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

Application of Suburban Water Systems
(U339W) for Authority to Increase Rates
Charged for Water Service by \$14,268,446 or
17.33% in 2021, by \$5,787,612 or 6.04% in
2022, and by \$5,784,955 or 5.70% in 2023.

A.20-03-001
(Filed March 2, 2020)

**REVISED SETTLEMENT AGREEMENT
BETWEEN SUBURBAN WATER SYSTEMS
AND THE PUBLIC ADVOCATES OFFICE**

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April 14, 2021

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

Application of Suburban Water Systems (U339W) for Authority to Increase Rates Charged for Water Service by \$14,268,446 or 17.33% in 2021, by \$5,787,612 or 6.04% in 2022, and by \$5,784,955 or 5.70% in 2023.

A.20-03-001
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**REVISED SETTLEMENT AGREEMENT
BETWEEN SUBURBAN WATER SYSTEMS
AND THE PUBLIC ADVOCATES OFFICE**

I. GENERAL PROVISIONS

1. Pursuant to Article 12 of the Rules of Practice and Procedure (“Rules”) of the California Public Utilities Commission (“Commission”), the Public Advocates Office at the Public Utilities Commission (“Cal Advocates”) and Suburban Water Systems (“Suburban”) (collectively, “the Parties,”) have agreed on the terms of this Settlement Agreement, which they now submit for the Commission’s review and consideration. This Settlement Agreement addresses most of the disputed issues between Suburban and Cal Advocates and, by extension, related derivative issues. The Parties respectfully request that the Commission approve the Settlement Agreement as submitted.

2. The issues that the Parties agree to resolve through this Settlement Agreement are set forth in Section II below. For each issue, Section II describes the positions of the Parties, the difference between Suburban’s position (as updated in its 100-day update) and Cal Advocates’ position, and the resolution provided by the Settlement Agreement, and provide references to the evidence of record relevant to each issue.

3. Because this Settlement Agreement represents a compromise of the Parties’ positions with respect to each issue addressed herein, the Parties have agreed upon the resolution of each issue addressed in the Settlement Agreement on the basis that its approval by the Commission should not be construed as an admission or concession by any Party regarding any fact or matter of law that may be in dispute in this proceeding. Furthermore, consistent with Rule 12.5 of the Rules, the Parties intend that the approval of this Settlement Agreement by the Commission should not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding with respect to any issue addressed in the Settlement Agreement.

4. The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of his or her execution of this document. All rights and remedies of the Parties are limited to those available before the Commission.

5. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.

6. This Settlement Agreement constitutes and represents the entire agreement between the Parties and supersedes all prior and contemporaneous agreements, negotiations, representations, warranties and understandings of the Parties with respect to the subject matter set forth herein.

7. If after approval by the Commission one Party fails to perform its respective obligations under this Settlement Agreement, the other Party may come before the Commission to pursue a remedy, including enforcement.

8. The Parties agree that this Settlement Agreement is an integrated agreement, and the provisions of the Agreement are not severable. Therefore, if the Commission rejects, conditions, or modifies any term or portion of this Settlement Agreement, the Parties shall convene a conference within fifteen days thereof and engage in good faith negotiations to determine whether some or all of the remainder of the Settlement Agreement is acceptable to the Parties. In the event an agreement is reached, both Parties must consent in writing to any changes or the Settlement Agreement is void. If the Parties cannot agree to resolve any issue raised by the Commission's actions within thirty days of their conference, this Settlement Agreement shall be rescinded, the Parties shall be released from any obligation, representation, or condition set forth in this Settlement Agreement, including their obligation to support this Settlement Agreement, and the Parties shall be restored to their positions prior to having entered into this Settlement Agreement. Thereafter, the Parties may pursue any action they deem appropriate.

9. The Parties agree that this Settlement Agreement shall be governed by the laws of the State of California as to all matters, including validity, construction, effect, performance, and remedy.

10. Certain elements of Suburban's Application were not challenged by Cal Advocates and so do not present contested issues. Similarly, the positions presented by Cal Advocates on certain issues were accepted by Suburban and so also do not present contested issues. This Settlement Agreement does not address such uncontested matters except as noted specifically below.

11. References to the Parties' prepared testimony and reports are included with respect to each issue addressed in the Settlement Agreement. The referenced evidentiary materials are identified as follows:

Exhibit	Title
SWS-1	<i>Direct Testimony of Christian Aldinger</i> (served on March 2, 2020)
SWS-2	<i>Direct Testimony of Corey Misterek</i> (served on March 2, 2020)
SWS-3	<i>Direct Testimony of Darleen Phares</i> (served on March 2, 2020)
SWS-4	<i>Direct Testimony of Jeff Farney</i> (Public Version) (served on March 2, 2020)

Exhibit	Title
SWS-4C	<i>Direct Testimony of Jeff Farney (Confidential Version) (served on March 2, 2020)</i>
SWS-5	<i>Direct Testimony of Jocelyn Padilla (served on March 2, 2020)</i>
SWS-6	<i>Direct Testimony of Jorge Lopez (served on March 2, 2020)</i>
SWS-7	<i>Direct Testimony of Kenneth Parris (served on March 2, 2020)</i>
SWS-8	<i>Direct Testimony of Kiki Carlson (served on March 2, 2020)</i>
SWS-9	<i>Direct Testimony of Mujeeb Hafeez (Public Version) (errata version served on January 15, 2021)</i>
SWS-9-C	<i>Direct Testimony of Mujeeb Hafeez (Confidential Version) (errata version served on January 15, 2021)</i>
SWS-10	<i>Direct Testimony of Robert Kelly (served on March 2, 2020)</i>
SWS-11	<i>Direct Testimony of Robert Mustich (Public Version) (served on March 2, 2020)</i>
SWS-11-C	<i>Direct Testimony of Robert Mustich (Confidential Version) (served on March 2, 2020)</i>
SWS-12	<i>Direct Testimony of Stephen Johnson (Public Version) (errata version served on January 15, 2021)</i>
SWS-12-C	<i>Direct Testimony of Stephen Johnson (Confidential Version) (errata version served on January 15, 2021)</i>
SWS-13	<i>Rebuttal Testimony of Darleen Phares (served on August 26, 2020)</i>
SWS-14	<i>Rebuttal Testimony of Jeff Farney (served on August 26, 2020)</i>
SWS-15	<i>Rebuttal Testimony of Jorge Lopez (Public Version) (served on August 26, 2020)</i>
SWS-15-C	<i>Rebuttal Testimony of Jorge Lopez (Confidential Version) (served on August 26, 2020)</i>
SWS-16	<i>Rebuttal Testimony of Kenneth Parris (served on August 26, 2020)</i>
SWS-17	<i>Rebuttal Testimony of Kiki Carlson (served on August 26, 2020)</i>
SWS-18	<i>Rebuttal Testimony of Mujeeb Hafeez (served on August 26, 2020)</i>
SWS-19	<i>Rebuttal Testimony of Robert Kelly (Public Version) (served on August 26, 2020)</i>
SWS-19-C	<i>Rebuttal Testimony of Robert Kelly (Confidential Version) (served on August 26, 2020)</i>
SWS-20	<i>Results of Operations for Test Years Ending December 31, 2021 and 2022, and Attrition Year 2023</i>
PAO-1	<i>Report on the Results of Operations – Suburban Water Systems Test Year 2021 General Rate Case A.20-03-001 (Public Version) (served on August 10, 2020) (Report)</i>
PAO-1-C	<i>Report on the Results of Operations – Suburban Water Systems Test Year 2021 General Rate Case A.20-03-001 (Confidential Version) (served on August 10, 2020)</i>

12. The Parties agree that the Commission should apply the most current escalation factors and the most current Consumer Price Index for All Urban Consumers (CPI-U): U.S. City before it issues a final decision in this proceeding. Application of that index allows for an

estimate of escalation year expenses not otherwise specifically addressed in Cal Advocates' published inflation factors, such as insurance and rents/leases.

13. There remain contested issues between the Parties that are unresolved under this Settlement Agreement. The Parties will brief the following issues for resolution by the Commission:

Balancing and Memorandum Accounts:

- Recycled Water Balancing Account
- Mandatory Conservation Memorandum Account
- Low Income Customer Data Sharing Memorandum Account
- Military Family Relief Program (MFRP) Memorandum Account
- Asbestos Litigation Memorandum Account (ALMA)

Special Requests:

- Special Request 2 - Establish a Liability Insurance Premium Balancing Account
- Special Request 5 - Modification to Rule No. 10 "Disputed Bills" and Rule No. 18 "Meter Tests and Adjustment of Bills for Meter Error"
- Special Request 6 - Continuation of the Employee Healthcare Balancing Account (EHBA) and Removal of its Cap.

II. ISSUES THAT THE PARTIES PROPOSE TO SETTLE

A. Water Consumption and Operating Revenues

1. Sales Forecast

ISSUE: To estimate average use-per-customer for the residential and business classes, Suburban's consultant created an econometric regression model of historical monthly sales that includes several independent variables. The independent variables include: 1) annual temperature, 2) monthly temperature, 3) time, and 4) rainfall. By adding an additional independent variable (monthly temperature), the utility's consultant modifies the New Committee Method ("NCM") that provides guidance under the Revised Rate Case Plan on forecasting average use per residential- and business- customers. Suburban used the historical data between January 2009 through December 2018. Suburban removed the historical data from the regression model during times of mandatory restrictions, such as when the State of California experienced severe water use restrictions between June 2015 through April 2017.

In its report, Cal Advocates objected to Suburban's forecast of average use-per-customer for residential and business customers because it argues that Suburban's regression model skews towards a larger decline in use-per-customer. Cal Advocates argued that both Suburban's regression model and the NCM do not account for the effect that mandatory drought restrictions have had on the average use-per-customer. Cal Advocates argued that it is evident that 1) the

mandatory drought restrictions reduced residential consumption, and 2) residential consumption has rebounded to an extent after the lifting of the mandatory drought restrictions in both districts. Instead, Cal Advocates recommended that the Commission should apply the use-per-customer forecasts based on the five-year average between 2015 and 2019 for Suburban’s residential and business customers.

In its rebuttal testimony, Suburban disagreed with Cal Advocates’ arguments on this issue and argued instead that, as a result of the drought, Suburban’s water demand has permanently decreased, as reflected in the NCM regression model.

Cal Advocates had no objection to Suburban’s methodology for Pumped Water Costs, Purchased Water Assessments, and Purchased Power, other than issues related to Water Rights Leases described below in Paragraph H, Water Rights Leases. The differences between Cal Advocates and Suburban’s estimates for those items are primarily due to the differences in each Party’s recommended sales forecast on which those items are based.

