

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



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Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by \$55,771,300 or 18.71% in the year 2024, by \$19,565,300 or 5.50% in the year 2025, and by \$19,892,400 or 5.30% in the year 2026.

A.22-07-001
(Filed July 1, 2022)

**UPDATED APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY
(U210W) TO INCREASE REVENUES IN EACH OF ITS DISTRICTS STATEWIDE**

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**BEFORE THE PUBLIC UTILITIES COMMISSION
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A.22-07-001
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**UPDATED APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY
(U210W) TO INCREASE REVENUES IN EACH OF ITS DISTRICTS STATEWIDE**

Pursuant to Sections 454 and 727.5 of the Public Utilities Code, Rule 3.2 of the Commission’s Rules of Practice and Procedure (“Rules”), and as directed by the *Administrative Law Judge’s Ruling Directing California-American Water Company To Provide Additional Information And Directing All Parties To Meet And Confer And To Submit A Proposed Schedule*, dated November 15, 2022 (“November 15, 2022 Ruling”) and subsequent email granting an extension until January 27, 2023 to submit an updated application,¹ California-American Water Company (“California American Water” or “Applicant”) respectfully submits its Updated Application to increase rates for water and/or wastewater service in each of its districts statewide. California American Water has spent considerable time and effort in developing its requests in this general rate case (“GRC”), with the primary focus on providing our customers with safe, reliable water and wastewater service. California American Water’s focus in this GRC

¹ On November 28, 2022, California American Water filed a request for an extension to January 27, 2023 to submit an updated application. On November 29, 2022, Administrative Law Judge Rambo sent an email which stated as follows: “The extension request is granted. The response of California American shall be filed not later than January 27, 2023. Responses are due as provided in my November 15, 2022 ruling.”

includes: (1) balancing the need for system improvements with what our customers pay for water service, all while working with regulators on efforts to support operational excellence and efficiency; (2) ensuring water and wastewater systems are sufficiently designed, operated, and financed to provide safe and reliable services to all customers; (3) working to address emerging trends and threats, including wildfire and climate change, and being adaptive and forward-looking in order to build and operate a more resilient system; and (4) addressing issues of affordability through proposals for rate consolidation, customer assistance programs, and hardship funds.

This Updated Application modifies the Application filed on July 1, 2022 (“Original Application”) to propose a Water Resources Sustainability Plan (“WRSP”) as an alternative to the Monterey-Style Water Revenue Adjustment Mechanism (“M-WRAM”). The WRSP consists of several components, including the decoupling Essential Service Balancing Account (“ESBA”), a modified Annual Consumption Mechanism (“ACAM”) that updates sales forecasts more frequently (Special Request No. 3), adjusted amortization (Special Request No. 14), and rate design modifications. These components work in conjunction with each other to provide the best outcome for California American Water’s customers. Taken as a whole, the WRSP benefits customers by providing greater conservation incentives while addressing some of the concerns that the Commission has previously expressed regarding the existing decoupling Water Revenue Adjustment Mechanism (“WRAM”). The WRSP proposal is described in greater detail in this Updated Application and in accompanying supplemental testimony listed in Table 4 below.

I. UPDATED SUMMARY OF REQUESTED REVENUE REQUIREMENT AND RATE BASE CHANGES [RATE CASE PLAN MINIMUM DATA REQUIREMENTS SECTION I.A]

Pursuant to Section 451 *et seq.* of the California Public Utilities Code, California American Water seeks a general increase in rates for water and/or wastewater service in its consolidated divisions/individual districts² in order to realize the increased revenue in **Table 1** below.³

To calculate the updated revenue increase requests reflected in Table 1, Table 2, and Section III below, California American Water used a corrected 100-day update results of operations model, updated present rates, and revised sales forecasts, which is explained in the Supplemental Testimony of Mr. Bahman Pourtaherian, Section III. Additionally, for the WRSP, the revenue increases reflect changes in rate design.

TABLE 1

Northern Division – With WRSP			
District/Area	Year	Updated Revenue Increase (in 000’s)	Updated Percentage Increase
Northern Division	2024	\$14,560.7	17.10%

² California American Water’s individual divisions/districts are as follows: (1) Northern Division, (2) Central Division, (3) Monterey Wastewater, and (4) Southern Division.

³ California American Water anticipates that, subsequent to the filing of the Original Application and prior to the issuance of a decision by the Commission, California American Water may file one or more advice letter request(s) to offset unanticipated increases in expenses that may be incurred by any of California American Water’s respective districts, or to request recovery of captured balance(s) in its various memorandum or balancing accounts. Any such offset rate increases requested by advice letter will be in addition to the increase in rates requested in the Original and/or Updated Application.

	2025	\$8,671.0	8.55%
	2026	\$8,739.5	7.93%

Northern Division – With M-WRAM			
District/Area	Year	Updated Revenue Increase (in 000's)	Updated Percentage Increase
Northern Division	2024	\$13,981.2	16.31%
	2025	\$8,661.9	8.53%
	2026	\$8,739.2	7.93%

Central Division – With WRSP			
District/Area	Year	Updated Revenue Increase (in 000's)	Updated Percentage Increase
Central Division	2024	\$9,443.4	10.52%
	2025	\$2,464.0	2.48%
	2026	\$3,418.4	3.36%

Central Division – With M-WRAM			
District/Area	Year	Updated Revenue Increase (in 000's)	Updated Percentage Increase
Central Division	2024	\$9,443.4	10.52%

	2025	\$2,464.0	2.48%
	2026	\$3,418.4	3.36%
Monterey Wastewater – With WRSP			
District/Area	Year	Updated Revenue Increase (in 000's)	Updated Percentage Increase
Monterey Wastewater	2024	\$532.0	13.54%
	2025	\$179.8	4.05%
	2026	\$145.8	3.15%

Monterey Wastewater – With M-WRAM			
District/Area	Year	Updated Revenue Increase (in 000's)	Updated Percentage Increase
Monterey Wastewater	2024	\$532.0	13.54%
	2025	\$179.8	4.05%
	2026	\$145.8	3.15%

Southern Division – With WRSP			
District/Area	Year	Updated Revenue Increase (in 000's)	Updated Percentage Increase
Southern Division	2024	\$11,970.9	9.29%
	2025	\$8,797.8	6.24%
	2026	\$7,520.4	5.02%

Southern Division – With M-WRAM			
District/Area	Year	Updated Revenue Increase (in 000's)	Updated Percentage Increase
Southern Division	2024	\$11,515.8	8.87%
	2025	\$8,812.9	6.22%
	2026	\$7,520.0	5.00%

Table 2 compares the proposed amounts to the last adopted and last recorded amounts, showing the difference in dollars and percentages by Division.

