

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

08/27/24

10:33 AM

A2207001

August 27, 2024

Agenda ID #22877
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 22-07-001:

This is the proposed decision of Administrative Law Judge Jacob Rambo. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's October 17, 2024 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

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

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

/s/ MICHELLE COOKE
Michelle Cooke
Chief Administrative Law Judge

MLC:avs
Attachment

Decision PROPOSED DECISION OF ALJ RAMBO (Mailed 8/27/2024)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application 22-07-001

DECISION APPROVING PARTIAL SETTLEMENT AND ADOPTING RATES FOR CALIFORNIA-AMERICAN WATER COMPANY'S TEST YEAR 2024 GENERAL RATE CASE

TABLE OF CONTENTS

Title	Page
DECISION APPROVING PARTIAL SETTLEMENT AND ADOPTING RATES FOR AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY'S TEST YEAR 2024 GENERAL RATE CASE.....	2
Summary	2
1. Background.....	2
1.1. Settlement Agreement	4
1.2. Decoupling	4
1.2.1. Public Utilities Code Section 727.5 Consideration.....	7
1.3. Submission Date	8
2. Issues Before the Commission	8
3. Settlement Agreement.....	11
3.1. Standard of Review for Settlements	12
3.2. Adoption of Settlement Agreement.....	14
3.2.1. Reasonable in Light of the Whole Record.....	14
3.2.2. Consistent with Law.....	16
3.2.3. In the Public Interest	17
3.3. Concerns Raised by MPWMD.....	19
3.3.1. Disparity in Affordability.....	20
3.3.1.1. Overall	21
3.3.1.2. CAP and HFP	22
3.3.1.3. Special Request #5 – Acquisition Rate Base Normalization.....	23
3.3.1.4. Special Request #6 – Catastrophic Event Memo Account	25
3.3.1.5. Special Request #16 – Credit/Debit Card Bill Payment Expense Recovery	25
3.3.2. Conservation Budget.....	26
3.3.3. Plant.....	27
3.3.3.1. New Carmel Valley Well	28
3.3.3.2. Meter Replacements and Advanced Metering Infrastructure (AMI).....	29
4. Standard for Review of Non-Settled Issues	30
5. Disputed Non-Decoupling Issues	30
5.1. Special Request 4: Partial Consolidation of Transmission and Distribution Net Plant Costs	31
5.2. Special Request 5: Acquisition Rate Base Normalization – Request to Deviate from Uniform System of Accounts	32

5.3. Special Request 6: Catastrophic Event Cost Normalization –
Earthquake Insurance 34
5.3.1. Unreasonable Expense 34
5.3.2. Inconsistent with CEMA 35
5.4. Special Request 9: Placer County Water Agency (PCWA)
Capacity Cost Recovery..... 35
5.5. Special Request 13: Chemical Cost Balancing Account 38
6. Conservation and Decoupling 40
6.1. WRSP/WRAM/Decoupling..... 40
6.2. Conservation Adjustments for Rate Tier Designs 43
6.3. Special Requests 3 and 14-ACAM Changes 46
7. Safety 47
8. Environmental and Social Justice 48
9. Procedural Matters 49
10. Comments on Proposed Decision 49
11. Assignment of Proceeding..... 49
Findings of Fact..... 49
Conclusions of Law 54
ORDER 56

- Attachment 1-** Settlement
- Attachment 2 -** Calculations
- Attachment 3-** Rates

**DECISION APPROVING PARTIAL SETTLEMENT AND ADOPTING RATES
FOR CALIFORNIA-AMERICAN WATER COMPANY'S
TEST YEAR 2024 GENERAL RATE CASE**

Summary

This decision adopts the Partial Settlement Agreement filed by California-American Water Company (Cal-Am) and the Commission's Public Advocates Office (Cal Advocates). The Settlement Agreement resolves all revenue requirement issues in Applicant's three Divisions (Northern, Central, and Southern California) and the Monterey Wastewater District. The resulting statewide revenue increases are \$19.96 million (6.40%) in calendar year 2024, \$15.51 million (4.65%) in 2025, and \$15.44 million (4.42%) in 2026. The Settlement Agreement does not resolve the decoupling issue, nor fully resolve five of Applicant's special requests.

The decision denies Cal-Am's request to implement a decoupling mechanism, which Cal-Am calls the Water Revenue Sustainability Plan (WRSP). It grants Cal-Am authority to implement a Conservation Adjustment for Rate Tier Designs Mechanism (CART Designs), formerly known as a Monterey-Style Water Revenue Adjustment Mechanism (M-WRAM). The decision also denies the five special requests not fully resolved in the Settlement Agreement.

This proceeding is closed.

1. Background

On July 1, 2022, California-American Water Company (Cal-Am) filed Application (A.) 22-07-001 to increase revenues in each of its service areas for water and wastewater service for the years 2024 through 2026.

The Public Advocates Office (Cal Advocates) of the California Public Utilities Commission (Commission) filed a protest of the application on August 5, 2022. Cal-Am filed a reply to the protest on August 15, 2023.

The Monterey Peninsula Water Management District (MPWMD), the City of Thousand Oaks, the National Association of Water Companies (NAWC), the California Water Association (CWA), the California Water Efficiency Partnership (CAWEP), and Public Water Now (PWN) were each granted party status.¹ California Water Service Company and Golden State Water Service Company requests for party status were denied.²

On March 21, 2023, the assigned Commissioner issued a scoping memo and ruling. The scoping memo identified 10 issues for consideration in this proceeding, including 18 special requests.

Eight Public Participation Hearings (PPH) were held in April and May 2023. Two were conducted via video and telephone conference. In-person PPH were held in Rancho Cordova, Seaside, and Thousand Oaks.

¹ MPWMD moved for party status on August 22, 2022. The motion was granted on August 23, 2023.

The City of Thousand Oaks moved for party on September 8, 2022. The motion was granted on September 9, 2023.

NAWC moved for party status on February 6, 2023. The motion was granted on February 9, 2023.

CWA moved for party status on March 22, 2023. The motion was denied as insufficient on March 29, 2023. CWA filed a motion for reconsideration on April 13, 2023. The reconsideration motion cured the errors in the March 22, 2023 motion. CWA was granted party status on April 21, 2023.

CAWEP moved for party status on April 4, 2023. The motion was granted on April 5, 2023.

PWN moved for party status on April 10, 2023. The motion was granted on April 21, 2023.

² Golden State Water Company moved for party status on February 16, 2023. California Water Service Company moved for party status on March 20, 2023. The motions were denied on March 22, 2023. The motions were denied because Pub. Util. Code §727.5 requires consideration of decoupling mechanisms (explained later in this decision) in each water utility general rate application. As a result, these two utilities will have a full opportunity to address this issue in their own proceedings.

Evidentiary hearings were held in October 2023.

1.1. Settlement Agreement

On May 24, 2023, the required Alternative Dispute Resolution (ADR) meeting was convened by ADR neutrals Administrative Law Judge (ALJ) Valerie U. Kao and ALJ Susan Lee. Four mediation sessions were held, with an announcement on September 28, 2023, that Cal-Am and Cal Advocates (the Settling Parties) had reached a “high-level settlement.” On November 8, 2023, the requisite all-party settlement conference was held.

On November 17, 2023, the Settling Parties filed a Joint Motion for Adoption of a Settlement Agreement. (*See* Attachment 1.) On December 18, 2023, Monterey Peninsula Water Management District (MPWMD) filed comments in support of some, and in opposition to other, elements of the Settlement Agreement (Settlement). On January 5, 2024, Cal-Am and Cal Advocates each filed reply comments in support of the Settlement. Cal-Am argues that the Commission should reject MPWMD’s arguments and adopt the Settlement without modification. Cal Advocates states that it appreciates MPWMD’s participation and shares many goals with MPWMD but, notwithstanding its overall alignment with MPWMD’s goals, Cal Advocates states that the Commission should adopt the Settlement as filed.

1.2. Decoupling

Cal-Am, in this proceeding, proposes a new form of decoupling. We briefly describe decoupling as part of the background, along with the impact of recent legislation on this issue and the effect on the timing of this proceeding.

Decoupling refers to the various mechanisms employed to address the effect on water utility costs and revenue when water sales volumes do not align with the sales projections adopted as part of a general rate proceeding.

Decoupling mechanisms have been assigned various names over time, but generally fall into two general categories-Water Revenue Adjustment Mechanisms (WRAM) and Monterey Style Water Revenue Adjustment (M-WRAM). Cal-Am here proposes a Water Revenue Sustainability Plan (WRSP), a new form of a WRAM decoupling mechanism. In the event we do not approve WRSP, Cal-Am and Cal Advocates each propose M-WRAM style alternatives.

A WRAM³ tracks the difference between authorized revenues (based on an adopted sales forecast) and the revenues based on actual sales over a calendar year. A companion part of WRAM is the Modified Cost Balancing Account (MCBA).⁴ The MCBA tracks authorized water production expenses and actual water production expenses. The difference between actual and authorized expenses is subtracted from the difference in authorized and actual revenue. The result is then applied to customer bills as a surcharge or sur-credit. Proponents of WRAM, including Cal-Am, argue that it encourages conservation. They argue that because authorized revenue is primarily collected through usage rates, without some form of a WRAM water utilities are disincentivized to promote conservation because reduced water sales lead to decreased revenue and cost recovery.

M-WRAM is a mechanism that protects water utilities utilizing tiered rates. M-WRAM tracks the difference in sales revenue over a calendar year between an adopted tiered rate design and a revenue-neutral uniform rate.⁵ Tiered rate design promotes conservation through a rate structure that increases

³ Decision (D.) 08-11-023 at 13.

⁴ *Id.*

⁵ M-WRAM was first adopted in D.96-12-005. Also *see* D.00-03-053.

the cost of water as a customer's usage increases. The M-WRAM works to protect the water utility from declining revenue due to changes in consumption promoted by the tiered rate design.

The Commission authorized Cal-Am to utilize a WRAM beginning in 2008.⁶ Cal-Am's WRAM was renewed in each subsequent general rate proceeding.⁷ Other large water utilities were granted WRAM during that period. In 2017, the Commission issued an Order Instituting Rulemaking (R.) 17-06-024 to evaluate, among other issues, water affordability. R.17-06-024 resulted in the issuance of D.20-08-047. In D.20-08-047, the Commission barred water utilities from including WRAM proposals in future rate applications. Cal-Am and Golden State Water Company filed challenges to the prohibition on WRAM proposals. The California Supreme Court granted review in May 2022.⁸

On September 30, 2022, the Governor signed Senate Bill (SB) 1469 (Stats. 2022, Ch. 890). SB 1469 amended Public Utilities Code⁹ Section 727.5 to allow Class A water utilities to propose decoupling mechanisms. The statute also requires the Commission to consider decoupling proposals in water ratesetting applications. The legislation became effective January 1, 2023.