RESOLUTION: The Parties agree to adopt the use-per-customer sales forecast for residential and business customers as set forth in the table below and to use such forecasts to calculate the associated Pumped Water Costs, Purchased Water Assessments, and Purchased Power.

	Suburban Position	Cal Advocates Position	Difference	Settlement
Sales Per Customer – Residential (SJH)	159.40 ccf	173.15 ccf	(13.75) ccf	173.20 ccf
Sales Per Customer – Residential (WLM)	158.70 ccf	167.29 ccf	(8.58) ccf	167.30 ccf
Sales Per Customer – Business (SJH)	956.70 ccf	963.07 ccf	(6.37) ccf	963.10 ccf
Sales Per Customer – Business (WLM)	888.70 ccf	961.88 ccf	(73.18) ccf	961.90 ccf

REFERENCES: Exhibit SWS-7 (Parris Direct), pp. 3-7, Attachment A; Exhibit SWS-20 (RO Report), Chapter 4; Exhibit PAO-1 (Lam), pp. 3-3 to 3-12; Exhibit PAO-1-C (Lam), pp. 3-3 to 3-12; Exhibit SWS-16 (Parris Rebuttal), pp. 2-5.

B. Expenses

1. Account 752-123: Gardening Services

ISSUE: To forecast this expense, Suburban used the most recent recorded amount for 2018, adjusted for inflation.

In its Report, Cal Advocates recommended instead using the five-year historical average (2014-2018), adjusted for inflation. Cal Advocates argued that the five-year historical average is more representative of the pattern of expenditures in this subaccount because there have been fluctuations from year-to-year.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendation and argued that the more recent recorded data for years 2016-2019 indicate that such costs have been increasing year over year.

RESOLUTION: The Parties agree to reduce the forecasted expense by half of the difference between Suburban and Cal Advocates' respective positions as shown below:

	Suburban Position	Cal Advocates Position	Difference	Settlement
Account 752-123: Gardening Services	\$209,674	\$161,262	\$48,412	\$185,468

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-2; Exhibit PAO-1 (Merida), pp. 4-6 to 4-7; Exhibit PAO-1-C (Merida), pp. 4-6 to 4-7; Exhibit SWS-17 (Carlson Rebuttal), pp. 3-4.

2. Account 792-338: Machine Rent/Repair

ISSUE: To forecast this expense, Suburban used the most recent recorded amount for 2018, adjusted for inflation.

In its Report, Cal Advocates recommended instead using the five-year historical average (2014-2018), adjusted for inflation. Cal Advocates argued that the five-year historical average is more representative of the pattern of expenditures in this subaccount because there have been fluctuations from year-to-year.

RESOLUTION: The Parties agree to reduce the forecasted expense by half of the difference between Suburban and Cal Advocates' respective positions as shown below:

	Suburban Position	Cal Advocates Position	Difference	Settlement
Account 792-338: Machine Rent/Repair	\$55,806	\$51,655	\$4,151	\$53,730

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-3; Exhibit PAO-1 (Merida), p. 4-10; Exhibit PAO-1-C (Merida), p. 4-10.

3. Account 792-242: Customer Service – Other

ISSUE: To forecast this expense, Suburban used the most recent recorded amount for 2018, adjusted for inflation.

In its Report, Cal Advocates recommended instead using the five-year historical average (2014-2018), adjusted for inflation. Cal Advocates argued that the five-year historical average is more representative of the pattern of expenditures in this subaccount because there have been fluctuations from year-to-year.

RESOLUTION: The Parties agree to reduce the forecasted expense by half of the difference between Suburban and Cal Advocates' respective positions as shown below:

	Suburban Position	Cal Advocates Position	Difference	Settlement
Account 792-242: Customer Service - Other	\$79,047	\$50,264	\$28,783	\$64,655

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-3; Exhibit PAO-1 (Merida), p. 4-10; Exhibit PAO-1-C (Merida), p. 4-10.

4. Account 795-320: Training/Seminars

ISSUE: To forecast this expense, Suburban used the most recent recorded amount for 2018, adjusted for inflation, plus the Utility Group's annualized nine months recorded 2019 costs and an additional cost of \$26,577 added for the engineering department.

In its Report, Cal Advocates recommended instead using the five-year historical average (2014-2018), adjusted for inflation, plus the Utility Group's annualized nine months recorded 2019 costs. Cal Advocates removed the additional \$26,577 for the engineering department, arguing that the additional cost is not necessary, due in part to social distancing and travel effects of the COVID-19 pandemic on the conferences mentioned by Suburban.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that the training is essential to ensuring engineering department staff receive the proper training to stay up to date with industry standards. In addition, ratepayers benefit from employee development because it results in more knowledgeable and competent employees who maintain and operate the water system.

RESOLUTION: The Parties agree to reduce the forecasted expense by half of the difference between Suburban and Cal Advocates' respective positions as shown below:

	Suburban Position	Cal Advocates Position	Difference	Settlement
Account 795-320: Training / Seminars	\$108,670	\$82,093	\$26,577	\$95,381

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-3; Exhibit PAO-1 (Merida), pp. 4-12 to 4-13; Exhibit PAO-1-C (Merida), pp. 4-12 to 4-13; Exhibit SWS-17 (Carlson Rebuttal), pp. 5-6.

5. Account 795-417: Auto Insurance

ISSUE: Suburban forecasted this expense for 2019 and 2020 based on actual costs. The expense for Test Years 2021 and 2022 are projected at the same level as 2020. Suburban provides a bi-weekly Auto Allowance to executives and managers who use their personal vehicles to travel between Suburban's three offices and to attend off site meetings.

In its Report, Cal Advocates recommended a reduced forecast for this expense because it claimed that Suburban failed to adequately justify its proposed amounts. Cal Advocates also argued that the COVID-19 pandemic has impacted travel and will result in less travel needed.

In its rebuttal testimony, Suburban disagreed with Cal Advocates and explained that \$9,600 in 2020 related to additional auto allowance expense for an employee who transferred to Suburban beginning in December 2019. Suburban also argued that its request that the years 2021 – 2023 amounts to be at the same level as estimated 2020 is reasonable.

RESOLUTION: The Parties agree to reduce the forecasted expense by half of the difference between Suburban and Cal Advocates' respective positions as shown below:

	Suburban Position	Cal Advocates Position	Difference	Settlement
Account 795-417: Auto Insurance	\$93,600	\$64,928	\$28,672	\$79,264

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-4; Exhibit PAO-1 (Merida), pp. 4-15 to 4-16; Exhibit PAO-1-C (Merida), pp. 4-15 to 4-16; Exhibit SWS-17 (Carlson Rebuttal), pp. 6-7.

6. Account 797-344: Regulatory Expense, 2023 GRC & 2024 Cost of Capital

ISSUE: Suburban developed its forecast for the 2023 General Rate Case (“GRC”) and 2024 Cost of Capital proceedings legal and non-legal expenses separately. For non-legal expenses, Suburban adjusted the 2018 recorded non-legal expense for inflation. For legal expenses, Suburban based its forecast on the number of hours and hourly rates for legal services of outside attorneys based upon anticipated contentious issues in the 2023 GRC proceeding, such as water demand forecast, executive compensation, common cost allocations, water quality, and affordability.

In its Report, Cal Advocates reduced the number of attorney hours from Suburban’s requested 1,485 hours to 545 hours. Cal Advocates argued that the potential for contentious issues is largely under Suburban’s control and that the Parties have been able to resolve differences through the Alternative Dispute Resolution process in the past.

In its rebuttal testimony, Suburban disagreed with Cal Advocates’ recommendations and instead argued that its forecasts were reasonable because Commission proceedings have grown increasingly complex since the 2013 estimate of attorney hours estimate on which Cal Advocates relies. Suburban developed its estimates of attorney hours with the assistance of experienced regulatory counsel and reflect Suburban’s experience with the growing complexity of Commission proceedings.

RESOLUTION: For the three-year general rate case cycle (2021 through 2023), the Parties agree to reduce the forecasted expense by half of the difference between Suburban and Cal Advocates’ respective positions as shown below:

	Total Amounts For The Three Years 2021 Through 2023			
	Suburban Position	Cal Advocates Position	Difference	Settlement
Account 797-344: Regulatory Expense, 2023 GRC	\$1,076,345	\$634,355	\$441,990	\$855,350
Account 797-344: Regulatory Expense, 2024 Cost of Capital	\$337,305	\$202,182	\$135,123	\$269,743

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-4; Exhibit PAO-1 (Merida), pp. 4-16 to 4-18; Exhibit PAO-1-C (Merida), pp. 4-16 to 4-18; Exhibit

SWS-19 (Kelly Rebuttal Public), pp. 12-17; Exhibit SWS-19-C (Kelly Rebuttal Confidential), pp. 12-17.

7. Account 798-312: Audit Fee

ISSUE: Suburban estimates \$179,809 for Test Year 2021 for this expense, based on the inflation adjusted last recorded year 2019.

In its Report, Cal Advocates recommended instead using the five-year historical average (2014-2018), adjusted for inflation. Cal Advocates argued that the five-year historical average is more representative of the pattern of expenditures in this subaccount because there have been fluctuations from year-to-year.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations. Instead, Suburban argued that the documentation it had provided supported the forecasted amount of \$179,809.

RESOLUTION: The Parties agree to reduce the forecasted expense by half of the difference between Suburban and Cal Advocates' respective positions as shown below:

	Suburban Position	Cal Advocates Position	Difference	Settlement
Account 798-312: Audit Fee	\$179,809	\$170,840	\$8,969	\$175,324

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-4; Exhibit PAO-1 (Merida), pp. 4-18 to 4-19; Exhibit PAO-1-C (Merida), pp. 4-18 to 4-19; Exhibit SWS-17 (Carlson Rebuttal), pp. 7-8.

8. Account 903-102: Car/Truck Gas

ISSUE: To forecast this expense, Suburban used the most recent recorded amount for 2018, adjusted for inflation.

In its Report, Cal Advocates recommended using the five-year historical average (2014-2018), adjusted for inflation. Cal Advocates argued that the five-year historical average is more representative of the pattern of expenditures in this subaccount, including a 25% reduction in 2020 reflecting lower gas prices in California.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendation and argued that Cal Advocates' assumption that the price of gas in Test Year 2021 will still be \$3 a gallon is unreasonable.