TABLE 2

Northern Division – With WRSP				
District/ Area	Category	Last Test Year Adopted 2021	Last Recorded Year 2021	Proposed Test Year 2024
Northern Division	Total Rev. Req. (\$, in 000's)	\$72,718.4	\$68,855.9	\$99,687.3
	Rate Base (\$, in 000's)	\$213,770.2	\$216,502.5	\$324,465.4
	Rate Base (%)	N/A	1.28%	51.78%
	Operating Exp. (\$, in 000's)	\$38,336.4	\$36,612.4	\$47,320.2
	Operating Exp. (%)	N/A	(4.50)%	23.43%

	Rate of Return	7.61%	7.40%	7.61%
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Northern Division – With M-WRAM				
District/ Area	Category	Last Test Year Adopted 2021	Last Recorded Year 2021	Proposed Test Year 2024
Northern Division	Total Rev. Req. (\$, in 000's)	\$72,718.4	\$68,855.9	\$99,705.6
	Rate Base (\$, in 000's)	\$213,770.2	\$216,502.5	\$324,467.3
	Rate Base (%)	N/A	1.28%	51.78%
	Operating Exp. (\$, in 000's)	\$38,336.4	\$36,612.4	\$47,353.1
	Operating Exp. (%)	N/A	(4.50)%	23.52%
	Rate of Return	7.61%	7.40%	7.61%

Central Division – With WRSP				
District/ Area	Category	Last Test Year Adopted 2021	Last Recorded Year 2021	Proposed Test Year 2024
Monterey County	Total Rev. Req. (\$, in 000's)	\$72,739.3	\$69,297.7	\$99,171.1
	Rate Base (\$, in 000's)	\$228,884.6	\$225,737.7	\$278,923.9
	Rate Base (%)	N/A	(1.37)%	21.86%
	Operating Exp. (\$, in 000's)	\$39,302.1	\$38,271.8	\$57,301.4
	Operating Exp. (%)	N/A	(2.62)%	45.80%
	Rate of Return	7.61%	7.52%	7.61%

Central Division – With M-WRAM				
District/ Area	Category	Last Test Year Adopted 2021	Last Recorded Year 2021	Proposed Test Year 2024
Monterey County	Total Rev. Req. (\$, in 000's)	\$72,739.3	\$69,297.7	\$99,171.1
	Rate Base (\$, in 000's)	\$228,884.6	\$225,737.7	\$278,923.9
	Rate Base (%)	N/A	(1.37)%	21.86%
	Operating Exp. (\$, in 000's)	\$39,302.1	\$38,271.8	\$57,301.4
	Operating Exp. (%)	N/A	(2.62)%	45.80%
	Rate of Return	7.61%	7.52%	7.61%

Monterey Wastewater – With WRSP				
District/ Area	District/ Area	Last Test Year Adopted 2021	Last Recorded Year 2021	Proposed Test Year 2024
Monterey Wastewater	Total Rev. Req. (\$, in 000's)	\$3,549.3	\$3,336	\$4,460.8
	Rate Base (\$, in 000's)	\$2,982.3	\$3,820.2	\$5,533.3
	Rate Base (%)	N/A	28.09%	85.54%
	Operating Exp. (\$, in 000's)	\$2,905.1	\$3,070.2	\$3,494.3
	Operating Exp. (%)	N/A	5.86%	20.28%
	Rate of Return	7.61%	0.74%	7.61%

Monterey Wastewater – With M-WRAM				
District/ Area	District/ Area	Last Test Year Adopted 2021	Last Recorded Year 2021	Proposed Test Year 2024
Monterey Wastewater	Total Rev. Req. (\$, in 000's)	\$3,549.3	\$3,336	\$4,460.8
	Rate Base (\$, in 000's)	\$2,982.3	\$3,820.2	\$5,533.3
	Rate Base (%)	N/A	28.09%	85.54%
	Operating Exp. (\$, in 000's)	\$2,905.1	\$3,070.2	\$3,494.3
	Operating Exp. (%)	N/A	5.86%	20.28%
	Rate of Return	7.61%	0.74%	7.61%

Southern Division – With WRSP				
District/ Area	Category	Last Test Year Adopted 2021	Last Recorded Year 2021	Proposed Test Year 2024
Southern	Total Rev. Req. (\$, in 000's)	\$122,990.8	\$101,863.6	\$140,836.0
	Rate Base (\$, in 000's)	\$221,994.6	\$240,978.5	\$303,821.2
	Rate Base (%)	N/A	0.76%	36.86%
	Operating Exp. (\$, in 000's)	\$91,368.5	\$85,895.53	\$91,891.0
	Operating Exp. (%)	N/A	(5.99)%	0.57%
	Rate of Return	7.61%	3.11%	7.61%

Southern Division – With M-WRAM				
District/ Area	Category	Last Test Year Adopted 2021	Last Recorded Year 2021	Proposed Test Year 2024
Southern	Total Rev. Req. (\$, in 000's)	\$122,990.8	\$101,863.6	\$141,414.2
	Rate Base (\$, in 000's)	\$221,994.6	\$240,978.5	\$303,825.8
	Rate Base (%)	N/A	0.76%	36.86%
	Operating Exp. (\$, in 000's)	\$91,368.5	\$85,895.53	\$92,480.4
	Operating Exp. (%)	N/A	(5.99)%	1.22%
	Rate of Return	7.61%	3.11%	7.61%

II. NECESSITY FOR GENERAL RATE RELIEF AND UPDATED PRIMARY COST INCREASES [RATE CASE PLAN MINIMUM DATA REQUIREMENTS SECTION I.B]

California American Water’s main focus is our customers. To accomplish the customer-centric goals in this GRC, California American Water asks the Commission to take into account the collective proposals set forth in the Application and supporting testimony. California American Water understands the need to invest in capital to maintain and improve reliability and plan for future customer needs. This understanding is reflected in the overall requests made in this Application.

