STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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January 24, 2024

Agenda ID #22281
Alternate Agenda ID #22282
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 21-07-002:

Enclosed are the proposed decision of Administrative Law Judges Charles Ferguson and Douglas M. Long in this proceeding and the alternate proposed decision of Commissioner Darcie L. Houck. The proposed decision and the alternate proposed decision will not appear on the Commission's agenda sooner than 30 days from the date they are mailed.

Public Utilities (Pub. Util.) Code § 311(e) requires that the alternate item be accompanied by a digest that clearly explains the substantive revisions to the proposed decision. The digest of the alternate proposed decision is attached.

This matter was categorized as ratesetting and is subject to Pub. Util. Code § 1701.3(c). Upon the request of any Commissioner, a Ratesetting Deliberative Meeting (RDM) may be held. If that occurs, the Commission will prepare and publish an agenda for the RDM 3 days beforehand. When an RDM is held, there is a related *ex parte* communications prohibition period. (*See* Rule 8.2(c)(4) of the Commission's Rules of Practice and Procedure (Rules).)

When the Commission acts on these agenda items, it may adopt all or part of the decision as written, amend or modify them, or set them aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision and alternate decision as provided in Pub. Util. Code §§ 311(d) and 311(e) and in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 25 pages.

Comments must be filed pursuant to Rule 1.13 and served in accordance with Rules 1.9 and 1.10. Electronic copies of comments should be sent to Administrative Law Judges Charles Ferguson and Douglas Long at charles.ferguson@cpuc.ca.gov and douglas.long@cpuc.ca.gov and Commissioner Darcie L. Houck's advisor Victor Smith at victor.smith@cpuc.ca.gov. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ MICHELLE COOKE
Michelle Cooke
Chief Administrative Law Judge

MLC:jnf
Attachment

Agenda ID #22281
Alternate Agenda ID #22282
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DIGEST OF DIFFERENCES BETWEEN THE PROPOSED DECISION OF ADMINISTRATIVE LAW JUDGES FERGUSON AND LONG, AND THE ALTERNATE PROPOSED DECISION OF COMMISSIONER DARCIE L. HOUCK APPLICATION 21-07-002 CAL WATER's TY 2023 GENERAL RATE CASE

Pursuant to Public Utilities Code Section 311(e), this is the digest of the substantive differences between the Proposed Decision of Administrative Law Judges Ferguson and Long (mailed on January 24, 2024) and the Alternate Proposed Decision of assigned Commissioner Darcie L. Houck (also mailed on January 24, 2024).

The Alternate Proposed Decision of Commissioner Houck differs from the Proposed Decision of Administrative Law Judges Ferguson and Long in treatment of Cal Water's requested contingencies for 1,170 projects, in its treatment of Cal Water's request for approval of planning and design costs for 30 projects, in its treatment of Cal Water's Special Requests No. 4, 9, and 14, and in its approval of various projects.

The Proposed Decision of Administrative Law Judges Ferguson and Long adopts a 10 percent or 20 percent contingency for 1,170 projects. It allows the planning and design costs of 30 projects to be entered into rate base. The Proposed Decision also approves Cal Water's Special Request Nos. 4, 9, 14, regarding the Sales Reconciliation Mechanism, costs related to the Memorandum Account for Palos Verdes Pipeline Litigation, and the timing of rate base additions, respectively. The Proposed Decision adopts Cal Water's requested executive salaries, short-term incentive plan and long-term incentive plan compensation as well as Cal Water's supplemental executive retirement plan costs.

The Alternate Proposed Decision disallows Cal Water's requested contingencies for nearly all projects, and rejects Cal Water's requested 2-step approval process, retaining instead the Commission's usual one-step approval process of projects as they are used and useful. The Alternate Proposed Decision also rejects Special Requests No. 4, 9, and 14. The Alternate Proposed Decision rejects several projects that the Proposed Decision approves including PIDs 125632, 124816, 124909, 124493. The Alternate Proposed Decision also adopts one-way balancing accounts for Cal Water's Physical Security and its Control Valve Overhaul and Replacement spending. The Alternative Proposed Decision adopts Cal Advocates recommendations for executive salary, long-term incentive plan compensation, and supplemental executive retirement plan costs, reducing Cal Water's request for short-term incentive plan compensation by 70 percent.

The Proposed Decision adopts a Test Year 2023 revenue requirement of $803,022,640, an increase of 10.8 percent as compared to 2020, and a Test Year 2023 Rate Base addition value of $619,940,847, representing a 41.3 percent increase to the 2020 rate base. The Alternate Proposed Decision of assigned Commissioner Darcie L. Houck results in a Test Year 2023 revenue requirement of $766,990,500, an increase of 5.8 percent as compared to 2020, and a Test Year 2023 Rate Base addition value of $354,263,800 representing a 23.6 percent increase to the 2020 rate base.

ATTACHMENT

Decision **PROPOSED DECISION OF ALJ FERGUSON AND ALJ LONG**
(mailed 1/24/2024)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U60W), a California corporation, for an order (1) authorizing it to increase rates for water service by $80,484,801 or 11.1% in test year 2023, (2) authorizing it to increase rates on January 1, 2024 by $43,582,644 or 5.4%, and ((3) authorizing it to increase rates on January 1, 2025 by $43,197,258 or 5.1% in accordance with the Rate Case Plan, and (4) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies..	Application 21-07-002

DECISION APPROVING A PARTIAL SETTLEMENT AGREEMENT AND ADOPTING RATES FOR CALIFORNIA WATER SERVICE COMPANY'S TEST YEAR 2023 GENERAL RATE CASE

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DECISION APPROVING PARTIAL SETTLEMENT AGREEMENT AND ADOPTING RATES FOR CALIFORNIA WATER SERVICE COMPANY'S TEST YEAR 2023 GENERAL RATE CASE

Summary

This decision approves and adopts the Amended Partial Settlement (Settlement Agreement) between California Water Service Company (Cal Water) and the Public Advocates Office at the California Public Utilities Commission, attached as Appendix A to this decision. The terms of the Settlement Agreement are summarized in this decision and mainly focus on agreement for redesigning the rate structures in individual rate districts to encourage further water conservation by adding an additional rate tier and setting that tier at a lower than previous floor (as the new lowest tier rate) to incentivize residential conservation. Another notable settlement term is to the continue Cal Water's Rate Support Fund with some modifications to make the program even more beneficial to low-income households and to extend the program to customers in the Stockton rate district should certain contingencies occur. This decision adopts and incorporates all the terms of the Settlement Agreement.

This decision adopts a Test Year 2023 revenue requirement of $803,022,640, an increase of 10.8 percent compared to 2020, and a Test Year 2023 Rate Base value of $619,940,847, representing a 41.3 percent increase over 2020, and adopts adjustments for determining Attrition Years' 2024 and 2025 revenue requirements. As a result, typical usage customers in five of Cal Water's 23 ratemaking areas will see a decrease in their respective rate area's typical usage monthly bill for the test year, ranging from $0.78 to $8.41, as shown below in Table One; and the customers in the remaining 18 ratemaking areas will see an increase in their respective rate district's typical usage monthly bills ranging from $0.52 to $7.62.

Customers in Dixon, Willows and Kern River Valley will continue to receive subsidies from Cal Water's Rate Support Fund. To provide this assistance to customers in Dixon, Willows and Kern River Valley, the Commission will continue to authorize Cal Water to add a surcharge on the bills of all other of its customers not receiving some form of assistance, but only in an amounts less than one (1) percent of each customer's monthly bill. The following Table One shows the billing impact of this decision for the typical usage customer in each of Cal Water's individual ratemaking areas compared to the last rates authorized by the Commission.

Note, the rates that are currently in effect include adjustments between July 2022 through January 2024 for the following items: (1) Updated wholesaler rates for purchased water, pump taxes, and purchased power, (2) Updated Rate of Return, (3) Include Oroville and Bay Area Region rate base offset, and (4) Inflationary increase except for Selma, Travis, and Visalia.

Table 1: Monthly Bill Impacts for Typical Customer

District	Typical Usage Customer	Present Bill	Proposed Bill	Amount Change ($)	Percent Change
Bay Area Region	7	$ 62.38	$ 59.91	$ (2.47)	-4.0%
Bay Area Region - Coast Springs area	2	$ 33.01	$ 35.28	$ 2.27	6.9%
Bakersfield	15	$ 46.02	$ 51.22	$ 5.21	11.3%
Bear Gulch	11	$ 96.08	$ 95.30	$ (0.78)	-0.8%
Chico	12	$ 34.22	$ 38.12	$ 3.90	11.4%
Dixon	9	$ 73.21	$ 80.83	$ 7.62	10.4%
Dominguez	9	$ 52.23	$ 55.06	$ 2.84	5.4%
East Los Angeles	10	$ 66.76	$ 70.84	$ 4.08	6.1%
Hermosa Redondo	8	$ 49.58	$ 48.70	$ (0.88)	-1.8%
Kern River Valley	4	$ 75.81	$ 78.51	$ 2.70	3.6%
Livermore	10	$ 65.30	$ 68.01	$ 2.71	4.1%
Los Altos	13	$ 91.36	$ 95.31	$ 3.95	4.3%
Los Angeles County Region - AV	10	$ 69.69	$ 61.28	$ (8.41)	-12.1%
Los Angeles County Region - PV	15	$ 106.48	$ 112.22	$ 5.74	5.4%
Marysville	8	$ 47.63	$ 48.25	$ 0.62	1.3%
Oroville	8	$ 47.82	$ 48.38	$ 0.56	1.2%
Salinas Valley Region	9	$ 46.74	$ 51.20	$ 4.46	9.5%
Selma	13	$ 42.83	$ 41.82	$ (1.01)	-2.4%
Stockton	9	$ 52.11	$ 57.57	$ 5.46	10.5%
Travis	Flat	$ 163,932.64	$ 294,564.95	$ 130,632.31	79.7%
Visalia	13	$ 27.11	$ 27.63	$ 0.52	1.9%
Willows	10	$ 64.49	$ 65.84	$ 1.35	2.1%
Westlake	14	$ 87.94	$ 88.82	$ 0.88	1.0%

This decision also resolves the remainder of the issues otherwise unresolved by the Settlement Agreement including (1) numerous policy and legal arguments and proposals, and (2) remaining disputed issues surrounding Cal Water's twenty-three separate rate areas (after consolidations), including all the ongoing operation and administration issues as well as the specifically proposed projects within those individual districts, and well over forty special requests and other disputed issues. In resolving those issues, this decision authorizes Cal Water to:

- Engage in pre-construction and construction activities for 82 capital projects, which will enhance its ability to bring safe and reliable drinking water to all customers as well as

fortify its system against wildfires, other natural disasters, and security threats;

- Use a Modified Water Revenue Adjustment Mechanism coupled with its Sales Reconciliation Mechanism to accommodate deviations from its projected revenue and its actual revenue due to events like severe drought;
- Replace pipe throughout its whole system in need of repair;
- Construct a new water quality testing laboratory in southern California to increase the speed at which water from its service areas in both northern and southern California can be analyzed, and problems detected; and
- Purchase and install upgrades of computer hardware and software, as well as other electronic equipment to better ensure that safe and reliable water serviced is provided in all its service areas in a more efficient manner at reasonable cost.

This proceeding is closed.

1. Background

1.1. Procedural Background

On July 1, 2021, California Water Service Company (Cal Water) filed Application (A.) 21-07-002 for authorization to increase its rates and charges for water service by: (1) $80,484,801 or 11.1% in test year 2023; (2) $43,582,644 or 5.4% in year 2024; and (3) $43,197,258 or 5.1% in year 2025. Cal Water also seeks further rulings and relief to implement its rates in keeping with Commission policies.

On August 5, 2021, the Public Advocates Office (Cal Advocates) at the California Public Utilities Commission filed a protest. On October 25, 2021, the City of Bakersfield (Bakersfield) filed a motion to intervene in the proceeding as a party. That motion was granted by the Administrative Law Judge (ALJ) on November 23, 2021. A prehearing conference (PHC) was held on November 23,

2021. At the PHC, the parties discussed several pertinent matters including the issues that were still disputed and those that were no longer in dispute as well as scheduling of Public Participation Hearings (PPHs), alternative dispute resolution efforts by the parties and post-evidentiary hearing briefs.

The assigned Commissioner issued the Scoping Memo and Ruling on January 11, 2022. On January 27, 2022, the City of Visalia filed a motion to intervene in the proceeding as a party. On March 23, 2022, the City of Rancho Palos Verdes filed a motion to intervene in the proceeding as a party. The respective motions for party status by the City of Visalia and the City of Ranchos Palos Verdes were granted in separate rulings by the ALJ on March 24, 2022. In accordance with the schedule set by the ALJ, Cal Water held a series of noticed remote PPHs.

On May 3, 2022, the Commission held a remote status conference. On May 9, 2022, California Water Association (CWA) filed a motion to intervene in the proceeding as a party. On May 10, 2022, Cal Advocates filed its response opposing CWA's motion for party status. On May 16, 2022, in accordance with the ALJ's instructions, CWA filed its reply to Cal Advocates' response to the motion for party status. On May 18, 2022, the ALJ issued a ruling granting limited party status to CWA.

Remote evidentiary hearings were held on May 11, 12, 13, and 17, 2022. On June 16, 2022, Cal Water and Cal Advocates filed a joint motion to extend the settlement deadline from June 16, 2022, to August 12, 2022.

On June 20, 2022, Cal Water filed a motion for interim rates.

On September 2, 2022, Cal Water and Cal Advocates filed a joint motion for the adoption of Settlement Agreement, settling a significant number of issues, and on September 30, 2022, the City of Rancho Palos Verdes filed comments on

the proposed Settlement Agreement. Both Cal Water and Cal Advocates replied to the comments on October 17, 2022. No further hearings were held.

On November 3, 2022, the assigned ALJ issued a ruling partially granting and partially denying Cal Water's motion for interim rates.[1]

On December 16, 2022, Cal Water and Cal Advocates filed a second joint motion for the adoption of the proposed Settlement Agreement, due to the need to correct errors in the copy of the Settlement Agreement attached to the prior September 2, 2022 joint motion for approval of the Settlement Agreement. On January 13, 2023, the City of Rancho Palos Verdes filed Comments on the corrections and Cal Water replied on January 30, 2023.

On January 13, 2023, Cal Water filed a second motion for interim rates; and, on January 16, 2023, Cal Water filed a corrected motion for modified interim rates. The January 16, 2023 motion for modified interim rates was granted on February 13, 2023.[2]

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[1] https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M498/K245/498245602.PDF:

"Cal Water will be permitted to maintain its rates currently in effect as interim rates, but its request to increase those rates for the interim rate period, should there be one, by the current rate of inflation (in excess of 8.0% during October 2022) will be denied. This ruling also grants Cal Water's request for authorization to open a memorandum account to track the difference between (a) the new rates effective January 1, 2023, and (b) the interim rates billed to customers between January 1, 2023, and the date that new rates are implemented." Ruling at 1-2.

[2] "Pursuant to Public Utilities (Pub. Util.) Code § 455.2, this ruling grants Cal Water's motion to modify its interim rates by increasing them 4 percent in all but four of its ratemaking areas. The November 3, 2022 interim rate ruling found that the delay in completing this general rate case is not due to the actions of Cal Water. Cal Water's application and supporting materials, Cal Advocates decision to not oppose the current motions, and the CPI-U data included by Cal Water with its motions, provide a substantial showing in favor of granting the modified interim rate increase. As noted, Cal Water has implemented interim rates as of January 1, 2023. A modification that increases some of those interim rates serves the public interest by reducing the balance tracked in Cal Water's Interim Rate Memorandum Account for future amortization, and by lessening the potential for rate shock when the Commission's final rates are implemented." Ruling at 3.
https:/2/docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M502/K201/502201434.PDF

On June 29, 2023, Decision (D.) 23-06-042 extended the statutory deadline in this proceeding for six months to December 31, 2023. D.23-11-061 further extended that deadline to June 7, 2024.

1.2. Submission Date

This matter was submitted on July 28, 2022.

2. Issues Before the Commission

Cal Water is one of the large Class A water utilities that is required by the Water Rate Case Plan to file a general rate case (GRC) proceeding. The Water Rate Case Plan was formally adopted in Decision 07-05-062 on May 24, 2007. That Commission decision, and the Water Rate Case Plan it inaugurated, requires Class A investor-owned water utility to submit a detailed and extensively supported application for a rate increase every three years. Cal Water has 496,400 customers in 23 rate districts throughout California, and it dutifully filed its application to initiate this GRC proceeding on July 1, 2021.

A Class A Water Utility GRC is the major routine proceeding where the Commission may examine the full range of the company's operations, terms and conditions of service, long term construction proposals and system maintenance and operating expenses. We adopt a test year rate base which is the foundation for the company's ability to earn a return on its equity investment, and it is composed of the undepreciated book value of tangible assets that are used and useful for providing safe and reliable service. Rate base also includes long term intangible assets including things like software investments. Additionally, the Commission adopts a rate adjustment mechanism for the subsequent "attrition years" in between the test years from one GRC to another.

Based on Cal Water's application and the issues raised by other parties in this proceeding, the Scoping Memo[3] identified the following issues to be examined in this proceeding:

A. General Issues

1. Whether Cal Water's proposed rate increases for the Test and Escalation Years are reasonable and justified;
2. Whether Cal Water's estimates of its operation and maintenance, and administrative and general expenses are reasonable;
3. Whether Cal Water's proposed additions to plant are accurate, reasonable, and justified;
4. Whether Cal Water's proposed revenue requirement is reasonable and justified;
5. Whether Cal Water's proposed rate designs are just and reasonable;
6. Whether Cal Water has complied with prior Commission orders, including those in Cal Water's last general rate case (GRC) Decision (D.) 20-12-007;
7. Whether Cal Water has complied with applicable health and safety standards, as well as conservation, accessibility, and water equity safeguards;
8. Whether Cal Water's Emergency Preparedness Plans are adequate; and
9. Whether Cal Water's Low Income Rate Assistance (LIRA) program is adequate.

B. Special Requests

1. Whether Cal Water's proposals to consolidate (a) the Chico and Oroville Districts to create a "North Valley Region" and (b) the Dominguez and Hermosa-Redondo Districts to create a "South Bay Region" are reasonable;

[3] https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M440/K092/440092123.PDF

2. Whether Cal Water's Rate Support Fund (RSF) should continue to be subsidized with updated amounts for the Dixon, Kern River Valley, and Willows Districts;
3. Whether Cal Water's (a) proposed Monterey-Style Water Revenue Adjustment Mechanism (M-WRAM); (b) proposed Incremental Cost Balancing Accounts (ICBA) for purchased water, purchased power and pump taxes; and (c) proposed methodology for Purchased Power ICBA, are reasonable;
4. Whether Cal Water's request to retain the Sales Reconciliation Mechanism program as adopted in the 2018 GRC is reasonable;
5. Whether Cal Water's request that the Commission conditionally approve certain capital projects in stages through the advice letter process and that such projects be included in future base rates is reasonable;
6. Whether Cal Water's request to incorporate rate changes from other proceedings or Advice Letters in the final rates proposed in this GRC is reasonable;
7. Whether Cal Water's proposal to include, in the rate base, federal income taxes paid on grants received by Cal Water from government or public agencies as a result of the Tax Cuts and Jobs Acts of 2017 is reasonable;
8. Whether Cal Water's request to update its 2021 GRC application in light of changes to federal taxes on public utilities as a result of the "Made in America Tax Plan" is reasonable;
9. Whether Cal Water's request to open a memorandum account to track certain costs and expenses resulting from negotiations between Cal Water and a contractor regarding construction of projects throughout the Palos Verdes area is reasonable;
10. Whether Cal Water's request to open a Sustainable Groundwater Management Act Memorandum Account

for potential groundwater sustainability agency assessments is reasonable;

11. Whether Cal Water's proposal to extend the 2018 Tax Accounting Memorandum Account and the Asbestos Litigation Memorandum Account is reasonable;
12. Whether Cal Water's request to amortize balances in certain balancing and memorandum accounts by way of an advice letter is reasonable;
13. Whether Cal Water's request to continue certain balancing accounts is reasonable;
14. Whether Cal Water's request to include in utility plant all "used and useful" capital additions, regardless of accounting classification, is reasonable;
15. Whether Cal Water's request that Water Division use the most current Commission escalation rates when calculating the final revenue requirement and rates for this GRC's final decision is reasonable;
16. Whether Cal Water's request to calculate labor expenses for its escalation and attrition year step filings using the company's actual union contract annual wage increases is reasonable; and
17. Impacts on environmental and social justice communities, including the extent to which actions taken by the Commission on the issues in this proceeding might favorably or unfavorably impact achievement of any of the nine goals of the Commission's Environmental and Social Justice Action Plan.

3. Legal Principles

In reviewing the above issues and as necessary in adopting a just and reasonable revenue requirement, the Commission considers and applies its prior decisions and considers long-established general practices as appropriate to the

facts and circumstances presented in this proceeding. Below is an overview of the applicable legal principles.

3.1. Just and Reasonable Rates

Pub. Util. Code Section 451 provides that "all charges demanded or received by any public utility … shall be just and reasonable." Pub. Util. Code Section 454(a) requires that "… a public utility shall not change any rate or so alter any classification, contract, practice, or rule as to result in any new rate, except upon a showing before the commission and a finding by the commission that the new rate is justified."

3.2. Prudent Manager Standard

When the necessity of Cal Water's actions is called into question, the Commission may in some circumstances apply the prudent manager standard. Under the prudent manager standard, the Commission does not evaluate reasonableness based on hindsight but based on what the utility knew or should have known at the time it made its decision.[4] This standard reaches not just the activities and associated costs for which Cal Water seeks recovery here but extends to the actions or inactions that resulted in those activities being necessary.[5]

3.3. Burden of Proof

It is well-established that an applicant, such as Cal Water, must carry the burden of proving that it is entitled to the relief it is seeking. Thus, Cal Water initially has the burden of affirmatively establishing the reasonableness of its

[4] Decision (D.) 22-06-032, Decision Addressing Southern California Edison Company's Track 3 Request for Recovery of Wildfire Mitigation Memorandum and Balancing Account Balances (June 23, 2022) at 18.

[5] D.18-07-025, Order Denying Rehearing of Decision D.17-11-033 (July 12, 2018) at 3, 5, 6 (citing to D.87-06-021); D.21-11-036, Order Modifying Decision 19-09- 025 and Denying Rehearing of Decision 19-09-025, as Modified (November 19, 2021) at 15.

position on each individual issue in its application.[6] Although the utility bears the ultimate burden to prove the reasonableness of the relief it seeks and the costs it seeks to recover, the Commission has held that when other parties propose a different result, they too have a "burden of going forward" to produce evidence to support their position and overcome the utility's evidence.[7]

3.4. Standard of Proof

The standard of proof in rate cases is preponderance of the evidence. Preponderance of the evidence usually is defined "in terms of probability of truth, e.g., 'such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[8] For example, to meet its burden, a GRC applicant must produce a preponderance of evidence, when weighed against the evidence of those in opposition, that the forecasted costs are just, reasonable and necessary. For the opponents, the same is true, their evidence must outweigh that of the applicant on the issues they dispute.

3.5. Settlement Agreement Review Standard

As part of this proceeding, the Settlement Agreement was presented to be approved by the Commission under Rule 12.1 of the Commission's Rules of Practice and Procedure (Rules). Such settlement may only be approved under

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[6] D.21-08-036, Decision on Test Year 2021 General Rate Case for Southern California Edison Company (August 19, 2021) at 9, citing to D.09-03-025, Alternate Decision of President Peevey on Test Year 2009 General Rate Case for Southern California Edison Company (March 13, 2009) at 8; D.06-05-016, Opinion on Southern California Edison Company's Test Year 2006 General Rate Increase Request (May 11, 2006) at 7.

[7] D.21-08-036, Decision on Test Year 2021 General Rate Case for Southern California Edison Company (August 19, 2021) at 10; D.20-07-038 at 3-4; D.87-12-067 at 25-26, 1987 Cal. PUC LEXIS 424, *37.

[8] D.08-12-058, Decision Granting a Certificate of Public Convenience and Necessity for the Sunrise Powerlink Transmission Project (December 18, 2008) at 19, citing to Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184.

Rule 12.1, if the Commission finds it to be reasonable in light of the whole record, consistent with the law, and in the public interest. Here, Cal Water and Cal Advocates are making a joint motion for approval and adoption of their Settlement Agreement, and they must demonstrate that the proposed settlement meets the requirements of Rule 12.1. Only upon meeting those requirements is a settlement agreement eligible for adoption by the Commission.[9]

4. The Amended Partial Settlement Agreement

A partial settlement agreement was initially filed by Cal Water and Cal Advocates on September 2, 2022. Then an amended partial settlement agreement, to supersede it, was filed on December 16, 2022. At issue here is only the December 16, 2022 version of the partial settlement agreement (the Settlement Agreement), which is attached to this decision as Appendix A. Cal Water and Cal Advocates propose, and we adopt the Settlement Agreement that resolves some of the overall issues scoped in this proceeding.

4.1. Summary of the Settled Terms

Section III of the Settlement Agreement details the settling parties' initial positions on all the settled issues, before arriving at the settled term. The categories of settled issues in the Settlement Agreement are:

- Revenue increase calculation and customer notice
- Rate Design
- Sales and Services
- Water Production Expenses and Mix
- Incorporation of Subsequent Rate Changes

[9] D.12-10-019, Order Denying Rehearing of D.08-08-030 (October 11, 2012) at 14-15; D.09-11-008, Decision Denying Motion to Adopt Contested Settlement and Dismissing Application (November 20, 2009) at 6.

- Consolidation of Skylonda Mutual into the Bear Gulch District

Below is a summary of the main settled terms agreed to by the settling parties (Cal Water and Cal Advocates):

1. Parties agree to present the revenue increase percentages in both ways so that customers understand the magnitude of the overall revenue increase; and in its next general rate case, Cal Water agrees to compare its proposed revenue increases to revenues at present rates;
2. Parties agree that the Tier 1 rate will apply to the first 6 CCF of water usage in all areas with residential tiered quantity rates. The rate designs for the Kern River Valley District and the Travis District will remain unchanged. For all areas except for the Bakersfield, East Los Angeles, Los Angeles County, and Visalia areas, the breakpoints for Tiers 2, 3, and 4 will be set according to the average distribution of water use in each ratemaking area over a four-year period (2018-2021), as follows: The Tier 2 breakpoint will be set at the 70th percentile; The Tier 3 breakpoint will be set at the 85th percentile; and Tier 4 quantity rates will apply to all usage above the Tier 3 breakpoint. For the East Los Angeles District, there will only be three tiers, with the Tier 1 and Tier 2 breakpoints set as described above. For the Bakersfield, Los Angeles County, and Visalia areas, there will be four tiers, and the Tier 1 breakpoint will be at 6 CCF, but the remaining breakpoints will be at the levels originally proposed by Cal Water in its July 2021 application;
3. Parties agree that all rates for the upcoming GRC period should be designed to recover fixed costs in the fixed service charges according to the percentages proposed in Cal Water's Application. The one exception is that, in the Livermore District, only 50% of fixed costs (rather than 60%) should be recovered through service charges;
4. Parties agree to use the price differentials between tiers as presented in Cal Water's Application: the Tier 1 rate will be

equivalent to 25% of the Tier 2 rate; the Tier 2 rate will be 100%; the Tier 3 rate will be 125% of the Tier 2 rate; and the Tier 4 rate will be 187.5% of the Tier 2 rate. As the Tier 2 rate will be used as the starting point, the calculated Tier 2 rate and resulting price differentials between tiers will need to be revenue neutral and verified by the parties prior to adoption. The expected revenue is calculated based on the expected sales per tier and the proposed tiered rates in each district; revenue neutrality is achieved when expected revenue equals the revenue requirement in each district;

5. For Coast Springs, Parties agree residential customers will experience the same tiered quantity rates as others in the Bay Area Region. In addition, usage between 3 and 6 CCF will be subject to a capacity surcharge of $8/CCF. For 7 CCF and higher, the capacity surcharge for residential customers will increase to $20/CCF. Parties also agree that non-residential customers in Coast Springs will experience the same single quantity rates as other non-residential customers in the Bay Area Region, but will also be subject to a $20/CCF capacity surcharge for usage at 7 CCF and higher;
6. Parties agree the tariff "Service to Private Fire Hydrants on Private Property" (Schedule PV-4A) for the Palos Verdes area will be modified to reflect a flat-rate amount per inch of meter and will be increased by 50%. When the Schedule PV-4A rate is in line with the company-wide "Private Fire Protection" tariff, Schedule AA-4, customers on Schedule PV-4A will be transitioned to Schedule AA-4 and Schedule PV-4A will be eliminated;
7. Parties agree that all of the rate design principles in the agreement should be applied to both the existing and proposed consolidated ratemaking areas. In addition, for the North Valley Region, Parties agree that the transitional assessment should be reflected in final rates such that 15% of the North Valley Region's total revenue requirement should be used to calculate Oroville's rates, and the remaining 85% should be used to calculate Chico's rates.

Modification or elimination of the transitional assessment will be considered in the next GRC;

8. The Parties agree to retain Cal Water's existing Customer Assistance Program (CAP) discount methodology with a discount equal to 50% off of the monthly service charge of a 5/8 x ¾-inch meter in their area, up to a discount of $48.00;
9. To fund the Rate Support Fund (RSF) Program, Parties agree that RSF surcharges will no longer apply to CAP customers. Parties agree, however, that both RSF and CAP surcharges will be expanded to apply to Private Fire Protection customers (Schedule AA-4), as well as to customers on the Private Fire Hydrants on Private Property (Schedule PV-4A) in Palos Verdes, who are in the process of being transitioned to Schedule AA-4;
10. Parties agree to retain the structure of the current subsidies for the Kern River Valley, Dixon, and Willows Districts, with the exception of lowering the RSF Index Rate from 150% to 125% of the system-wide average rate to be calculated when final rates are adopted. Parties also agree that, if necessary, RSF subsidies should be provided to decrease the Stockton revenue requirement until the typical residential bill increase associated with this GRC is no more than $5.00 per month;
11. Parties agree to use the sales per connection figures proposed by Cal Advocates, with some modifications to account for Bakersfield District flat-rate customers, bi-monthly billing and ratemaking consolidation;
12. Parties agree to adjust the number of services in Bear Gulch to reflect the additional customers from Skylonda;
13. Regarding Skylonda Mutual customers, Parties agree that no change is needed to either the sales or services for Bear Gulch at this time, and that any appropriate corrections to sales and services can be made in the next GRC;
14. Parties agree to use Cal Water's methodology for water mix, as adjusted to reflect the sales forecast agreed-upon in this

Agreement, and to update wholesale water rates to calculate purchased water and pump tax expenses; and

15. Parties agree that, in place of the $5,837,02417 in direct costs proposed for PID(Project Identification number)125671, the Commission should approve costs for the Bear Gulch District in the amount of $3,002,200 for capital costs associated with the acquisition of Skylonda Mutual Water Company. Any funding related to contingency for the Immediate Integration Improvements Projects and Improvements to Connect Skylonda to Cal Water Bear Gulch System is contingent on the Commission's decision regarding contingency.

4.2. Rancho Palos Verdes Opposition

Before we examine the Settlement Agreement, we will first review the objections raised by Rancho Palos Verdes (RPV) concerning the Settlement Agreement.

RPV contends that the Settlement Agreement results in a large rate increase for its residents who are Cal Water customers. RPV argues that such an outcome is unreasonable because:

> … these continuing, large bill increases are straining residents' ability to pay, particularly in conjunction with the after-effects of the COVID 19 pandemic and high inflation rates. Over a quarter of residents in Rancho Palos Verdes are 65 years old or older; older adults who are generally presumed by the U.S. Department of Housing and Urban Development to be principally low-income and moderate-income persons. Continued significant rate increases are untenable on a fixed income, particularly as many of these customers do not meet Cal Water's requirements for the Customer Assistance Program.[10]

RPV did not offer any evidence regarding the RPV residents, aside from the above argument, which is not evidence. According to the U.S. Census

[10] Rancho Palos Verdes Comments at 5.

Bureau, while 25.5% of the population of RPV is over 65 years in age, the median household income is $159,000 and the estimated percentage of those living below the poverty level, who would qualify for assistance, is about 3.9%.[11] We are therefore not persuaded that the Settlement Agreement would result in an unreasonable rate increase to Cal Water customers in RPV.

RPV also opposes inclusion of an allowance for contingencies in Cal Water's PVPWRP Memorandum Account, arguing that the Commission has rejected the inclusion of contingencies. RPV incorrectly interprets the decisions it cites. It cites D.21- 08-036, a GRC decision for Southern California Edison Company (Edison) which in turn cited to an earlier Edison decision, D.19-05-020 both of which disallowed contingencies in base rates adopted in a GRC, a final approval action of the Commission.

However, a memorandum account is not a final approval of an action or any guarantee of rate recovery. Inclusion of contingencies within the scope of a memorandum account only highlights the uncertainty of the final outcome. Memorandum accounts are much more uncertain: for an activity that has not yet been found to be reasonable and necessary, and where the costs are very uncertain, a utility may be given authority to track those costs and apply to recover the costs later after the utility demonstrates the reasonableness of its actions and the benefit of the activity to the ratepayers. Before the use of memorandum accounts utilities were generally at risk of absorbing activities unforeseen in between GRCs and the company would only be able to recover forecast costs in its next test year.

[11] *See* the U.S. Census Bureau data at U.S. Census Bureau QuickFacts: Rancho Palos Verdes city, California, last visited September 2023. We take official notice pursuant to Rule 13.10.

Because the settlement is not adopting an allowance for contingencies, but is instead creating a memorandum account, we find RPV's objection to be untimely and unreasonable at this time.

RPV also objects to the Settlement Agreement including in the test year revenue requirement funds to perform survey, designs, and to secure permits for projects in RPV, including adding a 2.5-million-gallon reservoir or new well site in the Palos Verdes District. RPV argues that the budget does not reflect the full rate impact for these projects and conflicts with the Commission's authorized rate case plan because the entire project is not included in a single rate case. RPV's objection is premised on Cal Advocates' position that the extra water storage capacity is not necessary at this time. As indicated in Section 6.15.1 of this decision, we reject Cal Advocates' identical position on this issue. We will not endanger safe and reliable services by deferring plans to replace the existing heavy reliance on a single source of purchased water.

Finally, RPV objects to a rate increase for private fire hydrants. It argues that the rate increase is a 50% increase, and any such increase is unreasonable on its face. We disagree. The proposed rate increase was justified in Cal Water's showing. We find RPV's objections unpersuasive.

Therefore, we decline to modify the Settlement Agreement, as requested by RPV.

4.3. Review of the Settlement Agreement

In reviewing the Settlement Agreement, Rule 12.1 of the Commission's Rules of Practice and Procedure (Rules) applies. Rule 12.1.(d) provides:

> The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. The Commission may reject any Proposed Settlement for failure to

> disclose the information required pursuant to subsection (a) of this rule.

Cal Water and Cal Advocates bear the burden of proof to show that the Settlement Agreement and its terms meet the above requirements. As noted above, the Commission also follows Pub. Util. Code Section 451 and the prudent manager standard, in examining the settled terms to discern whether they are just and reasonable and any related ratemaking mechanisms are fair. We also examine whether the parties had a sound and thorough understanding of the application and all the underlying assumptions and data, which are included in the record of this proceeding.

Here, we rely on the record of this proceeding which includes all docketed filings including comments, replies and briefs, transcripts of the lengthy evidentiary hearings and the served testimony received into evidence. Because all settlement negotiations are confidential, this decision does not speculate on why the parties settled as they did, or why they agreed to the specific adjustments, if any, as reflected in the Settlement Agreement. We also accept that Cal Advocates had the requisite expertise, that it used good judgement when it chose to settle rather than litigate these settled issues, and that the interests of all ratepayers were effectively represented in that negotiation.

As such, we exercise our discretion to avoid unilaterally changing specific terms of the settlement process based upon our own review of the original positions of Cal Water and Cal Advocates as embodied in their testimony and exhibits identified and received into the record of this proceeding. Such term specific review of settlements would ignore the very nature of give and take that occurred in the settlement negotiation to resolve other settled issues here. We favor settlements when possible and recognize that term specific reviews of a

settlement would have the chilling effect of stifling or otherwise disincentivizing settlements in general.

4.4. Approval of the Settlement Agreement

As discussed below, we find that the Settlement Agreement is reasonable in light of the whole record, consistent with the law, and is in the public interest, and we approve and adopt it.