On July 8, 2024 the California Supreme Court issued an opinion overturning the portion of D.20-08-047 that prohibited WRAM on procedural

⁶ D.08-11-023.

⁷ See D.20-08-047, Section 5.2.

⁸ *California-American Water Co. v. Public Utilities Com.* (May 18, 2022, No. S271493) ___ Cal.5th ___ [2022 Cal. LEXIS 2769]; see also *California-American Water Co. v. Public Utilities Com.* (June 1, 2022, Nos. S271493, S269099) ___ Cal.5th ___ [2022 Cal. LEXIS 2945] consolidating writ review with *Golden State Water Co. v. Public Utilities Com.* (No. S269099.)

⁹ All subsequent references to section are to the Public Utilities Code unless otherwise specified.

grounds.¹⁰ The court did not address the merits of WRAM and WRAM related mechanisms as an element of water rate design.¹¹

**1.2.1. Public Utilities Code
Section 727.5 Consideration**

The present application was filed prior to the amendment of Section 727.5. On October 10, 2022, 10 days after the adoption of SB 1469, but prior to its effective date, Cal-Am filed a motion requesting to update the application to include a WRAM request under Section 727.5. The motion was granted over the opposition of Cal Advocates. Cal-Am was granted an extension of time to file the updated application. The updated application was filed January 27, 2023.

The parties were directed to meet and confer regarding scheduling for the exchange of direct testimony, hearings, and other matters. Their proposed schedule was largely adopted without alteration.

On February 6, 2023, Cal Advocates filed a protest to the updated application. Cal-Am requested and received authorization to file a response to that protest.

Cal-Am was authorized to submit opening and rebuttal testimony on each element of the application, including the WRSP/WRAM proposal.

In April and May 2023, eight PPHs were held. The assigned Commissioner, the ALJ, and representatives from the Commission's Water Division were present in addition to representatives of the parties and members of the public. At the beginning of each PPH, each party, including Cal-Am, was

¹⁰ (*Golden State Water Co. v. Public Utilities Com.* (July 8, 2024, Nos. S269099, S271493) ___ Cal.5th ___ [2024 Cal. LEXIS 3468].)

¹¹ *Id.* at 2-3, 34

granted time to make a presentation on its application, including the WRSP/WRAM and M-RAM proposals.

Eight days of evidentiary hearings were scheduled. Each party, including Cal-Am, was afforded the opportunity to present evidence and cross-examine witnesses on every aspect of the application, including the WRSP/WRAM proposal. Each of the parties rested their case-in-chief and rebuttal cases after only four days of hearing.

Closing briefs were authorized following the evidentiary hearing. The briefing was bifurcated between the WRSP/WRAM/M-WRAM elements of the application and the other disputed issues. A third briefing schedule was adopted for the proposed settlement.

The record demonstrates that, pursuant to Section 727.5, Cal-Am's WRSP/WRAM proposal was fully addressed by the parties and treated by the Commission consistent with due process.

1.3. Submission Date

This matter was submitted on March 6, 2024, upon the issuance of a ruling addressing various motions and a request for official notice.

2. Issues Before the Commission

The issues raised by the application and the amended application as identified by the Scoping Memo are:

1. Cal-Am's costs related to the production, treatment, storage, distribution, and sale of water;
2. Cal-Am's forecast of sales, expenses, and rate base including proposed capital projects;
3. Cal-Am's revenue requirements, rate design, and rate increases for the Test and Escalation Years, includes sales revenue, consumption, and number of customers;

4. Cal-Am's proposed recovery of balancing and memorandum accounts, including the propriety of requests for new accounts and the propriety of continuing existing accounts;
5. Cal-Am's rates and charges for general metered water service, low-income residential service, private fire services, construction service, recycled water metered service, and facilities fees;
6. Cal-Am's return on investment in utility plants;
7. Cal-Am's projected capital budgets, including utility plant addition and improvements;
8. All safety issues that arise from this application and that are related to the production, treatment, storage, distribution, and sale of water;
9. Whether the Commission should approve 18 special requests included in the application;
10. Impacts on environmental and social justice communities, including the extent to which the application impacts achievement of any of the nine goals of the Commission's Environmental and Social Justice Action Plan.

The 18 special requests are:

Special Request No. 1: Authorization of a WRSP Decoupling Mechanism or M-WRAM;

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

Special Request No. 3: Annual Consumption Adjustment Mechanism (ACAM);

Special Request No. 4: Partial Consolidation of Transmission and Distribution Net Plant Costs;

Special Request No. 5: Acquisition Rate Base Normalization;

Special Request No. 6: Catastrophic Event Cost Normalization;

Special Request No. 7: Not included in the Scoping Memo.¹²

Special Request No. 8: Not included in the Scoping Memo.

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

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

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

Special Request No. 12: Subsequent Rate Changes;

Special Request No. 13: Chemical Cost Balancing Account;

Special Request No. 14: Extension of Existing 15 percent Cap
on Water Revenue Adjustment
Mechanism (WRAM) Amortization;

Special Request No. 15: Elimination of the Monterey Joint
Annual Conservation Report;

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

Special Request No. 17: Operational Tariff Modifications;

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

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

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

The Settlement resolves issues related to issues 1-7 and Special Requests 10, 12, 15, 16, 19, and 20. The Settlement also addresses and resolves most issues related to issues 8 and 10.

¹² Special Request No. 7 (Memo Account to Ensure Consistent Treatment of Acquisitions Throughout the GRC Cycle) and Special Request No. 8 (Utility Transaction Cost Memorandum Account) were denied consideration in the scoping memo because they are addressed in R.22-04-003.

The Settlement resolves Special Request 5, with the exception of Cal-Am's request to deviate from the Uniform System of Accounts and Special Request 6, with the exception of Cal-Am's request to purchase earthquake insurance and book the premium to the Catastrophic Event Memorandum Account.

The Settlement resolves Special Request 7 with respect to Wastewater Operating Rule 11.¹³ Cal-Am agreed to withdraw the portions of Special Request 7 related to Water Operating Rules 10 and 18.

The Settlement resolves Special Request 14 with the exception of Cal-Am's proposal to exceed the 15% cap on annual amortization in certain circumstances.

As part of the Settlement, Cal-Am agreed to withdraw Special Requests 11 and 18.

3. Settlement Agreement

The Settlement resolves all revenue requirement issues and, in so doing, most of the ten issues scoped in the March 21, 2023 Assigned Commissioner's Scoping Memo and Ruling. The Settlement describes each settled issue; provides a statement of each party's position; explains how each issue is resolved; and lists references to the testimony, evidence, and exhibits.

¹³ This limited part of Special Request No. 7 was addressed by the Settling Parties and is considered in our assessment of the Settlement Agreement.

The total revenue increases are settled as follows:

**REVENUE INCREASES REQUESTED BY CAL-AM,
RECOMMENDED BY CAL ADVOCATES,
AND AGREED TO IN SETTLEMENT AGREEMENT¹⁴**

Calendar Year	Cal-Am Request (a)		Cal Advocates Recommended (b)		Settled Amount (c)		Reduction from Cal-Am Request (d) = (a) - (c) \$000,000
	\$000,000	Percent Increase	\$000,000	Percent Increase	\$000,000	Percent Increase	
2024	\$36.5	11.87%	-\$11.3	-3.37%	\$19.96	6.40%	\$16.54
2025	20.1	5.81	10.1	3.08	15.51	4.65	4.59
2026	19.8	5.41	9.1	2.71	15.44	4.42	4.36

The individual disputed revenue requirement elements that are settled include, but are not limited to: the sales forecast, customer counts, customer assistance programs, certain operation and maintenance expenses, leak adjustments, labor and benefits, memorandum and balancing account recovery, rate base, capital budgets, and parts or all of several Special Requests. The Settlement also includes settlement of items in Cal-Am's request that Cal Advocates did not dispute, as well as recommendations proposed by Cal Advocates that Cal-Am accepted.

3.1. Standard of Review for Settlements

The Commission has long favored the settlement of disputes. This policy supports many worthwhile goals. These goals include reducing litigation costs, conserving scarce resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.¹⁵ The Commission specifically requires parties in a large water company general rate case proceeding to meet

¹⁴ Settlement at 9 for columns a, b, and c.

¹⁵ D.05-03-022 at 9; also D.23-11-069 at 752.

and discuss ADR options, including mediation or other approaches that may lead to a settlement of some or all issues.

Although the Commission favors settlements, we will not approve a settlement unless it passes certain tests. Further we have specific rules regarding submission, review, and approval of settlements.¹⁶ The Commission evaluates whether to approve settlements guided not only by these rules and tests but also by the overall “just and reasonable” standard of the Public Utilities Code.¹⁷

Rule 12.1 sets forth our requirements for submission of a settlement, and our tests for their evaluation. In particular, the Commission may only adopt a settlement after determining whether the settlement satisfies the three tests in Rule 12.1(d):

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.

As the applicant, Cal-Am bears the initial burden of proof to show that its requests are just and reasonable, and any related ratemaking mechanisms are fair. To approve the proposed settlement, the Commission must find that the Settling Parties had a sound and thorough understanding of Cal-Am’s application, and of all the underlying assumptions and data included in the record. This level of understanding of the application and the record is necessary to meet our requirements for considering any settlement.¹⁸

¹⁶ See Rules 12.1 to 12.7.

¹⁷ Pub. Util. Code §451 requires that all public utility charges “shall be just and reasonable” and that every “unjust or unreasonable charge...is unlawful.”

¹⁸ D.23-11-069 at 752-753.

3.2. Adoption of Settlement Agreement

The Settlement here meets our tests for approval. As explained below, we find that the Settlement is reasonable in light of the whole record, consistent with law, and in the public interest. We find that Cal-Am met its initial burden of proof, and that the Settling Parties had a sound and thorough understanding of Cal-Am's application and of all the underlying assumptions and data included in the record. We conclude that the rates which result from the Settlement are just and reasonable. Separately below we address concerns raised by MPWMD and conclude that they neither merit rejection nor modification of the Settlement.¹⁹

3.2.1. Reasonable in Light of the Whole Record

The Commission finds that the Settlement is reasonable in light of the whole record.

The record includes all filed documents and the testimony received in evidence. It is extensive. For example, it includes Cal-Am's application and updated application plus 56 exhibits sponsored by 38 witnesses from Cal-Am, Cal Advocates, and MPWMD.

The record also includes the joint motion by the Settling Parties for adoption of the Settlement, with the Settlement Agreement attached. It includes comments on the Settlement by MPWMD and reply comments on the Settlement by Cal-Am and Cal Advocates.

