle. We agree with ORA that it is more prudent for Cal-Am to first conduct the study and analysis portion of the project. Given that Cal-Am fails to adequately justify the remainder of the costs requested, we find it reasonable to approve $341,315 for 2018-2019.

12. Rate Base

12.1. Construction Work in Progress

CWIP is the amount of capital expended on projects that are at any time under construction for customer benefit. The purpose of CWIP for ratemaking is to provide the utility the ability to cover the carrying cost of the plant under construction, before it is transferred to plant-in-service for accounting book purposes. Generally, the Commission has allowed utilities to recover the carrying costs for plant under construction either through CWIP in rate base or

[570] Cal-Am Opening Brief at 143-144; Cal-Am Reply Brief at 49-50.

through allowance for funds used during construction (AFUDC). Under AFUDC, the utility recovers its carrying costs through capitalized interest.

The Commission has historically authorized Cal-Am to use CWIP for its investments with the exception of certain projects subject to advice letter recognition or projects ordered by the Commission to be treated separately for ratemaking purposes. Cal-Am uses its 2015 year-end CWIP balance to forecast CWIP amounts for TY 2018 and 2019.[571] Cal-Am states that it has calculated its CWIP estimate in the same manner for over 30 years.[572]

ORA recommends that the Commission forecast TY 2018 and 2019 CWIP amounts by removing any CWIP amount aged longer than one year from the total 2015 CWIP ending balance used for ratemaking purposes.[573] ORA's recommendation results in a reduction of $18.7 million from Cal-Am's forecast. ORA states that 83% of the projects in the CWIP balance at the end of 2015 range from two to nine years of age.[574] ORA argues that including CWIP that is more than a year old would overstate TY CWIP estimates and also place undue burden on ratepayers to fund a full rate of return without the infrastructure being used and useful for a long period of time.[575] ORA argues that the Commission's rationale for allowing a CWIP forecast in rate base for California's water utilities was premised upon the short duration of most capital projects undertaken by

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[571] Exh. CAW-33 at 12-13. Cal-Am does not include in CWIP projects not approved by the Commission, projects that are specifically allowed to earn interest, or advice letter projects. (*Id*. at 3, fn. 1.)

[572] *Id*. at 12.

[573] ORA Opening Brief at 117.

[574] *Ibid*.

[575] *Ibid*.

water companies and the very small percentage of a CWIP balance that extended into a succeeding year.[576]

Cal-Am argues that there is no Commission decision with respect to Cal-Am that has applied ORA's proposed approach to CWIP.[577] Cal-Am argues that ORA's reliance on a staff memo from 1982 to support its recommendation is misplaced.[578] Cal-Am notes that this memo is not a Commission decision or resolution and rather expresses the position of the Revenue Requirements Division. Cal-Am also notes that the memo is 35 years old and does not reflect current realities of how water utility capital projects are planned, scheduled, and constructed. Cal-Am argues that ORA fails to consider that shifting from allowing CWIP in rate base to AFUDC has negative implications for customers.[579] Cal-Am notes that the Commission's 2005 Water Action Plan expressed the benefits of CWIP in rate base, which include the leveling-off of plant investment start-up costs and reduction in overall costs of the plant.[580]

Cal-Am also argues that ORA's methodology to remove certain projects from CWIP contains errors, including: (1) failure to determine which projects were the result of developer advances or contributions, which would result in customers paying the carrying cost of a project that was supposed to be

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[576] *Ibid.*

[577] Exh. CAW-33 at 16.

[578] Cal-Am Opening Brief at 145-146.

[579] *Id*. at 146-147.

[580] Exh. CAW-33 at 21-22 citing 2005 Water Action Plan at 21-22. The 2005 Water Action Plan is available at: http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Utilities_and_Industries/Water/water_action_plan_final_12_27_05.pdf.

developer funded;[581] and (2) removal of all costs of a project from CWIP instead of allowing costs aged under a year to remain.[582]

We find Cal-Am's methodology for estimating CWIP to be consistent with how these costs have been estimated in the past and approve the continued use of this methodology for estimating CWIP in TY 2018 and 2019. Although ORA raises valid concerns regarding costs in CWIP that are aged several years, we find several issues with ORA's proposed methodology. We are unfamiliar with a Commission decision that adopts ORA's proposed methodology and indeed ORA cites to none. ORA does not provide adequate justification as to why all costs aged over one year should be deemed unreasonable. ORA's methodology does not differentiate by project or make any allowances for the fact that there may be legitimate reasons why a project may take longer than one year to complete. If work on a project continues to proceed at a reasonable pace and money is regularly being booked to the project, it may be reasonable for costs associated with the project to remain in CWIP. We find that a reasonable approach to addressing ORA's concerns regarding costs in CWIP that are aged several years is to examine the status of the projects that remain in CWIP and to remove projects as warranted. As discussed in Section 11, above, we remove several uncompleted projects from rate base because we find insufficient evidence that work will proceed on these projects or that they will be completed during this GRC cycle.

[581] Exh. CAW-33 at 21.

[582] *Id*. at 23-24.

12.2. Working Cash Lead Lag

The working cash allowance in rate base is determined by calculating the net revenue and expense lags. The revenue lag measures the elapsed time between the delivery of a company's product and its ability to use the funds received as payment for the delivery of the product.[583] Revenue lag consists of three components: (1) service lag days; (2) billing lag days; and (3) collection lag days.[584] The expense lag measures the elapsed time from when a good or service is provided to a company to the point in time when the company pays for the good or service.[585]

The difference between Cal-Am's and ORA's proposals for the working cash allowance is due to different methods for calculating collection lag days, which is the average number of days from the date that a customer is billed to the date that the company receives payment from the customer.[586] Other differences between Cal-Am and ORA regarding the working cash allowance are due to differing expense estimates for TY 2018, which are addressed above.

Cal-Am uses the ratio of accounts receivable to credit sales method to calculate the collection lag.[587] Cal-Am states that this method is the preferred method set forth in Standard Practice U-16-W.[588] Cal-Am argues that ORA has devised a brand-new method to calculate the collection lag, which has not been

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583 Exh. CAW-4 at 16.

584 *Id*. at 17.

585 *Id.* at 16.

586 *Id*. at 17; Exh. ORA-7 at 1-8.

587 Exh. CAW-23 at 9-10.

588 *Ibid*.

used by the Commission or within the utility industry in general.[589] Cal-Am also argues that ORA's modified calculation is incorrect and would grossly underestimate working cash-lead lag.[590]

ORA argues that Cal-Am's proposed collection lag days unreasonably suggests that, on average, all ratepayers submit payment after the billing due date.[591] ORA recommends that the Commission adopt a collection lag of 12.6 days for all of Cal-Am's districts.[592] ORA's recommendation is based on one month of payment data from the Larkfield District that Cal-Am provided to ORA.[593]

As noted by Cal-Am, Standard Practice U-16-W states that the preferred method for calculating collection lag days is the ratio of accounts receivable to credit sales method.[594] We find that ORA does not provide justification for deviating from this method, and therefore, approve Cal-Am's continued use of this method to calculate collection lag. ORA's proposed method deviates from the Standard Practice and ORA fails to demonstrate that its method would result in a more accurate collection lag estimate. ORA fails to explain why use of a month's worth of data for the Larkfield District would be representative of the

589 Cal-Am Opening Brief at 149; see also RT 1151:16-1152:1.

590 *Id*. at 149-150.

591 Exh. ORA-7 at 1-9.

592 ORA Opening Brief at 119.

593 *Ibid*.

594 Commission Standard Practice U-16-W, dated March 2006, at 1-14.

collection lag likely to be experienced by Cal-Am for the entire year in its Larkfield District let alone for Cal-Am's other districts.[595]

Moreover, it appears that ORA's calculation only accounts for half of the average collection lag days. Based on the one month worth of data from the Larkfield District, ORA calculated the collection lag for each customer by taking the number of days between the issuance of the bill and the receipt of payment, adding 1, and then dividing that number by 2.[596] Given that ORA defined collection lag as "the average number of days from the date that a customer is billed to the date that the Company receives payment from the customer,"[597] ORA fails to explain why adding 1 to the number of days between the billing date and payment date and dividing by 2 would yield an accurate collection lag estimate.

13. Depreciation Expenses

Cal-Am's current depreciation expense is $21.6 million per year.[598] For this general rate case, Cal-Am requests an annual depreciation expense of $23.9 million, an increase of $2.3 million, or 10%, based on a depreciation study conducted by the Alliance Consulting Group.[599]

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[595] ORA's own witness testified that lead lag is best calculated on one year of data. (RT 1153:15-21.)

[596] Exh. CAW-23 at 10.

[597] Exh. ORA-7 at 1-8.

[598] Exh. CAW-12, Attachment 10. The $21.6 million is based on rates and Cal-Am's depreciable assets as of December 31, 2014.

[599] Exh. CAW-12 at 206 and Attachment 10. The $23.9 million is based on rates and Cal-Am's depreciable assets as of December 31, 2014.

In 2015, Cal-Am hired the Alliance Consulting Group to perform the depreciation study. The depreciation study analyzed the life and net salvage percentages for the property groups associated with Cal-Am's California distribution and general plant assets as of December 31, 2014. Alliance Consulting Group used the straight-line, average life group remaining-life deprecation system to calculate the annual depreciation accruals in this study. Cal-Am accrues depreciation based on the original cost of all property included in each depreciable plant account. When the plant retires, Cal-Am then charges the full cost of the depreciable property, less the net salvage amount, to the depreciation reserve.

Based on the record, we find that Cal-Am did not meet its burden of proof to justify and substantiate a 10% increase, or $2.3 million, in annual depreciation expense. Even though Cal-Am provided a depreciation study, the depreciation study only discussed (1) the methodologies and processes used in deriving the study, and (2) the life analysis and net salvage percentage of each account. To justify and substantiate a 10% increase in depreciation expense, Cal-Am must provide additional information, including but not limited to: (1) analyses and explanations of the drivers and causes for the increases, which possibly would also include the percentage increase attributed to each driver; (2) comparison and analysis of current and proposed depreciation rates, net salvage rates, and service lives of each asset group, and (3) computation of the annual depreciation rate. Because Cal-Am failed to substantiate the 10% increase in annual depreciation expense, we find it reasonable to deny Cal-Am's requested depreciation increase for 2018-2020. Based on the plant assets approved in this proceeding, we approve a depreciation expense of $23.520 million for 2018.

Los Angeles County argues that Cal-Am's requested depreciation increase places a burden on ratepayers and results in rate shock. Los Angeles County recommends that Cal-Am phase in the deprecation adjustment over a period of time to lessen the impact on rates.[600] Because we reject Cal-Am's requested increase in depreciation expense, Los Angeles County's recommendation is moot.

14. Revised Rate of Return

D.18-03-035 adopted a new rate of return for Cal-Am, to be effective January 1, 2018. Cal-Am estimates that the new, lower rate of return reduces its requested revenue requirement by $4.5 million in 2018, $4.7 million in 2019, and $5.0 million in 2020, compared to its 100-day update.

Because the new rate of return is effective on January 1, 2018, the Commission directs Cal-Am to use the new rate of return to calculate Cal-Am's revenue requirements for 2018-2020. The estimated revenue requirement impact from the reduction in the rate of return will differ from Cal-Am's estimate, based on the capital expenditures and rate base adjustments we adopt in this decision.

Since Cal-Am is implementing the new cost of capital decision in this current general rate case, the Cost of Capital Memorandum Account is no longer needed. The purpose of the Cost of Capital Memorandum Account is to "track the difference between current rates based on California American Water's most recently authorized cost of capital, and rates based on the new cost of capital to be adopted in a final decision D.18-03-005."[601] Therefore, within 30 days of the issuance of this decision, Cal-Am shall file a Tier 2 advice letter with the Water

[600] Exh. LAC-1 at 7.

[601] California-American Water Company, Preliminary Statement, Section BL.

Division, with an effective date of January 1, 2018 closing the Cost of Capital Memorandum Account.

15. Memorandum and Balancing Accounts

15.1. San Clemente Dam Balancing Account and Special Request #11

In this proceeding, Cal-Am makes three requests for the San Clemente Dam Balancing Account. The San Clemente Dam Balancing Account records the costs related to the Carmel River Reroute and San Clemente Dam Removal Project, including permitting and compliance review costs, preliminary engineering pre-construction costs, interim dam and environmental safety measure costs, and post-construction mitigation measure costs. Cal-Am requests that the Commission: (1) conduct a final review of all interim dam safety measure and construction costs; (2) approve the recovery of $49 million in construction costs for the San Clemente Dam project; and (3) authorize Cal-Am to reset the period for amortizing cost recovery of the account balance so that amortization of the uncollected balance begins on January 1, 2018 and ends in 2038 over a 20-year period.

Pursuant to D.12-06-040, the amortization of the San Clemente Dam Removal project costs started in 2012 and is scheduled to end in 2032. Cal-Am is to recover the costs initially through a surcharge and then through base rates after construction of the project is completed. The decision ordered a final review of the project costs and directed Cal-Am to request recovery of the remaining uncollected account balance in the first general rate case proceeding after it completed the San Clemente Dam project construction.

The San Clemente Dam Removal project was completed in the summer of 2015. This proceeding is Cal-Am's first general rate case after it completed the project's construction. Hence, Cal-Am is requesting the recovery and final

review of the remaining balance in the San Clemente Dam Balancing Account in this proceeding.

ORA recommends: (1) the removal of the uncollectible amount in the San Clemente Dam Balancing Account cost amortization calculation because the uncollectible amount is already included in other sections of the revenue calculation, (2) the disallowance of $36,071 in project costs that Cal-Am spent on filming releases and catering, and (3) a Commission directive requiring Cal-Am to organize and reconcile documentation supporting requested balances for recovery.

15.1.1. Special Request #11

In Special Request #11, Cal-Am requests authority to reset the 20-year amortization period of the uncollected balance in the San Clemente Dam Balancing Account to begin on January 1, 2018 and end in 2038, extending recovery of the San Clemente Dam project costs for an additional six years. Cal-Am explains that customers will experience a rate impact from the amortization of the San Clemente Dam Balancing Account and argues that extending the amortization for an additional 6-year period will reduce the rate impacts to customers. ORA does not oppose Cal-Am's proposal.

Cal-Am asserts that the amortization of the San Clemente Dam Balancing Account will give customers a rate impact because the current under-collection of project costs and the additional unanticipated costs that will be added into the account will increase the rates Cal-Am needs to collect. Cal-Am explains that the current under-collection in the account has been a result of customers reducing usage, causing Cal-Am to recover less costs than originally anticipated. Cal-Am also explains that it will soon add more costs, at least several hundred thousand dollars, into the San Clemente Dam Balancing Account. These are costs that

Cal-Am incurred when mitigating flooding issues caused by a large storm in the Carmel River in January 2017.

To mitigate the possible rate impacts caused by the current under-collection of costs and the possibility of an additional several hundred thousand dollars of unanticipated flooding mitigation costs, the Commission finds it reasonable and authorizes Cal-Am to reset the 20-year amortization period for the San Clemente Dam Balancing Account to begin on January 1, 2018 and end in 2038, extending the recovery period by an additional six years.

15.1.2. Removing the Double-collection of Uncollectible Costs

ORA asserts that Cal-Am double-counted the uncollectible costs when it incorporated the costs of uncollectibles in the calculation of the San Clemente Dam revenue requirement, since Cal-Am already added in the uncollectible costs in another section of the Results of Operations model. Cal-Am agrees with ORA that the uncollectible costs are currently double-counted. Cal-Am shall remove the uncollectible costs in the calculation of the annual amortization of the San Clemente Dam costs for 2018 and the years thereafter, so that the uncollectible amount is not double counted for recovery.

15.1.3. Disallowance of Project Costs Related to Filming Releases and Catering

Cal-Am agrees with ORA's recommendation to disallow $36,701 relating to filming releases and catering costs. But Cal-Am requests that the $36,701 be considered as part of the $995,394 that shareholders will fund. Cal-Am explains that it is only requesting $49 million in construction costs. Including the $34 million in contributions from public and private agencies, Cal-Am spent $995,394 over the $49 million in construction costs that it is requesting in this GRC. The Commission finds it reasonable to disallow $36,701 related to filming

releases and catering expenses. Since Cal-Am's shareholders will fund the $995,394 of expenses in excess of the $49 million that Cal-Am is seeking to recover in this proceeding, the Commission finds it reasonable to include the $36,701 in disallowed expenses as part of the $995,394 that the shareholders fund.

15.1.4. Updated Tax Rate and Cost of Capital

The computation that Cal-Am uses to calculate the revenue requirement needed to recover the San Clemente Dam Balancing Account balance includes the costs of income taxes and Cal-Am's cost of capital. Since the time when Cal-Am first calculated the amortization of the San Clemente Dam Balancing Account and provided the resulting revenue requirement in its original testimony, Cal-Am's income tax rate and cost of capital have changed. The Tax Cuts and Jobs Act lowered the federal corporate tax rate from 35% to 21%. The Commission also lowered Cal-Am's cost of capital in D.18-03-035. Given these two changes, Cal-Am adjusted the amortization of the San Clemente Dam Balancing Account to reflect the reduction of the federal tax rate and the cost of capital. Cal-Am provided these updated calculations, which accompanied Cal-Am's testimony on the impacts of the Tax Cuts and Jobs Act. The Commission finds it reasonable and adopts the modification of the San Clemente Dam Balancing Account amortization to reflect the reduction in the federal tax rate and Cal-Am's cost of capital.

15.1.5. Project Costs and Revenue Requirement

The Commission finds reasonable and approves the recovery of the $49 million in construction costs recorded in the San Clemente Dam Balancing Account. With the 20-year amortization period beginning on January 1, 2018, removal of the double-counted amortization schedule, and the reduction of the

corporate tax rate and the cost of capital, the annual revenue requirement for the San Clemente Dam Balancing account is $7,902,914.

15.1.6. Organizing and Reconciling Supporting Documentation for Recovery of Requested Costs

During its review of the San Clemente Dam Balancing Account, ORA had a difficult time reconciling the requested balance with the invoices and supporting documentation that Cal-Am provided. ORA explains that some of the invoices, totaling approximately 2,800 pages, were unsorted in three large PDF files and that some of the images were not very clear, had fictional dates like November 31, 2015 or were missing pages.[602] ORA requests that the Commission require Cal-Am, in future filings, to provide supporting documentation that is not only organized but also reconciles with its request in the application.

The Commission finds that utilities must provide detailed supporting documentation that is organized and can be reconciled with its request to meet its burden of proof. Despite this deficiency, the Commission approves the $49 million in funding that Cal-Am requests. But if, in future filings, Cal-Am continues to provide unorganized documents that do not reconcile with the balance requested, Cal-Am will be at risk of not meeting its burden of proof. More specifically, in any future filings that request cost recovery, Cal-Am shall provide detailed supporting documentation, which may include invoices. Supporting documentation shall: (1) be organized, either by date or any reasonable manner; (2) clearly display the amount spent and the date the costs

[602] Exh. ORA-5 at 49.

were incurred; (3) provide explanation for any discrepancies, such as costs incurred on dates that do not exist like November 31, 2015; (4) provide explanation for large variances or expenses; and (5) shall, most importantly, reconcile with the balance requested.

15.2. Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA)

Cal-Am has two requests with respect to the WRAM)/ MCBA. The first request is that the account remain open. The second request, which is also Cal-Am's Special Request #5, is to remove the 10% amortization cap in the account. Cal-Am is not requesting recovery of the WRAM/MCBA account balance.

In this section, we address Cal-Am's first request for the WRAM/MCBA to remain open. Cal-Am argues that the account should stay open to ameliorate Cal-Am's volatile revenue collection. Cal-Am asserts that its revenue collection has been fluctuating due to its water conservation rate designs. ORA does not object to the continuation of the WRAM/MCBA. Because Cal-Am's current rate design, designed to encourage water conservation, causes volatility in Cal-Am's revenue collection, the Commission finds it reasonable to allow the WRAM/MCBA to remain open.

We address Cal-Am's second request, to remove the 10% amortization cap, in Section 16.4 below.

15.3. California American Water Conservation Surcharge (CAWCS) Balancing Accounts

The California American Water Conservation Surcharge (CAWCS) Balancing Accounts are one-way balancing accounts that track expenses related to water conservation and surcharges associated with Cal-Am's water

conservation efforts. The CAWCS Balancing Accounts apply to all Cal-Am's Districts.

Cal-Am requests that the water conservation programs remain funded through a separate surcharge and that the CAWCS Balancing Accounts remain open to track these surcharges and other related expenses. Cal-Am argues that the CAWCS Balancing Accounts ensure that dollars collected for conservation are applied directly to conservation programs. Furthermore, Cal-Am requests that the December 31, 2017 outstanding balances in the CAWCS Balancing Accounts for all Districts be transferred to the Consolidated Expense Balancing Account (CEBA) or be recovered through a Tier 2 Advice Letter.

ORA does not oppose the request for the accounts to remain open and to remain funded through the water conservation surcharges. But ORA recommends that the Commission reduce the balance of the account by $115,960, or from $1,270,964 to $1,164,004, to exclude amounts that were previously authorized for recovery in Cal-Am's last GRC. ORA asserts that the currently requested account balance transfer includes the balance of $115,960 from the December 31, 2014 balance. This balance of $115,960 should have been transferred to the CEBA at the end of 2014. Cal-Am does not object to ORA's recommendation.

It is reasonable for the CAWCS Balancing Accounts to remain open and for the balance of $1,164,004 be transferred to the CEBA. The transfer of the $1,164,004 balance reflects the removal of the $115,960 balance that was previously authorized for recovery in Cal-Am's last GRC.

Cal-Am proposed conservation budgets for the 2018-2020 rate case cycle are addressed in Section 17 below.

15.4. Coastal Water Project Balancing Account

Cal-Am requests to continue the Coastal Water Project Balancing Account and to transfer the over-collected balance of $1,623,491 to the CEBA. ORA does not object to Cal-Am's request to transfer the over-collected balance to the CEBA. But ORA recommends that the Coastal Water Project Balancing Account be closed.

Cal-Am has a memorandum account and a balancing account related to the Coastal Water Project. Cal-Am established the memorandum account and the balancing account to track costs associated with the development of a new water supply project in the Monterey County District. Cal-Am argues that the balance in the memorandum account may need to be recovered through this balancing account.

ORA recommends that the balancing account be closed and that any future balance recorded in the memorandum account be transferred to the CEBA. ORA argues that the Commission has not specifically authorized the establishment of the balancing account. This balancing account is not in Cal-Am's Preliminary Statement.

Because there was no specific Commission authority granting the establishment of the Coastal Water Project Balancing Account, which is evidenced by the lack of any tariff language detailing its existence, Cal-Am shall close the Coastal Water Project Balancing Account. Cal-Am must obtain Commission authority, either through a decision or resolution, to recover, refund, or transfer any balances recorded in the Coastal Water Project Memorandum Account. Cal-Am shall refund the balance of $1,623,491 that was over-collected in the Coastal Water Project Balancing Account by transferring the balance to the CEBA.

15.5. Water Contamination Litigation Expense Memorandum Account

Cal-Am requests to continue the Water Contamination Litigation Expense (WCLE) Memorandum Account and to transfer any future balances to the CEBA. The WCLE Memorandum Account tracks costs associated with litigating water contamination cases. Resolution W-4084 authorized all water utilities to establish a memorandum account for this purpose and to recover reasonable expenses in a subsequent general rate case proceeding.

ORA recommends that this account be closed because the account has had a zero balance since the last rate case. ORA recommends that Cal-Am file a Tier 2 advice letter to re-establish this account if Cal-Am were to incur these costs in the future. ORA argues that the filing of the advice letter would alert the Commission of any costs that Cal-Am expects to record so that the Commission can assess the reasonableness of these costs and not be blindsided.

Cal-Am argues that closing this account is problematic given the potential delay in re-establishing this account through the advice letter process. Cal-Am further argues that any potential delays in re-establishing this account would be detrimental to the Company due to the high-profile nature of water contamination litigations, which often require the Company to move expeditiously and forcefully.