As summarized above, the settled issues are limited to and relate primarily to rate design, sales and services, and water production. For rate design, the settling parties collaborated extensively to address the concerns about each of the rate designs proposed in the proceeding. For example, in its application, Cal Water proposed that residential customers in almost all districts move from three tiers to four tiers to accommodate a first tier of 6 CCFs for most districts.[12] In its report, Cal Advocates agreed with a first tier of 6 CCF but questioned the proposed tier widths of the higher tiers (the tier "breakpoints") and proposed an alternative rate design. Cal Water considered Cal Advocates' concerns and then proposed a modified rate design in rebuttal. After that, they continued to refine the myriad details associated with rate design to reach a mutually agreeable approach described in detail in the proposed settled term that balances affordability, conservation, and revenue stability. Cal Water and Cal Advocates propose to further address affordability by eliminating the surcharges that fund the Rate Support Fund (RSF) from the bills of all customers in the low-income

[12] The exceptions were the East L.A., Kern River Valley, and Travis Districts. Residential East L.A. customers would expand from two tiers to three tiers. Kern River Valley customers would continue to receive a discount on the first 10 CCF of usage, which would continue to result, in effect, in a two-tier structure for all customers in the district. For the Travis District, there was no proposed change to the current flat monthly fee.

Customer Assistance Program (CAP),[13] while expanding the funding of both RSF and CAP so that customers with Private Fire Protection and Privately-Owned Fire Hydrants also contribute.

Each of the settled terms in the Settlement Agreement resulted from similar thoughtful and substantive negotiations to reach compromises. Those issues include forecasted sales, services, and water production, and incorporates capital project adjustments in the Bear Gulch District to implement the acquisition of Skylonda Mutual Water Company.

We will not reiterate each initial and subsequent argument or the changing positions of the settling parties as they progressed toward settlement here, as that is carefully detailed in the attached Settlement Agreement. It is also not necessary that we reiterate all the individually settled terms at a granular level for all the districts or corporate activities.

Upon review of the whole Settlement Agreement in view of the record of this proceeding, we find that the Settlement Agreement resolves the settled issues in a reasonably balanced way which reflects a package of compromises by Cal Water and Cal Advocates. We note that Cal Advocates, a key settling party, is statutorily charged to represent a broad spectrum of ratepayer interests. It is clear from the record that Cal Advocates had the necessary understanding of the issues and facts, and the capacity to engage in the settlement process. While Cal Advocates' role in the Settlement Agreement does not lessen RPV's rights or standing before this Commission, we believe that Cal Advocates zealously and dutifully represented all the ratepayers' interests in a fair and equitable way

[13] Currently, only CAP customers in the Kern River Valley District are exempt from RSF surcharges.

during the negotiation leading to the Settlement Agreement, which Cal Advocates recommends we adopt.

As discussed in a previous section of this decision, we have carefully considered RPV's objections to certain terms of the Settlement Agreement but are not persuaded by those objections. Because all settlements negotiations are confidential, we cannot speculate or dissect why the parties settled as they did, or why they agreed to the specific adjustments, if any, as shown below. Here, we accept that Cal Advocates has the requisite expertise and that it used good judgement when it chose to settle rather than litigate these issues and that the interests of all ratepayers were effectively represented.

4.4.1. Reasonableness In Light of the Whole Record

The Settlement Agreement is a reasonable resolution of the settled issues. The settling parties reached their Settlement Agreement after extensive independent investigation, analysis performed by each settling party's respective representatives with uncontested expertise in various subject areas and based on the record in this proceeding. The settling parties fully evaluated their respective positions and the record in this proceeding and reached a reasonable and fair resolution of the issues as reflected in their proposed Settlement Agreement.

4.4.2. Consistent With the Law

There are no statutory provisions or prior Commission decisions that would be contravened or compromised by the proposed Settlement Agreement. The issues resolved in the Settlement Agreement are within the scope of this proceeding. Resolution of the issues as addressed in the Settlement Agreement will result in just and reasonable rates consistent with Public Utility Code Section 451. The proposed Settlement Agreement does not bind the Commission in the future. Consistent with Rule 12.5, the express terms of the Settlement

Agreement provides that it is not precedential. No party may cite it as precedent in any subsequent proceeding for Cal Water or any other jurisdictional utility, and it does not establish a presumption of any future finding of reasonableness Therefore, we find the Settlement Agreement is consistent with the law.

4.4.3. In the Public Interest

The Settlement Agreement will result in a reduction in Cal Water's revenue requirement request in its application while still providing revenue for those capital projects addressed in the Settlement Agreement. The Settlement Agreement serves the public's interest by ensuring, with regard to those issues addressed in the Settlement Agreement, that Cal Water will continue to provide consumers with safe and reliable water service at reasonable rates.

The Commission has expressed a "strong public policy" in favor of settlements.[14] This policy supports many worthwhile goals, including the reduction of litigation expenses, conservation of finite Commission resources, and reduced risk relating to unknown and potentially unacceptable or unreasonable litigation outcomes.[15] Commission approval of the proposed Settlement Agreement will provide such benefits while reasonably resolving many of the issues contested in this proceeding.

5. Unsettled General Objections and Arguments

We begin by examining Cal Advocates' central objections that are raised against a majority of Cal Water's proposals in this application. As discussed, we are not persuaded by these objections or their accompanying arguments.

[14] *See* D.05-03-022.

[15] *See* D.08-01-043.

5.1. Contingency Factors

Cal Advocates request that the Commission summarily deny all contingency factors for all of Cal Water's project estimates. As discussed below, we reject this request.

In this proceeding, Cal Advocates requests that we summarily disallow all contingency amounts from all of Cal Water's project estimates, arguing that instead of including contingency amounts in its budget projections, Cal Water "should instead [be required to] use its vast experience and historical knowledge to estimate total project costs as best as possible."[16] Cal Advocates then argues that our decisions D.19-05-020 and D.21-08-036 support its position to disallow summarily all the contingency factors. That is not accurate. Neither decision supports Cal Advocates' argument here to disallow summarily all contingency factors. The cited decisions are instead consistent with and reflect the Commission's historical allowance of contingency factors, so long as the contingency factors are reasonable in the context of the project to which they are applied.

In D.19-05-020, a GRC decision for Southern California Edison Company (SCE), the Commission authorized contingency factors for all of SCE's proposed capital projects, with only one exception for software packages. For SCE's purchases of software packages only, the Commission removed the contingency factors as there was no basis to anticipate any contingency, unlike all the rest of SCE's capital projects which were approved with contingency factors if they were initially assigned one. The unknown risks associated with purchasing existing software programs from a vendor and installing them with one's own

[16] Exh. CalAdv-4 (Ibrahim-Public) at 16-1 to 16-4.

employees, as SCE proposed, posed few, if any, contingent risks. That said, all other projects approved in that decision, were approved with contingency factors, and they posed various uncertainties associated with the planning, designing, and permitting of electric utility facilities, as well as the hiring of general contractors and subcontractors, and constructing the components of a utility's plant.

Similarly, in the second decision, D.21-08-036, the Commission examined the evidence and considered the merits of the contingency factors proposed. To be clear, D.21-08-036 does not stand for the proposition that the Commission summarily disfavors and disallows all contingency factors. The Commission examined and rejected a proposed 35 percent contingency factor employed by SCE on one or more projects, but at the same time allowed use of a 20 percent contingency factor on one type of project and approved a 15 percent factor on another project.[17]

Based on the foregoing, we shall maintain our historic approach in favor of evaluating contingencies for reasonableness and prudence on an individual basis in the context of the scope and complexity of the project for which they are proposed.

Here, Cal Water assigned each of its proposed projects a contingency factor (10 or 20 percent) based on its extensive experience developing a wide variety of plant additions to its state-wide system. Upon our review of these proposed projects, we are satisfied in this instance that Cal Water's contingency

[17] "Contrary to Cal Advocates' assertion, SCE's 2018 GRC decision does not limit future E&P Tool funding requests to the 20 percent contingency factor SCE initially requested." D.21-08-036 at 98 (emphasis added). *See also, id.* at 537: "We also find that SCE has failed to justify use of a 25 percent contingency for removal of a small fuel cell installation and find TURN's recommendation of a 15 percent contingency to be more reasonable."

factors comply with the standards we have historically endorsed, and other standards-setting organizations have recommended, as discussed in subsequent sections of this decision on various proposed projects.

5.2. Two-Step Approval for Longer Term Project Costs

Thirty of the 82 proposed projects for which Cal Water seeks budget approval in this GRC, each require longer than three-years to complete – the typical rate cycle for Class A water utilities.[18] Cal Water proposes a two-step review process for such longer-term projects. Cal Advocates opposes the two-step approach Cal Water proposes.[19] As discussed below, we are persuaded by Cal Water's proposed two-step review process. Cal Water's proposed two-step approach to review of the 30 projects listed in Appendix B-2, is reasonable and consistent with our historic approach to project cost reviews.

Each of these 30 longer-term projects involves various pre-construction tasks including siting and acquisition of land, contracting, designing, acquisition of permits and environmental review, and other tasks, if needed, such as retaining a construction management team (hereinafter, "pre-construction costs").[20] According to Cal Water's proposal, all pre-construction work will be

[18] The 30 individual projects are listed on Appendix B-2 of this decision.

[19] Without explaining the reason for deviating from its generic position, Cal Advocates agrees with Cal Water's two-step approach with respect to one project, PID124230, in this GRC proceeding.

[20] To avoid any confusion over what is or is not pre-construction work, we use the term "pre-construction cost" in its broadest sense. Cal Water identifies specific pre-construction costs that it wants included in rate base for this GRC cycle, namely, design costs, project documentation costs, and all permitting costs for 30 specific projects. (Cal Water Opening Brief at 99.) On the other hand, Cal Advocates frames the issue as no pre-construction cost for any project, regardless of the type of cost, should be included in rate base until the project is used and useful. (*See, e.g.,* Exh. Cal Adv-8 (Gendler – Public), at 1-7.) Our ruling on this issue is the same whether a broad or narrow definition of pre-construction costs is used.

completed in this current GRC cycle at an aggregated, projected cost of $11,035,985, or about 24 percent of the current estimated aggregated cost to complete all 30 projects. Further, Cal Water agrees to the Commission imposing a condition on its approval of including all $11,035,985 in rate base for this GRC cycle that all design and permitting work must be completed before this GRC cycle ends. Under Cal Water's plan, the cost of the construction phases of the projects would be projected and presented in Cal Water's next GRC cycle for the Commission to approve, modify or reject.[21]

Cal Water also explains that pre-construction and construction activities together often take significant time in projects like the 30 identified projects, for example, up to ten years for siting and bringing online a new well, during which time the initially prepared construction cost estimates become stale and are no longer accurate by the time the pre-construction tasks are completed and construction can begin. Cal Water asserts that better final construction estimates will result from the two-step approval process it proposes here because if all pre-construction work is completed during a first GRC cycle, Cal Water will be in the best position to estimate the cost of the construction to be performed in the second GRC cycle and include that in that GRC application.

We agree that the two-step approach would afford better cost control for both Cal Water and the Commission over the project costs because the initial authorization of pre-construction costs would, particularly in complex projects, both shield ratepayers from the variabilities in initial phase costs and allow Cal Water to make, and the Commission to examine, more accurate forecasts of the

[21] Cal Water Opening Brief at 98 -102; Exh. CW-27 (Common Plant PJ Book) at 159.

final construction costs for the project in the second step.[22] Furthermore, by looking at more accurate estimates in two parts, the Commission will be better informed of the actual ratepayer impacts and better able to deliberate whether to approve or deny the project construction costs. Finally, a two-step process would also allow the Commission, so long as there is good cause shown, to revisit and consider shifting of previously approved pre-construction costs from ratepayers to shareholders, if the construction phase of the project is abandoned.

Cal Advocates opposes the two-step proposal and argues that all project costs should be reviewed and authorized all at the same time.[23] As to all the pre-construction projects and related costs proposed in this GRC, Cal Advocates contends, "[s]ince no physical work is proposed or planned" in the first stage, authorization for inclusion of the cost of "non-physical" work must be denied until the physical work has been completed.[24] Cal Advocates argues that since "the full impact on rates cannot be determined" until the entire project scope is completed,[25] all project budgets proposed in this GRC must be summarily denied and no cost recovery should be authorized until all physical construction is completed. Under Cal Advocates' proposed post-construction, one-step-review approach, Cal Water must proceed with and complete any of the projects it undertakes without first securing Commission's review or approval of rate recovery of the costs. Cal Advocates argues that this after-the-fact review

[22] *Ibid*. With the Commission's two-step review and approval of project budget, Cal Water would secure the pre-construction budget needed without delay. If it did delay, all overruns would be the responsibility of the shareholders, whereas the ratepayers would have the benefit of the Commission having capped the pre-construction costs.

[23] Cal. Advocates Opening Brief at 88 - 90; Exh. CalAdv-5 (Menda – Public) at 17-1 to 17-10.

[24] *See, e.g.,* Exh. CalAdv-8 (Gendler – Public) at 1-7.

[25] *See, e.g.,* Exh. CalAdv-8 (Murphy – Public) at 1-6.

approach is preferable and would compel Cal Water to assume the entire risk of a project from start to finish before Commission addresses the issue of recovery for any of the project costs in rates.

Cal Water's position is consistent with prior Commission decisions. We have phased our review of project costs in the past and not ordered that "physical construction" occur before any cost recovery can be authorized.[26] Even Cal Advocates supported this phased approach to project cost reviews in the past, to spread the review of project costs over more than a single GRC.[27] We agree with Cal Advocates' second point that the full impact on rates cannot be determined until the entire project is completed. The project also does not always get completed as proposed and can sometimes require modifications or be even abandoned for compelling reasons. However, in these situations, the two-step approach affords the Commission another opportunity to examine any modified project elements or abandonment issues in step two (the subsequent GRC).

In sum, Cal Water's proposed two-step phased review is reasonable and consistent with our historic approach to these project cost reviews. This two-step process will avoid angst over sunk costs and also avoid "throwing good money after bad."[28] Cal Water's two-step phased cost review for these thirty Cal Water projects is approved. We have reviewed each of the identified thirty projects challenged by Cal Advocates on this ground and find that the two-step process results in better control over the ultimate cost of each project by phasing each one over this and the following GRC. A list of the 30 projects affected by this part of

[26] D.16-12-067 at 59-60, 74; D.09-11-032 at 22-25.

[27] D.18-12-021 at 189, 191-192 and 193.

[28] Here, the concise colloquial description best explains our financial and ratemaking decision policy.

our decision is attached to this decision as Appendix B-2. For those projects among the 30 listed on Appendix B-2 to which Cal Advocates added one or more other objections, we address Cal Advocates' additional objections elsewhere in this decision.

5.3. Carryover Projects

5.3.1. Introduction

Cal Advocates asks us to reject all requests in this GRC for approval of revenue Cal Water has requested to complete plant additions, repairs and improvements that are being "carried over" from its previous GRC rate cycle to this one, on the ground that such projects should have been completed in the previous rate case cycle.[29]

5.3.2. Discussion

There are seven projects listed in Appendix B-3 to this decision labelled "carryover" projects for this GRC. As we understand it, Cal Water does not object to affixing the label "carryover" to these projects, however it does object to the blanket denial Cal Advocates wants us to give to all funding requests for projects labelled "carryover."

To further illustrate, in every GRC, Cal Water proposes its plans for plant additions for a four-year period rather than the three-year period of a water GRC cycle.[30] But because inflation can occur over a period of four years for reasons beyond a utility's ability to predict or control, costs to complete a project planned

[29] We understand Cal Advocates' position to be that it does not oppose Cal Water finishing a carryover project and, subsequent to the project being put in service, seeking recovery for the actual cost of the project. (*See* Cal Advocates Reply Brief at 45 which provides: "As Cal Advocates recommends both in its testimony and Opening Brief, the Commission should not allow Cal Water to include previously funded but significantly delayed projects in rates until such projects are demonstrated to be complete and providing service.")

[30] Exh. CW-55 (CW Rebuttal Book No. 2; Milliman and Devries Rebuttal Test) at 194 – 195.

to be completed four years after a GRC application was filed (which may require more than the planned 18 months to litigate) can increase well beyond the budget adopted in the GRC decision for the project. In those instances, Cal Water may ask for a new budget approval to replace or replenish the budget approval that was given in a previous GRC proceeding. Here, Cal Advocates opposes all Cal Water's requests for repeat budget approvals for individual carryover projects that were previously approved.[31] There are many reasons why a previously approved project budget might need replenishment besides inflationary pressures, one frequent reason is that the funding authorized for an approved project may have been diverted to other plant needs that arise without warning, for example, a sudden need to harden Cal Water's system in a wildfire area of California. These projects are also labelled "carryover" projects by both parties. Thus, the "carryover" projects are requests for reauthorization of projects that were "deferred" but that Cal Water still intends to complete if the diverted funding is replenished. In passing, we note that Cal Water is still subject to a reasonableness review of the cost of the unanticipated projects which were built with diverted funds and included in rate base.

The record reflects that Cal Water must manage 750 or more plant facilities throughout California. To compel Cal Water to complete all plans it sets out in its GRC applications for construction, repair, replacement, and improvement of all facilities needing attention in a 36-month rate cycle, regardless of emergencies or

[31] Cal Water points out that Cal Advocates applies the term "carryover project" to projects which we have not yet formally approved but which were instead referred to the Commission's Water Division for its supervision as an "advice letter" project subject to our procedures for such referred projects. Like Cal Water, we are not inclined to label such projects "carryover" since they are not being "carried over" from a prior formal Commission decision. Our formal decision to approve the cost of an advice letter project will occur only after the project is completed, which is the kind of *post facto* treatment we understand Cal Advocates prefers.

unforeseeable occurrences that might arise, upon penalty of forfeiting appropriate additional funding is both unnecessary and unwise. Applied, as Cal Advocates prefers, in a blanket fashion, with no exceptions, it is a position predicated upon the existence of a level of project planning and execution by utility executives yet unseen by humankind. We are not inclined to implement such an approach to the so-called "carryover projects."

This is not to say that ratepayers should not be getting fair value when they pay their Cal Water bills. Cal Advocates maintains that an aggregate $182 million was approved in Cal Water's prior 2018 GRC proceeding for what are now being referred to as "the carryover projects."[32] Cal Water's request for amended budgets for these projects in this GRC prompts Cal Advocates to query whether ratepayers are in fact getting fair value for paying their bills:

> [Cal Water] has already received customer funds [in the previous GRC rate cycle] for these projects [and] has therefore been earning a return on projects it never completed and [which] are providing no benefit to ratepayers. [¶] …Ratepayers should not be asked to pay twice for projects that have yet to produce benefits one time.[33]

Cal Water has responded to Cal Advocates' query whether ratepayers have been paying for more than they receive from Cal Water. First, as Cal Water witness Mr. Milliman pointed out in his prepared testimony, and again during cross-examination, the Commission requires ratepayers to pay for the aggregate amount of rate base approved by the Commission in each GRC cycle, not for an itemized list of individual capital projects.[34] Second, as Mr. Milliman also explained in his testimony, during its last rate case cycle Cal Water spent

[32] Cal Advocates Reply Brief at 44.

[33] Exh. CalAdv-4 (Ibrahim) at 16-6, lines 7 - 15.

[34] RT 687:2-17; 698:6-23; 761:19-763:15 (Milleman/Cal Water).

virtually all (97.3 percent) of the total budget the Commission approved for capital projects, but Cal Water did not spend all of it on the specific projects Cal Water had initially planned to spend it on. As explained by Mr. Milliman, due to unexpected demands during the 2018 GRC cycle, Cal Water needed to repair, install, replace, or fortify various plant facilities immediately and that caused Cal Water to delay, or not even start, some projects for which it had planned to use the overall budget originally approved by the Commission in the previous GRC. Doing so does not mean that Cal Water failed to spend ratepayer revenue on plant facilities. The record here shows that had Cal Water overspent by 10 or 20%, for example, it would have booked more costs in rate base accounts that were used to set rates for the GRC cycle and would have forgone rate recovery until rate base was reset in the subsequent attrition adjustment or GRC.

Cal Water followed a different course. The record shows that there was exactly a 2.7 percent gap, representing unspent amounts, between what was approved in 2018 and what was spent by Cal Water during the ensuing three-year cycle. The 2.7 percent of the total approved plant budget not spent by Cal Water during the previous rate cycle represents an amount much less than the $182 million Cal Advocates implies was not spent on plant facilities. However, to eliminate, or reduce as much as possible, another gap arising in this GRC between the eventual approved capital projects budget and the actual funds spent on capital projects, Cal Water has voluntarily reduced the total capital budget it seeks in this rate cycle by $100 million.[35]

[35] Cal Water also points out that in the usual course of business there are capital projects which are completed and in service but not identified on the company's books as "Plant in Service" due to time lags in the billings by the contractors who built the projects. Cal Water Opening Brief, at 107, notes 568 and 569. If these projects were added to the other competed projects the

Footnote continued on next page.

Additional protection for ratepayers' pocketbooks is already provided by the Rate Case Plan for Class A water companies.[36] If Cal Water does not close a certain number of utility plant projects in a timely manner, its authorized plant capital, and ultimately its customers' rates, will not be adjusted upwards in the attrition years of a GRC cycle. The record in this proceeding supports a finding that between the voluntary $100 million reduction of the capital budget Cal Water seeks in this proceeding and the protection afforded customers in the Rate Case Plan, Cal Water's capital spending during this GRC cycle will closely match its authorized capital budget.

5.3.3. Conclusion

Notwithstanding the protections for ratepayers put in place for this GRC cycle, the budgets for carryover projects from the 2018 Cal Water GRC represent a noticeable portion of the total test-year revenue requirement requested by Cal Water in this proceeding.[37] That comparison is somewhat worrisome. Accordingly, in future Cal Water GRC proceedings, if the sum of the individual budgets for Cal Water's carryover projects is equal to 25 percent[38] or more of the proposed total revenue requirement for the test year, Cal Water must serve testimony describing in detail (i) the circumstances giving rise to each unanticipated project that delayed an approved project; (ii) the management

ratio of cost for completed projects to authorized revenue for capital projects would be close to 100 percent.

[36] D.07-05-062 at Appendix A, A-19 ("The requested rate increase shall be subject to the pro forma earnings test, as specified in D.04-06-018.").

[37] Test year budget for capital projects, excluding AFUDC and construction overhead, is $265,263,274. According to Cal Advocates the carryover project budgets are $182 million or about 22 percent of the total revenue request for the test year.

[38] We select 25% to set a margin for requiring this extra testimonybut may vary it in future GRCs as we gain more experience with this comparison.

review process which selected and justified each decision for a project deferral; and (iii) the reasons why ratepayers are not, and will not, be disadvantaged by each deferral.

5.4. Non-Specific and Unscheduled Projects

Non-specific capital projects are reactive. They are responsive to unexpected facility or equipment failures, a need to maintain operations, or they address work items that were not previously anticipated when Cal Water developed its advance capital budgets, such as Cal Water's response to public safety power shutoff events, wildfire resiliency programs, and water quality projects. These projects are urgent and cannot wait for the next budget or GRC cycle. A budget for each Cal Water rate district is projected in each GRC based on historical experience with such events and referred to as the Non-Specific capital budget.

However, in this proceeding Cal Water proposes removal of certain kinds of damaging events from its "Non-Specific" budget category into a new category to be called the "Unscheduled" event budget. Specifically, Cal Water wants to remove from the Non-Specific budget category all unplanned damage related to mains, meters, service lines and hydrants that can always be expected to happen somewhere in the Cal Water system, but without predictability as to exactly when and where, and list those in its new Unscheduled category. All other unplanned projects would remain in the now-reduced scope Non-Specific budget category. Cal Water maintains that this two-category system will provide the Commission a better understanding of the difference between those costs that are completely unexpected and will be budgeted in the Non-Specific category versus those costs that are unpredictable but are of a type known to occur somewhere in the Cal Water system regularly and cannot avoid being addressed.

Again, these latter damage incidents will go into the Unscheduled budget category.[39]

In its opening brief, Cal Advocates opposes the proposal for a two-category budget system and further argues that the "Commission should reduce Cal Water's Non-Specific budget to discourage Cal Water from escalating and misusing its Non-Specific funding and from circumventing the Commission's capital budget review process in GRCs."[40]

There is no evidence in the record to support Cal Advocates' implication that Cal Water has misused or, in the future, will intentionally misuse its Non-Specific budget to circumvent the Commission's review of Cal Water's capital expenditures. To the contrary, the record contains evidence that Cal Water's historic record with respect to Non-Specific capital spending puts it in the top-performing (lowest expenditures) quartile of the nation's water utilities.[41] Furthermore, separating out the types of occurrences that Cal Water will now classify as "unscheduled capital projects," that is, the type of pipe, valve or hydrant breaks that occur year after year, will help the Commission more easily focus on Cal Water's responses to the totally unexpected damage to Cal Water's system that Cal Water will continue to characterize as "Non-Specific" capital project expenses.[42]

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[39] Cal Water Opening Brief at 126 – 131.

[40] Cal Advocates Brief at 80.

[41] Exh. CW-55, at 44.

[42] To further facilitate review of the new, Unscheduled, capital projects category, Cal Water will be required to supply an additional report in its next GRC that accumulates similar types of damage systemwide into subcategories, for example, all incidents of fire hydrant damage, including the total expense to repair all such damage.

Cal Advocates expresses fear that by separating out different types of unplanned capital expense Cal Water will somehow be able to hide major predictable capital expenses from scrutiny by the Commission.[43] However, there is no evidence in the record that Cal Water intends to do anything of the sort. Again, by creating a new category out of the formerly lone and broad category of Non-Specific capital expenses, the Commission will be better able to scrutinize both the efficacy of Cal Water's separate classification process and, if it exists, to identify a capital project that has been entirely mischaracterized because it is in fact a predictable, significant project that deserves its own scrutiny in a GRC proceeding. Furthermore, authorizing Cal Water to create a distinct, new category of capital expense for regularly occurring damage to its system will replicate what the Commission has previously directed California American Water Company to do.[44] Accordingly, Cal Water will be authorized to use separate "Non-Specific" and "Unscheduled" capital expense budgets for each of its ratemaking districts. Its proposed budgets in this proceeding for each category for each district are approved.

6. District Specific Plant Projects

In this section, we will address Cal Water's proposed capital project budgets on an individual basis by Project Identification number (PID). All the proposed projects are opposed by Cal Advocates, often based on one or more of its generic objections and in some instances additional grounds.

[43] Cal Advocates Reply Brief at 35 – 37.

[44] D.18-12-021 at 147 – 149.

6.1. Antelope Valley District

6.1.1. Project Identification (PID) 123634 – Land Acquisition

Cal Water requests approval for a budget of $572,857 for this project. The record shows Cal Water's main source of water is purchased water, obtained from the Antelope Valley East Kern Water Agency (AVEK). While this arrangement satisfies the California Division of Drinking Water (DDW) minimum health standards, it does not meet the reliability requirements of federal agencies, particularly for fire control purposes, which is of particular concern in this area of California. Furthermore, a consultant's study ordered by Cal Water concluded that in the long run a new source of groundwater would be lower cost than continuing to purchase water from AVEK.

Cal Advocates' position that the current main water source (AVEK) is adequate is unpersuasive. AVEK's system is exposed to wildfires and earthquakes and would leave Cal Water with very little, if any, back-up.

The preponderance of record evidence showed the addition of an additional source of groundwater in this ratemaking district would contribute substantially to the stability of the water system in this area. Accordingly, we approve of this initial project budget for purchasing the land parcel where the new well will be located.

6.1.2. PID124343 – Water Supply/Reliability Study

In its opening brief, Cal Advocates agreed that the Commission should approve the costs for Cal Water's proposed Antelope Valley Water Supply Reliability Study project but recommended eliminating the 10 percent contingency factor in the budget based on its generic argument on that issue discussed in Section 5.1 above (no project-specific reasons were presented). We have explained our reasons for rejecting Cal Advocates' generic argument

regarding contingency factors.[45] We incorporate that reasoning here and approve the entire budget of $142,192 proposed by Cal Water for this project.

6.1.3. PID124250 – Water Supply/Facilities Master Plan

Cal Advocates agreed that the Commission should approve the costs for Cal Water's proposed Antelope Valley Water Supply and Facilities Master Plan project but recommended eliminating the 10 percent contingency factor in the budget based on its generic argument on that issue, discussed in Section 5.1 above, (no project-specific reasons were presented). We have explained our reasons for rejecting Cal Advocates' generic argument in Section 5.1 above.[46] We incorporate that reasoning here and approve the entire budget of $120,288 proposed by Cal Water for this project.

6.1.4. PID123629 – Leona Valley Station 4 Storage

Cal Advocates agreed that the Commission should approve the costs for Cal Water's proposed Leona Valley Station 4 Storage Tank Replacement project but recommended eliminating the 20 percent contingency factor and the construction management and special inspection fees for the project based on its flawed, generic arguments on those issues (no additional project-specific reasons were presented). We have explained our reasons for rejecting Cal Advocates' generic arguments elsewhere in this decision.[47] We incorporate that reasoning here and approve the proposed budget of $1,383,374 for this project, including its 20 percent contingency allowance.

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[45] *See* Section 5.1 above.

[46] *Ibid*.

[47] *See* Section 5.1 (contingency factors) and Section 5.2 (inspection and construction management fees).

6.2. Bayshore District

6.2.1. PID125813 – Land Acquisition

As part of a proposed joint venture with municipal agencies, Cal Water seeks approval to purchase land for a storage tank project that would benefit its Bayshore District. The proposed purchase is in response to the Commission's order in Cal Water's previous GRC proceeding directing Cal Water to acquire land for a storage tank in this district. Cal Water has identified a parcel and proposes a budget of $1,155,687 to make the purchase. The tank would be constructed in a future GRC cycle. The budget includes a 10 percent contingency factor.

Cal Advocates opposes approval of the purchase price of the land in this proceeding and argues that Cal Water should seek cost recovery for the land purchase in a future GRC along with cost recovery for constructing the tank, to allow the Commission to review the entirety of the project at once. The Commission has previously determined that this project is needed, and the evidence Cal Water has provided justifies the initial step of purchasing the land during this GRC period with enough lead time to obtain any applicable permitting and planning approvals to construct the tank during the subsequent GRC cycle.

We find it is prudent to purchase the land now and we approve the land purchase budget request of $1,155,687 as reasonable.

6.3. Bear Gulch District

6.3.1. PID124399/ PID124437 – Pump Station Design and Land Acquisition

These two projects include designing and permitting of a booster station (PID124399) and acquisition of a parcel (PID124437) on which the booster station

will be constructed during a subsequent GRC cycle so that the district's facilities will be hardened against wildfires.

Cal Water's Bear Gulch plans have triggered generic responses from Cal Advocates, namely, that design and permitting should not be approved in a GRC proceeding if the construction of the proposed facility will occur in a later GRC cycle. In other words, no approval of any part of Cal Water's planned project should occur in this GRC cycle.

For the reasons explained in Section 5.2 above, which we incorporate here, we are not persuaded by Cal Advocates' objection. Cal Advocates' approach fails to account for the reasonable lead time necessary for constructing a project like this, particularly because it involves a purchase of real property, which is not always a simple process, and planning (design, engineering, permitting, environmental review, etc.) for the facility to be built has to be done first.

We approve the proposed budget of $1,105,358, which includes a 20 percent contingency factor for the purchase of the land because there is no evidence of harm to ratepayers in starting the design and permitting process during this GRC cycle. In fact, it would speed the project along to start those pre-construction activities now. The proposed budget of $368,350 for design and planning, which includes a 20 percent contingency for those activities, is also approved.

6.4. Bakersfield District

6.4.1. PID123165 – North Garden Pump Station and Water Tank

Cal Water requests approval of a budget of $2,819,273 for this project. The record shows that currently in the northwest part of the North Garden sector of Cal Water's system in its Bakersfield District, the Peak Hourly Demand is being

missed by 3,411 gallons per minute (gpm) when either of two wells is taken out of service for maintenance or for an emergency.

Cal Advocates agrees with Cal Water that something must be done to correct this situation. However, Cal Advocates suggests that we authorize $1,599,955 for construction of the proposed pumping station only. Cal Advocates opposes our authorizing any budget for construction of a one-million-gallon water storage tank as part of this project. Cal Advocates also adds one of its generic objections – it opposes adding Cal Water's proposed contingency factor of 10 percent to the budget for this project, whether it is limited to solely the pumping station or includes the water tank.

Our response to Cal Advocates' generic objection to contingency factors has been explained in Section 5.1 above. Cal Advocates provides no specific explanation why a contingency factor of 10 percent is inappropriate for this specific project. Consequently, we approve Cal Water's inclusion of a contingency factor because it has provided sufficient evidence of the need for a contingency factor of 10 percent.

More importantly, we approve construction of the proposed water tank. The record shows that the intent behind the proposed tank and pumping station is to ensure that an emergency supply capability is maintained in this portion of the Bakersfield system. Cal Water provided proof of a fundamental engineering reason for constructing both the pump station and the water tank, rather than just the pump station as recommended by Cal Advocates. The tank provides extra water to be used for emergency situations, but the pressure of the water in the tank is insufficient by itself for the water in the tank to exit the tank because the pressure in the main pipeline is already significantly higher than the pressure in the water tank without the pumping station. The proposed pumping station

remedies that physical problem by drawing the water from the tank so that together the two (tank and pumping station) will add both the necessary pressure and water to the main pipeline to correct for the significant drop in pressure and water flow in this area of Bakersfield when one or both wells in this area are out of service. We approve the proposed budget ($2,819,273) for PID123165 in its entirety.

6.4.2. PID123190 –Station 116 Flowmeter and Building

This building and the equipment in it are over a half century old. The original paint contains lead. Cal Water asks that we approve refurbishing the building and replacing its outdated equipment at a proposed cost of $752,064 which includes a 20 percent contingency factor. Cal Advocates only supports a budget of $394,795 for removal of the lead paint and replacement of the panel board itself. Otherwise, Cal Advocates objects to the remainder of this project budget to replace the outdated equipment or refurbish the building. As a basis for its objection, Cal Advocates points out that Cal Water did not present records of any past repairs and suggests that the absence of repair records necessarily means the equipment and structures must not require maintenance or refurbishment.

Here, Cal Water presented testimony that it had performed maintenance over the past half a century, but it had not maintained records of its repairs in station buildings. Cal Water contends that its failure to maintain and present the repair records for the equipment in the building is not an indication that repairs were never done or that the equipment is in good shape. The record shows that the equipment is more than 50 years old. The record also indicates that replacement parts for the more than 50-year-old instruments in this Station 116

are difficult to find, if any exist. Logically, such legacy equipment parts will continue to become even more difficult to find and replace as time passes.

Cal Water should maintain clear maintenance records of its facilities and equipment going forward to better inform the Commission on these issues. Here, it is evident that this building should be refurbished, and the equipment inside should be replaced. The normal life of the building and its equipment was 35 years, which is long past. We do not agree that equipment and buildings must be used to the point of breakage or failure. As we learned from the San Bruno gas explosion, the Commission supports proactive infrastructure maintenance and prioritizes the safety of the public and the employees of utilities.

6.4.3. PID123193 – Station 148 Flowmeter and Building

The issues for our examination regarding Station 148 and Cal Advocates' objection to it are similar to those regarding Station 116 discussed in the preceding section. The ages of these buildings and the equipment they each house are well past normal life expectancies. The positions of the parties are the same, consequently we incorporate our above reasoning here and reach the same conclusion for Station 148 as for Station 116. Cal Water's request to rehabilitate the building and replace instrumentation is prudent and is approved at a cost of $424,112, which includes a 20 percent contingency factor that we also approve.

6.4.4. PID123434 – New Well Project

Cal Water seeks approval for a new well project in Bakersfield in the amount of $2,920,402. Cal Water anticipates completing the project during the next GRC cycle.

There are 81 active wells in Bakersfield. However, 33 of those wells will pass their remaining-useful-life (RUL) benchmark (61 years) by 2024 according to a consultant's report commissioned by Cal Water in anticipation of a potential

rise in demand and decline in supply from the 81 existing wells. Accordingly, Cal Water seeks authority to implement a multi-GRC project to open a new well in Bakersfield. In the present GRC cycle, just design, permitting and location tasks would be undertaken.