RESOLUTION: The Parties agree to reduce the forecasted expense by half of the difference between Suburban and Cal Advocates' respective positions as shown below:

	Suburban Position	Cal Advocates Position	Difference	Settlement
Account 903-102: Car / Truck Gas	\$327,049	\$230,367	\$96,682	\$278,708

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-4; Exhibit PAO-1 (Merida), pp. 4-21 to 4-22; Exhibit PAO-1-C (Merida), pp. 4-21 to 4-22; Exhibit SWS-17 (Carlson Rebuttal), pp. 10-11.

9. 2021 – 2023 Medical and Dental Insurance Escalation Factors

ISSUE: Based on prior trends, Suburban escalated its per enrolled employee per month ("PEPM") medical/prescription drug plan costs by the known rate of 3.0% in 2020, the capped renewal rate of 9.0% in 2021, and another 9.0% in 2022 and 2023. These medical/prescription drug cost increases are applied consistently across the three plans insured by United Healthcare. Similarly, Suburban escalated its PEPM dental plan cost by 4% annually for 2020 through 2023. In its Results of Operations ("RO") Model, Cal Advocates does not apply any escalation factors for medical and dental insurance expenses.

RESOLUTION: The Parties agree to adopt Suburban's recommended escalation factors for the 2021 – 2023 Medical and Dental Insurance expenses.

	Suburban Position	Cal Advocates Position	Difference	Settlement
2021 – 2023 Medical Insurance Escalation Factor	9%	0%	9%	9%
2021 – 2023 Dental Insurance Escalation Factor	4%	0%	4%	4%

REFERENCES: Exhibit SWS-2 (Misterek Direct), pp. 2-13, Attachment 1-9.

10. 2021 and 2022 G&A Expense Capitalized

ISSUE: Suburban’s General and Administrative (“G&A”) expense transferred is computed at a level of \$3,849,039 and \$4,649,845 of the sum of work order capital expenditures and cost of removal for 2021 and 2022, respectively.

In its RO Model, Cal Advocates calculated an amount of \$1,547,438 and \$1,351,028 for 2021 and 2022, respectively.

RESOLUTION: The Parties agree to percentages of 12.972% and 13.573% for 2021 and 2022 results in G&A capitalized amounts of \$3,642,725 and \$4,139,218, respectively.

	Suburban Position	Cal Advocates Position	Difference	Settlement
2021 G&A Expense Capitalized	\$3,849,039	\$1,547,438	\$2,301,601	\$3,642,725
2022 G&A Expense Capitalized	\$4,649,845	\$1,351,028	\$3,298,817	\$4,139,218

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-5.

11. Uncollectible Expense Ratio

ISSUE: Beginning February 1, 2020, The Water Shutoff Protection Act (“Act”), enacted by Senate Bill No. 998, required urban and community water systems that supply water to more than 200 service connections to allow additional time for customers to pay their bills. The Act prohibits an urban and community water system from discontinuing residential service for nonpayment until a payment by a customer has been delinquent for at least 60 days. To accommodate this additional time, Suburban has recalculated the past due date from the current 19 days to 79 days, resulting in an estimated increase in the uncollectible rate to 0.45% for Test Years 2021 and 2022, as compared to 2018 recorded uncollectible rate of 0.11%.

In its Report, Cal Advocates recommended that the Commission approve 0.13% as the rate of estimating uncollectible expense for Test Year 2021. Cal Advocates developed this percentage by calculating the average ratio of uncollectible expense to revenue for the most recent five-year average for years 2014-2018.

In its rebuttal testimony, Suburban disagreed with Cal Advocates’ recommendations, arguing its forecast is based on a recalculation of data based upon the increase in the past due date result from the Water Shutoff Protection Act. Suburban also argued that recent increase in the unemployment rate in California suggest that its higher recommended uncollectible rate is reasonable.

RESOLUTION: The Parties agree to adopt Cal Advocates' forecasted uncollectible rate of 0.13%.

	Suburban Position	Cal Advocates Position	Difference	Settlement
Uncollectible Expense Ratio	0.45%	0.13%	0.32%	0.13%

REFERENCES: Exhibit SWS-10 (Kelly Direct), p. 2; Exhibit SWS-20 (RO Report), p. 5-5; Exhibit PAO-1 (Merida), pp. 4-7 to 4-29; Exhibit PAO-1-C (Merida), pp. 4-7 to 4-29; Exhibit SWS-19 (Kelly Rebuttal Public), pp. 11-12; SWS-19-C (Kelly Rebuttal Confidential), pp. 11-12.

12. 2021 GO Gross Expense

ISSUE: To calculate parent company General Office ("GO") expenses allocated to it, Suburban forecasted gross Test Year 2021 Southwest Water Company ("SouthWest") expenses of \$13,529,658. The forecasted depreciation expense is deducted from this amount and then an allocation factor is applied to calculate the total parent company GO expense allocated to Suburban.

In its Report, Cal Advocates recommended that the Commission instead adopt SouthWest's 2018 expense for Test Year 2021 because Suburban's forecast does not take into account the economic impacts of the COVID-19 pandemic.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that it had provided sufficient support for its forecasted GO expense.

RESOLUTION: The Parties agree to adopt a forecast of \$12,536,563 for the gross GO expense, as recommended by Cal Advocates.

	Suburban Position	Cal Advocates Position	Difference	Settlement
2021 GO Gross Expense	\$13,529,658	\$12,536,563	\$993,095	\$12,536,563

REFERENCES: Exhibit SWS-9 (Hafeez Direct Public), p. 3-41, Attachments 1-6; Exhibit SWS-9-C (Hafeez Direct Confidential), p. 3-41, Attachments 1-6; Exhibit SWS-20 (RO Report), pp. 5-5 to 5-6; Exhibit PAO-1 (Keowen), Chapter 15; Exhibit PAO-1-C (Keowen), Chapter 15; Exhibit SWS-18 (Hafeez Rebuttal), pp. 2-6.

13. 3-Factor Component – Contracts’ Gross Plants

ISSUE: In the workpapers supporting its Report, Cal Advocates imputed Gross Plant of \$43.0 million for SouthWest’s Service Contracts in the Three-Factor Calculation, resulting in a decrease of 0.8% in the cost allocation percentage to Suburban.

In its rebuttal testimony, Suburban disagreed with including the \$43.0 million in the calculation. Suburban argued that SouthWest does not have visibility into the value of gross plant for these contractually operated facilities because they are not owned by SouthWest and SouthWest cannot compel the owners of the facilities to provide the information.

RESOLUTION: The Parties agree to impute Gross Plant of \$43.0 million for SouthWest’s Service Contracts in the Three-Factor Calculation, resulting in a 42.50% allocation percentage to Suburban.

	Suburban Position	Cal Advocates Position	Difference	Settlement
3-Factor Component – Contracts’ Gross Plants	\$0 million	\$43 million	\$(43) million	\$43 million
Three-Factor Allocation to Suburban	43.30%	42.50%	(0.80)%	42.50%

REFERENCES: Exhibit SWS-18 (Hafeez Rebuttal), pp. 6-9.

14. General Office – 2018 IT Capital Expenditure Related to Cloud Computing Costs

ISSUE: In Suburban’s last GRC (Proceeding A.17-01-001), Suburban asked the Commission to rate base SouthWest Information Technology (“IT”) costs beginning in 2018. In D.19-05-029, the Commission found Suburban’s request reasonable up to \$2.7 million in 2018.

In its Report, Cal Advocates recommended that the Commission deny Suburban’s proposal to include cloud computing costs into SouthWest’s recoverable IT rate base because it claimed Suburban failed to establish the need for the IT Project and because Suburban’s proposal violates restrictions the Commission placed on Suburban’s IT memorandum account. Cal Advocates’ Report stated that Suburban included \$1,550,370 for “Infrastructure as a Service - Cloud Computing (AWS)” relating to cloud computing costs in its 2018 rate base even though the project had not been considered or adopted by the Commission. Cal Advocates’ Report stated that the AWS project resulted in SouthWest expending \$3.8 million in 2018, \$1.1 million over the amount that the Commission adopted as reasonable in D.19-05-029.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that it presented sufficient evidence to support the inclusion of such costs in rate base. Suburban also highlighted the benefits that cloud computing offered.

RESOLUTION: The Parties agree to exclude \$1,116,792, the overage of cloud computing costs at issue from SouthWest's recoverable IT 2018 rate base, not to exceed the authorized total amount in D.19-05-029.

	Suburban Position	Cal Advocates Position	Difference	Settlement
General Office – 2018 IT Capital Expenditure Related to Cloud Computing Costs	\$1,550,370	\$0	\$1,550,370	\$433,578

REFERENCES: Exhibit SWS-4 (Farney Direct Public), pp. 22-39, Exhibits A-E; Exhibit SWS-4-C (Farney Direct Confidential), pp. 22-39, Exhibits A-E; Exhibit PAO-1 (Keowen), Chapter 15; Exhibit PAO-1-C (Keowen), Chapter 15; Exhibit SWS-14 (Farney Rebuttal), pp. 2-8.

15. General Office – IT Expenditures

ISSUE: Suburban requested GO IT Expenditures of \$4,155,000 for Test Year 2021 and \$2,660,000 for Test Year 2022.

In its Report, Cal Advocates recommended that the Commission cap SouthWest's IT costs included in Suburban's rate base at the amount presented to the Commission in Suburban's Test Year 2018 GRC because Suburban's IT projects exceeded the scope of projects the Commission adopted in D.19-05-029.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that it clearly demonstrated the need and reasonableness for the 2021/2022 IT capital projects budget. Suburban also argued that Cal Advocates provides no details as to its recommended budget for these projects.

RESOLUTION: The Parties agree to include GO IT Expenditures of \$3,158,266 for Test Year 2021 and \$3,158,266 for Test Year 2022.

	Suburban Position	Cal Advocates Position	Difference	Settlement
General Office – 2021 IT Expenditures	\$4,155,000	\$3,158,266	\$996,734	\$3,158,266
2021 Gross Depreciation Expense	\$1,147,818	\$521,964	\$625,854	\$565,930
General Office – 2022 IT Expenditures	\$2,660,000	\$3,158,266	\$(498,266)	\$3,158,266
2022 Gross Depreciation Expense	\$1,591,847	\$941,245	\$650,602	\$985,212

REFERENCES: Exhibit SWS-4 (Farney Direct Public), pp. 25-39, Exhibit E; Exhibit SWS-4-C (Farney Direct Confidential), pp. 25-39, Exhibit E; Exhibit PAO-1 (Keowen), Chapter 15; Exhibit PAO-1-C (Keowen), Chapter 15; Exhibit SWS-14 (Farney Rebuttal), pp. 13-21.

16. Conservation Expense

ISSUE: Suburban requested an annual conservation expense budget of \$450,000 each year for 2021-2023.

