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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 20-10-018:

This is the proposed decision of Administrative Law Judge Garrett Toy. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 14, 2023 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE
Michelle Cooke
Acting Chief Administrative Law Judge

MLC:sgu
Attachment

Decision **PROPOSED DECISION OF ALJ TOY (Mailed 11/9/2023)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Authority to Increase Rates for its Class C Catalina Water Utility and Recover Costs from Water and Electric Customers	Application 20-10-018

DECISION ON SOUTHERN CALIFORNIA EDISON COMPANY APPLICATION TO RECOVER COSTS AND INCREASE RATES FOR THE CATALINA WATER UTILITY

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DECISION ON SOUTHERN CALIFORNIA EDISON COMPANY APPLICATION TO RECOVER COSTS AND INCREASE RATES FOR THE CATALINA WATER UTILITY

Summary

This decision approves the general rate increase application of Southern California Edison Company (SCE) for the Santa Catalina Water utility owned by SCE. This decision authorizes SCE to increase rates over a 6-year period to meet ongoing revenue requirements. This decision authorizes SCE to amortize and recover over a fifteen-year period any deferred revenues, approximately $11.3 million, due to rate ramp-up, via a Deferred Revenue Requirement Tracking Memorandum Account. This decision authorizes SCE to amortize and recover, over a ten-year period, costs tracked in memorandum accounts related to drought spending and lost revenues due to drought-related water use restrictions. The decision also authorizes SCE to recover revenue requirements of $10.364 million in Test Year 2024, up to $11.07 million in 2029.

This decision closes this proceeding.

1. Background

On October 30, 2020, Southern California Edison Company (SCE) filed Application (A.) 20-10-018 for approval of a Test Year 2022 General Rate Case (GRC) for its Class-C Santa Catalina Water utility (Catalina Water) (Application). SCE owns Catalina Water, and also offers electric and gas service to the 4,000 permanent residents and 1 million annual visitors to Santa Catalina Island (Catalina Island or Island).

From June 2013 to February 2019, SCE implemented mandatory conservation and rationing measures for Catalina Water customers in response to drought conditions beginning in 2012. The conservation and rationing measures were based on the water level of the Middle Ranch Reservoir (MRR) in

accordance with Schedule 14.1, Staged Mandatory Water Conservation and Rationing (Rationing Plan).[1]

Decision (D.) 14-10-048 approved Catalina Water's last GRC, A.10-11-009, granting a rate increase via all-party settlement. Subsequent rate changes have been requested and approved via the advice letter (AL) process.[2]

1.1. Catalina Water System

The Catalina Water service territory covers the entire island, including the two main communities of Avalon and Two Harbors. As of the Application filing date, there were approximately 1,990 residential and non-residential service connections, as well as 100 dedicated fire service customers across the island, covering a total of 4,000 residents as well as the large annual visitor population (approximately one million visitors per year). Historically, water supply needs for Catalina Water have been supplied by groundwater wells on the island, supplemented by multiple seawater desalination plants. Catalina Water maintains multiple isolated water systems on the island, due to the geographic and topological challenges posed. The main system is the Middle Ranch-Avalon system, serving the largest population in Avalon and Hamilton Cove, representing 85 percent of system usage. The second largest system is the Two Harbors-West End system, serving the University of Southern California (USC) Marine Laboratory, community of Two Harbors, and other isolated customers, comprising 9 percent of total system use. Three other isolated systems, Toyon, Whites, and Black Jack, make up the remainder.

[1] SCE-03, at 2:2-7.

[2] *See* AL 107-W, July 27, 2019 (approved by Res. W-5192, which authorized a Tier 1 AL process going forward); AL 114-W, February 1, 2020; AL 117-W, June 1, 2020.

Catalina Water currently has 13 wells, producing approximately 1,900 gallons per minute (GPM), 15 reservoirs, with capacity for approximately 355 million gallons, and 47 miles of pipeline. The 2 largest reservoirs are the Wrigley Reservoir, with a capacity of 9.45 million gallons of treated water serving Hamilton Cove, and MRR, with a capacity for 343.447 million gallons of raw water serving the Middle Ranch-Avalon system. There are also 2 desalination plants. Approximately 52% of production is from groundwater, and 48% from desalination plants.[3]

1.2. Procedural Background

The Application seeks recovery of costs from Catalina Water customers and system-wide electric customers. The Application proposes to recover these costs via phased-in increases in Catalina Water customer rates, as well as collecting $28.969 million from SCE electric customers. The Utility Reform Network (TURN) filed its protest on December 1, 2020. City of Avalon, Catalina Island Chamber of Commerce, Santa Catalina Island Company, Santa Catalina Island Conservancy, Guided Discoveries, and Hamilton Cove Homeowners Association (jointly Catalina Parties) and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) filed their protests on December 2, 2020. A prehearing conference (PHC) was held on January 7, 2021 to address the issues of law and fact, determine the need for hearing, set the schedule for resolving the matter, and address other matters as necessary.

On January 29, 2021, an Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued. In addition to laying out the scope and schedule for the proceeding, the Scoping Memo directed the parties to submit

[3] SCE-03, at 56, Table I-27.

limited opening and reply briefs on issues related to the potential use of funds from SCE's mainland electric utility customers to cover Catalina Water utility service costs. On March 5, 2021, SCE, Cal Advocates, TURN, and the Catalina Parties submitted Opening Briefs on those issues. On March 19, 2021, the same parties filed Reply Briefs on those issues. On May 27, 2021, a ruling was issued by the Assigned Administrative Law Judge (ALJ) (Cross-subsidy Ruling) declining to take a position on the cross-subsidy at the time and directing SCE to submit alternative cost recovery proposals, in addition to the cross-subsidy proposed in the initial Application.

A Public Participation Hearing (PPH) was held virtually on March 31, 2021, to receive comments from potentially affected ratepayers of Catalina Island.

On July 1, 2021, an ALJ ruling setting new dates for the service of testimony was issued. Based on the new schedule, SCE submitted supplemental testimony on August 19, 2021. Intervenor Testimony was served October 19, 2021, and Rebuttal Testimony was served December 3, 2021. Evidentiary hearings were held on February 24-28, March 2, and March 7, 2022. An amended Assigned Commissioner's Scoping Memo and Ruling (Amended Scoping Memo) was issued on April 8, 2022, altering the proceeding schedule. Opening briefs were filed by all parties on May 13, 2022. An Amended Opening Brief was filed by Cal Advocates on May 17, 2022. Reply Briefs were filed June 10, 2022.

On August 18, 2023, an ALJ ruling was issued, directing SCE to file comments with updated cost amounts for forecasted capital projects in the Application. SCE filed its comments on September 12, 2023. Reply Comments were filed by Cal Advocates on September 20, 2023.

This proceeding was submitted on September 20, 2023.

2. Ruling on Outstanding Motions and Exhibit Discussion

At the evidentiary hearings, most exhibits and testimony were marked and entered into the record. On April 18, 2022, Cal Advocates filed a Motion to Admit Exhibit Cal Advocates-03 into the evidentiary record. The exhibit consists of an SCE response to a data request submitted by Cal Advocates, seeking clarifications to various calculations presented in a 2019 American Water Works Association Water Audit of Catalina Water operations. No party disputed the entering of this exhibit into the record. It is marked as Exhibit Cal Advocates-03 and received into evidence.

On June 16, 2022, Cal Advocates submitted a Motion for Official Notice of 2 documents, a United States Drought Monitor webpage of California Drought Conditions from 2015-2022 and a United States Drought Monitor Map of Los Angeles County showing current drought conditions. These documents reflect drought conditions in California, as tracked by the National Oceanic and Atmospheric Association. Cal Advocates states that the documents are noticeable and proper for entry into the record as they go to the reasonableness of SCE's expense forecasting methodology, and they reflect data not reasonably subject to dispute. No party objected to the documents being officially noticed and the motion for official notice is granted.

3. SCE Application

SCE's initial application sought to establish a test year revenue requirement of $9.303 million for recovery from Catalina Water ratepayers, and recovery of $29 million from SCE's system-wide electric customers to cover drought and environmental costs and deferred revenues for Catalina Water over a one year period. Subsequent testimony clarifies that it is seeking $30.5 million

for recovery from SCE electric ratepayers.[4] The Application notes that D.14-10-048 approved such a cross-subsidy method for covering Catalina Water costs. SCE states that the rate increases are needed to cover increased operating expenses, capital infrastructure investment, environmental compliance issues, and lost revenues due to drought.[5]

In response to the Cross-subsidy Ruling, SCE provided additional analysis of alternative methods for cost recovery other than the cross-subsidy method proposed in the Application.[6] This included water user fees, loans, bonds, grants, visitor boat fees, sales taxes, utility consolidation and potential legislative fixes.

4. Standard of Review

As the applicant, SCE bears the burden of proof. Generally, all utility requests to recover costs from customers must comply with California Public Utilities Code[7] (Code) Section 451, which requires that "[a]ll charges demanded or received by any public utility … for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable." SCE must therefore show that its proposed costs and ratemaking mechanisms are fair, just, and reasonable.[8] The utility "has the burden of affirmatively establishing the reasonableness of all aspects of its application.

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[4] SCE-10, 1:14-23.

[5] Application at 3-4.

[6] SCE-09.

[7] All references to the "Code" are to the Public Utilities Code.

[8] D.04-06-018, Appendix at 5. "The application must be supported by testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method." *See* D.18-12-021, at footnote 8.

Intervenors do not have the burden of proving the unreasonableness of the utility's showing. The standard of proof is that of a preponderance of the evidence, which is generally defined as "in terms of probability of truth, e.g., 'such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[9]

Additionally, the Commission may look retrospectively, as described in the Commission's Water Division's Standard Practice U-3-SM, last revised in April 2006. Standard Practice U-3-SM directs Commission staff to consider whether a water utility is providing good service, is maintaining its infrastructure, and providing reliable water supply,[10] in determining whether to approve rate increases.

5. Operating Expenses

SCE proposes to recover $6.171 million in its test year (TY) 2022 forecast for operation and maintenance (O&M) expenses. This represents a 40 percent increase from the recorded/adjusted 2019 expenses of $4.402 million and a 117 percent increase above the currently authorized O&M expenses of $2.841 million.[11] SCE notes increases in operating expenses, particularly with regards to labor and maintenance of the 50 miles of transmission and distribution pipelines on the island.[12] There are also increased costs related to labor, materials, and administration of new facilities built since the last GRC.

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

[10] Commission Water Branch, Standard Practice for Preparing Results of Operation Reports for General Rate Increase Requests of Water Utilities Other Than Major Companies, Standard Practice U-3-SM, April 2006, Section A4.

[11] SCE-02, at 3:10-15.

[12] SCE-01, at 8:6-17.

SCE notes that it averaged 112.6 million gallons per year (gpy) from 2015-2019 on water production. During that period, 52 percent of water was produced by groundwater sources and 48 percent was produced by desalination plants.[13] SCE considered recorded 2015-2019 data to estimate TY 2024 expenses. It conducted trend analyses, average analyses, and the last recorded year when determining an estimate for labor and non-labor expenses. For the TY, SCE projects sales of 83.664 million gallons of water, equal to the usage from October 2018 to October 2019, the most recent non-drought year.[14]

Many of the O&M expenses for Catalina Water are shared amongst the 3 SCE-owned utilities on Catalina Island.[15] SCE states that Catalina Water employees' work hours total to the equivalent of 14 full time employees (FTEs).[16] The remainder of this section will be spent considering SCE's proposed costs for each O&M account. As the first year of rate increases tobe authorized in this decision will be 2024, this decision will consider the 2022 proposed costs, with application of escalation factors to determine the amount authorized for recovery in TY 2024.

5.1. Account 615 – Power for Pumping

Account 615 tracks the costs for electricity used to operate the water utility equipment, including pumps and the desalination treatment system. SCE forecasts costs of $267,000 in non-labor expenses for the TY.[17] This level is in line with historical costs and is the same as 2019 costs in this account.

[13] SCE-02, at 1:11-13.

[14] SCE-08 at 9-11.

[15] SCE provides gas, water, and electric service to Catalina Island residents.

[16] SCE-02, at 6:1-14.

[17] SCE-02, at 8:5-6.

Cal Advocates states that the Commission should only allow SCE to recover $256,108 for Account 615, based on the 5-year average forecast.[18] This is in part due to the removal of certain volume related expenses that only occurred once from 2015-2019.

Given inflation and projected water use outside of drought years (highly correlated with costs in this account), it is reasonable for SCE to recover $267,000 for this account. We deny Cal Advocates' proposal to not allow escalation in this account, as inflation due to labor and materials can be expected.[19]

5.2. Account 618 – Other Volume Related Expenses

Account 618 tracks expenses related to the treatment and maintenance of a safe water supply, such as water treatment chemicals, filters, and other consumables. In the previous GRC, treatment chemicals and filters were tracked in Account 640. Costs in this account are highly correlated to water demand. SCE originally projected costs of $144,000 for the TY in this account,[20] but subsequently agreed with suggested Cal Advocates adjustments to $121,000.[21] This number is based on 2019 costs in this account plus $50,000 to cover incremental treatment costs for added facilities and preventative maintenance schedules. These facilities include a new granular activated carbon treatment system at the Wrigley reservoir and 6 filtration systems installed in the Two Harbors system since 2014. These have been installed to remove coal-tar enamel interior lining materials that become dislodged within the pipelines.[22] SCE states

[18] Cal Advocates Opening Brief, at 6.

[19] PAO-1, at 2-6:15-2-7:8.

[20] SCE-2, at 10:7-8.

[21] SCE Opening Brief, at 7.

[22] SCE-2, at 19-29.

that it expects that these adjustments would continue through the 2022 test year.[23] Cal Advocates states that SCE's 2019 expenses were abnormally high for this account, and a 5-year expense average of $79,839 should be utilized.[24]

As noted by Cal Advocates, this account is also heavily correlated with water demand, so using a 5-year average as proposed by Cal Advocates is less reasonable, when a historic drought covered most of the years between 2015-2019. It is reasonable to use SCE's last recorded year methodology for cost projections in Account 618, and SCE is authorized to recover $121,000.

5.3. Account 630 – Employee Labor

SCE requests a total of $1.832 million for the TY for Account 630, employee labor costs.[25] SCE notes that costs in this account have increased every year since 2016. SCE notes that it utilizes the hours equivalent to 14 FTEs in its operation of the Catalina Water system. These employees provide operations, maintenance, and repair activities for the water system as well as the gas distribution system. This may include the operation, monitoring, and maintenance of water production, treatment, and distribution facilities, construction activities, and installation of new and upgraded services. SCE notes that employees charge work orders to the appropriate utility.[26]

SCE's forecast is based on the last recorded year total of $1.677 million, plus an increase to backfill 2 vacancies, a utilityman that performs routine and corrective maintenance tasks, and a technician that maintains, repairs, and

[23] SCE-2 at 10:26-29.

[24] Cal Advocates Opening Brief, at 6-7.

[25] SCE-10, at 3. SCE's original proposal was $1.801 million, which was subsequently adjusted to include $31,050 for movement of labor expenses originally accounted for in Accounts 618 and 650 (*see* SCE Reply Brief, at 4, footnote 17 and 18).

[26] SCE-2 at 11: 5-8.

installs hardware, software, control, and other mechanical components throughout the water system.[27] These positions provide support to all 3 of SCE's utilities on the Island.

Cal Advocates maintains that the Commission should only approve $1.446 million for Account 630, based on a 2-year average of this account along with removal of any non-typical expenses, including the 2 extra positions requested by SCE. SCE disputes the numbers Cal Advocates used to calculate the average.[28] Catalina Parties state that SCE's employee-time dedicated to administering Catalina Water is merely an estimate, and that such employees are overpaid compared to other Island residents.[29]

It is reasonable for SCE to utilize a last recorded year forecast for employee labor costs for the utility. To the extent that filling the extra positions will aid SCE in properly maintaining the aging Catalina Water infrastructure, it should prove beneficial to the system to allow SCE to hire additional employees for maintenance purposes. There is also insufficient evidence to show that SCE's employees are paid disproportionate salaries compared to other Island residents. SCE's request for $1.832 million is approved. However, SCE has installed processes (discussed elsewhere in this decision) that SCE states will help automate utility activities. To that end, we would expect either employee labor costs or contractor costs to initially decrease after those projects are placed into service. In the next GRC, SCE should discuss any savings realized from those projects and note them for Commission analysis.

[27] SCE-02, at 12, Figure II-4, SCE -02, at 13:13-27.

[28] SCE Opening Brief, at 9-10.

[29] Catalina Parties Opening Brief, at 11-12.

5.4. Account 640- Materials

Account 640 includes materials and supply costs used in the operations, maintenance, and repair of the water system by SCE employees. This may include items and component parts used for the production, treatment, and distribution of water, such as pipes, fittings, coating, and other materials, as well as any associated transportation costs. SCE requests $128,000 for the TY for this account.[30] SCE notes that it is including $100,000 to replace the reverse osmosis membranes in Desalination Plant 2, but has agreed to amortize this cost over 5 years.[31] The installation of these membranes is needed to ensure that Total Dissolved Solids (TDS) and Specific Conductance levels remain within drinking water standards. SCE notes that starting in 2020 an increase in TDS has been observed at Desalination Plant 2, 4 years after it was placed into service.[32] Cal Advocates suggests that the Commission should adopt a 5-year average expense of $158,366 for Account 640.

SCE's request for $128,000 for Account 640 is reasonable and approved.

5.5. Account 650 – Contract Work

Account 650 includes costs of repair and maintenance work not performed by SCE labor, such as contractors. SCE states that contractors are needed for maintenance, calibration, and replacement of equipment due to the complexity of the Catalina Water system and limited SCE labor resources. SCE also states that it utilizes contractors to perform water quality analyses and prepare reports regarding water quality parameters.

[30] SCE-10, at 22:32-25.

[31] SCE Opening Brief, at 11-12.

[32] SCE-02, at 16:21-23.