Cal Advocates opposes the entire project. First, it contends that the RUL factor is not an appropriate standard for the Commission to employ as a decision-making standard. We disagree. It is a proactive approach to a serious problem. Cal Advocates proposes a reactive approach (waiting until a well is on the verge of failure before undertaking steps to replace it with a new well) that goes against our concern for keeping utility facilities in safe and reliable condition, not merely workable condition. The Commission supports proactive infrastructure maintenance and prioritizes safety of the public and the employees of a utility. Furthermore, reliance on RUL measurements has proven to be a reliable course until now, and Cal Advocates offers no explanation of why we should abandon it in favor of a higher risk approach.

Finally, as we have explained elsewhere in this decision, we find no danger to ratepayers if we approve the start of a project like this that cannot be completed in this three-year GRC timetable. In fact, we may have more ongoing control over whether to allow the project to move forward to completion by approving its costs in stages. We approve $2,920,402 for this project to move forward.

6.4.5. PID125251 – Station 49 PFAS Treatment Equipment

Cal Advocates only raises two of its generic arguments against approving the requested budget for this project. Cal Advocates contend there should be no allowance for contingencies or construction management. We have discussed

both budgetary factors in Sections 5.1 and 5.2 of this decision and incorporate those discussions here. These generic objections are not as persuasive as a fact-specific explanation of why a particular contingency factor or allowance of construction management costs for this project would be inappropriate. We approve the requested allowance of $1,305,235, including the 20 percent contingency factor for this project, for which, Cal Water has provided sufficient support.

6.5. Chico District

6.5.1. PID123900 – Station 7 PFAS Treatment System

The Chico District is served entirely from ground water sources. The Station 7 well is contaminated with PFAS.[48] Cal Water seeks approval for $1,264,436 to install a PFAS treatment system to address the contamination.

Cal Advocates acknowledges the PFAS contamination but proposes Cal Water close the well indefinitely. Cal Advocates believes that neither the well in question nor Cal Water's capacity requirements for the Chico District would be adversely affected by closing the well. The record does not support Cal Advocates' contention.

As for the well itself, Cal Water points out that damage occurs inside a well to the casings and other parts of the well when it is closed for a prolonged time. Cal Advocates offered no proof to the contrary.

As for capacity requirements that Cal Water is required to meet by state law,[49] the record shows that the legal requirements will not be met if the well is

[48] Polyfluoralkyl substances.

[49] Section 64554 of Title 22 (New and Existing Source Capacity) requires in subsection (a)(3) that "both the MDD [Maximum Daily Demand] and PHD {Peak Hourly Demand] requirements shall be met in the system as a whole and in each individual pressure zone." (Cal. Code Regs.

Footnote continued on next page.

closed.[50] The storage capacity for the whole district, which Cal Advocates relies upon, does not suffice for meeting the capacity requirements in the pressure zone in question. Furthermore, we are not inclined to adopt the close-to-the-edge of unreliability standard that Cal Advocates promotes. The record shows that the minimum legal pressure requirements for the zone will not be met if the well is taken out of service. Accordingly, we approve the installation of the PFAS treatment project requested by Cal Water and authorize a budget of $1,264,436, including a 10 percent contingency factor.

6.5.2. PID123938 – Station 51 Carbon Tetrachloride Treatment Project

A well at Station 51 has been shut down due to the appearance of carbon tetrachloride in the well water. The amount of the contaminant that appeared exceeded the Division of Drinking Water maximum allowable level. This fact is not disputed. However, the parties propose different solutions. Cal Water asks for a budget of $1,090,731 to install equipment for the removal of carbon tetrachloride from the well water. Cal Advocates proposes that the well should be shut down. Cal Advocates adds that Cal Water should be able to meet all state law requirements for reliability of the Chico water system without the well in

Title 22, Section 64554(a)(3) (emphasis added).) The latter part of that provision means that Cal Water must meet both MDD and PHD requirements not only for its whole system (which it currently does), but also for the 350 zone in which the Station 7 well is located; Cal Advocates references to the district-wide storage capacities are irrelevant. For Cal Water, Title 22 requires "the system shall be able to meet four hours of peak hourly demand (PHD) with source capacity, storage capacity, and/or emergency source connections." (*Id.*, at Section 64554 (a)(1).) However, as shown in the updated 2021 Supply-Demand Analysis for this district, the "firm Supply & Pump" (which incorporates "source capacity, storage capacity, and/or emergency source connections") is 22,776 gallons per minute as compared to the PHD of 20,919 gallons per minute for the 350 zone, resulting in a deficit of 153 gallons per minute. Cal Water's proposed project would cure that deficit.

[50] *See* Cal Water Reply Brief at 203, n. 872.

question being operated. However, the record does not support Cal Advocates' conclusion.

The record shows that the pressure zone in which the well is located has only two water tanks, each with storage capacity of 800,000 gallons. The record also shows that these storage tanks are not sufficient to maintain the required pressure in their zone without the added pressure supplied by the proposed pumps that would be associated with the well. Accordingly, we approve of the $1,090,731 project proposed by Cal Water to solve the contamination problem and avoid reliability problems.

6.5.3. PID125758 – Remote Terminal Unit and Flow Meter

This equipment was approved as a part of a settlement agreement reached in Cal Water's 2015 GRC. However, Cal Water did not complete the project before its 2018 GRC application was filed. Cal Water also failed to make a request for completing the project in its 2018 GRC application.

In our decision for the 2018 GRC (D.20-12-007), we ordered Cal Water to resubmit the project in its 2021 GRC application. The cost of the project has never been put in rates because it was presented to the Commission in the form of an advice letter in 2015. Cal Water now requests a budget of $490,621 to undertake this project and represents that it will complete the project within the three-year cycle for this GRC. Cal Advocates contends that Cal Water should be ordered to complete the project first and then ask for Commission approval in the next GRC. There is no good reason to delay this in-progress project any further. We approve the requested budget.

6.5.4. PID114342 – Station 11 Rebuild

Cal Water requests our approval for a budget of $733,590 to rebuild Station 11. The record shows that the building is deteriorating but Cal Water has delayed

work on this project and diverted the funds that were previously approved for performing this project to other capital projects. Cal Advocates raises its generic argument that ratepayers have already paid for this project in prior rates. As explained in Section 5.3 of this decision, we disagree with this generic argument. The project and budget of $733,590 are approved.

6.5.5. PID124251 – Water Supply/Facility Master Plan

Cal Advocates advances only its generic argument against the inclusion of a 10 percent contingency factor in the budget of $323,308 for developing this Master Plan. We have discussed the inclusion of contingency factors in Section 5.1 above and incorporate that discussion here. We approve the project and the proposed budget in its entirety.

6.5.6. PID124344 – Water Supply/Reliability Study

Cal Advocates advances only its generic argument against the inclusion of a 10 percent contingency factor in the budget of $144,529 for this study to be performed. We have explained our reasons for rejecting Cal Advocates' generic argument in Section 5.1 above and incorporate that discussion here. We approve the project and the proposed budget in its entirety.

6.6. Dixon District

6.6.1. PID124253 – Water Supply/Facility Master Plan

The cost of preparing the Master Plans for individual water districts depends on the comparative complexity of the issues facing each district. Cal Water has assigned a "medium" degree of complexity to its Dixon District. Cal Advocates contends the degree of complexity should be lowered to "low." We agree with Cal Water that the appropriate categorization for Dixon is medium. The level of a district's complexity is not solely or even largely determined by the

geographic size of a district or number of its customers but rather by a host of factors. In the case of Dixon, it is a groundwater-sourced district which has many complications associated with it, as the record in both this proceeding and the prior GRC proceeding reflects.

Cal Advocates suggests removing the 10 percent contingency factor from the proposed budget of $237,751 for this project. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate those discussions here. We approve the project and the proposed budget in its entirety.

6.6.2. PID124345 – Water Supply/Reliability Study

Cal Advocates advances only its generic argument against the inclusion of a 10 percent contingency factor in the budget of $144,529 for this study to be performed. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate those discussions here. We approve the project and the proposed budget in its entirety.

6.7. Dominguez District

6.7.1. PIDs 114507/114503 – Station 215 Treatment Plant Design/Construction

These projects consist of the design and construction of a centralized treatment facility that would address water quality issues at Well 215-01 and a newly constructed Well 216-02, respectively. The treatment process will address color, odor and other constituent problems. The record here and in D.20-07-012, where these projects were previously scrutinized and ruled upon, shows that a centralized treatment plant like that proposed by Cal Water is less costly than continued purchases of water or installing treatment equipment at individual wells. As noted, we previously approved this project in D.20-12-007, our decision in Cal Water's last GRC. Because this project was litigated in the last GRC, Cal Water waited until the Commission issued its decision in December 2020 before

moving forward. The project was completed in this current GRC rate cycle in keeping with its approval in D.20-12-007.

As for Cal Advocates' restatement of what it argued in the previous GRC, the record in this GRC shows no reason for changing how we ruled before. In D.20-12-007 we chose a proactive approach to curtailing contaminants. No good reason to change our view has been shown to us here.

We will not accept Cal Advocates' invitation to ignore the quantity of total organic compounds (TOC) found by the DDW in the groundwater in Dominguez. A study commissioned by Cal Water described the TOC level of groundwater in the Dominguez District as the single most dangerous problem there. The text of the governing California regulation makes clear that TOCs in the groundwater, when mixed with the chlorine Cal Water uses to disinfect the water, produce dangerous chemical byproducts. The record shows those byproducts can cause severe liver, kidney and nervous system problems and may lead to cancer.

Again, we must come down on the side of safety by taking proactive steps now that prevent exposing the public to such dangers. Further treatment of the water in the Dominguez District is needed and these two projects will fulfill that need.

We find the level of TOCs in water from Well 215-01 is high enough now to justify taking steps to ensure the safety of that water for the foreseeable future.

The record here continues to show that the TOC problem in Dominguez is difficult to handle. Color and odor problems have not gone away and furthermore, for a short period of time, methane gas was found in the water. The use of chlorination continues, but, of course, at a low level to avoid the proliferation of harmful byproducts. We do not view Cal Water's balancing act

as evidence that Dominguez drinking water from these two wells is safe for the foreseeable future. The record of this proceeding shows the situation still to be precarious and in need of improvement.

Finally, Cal Advocates argues that the recurring problem with TOCs is due to Cal Water's failure to flush its pipes properly. We disagree. The record, particularly, the live testimony of Cal Water's witness on this issue, shows that the TOC problem originates in the groundwater at the well, not inside Cal Water's pipes. Flushing addresses completely different problems that occur in water that has been trapped in capped pipes. Flushing does nothing to help alleviate problems at the well source, which is where the TOC originates. Thus, even if Cal Water's flushing practices were substandard (we make no finding to that effect), they are not relevant to the TOC problem. The record is very clear on that point.

There is no need for us to approve a budget for these projects. We did that in D.20-07-012. Cal Advocates calls for reversing our prior decision because these projects are "carry-over" projects, we will not do that for the reasons explained in our discussion elsewhere in this decision of Cal Advocates' generic argument on carry-over projects. Likewise, we will not modify D.20-07-012 to remove the contingency factor from the budget we authorized for these projects in D.20-07-012.

6.7.2. PIDs 123403/114508 – Station 219 Multi-Stage Development

Cal Water proposes construction of a multi-stage treatment plant at Station 219 to allow use of a currently inactive, closed well to offset the cost of purchased water, improve reliability and lower overall life cycle cost for customers. In Cal Water's last GRC, we approved a budget for designing this facility. The question

before us now is whether to approve a budget of $5,849,917 for completion of the design and construction of the facility.

Cal Advocates argues that there is not sufficient evidence to pursue the construction of this facility. However, the record shows that tests of the well water since the last GRC indicate that the water quality did not improve at all in 2020, 2021, or 2022 from the results that were presented to us in the last GRC.

Cal Advocates also claims that only a handful of water tests were performed on the inactive well, so that whatever those samples showed was an insufficient amount of testing to rely on. We disagree. The record shows that there were at least 90 water samplings made by Cal Water. For this project, that is sufficient for us to reach a conclusion about whether the quality of water from the well has improved since the last GRC. It has not. The water from this well continues to exceed maximum contaminant levels set by DDW, and that is why it is closed. The budget of $5,849,917 for the completion of the design and construction of the facility is approved.

6.7.3. PID123393 – Land Acquisition

Cal Water requests approval to purchase land for the future construction of as many as four wells and an adjacent treatment facility. The proposed budget to acquire the land is $1,270,946. Cal Water has calculated that by purchasing the property and developing the four wells and treatment facility, its Dominguez customers could save as much as $540 million over the next 50 years compared to continuing the current practice of having Cal Water purchase water from another purveyor in order to supply its own customers.

Cal Advocates recommends an alternate site but the record shows that it is not large enough to accommodate the full project. Furthermore, Cal Advocates' cost comparisons to other projects that are not sufficiently like PID123393 do not

persuade us to overrule Cal Water's preferred choice of a site. We find Cal Water's choice of a site prudent and the expense of $1,270,946 for purchasing the site reasonable.

6.7.4. PID123405 – Station 232 Relocation of a Main Discharge Pipeline

Cal Water requests approval for a budget of $2,323,832 to relocate a main discharge pipeline in the Dominguez District. The existing pipeline is a 20-inch pipe. It is 63 years old. The record shows that should the pipeline break, it could drain a five-million-gallon storage tank in the Dominguez District.

Cal Advocates objects to the proposed budget and argue that there should be an internal inspection of the pipeline's condition before authorizing its replacement. However, the record shows that given the age of the pipe an internal investigation poses a realistic danger of breaking the pipe. Furthermore, we do not adhere to Cal Advocates belief that a critical facility like this pipeline should be operated until it breaks or comes dangerously close to the breaking point. The record shows that Cal Water's approach to determining which facilities to replace incorporates many factors beyond age, for example, the fact that a break on this pipeline could result in draining a large capacity water tank. The record also shows that Cal Water has consistently followed its multi-factor test for when to replace aging facilities and that process has identified this pipeline as appropriate for replacement. It is a prudent approach, and we approve it. We also approve the project and its budget of $2,323,832.

6.7.5. PID125762 – Station 300-01 Treatment Facility

Cal Water requests approval of a budget of $3,096,242 for construction of a new water treatment plant in the Dominguez district to add oxygen into the water system there. Cal Advocates opposes the request and contends that Cal

Water should be required to continue testing the oxygen levels in the water at Station 300-01 before concluding the levels are too low and a treatment plant is needed.

Once again, we are unwilling to accept Cal Advocates philosophy that Cal Water should confine itself to being reactive only, that is, Cal Water should fix problems only after the problems have fully manifested themselves, which, by definition, means the public has already been exposed to impure water. In matters related to water purity, we are particularly unwilling to agree with Cal Advocates' approach. As we have repeatedly said in both this decision and our decision in Cal Water's prior GRC, D.20-12-007, we support proactive resolution of safety and purity issues. Here, the water testing undertaken by Cal Water to date is sufficient to indicate a looming problem with the low level of oxygen in the water. Thus, the time to fix the problem has arrived. Waiting for repeated or even worse, dangerously poor-quality reports, before making efforts to correct the problem, entails exposing the public to a higher risk that they will be physically harmed. The evidence offered by Cal Water, since its 2015 GRC cycle when this project was first brought to our attention, amply demonstrates that the water in this part of the Dominguez District needs to be treated, but there is no treatment facility, and the problem is not going away by itself. Enough evidence has been produced to persuade us that the treatment plant is needed and the proposed budget of $3,096,242 is prudent.

6.8. East Los Angeles District

6.8.1. PID124079 – Replacement of Pipelines Traversing Interstates 5 and 710

Three Cal Water mainline pipelines cross Interstates 5 and 710 in East Los Angeles. The pipes are hung from the bridges crossing the federal highways. Two are 20-inch diameter pipes and one is a 12-inch pipe. All are cast iron pipes,

made in the late 1940's through mid-1950's, and none have been lined inside. The record indicates that the American Water Works Association describes such pipes as being of particular concern from a reliability and safety standpoint because none of them have the interior plastic lining that only became an industry standard beginning in the 1960's. Given their placement over the intersection of heavily used Interstates 5 and 710, if one of the pipes were to rupture, it would pose a very serious risk to drivers passing under the overcrossings. Cal Water requests our approval of a $348,865 budget for design and permitting work for three new pipes at these overcrossings.

Cal Advocates opposes approving the project based on two of its generic arguments: (1) the budget should not include a 20 percent contingency factor; and (2) ratepayers should not be made to pay for design and permitting work until a facility has been fully built and put in use. We have explained our disagreement with these types of objections in Sections 5.1 and 5.2 above. Furthermore, the record shows that pipes to be replaced by Cal Water are being used well beyond their reliably useful lifetimes in a very danger-prone location. Therefore, we approve Cal Water's requested budget of $348,865 to design and permit replacements for the existing pipes, including its 20 percent contingency factor.

6.8.2. PID124112 – Land Acquisition for New Well

Cal Water requests $491,121 for the acquisition of land for a new, high capacity well near Station 63. Cal Water introduced evidence of studies it had performed to assess the longevity and viability of the existing wells in Dominguez. Based on those studies, Cal Water concluded that it was necessary to open a new, high capacity well in the Dominguez district. Cal Water also showed that without a new well it could only meet State water reliability

standards by purchasing water, a questionable strategy for Cal Water to follow since droughts are increasingly occurring events in southern California.

Notwithstanding Cal Water's evidence, Cal Advocates challenged Cal Water's conclusion that a new well was an operational necessity and Cal Advocates offered prepared and live testimony that it was not. However, during cross-examination, Cal Advocates witness on this issue admitted that he had not considered such matters as the likelihood of droughts, water rationing or restrictions on water sales.

We approve Cal Water's request for the reasons stated above. We have discussed the inclusion of contingency factors in Section 5.1 above and incorporate those discussions here. We approve the project and the proposed budget in its entirety, including a 10 percent contingency.

6.8.3. PID124256 – Water Supply/Facility Master Plan

Cal Advocates advances only its generic argument against the inclusion of a 10 percent contingency factor in the budget of $311,434 for this plan to be prepared. We have discussed the inclusion of contingency factors in Section 5.1 above and incorporate that discussion here. We approve the project and the proposed budget in its entirety.

6.8.4. PID125358 – Main Office Improvements

Cal Advocates advances only its generic argument against the inclusion of a 20 percent contingency factor in the budget of $913,260 proposed for these building improvements to be made. We have discussed the inclusion of contingency factors in Section 5.1 above and incorporate that discussion here. We approve the project and the proposed budget in its entirety.

6.8.5. PID124404 – Supervisory Control and Data Acquisition Project

Cal Water has requested our approval for a budget of $1,158,534 to replace the existing Supervisory Control and Data Acquisition (SCADA) system in the East Los Angeles Office. The record shows that the existing system requires a dedicated operations center, staffed around the clock with certified operators, to send commands manually to operate the water system.[51] Cal Water showed that continued operation in this manner is costly and inefficient and prevents the implementation of a regional approach to monitoring all the water systems Cal Water operates in southern California as a group. Furthermore, the record shows that the inability of the existing system to integrate with the Cal Water SCADA system for its other districts has resulted in inconsistent or incorrect data for key metrics such as water loss accounting or water production, both critical monitoring elements in a drought.[52] Cal Water explained that, without long-term historical process data, it cannot identify inefficiencies in the water distribution process or determine where to target system improvements and improve operational efficiency to better meet state regulations.[53] Additionally, testimony showed that the lack of process data limits Cal Water's ability to perform mandatory programs such as water loss control required by the State Water Code.[54] By installing a Cal Water standard SCADA system in the East Los Angeles District, Cal Water can eliminate the costs of maintaining the non-standard system historically used there, collect and archive vital process data for

[51] Exh. CW-35, at 84.

[52] *Ibid*.

[53] *Ibid*.

[54] Exh. CW-56, at 251. *See* California Water Code §10608.34.

long-term system improvements and optimal operations, and minimize cybersecurity threats. All these improvements will benefit Cal Water customers.[55]

Cal Advocates will not agree to replacing the East Los Angeles SCADA system unless Cal Water agrees that the new system will not be included in rates.[56] Cal Advocates believes that Cal Water can continue to get along well enough with the software that has been in use for many years. However, the record shows that Cal Advocates' claim that software upgrades to the current system and the maintenance services are free-of-charge to the East Los Angeles Office is incorrect. The record shows that Cal Water pays monthly charges for these services.[57] The record also shows that hardware replacement is not free-of-charge.[58]

Cal Water also demonstrated that equipping the entire East Los Angeles District system with Cal Water's standard SCADA system is the most cost-effective alternative for its East Los Angeles District customers.[59] We understand that advantage, but we are particularly concerned about cybersecurity. On that score, Cal Water has provided considerable evidence to show that East Los Angeles is not as cybersecure as it should and would be if it were integrated into the standard Cal Water SCADA system. The improved cybersecurity alone is

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[55] *Id.* at 251.

[56] Exh. Cal Adv -10 (Sarkar – Public) at 1-5 to 1-7.

[57] Exh. CW-56 at 252.

[58] Cal Water Opening Brief at 316.

[59] First, the entire cost of the East Los Angeles SCADA system is born by only by East Los Angeles customers whereas all other districts share the costs of maintaining the standard SCADA system used throughout the rest of Cal Water's districts. There are many other cost-related reasons for the changeover supported by the record. *See* Cal Water Opening Brief at 316 – 318.

enough to convince us to approve this project and we do so at the proposed budget of $1,158,534 including its 10 percent contingency factor.

6.8.6. PIDs126483, 126484 and 126485 – Routine Granular Activated Charcoal Changeouts

We decline Cal Advocates' generic proposal to remove the 10 percent contingency factors from these three project budgets. We have explained our reasons for rejecting Cal Advocates' generic argument in Section 5.1 above and incorporate that discussion here by reference. The budgets, including their 10 percent contingency factors, are approved in their individual entireties: (i) PID126483 – $400,637 approved; (ii) PID126484 –$410,653 approved; and (iii) PID126485 – $420,920 approved.

6.8.7. PID124920 – New Main from Station 61 to Zone G

Cal Advocates advances only its generic arguments against the inclusion of a 20 percent contingency factor and the inclusion of an estimate for construction management services in the budget of $1,425,740 for this project. We have discussed the inclusion of contingency factors and construction management services in Sections 5.1 and 5.2 above, and we incorporate those discussions here. We approve the project and the proposed budget in its entirety.

6.8.8. PID124407 – Station 55 Panel Board Replacement

Cal Water requested approval for a $359,823 budget to replace a panel board that was installed 70 years ago. The normal service life of the circuit breakers, motor control and other equipment on the panel board is 35 years, half their current age. Nevertheless, Cal Advocates opposes the request on the basis that if equipment is still operating, there is no need to replace it. As explained earlier, we do not subscribe to such a management philosophy. Age, safety concerns, consequences of failure, and the availability of replacement parts are

major assessment factors that should be considered to ensure station reliability. We approve the project and the requested budget of $359,823.

6.9. Hermosa—Redondo District

6.9.1. PID124257 – Water Supply/Facility Master Plan

Cal Advocates advances only its generic argument against the inclusion of a 10 percent contingency factor in the budget of $311,434 for this plan to be prepared. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. We approve the project and the proposed budget in its entirety, including the contingency factor.

6.9.2. PID124449 – Station 29 Chemical Building

The budget proposed by Cal Water for this project is $526,186. It includes a 20 percent contingency fee and construction management costs. Cal Advocates advances only its generic arguments against the inclusion of a 20 percent contingency factor and the inclusion of an estimate for construction management services in the budget for this project. We have discussed the inclusion of contingency factors and construction management fees in Sections 5.1 and 5.2 above, and we incorporate those discussions here. We approve the project and the proposed budget in its entirety.

6.10. Kern River District

6.10.1. PID124432 – Partial Rebuild of Arden Station 7

Cal Water seeks approval to both upgrade this booster pump station from one to three pumps and restructure the station to avoid an existing electrocution danger to its employees. The budget consists of two parts, $10,230 for changing out the electrical components to eliminate the electrocution danger and $372,376 to add the new pumps. Cal Advocates agrees that $10,230 should be approved

for the electric work but disagrees that two additional pumps need to be added to this station. We approve the $10,230 portion of the budget.

The record shows that additional pumps will improve reliability and station operations by providing customers and emergency personnel with a reliable supply of water during Wildfire Power Shutoff events and other emergency situations. We agree with Cal Water's assessment of the advantages to be gained and authorize the additional budget request of $382,606.

6.10.2. PID124507 – New Storage Tank

Cal Water requests approval of a budget of $1,770,395 to construct a new water tank on the site of an abandoned water tank on the east side of the Kern River in Kernville. The record shows that a new tank would improve Kernville's ability to fight fires on the east side of the river. Currently Cal Water maintains a large storage tank on the west side of the Kern River and draws water from it over to the east side of the river through an 8-inch pipeline suspended from the underside of an automobile bridge spanning the river. However, the bridge was constructed low enough that when the river is running at high levels, the pipeline is in danger of sustaining severe damage. A new tank on the east side of the river would mitigate concerns about supplying water to the eastside during emergency river flow conditions. Cal Water points out that the tank project would not be completed in this GRC cycle, but rather in the next cycle.

Cal Advocates opposes the proposed project as unnecessary because Cal Water has not experienced any extended interruptions of service and it did not perform any quantitative risk studies using age-based conditions. Cal Advocates also argues that the fire protection measures cited as justification for this project are irrelevant because the same measures were not included in Cal Water's Wildfire Risk Assessment Report.

We are persuaded that Cal Water has provided adequate evidentiary justification for this project. The evidence shows that a 60-year-old pipe attached to a bridge with pipe hangers is the only means of conveying potable water to an isolated part of the distribution system on the opposite side of the Kern River. The risk from dangerously high river flows is self-evident. Whether Cal Water should have included it in a wildfire report is a separate matter to be corrected by Cal Water if it is appropriate to do so. For present purposes, whether Cal Water failed to report the situation or not, does not change the fact that there is a 60-year-old pipe hanging beneath a bridge, where it is exposed to flood waters. Its loss would be significant for those on the eastern side of the river.

Cal Water's proposed budget for this project during this GRC cycle is approved. Furthermore, with respect to Cal Advocates' generic argument that no part of multi-GRC cycle projects should be approved until after each project is completed and operating properly, we incorporate here our prior discussion in Section 5.2 above as to why we disagree with that approach.

6.11. Livermore District

6.11.1. PID124261 – Water Supply/Facility Master Plan

Cal Water requests budget approval for its estimate of $323,308 to complete this proposed plan. Cal Advocates opposes the request because it includes a 10 percent contingency factor. We have explained our reasons for rejecting Cal Advocates' generic argument in Section 5.1 above and incorporate that discussion here by reference. Cal Water's $323,208 proposed budget, including its 10 percent contingency factor, is approved.

6.11.2. PIDs123500/123501 – Land Acquisition And New Well

Cal Water requests approval for a budget of $1,146,665 to acquire land for a new well and $3,632,815 to construct the well. It has presented evidence of extensive loss of wells in the district over the past ten years, during which time this district, like all of California, has suffered from serious droughts. According to Cal Water's evidence, there is only one inactive well in the area that has a chance of being successfully resuscitated. On the other hand, the record also indicates there is enough water in the basin area where the Livermore District is located to serve Cal Water's customers for the foreseeable future. Cal Advocate's proposal that Cal Water should simply buy water from purveyors able to extract it, is expensive. Cal Water's evidence indicates that it would be more cost effective for Cal Water to install a new well rather than purchase water from a purveyor.

In opposition, Cal Advocates emphasizes that, which everyone agrees on, there is sufficient ground water in the basin to serve all the customers of all water suppliers. However, the critical issue is whether Cal Water has enough active wells to draw sufficient water from the underground supply both now and in the future. On that issue, Cal Water has offered persuasive evidence that it does not have enough active wells and it cannot resuscitate its closed wells to satisfy customer demand in the future. The record shows that if Cal Water does install a new well it can serve its current peak demand now and for the foreseeable future.

Given the length of time it takes to acquire a proper site, as well as design and build a new well, it is appropriate for us to take the issue up now, and for Cal Water to get the development process underway. We approve an acquisition

budget of $1,146,665, followed by the design and construction budget for a new well of $3,632,815, for a total approval of $4,779,480.

6.11.3. PID123506 – Station 8 Booster Pump

Cal Advocates opposes this budget request for $277,381 based exclusively on its generic argument that the requested funds are for only design and permitting work, which Cal Advocates invites us to defer ruling on until the facility, a booster pump, has been built and put in use. We have previously explained our reluctance to employ this approach. We decline to adopt Cal Advocates' proposal. The budget is reasonable, including its 20 percent contingency factor, and we approve it.

6.11.4. PID125632 – New Transmission Main

Cal Water has requested approval for a $2,111,695 budget to install 1,900 linear feet of a new 12-inch main pipeline in Livermore. The purpose of the pipeline is to move water from its sources in the northern portion of the Livermore District to the southern portion of the district where storage is located. Cal Advocates opposes the request on the ground that there is an adequate supply of ground water in the Livermore District. While the parties agree that is true, Cal Water's purpose for installing a new pipe is to facilitate the movement of water from its sources in the northern portion of the district to the customers in the southern portion. The new pipe would add significant transportation capacity within the district and increase the amount of water that could be brought to the southern part of the district for fire-fighting purposes. It would also decrease the frequency of severe pressure drops between the northern and southern portions of the district. The record amply supports a need for this proposed project, and we approve the budget of $2,111,695 entirely, including its 20 percent contingency factor.

6.11.5. Project Budgets Below $300,000

There are over 40 capital projects for this district with individual cost projections below the $300,000 level. Cal Water and Cal Advocates initially agreed these projects did not need to be reviewed by the Commission. Nevertheless, Cal Water has included in the record of this proceeding the justifications for the projected cost for each project.[60] The aggregate cost of all the more than 40 such projects for this rate district is $4,438,199.

Cal Advocates now contends that the Commission should order the removal of all contingency factors and all special fees included in Cal Water's cost estimates for all the projects in this district with proposed budgets less than $300,000, exactly the projects Cal Advocates initially agreed need not be reviewed. We have discussed the inclusion of contingency factors and special fees above and incorporate those discussions here. We have also reviewed the justifications for all the capital projects in this rate district below the $300,000 cutoff and find the projects prudent and the projected aggregate cost reasonable. For all these projects uncompleted by the next GRC, Cal Water shall provide an explanation for not finishing each unfinished project.

6.12. Los Altos District

6.12.1. PIDs124342/125120 – Station 42 Booster Station; Tank Mixing/Dosing

Cal Water seeks approval of a $313,836 budget for a new booster station and $625,108 for a tank mixing and dosing project. The project to mix and dose water held in the tanks requires a portion, but not all, of the booster station to be completed. Cal Advocates does not contest that the existing tank needs the mixing and dosing to occur but objects to the Commission approving a budget

[60] Exh. CW-15, Attachment D, at 1 – 5 (project justifications).

for any portion(s) of these two projects until the entirety of both projects is completed. We have explained in Section 5.2 above that we decline Cal Advocates' general ratemaking proposal to delay the inclusion of costs for partial work on capital projects simply because only partial work would be completed in this GRC. There is no evidence to refute the tank conditions that both parties agree need to be addressed. Nor is there any evidence that the conditions in the tanks will improve on their own. Accordingly, we approve the budget request for $313,8236 for the booster station and $625,108 for mixing and dosing, the latter approval contingent upon completing work on the booster pump station that will allow adequate mixing and dosing to occur.

6.12.2. PIDs124598/124619/124621/125008 – Four Tank Replacements

The four water tanks in the Los Altos District date from the 1950's and 1960's. All four are made of redwood, not steel. None of the four are bolted down for protection from seismic events. Their age and wooden construction allow air to enter the stored water which has resulted in water discoloration and an odor problem. Cal Water has introduced evidence to show that the cheapest solution is to replace the tanks with new stainless-steel tanks that can be bolted down for seismic protection. Cal Advocates opposes the replacement of any one or more tanks on the ground that there is adequate storage capacity within the Los Altos District. The fact that the four wooden tanks have adequate capacity is not disputed by Cal Water. The issues that concern Cal Water are safety and water quality. We ourselves are particularly concerned about providing for seismic safety. Accordingly, the following individual budgets for the four tank replacements are each approved including their individual contingency factors:

PID124598 budget of $798,246; PID124619 budget of $831,118; PID124621 budget of $832,462; and PID125008 budget of $812,158.

6.12.3. PIDs124329/124334 – Land Acquisition and New Well Construction

Cal Water seeks approval to purchase land for and construct a new well in Zone 375 of the district. The proposed budget for the land acquisition is $27,656 and the proposed budget for the new well is $2,166,284. Cal Water has offered as evidence a consultant's report that concludes 80 percent of the wells in the district are substantially degraded. Over the long term, the consultant's report recommended renovating seven wells but in the short term the report recommended purchasing new land and constructing a new well. Cal Water states that it will have a new well finished within five years of securing a new parcel for the well. The consultant also pointed out a serious resiliency problem for Cal Water in the Los Altos district. Cal Water is relying entirely on one purveyor of water to supply its customers and simultaneously it is having difficulty meeting Maximum Daily Demand and Peak Hourly Demand for its Los Altos customers.

Cal Advocates' objection is that it may take two or more GRC cycles before Cal Water has found a suitable land parcel for a well, purchased the parcel and constructed a new well on it. It opposes any approval in this GRC cycle of a partial budget for the proposed new well.

Although we have already stated that we do not find partial budget approval *per se* unreasonable or unjust, we understand the two proposed budgets to be the projected cost to completion of the new well. We are persuaded that Cal Water's extensive reliance on a single purveyor of wholesale water is untenable from a resiliency perspective and this potentially dangerous condition must be

addressed as soon as practicable. We approve the budget for the purchase of the land parcel for $27,656 and the budget for construction of a new well for $2,166,284.

6.12.4. PID121371 – Purchase of Land for New Customer Building

In Cal Water's prior GRC proceeding, Cal Water and Cal Advocates agreed to a budget for purchase of a parcel for the future construction of a customer building for this district. Their agreement was embodied in a settlement agreement which the Commission approved. The settlement agreement provided that the land purchase should be treated as "plant held for future use." In 2020 Cal Water identified and purchased a suitable parcel for the new building for $4,358,700.[61] Cal Water now requests that it be allowed to include the purchase price of the new property in rate base as a part of this GRC.

Cal Advocates opposes the request, and consistent with its generic opposition to multi-GRC projects and stepwise authorization of budgets as projects unfold, it wants the cost of the new purchase kept out of rate base until a new office building is constructed on it for Cal Water's use and the whole project can be considered by the Commission. However, the parties' prior settlement agreement plainly states that the property acquisition will be treated as "plant" which implies it would be included in Cal Water's rate base when purchased. Moreover, we do not read the prior settlement agreement that we approved in the last GRC as prohibiting two-step approval of capital projects. The project as it exists right now is entitled to rate recovery for the purchase price of the property

[61] The property Cal Water purchased in 2020 was adjacent to the office it has historically owned and used as a headquarters for the Los Altos rate district. The new purchase includes the improvements to the purchased property that the prior owner made, namely an office building and parking lot.

itself in its condition on the day it was purchased. We authorize that treatment for the $4,358,700 property purchase price.

6.13. Marysville District

6.13.1. PID124263 – Water Supply/Facilities Master Plan

Cal Water seeks approval for a proposed budget of $123,530 for the preparation of this Plan, including a 10 percent contingency factor. Cal Advocates raises its generic objection to budgets containing contingency factors. We have discussed the inclusion of the contingency factors in Section 5.1, above, and we incorporate that discussion here. We approve the project and the proposed budget in its entirety.

6.13.2. PID124352 – Water Supply/Reliability Study

Cal Water seeks approval for a proposed budget of $144,529 for the preparation of this Study, including a 10 percent contingency factor. Cal Advocates raises its generic objection to budgets containing contingency factors. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. We approve the project and the proposed budget in its entirety.

6.13.3. PID117409 – Army Corps of Engineers Relocation Project

This ongoing project (relocation of a main pipeline) must accommodate an Army Corps of Engineers project to reposition and fortify a river levee in Marysville. It is a carryover project from the 2018 Cal Water GRC, and its scope is heavily dependent on the Corps' site selection for its new levee. The Corps has not completed its site work and may not complete its work anytime soon. It is self-evident that neither the Commission nor Cal Water has any control over the Corps' plans or scheduling. Cal Water requests that we simply extend the advice

letter treatment for this project that we ordered in D.20-12-007. We will do so. We decline Cal Advocates' proposal to treat this project differently than we did previously simply because it is carried over from an earlier GRC.