Even though water contamination litigation does not frequently occur, Cal-Am needs to act expeditiously when it does. The process of re-establishing the account may require more time than the shortened time span Cal-Am has to respond to high-profile water litigations. If the account is not timely established, Cal-Am faces the risk of not being to recover these costs. To ensure that Cal-Am has a mechanism to recover these costs after a reasonableness review, the

Commission finds it reasonable for the Water Contamination Litigation Expense Memorandum Account to remain open.

But the Commission also agrees with ORA that Cal-Am should provide notice about the recording of these costs since the costs of water litigation may be substantial and since the notice will allow the Commission to begin assessing the reasonableness of these costs. Thus, Cal-Am shall file a Tier 1 Advice Letter with Water Division to notify the Commission within 30 days of the time when the Company begins to record costs in the account. In the advice letter, Cal-Am shall specify the water litigation case for which the costs are recorded.

15.6. Seaside Groundwater Basin Memorandum Account

Cal-Am requests that the Seaside Groundwater Basin Memorandum Account remain open. Cal-Am also requests to transfer the outstanding account balance to the CEBA. The purpose of this account is to track payments to the Seaside Basin Watermaster for replenishment water. ORA recommends that the account be closed. ORA argues that the account has had a zero balance since the last GRC.

Cal-Am opposes ORA's recommendation, arguing that the Seaside Basin Watermaster could impose costs on the Company for replenishment water or administrative costs at any time. Cal-Am argues that the administrative costs and replenishment assessments can be substantial and will continue until the basin is no longer in overdraft, which may take 20 years or more. Cal-Am explains that this account has not recorded any costs because Cal-Am has invested more into the Monterey Peninsula Water Supply Project than it has been assessed replenishment fees, but this could end if the Monterey Peninsula Water Supply Project is delayed.

In response, ORA recommends that the Commission authorize Cal-Am to request a new account with an earlier effective date, if it becomes necessary, through filing a Tier 2 advice letter, but to close the current memorandum account. ORA further argues that the filing of the advice letter alerts the Commission of the recording of these costs, so that the Commission can assess the reasonableness of these costs.

Since the Seaside Groundwater Basin Memorandum Account has had a zero balance for the past two GRC cycles, the occurrence of any costs imposed by the Seaside Basin Watermaster, even if they may be substantial, is not frequent. Furthermore, Cal-Am has not -presented sufficient evidence to demonstrate that it will not have advance notice from the Seaside Basin Watermaster such that the process of re-establishing the account through an advice letter will not allow the account to open in time to record Cal-Am's payments. In addition, if these costs will be substantial as Cal-Am asserts, it will be beneficial that the Commission be alerted of these costs. ORA's recommendation of the filing of an advice letter accomplishes this. When Cal-Am files an advice letter to request a memorandum account, the Commission will know to begin assessing the reasonableness of these costs, which is important if the costs are large. If this current memorandum account were to remain open, then the Commission would not know whether Cal-Am had recorded any large amounts of costs until Cal-Am either asks for recovery or files its next GRC. For these reasons, the Commission finds ORA's recommendations reasonable. Cal-Am shall close the Seaside Groundwater Basin Memorandum Account by filing a Tier 1 advice letter with Water Division within 60 days of the issuance of this decision. Cal-Am may request to reopen the Seaside Groundwater Basin Memorandum

Account if it incurs costs in the future, with an earlier effective date, if necessary, by filing a Tier 2 advice letter with Water Division.

15.7. Seaside Groundwater Basin Balancing Account

The Seaside Groundwater Basin Balancing Account (SGBA) was authorized by D.09-07-021 to track the annual administrative costs and payments Cal-Am makes to the Seaside Basin Watermaster, in addition to tracking the recovery of such payments from customers in the Monterey County District. Cal-Am requests that the SGBA remain open and to transfer the outstanding account balance to the Consolidated Expense Balancing Account (CEBA).

ORA states that Cal-Am is requesting to transfer the over-collected balance of $1,140,881 to the CEBA. But ORA argues that the overcollection amount should be $1,269,116, or $128,235 more. ORA asserts that this difference is due to an accounting entry error in the amount of $128,235, which was labelled as "True-up per GRC," that was recorded as the account's starting balance. ORA argues that the starting balance for this account should be $0, not $128,235, pursuant to the Settlement Agreement adopted in the 2015 GRC decision, D.15-04-007. Hence, ORA argues, Cal-Am should return the $128,235 to ratepayers, bringing the over-collected balance in the account to $1,269,116.

Cal-Am argues that the starting balance, or the accounting true-up entry, of $128,235 is correctly recorded. Cal-Am argues that the 2012-2014 GRC, pursuant to D.12-06-016, approved recovery of $42,468 per month for this account. Because the 2015 GRC decision, D.15-04-007, was not issued until April 2015, Cal-Am states that it collected $42,468 per month from the account through

April 2015.[603] Cal-Am was granted authority to collect interim rates on January 1, 2015. The interim rates allowed Cal-Am to increase its rates by an amount equal to inflation. D.15-04-007 adjusted the recovery amount of the account to $4,565 per month. Therefore, Cal-Am argues that it needs to apply a true-up amount of $128,235 to reduce the over-collection. However, in its Rebuttal Testimony, Cal-Am states that it collected $42,468 per month for only three months of 2015, which means that this amount was collected through March 2015.[604]

According to the Settlement Agreement that D.15-04-007 approved, the parties did agree that the balance of the account would be zero. Since the account balance should be zero, then Cal-Am should have returned to ratepayers, at $42,468 per month, four months of overcollection if the account collected this amount through April 2015 according to Cal-Am's brief, or three months of collection according to Jeffrey Dana's rebuttal testimony, less the $4,565 per month that the Commission authorized for recovery in 2015. Regardless of whether there was an overcollection over a period of three or four months, the difference of the overcollection would not be $128,235.[605] Because it appears that there are discrepancies in the accounting entries and balances recorded in the SGBA, and it is not apparent from the record in this proceeding what the correct balances and accounting entries are, Cal-Am shall, within 60 days of this decision, file a Tier 3 advice letter with Water Division to provide

[603] Cal-Am Opening Brief at 155.

[604] Exh. CAW-22 at 6-7.

[605] If four months of overcollection, then the difference should be $151,612. (4 months) * ($42,468/month - $4,565/month) = $151,612. If three months of overcollection, then the difference should be $151,612. (3 months) * ($42,468/month - $4,565/month) = $113,709.

all the accounting entries for the SGBA from January 1, 2015 through December 31, 2017 and to request to transfer the outstanding balance in the account to the CEBA. In the advice letter filing, Cal-Am shall also provide explanations for any discrepancies or variances, including the one described in this decision. The Commission finds it reasonable and approves the continuance of the SGBA.

15.8. Emergency Rationing Costs Memorandum Account

Cal-Am requests that the Emergency Rationing Costs Memorandum Account remain open. The account tracks costs that Cal-Am would incur in its Monterey County District if MPWMD implemented water-rationing plans under Regulation XV. Regulation XV is an expanded water conservation and standby water-rationing plan.

ORA recommends that the Commission close the account because the account has had a zero balance since the last GRC. ORA suggests that Cal-Am file a Tier 2 Advice Letter to re-establish the account if MPWMD implements emergency rationing procedures in the future. ORA argues that the filing of the advice letter helps provide notice to the Commission about these costs. Cal-Am argues that emergency drought situations are difficult to predict and that MPWMD's implementation of rationing could come at any time with little advance warning. As such, Cal-Am argues that it may not have sufficient time to reopen the account through the advice letter process.

ORA argues that Cal-Am has provided no evidence of the likelihood that a rationing emergency is likely to occur in the near future. In addition, ORA suggests that Cal-Am can request an earlier effective date of the memorandum account if necessary. Cal-Am asserts that because of the recent statewide

drought, which critically affected the Monterey District, and the reduction in withdrawals from the Carmel River ordered by the State Water Resources Control Board, it is possible for MPWMD to suddenly implement water-rationing plans.

The Commission finds the continuance of the Emergency Rationing Costs Memorandum Account to be reasonable. Given the historical water shortage issues in the Monterey District, as demonstrated by the recent drought and the decrease of withdrawals from the Carmel River, it is possible that MPWMD will implement water-rationing plans within the next GRC cycle. If MPWMD suddenly implements water-rationing plans with little advance notice, which Cal-Am says may happen, then the Company may not have sufficient time to re-open the account through an Advice Letter filing. Thus, the Commission will allow the Emergency Rationing Costs Memorandum Account to remain open.

The Commission also agrees with ORA that there should be a notice about the recording of these costs since the account has not had a balance since the last GRC. Thus, Cal-Am shall file a Tier 1 Advice Letter with Water Division to notify the Commission of a water-rationing event within 30 days of the time when the Company begins to record costs related to the event.

15.9. Monterey Cease and Desist Order Memorandum Account

Cal-Am requests that the Monterey Cease and Desist Order Memorandum Account remain open with the same provisions that Resolution W-4824 authorized. Cal-Am also requests authorization to transfer the balance of $613,607 in the account to the CEBA. The purpose of the account is to track the costs of addressing the SWRCB CDO for unauthorized diversion of water from the Carmel River in the Monterey County District. The account also has a

subaccount that tracks any penalties or fines resulting from any violation of the SWRCB CDO.

ORA does not oppose Cal-Am's request to continue the account but recommends that the balance of $613,607 be reduced to $580,571. ORA argues that Cal-Am recorded legal costs that are too high because the account recorded attorney billable rates greater than $350 per hour. ORA cites to D.15-10-025, which determined that $350 per hour is a reasonable rate for attorney's fees. ORA argues that multiple attorneys were paid at a rate greater than $350 per hour, with one attorney charging $580 per hour.

Cal-Am argues that the circumstances in D.15-10-025 are different than for this memorandum account. D.15-10-025 assessed the reasonableness of attorney rates for legal services associated with a specific water conservation proceeding. Furthermore, the work was done eight to ten years ago during the Great Recession. However, the legal work recorded in this memorandum account is for a Cease and Desist Order that threatens to require Cal-Am to stop pumping approximately two-thirds of its supply from the Carmel River. The Carmel River is its single greatest supply to serve the Monterey Peninsula. As such, Cal-Am argues that the legal work conducted for these matters was more complicated and the stakes were much higher than the legal work examined in D.15-10-025. Furthermore, Cal-Am argues that the Commission has recognized that rates as high as $575 per hour are reasonable for intervenor compensation in 2016.[606]

The Commission agrees with Cal-Am that the legal work involved in the Monterey Cease and Desist Order is more complicated than the legal work

[606] Resolution ALJ-329, Table 2.

examined in D.15-10-025. Furthermore, the Commission has found that a rate of $575 per hour is reasonable for highly experienced attorneys in 2016. Because the legal work related to SWRCB CDO is complicated and will need the expertise of a highly experienced attorney, the Commission does not find a $575 per hour rate to be unreasonable in this case. Therefore, the Commission grants Cal-Am the authority to continue the account and to transfer the balance of $613,607 to the CEBA.

15.10. Los Angeles Main San Gabriel Contamination Memorandum Account

Cal-Am requests that the Los Angeles Main San Gabriel Contamination Memorandum Account remain open and to transfer any of its outstanding balances to the CEBA. The purpose of the account is to track the costs that Cal-Am incurs for responding to, mitigating, or controlling contamination in the Main San Gabriel Groundwater Basin, including costs of additional sampling, pumping modifications, engineering consultant fees, permitting costs, treatment facilities, government agency coordination, and legal fees.

ORA recommends that the account be closed, because the account has had a zero balance since the last GRC. Cal-Am argues that this account is necessary because the Company cannot predict when, or if, additional measures to mitigate or control the presence of contamination in the water will be necessary.

Cal-Am explains that the basin still contains significant quantities of contaminants and that many projects to control the pollution in the basin are still in developmental stages. Cal-Am states that the Main San Gabriel Groundwater Basin is still subject to multiple Environmental Protection Act (EPA) consent orders. Cal-Am also claims that the contamination in the basin continues to impact water supply for its Los Angeles District. Cal-Am points to a recent

example where there was a spike of the acute contaminant nitrate in one of the wells and to another example where Cal-Am took a well out of production because of the presence of a contaminant.

ORA argues that the account has not incurred a balance since its last GRC despite Cal-Am's claims that the Main San Gabriel Basin is subject to multiple EPA consent orders and pollution threats. ORA suggests that Cal-Am should file a Tier 2 Advice Letter to request a new account in the future when it becomes necessary, arguing that the filing of the advice letter will alert the Commission of the recording of these costs.

Despite the continual pollution and contamination problems in the basin, which recently led to the cleansing of nitrate in one of its wells and removal of service of one of its wells, Cal-Am still has not incurred any costs in this account. Since Cal-Am has not incurred any costs even with the continual contamination problems affecting the Main San Gabriel Groundwater Basin, the Commission agrees with ORA that this memorandum account may not be necessary. Cal-Am shall file a Tier 1 Advice Letter to close this account within 60 days of the issuance of this decision. Cal-Am may file a Tier 2 Advice Letter with Water Division if it becomes necessary to record these costs in the future and request an earlier effective date, with an explanation of why an earlier effective date is necessary.

15.11. Tax Act Memorandum Account

Cal-Am requests that the Tax Act Memorandum Account remain open and to transfer any outstanding balance in the Tax Act Memorandum Account to the CEBA. The purpose of the Tax Act memorandum Account is to reflect any changes in the revenue requirement that could result from changes in federal tax law with regard to bonus depreciation, should the Company elect to take bonus

depreciation. Cal-Am subsequently withdrew this request. Therefore, Cal-Am shall close the Tax Act Memorandum Account. This issue is addressed in Section 10.4.4. Repeal of Bonus Depreciation and Special Request #12.

15.12. Consolidated Expense Balancing Accounts

The purpose of the CEBA is to consolidate the amortization of Commission-approved balancing and memorandum accounts where appropriate. Cal-Am requests that it continue the current balancing account and recover any additional incremental balances authorized for transfer in this proceeding to this account.[607] ORA agrees that the CEBA should continue and that it is an appropriate vehicle for recovery of any incremental balances approved for transfer in this proceeding. We find it reasonable and authorize the continuation of the CEBA and the transfer of any additional incremental balances authorized for transfer in this decision to the CEBA.

15.13. National Oceanic and Atmospheric Administration Endangered Species Act (ESA) Memorandum Account (NOAA/ESA)

The National Oceanic and Atmospheric Administration Endangered Species Act (NOAA/ESA) memorandum account tracks compliance payments Cal-Am makes related to ESA mitigation activities in the Monterey County District. Cal-Am requests to continue the current memorandum account as the Commission had previously authorized, including the ability to seek recovery of the annual payments so long as they are required.[608] Cal-Am also requests authorization to transfer the $1,551,197 balance to the CEBA for recovery.

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[607] Exh. CAW-3 at 3.

[608] D.09-07-021; D.12-06-016; D.15-04-007.

ORA recommends that the Commission deny Cal-Am's recovery of the $1,551,197 balance because the Commission has already approved it for recovery in Advice Letter 1133.[609] ORA does not oppose the continuation of the NOAA/ESA memorandum account or Cal-Am's request to seek recovery of any future required annual payments through this account.

We find it reasonable and authorize the continuation of the NOAA/ESA, including Cal-Am's ability to seek recovery of any future required annual payments through this account. We deny recovery of the $1,551,197 balance in the account because the Commission has already authorized recovery of it through an advice letter.

15.14. Endangered Species Act Memorandum Account

The ESA Memorandum Account tracks costs incurred to comply with the Endangered Species Act requirements in the Monterey County District, excluding any costs associated with the San Clemente Dam.

Cal-Am requests the continuation of this account. Cal-Am expects to incur additional ESA-related compliance costs in the future, because the Carmel River, the primary source of supply for the main Monterey system, is a critical habitat for the South Central California Coast Steelhead and the California Red-legged Frog. Cal-Am also requests authorization to transfer the outstanding balances in this account to the CEBA.[610]

ORA does not object to the continuation of the account but disputes the account balance which Cal-Am seeks to transfer. ORA recommends that the

[609] Exh. ORA-5 at 10.

[610] Exh. CAW-8-9.

account balance be reduced by $1,018,090 to reflect the amount that the Commission previously approved in D.15-04-007. Cal-Am concurs. The parties agree to transfer the remaining balance of $205,572 to the CEBA.[611] We find it reasonable and authorize the continuation of the ESA memorandum account and the transfer of $205,572 from the ESA memorandum account to the CEBA.

15.15. Monterey Peninsula Water Management District Conservation Balancing Account

The MPWMD Conservation Balancing Account is a one-way balancing account, authorized by D.09-05-029, to track conservation-related expenses and surcharges with a cap of $1,156,000. The settlement adopted in D.15-04-007 allows the account to be retained to track all expenses, surcharges, and credits connected to MPWMD's conservation program. A volumetric surcharge is applied to customers in the Monterey County District, excluding the Ambler, Ralph Lane, Garrapata, Chualar, and Toro service areas because they are outside of MPWMD's jurisdiction.[612]

Cal-Am requests the continuation of the account and the most recent Commission-authorized volumetric surcharge in order to track all expenses and surcharges connected to MPWMD's conservation program. Cal-Am also requests authorization to transfer the over-collected balance of $888,209 to the CEBA.[613]

ORA does not oppose the continuation of the account, but ORA has several recommendations. ORA recommends that: (1) Cal-Am reduce the

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[611] Joint-1 at 11.

[612] Exh. CAW-3 at 9.

[613] *Ibid*.

account balance by $888,297, which ORA argues was previously authorized for recovery;and (2) Cal-Am file a Tier 2 advice letter to transfer the net balance to the CEBA, which should be reduced by the disputed balance of $888,297 and include any invoices for recovery by MPWMD for conservation costs incurred through April 17, 2017.[614] Cal-Am agrees with ORA's recommendations.

We find it reasonable and adopt the agreement between Cal-Am and ORA for Cal-Am to: (1) continue the Monterey Peninsula Water Management District Conservation Balancing Account; and (2) file a Tier 2 advice letter to transfer the net balance to the CEBA, which should be reduced by the disputed balance of $888,297 and include any invoices for recovery by MPWMD for conservation costs incurred through April 17, 2017.

15.16. Purchased Water, Purchased Power, and Pump Tax Balancing Account

Cal-Am requests to continue the Purchased Water, Purchased Power, and Pump Tax Balancing Account and to transfer the account balance of $195,074 to the CEBA. ORA does not oppose the continuation of the account or Cal-Am's request of the account balance transfer. But ORA recommends that the account be modified to specifically exclude the Sacramento District, arguing that expenses for Sacramento are already recorded in another account. Cal-Am does not object to ORA's recommendations.

We find it reasonable and adopt the continuation of the Purchased Water, Purchased Power, and Pump Tax Balancing Account, the removal of the Sacramento District from the account, and the transfer of the $195,074 in account balance to the CEBA. Cal-Am shall file a Tier 1 advice letter within 60 days of

[614] The April 19, 2017 date is based on the User Fee Decision, D.17-01-013.

this decision to modify the Purchased Power, and Pump Tax Balancing Account to exclude the Sacramento District.

15.17. Sacramento District Voluntary Conservation or Mandatory Rationing Revenue Adjustment Mechanism Memorandum Account

The Sacramento District Voluntary Conservation or Mandatory Rationing Revenue Adjustment Mechanism Memorandum Account tracks impacts of voluntary conservation or mandatory rationing on quantity revenues for the Sacramento District.[615] Cal-Am requests that this account remain open.[616] Cal-Am previously filed a separate advice letter asking for this balance to be transferred to the CEBA.[617]

ORA does not object to the continuation of the account but recommends that the account be modified to exclude lost revenues associated with reduced sales. ORA argues that, pursuant to Commission Resolution W-4976, these lost revenues should not be tracked in this account but should be tracked in another memorandum account. Cal-Am does not object to ORA's recommendations.[618]

We find it reasonable and adopt the agreement between ORA and Cal-Am to: (1) continue this account; and (2) exclude lost revenues associated with reduced sales from recovery in the account. Cal-Am shall file a Tier 1 advice within 60 days of this decision to modify its Preliminary Statement tariffs accordingly.

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[615] Exh. CAW-3 at 25.

[616] *Id*. at 26.

[617] AL 1102 and AL 1102-A.

[618] Joint-1 at 26-27.

15.18. Other Undisputed Memorandum and Balancing Account Balances

Cal-Am requests to recover the balances in the memorandum and balancing accounts recorded through year-end 2017.[619] ORA recommends: (1) limiting Cal-Am's recovery to balances recorded as of May 31, 2016, arguing that there will be no review of costs recorded beyond May 31, 2016;[620] (2) disallowing recovery of costs that the Commission approved for recovery in previous GRCs; and (3) denying recovery of accounts that Cal-Am is concurrently requesting recovery of in other proceedings.[621] Cal-Am agrees with ORA's recommendations.[622]

Cal-Am and ORA stipulated to the account balances and actions for the following 25 memorandum and balancing accounts:

	Name of Account	Action	Account Balance
1	Old Low-Income Ratepayer Assistance Program Memorandum Account	Close the account	$3,710,029
2	New Low-Income Ratepayer Assistance Program Balancing Account	Account to remain open	($18,212)
3	Coastal Water Project Memorandum Account	Account to remain open	$8,301,809
4	Coastal Water Project Balancing Account	Close the account	($1,623,491)
5	Catastrophic Event Memorandum Account	Account to remain open	$0
6	Seaside Basin Adjudication Balancing	Account to	$821,304

[619] Exh. CAW-22 at 2.

[620] *Id*. at 2.

[621] Exh. ORA-5 at 2-7.

[622] Exh. CAW-22 at 2; Exh. Joint-1 at 9.

	Account	remain open	
7	Carmel River Mitigation Program Balancing Account	Close the account	($1,082,350)
8	Pension Balancing Account	Account to remain open	($4,550,568)
9	Other Post-Employment Benefits Balancing Account	Account to remain open	$218,266
10	Old Monterey Style Water Revenue Adjustment Mechanism Balancing Account	Close the account	$947,525
11	Monterey Wastewater Purchased Power Expense Balancing Account	Account to remain open	$108,920
12	Affiliate Transaction Memorandum Account	Account to remain open	($9,263)
13	Aquifer Storage and Recovery Well 4 Memorandum Account	Close the account	$195,530
14	Statewide Non-Revenue Water Action Plan Memorandum Account	Close the account	$74,441
15	Monterey Leak Adjustment Memorandum Account	Cal-Am to file an advice letter to request authority to transfer the balance to the CEBA.	Not applicable
16	Sand City Desalination Plant Purchased Water Balancing Account	Close the account	$1,347,750
17	Conservation/Rationing Memorandum Account	Account to remain open	$2,325,064
18	Chromium 6 Memorandum Account	Close the account	$2,717,096
19	Garrapata Safe Drinking Water State Revolving Fund Loan Repayment Balancing Account	Account to remain open	($6,311)
20	West Placer Memorandum Account	Account to remain open	$5,307,219
21	Dunnigan Environmental Improvement and Compliance Issues Memorandum Account	Account to remain open	$35,023
22	Dunnigan Consulting Memorandum Account	Account to remain open	$75,000

23	Dunnigan Closing Cost Memorandum Account	Close the account	$10,584
24	Garrapata Service Area's Memorandum and Balancing Accounts	Account to remain open	$0
25	Water-Energy Nexus Program Memorandum Account	Account to remain open	$0

We find it reasonable and adopt the stipulated account balances and actions, including transfer of the stipulated account balances to the CEBA, for the 25 accounts listed above.

16. Special Requests[623]

16.1. Special Request #2: Group Insurance Balancing Account

In Special Request #2, Cal-Am requests to establish a two-way balancing account to track the difference between the total requested net group insurance costs on a per-employee basis and the actual level of new group insurance costs incurred on a per employee basis.

Cal-Am argues that this account is warranted because the costs of its group insurance is very volatile such that it is difficult for Cal-Am to accurately forecast a reasonable level of group insurance expense. Furthermore, Cal-Am argues that the group insurance expense is a significant portion of the Company's costs. Cal-Am claims that the group insurance expense is approximately 2% of its total requested operating expenses.[624]

[623] Pursuant to the Scoping Memo and Amended Scoping Memo, Special Requests 1, 6, 9, and 19 were excluded from consideration in this proceeding.