¹⁹ Cal-Am's cost of capital was updated in D.23-06-025, adopted on June 29, 2023, and Advice Letter (AL) 1424 was filed on June 30, 2023 reflecting the new figures. In the November 19, 2023 Settlement Agreement, the Settling Parties utilized the most recent previously adopted cost of capital detailed (*see* AL 1415). The adopted cost of capital between these two events increased from 7.26% to 7.68%, an increase of 0.42%. The difference is minimal, and Settling Parties agreed to use the lower rate of return. The use of the lower rate of return is reasonable in light of the whole record, consistent with law and in the public interest. Accordingly, we adopt the 7.26% utilized by the parties in the Settlement Agreement.

The Settlement itself comprehensively addresses 39 settled items and includes a full description of Cal-Am's request, Cal Advocates' position, Cal-Am's rebuttal, and the resolution of each item with full citation of the record. It includes 25 appendices that set forth the numbers originally advocated by Cal-Am and Cal Advocates along with the settled results. The settled items include customers; consumption; water production; water delivery; revenue requirements; balancing and memorandum accounts; and general office. The appendices include separate comparison exhibits for the three geographic divisions (both with and without disputed transmission and distribution allocations), the Monterey Wastewater District, and statewide.

The record shows that Cal-Am met its initial burden of proof, with 40 Cal-Am exhibits sponsored by 25 competent and credible witnesses establishing a reasonable possibility of the need to adjust its rates and the likely fairness of proposed ratemaking mechanisms. For its part, Cal Advocates submitted 13 detailed and comprehensive exhibits sponsored by 10 competent and credible witnesses on all scoped issues. The settled issues are all within the scope of the proceeding and reasonably reflect the whole record. Settling Parties did not settle all issues. The record demonstrates that the Settling Parties had a thorough understanding of all scoped issues, and all underlying assumptions and data, thereby allowing them to make informed decisions in the settlement process on the issues upon which they could settle and those they could not.

No party asserts the Settlement is unreasonable in light of the whole record. MPWMD raises several objections to the Settlement, discussed below, but those objections do not contend that the Settlement fails this test. Therefore, we conclude that the Settlement is reasonable in light of the whole record.

3.2.2. Consistent with Law

The Commission finds that the Settlement is consistent with law.

Settling Parties state that the Settlement does not contravene or compromise any statutory provision or Commission decision, that the issues resolved in the Settlement are all within the scope of the proceeding, and that the resulting rates are just and reasonable.²⁰ In support, Settling Parties acknowledge that they accepted adjustments to their initial positions to reach resolution in the Settlement on revenue requirements, operation and maintenance costs, capital investments, and other issues. Settling Parties agree that those “adjustments do not jeopardize California American Water’s ability to provide adequate service to its customers.”²¹ Further, Settling Parties state that their agreements are consistent with the statutory requirement “that investor-owned water utilities provide safe and reliable water supply and delivery at just and reasonable rates.”²² We do not find anything that contradicts these statements.

Class A and Class B water utilities are also required to show that any proposed settlements meet the “Goals and Objectives for Balanced Rate Design” required by D.16-12-026.²³ (*See* Attachment B.) Cal-Am shows that it meets these goals and objectives, as discussed further below with respect to the public interest.

No party asserts the Settlement is not consistent with law. MPWMD raises several objections, discussed more below, but those objections do not assert that

²⁰ Joint Motion for Adoption of a Settlement Agreement at 9; also see Cal-Am Reply Comments on the Settlement Agreement, January 5, 2024, at 2-3.

²¹ Joint Motion for Adoption of Settlement Agreement, November 17, 2023, at 9.

²² Settlement Agreement, November 17, 2023, at 3, citing Pub. Util. Code § 451.

²³ D.16-12-026, Ordering Paragraph 15.

the Settlement fails this test. We also conclude that the Settlement is consistent with law, including Commission decisions.

3.2.3. In the Public Interest

The Commission finds that the Settlement is in the public interest.

For example, the Settlement results in a reduction of \$16.50 million from Cal-Am's requested revenue requirement increase for calendar year 2024. It also results in a reduction of \$4.59 million in 2025, and \$4.36 million in 2026, from Cal-Am's requested increases in those years. Even with these reductions, we agree with the Settling Parties that the Settlement results in rates and policies that allow Cal-Am to provide safe and reliable water supply and delivery at just and reasonable rates.

Further, the Commission has several times expressed its "strong public policy" in favor of settlements.²⁴ This policy supports many worthwhile goals, including the reduction of litigation expenses, conservation of scarce Commission and party resources, and reducing risk relating to unknown and potentially unacceptable or unreasonable litigation outcomes. Commission approval of this Settlement will provide such benefits while reasonably resolving most issues contested in this proceeding.

The Settlement is also consistent with consideration of the "Goals and Objectives for Balanced Rate Design," as required by D.16-12-026., Attachment A. For example, the Settlement provides conservation funding that fosters reasonable continuing commitments to conservation consistent with the objectives of promoting efficient use of water and providing conservation incentives for customers and utilities in line with Commission and state policies.

²⁴ D.05-03-022 at 8; D.88-12-083 at 54.

(Goals and Objectives (G&O) #2 and 7.) The continuation of Advanced Metering Infrastructure (AMI) implementation (as part of Cal-Am's Length of Service (LOS) implementation of meter replacements²⁵) promotes efficient water use, prompt identification and fixing of water leaks, reducing incidents of system and customer water leaks, plus the optimal balancing of investment, conservation, and affordability. (G&O #2, 8, and 13.)

The Settlement on estimates of customers, sales, and production is consistent with improvements in sales forecasting. (G&O #12.) The Settlement regarding the paperless billing pilot (Special Request (SR) #9) and elimination of residential late payment fees (SR #20) promotes simplifying rate design, customer notice, and customer bills while providing necessary information. (G&O #3.) The increases in the Customer Assistance Program discount and continuation of the Hardship Assistance Program provide protections for low-income customers consistent with Commission and state policies. (G&O #6.)

Settlement of revenue requirement issues includes expenses, labor and benefits, plant, taxes, rate base, capital budgets, acquisition normalization and mitigation (SR#5 and 10), recovery of costs in the Catastrophic Event Memorandum Account (SR #6), and modification of wastewater operational rules (SR #17). Settlement of these issues achieves several goals and objectives: implements legal requirements that investor-owned water utilities provide safe and reliable water supply and delivery at just and reasonable rates (G&O #1); aligns cost recovery with the revenue requirement in balance with Commission and state public policy goals (G&O #5); provides the opportunity for timely utility recovery of its revenue requirement (G&O #9); aligns utility risk and

²⁵ The LOS approach replaces meters based on length of service and is discussed more below.

reward to afford the utility an opportunity to attract capital for investment on reasonable terms (G&O #10); and optimally balances investment, conservation and affordability (G&O #13).

MPWMD is the only party to argue that the Settlement is not in the public interest. We review each claim below and find that these claims are without merit. Therefore, we conclude that the Settlement is in the public interest.

3.3. Concerns Raised by MPWMD

MPWMD identifies concerns in three areas: disparity in affordability among customers in different service areas, conservation budget, and plant. In evaluating these concerns we are guided by our strong policy favoring settlements, wherein we have said:

This strong public policy favoring settlements weighs in favor of our resisting the temptation to alter the results of the negotiation process. As long as a settlement taken as a whole is reasonable in light of the record, consistent with the law, and in the public interest it should be adopted.²⁶

However, our policy in favor of settlement does not exist to ignore opposition to settlements. Here, as in our consideration of all settlements, we carefully review and consider each concern in turn. In doing so, we find several compelling things, among others, that we more fully describe below such as: the cost-sharing elements of the Settlement Agreement are not only in the public interest but they benefits Monterey customers; acquisition rate base normalization is consistent with the Legislature's intent that scale economies provide benefits to all customers without a disproportionate impact on a smaller set of customers, such as those in Monterey; and the catastrophic event memo account can help Monterey

²⁶ D.05-03-022 at 9.

customers for such events, such as the Carmel fire in 2020. We conclude that MPWMD's concerns neither merit rejection nor modification of the Settlement.

3.3.1. Disparity in Affordability

Cal-Am proposes spreading the costs of some items statewide. MPWMD objects, arguing that cost sharing is not in the public interest with respect to five specific programs or proposals:

- Customer Assistance Program (CAP)
- Hardship Fund Program (HFP)
- Special Request 5 – Acquisition Rate Base Normalization
- Special Request 6 – Catastrophic Event Memo Account (CEMA)
- Special Request 16 – Credit/debit card bill payment expense recovery

Statewide cost allocation (which can raise rates in Monterey) is not in the public interest, according to MPWMD, because Monterey customers already pay more for the same amounts of water than other Cal-Am customers. MPWMD opposes all cost-sharing programs or proposals and seeks exemption from any statewide cost-sharing until the disparity in affordability is addressed. In addition, MPWMD opposes the subsidy inherent in the credit/debit card bill payment expense recovery proposal (wherein these expenses for some low-income customers are charged to other customers) until affordability is considered.

MPWMD raises a valid concern. The Commission takes affordability seriously. The Commission finds, however, that contrary to MPWMD's assertion, the cost-sharing elements of the Settlement are not only in the public interest, but they benefit Monterey customers. In fact, over MPWMD's similar objections, we reached the same conclusion regarding each of these programs in Cal-Am's last

GRC decision. We reference that decision below and further explain why cost-sharing of some expenses statewide is equitable and reasonable. We do this by first considering the option at an overall level and then by each of the programs.

3.3.1.1. Overall

The Settlement involves Cal-Am's entire statewide service area. The public interest in assessing this Settlement must be considered not just for Monterey (a single subdivision of Cal-Am's system) but statewide. The Commission considers the Settlement as a whole and, as we have previously stated, an allegation that "one provision is unfavorable does not indicate that the settlement as a whole is not reasonable or in the public interest."²⁷

Most costs and surcharges are incurred at the operational district or division level and reflected in the rates charged within each district or division. Some costs incurred at a statewide or company level (*e.g.*, administrative and general expenses) are allocated based on Commission-approved allocation factors.

There are a limited number of other programs whose costs are recovered on a statewide basis, such as those discussed separately below. Allocation of these costs through statewide recovery mitigates disproportionate rate impacts (rate "spikes") in any one service area and has been used by the Commission in several situations. Allocation of these costs is in the public interest because it spreads those costs over a larger customer base.²⁸ This benefits Cal-Am customers not only in Monterey but also elsewhere in the state.

²⁷ D.20-12-015 at 29.

²⁸ Cal Am Reply Comments on the Settlement Agreement, January 5, 2024, at 6.