In its Report, Cal Advocates recommended that the Commission authorize a lower conservation budget of \$403,000 each year for 2021-2023. Cal Advocates argued that Suburban has not demonstrated the need for a conservation expense budget of \$450,000 per year for 2021-2023. Additionally, Cal Advocates argued that the Commission should require Suburban to continue tracking its conservation spending and revenue sources in its existing one-way balancing account with an annual maximum of \$403,000 and include any rebates (e.g., Upper San Gabriel Valley Municipal Water District) for Suburban's conservation programs. Lastly, Cal Advocates argued that the Commission should not permit Suburban to use the conservation expense budget as a carryover budget over the three GRC years.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that its proposed conservation budget was justified. Suburban also argued Cal Advocates' proposed one-way balancing account was unwarranted.

RESOLUTION: The Parties agree to adopt a forecasted conservation expense of \$450,000. Suburban agrees not to request recovery of more than \$11,000 on mulch. The carryover of conservation expense will be captured for the 3-year GRC cycle period.

	Suburban Position	Cal Advocates Position	Difference	Settlement
Conservation Expense	\$450,000	\$403,000	\$47,000	\$450,000

REFERENCES: Exhibit SWS-3 (Phares Direct), pp. 2-12; Exhibit SWS-20 (RO Report), p. 5-3; Exhibit PAO-1 (Lam), Chapter 13; Exhibit PAO-1-C (Lam), Chapter 13; Exhibit SWS-13 (Phares Rebuttal), pp. 2-5.

C. Income Taxes and Taxes Other Than Income

1. CCFT Deduction in FIT

ISSUE: The Internal Revenue Service allows a taxpayer to deduct California Corporate Franchise Tax (“CCFT”) expense when calculating its Federal Income Tax (“FIT”) expense. The amount of CCFT allowed as a deduction for FIT purposes by the IRS is the prior year’s CCFT liability. This creates a timing difference between when the payment of the CCFT is made and when it is allowed as a tax deduction. Suburban used the 2020 estimated CCFT to calculate the deduction used to reduce Suburban’s 2021 gross federal taxable amount. Similarly, Suburban used the 2021 estimated CCFT to calculate the deduction used to reduce Suburban’s 2022 gross federal taxable amount.

In its Report, Cal Advocates recommended that the Commission adopt the \$1,426,089 CCFT expense adopted in 2020 rates approved by the Commission in Suburban’s 2020 attrition filing as the FIT deduction for Test Year 2021.

In its rebuttal testimony, Suburban disagreed with Cal Advocates’ recommendation. Suburban argued that calculation of the CCFT in its 2020 attrition filing will not produce the same result as in GRC necessary here. Therefore, Suburban argued that Cal Advocates’ methodology does not produce a reasonable approximation and should not be utilized.

RESOLUTION: The Parties agree to include a prior year CCFT deduction in FIT of \$(1,426,089).

	Suburban Position	Cal Advocates Position	Difference	Settlement
Prior Year CCFT Deduction in FIT	\$(497,643)	\$(1,426,089)	\$928,446	\$(1,426,089)

REFERENCES: Exhibit SWS-10 (Kelly Direct), p. 2; Exhibit SWS-20 (RO Report), pp. 9-2 to 9-9; Exhibit PAO-1 (Merida), pp. 12-4 to 12-8; Exhibit PAO-1-C (Merida), pp. 12-4 to 12-8; Exhibit SWS-17 (Carlson Rebuttal), pp. 16-17.

2. Ad Valorem Expense Ratio

ISSUE: Suburban forecasts the Test Year 2021 ad valorem tax expense by dividing the recorded 2018 amount of tax paid by the dollar amount of taxable plant for 2018 to arrive at the recorded ad valorem expense ratio of 0.94% of taxable plant in 2018. This computation is based on the procedure that the Los Angeles County Tax Assessor uses for water utilities. Suburban then applies this 0.94% ratio to the Test Year 2021 forecasted dollar amount of taxable plant to forecast its Test Year 2021 ad valorem tax.

In its Report, Cal Advocates recommended that the Commission instead adopt the five-year recorded average ad valorem expense ratio of 0.84% of taxable plant to forecast ad valorem tax for Test Year 2021. Cal Advocates argued that using a five-year average for ad valorem taxes that fluctuate from year-to-year is more reasonable than using a single year. Additional differences between Suburban and Cal Advocates' estimate of ad valorem taxes are due to differences in forecasted plant estimates.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendation and argued that because for the last three years the ad valorem tax rate has been steadily increasing, the estimated Test Year 2021 should be based on an upward trend as well. Suburban argued that its estimate is very conservative and reasonable.

RESOLUTION: The Parties agree to adopt an ad valorem expense ratio of 0.94% as utilized by Suburban.

	Suburban Position	Cal Advocates Position	Difference	Settlement
Ad Valorem Expense Ratio	0.94%	0.84%	0.10%	0.94%

REFERENCES: Exhibit SWS-10 (Kelly Direct), p. 2; Exhibit SWS-20 (RO Report), pp. 9-2 to 9-9; Exhibit PAO-1 (Merida), Chapter 11; Exhibit PAO-1-C (Merida), Chapter 11; Exhibit SWS-17 (Carlson Rebuttal), p. 15.

D. Payroll

1. Payroll

ISSUE: Suburban proposes to increase the number of positions currently authorized in rates from 129 to 140. The proposed increase includes a reorganization of SouthWest's utility group organization structure in 2018 in which five of the original six utility group members now work exclusively for Suburban. One position was transferred to a senior accounting position at

Suburban and the other four members are fully dedicated to Suburban's regulatory matters. The other aspect of Suburban's increase in personnel is Suburban's projected addition of one accountant and positions needed for Suburban's proposed pipeline replacement program. In addition to personnel, Suburban projects merit increases, incentive compensation, executive compensation, vacation sold, no meal penalty, overtime, standby time and temporary labor in 2021 and 2022.

In its Report, Cal Advocates recommended that the Commission use Suburban's 2018 payroll expense for Test Year 2021 payroll expense because of the economic impacts of the COVID-19 pandemic on Suburban's customers. Cal Advocates recommended that the Commission should deny Suburban's request to include the cost of four of the five former utility group members in Suburban's payroll forecast. Cal Advocates recommended that the Commission deny Suburban's request to transfer the payroll costs for one of the five former utility group members because this member is fully dedicated to non-California regulatory matters. Cal Advocates recommended that the Commission should reject Suburban's request for new positions unless the Commission adopts Suburban's increased pipeline replacement program. Cal Advocates recommended that if the Commission adopts a modified version of Suburban's pipeline replacement program, the Commission should reject Suburban's requests for new positions. Cal Advocates recommended that the Commission disallow the projected cost of positions that have been vacant for the past five years. Cal Advocates recommended that the Commission reduce the amount of Suburban's CEO pay allocated to Suburban ratepayers by 50% because some of the CEO compensation should be charged to a SouthWest affiliate and not fully borne by Suburban ratepayers.

In its rebuttal testimony, Suburban disagreed with each of Cal Advocates' recommendations on this issue and argued that its forecasted payroll expense was reasonable.

RESOLUTION: The Parties agree to adjust Suburban's forecasted 2021 and 2022 Subtotal Regular Payroll by \$(1,894,000) and \$(100,400), respectively. This adjustment is to be made to the total forecasted payroll expenses and is not intended reflect reductions to payroll expenses by individual employee positions. The agreed-upon resolution resolves all disputed payroll issues between the Parties.

	Suburban Position	Cal Advocates Position	Difference	Settlement
2021 Subtotal Regular Payroll	\$11,918,140	\$9,357,756	\$(2,560,384)	\$9,521,723
2022 Subtotal Regular Payroll	\$12,132,666	\$9,526,196	\$(2,606,470)	\$9,592,714

REFERENCES: Exhibit SWS-10 (Kelly Direct), p. 2; Exhibit SWS-20 (RO Report), Chapter 5; Exhibit PAO-1 (Keowen), pp. 5-1 to 5-13; Exhibit PAO-1-C (Keowen), pp. 3-3 to 3-12; Exhibit SWS-19 (Kelly Rebuttal Public), pp. 17-25, Attachments D, E; Exhibit SWS-19-C (Kelly Rebuttal Confidential), pp. 17-25, Attachments D, E.

E. Rate Base

1. Construction Work in Progress (CWIP)

ISSUE: Suburban calculates average Construction Work in Progress (“CWIP”) for rate base by averaging the beginning of the year balance for which the average CWIP balance is being calculated with the next year’s CWIP beginning balance.

In its Report, Cal Advocates recommended excluding projects that remain in CWIP for longer than one year for the purposes of calculating the beginning 2020 CWIP. This results in a reduction to the beginning 2020 CWIP of \$6,902,492. Changing the beginning 2020 CWIP balance does not change 2021 and 2022 CWIP.

In its rebuttal testimony, Suburban disagreed with Cal Advocates’ recommendation and argued that Cal Advocates had misinterpreted the relevant Commission authorities on this issue.

RESOLUTION: The Parties agree to adopt a beginning of year 2020 CWIP of \$15,186,074 as utilized by Suburban.

	Suburban Position	Cal Advocates Position	Difference	Settlement
Beginning of Year 2020 CWIP	\$15,186,074	\$8,283,582	\$6,902,492	\$15,186,074

REFERENCES: Exhibit SWS-10 (Kelly Direct), p. 2, SWS-20 (RO Report), p. 8-1; Exhibit PAO-1 (Ibrahim), pp. 10-10 to 10-11; Exhibit PAO-1-C (Ibrahim), pp. 10-10 to 10-11; Exhibit SWS-19 (Kelly Rebuttal Public), pp. 26-27, Attachments D, E; Exhibit SWS-19-C (Kelly Rebuttal Confidential), pp. 26-27.

2. Working Cash

ISSUE: Suburban calculated the working cash included in rate base in accordance with Commission Standard Practice U-16-W. Suburban believes that this negative amount represents a reasonable amount of cash lag, which takes into account the time lag between when expenses are incurred and when the related income is received based on the monthly billing cycle.

In its Report, Cal Advocates recommended that the Commission require Suburban to use the final payment due date to calculate Property Tax lag days because it more accurately reflects the actual lag time between when expenses are incurred and payment is due. Suburban pays its property taxes early, so using the actual payment date to calculate its Property Tax lag day decreases Property Tax lag days. Using the final payment due date will increase the Property Tax lag days from 31.1 days to 39.6 days. Cal Advocates also recommended that the Commission exclude all non-cash expenses from the working cash calculation. Cal Advocates argued that non-cash expenses do not require advance funding from investors and as such they should not factor into the working cash calculation.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that those recommendations were inconsistent with Standard Practice U-16-W.