SCE originally requested $1.65 million for the TY for these activities.[33] Subsequent testimony clarified that it would seek $1.544 million for this category.[34] This ask represents an over 200% increase from 2019 spending of $503,000 in this category. SCE seeks the following incremental funding for 2024 to 2029:

- $519,000 per year to support contractor activities related to water sampling and analysis to monitor water quality during an ongoing environmental assessment of water distribution facilities, including island-wide drinking water sampling, evaluation and tabulation of water quality data, report preparation and environmental consulting services;
- $20,000 per year for sampling and reporting to support SCE's revised National Pollutant Discharge Elimination System (NPDES) permit;
- $40,000 (later revised to $22,000) for Groundwater Under the Direct Influence (GWUDI) and Lead and Copper Rule (LCR) compliance;
- $100,000 per year for planned and unplanned well maintenance;
- $43,000 per year for wildfire mitigation expenses, to ensure Catalina Water facilities are not threatened by wildfires;
- $200,000 per year in contractor costs to perform routine inspections and maintenance on storage facilities, an air stripper at Pump House 2, and the Hypalon floating cover on the Wrigley Reservoir;
- $150,000 for contractor support of SCE's asset management program, to perform baseline condition assessments, evaluate the effectiveness and efficiency of operations and maintenance practices, conduct root cause analyses for

[33] SCE-02, at 17:19-20.

[34] SCE-10, at 41, Table IV-7. Reduction was for reductions of $70,000 for the asset management program, reclassification of labor to Account 630 of $8,050, and removal of the Groundwater Under the Direct Influence and Lead and Copper Rule compliance forecast of $28,000.

equipment failures, and provide repair and replacement recommendations.

Cal Advocates states that SCE should only be granted $725,000 for Account 650. Cal Advocates recommends adjusting downward the contractor costs for incremental sampling, asset management program, tank and water infrastructure coating maintenance, wildfire mitigation, and well maintenance support.

With regards to the $519,000 requested for incremental sampling, SCE notes that it has identified sections of the Catalina Water system that contain PCBs in the lining that pose threats to drinking water. Cal Advocates states that such costs should either be disallowed or tracked elsewhere, in a Pipeline Assessment Memorandum Account. We agree that funds should be allocated to conduct PCB testing, but are unclear why such expenses should continue annually for 5 years and note that SCE has not provided an end date for these costs. Presumably, SCE's goal should be to abate any PCB concerns long term. We therefore reduce SCE's request for these costs by 20%, to $415,200.

With regards to other maintenance activities that Cal Advocates disputes, we find that SCE has provided reasonable justification for the need. SCE is granted $1.444 million for Account 650.

5.6. Account 660- Transportation Expenses

Account 660 consists of vehicle and equipment costs used in support of Catalina Water operations. This includes service trucks, an SUV, backhoe, dump-truck, and potable water trailers. SCE requests $161,000 for the TY, equivalent to 2019 expenses in this account but more than double any other recorded year since 2015. This increase in 2019 was attributable to time spent

servicing the water fleet for electric generation and gas facilities.[35] Cal Advocates states that the 5-year average of $81,976 (with escalation) should be used, as it is a better representation of actual costs.

It is reasonable for SCE to allocate 40% of total vehicle costs for its total Catalina operations to Catalina Water, where the water utility also represents actual O&M allocations. Given projected increased maintenance on the Island, it is reasonable to assume increases from prior years as well. SCE's request for $161,000 for this category is approved.

5.7. Account 670 – Office Salaries

Account 670 tracks labor costs to provide administration of the Catalina Water utility, including administrative and general office staff. This includes one full-time administrative clerk supporting the water and gas utilities and 2 additional administrative clerks providing supplementary support as needed. SCE seeks $396,000 for this account for the TY, a large increase over the $90,000 spent in 2019 and more than double any other year since 2015.[36] SCE states that this increase is due to a re-allocation of employee time used to administer Catalina Water from SCE's overall Generation Organization to Catalina Water.[37] However, such time was still being used by these employees to administer the water company.

Cal Advocates states that only $221,398 should be approved for this category, based on adding one year's worth of salary allocations to the recorded 2018 and 2019 costs in this account and averaging them. Catalina Parties argue

[35] SCE-2, at 22:7-23:3.

[36] SCE-02, at 24, Figure II-8.

[37] SCE-02, at 25:5-15.

that SCE has not met their burden of proof regarding the number of employees allocated to Catalina Water nor the amount of time allocated.

Given SCE's move to more accurately track water company costs, it is reasonable to increase office salaries for the utility. Historical recorded costs for the utility were clearly low, as in 2017 and 2018 only $58,000 and $48,000 were recorded for Catalina Water in this account. We find that SCE's forecast in this category is reasonable and approve $396,000 for recovery.

5.8. Account 671 – Management Salaries

SCE seeks $154,000 for the TY for salaries for the managers and supervisors who coordinate the operations, maintenance, and compliance of Catalina Water.[38] This amount is equivalent to 2019 spending in this account and is in line with historical spending. Cal Advocates states that an unexplained increase took place between 2018 and 2019, and proposes a cost forecast of $134,599 in this category.[39] SCE states that the discrepancy highlighted by Cal Advocates is due to a re-allocation of expenses between 2018 to 2019 from the Transmission and Distribution cost center to the Generation cost center.

SCE's request for $154,000 is approved. It has sufficiently shown that the cost increase from 2018 to 2019 is justified.

5.9. Account 676 – Uncollectible Accounts Expense

SCE seeks $17,000 for uncollectible account expenses for the TY. This is based on applying the same uncollectible rate authorized for SCE's electric utility operations, 0.18 percent, by the proposed TY revenue.[40] Cal Advocates proposes that SCE utilize a 5-year average of actual recovery of $7,267. SCE notes that this

[38] SCE-02, at 26, Figure II-9.

[39] Cal Advocates Opening Brief, at 14.

[40] SCE-02, at 28:1-6.

should be normalized against expected usage, which when re-calculated with a 5-year average uncollectibles rate of .2822% results in uncollectibles of $19,000. SCE's updated number of $19,000, which utilizes projected normal water sales and the authorized uncollectible rate for the electric utility, is reasonable and approved.

5.10. Account 678 – Office Services and Rentals

This account includes expenses related to office services and equipment rentals. New for this TY, SCE proposes to include operating rents paid from the water utility to the electric utility in this account, supplanting the use of common plant allocations to the water utility. SCE seeks to include a total of $48,000 in expenses in this account, with $47,073 due to the new addition of operating rent paid to the electric utility.[41] In response to Cal Advocates testimony, SCE revised its proposal to $45,054.

SCE proposes to change to this operating rent structure from common plant in order to reduce rate base impacts of electric plant improvements and operating costs on the water and gas utilities. SCE proposes to do so by establishing operating rents for the water utility of $3,923 per month, based on estimated land values and rental rates of return in LA County. Costs were divided amongst the water and gas utility by comparing a 5-year average of labor expenses, from 2015-2019.[42] SCE states that this will reduce SCE's total capital request from a possible $2.17 million to zero.[43]

Cal Advocates and SCE agree on certain adjustments, such as the transition to a rent structure as well as the rate of return to authorize for the

[41] *Id.*, at 30:5-31:4.

[42] *Id.*, at 43:4-6.

[43] *Id.*, at 42:1-10.

electric utility in rent calculations,[44] but disagree on the square footage calculation. Cal Advocates points to one of the property sales used to calculate the estimated land values as far exceeding the others, and that a median calculation should be used instead.[45] Cal Advocates calculations would lead to costs of $19,574 in this account. SCE states that its use of an average is justified, given that it used averaging of the high and low ranges.[46]

We agree with Cal Advocates that a median should be used, as SCE has not provided any evidence as to why its location should be compared in value to the outlier property. Given the high-specificity of real estate values, it is more reasonable to assume that SCE's property is equivalent to the median, rather than the average. SCE is allocated $19,574 for costs in this account.

5.11. Account 681 – Office Supplies and Expenses

Account 681 includes the cost of office supplies and expenses, such as printing, stationery, repairs and maintenance for office equipment, and telephones. SCE requests $97,000 for the TY, equivalent to 2019 spending in this account but almost double any other year since 2015.[47] SCE notes that it expects unplanned equipment failures going forward. Cal Advocates states that non-recurring equipment maintenance and repair expenses that occurred in 2019 should be removed from the forecast, resulting in a 5-year average of $44,952.[48] SCE subsequently revised its proposal to $74,000, based on a 2-year average with non-recurring costs removed.

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[44] SCE Opening Brief, at 23.

[45] PAO-1, at 3-7:1-6.

[46] SCE Opening Brief, at 24.

[47] SCE-02, at 32:6-8.

[48] Cal Advocates Opening Brief, at 15.

SCE has not shown that a 2-year average is any more reasonable than 5 years, as these expenses would have been unrelated to any drought measures. We find it reasonable to utilize a 5-year average as proposed by Cal Advocates and approve a forecast of $44,952.

5.12. Account 682 – Professional Services

Account 682 includes expenses related to external professional services contracted by SCE including consultants and engineers. Outside consultants and engineers are utilized for their specialized knowledge and experience on water quality testing, civil and environmental engineering, environmental consulting, and permit and report preparation. SCE estimates $361,000 for this category, equivalent to 2019 spend and below any other year since 2015.[49]

No party disputed this charge. We find reasonable SCE's forecast of $361,000 for professional services. To the extent that these projected costs are duplicative of costs in Account 650, we direct SCE to ensure that such costs are not double-counted.

5.13. Account 689 – General Expenses

Account 689 consists of administrative and general expenses not allocated to other operating expenses accounts. This can include travel and lodging expenses for employees to attend meetings and trainings as well as technical and training resources procured from outside providers. SCE requests $464,000 for this account for the TY, equivalent to 2019 spending in this category.[50] Cal Advocates recommends that a 5-year average be utilized, which would yield a forecast of $327,555.[51] SCE has not sufficiently shown why there would be

[49] SCE-02, at 34:6-8.

[50] SCE-02, at 36:5-9.

[51] Cal Advocates Opening Brief, at 12.

increased costs in this account moving forward as compared to historical costs. We therefore adopt Cal Advocates' recommendation of $327,555.

5.14. Account 480.1 – Service Establishment Fees

SCE forecasts revenue of $920 for fee collections for establishing new service, temporarily shutting off service, or reconnecting services. This is equivalent to 2019 collections and is in line with historical patterns.[52] No party disputes this forecast, and it is adopted.

5.15. Account 480.2 – Rent from Water Property – Cellular Antennae Revenue

SCE forecasts revenues of $142,565 in the TY for fees collected from communications companies that rent space on Catalina Water's water tanks to provide cellular based services to the island. No party disputes this forecast, and it is adopted.

5.16. Account 689.927 - Franchise Fees

SCE requests $94,305 as the forecast for franchise fees. Cal Advocates agrees with the calculation methodology, but proposes a different revenue requirement, resulting in a proposal of $36,878.[53] Franchise Fees are paid to the City of Avalon at 1 percent of revenue requirement. Per the revenue requirement calculated below, this decision adopts a revenue requirement of $10.364 million for Test Year 2024, meaning the forecasted franchise fees are $104,000.

5.17. Discussion Regarding use of Four-Factor Method for Calculating Costs

In its initial Application, SCE did not provide calculations for Accounts 674 (Pension and Benefits) and 684 (Insurance). It instead discussed these

[52] SCE-02, at 38, Figure II-15.

[53] PAO-1, at 3-2, Table 3-1.

expenses as part of a section on Four-Factor Administrative & General (A&G) Allocations (Accounts 800.1 and 800.2).[54] SCE utilized the Four-Factor method to allocate A&G costs amongst all of SCE.[55] Both Cal Advocates and the Catalina Parties disputed calculation of costs utilizing the Four-Factor method, noting that previous Commission precedent had heavily favored following Uniform System of Accounts (USOA) Accounting practices, which would have required the calculation of Accounts 674 and 684.[56] Cal Advocates also states that use of the four-factor test inflates SCE's general office expenses overall, but does not dispute SCE's calculations of it. It is reasonable to allow SCE to utilize the Four-Factor Method to determine A&G costs, but we review the reasonableness of the forecast generated by the method in the discussions for Accounts 800.1 and 800.

5.17.1. Account 800.1 Administrative and General Allocation

As discussed above, SCE utilized the Four-Factor Method to determine an A&G allocation of $1.081 million, after determining that the Catalina Water utility should be attributed .064% of SCE company-wide A&G costs. This calculation is based on 1) direct operating expenses, excluding collectibles, general expenses, depreciation and taxes, 2) gross plant, 3) number of employees, and 4) number of customers. Cal Advocates states that this is a 102% increase over the previously authorized allocation of $535,020.[57] Both Cal Advocates and Catalina Parties also note that SCE no longer maintains a physical administrative office or staff on Catalina Island.[58]

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[54] SCE-06, at 5:27-6:8.

[55] SCE Opening Brief, at 26.

[56] Cal Advocates Opening Brief, at 12-13; Catalina Parties Opening Brief, at 13-14.

[57] Cal advocates Opening Brief, at 13.

[58] *Id*.

We find it reasonable to reduce SCE's costs in this category by 20%. Although SCE's A&G costs have increased, SCE has provided no evidence or reasoning for why the water company costs in this category have risen over 100 percent. Given the fact that number of customers has not appreciably increased,[59] SCE provided no support for the assertion that its A&G expenses have doubled. SCE is therefore allowed to recover $864,800 for these costs.

5.17.2. 800.2 Capitalized A&G Expense

SCE calculates its capitalized A&G expense as -$798,615. Cal Advocates agrees with SCE's methodology, but utilizes a different A&G amount to be capitalized, resulting in a recommendation of -$491,801. We determine the capitalized A&G expense to be $2,167,081 for 2024, and after applying SCE's 28 percent capitalization factor,[60] we find that the capitalized A&G expenses total is -$709,000.

5.18. Conclusion

SCE is allowed to recover $5.413 million, plus escalation, in operating expenses for TY 2024.

[59] SCE-07, at 11:1-2.

[60] SCE-06, at 6:4-8.

Table: 1 Summary of Operational Expenses (in $ thousands)

		2022	Escalation	Total W/ Escalation	2023	Escalation	Total W/ Escalation	2024	Escalation	Total W/ Escalation
Operating Expenses										
615	Power	267	48	315	267	64	331	267	63	330
618	Other Volume Related Expenses	121	22	143	121	29	150	121	28	149
630	Employeee Labor	1,832	144	1,976	1,832	252	2,084	1,832	323	2,155
640	Materials	128	23	151	128	31	159	128	30	158
650	Contract Work	1,444	262	1,706	1,444	346	1,790	1,444	338	1,782
660	Transportation Expense	161	29	190	161	39	200	161	38	199
670	Office Salaries	396	31	427	396	55	451	396	70	466
671	Management Salaries	154	12	166	154	21	175	154	27	181
676	Uncollectible Accounts Expense	16	0	16	18	0	18	19	0	19
678	Office Services and Rentals	20	2	22	20	3	23	20	3	23
681	Office Supplies and Expensees	45	5	50	45	7	52	45	7	52
682	Professional Services	361	41	402	361	56	417	361	60	421
688	Regulatory Compliance Expenses	0	0	0	0	0	0	0	0	0
689	General Expense	328	37	365	328	51	378	328	54	382
689.927	Franchise Fees	89	0	89	102	0	102	104	0	104
800.1	A&G Allocation	865	98	962	865	134	999	865	143	1,008
800.2	Capitalized A&G Expense	(670)	0	(670)	(699)	0	(699)	(709)	0	(709)
480.1	Service Establishment Fee	(1)	0	(1)	(1)	0	(1)	(1)	0	(1)
480.2	Telecom Revenues	(143)	0	(143)	(143)	0	(143)	(143)	0	(143)
480.3	Income Tax Component of Contribution	0	0	0	0	0	0	0	0	0
	Total Operating Expenses	**5,413**	**754**	**6,166**	**5,399**	**1,088**	**6,486**	**5,392**	**1,184**	**6,576**

6. Capital Project Costs

Since 2012, SCE has completed 24 capital projects in support of the Catalina Water system. SCE states that these projects are all used and useful and seeks authority to add $9,984,766 to rate base.[61] SCE also proposes to invest an additional $5.201 million in capital from 2020-2024 to support water supply, drought resiliency, regulatory compliance needs, and infrastructure replacement.[62]

6.1. In Service Water Supply and Drought Resiliency Projects

SCE implemented mandatory conservation or water rationing measures from June 2013 to February 2019 in response to drought conditions on the Island. These conservation and rationing measures were based upon the water level of the MRR. In 2016, a new desalination plant (Desalination Plant 2) was completed

[61] SCE-03E, at 1, Table I-1.

[62] SCE-01, at 8:26-30-9:4-12.

as a drought mitigation strategy, with a goal of reducing drawdown on the MRR to avoid harsher rationing measures. Additionally, after a failure of Howlands Landing Well #1 (HL-1), which served as the main source of groundwater for western Catalina Island, a new well was drilled (Howland Landing Well #3, or HL-3), and associated treatment facilities were constructed to support the well.

6.1.1. Desalination Plant 2

In response to expected 50 percent mandatory water rationing by November 2015 due to drought, SCE had a consulting engineer develop a report listing potential methods for increasing water supplies on Catalina Island (Contingency Plan) in May 2015.[63] One of the listed potential water supply alternatives was to expand desalination production capacity. This option was further supported by a Feasibility Study of Catalina Island Desalination Plants 1 and 2 issued in April 2017. SCE decided to install a containerized reverse-osmosis desalination system, which required excavation, installation of concrete structures, equipment procurement, pipe installation, instrumentation and controls work, commissioning, and personnel training. Desalination Plant 2 interconnects with Desalination Plant 1 at the Pebbly Beach Generating Station, and allows Desalination Plant 1 to be taken offline for maintenance.

Alternatives to Desalination Plant 2 considered by SCE included importing water via barge, expanding Desalination Plant 1 operations, installing solar stills, purchasing water from other wells, or taking no action. SCE considered these options less viable. SCE utilized an expedited contractor selection process to mitigate delays. SCE states that where possible it chose less expensive engineering and construction strategies. Desalination Plant 2 went into service in

[63] SCE-03, at 4:3-17.

