



**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.

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(Filed July 1, 2022)

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**SETTLEMENT AGREEMENT BETWEEN CALIFORNIA-AMERICAN
WATERUNCO COMPANY AND PUBLIC ADVOCATES OFFICE**

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For: California-American Water Company

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

**SETTLEMENT AGREEMENT BETWEEN CALIFORNIA-AMERICAN WATER
COMPANY AND PUBLIC ADVOCATES OFFICE**

1. GENERAL PROVISIONS

Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), California-American Water Company ("CAW" or "Company") and the Public Advocates Office at the California Public Utilities Commission ("Cal Advocates")¹ have agreed on the terms of this settlement agreement (the "Settlement Agreement"), which they now submit for approval. This Settlement Agreement embodies the entire understanding and agreement of the Parties with respect to the matters described herein.

The Parties, desiring to avoid the expense, inconvenience, and the uncertainty attendant to litigation of matters in dispute between them, have agreed on this Settlement Agreement, which they now submit for approval.

Because the Settlement Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding. (*See* Rule 12.5, Commission's Rules of Practice and Procedure.)

The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission. Furthermore, the Settlement Agreement is being presented as an integrated package such that the Parties are agreeing to the Settlement Agreement as a whole, as

¹ Hereinafter, CAW and Cal Advocates are referred to as the "Parties."

opposed to agreeing to specific elements of the Settlement Agreement. If the Commission adopts the Settlement Agreement with modification, all the Parties must consent to the modifications or the Settlement Agreement is void and all Parties reserve all rights set forth in Rule 12.4 of the Commission's Rules of Practice and Procedure. As between the Parties, this Settlement Agreement may be amended or changed only by a written agreement signed by the Parties.

This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument. Each of the Parties hereto and their respective counsel and advocates have contributed to the preparation of this Settlement Agreement. Accordingly, the Parties agree that no provision of this Settlement Agreement shall be construed against any Party because that Party or its counsel drafted the provision. The Parties agree to use their best efforts to obtain Commission approval of the Settlement Agreement. The Parties shall request that the Commission approve the Settlement Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

2. SUMMARY OF SETTLEMENT

The Settlement Agreement addresses most of the significant elements of the General Rate Case (“GRC”) revenue requirement and many of CAW’s Special Requests. The Settlement Agreement is supported by the comprehensive record in this proceeding. As part of this GRC, the Parties have submitted extensive testimony concerning the issues that are the subject of the Settlement Agreement, including, but not limited to, CAW’s direct testimony submitted with the Application, CAW’s supplemental direct testimony submitted with the Updated Application, Cal Advocates’ Report and CAW’s rebuttal testimony.

The attachments to the Settlement Agreement set forth the original positions of the Parties on various elements of revenue requirement, balancing and memorandum accounts, and the settlement terms. Attachments to the Settlement Agreement are as follows:

- Attachment A-1: Average Customers by Class
- Attachment A-2: Average Customers by Meter Size
- Attachment A-3: Annual Consumption per Customer
- Attachment A-4: Total Consumption
- Attachment A-5: Water Production and System Delivery
- Attachment B-1: Purchased Water Adopted Quantities
- Attachment B-2: Purchased Power Adopted Quantities
- Attachment B-3: Labor & Benefits
- Attachment B-4: O&M and A&G Expense
- Attachment B-5: Deferred Tank Maintenance
- Attachment B-6: Planning Studies & Mapping
- Attachment C-1: Depreciation Rates
- Attachment C-2: Overhead by District
- Attachment C-3: Disputed Capital Expenditure Comparison
- Attachment C-4: Strategic Capital Expenditure Plan

- Attachment E-1: Statewide Comparison Exhibit
- Attachment E-2: Northern Division Comparison Exhibit (with T&D Allocation)
- Attachment E-3: Northern Central Division Comparison Exhibit (without T&D Allocation)
- Attachment E-4: Central Southern Division Comparison Exhibit (with T&D Allocation)
- Attachment E-5: Central Northern Division Comparison Exhibit (without T&D Allocation)
- Attachment E-6: Southern Central Division Comparison Exhibit (without T&D Allocation)
- Attachment E-7: Southern Division Comparison Exhibit (without T&D Allocation)
- Attachment E-8: Monterey Wastewater Comparison Exhibit
- Attachment E-9: General Office Comparison Exhibit
- Attachment F-1: Balancing and Memorandum Accounts

The Settlement Agreement is in the public interest and is consistent with the goals and objectives identified in Attachment A to Decision (“D.”) 16-12-026:

1. CAW and Cal Advocates’ agreements on revenue requirement, operations and maintenance costs, and capital investments are consistent with Public Utilities (“Pub. Util.”) Code § 451, which requires that investor-owned water utilities provide safe and reliable water supply and delivery at just and reasonable rates.

The Parties’ agreement to CAW’s proposed conservation budget fosters CAW’s and its customers commitment to conservation and is consistent with the objectives of (1) promoting efficient use of water and (2) providing conservation incentives for customers and utilities consistent with the Commission's and state policies. CAW’s proposal for length of service (“LOS”) implementation of Advanced Metering Infrastructure (“AMI”) also promotes the objectives of more efficient and effective water conservation.

2. CAW and Cal Advocates’ agreements on forecasted customers and sales, capital budgets, acquisition normalization and mitigation (Special Requests #5 and #10), recovery of costs recorded in CAW’s Catastrophic Event Memorandum Account (Special Request #6), modification of wastewater operational rules (Special Request #17), paperless billing pilot (Special Request #19), elimination of residential late payment fees (Special Request #20), and CAW’s proposal to increase its Customer Assistance Program (“CAP”) discount and to continue its Hardship Assistance Program, among other items, are consistent with the objectives of (1) simplifying rate design, customer notices, and customer bills while providing necessary information for customers to make wise choices about their use, and transparent information about water service costs and the regulatory process, (2) aligning cost recovery with revenue requirement in balance with the Commission's and the state's public policy goals, (3) providing protections for low-income customers consistent with the Commission's and state policies, (4) providing CAW with the opportunity for timely recovery of its revenue requirement, (5) aligns utility risk and return in a way that affords the utility an opportunity to attract capital for investment on reasonable terms,

(6) balances investment, conservation, and affordability; and (7) improving sales forecasting methodology.

The parties have not reached a settlement on the following issues:

- (1) Rate design;
- (2) Special Request #1 - Authorizing the Water Resources Sustainability Plan (“WRSP”) (including WRAM), or in the alternative, the Monterey-Style Water Revenue Adjustment Mechanism (“M-WRAM”);
- (3) Special Request #2 - Full Cost Balancing Account (“FCBA”) and Incremental Cost Balancing Account (“ICBA”);
- (4) Special Request #3 - Annual Consumption Adjustment Mechanism (“ACAM”);
- (5) Special Request #4 - Partial Consolidation of Transmission and Distribution Net Plant Costs;
- (6) CAW’s request to deviate from the Uniform System of Accounts (within Special Request #5);
- (7) CAW’s request to recover \$3.3 million per year in earthquake insurance premiums and to track earthquake insurance costs through the Catastrophic Event Memorandum Account (“CEMA”) (within Special Request #6);
- (8) Special Request #9 - Placer County Water Agency (“PCWA”) Capacity Cost Recovery;
- (9) Special Request #13 - Chemical Cost Balancing Account; and
- (10) As part of CAW’s WRSP and as described in Updated Special Request #14, CAW’s request to maintain the current 15% cap on annual amortization and for authorization to collect balances beyond the 15% cap in extraordinary circumstances where the balances grow large enough that they cannot be recovered in less than 24 months.

Some of the Parties, including CAW and Cal Advocates, intend to file additional briefing on these particular issues.

Amongst the remaining disputed items, only Special Request #4 impacts the comparison exhibits for the Northern, Central, and Southern Divisions. Attachments E-2 through E-4 reflect the Parties’ positions, and the settlement outcome, if Special Request #4 is ultimately approved by the Commission. Attachments E-5 through E-6 reflect the Parties’ positions, and the settlement outcome, if Special Request #4 is ultimately denied by the Commission. Special Request #4 does not impact the overall statewide comparison exhibit (Attachment E-1) or the overall revenue increase provided for in this Settlement Agreement, nor does it impact the overall settlement increase for the Monterey Wastewater District (Attachment E-8).