[624] Exh. CAW-5 at 12.

Cal-Am asserts that the factors contributing to this volatility include: (1) Willis Towers Watson's, Cal-Am's consultant, prediction that insurance premiums will increase in the range of 7% to 10% annually; (2) the volatility to health insurance costs resulting from the possible changes to healthcare legislation, including those pertaining to the Affordable Care Act; and (3) the uncertainties of the Company's insurance costs because American Water will renegotiate the group insurance coverage with vendors in 2017. Cal-Am argues that the volatility in the insurance costs is further demonstrated by the volatility of historical per-employee insurance costs.

ORA recommends that the Commission deny this request. ORA argues that Cal-Am's recorded group insurance expense historically has little variation. Furthermore, ORA asserts that the balancing account will remove any incentives for Cal-Am to negotiate lower rates.[625] Cal-Am refutes ORA's argument, stating that its Parent Company, American Water, negotiates the insurance coverage on behalf of Cal-Am and that Cal-Am has little impact on that negotiation because it comprises only 5% of American Water in terms of employees.[626]

We agree with Cal-Am that since American Water negotiates the insurance for Cal-Am and Cal-Am is only 5% of American Water in terms of employees, Cal-Am does not have much control of the negotiations of its insurance costs. Thus, we find that balancing account treatment will not affect Cal-Am's incentives to negotiate lower prices.

Furthermore, we find that there is significant variability in Cal-Am's group insurance expenses. American Water's recorded insurance costs from 2011 to

[625] ORA Opening Brief at 143.

[626] Cal-Am Opening Brief at 161.

2016 show significant variability in not only the insurance costs that American Water incurred but also the rate of these cost changes.[627] The annual changes to actual per employee costs that American Water incurred varied significantly, from -0.3% to 13.3% over a short span of five years.[628] Because of the significant variability of these expenses, especially given the current landscape surrounding the Affordable Care Act, we find that a two-way balancing account for these costs will protect both ratepayers and Cal-Am.

We grant this two-way balancing account for group insurance expenses with three modifications to Cal-Am's proposal. First, the initial account balance shall be the approved group insurance expenses for 2018. The 2019 group insurance expense shall be the approved 2018 expense escalated by the 2019 escalation factor. The 2020 group insurance expense shall be the approved 2019 expense escalated by the 2020 escalation factor. The 2019 and 2020 escalation factors shall be the labor escalation factors in ORA's August 2018 Escalation Memo. Second, Cal-Am shall record in the account the annual difference between total approved net group insurance costs and the actual level of net group insurance costs. Net group insurance costs are the total incurred costs less reimbursements. Third, the next general rate case proceeding shall review and determine the appropriate disposition of the balance in the Group Insurance Balancing Account and shall also review whether this two-way balancing account is still necessary.

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[627] Exh. CAW-29, Attachment 4.

[628] *Ibid*. In 2012, the per employee costs for union members had a 13.3% increase. In 2013, these same costs decreased by 0.3%.

Cal-Am shall establish this two-way Group Insurance Balancing Account by filing a Tier 2 Advice Letter with Water Division within 60 days after the issuance of this decision. In the Advice Letter filing, Cal-Am shall propose tariff language for this two-way Group Insurance Balancing Account, which shall include all the terms and conditions specified in this decision and shall be added to the Company's Preliminary Statements tariff.

16.2. Special Request #3: Consistent Treatment of Franchise Fees

In Special Request #3, Cal-Am requests that franchise fees paid to various municipalities be treated uniformly for all of its districts.[629] Cal-Am currently collects franchise fees through a separate surcharge on customer bills for all of its districts with the exception of franchise fees for Sacramento, Toro, and Garrapata, which are collected through base rates.[630] Cal-Am requests that the Sacramento, Toro, and Garrapata District franchise fees be collected through a separate surcharge to bring them in line with its other districts. Cal-Am also requests that this approach be applied consistently to any and all newly acquired systems in the future, including those acquisitions included in this Application. No parties oppose Special Request #3.

Cal-Am contends that Special Request #3 is justified for the following reasons: (1) consistency; (2) to address new realities such as acquisitions and integrations within its service areas; and (3) to conform to the requirements of

[629] Exh. CAW-5 at 14-15.

[630] *Id.* at 14.

Commission Standard Practice U-28-W.[631] Cal-Am believes that uniform treatment should improve customer service, transparency, and equity.

ORA supports Special Request #3, which ORA contends will provide ratemaking consistency across Cal-Am's districts with no harm to ratepayers.[632] ORA notes, however, that Cal-Am has included a forecast of $7,683 in franchise fees (labeled as "gross receipts tax") for the Larkfield District for TY 2018. ORA recommends removing the $7,683 in franchise fees from Larkfield's TY 2018 rates since these fees are collected through a separate surcharge.[633] Cal-Am agrees with ORA's recommendation.[634]

We find Special Request #3 to be reasonable and grant this request. We agree that Special Request will provide ratemaking consistency, as well as more transparency and equity. We also find that the $7,683 labeled as gross receipts tax should be removed from Cal-Am's TY 2018 forecast for the Larkfield District since these fees are collected through a separate surcharge.

16.3. Special Request #4: Elimination of Sand City Desalination Plant Surcharge

In Special Request #4, Cal-Am requests that: (1) the current Sand City purchased water surcharge, tariff conditions, and balancing account be eliminated; and (2) all costs for the Sand City production facility be included in Monterey District base rates and any change in the appropriate cost applicable to

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631 *Id.* at 15-16. Standard Practice U-28-W states: "If one governmental entity significantly exceeds the aggregate, or if one governmental agency raises the rate, the recovery of that fee should be by surcharge levied on only the customers within the area controlled by that governmental entity." (Standard Practice U-28-W, Section B(2)(i).)

632 Exh. ORA-2 at 56.

633 ORA Opening Brief at 20-21; Exh. ORA-2 at 55-56.

634 Exh. CAW-29 at 31; JOINT-1 at 29-30.

the customers be tracked in the MCBA.[635] No parties opposed Special Request #4.

The Commission approved the Sand City Desalination Plant Surcharge in D.13-04-015 and determined that the surcharge would apply to residential customers billed for water usage in tiers 4 and 5, non-residential customers in divisions 2-4, and new customers in Sand City.[636] Cal-Am contends that the current rate design and recovery method for the surcharge is overly complex, unnecessary, difficult to administer, and addresses perceived concerns that have not materialized and/or are extremely immaterial.[637] Cal-Am also contends that it is inequitable for the surcharge to only be levied on certain customers when 99% of water from the Sand City Desalination Plant benefits all customers in its Monterey District.[638] Moreover, due to the complexities in administering the surcharge, Cal-Am has had difficulty recovering the annual cost. In the last three years, Cal-Am has recovered less than two-thirds of the authorized amount resulting in $1.2 million of undercollections.

ORA agrees with Cal-Am that the current process for recovery of Sand City costs is overly complex, making the surcharge difficult to administer and difficult for customers to understand. ORA argues that eliminating the Sand City surcharge and recovering costs through base rates should serve to further the Commission's Goals and Objectives for Balanced Rate Design adopted in

635 Exh. CAW-5 at 16.

636 D.13-04-015 at OPs 5 and 8; Exh. CAW-5 at 18.

637 *Id*. at 18-20.

638 Exh. CAW-11 at 12-13.

D.16-12-026 by simplifying tariffs and making bills easier for customers to understand.[639] Therefore, ORA does not oppose Special Request #4.[640]

We agree with Cal-Am and ORA that the current process for the surcharge is overly complex and difficult to administer. We also find a lack of justification for this complex rate design. The Commission adopted this rate design in part to ensure that Monterey District customers outside of Sand City did not subsidize new Sand City growth. However, there have been a total of three new customers in Sand City since 2009 and 99% of the production serves the Monterey Main system.[641] A further purpose of the rate design was to enforce conservation by penalizing customers for outdoor water use.[642] However, due to supply restrictions, the Monterey district is already on a punitive district rate design and consumption has lowered considerably. Based on the foregoing, we find Special Request #4 to be reasonable and grant this request.

16.4. Special Request #5: Removal of 10% Cap on WRAM Balancing Accounts

In Special Request #5, Cal-Am requests authorization to remove the current cap on the amortization of its WRAM/MCBA accounts, which limits total annual WRAM and MCBA surcharges to 10% of the last authorized revenue requirement for each of Cal-Am's districts.[643] Instead, Cal-Am proposes that the

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[639] In D.16-12-026, the Commission adopted Goal/Objective #3, which is stated as follows: "Simplify rate design, customer notices, and customer bills while providing necessary information for customers to make wise choices about their use, and transparent information about water service costs and the regulatory process." (D.16-12-026, Attachment A at 1.)

[640] Exh. ORA-10 at 9.

[641] Exh. CAW-11 at 13.

[642] D.13-04-015 at 43.

[643] D.13-07-041, Attachment A at section XIII.F.; *see also* D.12-04-048, Appendix A.

Commission adopt the following amortization schedule: under-collections of 2% to 5% of the last authorized revenue are amortized over a 12-month period; under-collections of 5% to 15% are amortized over an 18-month period; under-collections of 15% to 30% are amortized over a 19 to 36-month period; and under-collections over 30% are amortized over a 36-month period. Cal-Am argues that the large balances and lengthy recovery periods harm the company, create intergenerational inequities among customers, distort price signals, and result in a "pancaking" of surcharges, especially in its Monterey County District.[644] Cal-Am notes that the Commission recently found it reasonable to lift the 10% WRAM/MCBA recovery cap for Golden State Water Company.

MPWMD believes strongly that current ratepayers should pay the current cost of service and if that does not occur, that the recovery should be as quick as possible.[645]

ORA argues that the current 10% cap should be retained to help ensure that the under-collected WRAM/MCBA balances do not result in either rate shock or unreasonably high rates.[646] ORA argues that the Commission has previously determined that the 10% cap was a necessary ratepayer protection against excessive rates and that Cal-Am has not sufficiently justified its request for removal of the cap. ORA further argues that the Commission's decision with

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644 Cal-Am Opening Brief at 164-165.

645 Exh. MPWMD-2 at 10. In the Monterey Settlement, MPWMD and CAW agreed to leave in place the current cap on the annual amortization of the net WRAM/MCBA under-collected balances but to raise the cap from the current 10% of the annual revenue requirement to 17% in the Monterey District for this GRC period, 2018 through 2020. (Monterey Settlement at 11.)

646 ORA Opening Brief at 144.

respect to Golden State Water Company was the result of a settlement agreement and is not precedential.

The Commission recently reviewed the issue of the 10% cap on the amortization of the WRAM/MCBA balances. In D.16-12-026, the Commission determined that it was prudent to maintain the 10% cap but that this issue could be negotiated in future GRCs or applications based on proposals to improve forecasts or rate design.[647] The 10% cap was adopted as a ratepayer protection measure against rate shock and unreasonably high rates. Given the potential for rate shock and unreasonably high rates, we do not find it reasonable to remove the cap entirely as proposed by Cal-Am. However, we find that it is in ratepayers' interests to increase the cap during this GRC cycle.

Due to the reduction in the corporate tax rate, this decision is ordering that $7.1 million in excess unprotected ADIT be refunded to ratepayers. This decision also directs that any excess protected ADIT be refunded over this rate case cycle and incorporates the new rate of return adopted in D.18-03-035. Given that the new federal tax rate and rate of return will result in decreases to rates during this GRC cycle, we find it reasonable to increase the WRAM/MCBA cap to 15% for this rate cycle to smooth out rate impacts. This will mitigate the potential "pancaking" of surcharges that could result in even higher rates in the future. We are especially mindful of this possibility in the Monterey District, given that the costs of the recently approved MPWSP will go into rates when that project goes online.[648]

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[647] D.16-12-026 at 41-42.

[648] Construction on the project is expected to be complete late-2021. (D.18-09-017 at 14.)

Based on the circumstances of this case, we find it reasonable to increase the WRAM/MCBA cap to 15% for this rate cycle. We find that a cap of 15% appropriately balances ORA's concerns regarding rate shock and unreasonably high rates and Cal-Am's concerns regarding the harmful effects of lengthy recovery periods.

16.5. Special Request #7: New Credit Card Program

In Special Request #7, Cal-Am requests authorization to establish a pilot program that allows Cal-Am to waive individual transaction fees charges to customers who pay their bills with credit cards. Cal-Am additionally requests authorization to open a memorandum account to track the fees that have been waived as well as the cost savings that result with the use of a credit card compared to the costs associated with bank fees and lock box fees.[649] Currently, Cal-Am customers incur a $1.95 transaction fee when debit or credit card payments are made. Cal-Am argues that a "no fee" pilot is necessary to gain an understanding of customer preferences without the distortions this fee produces.[650]

Pub. Util. Code Section 755 prohibits an electrical, gas, or water corporation from imposing any portion of these fees on customers that do not use a debit or credit card unless use of these cards do not result in a net cost to the utility.[651] On September 9, 2016, the Governor approved Assembly Bill (AB) 1180 (Stats. 2016, Ch. 254). Subject to certain conditions, this bill authorizes

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649 Exh. CAW-5 at 25-26.

650 *Id*. at 26-27.

651 Section 755 (a)(2), (b), and (c)(2).

water corporations with greater than 10,000 service connections to operate pilot programs "to evaluate customer interest in, and utilization of, bill payment options … and to assess the cost effectiveness of, and customer interests served by, customer access to those bill payment options."[652] AB 1180 also authorizes water corporations to operate these pilots without imposing a transaction fee on its customers for using bill payment options.[653]

ORA agrees with the usefulness of Cal-Am's proposed pilot program, as well as the memorandum account, but notes that such a program must comply fully with AB 1180. ORA recommends that the preliminary statement for the proposed memorandum account specify that any surcharges from the account would not be recovered from the Low Income Rate Assistance (LIRA) customers.[654] ORA also recommends that the Commission order Cal-Am to report the results of the pilot program in its next GRC and that the report should include: (1) the results of the pilot program, including quantification of the benefits and costs as a result of program implementation; (2) an evaluation of the usefulness of an individual customer transaction fee; and (3) a recommendation regarding the appropriate level of individual customer transaction fees for credit card, debit card, and prepaid card bill payments accepted by Cal-Am.[655] Cal-Am

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[652] Section 755.5(a).

[653] Section 755.5(b) states:

> Notwithstanding Section 755, the commission shall allow a water corporation to recover the reasonable expenses incurred by the water corporation in providing to its customers bill payment options pursuant to subdivision (a) and shall not require the water corporation to impose a transaction fee on its customers.

[654] Exh. ORA-4 at 43-44.

[655] *Id*. at 44.

agrees with ORA's suggested reporting requirements, as ORA's reporting requirements align with AB 1180.[656]

We find Special Request #7 to be reasonable and grant Cal-Am's request for a pilot program and memorandum account. Cal-Am shall operate and report on this pilot program in accordance with the requirements of AB 1180. Among other things, AB 1180 provides that the costs of the pilot program may not be recovered from specified low-income customers,[657] and this should be specified in the preliminary statement for the memorandum account. Cal-Am shall report on the results of the pilot program in its next GRC. This report shall include the reporting requirements proposed by ORA, as well as any other assessments required pursuant to AB 1180.[658] AB 1180 also requires the Commission to report to the Legislature on the pilot programs operated by water corporations by July 1, 2020. In order for the Commission to be able to provide fuller and more up to date information to the Legislature, Cal-Am is also directed to submit a report addressing the assessments required pursuant to Pub. Util. Code § 915 with the Commission's Water Division by March 31, 2020.

16.6. Special Request #8: AMI/Leak Adjustment Balancing Account

In Special Request #8, Cal-Am requests authorization to establish an AMI/Leak Adjustment balancing account to track differences between the level of proposed leak adjustments authorized for 2018-2020 and the level that is

[656] Joint-1 at 30-31.

[657] Pub. Util. Code, § 755.5(c).

[658] Pub. Util. Code, § 915(a).

actually incurred.[659] This special request is linked to Cal-Am's proposal for AMI implementation. Cal-Am contends that a balancing account is necessary because of the difficulty of accurately predicting the effect of AMI on leak adjustments.[660]

ORA opposes this request and argues that Cal-Am would have no incentive to control these costs if given a balancing account.[661]

This decision denies Cal-Am's request to implement AMI in its San Diego, Ventura, Monterey, and Los Angeles County service districts. However, for the reasons discussed in Section 7.6.2 above, we find that a one-way leak adjustment balancing account should be established for Cal-Am's Monterey District.

16.7. Special Request #10: Recycled Water Tariffs

In Special Request #10, Cal-Am originally sought authorization for the ability to provide recycled water in its San Diego, Baldwin Hills, and Sacramento service areas without filing a formal application, and for the Commission to pre-approve conceptual projects in these service areas as Tier 2 advice letter capital projects.[662] Cal-Am subsequently revised its request to no longer seek pre-approval of these recycled water projects and instead request specific planning dollars for these projects in this rate case.[663] Consistent with the process set forth in D.14-08-058, Cal-Am now intends to file a Tier 3 advice letter for project review and approval by the Commission. Cal-Am requests that the

[659] Exh. CAW-5 at 30.

[660] *Ibid*.

[661] ORA Opening Brief at 145-146.

[662] Exh. CAW-5 at 34.

[663] Exh. CAW-25 at 40.

Commission state that when filed as a Tier 3 advice letter, the advice letter and service to customers can be expeditiously approved.[664]

For the reasons discussed in Section 11.1.2 above, we deny Cal-Am's request for planning dollars in this rate case for proposed recycled water projects in its San Diego, Baldwin Hills, and Sacramento service areas. Moreover, D.14-08-058 already provides for streamlined Commission processing and review of recycled water projects that meet certain criteria.[665] To the extent that Cal-Am's proposed projects meet the criteria set forth in D.14-08-058, Cal-Am may seek approval of the proposed projects via the advice letter process outlined in that decision.

16.8. Special Request #11: San Clemente Dam Removal Costs

In Special Request #11, Cal-Am requests authority to amortize the costs associated with the San Clemente Dam removal project. Special Request #11 is addressed in Section 15.1.1 above.

16.9. Special Request #12: Bonus Depreciation Memorandum Account

In Special Request #12, Cal-Am requests authorization for a bonus depreciation memorandum account. Special Request #12 is addressed in Section 10.4.4 above.

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[664] *Ibid*.

[665] D.14-08-058 at 33-34.

16.10. Special Request #13: Regional Rate Consolidation Proposals

In Special Request #13, Cal-Am proposes to create three regions: Northern, Central, and Southern, and to consolidate the rates within those regions. Cal-Am's rate consolidation proposals are discussed in Section 6.1 above.

16.11. Special Request #14: Monterey Active Wastewater System High Cost Fund

In Special Request #14, Cal-Am seeks to establish a high cost fund for its active wastewater service customers in Monterey. Cal-Am proposes to impose a $0.25 flat surcharge on all non-low-income Cal-Am customers (water and wastewater) that are not in the high cost area to fund an offset to the high cost area.[666] Cal-Am states that although it recognizes that the high cost and affordability screening framework adopted in D.14-10-047 applies to water, not wastewater utilities, application of the framework to the active wastewater system demonstrates that the rates for the active system customers are 122% higher than those of the passive system.[667]

LPWC, who represents active wastewater customers that stand to benefit from the fund, is supportive of the creation of the high cost fund.[668]

ORA argues that the high cost fund proposal is essentially a rate consolidation proposal and that Cal-Am should more fully explore consolidation within its wastewater services prior to being authorized to consolidate costs between wastewater and water services.[669] ORA notes that the operational

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[666] Exh. CAW-2 at 68.

[667] *Ibid*.

[668] Monterey Settlement at 6-7.

[669] Exh. ORA-8 at 15-16.

regulatory environments that exist between these two services are sufficiently dissimilar to make cross-industry consolidation less likely to benefit all ratepayers as a whole.

In its testimony, MPWMD also opposes the proposed high cost fund stating that water customers should not subsidize wastewater customers.[670] MPWMD argues that such cross-industry subsidies are not consistent with the intent of Proposition 218 (1996) and Article XIIID of the California Constitution.[671]

Cal-Am fails to justify the reasonableness of its high cost fund proposal. We are reluctant to impose a cross-industry subsidy absent strong justification for doing so. We agree with ORA that there are unlikely to be benefits to Cal-Am's water customers and we find a lack of justification for requiring water customers to subsidize all active wastewater customers, especially considering that the subsidy would be given regardless of whether a specific wastewater customer may be experiencing affordability issues.

In the Monterey Settlement, Cal-Am, LPWC, and MPWMD agreed that it may first be more appropriate to address the high rates in the active wastewater system through a revision of previously determined cost allocation factors between water and wastewater service and between active and passive wastewater customers.[672] We reject the Monterey Settlement for the reasons

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[670] Exh. MPWMD-2 at 11-12.

[671] Under Article XIIID, which applies to assessments, fees, and charges imposed by specified local governmental entities, revenues derived from fees for service may not be used for any purpose other than for the service provided, nor exceed the cost of the service provided. (Cal. Const., Art. XIIID, Sect. 6.)

[672] Monterey Settlement at Section 3.4.

discussed in Section 4.1, above. In addition, the reasonableness of the revised cost allocation factors is not supported by the record.[673] If justified, however, revision of the cost allocation factors may be one appropriate approach for addressing some of the affordability issues in the active wastewater system. Cal-Am may put forth such a proposal in its next GRC if it can provide sufficient justification for such a request.

16.12. Special Request #15: Pension and OPEB Treatment

In Special Request #15, Cal-Am requests that the Commission allow Cal-Am to use the Pension and Other Post-Employment Benefits (OPEB) expense amounts projected by its actuary in its step rate calculations for 2019 and 2020.[674] Pursuant to the Revised Rate Case Plan, the standard practice is to forecast the TY (2018) expenses and then escalate those amounts by an inflation factor to determine ratemaking amounts for the escalation years (2019 and 2020).[675] Cal-Am's method would result in reduced cost increases in the test year but incur higher costs in the escalation years.[676]

ORA recommends that the Commission deny this request for the following reasons: (1) Cal-Am's pension forecast overestimates actual costs; (2) the request

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[673] For example, the Monterey Settlement claims that the revised General Office and Service Company allocation is based on a "high-level review" but the settling parties point to nothing in the record that supports that reducing these allocated costs for wastewater customers to 50% of the level previously established is reasonable. (Monterey Settlement at 7.) Moreover, although the settlement agreement provides the rate impacts of the revised cost allocation for active wastewater customers, it does not provide rate impacts for passive wastewater customers or water customers.

[674] Exh. CAW-10 at 12-13.

[675] D.07-05-062, Attachment A at A-19.

[676] Exh. CAW-10 at 12.

deviates from established Commission practice and makes step filings needlessly complex; and (3) using a lower estimate in the test year compared to the attrition and escalation year obscures the full impact on rates.[677]

Cal-Am and ORA are now in agreement that the Commission should deny this request.[678] We find a lack of justification for deviating from the standard practice set forth in the Revised Rate Case Plan, and therefore, deny this request.

16.13. Special Request #16: Revision of Operational Tariffs

In Special Request #16, Cal-Am requests revisions to its Tariff Rules 15 and 16 to clarify and improve understanding for current customers and new developers.[679]

16.13.1. Proposed Changes to Tariff Rule 15

Tariff Rule 15 (Main Extensions) describes both the developer's responsibility when constructing a new project within the Cal-Am service area, as well as Cal-Am's responsibilities. Cal-Am's proposed tariff changes include "language to clarify project planning, sizing of facilities and adherence to all appropriate building codes applicable within each local service area."[680] Additionally, for its Central Division, Cal-Am proposes an additional revision to Tariff Rule 15 based upon the SWRCB's approval of the Eastwood Project and Cal-Am's execution of the Eastwood Agreement. The proposed tariff changes would provide subscribers to SWRCB License 13868A an exception from

[677] Exh. ORA-3 at 17-18.

[678] Joint-1 at 31.