April 2016, and SCE states that the installation of Desalination Plant 2 helped avoid Stage 3 Water Rationing for Catalina Water by 9 months.[64]

Total cost of the project to be added to rate base is $643,932,[65] after accounting for $500,000 received from the County of Los Angeles, $1.18 million from the City of Avalon, as well as $2.3 million from a grant by the California Department of Water Resources (DWR). Although Cal Advocates initially objected to the cost as entirely being covered by the DWR grant, subsequent SCE testimony clarified that there remained an amount outstanding. SCE is authorized to rate base $643,932 for Desalination Plant 2.

6.1.2. Howlands Landing Well 3 and Pipeline

HL-3 is a newly constructed well connected to the existing water supply system servicing the Island's western end. SCE states that in response to increased salinity in HL-1 in June 2014, they determined that the construction of an additional well dug into bedrock was needed to provide a water supply that was not threatened by seawater intrusion. This required the construction of a 365-foot deep bedrock well, piping, pump, chlorination building, fencing, and 950 feet of 4-inch high-density polyethylene (HPDE) distribution pipeline to connect to the existing Howlands Landing supply system. Drilling began in September 2014, with an appropriate site being located after 2 exploratory boreholes. HL-3 can produce up to 54 gpm from the bedrock aquifer.[66] Electrical infrastructure was also installed to provide power to the well infrastructure. HL-3 went into service in June 2015.

[64] SCE-03, at 5:6-8.

[65] SCE-10, at 54, Table V-10.

[66] SCE-03, at 9:2.

Alternatives considered by SCE included the installation of a new desalination plant and the barging of drinking water to the western side of the Island, but both were determined to not be cost effective or were otherwise not viable. SCE seeks to add $1.653 million to rate base for the construction of HL-3.[67]

Cal Advocates and Catalina Parties state that these costs should be disallowed, as they were only incurred due to inadequate monitoring and planning on the part of SCE. Cal Advocates notes that SCE has known of well intrusion issues at HL-1 for a number of years, and it had been over ten years since a ground water modeling had been done on HL-1 prior to the failure of HL-1 in 2014. Cal Advocates states that if SCE had better prepared for the failure, it is likely that the construction could have lowered the cost of HL-3, given the expedited construction timeline for the project.[68] Catalina Parties question whether SCE should have taken preventative measures in the past and dug a second well before the construction of HL-1.[69]

Neither Cal Advocates nor Catalina Parties have presented evidence to suggest that SCE could have taken action to save HL-1 prior to its failure. Nor has either party presented evidence that SCE's costs in installing HL-3 were unreasonable. SCE's quick action to install HL-3 likely reduced costs, considering the high cost of delivering water to the western side of the Island.[70] SCE is authorized to add to rate base $1.653 million for HL-3 well and pipeline costs.

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[67] SCE-03 at 11, Table I-5.

[68] Cal Advocates Opening Brief, at 26-27.

[69] Catalina Parties Opening Brief, at 27-29.

[70] SCE-05, at 26, Table II-7.

6.1.3. Howlands Landing Well 3 Treatment System

During the installation and testing of HL-3, water samples from the well revealed iron and manganese levels exceeding the Secondary Maximum Contaminant Level for drinking water. After consultation with an environmental consulting firm as well as the State Water Resources Control Board, SCE decided to install an oxidation-filtration system to oxidize iron and manganese compounds before removing the particles through media filtration. Due to the lack of a wastewater or sewer system to accept flushed backwash water at Howlands Landing, and the proximity to an Area of Special Biological Significance, SCE and the consultant installed a zero liquid discharge system, which reduces the waste stream from the treatment center by creating a non-hazardous sludge that could be disposed off-site. Increased costs were incurred for the additional tank, pump, piping, and controls for this treatment system design.

SCE began the project in October 2014, and completed the project in November 2017, with final permitting approval being received in September 2018. SCE seeks to add $1.574 million to rate base to pay for the HL-3 treatment system.

As noted above, this process was expedited due to immediate supply needs during drought conditions. Although the need for an expedited response to the emergency was clear, it is unclear whether SCE could have prepared a contingency plan for the failure of HL-1 that would have avoided either the need for a treatment plant or reduced the total cost. If the total cost of installing both HL-3 and the associated treatment system, a total of over $3.2 million, had been known prior to the installation of HL-3, then perhaps a suitable alternative that was more expensive than HL-3 alone ($1.65 million), but cheaper than the cost

with the treatment system added ($3.2 million), could have been proposed. Accordingly, we reduce SCE's recovery for the treatment system by 20 percent, and authorize SCE to rate base $1.26 million.

6.2. In Service Regulatory Requirements and Safety Projects

SCE projects in this section focus on compliance with laws and regulations or maintaining safe and reliable operations for employees and the public.

6.2.1. Disinfection Byproduct Mitigation

In order to comply with a United States Environmental Protection Agency (EPA) State 2 Disinfectant Byproduct Rule, SCE was required to monitor for disinfection byproducts (DBPs) at the 2 distribution system locations with the highest DBP concentrations, the Mount (Mt.) Ada Tank and the Million Gallon Tank (MGT). In March 2014, SCE was also directed to monitor Hamilton Cove for Total Trihalomethanes (TTHMs) and HAA5. In April 2015 SCE retained an environmental engineering firm to determined options to mitigate DBPs at Hamilton Cove.[71] SCE decided to install a Granular Activated Carbon (GAC) facility, which would remove precursors to DBPs from the system. SCE initially sought to install this GAC facility at Pump House #2 but could not after it was determined that it lacked sufficient inlet water pressure to operate the treatment system as designed. SCE chose to install the GAC treatment facility at Wrigley Reservoir, to reduce land acquisition costs and processes. This had the added benefit of reducing DBPs not just from the Hamilton Cove system but all other distribution system locations downstream, as well as re-circulating the water at Wrigley Reservoir. The installation of a GAC treatment system in this manner limited construction and site modifications. SCE utilized a directed award basis

[71] SCE-03, at 17:1-13.

to accelerate the installation of the treatment system. The project went into service in May 2018. SCE seeks to add $754,439 to rate base to cover the costs of this system.[72]

No other party provided comments on this section. Given the direction to comply with EPA guidelines, it is reasonable for SCE to rate base $754,439 for this project.

6.2.2. Airport Tank Lead-Based Paint Abatement and Demolition

After conducting studies in 2012 and 2015 to assess the condition of the 2 water storage tanks at the Airport in the Sky (Airport), it was determined that remediation was necessary to resolve lead-containing paint (LCP) issues. SCE decided to demolish the tank that was no longer in service and conduct LCP abatement and recoating on the in-service tank. SCE states that demolition of the out of service tank was also needed to remove a fall protection and confined space safety hazard and reduce injury risk from unauthorized access. The in-service tank had the LCP removed via an abrasive blasting process, and was then recoated.

The project was awarded to the lowest-cost qualified bidder. SCE personnel assumed project and construction management functions. SCE seeks $178,827 for this project.[73] No party disputed these costs, and SCE is authorized to rate base $178,827 for this project.

6.2.3. Water System Fall Protection Improvements

In 2016, SCE performed the Catalina Fall Protection Survey and Assessment (Fall Assessment) in order to review Catalina Water's 15 water

[72] SCE3-03, at 18:6-8.

[73] SCE-03, at 19, Table I-8.

storage facilities for compliance with SCE's Environmental, Health, and Safety Fall Protection Manual as well as OSHA regulations. This included installing perimeter railings, safety gates, and gauge hatches. SCE utilized a tank contractor familiar with the type of work on the Island, and that has worked with SCE in the past. The project lasted from March 2017 to July 2017. SCE seeks $165,495 for this project, to be added to rate base.[74] No party disputed these costs, and SCE is authorized to add $165,495 to rate base.

6.2.4. Wrigley Road Terrace Water Main and Vieudelou Water Main Relocations

To remedy threat of contamination due to insufficient separation of potable water and sanitary sewer piping systems in the City of Avalon, SCE relocated a fresh-water distribution piping in the Wrigley Road area, pursuant to California Waterworks Standards (CWS) and a California Department of Public Health (CDPH) Guidance Memo. This involved the replacement of 190 feet of two-inch HDPE water pipes and installation of 7 service laterals. SCE selected a contractor with experience working on pipeline and civil construction on the Island. Work was completed in a year. SCE seeks $82,714 for this project.[75]

In 2012, SCE also replaced piping installed underneath a sewer system which was also out of compliance with CWS and the CDPH Guidance Memo. A new alignment was utilized to distance the new pipe from the sewer line. Work included the installation of 95-feet of new 4-inch HDPE pipe, and 3 valves. SCE seeks to rate base $41,368 for this work.[76]

[74] SCE-09, at 22, Table I-9.

[75] SCE-03, at 23, Table I-10.

[76] SCE-03, at 25, Table I-11.

No party objected to either of these costs. SCE is authorized to add $124,082 to rate base.

6.2.5. Mount Ada Tank Fall Protection Improvements

SCE conducted DBP mitigation at the Mt. Ada Tank, after the above monitoring determined that DBP concentrations were high. SCE selected a spray aeration and ventilation process to remedy the issue, requiring the installation of a pump, piping, spray nozzles, and vents into the tank roof. In order to create a safe working environment, a perimeter railing was installed on top of the tank to meet fall protection requirements. SCE selected this option from others as it was cost effective and provided less material and training needs. SCE seeks $12,950 for this project.[77] No party objected to these costs. SCE is authorized to add $12,590 to rate base.

6.3. Infrastructure Replacement and Operational Improvement

SCE has completed a number of projects in this section, none of which were added to rate base in the last GRC. Fifteen infrastructure replacement and operational improvement projects were completed to ensure safe and reliable operation of the water system.

6.3.1. MGT Renovation and Rebuild

The MGT provides up to 100,000 gallons of drinking water storage to the community of Two Harbors and USC's Wrigley Marine Science Center (USC Marine Lab), as well as 900,000 gallons of dedicated fire suppression water to the USC Marine Lab. A September 2013 internal inspection of the MGT showed delamination of the internal protective coating from the steel interior as well as

[77] SCE-03, at 28, Table I-12.

corrosion on the tank floor. An external inspection noted thinning of the tank floor in some areas. Replacement of the tank floor was needed to ensure its reliability and risk of failure and resulting damage to the environment.[78]

SCE decided to remove and replace the floor as well as the bottom 8 feet of the perimeter tank wall. This also necessitated the replacement of the outer 3-foot diameter ring of the tank floor. SCE also removed the interior coating used to protect the tank steel from erosion. This coating was a coal-tar enamel that contained PCBs, which meant that in order to ensure the coating was completely removed it was media blasted twice before a new coating was applied. Additional improvements were made, including the installation of a cathodic protection system, replacement of ladders and access methods, and replacement of pipes. Tank replacement was the only alternative considered and was deemed to be ineffective due to land, environmental, operational, and regulatory requirements.

SCE utilized the same contractor and engineering firm for this project as for the HL-3 project. USC contributed 51 percent of the project costs ($2,897,639), equal to the amount of costs related to expansion of the tank for its purposes. SCE seeks to rate base $2.272 million for the remainder.[79]

Cal Advocates states that SCE should have researched alternative methods to provide fire support to USC.[80] Cal Advocates' argument ignores the drinking water supply provided by the MGT.

Cal Advocates states that SCE should only be allowed to rate base 10 percent of the cost of the project, or $515,000, because SCE's Tariff Rule 15

[78] SCE-03, at 29:17-25

[79] SCE-03, at 31:5-11.

[80] PAO-1, at 6-12:14-6-13:9.

requires that USC pay a proportion of the costs equal to the capacity of the tank dedicated to its use. Cal Advocates states that this is at least 90 percent of the facility.[81] SCE states that the agreement with USC Marine Lab only requires that the USC Marine Lab pay for the incremental costs of construction associated with fire protection services. Catalina Parties state that SCE has known of a PCB issue with the MGT since 1998, but chose not to remedy it until today. It does not dispute the costs or need for the renovation, however.

The agreement with USC states that "[USC] shall reimburse Edison for that portion of the cost of such operation and maintenance determined by multiplying such cost by the ratio of the Fire Protection Cost to the Completed Cost."[82] Here, the agreement references the ratios of cost, and not of capacity, as argued by Cal Advocates. We therefore find SCE's interpretation more reasonable, and allow $2.272 million to be added to rate base.

6.3.2. Water Supervisory Control and Data Acquisition Upgrade

SCE completed a Supervisory Control and Data Acquisition (SCADA) Condition Assessment for Catalina Water in March of 2016, which determined that a rehabilitation and update to enhance functionality and control of the system and data collection for statutorily-required operational data was needed. The system was originally installed in 2008. This project required updates at 11 Catalina Water facilities across the island. The update to the SCADA system connected major equipment, installed software and process updates, added

[81] Cal Advocates Opening Brief, at 28.

[82] Cal Advocates-1, Attachment 6-2, at 2:22-25.

equipment, and installed monitoring sensors and process metering replacements.[83]

The project, including testing and commissioning, was competitively bid. The work included the testing of communication systems to verify data transmission, system improvements including the addition of flowmeters, installation of new equipment, and addition of alarms to the system. SCE seeks to rate base $1.413 million for this project.[84]

Cal Advocates and Catalina Parties cite a proposed decision in the 2011 Catalina Water GRC, which stated that the costs of the original SCADA system exceeded reasonable bounds, given the cost of the program compared to the size of the utility overall.[85] The proposed decision was not adopted.

Cal Advocates' and Catalina Parties' arguments regarding past proposed decisions does not carry significant weight. Additionally, although the cost of the system may be significant compared to the size of the water system, infrastructure upgrades may sometimes be necessary and carry high fixed costs. SCE however has not provided any information regarding operational savings due to the SCADA system upgrade. One would expect that if the system will be providing statutorily-required data, this would at minimum reduce labor and transportation costs for the collection of that data. Given that SCE has not provided any information on this, it is reasonable to reduce its recovery for these costs by 30 percent. SCE is authorized to rate base $989,353 for the cost of the SCADA upgrades.

[83] SCE-10, at 65:21-26.

[84] SCE-03, at 33, Table I-15.

[85] Cal Advocates Opening Brief, at 28; Catalina Parties Opening Brief, at 34.

6.3.3. Water Valve Replacement

SCE's 200 isolation valves establish pressure zones and control the flow of water to allow for pipeline isolation for maintenance purposes. SCE identified 14 (later reduced to 12) isolation values as needing replacement, and also sought to install 2 new valves. A competitive bid process was used, with the job awarded to the highest scoring contractor based on terms offered and technical merit. Work took place from May 2015 to October 2018. SCE seeks to rate base $443,500 for the cost of this project.[86] No party objected to these costs. SCE's forecast of $443,500 may be added to rate base.

6.3.4. HL-3 Well Replacement and Pump Modification

HL-3 went into service in June 2015.[87] In December 2016, water quality and production rate at HL-3 considerably reduced. A June 2017 inspection showed that the casing for HL-3 was damaged, allowing sand pack and clay seal material to enter the well column. The debris filled the lower portions of the well casing, which contained the screened interval. Filter pack and annular seal material was pumped out of the well, causing high turbidity and clogging of the treatment system. To investigate the issue, SCE removed the lower well equipment and determined that the well was 126 feet shallower than it was at initial installation. Contractors removed debris, and SCE decided to install a new 4-inch polyvinyl chloride (PVC) well inside the existing well casing. After installation, a pump test revealed a 43 gpm capacity for the replacement well. The replacement well was put into service in September 2018.

[86] SCE-03, at 36, Table I-16.

[87] SCE-03, at 37:7-8.

Alternatives considered included salvage options as well as digging a completely new well. SCE utilized a drilling contractor and hydrogeologist during construction, as well as multiple environmental consultants. SCE seeks to rate base $368,635 for this project. It is unreasonable for SCE to have issues with the well only 1.5 years after it went into service. Any fixes at this stage are likely due to poor design or construction. The solution also reduced well capacity, limiting future value of the well. These costs are unreasonable and recovery is denied.

6.3.5. Middle Ranch Well 5A New Pump and Motor

Middle Ranch Well 5A (MR-5A) was constructed in 1993, and serves as one of the primary groundwater sources for the City of Avalon and Hamilton Cove. It is utilized for domestic water delivery and fire suppression.[88] During the recent drought, MR-5A was removed from service due to low water levels. During the shutdown, the well equipment was assessed, and it was revealed that the well was misaligned causing excessive contact between the line-shaft, pump, and well casing. The resulting vibration caused excessive pump wear, and in SCE's determination required replacement. The vertical turbine pump and motor assembly, and rigid line-shaft with drop pipe were replaced, and modifications were made to the wellhead and discharge piping.

SCE sent out a request for proposal (RFP), seeking quotes from pump suppliers in the region. It consulted 2 pump suppliers with previous history working with Catalina Water, and selected one with the ability to complete much of the work off-site, away from a high-risk fire area. After going out of service in June 2014, MR-5A was put back into service in October 2016. SCE seeks to rate

[88] SCE-03, at 42:6-11.

base $69,995 for this process.[89] Although it is reasonable to need to replace a well pump and motor after almost 25 years, SCE subsequently replaced the well in 2018 due to poor matching of specifications, as discussed in the next section. SCE's request for recovery for the 2016 replacement of MR-5A's pump and motor assembly is therefore denied.

6.3.6. Middle Ranch Water Supply Improvements

From 2018-2019, SCE decided to make improvements to the Middle Ranch (MR) groundwater wells, known as MR-1A, MR-5A, and MR-6A. MR-1A's pump and motor, used for groundwater extraction, was replaced after 16 years of operation. MR-1A's piping, flow meter, and turbidity analyzer were also replaced, with all work completed in November 2018. MR-6A also had the pump and motor, flowmeter, and well piping replaced in July 2019. Following replacement in 2016, MR-5A's pump and motor were also replaced in October of 2018, as the pump was determined to be over-sized, resulting in over-pumping of the well.[90] The flow meter and turbidity analyzer were also replaced.

For pump replacements, SCE seeks to recover $98,748 for MR-1A, $54,232 for MR-5A, and $72,999 for MR-6A, for a total of $225,979.[91] For turbidity analyzer replacements, SCE seeks to recover a total of $15,899.[92] No party challenged these costs. SCE is authorized to recover $241,878 for these costs.