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

| Exhibit | Long Cite | Short Cite |
|----------------|---|------------------------------|
| | <i>Updated Application of California-American Water Company (U210W) to Increase Revenues in each of its Districts Statewide, filed January 27, 2023</i> | Updated Application |
| CALAM-LC-001 | <i>Rebuttal Testimony of Lacy Carothers, dated May 25, 2023</i> | Carothers Rebuttal |
| CALAM-TWC-001 | <i>Supplemental Direct Testimony of Thomas W. Chesnutt, dated January 27, 2023</i> | Chesnutt Supplemental Direct |
| CALAM-TWC-002 | <i>Rebuttal Testimony of Thomas W. Chesnutt, dated May 25, 2023</i> | Chesnutt Rebuttal |
| CALAM-MSC-001 | <i>Direct Testimony of Michael S. Clarke, dated July 1, 2022</i> | Clarke Direct |
| CALAM-MSC-002 | <i>Rebuttal Testimony of Michael S. Clarke, dated May 25, 2023</i> | Clarke Rebuttal |
| CALAM-CC-001 | <i>Direct Testimony of Christopher Cook, dated July 1, 2022</i> | Cook Direct |
| CALAM-CC-002 | <i>Rebuttal Testimony of Christopher Cook, dated May 25, 2023</i> | Cook Rebuttal |
| CALAM-ICC-001 | <i>Direct Testimony of Ian C. Crooks, dated July 1, 2022</i> | Crooks Direct |
| CALAM-SC-001 | <i>Direct Testimony of Scott Cullen, dated July 1, 2022</i> | Cullen Direct |
| CALAM-GH-001 | <i>Direct Testimony of Garry Hofer, dated July 1, 2022</i> | Hofer Direct |
| CALAM-GH-002 | <i>Rebuttal Testimony of Garry Hofer, dated May 25, 2023</i> | Hofer Rebuttal |
| CALAM-GH-003 | <i>Supplemental Rebuttal Testimony of Garry Hofer, dated June 28, 2023</i> | Hofer Supplemental Rebuttal |
| CALAM-MK-001 | <i>Rebuttal Testimony of Michael Kurzeja, dated May 25, 2023</i> | Kurzeja Rebuttal |
| CALAM-JTL-001 | <i>Direct Testimony of Jeffrey T. Linam, dated July 1, 2022</i> | Linam Direct |
| CALAM-JTL-002 | <i>Supplemental Direct Testimony of Jeffrey Linam, dated January 27, 2023</i> | Linam Supplemental Direct |
| CALAM-NM-001 | <i>Rebuttal Testimony of Nina Miller, dated May 25, 2023</i> | Miller Rebuttal |
| CALAM-DM-001 | <i>Direct Testimony of David Mitchell, dated July 1, 2022</i> | Mitchell Direct |
| CALAM-DM-002 | <i>Supplemental Direct Testimony of David Mitchell, dated January 27, 2023</i> | Mitchell Supplemental Direct |
| CALAM-DM-003 | <i>Rebuttal Testimony of David Mitchell, dated May 25, 2023</i> | Mitchell Rebuttal |
| CALAM-JM-001 | <i>Direct Testimony of Jonathan Morse, dated July 1, 2022</i> | Morse Direct |

| Exhibit | Long Cite | Short Cite |
|----------------|--|----------------------------------|
| CALAM-JM-002 | <i>Rebuttal Testimony of Jonathan Morse, dated May 25, 2023</i> | Morse Rebuttal |
| CALAM-RVM-001 | <i>Rebuttal Testimony of Robert V. Mustich, Public Version, dated May 25, 2023</i> | Mustich Public Rebuttal |
| CALAM-RVM-001C | <i>Rebuttal Testimony of Robert V. Mustich, CONFIDENTIAL Version, dated May 25, 2023</i> | Mustich Confidential Rebuttal |
| CALAM-TO-001 | <i>Rebuttal Testimony of Tim O'Halloran, dated May 25, 2023</i> | O'Halloran Rebuttal |
| CALAM-SWO-001 | <i>Direct Testimony of Stephen (Wes) Owens, dated July 1, 2022</i> | Owens Direct |
| CALAM-SWO-002A | <i>Rebuttal Testimony of Stephen (Wes) Owens, Corrected, dated October 3, 2023</i> | Owens Corrected Rebuttal |
| CALAM-PP-001A | <i>Direct Testimony of Patrick Pilz, Corrected, dated October 3, 2023</i> | Pilz Corrected Direct |
| CALAM-PP-002 | <i>Rebuttal Testimony of Patrick Pilz, dated May 25, 2023</i> | Pilz Rebuttal |
| CALAM-JRP-001 | <i>Rebuttal Testimony of John R. Popiolek, FSA, dated May 25, 2023</i> | Popiolek Rebuttal |
| CALAM-BP-001 | <i>Direct Testimony of Bahman Pourtaherian, dated July 1, 2022</i> | Pourtaherian Direct |
| CALAM-BP-002 | <i>Supplemental Direct Testimony of Bahman Pourtaherian, dated January 27, 2023</i> | Pourtaherian Supplemental Direct |
| CALAM-BP-003 | <i>Rebuttal Testimony of Bahman Pourtaherian, dated May 25, 2023</i> | Pourtaherian Rebuttal |
| CALAM-MR-001 | <i>Rebuttal Testimony of Mark Reifer, dated May 25, 2023</i> | Reifer Rebuttal |
| CALAM-EAS-001 | <i>Direct Testimony of Edward A. Simon, dated July 1, 2022</i> | Simon Direct |
| CALAM-DPS-001 | <i>Supplemental Direct Testimony of David P. Stephenson, dated January 27, 2023</i> | Stephenson Supplemental Direct |
| CALAM-DPS-002A | <i>Rebuttal Testimony of David P. Stephenson, Corrected, October 3, 2023</i> | Stephenson Corrected Rebuttal |
| CALAM-KT-001 | <i>Direct Testimony of Kevin Tilden, dated July 1, 2022</i> | Tilden Direct |
| CALAM-BV-001A | <i>Rebuttal Testimony of Bente Villadsen, Corrected, October 3, 2023</i> | Villadsen Rebuttal |
| CALAM-JMW-001 | <i>Direct Testimony of John M. Watkins, dated July 1, 2022</i> | Watkins Direct |
| CALAM-JMW-002 | <i>Rebuttal Testimony of John M. Watkins, dated May 25, 2023</i> | Watkins Rebuttal |
| CALAM-DW-001 | <i>Rebuttal Testimony of Dane Watson, dated May 25, 2023</i> | Watson Rebuttal |

| Exhibit | Long Cite | Short Cite |
|----------------|--|-----------------------|
| CALAD-PA-001 | <i>Public Advocates Office Prepared Testimony of Prashanta Adhikari, Report on Income Taxes, Taxes other than Income, Rate Base, and Results of Operations Model, dated April 13, 2023</i> | Adhikari Testimony |
| CALAD-PA-002 | <i>Public Advocates Office Prepared Testimony of Prashanta Adhikari, Results of Operation Summary, Updated May 8, 2023</i> | Adhikari RO Summary |
| CALAD-MD-001 | <i>Public Advocates Office Prepared Testimony of Mukunda Dawadi, Report on the Memorandum and Balancing Accounts & Special Requests 2, 3, 6, 13, 14, and 16, dated April 13, 2023</i> | Dawadi Testimony |
| CALAD-KE-001 | <i>Public Advocates Office Prepared Testimony of Kerrie Evans, Report on General Office, Affiliate Transactions and Non-Tariff Products & Services, dated April 13, 2023</i> | Evans Testimony |
| CALAD-TG-001 | <i>Public Advocates Office Prepared Testimony of Timothy Gee, Report on Operations and Maintenance Expenses, dated April 13, 2023</i> | Gee Testimony |
| CALAD-SI-001 | <i>Public Advocates Office Prepared Testimony of Sari Ibrahim, Report on Contingency, Plant Retirement, Construction Work in Progress, Southern District and Corporate Plant Additions, and Special Request Number 4, dated April 13, 2023</i> | Ibrahim Testimony |
| CALAD-JM-001 | <i>Public Advocates Office Prepared Testimony of Justin Menda, Report on Plant for Northern and Central Divisions and Tank Painting, dated April 13, 2023</i> | Menda Testimony |
| CALAD-HM-001 | <i>Public Advocates Office Prepared Testimony of Herbert Merida, Report on the Results of Operations, Water Consumption, Rate Design and Special Requests 10, 12, 17, 18, 19, and 20, Updated on May 8, 2023</i> | Merida Testimony |
| CALAD-RR-001 | <i>Public Advocates Office Prepared Testimony of Richard Rauschmeier, Report and Recommendations on Cal Am's Special Request #1, dated April 13, 2023</i> | Rauschmeier Testimony |