RESOLUTION: The Parties agree to include non-cash expenses (such as depreciation expense, deferred income taxes, and uncollectible accounts in the working cash calculation) for the purposes of calculating working cash. The Parties also agree to utilize lag days of 39.6 days for the purposes of calculating working cash.

REFERENCES: Exhibit SWS-8 (Carlson Direct), p. 2; Exhibit SWS-20 (RO Report), p. 8-1; Exhibit PAO-1 (Ibrahim), pp. 10-6 to 10-10; Exhibit PAO-1-C (Ibrahim), pp. 10-6 to 10-10; Exhibit SWS-17 (Carlson Rebuttal), pp. 11-14.

F. Capital Projects

1. Company-Funded Capital Expenditures

ISSUE: Suburban proposed a number of capital projects in its company-funded capital expenditure ("CAPEX") budget for this GRC. Suburban argued that the budget for new business capital additions is consistent with its customer growth projections. Suburban explained that the proposed capital additions are consistent with requirements to maintain the physical integrity of the water system to enable it to continue to provide a satisfactory level of water service.

In its Report, Cal Advocates recommended that the Commission deny several of Suburban's requests related to proposed capital projects or to approve only a reduced amount. Cal Advocates also made further recommendations with respect to specific proposed capital projects.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that the proposed capital projects are necessary to allow it to continue to provide safe and reliable drinking water service to customers and that the estimated costs were well-substantiated.

RESOLUTION: The Parties agree that actual capital spending in this GRC may vary from any forecast adopted by the Commission and that any variance between adopted amounts and those that actually occur would not necessarily demonstrate imprudence or unreasonableness. The Parties also agree that it is the utility's responsibility to manage the overall capital budget to assure safe and reliable service for customers. For the purpose of settlement, the Parties agree to the total budgets shown below for capital projects. The Parties agree that this amount is justified based on the projects Suburban proposed in its Application, as discussed in its direct and rebuttal testimony, as well as the concerns expressed by Cal Advocates in its Report. A summary of the forecasted projects proposed and discussed in this proceeding is shown solely for illustrative purposes in **Appendix A**. However, within this overall capital budget, Suburban will have the flexibility to prioritize the capital projects in order to best serve its customers with the following limitations:

- Suburban agrees to only include \$780,000 for Engineering and Design for the Plant 201 treatment project in the RO model. Costs for construction of the Plant 201 treatment project

will not be included in the total authorized CAPEX budget for years 2020-2022 shown in the table below.

- Suburban agrees that it will not include costs for construction for the Plant 410 W-1 Manganese Treatment Plant in the total authorized CAPEX budget for years 2020-2022 shown in the table below.
- Suburban will retain \$2,098,000 of CAPEX for Plant 128 reservoir replacement project in the authorized CAPEX budget for years 2020-2022. Suburban will install a permanent generator and replace the electrical equipment for \$1.5 million in 2022 for the Plant 128 pump station replacement project.
- The Parties will update the RO model in order to (1) separate specific projects from annual budgets for Pump Replacements at Various Locations and (2) update the QA Treatment Improvement Program 2018 and 2019 entries in the RO model to remove the costs associated with the construction of the Plant 505 RCS (these funds should be moved to the Plant 505 RCS project).
- The Parties agree to include \$187,000 in the CAPEX budget for an Advanced Metering Infrastructure (“AMI”) pilot study and require Suburban to submit in its next GRC the following with respect to the AMI pilot study: (1) a proposal of the AMI pilot study, as specified in D.16-12-026; (2) a report to the Commission’s Water Division about the AMI pilot study, as specified in D.16-12-026; (3) a deployment of AMI proposal that meets all AMI requirements, as specified in D.16-12-026; and (4) the AMI pilot in the Hacienda Heights area must address the issues listed in Appendix G-1 to the Cal Advocates August 10, 2020 Report.

	Suburban Position	Cal Advocates Position	Difference	Settlement
2020 Total Authorized CAPEX	\$25,445,439	\$15,764,785	\$9,680,654	\$25,445,439
2021 Total Authorized CAPEX	\$41,485,279	\$15,967,634	\$25,517,645	\$30,000,257
2022 Total Authorized CAPEX	\$52,613,777	\$13,926,299	\$38,687,478	\$35,076,159

REFERENCES: Exhibit SWS-6 (Lopez Direct), pp. 47-457; Exhibit SWS-15 (Lopez Rebuttal Public), pp. 9-212; Exhibit SWS-20 (RO Report), pp. 6-1 to 6-4; Exhibit PAO-1 (Nasserie), Chapter 6; Exhibit PAO-1-C (Nasserie), Chapter 6; Exhibit PAO-1 (Ibrahim), Chapter 7; Exhibit PAO-1C (Ibrahim), Chapter 7; Exhibit SWS-15-C (Lopez Rebuttal Confidential), pp. 9-212.

G. Memorandum and Balancing Accounts

1. Reporting of Balancing and Memorandum Accounts

ISSUE: In its Report, Cal Advocates argued that Suburban has not reported balances for 60% of its balancing accounts to the Commission's Water Division as required and that the Commission should require Suburban to revise all past filings where balancing accounts are missing, and going forward, Suburban should submit all balancing account balances to the Commission's Water Division on a semi-annual basis.

In its rebuttal testimony, Suburban argued that it has properly reported the authorized remaining balances of all its balancing accounts in its semi-annual balancing account reports provided to the Commission's Water Division.

RESOLUTION: The Parties agree that going forward, Suburban will include reserve account balances with its semi-annual reports for balancing accounts balances to the Commission's Water Division and Utility Audits, Risk, and Compliance Division.

REFERENCES: Exhibit PAO-1 (Merida), pp. 17-1 to 17-4; Exhibit PAO-1-C (Ibrahim), pp. 17-1 to 17-4; Exhibit SWS-17 (Carlson Rebuttal), pp. 11-14.

2. Water Revenue Adjustment Mechanism (WRAM) Balancing Account

For discussion of the Water Revenue Adjustment Mechanism (WRAM) Balancing Account, please see the discussion of Special Request No. 9 in Section II.H.3 below.

3. Water Contamination Litigation Memorandum Account

ISSUE: In Special Request No. 6, Suburban requested Commission authorization for a surcharge consisting of several offsets, including amortizing an amount of \$282,329 including interest for expenses incurred during the period October 21, 2016 to May 9, 2019 pertaining to costs associated with renewal of the Baldwin Park Operable Unit agreement which expired May 31, 2016.

In its Report, Cal Advocates recommended that the Commission allow Suburban to continue the Water Contamination Litigation Memorandum Account and require Suburban to submit a preliminary statement for this memorandum account. Suburban's preliminary statement currently does not mention this memorandum account. On March 26, 1998, Res. W-4094 authorized all water utilities under Commission jurisdiction to establish memorandum accounts for recording expenses resulting from water contamination litigation and to file for recovery of reasonable expenses recorded in the memorandum account in a subsequent rate case application or separate advice letter. Cal Advocates believes that there is a possibility for costs associated with water contamination to be tracked in the future.

In its rebuttal testimony, Suburban agreed with Cal Advocates' recommendation and proposed that the language in the preliminary statement be agreed upon with Cal Advocates after Suburban files its rebuttal testimony and before the proposed decision is issued by the Commission.

RESOLUTION: The Parties agree that Suburban should continue the Water Contamination Litigation Memorandum Account and that Suburban will file a Tier 1 Advice Letter to incorporate language into its preliminary statement as shown in **Appendix B**.

REFERENCES: Application, pp. 18-22; Exhibit PAO-1 (Merida), pp. 17-7 to 17-8; Exhibit PAO-1-C (Merida), pp. 17-7 to 17-8; Exhibit SWS-17 (Carlson Rebuttal), p. 21.

4. Tax Cuts and Jobs Act (TCJA) Memorandum Account

ISSUE: In its Report, Cal Advocates argued that the Commission should authorize Suburban to amortize the balance in the Tax Cuts and Jobs Act (TCJA) Memorandum Account, if any, and that following amortization, the Commission should direct Suburban to close the account immediately. Cal Advocates argued that Suburban has already incorporated the new federal tax rate directly into its revenue requirement in the current GRC and thus this account is no longer needed.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendation and argued that the Commission has provided guidance on the TCJA Memorandum Account, concluding that the account pertains to all issues involving the TCJA and not just its revenue requirement. Additionally, pursuant to Suburban's last GRC decision (D.19-05-029), it must still refund costs to customers related to the 2020 revenue requirement, which it will file via advice letter by July 30, 2021. Therefore it would be premature to close this account.

RESOLUTION: The Parties agree that Suburban should continue the TCJA Memorandum Account during this GRC period and that Suburban will close this account in its next GRC.

REFERENCES: Exhibit PAO-1 (Merida), pp. 17-10 to 17-11; Exhibit PAO-1-C (Merida), pp. 17-10 to 17-11; Exhibit SWS-17 (Carlson Rebuttal), p. 23.

5. Interim Rates Memorandum Account (IRMA)

ISSUE: In its Report, Cal Advocates recommended that the Commission authorize Suburban to amortize the balance in the Interim Rates Memorandum Account (IRMA), if any, and that following amortization, the Commission should direct Suburban to close the account immediately. Cal Advocates argued that the effective date of the IRMA was January 1, 2018 and terminated upon the implementation of the Commission's final decision in A.17-01-001. The final decision in that proceeding, D.19-05-029, was issued on June 5, 2019. Therefore, Cal Advocates argued that Suburban should close this account.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendation and argued that Suburban filed an advice letter no. 336-W on July 8, 2019 requesting Interim Rate Surcharge

related to under collection revenue for period January 2018 through July 5, 2019. The latest surcharge will be in effect until August 2022. Therefore, Suburban argued that the IRMA should remain open until it recovers all the revenue shortfall due to rate differential between the adopted rates in D.19-05-029 and the interim rates.

RESOLUTION: The Parties agree that Suburban should continue the IRMA during this GRC period and that Suburban will close this account in its next GRC.

REFERENCES: Exhibit PAO-1 (Merida), p. 17-11; Exhibit PAO-1-C (Merida), p. 17-11; Exhibit SWS-17 (Carlson Rebuttal), p. 23.

6. Catastrophic Event Memorandum Account (CEMA) and Emergency Customer Protection Memorandum Account (ECPMA)

ISSUE: In its Report, Cal Advocates recommended that the Commission allow Suburban to continue the Catastrophic Event Memorandum Account (CEMA) and Emergency Customer Protection Memorandum Account (ECPMA) but require it to have separate preliminary statements.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that there is substantial commonality between the two accounts that does not warrant showing them separately. Sections in the Preliminary Statement "Applicability", "CEMA Rates", "Customer Protection", "Accounting Procedure", "Financial Reporting" are all identical.