Cal-Am Monterey customers have long received the benefits of being part of Cal-Am through the economies of scale that have been achieved through the company's statewide operations. Cost-sharing benefits Monterey customers by spreading common costs, including a few other specific costs, across a larger customer base, thereby minimizing rate impacts and rate spikes on any one subset of customers. The Commission declines to exclude Monterey customers from participation in this statewide ratemaking mechanism that benefits all Cal-Am customers.

3.3.1.2. CAP and HFP

MPWMD raised the affordability disparity concern with respect to a settlement on CAP and HFP issues in Cal-Am's last GRC. We rejected MPWMD's concerns saying:

We are not persuaded by MPWMD's request to exclude customers in the Monterey District from contributing to the CAP and Hardship Assistance Program, because Monterey District customers receive benefits from the availability of Cal-Am's customer assistance programs.²⁹

The costs of both CAP and HFP continue to merit statewide cost-sharing. CAP provides rate discounts to qualified low-income customers statewide, and the revenue shortage is recovered from all non-CAP customers statewide. This spreads costs effectively over a larger customer base. While CAP costs could be assessed in each service area separately, statewide recovery avoids placing area-specific CAP costs on a relatively small percentage of customers in one service area, which would occur if applied to an individual service area with a substantial low-income population. That is, it ensures that service areas with larger low-income populations are not disproportionately burdened by the cost

²⁹ D.21-11-018 at 21.

of the program.³⁰ Moreover, collecting CAP costs statewide specifically benefits Monterey customers, who receive a higher benefit amount from CAP than other service areas and receive a proportionally higher credit payout than other systems.³¹

The HFP provides rate discounts for income-qualified customers (both CAP and Non-CAP) who face water shut-off due to non-payment of water bills. It began in Monterey in early 2018. In 2021, the Commission approved expanding the HFP to all of Cal-Am's service areas, with 50% of the cost recovered from ratepayers statewide.³² Cal-Am states that it is in the process of implementing that expansion and seeks to continue the program through this rate case cycle.³³

The HFP is particularly valuable to Monterey customers where steeply tiered conservation rates can result in unexpectedly high water bills and the substantial risk of shut-off. Given the significant financial challenges Cal-Am customers eligible for HFP have previously faced, and now face, not only in Monterey but statewide, it would be unreasonable to exclude Monterey customers from contributing to the HFP.

3.3.1.3. Special Request #5 – Acquisition Rate Base Normalization

This provision of the Settlement allows Cal-Am to allocate a portion statewide of the acquired rate base costs of four systems, plus cost amortization associated with acquisition of a fifth system. MPWMD objects claiming that this

³⁰ Exhibit CAL-AM-PP-001A (Pilz Direct (Corrected), October 3, 2023) at 11.

³¹ Exhibit CAL-AM-PP-002 (Pilz Rebuttal, May 25, 2023) at 20.

³² D.21-11-018 at 22.

³³ Exhibit CAL-AM-PP-001A (Pilz Direct (Corrected), October 3, 2023) at 19.

has a disproportionate impact on Monterey customers who will not receive a direct benefit. The Commission, however, approved a similar request over MPWMD's objection in the last GRC, noting that "statewide...allocation... provides the largest socialization of cost increases possible."³⁴ We reach the same conclusion here.

Moreover, the Legislature has found and declared each of the following:³⁵

- (a) Public water systems are faced with the need to replace or upgrade the public water system infrastructure to meet increasingly stringent state and federal safe drinking water laws and regulations governing fire flow standards for public fire protection.
- (b) Increasing amounts of capital are required to finance the necessary investment in public water system infrastructure.
- (c) Scale economies are achievable in the operation of public water systems.
- (d) Providing water corporations with an incentive to achieve these scale economies will provide benefits to ratepayers.

Water system consolidations are one important way to achieve scale economies to finance necessary infrastructure investments and meet state goals. Charging acquisition costs to only one district or division, however, can disproportionately increase the rate base and rates on both the existing customers in that district or division as well as the acquisition customer being consolidated. Spreading these costs over a larger rate base helps achieve the Legislature's intent that scale economies provide benefits to all customers without a disproportionate impact on a smaller set of customers. The fact that the

³⁴ D.21-11-018 at 155.

³⁵ Pub. Util. Code §2719(a) - (d).

district specific cost of providing water to Monterey customers is higher does not by itself mean it is disproportionately affected by statewide recovery programs.

3.3.1.4. Special Request #6 – Catastrophic Event Memo Account

The Settlement provides for statewide recovery of costs recorded in CEMA related to (1) wildfire and (2) COVID-19 financial impacts.³⁶ MPWMD objects to statewide recovery citing the higher cost of water in Monterey.

The Commission authorized statewide recovery of CEMA costs in D.19-07-015. Over MPWMD's similar objections to statewide recovery in Cal-Am's last GRC, the Commission rejected MPWMD's objections and found statewide recovery is consistent with D.19-07-015. The Commission said:

We agree with Cal-Am that spreading the costs of the statewide program across a broader customer base will minimize the impact to each ratepayer, and that Monterey District customers can benefit from this cost-sharing effort if there is a catastrophic disaster or other unexpected service impacts to customers in that District.³⁷

In fact, the Carmel Wildfire in the Monterey area in 2020 was a catastrophic event that caused considerable damage. Special Request 6 benefits Monterey customers by ensuring that the costs related to this, or similar events, are not borne solely by Monterey customers.

3.3.1.5. Special Request #16 – Credit/Debit Card Bill Payment Expense Recovery

The Settlement adds credit/debit card expenses and low-income water/energy direct installation program expenses to the CAP balancing

³⁶ The SA on Special Request 6 does not include cost recovery for earthquake insurance, which parties separately litigated.

³⁷ D.21-11-018 at 142-143.

account, with recovery from non-CAP customers.³⁸ MPWMD repeats its earlier objection that statewide cost-sharing is unfair to Monterey customers. MPWMD also objects to subsidies and, if approved without applying an affordability consideration, asks that Monterey customers be exempted.

The Commission rejected similar arguments in the last GRC, and we do so again here.³⁹ We also note that the law now allows waiver of individual credit/debit card fees and prohibits recovery of those costs from customers enrolled in low-income programs.⁴⁰ In compliance with this prohibition, the Settlement reasonably permits inclusion of credit/debit card fees in the CAP balancing account to be recovered from non-CAP customers.

3.3.2. Conservation Budget

MPWMD objects to Cal-Am's request to reduce its conservation funding statewide. In particular, MPWMD objects to Cal-Am's proposal for a three-year conservation budget that is 10.9% less than the budget authorized by the Commission in Cal-Am's 2019 GRC decision (D.21-11-018).⁴¹ MPWMD asserts that this funding reduction fails to account for Monterey's severely restricted water sources and the Cease-and-Desist Order.⁴² We are not persuaded by MPWMD.

³⁸ Cal-Am Reply Comments on the Settlement Agreement, January 5, 2024, at 14.

³⁹ D.21-11-018 at 21.

⁴⁰ Pub. Util. Code §755.5 (effective January 1, 2022).

⁴¹ MPWMD Comments on the Settlement Agreement, December 18, 2023, at 6, citing Settlement Agreement at 18.

⁴² MPWMD Comments on the Settlement Agreement, December 18, 2023, at 6. The Cease-and-Desist Order is State Water Resources Control Board Order No. WR 2009-0060 (Oct. 20, 2009). The order directs Cal-Am to cease and desist from the unauthorized diversion of water from the Carmel River in accordance with an adopted schedule and conditions.

The Settlement adopts Cal-Am's proposed conservation budget. This budget provides a three-year total of \$3.122 million, with \$1.566 million for Monterey.⁴³ The Settlement requires that Monterey's \$1.566 million to be spent only in that service area. Further, it provides that any additional conservation expenses can be charged to the appropriate drought memorandum account if drought necessitates further conservation expenses.⁴⁴

Even if less than last authorized, the Commission finds this element of the Settlement both reasonable and sufficient. It reasonably balances Cal-Am's conservation budget and conservation needs with affordability both statewide and in Monterey. The over \$1.5 million authorized amount for Monterey will allow Cal-Am to continue to operate a robust and effective conservation program, including the training, workshops, webinars, and programs specifically identified by MPWMD. Moreover, if California experiences another drought, Cal-Am will still be able to charge additional drought-related expenses in a drought memorandum account.

3.3.3. Plant

MPWMD agrees with several capital projects addressed in the Settlement. These include: \$3,806,197 (2024 and 2025) for the Monterey Well Rehabilitation Program; \$3,046,986 (2024 and 2025) for the Well Installation and Replacement Program;⁴⁵ and more than \$2.4 million (2024 and 2025) for Los Padres Dam

⁴³ Joint Motion for Adoption of Settlement Agreement, Exhibit A (Settlement Agreement), Attachment B-4 ("O&M and A&G Expenses") at 107 of 302.

⁴⁴ Settlement Agreement at 18.

⁴⁵ The program is "to maintain water production targets for the Carmel Valley Well field and the Seaside Basin wells..." (Exhibit CAL-AM-ICC-001, Crooks Direct at 212-213.) MPWMD's support for this project is contingent on the "expectation these monies can provide expedited well field improvements in Carmel Valley and Seaside." (MPWMD Comments December 18, 2023 at 9.)

Projects. MPWMD also agrees with eliminating two reports identified for termination in the Settlement. MPWMD raises concerns, however, with regard to two projects: (1) New Carmel Valley Well and (2) Meter Replacements and AMI. We examine each but conclude that the Settlement should neither be rejected nor modified based on these concerns.

3.3.3.1. New Carmel Valley Well

MPWMD supports the authorized funds for this project included in the Settlement but says the well is needed now, not in 2025. According to MPWMD, the new well is being held up by delays in developing a new subdivision. MPWMD says the needs of Cal-Am's existing customers should not be deferred to accommodate the construction of a water distribution system for new customers. MPWMD says the Commission should address the subdivision issue and its impact on timely construction of this well.

Cal-Am recognizes the concern. Cal-Am says it plans to build the well on a parcel within the subdivision, does not have full control over the site, and the subdivision needs to move forward for Cal-Am to be able to construct this well. We are concerned that Cal-Am does not have full control over a site from which it intends to develop necessary water.

At the same time, we do not find compelling evidence that the subdivision will be unreasonably delayed. Even if delayed, Cal-Am says it is already planning to replace an existing well at this site, looking into alternative sites for additional wells, and rehabilitating other existing wells.⁴⁶ MPWMD does not claim Cal-Am is failing to do these things. The Commission finds that the concern over this issue does not merit rejection or modification of the Settlement.

⁴⁶ Cal-Am Reply Comments on the Settlement Agreement, January 5, 2024, at 19.