| Exhibit | Long Cite | Short Cite |
|----------------|--|---------------------------------|
| CALAD-CS-001 | <i>Public Advocates Office Prepared Testimony of Cortney Sorensen, Report on Executive Summary and Special Requests 5, 9, and 15, Updated on May 8, 2023</i> | Sorensen Testimony |
| CALAD-CS-002 | <i>Public Advocates Office Prepared Testimony of Isaac Gendler, Report on Depreciation, Earthquake Insurance, Customer Service, Wildfire, and Safety, Updated on May 8, 2023</i> | Gendler Testimony |
| CALAD-CS-003 | <i>Public Advocates Office Supplemental Testimony of Cortney Sorensen, dated June 14, 2023</i> | Sorensen Supplemental Testimony |
| CALAD-AS-001 | <i>Public Advocates Office Prepared Testimony of Andrew Sweeney, Report on Administrative & General Expenses and Special Request #11, Public Version, dated April 13, 2023</i> | Sweeney Public Testimony |
| CALAD-AS-001C | <i>Public Advocates Office Prepared Testimony of Andrew Sweeney, Report on Administrative & General Expenses and Special Request #11, CONFIDENTIAL Version, dated April 13, 2023</i> | Sweeney Confidential Testimony |
| MPWMD-JL-001 | <i>Direct Testimony of Jonathan Lear, dated April 20, 2023</i> | Lear Direct |
| MPWMD-SL-001 | <i>Direct Testimony of Stephanie Locke, dated April 20, 2023</i> | Locke Direct |
| MPWMD-DJS-001 | <i>Direct Testimony of David J. Stoldt, dated April 20, 2023</i> | Stoldt Direct |

3. SUMMARY TABLE: TOTAL REVENUE INCREASE

The following table summarizes the total revenue increase, in dollars and percentages, for 2024, 2025 and 2026, as requested by CAW in its Updated Application, proposed by Cal Advocates in its testimony, and agreed to in this Settlement.

| Calendar Year | Revenue Increase Requested by CAW per Updated Application | Revenue Increase Proposed by Cal Advocates | Revenue Increase Agreed to in this Settlement |
|----------------------|--|---|--|
| 2024 | 36.5M (11.87%) | -\$11.3M (-3.37%) | \$19.96M (6.40%) |
| 2025 | 20.1M (5.81%) | \$10.1M (3.08%) | \$15.51M (4.65%) |
| 2026 | 19.8M (5.41%) | \$9.1M (2.71%) | \$15.44M (4.42%) |

4. CUSTOMERS, SALES, AND PRODUCTION

4.1. Forecasted Number of Customer Meters

CAW REQUEST:

CAW’s customer count forecast was based on the most recent five-year average rate of growth in services.

CAL ADVOCATES’ POSITION:

Cal Advocates argued that a more reasonable forecast incorporates the historic trend of growth that has been consistently observed over the past two, four or five years. Cal Advocates also argued that CAW's zero customer growth projection for the Central Division in this GRC contradicts its projection for the Central Division Pure Water Monterey Groundwater Replenishment Project proceeding, where CAW projected customer growth in the service area.

CAW REBUTTAL:

CAW disagreed with each of Cal Advocates’ adjustments regarding forecasted number of customer meters. CAW observed that Cal Advocates selected whichever average growth rate resulted in the highest rate of service growth. Additionally, CAW argued that Central Division Pure Water Monterey Groundwater Replenishment Project proceeding is a long-term forecast premised on the lifting of the service connection moratorium on the Monterey Peninsula, whereas the rate case forecast is a short-term forecast premised on the moratorium still being in place.

RESOLUTION:

The Parties agree to utilize CAW's projected number of customer meters adjusted to reflect the Parties agreement below in Section 12.3 on Bass Lake. The projected number of customer meters by size is set forth in Attachment A-2 to this Settlement.

REFERENCES:

Updated Application, Exhibit A, Ch. 3, p. 1, Tables 3.1 – 3.6, (PDF) pp. 64-69, 178-183, 308-313, 435-440; Exh. CALAM-DM-001, Mitchell Direct, p. 3, Attachment 2; Exh. CALAM-BP-001, Pourtaherian Direct, pp. 6-7; Exh. CALAD-HM-001, Merida Testimony, pp. 1-5; Exh. CALAM-BP-003, Pourtaherian Rebuttal, pp. 21-22.

4.2. Forecasted Consumption Per Connection

CAW REQUEST:

CAW forecasted consumption based on econometric models of average water use per service.

CAL ADVOCATES' POSITION:

Cal Advocates argued that CAW used a significantly different sales forecasting methodology, using customer level-billing data for use per service vs. aggregate monthly service class data in the prior GRC. Cal Advocates also argued that CAW's unit consumption methodology did not include all the specific sales forecast factors from D.20-08-047.

CAW REBUTTAL:

CAW updated its forecasts to incorporate drought response information from 2022. This is consistent with D.20-98-047 which ordered that sales forecasts in future rate cases address, among other things, incorporate local and statewide trends in consumption, demographics, climate, population density, and historic trends by ratemaking area, as well as D.16-12-026, which required IOUs to incorporate drought information into their sales forecasts.

RESOLUTION:

The Parties agree to utilize CAW's forecast of average use per service as reflected in the January 2023 Updated Application and Supplemental Testimony of David Mitchell, adjusted to reflect the Parties agreement below in Section 12.3 on Bass Lake. Attachment A-3 presents the agreed-upon consumption per connection and total consumption by customer class respectively for each service area.

REFERENCES:

Updated Application, Exhibit A, Ch. 3, p. 1, Tables 3.7 – 3.12, (PDF) pp. 70-75, 184-189, 314-319, 441-446; Exh. CALAM-BP-001, Pourtaherian Direct, pp. 8-9; Exh. CALAM-BP-002, Pourtaherian Supplemental Direct, pp. 5-6, 16-17; Exh. CALAM-BP-003, Pourtaherian Rebuttal, pp. 21-22; Exh. CALAM-DM-001, Mitchell Direct, pp. 2-3, Attachment 2; Exh. CALAM-DM-002, Mitchell Supplemental Direct, pp. 26-27, Attachment 2; Exh. CALAD-HM-001, Merida Testimony, pp. 1-19; Exh. CALAM-DM-003, Mitchell Rebuttal, pp. 1-25.

4.1. Non-Revenue Water

CAW REQUEST:

CAW forecasted non-revenue water using a five-year average of annual non-revenue water in amount and not a percentage.

CAL ADVOCATES' POSITION:

Cal Advocates agreed with using a five-year average except for the Larkfield system, where it recommended a two-year average. Also, due to lack of historical data for the Bass Lake and Warring service areas, Cal Advocates recommended that the Northern Division non-revenue water average be used for Bass Lake and that the Southern Division non-revenue water average be used for Warring, since these acquisitions are planned to be incorporated into those respective divisions.

CAW REBUTTAL:

CAW argued that using a two-year average is inappropriate, as it does not allow for the expected swings in non-revenue water data. In support of its recommendation, CAW explained that non-revenue water is subject to fluctuations over time, which necessitates a longer running average period to accommodate high and low non-revenue water periods. While the goal for CAW is to reduce non-revenue water over time, CAW understands that non-revenue water can be subject to swings due to a variety of circumstances. Using a five-year average to project future non-revenue water allows for a smoothing of data that results in more accurate projections.