RESOLUTION: The Parties agree that Suburban should continue the Catastrophic Event Memorandum Account (CEMA) and Emergency Customer Protection Memorandum Account (ECPMA) in a single preliminary statement account. The Parties agree to incorporate an expanded discussion of the prescribed accounting for this memorandum account based on language currently found in the preliminary statement of California-American Water Company's tariffs. Suburban will file a Tier 1 advice letter to incorporate language into its preliminary statement as shown in Appendix C.

REFERENCES: Exhibit PAO-1 (Merida), pp. 17-13 to 17-14; Exhibit PAO-1-C (Merida), pp. 17-13 to 17-14; Exhibit SWS-17 (Carlson Rebuttal), p. 24.

H. Special Requests

1. Special Request No. 1: Cross Connection Tariff Changes – Update Rule No. 16

ISSUE: In Special Request No. 1. Suburban requested Commission authorization to update Rule No. 16 of Suburban's tariff, "Service Connections, Meters, 2 and Customer's Facilities," in order to test backflow devices on the customer's behalf if the customer does not timely test and report those results to Suburban. Suburban will pass the costs of these tests on to Suburban's customers through charges on water bills.

In its Report, Cal Advocates recommended that the Commission deny Special Request No. 1. Cal Advocates argued that Suburban's current notices have been deficient, that the proposed tariff language fails to identify the processing fee to be charged, that Suburban can continue to disconnect customers, and that Suburban's existing backflow device testing program is acceptable.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that the purpose of the processing fee is to recoup the internal costs Suburban incurs to manage and pay third party backflow testers. Suburban argued that its tariff language is consistent with other utilities. Suburban also argued that modifying the notice requirements will not change the economic incentive customers have to defer these tests for as long as possible and that improvements can be made to the existing program through the proposed changes in Special Request No. 1.

RESOLUTION: The Parties agree that the Commission should authorize Suburban 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 Suburban. The third-party services related to the "test and charge" system shall be competitively procured. Suburban 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 GRC. Suburban will file a Tier 1 advice letter to incorporate language into its preliminary statement as shown in **Appendix D**.

REFERENCES: Application, pp. 13-16; Exhibit PAO-1 (Sorensen), pp. 19-1 to 19-6; Exhibit PAO-1-C (Sorensen), pp. 19-1 to 19-6; Exhibit SWS-19 (Kelly Rebuttal Public), pp. 27-31; Exhibit SWS-19-C (Kelly Rebuttal Confidential), pp. 27-31.

2. Special Request No. 3: January 2018 – June 2019 SWWC IT Rate Base Offset

ISSUE: In Special Request No. 3, pursuant to Ordering Paragraph No. 13 in D.19-05-029, Suburban requested authorization to amortize the net under collection balance of \$125,951 from 2018 and January – June 2019 SWWC IT projects upgrades. In this proposed application, Suburban proposes the 2018 and January – June 2019 SWWC IT rate base offsets to be combined and recovered as a one-time surcharge of \$.09 per hundred cubic feet water consumed per customer.

In its Report, Cal Advocates recommended that the Commission deny Special Request No. 3 and argued that Suburban's request is unreasonable because the Commission specifically stated in its last rate decision (D.19-05-029) that recovery of memo account balances are limited specifically to total spend amounts approved in the last general rate case. Cal Advocates argued that Suburban's proposed \$125,951 rate base offset request represents the difference in Suburban's rate of return for the parent company IT projects Suburban proposed in A.17-01-001 and the actual amount of rate base that Suburban parent company incurred for IT projects for 1.5 years (the period of January 1, 2018 to June 30, 2019). Cal Advocates argued that because the total amount spent on Suburban's parent company IT projects is not reasonable, is it also not

reasonable to adopt Suburban's Special Request No. 3. Therefore, Cal Advocates recommended that the Commission reduce the level of the rate base offset allowed to be recovered via memo account by \$125,951 so as not to exceed the cost of parent company IT projects Suburban presented in A.17-01-001. Cal Advocates also objects to providing only partial year data for 2019 and recommends that the Commission should defer review of Suburban's 2019 parent company IT projects to a Tier 3 advice letter once Suburban has historical annual data to compare with authorized amounts.

In its rebuttal testimony, Suburban explained that its understanding is that Cal Advocates proposes to address all projects in both 2019 and 2020 as Tier 3 advice letters once Suburban has historical annual data. Suburban argues that it would make no sense to treat 2019 different from 2020. Further, Suburban understands Cal Advocates would allow a total amount not to exceed \$2,745,000 in 2019, which is equal to the amount authorized, and by extension a similar amount in 2020. Based on that understanding, Suburban agrees with Cal Advocates' proposal and proposes to update its preliminary statement to reflect the filing of a Tier 3 Advice Letter after the projects from years 2019 – 2020 are completed. In addition, the recalculated surcharge for 2018 amortization will be updated as a one-time surcharge.

RESOLUTION: The Parties agree that the Commission should authorize Suburban's requested 2018 SWWC IT Rate Base Offset (removed 2018 excess spend over \$2,687,000 as authorized in D.19-05-029, also removed January through June 2019 recorded spend) and that the recalculated amount for 2018 amortization resulted in under-collection of \$74,197, and the updated amount as a one-time surcharge of \$0.049 per 100 cubic feet of water consumed. The Parties agree that Suburban will file the 2019 and 2020 SWWC IT Rate Base Offset via Tier 3 Advice Letter filing after the projects from years 2019 – 2020 are completed. Suburban will file a Tier 1 Advice Letter to incorporate language into its preliminary statement as shown in Appendix E.

REFERENCES: Application, pp. 13-16; Exhibit PAO-1 (Keowen), pp. 19-8 to 19-10; Exhibit PAO-1-C (Keowen), pp. 19-8 to 19-10; Exhibit SWS-19 (Kelly Rebuttal Public), pp. 31-32; Exhibit SWS-19-C (Kelly Rebuttal Confidential), pp. 31-32.

3. Special Request No. 4: Modification to Rule No. 9 "Rendering and Payment of Bills"

ISSUE: In Special Request No. 4, Suburban requests to change the number of days in an average billing period from 30.4 days to 30 days.

In its Report, Cal Advocates recommended that the Commission deny Special Request No. 4. In its rebuttal testimony, Suburban states that the Commission's current Rule 9 states 30.4 days.

RESOLUTION: Suburban agrees to withdraw its request to change the number of days to 30 days.

REFERENCES: Application, p. 17; Exhibit PAO-1 (Sorenson), pp. 19-10 to 19-12; Exhibit SWS-19 (Kelly Rebuttal Public), pp. 32-33; Exhibit SWS-19-C (Kelly Rebuttal Confidential), pp. 32-33.

4. Special Request No. 9: Amortization of Water Revenue Adjustment Mechanism Balancing Account for Period October 2019 – December 2020

ISSUE: In Special Request No. 9, Suburban requested Commission authorization to continue the amortization of the Water Rate Adjustment Mechanism (WRAM) Balancing account for October 2019 – December 2020 and be allowed to true-up the remaining balance in the 2023 GRC.

In its Report, Cal Advocates recommended that the Commission deny Special Request No. 9. Cal Advocates argued that the decision authorizing Suburban to utilize the WRAM Balancing Account (D.08-02-036) states that Suburban must file an advice letter for amortization of the balance consistent with Standard Practice U-27-W. Standard Practice U-27-W states that if the cumulative 2% threshold is not met, the balance in the account will be amortized in the next GRC. Cal Advocates argues that it is unknown what the balances in the WRAM account are going to be and, consequently, which amortization method should be used - thus, Cal Advocates argues that the Commission should deny Suburban's request. However, Cal Advocates agreed that the Commission should allow Suburban to continue this account following amortization.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendation and argued that in its prior GRC decision, D.19-05-029, the Commission authorized estimated WRAM offsets for years 2017 through 2020. Suburban provided the recorded WRAM amortization for period January 2017 through September 2019. Suburban's request to continue the amortization of the remaining period October 2019 through December 2020 is appropriate in order to comply with D.19-05-029.

RESOLUTION: The Parties agree that Suburban should continue the amortization of the remaining period October 2019 through December 2020 in the WRAM account and that Suburban will update the amortization of this account in its next 2023 GRC. The Parties also agree that the Commission should allow Suburban to continue this account following amortization.

REFERENCES: Application, p. 23; Exhibit PAO-1 (Merida), pp. 17-6 & 19-20; Exhibit PAO-1-C (Merida), pp. 17-6 & 19-20; Exhibit SWS-17 (Carlson Rebuttal), pp. 25-26.

I. Escalation Year Increases

1. Escalation Year Increases

ISSUE: In its Report, Cal Advocates recommended that for Suburban's 2022 and 2023 escalation/attrition year filings, the Commission should require Suburban to file a Tier 2 Advice Letter proposing new revenue requirements and corresponding revised tariff schedules for a decrease in tariff rates. Cal Advocates also recommended that the Commission require Suburban

to implement a post-test year revenue requirement mechanism to adjust the escalation years 2022 and 2023 revenue requirement whether Suburban is over- or under-earning.

In its rebuttal testimony, Suburban disagreed with Cal Advocates' recommendations and argued that there were major deviations from the Commission's established procedures related to escalation and attrition year filings set forth under the adopted Rate Case Plan. Suburban also argued that Cal Advocates' proposal is inconsistent with the Commission's long-standing cost-of-service ratemaking principles, which establish rates that are adequate to permit the utility to serve customers and have a fair opportunity to earn a reasonable return through its efficient operations. In addition, Suburban argued that Cal Advocates was unfairly singling out Suburban among other Class A water utilities and that requiring a Tier 2 Advice Letter rather than a Tier 1 Advice Letter for escalation/attrition year filings is unnecessary.

RESOLUTION: The Parties agree that Suburban shall file for escalation year increases with the Commission via tier one advice letter filing in accordance with the language set forth below in the parties' proposed Ordering Paragraphs 1 and 2. The parties agree that the Commission should adopt the following ordering paragraphs in its final decision in this proceeding:

Ordering Paragraph 1: For escalation years 2022 and 2023, Suburban Water Systems shall file Tier 1 advice letters, in conformance with General Order 96-B and the Revised Water Rate Case Plan (Decision 07-05-062), proposing new revenue requirements and corresponding revised tariff schedules in each rate district and rate area in this proceeding, consistent with the adopted estimated rates for each rate area. This filing shall be subject to approval by the Commission's Water Division.