6.14. Oroville District

6.14.1. PID124359 – Station 17 New Well Design and Permit

There were once four Cal Water wells operating in Oroville, but the Union Pacific Railroad terminated Cal Water's lease of one well. Another well had to be deactivated due to water quality issues. A third well has been relegated to emergency use only. That leaves Cal Water with only one functioning well. There is now a peak hourly demand shortfall in Oroville equal to 5,763 gpm and a monthly supply deficit of 4,231 gpm if the one functioning well and an associated water treatment plant are taken out of service for an emergency or for maintenance. Thus, Cal Water has proposed that in this GRC cycle it will design and obtain permits for a new well. Cal Water requests a budget of $474,496 for the requisite pre-construction tasks.

Cal Advocates opposes the entire project budget based on its generic proposition that the Commission should not issue step-by-step authorizations of multi-GRC projects. Cal Water anticipates the project will spread over more than one GRC cycle because projects of this kind rarely can be completed in three years. We agree and we see no harm to ratepayers if that happens. Accordingly, we decline Cal Advocates' proposal to delay authorization of the budgeted costs of $474,496 for the pre-construction design and permitting of this new well.

6.14.2. PID124624 – Water Supply/Facility Master Plan

The parties agree that Cal Water's initial request for this consulting project was in error, and they have agreed on how to correct that error, except for Cal

Advocates' objection to including any contingency factor in the final proposed budget. We approve the final corrected calculation of $10,573, which includes a 10 percent contingency factor. We have discussed the inclusion of contingency factors in Section 5.1, above, and we incorporate that discussion here.

6.15. City of Rancho Palos Verdes

6.15.1. PID123934 – New Water Tank

The current average daily maximum demand for water in Palos Verdes is 15.8 million gallons, which is not disputed. This means that Palos Verdes should have storage for 110.6 million gallons, according to Cal Water's testimony, which Cal Advocates does not dispute. Palos Verdes has only 30.6 million gallons of storage.

Currently, the City of Rancho Palos Verdes is served with water from only one source – purchases from the Metropolitan Water District. Recognizing the danger in a single source of water for Palos Verdes in its 2015 GRC, Cal Water requested and was granted a budget for designing and permitting a large, new water tank for Palos Verdes with storage capacity of 2.5 million gallons. The requested budget was approved in Cal Water's 2015 GRC.[62] It was approved again in Cal Water's 2018 GRC.[63]

In this GRC cycle, Cal Water has requested authority to spend another $1,338,054 on finalizing the design and pursuing permits for the new water tank. Cal Advocates opposes the Commission approving further expenditures on this project relying on its generic argument the Commission should not approve pre-construction costs until a new facility has been fully constructed and put in use and the Commission can see the total costs of a project from start to completion

[62] D.16-12-042, Exh. A at 296-297.

[63] *See* Exh. CW-57 at 115, lines 6 - 11.

of a project. Cal Advocates also contends that contingency factors, here 20 percent, should never be approved in advance of the completion of a project.

We have discussed Cal Advocates' two generic arguments in Sections 5.1 and 5.2 above, and we incorporate those discussions here. We find the water tank project necessary and the updated preconstruction budget for $1,338,054 reasonable and we authorize it for this GRC cycle. However, in line with our decision in Cal Water's previous GRC not to burden Antelope Valley customers with any costs of large plant projects for the exclusive benefit of Palos Verdes, we will order that the $1,338,054 costs we authorize for this project shall only be incorporated into rates for Palos Verdes customers of Cal Water.

6.15.2. PID124230 – D-500 Main Replacement Preliminary Design Report

Cal Water requests a budget of $1,556,379 to complete the design and permitting on this pipe replacement project. The projected cost includes a 20 percent contingency fee. Cal Advocates argues that the Commission should only approve $1,296, 719 of the projected cost but not approve any of the 20 percent contingency fee, which is the difference between the two projections. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. We approve the $1,556,379 projection. However, we will order that the cost of this project shall only affect customer rates in Palos Verdes and not rates in Antelope Valley, which is consolidated with Palos Verdes for rate purposes.

6.16. Redwood Valley District

6.16.1. PID124647 – Lucerne Pier and Water Treatment Equipment

Cal Water has water treatment equipment located at the end of a pier in the Lucerne community on the shore of Clearlake. Both equipment and pier need

extensive repair and upgrading. The pier itself has deteriorated to the point that it is dangerous for Cal Water employees who service the equipment at the end of the pier to walk on the pier. Cal Water has minimal experience with marine construction, so it has built in a contingency factor and a cost projection for retention of a marine construction manager and the cost of special fees.

Cal Water requests approval for a budget of $491,568. Cal Advocates counters with an estimate of $352,354 by removing the contingency factor, the cost of the construction manager, and the special inspection fees required for marine projects. The difference between the two proposed budgets is $139,158.

We will authorize Cal Water's $491,568 budget proposal. Cal Advocates offers no specific reason to eliminate the contingency factor, the cost of a marine construction manager or the allowance for the special inspections required for marine projects, other than its generic objections to including such fees in budget proposals. We have discussed the inclusion of these factors in Sections 5.1 and 5.2 above, and we incorporate those discussions here.

The fact that these costs may not be the final costs for this project is not a reason to deny allowing Cal Water to pass these necessary initial costs onto its customers now. All current and future customers will benefit from a safer pier structure in their community in the initial stages of this project. A rebuilt, safer pier will make it possible to obtain a higher quality and more dependable supply of water from the new equipment that will be installed at the end of the renovated pier.

6.16.2. PID125118 – Acquisition of a Field Yard

The only difference between the parties' respective positions on how much should be allowed for purchase of a parcel to serve as a field yard for storing Cal Water's vehicles and equipment is the 10 percent contingency factor that Cal

Water included in its proposed budget of $125,375. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. The entire budget of $125,375 requested by Cal Water is approved.

6.16.3. PID123714 – New Well for the Coast Spring Community

Cal Water proposes a budget of $336,613 to obtain an easement to a well site that would provide a new, dependable source of groundwater for the Coast Spring community. Currently, Cal Water must truck in between 250,000 and 300,000 gallons of potable water between July and October each year to service the 46,000-gallon daily demand during that period from Coast Spring customers.

Cal Advocates proposes that the Commission should deny Cal Water's request on the grounds that it is only a limited request for initial work on a well development project, not a request for the full development costs to be utilized in a single GRC cycle. We agree Cal Water's proposed $336,613 budget is only for preliminary development work, but Cal Water's request will be approved. The record contains no evidence of harm to the ratepayers if Cal Water should secure the easement rights to the new well site it has identified during this rate case cycle and then builds the well itself during the ensuing rate cycle after securing Commission proposal for that phase of the project.

6.16.4. PIDs116100 and 123623 – Station Upgrade and New Pressure Tanks

Currently, water pressure in a portion of Coast Springs drops to five pounds per square inch during power outages. Cal Water proposes to add four 100-gallon pressure tanks and upgrade the pumping station to prevent any further pressure drops. The area where the work would be conducted is environmentally sensitive and typical construction processes must be avoided.

Cal Water requests $138,197 to design and obtains permits for the project in this rate cycle. Construction would take place in the next GRC cycle. Cal Advocates opposes Cal Water's entire requested budget on the ground that the proposed budget only includes preliminary design and permitting expenses and their approval should be delayed until the project is completed. We have discussed the advantages of approving preconstruction costs alone in Section 5.2 above, and we incorporate that discussion here. Cal Water's request for a preconstruction budget of $138,197 is approved.

6.17. Stockton District

6.17.1. PID124356 – Water Supply/Reliability Study

Cal Water requests approval of a budget of $303,177 to complete this study. Cal Advocates objects to the inclusion of a contingency factor in the budget for performing this study. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. We approve the proposed $303,177 budget in its entirety, including its 10 percent contingency fee.

6.17.2. PID123265 – Cherokee Road Main Pipeline

Cal Water requests our approval for a budget of $1,702,528 to add a 2,000 linear foot pipeline of 12-inch diameter with tie-ins to reduce pressure problems in the northeast section of the Stockton District. The proposed pipeline would increase fire flow from 2,400 gallons per minute to 3,400 gallons per minute. The record shows there are industrial buildings in the area where the pipeline would be added that require over 3,000 gallons per minute of flow to meet minimum fire flow standards.

Cal Advocates opposes the proposed pipeline on the ground that equally good results could be reached by merely installing a variable frequency device

on a pump station in the northeastern section of the Stockton District system. We have reviewed the evidence submitted by the parties on this issue and are not convinced that Cal Advocates' proposed fix for eliminating pressure problems, in this portion of the district will provide the benefits that Cal Water desires. Accordingly, we will approve Cal Water's proposed project and its budget of $1,702,528, including its 20 percent contingency factor.

6.17.3. PID123266 – Addition of a Main Line and Tie-Ins

Cal Water requests approval for a budget of $1,240,915 to add a mainline and tie-ins in an area of its Stockton system near the City of Stockton's Wastewater Treatment Plant which the city has indicated it plans to increase in size. Cal Advocates argues the Commission should not authorize a budget based on speculative improvements by the city of its wastewater facility. However, Cal Water points out that Cal Water's proposed plant additions are needed for more than just accommodating the city's plan to increase the capacity of its Wastewater Treatment Plant. The record here shows that the proposed mainline addition is also needed to: (1) help circulate water to improve existing water quality in the area; (2) eliminate the dead ends in the existing distribution system; and (3) provide reliability to the western edge of Cal Water's distribution system in the event of an emergency or other troublesome issues with supply mains and valves. Among the reliability benefits is a vast increase in fire flow – almost one hundred percent – for this area of Stockton.

We find that these benefits support authorizing this project and its budget. There is no evidence to the contrary. As an added benefit, should the City of Stockton increase the size of its wastewater plant in the reasonably near future, Cal Water's infrastructure will already have been modified to accommodate its

larger size. We approve of the proposed budget of $1,240,915 including the 20 percent contingency factor incorporated into the budget.

6.17.4. PID123268 – Mainline Flushing

Cal Water request approval for its budget of $317,208 for a mainline flushing project. Cal Advocates agrees the project should be undertaken but asks the Commission to deduct the 10 percent contingency factor from Cal Water's budget request. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. For the reasons explained above, we decline to remove contingency factors from Cal Water's project budget, and we approve Cal Water's budget of $317,208 in its entirety.

6.17.5. PID124292 – Station 66-02 Panelboard Replacement

Cal Water requests approval for a budget of $383,904 to replace a deteriorating station panelboard. Cal Advocates opposes the request relying on two of its generic arguments, one against the inclusion of contingency factors and the other opposing special fees in the proposed budget for replacing the panelboard. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. Furthermore, we decline to remove the special fees from the proposed budget. The proposed budget is approved in its entirety.

6.17.6. PID124311 – Station 71 Panelboard and Generator Replacement

Cal Water requests approval of its proposed budget of $408 ,721 for this project. Cal Advocates agrees the project should be undertaken, but it opposes the inclusion of a 10 percent fee. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. We

approve Cal Water's proposed budget of $408,721 in its entirety including a 10 percent contingency factor.

6.17.7. PID124896 – Well 85-01 Arsenic Treatment

Cal Water asks us to approve a budget of $570,415 for design and permitting work on this project to remove arsenic found in Well 85-01. Cal Advocates agrees the project should be undertaken. However, Cal Advocates opposes the idea of the Commission approving the pre-construction costs of a project and leaving the physical construction costs to be approved in a subsequent GRC. For the reasons explained in Section 5.2 above, we decline to delay our review of the design and permitting fees until the project is completely built and in use. For the reasons explained in Section 5.1 above, we approve the inclusion of a contingency. We also approve Cal Water's proposed budget of $570,415 including a 20 percent contingency factor.

6.17.8. Projects Budgets Below $300,000

There are nearly three dozen capital projects for this district below the $300,000 minimum cost level adopted by the parties for capital projects in this district to be reviewed. Nevertheless, Cal Water has included in the record of this proceeding the justifications for each project.[64] The aggregate cost of all such projects in this district is $4,619,643. Cal Advocates now contend that the Commission should order the removal of all contingency factors and all special fees included in Cal Water's direct cost estimates for the dozens of projects with proposed budgets less than $300,000. We have discussed the inclusion of contingency factors and special fees in Section 5.1 above, and we incorporate those discussions here. We have reviewed the justifications Cal Water provided

[64] Exh. CW- 22, Attachment D a. 1-4 (justifications).

for the dozens of capital projects in this rate district below the $300,000 cutoff and find the projects prudent and the projected costs reasonable. We approve a total budget of $4,619,643 for all these projects to be completed. For all these projects not completed by the next GRC, Cal Water shall provide an explanation for not finishing each unfinished project.

6.18. Travis Air Force Base (Travis AFB)

Travis AFB is a single contract customer of Cal Water. As such, Travis AFB is charged a flat monthly service charge. Cal Water is not responsible for providing water, so there is no quantity charge by Cal Water. Cal Water is only responsible for the operation and maintenance of the water distribution system. Our decision in Cal Water's last GRC, D.20-07-012, approved the contract between Travis AFB and Cal Water. In that decision, we also approve allocation of certain company-wide costs to Travis AFB.

6.18.1. PID125908 – Station 3 Pump Rebuild

Cal Water asks our approval for a budget of $1,541,362 for design and construction management costs for this pump rebuilding project. Cal Advocates agrees the rebuild project should be undertaken and completed by Cal Water, but it contends that no costs associated with the project should be presented for the Commission's approval until after the project is completed. For the reasons explained in Section 5.2 above, we will not delay our approval of design and construction management fees until the project is completely built and in use. We approve Cal Water's proposed budget of $1,541,362 for this stage of the project in its entirety including its 10 percent contingency factor.

6.18.2. PID126095 – Station 1 Vault Replacement

Cal Water request our approval of $173,118 for a budget to replace this station vault. Cal Advocates agrees the project should be undertaken and

completed by Cal Water, but without the inclusion of a 10 percent contingency factor in the budget. For the reasons explained in Section 5.1 above, and incorporated here, we decline to remove the contingency factor from the budget. We approve Cal Water's proposed budget without change.

6.19. Visalia District

6.19.1. PIDs123309/123313 – Stations 38 and 55 PFAS Treatment

Cal Water has requested our approval for a budget of $1,330,196 at Station 38 and $1,967,532 at Station 55 to remove PFAS[65] and PFOA[66] from the groundwater supply. Cal Advocates opposes the request but only on the basis of its generic arguments against the inclusion of contingency factors, construction management costs, and special fees in the budgets for these proposed projects. Otherwise, Cal Advocates agrees the project should be undertaken. For the reasons explained in Sections 5.1 and 5.2 above, which we incorporate here, we decline to eliminate the contingency factors, construction management costs, and special fees from these project budgets. We approve Cal Water's proposed budgets for the projects in their individual entireties.

6.19.2. PID123954 – Station 23 Replacement of Panel Board

Cal Water asks for our approval of a budget of $419,249 to replace a panel board that is more than a half century old and also to install a permanent generator at the station in place of the inadequate one currently in use. This

[65] Per- and polyfluoroalkyl substances (PFAS or PFASs) are a group of synthetic organofluorine chemical compounds that have multiple fluorine atoms attached to an alkyl chain.

[66] Perfluorooctanoic acid (PFOA; conjugate base perfluorooctanoate; also known colloquially as C8, for its 8-carbon chain structure) is a perfluorinated carboxylic acid produced and used worldwide as an industrial surfactant in chemical processes.

station removes TCP[67] from the groundwater. The station also pumps water through a three-mile main pipeline that serves the busiest commercial area of Visalia. Cal Advocates opposes the project on the grounds that Station 23 has only a modest history of repair work associated with it.

We approve Cal Water's project and budget of $419,249 in its entirety including its 10 percent contingency factor. Photographic evidence of the condition of the Station 23 building disproves Cal Advocate's assertions that the building and its contents should be left to continue operations.

6.19.3. PIDs123396/124743 – Property Acquisition And New Well

Cal Water requests approval for a budget of $498,658 to acquire land for an additional well, and a budget of $2,980,376 to design and construct the new well. Cal Advocates opposes both the purchase of land and the construction of a new well.

Cal Water points out that there is a 1,500 – 10,900 gpm peak hourly demand deficit each year in Visalia between July and October. Cal Water's evidence indicates that there are no reasonably priced alternatives to finding land and building a new well. Reactivating any of the several deactivated wells owned by Cal Water would not be as cost-effective. Sixty percent of the active wells do not have much useful life left according to a study Cal Water commissioned. They are not likely to produce adequate water for immediate use or storage, even if there were existing storage capacity.

We agree with Cal Water that the evidence shows an immediate need to find and develop an additional source of groundwater. We approve both

[67] 1,2,3-Trichloropropane (TCP) is an organic compound with the formula CHCl(CH2Cl)2. It is a colorless liquid that is used as a solvent and in other specialty applications.

proposed budgets, the $498,658 to acquire land and the $2,980,376 budget to design and construct the new well, including a 10 percent contingency factor in each budget.

6.20. Westlake District

6.20.1. PID124357 – Water Supply/Reliability Study

In its opening brief, Cal Advocates agreed that the Commission should approve a budget of $141,609 for Cal Water's proposed Westlake Water Supply Reliability Study project but recommended eliminating the contingency factor in the budget based on its generic argument on that issue. No project-specific reasons for rejecting the proposed project were presented by Cal Advocates. We have discussed the inclusion of contingency factors in Section 5.1, above, and we incorporate that discussion here. We approve the proposed $141,609 budget in its entirety, including its 10 percent contingency fee.

6.20.2. PID125459 – Station 7 Harper Driveway and Wall

Cal Water requests our approval of a budget of $74,898 to construct a driveway and wall at Station 7. Cal Advocates recommends denial of Cal Water's request based solely on its generic argument against design and permitting-only projects (no additional project-specific reasons were presented). We have discussed approval for design and permitting-only projects in Section 5.2 above, and we incorporate that discussion here. We approve the proposed $74,898 budget in its entirety.

6.21. Willows District

6.21.1. PID124390 – Water Supply/Reliability Study

In its opening brief, Cal Advocates agreed that the Commission should approve the projected cost of $115,456 for the Willows Water Supply/ Reliability Study project but recommended eliminating the 10 percent contingency factor in

the budget based on its generic argument on that issue discussed above. No project-specific objections were presented. We have discussed the inclusion of contingency factors in Section 5.1 above, and we incorporate that discussion here. We approve the entire $115,456 budget proposed by Cal Water for this project including its 10 percent contingency factor.

7. O&M Expenses

7.1. Transportation - Vehicles for New Hires

As adopted elsewhere, when we discussed new hires between GRCs, we found that Cal Water had justified the need for 25 new employees, and we included them in the revenue requirements over the GRC cycle. Cal Water also seeks to recover incremental transportation allowances as a result of these new hires.[68] Cal Advocates accepts Cal Water's forecast for O&M transportation expenses except for a proposed reduction in costs of $138,484 which it associated with the 25 new employees. We decline to require the new employees to walk and will adopt the entire Cal Water estimate of $7,055,489 for transportation expenses which includes the new employee positions' transportation costs. As noted in the other section, whether Cal Water timely hires all these employees will be a question of interest in the next GRC with respect to the credibility of its next forecast of new hires.

7.2. Uncollectible Sales

Cal Water and Cal Advocates agreed on the use of a four-year span, 2016 – 2019 inclusive, to develop a percentage of sales in each Cal Water rate area that could reasonably be expected to be uncollectible this rate case cycle. A 2016 – 2019 percentage of uncollectible sales was calculated for each rate area. These individual, historic uncollectible percentages were then multiplied by the

[68] Cal Water Reply Brief at 12.

appropriate projected sales for each Cal Water rate area to produce a projected amount of uncollectible billings for each rate area during the current rate case cycle. The parties mutually agreed not to use any data from the year 2020 for the obvious reason – 2020 was the height of the Covid-19 pandemic when millions of Californians were under severe economic duress and uncollectible billings skyrocketed for all utility sectors. We agree with the parties' mutual decision to avoid data from 2020, given the unusual and unforeseeable circumstances surrounding the pandemic. Using this simple formula, the aggregate amount of sales revenue expected to be uncollectible across the entire Cal Water system in the test year is $1,870,808.

However, Cal Advocates maintains that avoiding just 2020 data is not enough. Cal Advocates contends that there are individual data points in the whole set of data points from the period 2016 – 2019 that must be removed from that data set. Cal Advocates labels those data points it wants excluded from the calculation "outliers," then it claims the outliers "skew" the calculation to the ultimate result of $1,870,808: "… including outliers [in the data set] skews the four-year averages."[69]

The fact of the matter is that every single data point in the four-year set of data points contributes to (or, in Cal Advocates' vocabulary "skews") the end result to the number $1,870,808. Cal Advocates provides no meaningful explanation of why its subjectively chosen group of so-called "outliers" are distinctly different from any other of the data points in the four-year collection of data points. Its explanation that "[a]ll adjusted [u]ncollectibles ratios had outliers which were 20% above or below its closest point in the group" is unsupported by

[69] Cal Advocates Opening Brief at 97.

any explanation as to why this observation of spatial relationships is at all relevant here. For example, did customers in an "adjusted" rate area suffer a catastrophic earthquake, wildfire, flood or some widespread event that severely impacted their finances? Since Cal Advocates does not identify any unique circumstances related to its so-called "outliers" that suggests that they will not recur with reasonable frequency, we choose not to remove them from the calculation.

7.3. Sources of Water Supply

Cal Water and Cal Advocates disagree about the inclusion of three data points in the formula for projecting the source of supply costs for the test year. Source of supply costs include expenses incurred in the operation of water supply facilities including, but not limited to, supplies and supply mains; removing sediment and organic growth; patrolling; inspecting; compiling records; and assembling reports, including water level reports.

Cal Advocates argues for the removal of three specific data inputs for the test year projection because each piece of data represents a "one-time" expense occurrence. The specific three data points to which Cal Advocates objects are: (i) $160,129 from the Livermore District's 2018 data relating to an expense for the Potable Reuse Feasibility Study in that district; (ii) $9,000 for relevant consulting services purchased only once during the five-year study period; and (iii) $25,000 for a Sustainable Groundwater Management Act research project which has now been completed.[70] While it is likely true that these exact expenses may never be repeated – and Cal Water admits that – that does not mean that similar expenses will never be incurred going forward. That is the point that Cal Water has

[70] Exh. CalAdv-6 (Cunningham) at 2-10 to 2-11.

convincingly made in response to Cal Advocates' presentation, and we agree with Cal Water. Sustainability and increased quantities of potable water are ever present goals of the Commission and the State of California. To achieve and sustain those goals throughout Cal Water's entire system will likely require more studies, research projects and professional advice from consultants in both the short and long term. We approve of the inclusion of the three disputed costs in the calculation of the source of supply expense projection for this GRC cycle.

7.4. Extraordinary Property Loss in Hermosa-Redondo District

Cal Water requests approval to include in O&M pumping expenses for a period of nine consecutive years the amount of $145,215. The request stems from a proposed project, previously approved by the Commission to provide an additional source of water for customers in Cal Water's Hermosa-Redondo ratemaking area. Had it been successful, the project would have provided a connection between Cal Water's system and the expansive system of the Metropolitan Water District (MWD), resulting in added reliability for the Hermosa-Redondo area. Cal Water invested $1,306,935.

However, the investment was unsuccessful due to MWD's insistence on constructing the interconnection with Cal Water as part of a separate project MWD was developing exclusively for its own benefit and tying the schedule for the interconnection to MWD's convenience alone, which was considerably longer term than either Cal Water expected, or this Commission understood would be the schedule. Cal Water asks that its investment be treated as an Extraordinary Property Loss[71] and it only seeks cost recovery of the $1,306,935 it invested and

[71] The Financial Accounting Standards Board (FASB) has, for financial accounting purposes eliminated the use of the term "extraordinary items" on January 9, 2015 in *Accounting Standards*

Footnote continued on next page.

not an addition to rate base, as would have been case if the project had been completed and put in service.

Cal Advocates argues that the Commission should deny the request because "[r]atepayers should not be responsible for the costs of a failed project that is neither used nor useful" and to grant "Cal Water's request shifts project risk away from shareholders by requiring ratepayers to pay for failed projects from which they derive no benefit."[72]

After careful review of the record evidence, we find Cal Water prudently incurred the funds it invested in a project that we previously authorized and that through no fault of its own Cal Water was unable to control or compel MWD to complete the project in a timeframe that was reasonable for Cal Water, or, indeed, for this Commission. We note that this recovery without a return on investment is consistent with the Commission's general policy for abandoned projects as discussed in Section 8.4 of this decision. Therefore, Cal Water's request for rate recovery will be granted in this instance for a previously approved project.

7.5. Contracted Maintenance

The remaining issue to resolve with respect to the projected cost of contracted maintenance services is whether we approve of the parallel Cal Water requests for (i) hiring three new employees as Generator Technicians and (ii) how many, if any, requests we approve for budgets to repair, construct or

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Update (ASU) No. 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. (See: ASU 2015-01 (fasb.org) (Current as of December 14, 2023.) Therefore, we will use the term not as an accounting standard but instead as a practical or real-life extraordinary occurrence, i.e., as very unusual, rare, or even unique. The Commission has the discretion to fashion the rate recovery mechanisms suitable to the circumstances.

[72] Cal Advocates Opening Brief at 100.

maintain water tanks that require painting work. We have approved the new hires. The projected expense for contracted maintenance work should exclude the cost of maintenance work that will be performed as part of the duties assigned to the three new Generator Technicians, and otherwise include the cost of painting work on all tanks for which we have approved budgets for repair, maintenance, or construction.

7.6. Customer Accounting

The only issue here is whether to include or not to include a possible $65,000 of cost savings in calculating the projected customer accounting expense for the test year. That decision is linked directly to whether we approve Cal Water's request for a $3,668,420 budget to build a new water quality testing lab in southern California. In this decision, we approve Cal Water's request for funds to build a new water testing lab. As we understand the parties' respective briefing regarding the customer accounting expense, our approval of the proposed budget for the construction of the lab will require us to recognize $65,000 of savings attributable to construction of the lab, resulting in a final cost projection of $12,538,859 for customer accounting expenses, which we also approve.

8. Depreciation and Abandoned or Premature Major Asset Retirement

8.1. Accounting Concept of Depreciation

Depreciation is a fundamental accounting concept where the cost of a long-lived asset is allocated to every year that the plant is in service. Everything from poles, pumps, truck, buildings, and computer software are used by utilities as a part of providing service.

The life of an asset, say a building, might be estimated to be 30 years. Having made the decision on how long the building is expected to be "used and

useful," e.g., for 30 years, its cost for ratemaking purposes is expensed as "depreciation" annually during that period. For instance, a $60 million building would be expensed at $2 million a year for 30 years.

For high volume items like meters, the number of meters installed each year are grouped and depreciated/allocated to revenue requirement as a group, annually for their expected life. Over time, some meters fail earlier than the expected life and others last longer. Accordingly, the depreciation process is "tweaked" or adjusted from time to time to recognize that one generation of meters is failing more quickly, so the depreciation rate for that generation is adjusted to reflect this. Other generations may last longer. If so, another adjustment is made. But this depreciation methodology fails if there is a major single asset, like a power plant or a water treatment facility, or even unique software, that fails to perform or is removed from service well before expected.

8.2. A Simple Example

The Commission's Standard Practice for Determination of Straight-line Remaining Life Depreciation Accruals Standard Practice U-4-W (S.P. U-4-6), last revised January 3, 1961, is a standard methodology for water utilities in normal circumstances.

Assume Cal Water has a single-type asset (not one of many like-kind) with 9 years of remaining life with a remaining book value of $9,000,000 that cost $10,000,000 one year ago. Depreciation was to be straight-line for the originally estimated 10-year life. The depreciation would be $1,000,000 per year. ($10,000,000 ÷ 10.) Also assume the hypothetical abandonment in year 9 with the gross of tax rate of return is 15% (i.e., debt cost, return on equity and taxes.)[73] At

[73] This is a simple illustration and not Cal Water's authorized cost of capital.

the time of the hypothetical abandonment in year 9, the normal revenue requirement would have been depreciation plus return totaling $2,350,000. ($1,000,000 depreciation plus $1,350,000 in return [$9,000,000 x 15% = $1,350,000].) Now assume no hypothetical abandonment; the calculation each year would be similar using $8 million, $7 million, etc., for book value in subsequent years. At the last year of the normal life, the last year's revenue requirement would be the remaining depreciation amount plus return totaling $1,150,000 ($1,000,000 depreciation plus $1,150,000 in return [1,000,000 x 15% = 150,000].)

Cal Advocates argues that in this unexpected abandonment hypothetical, when the asset is abandoned in year 9, Cal Water is not entitled to recover any more of the remaining investment through depreciation and would no longer be entitled to earn a return while the remaining investment is written off. Cal Advocates argues that Cal Water is unreasonably trying to recover its costs and earn a return as if nothing had gone wrong. However, Cal Water's ratemaking proposal follows the Commission's standard depreciation practices and the above simple example. Accordingly, Cal Water would recover all depreciation and each year's gross of tax return as if nothing happened.

Cal Advocates proposes an immediate write-off, i.e., no recovery in rates of the hypothetical remaining book value and no return.

8.3. Major Assets Which Fail or Are Retired Early

When a major asset fails or is prematurely retired, the generally applied accounting practices for depreciation do not control whether or how the utility recovers any remaining undepreciated investment. In an unregulated industry, if an asset fails or is retired, the owner suffers a loss. This is the classic free market risk of success or failure. Regulated utilities in California operate under less

lethal rules. The Commission asks: (1) why did the asset fail or why was it retired early? and (2) was the utility reasonable or not in the acquisition or construction, operation or maintenance, or the replacement decisions surrounding the asset?

Cal Water's record in this proceeding has had a troubling number of long-lived assets retired well before the expected end of their service lives. Cal Water argues that, for ratemaking recovery, the Commission should follow the accounting conventions and recover the undepreciated balance essentially by adjusting ratemaking depreciation allowance to recover both its undepreciated investment and continue to earn its full rate of return while that investment is recovered in rates. This treats a major asset's failure as if it were one individual asset in a single bundle of like assets which failed sooner than its many contemporaries.

As explained further below, Cal Advocates proposes a complicated approach to adjust Cal Water's depreciation practices while focusing on the minutia of Cal Water's business practices. For instance, Cal Advocates points to and contends certain assets were bad investment from the start. For example, software which has to be replaced at great expense well before the original software should have run its life and be due for replacement; or equipment built or maintained poorly that fails well before its projected life expectancy. Consistent with our historic approach in these matters, the Commission's review will focus on why the assets failed and whether Cal Water was at all responsible for the failure.

8.4. Commission Policy on Abandoned Plant

The Commission's general policy in the case of premature retirement ratemaking is that utilities should only earn a return on plant that is "used and useful" particularly in cases involving a large stand-alone project or large

amounts of plant.[74] Commission precedent shows the Commission endorses the "used and useful" principle over the principle of maintaining group depreciation.[75] Whether to make any exceptions to this general policy is determined on a case-by-case evaluation of specific circumstantial factors such as: (i) the cause for premature retirement[76] and (ii) whether abandonment is a net benefit for ratepayers.[77] The Commission has frequently reexamined its previous reasonableness determinations for potential recovery of the undepreciated investment in an abandoned or prematurely retired plant, i.e., a long-lived asset that did not last its expected life. Returning to the simple example above, the Commission's treatment for abandoned or failed projects would only return the depreciated investment ($9,000,000) amortized, i.e., recovered in rates from ratepayers, over a shorter period. If we use the 3-year GRC rate cycle, recovery would be $3,000,000 in each year without recovering the cost of capital and income taxes. With no return on equity there is no tax obligation to fund.

[74] 1985 Cal. PUC LEXIS 687, *22 (Cal. P.U.C. August 21, 1985) "In the case of a premature retirement, the ratepayer typically still pays for all of the plant's direct cost even though the plant did not operate as long as was expected. The shareholder recovers his investment but should not receive any return on the undepreciated plant. This is a fair division of risks and benefits."

[75] D.21-08-036 at 642 - 643.

[76] *Id*. at 643; *see, e.g.,* D.11-05-018 at 55-57.

[77] *Ibid*.

Cal Advocates' predecessor organization, the Division of Ratepayer Advocates[78] argued the following in its Opening Brief in A.10-11-015, dated September 26, 2011:

> In *Geysers*[79], the Commission found a plant was no longer in use and useful when it was known that the plant would never operate again.[80] Whereas in *Humboldt Bay*,[81] PG&E was allowed to collect its authorized rate of return for years before the Commission ordered removal from rate base and zero return on investment in part because PG&E was still determining whether it could restart the unit.

In D.84-09-089, the Commission stated:

> Over the years, this Commission has closely adhered to the "used and useful" principle, which requires that utility property be actually in use and providing service in order to be included in the utility's ratebase. We have regularly applied this principle to exclude from ratebase any construction work in progress, and have removed from ratebase plant which has ceased to be used and useful.

In D.85-08-046, the Commission focused on who should bear the burden of unrecovered costs in the Humboldt Bay plant retirement. In that decision, the Commission stated:

> With respect to PG&E's equity argument, we observe that plants which have exceeded their estimated useful lives have been fully depreciated. Thus, the shareholder already has recovered his entire investment and a fair return on that investment from the ratepayer. The ratepayer who has paid for the entire plant is entitled to receive any additional benefit from the plant's continued operation. In the

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[78] Name changes are irrelevant; the Commission has long had an internal, but independent, advocacy organization with ongoing staff expertise charged to represent utility customers' best long term interests.

[79] 47 CPUC 143 (1992).

[80] 2014 Cal. PUC LEXIS 554, *118 (Cal. P.U.C. November 20, 2014).

[81] 18 CPUC 2d 592 (1985).

> case of a premature retirement, the ratepayer typically still pays for all of the plant's direct cost even though the plant did not operate as long as was expected. The shareholder recovers his (sic) investment but should not receive any return on the undepreciated plant. This is a fair division of risks and benefits.

In D.85-12-108, regarding SD&E's proposal to store power plants that could no longer be operated economically, the Commission determined that as to those plants likely to remain retired, there should be a sharing of the burden, stating:

> The specific ratemaking treatment for these plants will essentially follow the suggestion of UCAN. The UCAN position is that the undepreciated balance of the prematurely retired plants be amortized over five years with no return earned. The FEA recommended a longer period – nine years of three rate cases. We find that the UCAN has shown that the two rate case periods or about five years provides an appropriate sharing of the burden between the ratepayers and shareholders.

In D.92-12-057, the case of the Geysers Unit 15 premature retirement, the Commission relied on the Humboldt Bay plant retirement as a precedent in ruling that PG&E could not offset the shorter life of Unit 15 against other plants having a longer life, using rules of group accounting.

Thus, Cal Advocates has long known and argued that the Commission's practice for recovery of failed, abandoned, prematurely retired, etc., assets is to accelerate the recovery of the undepreciated balance without a return. This loss of return being the risk any utility assumes in return for an opportunity to earn its authorized rate of return on its assets which are used and useful and included in rate base.

The Commission has also dealt with the semantics of abandonment versus retirement assets removed from service before their expected lifetime when

looking at pipeline segments to be replaced before the end of their forecast useful life:

> (Southern California) Edison suggests in its comments that the decision errs in describing the unsafe, and therefore unusable, pipeline that must be replaced as "abandoned" rather than "retired." Edison then compares the abandoned pipeline to electric poles that did not fulfill the forecast useful life. Further, Edison argues the only acceptable use of "abandoned" is when plant never quite enters service. We note that the Federal Energy Regulatory Commission's Uniform System of Accounts uses and defines certain words like retirement and abandonment for specific types of accounting transactions. But this proposed change is unneeded here: an unsafe pipeline must be abandoned and removed from service promptly and safely pursuant to the Safety Enhancement plan adopted herein. [San Diego Gas & Electric Company and Southern California Gas Company] even refer to abandoning pipelines in-place, i.e., not digging them up and removing them, but leaving the steel in the ground. You "abandon" a sinking ship; you do not "retire" it. Nor is there a relevant distinction here based on whether utility plant is abandoned before or after it enters service. If Edison's concern is whether ratepayers or shareholders absorb remaining "abandoned" or "retired" plant costs (pipeline, poles, or other,) the concern is misplaced. The relevant facts, circumstances, and the law drive cost recovery applicable to the specific situation. Here, similar costs are recovered differently over time based on the relevant facts, circumstances, and the law.[82]

With pipelines abandoned for safety reasons in the example above, the Commission made clear that the reasons why an asset in rate base is prematurely retired or abandoned dictates whether and how any remaining investment is recoverable by the utility.

[82] D.14-06-007 at 52.