6.3.7. Hamilton Cove C Station Pipeline Spool and Isolation Valves

Pressure reduction stations (PRS) are utilized to move water from Wrigley Reservoir downhill to Hamilton Cove. In 2012, fifty years after their installation,

[89] *Id*. at 42, Table I-18.

[90] SCE-03, at 44:11-16

[91] SCE-03, at 44, Table I-19.

[92] *Id*. at 45, Table I-20.

SCE determined that the corrosion on one of the PRS (PRS C) was creating risk of failure and repair was necessary. SCE drained the pipe, installed a custom fabricated pipeline spool piece, and replaced 2 isolation valves at the PRS which were also at end of life. The project took place in December 2013. SCE seeks to rate base $36,840 for this project. No party challenged these costs. SCE is authorized to recover $36,840 for these costs.

6.3.8. Seawater Well Pump Replacements

Two seawater wells supply water to desalination Plants 1 and 2. SCE states that the typical life expectancy of a seawater well pump is 2 years.[93] In 2017, SCE noticed that its seawater well pumps began failing with increased frequency, and determined that the cause was due to seawater well failures. These failures were due to lack of flow sleeves, as well as variable frequency drives beyond their useful life. SCE installed new well pumps from a manufacturer that utilized higher quality steel for flow sleeves and manufacturer-recommended variable frequency drives.

The pump and motor assemblies were replaced in 2019. SCE seeks to rate base $89,014 for these costs. No party challenged these costs. SCE is authorized to recover $89,014 for these costs.

6.3.9. Mt. Ada Pump Electrical Panel and Pump Controls Replacement

During routine High Fire Risk Inspections (HFRIs), it was determined that the Mt. Ada Tank electrical panel and pump controls had deteriorated and become a fire risk. The project removed the electrical meter base and pump controls and installed a new frame, electrical panel, and pump controller. A zinc frame was anchored for support, and a weatherproof enclosure was also

[93] SCE-03, at 47:13-17.

installed. The project took place in November 2019. SCE seeks $29,778 for the project. No party challenged these costs. SCE is authorized to recover $29,778 for these costs.

6.3.10. Sweetwater Well New Pump and Motor

Sweetwater Well 1-A is one of 2 water supply sources for the Two Harbors area of Catalina Water. In 2018, drought conditions led to well production degradations, which resulted in damage to a new pump and motor installed as well as corrosion of the well pipe in 2015. SCE retained a well-drilling contractor to remove and replace the pipe. SCE seeks to rate base $27,013 for this project.[94] No party challenged these costs. SCE is authorized to recover $27,013 for these costs.

6.3.11. Cottonwood Well 1-A Control Panel Replacement

SCE used internal resources to replace the control panel at Cottonwood Well 1-A. The work included disconnection and removal of the existing panel and installation of a prefabricated replacement. SCE states that cost was below $5,000.[95] No party challenged these costs. SCE is authorized to recover $4,659 for these costs.

6.4. Capital Forecasts

SCE forecasted 8 major water system projects between 2020 and 2024 to support the Catalina Water system. These capital projects will provide supply and distribution capacity, provide additional storage, and rehabilitate aging infrastructure. SCE seeks to add to rate base $5,200,674 for capital forecast costs. In response to ALJ Ruling, SCE submitted comments on the stratus of its

[94] SCE-03, at 52, Table I-14.

[95] SCE-03, at 52:17-22.

forecasted capital projects since the submittal of the Application.[96] SCE states that the updates should not be utilized in this proceeding, as under the Race Case Plan GRC applications are only allowed to consider recorded data within 45 days of a GRC filing.[97] Cal Advocates states that the ALJ may consider any and all updated information it requests.[98] This Decision declines to consider the updated information, based on lack of record, and shall utilize the cost estimates for the forecasted capital projects below as submitted in the Application and testimony submitted into evidence. SCE is authorized to submit Tier 2 advice letters seeking rate base offsets when capital forecast projects authorized below are used and useful.

6.4.1. Desalination Enhancements

After installation of Desalination Plant 2 in 2016, SCE began to consider ways to expand desalination capacity to combat drought conditions on the Island. SCE estimates that the project will increase Catalina Water potable water supply approximately 130 acre-feet per year (AFY),[99] and will also allow the system to withstand a 7 year drought, up from 4 years, within the Middle Ranch-Avalon section of the system. Improvements will be made at the quarry seawater wells (Quarry), desalination Plants 1 and 2, and at storage and distribution points to allow for additional storage at the Baker Tanks and Wrigley Reservoir.

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[96] Comments of Southern California Edison Company on Updates on Forecasted Capital Projects, September 12, 2023.

[97] *Id.*, at 2.

[98] Reply Comments of the Public Advocates Office (to Comments of Southern California Edison Company on Updates on Forecasted Capital Projects), September 20, 2023, at 2-3.

[99] SCE-03, at 53:5.

At the Quarry, two new saltwater wells will produce 350 gpm together. At the desalination Plants, upgrades to the piping and treatment systems will accommodate higher flows. Within the distribution system, SCE proposes to install one million gallons of additional storage for desalinated water. Alternatives considered included increasing the amount of barge water delivered. The engineering contract was awarded using a competitive procurement process and executed in June 2019.

The project was granted $10 million by the California Department of Water Resources (DWR), if completion came by December 2022. Total project cost to SCE is $2.71 million, after the DWR grant.[100]

Cal Advocates states that the request should be denied, as the increase in production is not practical or necessary to meet demand. Cal Advocates also states that SCE should instead focus on water loss issues within the Catalina Water system before attempting to increase water supply.[101] Cal Advocates also states that the scope of the desalination enhancement project should be scoped to meet the DWR grant size. Catalina Parties state that SCE should prioritize finding additional storage sites as opposed to supply.[102] In response, SCE notes that the project will provide additional storage, and that due to the grant requirements cutting down the project size is not reasonable.[103]

Given the overall cost of the project, and significant drought resistance benefits it will provide, it is reasonable for SCE to rate base $2.71 million for this project when used and useful.

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[100] SCE-03, at 60, Table I-30.

[101] Cal Advocates Opening Brief, at 16.

[102] Catalina Parties Opening Brief, at 16-17.

[103] SCE-10, at 67:6-68:12.

6.4.2. Water Valve Replacement

SCE plans to continue the water valve replacement project discussed in section 6.3.3, with a focus on the Avalon distribution area. SCE projects plans to replace 12 valves every other year from 2020-2024, for a total cost of $1.319 million. This cost is higher than it previously cost due to the potential use of line-stop technology to reduce service interruptions during valve replacements.[104]

Cal Advocates states that SCE has not created a viable asset management plan for valve management, and should be instructed to do a condition-based review of valves before being allowed to replace them, or there is a high risk of replacing valves unnecessarily.[105] SCE notes that the valves selected for replacement were chosen based on importance in ensuring routine and emergency operations for Catalina Water. SCE states that the program also prioritizes the replacement of broken, frozen, or otherwise inoperable valves.[106]

We agree with Cal Advocates that SCE should first construct a list of valves for replacement and consider immediate need for replacement. However, we are also convinced that SCE is likely to have water valves that need immediate replacement, given their age. To the extent that SCE wishes to replace any operational valves, it should first conduct a condition-based review to determine the risk of failure. We authorize SCE to rate base $659,402 to conduct the first 18 replacements when used and useful.[107] SCE may seek recovery for any additional valve replacements in a future GRC, but in doing so shall present

[104] SCE-03, at 61:26-31.

[105] PAO-1, at 6-22:3-13.

[106] SCE Opening Brief, at 41.

[107] SCE may rate base $416,355 in the TY 2024 and an additional 243,047 in 2025.

further evidence regarding the need for replacement, including summarized condition assessments.

6.4.3. Water Meter Replacement Program

As of December 31, 2019, 1,173 of SCE's water meters exceed maximum service periods stated in General Order (G.O.) 103-A, with another 163 meters also exceeding the maximum period by 2025. SCE notes that meter replacement will reduce meter inaccuracies and decrease under-collections, possibly saving $23,000 per year.[108] SCE plans to replace meters at a rate of 350 meters per year until all are replaced. SCE asks for $368,267 to cover these costs.[109]

Cal Advocates and Catalina Parties question the need for water meter replacement at this time. Cal Advocates states that SCE should seek a G.O. 103-A extension for installing new meters, while Catalina Parties question whether the smart meters are unreasonably expensive.[110]

At this point in time, it is not reasonable to consider water meter replacement, given the high cost burden to be shouldered by Catalina Water ratepayers. As noted by SCE, average apparent losses only account for 2.6 percent of total system losses.[111] SCE is authorized to seek an extension from the Commission for its G.O. 103-A water meter replacement requirements, for a period of 5 years.

6.4.4. Desalination Building Upgrade

Desalination Plant 1 is housed in a metal building at SCE's Pebbly Beach Generating Facility. The building walls and roof have corroded and experienced

[108] SCE-03, at 63:10-13.

[109] SCE-04, at 64:7-11.

[110] CP-01, at 34.

[111] SCE-03, at 63.

material loss, including at the steel support structure. SCE proposes to replace the outer shell of the building and refurbish the existing steel frame. SCE plans to complete this project by 2023, at a cost of $250,000. Cal Advocates states that internal SCE communications suggest only a need to replace the siding and leaks in the roof, and that SCE has not provided a cost breakdown for the project.[112] Cal Advocates therefore recommends denial of the costs.

Given the open question of how much work is necessary, and lack of actual workplan and cost breakdown, it is reasonable to deny these costs at this time. SCE should obtain a third-party opinion regarding the replacement needs for the building, and should any work be needed, complete that work and seek recovery in a future GRC.

6.4.5. Versify Operator Rounds and Logs

Currently, SCE sends employees around the Catalina Water system to manually log and record pressure, flow rate, tank level, and chlorine residual data. Concurrently, SCE utilizes an Electronic System Operations Monitoring System (eSOMS) at its electric generating facilities on the Island. However, this system is obsolete and no longer supported. SCE proposes to now install a Versify management system at all SCE Generation facilities on the Island, including at Catalina Water facilities. SCE also seeks tablets for personnel to log data when necessary. SCE calculates that Catalina Water's proportion of cost for the installation of Versify systemwide is $100,000 out of a total $1.5 million.[113] No party objected to these costs, and SCE is authorized to rate base $100,000 for this project when it is used and useful.

[112] PAO-1, at 6-18:2-6-19:2.

[113] SCE-03, at 67:24-68:3.

6.4.6. Desalination Communication Line Replacement

The two seawater wells for desalination Plants 1 and 2 require telemetry communications between the plants and the wells. Currently, a copper circuit is used, but SCE states that significant corrosion has been identified and it is losing effectiveness. SCE proposes to utilize a satellite-based communications platform already in use at other remote SCE substations, which will allow for Transmission Control Protocol/Internet Protocol capability at the wells. This will allow for communications between the wells and desalination plant controller and human-machine interfaces. It will also allow for telephone and laptop connectivity at the seawater-wells motor control center building. SCE states that this project was completed for $50,000.[114] No party objected to these costs, and SCE is authorized to rate base $50,000 for this project when used and useful.

6.4.7. Water System Control Valve Replacements

Automatic valves are used in the Catalina Water system to control pressure and flow. They optimize pressure to control system hydraulics. SCE determined during routine maintenance that valves were operating improperly due to deterioration of components. Many valves could not be fixed, as the manufacturer had discontinued support. SCE plans to replace ten automatic control valves across the system, with Cla-Val control valves. SCE projects the cost at $100,000.

Cal Advocates states that the valve replacement should be denied, as the valves have undergone recent maintenance that should have extended their

[114] SCE-03, at 7-, Table I-36.

service life.[115] SCE states that this valve replacement work informed SCE's desire to replace the valves to ensure operability.

We find it reasonable for SCE to replace these valves, as they are deteriorating and are no longer supported by the manufacturer. Presumably, this will provide SCE with operational benefits, which will be considered in the labor cost request. We find it reasonable for SCE to rate base $100,000 for this work when used and useful.

6.4.8. Wildfire Mitigation

SCE plans to conduct additional wildfire mitigation activities, as noted in its 2020-2022 Wildfire Mitigation Plan, in High Fire Risk Areas. SCE plans to conduct inspections of electrical equipment at water facilities (pumps, control panels), expand clearances, conduct system hardening (panel upgrades, wireless communication systems), and prepare for public safety power shutoff events. SCE projects costs of $303,600 for this.

Cal Advocates states that SCE has not provided specific projects for $220,000 of the forecast, and that those costs should therefore be denied.[116] SCE states that this money could not be dedicated until inspections and assessments were complete. SCE also subsequently identified additional projects in rebuttal testimony.[117] We authorize SCE to rate base $150,000 for these costs, for the projects identified at this time, when used and useful.

6.5. Conclusion

SCE is authorized to add the following projects to rate base when used and useful.

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[115] PAO-1, at 6-23:2-12.

[116] PAO-1, at 6-23:14-6-24:12.

[117] SCE-10, at 76:6-18.

Table: 2 Historic Capital Projects (in $ dollars)

Historic Capital Projects	**Proposed**	**Authorized**
Desalination Plant 2	$ 643,932	$643,932
HL-3 Well and Pipeline	$ 1,653,457	$1,653,457
HL-3 Treatment	$ 1,574,450	$1,259,560
Disinfection Byproduct Mitigation	$ 754,439	$754,439
Airport Tank Paint Abatement and Demolition	$ 178,827	$178,827
Water System Fall Protection Improvements	$ 165,495	$165,495
Water Main Relocations - Wrigley Road	$ 82,714	$82,714
Water Main Relocations - Vieudelou	$ 41,368	$41,368
Mt. Ada Tank Fall Protection Improvements	$ 12,950	$12,950
MGT Renovation	$ 2,272,462	$2,272,462
Water SCADA Upgrade	$ 1,413,362	$989,353
Water Valve Replacements	$ 443,500	$443,500
HL-3 Well Replacement and Pump Modification	$ 368,635	$0
Middle Ranch Well 5A New Pump and Motor	$ 66,995	$0
Middle Ranch Water Supply Improvements	$ 225,979	$225,979
Hamilton Cove C Station Spool and Valves	$ 36,840	$36,840
Seawater Well 1 and 2 Pump Replacement	$ 89,014	$89,014
Mt. Ada Electrical Panel and Pump Controls	$ 29,778	$29,778
Sweetwater Well New Pump and Motor	$ 27,013	$27,013
Middle Ranch Turbidity	$ 5,511	$5,511
Cottonwood Well 1-A Panel Replacement	$ 4,659	$4,659
Total	**$ 10,091,380**	**$8,916,851**

Table 3: Forecasted Capital Projects (in $ dollars)

Forecasted Capital Projects	Proposed	Authorized
Desalination Enhancements	$2,710,000	$2,710,000
Water Valve Replacement	$1,318,806	$659,403
Water Meter Replacement	$368,267	$0
Desalination Building Upgrade	$250,000	$0
Versify Operator Rounds and Logs	$100,000	$100,000
Desalination Communications Line Replacemen	$50,000	$50,000
Water System Control Valve Replacements	$100,000	$100,000
Wildfire Mitigation	$303,600	$150,000
Total	**$5,200,673**	**$3,769,403**

7. Memorandum Accounts

SCE maintains 12 memorandum and balancing accounts for the operation of Catalina Water. In this Application, SCE seeks to recover the balances in the Catalina Water Rationing Memorandum Account (CWRMA or Drought Memo Account) and Catalina Water Lost Revenue Memorandum Account (CWLRMA or Lost Revenue Memo Account).

A Santa Catalina Island Fresh Water Rationing Plan was established in 1977, which calls for mandatory water conservation and rationing when the water level at the Middle Ranch Reservoir falls below specified limits. Starting on June 1, 2013, Catalina Water was under various levels of mandatory water conservation and rationing, including up to 50 percent rationing from September 2016 to March 2017. During this period the Governor as well as the State Water Resources Control Board implemented various use restrictions on water in order to combat the ongoing drought. All drought restrictions were finally lifted in February 2019.

7.1. Lost Revenue Memo Account

The Lost Revenue Memo Account was authorized by the Commission's Water Division after approval of SCE Advice Letter 92-W. Combined with the Drought Procedures authorized via Resolution W-4976, the Lost Revenue Memo Account allows utilities without a full revenue decoupling WRAM to track lost revenues associated with reduced sales as a result of advocating either voluntary conservation under Rule 14.1 or mandatory rationing under Schedule 14.1.[118] The lost revenues tracked to the Lost Revenue Memo Account are then calculated based on the difference between authorized revenues and recorded revenues, plus interest on any under-collection. The account allows SCE to recover revenues lost due to customer conservation that led to 40 percent lower annual water sales compared to forecasts.[119]

Entries to the account were made at the end of each month for the period from August 11, 2014 to February 15, 2019.[120] Prior to calculating the revenue under collection, the authorized revenue requirement was reduced by 20 basis points from 10.45% to 10.25%, as required by Commission decision. The authorized revenue requirement is allocated across the 12 months using a 5-year average usage distribution. Lost revenues for each month are then calculated by subtracting adjusted authorized revenue requirements from recorded billed revenues. Amounts recorded accrue interest at the 90-day commercial paper, non-financial rate as published in Federal Reserve Statistical Release H.15. The monthly ending balance of the Lost Revenue Memo Account is the sum of 1) the beginning balance, 2) monthly under- or over-collection, and 3) interest expenses.

[118] SCE-05, at 9:13-19.

[119] *Id*. at 9:22-10:3.

[120] *Id*. at 10, Table II-2.

SCE seeks to recover $6.232 million in this account, with $3.844 million coming from 2014-2016.[121]

7.1.1. Unaccounted for Expense Savings

Drought restrictions and reduced sales volumes also reduce volume-related expenses. Cal Advocates argues that SCE errs in not including expense reductions in the tracking and calculation of the Lost Revenue Memo Account.[122] SCE argues that the operation of the Lost Revenue Memo Account does not require such an adjustment. It is reasonable to allow SCE to recover the costs as tracked, given that no such requirement exists for this account. Cal Advocates' citation to Code Section 792.5 is not persuasive, as it specifically refers to balancing accounts, and this is a memorandum account.[123]

7.1.2. Late Filing of Lost Revenue Memo Account Costs

The Lost Revenue Memo Account costs SCE seeks to recover include costs dating back to 2014. Standard Practice U-27-W states that charges booked to memorandum accounts must be less than 3 years old when recovery is sought, unless justification is provided. SCE states that it did not seek earlier recovery for the 2017 and earlier costs due to the administrative inefficiencies this would have caused, rate shocks, and customer feedback.[124] Cal Advocates states that the practice of filings every 3 years is required due to unreasonable interest accrual over the period, and any 2014 or 2015 costs as well as a pro-rated portion of 2016 costs charged to the Lost Revenue Memo Account should therefore be

[121] SCE-05, at 10, Table II-2.