Ordering Paragraph 2: The advice letters shall follow the escalation procedures set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 and shall include supporting workpapers. Suburban Water Systems shall file for rate reduction due to negative rate base growth, inflation factors, or customer growth. The revised tariff schedules shall take effect on January 1, 2022 and January 1, 2023, respectively, and apply to services rendered on and after their effective dates. The proposed revised revenue requirements and rates shall be reviewed by the Commission's Water Division. The Water Division shall inform the Commission if it finds that the revised rates do not conform to the Revised Rate case Plan, this decision, or other Commission decisions, and if so, reject the filing.

REFERENCES: Exhibit PAO-1 (Sorensen), Chapter 20; Exhibit PAO-1-C (Sorensen), Chapter 20; Exhibit SWS-19 (Kelly Rebuttal Public), pp. 34-40; Exhibit SWS-19-C (Kelly Rebuttal Confidential), pp. 34-40.

J. Water Rights Leases

1. Water Rights Leases and Withdrawal of Cal Advocates' Motion for Order to Show Cause

ISSUE: In its September 22, 2020 *Motion of the Public Advocates Office for an Order to Show Cause* (“Motion for an Order to Show Cause”), Cal Advocates raised the issue of Suburban’s practice of leasing its water rights to other entities and argued that Public Utilities Code Section 851 requires Suburban to secure the Commission’s authorization via advice letter before engaging in such leases.

Suburban disagreed that Public Utilities Code Section 851 was applicable to its water rights leases in its October 7, 2020 *Response to the Motion of the Public Advocates for an Order to Show Cause*.

RESOLUTION: The Parties agree to resolve this disputed issue in its entirety as follows:

- Suburban will file a Tier 1 Advice Letter with the Commission before leasing its water rights out to other entities.
- Filing Tier 1 Advice Letters resolves Cal Advocates’ concerns with compliance with Public Utilities Code Section 851 going forward.
- Cal Advocates acknowledges that Suburban has cooperated in resolving the issues raised in the Motion for an Order to Show Cause. In light of this cooperation and the overall settlement, Cal Advocates is withdrawing its Motion for an Order to Show Cause and thus does not seek penalties as stated in Section III.
- Suburban will make the following adjustments to the forecasted Pumped and Purchase Water Adjustment:
 - Reduce MWD-CB 160.95 A.F. and Increase 111 CD Shares: \$148,028 revenue requirement reduction.
 - \$155,368 per year (for 2021, 2022, and 2023) to credit cost of purchased water. Beginning with its next GRC period and continuing in subsequent GRC cases, Suburban will forecast funds for any unused owned water rights during that GRC period in its RO Model as a reduction to revenue requirement based on the number of unused acre feet multiplied by the most recent recorded lease price for the type of unused rights at the time of the GRC filing.
- Suburban will make the following adjustments to the manner it reports water rights leases:
 - Use new source codes for Central Basin lease-ins and a new source code for Central Basin lease-outs.

- Use new source codes for Main San Gabriel Basin lease-ins and a new source code for Main San Gabriel Basin lease-outs.
- Suburban will make the following adjustment to the forecasted Main San Gabriel Basin Safe Yield:
 - Adjust Main San Gabriel Basin Safe Yield in the RO Model to 140,000 acre-feet in 2020 and leave the remaining forecasted years as filed.
- Suburban will make the following adjustment to the forecasted carryover and leased Main San Gabriel Basin Rights:
 - Include one-sixth of carryover leases in RO model as leases instead of replacement water for each year 2021, 2022, 2023, 2024, 2025, and 2026.

MSGB Lease, Per Acre Foot:		
Volume Price (+) Dues (+) Assessments, Per Acre Foot	\$	201.30
Lease, Per Acre Foot	\$	772.20
Total Cost MSGB Lease Rights, Per Acre Foot	\$	973.50
MSGB Replacement, Per Acre Foot:		
Volume Price (+) Dues (+) Assessments, Per Acre Foot	\$	201.30
Replacement, Per Acre Foot	\$	958.00
Total Cost MSGB Over Pump, Per Acre Foot	\$	1,159.30
Cost Difference	\$	(185.80)
2018/2019 Carryover (Drought Related Leases)		11,209.94
1/6 of Carryover in RO Model for each year 2021, 2022, and 2023		1,868.32
Reduced Pumped Water Cost per year in 2021, 2022, 2023, 2024, 2025, and 2026		\$ (347,133.85)

REFERENCES: A.20-03-001, *Motion of the Public Advocates Office for an Order to Show Cause* (September 22, 2020); A.20-03-001, *Response of Suburban Water Systems to the Motion of Public Advocates Office for an Order to Show Cause* (October 7, 2020).

III. ORDER TO SHOW CAUSE

Cal Advocates acknowledges that Suburban has cooperated in resolving all of the issues raised in the Motion for an Order to Show Cause. In light of this cooperation and the overall settlement, Cal Advocates is withdrawing its Motion for an Order to Show Cause and thus will not seek penalties, refunds, interest, or other remedies in relation to the issues raised therein.

REFERENCES: A.20-03-001, *Motion of the Public Advocates Office for an Order to Show Cause* (September 22, 2020); A.20-03-001, *Response of Suburban Water Systems to the Motion of Public Advocates Office for an Order to Show Cause* (October 7, 2020).

IV. CONCLUSION

1. The Parties mutually believe that, based on the terms and conditions set forth above, this Settlement Agreement is reasonable, consistent with the law, and in the public interest.
2. Each Party to this Settlement Agreement represents that his or her signature to this Settlement Agreement binds his or her respective party to the terms of this Settlement Agreement.

Respectfully submitted,

Respectfully submitted,

THE PUBLIC ADVOCATES OFFICE

SUBURBAN WATER SYSTEMS

By: 
Chris Ungson
Deputy Director

By: _____
Craig D. Gott, P.E.
President

California Public Utilities Commission
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Tel.: (415) 703-2571
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1325 N. Grand Ave., Suite 100
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Tel.: (626) 543-2554
Fax: (626) 331-4848
E-mail: cgott@swwc.com

Dated: April 12, 2021

Dated: April 12, 2021

IV. CONCLUSION

1. The Parties mutually agree that the terms and conditions set forth above, this Settlement Agreement is reasonable, consistent with the law, and in the public interest.
2. Each Party to this Settlement Agreement represents that his or her signature to this Settlement Agreement binds his or her respective party to the terms of this Settlement Agreement.

Respectfully submitted,

Respectfully submitted,

THE PUBLIC ADVOCATES OFFICE

SUBURBAN WATER SYSTEMS

By: _____

Chris Ungerson
Deputy Director

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Tel.: (415) 703-2571
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E-mail: chungerson@cpuc.org

Dated: April 12, 2021

By:  _____

Craig L. Gott P.E.
President

1325 N. Grand Ave., Suite 100
Covina, CA 91724
Tel.: (626) 543-2554
Fax: (626) 331-4848
E-mail: cgott@swwwc.com

Dated: April 14, 2021

Appendix A

Table CAPEX Projects

Table CAPEX projects (Shown Solely for Illustrative Purposes Only)			
Description	2020	2021	2022
Plant 201 Treatment Plant	\$779,711	\$0	\$0
Plant 408 Reservoir 5	\$422,000		
Plant 238 Pump Station Upgrades Diesel Generator & VFD	\$649,000		
Plant 408 Pump Station & Generator	\$3,016,000		
Plant 110 RCS	\$668,000		
Plant 505 RCS*	\$204,000		
Plant 507 R-1 - Reservoir Rehabilitation	\$685,000		
Nantes Pipeline	\$1,376,000		
1st Ave. And Lashburn	\$1,270,000		
Russell & Pounds	\$3,326,000		
Colima and Mar Vista Pipeline	\$628,000		
Solejar & Janison Valve Station	\$302,000		
Slope Stability - Plant 217	\$317,000		
Slope Stability - Plant 162	\$354,000		
Plant 109 Generator		\$367,980	
Plant 165 Generator		\$367,980	
Plant 235 Generator		\$367,980	
Plant 236 Generator		\$367,980	
Plant 506 Generator		\$395,017	
Plant 128 Reservoir Replacement		\$900,000	\$1,198,000
Plant 121 R-2 Coating		\$736,000	
Plant 109 Reservoirs R2 Coating		\$498,000	
Willow Channel Crossing		\$252,000	
Ben Hur & Light		\$1,364,000	
Mulvane & Vanderwell		\$4,205,000	
Hornell & Nashville			\$2,987,000
Lanining & Gunn		\$3,835,000	
Gemini & Backton Phase I		\$3,397,000	
Foxley & Shoemaker		\$1,414,000	
SCADA Upgrades		\$275,000	
Plant 118 Generator			\$367,980
Plant 119 Generator			\$395,017
Plant 121 W-1 & B-4 Generator			\$597,799
Plant 504 Generator			\$395,017
Plant 201 W-7 Generator			\$597,799
Plant 201 W-8 Generator			\$597,799
Plant 409 Generator			\$597,799
Plant 410 Generator			\$395,017
Plant 128 Pump Station Replacement			\$1,500,000
Electrical Equipment Replacement at Plant 158	\$300,000		
Electrical Equipment Replacement at Plant 413		\$402,000	
Electrical Equipment Replacement at Plant 140			\$392,000
Mulberry and Calmada			\$6,619,000
Mocassin and Maypop			\$2,137,000
Mar Vista and Las Pasadas			\$1,545,000
Danbrook & Coachman			\$1,457,000
<u>ANNUAL PROJECTS</u>			
Pump Replacements at Various Locations	\$296,000	\$296,000	\$296,000