Nonetheless, this does not in any way reduce the requirement that Cal-Am continue to vigorously plan for future water for Monterey.

3.3.3.2. Meter Replacements and Advanced Metering Infrastructure (AMI)

MPWMD supports Cal-Am's proposed increased funding for meter replacements, but objects to Cal-Am abandoning the AMI project (along with the inclusion in the Settlement of \$405,592 for related expenditures previously incurred).⁴⁷ AMI provides instantaneous leak detection information to customers, according to MPWMD, which it says is critical given Monterey's steep cost of water. Further, MPWMD opposes Cal-Am's using a Length of Service (LOS) measure for its meter replacement program. MPWMD asserts that the LOS approach delays meter replacements and will result in customers not having access to instantaneous leak information for many years. MPWMD says expedited implementation of AMI should be authorized for Monterey as reasonable and in the public interest. The Commission is not persuaded.

The Settlement allows Cal-Am to modify its AMI implementation by using LOS to guide meter replacement. Under the LOS approach, meters are replaced based on age and asset depreciation. This avoids replacements of more recently installed meters at the beginning of their useful life and helps balance the desire for new and advanced meters with cost and affordability.

The Commission finds that AMI implementation has not been abandoned under the LOS protocol but will continue. Moreover, the Settlement includes increased funding for meter replacement, and this will include AMI. Using LOS to guide replacement, however, reasonably takes affordability into account. The MPWMD advocates for expedited implementation of AMI in Monterey given the

⁴⁷ MPWMD Comments on the Settlement Agreement, December 18, 2023, at 9-10.

severe water concerns in that service area but fails to address the increased costs. We encourage Cal-Am to continue prudent AMI implementation and find the Settlement allows Cal-Am to do so.

4. Standard for Review of Non-Settled Issues

A limited number of issues in Cal-Am's application are not settled and remain in dispute. Resolution of those issues begins with Cal-Am's showing. In an application, the applicant bears the burden of proof. The standard of proof is that of a preponderance of the evidence. The 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.'"⁴⁸

Parties briefed the disputed items in two parts: non-decoupling issues and decoupling issues. The following section addresses the non-decoupling issues. A later section addresses the decoupling issues.

5. Disputed Non-Decoupling Issues

Parties disputed part or all of five non-decoupling issues. These are: Special Requests 4, 5, 6, 9, and 13. We deny each of those Special Requests.

We first note that MPWMD objects to each of Cal-Am's requests to the extent they involve spreading costs statewide. We explained above why we are not persuaded by that argument, and nothing provided by MPWMD on these disputed items convinces us differently. Nonetheless, for other reasons explained below, we deny each of Cal-Am's special requests.

⁴⁸ D.08-12-058 at 19, citing Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184. See also D.23-11-069 at 25.

5.1. Special Request 4: Partial Consolidation of Transmission and Distribution Net Plant Costs

Cal-Am proposes to consolidate all water transmission and distribution (T&D) net plant assets across all tariff areas. This request would combine all water T&D net plant assets into a central pool to be allocated back to each tariff area based on the number of customers in that area. Cal-Am requests an initial consolidation of 25% of the net T&D plant assets into a central pool for test year 2024, and to increase that percentage to 50% beginning in 2025. Cal Advocates and MPWMD oppose the proposal on the grounds that it violates cost causation principles applied in ratemaking.

We agree with Cal Advocates and MPWMD. In R.12-06-013, we noted that one of the underlying goals of the rate making process is that of developing equitable rates based on the principle of cost causation.⁴⁹ The cost causation principle means that costs should be borne by those customers who cause the utility to incur the expense.

Cal-Am's proposal is a departure from that principle, which Cal-Am acknowledges in its briefing. Cal-Am points to instances where the Commission has, in their words, "deviated" from the principle of cost causation.⁵⁰ To the extent that we have deviated from cost causation, we have done so where the facts merited the departure. Here they do not. Cal-Am, for example, has not demonstrated to our satisfaction that the foreseeable T&D net plant costs of its operations across the state are sufficiently similar in nature that they merit uniform statewide treatment.

⁴⁹ R.12-06-013 at 2, citing D.08-07-045.

⁵⁰ Cal-Am Opening Brief on Disputed Non-Decoupling Issues, January 5, 2024, at 7.

Moreover, we must reach a balance between sometimes competing rate design principles. Cal-Am argues that consolidation of T&D net plant costs will promote long-term stability of rates. Cal-Am is correct that providing rate stability and avoiding rate shocks is one goal of rate design.⁵¹ An equally important goal is basing rates on cost causation principles. In this case, the evidence shows that under Special Request 4 most customer classes in most districts would see a bill impact of less than 1% in 2024 and 2025.⁵² Thus, in the near term there is no “rate shock” to justify a deviation from cost causation principles.

Cal-Am argues that rates in a single service area can be significantly affected in the long-term due to the “lumpy” pattern of T&D asset replacements of expensive, long lifespan plant. To the contrary, the evidence does not show that this pattern will cause undue rate shock.⁵³ Moreover, we are not convinced that customers should be sheltered from relevant costs specific to each service area.

Accordingly, we deny Special Request 4.

5.2. Special Request 5: Acquisition Rate Base Normalization – Request to Deviate from Uniform System of Accounts

The Settlement resolves all but one element of Cal-Am’s Special Request 5. The remaining dispute is with Cal-Am’s request to deviate from the Commission’s Uniform System of Accounts (USOA) in order to use a different accounting methodology with respect to elements of its acquisitions of plant in

⁵¹ R.12-06-013 at 2. (“Rates should provide stability...”)

⁵² Exh. CALAD-SI-001, Attachment 3, Attachment 8.

⁵³ There “is no evidence in the record that suggests rate shock is likely due to T&D asset replacement.” (Cal Advocates Reply Brief, February 9, 2024 at 2.)

East Pasadena, Bellflower, and Piru.⁵⁴ Cal Advocates and MPWMD oppose this request as inconsistent with Standard Practice U-38-W. We agree.

Standard Practice U-38-W includes using USOA for utility plant purchases. Standard Practice U-1-W prescribes the process for deviation from a standard practice. We decline to address Cal-Am's request in this proceeding and instead direct Cal-Am to the process articulated in Standard Practice U-1-W, section F - "Deviating From Standard Practices."⁵⁵

Moreover, we are persuaded by Cal Advocates that granting Cal-Am's request may impede our ability to make equivalent comparisons of acquisitions made by different utilities, and even the three acquisitions at issue here with other acquisitions made by Cal-Am.⁵⁶ Cal-Am says the different accounting treatment would not result in any change in total rate base or revenues.⁵⁷

Further, however, Cal-Am says:

...assuming the amortization period for UPAA [utility plant acquisition adjustment] is consistent with the remaining useful life of the associated assets, cost of service is not impacted, as there is no difference between depreciation expense and UPAA amortization.⁵⁸

⁵⁴ The dispute resolved here is with respect to the use of the USOA. The portion of the acquisition plant at issue is Corporate Offices. (See Exhibit CALAM-JTL-001 (Liman Direct, July 1, 2022) at 42, and Exhibit CALAM-SWO-001 (Owens Direct, July 1, 2022) at 43.)

⁵⁵ The process is for the moving entity (e.g., public, staff, utility, Cal Advocates) to send suggested changes to the Water Division Director. The Water Division staff will consider the suggestions, coordinate with all affected parties, and modify the existing standard practice as appropriate. After the Director's review, staff will send the modified standard practice out for comments. After reviewing comments, the Director will finalize and issue the revised standard practice. (D.20-12-007 at 27, footnote 38 as cited in the Opening Brief of Public Advocates Office on Non-WRAM Issues, January 5, 2024, at 6.)

⁵⁶ Opening Brief of Public Advocates Office on Non-WRAM Issues, January 5, 2024 at 5.

⁵⁷ Cal-Am Opening Brief on Disputed Non-Decoupling Issues, January 5, 2024 at 9.

⁵⁸ *Id.*

The assumption of consistency indicates the requested deviation cannot ensure that there will be no revenue impacts. We decline to accept this assumption here. Accordingly, we deny Special Request #5. If Cal-Am continues to seek a deviation from using USOA, Cal-Am should use our adopted method for seeking deviations from standard practices.

5.3. Special Request 6: Catastrophic Event Cost Normalization – Earthquake Insurance

Cal-Am proposes to purchase earthquake insurance coverage for its underground utility assets, which it values at approximately \$4 billion. Cal-Am further proposes to track the costs of the insurance in its CEMA. Cal-Am argues that the purchase of earthquake insurance is a prudent step to protect ratepayers in the event of a catastrophic earthquake and, as an expense related to catastrophic events, it is reasonably included in CEMA. Cal Advocates opposes the request as both an unreasonable expense and inconsistent with the purpose of CEMA, as explained below. We agree with Cal Advocates on both counts.

5.3.1. Unreasonable Expense

The policy under consideration by Cal-Am requires a \$3.3 million annual premium. In the event of a qualifying earthquake, the policy will pay up to \$10 million after a \$25 million deductible. It will cover underground assets but not any other assets owned by Cal-Am. We find that these terms are not a reasonable expense for ratepayers to bear. The policy provides coverage for approximately 0.25% of the value of the covered assets after the deductible is satisfied, at an annual cost of 33% of the total annual policy value. Cal-Am's limited claim that insurance is a good method to address risk has not demonstrated that this is a reasonable or just expense.

5.3.2. Inconsistent with CEMA

Standard Practice U-27-W states that memorandum accounts track costs that “are not under the utility’s control.”⁵⁹ Cal-Am can control its decision to purchase an earthquake insurance policy. Thus, earthquake premium costs do not qualify for memorandum account tracking.

CEMA is intended to track costs after a catastrophic event. These are costs that are otherwise unforeseeable and associated with disasters. Insurance premiums are not unforeseeable and are not paid after a disaster. Cal-Am’s request to recover insurance premiums in CEMA is, therefore, inconsistent with the purpose of CEMA.

Insurance costs can be determined by obtaining a quote from an insurance company. Cal-Am has a means to recover costs for earthquake insurance premiums by including the quote, or an estimated cost for a future test, as a component of the revenue requirement in a general rate case application. The reasonableness of such costs can therefore be determined before a disaster occurs.

Accordingly, we deny Special Request 6.

5.4. Special Request 9: Placer County Water Agency (PCWA) Capacity Cost Recovery

Cal-Am requests clarification regarding the appropriate interest rate or carrying cost on purchases of additional water supply capacity from the Placer County Water Agency (PCWA). Cal-Am argues the appropriate carrying cost is Cal-Am’s full rate of return. Cal Advocates relies on Standard Practice U-27-W to

⁵⁹ Standard Practice for Processing Rate Offsets and Establishing and Amortizing Memorandum Accounts, U-27-@, Revised April 16, 2014, at 25.a. (See Cal Advocates Opening Brief, January 5, 2024 at 10.)

assert the appropriate interest rate is the 90-day commercial paper rate.