[122] Cal Advocates Opening Brief, at 24.

[123] Cal Advocates Reply Brief, at 9.

[124] SCE-05, at 8:3-9:8.

excluded.[125] Cal Advocates argues that SCE should have submitted advice letters for recovery starting in either 2015 or 2016.[126]

Given the large amounts at issue here for recovery, SCE should have submitted recovery costs earlier, especially once it became clear by 2016 that the drought was not abating and balances were accruing at a rate equal to 1/4th of the last authorized TY revenue requirement. SCE argues that a piecemeal approach to cost recovery is not preferred – however, where the ongoing cost has an unknown completion date, it is much more reasonable to begin recovering costs as soon as possible, as this reduces rate shock and also limits inter-generational inequity. SCE is therefore not allowed to recover costs recorded in the Lost Revenue Memo Account from its establishment in August 2014 to February 15, 2016, a reduction of $2.645 million (pro-rated for 2016). SCE is authorized to recover $3.586 million for the Lost Revenue Memo Account.

7.2. Drought Memo Account

During the drought period, Catalina Water used the Drought Memo Account to track costs related to the drought. The Drought Memo Account was authorized in 2010 via Advice Letter 74-W. In this account, SCE tracked expenses and offsets which include operating expenses incurred due to drought measure implementation, revenues from penalties and fines paid for violations of water use restrictions, and other unforeseen expenses caused by exceptional drought conditions. SCE seeks to recover costs tracked in this account from 2014 to 2017, as those are the time periods that the Island faced exceptional drought conditions per the United States (U.S.) Drought Monitor.[127]

[125] Cal Advocates Opening Brief, at 23-24.

[126] PAO-1, at 10-5:5-9.

[127] SCE-05, at 11:11-16.

SCE states that any costs tracked in this account must have been incremental expenses, which would not have been incurred but for the drought and associated water conservation and rationing, and whose costs were not covered in existing rates. This included selecting only work orders specifically related to implementation of rationing or in response to drought-related events (such as the HL-1 well failure). SCE also included expenses for hauling water to the Island's West End following a well failure during the drought period. SCE seeks to recover $4,847,152 from costs tracked to the Drought Memo Account. The below sections discuss individual expenses tracked to the account.

7.2.1. Water Rationing Plan Incremental Expenses

SCE seeks to recover incremental costs related to operations and administrative expenses for implementation of the Water Rationing Plan from 2014 to 2018. These costs were for contract employees, flow restrictor maintenance, water conservation devices, public outreach, and SCE employee labor. Two full-time contract employees were added to help process water allotment appeals, and another was hired to serve as an enforcement inspector to enforce water use restriction violations. In total, SCE seeks to recover $820,229 for these costs.[128]

7.2.2. Incremental Drought Operations and Maintenance Expenses Arising From Unforeseen Circumstances

SCE incurred costs for various remediation projects that were in part caused by drought conditions. This included the HL-1 well failure, West End water supply hauling, well rehabilitation, MRR Level Surveys, and groundwater sustainability activities. In total, this amount was $3.233 million.[129]

[128] SCE-05, at 13, Table II-4.

[129] SCE-05, at 26, Table II-7.

Well rehabilitation activities were undertaken for SCE's Cottonwood Wells and Sweetwater Well. Cottonwood Well 1-A production fell from 18 gpm to 5 gpm, and Sweetwater Well production well from 17 gpm to 6 gpm. Water sampling determined that well fouling bacteria was present and the groundwater had scale forming characteristics. Under recommendation of a hydrogeologist, a mineral acid and bio-dispersant was applied, along with a well pumping. However, this was ultimately ineffective, as the issue was due to low groundwater levels. SCE seeks to recover $143,849 for these activities.

SCE also had to bring a survey crew in weekly to measure water levels in the MRR reservoir, as the installed technology did not work under drought conditions (300 acre-feet). SCE seeks $44,762 for these activities.[130]

Starting in 2015, SCE began a Catalina Groundwater Management and Sustainability Program, to proactively track and record groundwater level and salinity fluctuations over time with automated data recording. It involved the installation of pressure transducers or combination salinity and pressure transducers, to record the water level in 16 wells and salinity in 3 wells. A barometric pressure transducer was also installed in Whites Landing. The project was installed over June and July of 2015. SCE seeks to recover $139,581 for these costs.

SCE also collected $172,775 in fines for violations of water rationing measures. Additional water hauling was conducted for Airport and Black Jack Campground Customers, at a cost of $353,999.

In response to the HL-1 well showing increased salinity due to low groundwater levels, SCE enacted a water supply project for the West End of the

[130] SCE-05, at 39:10-20.

Island, as water sample tests were showing increased chloride and TDS levels above acceptable levels. Starting in June of 2014 until July of 2015, a temporary water supply and delivery system was established to provide water to the western end of the Island, at a cost of $3.233 million. These activities included water hauling, bottled water delivery, water trailer rentals, and transportation costs. This also included installation of a temporary treatment unit to allow water from HL-3 to be used until a permanent treatment facility was completed. An incident management team was also formed to coordinate and support this response for 20 days. Additional consulting services were also utilized, as well as water quality testing.

Cal Advocates states that the Drought Memo Account was only authorized for SCE to track the costs of implementing a water rationing plan, not to track the costs of supplying emergency water for foreseeable issues, such as the failure of HL-1 due to seawater intrusion.[131] Cal Advocates therefore recommends a disallowance of $3.437 million for costs related to the supplying of this emergency water.

The Drought Memo Account was established via SCE AL 74-W. It states that debit entries may be made to the CWRMA to "record incremental operating and administrative expenses incurred by SCE as a result of implementing a water rationing plan."[132] The language used in SCE's tariffs states that debit entries

[131] Cal Advocates Opening Brief, at 22.

[132] Advice 74-W, at 5, *available at*: https://edisonintl.sharepoint.com/teams/Public/TM2/Shared%20Documents/Forms/AllItems.aspx?ga=1&id=%2Fteams%2FPublic%2FTM2%2FShared%20Documents%2FPublic%2FRegulatory%2FFilings%2DAdvice%20Letters%2FApproved%2FSanta%20Catalina%20Island%20Water%2FWATER%5F74%2DW%2Epdf&parent=%2Fteams%2FPublic%2FTM2%2FShared%20Documents%2FPublic%2FRegulatory%2FFilings%2DAdvice%20Letters%2FApproved%2FSanta%20Catalina%20Island%20Water

may be made to the CWRMA "to record incremental operating expenses incurred associated with the implementation of water conservation and rationing."[133] Discussed in the remainder of the advice letter and the tariffs are the water rationing stages and associated restrictions and requirements, fines, and enforcement procedures. The Drought Memo Account does not discuss anything with regards to how utilities are directed to address supply shortfalls due to drought. Standard Practice U-40-W, which SCE filed Advice 74-W in response to, only discusses the rationing and service connection procedures when drought occurs, and does not dictate how a utility responds to a well failure or other production issue during the drought.[134] We therefore agree with Cal Advocates that costs related to unforeseen expenses should be denied, a total of $3,915,178.[135]

In total, SCE is authorized to recover $695,151[136] for the Drought Memo Account.

7.3. Conclusion

SCE is authorized to recover a total of $4,281,482 between the Lost Revenue Memo Account and the Drought Memo Account. As discussed later in this decision, in order to avoid rate shock, we authorize SCE to recover these costs over a ten-year period, starting in 2026. Any interest shall be accrued at the 90-day commercial paper, non-financial rate, as published in Federal Reserve

[133] SCE Tariff 582-W, Sheet 1.

[134] Standard Practice U-40-W, March 2009, *available at*: https://docs.cpuc.ca.gov/published/REPORT/99158.htm.

[135] SCE-05, at 25, Table II-6.

[136] A total obtained by adding water conservative devices costs and water rationing plan incremental expenses, minus fees charged.

Statistical Release H.15, as is currently authorized for the Lost Revenue Memo Account and Drought Memo Account.[137]

8. WRAM Pilot and Future

SCE also seeks to replace its pilot water revenue decoupling program, known as the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM). SCE's pilot revenue decoupling program was authorized in 2018 (to start in 2019) by Resolution W-5192. This allows the Catalina Water utility to recover any revenue under-collection (as compared to authorized revenues) via volumetric surcharge, and any over-collections are returned back to ratepayers. These WRAM true-ups are capped at ten percent of the authorized revenue requirement, and lessens utility incentive to sell more water. Changes to volume-related expenses are also accounted for, via the Modified Cost Balancing Account. Finally, SCE submits a Consumption Adjustment Mechanism (CAM) forecast annually, to achieve more accurate usage estimates (and therefore reduce the amount of adjustment needed). The CAM forecast is submitted for Commission review via Tier 1 advice letters.[138]

SCE seeks approval to transition to a Monterey-style WRAM and Incremental Cost Balancing Account (ICBA), as described in D.20-08-047.[139] This would allow SCE to transition to a tiered rate schedule while allowing it to collect the difference between that and the revenue if a single rate schedule was used. The collection is made via a surcharge on customer bills. SCE seeks authority to establish a Water Revenue Adjustment Mechanism/Incremental Cost Balancing Account (WRAM Balancing Account) to track the difference

[137] SCE-05, at 11:3-6, 45:6-9.

[138] *See* Southern California Edison Company Advice 128-W, March 1, 2022.

[139] SCE-05, at 49:13-19.

between quantity rate revenues received under a conservation rate structure and revenues that would have been collected under a uniform quantity rate structure, as well as any associated variable production costs.[140]

Only Catalina Parties presented opposition to the transition, stating that any change should wait until after the effects of this GRC are seen.[141] Cal Advocates supports the transition, as it is in line with D.20-08-047. It is reasonable to transition SCE to a Monterey-style WRAM/ICBA, and the request is approved. SCE is also authorized to establish the WRAM Balancing Account, and to continue the CAM. SCE shall close its Water Revenue Adjustment Mechanism/Modified Cost Balancing Account.

9. Proposed Rate Base

Rate base is the amount of net capital provided by investors to serve SCE's customers. Major components include net plant in service (Gross plant-in-service minus depreciation expenses), working cash, and accumulated deferred income taxes. SCE forecasts total rate base of $20.203 million for TY 2024.[142] Additions to this projected rate base include any historical capital expenditures related to Section 6.1 and 6.3.1 (HL-3, Desalination Plant 2, and the MGT Renovation), which were originally projected to be recovered from SCE electric ratepayers. Additions to rate base are also made for higher than expected escalation[143] and carrying costs from 2022 to 2024.

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[140] SCE-05, Appendix B, at B-1.

[141] Catalina Parties, at 55.

[142] SCE-04, at 1, Table I-1.

[143] The most recent September 29, 2023 Memorandum published by Cal Advocates notes year over year inflation of 4.7 percent in 2022, 8 percent in 2023, and 4.1 percent in 2024. *See* Public Advocates Office, Estimates of Non-labor and Wage Escalation Rates for 2023 through 2027 from the September 2023 IHS Global Insight U.S. Economic Outlook, September 29, 2023.

Deductions from the projected rate base include all other denied historical capital expenditures (Sections 6.2 and 6.3, besides Section 6.3.1) as well as deductions for any denied capital forecast projects discussed in Section 6.4 above.

After accounting for the above changes, SCE is authorized to utilize a rate base of $21.644 million for TY 2024.

SCE Catalina Island Authorized Rate Base 2024-2025								
Line No.	Item	Recorded	(in $ thousands)					
		2019	2020	2021	2022	2023	2024	2025
	Net Plant In Service							
1	Gross Plant	37,268	39,084	38,865	40,315	48,846	50,038	51,167
2	Accumulated Depreciation	-23,048	-24,096	-24,965	-25,780	-26,710	-27,813	-28,949
3	**Total Net Plant**	**14,220**	**14,988**	**13,901**	**14,535**	**22,136**	**22,225**	**22,218**
4	Working Cash	562	780	797	776	814	825	837
5	Accumulated Deferred Taxes	-87	-159	-388	-678	-1,030	-1,405	-1,322
6	**Total Rate Base**	**14,695**	**15,609**	**14,310**	**14,633**	**21,920**	**21,644**	**21,733**
7	Depreciation	1,313	927	911	895	1,127	1,157	1,184

9.1. Gross Plant in Service

Gross plant-in-service consists of the total value of capital assets currently dedicated to utility service, and is recorded using the original cost of capital investment providing utility service to customers. It is made up of 1) direct Capital expenditures (Capex), 2) capitalized corporate overheads, 3) allowance for funds used during construction (AFUDC), and 4) adjustment for contribution in aid of construction (CIAC). Major asset types include transmission and distribution, buildings, and water supply sources.[144] SCE seeks to establish $41,715,000 for TY 2022 total gross plant, climbing to $48,621,000 by 2024.

[144] SCE-04, at, 2, Table II-2.

9.1.1. Direct Capital Expenditures

Direct Capex includes costs for materials, direct labor, costs for removal, and divisional overheads. Divisional overheads are costs that support a group of construction projects within a division of the company.

9.2. Accumulated Depreciation

Accumulated depreciation is a sum of the amounts already recovered for fixed capital investments and future removal costs. This can include gross salvage, retirements, cost of removal, and gains and losses. For TY 2022, SCE forecasts weighted average accumulated depreciation of $25.984 million growing to $27.983 million by 2024.[145]

9.3. Capital Forecasting

Capex are converted into capital additions once forecasted to be placed into service and eligible for recovery. SCE estimated capital additions are determined by forecasted Capex from 2020-2024 as well as construction work in progress at year-end 2019. Also included in capital forecasts are costs of removal of capital assets, which is an addition to rate base.

9.4. Working Cash

Working cash is capital provided by SCE investors to meet day to day utility operational requirements by bridging the gap between the time expenditures are incurred for services and the time revenues are collected for those services. It is included in rate base. Working cash is estimated as 1/8th of estimated O&M expenses. SCE estimates approximately $800,000 in working cash in TY 2022, rising to $842,000 in 2024.[146] Cal Advocates does not dispute the working cash amount, but states that SCE should be required to conduct a lead-

[145] SCE-04, at 4, Table II_3.

[146] SCE-04, at 6, Table III-4.

lag study, as Class-B water utilities are required to do, due to its system usage being closer to a Class-B utility than a Class-A (which is not required to conduct such a study). As discussed below, Catalina Water will be re-classified as a Class B water utility going forward and should conduct these steps for future GRCs. We decline to implement this requirement at this time, however. SCE's Working Cash estimate of $842,000 is approved for TY 2024.

9.5. Depreciation Expenses

Depreciation expenses include the loss of value of facilities due to wear and tear and obsolescence. It is constructed to represent the original cost of the expenditure plus the future cost to retire those assets, reduced through its useful life. SCE's investors recover costs via depreciation expense. SCE estimates $964,000 in depreciation expenses in 2022, rising to $1.145 million in 2024.[147]

SCE seeks approval to establish and alter depreciation rates for a number of capital assets, based on changes to average service life and net salvage rates. However, after the proposals are netted out, the overall system composite depreciation rate remains 2.38%. No party objected to SCE's proposed depreciation expenses, and after accounting for increased carrying costs a rate of $1.157 million is adopted for TY 2024.

9.6. Taxes

SCE proposes a forecasted tax expenses of $757,000 for the TY, going up to $984,000 by 2024.[148] Income tax expenses are a function of revenue requirement, cost of service amounts, and capex. Income tax expense is computed by multiplying taxable income by the applicable income tax rate. Taxable income is computed by adjusting book net operating revenue authorized to conform with

[147] SCE-04, at 8, Table IV-5; SCE-08, at 13, Table III-4.

[148] SCE-04, at 12, Table V-8.

federal and state requirements. Tax expenses include forecasted payroll taxes as well as forecasted property taxes. No party challenged SCE's calculations of its taxes. We find SCE's tax treatment reasonable.

9.7. Account 342 Reservoirs and Tanks Net Salvage Estimate

In accounting for net salvage costs for reservoirs and tanks, SCE utilized a -120 percent salvage rate, based on the removal of the Airport tank in 2017.[149] Cal Advocates states that SCE should be required to adopt a -15 percent net salvage rate for Account 342, based on an average of Class-A utilities. Given the operational difficulties posed by Catalina Island, it is reasonable to utilize a different net salvage rate for Catalina Water than other Class-A water utilities. SCE is authorized to utilize a 120 percent net salvage rate for Account 342.

9.8. Rate of Return

SCE requested a rate of return of 7.68 percent, as authorized in D.19-12-056. We note that D.22-12-031 has since authorized a rate of return of 7.44% for SCE from 2023 onward.[150] SCE is authorized to utilize a 7.44 percent rate of return for its capital investments as most recently approved.

10. Revenue Requirement

SCE requested a revenue requirement of $9.430 million. Due to the delay in issuing this decision, as well as applied interest and escalation factors to the initial proposed test year of 2022, the amount authorized for recovery in 2024 is higher than the initially proposed 2022 Test Year amount. We adopt a revenue requirement of $10.364 for Test Year 2024.

[149] SCE-04, at 10:7-11.

[150] D.22-12-031, at 1.

10.1. Escalation Factors

Escalation rates are utilized to project increased costs post-test year. In its testimony, SCE stated it would utilize the labor escalation and non-labor escalation values in the most recent memo published by Cal Advocates' Energy Cost of Service Branch (ECSB).[151] No party disputed this stipulation, and it is approved. The most recent September 29, 2023 Memorandum published by Cal Advocates notes year over year inflation of 4.7 percent in 2022, 8 percent in 2023, and 4.1 percent in 2024.[152] Because the costs proposed in the application were for 2022, unless otherwise noted SCE is authorized to increase the approved costs to account for escalation since the application was filed.