RESOLUTION:

The parties agree to CAW's forecasted non-revenue water as reflected in Attachment A-5.

REFERENCES:

Updated Application, Exhibit A, Ch. 3, Tables 3.13-3.15, (PDF) pp. 76-78, 190-192, 320-322, 447-449, Exhibit B, MDR I.E.2, (PDF) pp. 1147-1149; Exh. CALAM-BP-001, Pourtaherian Direct, pp. 10-11; Exh. CALAM-GH-002, Hofer Rebuttal, pp. 38-39; Exh. CALAD-HM-001, Merida Testimony, pp. 11-13.

5. REVENUES AND RATE DESIGN

5.1. Customer Assistance Programs

CAW REQUEST:

CAW proposed to continue implementing its existing Customer Assistance Program ("CAP") and to increase the CAP discount from 20% to 25% discount on the meter charge and tier 1 and tier 2 volumetric charges for all service areas, except the Monterey Service Area. For the Monterey Service Area, CAW proposed to increase the CAP discount from 30% to 35% on the meter charge and tier 1, tier 2 and tier 3 volumetric charge.

CAW also proposed to continue implementing its existing Hardship Fund Program. CAW proposed to modify the program to use a combination of customer funds and non-customer funds at a 70% to 30% ratio to fund the Hardship Fund Program.

CAL ADVOCATES' POSITION:

Cal Advocates agreed that the Commission should adopt CAW's proposed changes to the CAP.

CAW REBUTTAL:

CAW did not address this issue in rebuttal testimony, as Cal Advocates agreed with CAW's proposal.

RESOLUTION:

The Parties agree that CAW should be authorized to continue its existing Commission-authorized CAP program and that the CAP discount should be increased as follows:

- All services areas except the Monterey Service Area: 25% discount on the meter charge and tier 1 and tier 2 volumetric charges.
- Monterey Service Area: 35% discount on the meter charge and tier 1, tier 2 and tier 3 volumetric charges.

The Parties agree that CAW should be authorized to continue its existing Commission-authorized Hardship Fund Program and that the program should be funded with a combination of customer funds and non-customer funds at a 70% customer funding and 30% shareholder funding ratio.

REFERENCES:

Exh. CALAM-BP-001, Pourtaherian Direct, p. 40; Exh. CALAM-JTL-001, Linam Direct, pp. 8-14; Exh. CALAM-PP-001A, Pilz Corrected Direct, pp. 11-15; Exh. CALAM-PP-002, Pilz Rebuttal, pp. 19-21; Exh. CALAD-HM-001, Merida Testimony, pp. 40-45.

5.2. Uncollectible Rate

CAW REQUEST:

CAW requested the use of the uncollectible rate of 0.5207% authorized in its 2019 GRC as established in D.21-11-018. CAW's typical methodology for forecasting test year uncollectible expense is to use a 5-year average of the annual uncollectible rate. However, in response to the COVID-19 pandemic, CAW implemented a disconnection moratorium in March of 2020. This resulted in a level of uncollectibles in 2020 and 2021 that is not representative of the Company's historical or projected activity. In light of this impact, CAW requested the use of its previous uncollectible rate. CAW explained that this level of uncollectibles, which has undergone Commission review and approval, reflects CAW's anticipated ongoing level of uncollectible expense.

CAL ADVOCATES' POSITION:

Cal Advocates recommended an uncollectible rate of .5117%. Cal Advocates explained that the rate agreed upon in the TY 2021 settlement and reflected in D.21-11-018 was 0.5117%, not 0.5207% as CAW indicated.

CAW REBUTTAL:

CAW did not address this issue in rebuttal testimony.

RESOLUTION:

The Parties agree to adopt Cal Advocates' recommended uncollectible rate of .5117%.

REFERENCES:

Updated Application, Exhibit A, Chs. 2, 4, Tables 2.4, 4.3 (PDF) pp. 12-16, 61, 103-104, 175, 227-228, 305, 357-358, 432, 481-482; Exh. CALAM-SWO-001, Owens Direct, pp. 15-16; Exh. CALAD-AS-001, Sweeney Public Testimony, p. 49.

6. EXPENSES

6.1. Purchased Water (Account 704) and Purchased Power (Account 726)

Expenses

CAW REQUEST:

CAW forecasted purchased water and power expenses primarily based on estimated total water production, district operations assessments of sources and uses of produced and purchased water, and the current prices and assessments from water provider agencies as of the date of the Application. The exceptions to this process were primarily in the Central Division. The Central Division has historically recorded Seaside Basin Watermaster costs in the purchased water account. The costs projected for the test year reflected the Marina Coastal Wheeler fee and the 5-year average of Watermaster assessment, escalated for inflation.

CAL ADVOCATES' POSITION:

Cal Advocates argued that CAW deliberately under-forecasts rates, which deceives customers because CAW can recoup actual costs through balancing account surcharges. Cal Advocates recommended that water rates should instead be escalated by the average annual percentage increase in purchased water rates experienced over the past five years (2017-2021). Cal Advocates also recommended escalating 2021 power rates by the average annual percentage increase in power rates experienced over the past five years (2017 – 2021). For MOWW, Cal Advocates forecasted power rates and applied CAW's 5-year average (2017-2021) power usage.

CAW REBUTTAL:

CAW disagreed with Cal Advocates' recommendation regarding escalation of water and power rates. CAW argued that Cal Advocates' recommendation could result in over-collection of rates. Instead, CAW proposed to use its methodology which multiplied either 2022 or 2023 water rates with total forecasted water production for each water wholesaler in all districts. On top of this, Monterey also utilizes a recorded five-year inflation adjusted average for Sand City Expense (part of purchased water).

RESOLUTION:

The Parties agree to include escalation to wholesale purchased water rates² and purchased power rates from the current effective rates for 2023 to the Test Year 2024. Please refer to Attachment B-1. Future purchased water offsets related to Pure Water Monterey in the Monterey Service Area will be implemented via purchased water offset with a separately identified surcharge.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, p. 2, Table 4.3, (PDF) pp. 103-104, 227-228, 357-358, 481-482; Exh. CALAM-BP-001, Pourtaherian Direct, pp. 14-16; Exh. CALAM-BP-003, Pourtaherian Rebuttal, pp. 6-14; Exh. CALAD-TG-001, Gee Testimony, pp. 3-12.

6.2. Administrative and General Expenses (Insurance Other Than Group [Accounts 793-794], Employee Pensions and Benefits [Account 795], Regulatory Expense [Account 797], Other Administrative and General Expense [Accounts 792 – 805], and Rents [Account 811])

CAW REQUEST:

CAW generally forecasted administrative and general expenses (Insurance Other Than Group [Accounts 793-794], Employee Pensions and Benefits [Account 795], Regulatory Expense [Account 797], Other Administrative and General Expense [Accounts 792 – 805], and Rents [Account 811]) based on a 5-year historical average escalated for inflation. Deviations from this methodology included:

- For Other Administrative and General Expense, the three-year expense for CAW's Conservation Program and the customer-funded portion of the Hardship Benefit Program were amortized evenly over the GRC period 2024-2026. Additionally, for costs related to meals and employee expense, CAW used a three-year average of expense that excludes 2020 and 2021, as they were not representative of projected activity. The final deviation was due to the acquisitions of Bellflower, Warring, and Bass Lake, where expenses were forecasted based on historical expenses inflated to 2024 dollars and included additional incremental expenses.
- For Rents, CAW utilized lease costs per the executed lease agreements for the corporate office at 655 W. Broadway, San Diego; the legal office at 555 Montgomery Street, San

² Updated purchased water costs include an update to the Operating Safe Yield for the Main San Gabriel Basin for the 2023-2024 Fiscal Year to 150,000 AF per year per *Resolution No. 05-23-316 A Resolution of the Main San Gabriel Basin Watermaster Determining Operating Safe Yield for Said Basin for Fiscal Year 2023-24 Through 2027-28*.