Authorizing the requests made in this Application not only accomplishes the customer-centric goals outlined above, it also serves the public interest. The requests outlined herein will further the Commission’s and State’s water goals and will result in the streamlining of Commission decision-making.

On a company aggregate basis, the main drivers of the rate increase are necessary support for new capital investment (\$31.1M), increased labor expense (\$4.7M), inflationary pressure (\$6.1M), reduction in demand (\$4M under the WRSP proposal or \$2.4M under the M-WRAM proposal), and small system consolidation support (\$3.5M). These cost drivers are offset in part by decreasing costs in other areas and/or by increased revenues from acquisitions, improved efficiencies stemming from acquisitions, and organic customer growth.

As required by the Rate Case Plan, California American Water includes a summary of the primary factors behind its request for increased rates in this Application by district.

A. Northern Division

The Northern Division is made up of the Sacramento District, to which the Meadowbrook, Hillview, Fruitridge and several other small service areas have been incorporated, and the Larkfield District for operational and rate base/revenue requirement ratemaking purposes. The main drivers of the proposed rate increase of \$14.6 million under the WRSP proposal and \$14 million under the M-WRAM proposal are necessary support for new capital investment (\$11M), increased depreciation (\$3.1M), inflationary increases (\$2.3M), increased labor expense (\$1.3M), and small system consolidation support (\$1.6M). These cost drivers are offset in part by decreasing costs in other areas and/or by increased revenues from acquisitions, and organic customer growth.

B. Central Division

The Central Division is made up of the Monterey Service Area and the Central Satellites.⁴ The main drivers of the proposed rate increase of \$9.4 million are necessary support

⁴ Pursuant to D.18-12-021, the Ambler, Toro, Ralph Lane, and Garrapata systems have been consolidated into the Monterey County District for ratemaking and tariff purposes.

for new capital investment (\$3.6M), increased labor expense (\$0.9M), inflationary increases (\$1.8M), reduction in forecasted water sales (\$2.1M) and small system consolidation support (\$0.7M). These cost drivers are offset in part by decreasing costs in other areas.

C. Monterey Wastewater

The main drivers of the proposed rate increase of \$532K are increased labor expenses (\$141K), increased chemical costs (\$183K), increased purchased power cost (\$73k), necessary support for new capital investment (\$227k), and inflationary increases (\$147K). These cost drivers are offset in part by decreasing costs in other areas.

D. Southern Division

The Southern Division is made up of the Los Angeles County, San Diego County, and Ventura County Districts. The main drivers of the proposed rate increase of \$12 million under the WRSP proposal or \$11.5 million under the M-WRAM proposal are necessary support for new capital investment (\$9.7M), increased labor expense (\$2.3M), inflationary increases (\$1.8M), small system consolidation support (\$1.2M), and reduction in demand (\$7.4M under the WRSP proposal or \$6.3M under the M-WRAM proposal). These cost drivers are offset in part by decreasing costs in other areas and/or by increased revenues from new customers.

III. OTHER REQUESTS AND RECOMMENDATIONS

A. Updated Special Request No. 1: Authorizing the WRSP, or in the alternative, the M-WRAM

In D.20-08-047, the Commission prohibited companies with a decoupling WRAM/MCBA, including California American Water, from including the WRAM/MCBA in their next general rate case filing. In D.20-08-047, the Commission also stated that utilities may

“propose to use Monterey-Style Water Revenue Adjustment Mechanisms.”⁵ California American Water and others filed applications for rehearing of D.20-08-47, but the Commission denied rehearing in D.21-09-047. On October 27, 2021, California American Water filed a petition for writ of review of D.20-08-047 and D.21-09-047 with the California Supreme Court. Several other parties also filed petitions. On May 18, 2022, the California Supreme Court issued the writ of review, consolidated the petitions into Case No. S269099, *Golden State Water Company v. Public Utilities Commission*, and directed the parties to file briefs. Briefing concluded in January 2023.

While this general rate case was pending, Governor Newsom signed into law Senate Bill No. 1469 (“SB 1469”), which amended Section 727.5 of the Public Utilities Code. Section 727.5 requires the Commission to consider, and authorizes the Commission to authorize, implementation of a decoupling mechanism. The statute requires the proposal for the decoupling mechanism to be made as part of the general rate case process, unless the Commission and the water corporation mutually agree for the application to be otherwise submitted.

On November 15, 2022, California American Water was authorized to file an updated application in this proceeding requesting implementation of a decoupling mechanism as an alternative to the M-WRAM. California American Water therefore proposes in Special Request No. 1 to implement the WRSP, which includes the ESBA decoupling mechanism, in all of its ratemaking districts as an alternative to the M-WRAM. The WRSP components, including the ESBA, are discussed in Jeffrey Linam’s Supplemental Testimony, and in the other supplemental testimony listed in Table 4 below. If the Commission does not authorize the WRSP, California

⁵ D.20-08-047, p. 106, Ordering Paragraph 3.

American Water proposes to implement the M-WRAMs in all of its ratemaking districts. This is discussed in Mr. Linam’s Direct Testimony, Section IV.

California American Water requests authorization of Special Request No. 2 only if the Commission does not authorize the WRSP.

B. Special Request No. 2: Full Cost Balancing Account (“FCBA”) and Incremental Cost Balancing Account (“ICBA”)

If the Commission does not authorize the WRSP, California American Water requests Commission authorization to (1) establish incremental cost balancing accounts (“ICBAs”) for its San Diego and Ventura County districts and (2) establish full cost balancing accounts (“FCBAs”) for its Monterey, Los Angeles, Sacramento, and Larkfield districts. This is discussed in Mr. Linam’s Direct Testimony, Section IV.

C. Updated Special Request No. 3: Annual Consumption Adjustment Mechanism (“ACAM”)

As part of the WRSP, California American Water is proposing a modified ACAM to address some of the Commission’s previously expressed concerns regarding implementation of decoupling proposals. The specific modifications proposed to the ACAM as part of the WRSP are discussed in Mr. Linam’s Supplemental Testimony, Section III.