QA Treatment Improvements	\$57,000	\$57,000	\$57,000
Control Valve Refurbishment Program	\$155,000	\$155,000	\$155,000
Air Release Valve Replacements	\$52,000	\$52,000	\$52,000
Blow-off Replacements	\$378,000	\$385,000	\$385,000
Governmental Projects	\$291,000	\$291,000	\$291,000
Misc. Pipeline Replacements	\$685,000	\$594,984	\$594,984
Valve Replacements	\$1,213,000	\$988,052	\$1,010,974
Vault Replacements	\$38,000	\$38,000	\$38,000
Services	\$2,220,000	\$2,350,000	\$2,470,000
Meters Replacements	\$1,805,000	\$3,157,000	\$3,157,000
Meters Installations	\$413,000	\$569,000	\$569,000
Fire Hydrants Replacement	\$562,000	\$612,000	\$662,000
Plant Improvements (Various Locations)	\$301,000	\$301,000	\$301,000
Plant Paving Project	\$62,000	\$65,000	\$66,200
Security Upgrades	\$206,000	\$178,000	\$187,000
<u>DIRECT PURCHASES</u>			
Water Rights	\$1,677,500		\$2,000,000
<u>Office Furniture & Equipment</u>			
Office Furniture	\$9,000	\$9,000	\$9,000
Office Equipment	\$29,000	\$29,000	\$29,000
<u>Personal Computers & Software</u>			
Personal Computers	\$80,228	\$71,631	\$74,121
Software	\$2,000	\$10,000	\$2,000
<u>Others</u>			
Vehicle Replacement	\$307,000	\$363,000	\$603,000
Communication Equipment	\$39,000	\$39,000	\$39,000
Tools, Shop and Garage Equipment	\$105,000	\$73,653	\$73,653
GIS and Model System Upgrades	\$166,000	\$171,000	\$175,000
Total Company Funded Expenditures	\$25,445,439	\$30,000,257	\$35,076,159

Appendix B

Water Contamination Litigation Memorandum Account Tariff Language

Suburban Water Systems
1325 N. Grand Ave., Ste. 100
Covina, CA 91724-4044

Original

Cal. P.U.C. Sheet No. _____

Cal. P.U.C. Sheet No. _____

PRELIMINARY STATEMENT

(Continued)

- Y. **Water Contamination Litigation Expense Memorandum Account ("WCLEMA")** (N)
1. **PURPOSE:**
Suburban shall maintain the Water Contamination Litigation Expense Memorandum Account ("WCLEMA") as authorized in Resolution W-4094 dated March 26, 1998. The WCLEMA shall track expenses associated with outside legal and consulting costs for water contamination lawsuits and litigation.
 2. **APPLICABILITY:**
The WCLEMA applies to all service areas.
 3. **ACCOUNTING PROCEDURE:**
Suburban shall make the following entries on a monthly basis:
 - a. A debit entry shall be made to the WCLEMA at the end of each month to record the expenses.
 - b. Interest which shall accrue monthly to the WCLEMA by applying the interest rate equal to one-twelfth of the 3-month Commercial Paper, as reported in the Federal Reserve Statistical Release, H.15 or its successor to the average of the beginning and ending balance.
 4. **DISPOSITION:**
The balance in the WCLEMA shall be amortized by a Tier 3 advice letter whenever the balance exceeds 2% of the authorized revenue requirement for Suburban Water Systems. If the balance is below 2%, Suburban shall propose its amortization in a general rate case proceeding.
- (N)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. _____ **Robert L. Kelly** _____
Name

Date Filed _____

Decision No. _____ **Vice President** _____
Title

Effective _____

Resolution No. _____

Appendix C

Catastrophic Event Memorandum Account (CEMA) Tariff Language

Suburban Water Systems
1325 N. Grand Ave., Ste. 100
Covina, CA 91724-4044

Canceling _____ Original _____

Cal. P.U.C. Sheet No. _____

Cal. P.U.C. Sheet No. 1670-W

PRELIMINARY STATEMENT

(Continued)

V. Catastrophic Event Memorandum Account (CEMA) (T)

1. PURPOSE:

The purpose of the CEMA is to recover the costs resulting from a catastrophic event declared a disaster or state of emergency by competent federal or state authorities. These costs can include but are not limited to expenses related to the restoration of service and Suburban Water Systems facilities affected by the catastrophic event. These costs may also include but are not limited to cost for implementing customer protections for all disasters in which the Governor of California or the President of the United States has declared a state of emergency. The authority to establish this memorandum account was granted in Ordering Paragraph 1 of C.P.U.C. Resolution E-3238, dated July 24, 1991.

(N)
|
|
|
|
|
|
(N)

Should a disaster occur, the utility will, if possible, inform the executive Director of the C.P.U.C. by letter within 30 days after the catastrophic event that the utility has started booking costs to the CEMA.

The letter shall specify the declared disaster, date, time, location, service area affected, impact on the utility's facilities, and an estimate of the extraordinary costs expected to be incurred, with costs due to expenses and capital items shown separately.

The utility shall not record any capital costs or expenses incurred prior to the start of the declared disaster or state of emergency, as identified by the appropriate authorities, pursuant to Government Code Sections 8558, 8588, and 8625, or comparable federal authority.

(N)
|
|
|
|
|
(N)

Descriptions of the terms and definitions used in this section are found in Rule 1.

Per Decision no. 19-07-015, the company will track the associated costs from each segregated event in its CEMA.

2. APPLICABILITY:

The CEMA balance will be recovered from all customer classes from the utility's customer base, except those specifically excluded by the C.P.U.C.

(T)

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advise Letter No. _____ Robert L. Kelly _____

Date Filed _____

Name

Decision No. _____ Vice President _____

Effective
Resolution No. _____

Suburban Water Systems
1325 N. Grand Ave., Ste. 100
Covina, CA 91724-4044

Canceling _____ Original _____

Cal. P.U.C. Sheet No. _____

Cal. P.U.C. Sheet No. 1671-W

PRELIMINARY STATEMENT

(Continued)

V. **CEMA** (Continued) (T)

3. **CEMA RATES:**

The CEMA does not currently have a rate component. Requests for recovery of any balance in the CEMA are to be processed according to General Order 96-B and Standard Practices or requested in a general rate case. Requests for recovery shall include a showing that the costs to be recovered were not included in rates.

(D)

4. **ACCOUNTING PROCEDURE:**

Upon declaration of a disaster or state of emergency, the utility shall maintain the CEMA from the date of the event causing the disaster occurred by making entries to this account at the end of each month as follows:

(N)

- a. A debit entry for each qualifying event equal to the amounts recorded in the utility's Operations and Maintenance, and Administrative and General Expense Accounts that were incurred as a result of the disaster and related events.

I

(N)

(T)

(N)

(T)

- b. A debit entry equal to:

(1) Depreciation expense on the average of the beginning and the end-of-month balance of plant installed to restore service to customers, or to replace, repair, or restore any plant or facilities, or to comply with government agency orders, in connection with events declared disasters, at one-twelfth of the annual depreciation rates approved by the C.P.U.C. for these plant accounts; plus

(2) The return on investment on the average of the beginning and the end-of-month balance of plant installed to restore service to customers, or to replace, repair, or restore any plant or facilities, or to comply with government agency orders, in connection with events declared disasters, at one-twelfth of the annual rate of return on investment last adopted for the company by the C.P.U.C.; plus

(N)

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advise Letter No. _____

Robert L. Kelly

Date Filed _____

Name

Decision No. _____

Vice President

Effective _____

Resolution No. _____

Suburban Water Systems
1325 N. Grand Ave., Ste. 100
Covina, CA 91724-4044

Canceling Original

Cal. P.U.C. Sheet No. _____

Cal. P.U.C. Sheet No. 1672-W

PRELIMINARY STATEMENT

(Continued)

- V. CEMA** (Continued) (T)
4. ACCOUNTING PROCEDURE (Continued): (T)
- (3) The return on the appropriate allowance for working capital using calculations last adopted by the C.P.U.C. for the utility, and the return in 4.b.(2) above; plus
- (4) The return on net cost of removal of facilities required as a result of the disaster and related events, using the rate of return in 4.b.(2) above; less (T)
- (5) The return on the average of beginning and end-of-month accumulated depreciation, and on average accumulated net deferred taxes on income resulting from the normalization of federal tax depreciation, using the rate of return in 4.b.(2) above.
- c. A debit entry equal to federal and state taxes based on income associated with item 4.b.(2) above, calculated at marginal tax rates currently in effect. This will include all applicable statutory adjustments.
For federal and state taxes, this will conform to normalization requirements as applicable. Interest cost will be at the percentage of net investment last adopted by the C.P.U.C. with respect to the utility.
- d. A credit entry to transfer all or a portion of the balance in this CEMA to other adjustment clauses for future rate recovery, as may be approved by the C.P.U.C. (T)
- e. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after the entries from 4.a. through 4.c. above, at a rate equal to one-twelfth of the interest on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication until a final Commission determination on rate recovery for the amount.
- f. Entries in items 4.a. and 4.b. above shall be made net of the appropriate insurance proceeds. Items 4.a, 4.b, and the appropriate determinants of item 4.c above, in any month, shall be pro-rated to reflect the latest jurisdictional allocation factors. (N)
(N)
5. FINANCIAL REPORTING: (T)
The utility may, at its discretion, record the balance in the CEMA as a deferred debit on its balance sheet with entries to the appropriate income statements as necessary.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advise Letter No. _____ Robert L. Kelly _____

Date Filed _____

Name

Decision No. _____ Vice President _____

Effective _____

Title

Resolution No. _____

Appendix D

Rule No. 16 Tariff Language

Resolution No.

Appendix E

SWWC IT Rate Base Offset Tariff Language

Suburban Water Systems
1325 N. Grand Ave., Ste. 100
Covina, CA 91724-4044

Canceling _____ Original _____

Cal. P.U.C. Sheet No. _____

Cal. P.U.C. Sheet No. 1641-W

PRELIMINARY STATEMENT

(Continued)

U. Allocated Parent Company Information Technology (IT) Rate Base Memorandum Account ("APCITRBMA")

1. PURPOSE:

The purpose of the APCITRBMA is to track Suburban's allocated Parent Company IT Projects Rate Base using a three-factor allocation percentage of 44.80% for the period from January 1, 2018 through December 31, 2020. These costs, up to amounts proposed in application 17-01-001, are eligible for recovery as Rate Base after the Company makes a showing that the costs are deemed reasonable based on Suburban's General Rate Case (GRC) Decision 19-05-029.

2. APPLICABILITY:

The APCITRBMA applies to all areas served by Suburban.

3. ACCOUNTING PROCEDURE:

The following entries shall be recorded to the memorandum account:

- a. A debit entry equal to the IT Project costs.
- b. The carrying costs shall accrue interest on a monthly basis by applying a rate equal to one-twelfth of Suburban's actual weighted average cost of debt, and the capitalized interest should not be compounded.

4. EFFECTIVE DATE:

The APCITRBMA shall have the effective date of January 1, 2018 through December 31, 2020.

5. DISPOSITION:

After completion of IT Projects, Suburban shall seek future recovery as Rate Base of the allocable Parent Company IT Projects via GRC or Tier 3 advice letter filings. The requests shall be reduced by Suburban's share of the IT Projects' recorded capitalized labor costs, but not to exceed the amount adopted in rates.

(T)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advise Letter No. _____

Robert L. Kelly

Date Filed _____

Name

Decision No. _____

Vice President

Effective _____

Title

Resolution No. _____