Francisco; the operations center at 1025 Palm Avenue, Imperial Beach CA; the Hillview operations office at 40321 Greenwood Way, Oakhurst CA; and the rates office at 520 Capitol Mall, Sacramento CA.

CAL ADVOCATES' POSITION:

Cal Advocates recommended removal of certain expenses from CAW's forecasted administrative and general expenses, including costs that Cal Advocates argued were one-time costs and expenses that are two standard deviations above the recorded 5-year average, and adjustments to the deviations identified in the Report on Administrative & General Expenses of Andrew Sweeney.

CAW REBUTTAL:

CAW noted that the Commission previously rejected Cal Advocates' proposed methodology and argued that Cal Advocates' proposal fails to capture random variations in costs known to fluctuate.

RESOLUTION:

The Parties agree to \$23,387,860 for administration and general expenses. The \$23,387,860 adopts CAW's proposals as described in the Direct Testimony of Stephen (Wes) Owens and as reflected at Attachment B-4, with the following exceptions:

- Reduction of \$527,154 from CAW's proposed telephone costs from Account 799.
- A Regulatory Expense budget of \$1 million for 2024 Test Year for Account 797.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, Table 4.5, (PDF) pp. 16-17, 107-108; 231-232, 361-362, 485-486; Exh. CALAM-SWO-001, Owens Direct, pp. 16-30; Exh. CALAM-SWO-002A, Owens Corrected Rebuttal, pp. 120-122; Exh. CALAD-AS-001, Sweeney Public Testimony, pp. 51-53, 59-68.

- 6.3. Operations and Maintenance Expense (Supply Expense [Accounts 703, 709, 713], Pumping Expense [Accounts 725, 726, 730, 731, 733], Water Treatment Expense [Account 742-748], Transmission and Distribution [Accounts 752-766], Customer Account Expenses [Accounts 772-775])**

CAW REQUEST:

CAW generally forecasted operations and maintenance expenses (Supply Expense [Accounts 703, 709], Pumping Expense [Accounts 725, 726, 730, 731, 733], Water Treatment Expense [Account 742-748], Transmission and Distribution [Accounts 752-766], Customer Account Expenses [Accounts 772-775]) based on a five-year historical average escalated for inflation. Deviations to this methodology included:

- For Account 744 – Water Treatment – Chemicals, chemical costs were calculated based on three years of average actual chemical usage, three years of actual water production, projected chemical prices for 2022, forecasted chemical costs for the years 2022 – 2025 and using projected water production for the years 2022 – 2025.

- For Account 748 – Water Treatment – Miscellaneous, costs related to the ongoing replacement of carbon filter media at new treatment facilities in the Baldwin Hills system were included in forecasted expenses beginning in 2022 and escalated to 2023 using the standard escalation factors.
- For costs related to compliance with Water Loss Performance Standards [Account 752], the three-year program expenses were amortized evenly over the GRC period 2023-2026.
- For tank maintenance expenses, costs for each project were allocated among future years based on the amortization period, which are typically either 60 months (inspections) or 120 months (painting and rehab projects).
- For State Water Resources Control Board Division of Drinking Water fees, California CAW used the 2021 recorded cost as a baseline, then escalated to 2024 using the standard escalation factors.

CAL ADVOCATES' POSITION:

Cal Advocates proposed the following adjustments to CAW's forecasted operations and maintenance expenses:

- Disallow all Water Loss Performance Standards costs from Account 752, because the proposed consultant costs are unreasonable, the proposed leak repair and detection costs are redundant of current efforts, and CAW's leak data is well below the state average.
- Decrease proposed postage costs from Account 774 by \$310,000.

CAW REBUTTAL:

CAW argued that:

- CAW's Water Loss Performance Standards costs are prudent, because there is a significant compliance gap between the targets set and CAW's current water loss performance.
- Cal Advocates' proposal to forecast postage expenses by extending the trend line of recorded actual costs downward fails to consider critical factors beyond CAW's control that could fluctuate and ultimately cause postage to rebound from the downward trend.

RESOLUTION:

The Parties agree to \$21,395,210 for operations and maintenance expenses, which is reflected in Attachment B-4 to this Settlement. The \$21,395,210 adopts CAW's proposals in its Application with the following exceptions:

- Removal of all Water Loss Performance Standards cost from Account 752.
- Reduction of \$310,916 from CAW's proposed postage costs from Account 774.
- Adoption of Chemical expense for Account 744 based on the chemical expense forecasted in CAW's Updated Application.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, Tables 4.3, 4.4 (PDF) pp. 12-15, 103-106, 227-230, 357-360, 481-484; Exh. CALAM-ICC-001, Crooks Direct, pp. 258-263; Exh. CALAM-BP-001, Pourtaherian Direct, pp. 16-18; Exh. CALAM-BP-002, Pourtaherian Supplemental Direct, p. 17; Exh. CALAM-SWO-001, Owens Direct, pp. 9-16; Exh. CALAM-SWO-002A, Owens Corrected

Rebuttal, pp. 122; Exh. CALAD-TG-001, Gee Testimony, pp. 9-30; Exh. CALAM-PP-002, Pilz Rebuttal, pp. 2-9.

6.4. Service Company

CAW REQUEST:

CAW sought recovery of \$15.3 million costs related to Service Company based on a 3-year average of the 2019, 2020, and 2021 recorded actual expense, escalated to present day dollars using the composite escalation factors from Cal Advocates' monthly Escalation Memorandum as of March 2022.

CAL ADVOCATES' POSITION:

Cal Advocates argued that the Commission should reduce CAW's Service Company labor budget by \$1.24 million to reflect the reduction in FTE from 60.1 to 51.5 in TY 2024.

CAW REBUTTAL:

CAW already made an adjustment which is based on 51.5 FTEs because CAW used a 3-year average of 2019-2021 actual expense, which correlates to an average headcount of 51.5 FTEs.

RESOLUTION:

The Parties agree to a \$13.9 million Service Company budget.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, Tables 4.1, 4.6, 4.7 (PDF) pp. 8-9, 18-23, 99-100, 109-114, 223-224, 233-238, 353-354, 363-368, 477-478, 487-492; Exh. CALAM-JMW-001, Watkins Direct, pp. 3-8; Exh. CALAM-JMW-002, Watkins Rebuttal, pp. 1-7; Exh. CALAD-KE-001, Evans Testimony, pp. 2-3.

6.5. Escalation Factors

CAW REQUEST:

To forecast various expense categories CAW utilized escalation rates based upon Cal Advocates' monthly Energy Cost of Service (ECOS) Escalation Memorandum as of March 2022.

CAL ADVOCATES' POSITION:

Cal Advocates recommended using Bureau of Labor Statistics data for 2021 (6.2%) and 2022 (5.82%) for escalation factors.

CAW REBUTTAL:

CAW recommended that the Commission decline Cal Advocates' invitation to cherry pick inflation rates and adopt CAW's inflation rates which are based on the ECOS Escalation Memorandum. In support, CAW argued that Cal Advocates presented no basis – other than that the BLS CPI rates are lower than the Commission's own ECOS Escalation Memorandum rates – for adopting the BLS CPI rates. CAW also argued that using the BLS CPI is illogical, as the

BLS's CPI rates only measure the price changes "by urban consumers for a market basket of consumer goods and services" and would not accurately measure the change in the costs of goods and services consumed by businesses or the utility industry.

RESOLUTION:

The Parties agree to utilize inflation and escalation factors per Cal Advocates' June 2023 ECOS Escalation Memorandum in conformance with the Rate Case Plan and reflecting the most current inflation and escalation factors.

REFERENCES:

Exh. CALAM-SWO-001, Owens Direct, pp. 9-10; Exh. CALAD-PA-001, Adhikari Testimony, pp. 12-15; Exh. CALAM-BP-003, Pourtaherian Rebuttal, pp. 24-25.

6.6. Conservation

CAW REQUEST:

CAW requested a conservation budget of \$3,121,600, a 10.9% decrease in its conservation budget in order to balance its conservation investments with keeping rates lower. CAW proposed charging any additional expenses to the appropriate drought memorandum account if drought necessitates further conservation expenses.