If the Commission does not authorize the WRSP, California American Water requests retention of the ACAM pilot program, with three modifications, for all its districts and the permanent program in the Monterey Service Area. This is discussed in Mr. Linam’s Direct Testimony, Section IV.

D. Special Request No. 4: Partial Consolidation of Transmission and

Distribution Net Plant Costs

California American Water is proposing that the Commission authorize all water transmission and distribution (“T&D”) net plant assets to be consolidated for all rate-making districts. This request would combine all water T&D net plant assets into a central pool to be allocated back to each tariff area based on the number of customers in that rate making area. California American Water requests to initially consolidate 25% of the net T&D plant assets into a central pool for test year 2024 and to increase that percentage to 50% beginning in 2025. This is discussed in Mr. Linam’s Direct Testimony, Section IV.

E. Special Request No. 5: Acquisition Rate Base Normalization

California American Water requests Commission authorization to normalize the rate base of four acquired systems – East Pasadena, Bellflower, Piru (previously referred to as Warring), and Bass Lake – by allocating a portion of acquisition rate base statewide. This is discussed in Mr. Owens’ (Section XI) and Mr. Linam’s (Section IV) Direct Testimonies.

F. Special Request No. 6: Catastrophic Event Cost Normalization

California American Water requests that the cost recovery associated with recent and future catastrophic event costs be done on a statewide basis. This is discussed in Mr. Linam’s Direct Testimony, Section IV.

G. Special Request No. 7: Memo Account to Ensure Consistent Treatment of Acquisitions Throughout the GRC Cycle

California American Water requests establishment of the Acquisition Contingency Memorandum Account (“ACMA”). The ACMA would record the differences between revenues billed at current rates based on pre-acquisition rate base for customers of acquired water systems and revenues that would have been billed based on the new, post-acquisition rate bases and

revenue requirements of those systems. This would apply to any acquisition subsequently approved by the Commission after a decision is issued in this GRC. This is discussed in Mr. Linam's Direct Testimony, Section IV.

H. Special Request No. 8: Utility Transaction Cost Memorandum Account

California American Water requests establishment of a single Utility Transaction Cost Memorandum Account ("UTCMA") for all future California American Water acquisitions. As with any cost tracked in a memorandum account, the UTCMA would not guarantee recovery of the transaction cost. It simply permits tracking it. Recovery would then occur only after the Commission, such as in a GRC proceeding, reviews each of the tracked costs and determines each is reasonable and was prudently incurred. This is discussed in Mr. Linam's Direct Testimony, Section IV.

I. Special Request No. 9: Placer County Water Agency ("PCWA") Capacity Cost Recovery

California American Water requests the Commission's clarification that the appropriate interest rate or carrying costs on its investment in water supply capacity from PCWA should be at the Company's authorized rate of return. This is discussed in Mr. Linam's Direct Testimony, Section IV.

J. Special Request No. 10: Rate Mitigation Plan for Recently Acquired Systems

Special Request #10 has two parts. First, California American Water requests that certain elements of the approved consolidation of Meadowbrook customers onto the Northern Division tariff and rates be delayed in order to mitigate the rate impact. Second, California American Water requests that certain existing and proposed surcharges be made applicable to its recently acquired systems. This is discussed in Mr. Linam's Direct Testimony, Section IV.

K. Special Request No. 11: Alignment of Operations and Expense Recovery

California American Water requests that the authorized level of necessary and prudent regulatory expenses be amortized over 27 months instead of 36. California American Water proposes that the recovery for regulatory expenses be authorized for 3 months of the test year with the remaining amount recovered equally in the Escalation and Attrition years. This is discussed in Mr. Linam's Direct Testimony, Section IV.

L. Special Request No. 12: Subsequent Rate Changes

California American Water requests explicit Commission authorization to incorporate into new rates any rate changes that occurred after this proceeding opened and acknowledgement that these changes will also need to be placed into present rates for the determination of the actual rate increase caused by this application. This is discussed in Mr. Linam's Direct Testimony, Section IV.

M. Special Request No. 13: Chemical Cost Balancing Account

California American Water requests that the Commission authorize it to establish a balancing account for chemical costs that is based on changes in the actual amount charged to the Company. This is discussed in Mr. Owens' Direct Testimony, Section IX.

N. Updated Special Request No. 14: Extension of Existing 15% Cap on WRAM Amortization

California American Water requests that the current 15% cap on the annual amortization of the WRAM/MCBA, authorized by D.18-12-021 and extended in D.21-11-018, should remain in place as long as there are WRAM/MCBAs balances to be recovered. This is discussed in Mr. Morse's Direct Testimony, Section IV.

As part of the WRSP, California American Water proposes to maintain the 15% cap, but seeks authorization to collect balances beyond the 15% cap in extraordinary circumstances where the balances grow large enough that they cannot be recovered in less than 24 months. This is discussed in Mr. Linam's Supplemental Testimony, Section III.

O. Special Request No. 15: Monterey Joint Annual Conservation Report

California American Water requests elimination of the requirement to submit the Annual Joint Conservation Report, which the Commission previously directed California American Water to complete with the Monterey Peninsula Water Management District. The Annual Joint Conservation Report is duplicative of other conservation reporting done by California American Water. This request is discussed in Mr. Pilz's Direct Testimony, Section XI.

P. Special Request No. 16: Low Income Conservation Program and Credit/Debit Card Bill Payment Expense Recovery

California American Water requests authorization to add (1) credit/debit card expenses and (2) Low-Income Water/Energy Direct Install program expenses to the Customer Assistance Program ("CAP") Balancing Account, and to recover these costs from non-CAP customers through the CAP surcharge. This is discussed in Mr. Pilz's Direct Testimony, Section XII.

Q. Special Request No. 17: Proposed Operational Tariff Modifications

California American Water requests proposed operational tariff modifications which are intended to improve the customer experience by clarifying responsibilities between the customer and utility and by reducing inequities between customers. Specifically, the proposals discussed in Mr. Hofer's Direct Testimony, Section X, are designed to address areas of the Company's tariffs that have caused customer confusion.