[679] Exh. CAW-14 at 33. An exemplary markup of each tariff can be found at Attachment 4 of Exh. CAW-14.

[680] *Ibid*.

facilities fees due to the fact that these subscribers are already paying for and obtaining their own water supplies.[681]

ORA states that the proposed revisions seem to help clarify many of the details of the tariff.[682]

We find reasonable and approve Cal-Am's proposed changes to Tariff Rule 15. Cal-Am provides sufficient justification for its proposed changes and these proposed changes are not opposed by any party.[683]

16.13.2. Proposed Changes to Tariff Rule 16

Cal-Am also proposes changes to its Tariff Rule 16 (Service Connections, Meters, and Customer Facilities) to better define Cal-Am's responsibility in providing service to customers through existing facilities.[684] Cal-Am contends that the tariff's current use of the term "Connection Fee" has been a source of confusion. Cal-Am originally proposed to replace this term with the term "Facility Connection Fee" to clarify that the fee covers the costs of prior facilities and not the cost to connect to the system.[685] The "Facility Connection Fee" would only be charged to customers where no previous service connection has been provided by Cal-Am at the premises in recognition of the fact that the new customer is connecting to facilities that have been supported by the existing rate base for transmission and production needs of the ratepayers.[686]

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681 Exh. CAW-11 at 17-18.

682 Exh. ORA-6 at 27.

683 *See* Exh. ORA-6, Attachment 11; Exh. CAW-11 at 17-18.

684 Cal-Am proposes additional changes to Tariff Rule 16 in Special Request #17.

685 Exh. CAW-14 at 33.

686 *Ibid*.

ORA raises concerns that Cal-Am's proposed language would remain confusing for customers. ORA notes that the Commission has previously defined a "Connection Fee" as "the actual cost of installing service pipe, meter box, and meter."[687] ORA also notes that the Commission has defined a "Facilities Fee" as "an amount representing a portion of the cost of additional production facilities, including storage and distribution facilities, that will be required because of a new connection.[688] ORA recommends that Cal-Am use these two definitions to clarify its tariff rather than replacing the term "Connection Fee" with the term "Facility Connection Fee."

In response to Cal-Am's concerns, Cal-Am agrees that the term "Facility Fee" should be used in place of the term "Facility Connection Fee."[689]

We agree that Cal-Am's proposed use of the term "Facility Fee" may help to reduce customer confusion. Cal-Am's proposed use is consistent with how the Commission has previously defined this term. Therefore, we approve Cal-Am's proposal to replace the term "Facility Connection Fee" or "Facilities Connection Charge" with "Facility Fee" in its original drafts of proposed Tariff Rule 16 and proposed Schedule No. CA-FEES.[690]

16.14. Special Request #17: Changes to Cross-Connection Tariff

In Special Request #17, Cal-Am requests two changes to Tariff Rule 16, which governs Cal-Am's cross-connection control program. The first request

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[687] Exh. ORA-6 at 27 quoting D.91-04-068 at 9; *see also* CPUC Standard Practice U-28-W.

[688] Exh. ORA-6 at 27-28 quoting D.91-04-068 at 11.

[689] Cal-Am Opening Brief at 179.

[690] *Ibid.*; Exh. CAW-14, Attachment 4.

seeks authorization for Cal-Am to have a third-party test a customer's backflow prevention device on the customer's behalf and pass the costs of that test on to the customer if the customer does not timely test and report those results to Cal-Am. [691] Under current tariff rules, customers must test backflow prevention devices annually and Cal-Am is authorized to disconnect the customer for failure to comply with the tariff rules.[692] Cal-Am contends that the "test-and-charge" system would significantly reduce disconnections, reduce the amount of work by the utility to enforce the tariff rules, and simplify the process for both the utility and customers. Further, Cal-Am argues that this system would prevent cost-shifting because the charge would pass directly to the responsible customer.

The second request seeks authorization for Cal-Am to require the installation of backflow prevention devices at any multi-unit, master-metered property without a complete evaluation of the cross connection hazard currently at the premises.[693] Cal-Am argues that requiring backflow prevention devices in these circumstances ensures the distribution system is protected from any potential threat posed by changing tenants and uses at a property, which otherwise can only be identified by random periodic inspection. In addition, Cal-Am argues that when multi-unit, master-metered properties are required to install backflow prevention devices, the costs of eliminating cross connection risks are borne by the customers creating the potential hazard, instead of all customers bearing the costs of an enhanced cross connection inspection and enforcement program.

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[691] Exh. CAW-14 at 34.

[692] *Ibid*. citing Cal. Code Regs., tit. 17, § 7605 and Tariff Rule 16.

[693] Exh. CAW-14 at 36-37.

ORA argues that Special Request #17 will improve system safety for all ratepayers and generally supports the request subject to the following conditions related to the "test and charge" proposal: (1) since Cal-Am will be passing through the costs of using a third-party tester to customers, Cal-Am should be required to demonstrate that the third-party services will be competitively procured; (2) although the third-party costs will be offset by the charge assessed to non-compliant customers, Cal-Am's processing fee will need to be recognized in the revenues adopted in the current proceeding; and (3) prior to authorizing this request, the Commission should require Cal-Am to identify the maximum processing fee that will be assessed against non-compliant customers and reflect the total estimated amount in adopted revenues as an offset to the authorized revenue requirements.[694]

Cal-Am agrees with ORA's recommendation that third-party services for its "test and charge" proposal should be competitively procured.[695] However, Cal-Am opposes ORA's recommendation that "test and charge" processing fees be offset against revenue requirement in this case.[696] Cal-Am contends that these are costs and activities that Cal-Am is not currently performing, and therefore, that the fees do not represent a change in the allocation of existing work but additional work.

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[694] ORA Opening Brief at 24-25.

[695] Joint-1 at 31-32.

[696] Cal-Am Opening Brief at 180. Cal-Am estimates that the total revenue that could be generated by this processing fee is approximately $28,100. (Exh. CAW-24 at 10.)

In Joint-1, Cal-Am and ORA stipulate that Cal-Am should record the processing fees and any customer reimbursement of costs associated with third-party services as miscellaneous revenue for review in the next GRC.[697]

We find Cal-Am's justification for its requested changes to Tariff Rule 16 in Special Request #17 to be reasonable. The request is unopposed with the exception of the conditions recommended by ORA. Cal-Am is in agreement with ORA's recommended condition that third-party services for the "test and charge" proposal should be competitively procured and we find this condition to be reasonable and in ratepayers' interests. We also find reasonable Cal-Am and ORA's stipulation regarding treatment of the processing fees and costs reimbursed by customers. Therefore, we approve Cal-Am's requested modifications to Tariff Rule 16 in Special Request with the following conditions: (1) third-party services related to the "test and charge" system shall be competitively procured; and (2) Cal-Am shall record the processing fees and any customer reimbursement of costs associated with third-party services as miscellaneous revenue for review in the next GRC.

16.15. Special Request #18: Sustainable Groundwater Management Act Memorandum Account

In Special Request #18, Cal-Am requests authorization to establish a memorandum account that tracks its costs of complying with the Sustainable Groundwater Management Act (SGMA). SGMA sets a comprehensive framework to regulate groundwater and requires the designation of groundwater sustainability agencies and the adoption of groundwater

[697] Joint-1 at 31-32.

sustainability plans for basins that the Department of Water Resources designate as medium- or high- priority. Some of Cal-Am's districts are located within these medium- or high- priority basins. Hence, Cal-Am expects to incur significant costs to comply with the new SGMA regulations and argues that it is currently uncertain about the amount of costs needed to comply with SGMA. For these reasons, Cal-Am requests a memorandum account to track the costs of meeting the requirements of the new SGMA regulations.

ORA does not oppose Cal-Am's request to establish the SGMA memorandum account but recommends that the Commission impose additional reporting requirements or more stringent guidelines before Cal-Am can recover any recorded costs. ORA argues that the request to record costs associated with complying with the SGMA is overly broad and that more stringent guidelines ensure that only reasonable costs are recorded. ORA recommends that Cal-Am should, in addition to demonstrating that each recorded cost is reasonable and prudent, identify each cost incurred, the purpose of each cost, the reason Cal-Am incurred each cost, and proof that each cost was necessary to be in compliance with the SGMA. ORA further recommends that, for work performed by an employee related to the SGMA, Cal-Am must identify each employee by his employee identification number, position title and show the number of hours the employee worked, the purpose of the work performed, and proof that the work was needed to comply with SGMA. ORA argues that these additional reporting requirements help to ensure that only reasonable costs are recorded, which will not only ease review of the recorded costs by Commission staff but also reduce the number of costs that would be contested. In addition, ORA recommends that Cal-Am reduce the balance in the account by payments from any groundwater sustainable agencies or any other recovered costs.

Cal-Am argues that ORA's recommendation for a heightened standard of reporting would result in the Commission second-guessing a public agency because Cal-Am would be justifying costs that were already determined to be prudent by a public agency. Cal-Am also argues that ORA's recommendations for employee time documentation requires the Company to institute a separate and tedious timekeeping system. Instead, Cal-Am recommends that the Commission model the Affiliate Transaction Rules, in which employees can devote up to five percent of their time to another regulated affiliate without the need for a detailed accounting. Cal-Am proposes that the Commission allow it to book employee time in the account with a generalized explanation of the tasks performed, if the employee used five percent or less of their time on SGMA compliance. Cal-Am agrees that any long-term staffing needs related to the SGMA compliance should be addressed in its next GRC.

Because the costs to comply with SGMA cannot be accurately forecasted at this time, the Commission finds it reasonable for Cal-Am to create a Sustainable Groundwater Management Act Memorandum Account to record costs of complying with the new SGMA regulations. The Commission also agrees with ORA that, as proposed, the account would allow Cal-Am to record a very broad category of costs and that it is reasonable to set additional reporting guidelines in the account to help the Commission review these costs more efficiently and effectively. ORA's recommended guidelines, however, are overly stringent and burdensome. We thus adopt a modified version of ORA's recommendations. For every cost that Cal-Am records in the SGMA Memorandum Account, Cal-Am must document and identify each cost incurred, the purpose of each cost, and an explanation of why the costs are necessary to comply with the SGMA. Cal-Am may book the costs of employees who spend less than five

percent of their time related to the SGMA into the account, with a general explanation of the work the employee performed. Cal-Am shall provide additional information for costs incurred by employees who spend more than five percent of their time related to SGMA compliance, identifying each of these employees by their employee identification number, position title, the number of hours the employee worked, and the purpose of the work performed. Within 60 days of the issuance of this decision, Cal-Am shall file a Tier 2 advice letter with Water Division to establish the Sustainable Groundwater Management Act Memorandum Account and propose tariff language that includes the additional reporting guidelines ordered in this decision.

17. Conservation

17.1. Budget

Cal-Am requests a conservation budget of $4,980,552 for all districts for the years 2018-2020. This conservation budget request does not include MPWMD's separate budget request of $989,000 for the Monterey County District for the years 2018-2020. The total joint 3-year conservation budget request is $5,969,552.[698]

ORA recommends a reduction of $512,400 to Cal-Am's conservation budget.[699] ORA recommends that Cal-Am's budget be based on the lesser of Cal-Am's proposed budget or the amounts Cal-Am actually spends on its conservation programs as reflected in Cal-Am's "Water Conservation Program

[698] Exh. CAW-9 at 10.

[699] Exh. ORA-5-A-2 at Table 2-1.

2015 Annual Summary Report (2015 Water Conservation Report)."[700] ORA states that its recommendation is based on the fact that actual expenditures have proven to be sufficient in achieving conservation targets.[701]

Cal-Am argues that ORA's recommendation is based on a flawed methodology for the following reasons: (1) the adopted settlement in D.15-04-007 authorized the three-year conservation budget to be moved between the three rate case years as long as the total three-year funding levels are not exceeded, and therefore, it is inappropriate to use only the 2015 actual expenditures to extrapolate the actual three-year expenditure level for the 2015-2017 period; (2) D.15-04-007 was not issued until April 2015, and therefore, Cal-Am had no authority for collecting a conservation surcharge and suspended several conservation programs served by external contractors for the first three months of 2015; and (3) 2015 was an extraordinary year with respect to water conservation due to the prolonged drought and although Cal-Am significantly increased conservation activities related to turf removal incentives, a majority of these costs were not recorded from the conservation budget but in the Conservation & Rationing Memorandum Account for each service area.[702]

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[700] Exh. ORA-5 at 17. Cal-Am's 2015 Water Conservation Report can be found as an attachment to Schedule E-3 of Cal-Am's 2015 Annual Report submitted to the Commission, which is available at: ftp://ftp.cpuc.ca.gov/waterannualreports/Water%20Division/Annual%20Reports/2015/Class%20A/California-American%20Water%20-%202015%20Annual%20Report/California-American%20Water%20-%202015%20Annual%20Report%20(revised).pdf. Official notice of the 2015 Water Conservation Report is taken pursuant to Rule 13.9 and Ev. Code § 452(h). Consistent with Ev. Code, § 453(a), parties are provided with an opportunity "meet" the request for official notice in their comments on the proposed decision.

[701] Exh. ORA-5 at 18.

[702] Cal-Am Opening Brief at 183-185.

We agree with Cal-Am that 2015 expenditures alone may not be an appropriate basis for the 2018-2020 conservation budgets. On the other hand, although Cal-Am asserts in rebuttal testimony that it is on track to incur conservation expenses in line with its three-year authorized budget level for 2015-2017,[703] there is no information in the record regarding the amounts of expenditures for 2016-2017. Cal-Am submitted its annual Water Conservation Report for years 2011 through 2014 as part of its MDRs.[704] We have reviewed these conservation reports, the 2015 Water Conservation Report that forms the basis of ORA's recommendation, as well as Cal-Am's and ORA's testimonies to assess the reasonableness of Cal-Am's conservation budget requests. In general, we consider the average 2013-2015 expenditures in assessing the reasonableness of Cal-Am's proposed budgets. Cal-Am's conservation budgets for each of its districts are addressed in more detail below.

Cal-Am requests a budget of $256,000 for 2018-2020 for its San Diego District. ORA reduces Cal-Am's budgets for School Education Programs, Residential Plumbing Retrofit, and CII and LL Surveys[705] based on 2015 expenditures.[706] We find Cal-Am's requested budget for the Residential Plumbing Retrofit to be reasonable based on our review of Cal-Am's expenditures for 2013-2015.[707] However, Cal-Am's proposed budgets for School

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[703] Exh. CAW-27 at 4.

[704] These conservation reports can be found as attachments to MDR II.F.1.

[705] Commercial, industrial, institutional, and large landscape surveys.

[706] Exh. ORA-5-A-2, Attachment 3.

[707] 2013 Water Conservation Report at 4; 2014 Water Conservation Report at 4; 2015 Water Conservation Report at 4. Contrary to ORA's recommended budget, Cal-Am reported 2015

Footnote continued on next page

Education Programs and CII and LL Surveys exceed average expenditures for 2013-2015 and Cal-Am does not provide adequate justification for its budget requests. We find it reasonable to base these budgets on average expenditures for 2013-2015. Therefore, we approve 2018-2020 budgets of $65,000 for School Education Programs and $64,000 for CII and LL Surveys.[708]

Cal-Am requests a budget of $432,000 for 2018-2020 for its Ventura District. ORA recommends reductions to Cal-Am's budgets for School Education Programs, CII Rebates,[709] and the Landscape Upgrade Grant Program based on 2015 expenditures.[710] Based on our review of Cal-Am's expenditures for 2013-2015 for these budget categories and Cal-Am's description of proposed conservation measures for this GRC cycle, we do not find justification for adopting ORA's recommended reductions and find Cal-Am's requested budgets to be reasonable.[711]

Cal-Am requests a budget of $334,000 for 2018-2020 for its Los Angeles District. ORA recommends reductions to Cal-Am's budgets for School Education Programs, Residential Plumbing Retrofit, and CII Rebates based on

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expenditures of $18,967 for the Residential Plumbing Retrofit line item. (2015 Water Conservation Report at 7, Table 3.)

[708] 2013 Water Conservation Report at 4; 2014 Water Conservation Report at 4; 2015 Water Conservation Report at 4.

[709] Attachment 3 of Exh. CAW-5-A-2 erroneously presents Cal-Am's and ORA's proposed budgets for the CII Rebates line item in the the CII and LL Surveys line item and proposed budgets for the CII and LL Surveys line item in the CII Rebates line item. (*See* Exh. ORA-5 at 18; Exh. CAW-9, Attachment 3.)

[710] Exh. ORA-5-A-2, Attachment 3.

[711] 2013 Water Conservation Report at 9; 2014 Water Conservation Report at 10; 2015 Water Conservation Report at 10.

2015 expenditures.[712] We find Cal-Am's requested budget for the Residential Plumbing Retrofit line item to be reasonable based on 2013-2015 expenditures.[713] We find that Cal-Am has failed to justify its proposed budgets with respect to the School Education Programs and CII Rebates budgets. However, we also do not find reasonable ORA's recommendation to base these budgets on 2015 expenditures alone. Rather, we find it reasonable to base these budgets on average expenditures for 2013-2015. Therefore, we approve 2018-2020 budgets of $55,000 for School Education Programs and $7,500 for CII Rebates.[714]

Cal-Am requests a budget of $2,298,500 for 2018-2020 for its Monterey District (excluding the MPWMD conservation budget). ORA recommends a $46,000 reduction to Cal-Am's proposed budget for CII and LL Surveys based on 2015 expenditures.[715] We find Cal-Am's requested budget for this line item to be reasonable based on 2013-2015 expenditures.[716]

Cal-Am also requests to retain its option for an additional $100,000 in emergency public outreach funding for the Monterey District.[717] Cal-Am asserts that this optional funding was approved as part of a partial settlement agreement in Cal-Am's 2010 GRC but provides no explanation as to why this optional

[712] Exh. ORA-5-A-2, Attachment 3.

[713] 2013 Water Conservation Report at 13; 2014 Water Conservation Report at 15; 2015 Water Conservation Report at 15.

[714] 2013 Water Conservation Report at 13; 2014 Water Conservation Report at 15; 2015 Water Conservation Report at 15.

[715] Exh. ORA-5-A-2, Attachment 3.

[716] 2013 Water Conservation Report at 18; 2014 Water Conservation Report at 19; 2015 Water Conservation Report at 20.

[717] Exh. CAW-9 at 20-21.

funding would be justified or reasonable for this GRC cycle. Therefore, we decline to approve the optional funding for emergency public outreach.

Cal-Am requests a budget of $775,000 for 2018-2020 for its Sacramento District. ORA recommends reductions to Cal-Am's budgets for School Education Programs, Water/Energy Direct Installations – Low Income, CII Rebates, and CII and LL Surveys based on 2015 expenditures.[718] We find Cal-Am's requested budget for CII Rebates to be reasonable based on 2013-2015 expenditures.[719] Cal-Am's proposed budgets for School Education Programs, Water/Energy Direct Installations – Low Income, and CII and LL Surveys exceed average expenditures for 2013-2015 and Cal-Am fails to justify the reasonableness of its proposed budgets. We find it reasonable to base these budgets on average expenditures for 2013-2015. Therefore, we adopt 2018-2020 budgets of $90,500 for School Education Programs, $66,000 for Water/Energy Direct Installations – Low Income, and $230,000 for CII and LL Surveys.[720]

Cal-Am requests a budget of $59,500 for 2018-2020 for its Larkfield District. ORA recommends reductions to Cal-Am's budgets for Public Information Programs, School Education Programs, Residential Water Surveys, and CII and LL Surveys based on 2015 expenditures.[721] We find Cal-Am's requested budget for Public Information Programs to be reasonable based on 2013-2015

[718] Exh. ORA-5-A-2, Attachment 3.

[719] 2013 Water Conservation Report at 28; 2014 Water Conservation Report at 29; 2015 Water Conservation Report at 27.

[720] 2013 Water Conservation Report at 28; 2014 Water Conservation Report at 29; 2015 Water Conservation Report at 27.

[721] Exh. ORA-5-A-2, Attachment 3.

expenditures.[722] Based on review of Cal-Am's expenditures for 2013-2015, we do not find Cal-Am's proposed budgets for School Education Programs, Residential Water Surveys, and CII and LL Surveys to be reasonable or justified. Rather, we find it reasonable to base these budgets on the average 2013-2015 expenditures for these categories. Therefore, we approve 2018-2020 budgets of $1,900 for School Education Programs, $2,300 for Residential Water Surveys, and $2,000 for CII and LL Surveys.[723]

Cal-Am also makes budget requests for 2018-2020 for conservation staffing that it does not include in the conservation budgets. In May 2015, Cal-Am converted four intern positions, one each in San Diego, Ventura, Los Angeles, and Sacramento, into full-time conservation representative positions.[724] The salaries of these four converted positions are currently being paid out of the conservation budget, however, Cal-Am has removed these labor expenses from the conservation budgets and included them in the district operations labor budgets for 2018-2020.[725] Cal-Am proposes 2018-2020 budgets of $152,880 for salary and $53,508 for corresponding overhead expenses for each of these positions.[726] We find reasonable and approve Cal-Am's proposed 2018-2020 budgets for conservation staffing but find that these budgets should remain in the conservation budgets. Cal-Am does not adequately justify moving these

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[722] 2013 Water Conservation Report at 32; 2014 Water Conservation Report at 33; 2015 Water Conservation Report at 32.

[723] 2013 Water Conservation Report at 32; 2014 Water Conservation Report at 33; 2015 Water Conservation Report at 32.

[724] Exh. CAW-9 at 6.

[725] *Ibid*.

[726] *Id*., Attachment 3.

conservation staff expenses from the conservation budgets to the district operations labor budgets. Keeping these expenses in the conservation budgets will make it easier to track these expenses and will help to ensure that authorized conservation staffing expenses are spent on conservation efforts.

17.2. Flexibility to Shift Between Best Management Practices (BMP) Rate Categories

In D.15-04-007, the Commission approved a partial settlement agreement that, with the exception of specified categories, allowed Cal-Am to shift authorized conservation budget amounts between Best Management Practices (BMP) rate categories within a district as necessary.[727] Cal-Am requests that the Commission continue to authorize this flexibility.[728] Cal-Am contends that this flexibility allows Cal-Am to fund programs adequately depending on current market and demand situations. For example, this would allow Cal-Am to take advantage of co-funding opportunities that arise through wholesalers or other partnership programs, which cannot be foreseen earlier in the rate case.

ORA opposes this request. ORA argues that these funds are tracked in a one-way memo account[729] to be refunded in the event that Cal-Am does not utilize the funds as budgeted. ORA contends that if Cal-Am is allowed to shift

[727] 2013 GRC Settlement at 104. The 2013 GRC Settlement provided that the Public Information Program category for all districts and the Monterey District's rebates program would be subject to spending caps. (*Ibid*.)

[728] Cal-Am Opening Brief at 187-188.

[729] The expenses are actually tracked in a one-way balancing account.

funds between BMPs and also between years (as previously authorized), there will be no way to account for the amounts due to be refunded to ratepayers.[730]

We find reasonable Cal-Am's request that the Commission continue to allow the flexibility to move dollars between BMPs within a service area as deemed necessary. All of the BMPs support conservation efforts. We find that giving Cal-Am the flexibility to respond to conservation opportunities and situations that arise will allow for a more effective overall conservation program. Cal-Am shall continue to track conservation expenses in a one-way balancing account with any unspent funds refunded to ratepayers on an annual basis after the end of each year of this rate case cycle.[731] Cal-Am shall file a Tier 2 advice letter no later than 45 days after the end of each year providing an accounting of conservation funds spent with supporting documentation, as well as a proposal to refund to customers any unspent budgeted funds. Given that the Commission authorized similar treatment of these expenses in Cal-Am's past GRC, we see no reason why Cal-Am would be unable to account for the amount to be refunded to ratepayers based on the overall budget.

18. Service Reliability Data

ORA argues that the Commission should order Cal-Am to report more robust reliability data because the Commission currently does not receive meaningful data on the reliability of service for the water utilities under its jurisdiction. ORA specifically recommends that the Commission direct Cal-Am to report the service interruption data that it is required to maintain under

[730] ORA Reply Brief at 49.