CAL ADVOCATES' POSITION:

Cal Advocates did not submit testimony on this issue.

CAW REBUTTAL:

CAW did not rebut Cal Advocates' position, as Cal Advocates did not submit testimony on this issue.

RESOLUTION:

The Parties agree to a conservation expense budget of \$3,121,600, as shown in Attachment B-4 to this Settlement. The Parties agree that CAW will have flexibility and discretion to utilize conservation budget where needed, and within the three-year rate case cycle, like other forecasted capital or expense budgets. The Monterey Service Area is the sole area where the approved conservation funding will need to be spent within that service area only.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, Tables 4.1, 4.6, 4.7 (PDF) pp. 99-100, 109-114, 223-224, 233-238, 353-354, 363-368, 477-478, 487-492; Exh. MPWMD-SL-001, Locke Direct, pp. 3-7; Exh. CALAM-PP-001A, Pilz Corrected Direct, pp. 21-33, Attachment 1.

6.7. Leak Adjustments

CAW REQUEST:

CAW requested a leak adjustment budget of \$4 million for Test Year 2024.

CAL ADVOCATES' POSITION:

Cal Advocates recommended that the Commission should not approve any leak adjustment budget for CAW. In support, Cal Advocates argued that (1) the Commission has been approving costs for maintenance of supply mains, and (2) leak adjustments are corporate goodwill and improve CAW's image at the expense of ratepayers.

CAW REBUTTAL:

CAW argued that leaks and resulting damage often occur without warning, are not budgeted by customers, and can make customers face significant financial hardship. CAW's Leak/High Bill Adjustment program is the incentive for customers to repair the leak proof of which is a requirement for the adjustment – and in return get a partial credit/adjustment on the water bill overage. CAW explained that this is especially true for Monterey's steep four tier rates system. Additionally, CAW argued that leak adjustments are not made as part of an advertising or public relations plan. In fact, bill adjustments routinely result in negative press.

RESOLUTION:

The Parties agree to a \$2.84 million leak adjustment forecast, based on 2022 recorded leak adjustment expense. The Parties agree to include the \$2.84 million in base rates for Test Year 2024.

REFERENCES:

Updated Application, Exhibit A, Ch. 2, Table 2.1, (PDF) pp. 56, 170, 301, 429; Exh. CALAM-PP-002, Pilz Rebuttal, pp. 12-17; Exh. CALAM-CC-001, Cook Rebuttal, pp. 9-11; Exh. CALAD-AS-001, Sweeney Public Testimony, pp. 46-50.

6.8. Planning Studies and System Mapping Expenses

CAW REQUEST:

CAW requested proposed expenses related to GIS and Planning Studies as described in Section XVI of the Direct Testimony of Ian Crooks. GIS and Planning Studies are critical, as they provide a current strategy for facility improvements to enable CAW to continue to provide safe, adequate, and reliable service to its customers.

CAL ADVOCATES' POSITION:

Cal Advocates suggested a reduction of CAW's proposed expense amounts for GIS and Planning Studies of nearly 72% (approximately 40% reduction for studies other than CPS, 100% reduction for CPSs, and approximately 92% reduction for GIS) for the following reasons:

- CAW has a history of purposefully underspending previously approved funds in the prior test year of 2021;
- CAW has a pattern of underspending GIS expenses dating back to CAW's 2016 GRC;
- The Comprehensive Planning Studies do not need to be updated, and, even if they did, internal CAW engineering staff could complete the CPS for all the Divisions;
- CAW double counted planning study expenses in certain Districts; and
- CAW committed an averaging error in forecasting for several Districts.

CAW REBUTTAL:

CAW explained that its underspending in 2021 was a result of the COVID-19 pandemic. In 2021, CAW was still implementing social distancing as were many other companies, which significantly limited travel and GPS data collection and, thus, spending. CAW also explained that its Comprehensive Planning Studies need to be reviewed and updated every six years, and that CAW uses outside consultants for these studies due to the extensive data compilation, data analysis, capital project development, and capital project budgeting required. CAW agreed that it inadvertently included duplicate expenses and that those expenses should be removed. Finally, CAW argued that no averaging error occurred.

RESOLUTION:

The Parties agree to Planning Studies and System Mapping budgets as reflected in Attachment B-6 to this Settlement. The agreed-upon budgets reflect the Parties' agreement that CAW's System Mapping budgets should be reduced by 50% and that CAW may appropriately capitalize Comprehensive Planning Studies, Conditioned Based Assessments, and similar studies. CAW agrees to identify and describe its actual capitalized study costs in the next GRC, so that such capitalized costs can be reviewed for their reasonableness.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, Table 4.3, (PDF) pp. 103-104, 227-228, 357-358, 481-482; Exh. CALAM-ICC-001, Crooks Direct, pp. 241-258; Exh. CALAD-TG-001, Gee Testimony, pp. 21-27; Exh. CALAM-NM-001, Miller Rebuttal, pp. 4-8.

6.9. Tank Maintenance Expense

CAW REQUEST:

California American Water proposed certain tank improvement projects, including tank painting expenses, as part of its tank maintenance program. Tank maintenance maximizes the life span of the tanks and reservoirs, as well as implements improvements to meet existing and future laws, codes, and regulations.

CAL ADVOCATES' POSITION:

Cal Advocates proposed to remove double counting of tank painting amortization related to CAW's El Rio, Geyserville, and Hillview systems. Cal Advocates also recommended reducing the Vintage Water Storage Tank Painting budget from \$1.28 million to \$831,000. In addition, Cal Advocates recommended separating the tank painting costs from the capitalized tank improvement projects.

CAW REBUTTAL:

CAW agreed to remove inadvertently double counted expenses in the amount of \$5,722 and to reduce the Vintage Water Storage Tank Painting budget to \$831,000.

RESOLUTION:

The Parties agree to CAW's proposed tank maintenance budgets, including Cal Advocate's recommended removal of \$5,277 of inadvertently double counted expense in Account 766 and

the reduction of the Vintage Water Storage Tank Painting budget from \$1.28 million to \$831,000. The agreed tank maintenance projects and budgets are reflected in Attachment B-5.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, Tables 4.3, (PDF) pp. 103-104, 227-228, 357-358, 481-482; Exh. CALAM-ICC-001, Crooks Direct, pp. 258-263; Exh. CALAM-BP-003, Pourtaherian Rebuttal, pp. 17-18; Exh. CALAD-TG-001, Gee Testimony, pp. 29-30; Exh. CALAD-JM-001, Menda Testimony, p. 52-54; Exh. CALAM-LC-001, Carothers Rebuttal, p. 26.

7. LABOR & BENEFITS

7.1. Labor

CAW REQUEST:

CAW requested to include in rates funding for an additional 18 full-time employee (FTE) positions, as described in its testimony. CAW also included forecasted expenses related to overtime and performance compensation. CAW used varying capitalization rates depending on the district, as certain districts are staffed to perform capital work, while others are staffed more for customer service and maintenance activities. CAW forecasted employee payroll by using the applicable union contract agreement rate for union employees and an escalation factor of 3.3-3.4% for non-union employees.

CAL ADVOCATES' POSITION:

Cal Advocates recommended that the Commission approve funding for 3 additional FTEs and reject the other 15 requested positions.

Cal Advocates also argued that Withdrawn employees' hours should be removed from the three-year recorded average used to forecast expenses related to overtime.

Additionally, Cal Advocates proposed that the Commission approve only 20% of costs related to the Annual Performance Plan ("APP") and deny all costs related to Long-Term Performance Plan ("LTPP"). Cal Advocates reasoned that 80% of APP costs provide benefits to ratepayers and that the LTPP only provides benefits to shareholders.

Cal Advocates proposed that the Commission adopt escalation factors for non-union employees equivalent to union employees and recommended escalation factors of 2.5-2.75% for union and non-union employees.

CAW REBUTTAL:

CAW argued that Cal Advocates failed to identify a single requested position that is unnecessary and reiterated detailed justifications for each requested position.