10.2. Deferred Revenues

As discussed in Section 11.4 below, deferred revenues will be necessary since we decline to implement SCE's request to transfer costs to its electric ratepayers. We authorize SCE to establish a Deferred Revenue Requirement Tracking Memorandum Account (DRRTMA), to be recovered over a 15-year period from Catalina Water ratepayers, with recovery starting in the 1st Post Test-Year (2025). In the DRRTMA, SCE is authorized to track the difference between authorized revenue requirements and revenues collected in rates, beginning January 1, 2024. SCE is authorized to submit a Tier 1 advice letter to establish the DRRTMA. In total SCE shall recover $12.109 million in deferred revenues over 15 years.

[151] SCE-10, at 92:1-94:5.

[152] Public Advocates Office, Estimates of Non-labor and Wage Escalation Rates for 2023 through 2027 from the September 2023 IHS Global Insight U.S. Economic Outlook,

10.3. Water Loss Rates

Cal Advocates recommends a 32.1% reduction in revenue requirement due to production losses that "exceed industry standards."[153] Both Catalina Parties and Cal Advocates note that Catalina Water's non-revenue water lost percentage (percentage of total water volume supplied that is not charged to customer usage) has steadily increased from 21.3 percent in 2015 to 39.1 percent in 2019. Cal Advocates states that Catalina Water's non-revenue water lost percentage of 39.1 percent in 2019 is far above the 7 percent standard established in minimum data requirements in the Commission's rate case plan, and that the resulting difference of 32.1 percent should be used as a baseline to reduce Catalina Water's revenue requirement by the same percentage.[154] Catalina Parties also argue that SCE is miscalculating its system losses.[155]

SCE states that there is no Commission precedent for such a large decrease in response to water loss figures, and that the use of a 7 percent baseline is unreasonable, as such a baseline is only typically used to establish a plan to reduce unaccounted water amounts, not reduce revenue requirement.[156] SCE states that it is clearly taking steps to reduce water loss such as installing the SCADA system, new meters, water loss control programs, and loss reduction strategies. SCE also notes that other water utilities with high water loss figures have worked with the Commission over multiple GRCs to reduce high water losses, without reductions of revenue requirement in the manner requested by Cal Advocates. SCE states that its losses are comparable to utilities of a similar

[153] Cal Advocates Opening Brief, at 29-35.

[154] *Id*. at 35.

[155] Catalina Parties Opening Brief, at 24.

[156] SCE Opening Brief, at 53.

size. SCE also states that Catalina Parties has not presented sufficient evidence to show miscalculations of water loss, and that SCE at all times has followed American Water Works Association audit standards.[157]

Cal Advocates argues that for the other utilities cited to by SCE, their cost of each unit of water lost is far lower than Catalina Water's.[158] Cal Advocates also states that SCE as of yet does not know where its losses stem from, and thus is unsure whether the actions it is taking will reduce losses.

SCE's water losses are high and require remediation. A non-revenue water lost percentage of 39.1 percent is significant and requires increased Commission oversight. However, it would be unreasonable to reduce SCE's revenue requirement by 32 percent due to a one- or two-year string of high water losses, when SCE already has proposed actions attempting to remediate these concerns. We are not convinced that SCE has applied sufficient focus to this issue, however, especially given the water supply issues on the Island. SCE shall submit an application by December 31, 2024, stating a plan to reduce water supply losses from the current 39.1 percent to the standard used for Class-A water utilities of 7 percent by 2030, or future escalation and WRAM recovery requests shall be denied.

10.4. Denial of New Service Applicants and Service Connection Count

Both Catalina Parties and Cal Advocates state that SCE has been illegally denying applications for water allocation on the Island since 2014. Both parties state that SCE should be directed to alter its tariffs to accept additional customers, and revise upward its projected customer count from 1,878 to 2,026

[157] SCE Reply Brief at 22.

[158] Cal Advocates Opening Brief, at 33-34.

service connections (including 110 fire protection connections) to reflect both new customers as well as fire service connections that SCE has not counted as part of its service connection count.[159] Revising customer counts above 2,000 will result in the re-classification of Catalina Water to a Class B utility. Cal Advocates particularly highlights the fact that G.O. 96-B, which delineates the classes for water utilities based on service connection numbers, does not mention the exclusion of fire protection connections from this count.[160]

SCE states that its proposed test year service connection number of 1,887 is accurate, and that Standard Practice U-25-W shows that the Commission has historically excluded fire service connections in determining water utility class.[161] SCE also states that G.O. 96-B does not explicitly state how the number of service connections is calculated, and therefore cannot be used to override Standard Practice U-25-W. SCE also states that since the filing of the Application it has approved a number of service requests and has updated its tariffs to allow for more freshwater allocations, mooting any need for additional directed actions.[162]

We find it reasonable to read G.O. 96-B as counting all service connections, including fire service connections. We also find it reasonable to assume updated service connections as presented by Cal Advocates, given that SCE states that it has "processed dozens of freshwater allocation requests" since December 3, 2021.[163] We therefore adopt a service connection forecast of 2,026 for the TY 2024, and re-classify Catalina Water as a Class B water utility.

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[159] Cal Advocates Opening Brief, at 44-48; Catalina Parties Opening Brief, at 34-37.

[160] G.O. 96-B.

[161] SCE Opening Brief, at 81-82, *citing* Standard Practice U-25-W.

[162] SCE Opening Brief, at 46-47.

[163] SCE Reply Brief, at 47.

We adopt the following customer counts:

Customer Counts		
Tariff Schedule	Description	Count
W-1-GS	Commercial	352
W-1-R	Residential	1167
W-1-R-CARE	Residential CARE	143
W-1-RDS	Residential Dual	66
W-1-RDS-CARE	Residential Dual CARE	1
W-1-RDS-10	Residential Dual Employee Discount	1
W-1-RM	Residential Multi Family	61
W-10	Residential Employee Discount	59
W-3	Irrigation	66
W-4	Fire Protection	110

10.5. Revenue Requirement Calculation

After addition of O&M ($6.575 million), capital costs ($1.61 million), depreciation expense ($1.157 million), and tax expenses ($1.022 million), and associated escalation (included in listed amounts), the calculated revenue requirement for TY 2024 is $10.364 million. This amount does not account for the $4,281,482 SCE is authorized to recover for amounts recorded in the Lost Revenue Memo account and Drought Memo Account.

11. Cost Recovery Method

SCE initially proposed to recover rates in a hybrid format, with the bulk of its costs, including the Drought Memo Account, Lost Revenues Memo Account,

certain drought and environmental Capex, and deferred revenues being recovered from its SCE electric ratepayers (including mainland ratepayers) via a surcharge, in an amount totaling $30.5 million.[164] Test year revenue requirement was established at $9.303 million. Cal Advocates and TURN, in their protests, raised questions regarding the legality of mainland electric customers cross-subsidizing the costs of Catalina Water customers.[165] SCE noted that such a cross-subsidy had been utilized in a settlement of the last Catalina Water GRC, and had been approved by the Commission.[166]

Pursuant to this dispute, the Scoping Memo directed SCE to submit supplemental testimony with an additional cost recovery proposal, and also directed the parties to file additional briefing on the cross-subsidy issue. Following additional party comment, the ALJ issued the Cross-subsidy Ruling, stating that there are numerous barriers to implementation of the cross-subsidy, and that SCE would face a significant burden in showing that it would be reasonable to impose such a charge onto its electric ratepayers.[167] The Cross-subsidy Ruling also directed SCE to consider and provide analysis on alternative cost recovery proposals. SCE provided additional testimony discussing alternatives to the cross-subsidy proposal, including cost recovery solely from Catalina Water customers,[168] as well as other potential methods to subsidize rates, including special fees, sale taxes, and ratemaking consolidation.[169] This

[164] SCE-09, at 1:8-11. SCE's initial filings indicated that it sought to recover $28.987 million from SCE electric customers (*see* SCE-01, at 6:16-18), but this was revised upwards.

[165] TURN Protest at 2-3, Cal Advocates Protest at 2.

[166] D.14-10-048.

[167] Administrative Law Judge's Ruling on Limited Issues Briefed, at 11, May 27, 2021.

[168] SCE-08, at 11-22.

[169] SCE-09, at 12-30.

section discusses the various proposals and settles on the implementation of a fifteen-year amortization of deferred revenues resulting from the phase-in, the emergency drought Capex, Drought Memo Account, and Lost Revenue Memo account, with no cross-subsidy from SCE electric ratepayers.

11.1. Recovery from Catalina Water Ratepayers with Cross-subsidy from SCE Electric Mainland Ratepayers

SCE's initial proposal submitted with its Application was to increase revenue requirement from $3.629 million in 2019 to $9.303 million in TY 2022, growing to $10.399 million in 2024. In conjunction with this, SCE proposed to obtain funding from SCE electric ratepayers, including mainland electric ratepayers, to cover Catalina Water costs of $30.5 million to be recovered from SCE electric ratepayers, by increasing residential electric customer bills by $0.21 per month for non-low income customers and $0.14 per month for California Alternate Rates for Energy customers, over five years (frontloaded in the TY).[170] Cost recovery approved via this method would reduce authorized additions to rate base by $5.829 million (as approved in this decision), and result in the shifting of a total of $23.02 million[171] in costs from Catalina Water ratepayers to SCE electric ratepayers.

As noted above, Cal Advocates and TURN both challenged the legality of this proposal, contending that the cross-subsidy violated Commission statute and precedent by assigning recovery of costs to ratepayers that did not receive benefits or services for those costs. SCE contends that public policy leans toward

[170] SCE-08, at 19:4-6, at 20, Table V-9.

[171] This number includes $5.084 million related to the Lost Revenue Memo Account and Drought Memo Account, $5.829 million in authorized capital expenditures in rate base, and $12.109 million due to deferred revenues accrued due to the rate phase-in period of five years.

supporting the subsidy given the potential rate impacts to Catalina Water customers, and that so long as the Commission finds the subsidy "just and reasonable," then it has the power to approve it.[172] SCE also argues that SCE's electric customers as a whole do benefit from water service on Catalina Island, given that some number of them visit the island annually and utilize Catalina Water services in doing so.[173] SCE contends that this creates a sufficient nexus between the Catalina Water utility and all of SCE's electric ratepayers to justify the cross-subsidy.

After limited briefing on the cross-subsidy issue was filed by all parties on March 5, 2021 and March 19, 2021, the ALJ, through the Cross-subsidy ruling, declined to make an ultimate finding on the legality of the cross-subsidy but discussed the legal and policy restrictions and implications of the cross-subsidy. Ultimately, the Cross-subsidy Ruling highlighted the statutory and policy reasons to reject the cross-subsidy, including cost-causation principles, and directed SCE to submit alternative cost recovery proposals.

11.2. Other Alternatives Considered

SCE in its testimony presented a number of traditional recovery methods, including water user fee increases, loans, bonds, and grants, but none would provide a significant or sustainable source of revenue for the utility.[174] SCE also presented more novel approaches, such as a visitor boat fee charged to visitors to the island, cruise ship wharfage fees, sale taxes, hotel taxes, a bottled water tax, municipalization of Catalina Water, or establishment of a High-Cost Fund to

[172] SCE Opening Brief, May 13, 2022, at 58.

[173] SCE Limited Opening Brief, March 5, 2021, at 8.

[174] SCE-09, at 13-15.

support water service in expensive areas such as Catalina Water.[175] These options are not within SCE's control and must be imposed by either the Commission in other proceedings or other government entities, making them impractical to implement in this GRC. Additional policy possibilities include consolidation with another water utility, or third-party capital contributions – but all of these possibilities require finding another party to provide aid, none of which are readily apparent at this time. In advance of future GRCs, we encourage SCE to seriously consider the discussed alternative recovery sources, especially the visitor boat fee discussed. However, it would not be reasonable to rely on any of these alternatives at this time.

11.3. Recovery from Catalina Water Ratepayers

After Commission direction, SCE presented a proposal for rate recovery in full from Catalina Water ratepayers.[176] This proposal avoids the cost-causation issues presented in SCE's Cross-subsidy proposal. However, it also imparts significant rate impacts onto Catalina Water's ratepayers. SCE's testimony reflects that revenue requirements would climb from $11.623 million in the TY 2022 to $22 million by 2026, leveling back down to $11.091 million in 2027 following full recovery of the Drought Memo Account, Lost Revenue Memo Account, and deferred revenues incurred during the rate ramp up period.[177] Given the costs adopted in this decision, revenue requirements with full recovery of costs in this cycle would result in revenue requirements approaching similar levels, with large resultant rate impacts on Catalina Water ratepayers.

[175] SCE-09, at 16-23.

[176] SCE-08, at 11-13, 16-17, 20-22.

[177] SCE-08, at 17, Table IV-6.

11.4. Analysis

SCE has operated the Catalina Water utility through difficult circumstances and undertaken a number of capital projects of its own volition without guarantee of recovery. It has operated the utility without significant disruption in the time period since the last GRC, despite sustaining losses (-5.84 percent rate of return in 2019)[178] during difficult drought circumstances. Operation has been generally prudent and reasonable. We have also not been presented any evidence that SCE is declining to take advantage of any non-ratepayer funding sources available to Catalina Water. However, it has been nine years since SCE last filed a GRC application on behalf of Catalina Water, a long period of time given the number of projects and difficulties the utility has faced. This has created a situation where significant rate impacts must be implemented all at once.

The approved costs in this decision will more than double the revenue requirement for the Catalina Water utility. If such costs are to be absorbed solely by Catalina Water ratepayers, this will lead to affordability issues that will greatly impact Catalina Island residents. In order to remedy these issues, SCE proposes a cross-subsidy to defray this impact, whereby SCE mainland electric ratepayers will shoulder a portion of Catalina Water costs, with minimal bill impacts. As discussed in the Cross-subsidy Ruling, no Commission policy or statute supports the proposed cross-subsidy, and SCE has not provided sufficient justification to authorize the cross-subsidy. As noted by TURN and Cal Advocates, the subsidy as approved in the last Catalina Water GRC was approved via settlement and carries no precedential weight. SCE has also failed

[178] SCE-01, at 7, Table II-3.

to sufficiently link Catalina Water costs to mainland ratepayers. SCE mainland electric ratepayers do not receive service from Catalina Water. If SCE's argument were to be followed, any area with a large tourist population could justify defraying their utility industries' costs to another nearby locality. Such an argument is not supported by any Commission precedent. SCE's proposed arrangement is more accurately viewed as only possible because SCE is in the unique position of owning utilities in multiple industries, over varying regions. The existence of such an arrangement does not serve as sufficient reasoning for the proposed cross-subsidy.

As noted in Commission precedent, there exists a strong bias against cross-subsidies, unless such subsidies explicitly support state policy goals.[179] Although affordable water is a policy goal, approving such a subsidy would also violate an additional rate design principle, that rates should be based on cost-causation principles. As noted by TURN and Cal Advocates, no cross-subsidy across multiple industries and between two distinctly separate populations has ever been approved, except in the settlement to the last Catalina Water GRC.

However, we are also not convinced by TURN and Cal Advocates arguments stating that SCE should be forced to shoulder the burden of these costs. Although it is true that utilities must charge just and reasonable rates, one of the factors in determining what is just and reasonable includes specific utility and district circumstances.[180] Under cost of service ratemaking principles, utilities are generally entitled to their reasonable costs and expenses, as well as

[179] D.14-06-029, Ordering Paragraph 4, at 61.

[180] D. 16-12-026, at 1.

the opportunity, but not guarantee, to earn a rate of return on the utility's rate base.[181] Only costs that are necessary for safe and reliable service shall be recovered from ratepayers. The Commission must determine whether each proposed expense is necessary during the coming rate cycle and is appropriately calculated. In conducting this analysis, the Commission necessarily does not adopt all utility requests nor does it adopt across the board percentage reductions.[182] This decision has considered the proposed costs for recovery presented by SCE, and made appropriate reductions where SCE has failed to sufficiently justify the cost.

Accordingly, this decision authorizes the recovery of revenue requirements solely from Catalina Water ratepayers. In past decisions, the Commission has amortized costs in order to reduce rate shock.[183] In recognition of the high increased costs, this decision amortizes and defers the recovery of both the Lost Revenue Memo Account, Drought Memo Account, and any deferred revenues resulting from the rate increases implemented in this decision. Implemented rates are discussed in the next section.

12. Rates

SCE proposes to mostly maintain the design parameters already utilized and approved in D.14-10-048 and Res. W-5192. SCE has 10 rate schedules adopted for Catalina Water, inclusive of fire protection service rates. SCE proposes to recover 40 percent of revenue from residential ratepayers and 60 percent from non-residential ratepayers. SCE also proposes to maintain a

[181] D.12-11-051, at 13.

[182] D.19-05-020, at 13.

[183] D.16-12-003, at 38.

4-month summer seasonal rate, consisting of 55 percent of annual revenue, and a 30/70 fixed to volumetric ratio.[184]

12.1. Sales Forecast

SCE projects water sales of 83.384 million gallons for the Test Year.[185] This is based on a customer econometric water usage model. No party disputed this projection. SCE shall utilize sales forecasts of 83.384 million gallons for the test year.

12.2. Rate Design

SCE made two rate proposals, one with the electric ratepayer subsidy and one without. As we decline to adopt the subsidy at this time, we utilize the rates projected by SCE if no subsidy was adopted. However, as discussed elsewhere in this decision, we adopt a ten-year amortization period for the Lost Revenue Memo Account and Drought Memo Account costs, and a 15-year amortization for deferred revenues resulting from the implementation of rate increases in this decision. The following tables are adopted for recovery for the Catalina Water utility from 2024-2029:

[184] SCE-07, at 6, Table I-4.

[185] SCE-07, at 12:4-5.