MPWMD concurs. We agree with Cal Advocates and MPWMD.

Cal-Am says its PWCA Special Facilities Fee Memorandum Account (SFFMA) tracks costs associated with Cal-Am's purchases of additional capacity from PCWA. Cal-Am reports that the Commission's implementation of the SFFMA authorized using the rate applied to "all earnings from the allowance for funds used during construction (AFUDC)."⁶⁰ That rate, according to Cal-Am, is its full rate of return. At the same time, however, Cal-Am points out that the approved preliminary statement indicates that the SFFMA should record interest at the 90-day commercial paper rate. We reconcile this conflict here.

Our approval of the SFFMA says that Cal-Am's request to establish this memorandum account "meets the criteria to establish a memorandum account set forth in Standard Practice (SP) U-27-W."⁶¹ The interest rate authorized in SP U-27-W is the 90-day commercial paper rate, not a utility's full rate of return.

Cal-Am claims the full rate of return is warranted because it is assuming risk in order to ensure that development can occur in the West Placer service area. Cal-Am reports that it had to start purchasing water supply capacity far in excess, and far in advance, of the connection fees that are provided by developers for water service in the West Placer service area. As a result, Cal-Am asserts that it is advancing significant capital – with its own debt and equity – to purchase capacity long before the connection fees are available to offset the cost. Cal-Am argues using internal capital for this purchase is essentially a current investment

⁶⁰ Cal-Am Opening Brief, January 5, 2024 at 13, referencing Resolution W-5111, September 29, 2016.

⁶¹ Cal Advocates Opening Brief, January 5, 2024 at 10-11, citing Resolution W-5111 at 12.

by Cal-Am in support of its future customers' needs and, based on the risk, justifies use of its full rate of return. We are not convinced for two reasons.

First, Cal-Am is correct that we consider risk in determining appropriate interest rates or carrying costs. In this case, however, the risk that Cal-Am will not receive the offsetting connection fees (by developers failing to pay those fees or development not occurring) is very low. Moreover, if an under collection in the PCWA SFFMA exceeds 2% of the authorized gross operating revenues, then Cal-Am may file a Tier 2 Advice Letter requesting recovery. Similarly, if PCWA adjusts the capacity charge, Cal-Am may file a Tier 2 Advice Letter to request modification of the special facilities fee, as needed.⁶² These safeguards result in little risk that Cal-Am will not receive all the capital it advances. Therefore, a full rate of return is not warranted.⁶³

Cal-Am argues that this is not an adequate remedy because recovery based on a Tier 2 Advice Letter would be from all customers. Cal-Am states that it would be inappropriate to utilize a Tier 2 Advice Letter to attempt to recover from all customers' costs that are solely attributable to a new development and new customers.

To the contrary, Cal Advocates correctly notes that Cal-Am, when asking for recovery, has the burden of showing which customers have exceeded their monthly demand targets and are responsible for incurring the extra costs. Cal-Am does not convincingly show that it is foreclosed by a Tier 2 Advice Letter from proposing an equitable allocation for the cost recovery from its customers. In fact, Resolution W-5111 allows Cal-Am to propose an equitable allocation.⁶⁴

⁶² Resolution W-5111 at 5, and 8-9.

⁶³ Exh. CALAD-CS-001 at 18.

⁶⁴ Resolution W-5111 at 9.

Second, the SFFMA does not track investments or capital expenditures. Rather, it tracks “fees...associated with purchasing additional units of water...and water demand in excess of certain thresholds.”⁶⁵ Whereas investments and capital expenditures involve greater risk, our procedures allow Cal-Am reasonable assurance of reliability recovering fees.

Accordingly, we deny Special Request 9.

5.5. Special Request 13: Chemical Cost Balancing Account

Cal-Am requests Commission authorization to establish a balancing account for chemical costs, tracking the difference between actual and forecasted costs. In support, Cal-Am says the balancing account is necessary due to the extreme volatility in the chemical market, which in turn makes it exceedingly hard to predict chemical costs for the test year and attrition years. Cal-Am says chemicals costs are a required business expense for water utilities and, unlike some routine expenses, it has almost no ability to mitigate market pricing risks for chemicals. Both Cal Advocates and MPWMD oppose Cal-Am’s request. We agree with Cal Advocates and MPWMD.

According to Cal-Am, the chemical market has become very volatile due to a confluence of factors. These factors include transportation and shipping challenges, supplier consolidations, energy cost increases (both in the acquisition of raw materials and production of the end-product chemical) which suppliers pass on to water utilities, and supply limitations. Cal-Am says many vendors have moved from annual fixed price contracts to quarterly or semi-annual contracts and cites large price increases over the period of 2021 to 2023.

⁶⁵ Resolution W-5111 at 1.

MPWMD correctly points out, however, that much of the volatility is attributable to COVID-19 and the impacts on supply chains.⁶⁶ Cal-Am recognizes this stating:

With production capacity still reflecting the impact of the COVID-19 pandemic, manufacturers have reduced the amount of product available to the water industry in pursuit of higher profit margins in other areas.⁶⁷

The disruptions caused by COVID-19 are largely over. Our economy continues to recover and grow post COVID-19. The relatively higher price inflation experienced over 2021 to 2023 is now moderating, and supply chains are recovering. We are not convinced that we should base current ratemaking policy on that unique, past experience.

Further, MPWMD correctly notes that the data cited by Cal-Am in support of documenting price increases from 2021 to 2023 actually shows the volatility is diminishing.⁶⁸ The total increases in 2022 to 2023 are less than those in 2021 to 2022.

Prices for all goods and services are subject to price changes. The Settlement includes a chemical budget that recognizes the increasing trend of chemical prices.⁶⁹ Cal-Am asserts that it is currently experiencing price volatility with respect to chemical costs unlike any of its other costs. We agree with Cal Advocates, however, that “Cal-Am has not shown that chemical prices are

⁶⁶ MPWMD Reply Brief, February 9, 2024, at 7.

⁶⁷ Cal-Am Opening Brief, January 5, 2024, at 18.

⁶⁸ MPWMD Reply Brief, February 9, 2024, at 7.

⁶⁹ Cal Advocates Opening Brief, January 5, 2024, at 15.

any more volatile than the prices of other commodities that are included in the revenue requirement.”⁷⁰

Cal-Am claims that the chemical budget agreed to in the Settlement “provides a reasonable forecast to use in conjunction with the proposed chemical cost balancing account, but is likely to prove inadequate on its own.”⁷¹ We are not convinced. Future test year ratemaking encourages utilities to operate efficiently and within budgets. Memorandum and balancing accounts are alternative ratemaking mechanisms that are worthwhile in some instances but should be used sparingly. We are not persuaded by Cal-Am that it and its ratepayers need further protection against volatility by authorizing a balancing account.

Further, chemical costs are incurred by all water utilities. To the extent a chemical cost balancing account is necessary it would be necessary for most or all water utilities, not just Cal-Am. We will explore chemical cost balancing accounts for the water industry, when necessary, but are not convinced by Cal-Am to authorize one here.

Accordingly, we deny Special Request 13.

6. Conservation and Decoupling

6.1. WRSP/WRAM/Decoupling

Cal-Am requests to continue its decoupling WRAM with modifications described in the WRSP. Cal-Am focuses on the conservation benefits of its proposal. Cal-Am argues that it is necessary to fully decouple revenue from consumption in order to promote conservation. It argues that without decoupling, the significant fixed costs recovered via consumption-based rates act

⁷⁰ Cal Advocates Reply Brief, February 9, 2024, at 6-7.

⁷¹ Cal-Am Reply Brief, February 9, 2024, at 13.

as disincentive for a water utility to promote conservation because of the threat that declining consumption may result in the failure to recover authorized revenue.⁷² Cal Advocates and MPWMD argue that the data does not support the conclusion that WRSP/WRAM is a significant causal factor in promoting conservation.⁷³ They also argue that WRSP/WRAM inequitably reallocates risk between the utility's shareholders and its ratepayers.⁷⁴ We agree with Cal Advocates and MPWMD and deny Cal-Am's request for WRSP/WRAM.

Water conservation is an essential element of California's response to a changing climate. Our historic pattern of periods of drought and adequate precipitation, to support a population the size of California's, has become more extreme. WRSP/WRAM is promoted as a conservation measure, incentivizing water utilities to promote conservation. To that end, Cal-Am and CWA point to the record of conservation improvements during the WRAM era as evidence of WRSP/WRAM's conservation benefits.⁷⁵ We do not dispute the conservation gains of the WRAM era. The question is one of correlation versus causation.

The WRAM era was marked by drought and a significant public response to drought. State and local government, along with water utilities, promoted conservation through public education campaigns, efficiency upgrades, and other measures. Communities adopted water use restrictions supported by various punitive sanctions. The record in this proceeding does not establish the

⁷² Cal-Am Opening Brief, December 6, 2023, at 18.

⁷³ Cal Advocates Opening Brief, December 6, 2023 at 25. MPWMD Opening Brief, December 6, 2023 at 4-5.

⁷⁴ *Id.* at 9. Also, MPWMD Reply Brief, January 9, 2024 at 4.

⁷⁵ Cal-Am Opening Brief, December 6, 2023, at 5; CWA Opening Brief, December 6, 2023, at 6.

extent to which WRAM played a role in conservation. At best, we may conclude it was part of an array of measures that promoted conservation.

Water conservation is not the only factor for consideration. WRAM realigns risk. WRAM also conflicts with our ratesetting policy goal of ensuring the consumer of utility services bears the cost of that service. WRSP/WRAM focuses on the difference between actual and forecasted consumption. It allows for the application of surcharges and sur-credits to future consumption bills based upon past consumption. In order to evaluate whether Cal-Am's proposal is just and reasonable, we must weigh the role of decoupling mechanisms in conservation against the concerns of intergenerational transfer and risk reallocation.

As noted above, WRAM is at best a factor in conservation efforts. Cal-Am presents the experience of WRAM and M-WRAM water utilities since 2008 and allocates any and all success for additional conservation to WRAM. We do not join in that conclusion. WRAM is tailored to protect revenue, on the theory that with revenue secure water utilities will make greater efforts to promote conservation. It is not narrowly tailored to address only declining revenue attributable to conservation. WRSP/WRAM shields Cal-Am from any failure of consumption to meet projections, not just those reductions in consumption attributable to conservation

Tiered rate designs operate on the basic economic principle that as the cost of a commodity increases, demand/consumption of the commodity will decrease. M-WRAM is narrowly tailored to address declining revenue attributable to conservation achieved through tiered rate design. M-WRAM tracks the difference between revenue achieved under a tiered rate structure designed to promote conservation and a structure without the conservation-

promoting tiers. The protection it affords a water utility is aligned with a mechanism that more directly promotes conservation.