8.5. Problematic Early Retirements

In the earlier Section 5 of this decision, we address two of Advocates other broad objections that cut across numerous proposed projects in this GRC proceeding, including all of Cal Water's capital projects and budgets proposals for all of Cal Water's districts. Similarly, here we will look at and consider several of the more obvious problematic early retirements as a generic issue of failed and abandoned assets, which the parties briefed as depreciation adjustment disputes.

Cal Advocates argument on early retirements in its Opening Brief fails to address or challenge the reasons offered by Cal Water for the early retirement of projects.[83] Apparently, Cal Water retired 14 projects with a remaining book value, i.e., their value in rate base, of $6,225,186.[84]

Cal Advocates asserts that premature retirements under conventional accounting practices "provide utilities with unfair gains at ratepayers' expense."[85] This is cherry-picking the standard practice to arrive at a misleading conclusion. In most cases there is a presumption that early retirements are also offset by longer lives for some like-kind assets. In fact, lives can be shortened if it becomes apparent the original life was optimistic or lengthened if the assets are very durable. Unless Cal Advocates demonstrates that the early retirement was due to mismanagement, poor maintenance, or poor product selection, writing the asset off to the depreciation reserve is the normal practice.

As discussed above, whenever there are concerns about the utility's behavior due to mismanagement, poor maintenance, or poor product selection

[83] Cal Advocates Opening Brief at 226-230.

[84] *Id.* at 230.

[85] Ex. Cal Adv - 5R at 3-33.

then the Commission can and has made major disallowances. However, Cal Advocates would have to assert a claim of mismanagement, etc., and then carry the burden to show by a preponderance of evidence that Cal Water's actions justify a disallowance. That did not occur here.

8.6. Customer Support Services Projects

There were 14 of 32 Customer Support Services (CSS) projects "booked to rates" between 2010 and 2015, according to Cal Advocates. If Cal Advocates means included in rate base and ultimately made part of revenue requirement and recovered in rates charged to customers, the only argument Cal Advocates offered is that this is too many retirements before the end of the forecasted useful life. Cal Advocates then argues the remaining book value should be excluded from rates via an adjustment to the depreciation reserve. This is a simplistic and inaccurate application of depreciation accounting rules and procedures.

Cal Water, on the other hand, proposes that the assets would be recovered in rates through depreciation, and it would earn a return until the written-off projects are fully depreciated. In essence, Cal Water wants these projects to be treated like high volume investments, pumps, valves, meters, and depreciation is adjusted to account for any individual early or extended lifespan. Cal Water implicitly says nothing went wrong, there were bad investments, no poor management, just that these 14 CSS projects were terminated early. This too is a simplistic and inaccurate application of depreciation accounting rules and procedures.

Cal Advocates' Opening Brief opaquely identified a single 2013 project (but omits its name, purpose, or other relevant circumstances of what occurred) with an original cost of $907,777 that after only two years in service was retired with a remaining book value of $762,895. This suggests $144,882 was the

two-years' worth of depreciation expense or $72,441 per year.[86] Stretching the math further this suggests the useful life was expected to be 12.2 years.[87]

Cal Advocates did not delve into *why* Cal Water abandoned (or retired or replaced) an investment expected to be used and useful for around 12 years after only two years in service. There was no discussion offered concerning what happened or if anyone was at fault. This vaguely referenced project plus the other 13 projects that were retired or abandoned early have, according to Cal Advocates a combined remaining book value of $6,225,186[88] which it proposes to disallow as an adjustment to the depreciation reserve. The only justification offered is that they were retired early.

Cal Advocates did not present evidence of unreasonable behavior or poor management by Cal Water which directly led to a projects' premature retirement in these 14 projects. If Cal Advocates presented persuasive evidence in that regard, we would follow precedent as appropriate and either disallow any recovery of the undepreciated book value or deny a return on investment while the remaining balance was amortized. However, we have no persuasive evidence of any unreasonable behavior by Cal Water, and we therefore decline to make any ratemaking adjustments as proposed by Cal Advocates.

8.6.1. Flowmeter Replacement Common Plant Issue

Accurate flow measurements are used to determine water production, production costs, and pumping efficiency. Accurate flowmeters are most

[86] $907,777 - $762,895 = $144,882 i.e., 2 years' depreciation. $144,882 ÷ 2 = $74,441 i.e., 1 year's depreciation. $907,777 ÷ $74,441 = 12.2 i.e., years of useful life.

[87] Cal Advocates does not give us the math for an easy trail.

[88] Cal Advocates Opening Brief at 226.

important during times of drought, when this type of data is vital for operational decision making. Cal Water utilizes flowmeters to determine water production from groundwater, surface water or purchased water. This is compared to metered water sold to customers to determine how much water is lost along the way. Large water losses indicate leaks and other problems. Cal Water asserts that having a robust flow meter replacement program is needed to accurately measure water production.

Cal Advocates takes exception to three years' worth of replacements of flowmeters made in 2022, 2023, and 2024. It objects to 11 of the 162 replacements for an adjustment of $1,401,540.[89] Cal Advocates asserts that it reviewed the condition assessment plan for completeness, consistency, and reasonableness. Where Cal Advocates found what it believed to be data gaps or high-performing assessment scores, it rejected the proposed flowmeter replacement. Cal Advocates states that it "found that numerous flowmeters Cal Water proposed to replace were in fact, code compliant, built according to current design capacity specifications, and high performing based on Cal Water's performance standards."[90]

Cal Water argues that it: "uses a risk-based asset management approach to assess flowmeter condition; condition categories are (1) physical condition, (2) capacity (size), (3) level of service (functionality), (4) reliability, and (5) financial efficiency. The most influential factor is age."[91] It argues that Cal

[89] Cal Advocates again forced us to "do its math." Three years of actual investment totaled $7,223, and Cal Advocates adjusted total of $5,822,272 would disallow $1,401,540.(*See* Cal Advocates Opening Brief at 55.)

[90] Cal Advocates Opening Brief at 55.

[91] Cal Water Opening Brief at 162.

Advocates does not recognize that a risk-based approach could still indicate that it was timely to replace a flowmeter even if several of the factors were still viable. In this instance, Cal Water reduced its original request after discussions with Cal Advocates, but it still argues that all the preventive replacement is prudent.

8.6.2. Disallowance

Cal Water and Cal Advocates failed to meet their respect burdens here. We are rarely persuaded by arguments regarding reasonableness of a proposed adjustment simply based "on its face." That is because there often are multiple fact-specific variables that must be examined. However, both parties failed to develop a record on the reasonableness issue here. That said, abandoning a flow meter that cost $907,777 and after only 2 years still had a book value of $762,895 is "on its face" problematic. We caution both Cal Water and Cal Advocates that in the next GRC both parties must be more detailed and specific why any high-cost premature plant replacements were unavoidable and were reasonable despite the very short life. Under these unusual circumstances and in the absence of additional record evidence, we will in this instance, disallow any cost of capital return on the abandoned value of $762,895 and amortize it over the life of this GRC's test year 2023 and the two attrition years, 2024 and 2025.

9. Administrative and General (A&G) Expenses

9.1. A&G – Workers' Compensation

Cal Water presented testimony by an independent actuary (Milliman, Inc.) whose professional focus is workers' compensation costs.[92] Cal Water requests $1,509,656 in 2023 for Worker's Compensation whereas Cal Advocates proposes

[92] *See*, Ex. CW-01 (Cal Water General Report) at 64. A copy of the workers' compensation actuarial report produced by Milliman, Inc. was included in Attachment E to the exhibit, and was admitted into the record.

a 2023 estimate of $1,221,082.[93] As discussed below we are persuaded by the company's estimate.

The principal difference in the estimates is that Cal Water presented a detailed analysis of the probable workers compensation expenses based on an actuarial study by its witness which examined various factors perceived to be new or changed and which therefore required increasing the forecast. By contrast, Cal Advocates did not consider and therefore did not offer arguments against the specific factors relied on by Milliman, Inc. in its study. Instead, Cal Advocates narrowly adhered to the basic methodology long offered as a baseline in the Commission's standard practices to trend prior expenses. It described it without irony as "a backward-looking escalation-adjusted projection based on actual historical data" using 2016-2020 expense data to estimate the 2023 Worker's Compensation expense. Cal Advocates believes its estimate is consistent with the downward trend in both overall and per employee historical expenses.[94] Cal Advocates has not offered a persuasive rebuttal to the actuarial study's consideration of factors which are not accounted for by the standard practice's use of an escalated trend.[95] We find Cal Water to be more persuasive and to offer a more reliable forecast of $1,509,656 in 2023 for Worker's Compensation expense which we adopt.

9.2. A&G Rent

In their respective opening and reply briefs, both Cal Water and Cal Advocates agree there is no dispute on this topic, although they each quoted

[93] Cal Advocates' Amended Public Version Opening Brief at 39.

[94] *Id.* at 40.

[95] We discuss in detail the reliance on, as well as departure from, standard practices below in the section on Four-Factor allocations.

different numbers. The correct expense that Cal Advocates and Cal Water now agree on is $2,125,954.[96] We will use this number.

9.3. A&G Affiliates Allocation Factor

Cal Water did not use the generally recommended factors in the current version of Standard Practice U-6-W *Allocation of Administrative and General Expenses and Common Utility Plant and the Four-Factor Method* (hereinafter referred to as S.P. U-6-W Four Factor Allocation) – the reasonableness of which are to be tested periodically by the utilities as recommended in S.P. U-6-W Four Factor Allocation. Instead, Cal Water contends that it used direct operating expenses, net plant, meter size equivalents, and operating revenues, which, for Cal Water and its affiliates, it argues is more representative of how its shared costs should be allocated. For instance, instead of the number of customers, Cal Water uses customer meter size equivalents and operating revenues to account for different affiliate customer mixes (an affiliate in Hawaii has several large commercial resort and golf course customers that would potentially skew its allocation downwards). The number of employees was also omitted because direct operating costs include employee wages and benefits, vehicle costs, material, engineering, and outside service expenses to support its customers and their unique logistic characteristics. Supporting unique customer logistics drives direct operating costs and the number of employees is a result of such support. Finally, this methodology has been consistently applied and adopted in Cal Water's prior GRCs. Cal Water argues this is a more equitable allocation of CSS expenses than that proposed by Cal Advocates.

[96] Cal Water Reply Brief at 20 citing in its footnote Ex. CW-54 (Cal Water Rebuttal Book #1) at 79 of Chapter 5 Attachments.

Cal Advocates overstates the absolute meaning of prior findings on deference to the use of Commission Standard Practices and overly manicures one citation by quoting only the first sentence of a pertinent passage, as follows. The full passage is:

> We disagree; we have standard practices precisely because they are standards to be followed. It may be necessary to exercise judgment how to apply the terms of U-16-W as between one utility industry and another or between a small utility and a large one, but that does not mean that U-16-W is entirely elective or something that can be redefined on a case-by-case basis.[97] (Emphasis added.)

While the full passage is quite emphatic that standard practices "are to be followed" and not "redefined" the Commission is never free from its obligation to correctly apply them to the facts and circumstances at hand which may make it necessary to exercise judgement before applying the standard practice to the facts at hand. Here, it is time to "exercise [such] judgement." And, we have done it before for Four Factor Allocations disputes.

The Current version of S.P. U-6-W Four Factor Allocation provides a standardized method to allocate costs which cannot be allocated directly among a group of entities or activities. Although revised recently in 2003, the entire document including all of the provisions were originally published on July 26, 1956 (pp 3-6); April 18, 1955 (pp 7-11).[98] It is also an historical fact that these

[97] In D.20-12-007 the Commission was clearly expressing displeasure over the repeated attempts to skirt prior holdings by the Commission on the identical topic in prior proceedings. (D.20-12-007 at 36-37.) It does not matter that this citation refers to Working Cash and this proceeding's dispute here involves a different standard practice on Four Factor Allocations.

[98] Both assigned ALJs admit to being older than S.P. U-6-W Four Factor Allocation but we were mere children in 1955 and 1956, not its authors. We support the reasonable application of all long-serving standard practices, but we believe they must always be viewed carefully in the light of fairness and specific current facts, i.e., judgement must also be used to fit the circumstances at hand.

original standard practices were often written by professional engineers, not accountants or economists, to provide a simplified and uniform process to follow for various ratesetting activities, and they were used often for smaller utilities. The exercise of judgement must always prevail when there is good cause for departing from any deference to a standard practice.

We find that while the Commission does encourage adherence to standard practices where they fit the circumstances, we have and will continue to adapt to unique circumstances. We will again depart from S.P. U-6-W Four Factor Allocation in recognition of our prior departures and because we believe the facts and evidence at hand favor the deviation. We therefore adopt Cal Water's estimates.

10. Payroll and Benefits

In the following section we address the disputes between Cal Water and Cal Advocates over the number of new hires proposed during the test year cycle, and how hires between rate cases are relevant for ratemaking purposes. As discussed below we find Cal Advocates' position to be wrong and it fails to recognize long-established and reasonable practices used successfully by the Commission for decades and in countless cases. Cal Advocates does not present evidence to support a sound factual justification for departing from well-established practices. Cal Advocates must acknowledge established ratesetting tools. We will not adopt an adjustment just when it results in a lower forecast.

10.1. Forecasting New Hires and Hiring Between Rate Cases

Cal Water proposed hiring 25 new employees to fill new positions. Cal Advocates opposed all the positions' inclusion in rates. As discussed below, we adopt Cal Water's request.

In its testimony and workpapers provided to Cal Advocates, Cal Water provided its justification for each new positions with a description of the position, basis for the anticipated salary, allocation of salary (expense versus capital), detailed need for the position, changes in operations necessitating the new position, alternatives considered, value to customers, and other information supporting each individual request.[99] During the life of this proceeding six positions have already been filled. Subsequently Cal Advocates modified its position to only oppose our authorizing the empty 19 positions because they were not yet filled.

There is a fundamental flaw in Cal Advocates position. The basic underlying system of ratemaking in California has been and remains a forward test year in a GRC of the expected cost and scope of a utility's operations, that is, the utility's rates are set prospectively in a GRC based upon a forecast of sales and operating costs, plus taxes, interest, and an expected return for the investors based on the investment in long-lived assets that serve the customers. Rates are set to give the company a reasonable opportunity to earn a fair return, but not a guarantee of a specific profit during the actual test year.

This is done by examining the utility's current and recent years' operations and their costs, and then forecasting the growth and changes that can reasonably be foreseen for the next few years. It is a tried-and-true process to forecast the future costs and set just and reasonable rates which provide the shareholders a reasonable opportunity to earn a fair return on equity.

As noted elsewhere, the Commission has very long-lived standard practices, like S.P. U-6-W Four Factor Allocation and others referenced herein,

[99] Cal Water Opening Brief at 3, *citing* Ex. CW-01, Attachment C: New Complement Justifications.

that help form the basis for estimating the expected needs of the utility. Cal Advocates fails in its role of challenging the forecast: (i) to examine the recent trend; (ii) to examine the prudence of Cal Waters' managers; and (iii) to examine and test Cal Water's forecast methodologies and justifications. Instead, Cal Advocates wants to employ an incomplete, retroactive, and punitive method. If Cal Advocates' method were adopted and the currently empty, but forecast new positions, were to be filled during the rate case cycle, then Cal Water cannot recover the costs during this GRC's test year cycle, but only going forward in the next GRC cycle.

There is another ratemaking tool, a balancing account[100], which if there were conflicting evidence on the likelihood of needing all the positions, or whether they would cost significantly more or less than forecast, the Commission could make the forecast subject to refund. Ratepayers would only pay the actual reasonable costs after a subsequent review. Cal Water has a number of such balancing accounts. No one has proposed these new positions cannot be reasonably forecast. No one proposed, nor is it appropriate here, to control these costs with a balancing account.

We find Cal Water has made a persuasive case for the new positions and we include them in the adopted test year revenue requirement. We expect these positions will be filled as forecast during the rate case cycle. In the next GRC Cal Water will be accountable for explaining whether and why it filled fewer or more than the adopted forecast positions, or different positions, as a part of justifying

[100] The Commission created balancing accounts to reduce the risks to ratepayers as well as investors where some costs are too uncertain to forecast with sufficient accuracy in a general rate case. Refundable rates are set for the program based upon the best available forecast.

its next GRC forecast and thereby validating, or not validating, the reliability of its methods and its witnesses.

10.2. Executive Compensation

Cal Water asserts that it pays its executives using a base salary as well as offering both a short-term and a long-term incentive so that in combination the three components provide compensation packages at market rates "necessary to attract and retain qualified and quality employees."[101] The Commission has long accepted that properly constructed incentive components are a reasonable part of the hiring process and retention process to ensure that Cal Water (like the other regulated utilities in California) has the tools to attract a competent and motivated executive team. The challenge is finding a Goldilocks package that pays not too much and not too little but is just right.

In support of its proposal Cal Water used a consultant and provided a proxy study intended to simulate compensation of comparable companies who are theoretically competing for the same pool of competent and motivated executives. This study "include[d] companies that are generally highly regulated public gas, water, or multi-utility based organizations with one-half to two times the annual revenue size" of Cal Water's parent company California Water Service Group.[102] Cal Water asserts that this study provides results that are plus or minus 20% of the compensation packages proposed in its application, i.e., Cal Water's proposed salaries should be found to be reasonable and at market compared to the large proxy group.

[101] Cal Water Opening Brief at 31, *citing* Ex. CW-54 at 66-67.

[102] Cal Water Opening Brief at 32-33.

Cal Advocates presented its own proxy group of only the five water companies in the bigger proxy group. This smaller group provides a different lower result. Specifically, Cal Advocates also objects to the nature of both long and short-term compensation components. Cal Advocates' argument boils down to asserting there is no discernable benefit to customers by offering the two forms of incentives beyond base pay. Cal Advocates has not come to us with a persuasive argument that either plan component is structurally defective. For example, does any element of the plan cause utility employees to take actions which are directly detrimental to customers; which are distorting spending and investment decisions; which are resulting in excessive construction or dangerous delays to maintenance? The Commission has a long and consistent practice of accepting effective and reasonable incentive packages not just for Cal Water but for many other companies as well. If the Commission prohibited Cal Water from using incentive packages, at least for ratemaking purposes, it would have to propose a single salary for every position. Given current compensation levels the new base salaries would likely approximate the sum of current salaries plus incentives. The Commission would still have to adopt a reasonable estimate and assess the impact on the utility and its employees and customers from avoiding the benefits that incentives provide.

Cal Water improperly referenced in its brief a prior settlement,[103] more than once.[104] This is unacceptable, and we disregard all argument and references to prior settlements following our explicit settlement rules which make all settled amounts and methods inadmissible and irrelevant in subsequent proceedings.

[103] *Ibid*.

[104] Cal Water Reply Brief at 59.

Cal Water also expressed concern that the incentives should not be viewed as "bonuses," as argued by Cal Advocates, but as target incentives that are in fact integral to the baseline compensation. Any incentive payments beyond the baseline are absorbed by the company and Cal Water asserts this has been the case in the years between 2015 and 2020. Should Cal Water attempt to change this in the future we would entertain ratemaking adjustments to avoid excessive compensation.

Cal Advocates argues that the Commission should disallow in total the Supplemental Executive Retirement Plan (SERP) arguing that it is unnecessary. Cal Advocates also expressed concern that the administrative costs were excessive.[105] We find its assertions that other states have disallowed such programs to be unsubstantiated. Indeed, we find most cross-jurisdictional arguments to be problematic because the depth of knowledge and history of those jurisdictions, the specific situation of the other jurisdictions' utilities has not been presented or demonstrated here to make such bootstrap comparisons persuasive.

We will adopt Cal Water's methodology and resultant forecast for executive compensation including the short- and long-term incentives. We further direct that no payments above 100% of the adopted baseline incentives can subsequently be passed along to the ratepayers in any fashion.

[105] Cal Advocates Opening Brief at 35-37.

10.3. SERP in the Pension Cost Balancing Account

Cal Water has proposed a new Pension Cost Balancing Account 5 (PCBA5) having previously been authorized a PCBA3[106] and a PCBA4.[107] Cal Advocates opposes the inclusion of SERP[108] in the new PCBA5, which was previously excluded from PCBA3: "The following entries will be recorded annually to the PCBA3: a. Annual pension expense, excluding the Supplemental Executive Retirement Plan (SERP) expense, determined by Cal Water's actuarial expert …" (emphasis added.)

Cal Water asserts that this exclusion was a part of the settlement in the prior GRC and therefore the issue is still disputed. A sub-set of the argument about including the SERP in the new PCBA5 is the reasonableness, and the recoverability of the actuarial costs for the SERP which Cal Advocates argues are extremely high when compared to broader pension plans size and the relative actuarial costs.

We find that Cal Water has offered no persuasive or plausible justification for including this cost in the new iteration of PCBA5, and we will therefore adopt Cal Advocates' proposal to exclude it, realizing that by adopting a fixed amount outside the balancing account, ratepayers are at risk of paying more than the

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[106] AL 2242 Tariff Sheets.xlsx (calwater.com) Its purpose is: "The PCBA3 will track the difference between the adopted pension expense and California-regulated pension expense recorded in accordance with Generally Accepted Accounting Principles (GAAP). The adopted and tracked expenses include only the expensed portion of benefits and exclude pension costs assigned to capitalized overhead, capitalized projects, out-of-state affiliates, and unregulated entities."

[107] California Water Service Company AL - Transmittal (calwater.com) Its purpose is: "The PCBA4 will track the difference between the adopted pension expense and California-regulated pension expense recorded in accordance with Generally Accepted Accounting Principles (GAAP). The adopted and tracked expenses include only the expensed portion of benefits and exclude pension costs assigned to capitalized overhead, capitalized projects, out-of-state affiliates, and unregulated entities."

[108] Reminder – SERP is the Supplemental Executive Retirement Plan.

actual fees. On the other hand, Cal Water is at risk for any overage. This is a minor return to ratemaking practices of yester-year before the wholesale adoption of memorandum and balancing accounts.

Cal Water is authorized to include the SERP in base rates not subject to over- or under-collection in the PCBA5.

We are also concerned that, as Cal Advocates points out, the actuarial fee for SERP appears disproportionate when compared to the similar fee for the larger pension fund. We put Cal Water on notice that a full and complete disclosure of very specific efforts to negotiate lower fees, and not to juggle the pension fees higher to offset any apparent reduction, must be made in its next general rate case. Cal Water should not be a passive "taker" but an active and aggressive negotiator over every professional fee and service it recovers in revenue requirements as a part of providing service to California customers.

11. Special Requests and Other Issues

Various Special Requests were resolved by way of settlement and the resolutions have been incorporated into the Settlement Agreement we approve in this decision. The Special Requests not resolved by the Settlement Agreement are discussed below.

11.1. Special Request No. 3: Water Revenue Adjustment Mechanism

Some background concerning Special Request No. 3 is necessary to understand the parties' respective positions and the Commission's review of this request.

In D.20-08-047, issued in August 2020, the Commission barred any future requests from Class A water companies in their GRCs to continue to charge rates that incorporated a fully decoupling Water Revenue Adjustment Mechanism/Modified Cost Balancing Account ("WRAM/MCBA"). This

proceeding is Cal Water's first GRC application following the issuance of D.20-08-047. On July 1, 2021, when it filed the instant GRC, Cal Water had a WRAM/MCBA in place but to conform to D.20-08-047, Cal Water did not seek authority to continue using a WRAM/MCBA for the current rate cycle, 2023 – 2025. Instead, Cal Water sought conditional authority to use a so-called Monterey-style WRAM (M-WRAM) and an associated Incremental Cost Balancing Account (ICBA)[109] throughout its system. Cal Water's request for authority to use an M-WRAM/ICBA was "conditional" because it and other Class A water companies had by that time petitioned the California Supreme Court for review of D.20-08-047. The Court granted the petitions for review, but it has not yet issued its decision on the merits.[110] A favorable Supreme Court decision for any of the petitioning water companies will likely benefit Cal Water, as well.

While Cal Water and other Class A water utilities were petitioning the Supreme Court for review of D.20-08-047, the California Legislature focused its

[109] The difference between a typical WRAM and an M-WRAM involves treatment of a utility's sales projections. In a WRAM setting, a water sales projection that is over or under the projection results in either a credit owed by the utility to its customers (when sales revenue exceeds the sales projection, or a surcharge to the customers (when sales revenue exceeds projections). The M-WRAM follows a similar formula but one that compares actual sales revenue to a hypothetical sales projection that is the product of averaging sales. Another important difference is that the WRAM applies to all customers, industrial and agricultural as well residential; the M-WRAM only applies to residential customers. The difference between the MCBA and the ICBA is as follows: the MCBA tracks the difference between all authorized water production expenses and actual water production expenses over a calendar-year period whereas the ICBA tracks and protects the utility from the increases in water purchases and power purchases.

[110] One of the petitions for review of D.20-08-047 by Class A water companies, including Cal Water, is found in Supreme Court Docket No. S269099. There is a parallel Supreme Court petition for review of D.20-08-047 which is Docket No. S271493. The two proceedings were consolidated on June 1, 2022 for purposes of briefing and argument.

attention on the dispute over fully decoupling WRAMs and drafted its own legislative response to the issue. The Legislature enacted Senate Bill (SB) 1469 which legislatively reversed that part of the Commission's decision D.20-08-047, prohibiting the use of a fully decoupling WRAMs. The bill was signed into law by the Governor on September 30, 2022, and became effective January 1, 2023. This new law amends Pub. Util. Code Section 727.5, by adding subsection (d)(2), which requires the Commission both to entertain and to give full consideration to requests by Class A water companies for fully decoupling mechanisms, such as WRAMs.

In response to the Legislature's action, on October 21, 2022, the Commission moved the Supreme Court to dismiss all the pending petitions by the Class A water utilities for review of D.20-08-047 on the ground that the water utilities' petitions to the Court were mooted by the Legislature's enactment of SB 1469. The Court, on November 17, 2022, denied the Commission's motion to dismiss those petitions, without prejudice, allowing the Commission to reargue the mootness in the Commission's subsequent brief on the merits in opposition to the petitions. The Court also set January13, 2023, as the due date for the water utilities to file their reply briefs. Those briefs have all been filed, but as of the date of this decision, the case has not been set for oral argument nor has a decision been issued.

Briefing in the instant Cal Water GRC proceeding was completed in July 2022, two months before the Governor signed SB 1469 into law and five months before briefing on the merits of D.20-08-047 was complete. In its briefing on the WRAM issue in this GRC proceeding,[111] Cal Water indicated that

[111] Cal Water Opening Brief at 59 – 60.

it would immediately withdraw its request for approval of a Monterey-style WRAM and ICBA and propose a return to a fully decoupling WRAM/MCBA, if the Supreme Court ruled favorably on the water utilities' petitions. However, to date, there is no guidance from the Supreme Court.

Thus, as we issue this decision, there is a directive from the Legislature that the Commission must accept and consider a request for a traditional, full-decoupling WRAM, if one is made. But there is no actual request in any of Cal Water's briefs on file with this Commission asking for approval of a fully decoupling WRAM.[112]Therefore, in this decision we will address only Cal Water's request for approval to institute an M-WRAM plus ICBA for this rate cycle. A formal request for a fully decoupling WRAM, should the Supreme Court issue a ruling in favor of the class A water companies, must be taken up in a separate proceeding.

Cal Advocates and Cal Water agree with each other on Cal Water's request for use of an M-WRAM/ICBA and thus, we approve Cal Water's conditional use of it. Furthermore, Cal Advocates recognizes that the viability of D.20-08-047 is now in the hands of the Supreme Court. As a result, Cal Advocates' response to Cal Water's conditional switch to an M-WRAM is focused on what to do about the WRAM balances that have built up in Cal Water's MCBA and are yet to be amortized. The accumulated surcharges and surcredits that built up in Cal Water's MCBA are substantial. Cal Advocates argues that Cal Water should not

[112] Cal Water Opening Brief at 58 – 63; Cal Water Reply Brief at 68 ("Cal Water is not seeking to continue the full WRAM/MCBA for this GRC cycle at this time, but instead is only proposing to implement a Monterey-Style WRAM and Incremental Cost Balancing Account.").

be permitted to amortize any of those balances after January 1, 2022, the beginning of the current rate case cycle.[113]

This Commission's position is implicit in Cal Water's previous GRC decision, D.20-12-007, which was issued four months after D.20-08-047 was issued. In D.20-12-007, the Commission concluded that Cal Water could "continue use of its current full WRAM program through the end of escalation year 2022."[114] There would be no reason to make that statement if the Commission's D.20-08-048 had ordered that December 31, 2022 was, in fact, a hard stop to the WRAM program, so that surcharges and surcredits recorded in the balancing accounts as of December 31, 2022 could never be amortized, as of the very next day. Put another way, if the Commission had intended that, on December 31, 2022, whatever balances existed in the MCBA would be forever lost to Cal Water and, in the case of surcredits to Cal Water's customers, it would have provided a clear warning of such a dire result in D.20-12-007. No such warning exists in D.20-07-012.

Moreover, the Commission has already advised Cal Advocates of the fact that D.20-08-047 does not prohibit amortization of WRAM balances after January 1, 2023. In response to a Cal Water amended advice letter, AL 2447-A, requesting amortization of a portion of WRAM surcharges and surcredits scheduled to occur after January 1, 2023, Cal Advocates filed the same opposition it raises here, that is, D.20-08-047's elimination of Cal Water's WRAM/MCBA as of January 1, 2023, should also be interpreted as prohibiting amortization of all WRAM/MCBA balances existing on that day. By way of authority delegated to

[113] Cal Advocates Opening Brief at 14 – 18.

[114] D.20-12-007 at 58 (Conclusion of Law No. 6).

its Water Division, the Commission approved Advice Letter 2447-A, anticipating the language of the preceding paragraph of this decision – "[t]here is no language in D.20-08-047 that indicates the Commission intended to overrule or invalidate existing authorities, including Preliminary Statement M and D.12-04-048." Cal Advocates offers no evidentiary or logical reason to deviate from AL 2447-A.

Cal Water's request to utilize an M-WRAM for this GRC cycle is granted. There is no opposition in the record to doing so. As for switching back to a traditional WRAM when and if the Supreme Court should nullify D.20-08-047, we will delay any ruling on the propriety of doing so until the Supreme Court issues its decision on the challenges to D.20-08-047.

11.2. Special Request No. 4: Sales Reconciliation Mechanism

Cal Water's Sales Reconciliation Mechanism (SRM) is a pilot program that was put in place during the statewide drought conditions that developed in 2015. When working in tandem with a WRAM program, as was the case from 2015 - 2022, the SRM reduces the flow of WRAM surcharges into the MCBAs during the escalation years of a GRC cycle. A portion of the WRAM charges will be blended into rates for the current year and the rest of the WRAM charges will appear in customer bills as surcharges after a request for amortization of the MCBAs has been made and granted.[115] Given the proper circumstances, the SRM can divert surcredits directly into rates during an escalation year but given the effects of droughts and the Covid-19 pandemic, surcredits have been a rare occurrence since 2015.

[115] Although the SRM was first proposed, approved, and implemented during a prolonged period of severe, statewide drought conditions, its use is not limited to periods of drought. It can be used to counteract any unusual conditions affecting sales volumes in a significant way.

The SRM works because the approved test year revenue requirement does not change; it functions as a fixed frame of reference for calculating the SRM. Customer bills during Cal Water's escalation years will increase or decrease whenever the SRM is triggered by a minimum (five percent) increase or decrease in actual sales versus projected sales for the immediately preceding year. The basic concept underlying this comparison is that recent data is very useful when predicting short-term (12 month) future performance. Accordingly, when the SRM is calculated for the first escalation year, the actual sales for the test year are compared to the approved projection for the test year and if there is a difference larger than five percent, half the differential is added to or subtracted from the approved test year forecast to reset the rates and change customer bills. For example, if the actual sales volume for the test year was six percent lower than the approved sales projection, the minimum five percent threshold differential established by the Commission for triggering Cal Water's SRM has been met, and three percent (half of the six percent difference) is incorporated into a new, lower sales forecast for the coming first escalation year and the rates are recalculated based on the new, lower sales forecast to produce a set of revised customer bills for that escalation year. A similar calculation is made at the end of the first escalation year to adjust the sales forecast for the second escalation year if the minimum five percent differential is met.

Cal Water has asked that the pilot program be continued through the escalation years for this GRC cycle, that is, 2024 and 2025. Cal Advocates opposes its continuance arguing, again, that in D.20-08-047 the Commission prohibited further use of WRAMs, and this should be further interpreted as an order to stop

using SRMs as well as WRAMs beginning January 1, 2023.[116] However, as explained in the previous section of this decision,[117] Cal Advocates' contention that the SRM serves no purpose because WRAMs are prohibited, has been mooted by the Legislature's enactment of SB 1469 requiring the Commission to consider all requests for WRAMs.

Cal Advocates also contends that SRMs serve no useful purpose when coupled with a WRAM because the SRM does not send proper signals to water customers to save water in times of drought.[118] Cal Advocates bases this contention on the fact that six out of 82 rate districts in Cal Water's statewide system experienced lower rates because of Cal Water's SRM in the 2015 drought era. However, at exactly the same time, the remaining rate districts, 76 of 82, or 93 percent of all rate districts, experienced rate increases, which by definition sent the proper conservation signal during the drought. That 93 percent of the entire Cal Water system received the correct pricing signal is a convincing reason to continue, rather than discontinue, the SRM pilot program. Absolute perfection is not required of pilot programs.

Cal Advocates also contends that customers should not experience bill changes except through formal GRC proceedings but the SRM, when triggered, changes the rates and, in turn, the bills for Cal Water's customers without convening a formal proceeding to consider a change. However, when an event like a drought strikes California, it is important to elicit an immediate,

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[116] Cal Advocates Opening Brief at 20 ("Retaining the SRM, which was created to work in conjunction with the WRAM, would be inconsistent with the objectives of the WRAM decision.").

[117] *See* Section 11.1.

[118] Cal Advocates Opening Brief at 19.

conservation effort by customers and that is something the SRM does, unlike the lengthy processes associated with GRCs. Furthermore, a GRC proceeding relies on data that by the end of the GRC cycle is nearly four years old. In contrast, if an SRM is triggered for the last escalation year of a GRC cycle, the data upon which it is based is no more than one year old. That makes the SRM a device that is much more sensitive to recent events that affect sales volumes and bill changes, so that purchasing behavior, including conservation efforts, can be quickly influenced.

Cal Advocates expressed concern in its testimony and briefs that if an SRM is approved, Cal Water will become lax about doing its best to predict sales volumes accurately. There is no evidence in this record that Cal Water has behaved in such a manner while the SRM pilot program has been underway. Speculation about what a utility might do when there is no evidence that it ever did or is planning to do what Cal Advocates fears is no substitute for evidence.

Finally, whether Cal Water continues to favor use of an M-WRAM for this GRC cycle or it requests the Commission's permission to substitute a fully decoupling WRAM, as SB 1469 allows it to do, we believe the use of an SRM to be reasonable and prudent. The SRM may provide added benefit whether it is used in tandem with a WRAM or M-WRAM. The benefits of using an SRM with a WRAM were explained and approved in D.20-12-007.[119] An SRM also provides benefits when used with an M-WRAM because the M-WRAM is only designed to address the portion of revenue variance caused by conservation-type rate designs but not the variance due to a sales forecast made inaccurate by the occurrence of a drought or similar disruptive events.

[119] D.20-12-007 at 17 – 19.

11.3. Special Request No. 6: Incorporating Subsequent Rate Changes into Final Rates

Subsequent to filing this GRC, Cal Water has filed for, and has been authorized, various other rate increases for costs which are outside the scope of the GRC. However, "neither Cal Water's approved revenues as of July 2021, nor its proposed revenues in its July 2021 GRC application, include any of the revenue changes the Commission will have approved outside of – yet during the pendency of – this GRC proceeding." In fact, "for the period of July 2021 through December 2022, Cal Water estimates that the Commission will have approved approximately $20 million in revenue changes outside of this GRC proceeding."[120] Cal Water is concerned that ratepayers understand that some of the rate change they see will be from these other sources, and not solely from this GRC. Cal Water suggests this "would enhance understanding for the public."[121] Cal Water asserts that Cal Advocates supports this request citing to Ex. CalAdv-4 pp. 19-1 to 19-2. And we note Cal Advocates did not brief this topic.

We show the adopted increase in revenues, i.e., the change in authorized revenue requirements, in this GRC as an increase over the authorized revenues in place at the time of this decision rather than as an increase over the revenues at the earlier time of filing this application.