CAW also argued that the Commission should not remove any costs related to Withdrawn positions, as the Withdrawn category corresponds to the employee's status, not the status of the

position. Therefore, costs associated with Withdrawn positions are still necessary, regardless of the employee's status.

CAW reiterated that all of its APP, and LTPP costs should be approved, because they are part of CAW's competitive total compensation package and are important for employee retention and employee performance.

CAW argued that non-union employee costs should not be escalated at the same rate as union employee costs. CAW explained that a wide range of economic factors such as standby, on-call rates, certification pay, and out-of-classification wages are in the union contract. These additional premiums are not available to non-union and exempt employees.

RESOLUTION:

The Parties agree to a labor forecast of \$28,834,575. This forecast includes 307 FTE positions and is further based on the following adjustments:

- The Parties agree not to authorize CAW's 15 requested additional positions and to remove 16 positions that were vacant at the time CAW filed this general rate case.
- The Parties agree to utilize an escalation factor for union employees based on the negotiated agreements. The Parties agree to use a 3% annual escalation factor for non-union employees.
- The Parties agree to a 21.44% capitalization rate for salaries and wages based on Cal Advocates' recommendation.
- The Parties agree to CAW's forecasted labor overtime expense.
- The Parties agree to 50% of CAW's requested APP expenses for union employees, 50% of CAW's requested APP expenses for non-union employees, 50% of CAW's requested Performance Stock Unit expenses under the LTPP and 0% of CAW's requested Restricted Stock Unit expenses under the LTPP.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, Tables 4.1-4.2, (PDF) pp. 100-102, 223-226, 353-356, 477-480; Exh. CALAM-SWO-001, Owens Direct, pp. 5-9; Exh. CALAM-GH-001, Hofer Direct, pp. 58-67; Exh. CALAM-GH-002, Hofer Rebuttal, pp. 3-33; Exh. CALAD-AS-001, Sweeney Public Testimony, pp. 1-19.

7.2. Benefits

CAW REQUEST:

CAW forecasted Pension, OPEB, Group Insurance and other employee benefits by generally using a five-year escalated average. CAW also relied on actuarial information provided by Willis Towers Watson to forecast pension and OPEB costs. CAW relied on information provided by expert consultants to project group insurance cost increases.

CAL ADVOCATES' POSITION:

Cal Advocates proposed to reduce Pension, OPEB Expense, and Group Insurance by \$13,330 based on expenses for the 307 “current” employees and to exclude the expense for the projected 31 new and vacant employee positions that will be hired before the test year of 2024.

Cal Advocates also recommended that the Commission remove \$112,221 associated with CAW’s employee stock purchase plan (“ESPP”), arguing that the plan benefits shareholders without any benefit to California ratepayers.

Cal Advocates recommended an overall capitalization rate of 21.44%.

CAW REBUTTAL:

CAW argued that Cal Advocates’ rationale for its proposed adjustment to Pension and OPEB costs is incorrect, because those costs are independent of and not based on the total number of current employees. Furthermore, new hires after January 1, 2006 and January 1, 2002 do not even qualify for Pension or OPEB, respectively. CAW argued the recommendations related to Group Insurance do not address the operational needs of the Company, however CAW agreed authorized Group Insurance costs should be based on the level of authorized employees. For ESPP, CAW argued it is a benefit that is part of the total compensation package that CAW offers its employees. CAW also argued its total compensation package is reasonable and within market.

RESOLUTION:

The Parties agree to CAW’s forecast for Pension and OPEB, and to establish Group Insurance expense based on the authorized employee headcount described in Section 7.1. Parties further agree to a capitalization rate for Pension, OPEB and Group Insurance of 21.44%. Parties agree to remove \$112,221 of requested ESPP costs.

REFERENCES:

Updated Application, Exhibit A, Ch. 4, Tables 4.1, 4.5-4.7 (PDF) pp. 99-100, 107-114, 223-224, 231-238, 353-354, 361-368, 477-478, 485-492; Exh. CALAM-SWO-001, Owens Direct, pp. 20-21; Exh. CALAM-SWO-002A, Owens Corrected Rebuttal, pp. 106-110; Exh. CALAD-AS-001, Sweeney Public Testimony, pp. 22-25; Exh. CALAM-RVM-001, Mustich Public Rebuttal, pp. 2-12.

8. PLANT ISSUES

8.1. Plant

CAW REQUEST:

CAW proposed capital projects and investments to provide safe, reliable, high-quality service to customers and continue to meet regulatory requirements for its Northern Division, Central Division, Southern Division, Wastewater District and General Corporate Office. The specific projects are proposed in the Direct Testimony of Ian Crooks.

CAL ADVOCATES' POSITION:

Cal Advocates recommended reduced project budgets for CAW's Northern Division, Central Division, Southern Division, Wastewater District and General Corporate Office as reflected in Cal Advocates' Report for Northern and Central Divisions and Tank Painting and its Report on Contingency, Plant Retirement, Construction Work in Progress, Southern District and Corporate Plant Additions, and Special Request Number 4. Cal Advocates also recommended CAW not be allowed to include in rates incomplete projects that have been previously included in rates until the projects are actually completed, in service, and providing benefits to ratepayers. Cal Advocates recommended the Commission reject the General Corporate Office budget related to Enterprise Solutions and reject \$3 million CAW requested as part of the General Corporate Office budget for a land purchase related to the corporate headquarters relocation and new Sacramento Operations Center.

CAW REBUTTAL:

CAW reiterated that the projects it requested are necessary for it to continue to provide safe, reliable, high-quality service to customers and continue to meet regulatory requirements.

CAW identified projects that had become complete since the Application was filed and also argued that the Commission should reject Cal Advocates' proposal to remove incomplete projects previously been included in rates because each project is necessary. CAW described the status and timeline for completion of these projects. CAW argued that it did provide sufficient information on its proposed Enterprise Solutions projects and argued that will offer benefits to customers, employees and regulators and that the land purchase was a reasonable component of the planned relocation of the CAW headquarters.

RESOLUTION:

The Parties agree to the following budgets:

- \$158,473,884 for years 2023 through 2025 for the Northern Division.
- \$71,701,027 for years 2023-2025 for the Central Division.
- \$140,699,355 for years 2023-2025 for the Southern Division.
- \$2,342,940 for years 2023-2025 for the Wastewater District.
- \$18,998,838 for years 2023-2025 for Corporate General Office.

Attachment C-4 reflects the specific dollar amounts allocated to each project.

Parties further agree to allow CAW management of the overall bottom-line capital improvement budget, with flexibility to allocate different spending levels to specific Investment Projects, Recurring Project, and to address issues unforeseen at the time of filing.

REFERENCES:

Updated Application, Exhibit A, Ch. 7, (PDF) pp. 30-36, 126-132, 250-256, 378-384, 504-510; Exh. CALAM-ICC-001, Crooks Direct, pp. 20-258; Exh. CALAD-JM-001, Menda Testimony, pp. 1-23, 35-51; Exh. CALAD-SI-001, Ibrahim Testimony, pp. 4-49, 57-61, Attachment 13; Exh.

CALAM-LC-001, Carothers Rebuttal, pp. 3-36; Exh. CALAM-TO-001, Exh. CALAM-MK-001, Kurzeja Rebuttal, pp. 2-10; O'Halloran Rebuttal, pp. 3-29; Exh. CALAM-MR-001, Reifer Rebuttal, pp. 2-50.

8.2. Construction Work in Progress (“CWIP”)

CAW REQUEST:

CAW’s proposed ratebase for each Division includes both investments on projects completed and placed into service, and projects not completed and included in Construction Work in Progress (“CWIP”). CWIP is based on a 6-year historical average (2016-2021) used to calculate the forecast average balances for each year from 2022-2025. CWIP balances requested for inclusion in ratebase were reflected in Attachment A at Table 7.1 to the Updated Application.

CAL ADVOCATES’ POSITION:

Cal Advocates argued that the Commission should remove funding from CWIP associated with projects that have been in CWIP since 2019 that have not gone into service by November 2022.