We rely heavily on forecasted consumption to set rates that allow Cal-Am the opportunity to achieve its authorized revenue requirement. A forecast is just that, a forecast, a reasonable prediction. It is not a guarantee. As with all investments, Cal-Am's equity investors assume some risk when they assume ownership and they receive compensation for that risk. Return on Equity (ROE) is an element of the authorized revenue requirement adopted for Cal-Am. It is intended to provide a reasonable rate of return that encourages continued investment and compensates investors for their investment. By allowing Cal-Am to recover the difference between projected and actual revenue, WRAM/WRSP largely eliminates the risk of forecasts for the investors. Cal-Am has not demonstrated that WRAM/WRSP sufficiently distinguishes between conservation resulting from efforts by the water utility and other errors in forecasting.

Balancing the limited record of WRAM's impact upon conservation against our intergenerational transfer and risk transfer concerns, we find that the benefits of the proposed WRSP do not sufficiently outweigh its harm. Accordingly, we deny the portion of Special Request No. 1 that seeks a decoupling WRSP.

6.2. Conservation Adjustments for Rate Tier Designs

Having denied the request for WRSP, we grant Cal-Am's alternative requested M-WRAM. We do so because it is a ratemaking tool that provides reasonable revenue recovery with a focus on promoting conservation signals in the pricing structure. Because the mechanism will be applied statewide, to

minimize confusion going forward we rename the mechanism Conservation Adjustments for Rate Tier Designs (CART Design). Cal-Am and Cal Advocates have offered competing CART Design proposals.

In Special Request 2, Cal-Am proposes to establish Incremental Cost Balancing Accounts (ICBA) for its San Diego and Ventura County Districts and Full Cost Balancing Accounts (FCBA) for its Monterey, Los Angeles, Sacramento, and Larkfield Districts as part of its M-WRAM proposal. ICBA tracks the difference between the adopted and actual water price of water production components. Rates are adjusted to account for changes in the price due to supplier price changes. FCBA adds an additional component to the ICBA, tracking variances attributable to changes in supply sourcing.

Cal-Am states that an ICBA for San Diego and Ventura is reasonable because it purchases water for each district from a single source.^{76,77} The suppliers control the per unit cost of production. Cal-Am notes that it is difficult to forecast price changes adopted by the suppliers. The ICBA is intended to protect Cal-Am and ratepayers from unreasonable price increases or decreases.

Cal Advocates generally support the proposed ICBAs, with one exception for Cal-Am's proposed pumping expense calculation. It argues that the ICBA makes a single district-wide pumping expense calculation unnecessary and that Cal-Am should use the unit rate for pumping expenses in San Diego and Ventura.⁷⁸ Cal-Am did not address the pumping expense issue in its briefing. We find that the ICBA proposal for San Diego and Ventura is just and

⁷⁶ Cal-Am Opening Brief, December 6, 2023, at 14.

⁷⁷ Cal-Am sources water for its San Diego District from the City of San Diego. Calleguas Municipal Water District supplies the Ventura County District.

⁷⁸ Cal Advocates Opening Brief, December 6, 2023, at 17-18.

reasonable, with the exception that we deny Cal-Am's proposal regarding pumping expenses.

Cal-Am's proposed FCBA differs from the ICBA. Where the ICBA only tracks differences in price, the FCBA also tracks differences in quantity supplied by various sources, what it terms the supply mix. Cal-Am proposes this change for the Monterey, Los Angeles, Sacramento, and Larkfield Districts because, unlike San Diego and Ventura, water for these districts is procured from multiple sources. The FCBA allows Cal-Am to recover additional costs or refund excess charges to ratepayers based upon increased costs or savings attributable to reallocation of volume between different suppliers.

Cal Advocates opposes the FCBA proposal. It argues that FCBA is identical to the MCBA and Essential Service Cost Balancing Account (ESCBA) elements of Cal-Am's existing WRAM and its WRSP, respectively.⁷⁹ There is merit to the concern that Cal-Am may use the ability to pass supply-source costs on to ratepayers as a way of avoiding production related costs. However, we recognize that there is merit to Cal-Am's concerns underlying the FCBA proposal, especially where new conservation requirements or drought conditions beyond Cal-Am's require changes in water production and sourcing. Accordingly, we authorize Cal-Am to establish an ICBA and Supply Source Cost Memorandum Account (SSCMA) for the Monterey, Los Angeles, Sacramento, and Larkfield districts.

The SSCMA will allow Cal-Am to track and record costs related to extraordinary events outside of its control that adversely impact Cal-Am's ability to use a particular supply source. Cal-Am bears the burden of demonstrating

⁷⁹ *Id.* at 16-18.

that costs recorded in the SSCMA are just and reasonable. We find that this approach strikes an appropriate balance between protection against rising costs and potential abuse. We expect that this issue will be revisited during Cal-Am's next general rate proceeding and encourage the parties to review and address the matter thoroughly at that time.

6.3. Special Requests 3 and 14-ACAM Changes

Cal-Am proposed two special requests related to its WRSP/WRAM and M-WRAM proposals. The portion of Special Request 3 not resolved by the Settlement seeks modification of Cal-Am's ACAM as part of the WRSP proposal. If the WRSP proposal is denied, Cal-Am requests retention of the ACAM as a pilot program with modifications.⁸⁰

Special Request 14 included a request to maintain the existing 15% cap on annual amortization of WRAM/MCBA balances, but with the modification that Cal-Am could collect balances in excess of the 15% cap when balances reach the point that they cannot be recovered in less than 24 months. As addressed above, the Settlement continues the 15% cap.

ACAM was adopted as a measure to mitigate high WRAM balances. It allows annual adjustments of quantity rates based upon the prior year's sales. The elimination of WRAM and the denial of WRSP obviates that purpose. Cal-Am argues that continued ACAM is beneficial to ratepayers as a means of providing improved price information to promote conservation.

ACAM is inconsistent with the Commission's Rate Case Plan⁸¹ because it allows for rates to be adjusted between GRC cycles. We find that Cal-Am now

⁸⁰ Cal-Am Opening Brief, December 6, 2023, at 16.

⁸¹ D.07-05-062.

has sufficient means of addressing its revenue recovery concerns, including CART Designs, without continuing mid-cycle rate adjustments via ACAM. Accordingly, we deny the request to continue ACAM. The request for a modification to the 15% cap is denied as moot due to the discontinuation of Cal-Am's WRAM and ACAM. Nothing in this decision precludes Cal-Am from continuing to collect WRAM balances accrued prior to Test Year 2024.

7. Safety

Safety is Scoped Issue 8 in this proceeding:

8. All safety issues that arise from this application and that are related to the production, treatment, storage, distribution, and sale of water.

Cal-Am states that safety is a core value and strategy and that it has numerous programs and processes in place to support customer and employee safety, security of Cal-Am's assets, emergency response, water quality, and environmental compliance. Cal Advocates made two related recommendations. First, Cal Advocates recommended that the Commission require Cal-Am to complete a Portable Generator Planning Study before authorizing any additional funds for stationary generators. Second, Cal Advocates recommended that Cal-Am flush its distribution systems at least annually.

Settling Parties settled this issue by agreeing that Cal-Am complied with D.21-11-018 regarding the portable generator study and no further study is needed at this time. Settling Parties also agreed that Cal-Am does not need to make any adjustments to its flushing program at this time.

No party raises any other safety concerns or issues, and we find none that need to be addressed in this proceeding. Cal-Am is obligated to continue to operate its system safely consistent with law.

8. Environmental and Social Justice

The Commission is committed to addressing the inequities that create barriers for citizens seeking safe and affordable utility services. In February 2019, we adopted the Environmental and Social Justice (ESJ) Action Plan. The ESJ Action Plan 2.0 was adopted in 2022. The ESJ Action Plan sets nine goals that establish a roadmap to improve services to targeted communities and expand public inclusion in the Commission's decision-making process.

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 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.

ESJ Action Plan Goal 3 provides that the Commission will "[s]trive to improve access to high-quality water . . . services for ESJ Communities." ESJ Action Plan Objective 3.2 addresses water customer resilience, "Support ESJ customers and communities with discounted rates for low-income customers and sustainable systems." (ESJ Action Plan 2.0, p. 24). The Settlement includes funding for Cal-Am's HAP and CAP programs. These programs directly support ESJ customers and communities, providing low-income ratepayers and payment assistance across each of Cal-Am's districts. The Settlement increases funding these programs over the amounts approved in Cal-Am's last GRC. Therefore, we find that our ESJ goals are reasonably met.

9. Procedural Matters

This decision affirms all rulings made by the ALJ and assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

10. Comments on Proposed Decision

The proposed decision of ALJ Jacob L. Rambo 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 _____.

11. Assignment of Proceeding

Karen Douglas is the assigned Commissioner and Jacob L. Rambo is the assigned ALJ in this proceeding.

Findings of Fact

1. A settlement conference was held among the active parties and a partial settlement was reached.
2. On November 17, 2023, Cal-Am and Cal Advocates submitted a Joint Motion for Adoption of Settlement Agreement.
3. The applicant has the initial burden of proof to show the reasonable possibility of the need to adjust its rates and the possible fairness of its proposed ratemaking mechanisms.
4. The Settlement is reasonable in light of the record, consistent with law, and in the public interest.
5. The issues resolved in the Settlement are addressed by evidence in the record.
6. The settled issues are all within the scope of the proceeding and reflect the whole record.

7. The record of the proceeding is comprised of the application, testimony of the parties, and all other filings.

8. Settling Parties had a sound and thorough understanding of the application, and of all the underlying assumptions and data included in the record.

9. The Settlement is a balance between the original positions of the parties and their positions as otherwise posed in the prepared testimony of the parties.

10. Overall, the amounts agreed upon in the Settlement are less than the amounts requested by Cal-Am while still allowing Cal-Am sufficient revenues to provide safe and reliable water supply and delivery at just and reasonable rates and is consistent with the public interest goals and objectives for a balanced rate design.

11. Cal-Am proposes spreading the costs of some programs and proposals statewide.

12. Statewide allocation of the costs proposed by Cal-Am is in the public interest because it spreads these costs over a larger customer base, thereby mitigating against disproportionate rate impacts in any one service area to the benefit of Cal-Am customers, not only in Monterey, but across the state.

13. In Cal-Am's last GRC decision, the Commission considered and rejected MPWMD's similar objections to the cost-sharing proposed by Cal-Am here.