11.4. Special Request No. 9: Memorandum Account for Palos Verdes Pipeline Litigation

In Special Request No. 9, Cal Water requests a memorandum account related to the Palos Verdes Peninsula Water Reliability Project (PVPWRP or PV Pipeline). The proposed Palos Verdes Memorandum Account (PVMA) would

[120] Cal Water Opening Brief at 80-81.

[121] *Ibid.*

track the incremental final settlement costs associated with the project that exceed the amount not already authorized in rates.

Originally, our D.20-12-007 in Cal Water's 2018 GRC authorized the PVPWRP at a total cost of approximately $96.1 million as part of a broader settlement agreement executed between Cal Water and Cal Advocates and adopted by the Commission. Subsequently, Cal Water Advice Letter No. 2396 was approved on February 12, 2021, placing the PV Pipeline in base rates for Palos Verdes customers consistent with the adopted settlement agreement.

Since that time there have been more costs related to the PV Pipeline. Actual costs at the time that Cal Water filed this GRC were $102.5 million, a $6.4 million (6.66%) increase above the $96.1 million cap approved in D.20-12-007. Cal Water quotes with emphasis that the settlement adopted in D.20-12-007 anticipated the final costs for the PV Pipeline could be higher than the $96.1 million included in the settlement:

> … if the total cost of the Pipeline projects exceeds the new cap of $96.1 million and the Commission's Water Division finds the costs to be reasonable and prudent, the exceedance can be incorporated into the beginning plant balance in Cal Water's next GRC. (Emphasis by Cal Water in the Opening Brief at. 82.)

This language is problematic not just for the somewhat archaic usage of "exceedance" but by deferring determination of "reasonable and prudent" to the Commission's Water Division. Noting that anomaly we address the recovery of the $6.4 million cost overrun here.

Cal Water cites ongoing troubles and frustrations with the contractor on the PV Pipeline but nevertheless all work on the project is complete, accepted, and in-service. Cal Water states "a number of additional cost claims remain in dispute and/or are awaiting additional information for final substantiation from

the design/builder of the project."[122] Thus, there is a lawsuit and Cal Water intends to pursue it vigorously and seeks permission here to include any further costs it incurs in the proposed memorandum account.

Cal Advocates' Opening Brief asserts[123] that it addresses Special Request No. 9 in *Section VI.H.16.b*. It did not. *Section VI.H.16.b* argues against allowing certain costs associated with "Cal Water's request for $1,338,054 to perform survey, designs, and secure permits to add a 2.5 million-gallon (MG) reservoir in the Palos Verdes District, as the budget does not reflect the full rate impact for this project and conflicts with the Commission's authorized rate case plan. (Footnote omitted.) Moreover, the extra water storage capacity is not necessary at this time," (Footnote omitted.)[124] Cal Advocates' objections to this reservoir project are addressed elsewhere in this decision.[125]

We deny Cal Water's request to establish the proposed PVMA. While it may be true that Cal Water has an ongoing dispute with the contractor Cal Water offered no compelling reason why the costs of this litigation or its outcome should be borne by ratepayers. We do, however, allow the recovery in rate base of the $6.4 million exceedance in rate base. Cal Advocates has had an opportunity to review these costs during this GRC and has not offered a specific objection to recovery.

[122] Cal Water Opening Brief at 83.

[123] Cal Advocates Opening Brief at 22.

[124] *Id.* at 172.

[125] *See* Section 6.15.1 above.

11.5. Special Request No. 10: Memorandum Account for Groundwater Management Costs

In Special request No. 10 Cal Water requests a memorandum account to comply with the Sustainable Groundwater Management Act (SGMA), which it asserts requires that high- and medium-priority groundwater basins form Groundwater Sustainability Agencies (GSAs) to be managed in accordance with locally developed Groundwater Sustainability Plans (GSPs) or alternatives to GSPs for those basins identified as part of the legislation. In this section we discuss and adopt a memorandum account.

11.5.1. Background

The California Department of Water Resources (DWR), which is a department in the California Natural Resources Agency, and the State Water Resources Control Board (State Water Board), which is an independent board within the California Environmental Protection Agency, are the two lead state agencies implementing SGMA.

We take official notice and reference a summary of the origins and purpose of SGMA, below, from the State Water Board, a "sister-agency" that we frequently interact with, and when appropriate, defer to its expertise. The Commission also has a long and close working relationship with the DWR on a large array of issues. The State Water Board's web site provides this clear and precise public description:

> In 2014, Governor Jerry Brown signed a three-bill legislative package, composed of AB 1739 (Dickinson), SB 1168 (Pavley), and SB 1319 (Pavley), collectively known as the Sustainable Groundwater Management Act (SGMA). SGMA is the first legislative act that California passed in order to achieve sustainable groundwater management. … On May 16, 2016, the State Water Resources Control Board adopted a resolution to adopt an

> emergency regulation to implement SGMA. The Office of Administrative Law approved the final regulation on June 29, 2017.
>
> SGMA established a new framework for how groundwater would be managed locally to achieve long-term sustainability. SGMA requires existing local agencies to form groundwater sustainability agencies (GSAs) in high- and medium-priority basins and to develop and implement groundwater sustainability plans (GSPs). GSAs are responsible for achieving long-term sustainable management of their groundwater basins and must achieve sustainable groundwater management within 20 years of implementing their GSPs.

These groundwater sustainability plans outline how groundwater will be sustainably used and managed without causing six undesirable results in the basins: significant and unreasonable declines in groundwater levels, reductions in groundwater storage, intrusion of seawater, degradation of water quality, subsidence of land, and depletions of interconnected surface waters. These are often referred to as the sustainability indicators. These GSPs will address overuse and excessive groundwater pumping, causing overdraft in the basins, to achieve balanced levels of groundwater to reach long-term sustainability. For those groundwater basins experiencing the most severe overdraft, known as the critically over-drafted basins, basins must achieve groundwater sustainability by 2040. For the remaining high- and medium-priority basins, 2042 is the sustainability deadline.[126]

We quoted this information at length to demonstrate the importance of these activities and to acknowledge this Commission's commitment to support and work cooperatively with DWR and the State Water Board to ensure all

[126] https://www.waterboards.ca.gov/water_issues/programs/gmp/about_sgma.html (Current as of September 15, 2023, including the hyperlinks within the text.) Much more information is available at this site.

consumers served by the water utilities subject to our jurisdiction have safe and reliable potable water. That commitment includes critically examining any water utility's requests ascribed to the requirements of SGMA and the informed views of any active intervenors, including Cal Advocates which has its own legislative mandate to represent the long-term best interests of utility ratepayers.

11.5.2. Cal Water's Request

Cal Water cites to D.18-12-021, which authorized another Class-A water utility, California-American Water Company, to file an advice letter to implement a Sustainable Groundwater Management Act Memorandum Account.[127] Cal Water suggests that this prior authority supports its own request for a Memorandum Account. It also cites to Standard Practice U-27-W[128] which addresses the purpose of a memorandum account.

The basic underlying system of ratemaking in California has been and remains a forward test year of the expected cost and scope of a utility's operations, that is, the utility's rates are set prospectively in a GRC based upon a forecast of sales and costs. Rates are set to give the company a reasonable opportunity to earn a fair return.

Balancing accounts were created to reduce the risks to ratepayers as well as investors where some costs are too uncertain to forecast accurately in a GRC. Refundable rates are set for the program based upon the best available forecast. The courts have accepted that when the Commission approves of the scope of a program in advance, and when there is a subsequent review of the

[127] Cal Water Opening Brief, footnote 474 which in turn references Ordering Paragraph 25 in D.18-12-021.

[128] https://docs.cpuc.ca.gov/word_pdf/REPORT/84069.pdf (Current as of September 20, 2023.)

reasonableness of the utility's decision-making and management of the program, then forecast costs can subsequently be "trued up" to actual and any revenue shortfall or overcollection is recoverable by the utility or refundable to ratepayers. The preapproval of the scope of the balancing account averts a finding of retroactive ratemaking, i.e., it becomes an exception to the test year forecast requirement.

Memorandum accounts are much more uncertain: for an activity that has not yet been found to be reasonable and necessary, and where the costs are very uncertain, a utility may be given authority to track those costs and apply to recover the costs later after the utility demonstrates the reasonableness of its actions and the benefit of the activity to the ratepayers. Before the use of memorandum accounts utilities were generally at risk of absorbing activities unforeseen in between GRCs and the company would only be able to recover previously forecasted costs in its next test year.

Cal Water argues that the proposed memorandum account passes four tests included in Standard Practice U-27-W[129] to justify its creation: (1) The expense is caused by an event of an exceptional nature that is not under the utility's control; (2) The expense cannot have been reasonably foreseen in the utility's last GRC and will occur before the utility's next scheduled GRC; (3) The expense is of a substantial nature as to the amount of money involved when any offsetting costs decreases are taken into account; and (4) Customers will benefit by the memorandum account treatment.

[129] The Utility Standard Practices are, like the Water Division Standard Practices, given deference but not total control. The facts and circumstances in every situation must be considered.

The GSPs meet the first test: they are not under the control of Cal Water even if Cal Water is an active participant working with the GSAs. The second test is convoluted, but it is true, that from one GRC to another Cal Water is not in a position to accurately forecast any GSP expense. This meets the second test. Cal Water argues the GSP costs are likely to be substantial. This is likely to be true, but with a memorandum account, final approval and the consideration of reasonableness is deferred until after the project is completed. Test number 3 is passed. The final test is whether customers benefit. This Commission cannot relitigate or override the DWR or the State Water Board's management of the SGMA. Nor can we ignore the legislation underlying the SGMA. This program was determined to be beneficial by the enabling legislation. Cal Water's responsibility will be to actively participate to the extent permitted by the GSAs and exercise good judgement in that participation. Test number 4 has been passed.

11.5.3. Cal Advocates' Response

Cal Advocates argues that GSAs are moving slowly and "it is unlikely that major assessments will arise before the next GRC."[130] It argues as well that there is "greater transparency" if any major project or expense is vetted in a GRC. If Cal Water were proposing a new pipeline Cal Advocates would be completely right. But Cal Water is not in control of the scope, scale, or schedule of the GSPs, the GSAs are in control. If nothing happens in the next three years the balance in the memorandum account will be zero. If something does happen in the next three years then the parties will have their opportunity to review the costs and

[130] Cal Advocates Opening Brief at 21.

investigate Cal Water's actions when the Commission reviews the memorandum account.

11.5.4. Conclusion

Cal Water has sufficiently demonstrated the need for a new memorandum account or costs which might be imposed on it as a result of the SGMA. The activity meets the regulatory requirements of a memorandum account as discussed above and it meets more specific tests of Standard Practice U-27-W.

We will authorize Cal Water to file a tier 1 advice letter and open a new Sustainable Groundwater Management Act Memorandum Account (SGMAMA) to record any direct costs imposed on Cal Water by a GSA as a result of an approved GSP pursuant to the SGMA. The SGMAMA will be subject to refund and a reasonableness review in a subsequent GRC before Cal Water can recover any costs from ratepayers. Cal Water shall separately track and justify any allocation of costs between its various service areas.

11.6. Special Requests Nos. 11, 12, and 13: Various Balancing and Memorandum Accounts

In Special Request 11, Cal Water requests an extension its Asbestos Litigation Memo Account for an additional year through December 31, 2025, due to protracted litigation, and an extension of its 2018 Tax Accounting Memorandum Account through December 31, 2025 without recovery due to changes in federal policy assessing taxes on grants to utilities. Cal Advocates did not oppose either request. After filing Opening Briefs Cal Water had a change of position and while it also agreed to extend the 2018 Tax Accounting Memorandum Account for the same period, Cal Water withdrew this request because it said that federal tax law changes now allow water utilities to exclude grants from taxable income, rendering continuation of this memo account unnecessary.

Therefore, we grant one part of Special Request 11 to extend the Asbestos Litigation Memo Account for an additional year through December 31, 2025. We deny the other part of Special Request 11 and order Cal Water to close the 2018 Tax Accounting Memorandum Account.

Cal Water requests approval to amortize the balances in the following six balancing and memo accounts via Tier 1 and 2 advice letters: (1) Conservation Expense Balancing Account (CEBA 4); (2) Pension Cost Balancing Account (PCBA 4); (3) Healthcare Cost Balancing Account (HCBA 4); (4) General District Balancing Account (District BA); (5) Lead Service Line Memorandum Account (LSL MA); and (6) Chromium 6 Memorandum Account (Cr6 MA).

The amortization of the balances is granted.

When Cal Advocates filed its Opening Brief, it did not address Special Request 12. This would suggest that the parties were in agreement. However, that common understanding fell apart when Cal Advocates suddenly asked to impose various conditions in its Reply Brief.[131] We decline to even review or consider Cal Advocates' new out-of-time proposals. Reply Briefs are not the time or the place for new evidence or new theories of the case. Cal Advocates did not ask for leave to introduce a new proposal for the treatment of these balancing accounts – that ship has long since sailed.

We will adopt Cal Water's proposals for the amortization of both the Health Care Balancing Account and Pension Cost Balancing Account.

Cal Water requests re-authorization of three balancing accounts: (1) Conservation Expense Balancing Account (CEBA5); (2) Pension Cost Balancing Account (PCBA5); and (3) Health Cost Balancing Account (HCBA5).

[131] Cal Advocates Reply Brief at 43, ff.

These accounts have been re-authorized in several of Cal Water's previous GRCs. The "5" is a sequential authorization number, so this request if granted would create the fifth iteration of each account.

The parties agree that the CEBA5 and HCBA5 should be established but Cal Advocates takes exception to including the SERP in the PCBA5.[132]

We have already denied Cal Advocates' proposed disallowance of the SERP finding it to be a reasonable component of the overall executive compensation package.[133]

We adopt the next-generation CEBA5, PCBA5, and HCBA5 for the test year 2023 and the attrition years.

11.7. Special Request No. 14: Earnings Test

11.7.1. Cal Water's Proposal

Cal Water proposes that when a capital addition is physically completed and enters service that it should be designated for ratemaking purposes as in-service and therefore included in rate base. As a result, the new piece of plant in service would no longer be considered as construction work in progress (CWIP) and Cal Water would stop accruing a financing allowance known as allowance for funds used during construction (AFUDC). This change would expedite Cal Water being able to recover a return and depreciation in rates charged to customers. There is, according to Cal Water, sometimes a significant delay between when a new piece of plant is finished and enters service (stopping AFUDC which adds to the capital investment recoverable in rates) and when the company has fully completed both the accounting and the administrative

[132] Cal Advocates Opening Brief at 21.

[133] *See* Section 10.3 above.

processes.[134] The project moves from being "Open" to "In-service" but does not become "Closed" until the paperwork is done. Cal Water offered a sample time period of January 2018 to June 2021, where the data showed that 917 projects out of 2512 projects "Closed" during the Sample Period but had maintained "In-Service" status for over 6 months before being designated as "Closed." A "Closed" status is meaningful because the fixed asset definition of the Uniform System of Accounts requires that a project be "Closed" before it is recoverable in rates. If a project has not yet closed, it cannot be included in an otherwise scheduled rate change. This is true even if the project has already been put in service and is really used, and useful but does not yet have a tidy bundle of construction and financial records.[135]

11.7.2. Cal Advocates' Position

Cal Advocates argues that Cal Water would: "circumvent the noted 'accounting controls' and 'record keeping and administrative processes' by instituting an arbitrary close date."[136] It also argues that the delay for completion of the paperwork increases transparency. But its primary argument is that the "earnings test" results would be "skewed" downwards by using the earlier actual in-service date rather than the later after-the-paperwork date. We find that it is the extra time many projects require to fully complete the accounting and administrative clean-up which skews the earnings test requirement.

Cal Advocates is prepared to ignore when the plant really begins providing service because any delay to rate recovery would reduce the rates paid by customers.

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[134] Cal Water Opening Brief at 92-93.

[135] *Ibid.*

[136] Cal Advocates Opening Brief at 23.

11.7.3. Discussion

Both Cal Water and Cal Advocates are guilty of not speaking plainly about an administrative delay that does not impede the functionality or service of the asset. Neither party discusses the "earnings test" or its purpose, benefits, or burdens. Both parties cite D. 04-06-018, an *Interim Order Adopting a Rate Case Plan*. (Emphasis added.) The decision cites to the term "earnings test" only five times and the closest it comes to putting it into context is: "All advice letters seeking such attrition year increases shall follow the attrition requirements, including earnings test and amount of increase, set in the last GRC for that district."[137] In fact, the Commission actually declined to address changes to the earnings test saying:

> Two issues, revision of the earnings test and review of ORA's master data request, are matters related to this proceeding, and many other proceedings and Commission filings. These issues relate to Commission practices that have been adopted with varying levels of formality. Consequently, a Commission decision is not necessary, or perhaps even desirable, to memorialize a change. Should facts arise indicating that a particular practice is inappropriate, modifying a less formal practice is far simpler than seeking a modification to a Commission decision.[138]

If the paperwork for a new piece of plant were instantly completed as the new piece of plant started-up and began providing service, there would be no lag between the plant transitioning from Open CWIP to Closed CWIP and being included in the computation of Plant in Service. The cited decision allows Cal Water to justify and seek a modification short of modifying the rate case plan itself.

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[137] D.04-06-018 at 25. Emphasis added.

[138] *Id.* at 28.)

11.7.4. Conclusion

Cal Advocates has a weak justification for taking advantage of an administrative delay while Cal Water completes the accounting and administrative clean-up after a project is completed and is clearly in service and is clearly used an useful to delay implementing a rate increase that is warranted by the plant providing service to customers. Cal Advocates is not persuasive that somehow there will be a great "clarity" or "transparency" by arbitrarily delaying a rate increase. Cal Advocates has almost unlimited authority to access Cal Water's records, interview personnel, and conduct a review of the accuracy of Cal Water's plant records in a general rate case. This includes examining on a test basis, or in detail, the records associated with plant that enters service in between rate cases and which is included in the existing rate base for the subsequent GRC.

Cal Water's discussion of the extra delay for a large number of projects meets the allowance in D. 04-06-018 quoted above: "Should facts arise indicating that a particular practice is inappropriate, modifying a less formal practice is far simpler than seeking a modification to a Commission decision." Cal Water has reasonably shown facts that indicate this particular practice is causing an inappropriate delay. We can therefore order an exemption here without having to formally modify the Interim Rate Case Plan, D.04-06-018, as the decision itself suggested was a possibility.

We order that Cal Water may, upon completion of construction, and plant entering service, stop the accrual of AFUDC and be allowed to timely make the appropriate rate filing to include the new piece of plant in rate base and to begin recovering its costs in rate base. This filing must include Cal Water's known costs for the project at the time of filing. We put Cal Water on notice that this is not a license to accelerate rate recovery: an asset must be fully complete and fully

operational and completely used and useful before the utility may file for rate recovery. Cal Water is also on notice that it must not allow accounting and administrative procedures to lag unnecessarily. Should Cal Water's final cost prove later to be higher than the known cost used when it filed for rate recovery that difference cannot be adjusted before the next GRC.[139]

12. Common Plant

12.1. Physical Security

Cal Water has requested a budget of $16,259,041 for this GRC cycle for physical security improvements at its 750 facilities. Prior to its last GRC proceeding, Cal Water and Cal Advocates agreed that Cal Water should retain a prominent security consultancy to assess physical security at Cal Water's many individual facilities. After the study was completed, its findings were updated for the current GRC proceeding. More and better fencing was the prevailing recommendation followed by a recommendation to add security cameras around the perimeters of all facilities without such protection. In addition, Cal Water has undertaken to centralize control over physical security to its central office rather than leave each rate district responsible for its own security.

Although Cal Advocates supported the original security consultant's study, it now opposes the budget to implement the consultant's recommended plan of action. Cal Advocates urges reducing the requested budget to $5,257,336, a reduction of Cal Water's request by nearly two-thirds. Cal Advocates explains that it selected the number $5,257,336 because that was the precise amount Cal

[139] For example, if a plant is in service and Cal Water files for recovery asking for its known costs of $5,000,000, rates will change based on normal process using that rate base valuation. If the final costs prove to be $5,500,000, rates and the rate base valuation cannot be adjusted until the next GRC, when the rate base valuation would only then become $5,500,000 net of any accumulated depreciation after entering service.

Water spent in its last GRC cycle on physical security, and it also points out that Cal Water did not complete all the security projects it proposed and received approval for in the last GRC cycle.

This is not a proper rationale for developing a budget proposal to fit a need, especially a physical security need. It borders on the irresponsible. Furthermore, as pointed out more than once in this decision, the notion that Cal Water should be penalized in this rate cycle for not having completed capital projects for which it received budgets in a past cycle is neither appropriate nor useful. Cal Water receives approval for an aggregated, total budget for capital projects, which it should complete if all other things remain equal. But they never do, and the Commission recognizes that fact. The argument that ratepayers were harmed because a budget authorized in a prior GRC for a specific purpose was not used does not mean that an equivalent amount of revenue received from ratepayers was not used for the benefit of ratepayers in a different, and potentially more urgent undertaking. Furthermore, the period Cal Advocates chose for measuring Cal Water's progress, or lack thereof, regarding physical security improvements happened to be the height of the Covid-19 pandemic. The record shows that Cal Water, like most organizations, had trouble meeting pre-Covid goals during the height of the pandemic. In that regard, it was like any other organization and not an organization that should be called out for poor performance.

Finally, we decline Cal Advocates' invitation to delay approval of Cal Water's full budget request until the next GRC cycle. The record shows an increasing level of security problems across Cal Water's system.[140] Cal Water has

[140] Cal Water Opening Brief at 125 – 126.

experienced a significant spike in trespassing incidents, vandalism, theft, and other criminal activity[141] and recently was averaging five security incidents a week.[142] Sadly, earlier this year Cal Water even found a dead body in a well in Bakersfield.[143] This is certainly not the time for cutting Cal Water's budget for physical security improvements.

12.2. Main Replacement Program

Cal Water requests the following budget approvals for replacing its water mains during this GRC cycle:

- 2022: $100,835,819;
- 2023: $103,481,318; and
- 2024: $106,196,525.

These budgets are supported by the record evidence and will be adopted for the reasons explained below.

Cal Advocates, in its opening brief, recommends that the Commission slash all three of Cal Water's proposed yearly budgets nearly in half. It proposes:

- 2022: $57,388,618;
- 2023: $58,823,334 ; and
- 2024: $60,293,917.

Cal Advocates' rationale for drastically limiting the budgets for pipe replacements in this GRC cycle is not supported by the record. None of Cal Advocates' proposed budgets will be adopted. For similar reasons, Cal Water will not be ordered to change its analytics for identifying pipe replacements in its next GRC to conform to a proposal advanced by Cal Advocates and discussed below.

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[141] Exh. Cal Adv-5 (Suliman – Public), A-84 – A-85.

[142] RT 445:2-3 (Luu/Cal Water).

[143] RT 441:9-13 (Luu/Cal Water).

The record in this proceeding shows that Cal Water's analytics for identifying pipes to replace has evolved out of the two polestars of the Public Utilities Code, safety and reliability. The record also shows that in response to a discovery request from Cal Advocates, on September 10 and 13, 2021, Cal Water gave Cal Advocates a detailed explanation of how Cal Water selects which pipes in its statewide system need replacement.[144]

Cal Water explained to Cal Advocates that it identifies the pipes for replacement by applying two formulas, referred to by Cal Water as the "Likelihood of Failure" and the "Consequence of Failure." The former begins, but, importantly, does not end, with data drawn from the American Water Works Association's (AWWA) compendium of the expected lifespans of the different types of pipelines in use today. Using the AWWA list, Cal Water, assigns individual pipes in its system one of five grades, with the number five representing the shortest remaining lifespan (below 20 percent of remaining life) and the number one representing the longest remaining lifespan (over 80 percent). It bears repeating that Cal Water's assessment of its pipes does not stop there, with just a grade ranking of each pipe's age. The next step for Cal Water is to incorporate into its analysis evidence related to the condition of each pipe, specifically, how many, if any, leaks each pipe has experienced. Two or more leaks will result in lowering the ranking of the remaining lifespan of a pipe by one full grade, regardless of the pipe's actual age.

After making the ranking adjustments for pipes with leakage conditions, Cal Water determines the "consequences of failure" for each pipe. This second calculation allows for a multiplicity of factors associated with each pipe to be

[144] *See* Exh. Cal Adv – 5R at A-68 to A-73.

included in the final determination. This stage of Cal Water's analytics was devised with the help of a third-party business consulting firm specializing in assessing business risks. Accordingly, the calculations made at this stage of analysis identify safety and reliability problems. Multiple data points enter the assessment, such as pipe size, land use zoning, road classifications, environmental sensitivity, fire hazards, etc., to reveal potential social, environmental, and financial impacts of the consequences of each pipe's failure.

All the above concerning the two methodologies was explained to Cal Advocates by Cal Water on September 10 and 13, 2021 in its discovery response, as well as repeated in Cal Water's later written testimony and again in its briefing.[145]

Based on the record evidence of Cal Water's analytics, as a hypothetical, a large diameter, high-pressure pipe, near to the end of its AWWA-estimated life span, with only one leak in its history, would nevertheless receive a final score indicating a comparatively high need for replacement were it hung underneath an overpass of a multi-lane, interstate highway in a densely populated area of Los Angeles County due to the threat to the public were there a break during rush hour traffic. As illustrated by this not-so-hypothetical situation, this kind of analytical assessment is designed to highlight risks. Safety and reliability are its objectives. As Cal Water aptly puts it, this two-formula, multi-factor process is all about preventing or at least reducing the risk of harm to the public, damage to property, interruption of water supply and loss of critical utility equipment.[146]

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[145] *See ibid.; see also* Exh. CW-55 (Devries) at 84, line 20 - at 94, line 23; Cal Water Opening Brief at 131 – 136; Cal Water Reply Brief at 123 – 128.

[146] Exh. Cal Water - 27 (Devries) at 20 - 25; Exh. Cal Water - 55 at 80 ff.

Cal Advocates constructs its opposition by employing an incorrect and incomplete description of Cal Water's decision-making process. Although there is no evidentiary basis for it, Cal Advocates' witness on this topic repeatedly states that Cal Water's selection of pipes to replace is based "solely" on a pipe's age.[147] Counsel for Cal Advocates follows suit, repeatedly arguing in the briefs that Cal Water depends "solely" on the age of pipes to decide which pipes to replace.[148]

Webster's defines "solely" to mean "to the exclusion of all else."[149] Yet, Cal Water's testimony on this topic makes it unmistakably clear that age was not the "sole" factor it used to compile its list of pipes to replace. In fact, Cal Water's testimony plainly states that age was only one consideration, and not the solitary, prime reason.[150] Consequently, it was certainly not the "sole" factor Cal Water considered.

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[147] *See, e.g.,* Exh. Cal. Adv-5R (Ibrahim/revised) at 4-8, line 9 (Cal Water is "making pipeline replacement decisions based solely on a single criterion such as age") *and* at 4 -8, line 20 ("By relying on a solely age-based approach, CWS risks spending considerable funds on replacing pipeline that still have plenty of life remaining.") (Emphasis added). Mr. Ibrahim's testimony was served long after Cal Water submitted its September 10, 2021 explanation of its pipe selection analytics.

[148] Cal Advocates Opening Brief at 71 ("The Commission should also require Cal Water to move from replacing pipelines based on age to replacement based on the condition of the pipe.") (Emphasis added.); *id.* at 72 ("Basing pipeline replacement decisions solely on a single criterion such as age … ignores other factors that could cause serious disruptions to service.") (Emphasis added.)

[149] Merriam-Webster's, Collegiate Dictionary at 1187, 11th ed. (2014).

[150] Exh. CW-55 (Devries Rebuttal) at 84, line 20 - p. 86, line 19. *See, e.g., id.* at 86, lines 10 - 12 ("The best indicator to start with is historical pipe breaks if records exist. … The second variable one might look at is age.") *and also, id.* at 84, line 23 – 85, line 2 ("Cal Water … uses a multi-variable risk-driven [selection] process and incorporates the following three variables in its analysis: (1) pipeline age, (2) pipeline material, and (3) main break history.").

Cal Advocates argues that Cal Water's process for selecting pipes to replace would measurably improve were the Commission to order Cal Water to abandon its allegedly solely-age-based process in favor of what Cal Advocates calls a "condition-based" program. The improvement Cal Advocates contends would result by switching to a condition-based program is strictly financial – supposedly pipes would last longer than their AWWA assigned life expectancy and utilities would replace pipes less frequently.[151] Cal Advocates identifies a small utility in southern California[152] that it asserts uses a "condition-based" pipe-replacement program exclusively. Cal Advocates explains that the useful lives of this small utility's pipes have increased remarkably, to well over one hundred years; and its pipe replacement costs have dropped in equal measure since implementing a "condition-based" program. Such programs emphasize fixing the specific leaking or broken portions of a pipe rather than removing and replacing the entire pipe.

We return to our hypothetical, above, a high-pressure water main hung beneath an overpass of an interstate highway and nearing the end of its AWWA projected life expectancy. Cal Advocates offers no evidence that Mesa Water Service must maintain high pressure pipes presenting such a risk or pipes associated with a similar high degree of risk if they should break, yet California's Class A water utilities do possess and maintain many such pipes throughout their respective statewide systems. It is true that if a water utility repeatedly fixes leaks and breaks that occur in a pipe, there may be some portion(s) of the legacy

[151] Cal Advocates contends life expectancies of nearly 150 years are achievable with "condition-based" pipe replacement programs, although there is no record evidence that Mesa Water Service has a single pipe of that age in its system.

[152] Mesa Water Service, a municipal agency, located in Orange County, California.

pipe that remain in use for far longer than the AWWA-projected life expectancy of that pipe. But the Public Utilities Code to which the Commission and Cal Water must conform does not put cost considerations ahead of public safety or system reliability. The Code's safety and reliability standards must be met first, then cost control and affordability issues will be addressed in the rates the Commission sets.

Further, were a utility to adopt a "condition-based" approach, it would still be required to conduct expensive inspections of the remainder of the pipe not being repaired to assure that it was truly safe to use, something that Cal Advocates does not acknowledge in its cost comparison.

Finally, Cal Advocates' recommendation that we order Cal Water to change to a "condition-based" selection process is declined because there is no direct comparison of Cal Water's multi-factor selection process to a condition-based system in the record of this proceeding. Cal Advocates contends that its presentation here shows that "[u]sing a condition-based replacement method reflects more informed decision making because it accounts for key factors that contribute to pipeline life more than simply the age of the pipe."[153] (Emphasis added.) However, Cal Advocates admits that it has simply compared a condition-based system to a hypothetical water company that makes its replacement decisions based "simply [on] the age of the pipe."[154] The record does not show that Cal Water has made any replacement decision simply based on the age of the pipe. Thus, we are not persuaded by Cal Advocates' comparison argument here.

[153] Cal Advocates Opening Brief at 71–72.

[154] *Ibid*.

12.3. Cathodic Protection

In this section we review and adopt Cal Water's forecast for cathodic protection (CP) equipment in the GRC cycle. We reject Cal Advocates' one objection which we dealt with generically regarding the inclusion of contingencies in test year construction cost estimates.

CP equipment protects tank linings and the tank substrate from corrosion once the protective linings begin to fail. The National Association of Corrosion Engineers and AWWA have established standards for Auto-Potential Impressed Current of internal submerged surfaces of carbon steel water storage tanks for design, installation, and maintenance (NACE SP0388-2007 and AWWA D104-11). Using these standards, Cal Water assessed the age and performance of each CP system through field inspection or records. Systems with poor performance or that are beyond their designed lifespan, or components that are broken or have poor performance or system incompatibilities, are recommended for replacement. To reduce overhead and project management costs, all CP work for a given year and district were consolidated into a single project where feasible.[155]

In the past, the CP program used Cal Water internal staff to oversee CP projects and required each project to be bid out separately. To improve the delivery of such CP projects, the CP replacement program was revamped for the 2021 GRC. Cal Water completed a competitive bidding process and has entered a master services contract with Corpro, a leading U.S. contractor for complete cathodic protection, who will complete all the 2022–2024 CP proposed projects for Cal Water. By completing CP projects under a master services contract, Cal

[155] Cal Water Opening Brief at 152 *citing* Ex. CW-27 at 63, ff.

Water asserts that these projects can be completed through a turnkey operation and be much more efficient.

Cal Advocates should continue to review and evaluate Cal Water's performance in subsequent GRCs. We accept Cal Water's forecast and its continued use of a master services contract for the GRC cycle.

12.4. Tank Retrofits

In this section we review and adopt Cal Water's forecast for tank retrofit projects in the GRC cycle. We reject Cal Advocates' one objection which we dealt with generically regarding the inclusion of contingencies in test year construction cost estimates.

Tank retrofit projects are a recurring, normal project for a water utility and Cal Water has an ongoing program to remain current with industry standards.[156]

Cal Advocates should continue to review and evaluate Cal Water's performance in subsequent GRCs. We accept Cal Water's forecast for the GRC cycle.

12.5. Well Infrastructure Renewal Program (WIRP)

In this section we review and adopt Cal Water's forecast of its program for proactive renewal and augmentation of water well inventories in advance of significant signs of distress or degradation, which is necessary to maintain a reliable water supply. We reject Cal Advocates' one objection which we dealt with generically regarding the inclusion of contingencies in test year construction cost estimates.

In 2020, Cal Water engaged Kayuga Solution, Inc. to develop a comprehensive plan of all Cal Water's groundwater assets enabling Cal Water to

[156] Cal Water Opening Brief at 154.

make informed decisions on effectively and proactively managing its groundwater assets. This plan is the Well Infrastructure Renewal Program report.[157]

Cal Advocates should continue to review and evaluate Cal Water's performance in subsequent GRCs. We accept Cal Water's forecast for the GRC cycle.

12.6. Wildfire Hardening Program

In this section we review and adopt Cal Water's wildfire hardening projects that were identified in the 2020 California Water Service Wildfire Risk Assessment.[158]

Cal Water asserts that these projects will ensure that a reliable source of high-quality water is available to customers and adequate fire protection is consistently available throughout Cal Water's service areas.

We reject Cal Advocates' objections which we dealt with generically regarding the inclusion of contingencies, as well as projects that are only at the design and permitting stage, or are carry-overs between GRC cycles, in test year construction cost estimates.

Cal Advocates should continue to review and evaluate Cal Water's performance in subsequent GRCs. We accept Cal Water's forecast for the GRC cycle.

12.7. Water Quality Analyzers

In this section we review and adopt Cal Water's forecast of its program for water quality analyzers. We reject Cal Advocates' one objection which we dealt

[157] *Id.* at 155.

[158] *Ibid.*

with generically regarding the inclusion of contingencies in test year construction cost estimates.

Water quality analyzers measure concentrations of various physical and chemical constituents in a flow stream, which helps enhance the effective and efficient operations of the water system. Cal Water uses a risk-based asset management approach to assessing the condition of its water quality analyzers for replacement. Regular replacement of analyzers helps to ensure that each analyzer always meets all regulations.[159]

Cal Advocates should continue to review and evaluate Cal Water's performance in subsequent GRCs. We accept Cal Water's forecast for the GRC cycle.

12.8. Control Valve Overhaul and Replacement

In this section we review and adopt, subject to a condition, Cal Water's forecast of its program for control valve overhaul and replacement. We reject Cal Advocates' objection which we dealt with generically regarding the inclusion of contingencies in test year construction cost estimates. We also review and address Cal Advocates' concerns about the scope of the project.

Cal Water describes its automatic control valves as hydraulically and electronically modulated valves that operate by sensing various system conditions. They are critical for the proper operation of water systems and are used in a variety of applications, ranging from pressure reduction/control, pressure relief, and surge control to controlling reservoir water levels. Cal Water asserts that if a control valve fails, there could be significant damage to customer

[159] *Id.* at 156.

or company property, or the environment and that assertion has not been challenged.[160]

Control valves are inspected annually in the field. During inspection, Cal Water evaluates the condition of each control valve and determines if overhaul or replacement is necessary. Cal Water uses a risk-based asset management approach to assess the condition of control valves based on: (1) physical condition; (2) capacity; (3) functionality or level of service; (4) reliability; and (5) financial efficiency. Cal Water has a 40-year life expectancy for its control valves. All valves with a remaining useful life of 20% (8 years) or less are proposed for replacement.[161]

Valves also must meet NSF 61[162] certification to ensure that they have been put through rigorous testing and are safe and free from contaminants that would potentially affect water quality.