Table 4: Adjusted Revenue Requirement with Five Year Rate Phase-In
(In $ millions)

(in $ millions)			Estimated				
Item	Current	TY 2024	2025	2026	2027	2028	2029
Base Revenue Requirement	4.13	10.364	10.466	10.583	10.762	10.904	11.07
Revenue Requirement Collected in Rates	4.13	5.485	6.839	8.194	9.549	10.904	11.07
Revenue Change ($)		1.355	1.355	1.355	1.355	1.355	
Rate Change (%)		32.80%	24.70%	19.80%	16.50%	14.20%	1.50%
Annual Revenue Deferral		4.879	3.627	2.389	1.214		
DRRTMA (Cumulative)		4.879	8.506	10.985	12.109		
Restated Revenue Requirement	4.13	5.485	6.839	8.194	9.549	10.904	11.07
Total Memo Account (CWRMA & CWLRMA)				0.508	0.508	0.508	0.508
DRRTMA			0.807	0.807	0.807	0.807	0.807
Total Recovered in Rates		5.485	7.647	9.51	10.865	12.219	12.386

No party disputed SCE's proposal to retain a 40 percent residential/ 60 percent residential revenue allocation split. The below sections discuss other rate design changes proposed by the parties, as well as a phase-in of rates to lessen rate shock.

12.2.1. Employee Discount

Currently, SCE offers a 25 percent bill reduction to SCE employees that live on Catalina Island. Cal Advocates recommends removing this discount for equity reasons. SCE states that the discount helps SCE attract and retain employees to work on the Island. It is reasonable to retain the discount, where the effect to bills is minimal and may aid in talent retention on Catalina Island.

12.2.2. Seasonal Rates and Tier 1 Break Point

Currently, water rates in the summer on the Island are higher, to encourage conservation and charge summer tourists for their increased usage.[186] Cal Advocates and Catalina Parties request that seasonal rates be eliminated, in

[186] SCE Reply Brief, at 41-42.

favor of adjusting the Tier 1 breakpoint upwards, setting it at 0-3,000 gallons.[187] SCE states that this will flatten rates and eliminate a conservation signal.[188] Given the potential for continued supply issues on Catalina Island, it is reasonable to keep the Tier 1 breakpoint at 2,000 gallons, and utilize SCE's proposed Tier 1 breakpoint of 2,000 gallons and Tier 2 breakpoint of 6,500 gallons. We also will retain the currently authorized seasonal recovery ratio of 55% summer and 45% winter recovery. This ratio should ensure that commercial tourists continue to shoulder water costs when they visit the Island during the summer, reducing the overall burden on residential ratepayers.[189]

12.2.3. Fixed-Volumetric Ratio

Cal Advocates suggests adjusting the fixed-volumetric ratio to 50 percent fixed and 50 percent volumetric, from 30 percent fixed and 70 percent volumetric.[190] This is based on the fact that full-time residents are more likely to be enrolled in low-income programs, and such a change would mitigate their costs. SCE does not state opposition, but supports its recommended 30/70 rate. We find it reasonable to continue the current ratio through this GRC. Given the large rate increases implemented by this decision, any changes to the current rate structure may lead to exorbitant rate increases for customers close to the margins. Keeping rates at 70 percent volumetric will also continue to encourage conservation, which is important given the potential water supply issues on the Island. The ratio presented by SCE is adopted.

[187] Cal Advocates Opening Brief, at 51-52; Catalina Parties at 54.

[188] SCE Reply Brief, at 42.

[189] SCE-10, at 97:15-22.

[190] Cal Advocates Opening Brief, at 50.

12.2.4. Adjust Fixed Charge Ratios

Cal Advocates requests that SCE's current fixed charge ratios be altered to better reflect industry standards as reflected in Standard Practice (SP) U-7. SCE states that the Commission has previously recognized that immediate adherence to SP U-7 standards would cause rate shocks amongst the low-usage water customers, and should be avoided.[191] For these same reasons, we decline to implement Cal Advocates' proposal, and adopt SCE's proposed fixed charge ratios.

12.2.5. California Alternate Rates for Energy (CARE) Program

SCE proposes to increase the CARE program subsidy for low-income customers, from 20 percent to 32.5 percent.[192] Cal Advocates was not supportive of this change, given that its proposed changes above would have achieved similar outcomes. Given that Cal Advocates' proposals were not approved, it is reasonable to increase the percentage subsidy for CARE customers. SCE is authorized to increase the CARE program subsidy to 32.5 percent. SCE is also authorized to continue utilizing the CARE name for the program.

12.2.6. Fire Protection Tariffs

Cal Advocates recommends that SCE be directed to update its Fire Protection Rates to be in line with other Los Angeles County water utilities. Cal Advocates recommends a 30 percent increase to the current tariff rates.[193] No party objected to this recommendation. Cal Advocates' recommended 30 percent rate increase to SCE's Fire Protection Rates is reasonable and is approved.

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[191] Res. W-4665, at 9-10.

[192] SCE Opening Brief, at 79.

[193] Cal Advocates Opening Brief, at 51.

12.3. Affordability

Although not required by D.22-08-023,[194] it is instructive to consider the bill impacts of the rate change. The affordability ratios (AR) maintained on the Commission website note that in 2022 Catalina Water faced an AR 20 of 9.26%. This means that for households in the 20th percentile income level for Catalina Island, the water bill at an essential service level (3000 gallons) accounted for 9.26 percent of discretionary expenses[195] (income minus costs for housing and other essential utility services). Any percentage above 10 percent represents an inflection point where water affordability concerns are more severe than most of the rest of the state.[196] The projected rate increases authorized in this decision would increase the AR 20 for CARE Catalina Island customers to 10.34 percent in 2024, climbing to 13.51 percent in 2028. For non-CARE customers, the AR20 in 2024 is 16.25 percent, and 32.79 percent in 2028. These increased ratios reflect an affordability concern on Catalina Island, but such rate increases are necessary to pay for water system maintenance, and there exists no other readily available option from which to recover costs.

We note that low-income customer households have options available to help with their bills, such as the Low-Income Household Water Assistance Program (LIHWAP). LIHWAP is a program administered by the California Department of Community Services & Development which allows customers who have accrued unpaid water bills to make regular payments on a 12-month

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[194] D.22-08-023 required only Class A water utilities to submit affordability calculations when proposing to increase revenues by more than one percent. *See* D.22-08-023, Ordering Paragraphs 8 and 9, at 85-86.

[195] *See* Draft 2022 Affordability Ratio Calculator, *available at* https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability/2021-and-2022-annual-affordability-refresh.

[196] California Public Utilities Commission 2020 Annual Affordability Report, October 2022, at 13.

payment plan, with the balance paid off one-time.[197] SCE is directed to gather information about LIHWAP and any other programs its customers may be eligible for that can provide bill payment relief, and to distribute this information to customers on their June 2024 bills and annually subsequently thereafter.

12.4. Deferred Revenue and Memorandum Account Recovery

As discussed above, this decision adopts a revenue requirement of $10.364 million, before accounting for recovery of Lost Revenue Memo Account and Drought Memo Account costs. To reduce rate shocks, in recognition of the large rate increase, SCE is directed to recover authorized recorded costs in its Lost Revenue Memo Account and Drought Memo Account costs over a ten-year period, plus interest at the commercial paper rate, starting in 2026 (TY+2). The adopted rates also reflect a graduated ramp up of rates to reduce rate shock. SCE is also authorized to establish the DRRTA to track any deferred revenues (including interest at the commercial paper rate) due to a ramp up of rates, and may recover the deferred revenues over a fifteen-year period starting in 2025 (TY+1).

12.5. Impact of Rate Increase

SCE's proposed rates appropriately encourage water conservation. In recognition of the impact to low-income customers, the increased CARE discount should provide some rate relief to lessen the impact on these customers. Due to the amount of time since the last Catalina Water GRC decision, as well as the removal of the subsidy by electric ratepayers, the resultant rate increases are high. Such costs are necessary to improve Catalina Water infrastructure to ensure a safe and reliable water supply for the Island. We approve a 5-year

[197] *See* https://www.csd.ca.gov/waterbill.

phase in of rate increases for the Catalina Water utility, as described above. SCE is also authorized to collect the costs approved for recovery in the Lost Revenue Memo Account and Drought Memo Account, totaling $4.281 million, over a ten-year period starting in 2026. SCE is also authorized to recover estimated deferred revenues caused by the phase-in of rate increases in this cycle, totaling $12.3 million, over a fifteen-year period starting in 2025. SCE is authorized to continue filing Tier 1 advice letters annually to update its tariffs and rates.

Implementation of the above revenue collections from Catalina Water utility customers results in the following rates:

Table 5: 2024 Catalina Water Utility Authorized Rates (Volumetric Rates per 1000 Gallons)

	W-1-R (Residential)			W-1-GS (Commercial)		
Meter Size	**$/meter/month**	**% change**		**$/meter/month**	**% change**	
5/8 in.	56.82	31%		56.82	31%	
3/4 in.	79.63	31%		79.63	31%	
1 in.	102.43	31%		102.43	31%	
1.5 in.	136.81	31%		136.81	31%	
2 in.	182.41	31%		182.41	31%	
3 in.	381.29	31%		381.29	31%	
4 in.	456.80	31%		456.80	31%	
6 in.	758.56	31%		758.56	31%	
8 in.	1,281.33	31%		1,281.33	31%	
	Volumetric Rates			**Volumetric Rates**		
		Summer	Winter		Summer	Winter
		(June-Sept)	(Oct-May)		(June-Sept)	(Oct-May)
	0 - 2000 Gallons	42.59	21.59	All usage	68.88	28.27
	2001 - 6500 Gallons	83.83	41.84	All usage	68.88	28.27
	Over 6500 Gallons	125.07	62.09	All usage	68.88	28.27
	% change			% change		
	T1	74%	76%	T1	19%	21%
	T2	74%	74%	T2	19%	21%
	T3	74%	74%	T3	19%	21%

	W-1-R-CARE (Residential-CARE)			W-1-RDS-CARE (Res. Dual Service-CARE)			
Meter Size	**$/meter/month**	**% change**		**$/meter/month**		**% change**	
5/8 in.	36.93	7%		36.93		7%	
3/4 in.	51.76	7%					
1 in.	66.58	7%		53.27		7%	
1.5 in.	88.92	7%		71.14		7%	
2 in.	118.57	7%		94.85		7%	
3 in.	247.84	7%					
4 in.	296.92	7%					
6 in.	493.06	7%					
8 in.	832.86	7%					
	Volumetric Rates			**Volumetric Rates**			
		Summer	Winter			Summer	Winter
		(June-Sept)	(Oct-May)			(June-Sept)	(Oct-May)
	0 - 2000 Gallons	26.81	13.16	0 - 2000 Gallons		26.81	13.16
	2001 - 6500 Gallons	53.61	26.32	2001 - 6500 Gallons		53.61	26.32
	Over 6500 Gallons	80.42	39.49	Over 6500 Gallons		80.42	39.49
	% change			% change			
	T1	41%	41%	T1	41%	41%	41%
	T2	41%	41%	T2	41%	41%	41%
	T3	41%	41%	T3	41%	41%	41%

Table 6: 2028 Catalina Water Utility Authorized Rates (Estimated)

(Volumetric Rates per 1000 Gallons)

	W-1-R (Residential)			W-1-GS (Commercial)		
Meter Size	**$/meter/month**	**% change**		**$/meter/month**	**% change**	
5/8 in.	126.59	193%		126.59	193%	
3/4 in.	177.41	193%		177.41	193%	
1 in.	228.21	193%		228.21	193%	
1.5 in.	304.79	193%		304.79	193%	
2 in.	406.39	193%		406.39	193%	
3 in.	849.48	193%		849.48	193%	
4 in.	1,017.69	193%		1,017.69	193%	
6 in.	1,689.99	193%		1,689.99	193%	
8 in.	2,854.66	193%		2,854.66	193%	
	Volumetric Rates			**Volumetric Rates**		
		Summer	Winter		Summer	Winter
		(June-Sept)	(Oct-May)		(June-Sept)	(Oct-May)
	0 - 2000 gallons	94.88	48.11	All usage	153.46	62.99
	2001 - 6500 gallons	186.76	93.22	All usage	153.46	62.99
	Over 6500 gallons	278.64	138.34	All usage	153.46	62.99
	% change			% change		
	T1	289%	292%	T1	166%	169%
	T2	287%	289%	T2	166%	169%
	T3	287%	288%	T3	166%	169%

	W-1-R-CARE (Residential-CARE)			W-1-RDS-CARE (Res. Dual Service-CARE)		
Meter Size	**$/meter/month**	**% change**		**$/meter/month**	**% change**	
5/8 in.	82.28	138%		82.28	138%	
3/4 in.	115.32	138%				
1 in.	148.34	138%		118.67	138%	
1.5 in.	198.11	138%		158.49	138%	
2 in.	264.15	138%		211.32	138%	
3 in.	552.16	138%				
4 in.	661.50	138%				
6 in.	1,098.50	138%				
8 in.	1,855.53	138%				
	Volumetric Rates			**Volumetric Rates**		
		Summer	Winter		Summer	Winter
		(June-Sept)	(Oct-May)		(June-Sept)	(Oct-May)
	0 - 2000 gallons	59.72	29.32	0 - 2000 gallons	59.72	29.32
	2001 - 6500 gallons	119.45	58.65	2001 - 6500 gallons	119.45	58.65
	Over 6500 gallons	179.17	87.97	Over 6500 gallons	179.17	87.97
	% change			% change		
	T1	213%	213%	T1	213%	213%
	T2	213%	213%	T2	213%	213%
	T3	213%	213%	T3	213%	213%

13. Comments on Proposed Decision

The proposed decision of ALJ Garrett Toy in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

14. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Garrett Toy is the assigned ALJ.

Findings of Fact

1. Catalina Island is an arid island that presents challenging topographical challenges towards providing utility services.
2. The Catalina Water utility water system covers multiple communities on the Island that are serviced by isolated water systems.
3. The Catalina Water utility faced drought conditions from 2013 to 2019, based on the water levels in the MRR.
4. From 2013 to 2019, Catalina Water ratepayers were placed under mandatory drought conservation measures.
5. Last-recorded year and 5-year averaging are both viable methods for determining a test year cost amount.
6. The Catalina Water system had unusual usage patterns during much of the period from 2015-2019, due to the drought and mandatory rationing implementation.
7. It is reasonable to use last recorded year expenses to estimate Accounts 615 and 618 in the test year, given likely usage patterns.

8. It is reasonable to use last recorded year expenses to project Account 630 costs, as this represents the most recent staffing of the Island.

9. SCE plans to conduct PCB testing for 5 years to determine whether drinking water threats exist in pipeline lining.

10. SCE has not provided a metric or guideline for determining when the proposed PCB testing should be ended.

11. SCE's proposed Account 650 costs will cover environmental and disaster mitigation expenses that are more adequately conducted by contractors rather than SCE employees.

12. SCE proposes to allocate 40% of total vehicle costs to the Catalina Water utility, reflecting the amount of actual O&M allocations.

13. SCE proposes to allocate $396,000 to cover office salaries that support the Catalina Water utility.

14. SCE's allocation of employees to the Catalina Water utility is reasonable.

15. SCE proposes to use an uncollectible rate of .2822, based on 5-year historical averages.

16. It is reasonable to use a 5-year average of actual recovery to determine an uncollectibles rate.

17. SCE's proposed office expense allocation is based on using average square footage.

18. SCE's square footage calculation includes an outlier value.

19. It is reasonable to exclude an outlier when determining comparable land values, when no justification for why the outlier should be used has been provided.

20. Recurring office supplies and expenses are unlikely to vary considerably in any given year.

21. It is reasonable to utilize a 5-year average for office supplies and expenses.

22. It is reasonable to use a 5-year average when calculating general expense estimates, given the potential for an outlier year to skew numbers.

23. SCE employees split time between Catalina Water and SCE Generation tasks.

24. The Four-Factor A&G Allocations method is reasonable to use, where utility employees split time between multiple organizations.

25. SCE's use of the Four-Factor A&G allocations is reasonable, where employee time is split between Catalina Water and SCE Generation work.

26. SCE proposes to increase Account 800.1 Administrative and General costs by 102 percent.

27. SCE has not provided adequate justification for the proposed increase in Account 800.1 costs.

28. Desalination Plant 2 will provide drought mitigation benefits to Catalina Water.

29. The HL-1 failure was not due to drought conditions on the Island.

30. SCE constructed HL-3 to remedy the loss of production after the failure of HL-1.

31. It was reasonable for SCE to install a treatment system at HL-3, after significant expenses had been incurred digging the well.

32. SCE did not have prepared plans for the potential failure of HL-1.

33. SCE was required by the EPA to monitor for DBP, TTHM, and HAA5 concentrations at the Mt. Ada Tank and the MGT.

34. SCE determined that DBPs in the Hamilton Cove system were high.

35. SCE installed a GAC treatment facility at Wrigley Reservoir.

36. Testing at the Airport storage tanks determined that LCP existed in the tanks.

37. SCE determined that removal of the LCP at one Airport tank and demolition of the other out-of-service Airport tank were the most reasonable solutions.

38. SCE's implemented water system fall protection improvements were reasonable.

39. SCE's water main relocations in the Wrigley Road Terrace and Vieudelou Water Main areas were conducted to bring the piping in compliance with CWS and CDPH guidance, and were therefore reasonable.

40. SCE's safety improvements at the Mt. Ada tank were reasonable.

41. Inspection of the MGT showed delamination of the internal protective coating.

42. SCE completed renovation of the interior linings of the MGT.

43. USC contributed 51 percent of project costs for the MGT, based on USC's proportionate cost of the tank's capacity.

44. SCE's agreement with USC requires that USC Reimburse SCE for improvements at the MGT based on the cost ratio of fire protection coosts and Catalina Water's costs.

45. USC's proportionate cost share of the MGT is 51 percent, and SCE's is 49 percent.

46. SCE's proportionate costs for MGT renovation are $2,272,462.

47. Total cost of MGT renovation was $5,170,101.

48. SCADA upgrades will aid and improve the statutorily-required collection of operational data.

49. SCE seeks $1,413,362 for SCADA upgrades.

50. It is reasonable to expect operational savings due to SCADA upgrades.

51. SCE proposes to replace 12 water valves and install 2 new water valves.

52. It is reasonable for SCE to replace water valves to ensure system reliability.

53. SCE discovered damage to the well casing of HL-3 shortly after installation.

54. Damage to the well casing of HL-3 required remediation that led to the permanent reduction of well capacity.

55. SCE replaced the pump and motor for MR-5A in 2016, after 25 years of service.

56. The pump and motor for MR-5A was replaced again in 2018 due to poor matching of specifications.

57. Improvements in 2018 and 2019 at MR-1A, MR-5A, and MR-6A were made to ensure continued operation of the pump and motor assemblies, and were therefore reasonable.