R. Special Request No. 18: Monterey Wastewater Phase-In

California American Water requests that the authorized revenue requirement increase approved by the Commission for test-year 2024 for its active and passive wastewater customers be phased-in over the entirety of the applicable rate case three-year period (2024-2026). This is discussed in Mr. Linam’s Direct Testimony, Section IV.

S. Special Request No. 19: Paperless Billing Opt-Out Pilot

California American Water is proposing a pilot to increase customer participation in paperless billing that would target all (non low-income) customers that are not on paperless billing but who are participating (at the onset of the pilot) in California American Water’s online myWater portal and have provided an email address to California American Water. This is discussed in Mr. Pilz’s direct testimony, Section XIII.

T. Special Request No. 20: Changes to Late Payment Fees

California American Water proposes to eliminate late payment fees for residential customers only. Non-residential customers would continue to be assessed late payment fees for payments made after the bill due date. This is discussed in Mr. Pilz’s direct testimony, Section XIV.

IV. ISSUES OF CONTROVERSY [RATE CASE PLAN MINIMUM DATA REQUIREMENTS SECTION I.C]

The Rate Case Plan requires California American Water to identify any “contentious issues.”⁶ Below, California American Water describes the contention issues, shows the estimated revenue requirement impact of each issue, and indicates the testimony that provides additional

⁶ D.07-05-062, Appendix, p. A-22.

support and/or information about the issue. As required by Rule 2.1(c) of the Commission's Rules of Practice and Procedure, California American Water will also address safety considerations.

A. Contentious Issues

1. Revenue Recovery and Updated WRSP Proposal

In D.20-08-047, the Commission directed California American Water and other water utilities to eliminate the decoupling WRAM/MCBA in their next GRCs. The decoupling WRAM/MCBA is one of the most effective conservation tools for Commission-regulated utilities, and its loss undermines critical conservation efforts made by California American Water. In SB 1469, the Legislature recognized the importance of decoupling and made the following findings and declarations:

- (1) Adequate water supply reliability for all uses is essential to the future economic and environmental health of California.
- (2) California is in a severe drought, and in 2021 the Governor issued executive orders declaring a drought emergency.
- (3) Droughts in California are expected to become more frequent and more severe as a result of climate change.
- (4) The frequency of droughts highlights the continued importance of encouraging both water suppliers and their customers to practice water conservation as the most cost-effective means of ensuring that there are adequate water supplies for the environment and people in the state.
- (5) Because water suppliers have very significant fixed costs that do not fluctuate with changes in consumption patterns, they have a financial disincentive to encourage water conservation as reductions in water consumption directly translate into cost recovery challenges.
- (6) The Legislature has addressed this same financial challenge for electricity suppliers by requiring that changes in demand do not result in material overcollections or undercollections of revenue.

The Legislature further declared, “It is the intent of the Legislature to ensure that water corporations are authorized to establish revenue adjustment mechanisms that provide for a full decoupling of sales and revenue in order to further incentivize water conservation efforts.”

Pursuant to SB 1469 and the November 15 Ruling, California American Water is proposing the WRSP. The WRSP includes the ESBA decoupling mechanism designed to ensure that the differences between actual and authorized water sales do not result in the overrecovery or underrecovery of authorized water sales revenue. This will ensure California American Water does not earn a revenue windfall by encouraging higher sales. California American Water is also proposing a modified ACAM, adjusted amortization, and rate design modifications.

In the alternative, if the Commission does not authorize the WRSP, California American Water is proposing modifications to its rate design, an M-WRAM, ICBA for its San Diego and Ventura County districts, and an FCBA for its Monterey, Los Angeles, Sacramento, and Larkfield districts.

In the Monterey, Los Angeles, Sacramento, and Larkfield districts, water supply limitations restrict California American Water’s ability to prioritize the purchase or production of water based on cost. The FCBA is intended to protect customers from changes to water supplies that are beyond the control of California American Water. FCBA does not, however, address revenue volatility due to conservation measures which are mandated by the State. The proposed WRSP does address this challenge.

If the WRSP is adopted, the transition from the WRAM/MCBA to the WRSP should occur on the effective date for new rates established in this GRC, at which time the ESBA would be in effect and continue to track costs from that point forward. If the M-WRAM is adopted, then consistent with the “gradual phase-out” of the decoupling WRAM contemplated in D.20-

08-047, California American Water is proposing that its existing WRAM/MCBA accounts would be in effect and continue to track costs until new rates in this GRC are implemented, at which time the M-WRAM will begin to track costs moving forward from that point. The amortization of each respective account would be implemented in accordance with the procedures set forth in the applicable preliminary statement approved by the Commission.

The Supplemental Testimonies of Mr. Linam and Mr. David Mitchell examine the details of the WRSP and explain how the WRSP is superior to the M-WRAM with respect to conservation, low-income customer impacts, and utility incentives. The Direct Testimony of Mr. Linam provides details of how the FCBA and other proposed mechanisms will provide some limited protection against water supply and revenue volatility in the absence of a decoupling WRAM/MCBA. Because of the many variables involved in these proposals, the revenue requirement impact is not accurately quantifiable at this time.

2. Consolidation

California American Water is seeking to partially consolidate its T&D net plant assets for all rate-making districts. Consolidating T&D net plant assets as California American Water has proposed – initially consolidate 25% of the net T&D plant assets into a central pool for test year 2024 and to increase that percentage to 50% beginning in 2025 – is in the public interest because it benefits the long-term stability of rates in all service areas. This request mitigates the volatility of rate changes over time and supports the Commission’s Water Action Plan policy goals of delivering the best, most efficient service to the largest number of customers at the lowest overall rates. Benefits of a more consolidated system of rates include: (1) improved affordability; (2) utilization of economies of scale to address water quality challenges; (3) more robust and

resilient systems through broadening of the customer base; and (4) improved incentives for customers to conserve through strengthening of conservation signaling.

Additionally, California American Water has a pending application before the Commission for the acquisition of a water system (Bass Lake), and several recently approved water system acquisitions (East Pasadena, Piru, and Bellflower). California American Water is requesting Commission authorization to normalize the rate base of the four acquisitions by including a portion of the Commission authorized rate base of each of the four acquisitions in Corporate Office rate base, which is then allocated statewide to each district on a customer proportional basis. California American Water is also requesting authorization to establish the Acquisition Contingency Memorandum Account, which would record the differences between revenues billed at current rates based on pre-acquisition rate base for customers of acquired water system and revenues that would have been billed based on the new, post-acquisition rate base and revenue requirement, to be applicable to any acquisition subsequently approved by the Commission after a decision is issued in this GRC. These special requests relating to acquisitions would help to facilitate consolidation of water systems in line with Commission and State policy goals.