Cal Water concedes that it has not been current with prior authority to address control valve overhaul and replacement, citing Covid, contractor availability, supply chain issues, and staffing shortages.[163]

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[160] *Id.* at 157.

[161] *Ibid.*

[162] NSF/ANSI 61: *Drinking Water System Components – Health Effects* is an American National Standard that establishes minimum health-effects requirements for the chemical contaminants and impurities that are indirectly imparted to drinking water from products, components and materials used in drinking water systems. … NSF/ANSI 61 is intended to cover specific materials or products that come into contact with drinking water, drinking water treatment chemicals or both. The products and materials covered by the scope of this standard include but aren't limited to: … Mechanical devices, including treatment products (water meters, valves, filters)… " *See:* https://www.nsf.org/knowledge-library/nsf-ansi-standard-61-drinking-water-system-components-health-effects (Current as of October 10, 2023.)

[163] Cal Water Opening Brief at 159.

Cal Advocates proposed significant reductions: a 30% reduced control valve overhaul budget, resulting in revised estimates of $754,563 in 2022, $787,207 in 2023, and $806,632 in 2024; and a 65% reduced budget for control valve replacements of $948,966 in 2022, $991,745 in 2023, and $662,661 in 2024.[164] Cal Advocates asserts it could not adequately review the project due to documentation issues and it also disagreed with the criteria for when a valve should be replaced.

We disagree with Cal Advocates' view on the need for replacement or repair of these valves. We do share the concern that Cal Water must perform the work proposed and that we adopt herein. Therefore, we impose a further condition on the budget, and we require Cal Water to report in detail in its next GRC exactly how much of the work it completed during the GRC cycle. Having been granted funding for these valves Cal Water must complete all proposed work without additional funding for the same valves in its next GRC even if the work is not completed before the next test year begins. We also require that Cal Water submit a written status report to both Cal Advocates and the Commission's Water Division on the first business day in February every year detailing the status of the control valve overhaul and replacement project in the preceding calendar year and its completion status compared to the adopted forecast.

Cal Advocates should continue to review and evaluate Cal Water's performance in subsequent GRCs. We accept Cal Water's forecast for the GRC cycle.

[164] CalAdv-4 (Murphy – Public) at 7-1 to 7-17.

12.9. Customer Meter Vault Lid

The Customer Meter Vault Lid Replacement Program is the routine removal and replacement of vault lids which are deteriorated, substandard, and unsafe to employees, customers, and the public. This replacement program includes customer meter vaults for 3-inch and larger meters. Vault lids are flagged for further inspection and/or replacement following monthly visual inspections during regular meter reading. In addition, any customer or public complaints about meter lids trigger further evaluation for replacement.

We adopt Cal Water's GRC forecast.

We reject Cal Advocates' objection which we dealt with generically regarding the inclusion of contingencies in test year construction cost estimates.

12.10. Flow Meter Replacement

We address this issue in the section on abandoned projects.

12.11. Meter Replacement Program

Meters perform an essential role in measuring customer consumption and allowing the company to accurately bill for service received. Accuracy matters. High volume items like meters are subject to routine inspection and based on their expected service life routine replacement. Cal Water has two separate meter replacement programs, the Specific 0900 Small Meter Replacement Program which is the routine removal and replacement of 5/8- to 2-inch meters, and the Specific 0900 Large Meter Replacement Program, which provides for the routine programmatic replacement of 3-inch and larger meters on a 20-year replacement cycle. GO 103-A mandates that meters be tested or replaced based on age criteria.[165]

[165] Cal Water Opening Brief at p.166, ff.

Cal Advocates disputes the level of need for replacing some of the small meters and argues as well that some of the large meters are not yet over the 20-year life expectancy.[166] We find no merit in this position. The comprehensive programs by Cal Water are designed to meet the goals of GO-103-A and Cal Advocates offers no evidence to suggest this is not the case.

We adopt Cal Water's GRC forecast.

12.12. Pressure Vessel Replacement

Pressure vessels maintain pressures in a distribution system and provide reliable service to customers. To achieve this, pressure vessels contain a mixture of gas and water inside the tank to maintain a stable water pressure in the tank, and thereby in the system. Cal Water inspects pressure vessels at five-year maximum intervals. The inspections evaluate vessel structural integrity, the condition of the appurtenances, and the effectiveness of the coatings and linings. To ensure the reliability of the distribution system and reduce overall risk, pressure vessels are evaluated for their likelihood of failure.

Cal Advocates' Opening Brief reflected its revised recommendation for pressure vessel replacements, made in response to Cal Water's corrections. In its Reply Brief Cal Advocates recommends the Commission approve replacement of 14 and rehabilitation of five pressure vessels.[167] However, Cal Advocates recommended that we should reduce Cal Water's requested budget for pressure vessels for contingency and construction management/special inspection, two of its generic disallowances which we reject in Sections 5.1 and 5.2 above.

We adopt Cal Water's GRC forecast.

[166] Exh. CW-55 at 8.

[167] Cal Advocates Reply Brief at 32.

12.13. Pump and Motor Replacement Program

Cal Water manages over 600 pumping equipment assets through a systematic approach including monitoring, evaluating, and testing, resulting in maintenance, modification, or replacement of pumping equipment. The Cal Water asset management team has identified high-risk pumps and motors based on four steps of evaluation: (i) last work and planned work; (ii) pump overall plant efficiency (OPE); (iii) corrective replacement for reliability and environmental issues; and (iv) district input.[168]

Cal Water asserts that pumps generally account for the bulk of a water utility's energy expense and that the pumps recommended for replacement by Cal Water were tested by a certified third-party and demonstrate a poor level of efficiency. Cal Water is conducting pump and motor replacement projects for environmental concerns, as well as low OPE. Cal Water concurred with Cal Advocates on removing three pump and motor projects but otherwise believes its forecast is reasonable and fact-based.[169]

Cal Advocates argued that the historical levels of replacement do not support the forecast level of replacement. It also argues that there are other serious flaws and errors in Cal Water's proposal and Cal Advocates does not believe that Cal Water will replace the full forecasted number of pumps and motors. In short, Cal Advocates disputes that Cal Water has a competent plan in place for this program.[170]

We are unwilling to adopt a Cal Advocates forecast relying almost completely on historical trends. But we are concerned whether Cal Water

[168] Cal Water Opening Brief at 171, ff.

[169] *Id*. at 173.

[170] Cal Advocates Opening Brief at 58-61; *see also* Cal Advocates' Reply Brief at 26-29.

performs the work it forecasts if we grant the budget in the GRC. Therefore, we will impose a one-way balancing account for this pump and motor replacement. Cal Water must track its actual expenditures and the projects it completes, and any unspent forecast included in rates must be refunded in the next GRC. We expect Cal Water to demonstrate that the projects forecast are the bulk of the projects completed and any substituted replacement projects must be fully explained in its testimony in the subsequent GRC.

12.14. SB 1398 Service Replacement Program (Lead Pipes)

In response to the water crisis in Flint, Michigan that began in 2014, the California legislature passed Senate Bill 1398. This law makes changes to Section 116885 of the California Health and Safety Code with the purpose of eliminating lead user service lines in all public water systems.

Lead in pipes is bad. Cal Water has been eliminating such pipes and its remaining projects should be approved. Cal Water has eliminated the King City project as unnecessary, which was suggested by Cal Advocates. We again reject any Cal Advocates adjustments for contingencies.

We adopt Cal Water's adjusted GRC forecast.

12.15. Tank Coating Program

Cal Water proposes high-performance industrial coatings which it says are essential for maximizing tank life. They provide effective protection from corrosion and resulting material loss. Cal Water states that it inspects its water storage tanks at five-year maximum intervals per standard industry practice, looking at storage tank substrate and structural integrity, the interior and exterior coating condition, and proper functionality of all appurtenances. Cal Water also claims that it has improved and refined its forecast of costs by

working with an outside expert.[171] Cal Water refined its forecast after Cal Advocates' testimony was served.

Cal Advocates opposes the complete recoating of some tank interiors, and also opposes any contingency in the estimates.[172]

We find Cal Water's forecast, as adjusted, to be reasonable. We see no benefit to only partially recoating a tank when it is removed from service for inspection and repair. And, as noted we reject Cal Advocates' position on contingencies.

12.16. Vehicle Replacement Program

Cal Water's Vehicle Replacement Program involves the routine replacement of fleet vehicles using a modified version of the criteria established by the California Department of General Services (DGS) Office of Fleet and Asset Management (OFAM). Cal Water applies the 120,000-mile criteria as a guideline for replacing vehicles. It also considers engine hours as well as mileage for certain large vehicles which Cal Water claims often have the engine running, (i.e., "idling") and that an hour of engine idling time is the rough equivalent of 30 miles of driving.[173]

Cal Water has adjusted its request based upon certain of Cal Advocates' objections. However, it still requests vehicles for new hires which were opposed by Cal Advocates, which we address elsewhere. It also opposes Cal Advocates' opposition to contingencies which we dismiss elsewhere in this decision.

We will adopt the modified and updated Cal Water request for vehicles. We will also direct Cal Water to conduct a specific review of idle engine running

[171] Cal Water Opening Brief at 177, ff.

[172] Cal Advocates Reply Brief at 31.

[173] Cal Water Opening Brief at 182, ff.

practices to determine whether the current level of idling is necessary, i.e., is the truck's engine passively providing a necessary stationary service[174], or whether some significant portion of idling is more of a correctible "bad habit" rather than a justified need so that Cal Water could possibly extend vehicle service lives. Cal Water should report in the next GRC the results of its review of "idling."

12.17. Water Quality Sample Stations

Cal Water maintains state and federal drinking water compliance through continued water quality monitoring at dedicated sampling sites throughout distribution systems. Under current regulations, the dedicated sites are used for secure and repetitive sampling for bacteriological presence, disinfection residuals (chlorine or chloramine), and disinfection byproduct formation (e.g., total trihalomethanes or total haloacetic acids). Cal Water proposes a plan to replace many of these stations citing they are approaching the end of their 20-year life cycle with most installed in the early 2000's. Cal Water also admits that in prior years it has a poor record for recordkeeping resulting in sample site replacements being misreported. Cal Water states that it has seen the error in its ways and will do better going forward.[175]

Cal Advocates objects that Cal Water does not have adequate data about the specific ages and conditions of the stations it proposes to replace. But in its opening brief Cal Advocates only asks for a disallowance of contingencies.[176]

We will adopt Cal Water's final updated budget and again reject Cal Advocates' contingency adjustment. We are concerned that Cal Water admits to

[174] Cal Water suggests idling engines are used "to keep the emergency light bar or work lights running or to use the engine to power equipment." Cal Water Opening Brief at 184.

[175] Cal Water Opening Brief at 186, ff.

[176] Cal Advocates Opening Brief at 62.

inadequate control and records in the past and we direct it to report in detail in the next GRC on the specific improvements and the controls it has in place so that we can rely on the recorded results and compare actual to forecast sample station replacements in the next GRC.

12.18. CSS Meter Reading Handheld Replacement (PID124667)

Cal Water uses a widely adopted meter reading system in the water industry from ITRON, the FC300, but parts and replacements ceased after 2021. So, Cal Water now wants to purchase new ITRON CN80 devices as replacements.

Cal Advocates objects to the new ITRON CN80 devices and argues that Cal Water should use a patchwork of the remaining working FC300s and workaround with 75 new iOS devices and mobile radios.[177] Cal Advocates also suggests that in the future Cal Water might move to an automated remote reading system eliminating the need for handheld meter readers.

We will allow Cal Water to purchase its new ITRON CN80 devices and should they become redundant due to a new system well before the end of their service life we will consider requiring Cal Water to absorb the remaining book value of a premature retirement, subject to the facts and circumstances at that time.

12.19. CSS UPS and Storage Replacement (PID124612)

Cal Water wants to replace its current, older, uninterruptible power supplies and storage area networks (SANs) arguing that four years is a

[177] Cal Advocates Opening Brief at 203.

reasonable service life and replacement cycle for this equipment as current needs outstrip the capacity of its existing equipment. Cal Water argues:

> SAN is critical for Cal Water because it houses all of the company's electronic data and supports key functions such as water quality testing, main and well maintenance programs, customer billing and payment data, etc. All Cal Water districts and the general office utilize SAN for electronic storage of company-wide data, including databases and data that support the various enterprise resource planning systems.[178]

The meaning of "life" especially for computer technology is a thorny issue. Something may still function, but it may no longer be suitable for current needs. Its technological life has ended before it physically "dies."

Cal Advocates argues essentially that since the equipment still works, do not replace it:

> In response to discovery, Cal Water indicated that the End of Life (EOL) of a SAN controller is at six to seven years. The SAN controllers in question were installed in June 2018 making the end of life between June 2024 and June 2025. Given the standard life of SAN controllers and the considerable costs involved in replacing them, it is reasonable to expect Cal Water to maximize use before replacement. Cal Water should wait until 2025 to replace its current SAN controllers, as they are still within the estimated life expectancy.[179]

So, we are faced with the question of whether to replace something Cal Water says is no longer adequate or to accept Cal Advocates' position that this equipment should run out its expected life before replacement.

We will err on the side of updating the SAN system sooner rather than risk failures or outages. We adopt Cal Water's full updated request as reasonable and

[178] Cal Water's Reply Brief at 157.

[179] Cal Advocates Opening Brief at 202.

we expect Cal Water to make a full and convincing showing in the next GRC on the reasonable operating life of its various assets, especially "high tech gadgets" where the rates of change in technology are fast compared say to mechanical pumps and valves. As we note in the discussion about depreciation, there appears to be differences between the accounting conventions used by Cal Water and the apparent real-world technological lives. We therefore order Cal Water to make a specific review and offer testimony in its next GRC addressing any disparities between its current depreciation lives for all types of "high-tech" assets, hardware, or software, and propose a path forward to more closely align ratemaking, accounting, and operating practices. We expect Cal Water to consult with Cal Advocates prior to conducting this review, however Cal Water is solely responsible for planning and conducting the review and for sponsoring as well as justifying its results and recommendations in the next GRC.

12.20. CSS PC Refresh 2022, 2023, & 2024 (PIDs124543, 124544, and 124545) i.e., Replacement of Computers

Cal Water has over 4,000 technological devices that its employees use in completing duties related to engineering, water quality, communication with other employees and city agencies, and monitoring of water distribution and treatment systems.[180] It asserts that failure or inadequate performance by this equipment would be a bad thing. It therefore proposes a systematic plan to replace and update this equipment to current standards.

Cal Advocates opposes Cal Water's cost estimates and its proposed rate of replacement.

[180] Cal Water Opening Brief at 194; Cal Water Reply Brief at 159.

We find Cal Water's cost estimates and plans for updating equipment to be reasonable. We will however impose a one-way balancing account on the amount and Cal Water must refund any part of the estimate not spent on this category. It must also show in its testimony in the next general rate case a comparison between its forecast and actual costs in both dollars and units of equipment as a part of its overall justification for any further funding in the next GRC.

12.21. CSS Customer Care and Billing Cloud Upgrade (PID124693)

Cal Water uses Oracle's Customer Care and Billing (CCB) for centralized customer information management system. CCB manages the interactions between Cal Water and its approximately 500,000 customers ranging from meter reading, billing, payment, credit and collection, and field service requests. CCB creates and records all "meter to cash" transactions, customer contacts, customer field activities and provides key information used in creating the Company's financial statements. Cal Water asserts that it needs to upgrade the system to the cloud or internet to add functionalities such as enhanced meter reading capabilities, advanced billing engine, and communications campaign. The current version of CCB 2.4 dates to 2012 and is essentially no longer supported or sold by Oracle which now offers Customer Cloud Solution ("CCS") a Software as a Service. Cal Water asserts that upgrading to the newest cloud release of software will modernize Cal Water's core Customer Service Management system, ensure software is always update to date and patched, and prevent the need for future large capital investments of this magnitude in future GRCs.[181] Though Cal Water is silent as to how many future GRCs, given the large amount of software

[181] Cal Water Opening Brief at 196-199.

and hardware related retirements and replacements we see in this current GRC, there should be a long stretch of time before any further costly upgrading is required.

The current system, according to Cal Water, will still have value past its retirement because the functionality and enhancements built over its life since 2016 will be transferred to the new system. Cal Water lists 11 specific functions that already exist and will be carried over.[182]

Cal Advocates objects to the pricing of the new system on two points: (1) it systematically objects to the inclusion of a contingency, which we have rejected; and (2) it proposes an offset of the remaining book value of the retiring system against the cost of the new system. This argument is addressed in the broader discussion concerning depreciation, premature retirements, and abandonments. As noted in that section we do not agree with Cal Advocates' blanket proposition concerning depreciation and unique plant retirements before the end of their nominal book life.

This is a major investment. Cal Water seeks $14,119,326, a remarkably precise amount. Given Cal Water's certainty that it needs this specific system and that it has specifically asked for $14,119,326, including its own estimate of contingencies, we will adopt this figure and we expect Cal Water to acquire and

[182] They are: (1) Critical software security updates; (2) Customer Account, Premise, Service Point, and meter information; (3) District Rate Tariffs; (4) Customer Communication Preferences; (5) Customer Field Service Management work orders; (6) Meter Reading, Billing Schedules, and pro-rations; (7) Customer Self-Service online account access, start/stops, pay arrangements, view bill, on-line payment processing, electronic billing and auto payment, etc.; (8) Payment Processing of checks, cash, credit and debit cards; (9) Customer Service Representative alerts, task lists, workflows, and short cuts; (10) Reports – Regulatory and Operations Management; and (11) Customer Outreach Program (COP) for contacting and proving information during emergencies and water quality events. (Cal Water Opening Brief at 197-198.)

install the entire Customer Cloud Solution for that amount or less. We put a hard cap on this amount and Cal Water may not seek any overruns in subsequent GRCs. We caution Cal Water that we expect Cal Advocates will audit the acquisition to ensure no necessary components of a fully complete and functional Customer Cloud Solution is deferred, or in any way charged to another category, but that it is acquired, installed, and functional for a maximum investment in rate base of $14,119,326.

12.22. CSS Next Gen. Data Loss (PID124493)

Cal Water proposes to spend $592,410 in 2024 for a next generation data loss prevention system (DLP) to replace a DLP system that was installed only three years ago.[183] Cal Water describes the proposed new system as a "Next-Generation DLP system."[184] The purpose of both the existing and proposed system is to protect its customer, financial, and employee information.

But Cal Water now asserts the current system is already obsolete and is already generating too many "false positives" in that the DLP is incorrectly reporting a violation of confidential data shared with unauthorized parties. Cal Water believes the Next Generation DLP System will not excessively cry wolf. This newer system will utilize Machine Learning and Artificial Intelligence to better understand user intent by focusing on user past behavior and their interaction with the data to establish a behavior "baseline." This will allow the new system to tell the difference between good and bad behavior by users, as well as gain customer's trust by protecting confidential customer data and to

[183] The Briefs by both Cal Water and Cal Advocates vary calling the current system over 3 or over 4 years old. Given the duration of this proceeding most such time estimates are now likely less than accurate.

[184] Cal Water Opening Brief at 200.

satisfy compliance regulations such as the California Consumer Privacy Act, Payment Card Industry Data Security Standard, and HIPAA.[185, 186]

Cal Advocates objects and primarily cites the newness of the current DLP, and it questions whether the frequency and danger of "false positives" is as real and large as suggested by Cal Water. Cal Advocates asserts the current DLP does fulfill the primary job of accurately detecting "true positives," that is, when the wolf really is menacing the flock.[187]

We find ourselves addressing expensive requests for replacing a large number of data systems, electronics, and sundry technology in this GRC many of which are relatively recent acquisitions and none of which appear to only require upgrades or expansions. Are technology and cybercrime really moving at light speed? Has Cal Water made a series of poor choices? Could both be true? What is true is that Cal Advocates is reasonably concerned that Cal Water wants to replace a large number of systems or equipment after a brief service life, often much less than the original service life adopted for depreciation purposes, and to allocate their cost over an appropriate number of years.

We have not adopted Cal Advocates' depreciation-related adjustments to offset the acquisition costs of new systems with the remaining undepreciated asset balance of the superseded asset. We put all parties on notice that requests for and opposition to early replacements of software and hardware systems need to be thoroughly and rigorously supported and examined in Cal Water's

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[185] *See* https://www.hhs.gov/hipaa/for-professionals/privacy/laws-regulations/index.html (Current as of October 12, 2023.)

[186] Cal Water Opening Brief at 199-201.

[187] Cal Advocates Opening Brief at 210.

subsequent GRCs. We expect a full discussion of alternatives, including the classic "no-project" option, i.e., delaying the replacement to a subsequent GRC.

Edward E. Zajac[188] was an early student of the phenomenon of rate base "gold-plating", that is, the concept that utilities universally have an incentive to, and are prone to, adding excess capacity to inflate earnings on rate base or to over-spend for necessary rate base. This could arguably include early replacement of investments with newer more expensive investments. This Commission has a long history and policy of ensuring[189] that rate base additions are economic, necessary, and sufficient to task. New is not a synonym for necessary. We will try to find the right balance, but to do so we need full and thoughtful data, analysis, and reasonable testimony from both applicants and intervenors.

12.23. CSS Identity and Access Management System (PID124491)

Because Cal Water does not have an access management solution, each employee currently has an average of five different passwords, with at least 12-character complexity (for cybersecurity reasons) to remember so as to authenticate successfully and log in to each application. Cal Water password policy requires different complex passwords for different applications. Some employees have more than ten applications they need to access daily to perform work. Cal Water "has a cyber-security policy where employees must change

[188] Note on "Gold Plating" or "Rate Base Padding" by E. E. Zajac. Published 1972 The Bell Journal of Economics.

[189] Or, at least trying to ensure that rate base additions are economic, necessary, and sufficient to task.

their passwords every 90 days, and, as a policy, Cal Water does not allow employees to write down their passwords on a Post It note or other devices."[190]

Cal Water is asking for $710,892 to acquire Identity and Access Management (IDAM) which is a centralized user account management system that it claims will enable Cal Water to use more efficient and reliable technology to verify that an employee is a person they claim to be and ensure they can access the resources necessary to carry out their job duties.

Cal Advocates does not accept Cal Water's claims that IDAM software would allow employees to log in using a central portal and be "authenticated to all other internal systems and applications automatically" and accordingly, Cal Advocates argue that Cal Water failed to justify the need for this software. Cal Advocates noted that this request relied heavily on the alleged increased efficiency resulting from IDAM software, Cal Advocates requested that Cal Water provide a cost benefit analysis "comparing the cost of IDAM software to the cost of increased work Cal Water anticipates in its absence."[191] The results provided by Cal Water showed the average number of password reset requests its help desk would process each month manually. Cal Water further stated the cost of these password resets is approximately $11,166 a month, or $134,000 per year. No additional costs were provided.

Interestingly, if the $710,892 capitalized cost for IDAM were amortized over 4 years[192] the annual amortization, ignoring the additional revenue requirement for return on rate base and tax allowances, would be about $178,000

[190] Cal Water Opening Brief at 203.

[191] Cal Advocates Opening Brief at 207.

[192] This is a not quite random hypothetical given that Cal Water is requesting replacement for various systems roughly 4 years old.

per year, roughly $44,000 per year more than the current cost of solving the password problems. Cal Advocates also argues that further encryption of Cal Water's data, which it also asks for in CSS Database Encryption Software (PID00124615), would lessen the risks of any data breaches. Cal Advocates supports only CSS Database Encryption Software (PID00124615), for $641,772, arguing that data encryption is necessary, but the password software IDAM is excessive. We will discuss CSS Database Encryption Software (PID00124615) in its sequential turn in this decision. But we agree with Cal Advocates and reject the IDAM request. We do strongly urge making password security, and remembering passwords, by its employees a management priority and perhaps even a performance measurement of employees.

12.24. CSS PeopleSoft: FS & PeopleTools Upgrade, Procurement Process Improvement, and Inventory Management System (PIDs124273, 124488, & 124489)

Cal Water requests[193] a total of $2,137,415 in direct costs to fund PeopleSoft upgrades for the following three projects: (1) $616,106 for the PeopleSoft FS and PeopleTools upgrades; (2) $603,784 to implement an inventory management system; and (3) $917,524 for PeopleSoft procurement process improvements.

Cal Water offers a long list of reasons why it must upgrade this system even if it is a short-term proposition, or perhaps not. Cal Water first states in its Opening Brief "Oracle, the software provider, is committed to supporting the program only until 2027"[194] but then in its Reply Brief "Oracle recently extended

[193] Cal Water in its opening and reply briefs repeatedly failed to include the dollar value of its requests. This is but one example.

[194] Cal Water Opening Brief at 205.

support for PeopleSoft FS until 2033."[195] This is a six-year life extension available 28 days later.

Cal Advocates objects, arguing that it has serious doubts about Cal Water's process – in particular, not considering alternatives. Cal Advocates is also very concerned about how Cal Water pursues new software and this concern "is made more egregious by the fact that Cal Water estimates the cost of replacing the entire system at approximately $5.6 million … in the next rate case, [which] is patently unfair to ratepayers and financially unsound."[196]

The current GRC is for Test Year 2023, with attrition years 2024, and 2025. Under the extant rate case plan Cal Water should next file in mid-2024 for Test Year 2026, plus 2027 and 2028; then in mid-2027 for Test Year 2029, plus 2030 and 2031. Only then in mid-2030 would Test Year 2032 be filed with an attrition year 2033, the year in which Oracle will no longer support PeopleSoft.

Given that Cal Water believes Oracle will now support (and probably update for a price) its products until 2033, roughly 10 more years, we will fund the upgrades for a total of $2,137,415. We do this on the condition that we will not consider an entire system replacement in the next GRC (to be filed in mid-2024 for Test Year 2026, plus 2027 and 2028 attrition years.) At most, Cal Water may propose in test year 2026, and offer significant support for that request, for any further updates to carry on with Oracle through at least 2028. If Oracle can maintain a viable system, as it appears to promise, until closer to 2033 then we can timely consider options for a new system in the early 2030's.

[195] Cal Water Reply Brief at 172.

[196] Cal Advocates Opening Brief at 205-206.

12.25. CSS Zoom Video Conference (PID124496)

This is yet another project just a bit under $1 million, with a budget of $612,511.[197] Cal Water wants to replace a system only installed in 2017 and install "Zoom Rooms" in 30 small/medium conference rooms and six large conference Rooms. A Zoom Room refers to the hardware and software necessary to setup a conference room for Zoom meetings. Installing a Zoom Room equips an existing room of any size with a large television screen and mount, video camera, wireless set up, iPad, laptop and Zoom software.

Cal Water makes compelling arguments about the efficacy of having remote locations equipped for Zoom conferences for planning, management meetings, and especially for use in times of crisis such as wildfires or major system outages.[198] Cal Advocates argues that Cal Water should be able to function with existing equipment and existing access to Zoom.[199]

We are concerned that a system just installed in 2017 is going in the dustbin – apart from some minor hardware that can be repurposed. We have sympathy for Cal Advocates' position that the system need not be overly elaborate. We will accept the proposed project and its budget of $612,511. We do this on the condition that we will not consider another entire system replacement in the next GRC (to be filed in mid-2024 for Test Year 2026, plus 2027 and 2028 attrition years.)

[197] Cal Water Reply Brief at 175.

[198] Cal Water Opening Brief at 207-210.

[199] Zoom is an internet-based system allowing many individual connections from many locations meet with both video and voice and to display or exchange images of documents or photos.

12.26. Omni-Channel Customer Service (PID124696)

Cal Water asks for $750,308 to fund an Omni-channel service that allows customers to start a transaction or service on one channel, such as a website, and continue or complete the transaction on another channel, such as a smart phone. Currently, Cal Water provides customers with single-channel options using phone, interactive voice response, web, and customer centers for making payments, starting service, and getting assistance to resolve service issues. Customers must complete their request or service on the same channel they started with, and if they are interrupted and unable to complete the transaction, they must start the process over.[200]

Cal Advocates cries out, in essence, "enough already." Cal Water would have us believe that they must cater to customers' whim and preference on multiple ways to begin, pause, continue, and eventually complete a transaction. Cal Advocates asserts that customers already have adequate options and further options provide no real benefit to all customers. Cal Water is not competing with other service providers: customers cannot switch water providers the same way they can choose between UPS and FedEx, or Verizon Cellular over AT&T Cellular. Cal Water's rhetoric gets the better of its reason: "Therefore, in order to meet customers' ever-heightened expectations, Cal Water needs to pivot accordingly by offering a greater array of integrated omni-channel to meet current and future Customer needs is needed. (sic)"[201]

We agree with Cal Advocates that this is an unnecessary and excessive request, and we therefore reject it.

[200] Cal Water Opening Brief at 210.

[201] Cal Water Opening Brief at 211.

12.27. CSS Climate Change Study (PID124445)

On April 26, 2018 the Commission issued Order Instituting Rulemaking to Consider Strategies and Guidance for Climate Change Adaptation, (R.) 18-04-019.[202] The Commission stated that: "Robust climate adaptation planning in a time of worsening climate impacts is a prudent next step to ensure the safety and reliability of all investor-owned public utilities."[203] Two decisions have been issued to date but none yet address the water industry generally or Cal Water specifically.

Cal Water seeks $750,308 in anticipation of work it may be required to do during the lifecycle of this GRC. Cal Advocates argues the request is premature and has no basis in what the Commission might require, i.e., the request is speculative.

We agree with Cal Advocates that there is no project yet. We will authorize Cal Water to establish a Climate Change Study Memorandum Account (CCSMA), with an initial cap of $750,308. If and when the Commission provides a directive for water utilities on this topic, we expect Cal Water to be prepared to begin expeditiously. The Commission's issuance of a decision in R.18-04-019 that specifically requires Cal Water to take further action will trigger Cal Water's use of the memorandum account and Cal Water may begin booking any costs to comply with that decision to the CCSMA. Cal Water may seek further funding if needed either in a subsequent GRC or by filing a Tier 3 advice letter to seek incremental funding until the next GRC. Its expenditures will be subject to a reasonableness review.

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[202] *See:* https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M213/K511/213511543.PDF

[203] *Id*. at 1.

12.28. CSS Campus Security Fencing (PID124816)

Cal Water wants $1,232,120 to build a higher fence and remove vegetation obscuring or obstructing "natural surveillance opportunities for law enforcement" at its San Jose Campus. Cal Water argues it is a critical facility with "hundreds of employees, consultants and water quality workers, and a water quality lab that carries sensitive chemicals, along with various critical assets, infrastructure, and customer data, and as such requires the appropriate level of physical security elements to include a strong perimeter fence, video surveillance, and controlled access."[204]

Cal Advocates argues the fencing option is too expensive and that Cal Water should instead enhance its live video surveillance capabilities.[205] It also argues that Cal Water only cited to Cal Advocates three instances of trespass with police involvement in two of them.[206]

The Commission itself over the last decades has also become a much more closed, guarded, and surveilled facility. We will grant the $1,232,120 funding for the fencing and we expect it to be well built to purpose and to last a very long time.

[204] Cal Water Opening Brief at 219.

[205] Cal Advocates Opening Brief at 204.

[206] Cal Advocates Reply Brief at footnote 912.

12.29. CSS Energy Efficiency Improvement – HVAC Optimization (PID124853)

Cal Water proposes to spend $756,045[207] on the "addition of economizers[208] to the existing heating, ventilation, and air conditioning (HVAC) units, replacement of some duct work and updating of the existing control system [which] will result in a significant reduction in annual energy costs at the San Jose location." Further, this "project is based on the recommendations of IMPEC Group, who performed an energy study of the Company's properties to identify cost-effective opportunities for Cal Water office sites to reduce energy use. The anticipated life of this project is approximately 20+ years."[209] The anticipated vendor for this project "will guarantee the savings within a maximum return on investment period of eight years."[210]

Cal Advocates objects to the project and disputes the calculation of savings. It argues the project will cost more than it saves, when looking at the eight-year period cited by Cal Water.[211]

We will adopt the project and its proposed cost of $756,045. We expect a new and more efficient system, with a life expectancy of 20 years, to easily pay for itself over that time compared to the existing system and its remaining life. We expect Cal Water to resist the temptation of over-cooling the building with its

[207] Cal Advocates Opening Brief at 217. Cal Water never mentions the cost in its briefs.

[208] "An HVAC economizer is a device that is used to reduce energy consumption by taking advantage of California's optimal climate using outdoor ambient air during the cooler months of the year." (Cal Water Opening Brief at 224.)

[209] Cal Water Reply Brief at 183.

[210] Cal Water Reply Brief at 182.

[211] Cal Water Opening Brief at 218.

new equipment and maximize its savings and adapt and accept climate change is making the new normal summer warmer.

12.30. CSS RDOM 2nd Floor Improvements (PID124909)

Cal Water bundles three requests into one building improvement proposal for $582,937.[212] In its Southern California office it wants to: (1) occupy now vacant space that was previously tenanted to create a confidential work area for Human Resources (HR) staff; (2) create a backup system wide Emergency Operations Center (EOC) for the one in San Jose (Northern California) concurrent with creating the HR space; and (3) develop a plan for developing more space for conservation, engineering, HR, government relations, and corporate communication, along with a backup data center in vacant space in the building. Plus, the building has an aging HVAC system (distinct from the San Jose HVAC project, above).[213]

Cal Advocates disagrees with all three aspects of the proposal, citing there are vacant offices available for HR when privacy matters; Cal Water already has one EOC and doesn't need another; and finally, Cal Advocates questions the overall need for the plan and without specific mention of the HVAC opposes the entire project.[214]

We find that Cal Water has a convincing need for greater privacy and separation of the HR activities from the other ongoing business activities. The nature of an EOC is that it is used for unanticipated events at unknown locations.

[212] Cost estimate from Cal Advocates Opening Brief at 221. Cal Water again neglected to brief the final amount in question.

[213] Cal Water Opening Brief at 224-226.

[214] Cal Advocates Opening Brief at 221-222.

Cal Water's next major disaster could just as easily be in San Jose, destroying its one EOC, as it could be in Southern California. Cal Water has a widely dispersed series of operations and a second EOC is sensible and prudent. We would not look as favorably on a third EOC in the next GRC. Finally, we will allow the budget for planning of other expansion in the available space, but we would expect to see a detailed proposal and justification before authorizing anything further.

12.31. Water Quality Satellite Drinking Water Lab – East LA

Cal Water requests $3,668,420[215] to reconfigure approximately 4400 square feet of an existing property into a satellite laboratory located in Cal Water's East Los Angeles District to increase its in-house water-testing lab capacity over its current San Jose lab which is currently operating at maximum capacity and has no room to expand.[216] Cal Water currently spent on average approximately $1.5 million on outside contract lab fees and anticipates an increase each year due to increasing regulations and company growth. This new satellite lab would allow Cal Water to: (1) provide regional support for short hold time samples; (2) provide more timely results for microbiological samples; (3) bring all local Heterotrophic Plate Count samples in-house;(4) bring the Haloacetic Acids testing in-house; (5) bring the perchlorate testing in-house; (6) bring orthophosphate testing in-house; (7) bring all 1,2,3-Trichloropropane testing in-house; and (8) perform all lead and copper testing in-house. Additionally, Cal Water argues it would reduce couriering costs and improve turn-around time over outside labs. Cal Water also notes several outside labs have lost their

[215] Cal Advocates Opening Brief at 222.

[216] Cal Water Opening Brief at 227, ff.

certification to operate due to the new TNI certification standard adopted by the California Environmental Laboratory Accreditation Program ("CA ELAP").[217]

Cal Advocates opposes the request on financial grounds arguing the costs of the new lab and its operations would be greater than the ongoing cost of using third-party labs.[218]

Cal Water disputes Cal Advocates' calculations and argues that over time the new lab is economical as the revenue requirement decreases through depreciation – although Cal Water appears to ignore likely capital additions or upgrades over time. There are significant non-financial benefits that Cal Water offers: faster in-house tests, no shipping of samples from Southern California to San Jose, and in-house quality control. Cal Water raises the specter of outside labs losing their certification. But Cal Water could lose its certification too.

We see tangible benefits from approving this project for a second in-house lab to reduce the dependence on outside labs and to reduce the costs and time of shipping samples to outside vendors or to San Jose from Southern California. We believe Cal Water's calculations that show the lab will be cost effective and so we approve the project. We do, however, impose one restriction. Should Cal Water lose its own lab certifications for any reason the revenue requirement associated with the new lab shall immediately be rescinded and refundable for the duration of any license suspension. Recovery of replacement outside lab costs will be capped at the level of the rescinded revenue requirement.

[217] Cal Water Opening Brief at 229.