58. Corrosion was discovered on PRS C creating risk of failure.

59. SCE replaced corroded equipment at PRS C in 2013.

60. The pump and motor assemblies at desalination Plants 1 and 2 begin failing with consistency in 2017.

61. Operation of the seawater supply wells is necessary for Desalination Plant 1 and 2 operations.

62. SCE's replacement of the seawater well pumps at Desalination Plants 1 and 2 were reasonable.

63. SCE's replacement of the Sweetwater Well 1-A pump, motor, and well pipe were reasonable, given their deterioration due to drought.

64. It was reasonable for SCE to replace the panel and pump controls at the Mt. Ada tank, as they had deteriorated and become a fire risk.

65. SCE's replacement of the Cottonwood Well 1-A control panel was reasonable, given its deterioration.

66. SCE's proposed desalination improvements will provide significant drought resistance benefits, and costs are mostly covered by DWR grant.

67. It is reasonable for SCE to increase capacity and storage to ensure continued reliable operation of the Catalina Water system going forward.

68. SCE seeks authority to replace water valves in the Avalon area, due to expected inoperability.

69. SCE did not conduct inspections to determine which valves in the Avalon area needed replacement.

70. SCE proposes to replace water meters per General Order 103-A guidelines.

71. SCE has not provided a cost breakdown of the work needed to remediate its desalination building, nor has it sufficiently justified the amount of work needed.

72. Installation of Versify on the Island will allow SCE to track data more easily and is therefore reasonable.

73. Installation of communication lines on the Desalination Plant 1 and 2 seawater wells will allow for improved communications and control of the wells, and is therefore reasonable.

74. SCE maintenance determined that ten automatic control valves were operating improperly.

75. SCE proposes to replace the automatic control valves, as the current valves are no longer being supported by the manufacturer and are deteriorating.

76. It is reasonable for SCE to replace automatic control valves that are not supported by the manufacturer or are deteriorating, given the importance of the valves for controlling system hydraulics.

77. It is reasonable for SCE to conduct wildfire mitigation activities to ensure safety of its facilities and the Island.

78. SCE seeks to recover $6,231,667 recorded in the Lost Revenue Memo Account.

79. SCE waited until 2020 to seek recovery for costs recorded from August 2014 to February 2016.

80. Commission Standard Practice U-27-W states t hat utilities should seek recovery for memorandum account costs within three years of booking.

81. SCE seeks to recover $4,847,152 for costs recorded to the Drought Memo Account.

82. SCE tracked costs for implementing drought rationing activities as well as incremental expenses incurred due to the drought, such as water hauling.

83. SCE Advice 74-W only discusses the recording of costs for implementation of water conservation and rationing activities in the Drought Memo Account, and not all costs related to drought conditions on the Island.

84. SCE currently utilizes a WRAM revenue decoupling mechanism.

85. SCE proposes to transition to a Monterey-style WRAM.

86. SCE's working cash estimate of $842,000 is reasonable and approved.

87. SCE's estimate of 2.38 percent for depreciation is reasonable and approved.

88. Salvaging of SCE tanks poses operational difficulties, due to the Island's topography.

89. Airport tank removal in 2017 led to a -120 percent salvage rate.

90. A rate of return of 7.44 percent is reasonable.

91. Catalina Water non-revenue water lost percentages increased from 2015 to 2019.

92. Catalina Water has not recently been subject to Commission action or review due to its water lost percentages.

93. Cal Advocates proposes to reduce Catalina Water's revenue requirement based on system water loss percentages.

94. Counting of fire protection connections as part of total customer connections results in a customer count above 2,000.

95. Water utilities with customer counts above 2,000 count as Class B water utilities, per G.O. 96-B.

96. Approval of the cross-subsidy in the last Catalina Water GRC was via settlement and is non-precedential.

97. No viable alternatives to recovery of costs other than from Catalina Water ratepayers have been presented.

98. SCE mainland electric ratepayers do not, as a group, receive service from Catalina Water.

99. No cross-subsidy across multiple utility industries and between 2 separate populations has otherwise been approved.

100. It is reasonable to utilize sales forecasts of 83.384 million gallons, based on econometric water usage models.

101. It is reasonable to utilize a 30 to 70 fixed to volumetric cost ratio in designing rates.

102. It is reasonable to recover 40 percent of revenue from residential ratepayers and 60 percent from non-residential ratepayers.

103. It is reasonable to maintain Tier 1 price breakpoint of 2,000 gallons and a Tier 2 breakpoint of 6,500 gallons, to encourage conservation.

104. It is reasonable to maintain a seasonal recovery ratio of 55% in the summer and 45% in the winter, to ensure tourists shoulder a significant portion of costs.

105. SCE's proposed fixed charge ratios are reasonable, to avoid rate shocks.

106. An increase in CARE subsidies from 20 percent to 32.5 percent will help low-income ratepayers absorb rate increases.

107. Rate increases can create affordability issues.

108. It is reasonable to increase Fire Protection Tariffs 30 percent to match other Los Angeles County water utilities.

109. Amortization of costs reduces rate shock.

110. It is reasonable to amortize costs over ten or fifteen years to reduce rate shock.

111. SCE's revenue requirement is $10.364 million for Test Year 2024.

112. The adopted revenue requirement is more than double the last recorded year revenue requirement, and requires large rate increases to implement.

113. The rates adopted include a ramp-up period to reduce rate shock, while ensuring that SCE will be able to recover its revenue requirement.

114. It is reasonable to allow SCE to track revenue collections less than the authorized revenue requirement, for recovery at a later time.

115. The establishment of a DRRTMA will allow SCE to track deferred revenues that result from a graduated ramp up of rates while reducing rate shock.

116. No additional comments or testimony have been filed since September 20, 2023.

Conclusions of Law

1. As the applicant, SCE bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.

2. The standard of proof that an applicant must meet in rate cases is that of a preponderance of the evidence.

3. SCE's proposed Account 615, Account 630, Account 640, Account 660, Account 670, Account 671, Account 676, Account 682, Account 480.1, and Account 480.2 cost estimates are reasonable.

4. SCE should be authorized to calculate escalation for Test Year 2024 and beyond, for Account 615, Account 618, Account 630, Account 640, Account 650, Account 660, Account 670, Account 671, Account 678, Account 681, Account 682, Account 689, and Account 800.1.

5. It is reasonable to reduce SCE's requested amount for conducting PCB testing.

6. SCE should be authorized to recover $1,444 million, plus escalation, for Account 650, Contract Work costs.

7. SCE should be authorized to recover $19,574, plus escalation, for Account 678.

8. SCE should be authorized to recover $44,952, plus escalation, for Account 681.

9. SCE should be authorized to recover $327,555, plus escalation, for Account 689.

10. SCE should be authorized to recover $104,000, for Account 689.927.

11. SCE should be authorized to recover $864,800, plus escalation, for Account 800.1 Administrative and General Allocation.

12. SCE should be authorized to utilize capitalized A&G expenses of -$709,000.

13. SCE should be authorized to recover $5.413 million for operating expenses in the test year, plus escalation to 2024.

14. SCE should be authorized to rate base $643,932 for Desalination Plant 2.

15. SCE took reasonable steps to quickly and efficiently install HL-3.

16. SCE should be authorized to rate base $1.653 million for HL-3.

17. SCE should have conducted prospective planning for the potential failure of HL-1.

18. It is reasonable to reduce SCE's recovery for costs spent on the treatment system for HL-3.

19. SCE should be authorized to rate base $1.26 million for the HL-3 treatment system.

20. It was reasonable for SCE to install a GAC treatment system at Wrigley Reservoir, to reduce DBPs.

21. SCE should be authorized to rate base $754,439 for Disinfection Byproduct Mitigation.

22. SCE's costs to remedy lead-based paint at the Airport were reasonable.

23. SCE should be authorized to rate base $178,827 for Airport Tank Lead-based paint abatement and demolition.

24. SCE should be authorized to add to rate base $165,495 for costs to implement Water System Fall Protection Improvements.

25. SCE should be authorized to add to rate base $124,082 for Wrigley Road Terrace and Vieudelou Water Main relocations.

26. SCE should be authorized to add to rate base $12,590 for Mt. Ada Tank fall protection improvements.

27. SCE's agreement with USC requires that USC reimburse SCE for improvements at the MGT based on the cost ratio of fire protection costs and Catalina Water's costs.

28. SCE should be authorized to add to rate base $2.272 million for MGT renovation and rebuild costs.

29. It is reasonable to reduce SCE's recovery of SCADA upgrades, where the upgrade should provide operational benefits that SCE has not accounted for.

30. SCE should be authorized to add to rate base $989,353 for SCADA upgrades.

31. SCE should be authorized to add to rate base $443,500 for water valve replacements.

32. Damage to the well casing of HL-3 so shortly after installation should be the responsibility of SCE or its contractors, not ratepayers.

33. SCE is denied recovery for HL-3 well replacement and pump modification.

34. It is reasonable to deny recovery for the 2016 MR-5A pump and motor replacement, where the work was later determined to be insufficient and required replacement.

35. SCE should be denied recovery for the 2016 MR-5A pump and motor replacement.

36. SCE should be authorized to rate base $241,878 for Middle Ranch water supply improvements at MR-1A, MR-5A, and MR-6A.

37. It was reasonable for SCE to replace corroded piping at PRS C.

38. SCE should be authorized to rate base $36,840 for PRS C replacement costs.

39. SCE should be authorized to rate base $89,014 for the replacement of pump and motor assemblies at seawater wells supplying desalination Plants 1 and 2.

40. SCE should be authorized to rate base $29,778 for Mt. Ada tank electrical panel and pump control replacement.

41. SCE should be authorized to rate base $27,013 for Sweetwater Well Pump and Motor replacement.

42. It is reasonable for SCE to recover costs for 2 new saltwater wells at the quarry, as well as storage enhancements at the Baker Tanks and Wrigley reservoir.

43. SCE's share of the costs for desalination enhancements is reasonable.

44. SCE should be authorized to rate base $2.71 million for desalination enhancements.

45. SCE should construct a list to prioritize the replacement of water valves in the Avalon area, instead of replacing all valves.

46. SCE should be authorized to rate base $659,402 for future water valve replacements in the Avalon area.

47. Given the high cost increases in this GRC, SCE should seek an extension for the replacement of its water meters.

48. SCE should be denied recovery at this time for water meter replacement.

49. SCE has not provided sufficient information to justify a its proposed rebuild of the outside of the desalination building.

50. SCE should be denied recovery at this time for its proposed desalination building upgrade.

51. SCE should be authorized to rate base $100,000 for Catalina Water's share of Versify costs.

52. SCE should be authorized to rate base $50,000 for desalination communications line replacement.

53. SCE should be authorized to rate base $100,000 for water system control valve replacement.

54. SCE should be authorized to rate base $150,000 for wildfire mitigation costs.

55. SCE should have sought recovery for drought costs earlier, given the unknown duration of the drought and potential to impart significant rate shocks.

56. SCE's recovery of Lost Revenue Memo Account costs from August 2014 to February 15, 2016 should be denied.

57. SCE should be authorized to recover $3.586 million for costs tracked to the Lost Revenue Memo Account.

58. Costs other than those related to implementation of water conservation and rationing activities tracked in the Drought Memo Account should be denied.

59. SCE should be authorized to recover $695,151 for costs recorded in the Drought Memo Account.

60. In D.20-08-047, the Commission encouraged the transition to a Monterey-style WRAM.

61. SCE should be authorized to transition to a Monterey-style WRAM/ICBA.

62. Consistent with past treatment of the WRAM, SCE should be authorized to continue to resolve the Monterey-style WRAM/ICBA and CAM via annual Tier 1 advice letter filings.

63. SCE should be authorized to establish gross plant of $49.897 million for the Test Year.

64. SCE should be authorized to establish a rate base of $21.644 million in the Test Year 2024.

65. SCE should be authorized to utilize a working cash estimate of $.842 million in the Test Year.

66. SCE should conduct lead-lag studies on working cash estimates going forward.

67. SCE should be authorized to recover $1.157 million in depreciation expenses in the Test Year.

68. SCE should be authorized to recover $984,000 in taxes in the Test Year.

69. SCE should be authorized to utilize a -120 percent salvage rate for its reservoirs and tanks.

70. SCE should be authorized to use a rate of return of 7.44 percent.

71. SCE should be authorized to use the labor escalation and non-labor escalation values in the ECSB.

72. SCE should be authorized to recover escalation factors in the post-test years.

73. Approved costs in the Drought Memo Account and Lost Revenue Memo Account should be amortized.

74. Deferred revenues due to the ramping up of rates should be amortized.

75. It is unreasonable to reduce revenue requirement due to non-revenue water loss, where the water utility has not been put on notice of such possibility.

76. Cal Advocates' proposal to reduce Catalina Water's revenue requirement based on water loss should be denied.

77. SCE should be required to submit a plan to reach Commission-accepted water loss levels.

78. SCE should utilize a customer count estimate of 2,026 for the Test Year.

79. SCE should be authorized to recover a revenue requirement of $10.364 million for Test Year 2024.

80. G.O. 96-B does not exclude the counting of fire protection connections from the number of service connections.

81. Catalina Water should be re-classified as a Class B water utility.

82. SCE has not shown that a sufficient nexus exists between Catalina Water ratepayers and SCE electric ratepayers at large.

83. Commission precedent has highlighted the need to respect principles of cost causation.

84. Authorizing SCE to recover costs from its mainland electric ratepayers, who do not receive service from Catalina Water, would violate cost causation principles.

85. SCE should not be authorized to recover rates from SCE mainland electric ratepayers to pay for Catalina Water costs.

86. It is reasonable to amortize recovery of Drought Memo Account, Lost Revenue Memo Account, and deferred revenues, to avoid rate shocks.

87. SCE should provide customers with information regarding low-income assistance programs.

88. SCE should be authorized to establish the DRRTMA to track deferred revenues resulting from the ramp-up of rates in this GRC cycle.

89. SCE should be authorized to amortize Drought Memo Account and Lost Revenue Memo Account costs over a ten-year period, and costs tracked to the DRRTMA over a fifteen-year period.

90. The rates adopted in this decision allow SCE to recover its revenue requirement while also reducing rate shocks to customers.

91. The rates presented are reasonable and should be adopted.

92. Any outstanding motions should be denied.

93. The record in this proceeding should be closed as of September 20, 2023.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (SCE) is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the Test Year 2024 revenue requirements of $10.364 million set forth in this decision, effective January 1, 2024. SCE shall recover the revenue requirements via the rate phase-in proposal authorized in this decision.

2. Southern California Edison Company (SCE) is authorized to establish the Deferred Revenue Requirement Tracking Memorandum Account (DRRTMA) to track deferred revenues, plus interest at the commercial paper rate, resulting from the difference between authorized revenue requirements and revenue requirements collected in rates during this rate cycle, from 2024 to 2029. SCE may recover these costs over a fifteen-year amortization period, starting in 2026. SCE shall submit a Tier 1 advice letter establishing the DRRTMA within 60 days after the effective date of this decision.

3. Southern California Edison Company (SCE) is authorized to establish the Deferred Revenue Requirement Tracking Memorandum Account (DRRTMA) to track deferred revenues, plus interest at the 90-day non-financial commercial paper rate, resulting from the difference between authorized revenue requirements and revenue requirements collected in rates during this rate cycle, from 2024 to 2029. SCE may recover these costs over a fifteen-year amortization period, starting in 2026. SCE shall submit a Tier 1 advice letter establishing the DRRTMA within 60 days after the effective date of this decision.

4. Southern California Edison Company (SCE) is authorized to recover through rates $3.586 million, plus interest at the 90-day non-financial commercial paper rate, from costs tracked in the Catalina Water Lost Revenue Memorandum

Account. SCE shall amortize the recovery over a ten-year period, starting in 2025.

5. Southern California Edison Company (SCE) is authorized to recover through rates $0.695 million, plus interest at the 90-day non-financial commercial paper rate, from costs tracked in the Catalina Water Rationing Memorandum Account. SCE shall amortize the recovery over a ten-year period, starting in 2025.

6. For Test Year 2024, within 45 days of the issuance of this decision, Southern California Edison (Santa Catalina Island Water Company) shall submit Tier 1 advice letters with revised tariff schedules in compliance with this decision, and concurrently cancel their present schedules for such service. These advice letters are subject to approval by the Commission's Water Division.

7. For escalation years 2025 - 2029, Southern California Edison Company shall submit Tier 1 advice letters seeking escalation and proposing new revenue requirements and corresponding revised tariff schedules, no less than 45 days prior to the start of the escalation year.

8. Southern California Edison Company is authorized to submit a Tier 2 advice letter requesting rate base offset for any authorized capital forecast projects in this decision, once each project is used and useful.

9. Southern California Edison Company (SCE) is authorized to establish the Water Revenue Adjustment Mechanism/Incremental Cost Balancing Account, to track costs in implementing a Monterey-Style Water Revenue Adjustment Mechanism. SCE is directed to close its Water Revenue Adjustment Mechanism/Modified Cost Balancing Account.

10. For Test Year 2024 and beyond, Southern California Edison Company shall submit Tier 1 advice letters annually by March 31 requesting approval of the Consumption Adjustment Mechanism annual update.

11. Southern California Edison Company (SCE) shall submit by December 31, 2024, an application providing a plan for reducing water loss rates for the Santa Catalina Water utility to seven percent by December 31, 2030. Failure to submit the application shall subject SCE to denial of both future escalation requests and Water Revenue Adjustment Mechanism recovery.

12. Starting in 2024, Southern California Edison Company shall, in its June billing statements of each year, provide customers of the Santa Catalina Water utility with a summary of low-income customer assistance programs available for them to participate in.

13. The Public Advocates Office's Motion to Admit and Motion for Official Notice are granted, and exhibit Cal Advocates-03 is entered into the record.

14. Any outstanding motions are denied.

15. Application 20-10-018 is closed.

16. This order is effective today.

Dated _____, at San Francisco, California.