[731] In the 2013 GRC, the Commission authorized Cal-Am to shift funds between rate case years but Cal-Am does not make any such request in this GRC.

General Order 103-A (Rules Governing Water Service, Including Minimum Standards for Operation, Maintenance, Design and Construction) in its next GRC.[732]

Cal-Am argues that there is already a robust framework and system of recordkeeping that is already in place under the Commission's rules and practices, including General Order 103-A.[733] Cal-Am contends that ORA's recommendation is unnecessary and unwarranted and should be rejected.

General Order 103-A already contains various reporting requirements and we decline to make any modifications to these reporting requirements. To the extent that additional or changed reporting requirements are warranted, these are changes that should be looked at for all water utilities, not just Cal-Am.

19. Customer Notices and Access to Information

ORA argues that Cal-Am's published notices of PPHs did not accurately identify the ratepayers impacted by the proposals in the application because it did not mention the 10% increase to wastewater services proposed in the Monterey County District.[734] ORA also argues that Cal-Am did not provide the general public with sufficient access to data supporting its application. ORA recommends that that the Commission require Cal-Am to publish notices that indicate all primary services that are affected by its proposal in the application and make available for online viewing or download all non-confidential data supporting future general rate case applications. ORA also requests that the

[732] ORA Opening Brief at 159.

[733] Exh. CAW-24 at 4-7.

[734] ORA Opening Brief at 159; Exh. ORA-8 at 21.

Commission order Cal-Am to collaborate with ORA in the drafting of PPH notices.

Cal-Am states that the PPH notice criticized by ORA was specifically reviewed and approved by the Commission's Public Advisor's Office prior to newspaper publication and that it provided notice about the impact of the application on Monterey Wastewater customers through a number of other means.[735] Cal-Am further states that it would be happy to make rate case documents more available to the community.

Although PPH notices are reviewed by the Commission's Public Advisor's Office, it is still the utility's responsibility to ensure that the notice is adequate. Cal-Am did provide notice of the impact of its application on wastewater services in its GRC Application notice but did not provide this information in the PPH notice.[736] In future GRCs, Cal-Am is directed to provide this information in the PPH notices as well. We decline to adopt ORA's recommendation to order Cal-Am to collaborate with it in the drafting of public notices. This task is within the purview of the Public Advisor's Office and we do not find justification for creating a different process for review of these notices for just one utility.

With respect to ORA's recommendation that the Commission direct Cal-Am to make available for online viewing all non-confidential data supporting its application, pursuant to Rule 13.7(f) of the Commission's Rules of Practice and Procedure, effective April 1, 2018, parties to Commission

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[735] Exh. CAW-30 at 7-8.

[736] Exh. CAW-30, Attachment 2; Exh. ORA-8, Attachment 5. Although Cal-Am's PPH notices for the Monterey County District did not mention the impact of its application on wastewater service customers, both active and passive wastewater customers were represented at the PPHs held in Seaside and Chualar.

proceedings are required to submit exhibits as "supporting documents" using the Electronic Filing System on the Commission's website. Therefore, Cal-Am is already required to make available online all non-confidential exhibits in future GRC applications.

20. Step Filings

ORA recommends that the Commission require Cal-Am to file 2019 and 2020 Escalation/Step Increase Filings (step filings) for each district in which the filing results in a decrease in tariffs.[737] ORA contends that if such a requirement is not imposed, Cal-Am could choose not to submit step filings for districts in which the filing could result in a rate decrease, resulting in Cal-Am overearning its authorized rate of return. ORA argues that requiring mandatory step filings for rate decreases would not require changes to the Rate Case Plan and that the Commission has required mandatory step filings in Cal-Am's last GRC and Golden State Water Company's last GRC.[738]

Cal-Am opposes ORA's recommendation. Cal-Am states that neither the Rate Case Plan nor Revised Rate Case Plan requires Cal-Am to submit step filings and that there are many reasons why a utility may not want to file for an attrition or escalation year rate change.[739] Cal-Am argues that imposing a mandatory filing could have serious implications to the company and would require formal changes to the Rate Case Plan.[740]

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[737] ORA Opening Brief at 156.

[738] *Id*. at 157 citing D.15-04-007 and D.16-12-067.

[739] Cal-Am Opening Brief at 191.

[740] *Ibid*.

We adopt ORA's recommendation that Cal-Am be required to submit 2019 and 2020 step filings in each district in which the filing results in a decrease in tariffs. We find this requirement to be in ratepayers' best interests. Without such a requirement, Cal-Am could be over-earning on its authorized rate of return without an adjustment being made until the next GRC. Cal-Am does not put forth a compelling reason why this requirement should not be adopted. We do not find such a requirement to be inconsistent with the requirements of the Rate Case Plan or Revised Rate Case Plan. The Revised Rate Case Plan states that each GRC decision shall include standard ordering paragraphs providing for escalation year increases subject to an earnings test, unless deviation is otherwise expressly justified in the decision.[741] Cal-Am contends that a mandatory filing could have serious implications to the company. Yet this requirement is consistent with requirements the Commission has imposed in Cal-Am's last two GRCs, as well as Golden State Water Company's last GRC, and Cal-Am does not explain what serious implications have arisen as a result.[742]

General Order 96-B, Water Rule 7.3.1(6) authorizes escalation filings to be filed as Tier 1 advice letters. Cal-Am is directed to file escalation filings for attrition years 2019 and 2020 through appropriate Tier 1 advice letter filings in conformance with General Order 96-B and the advice letter procedures found in Section VII of Appendix A attached to D.07-05-062 for every district where there is a projected decrease in rates. Cal-Am may also file escalation filings for 2019 and 2020 pursuant to these procedures for every district where there is a projected increase in rates. D.07-05-062 requires escalation filings to be filed no

[741] D.07-05-062, Appendix A at A-13.

[742] D.12-06-016 at 90 (OP 7); D.15-04-007 at 44 & 46 (OPs 8 & 13); and D.16-12-067 at 159 (OP 40).

later than 45 days prior to the start of the escalation year. In light of the effective date of this decision, any escalation filing for attrition year 2019 shall instead be filed within 90 days from the effective date of this decision and shall be effective 45 days from the date of filing.

21. Motion for Transitional Rate Relief

On October 22, 2018, Cal-Am filed a motion for transitional rate relief requesting that the Commission: (1) authorize Cal-Am to revise tariff schedules and cancel present schedules upon the effective date of the 2019 escalation year filing; (2) authorize Cal-Am to true-up its interim rates through the effective date of the 2019 escalation year rates; and (3) authorize 2019 escalation rates to take effect 45 days after the 2019 escalation filing, which will incorporate and subsume the revision of tariff schedules authorized for TY 2018. Cal-Am contends that the relief requested will: (1) help avoid multiple rate adjustments and associated customer confusion; (2) reduce the number of complicated filings with the Commission and associated pressure on Commission resources; and (3) fulfill the statutory purpose of Public Utilities Code Section 455.2 to make a utility whole through a true-up surcharge.

Cal-Am's motion is unopposed. Given the timing of the issuance of this decision and further adjustments to rates expected from the true-up of interim rates and 2019 escalation filing, we find it reasonable for Cal-Am's revised schedules for 2018 to be included and subsumed in the 2019 escalation filing. This will minimize the number of filings and need for multiple rate adjustments within a short period of time. This procedure is also consistent with how the

Commission has handled similar situations for other water utilities.[743] Therefore, we find reasonable and grant Cal-Am's requests in its motion for transitional rate relief except we find that the tariff implementing the interim true-up surcharge shall be filed by Tier 2 advice letter within 45 days after 2019 rates have been implemented.

22. Motion to File Under Seal

On June 6, 2017, ORA filed a motion to leave to file its Opening Brief under seal. ORA states that its Opening Brief includes information provided by Cal-Am, which Cal-Am labeled as confidential proprietary and market sensitive information. ORA states that its Opening Brief also includes information from hearing exhibits that were admitted as confidential exhibits under seal during evidentiary hearings in this proceeding. ORA's motion is unopposed.

Portions of ORA's brief cite to information designated as confidential in this proceeding.[744] Therefore, ORA's motion for leave to file its Opening Brief under seal is granted.

23. Comments on Proposed Decision

The proposed decision of ALJs Park and Lau in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on December 3, 2018 by Cal-Am, ORA,

[743] *See e.g.,* D.16-12-067 at 132 (Golden State Water Company GRC).

[744] ORA Opening Brief at 41-42 and 127.

MPWMD, and CTO.[745] Reply comments were filed on December 10, 2018 by Cal-Am, ORA, and CTO.

We have carefully reviewed the comments and find that modifications to the proposed decision are warranted as described below.

Based on comments by ORA, Cal-Am, and CTO, the proposed decision has been modified to clarify the tier breakpoints that are adopted for each ratemaking area.

Cal-Am notes that it has filed several advice letters for purchased water offsets, which have been approved by the Commission.[746] We find it reasonable for all costs for the previous GRC cycle to be incorporated into the revenue requirement. 2018 costs should continue to be collected through the purchase water offset surcharge until the next GRC.

Based on comments by Cal-Am, we clarify that leak adjustments expenses for the Monterey District may be included in base rates for this GRC cycle subject to refund based on the difference between the authorized amount of leak adjustment expenses and actual costs incurred. Cal-Am also contends that the requirement for Cal-Am to propose a leak adjustment policy for its Monterey District in its next GRC is moot in light of the Commission's approval of Advice Letter 1173 on September 7, 2017. We do not find this requirement to be moot. Advice Letter 1173 presents a loss of water adjustment form and various sample letters to be sent to customers but does not put forth a comprehensive leak adjustment policy.

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[745] It appears that LPWC also served comments to at least some of the persons on the service list. However, the Commission's Docket Office has no record that these comments were tendered for filing.

[746] Cal-Am December 3, 2018 Comments, Appendix B at 1-2.

Based on comments by ORA, the proposed decision has been modified to clarify the parties' positions regarding labor expenses and the labor expenses authorized in the decision.

Cal-Am comments that the Commission, in D.15-04-007, had authorized an additional $414,000 million and $634,800 for Cal-Am to spend on the Business Transformation project in 2014 and 2015, respectively. The proposed decision has been modified to account for these previously authorized amounts.

We find reasonable and adopt Cal-Am's proposal that Excess Protected ADIT balances for 2018, 2019, and 2020 be refunded to customers in three separate advice letters. In these advice letters, Cal-Am should also make any necessary revenue requirement adjustments to rate base caused by the return of the ADIT balance. We also clarify that refunds of Excess Protected ADIT balances should be returned no faster or sooner than allowed under IRS normalization rules.

In response to Cal-Am's comments that the $250,000 threshold for notification of any tax changes will trigger multiple reporting events caused by tax changes that may occur throughout a year, we modify this threshold to be $500,000, which is approximately 0.2% of Cal-Am's revenue requirement.

Cal-Am claims that its AMI pilots will cease since the proposed decision does not include any funding in rates for these programs.[747] We clarify that this decision does not eliminate any previous authorization for the AMI pilots. Cal-Am states that these expenses are being tracked in a memorandum account and requests authorization to recover these costs.[748] Cal-Am inappropriately makes

[747] *Id*. at 20.

[748] *Id*. at 21.

this request for the first time in comments on a proposed decision and does not provide any details regarding these costs. Cal-Am may seek recovery of these costs in a subsequent GRC or advice letter filing subject to a reasonableness review.

Based on comments by Cal-Am, the proposed decision has also been modified to require that the uncollectible costs removed from the San Clemente Dam Balancing Account amortization schedule are removed only for 2018 and the years thereafter.

In response to comments by Cal-Am, the proposed decision has been modified to adjust the compliance deadlines for Cal-Am to file various advice letters.

CTO also requests that the Commission grant its unopposed motion to set aside submission and reopen the record to admit Exhibits CTO-16 and CTO-17 filed on September 14, 2017. However, this motion was already granted by ALJ Park at the evidentiary hearing held on April 18, 2018.[749]

In addition, editorial changes have been made to the proposed decision to improve its clarity and to correct typographical and other minor errors.

Other than the modifications described above, we do not find that the comments raise any factual, legal, or technical errors that would warrant modifications to the proposed decision.

24. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Sophia J. Park and Elaine Lau are the assigned ALJs in this proceeding.

[749] RT, Vol. 18 at 1537.

Findings of Fact

1. On June 12, 2017, Cal-Am, LPWC, and MPWMD filed a joint motion for adoption of the Monterey Settlement, which did not include a comparison exhibit.

2. On July 27, 2017, Cal-Am filed a Motion to Accept Late Filed Comparison Exhibit in Support of Partial Settlement Agreement on Monterey Issues in the General Rate Case.

3. Granting Cal-Am's July 27, 2017 motion would prejudice other parties.

4. The record of this proceeding reflects that neither LPWC nor MPWMD had previously addressed or taken a position on most of the issues contained in the Monterey Settlement.

5. The issues in the Monterey Settlement were actively contested and litigated by ORA.

6. The Monterey Settlement is not reasonable in light of the whole record or in the public interest.

7. On August 18, 2017, Cal-Am and Coronado filed a joint motion for adoption of the Coronado Settlement, which did not include a comparison exhibit.

8. With the exception of the Coronado/Imperial Beach Recycled Water Project, Coronado had not previously expressed a position or provided testimony on the issues included in the Coronado Settlement.

9. The Commission's consideration of the new Southern Division consolidated rate design proposal would be prejudicial to the parties that actually litigated and contested the proposed Southern Division consolidation.

10. The Coronado Settlement is not reasonable in light of the whole record or in the public interest.

11. Cal-Am's methodology for forecasting annual consumption based on a two-year (2014-2015) average for its districts other than the Sacramento and Monterey main districts is reasonable.

12. Cal-Am's methodology for forecasting consumption for its Sacramento District based on 2015 recorded data is reasonable given the recent meter retrofit and introduction of three-tiered rate design.

13. Given the declining consumption pattern in the Monterey main district, the most recent data available is likely to be the most accurate.

14. It is reasonable to base 2018 consumption for the Monterey main system on 2016 recorded consumption.

15. Cal-Am customer forecasts are based on a 2011-2015 five-year historical average by customer class for all of its Districts except for its Sacramento, Monterey water and wastewater, and Los Angeles San Marino service areas.

16. Cal-Am deviates from the five-year historical average for customer forecasts in areas where unusual events that have occurred or are expected to occur.

17. ORA does not oppose Cal-Am's forecasts but adjusted the forecasts for the Spreckels Wastewater District, Las Palmas, Dunnigan Water Works, and Geyserville Water Works.

18. Cal-Am's customer forecasts with ORA's adjustments are reasonable.

19. Cal-Am's methodology for calculating system delivery forecasts is unopposed, adequately justified, and reasonable.

20. The Commission received several letters from the public regarding Cal-Am's proposed moratorium on new service connections for the Laguna Seca Subarea, which stated that the proposed moratorium substantially affects the

interests of property owners in the area without adequate notice and opportunity to be heard.

21. There is no evidence that Cal-Am provided notice regarding the proposed Laguna Seca Subarea moratorium to the public and affected customers.

22. Cal-Am has adequately justified its proposal to consolidate the Larkfield District into the rest of the Northern Division.

23. Larkfield is similarly situated to other smaller systems that the Commission recently approved for consolidation into the Sacramento District.

24. The proposed Northern Division consolidation will result in rate stabilization for the Larkfield District while resulting in minimal average rate impacts for customers in the Sacramento District.

25. In D.16-12-014, the Commission ordered that Meadowbrook customers be moved onto the Sacramento rate design in 2018.

26. Meadowbrook customers would experience a rate increase of approximately 236% if these customers are shifted to the Sacramento rate design in 2018.

27. It is reasonable to maintain the current Meadowbrook rate design through 2020.

28. The Ambler, Toro, Ralph Lane, and Garrapata systems have low customer counts.

29. Cal-Am's proposed Central Division consolidation will result in greater stability in rates because there will be a larger number of customers over whom to spread costs.

30. There are significant differences in water supply for the three districts in the Southern Division.

31. Given differences in water supply, the Ventura and San Diego districts are unlikely to ever benefit from the pooling of plant and infrastructure costs.

32. Cal-Am's proposed Southern Division consolidation would result in Ventura customers subsidizing customers in other districts during this GRC cycle.

33. There is no evidence that supports that subsidization by Ventura customers of other customers in the Southern Division would be reasonable or justified.

34. There is no evidence of high cost or affordability issues in the Southern Division pursuant to the tests adopted in D.14-10-047.

35. There is no evidence that there will be lowered administrative or regulatory costs as a result of the proposed Southern Division consolidation.

36. There is inadequate justification for adopting an across the board 1% productivity factor.

37. Cal-Am's proposal to eliminate the seasonal pricing structure in its Los Angeles District is adequately justified and reasonable.

38. Cal-Am's proposed three-tier rate design for its Sacramento District is reasonable and will make essential water levels of indoor water use more affordable while sending signals for customers to conserve.

39. ORA's general approach to district expenses of averaging five years of recorded data and excluding outliers fails to consider that there may be legitimate reasons why a specific forecast should not be based on the five-year average.

40. Cal-Am provided adequate justification as to why certain expenses should not be based on a five-year average.

41. Rather than a blanket approach for all expense categories, it is reasonable to analyze each expense category to determine the appropriate forecast for that category.

42. In developing the expense forecasts, it is reasonable to include all high "outlier years" as defined by ORA in developing the TY forecast with the exception of "Misc. Maint. – Transmission & Distribution - Service" for the Sacramento District.

43. Recorded 2011 and 2012 expenses for the Sacramento District's "Misc. Maint. – Transmission & Distribution - Service" line item should not be considered in developing the TY forecast since they include expenses related to conversions from flat rate to metered service and the record does not reflect that comparable amounts of conversions are planned for this GRC cycle.

44. It is reasonable to base the forecast for the "Misc. Maint. – Transmission & Distribution - Service" expense for the Sacramento District on the escalated 3-year average from 2013-2015.

45. There is inadequate justification to use a non-labor escalation factor of 2.3% for 2016.

46. There is a lack of justification for selectively choosing which rates to use from ORA's escalation memo.

47. Unless otherwise specified, it is reasonable to base escalation rates on ORA's August 2018 Escalation Memo.

48. Cal-Am's forecasts for purchased water are adequately justified and reasonable with the exception of certain purchased water unit costs that Cal-Am updated in a response to ORA's data requests found at Attachment 3 to Exh. ORA-4.

49. The difference between adopted and recorded purchased water costs are tracked in the MCBA.

50. ORA's methodology for forecasting purchased water costs is likely to significantly underestimate purchased water costs, which would result in a large surcharge to be collected from customers in the future.

51. Cal-Am's methodology for forecasting chemical costs overstates chemical costs and is unnecessarily complex.

52. ORA's proposed methodology for forecasting chemical costs is reasonable for all districts except for Monterey Wastewater.

53. Since the chemical costs for Monterey Wastewater are not tied to water production, it is reasonable to base the TY 2018 chemical costs for Monterey Wastewater on a three-year escalated average of total expenses.

54. Cal-Am's proposed methodology for forecasting uncollectible costs is consistent with how these costs have been allocated in the past and there is no justification in the record for deviating from this past practice.

55. With the exception of the Monterey District, there is no evidence that recorded 2015 leak adjustments would overstate leak adjustments.

56. The rate design and rates for the Monterey District are not comparable to those in Cal-Am's other districts, and therefore, it is not reasonable to use data from the non-Monterey districts to develop the forecast for Monterey.

57. Cal-Am has failed to demonstrate the reasonableness of its leak adjustment practices or recorded leak adjustments in its Monterey District.

58. There is no evidence in the record regarding any verifiable guidelines or standards for the issuance of leak adjustments in the Monterey District.

59. There is a lack of information in the record that supports the reasonableness of Cal-Am's 2014 and 2015 recorded leak adjustments in the Monterey District.

60. Given the high dollar amounts of Monterey District leak adjustment expenses, the variability in recorded expenses, and Cal-Am's failure to adequately justify previous expenditures, additional scrutiny of these expenses via a balancing account is appropriate.

61. Given that there is no evidence of a reasonable leak adjustment policy in Monterey, it is reasonable to establish a one-way balancing account for Monterey District leak adjustments so there is an incentive for Cal-Am to incur only reasonable leak adjustment expenses during this GRC cycle.

62. Given the variability in recorded Monterey District leak adjustment expenses, it is reasonable to establish the five-year 2011-2015 average of $2,370,879 as an annual budget for the Monterey District leak adjustment balancing account.

63. There is a lack of record evidence that Cal-Am is improperly manipulating its leak adjustment process to affect calculations of its NRW reward/penalty mechanism.

64. The purpose of the NRW reward/penalty mechanism is to provide Cal-Am with incentive to reduce unaccounted for water and to conform with what was expected in the control of water loss.

65. The Commission approved the current targets for the NRW reward/penalty mechanism nearly a decade ago and the targets are ripe for updating.

66. Based on recorded information and forecasts provided by Cal-Am, an NRW threshold of 7.0% for the Monterey District is a reasonable upper threshold above which penalties would accrue.

67. In order to incentivize Cal-Am to further reduce NRW levels, an NRW threshold of 5.0% for the Monterey District is a reasonable lower threshold below which rewards would be earned.

68. Cal-Am's requested 2018 budget of $635,191 for CPS-related work products is adequately justified and reasonable.

69. There is inadequate justification for Cal-Am's requested 2018 budget for GIS work products.

70. It is reasonable to approve a 2018 GIS budget of $327,081, which is 50% of Cal-Am's requested budget.

71. Cal-Am's proposed 2018-2019 deferred tank improvement projects and related budgets are reasonable.

72. Cal-Am's districts rent expense forecasts, as adjusted by ORA, are reasonable.

73. The revenue requirement for the Citizens Acquisition was set for the remainder of its 40-year life in D.12-06-016.

74. Changes to the federal income tax rate and rate of return affect the calculation of the Citizens Acquisition Premium.

75. Cal-Am's methodology for forecasting purchased power costs is reasonable except for the inflation rates used in the forecast.

76. It is reasonable to reduce Cal-Am's 2018 M&S forecast for the Ventura District by $29,154.03.

77. Cal-Am's 2018 forecasted labor expenses are derived from escalation factors Cal-Am uses for non-union employees andunion employees.

78. The escalation factor that Cal-Am proposes for union employees, 2.5%, is lower than the escalation factor Cal-Am proposes for non-union employees, but is the same escalation factor that the 2015 GRC decision adopted for all employees.

79. There is inadequate record evidence regarding the staffing and accounting changes that Cal-Am asserts occurred in 2016.

80. ORA's proposal of using 2015 recorded salary expenses as a basis for forecasting 2018 labor expenses is reasonable.

81. It is reasonable to escalate Cal-Am's 2015 recorded salary expenses by 2.5% annually to forecast its 2018 base labor expenses.

82. In recent GRCs, the Commission has reduced the requested expenses for incentive compensation when performance goals benefit both shareholders and ratepayers.

83. The performance metrics used in Cal-Am's Annual Performance Plan (APP) benefit both shareholders and ratepayers equally when these metrics are met.

84. The performance metrics used in Cal-Am's Performance Stock Units (PSU) benefit shareholders and ratepayers when these metrics are met.

85. Since Restricted Stock Units (RSU) are shares of stock that are subject to vesting, payouts for RSU incentives primarily target shareholder benefits.

86. Since severance costs vary significantly from year to year depending on the need to replace underperforming employees, as demonstrated by the recorded data from 2011-2016, using the recorded historical averages may not be the most accurate method of forecasting severance expenses.

87. An average of Cal-Am's and ORA's forecasts, or $84,118, is a reasonable forecast for Cal-Am's 2018 severance expenses.

88. The Willis Towers Watson's actuarial projections, which Cal-Am's pension expense forecast is based on, are not part of the record of this proceeding.

89. There is an overcollection of approximately $4 million, as of 2015, in the pension balancing account, because there is a declining trend in pension expense that resulted in Cal-Am's actual costs being below its authorized budget in 2013 to 2015.

90. It is reasonable to base the 2018 pension expense forecast on average costs for 2013-2015, escalated to 2018 dollars using the 2016 and 2017 escalation factors.