These issues are addressed in Mr. Linam's Direct Testimony, Sections IV.E and IV.G. Because these issues also relate to how cost recovery occurs, and not the magnitude of cost recovery, there is no associated revenue impact.

3. Chemical Cost Balancing Account and Inflationary Pressures

California American Water requests Commission approval to establish a balancing account for chemical costs which have increased dramatically – an average of 19% – in the last year. With the expected changes in chemical prices and the expected current increases in costs,

California American Water must be given the opportunity to ensure that neither customers (if pricing decreases) nor the company (if prices continue to outstrip inflation) are treated unfairly. The dramatic increase in chemical costs has been caused by a combination of bad weather, COVID-19 pandemic delays, the economic fallout from COVID-19 impacts to production and transportation, and oil and fuel price increases, all of which are outside the control of California American Water. Generally, inflation levels are at their highest in decades and prices are surging in many sectors. The request for a balancing account is, therefore, warranted.

Because these issues also relate to how cost recovery occurs, and not the magnitude of cost recovery, there is no associated revenue impact. This issue is addressed in Mr. Owens' Direct Testimony, Section I.X.

4. Updated Rate Design

Under both the WRSP and M-WRAM proposals, California American Water is proposing some changes to its rate design that balance affordability, conservation, and customer equity. The most noteworthy change is the proposed increase in the portion of fixed costs recovered in the meter charge. California American Water is also proposing further consolidation of purchased water costs in the Southern Division and changes to the rate designs of recently acquired systems to implement conservation rates.

The increase in the portion of fixed costs recovered in the meter charge is addressed in the Direct Testimony of Bahman Pourtaherian, Section X. The Direct Testimony of David Mitchell, Attachment 3, further provides rate design scenarios that were considered in determining the final rate design parameters and details.

The changes to rate design connected to the WRSP are discussed in Mr. Pourtaherian's supplemental testimony, Section V, and in Mr. Mitchell's supplemental testimony, Section VI.

Because of the many variables involved in these proposals, the revenue requirement impact is not accurately quantifiable at this time.

B. Safety Considerations

California American Water has long been committed to employee and customer safety. Ensuring the health and safety of its employees and customers and protecting its product are the top priorities for the Company and are critical to its success. With the safety of employees, customers, contractors, and the general public in mind, California American Water approaches safety with a focus on continuous improvement by implementing a proven safety management system. California American Water is also committed to securing assets across our system and recognizes the importance of protecting our water sources, treatment plants, infrastructure, and data from malevolent acts, which is demonstrated by our robust security and cyber security programs. Further discussion of California American Water's safety approaches, plans, and programs can be found in the Direct Testimony of Garry Hofer, Section V.

California American Water is also addressing long-term safety through improving its system reliability and resiliency, including with respect to wildfire risk, other natural disasters, and the impacts of climate change. To accomplish these goals, California American Water has proposed a capital improvement plan aimed at meeting infrastructure needs to ensure our systems remain safe and reliable, completed a High-Risk Asset Management analysis, and completed a seismic evaluation of our tanks in the Ventura and Los Angeles districts. California American Water also completed risk and resilience studies in compliance with the Water Infrastructure Act of 2018 and is completing an assessment of the wildfire risk to assets in areas identified by Cal Fire as high wildfire risk zones. As part of the risk assessment and plan, California American Water addresses high-risk assets that may be impacted by wildfires. The

intent is to identify the most critical and vulnerable assets and develop an emergency protection plan. The studies will produce a list of recommendations that will help protect our assets as well as ensure that our customers receive the best possible service during an emergency wildfire event. Further discussion of these long-term safety efforts can be found in the Direct Testimony of Ian Crooks, Section X.V.I. C, who discusses California American Water's risk assessment and associated capital projects.

V. UPDATED PROPOSED NOTICE TO CUSTOMERS [RATE CASE PLAN MINIMUM DATA REQUIREMENTS SECTION I.D]

California American Water served a copy of the Original Application in accordance with Rule 3.2(b) and upon the attached service list. California American Water will serve a copy of this Updated Application in accordance with the Commission's Rules. Pursuant to a January 25, 2023 email from Administrative Law Judge Rambo, California American Water is not required to re-notice this proceeding. In advance of participation hearings, customers will be provided notices, in accordance with the Commission's Rules, any Rulings in this proceeding, and with approval of the Public Advisors Office, that reflect the M-WRAM and WRSP alternatives.

VI. ADDITIONAL REQUIRED INFORMATION

A. Description of Applicant [Rule 2.1(a) and Rule 2.2]

California American Water's exact legal name is California-American Water Company. California American Water, a California corporation organized under the laws of the State of California on December 7, 1965, is a Class A public utility water and wastewater company regulated by the Commission. California American Water provides regulated water and/or wastewater utility services in parts of San Diego, Los Angeles, Ventura, Monterey, Sonoma, Yolo, Sacramento, Merced, and Placer counties. California American Water's principal place of

business is 655 W. Broadway, Suite 1410, San Diego, CA 92101-8494. Included as **Exhibit D** to this Application is a chart summarizing the corporate structure of California American Water, and its relationship with its parent company, American Water.

California American Water filed a certified copy of its articles of incorporation with the Commission on January 6, 1966, in Application 48170. California American Water filed a certified copy of an amendment to its articles of incorporation with the Commission on November 30, 1989, in Application 89-11-036. California American Water filed a certified copy of a further amendment to its articles of incorporation with the Commission on February 28, 2002, in Application 02-02-030. California American Water filed a certified copy of an additional amendment to its articles of incorporation with the Commission on April 3, 2017, in Application 17-04-003. Since the filing of A.17-04-003, California American Water has not subsequently amended its articles of incorporation.