14. Collecting CAP costs statewide benefits Cal-Am customers who receive a higher benefit amount from CAP, and receive a proportionately higher credit payout, than in other of Cal-Am's service areas.

15. The HFP is valuable to Monterey customers where steeply tiered conservation rates can result in unexpectedly high water bills and the substantial risk of shut-off.

16. Water system consolidations provide economies of scale to finance necessary infrastructure investments and by spreading the costs of these acquisitions over a larger rate provide benefits to all customers without a disproportionate impact on a smaller set of customers.

17. System-wide recovery of the costs of local CEMA events spreads the risk of every event to all customers mitigating the impact on the affected customers.

18. The Settlement reasonably balances Cal-Am's conservation budget and conservation needs with affordability both statewide and in Monterey; allows Cal-Am to continue to operate a robust and effective conservation program; and, if California experiences another drought, notes that Cal-Am will still be able to charge additional drought-related expenses in a drought memorandum account.

19. There is no compelling evidence that the subdivision at issue with the New Carmel Valley Well will be unreasonably delayed; even if delayed, however, Cal-Am is already reasonably planning to replace an existing well, looking into alternative sites for additional wells, and rehabilitating other wells.

20. AMI implementation will continue under the LOS protocol.

21. LOS for meter replacements reasonably balances the desire for new and advanced meters with cost and affordability.

22. R.12-06-013 identified developing equitable rates based on the principle of cost causation as one of the underlying goals of the rate making process. Special Request 4 seeks to spread the cost of water T&D net plant assets across all tariff areas. The consolidation would result in ratepayers in all districts bearing T&D costs for a single district.

23. The Commission's USOA establishes accounting standards for water utilities. Standard Practice U-38-W requires the use of USOA for utility plant

purchases. The use of Standard Practices aids the Commission in making equivalent comparisons of acquisitions made by different utilities.

24. Standard Practice U-1-W, section F establishes the process Cal-Am may follow to deviate from a standard practice without filing a formal application. Cal-Am did not utilize that process with respect to the portion of Special Request 5 that seeks to deviate from U-38-W.

25. Standard Practice U-27-W describes CEMA as an account for tracking expenses arising from catastrophic events not under a utility's control. Earthquake insurance premium costs are foreseeable and under Cal-Am's control. It also sets the 90-day commercial paper rate as the earning rate for memorandum account balances.

26. The cost of earthquake insurance is too high when compared to the limited potential payment from that insurance in the event of a loss.

27. Resolution W-5111 authorized Cal-Am to establish a SFFMA to track all fees and costs associated with the purchase of additional units of water from PCWA. It requires Cal-Am to comply with the provisions of U-27-W, including the earning rate for memorandum accounts.

28. Cal-Am may file a Tier 2 Advice Letter seeking recovery if the PCWA SFFMA results in an under collection exceeding 2% of the authorized gross operating revenue. It may also file a Tier 2 Advice Letter to adjust the SFFMA special facilities fee. Cal-Am is required to demonstrate which customers are responsible for the extra costs and to propose an equitable allocation in its Tier 2 filing.

29. The cost of chemicals used in the water treatment process experienced volatility due to the effects of the COVID-19 Global Pandemic and its impact

upon supply chains. That volatility has diminished with the end of the pandemic.

30. Cal-Am maintains various safety, security, emergency response, water quality and environmental compliance programs.

31. Cal-Am performed a Portable Generator Planning Study as required by D.21-11-018.

32. Cal-Am was first authorized a WRAM in 2008. The WRAM was renewed in subsequent rate cases. In its application, Cal-Am proposed the WRSP, a set of modifications to its WRAM.

33. California experienced extreme drought from 2008-2022. State and local government and water utilities implemented various conservation measures, including restrictions on water use and education campaigns.

34. Water conservation improved while Cal-Am was authorized a WRAM. There is insufficient evidence of the role the WRAM played in that conservation.

35. Cal-Am's ROE compensates Cal-Am's investors investment risk as an element of its revenue requirement. Cal-Am's WRAM reallocated forecasting risk between its investors and its ratepayers.

36. ICBA for the San Diego and Ventura County Districts and ICBA with an SSCMA for the Monterey, Los Angeles, Sacramento, and Larkfield Districts are narrowly tailored to reflect the cost of changes in the water supply mix. The ICBA in San Diego and Ventura renders a single district-wide pumping expense calculation unnecessary.

37. ACAM allows for rates to be adjusted between GRC cycles. The Commission's Rate Case Plan generally prohibits mid-cycle rate changes. An exception was made to all ACAMs to mitigate the rate impact of high WRAM balances.

38. The Settlement increases funding for Cal-Am's HAP and CAP programs that provide support for low-income customers.

Conclusions of Law

1. Cal-Am met its initial burden of proof regarding the reasonable possibility of the need to adjust its rates and the possible fairness of its proposed ratemaking mechanisms.

2. There is sufficient record to fairly resolve this proceeding.

3. Current law allows waiver of individual credit/debit card fees and prohibits recovery of those costs from customers enrolled in low-income programs.

4. The Joint Motion of the Settling Parties should be granted, and the Settlement should be approved and adopted.

5. The Settlement adequately balances risks between ratepayers and shareholders.

6. The Settlement is not contrary to any law, regulation or previous Commission decision.

7. The Settlement is in the public interest as the agreement is a reasonable compromise between Cal-Am and intervenors that represents a broad range of interests.

8. The Settlement is not binding or citable precedent in any of Cal-Am's future ratesetting proceedings.

9. The request to spread T&D net plant assets across all tariff areas violates the ratemaking principle of cost causation.

10. The request to deviate from the USOA for utility plant purchases impairs the Commission's ability to make equivalent comparisons of acquisitions made by different utilities.

11. Cal-Am should utilize the process to request deviations from the established standard practices described in Standard Practice U-1-W.
12. The request to track earthquake insurance in Cal-Am's CEMA should be denied because earthquake insurance premiums are under Cal-Am's control.
13. The proposed earthquake insurance policy is unreasonable and should be denied.
14. The request to deviate from the earning rate established for memorandum accounts in U-27-W is unreasonable. Cal-Am has other means of addressing costs arising from the PCWA SFFMA.
15. Cal-Am did not meet its burden of establishing that a memorandum account for tracking chemical costs is reasonable.
16. Cal-Am has complied with past Commission orders regarding safety, security, and emergency response studies.
17. The rates approved in this decision provide for adequate safety, security, emergency response, water quality, and environmental compliance.
18. Cal-Am's WRSP should be denied. Cal-Am did not establish that the proposed WRSP promotes conservation and overcomes concerns about risk reallocation and inter-generational transfers.
19. CART-Design paired with tiered rates provides Cal-Am revenue adjustments for reduced consumption. Cal-Am should be authorized to implement a CART-Design, formerly known as M-WRAM.
20. Cal-Am established by sufficient evidence that an ICBA is reasonable for the San Diego and Ventura County Districts and ICBA with a SSCMA is reasonable for the Monterey, Los Angeles, Sacramento, and Larkfield Districts. The ICBA and SSCMA reflect changes in cost due to changing supply sourcing.

A single district-wide pumping expense calculation in the San Diego and Ventura districts is denied.

21. ACAM violates the provision of Rate Case Plan prohibiting mid-cycle rate changes. The elimination of Cal-Am's WRAM eliminates the basis for the exception to the Rate Case Plan granted for ACAM.

22. Cal-Am should continue to collect outstanding WRAM balances accrued under previous decisions.

23. The HAP and CAP programs advance the goals of the ESJ Plan.

24. A.22-07-001 should be closed.

O R D E R

IT IS ORDERED that:

1. California-American Water Company is authorized to increase revenues by 6.40% or \$19,960,000 for test year 2024, by 4.65% or \$15,510,000 for attrition year 2025, and by 4.42% or \$15,440,000 for attrition year 2025.

2. The Joint Motion for Adoption of a Settlement Agreement (with the Settlement Agreement attached) between California-American Water Company and Public Advocates Office is included in Attachment 1. The Joint Motion is granted.

3. California-American Water Company's request for a Water Resources Sustainability Plan decoupling mechanism is denied.

4. California-American Water Company's request for a Monterey-Style Water Revenue Adjustment Mechanism or Conservation Adjustments for Rate Tiered Designs is granted. California-American Water must file a Tier 1 Advice Letter to include the Monterey-Style Water Revenue Adjustment Mechanism or Conservation Adjustments for Rate Tiered Designs in its Preliminary Statement.

5. California-American Water Company's request to continue its Annual Consumption Adjustment Mechanism is denied.
6. California-American Water Company is authorized to amortize all surcharges and sur-credits recorded in its Water Revenue Adjustment Mechanism balancing accounts on December 31, 2023 over a period of 36 months.
7. California-American Water Company (Cal-Am) is granted an Incremental Cost Balancing Account for the San Diego and Ventura County Districts.
8. Cal-Am's request for single district-wide calculation for pumping costs in the San Diego and Ventura County Districts is denied.
9. Cal-Am is granted an Incremental Cost Balancing Account and a Supply Source Cost Memorandum Account for Monterey, Los Angeles, Sacramento, and Larkfield Districts.
10. California-American Water Company's (Cal-Am) Special Requests 4, 9, and 13 are denied. The portions of Cal-Am's Special Requests 5 and 6 not resolved by the Settlement Agreement are denied.
11. Within 30 days of the effective date of this decision, California-American Water Company shall file Tier 1 Advice Letters with revised tariff schedules incorporating the 2024 test year rates in compliance with this decision for each of its districts and rate areas considered in this proceeding, consistent with the rates adopted for each rate area as illustrated in the attached Attachments 2 and 3 and B. These filings shall be subject to approval by the Commission's Water Division and will be effective not earlier than 30 days after the Tier 1 advice letter is submitted subject to approval or rejection by staff pursuant to General Order 96-B, General Rule 7.6.1.
12. We adopt the post-test year ratemaking mechanisms, estimated rates, and

forecasted sales for each rate district and rate area for California-American Water Company, as illustrated in Attachments 2 and 3 attached hereto and reflecting all terms of the Settlement Agreement and this decision.

13. For escalation years 2025 and 2026, California-American Water Company shall file Tier 1 Advice Letters, in conformance with General Order 96-B and the Revised Water Rate Case Plan (Decision 07-05-062), proposing new revenue requirements and corresponding revised tariff schedules in each rate district and rate area in this proceeding, and in conformance with the Settlement and adopted estimated rates for each rate area as illustrated in the attached Attachments 2 and 3.

14. Application 22-07-001 is closed.

This order is effective today.

Dated _____, at Sacramento, California.

ATTACHMENT 1

Settlement

ATTACHMENT 2

Calculations

ATTACHMENT 3
Rates