91. The Employee Stock Purchase Plan (ESPP) provides Cal-Am employees, both full-time and part-time, the opportunity to buy common shares of American Water stock at a 10% discount off the New York Stock Exchange price.

92. The inherent incentives presented in the ESPP program are for the employees to align their goals with shareholders, through sharing ownership of the stocks.

93. The benefits of the ESPP program are disproportionately greater for the Company than for ratepayers.

94. It is not reasonable for ratepayers to fund the ESPP program.

95. American Water's budgeted costs for group insurance expense sometimes vary significantly with the actual costs.

96. The most recent recorded data in the record on Cal-Am's incurred expenses for group insurance are the costs Cal-Am incurred in 2015.

97. Recorded data shows that American Water's recorded costs for group insurance costs did not vary from 2015 to 2016, changing by less than 1%.

98. ORA and Cal-Am did not accurately forecast Cal-Am's group insurance escalation rate for 2016, based on the actual escalation rate versus their forecasted escalation rates.

99. ORA's and Cal-Am's insurance escalation rate forecasts fall within a reasonable range of the annual insurance escalation rates seen in the historical data for 2011-2016.

100. It is reasonable to adopt the average of ORA's and Cal-Am's escalation factors, which is 7.0% and 6.7% for 2017 and 2018, respectively, for group insurance expenses, because both parties' forecasted escalation factors fall within a reasonable range of possibility but neither party's forecast is more accurate than the other.

101. It is reasonable to approximate Cal-Am's 2016 group insurance costs based on its 2015 recorded costs inflated by 7.0% for 2017 and 6.7% for 2018.

102. Cal-Am does not have much control of the negotiations of its group insurance costs, because its Parent Company, American Water, negotiates the insurance for Cal-Am and Cal-Am is only 5% of American Water in terms of employees.

103. The actual per-employee group insurance costs that American Water incurred varied significantly, from -0.3% to 13.3% over a short span of five years.

104. American Water's recorded group insurance costs from 2011 to 2016 show significant variability not only in the insurance costs that American Water incurred but also the rate of these cost changes.

105. Cal-Am's requested two-way balancing account for group insurance costs will protect both ratepayers and Cal-Am.

106. A forecast of $1,808,680 for 2018 general liability insurance expenses is reasonable.

107. Cal-Am's 2018 forecast for its Public Utilities Account 794, which records costs for workers compensation, injuries, and damages, is reasonable.

108. Cal-Am's forecast for its 2018 regulatory expense is reasonable, except for the expenses discussed in Section 8.3.1 through Section 8.3.5.

109. Cal-Am's active participation in Commission proceedings requires the support from both its Rate Department staff and outside consultants, because its staff is unable to handle the entire load of regulatory work, given the size, quantity and complexity of Cal-Am's proceedings, especially when proceedings overlap.

110. Cal-Am uses consultants to fill in when its Rate Department does not have the resources to meet its regulatory obligations during peak periods.

111. It is prudent for Cal-Am to hire consultants rather than full-time staff to perform regulatory work that is periodic during peak seasons.

112. It is prudent for Cal-Am to hire consultants with specialized skills such as Dave Stephenson, Lisbeth Hether, and Ken Parris, to perform work that Cal-Am's staff may not have the in-house expertise to do.

113. The invoices for services provided by the consultant, Anne Watson, fail to demonstrate that her services benefit ratepayers.

114. The continual service provided by Utility Consulting Group (UCG) is necessary to maintain the quality of the Results of Operation (RO) model and to improve the overall functionality of the RO model for the next GRC.

115. A forecast of $524,500 for consultant expenses for the next three-year GRC period is reasonable.

116. It is reasonable for Cal-Am to hire and contract with outside legal counsel services to meet its regulatory demands, especially during periods when proceedings overlap.

117. It is prudent for Cal-Am to hire outside counsel rather than hiring additional in-house counsel to meet periodic high demands.

118. It is prudent for Cal-Am to hire outside counsel to address complex matters that Cal-Am's in-house counsel do not have the experience and expertise to perform.

119. The billable rate that Cal-Am's outside counsel charges is comparable to the billable rate that the Commission has approved to fund intervenor attorneys with commensurate experience.

120. Cal-Am's forecast for outside legal counsel are for services performed for Commission regulatory matters that include, but are not limited to, the GRC.

121. Cal-Am fails to justify why 5.9% is a reasonable escalation factor for its legal expenses.

122. Cal-Am used costs for defending a Rule 1.1 violation when it developed its 2018 forecast of outside legal expenses and it is unreasonable for ratepayers to fund these costs.

123. Cal-Am acknowledges that a small fraction of the expenses may be related to the Rule 1.1 defense but did not provide any information showing how much of its recorded legal costs were not used in defending a Rule 1.1 violation.

124. ORA's estimate that Cal-Am spent $200,000 in outside legal expenses to defend a Rule 1.1 violation, is reasonable.

125. The expense related to defending a Rule 1.1 violation brings no ratepayer benefits and is a non-recurring expense.

126. It is reasonable to approve a 2018 forecast for outside legal expenses by first removing $200,000 of estimated Rule 1.1 defense costs from the previously 2015 GRC authorized funding of $1,242,845 and escalating this amount by the 2016 and 2017 escalation factors approved in this GRC.

127. Preparing and training witnesses for evidentiary hearings is a reasonable exercise and expense, regardless of the experience of the witnesses.

128. Cal-Am's forecast for witness training expenses results in double recovery because these expenses were also included in the invoices of Cal-Am's outside counsel expenses, which are funded through the Legal Fees category.

129. Cal-Am's forecast of witness training expenses is based on an attorney billable rate of $652 per hour, which is higher than the $567-$578/hour billable rate that this decision finds to be reasonable to contract an outside attorney with twenty years of experience.

130. The costs of travel, meals, lodging, and materials for counsel to provide witness training should not be forecasted based on an attorney's normal billable rate but should be based on the expected costs of the travels or meals.

131. It is reasonable to approve $23,000 for witness preparation expenses.

132. Cal-Am is scheduled to file its next Cost of Capital proceeding in 2020.

133. ORA's recommendation of funding only $60,000 for a single consultant for the Cost-of-Capital Proceeding expenses is not substantiated by the record of this proceeding.

134. Cal-Am's funding request for the Cost of Capital Proceeding expenses is reasonable.

135. The Commission, in several past general rate case proceedings, ordered regulated utilities to conduct compensation studies.

136. A compensation study is an important tool to give the Commission an independent analysis and evaluation of how a utility's compensation performs against its peer and the industry markets.

137. It is reasonable for Cal-am to conduct a compensation study during this GRC cycle.

138. American Water has recently acquired subsidiaries over the 2013-2015 period, increasing its number of customers by 24%, while Cal-Am had a minimal increase in customers during the same period.

139. The historical data shows that there are variances in Cal-Am's recorded percentage allocation factors, as demonstrated by the Regulated Ops Business Function.

140. To account for the dynamic cost allocation shifts caused by American Water's recent subsidiary acquisitions throughout this period, it is reasonable for Cal-Am to use an average of the recorded percentage allocation factors for 2013-2015.

141. Escalating Cal-Am's recorded 2016 Service Company labor expenses yields a more reasonable forecast of Cal-Am's 2018 costs than escalating Cal-Am's 2016 budget.

142. Cal-Am's 2016 recorded Service Company labor expenses is the best number offered in the record to approximate 2016 actual costs.

143. American Water is not an outside contractor for Cal-Am but is Cal-Am's Parent Company, even though American Water provides services to Cal-Am based on a contract.

144. It is not appropriate for Cal-Am to use the composite inflation factors to escalate Service Company labor expenses, because the composite inflation factors are for escalating costs of contracted services.

145. It is appropriate for Cal-Am to use labor escalation factors to escalate Service Company labor expenses, because the Service Company labor expenses are labor costs that American Water expects to incur.

146. ORA's recommended forecasting methodology for the Service Company Incentive Compensation expenses is consistent with the Commission directives

in this decision regarding allocation factors and Service Company labor expenses.

147. It is reasonable to forecast Cal-Am's 2018 Service Company Incentive Compensation expenses by first applying the average 2013-2015 recorded percentage factor to American Water's 2015 recorded expenses, and then escalating these figures by the 2017 and 2018 labor inflation factors in ORA's August 2018 Escalation Memo.

148. It is reasonable to approve 50% of Cal-Am's Service Company's APP and PSU forecasts and disallow funding for Cal-Am's Service Company's RSU expenses.

149. Cal-Am has not met its burden of proof in demonstrating that ratepayers benefit from increases in economies of scale and lower costs of capital that result from the acquisitions that the Business Development unit promotes.

150. It is not reasonable to approve ratepayer funding for Cal-Am's Business Development unit.

151. It is reasonable to disallow funding for Cal-Am's share of American Water's charitable contribution expenses.

152. Cal-Am spent $1.455 million in 2014 and $1.609 million in 2015 more than the amount the Commission approved for Information Technology (IT) capital projects related to the Business Transformation (BT) project in Cal-Am's previous General Rate Case (GRC) proceedings.

153. The cost overruns related to the BT project were for IT enhancements and upgrades that are normal and ongoing system improvements which are typical for any prudent company.

154. Cal-Am failed to explain why it did not forecast additional IT enhancement costs, which are normal IT system expenses, in its previous GRC.

155. The additional IT upgrade costs related to the BT project were costs Cal-Am spent without receiving prior Commission approval, even though these are normal operating expenses that Cal-Am should have requested in a prior General Rate Case before spending.

156. Cal-Am fails to demonstrate that the IT upgrade costs related to the BT project were prudently and reasonably incurred, and therefore, it is not reasonable to include these costs in the General Office rate base forecast.

157. Cal-Am's percentage allocation for the BT project has been based on Cal-Am's percentage of customers relative to American Water's total number of customers.

158. Cal-Am's number of customers relative to the total number of American Water customers has decreased, given recent acquisitions made by American Water's subsidiaries, Pennsylvania American Water and New Jersey American Water.

159. After accounting for the recent American Water acquisitions and counting water and wastewater services as separate customers, ORA calculated that Cal-Am's proportion of customers relative to the total American Water customers should be 5.33% in 2018.

160. It is reasonable to use a ratio of 5.33% to allocate American Water's 2018 IT-related plant costs, including for the BT project.

161. Ratepayers have funded a higher 2017 California Corporate Franchise Tax amount in rates than Cal-Am currently estimates.

162. It is equitable for ratepayers to receive the benefit of using the 2017 California Corporate Franchise Tax deduction amount that they funded to deduct from Cal-Am's estimated 2018 federal tax expenses.

163. It is reasonable to adopt the previously adopted California Corporate Franchise Tax deduction amount of $3.761 million to deduct from Cal-Am's 2018 federal income taxes.

164. Cal-Am made an error in its original workpapers regarding ad valorem tax expense.

165. California is on schedule to repay its federal loans in full before 2018, according to the California Employment Development Department, so that no Federal Unemployment Tax Act penalty will be imposed for the 2018 tax year.

166. Cal-Am withdraws Special Request #12, under which it requested to maintain the Tax Act Memorandum Account to record the impacts of bonus depreciation, because the Tax Cuts and Jobs Act's elimination of bonus depreciation eliminated the need for the account.

167. There is a possibility that assets placed in service after September 27, 2017 may still be eligible for bonus depreciation if there was a binding contract signed before this date and if Cal-Am incurred costs on or before this date.

168. The Tax Cuts and Jobs Act's reduction of the federal corporate tax rate had reduced Cal-Am's deferred taxes, which resulted in a net excess reserve in its deferred tax account, the ADIT account.

169. The net excess reserve in the Accumulated Deferred Income Tax account consists of protected and unprotected assets.

170. Cal-Am has not yet determined whether it can use ARAM or be permitted by the IRS to continue using RSGM in calculating the Excess Protected ADIT.

171. It is reasonable for Cal-Am to retain the Excess Protected ADIT in the Tax Memorandum Account.

172. Cal-Am has not sufficiently addressed why implementation costs of the TCJA cannot be forecasted in this proceeding and why these costs are substantial in terms of the amount of money that Cal-Am will incur.

173. Since there are no current plans for the Commission to comprehensively examine the impacts of the TCJA on the advances and contributions for all water utilities, it is not necessary for Cal-Am to record these impacts in a memorandum account.

174. In several recent general rate case proceedings, the Commission has directed utilities to establish a two-way Tax Memorandum Account to record the differences between the income tax expense authorized in the GRC proceedings and the tax expenses the utilities incur.

175. In several recent general rate case proceedings, the Commission has directed utilities to notify the Commission of any tax-related changes, any tax-related accounting changes, or any tax-related procedural changes that materially affect, or may materially affect, revenues.

176. For purposes of notifying the Commission of any material tax-related changes, it is reasonable to define a material tax change for Cal-Am as a potential increase or decrease of $500,000 or more, which is about a 0.2% of Cal-Am's 2018 revenue requirement.

177. There was a formula error in the Results of Operations model that Cal-Am used to calculate its initial revenue requirement request to support its Application related to the accumulated deferred revenue, which is an addition to rate base under Method 5.

178. In D.16-12-026, the Commission stated that it would decide on the appropriateness of each utility's AMI proposal in the respective GRC or standalone application in which the proposal was made.

179. Cal-Am has failed to demonstrate that its AMI proposal is cost-effective and that the potential benefits of deploying AMI in the San Diego, Ventura, Monterey, and Los Angeles County service districts justify the requested costs.

180. Cal-Am did not provide a cost-benefit analysis of its AMI proposal.

181. There is a great deal of variability in the amount of leak adjustments in the four districts in which Cal-Am is proposing to deploy AMI.

182. In districts other than Monterey, it is unlikely that the value of reducing customer leak adjustments would justify the costs Cal-Am is requesting for its AMI plan.

183. Cal-Am does not fully account for all costs associated with its AMI proposal.

184. Cal-Am's AMI plan does not include policies for addressing customer opt-outs as required by D.16-12-026.

185. Cal-Am does not specify which of two options it will use for operation of the AMI network and its cost estimates under each option are preliminary.

186. Cal-Am's application did not include a request for additional initial planning dollars for proposed recycled water projects and Cal-Am made this request for the first time in its rebuttal testimony.

187. Cal-Am fails to justify the amounts for additional initial planning dollars for recycled water projects requested for this GRC cycle.

188. Cal-Am's proposed methodology for calculating and allocating engineering overhead is reasonable.

189. Cal-Am's proposed methodology for calculating engineering overhead will result in a more accurate overall number since the overall number will be automatically adjusted as certain costs within the RO model are adjusted.

190. Engineering overhead reflects indirect costs, which are fixed costs that would not be reduced or eliminated based on reduction or elimination of a project's direct costs.

191. The 2018-2019 RP budgets for San Diego, Ventura, Toro, Monterey Wastewater, and Larkfield Districts are adequately justified and reasonable.

192. With the exception of the capitalized tank rehabilitation budget, Cal-Am's 2018-2019 RP budgets for the Los Angeles, Monterey County Water, and Sacramento County Districts are adequately justified and reasonable.

193. Cal-Am fails to justify its requested capitalized tank rehabilitation budget for 2018-2019 for the Los Angeles, Monterey County Water, and Sacramento County Districts.

194. Cal-Am spent $0 on capitalized tank rehabilitation in its Los Angeles District during 2010-2015 but spent approximately $684,000 on this category in 2016.

195. It is reasonable to approve 25% of Cal-Am's requested 2018-2019 budget for capitalized tank rehabilitation for the Los Angeles District.

196. Given Cal-Am's inconsistent spending on capitalized tank rehabilitation in the Monterey County Water District, ORA's recommendation to base the 2018-2019 budget on an escalated five-year average is reasonable.

197. Given Cal-Am's recent spending pattern on capitalized tank rehabilitation in the Monterey County Water District and given that there is record evidence regarding Cal-Am's spending for 2012-2016, it is reasonable to base the 2018-2019 budget on the escalated five-year average for the 2012-2016 period.

198. Given Cal-Am's inconsistent spending on capitalized tank rehabilitation in the Sacramento District, ORA's recommendation to base the 2018-2019 budget on an escalated five-year 2011-2015 average is reasonable.

199. Cal-Am acquired the Garrapata system in 2013.

200. ORA's recommendation to base the 2018-2019 RP budget for the Garrapata District on an escalated two-year 2014-2015 average is reasonable.

201. It is undisputed that the assets identified as Category 1 assets are currently not used and useful nor expected to be used and useful in TY 2018.

202. With the exception of the Richardson Well #1 in Los Angeles County, there is insufficient information in the record regarding whether the Category 1 assets will ever be used and useful again.

203. Since the Richardson Well #1 in Los Angeles County has been formally abandoned, it is reasonable to conclude that this asset will never be used and useful again.

204. With the exception of the Richardson Well #1, it is reasonable to remove the net book value and associated land value of the Category 1 assets from rate base.

205. The record supports that the Arlington Well and Garrapata #1 Well are likely to be used and useful in this GRC cycle. Therefore, it is reasonable to retain these assets in rate base.

206. Cal-Am presented conflicting information regarding the plan to return the Oakberry Well to active service and there is insufficient information in the record that supports that this asset will be used and useful during this GRC cycle. Therefore, it is reasonable to remove the net book value of this asset and associated land value from rate base for this GRC cycle.

207. The Oswego Well, Roanake Well, and Fish Canyon Well are not projected to be returned to service during this GRC cycle. Therefore, it is reasonable to remove the net book value of these assets and associated land book value from rate base for this GRC cycle.

208. In its response to MDR II.D.7, Cal-Am identified both the Chettenham Well and Green Meadow Booster Station as not used and useful for the past five years or in the proposed TY.

209. There is insufficient evidence that the Green Meadow Booster Station is reasonably necessary as an emergency backup station.

210. There is insufficient evidence that the Chettenham Well provides information useful to the utility's operations or that the well will be used and useful as backup supply during this GRC cycle.

211. It is reasonable to remove the net book value and associated land book value of the Chettenham Well and Green Meadow Booster Station from rate base.

212. Cal-Am has adequately substantiated $199,024.26 of TBD land values in the Ventura District and $355,338 of TBD land values in the Sacramento District, and therefore, it is reasonable to retain these land values in rate base.

213. Cal-Am has failed to demonstrate the used and useful status of the unsubstantiated TBD land values of $1,146,370 in the Sacramento District.

214. The Elverta Road Bridge Water Main and Arden Intertie projects have not been completed despite being funded in multiple rate cycles and Cal-Am does not provide sufficient information that demonstrates these projects are likely to be completed by the end of 2019.

215. There is uncertainty regarding Cal-Am's ability to acquire the land necessary for the Antelope 1 Million Gallon Tank, Booster Station and Well capital project and design and permitting for this project is not expected to begin until the 2020 attrition year.

216. It is not reasonable to retain the capital dollars for the New Lincoln Oaks well given that the 2012 CPS shows a maximum day demand firm capacity surplus in the Lincoln Oaks service area through 2025.

217. Cal-Am has not provided sufficient information to justify its requested funding for the Water Level Monitoring Program in the Sacramento District.

218. Cal-Am's proposed methodology for estimating costs for the Well Rehabilitation Program in the Sacramento District is consistent with how these costs have been estimated for the past 12 years and is reasonable.

219. A 2018 budget of $815,735 for the Dunnigan Water System Improvements Project is reasonable.

220. There is uncertainty regarding the schedule and costs for the Londonberry Drive Creek Crossing carryover capital investment project.

221. Under the schedule outlined by Cal-Am, the Londonberry Drive Creek Crossing project would not be completed until the 2020 attrition year.

222. There is insufficient evidence to demonstrate that Cal-Am double-counted overhead costs for the Well Rehabilitation Program in its Monterey District.

223. Cal-Am's requested costs for the Monterey Well Rehabilitation Program for the 2018-2019 period are reasonable.

224. A cost estimate differs from a contingency.

225. There is a lack of information in the record as to what accounts for the range in Cal-Am's construction estimates for the Monterey Booster Station Rehabilitation Program.

226. It is reasonable to approve a budget of $600,000 in construction costs plus the cost of add-ons (contingency and overhead) for the 2018-2019 period for the Monterey Booster Station Rehabilitation Program.

227. Cal-Am has adequately justified $4,272,854 in costs for the Los Padres Dam Fish Passage Project and it is reasonable to authorize recovery of these costs.

228. Authorizing recovery of costs for the Los Padres Dam Fish Passage Project in this proceeding will not result in double recovery of these costs.

229. Given the uncertainties regarding the Redrill Winston Well at Danford Reservoir capital project, including the lack of a confirmed location for the well, it is not reasonable to retain the project's costs in rate base for this GRC cycle.

230. There is insufficient information in the record to justify a $3,566,000 budget for the Redrill Winston Well at Danford Reservoir capital project.

231. The costs and timing of Cal-Am's proposed project to purchase groundwater rights in the Los Angeles District are speculative.

232. Given the speculative nature of the project, it is not reasonable to approve Cal-Am's requested budget for acquiring groundwater rights in the Los Angeles District.

233. Cal-Am has failed to justify the reasonableness of its overall budget for the Reconstruct Rosemead Operations Center project.

234. Cal-Am has adequately justified the need for the Reconstruct Rosemead Operations Center project and Cal-Am's requested design dollars for 2018 are reasonable.

235. Cal-Am has adequately justified the need for the Silver Strand Main Replacement project and Cal-Am's proposed replacement rate and budget for 2018-2019 are reasonable.

236. It is reasonable to approve initial design and preliminary engineering costs totaling $341,315 for 2018-2019 for the Coronado Reliability Supply Project but Cal-Am has failed to justify the remainder of the costs requested for the project.

237. Cal-Am uses its 2015 year-end CWIP balance to forecast CWIP amounts for TY 2018 and 2019.

238. Cal-Am's methodology for estimating CWIP is consistent with how these costs have been estimated for Cal-Am in the past and it is reasonable to approve Cal-Am's continued use of this methodology for estimating CWIP in TY 2018 and 2019.

239. There is inadequate justification for adopting ORA's proposal to remove all costs aged over one year from the 2015 CWIP ending balance to forecast CWIP amounts for TY 2018 and 2019.

240. There may be legitimate reasons why a project may take longer than one year to complete and it may be reasonable for costs associated with the project to remain in CWIP.

241. Cal-Am's proposed method of using the ratio of accounts receivable to credit sales method to calculate collection lag is consistent with the preferred method set forth in Standard Practice U-16-W.

242. ORA does not present sufficient justification for deviating from the preferred method for calculating collection lag set forth in Standard Practice U-16-W.

243. Cal-Am failed to adequately justify and substantiate a 10% increase in annual depreciation expense.

244. It is reasonable to deny Cal-Am’s requested depreciation increase for 2018-2020 and adopt a depreciation expense of $23.520 million for 2018, based on the plant assets approved in this proceeding.

245. Customers will experience a rate impact from the amortization of the San Clemente Dam Balancing Account because the under-collection of project costs, in addition to additional unanticipated costs related to mitigating flooding issues

in the Carmel River in January 2017, will increase the rates that Cal-Am needs to collect.

246. The extension of the recovery period for the San Clemente Dam Balancing Account for an additional six years by resetting the 20-year amortization period to begin on January 1, 2018 will mitigate the rate impacts customers will experience.

247. Cal-Am double-counted the uncollectible costs when it incorporated the costs of uncollectibles in the calculation of the San Clemente Dam revenue requirement for the years 2018 and thereafter, since Cal-Am already added in the uncollectible costs in another section of the Results of Operations model.

248. Cal-Am recorded $36,701 of costs related to filming releases and catering costs in the San Clemente Dam Balancing Account.

249. Cal-Am shareholders are funding the $995,394 that Cal-Am spent over the $49 million in construction costs that Cal-Am is requesting to recover in this GRC.

250. Since the time when Cal-Am first calculated the amortization of the San Clemente Dam Balancing Account and provided the resulting revenue requirement in its original testimony, Cal-Am's federal income taxes and cost of capital have changed.