None of the persons described in Section 2 of General Order 104-A has a material financial interests in any transaction involving the purchase of materials or equipment or the contracting, arranging, or paying for construction, maintenance work, or service of any kind of which the Company has been a party during the period subsequent to the filing of California American Water's last Annual Report with this Commission or to which California American Water proposed to become a party at the conclusion of the year covered by said Annual Report.

B. Application Correspondence [Rule 2.1(b)]

California American Water requests that copies of all communications and correspondence regarding this Application be sent to:

Sarah E. Leeper
Nicholas A. Subias

Cathy Hongola-Baptista
California-American Water Company
555 Montgomery Street, Suite 816
San Francisco, CA 94111
Tel: (415) 863-2960
Fax: (415) 397-1586
Email: sarah.leeper@amwater.com

With copies sent to:

Lori Anne Dolqueist
Raven McGuane
Nossaman LLP
50 California Street 34th Floor
San Francisco, CA 94111
Tel: (415) 398-3600
Fax: (415) 398-2438
Email: ldolqueist@nossaman.com

C. Category, Hearing, Issues, and Updated Proposed Schedule [Rule 2.1(c)]

California American Water proposes the category for this proceeding is ratesetting.

Evidentiary hearings will likely be necessary to address factual disputes on material issues, such as water sales and operating revenues, operation and maintenance expenses, utility plant, rate base, taxes, and revenue requirement.

The issue in this proceeding is whether California American Water's proposed revenue requirement and associated rate and related requests are "just and reasonable" as required by Section 451 of the Public Utilities Code. The Rate Case Plan also requires California American Water to identify any contentious issues, which have been summarized above in Section IV of the Updated Application. California American Water also addresses relevant safety considerations in Section 4 of the Application above, as required by Rule 2.1(c).

The Commission's Rate Case Plan sets the schedule for general rate case applications of Class A water utilities. In its Original Application, California American Water proposed a schedule for this proceeding, which California American Water based on the Rate Case Plan.

Table 3 below reflects the proposed schedule submitted in the December 5, 2022, *Joint Statement of the Parties* (“Joint Statement”) submitted in this proceeding.

TABLE 3

EVENT	DATES
Application Filed/Testimony Served	July 1, 2022
Update of Applicant’s Showing	October 10, 2022
Updated Application	January 27, 2023
Protests and Responses to Updated Application	February 6, 2023
<i>Reply to Updated Application Protests and Responses</i> ⁷	<i>California American Water: February 13, 2023 Cal Advocates: Either no reply or February 9, 2023</i>
Public Participation Hearings ^{8,9 10,}	February-Early March 2023
Public Advocates’ Testimony	March 27, 2023
Other Parties’ Testimony	April 3, 2023
Rebuttal Testimony	May 8, 2023

⁷ As discussed in the Joint Statement, California American Water and Cal Advocates do not agree on the inclusion of the Reply to the Application Responses in the procedural schedule.

⁸ Cal Advocates’ Position: As discussed in the Protest of the Public Advocates Office, Aug. 5, 2002, at 6, Cal Advocates recommends that the Commission hold at least one public participation hearing in each of Cal Am’s service territories. All public participation hearings should take place prior to the submission of Cal Advocates’ and intervenors’ testimony so that public input and concerns may be incorporated in the testimony.

⁹ MPWMD’s Position: Public participation hearings for Monterey and Thousand Oaks should be given priority in scheduling to occur before Cal Advocates and Intervenors’ testimony is due.

¹⁰ California American Water’s Position: It may not be possible for the Commission to schedule all of the public participation hearings before Cal Advocates and Intervenors submit testimony. Furthermore, California American Water believes that customers may benefit from being able to review the positions of Cal Advocates and Intervenors in advance of the public participation hearings. If necessary, Cal Advocates and/or Intervenors can file a motion to supplement their testimony if necessary based on issues raised at the public participation hearings (and California American Water would have the opportunity to provide rebuttal if the motion is granted).

Rule 13.9 Meet and Confer	No later than May 18, 2023
ADR Process/Settlement Begins	May 2023
Evidentiary Hearings	June 2023
Opening Briefs Filed and Served	July 12, 2023 ¹¹
Motion for Interim Rates	July 12, 2023
Mandatory Status Conference	First Day After Opening Briefs Filed and Served
Reply Briefs Filed and Served (Including Comparison Exhibit)	August 2, 2023
Water Division Technical Conference	August 17, 2023
Proposed Decision Mailed	October 31, 2023

VII. SUPPORT FOR THE APPLICATION

In support of its rate request, California American Water will rely upon the Original Application, Updated Application, exhibits, work papers, Minimum Data Requirements, and other data responses, copies of which have been or will be delivered the Public Advocates Office and Commission staff. California American Water will also provide written and oral direct, supplemental and rebuttal testimony in support of its requests.

A. Updated Exhibits

Annexed to this Updated Application are the updated exhibits listed below, which California American Water submits in compliance with Rule 3.2(a) of the Commission’s Rules of Practice and Procedure.

¹¹ These dates are illustrative. The Parties agree that opening briefs should be due 45 days after the last day of evidentiary hearings and the reply briefs should be due 21 days after opening briefs are filed.

- **Exhibit A** –Updated Results of Operations¹²
- **Exhibit B** – Updated Minimum Data Requirements
- **Exhibit C** –Customer Notice¹³
- **Exhibit D** – Corporate Structure Chart¹⁴

B. Updated Supplemental Testimony

California American Water will serve and upload as supporting documents (but not file) supplemental direct testimony in support of the requests made in this Updated Application.

Table 4 is an index of supplemental witnesses and testimony issues.

TABLE 4

Original Application – Direct Testimony

Witness Name	Title	Subject of Testimony
Cullen, Scott	American Water Service Co. Inc. – Director of Tax Reporting and Compliance	Mr. Cullen will address income taxes, the Tax Cuts and Jobs Act, and the Average Rate Assumption Method.
Clarke, Michael	American Water Service Co. Inc. - Senior Manager, Accounting with Corporate Accounting	Mr. Clarke will address Balancing and Memo Accounts.

¹² The WRSP request does not impact the financial information submitted with the Original Application, therefore, California American Water is not submitting updated financials.

¹³ Pursuant to Administrative Law Judge Rambo’s January 25, 2023 email, “Cal-Am does not need to renotece at this time.” California American Water is not, therefore, submitting updated customer notices.