[218] Cal Advocates Opening Brief at 222-224.

12.32. CSS GPS Base Stations (PID125065)

The record shows that only a small number of Cal Water's GPS devices have real-time correction capability via a private third-party correction network, which charges $1,800/device/year, on average. Cal Water wishes to increase the number of such devices due to the labor savings when trying to locate, for example, buried facilities. However, Cal Water admits it made an error of approximately $10,000 entering its budget estimate for this project.[219] Cal Water entered $149,877 when it should have entered $159,433 to take account of inflation. Cal Advocates will only agree to support a cost of $149,877 and does not acknowledge the fact that that Cal Water made a miscalculation.

We approve the amount of $159,433 so long as the project is completed in this GRC cycle.

13. Environmental and Social Justice Issues

The Commission is committed to serving Californians in a way that helps address inequities for those facing higher barriers in accessing safe and affordable utility and transport services. In February 2019, the Commission adopted the Environmental and Social Justice (ESJ) Action Plan, with nine goals to serve as a roadmap to expand public inclusion in Commission decision-making and improve services to targeted communities across California. The Commission's ESJ Action Plan identifies ways the Commission can use its regulatory authority to achieve these goals.

ESJ communities include those that may be subject to a disproportionate impact from one or more environmental hazards, or that are likely to experience disparate implementation of environmental regulations and socioeconomic

[219] Exh. CW-55 at 247.

investments in their communities. With respect to these communities, the Commission considers: (1) whether the proposed action may have a disproportionate impact on service quality and availability of service in the community, or (2) whether the proposed action may have a disproportionate safety impact or burden on the community.

Specifically, ESJ Action Plan Goal 3 is directly pertinent to this proceeding. It provides that the Commission will "strive to improve access to high-quality water … for ESJ communities." The following sub-goal for Goal 3 is also pertinent:

> 3.2 Water Customer Resilience: Support ESJ customers and communities with discounted rates for low-income customers and sustainable systems.

In Cal Water's 2005 GRC, D.06-08-011, we approved the creation of a Rate Subsidy Fund (RSF), and in Cal Water's latest GRC decision, D.20-07-012 we reaffirmed our support for the RSF.[220] In that same decision, we ordered Cal Water to direct a significant portion of the Rate Subsidy Fund to its customers in Willows because Willows has had a pernicious environmental problem with the ground water upon which it depends. The ground water contains significant quantities of chromium six[221] and Cal Water has expended considerable amounts

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[220] *See* D.20-07-012 at 13 *and* at 63, Ordering Paragraph No. 9. The RSF provides a discount on customer bills or a reduction in the revenues collected from rates in certain high-cost service areas, such as Willows due to amount of chromium six in its water sources. The RSF program is funded by a minor surcharge on all customers' bills excepting those customers receiving RSF relief. Exh. CW-2 (Milliman) at 15–17.

[221] Hexavalent chromium (Cr^{+6}), is toxic. The chemical is used in a number of industrial processes as well as for leather tanning, chromium plating, colored glass making and in paint pigments and inks that color plastics and fabrics and serve as corrosion-resistant coatings. It is hazardous when breathed in, ingested, or touched. Rafferty, John P. "What is Hexavalent Chromium (or Chromium-6)?" *Encyclopedia Britannica*, 26 May. 2017,

Footnote continued on next page.

of capital to build water treatment facilities to remove chromium six from the ground water sources in and around Willows. But, as we observed in D.20-07-012, Willows has a very small population and the capital and operating costs of Cal Water's water treatment plants in and around Willows are high.[222] We ordered a transfer of RSF funds to offset Willows' revenue requirement.[223]

This decision orders RSF treatment to continue for Willows, not only to alleviate the capital and the operating costs of the chromium six treatment plants but also to alleviate the new capital expenditures we authorize for Willows in this proceeding. Those costs are earmarked for studies of the water sources in Willows and the facilities to deliver water to customers in Willows. Elimination or mitigation of chromium six at the sources for potable water in Willows will be a featured part of the studies. We order Cal Water to continue rate support for Willows in furtherance of our commitment to environmental and social justice goals.

14. Summary of Public Comments

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding. Ten (10) written comment were submitted in this proceeding raising objections to proposed rate

https://www.britannica.com/story/what-is-hexavalent-chromium-or-chromium-6. Accessed 17 November 2023. We take official notice of this Encyclopedia Britannica article.

[222] D.20-07-012 at 13.

[223] *Id.* at 63, Ordering Paragraph No. 9.

increase and concerns similar to those raised by ratepayers during the voluminous PPHs held in this proceeding.

15. Comments on Proposed Decision

The proposed decision of ALJs Charles Ferguson and Douglas M. Long 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 _____.

16. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Charles Ferguson the Presiding Officer and Douglas M. Long are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

1. On July 1, 2021, Cal Water filed its application for an order: (1) authorizing it to increase rates for water service by $80,484,801 or 11.1 percent in Test Year 2023; (2) authorizing it to increase rates on January 1, 2024 by $43,582,644 or 5.4 percent, and (3) authorizing it to increase rates on January 1, 2025 by $43,197,258 or 5.1 percent in accordance with the Rate Case Plan; and (4) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

2. On December 16, 2022, Cal Water and Cal Advocates filed a Joint Motion for Approval of an Amended Partial Settlement Agreement (Settlement Agreement) that resolves some of the issues in the proceeding.

3. The Joint Motion for Approval of Settlement Agreement was opposed in part by the City of Rancho Palos Verdes, a party to the proceeding.

4. The record supporting the Settlement Agreement is composed of the application, testimony and other exhibits of the parties, and all other filings including the proposed Settlement Agreement itself, its appendices, and the opposition filed by the City of Palos Verdes.

5. Cal Water and Cal Advocates developed a detailed evidentiary record which they used as a foundation for negotiating the Settlement Agreement.

6. The two parties to the Settlement Agreement had a sound and thorough understanding of the issues, and of all the underlying assumptions and data and they could therefore make informed decisions in the settlement process.

7. Rancho Palo Verdes' arguments against the Settlement Agreement were unpersuasive.

8. There was sufficient diversity of customer representation by the parties to this proceeding to ensure the outcome of the Settlement Agreement is consistent with the Commission's Environmental and Social Justice Action Plan.

9. As part of its requested approval for an aggregate amount of $67.7 million for its capital projects during this rate cycle, Cal Water has assigned contingency factors to each of its capital projects on an individual basis.

10. Cal Water's assignments of contingency factors were made in accordance with methodologies we have approved in the past and that other governmental and non-governmental organizations have recommended for use with construction projects. We have reviewed all the contingency factors for capital projects listed on Appendix B-1 and we find that each is reasonable.

11. Cal Advocates did not present persuasive evidence that any single capital project proposed by Cal Water had been assigned an unreasonable or imprudent estimate for a contingency factor or other sufficient evidence in support of its

argument that all of Cal Water's proposed projects and related budgets, that include contingencies, should be denied.

12. The pre-construction costs, including planning, design and/or permitting costs associated with any capital project listed on Appendix B to this decision are reasonable.

13. The construction management costs associated with any capital project listed on Appendix B to this decision are reasonable.

14. The special fees and inspection costs associated with any capital project listed on Appendix B to this decision are reasonable.

15. The term "carryover" projects, as used by Cal Water and Cal Advocates refers to those projects proposed and authorized in the previous GRC that were not completed in the standard three-year period for a GRC proceeding.

16. The projected costs of constructing portions of or all the 'carryover' projects listed on Appendix B-3 to this decision are reasonable.

17. There were a variety of reasons for the existence of "carryover" capital projects from Cal Water's prior GRC, however, the main reason was the necessity to redirect capital from carryover projects to capital repairs, replacements and fortifications that were unexpected or required more capital than was expected.

18. A total of $182 million of capital that would have been spent on carryover projects during the prior 2018 GRC cycle was instead spent on other capital projects and was duly incorporated into rate base.

19. Cal Water's customers did not pay for incomplete work or no work at all on the so-called carryover projects.

20. Cal Water's customers paid for and received value for 97.3 percent of the approved capital budget in Cal Water's 2018 GRC proceeding which included funding spent on urgent projects other than the so-called carry-over projects.

21. It is reasonable to review the projected construction costs at a subsequent proceeding closer in time to the actual construction work when more accurate cost estimates can be presented to the Commission.

22. The budgets for the proposed work during this GRC cycle on multi-GRC projects are reasonable.

23. The two-step budgeting process proposed for those multi-GRC projects listed in Appendix B-2 of this decision is a reasonable way to proceed with budget review for each of the listed projects.

24. It is reasonable to review the projected preconstruction first, then review the projected construction costs at different and subsequent proceeding later and closer in time to the actual construction work when more accurate cost estimates can be presented to the Commission.

25. The proposed budgets for the proposed work during this GRC cycle on multi-GRC projects, listed in Appendix B-2 of this decision, are reasonable.

26. There is a need for additional physical security at several of Cal Water's facilities.

27. Cal Water labelled its "Non-Specific" budget to be a combined sum of the following:

(a) all unexpected facility or equipment failures and all work items that were not anticipated when Cal Water developed its capital budgets, such as capital expenses caused by public safety power shutoff events; and

(b) a projection for all unplanned damage related to mains, meters, service lines and hydrants (that can always be expected to randomly happen somewhere in the Cal Water system, but without predictability as to exactly when and where).

28. Cal Water's request for authorization to separate out and refer to its projection for all unplanned damage related to mains, meters, service lines and hydrants (that can always be expected to randomly happen somewhere in the Cal Water system, but without predictability as to exactly when and where) as "Unscheduled Projects," is reasonable.

29. Cal Water's request for authorization to separate out and refer to all unexpected facility or equipment failures and all work items that were not anticipated when Cal Water developed its capital budgets, such as capital expenses caused by public safety power shutoff events as "Non-Specific" budget projects or items, is reasonable.

30. The proposed division of expense items "Unscheduled Projects" and "Non-Specific" budget projects or items will aid the Commission's analysis and decision-making process with respect to both groups of projects and the individual components of each.

31. Cal Water has adopted a comprehensive two-formula analytic process for determining which of its pipes need replacement.

32. While the life expectancy of each of its pipes (as determined and publicized by the American Water Works Association) is considered for each pipe, the life expectancy of Cal Water's pipes is only one factor considered in Cal Water's analytic process.

33. The published life expectancies of Cal Water's pipes are a subordinate factor considered by Cal Water, not the sole nor the prime factor considered.

34. The two-formula, analytic process employed by Cal Water to identify pipes that need replacing is designed to promote the safety and reliability of Cal Water's statewide system by including many factors not related to the age of a pipe.

35. Cal Water has proposed the following annual budgets for replacing pipes for this GRC cycle: 2022: $100,835,819; 2023: $103,481,318; and 2024: $106,196,525.

36. The PID117409 mainline pipe repositioning project in Marysville has not been delayed by any fault of Cal Water; the delay is due entirely to the U.S. Army Corps of Engineers. As a result, Cal Water has proposed that we extend advice letter treatment for this project through the end of the next GRC cycle.

37. The aggregate capital budgets for all small capital projects (each project is less than a ceiling amount agreed to by Cal Water and Cal Advocates) in the Livermore and Stockton rate districts for Cal Water are $4,438,199 and $4,619,643, respectively; they are reasonable budgets in the aggregate; and the inclusion of a contingency factor in one or more of these small projects does not make the individual project budget or aggregate budget unreasonable.

38. Cal Water adequately demonstrated a need for the $7,055,489 of forecast costs for transportation to support new employees adopted herein to be hired during the GRC cycle.

39. Cal Water and Cal Advocates have agreed upon a range of years from which to calculate a projection of the test year's uncollectible billings. However, Cal Advocates contends that the projection for the test year will not be accurate unless certain "outlier" data points are eliminated from the calculation. We find the so-called "outlier" data points are acceptable and reasonable to include in the calculation of projected uncollectible billings for the test year.

40. The data points used by Cal Water to predict the costs associated with supply sources were each appropriate.

41. Cal Water invested $1,306,935 in a joint project with the Metropolitan Water District. Through no fault of Cal Water, the project has not been completed

and the prospects of it ever being completed are uncertain since control rests with the Metropolitan Water District.

42. Cal Water has a need to contract for painting work on various portions of its plant.

43. Cal Water and Cal Advocates agree a cost-savings of $65,000 must be recognized in the projected customer accounting budget due to our approval of the construction of a new water quality testing facility, making the total customer accounting budget $12,538,859.

44. Cal Water prematurely abandoned several assets which had been included in rate base as used and useful.

45. Cal Water followed conventional utility depreciation accounting procedures and will write-off the remaining book value to the depreciation reserve.

46. Cal Water uses a multi-point risk assessment tool to determine whether existing flowmeters should be replaced before failure while in service.

47. The risk-assessment tool could lead to retiring some flowmeters earlier than their full expected useful life.

48. Cal Water is required to pay workers compensation insurance costs.

49. Cal Water used the services of a qualified actuary to forecast the test year costs for workers' compensation insurance.

50. Cal Water's actuarial estimate for workers' compensation insurance costs is reasonable.

51. The undisputed estimate of A&G Rent is $2,125,954.

52. Administrative and General expenses that cannot be directly allocated are allocated using a Four-factor weighted methodology.

53. The Commission has a long-established Standard Practice U-6-W which sets forth a methodology for calculating a four-factor allocation.

54. The Commission preference is for adhering to Standard Practices where reasonable.

55. Cal Water has shown that a modification to Standard Practice U-6-W is necessary to reflect the facts that apply here and calculate a reasonable allocation.

56. Cal Water's forecast of new positions expected to be hired between rate cases, and during the rate cycle for this GRC, is a reasonable forecast.

57. For many years Cal Water has paid its salaried employees a base salary plus two incentives, one with short-term goals and the other with long-term goals.

58. Cal Advocates does not dispute the reasonableness of the actual incentives, i.e., their components or their calculation ; instead, it disputes the paying of any incentives.

59. Cal Water has shown that its practice of base salary and incentives pays market-based compensation to attract and retain competent employees.

60. Cal Water used an outside expert who used a large proxy group of similar companies across the country.

61. Cal Advocates selectively excluded non-water companies from the proxy and thereby derived a lower comparison result.

62. The SERP is needed to retain employees.

63. We have insufficient evidence to determine whether the administrative and related costs excluding the benefits costs for the SERP are reasonable or unreasonable.

64. In prior years Cal Water has absorbed SERP costs in excess of adopted levels.

65. Administrative costs for SERP have been excluded from prior pension balancing accounts by settlement agreement.

66. Cal Water offers no persuasive justification to include such costs in a balancing account now.

67. A new pension balancing account, PCBA5, is a continuation of prior accounts to recover the actual contributions made to Cal Water's pension funds. Any over- or under-collection of the difference between the forecast and actual contribution payments is subject to refund or later collection.

68. Administrative costs for SERP are not included in the newly adopted PCBA5.

69. The Commission issued D.20-08-047 on September 3, 2020, prohibiting all Class A water utilities from requesting a fully decoupling WRAM in their GRCs instituted after the issuance of D.20-08-047.

70. The Commission issued D.20-12-007 on December 11, 2020, authorizing Cal Water to continue using a fully decoupling WRAM through December 31, 2022.

71. In its application for this proceeding, Cal Water elected to use a Monterey-style M-WRAM for this GRC cycle but also indicated that if the Supreme Court reversed the Commission's decision, D.20-08-047, Cal Water would request permission to substitute a WRAM for its M-WRAM.

72. After briefing closed in this proceeding, the California Legislature enacted SB 1469, which the Governor signed into law in September 2022.

73. SB 1469 reverses that part of D.20-08-047 that prohibits Cal Water from using a WRAM in this GRC cycle.

74. Cal Water has not yet asked the Commission for permission to substitute a WRAM for its earlier choice of an M-WRAM for use during this GRC cycle.

75. Cal Water has shown that use of an SRM would complement both its current choice of an M-WRAM and potential use of a WRAM should it seek to substitute a WRAM for its proposed M-WRAM.

76. In water GRCs, the Commission shows adopted increase in revenues, i.e., the change in authorized revenue requirements, as an increase over the authorized revenues in place at the time of a final decision issuing rather than as an increase over the revenues at the earlier time of the filing an application.

77. Cal Water requested that the Commission distinguish the amount by which rates are increased by this GRC from any other rate increases granted by the Commission in other orders. This special request was unopposed.

78. Actual costs for the PVPWRP at the time that Cal Water filed this GRC were $102.5 million, an undisputed $6.4 million (6.66%) increase above the $96.1 million cap approved in D.20-12-007.

79. Cal Water has an ongoing dispute and possible litigation with the contractor for the completed and in-service PVPWRP.

80. Cal Water offers no justification for creating a new memo account for the costs of the dispute for potential later recovery from ratepayers.

81. In 2014, a three-bill legislative package, composed of AB 1739, SB 1168, and SB1319, collectively known as SGMA was the first legislative act that California passed to achieve sustainable groundwater management.

82. SGMC authorized the creation of GSAs which must develop GSPs to manage groundwater.

83. Cal Water will be subject to the findings of GSAs and the liable for its share of any costs authorized by a GSP.

84. Cal Water may be able to participate in the development of GSPs, but it will not have any control over those costs.

85. Cal Water, with Cal Advocates' support, requests authority to extend the Asbestos Litigation Memo Account for an additional year through December 31, 2025, due to protracted litigation.

86. Cal Water withdrew its request to extend the 2018 Tax Accounting Memorandum Account.

87. Cal Water proposed to amortize the December 31, 2022 balance in its Health Care Balancing Account consistent with prior authorizations.

88. Cal Water proposed to amortize the December 31, 2022 balance in its Pension Cost Balancing Account consistent with prior authorizations.

89. Cal Advocates attempted to introduce a new theory on the rate treatment of Cal Water's Pension Cost Balancing Account in its reply brief.

90. Cal Water has demonstrated the need for the next generation CEBA5, PCBA5, and HCBA5 for the test year 2023 and the attrition years.

91. Current practices in the water industry rate case plan adopted in D.04-06-018 require Cal Water to complete all accounting and administrative review of new construction before it can be included in plant-in-service and be eligible for rate recovery as part of rate base.

92. Cal Water has had numerous projects which required more than six-months to complete all accounting and administrative review of new construction and has suffered delays in rate recovery.

93. Cal Water may know its likely final costs before all accounting and administrative review are completed and could timely file for rate recovery.

Conclusions of Law

1. Cal Water's revenue requests and rate increases, as discussed in this decision and consistent with the Settlement Agreement, are just and reasonable and should be approved and adopted.

2. The Settlement Agreement should be approved and adopted.

3. Cal Water and Cal Advocates bear the burden of proof and have met that burden by showing that the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

4. The Settlement Agreement is reasonable in light of the whole record.

5. The Settlement Agreement is not contrary to any law or previous Commission decision.

6. The Settlement Agreement is in the public interest as it is a reasonable compromise between Cal Water and Cal Advocates that represents a broad range of interests.

7. The Settlement Agreement is in the best interests of Rancho Palos Verdes customers.

8. It is not reasonable to modify the Settlement Agreement to include Rancho Palos Verdes' proposed changes.

9. Pursuant to Rule 12.5, the Settlement Agreement is "binding on all parties to the proceeding" but "does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding."

10. The proposed budgets for plants additions, listed in Appendices B-1 B-2 and B-3 are prudent investments and reasonably priced.

11. Cal Water's requests for budgets for carryover projects are just and reasonable.

12. Implementing the actions recommended by a study completed for Cal Water to improve security at its plant facilities is both necessary and reasonable priced.

13. A budget of $16,259,041 to implement the recommendations of a study obtained by Cal Water to improve security at its plant facilities is reasonable.

14. Separating the projections of all unplanned damage related to mains, meters, service lines and hydrants that can always be expected to happen somewhere in the Cal Water system, but without predictability as to exactly when and where, from all other projections that have historically been categorized as "Non-Specific" projects is prudent and in the interests of ratepayers and the Commission.

15. The use of Cal Water's "Likelihood of Failure" and the "Consequence of Failure" pipeline replacement analytics is a prudent and reasonable practice.

16. The proposed budgets for replacement of pipes for years 2022, 2023 and 2024 are each necessary and reasonable:

- 2022: $100,835,819;
- 2023: $103,481,318; and
- 2024: $106,196,525

17. Cal Advocates' proposal to summarily deny all $67.7 million of Cal Water's forecast construction cost contingency factors is unsupported by any evidence, unjust and unreasonable.

18. The inclusion of contingency factors in proposed budgets for capital improvements is consistent with historic Commission approach and is prudent, and the contingency factors assigned to individual capital projects are each reasonable.

19. The Commission has the discretion to disallow any return on capital for the three-year write-off of the undepreciated capital cost balance of a prematurely abandoned flowmeter.

20. Cal Water's actuarial calculation of workers' compensation costs is reasonable.

21. Strict adherence to adopted Standard Practices must yield a reasonable and fair result.

22. Cal Water's modification to the use of Standard Practice U-6-W is reasonable to calculate a fair four-factor allocation.

23. It would be unreasonable to exclude a forecast for the costs of new employees expected to be hired during the current GRC rate cycle, because such exclusion would cause Cal Water to either forgo hiring needed employees or absorb the foreseen costs until the next GRC.

24. Cal Water's proxy group for executive compensation is a reasonable analysis.

25. Prior settlement results for executive compensation are not allowed as a justification in the current GRC because those results were not an independently litigated and resolved issue outcome.

26. It is reasonable to adopt a new PCBA5 which excludes SERP administrative costs.

27. SERP administrative costs are reasonable costs for inclusion in base rates.

28. There is no language in D.20-08-047 that indicates the Commission intended to overrule or invalidate existing authorities, including Preliminary Statement M and D.12-04-048.

29. SB 1469, approved by the Governor, allows Cal Water to request the Commission's approval to substitute a WRAM for its election of an M-WRAM during the current GRC cycle.

30. SB 1469 permits Cal Water to request the Commission's approval to use a WRAM other than in the context of a GRC proceeding.

31. The use of an SRM with either Cal Water's proposed M-WRAM or a WRAM would benefit both Cal Water's customers and shareholders.

32. Cal Water had prior authority to build the PVPWRP at a total cost of approximately $96.1 million.

33. Cal Water reasonably spent a $6.4 million (6.66%) increase above the $96.1 million cap approved in D.20-12-007.

34. Cal Water has not justified a memorandum account for ongoing disputes with the contractor for the PVPWRP.

35. Cal Water is subject to SGMA which mandated the formation of GSAs to create GSPs to locally manage sustainable groundwater.

36. It is reasonable for the Commission to allow Cal Water to track and record costs which it may potentially incur as a result of SGMA in a memorandum account.

37. Creating a memorandum account such as the SGMAMA allows Cal Water to record and subsequently request rate recovery of prudent costs incurred as a result of SGMA for GSPs to locally manage sustainable groundwater.

38. Creation of a memorandum account such as the SGMAMA does not presume or preapprove any future recovery from ratepayers.

39. It is reasonable to extend the Asbestos Litigation Memo Account for an additional year through December 31, 2025.

40. It is reasonable to close the 2018 Tax Accounting Memorandum Account.

41. It is reasonable to amortize the December 31, 2022 balance in Cal Water's Health Care Balancing Account consistent with prior authorizations.

42. It is reasonable to amortize the December 31, 2022 balance in Cal Water's Pension Cost Balancing Account consistent with prior authorizations.

43. It is reasonable to create the next iterations of CEBA5, PCBA5, and HCBA5 for the test year 2023 and the attrition years.

44. The delay between completing construction and all accounting and administrative reviews of new construction may be unreasonably long and delay rate recovery to which Cal Water is reasonably entitled.

45. Allowing Cal Water to request rate recovery for construction which has been completed and entered service is reasonable.

46. The practice of requiring Cal Water to wait for accounting and administrative reviews of new construction can be waived or modified pursuant to discretion already included in the water industry rate case plan adopted by D.04-06-018.

47. The proceeding A.21-07-002 should be closed.

O R D E R

IT IS ORDERED that:

1. The Joint Motion of California Water Service Company and the Public Advocates Office to adopt an Amended Partial Settlement Agreement is approved, and the Amended Partial Settlement Agreement between California Water Service Company and the Public Advocates Office at the California Public Utilities Commission (Settlement Agreement) is adopted and attached to this decision as Appendix A. The parties to the Settlement Agreement are bound by, and the adopted rate recovery is approved as set by the terms of the Settlement Agreement.

2. California Water Service Company is authorized to collect in rates $803,022.640 for test year 2023.

3. The rates for each rate district and rate area of California Water Service Company for the Test Year 2023 as illustrated in sub-appendices A thru Z of Appendix C attached hereto, reflect all terms of the Settlement Agreement and this decision, and are adopted.

4. Consistent with the provisions of this decision, the following proposed budgets and expenses proposed by California Water Service Company (Cal Water) are approved and adopted:

(a) All capital projects identified or referred to in this decision and appendices to this decision are approved and adopted consistent with the provisions of this decision and shall be included in the final rate base calculations and adopted revenue requirement for the test year 2023 and attrition years;

(b) All Administrative and Maintenance expenses as well as Operations and Maintenance Expenses proposed by Cal Water in this proceeding are approved and adopted consistent with the provisions of this decision; and

(c) Cal Water's proposed project budgets for the Livermore and Stockton rate districts below the previously agreed minimums set by the parties for consideration in this proceeding are also approved and adopted in their entirety.

5. Pursuant to Ordering Paragraph 4 and Special Request 5, all so-called "carryover" capital projects listed in Appendix B-3 are approved for this rate case cycle consistent with the provisions of this decision. In all subsequent General Rate Case (GRC) proceedings, should California Water Service Company (Cal Water) request funding for carryover projects equal to or more than 25 percent of its pending, total, test year revenue request, Cal Water must serve expert testimony describing in detail: (1) the circumstances giving rise to each unanticipated project that delayed an approved project; (2) the management review process which selected and justified each decision for a specific project's deferral; and (3) the reasons why ratepayers were not disadvantaged by each deferral.

6. California Water Service Company's Special Request 6 is granted. We will show the adopted increase in revenues, i.e., the change in authorized revenue

requirements in this general rate case, as an increase over the authorized revenues in place at the time of this decision.

7. A budget of $16,259,041 for California Water Service Company to implement the recommendations of the study completed for it to improve security at its plant facilities is approved.

8. California Water Service Company (Cal Water) shall separate the capital expense projections it has historically labelled "Non-Specific" costs into two groups for its next general rate case (GRC). One group shall consist of all unplanned damage related to mains, meters, service lines and hydrants that can always be expected to randomly happen somewhere in the Cal Water system, but without predictability as to exactly when or where. This group shall be renamed "Unscheduled" capital project costs. All other project costs previously referred to as "Non-Specific" costs shall continue to be referred to and reported to the Commission as "Non-Specific "project costs. To further facilitate review of the new, Unscheduled, capital projects category, Cal Water must supply an additional report in its next GRC that accumulates similar types of damage systemwide into subcategories, for example, all incidents of fire hydrant damage, including the total expense to repair all such damage.

9. California Water Service Company's requests for the annual budgets to replace main pipes are granted as follows:

- 2022: $100,835,819;
- 2023: $103,481,318; and
- 2024: $106,196,525.

All expenditures for pipe replacements up to the amounts set forth above may be included in rate base when incurred. Advice Letter treatment for

California Water Service Company's project identification number 117409 in Marysville is extended through the entirety of the next general rate case cycle.

10. This decision adopts for California Water Service Company the construction cost estimates, including unique allowances for contingencies and other similar pre-construction costs as well as the two-step budgeting process for each project listed in the attached Appendices B-1(district specific projects), B-2 (two-step budgeting projects), and B-3 (carry-over projects).

11. The proposed pre-construction budgets for the 30 capital projects listed on Appendix B-2, totaling $11,035,985 in the aggregate, are approved, and may be included in rate base during this general rate case (GRC) cycle on the condition that all pre-construction activities are completed during this GRC cycle.

12. California Water Service Company is authorized $7,055,489 of forecast costs for transportation to support new employees approved for hiring during the current general rate case cycle.

13. California Water Service Company (Cal Water) must amortize $763,000 over the three years, 2023, 2024, and 2025, for the unreasonably and prematurely abandoned flowmeter. Cal Water's rates adopted herein allow the recovery of the remaining balance in 2023, 2024 and 2025, but its adopted revenue requirement includes no return on capital on this abandoned project.

14. California Water Service Company (Cal Water) is authorized to create a new Pension Cost Balancing Account 5 (PCBA5). In addition to the contributions to its other pension funds, Cal Water's contributions to the Supplemental Executive Retirement Plan (SERP) are includable in PCBA5, however administrative costs for SERP are excluded from PCBA5.

15. California Water Service Company is authorized to amortize all surcharges and surcredits recorded in its Water Revenue Adjustment Mechanism balancing accounts on December 31, 2022, until such accounts are fully amortized.

16. California Water Service Company is authorized to use a Sales Reconciliation Mechanism with its proposed Monterey-Style Water Revenue Adjustment Mechanism for the current general rate case cycle.

17. Should California Water Service Company (Cal Water) request permission to substitute a Water Revenue Adjustment Mechanism (WRAM) for its current use of a Monterey-style Water Revenue Adjustment Mechanism (M-WRAM) and should the Commission approve such a substitution, Cal Water is authorized to use a Sales Reconciliation Mechanism as currently proposed with the WRAM whose use the Commission approves.

18. California Water Service Company may recover in rate base $6.4 million in additional costs incurred to complete the Palos Verdes Peninsula Water Reliability Project.

19. California Water Service Company is authorized to create a memorandum account to record subsequently requested rate recovery of prudent costs incurred as a result of the Sustainable Groundwater Management Act for groundwater sustainability plans (GSPs) to locally manage sustainable groundwater (Special Request 10). Creation of a memorandum account such as the Sustainable Groundwater Management Act Memorandum Account does not presume or preapprove any future recovery from ratepayers.

20. California Water Service Company (Cal Water) must close its existing 2018 Tax Accounting Memorandum Account and remove it from its Preliminary Statement effective January 1, 2024. Cal Water must do this as a part of the compliance advice letter to make all other updates to its Preliminary Statement

required by this Decision. However, we grant one part of Special Request 11 to extend the Asbestos Litigation Memo Account for an additional year through December 31, 2025. We deny the other part of Special Request 11 and order Cal Water to close the 2018 Tax Accounting Memorandum Account.

21. As requested in Special Request 12, California Water Service Company must file a Tier 1 advice letter consistent with prior authorizations to amortize the December 31, 2022 balances in its: (a) Conservation Expense Balancing Account (CEBA 4); (b) Pension Cost Balancing Account (PCBA 4); (c) Healthcare Cost Balancing Account (HCBA 4); (d) General District Balancing Account (District BA); (e) Lead Service Line Memorandum Account (LSL MA); and (f) Chromium 6 Memorandum Account (Cr6 MA).

22. As requested in Special Request 13, California Water Company (Cal Water) must file a Tier 1 advice letter to create the Conservation Expense Balancing Account (CEBA5), Pension Cost Balancing Account (PCBA5), and Health Cost Balancing Account (HCBA5) effective January 1, 2023.

23. As requested in Special Request 14, California Water Service Company (Cal Water) may file for timely recovery in rates the costs of new construction upon the completed project entering service. Cal Water may do so before it fully completes all accounting and administrative reviews of the project when it knows the likely final cost. Cal Water may only request recovery of any difference in cost between the amount used to file for initial rate recovery and any subsequent final adjusted cost in its subsequent general rate case (GRC) as a part of calculating rate base for the subsequent GRC.

24. California Water Company (Cal Water) is authorized to construct a new Southern California water quality lab in East Los Angeles at a forecast cost of $3,668,420. We approve this amount as a hard cap. As a result of this approval,

we also reduce the approved amount for customer accounting expenses by $65,000 reducing the adopted amount for customer accounting expenses to $12,538,859.

25. We adopt California Water Company's (Cal Water) forecast for control valve overhaul and replacement. We further order Cal Water to report in detail in its next general rate case (GRC) exactly how much of the work it completed during the GRC cycle. Having been granted funding for these valves Cal Water must complete all proposed work without additional funding for the same valves in its next GRC even if the work is not completed before the next test year begins. We also require that Cal Water submit a written status report to both the Public Advocates Office (Cal Advocates) at the California Public Utilities Commission and the Commission's Water Division on the first business day in February every year detailing the status of the control valve overhaul and replacement project in the preceding calendar year and its completion status compared to the adopted forecast.

26. We adopt California Water Company's (Cal Water) forecast for its Pump and Motor Replacement Program. We also order Cal Water to file by a tier 1 advice letter a one-way balancing account for pump and motor replacements. Cal Water must track its actual expenditures and the projects it completes, and any unspent forecast included in rates must be refunded in the next general rate case (GRC). We expect Cal Water to demonstrate that the projects that were forecast in this proceeding are the bulk of the projects completed and any substituted replacement projects must be fully explained in its testimony in the subsequent GRC.

27. We adopt California Water Company's (Cal Water) forecast for its water quality sample station replacements. We further order Cal Water to report in

detail in the next general rate case (GRC) on the specific improvements and the controls it puts in place so that we can rely on the recorded results and compare actual to forecast sample station replacements in the next GRC.

28. We adopt California Water Company's (Cal Water) forecast to replace its current, older, uninterruptible power supplies and storage area networks (SANs). We further order Cal Water to:

(a) report in detail in the next general rate case (GRC) on the reasonable operating life of its various technology-related assets, i.e., "high tech gadgets," where the rates of change in technology are fast compared to utility equipment such as pumps and valves,
(b) make a specific review and offer testimony in its next GRC addressing any disparities between its current depreciation lives for all types of "high-tech" assets, hardware, or software, and propose a path forward to more closely align ratemaking, accounting, and operating practices, and
(c) meet with the Public Advocates Office (Cal Advocates) at the California Public Utilities Commission prior to conducting this review, however Cal Water is solely responsible for planning and conducting the review and for sponsoring as well as justifying its results and recommendations in the next GRC.

29. We adopt California Water Company's (Cal Water) forecast to timely replace portions of its inventory of personal computers and related devices as forecast. We also order Cal Water to file by a Tier 1 advice letter a one-way balancing account for this replacement program, and Cal Water must report in its next general rate case (GRC) a comparison between its forecast and actual costs in both dollars and units of equipment as a part of its overall justification for any further funding in the next GRC.

30. We adopt California Water Company's (Cal Water) forecast of $592,410 for a next generation data loss prevention system (DLP). In all subsequent general

rate case applications, Cal Water must detail in its testimony of all alternatives, including the classic "no-project" option, i.e., delaying the replacement of software and hardware systems before their end of their adopted service lives, as a part of the analysis and justification.

31. We deny California Water Company's request for $750,308 to fund an Omni-channel service that allows customers to start a transaction or service on one channel, such as a website, and continue or complete the transaction on another channel, such as a smart phone.

32. In its next general rate case, California Water Service Company must present detailed evidence and testimony to demonstrate that it has made every reasonable effort to negotiate and control the costs for all outside experts and necessary services, including but not limited to actuaries and other financial or compensation experts, whose costs are included in the revenue requirements for the next rate case cycle.

33. When referring to the subject matter, methodology, or amount in question resulting from this decision, California Water Service (Cal Water) is required in its next general rate case and in every other application that it files before this Commission after today, to expressly attest with specificity and clarity, whenever applicable, that the subject matter, methodology, or amount in question, was the result of a settlement and was not approved as the result of a litigated finding by this Commission.

34. California Water Service Company (Cal Water) and the Public Advocates Office (Cal Advocates) are required in Cal Water's next general rate case and/or in every other application where they serve testimony before this Commission after today, to provide a full and complete citation and link to the exact source of the claimed Commission's requirement(s). Specifically, wherever and whenever

Cal Water and Cal Advocates use the following phrases, or any reasonably similar phrases such as (a)“as required by the Commission,”(b) “as ordered by” the Commission, (c) “as adopted by” the Commission, or (d) any other phrase which might suggest or imply an action by the Commission, a full and complete citation and link to the exact source of the Commission's requirement is required.

35. Application 21-07-002 is closed.

This order is effective today.

Dated _____ 2024, at San Francisco, California.

Appendix A

Partial Settlement: Amended Settlement Agreement between Cal Water and Cal Advocates

Appendix B

Cal Water's Test Year and Attrition Years Major Construction Projects

Appendix B -1

Cal Water's Test Year and Attrition Years Major Construction Projects by District

(three pages)

Appendix B-2

Cal Water's Two-Step Projects

(one page)

Appendix B-3

Cal Water's Carryover Projects

(one page)

Appendix C

Calculations