251. Cal-Am recorded over $49 million in construction costs in the San Clemente Dam Balancing Account.

252. In support of its request for recovery of the San Clemente Dam Balancing Account, Cal-Am provided supporting documentation, including a large number of invoices, that was unorganized and did not reconcile with its request.

253. Cal-Am's current rate design is designed to encourage water conservation and has caused volatility in Cal-Am's revenue collection.

254. The balance of $1,270,964 in the California American Water Conservation Surcharge Balancing Accounts includes the balance of $115,960, which was previously authorized for recovery in Cal-Am's last GRC.

255. There is no Commission authority granting the establishment of the Coastal Water Project Balancing Account and there is no tariff language describing the existence of the account.

256. The Water Contamination Litigation Expense Memorandum Account has had a zero balance since the last rate case because water contamination litigation does not frequently occur, but when litigation does occur, Cal-Am needs to act expeditiously and will need to have a mechanism to ensure that it can recover these costs after a reasonableness review.

257. The process of re-establishing the Water Contamination Litigation Expense Memorandum Account may require more time than the shortened time span Cal-Am has to respond to high-profile water litigations and thus subjects Cal-Am to the risk of not being able to recover these costs.

258. Because the costs of water litigation may be substantial, a notice sent by Cal-Am when it begins recording these costs will help the Commission begin assessing the reasonableness of these costs.

259. The Seaside Groundwater Basin Memorandum Account has had a zero balance since the last general rate case.

260. Cal-Am has not presented sufficient evidence to demonstrate that it will not have advance notice from the Seaside Basin Watermaster such that the process of re-establishing the Seaside Groundwater Basin Memorandum Account through an advice letter will not allow the account to open in time to record Cal-Am's payments.

261. It will be beneficial for Cal-Am to file an advice letter to re-establish the Seaside Groundwater Basin Memorandum Account when it expects to incur costs from the Seaside Basin Watermaster in the future because the filing of the advice letter will alert Commission staff that Cal-Am will begin recording these costs, which may be substantial.

262. There are discrepancies in the accounting entries and balances recorded in the Seaside Ground Water Basin Balancing Account.

263. It is not apparent from the record in this proceeding what the correct balances and accounting entries are for the Seaside Ground Water Basin Balancing Account.

264. Given the historical water shortage issues in the Monterey District, as demonstrated by the recent drought and the decrease of withdrawals from the Carmel River, it is possible that MPWMD will implement water-rationing plans within the next GRC cycle.

265. If MPWMD suddenly implements water-rationing plans with little advance notice, then Cal-Am may not have sufficient time to re-open the Emergency Rationing Costs Memorandum Account through an Advice Letter filing.

266. The legal work involved in the Monterey Cease and Desist Order is more complicated than the legal work examined in D.15-10-025.

267. The rate of $575 per hour is the intervenor compensation rate approved for highly experienced attorneys in 2016.

268. Cal-Am still has not recorded any costs in the Los Angeles Main San Gabriel Contamination Memorandum Account since its last general rate case, despite the continual pollution and contamination problems in the Main San Gabriel Groundwater Basin.

269. The Commission has already approved the recovery of $1,551,197 recorded in the National Oceanic and Atmospheric Administration Endangered Species Act Memorandum Account.

270. In D.15-04-007, the Commission approved $1,018,090 that was recorded in the Endangered Species Act Memorandum Account for recovery.

271. After removing $1,018,090 from the Endangered Species Act Memorandum Account, the remaining balance in the account is $205,572.

272. The Commission had previously authorized $888,297 recorded in the Monterey Peninsula Water Management District Conservation Balancing Account for recovery.

273. The agreement between Cal-Am and ORA for Cal-Am to: (1) continue the Monterey Peninsula Water Management District Conservation Balancing Account and (2) file a Tier 2 advice letter to transfer the net balance to the CEBA, which should be reduced by the disputed balance of $888,297 and include any invoices for recovery by MPWMD for conservation costs incurred through April 17, 2017, is reasonable.

274. Special Request #3, which requests that franchise fees paid to various municipalities be treated uniformly for all its districts, will provide ratemaking consistency, transparency, and equity.

275. Cal-Am includes a forecast of $7,683 in franchise fees (labeled as "gross receipts tax") for the Larkfield District for TY 2018, which are collected through a separate surcharge.

276. The current process for the Sand City Desalination Plant Surcharge is overly complex and difficult to administer.

277. There is a lack of justification for the complex rate design for the Sand City Desalination Plant Surcharge.

278. Cal-Am's request that the costs for the Sand City production facility be included in base rates rather than be collected through a surcharge is reasonable.

279. The 10% cap on the amortization of the WRAM/MCBA balances is a ratepayer protection measure against rate shock and unreasonably high rates.

280. Given the potential for rate shock and unreasonably high rates, it is not reasonable to remove the 10% cap on amortization of the WRAM/MCBA balances as proposed by Cal-Am.

281. Given the decrease in rates due to changes to the federal tax rate and rate of return, it is reasonable to increase the WRAM/MCBA amortization cap to 15% for this rate cycle.

282. Currently, Cal-Am customers incur a $1.95 transaction fee when debit or credit card payments are made.

283. A "no fee" pilot that allows Cal-Am to waive individual transaction fees charges to customers who pay their bills with credit card bills is useful to gain understanding of customer preferences of bill payment options, as well as to assess the cost effectiveness of and customer interests served by different bill payment options.

284. Cal-Am fails to justify the reasonableness of its Monterey Active Wastewater System high cost fund proposal.

285. There is a lack of justification for requiring water customers to subsidize all active wastewater customers.

286. There is a lack of justification for deviating from the standard practice set forth in the Revised Rate Case Plan for determining the Pension and OPEB expense amounts for the escalation years of this GRC cycle.

287. Cal-Am’s proposed changes to Tariff Rule 15 clarify both the developer’s and Cal-Am’s responsibilities for main extensions.

288. Cal-Am's proposed changes to Tariff Rule 15 to provide subscribers to SWRCB License 13868A an exception from facilities fees is reasonable since these subscribers are already paying for and obtaining their own water supplies.

289. Cal-Am's proposed use of the term "facility fee" in Tariff Rule 16 is consistent with the Commission's use of this term in the past and will help reduce customer confusion.

290. Cal-Am's proposed changes to Tariff Rule 16 in Special Request #16 are reasonable and will improve system safety.

291. Since the third-party costs of Cal-Am's "test and charge" proposal will be paid by ratepayers, it is reasonable to require that the third-party services be competitively procured.

292. It is reasonable for Cal-Am to record the processing fees and any customer reimbursement of costs associated with third party services for its "test and charge" proposal as miscellaneous revenue for review in the next GRC.

293. Cal-Am will incur significant costs to comply with the new Sustainable Groundwater Management Act regulations, but cannot accurately forecast at this time the costs needed.

294. Allowing the Sustainable Groundwater Management Act Memorandum Account to record any costs of complying with the new Sustainable Groundwater Management Act regulations is overly broad.

295. Implementing additional reporting requirements in the Sustainable Groundwater Management Act Memorandum Account helps to ensure that Cal-Am records only reasonable costs, which will ease review of the recorded costs by Commission staff and potentially reduce the number of costs that would be contested.

296. 2015 expenditures alone are not an appropriate basis for the 2018-2020 conservation budgets.

297. There is no information in the record regarding the amounts of conservation expenditures for 2016 and 2017.

298. ORA's recommendations regarding the conservation budgets are based on 2015 recorded expenditures as reflected in Cal-Am's 2015 Water Conservation Report.

299. Cal-Am submitted its annual Water Conservation Report for years 2011 through 2014 as an attachment to its application.

300. In general, it is appropriate to base the conservation budgets on average 2013-2015 expenditures.

301. Cal-Am fails to justify its request for an additional $100,000 in optional emergency public outreach funding in the conservation budget for the Monterey District.

302. Cal-Am's proposed 2018-2020 budgets for conservation staffing are reasonable.

303. Cal-Am does not adequately justify moving the conservation staff expenses from the conservation budgets to the district operations labor budgets.

304. Keeping conservation staff expenses in the conservation budgets will make it easier to track these expenses and ensure that the expenses are spent on conservation efforts.

305. All the BMPs support conservation efforts.

306. Giving Cal-Am the flexibility to move dollars between BMPs within a service area is reasonable and will allow for a more effective conservation program.

307. Requiring Cal-Am to submit 2019 and 2020 step filings in each district in which the filing results in a decrease in tariffs is in ratepayers' best interests and is consistent with requirements the Commission has imposed in Cal-Am's last two GRCs.

Conclusions of Law

1. As the applicant, Cal-Am bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.

2. The standard of proof that an applicant must meet in rate cases is that of a preponderance of evidence.

3. Pursuant to Rule 12.1(d), the Commission will only approve settlements that are reasonable in light of the whole record, consistent with the law, and in the public interest.

4. Proponents of a settlement agreement have the burden of proof of demonstrating that the proposed settlement meets the requirements of Rule 12.1

5. Consistent with Commission precedent, contested settlements should be subject to more scrutiny and the reasonableness of the settlement must be thoroughly demonstrated by the record.

6. Cal-Am's Motion to Accept Late Filed Comparison Exhibit in Support of Partial Settlement Agreement on Monterey Issues in the General Rate Case filed on July 27, 2017 should be denied.

7. The Monterey Settlement fails to meet the requirements of Rule 12.1, and therefore, should not be adopted.

8. The Coronado Settlement fails to meet the requirements of Rule 12.1, and therefore, should not be adopted.

9. Cal-Am's consumption forecasts for all of its districts other than the Monterey main system should be adopted.

10. The Commission should adopt a consumption forecast for the Monterey main system based on 2016 recorded consumption.

11. Cal-Am's methodology to develop customer forecasts is consistent with the guidance provided in D.07-05-062.

12. Cal-Am's customer forecasts with ORA's adjustments should be adopted.

13. Cal-Am's methodology for calculating system delivery forecasts should be adopted.

14. Members of the public and customers that would be affected by the proposed Laguna Seca Subarea moratorium should receive notice and an opportunity be heard prior to any moratorium being imposed.

15. Cal-Am's request for a moratorium on new connections in the Laguna Seca Subarea should be denied.

16. Cal-Am's proposal to consolidate the Larkfield District into the rest of the Northern Division should be adopted.

17. Cal-Am's proposal to maintain the current Meadowbrook rate design through 2020 should be adopted.

18. Cal-Am's proposal to consolidate the Ambler, Toro, Ralph Lane, and Garrapata systems for ratemaking and tariff purposes should be adopted.

19. Cal-Am has failed to meet its burden of proof with respect to its Southern Division consolidation proposal.

20. Cal-Am's proposal to consolidate its Southern Division should be denied.

21. Cal-Am's proposed rate design for the proposed consolidated Southern Division should not be adopted.

22. Cal-Am's proposal to eliminate the seasonal pricing structure in the Los Angeles District should be granted.

23. Cal-Am's proposed three-tier rate structure for its Sacramento District should be adopted.

24. ORA's general approach to district expenses of averaging five years of recorded data and excluding outliers should not be adopted.

25. With specified exceptions, all inflation rates should be based on ORA's August 2018 Escalation Memo.

26. Official notice of ORA's August 2018 Escalation Memo may be taken pursuant to Rule 13.9 and Ev. Code, § 452(h).

27. Cal-Am's purchased water forecasts should be adopted with modifications to reflect the updated purchased water unit costs in Cal-Am's data responses to ORA found at Attachment 3 to Exh. ORA-4 or more recent purchased water costs approved by the Commission in advice letter filings.

28. ORA's proposed methodology for forecasting chemical costs for districts other than Monterey Wastewater should be adopted.

29. Chemical costs for Monterey Wastewater should be based on a three-year escalated average of total expenses.

30. Cal-Am's proposed methodology for forecasting uncollectible costs should be adopted.

31. Cal-Am's leak adjustment forecasts for its districts other than the Monterey District should be adopted.

32. Leak adjustment expenses must be supported by adequate documentation to enable the Commission to review the expenses for reasonableness.

33. The leak adjustment expense category must be sufficiently defined for the Commission to assess whether it is reasonable for these costs to be borne by all ratepayers.

34. A one-way Monterey District leak adjustment balancing account should be established with an annual budget of $2,370,879. Cal-Am should be authorized to include this amount in base rates during this GRC cycle subject to refund based on the difference between the authorized amount and actual costs incurred.

35. Cal-Am should be required to propose a leak adjustment policy for its Monterey District in its next GRC.

36. An upper NRW threshold of 7.0% of total production levels should be adopted above which penalties accrue in the Monterey District.

37. A lower NRW threshold of 5.0% of total production levels should be adopted below which rewards are earned in the Monterey District.

38. A CIS/GIS budget of $962,271 should be approved for TY 2018.

39. Cal-Am's proposed 2018-2019 deferred tank improvement projects and related budgets should be approved as set forth in Appendix D.

40. Pursuant to the Rate Case Plan and Revised Rate Case Plan, deferred tank painting expenses are subject to a single test year and two attrition years.

41. 2020 is not a forecasted TY for deferred tank painting expenses, and therefore, expenses for 2020 should not be approved in this proceeding.

42. Cal-Am's districts rent expense forecasts should be adopted with adjustments recommended by ORA.

43. Cal-Am's Citizens Acquisition Premium estimates should be modified to incorporate the new federal income tax rate of 21% and new rate of return adopted in D.18-03-035.

44. Cal-Am's methodology for forecasting purchased power costs should be adopted with the modification that the inflation rates should be based on ORA's August 2018 Escalation Memo.

45. Cal-Am's requested 2018 M&S budget for the Ventura District should be reduced by $29,154.03.

46. Cal-Am's shareholders should share 50% of the costs in funding the APP and PSUs for both Cal-Am and its Service Company.

47. Cal-Am's requests for RSU expenses for Cal-Am and its Service Company should be denied.

48. Cal-Am's request for a two-way group insurance balancing account should be approved subject to the terms and conditions specified in this decision.

49. Cal-Am should use an average of the recorded percentage allocation factors from 2013-2015, instead of using the recorded 2015 percentage allocation factor, when calculating its share of American Water's Service Company expenses.

50. Cal-Am should forecast its Service Company labor expenses using labor escalation factors and not composite inflation factors, because American Water is Cal-Am's Parent Company and not Cal-Am's contractor.

51. Cal-Am should forecast its 2018 Service Company labor expenses by escalating its 2016 recorded Service Company labor expenses with the 2017 and 2018 labor inflation factors published in ORA's August 2018 Escalation Memo.

52. Cal-Am should forecast its 2018 Service Company Incentive Compensation expenses by first applying the average 2013-2015 recorded percentage factor to American Water's 2015 recorded expenses, and then escalating these figures by the 2017 and 2018 labor inflation factors published in ORA's August 2018 Escalation Memo.

53. Cal-Am's request for ratepayer funding for its Business Development unit should be denied.

54. Cal-Am failed to meet the "preponderance of evidence" standard to demonstrate that additional IT upgrade costs related to the BT project were prudently and reasonably incurred.

55. Cal-Am's request for recovery of $1.455 million and $1.609 million in capital expenses it spent in 2014 and 2015, respectively, for the Business Transformation Information Technology project should be disallowed.

56. The allocation factor for 2018 should be changed to reflect American Water's recent acquisitions and the subsequent decrease in Cal-Am's proportion of American Water's customers.

57. Cal-Am should use 5.33% as the percentage allocation factor to derive its portion of American Water's Information Technology (IT)-related plant costs, including the Business Transformation (BT) Project.

58. Cal-Am should use the most recent federal income tax rate ordered by the Tax Cuts and Jobs Act and the most recent cost of capital ordered in D.18-03-035 when calculating the return on the Service Company's Rate Base.

59. The adopted 2017 California Corporate Franchise Tax expenses should be deducted from Cal-Am's 2018 federal income tax expenses.

60. Cal-Am's correction in the Results of Operations model related to the calculation of the ad valorem tax expense should be adopted.

61. Cal-Am should remove the Federal Unemployment Tax Act (FUTA) penalty from its 2018 forecasted FUTA expense.

62. The Tax Cuts and Jobs Act reduced the federal corporate income tax rate from 35% to 21%.

63. A 21% federal corporate tax rate should be adopted in accordance with the Tax Cuts and Jobs Act.

64. The Tax Cuts and Jobs Act repealed the Domestic Production Activities Deduction, which was provided by Section 199 of the Internal Revenue Code, for tax years beginning after December 31, 2017.

65. Cal-Am should remove the Domestic Production Activities Deduction from its 2018 revenue requirement forecast.

66. The Tax Cuts and Jobs Act eliminated bonus depreciation for assets acquired and placed into service after September 27, 2017.

67. The changes to bonus depreciation resulting from the Tax Cuts and Jobs Act in Cal-Am's Results of Operations model should be adopted.

68. Cal-Am should close the Tax Act Memorandum Account.

69. Cal-Am should record bonus depreciation resulting from the Tax Cuts and Jobs Act for assets with uncertain eligibility statuses in the Tax Memorandum Account until the Internal Revenue Service clarifies these eligibility statuses.

70. The Excess Protected Accumulated Deferred Income Tax must follow the normalization provisions of the TCJA, while the Excess Unprotected Accumulated Deferred Income Tax does not.

71. Cal-Am should refund the 2018-2020 Excess Protected Accumulated Deferred Income Tax to ratepayers, no faster or sooner than allowed pursuant to the normalization rules of the Internal Revenue Service.

72. The Commission has previously determined that flow-through is the appropriate method for refunding tax benefits to ratepayers.

73. Cal-Am should refund the entire $7.1 million of Excess Unprotected Accumulated Deferred Income Tax, amortized evenly over the 24-month period from 2019 to 2020, as a bill credit, based on the size of the customer's meter.

74. Cal-Am's request to track the implementation costs for the TCJA in a memorandum account should be denied.

75. Cal-Am's request to record the impacts of the TCJA on the advances and contributions in a memorandum account should be denied.

76. Cal-Am should establish a two-way Tax Memorandum Account to track any revenue differences resulting from the differences in the income tax expense authorized in the GRC proceedings and the tax expenses it incurs.

77. Cal-Am should record in the two-way Tax Memorandum Account: (a) the Excess Protected Accumulated Deferred Income Tax and (b) Bonus Depreciation for the limited assets where eligibility for bonus depreciation is uncertain.

78. Cal-Am should close the 2018 Tax Accounting Memorandum Account.

79. Cal-Am should notify the Commission of any tax-related changes, any tax-related accounting changes, or any tax-related procedural changes that materially affect, or may materially affect, revenues by filing a Tier 1 advice letter with the Water Division.

80. In D.18-03-005, the Commission ordered a new lower cost of capital for Cal-Am, which is effective January 1, 2018.

81. The new cost of capital, ordered in D.18-03-005, should be used to forecast Cal-Am's 2018-2020 revenue requirement.

82. Cal-Am's formula corrections in the most recent version of the Results of Operations model related to an error in calculating the accumulated deferred revenue, which is an addition to rate base under Method 5, should be adopted.

83. Cal-Am has the burden of affirmatively establishing that its proposed capital projects are just and reasonable.

84. The Rate Case Plan requires all significant capital additions to be identified and justified, including need analysis, cost comparison and evaluation, conceptual designs, and overall budget.

85. Cal-Am's request for widescale deployment of AMI in its San Diego, Ventura, Monterey, and Los Angeles County services districts and request for associated O&M expenses related to AMI should be denied.

86. A request made for the first time in rebuttal testimony prejudices other parties and does not provide customers notice of the rate impacts associated with the request.

87. Cal-Am's request for additional initial planning dollars for the Sacramento Recycled Water Project, Baldwin Hills Recycled Water Project, and Coronado/Imperial Beach Recycled Water Project should be denied.

88. Cal-Am's proposed methodology for calculating engineering overhead should be adopted.

89. No direct overhead costs for a project should be included in the engineering overhead.

90. Cal-Am's proposed 2018-2019 RP budgets for San Diego, Ventura, Toro, Monterey Wastewater, and Larkfield Districts should be adopted.

91. Cal-Am should be able to continue to manage its various district RP budget to an overall budget number, with flexibility to reallocate funds among individual RP line items as necessary over the course of the year.

92. With the exception of the capitalized tank rehabilitation budget, Cal-Am's 2018-2019 RP budgets for the Los Angeles, Monterey County Water, and Sacramento County Districts should be approved as requested.

93. Cal-Am's requested 2018-2019 budget for capitalized tank rehabilitation for the Los Angeles District should be reduced by 75%.

94. Cal-Am's 2018-2019 budget for capitalized tank rehabilitation for the Monterey County Water District should be based on the five-year 2012-2016 escalated average.

95. Cal-Am's 2018-2019 budget for capitalized tank rehabilitation for the Sacramento District should be based on the five-year 2011-2015 escalated average.

96. Cal-Am's 2018-2019 RP budget for the Garrapata District should be based on the two-year 2014-2015 escalated average.

97. Pursuant to the "used and useful" principle, utility property must actually be in use and providing service in order to be included in the utility's ratebase.

98. Assets that are no longer "used and useful" should be removed from rate base so that ratepayers are not paying for assets for which they are not receiving service.

99. It is appropriate to retire a utility asset where there is evidence that the asset is not used and useful, will never be used and useful again, and has no other existing used and useful plant on associated land.

100. The Commission has previously found that there must be a reasonable need for a backup asset to deem that asset as used and useful.

101. The Commission has previously authorized monitoring wells to be included in rate base where they provided useful information related to the utility's operations.

102. The net book value of the Category 1 assets minus the Richardson Well #1 (totaling $666,649) and associated land value (totaling $178,027) should be removed from rate base.

103. The Richardson Well #1 should be retired consistent with the accounting treatment for retired utility plant set forth in Standard Practice U-38-W.

104. The Arlington Well and Garrapata #1 Well should be retained in rate base.

105. The net book value of the Oakberry Well, Oswego Well, Roanoke Well, Fish Canyon Well, Chettenham Well, Green Meadow Booster Station, and the associated land value of these assets should be removed from rate base.

106. $199,024.26 of TBD land values in the Ventura District and $355,338 of TBD land values in the Sacramento District should be retained in rate base.

107. $1,135,370 of unsubstantiated TBD land values in the Sacramento District should be removed from rate base.

108. The following capital projects in the Sacramento District should be removed from rate base: the Elverta Road Bridge Water Main; Arden Intertie; Antelope 1 Million Gallon Tank, Booster Station and Well; and New Lincoln Oaks Well.

109. Cal-Am's request for funding for the Water Level Monitoring Program in the Sacramento District should be denied.

110. Cal-Am's cost estimates for 2018-2019 for the Well Rehabilitation Program in the Sacramento District should be approved.

111. A 2018 budget of $815,735 for the Dunnigan Water System Improvements Project should be approved.

112. Pursuant to the Rate Case Plan and Revised Rate Case Plan, rate base items are subject to two test years and an attrition year.

113. The costs of the Londonberry Drive Creek Crossing project should be removed from rate base for the current GRC period.

114. Cal-Am's requested 2018-2019 budget of $2,261,974 for the Monterey Well Rehabilitation Program should be approved.

115. A budget of $600,000 in construction costs plus the cost of add-ons (contingency and overhead) should be approved for the 2018-2019 period for the Monterey Booster Station Rehabilitation Program.

116. Cal-Am should be authorized to recover $4,272,854 in costs for the Los Padres Dam Fish Passage Project.

117. The costs of the Redrill Winston Well at Danford Reservoir capital project should be removed from rate base for this GRC cycle.

118. Cal-Am's requested budget for purchasing groundwater rights in the Los Angeles District should be denied.

119. Cal-Am's overall budget for the Reconstruct Rosemead Operations Center project should be denied but the requested design dollars for 2018 for the project should be approved.

120. Cal-Am's requested budget for 2018-2019 for the Silver Strand Main Replacement project should be approved.

121. Initial design and preliminary engineering costs totaling $341,315 for 2018-2019 for the Coronado Reliability Supply Project should be approved but the remainder of Cal-Am's requested budget for the project should be denied.

122. Cal-Am methodology of using its 2015 year-end CWIP balance to forecast CWIP amounts for TY 2018 and 2019 should be approved.

123. Cal-Am's proposed method of using the ratio of accounts receivable to credit sales method to calculate collection lag should be approved.