¹⁴ The WRSP request does not impact the corporate structure chart submitted with the Original Application, therefore, California American Water is not submitting an updated chart.

Witness Name	Title	Subject of Testimony
Cook, Christopher	California American Water – Central Division Director of Operations	Mr. Cook will address Central Division water service operations, including water supply constraints and water quality. Mr. Cook will also discuss wastewater service operational issues.
Crooks, Ian	California American Water – Vice President of Engineering	Mr. Crooks will address all engineering issues, including: Investment Projects (“IP”) projects, Strategic Capital Expenditure Plan (“SCEP”), tank painting, Comprehensive Planning Study (“CPS”)/geographic information system (“GIS”) expenses, engineering overhead, recurring projects (“RP”), certain agreed-upon capital projects, and construction work in progress.
Hofer, Garry	California American Water – Vice President of Operations	Mr. Hofer will address Northern Division and Southern Division operational issues, including acquisitions, water supply, water quality, and growth assumptions. Mr. Hofer will also address safety, efficiency, staffing and performance-based compensation. Mr. Hofer additionally provides support for Special Request No. 17.
Linam, Jeffrey	California American Water – Senior Director of Rates & Regulatory	Mr. Linam will address Special Request Nos. 1 – 12 and 18, connection to policy direction, and interaction with other proceedings.
Mitchell, David	M.Cubed – Partner	Mr. Mitchell will address rate design, demand forecasts, and econometric models and affordability metrics.
Morse, Jonathan	California American Water – Senior Manager of Rates & Regulatory	Mr. Morse will address exemplary tariffs, surcharges, and Special Request No. 14 to extend the current 15% cap on the annual amortization of the Water Revenue Adjustment Mechanism (“WRAM”) / Modified Cost Balancing Account (“MCBA”).

Witness Name	Title	Subject of Testimony
Owens, Stephen Wes	California American Water – Director of Rates & Regulatory	Mr. Owens will provide an overall summary of the Application and address the Rate Case Plan, Minimum Data Request content and referencing, Uniform System of Accounts regulatory accounts for operations and maintenance and administrative and general expenses, request for a chemical cost balancing account (Special Request No. 13), regulatory compliance issues, uncollectibles, earthquake insurance, corporate headquarters relocation, and allocations to Hawaii-American Water Company.
Pilz, Patrick	California American Water – Senior Manager of Field Operations	Mr. Pilz will address conservation programs, elimination of the Monterey Joint Annual Conservation Report (Special Request No. 15), customer assistance conservation program recovery (Special Request No. 16), paperless billing opt-out pilot program (Special Request No. 19), customer assistance programs, expansion of hardship benefit program, changes to late payment fees (Special Request No. 20), customer assistance program data sharing program, and water loss performance standards.
Pourtaherian, Bahman	Blue Planet Consulting – Vice President of Regulatory Affairs	Mr. Pourtaherian will address operating revenues, customer count, other revenues, consumption, production costs (purchased water, power, pump taxes, chemicals), Results of Operation (“RO”) model, rate base components, lead/lag and operational working capital, property taxes, rate design modeling and customer rates.
Simon, Edward	California American Water – Director of Business Performance, and Officer, Business Development, Supplier Diversity and Inclusion and Diversity	Mr. Simon will address transportation costs; California American Water’s carbon-free fleet goals; inclusion, diversity and equity efforts; and the Commission’s Environmental and Social Justice Plan.

Witness Name	Title	Subject of Testimony
Tilden, Kevin	California American Water – President	Mr. Tilden will address policy direction and witness responsibilities.
Watkins, John	American Water Service Co. Inc. – Senior Director of Regulatory Services	Mr. Watkins will address Service Company costs.

Updated Application – Supplemental Testimony

Witness Name	Title	Subject of Testimony
Chesnutt, Thomas	A&N Technical Services – President & CEO	Mr. Chesnutt will provide an analysis on the economic value of investments in water efficiency that are incentivized under revenue decoupling for regulated water utilities.
Linam, Jeffrey	California American Water – Senior Director of Rates & Regulatory	Mr. Linam will provide testimony on the mechanics of the WRSP, how the WRSP complies with legislative requirements and concerns raised in D.20-08-047 regarding the WRAM. The testimony will also address sales, rate design, proposed modifications to the ACAM and other mechanisms as part of the WRSP proposal.
Mitchell, David	M.Cubed – Partner	Mr. Mitchell analyzes the difference between the WRSP and M-WRAM with respect to conservation, low-income customers, and utility incentives. The analysis also includes how the WRSP complies with legislative requirements and concerns raised in D.20-08-047 regarding the WRAM. Mr. Mitchell also provides an updated sales forecast.

Witness Name	Title	Subject of Testimony
Pourtaherian, Bahman	Blue Planet Consulting – Vice President of Regulatory Affairs	Mr. Pourtaherian provides the updated revenue requirement for the Updated M-WRAM Request and the WRSP Request. He also addresses the rate design proposal made in connection with the WRSP and how it differs from the rate design proposals in the July 1, 2022 filing.
Stephenson, David	Regulatory Consultant	Mr. Stephenson’s testimony examines the history and development of the M-WRAM.

VIII. REQUEST FOR RELIEF

WHEREFORE, California American Water respectfully requests that the Commission issue its findings and an order to the effect that:

- a. The revenue requirements and associated rates proposed and requested by California American Water are fair, just, and reasonable;
- b. California American Water be granted its Special Requests;
- c. California American Water be authorized to publish, file and make effective, as of January 1, 2024, the proposed revenue requirement and associated rates requested or such other revenue requirements and associated rates as will result in the additional gross revenues requested in this Application; and
- d. Granting such further, additional, and other relief as may be deemed by the Commission to be necessary or proper.

Dated: January 27, 2023

Respectfully submitted,

By: /s/ Sarah E. Leeper
Sarah E. Leeper

Sarah E. Leeper
Attorney for Applicant
California-American Water Company

VERIFICATION

I am an officer of the applicant corporation herein, and am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as matters which are therein stated on information or belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on January 27, 2023 at San Diego, California

A handwritten signature in blue ink, appearing to read "Kevin A. Tilden", written over a horizontal line.

Kevin A. Tilden
President