124. Cal-Am failed to meet its burden of proof to substantiate a 10% increase in annual depreciation expense.

125. Cal-Am’s requested depreciation increase for 2018-2019 should be denied.

126. Based on the plant assets approved in this proceeding, $23.520 million of depreciation expense should be adopted for 2018.

127. Los Angeles County's recommendation that Cal-Am phase in the deprecation adjustment over a period of time to lessen the impact on rates is moot.

128. Uncollectible costs should be removed from the calculation of the annual amortization of the San Clemente Dam costs for 2018 and the years thereafter, so that the uncollectible amount is not double counted for recovery.

129. Ratepayer recovery of $36,701 of San Clemente Dam costs related to filming releases and catering expenses should be disallowed and included as part of the $995,394 funded by shareholders.

130. The San Clemente Dam Balancing Account amortization should be modified to reflect the reduction in the federal tax rate and Cal-Am's cost of capital.

131. $49 million in construction costs recorded in the San Clemente Dam Balancing Account should be approved for recovery.

132. Cal-Am should provide detailed supporting documentation in any future filings that request cost recovery.

133. The California American Water Conservation Surcharge Balancing Accounts should remain open and the balance of $1,164,004 should be transferred to the CEBA, which reflects the removal of the $115,960 balance that was previously authorized for recovery in Cal-Am's last general rate case.

134. The following memorandum and balancing accounts should be closed: the Coastal Water Project Balancing Account, the Seaside Groundwater Basin Memorandum Account, and the Los Angeles Main San Gabriel Contamination Memorandum Account.

135. The following memorandum and balancing accounts should remain open: the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account,

the Water Contamination Litigation Expense Memorandum Account, the Seaside Ground Water Basin Balancing Account, the Emergency Rationing Costs Memorandum Account, the Monterey Peninsula Water Management District Conservation Balancing Account, and the Sacramento District Voluntary Conservation or Mandatory Rationing Revenue Adjustment Mechanism Memorandum Account.

136. Cal-Am should refund the balance of $1,623,491 that was over-collected in the Coastal Water Project Balancing Account by transferring the balance to the CEBA.

137. Cal-Am should file a Tier 1 Advice Letter with Water Division to notify the Commission within thirty days of the time when the Company begins to record costs in the Water Contamination Litigation Expense Memorandum Account and should report the water litigation case for which the costs are recorded.

138. Cal-Am should be authorized to reopen the Seaside Groundwater Basin Memorandum Account if Cal-Am incurs these costs in the future, with an earlier effective date, if necessary, by filing a Tier 2 advice letter with Water Division.

139. Cal-Am should be authorized to continue the Monterey Cease and Desist Order Memorandum Account and to transfer the account balance of $613,607 to the CEBA.

140. The account balances and actions, including transfer of the balances to the CEBA, for the twenty-five accounts listed in Section 15.18 (Other Undisputed Memorandum and Balancing Account Balances), which Cal-Am and ORA stipulated to, should be approved.

141. The continuation of the Consolidated Expense Balancing Accounts should be authorized and the transfer of any additional incremental balances authorized

for transfer in this decision to the Consolidated Expense Balancing Accounts should also be authorized.

142. The continuation of the National Oceanic and Atmospheric Administration Endangered Species Act Memorandum Account, including Cal-Am's ability to seek recovery of any future required annual payments through this account, should be authorized.

143. Recovery of the $1,551,197 balance in the NOAA/ESA Memorandum Account should be denied because the Commission has already authorized recovery of it through an advice letter.

144. $1,018,090 recorded in the Endangered Species Act Memorandum Account should not be authorized for recovery, because the Commission already authorized the recovery of this amount in D.15-04-007.

145. The continuation of the Endangered Species Act (ESA) Memorandum Account and the transfer of $205,572 from the ESA memorandum account to the CEBA should be authorized.

146. The continuation of the Purchased Water, Purchased Power, and Pump Tax Balancing Account, the removal of the Sacramento District from being included in the account, and the transfer of the $195,074 in account balance to the CEBA, should be authorized.

147. Pursuant to Commission Resolution W-4976, lost revenues associated with reduced sales should not be tracked in the Sacramento District Voluntary Conservation or Mandatory Rationing Revenue Adjustment Mechanism Memorandum Account but should be tracked in another memorandum account.

148. Cal-Am's request that franchise fees paid to various municipalities be treated uniformly for all of its districts should be granted.

149. $7,683 labeled as gross receipts tax should be removed from Cal-Am's TY 2018 forecast for the Larkfield District.

150. Special Request 4, which would eliminate the Sand City Desalination Plant Surcharge, should be granted.

151. The cap on amortization of WRAM/MCBA balances should not be eliminated but should be increased to 15% of the last authorized revenue requirement for each of Cal-Am's districts.

152. AB 1180 (Stats. 2016, Ch. 254) authorizes water corporations with greater than 10,000 service connections to operate pilot programs to evaluate bill payment options without imposing a transaction fee on its customers for using bill payment options.

153. Cal-Am should be authorized to establish a pilot program that allows it to waive individual transaction fees charges to customers who pay their bills with credit cards so long as the program fully complies with AB 1180.

154. Cal-Am's proposal for a Monterey Active Water System high cost fund should not be adopted.

155. Special Request #15 regarding calculation of Pension and OPEB expense amounts should be denied.

156. Cal-Am's proposed changes to Tariff Rules 15 and 16 in Special Request #16 should be granted with modifications.

157. Cal-Am's proposed changes to Tariff Rule 16 in Special Request #17 should be granted with the modifications.

158. Cal-Am should be authorized to create a Sustainable Groundwater Management Act Memorandum Account to record costs of complying with the new SGMA regulations.

159. Additional reporting guidelines should be set for the Sustainable Groundwater Management Act Memorandum Account to help the Commission review costs recorded in the account more efficiently and effectively.

160. Official notice of Cal-Am's 2015 Water Conservation Report may be taken pursuant to Rule 13.9 and Ev. Code, § 452(h).

161. Cal-Am's requested conservation budgets should be adopted with the following modifications: 2018-2020 budgets of $65,000 for School Education Programs and $64,000 for CII and LL Surveys should be adopted for the San Diego District; 2018-2020 budgets of $55,000 for School Education Programs and $7,500 for CII Rebates should be adopted for the Los Angeles District; 2018-2020 budgets of $90,500 for School Education Programs, $66,000 for Water/Energy Direct Installations – Low Income, and $230,000 for CII and LL Surveys should be adopted for the Sacramento District; and 2018-2020 budgets of $1,900 for School Education Programs, $2,300 for Residential Water Surveys, and $2,000 for CII and LL Surveys should be adopted for the Larkfield District.

162. Cal-Am's request for an additional $100,000 in optional emergency public outreach funding in the conservation budget for the Monterey District should be denied.

163. Cal-Am's request to move conservation staff expenses from the conservation budgets to the district operations labor budgets should be denied.

164. Cal-Am's request for authorization to move dollars between BMPs within a service area as deemed necessary should be approved.

165. General Order 103-A already contains various reporting requirements and we decline to make any modifications to these reporting requirements. To the extent that additional or changed reporting requirements to General Order 103-A

are warranted, these are changes that should be looked at for all water utilities, not just Cal-Am.

166. Pursuant to Rule 13.7(f) of the Commission's Rules of Practice and Procedure, effective April 1, 2018, parties to Commission proceedings are required to submit exhibits as "supporting documents" using the Electronic Filing System on the Commission's website.

167. A requirement that Cal-Am submit 2019 and 2020 step filings in each district in which the filing results in a decrease in tariffs is not inconsistent with the Rate Case Plan or Revised Rate Case Plan.

168. Cal-Am should be required to submit 2019 and 2020 step filings in each district in which the filing results in a decrease in tariffs.

169. Since portions of ORA's opening brief cite to information designated as confidential in this proceeding, ORA's motion for leave to file its Opening Brief under seal should be granted.

O R D E R

IT IS ORDERED that:

1. Application 16-07-002 is granted to the extent set forth in this Decision. California-American Water Company is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the 2018 test year base revenue requirement set forth in Appendix A, effective January 1, 2018.

2. California-American Water Company's Motion to Accept Late Filed Comparison Exhibit in Support of Partial Settlement Agreement on Monterey Issues in the General Rate Case filed on July 27, 2017 is denied.

3. The June 12, 2017 joint motion of California-American Water Company, Las Palmas Wastewater Committee, and Monterey Peninsula Water

Management District for adoption of a partial settlement agreement on Monterey issues in the General Rate Case is denied.

4. The August 18, 2017 joint motion of California-American Water Company, and the City of Coronado for adoption of a partial settlement agreement on San Diego issues in the General Rate Case is denied.

5. California-American Water Company's request for a proposed moratorium on new connections for the Laguna Seca Subarea is denied without prejudice.

6. California-American Water Company is authorized to consolidate the Larkfield District into the rest of the Northern Division for ratemaking purposes. The current Larkfield revenue requirement shall remain constant at the level in effect at the time of consolidation and any additional awarded revenue requirement generated by the requests in this case shall be recovered from the fully consolidated Northern Division.

7. California-American Water Company's proposed rate design for the Larkfield District is approved.

8. The current rate design for the Meadowbrook area shall remain in place through 2020. Meadowbrook shall be moved onto the Sacramento District rate design effective January 1, 2021. During this General Rate Case cycle, California-American Water Company (Cal-Am) shall develop a separate revenue requirement specifically for Meadowbrook that is in keeping with Cal-Am's authorized rate of return and allowing a certain level of expenses to operate the system. Cal-Am shall then subtract the Meadowbrook specific overall revenue requirement from the overall Sacramento revenue requirement before rates are calculated for Sacramento customers under the Sacramento District rate design.

9. California-American Water Company is authorized to consolidate the Ambler, Toro, Ralph Lane, and Garrapata systems for ratemaking and tariff

purposes. California-American Water Company's proposed rate design for these newly consolidated systems is approved.

10. California-American Water Company's proposal to consolidate its Southern Division and proposed rate design for the consolidated Southern Division are denied.

11. California-American Water Company's current rate designs for all of the districts in its Southern Division shall remain in effect except that its proposal to eliminate the seasonal pricing differential for its Los Angeles District is adopted.

12. California-American Water Company's proposed three-tier rate design for its Sacramento District is adopted.

13. Pursuant to Rule 13.9 of the Commission's Rules of Practice and Procedure and Evidence Code Section 452(h), official notice is taken of the "Office of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2018 through 2022 from the August 2018 IHS Global Insight U.S. Economic Outlook" dated September 4, 2018, attached as Appendix C to this decision.

14. Within 30 days of the issuance of this decision, California-American Water Company (Cal-Am) shall file a Tier 1 advice letter establishing the Monterey District leak adjustment balancing account. The balancing account shall be a one-way balancing account with an annual budget of $2,370,879. The balancing account shall be reviewed for reasonableness in Cal-Am's next General Rate Case. All leak adjustments found unreasonable will be removed from the balancing account and if the annual balance found reasonable is less than the approved annual budget, the difference will be refunded to ratepayers in the next General Rate Case.

15. California-American Water Company shall separately identify billing adjustments in workpapers for all Water Revenue Adjustment Mechanism and Modified Cost Balancing Account filings.

16. California-American Water Company shall propose a leak adjustment policy for its Monterey District in its next General Rate Case.

17. An upper non-revenue water (NRW) threshold of 7.0% and lower NRW threshold of 5.0% of total adopted production levels are adopted for California-American Water Company's Monterey District. California-American Water Company shall accrue penalties pursuant to its NRW Reward/Penalty Mechanism for NRW levels that exceed the upper threshold and earn rewards for NRW levels that are below the lower threshold. California-American Company shall neither accrue a penalty nor earn a reward in its Monterey District for NRW levels between 5.0% and 7.0%, inclusive.

18. Within 30 days of the issuance of this decision, California American Water Company shall file a Tier 2 advice letter with the Water Division, with an effective date of January 1, 2018. The advice letter shall: (1) Close the Tax Act Memorandum Account, (2) Close the 2018 Tax Accounting Memorandum Account, (3) Establish the two-way Tax Memorandum Account, (4) Transfer the balance for the Excess Protected Accumulated Deferred Income Tax and bonus depreciation for those assets with uncertain eligibility statuses from the 2018 Tax Accounting Memorandum Account to the two-way Tax Memorandum Account, and (5) Close the Cost of Capital Memorandum Account.

19. By June 30, 2019, California American Water Company (Cal-Am) shall file a Tier 3 advice letter to refund the 2018 Excess Protected Accumulated Deferred Income Tax (ADIT), which should have been recorded in the Tax Memorandum Account, to ratepayers as a bill credit, based on the size of the customer's meter.

Cal-Am shall file Tier 3 advice letter by June 30, 2020 and a Tier 3 advice letter by June 30, 2021 to refund the 2019 Excess Protected ADIT and the 2020 Excess Protected ADIT to ratepayers as a bill credit, based on the size of the customer's meter. Each refund shall be amortized evenly over a period of one year. Each advice letter shall include any necessary revenue requirement adjustments to rate base caused by the return of the ADIT balances. In each advice letter, Cal-Am shall provide calculations and supporting documentations that demonstrate: (1) an estimation of the Excess Protected ADIT for each year, (2) how the Excess Protected ADIT balances were calculated for each year, and (3) the normalization method used. Cal-Am is not required to refund the Excess Protected ADIT balances faster or sooner than allowed pursuant to the normalization rules of the Internal Revenue Service.

20. By June 30, 2019, California American Water Company (Cal-Am) shall file a Tier 2 advice letter with Water Division to refund the $7.1 million of Excess Unprotected Accumulated Deferred Income Tax as a bill credit, based on the size of the customer's meter. Cal-Am shall amortize the refund equally over the 24-month period from 2019 to 2020.

21. California-American Water Company is directed to report in its next General Rate Case whether it completed the following tank improvement projects in its Monterey District: Lower Pasadera Tank, Upper Pasadera Tank #1, Upper Pasadera Tank #2, Huckleberry Tank #2, Boots Tank, Forest Lake Tank #1, and High Meadows Tank #1.

22. In its next General Rate Case, California-American Water Company shall provide information regarding historic expenditures for its deferred tank improvement expenses.

23. Within 60 days of the issuance of this decision, California-American Water Company shall file a Tier 3 advice letter with Water Division to provide all the accounting entries for the Seaside Ground Water Basin Balancing Account from January 1, 2015 through December 31, 2017 and to request to transfer the outstanding balance in the account to the Consolidated Expense Balancing Account. In the advice letter filing, California-American Water Company shall also provide explanations for any discrepancies or variances.

24. Within 60 days of the issuance of this decision, California-American Water Company shall file a Tier 2 advice letter with Water Division to transfer the net balance in the Monterey Peninsula Water Management District Conservation Balancing Account to the Consolidated Expense Balancing Account. The net balance shall include the removal of the disputed balance of $888,297 and any invoices for recovery by Monterey Peninsula Water Management Conservation District for conservation costs incurred through April 17, 2017.

25. Within 60 days of the issuance of this decision, California-American Water Company (Cal-Am) shall file a Tier 2 advice letter with Water Division to establish the Sustainable Groundwater Management Act Memorandum Account and propose tariff language that includes the following additional reporting guidelines:

a. For every cost that Cal-Am records in the Sustainable Groundwater Management Act Memorandum Account, Cal-Am must document and identify each cost incurred, the purpose of each cost, and an explanation of why the costs are necessary to comply with the Sustainable Groundwater Management Act.
b. Cal-Am may book into the account the costs of employees who spend less than five percent of their time related to compliance with the Sustainable Groundwater Management Act, with a general explanation of the work the employee performed.

c. Cal-Am shall provide additional information for costs incurred by employees who spend more than five percent of their time related to compliance with the Sustainable Groundwater Management Act, identifying each of these employees by their employee identification number, position title, the number of hours the employee worked, and the purpose of the work performed.

26. Within 60 days of the issuance of this decision, California-American Water Company shall file a Tier 1 advice letter with Water Division to do the following:

a. Close the Coastal Water Project Balancing Account.

b. Close the Seaside Groundwater Basin Memorandum Account.

c. Close the Los Angeles Main San Gabriel Contamination Memorandum Account.

d. Modify the Purchased Power, and Pump Tax Balancing Account to exclude the Sacramento District from being included in the account.

e. Modify the Sacramento District Voluntary Conservation or Mandatory Rationing Revenue Adjustment Mechanism Memorandum Account to exclude lost revenues associated with reduced sales from being recorded in the account.

27. California-American Water Company shall file a Tier 1 advice letter with Water Division to notify the Commission that it will begin recording costs into the Emergency Rationing Costs Memorandum Account. California-American Water Company shall file the advice letter within 30 days of the time when the Company begins to record costs related to the event.

28. California-American Water Company (Cal-Am) shall file a Tier 1 advice letter with Water Division to notify the Commission within 30 days of the time when Cal-Am begins to record costs in the Water Contamination Litigation Expense Memorandum Account. In the advice letter, Cal-Am shall also specify the water litigation case for which the costs are recorded.

29. California-American Water Company shall file a Tier 1 advice letter with Water Division to notify the Commission of a water-rationing event within 30 days of the time when the Company begins to record costs related to the event in its Emergency Rationing Costs Memorandum Account.

30. Within 60 days of the issuance of this decision, California-American Water Company (Cal-Am) shall establish a two-way Group Insurance Balancing Account by filing a Tier 2 advice letter with Water Division. In the advice letter filing, Cal-Am shall propose tariff language for this two-way Group Insurance Balancing Account, which shall include the following terms and conditions:

a. The initial account balance shall be the approved group insurance expenses for 2018. The 2019 group insurance expense shall be the approved 2018 expense escalated by the 2019 escalation factor. The 2020 group insurance expense shall be the approved 2019 expense escalated by the 2020 escalation factor. The 2019 and 2020 escalation factors shall be the labor escalation factors from the "Office of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2018 through 2022 from the August 2018 IHS Global Insight U.S. Economic Outlook" dated September 4, 2018.

b. Cal-Am shall record in the account the annual difference between total approved net group insurance costs and the actual level of net group insurance costs. Net group insurance costs are the total incurred costs less reimbursements.

c. The next general rate case proceeding shall review and determine the appropriate disposition of the balance in the Group Insurance Balancing Account and shall also review whether this two-way balancing account is still necessary.

31. The cap on total net Water Revenue Adjustment Mechanism and Modified Cost Balancing Account surcharges shall be 15% of the last authorized revenue requirement for each of California-American Water Company's districts during

this General Rate Case cycle. The cap will revert to 10% following this General Rate Case cycle unless modified in a subsequent Commission decision.

32. California-American Water Company's request that it be authorized to collect franchise fees paid to various municipalities through a separate surcharge for all of its districts, including any and all newly acquired systems in the future, is granted.

33. California-American Water Company's request to: (1) eliminate the Sand City purchased water surcharge tariff conditions, and balancing accounts; and (2) include all costs for the Sand City production facility in Monterey District base rates and track any change in the appropriate cost applicable to the customers in the Modified Cost Balancing Account, is granted.

34. California-American Water Company's (Cal-Am's) request for authorization to establish a pilot program that allows it to waive individual transaction fees charges to customers who pay their bills with credit cards is granted. Cal-Am is authorized to open a memorandum account to track the fees that have been waived as well as the cost savings that result with the use of a credit card compared to the costs associated with bank fees and lock box fees. Cal-Am shall operate and report on this pilot program in accordance with the requirements set forth in Assembly Bill 1180 (Stats. 2016, Ch. 254).

35. California-American Water Company (Cal-Am) shall report on the results of its new credit card pilot program in its next General Rate Case and include the assessments required pursuant to Public Utilities Code Section 915(a). Cal-Am shall also submit an updated report on the pilot program to the Commission's Water Division no later than March 31, 2020, which addresses the assessments required pursuant to Public Utilities Code Section 915(a).

36. California-American Water Company's proposed draft of Tariff Rule 15, attached as Appendix E to this decision, is adopted.

37. California-American Water Company's proposed drafts of Tariff Rule 16 (Service Connections, Meters, and Customer Facilities) and Schedule No. CA-FEES, attached as Appendix F to this decision, are adopted except that the term" Facility Fee" shall replace the terms "Facility Connection Fee" and "Facilities Connection Charge."

38. California American Water Company (Cal-Am)'s request for authorization for Cal-Am to have a third-party test a customer's backflow prevention device on the customer's behalf and pass the costs of that test on to the customer if the customer does not timely test and report those results to Cal-Am is granted. The third-party services related to the "test and charge" system shall be competitively procured. Cal-Am shall record the processing fees and any customer reimbursement of costs associated with the third-party services as miscellaneous revenue for review in its next General Rate Case.

39. Pursuant to Rule 13.9 of the Commission's Rules of Practice and Procedure and Ev. Code § 452(h), official notice is taken of California-American Water Company's "Water Conservation Program 2015 Annual Summary Report," the attachment to Schedule E-3 of the 2015 Annual Report of California-American Water Company.

40. California-American Water Company's requested conservation budgets are approved with the following modifications:

a. 2018-2020 budgets of $65,000 for School Education Programs and $64,000 for commercial, industrial, institutional (CII) and large landscape (LL) surveys are adopted for the San Diego District;

b. 2018-2020 budgets of $55,000 for School Education Programs and $7,500 for CII Rebates are adopted for the Los Angeles District;

c. 2018-2020 budgets of $90,500 for School Education Programs, $66,000 for Water/Energy Direct Installations – Low Income, and $230,000 for CII and LL Surveys are adopted for the Sacramento District;

d. 2018-2020 budgets of $1,900 for School Education Programs, $2,300 for Residential Water Surveys, and $2,000 for CII and LL Surveys are adopted for the Larkfield District; and

e. The request for an additional $100,000 in optional emergency outreach funding in the Monterey District is denied.

41. California-American Water Company (Cal-Am) is authorized to shift authorized conservation budget amounts between best management practice rate categories within a service area. Cal-Am shall continue to track conservation expenses in the one-way California American Water Conservation Surcharge Balancing Accounts with any unspent funds refunded to ratepayers on an annual basis after the end of each year of the General Rate Case cycle. Cal-Am shall file a Tier 2 advice letter no later than 45 days after the end of each year providing an accounting of conservation funds spent with supporting documentation, as well as a proposal to refund to customers any unspent budgeted funds.

42. California-American Water Company (Cal-Am) is directed to file escalation filings for attrition years 2019 and 2020 through appropriate Tier 1 advice letter filings in conformance with General Order 96-B and the advice letter procedures found in Section VII of Appendix A attached to Decision (D.) 07-05-062 for every district where there is a projected decrease in rates. Cal-Am may also file escalation filings for 2019 and 2020 pursuant to these procedures for every district where there is a projected increase in rates.

D.07-05-062 requires escalation filings to be filed no later than 45 days prior to the start of the escalation year. In light of the effective date of this decision, any escalation filing for attrition year 2019 shall instead be filed within 90 days from the effective date of this decision and shall be effective 45 days from the date of filing.

43. California-American Water Company is authorized to revise tariff schedules, and to concurrently cancel its present schedules for such service upon the effective date of its 2019 escalation filing. The revision of tariff schedules for authorized rates in 2018 shall be included and subsumed in California-American Water Company's escalation filing for attrition year 2019. The advice letter shall include all calculations and documentation necessary to support the requested rate changes for both authorized 2018 rates and their escalation for 2019.

44. The surcharge to true-up the interim rates must comply with Standard Practice U 27-W. The tariff implementing the surcharge shall be filed by Tier 2 advice letter after California-American Water Company calculates the revenue difference between the interim rates and the authorized rates but within 45 days after 2019 rates have been implemented. The surcharge shall include differences between interim rates and adopted rates through the 2019 escalation year up to the effective date of the 2019 escalation year rates.

45. The Office of Ratepayer Advocate's motion for leave to file its Opening Brief under seal, filed on June 6, 2017, is granted.

46. All motions not previously addressed are denied.
47. Application 16-07-002 is closed.

This order is effective today.

Dated December 13, 2018, at San Francisco, California.

MICHAEL PICKER
President
CARLA J. PETERMAN
LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
Commissioners