CAW REBUTTAL:

CAW argued that funding for such projects should not be removed. In support, CAW explained how each project is vital for CAW to be able to provide safe, reliable water service to ratepayers and explained why delays associated with these projects were beyond CAW’s control.

RESOLUTION:

The Parties agree to the CWIP budget proposed by CAW adjusted to reflect Commission authorized ratebase offsets approved via Advice Letters 1406 (effective May 19, 2023) and 1412 (effective July 16, 2023). The agreed CWIP budgets are reflected in Attachment E-1 through E-09, tables J-1 and J-2.

REFERENCES:

Updated Application, Exhibit A, Ch. 7, Table 7.1, (PDF) pp. 31-32, 127-128, 251-252, 379-380, 505-506; Exh. CALAM-BP-001, Pourtaherian Direct, pp. 19-27; Exh. CALAM-TO-001, O'Halloran Rebuttal, pp. 24-27; Exh. CALAM-DPS-002A, Stephenson Corrected Rebuttal, pp. 40-51; Exh. CALAD-SI-001, Ibrahim Testimony, pp. 57-61.

8.3. Retirements

CAW REQUEST:

The forecast of plant retirements for each forecasted year 2022-2025 is based on a 5-year historical average ratio prepared by utility account adjusted to account for retirement outliers and/or one-time retirements. The forecasted retirements are deducted from the forecasted Accumulated Reserve for Depreciation and from Utility Plant in Service.

CAL ADVOCATES’ POSITION:

Cal Advocates recommended increase the depreciation reserve in several districts to account for the costs of extraordinary early retirements, which they defined as assets retired at 50%, or more, of remaining useful life.

CAW REBUTTAL:

CAW disagreed and explained that CAW does not use a methodology that depreciates assets based on whole life individually but uses the methodology of “Average Remaining Life of a Group,” which was previously approved by the Commission. Additionally, the relative magnitude of the original cost of individual retired plant items is low; thus, it is within reason not to term the items “major units of property.”

RESOLUTION:

The Parties agree to adopt CAW’s proposal as reflected in Attachment E-1 through E-9, tables J-1, J-2, K-1, and K-2

REFERENCES:

Updated Application, Exhibit A, Chs. 7, 9, Tables 7.1, 9.1 9.2 (PDF) pp. 31-32, 127-128, 139-142, 251-252, 263-266, 379-380, 391-394, 505-506, 517-520; Exh. CALAM-BP-001, Pourtaherian Direct, pp. 20-21, 25-26; Exh. CALAM-NM-001, Miller Rebuttal, pp. 19-23; Exh. CALAM-DPS-002A, Stephenson Corrected Rebuttal, pp. 21-30; Exh. CALAD-SI-001, Ibrahim Testimony, pp. 52-56.

9. TAXES

CAW REQUEST:

CAW calculated general taxes, including Ad Valorem taxes, Payroll Taxes, Other Taxes, and License Taxes. CAW used a five-year average and applied the escalation factors to calculate the projected amounts for 2022 – 2025.

CAL ADVOCATES’ POSITION:

Cal Advocates recommended that the Commission deduct approved 2023 California Corporate Franchise Tax (CCFT) amounts from CAW’s escalation filings in each of CAW’s divisions to calculate TY 2024 Federally Taxable Income and Federal Income Taxes (FIT). With regard to property taxes, Cal Advocates did not oppose CAW’s calculation methodology. However, Cal Advocates recommended a different estimate of total property taxes due to different estimates of total plant.

CAW REBUTTAL:

CAW argued that Cal Advocates’ reasoning concerning 2023 CCFT is not appropriate, as rate cases today are prepared using sophisticated electronic spreadsheets that are more powerful, dynamic, and flexible than they were in previous years. CAW also argued that property taxes should be calculated for each year by multiplying the average of the current year’s and past year’s allocable taxable plant (adds taxable plant for each district plus an allocation of the corporate taxable plant) by the 2021 property tax rate of each district (dividing the tax payment amount by taxable plant).

RESOLUTION:

The Parties agree to Cal Advocates’ recommendation to deduct approved 2023 CCFT amounts from CAW’s escalation filings in each of CAW’s Divisions and Wastewater District to calculate

the 2024 Test Year Federally Taxable Income and FIT. The Parties further agree to adopt CAW's methodology for calculating property taxes: multiply the average of the current year's and past year's allocable taxable plant (adds taxable plant for each District plus an allocation of the corporate taxable plant) by the 2021 property tax rate of each District (dividing the tax payment amount by taxable plant).

REFERENCES:

Updated Application, Exhibit A, Chapters 5-6, (PDF) pp. 26-29, 117-125, 241-249, 371-377, 495-503; Exh. CALAM-SC-001, Cullen Direct, pp. 2-3; Exh. CALAM-BP-003, Pourtaherian Rebuttal, pp. 18-19; Exh. CALAD-PA-001, Adhikari Testimony, pp. 1-5.

10. RATE BASE

10.1. Depreciation

CAW REQUEST:

CAW engaged Alliance Consulting Group to conduct a depreciation study of the company's water and wastewater operations depreciable assets as of December 31, 2020. Based on the results of this study, CAW requested authority to implement proposed rates, and to implement vintage group amortization (as described in FERC AR-15) for general plant asset categories identified in the study, effective test year 2024.

CAL ADVOCATES' POSITION:

Cal Advocates opposed CAW's request for new depreciation rates and recommended maintaining depreciation rates currently in effect. Cal Advocates did not agree with CAW request to use depreciation parameters on a state-wide basis and recommended district-specific depreciation parameters for each account. Cal Advocates also disagreed with CAW's request to shift accounts to automatic retirement systems.

CAW REBUTTAL:

CAW disagreed with Cal Advocates' recommendation and instead proposed to use CAW's methodology. CAW explained that the goal of determining the life and net salvage for an account is to project as accurately as possible the future life and net salvage (i.e. the life and net salvage characteristics the assets will exhibit over their remaining lives), not simply the historical activity. Given that four GRC cycles have frozen CAW's depreciation rates, CAW argued a change is to ensure the accuracy of CAW's books and promote intergenerational equity.

RESOLUTION:

The Parties agree to adopt CAW's proposed depreciation rates as reflected in Attachment 6 to the Direct Testimony of Stephen (Wes) Owens. Parties further agree to adopt vintage group amortization (described in FERC Accounting Release 15) for certain general plant accounts including 339-340, 342-344, and 346-348 and to incorporate a 6-year period for amortization of the additional accrual necessary to make up the difference between book depreciation reserve and theoretical depreciation reserve. The depreciation rates by account by district incorporating

the 6-year vintage group retirement amortization for applicable accounts for modeling purposes are provided in Attachment C-1 to this Settlement.

REFERENCES:

Updated Application, Exhibit A, Ch. 9, (PDF) pp. 42-46, 138-142, 262-266, 390-394, 516-520; Exh. CALAM-SWO-001, Owens Direct, pp. 61-65, Attachment 6; Exh. SWO-002A, Owens Corrected Rebuttal, pp. 125-129; Exh. CALAM-DW-002, Watson Rebuttal, pp. 3-11; Exh. CALAD-CS-002, Gendler Testimony, pp. 1-6.

10.2. Working Cash

CAW REQUEST:

CAW calculated its working cash allowance using the Lead Lag Study methodology and the operational cash requirement methodology as outlined in the Commission's Standard Practice U-16-W.

CAL ADVOCATES' POSITION:

Cal Advocates recommended changing property tax expense lag to 40.5 days on the basis that CAW paid property taxes before such taxes were due and changing the FIT expense lag to 44.75 days on the basis that the installment due date is different. Cal Advocates also argued that CAW should remove service company expenses from calculation of working cash allowance on the basis that both service company and CAW are affiliates, and both are subsidiaries of American Water Works.

CAW REBUTTAL:

CAW disagreed with Cal Advocates' recommendations and instead recommended using CAW's calculation of working cash items related to property tax, FIT expense, and service company expense. CAW explained that Cal Advocates' methodology is flawed for several reasons. First, Cal Advocates assumed incorrectly that all final penalty delinquent due dates for all invoices are the same (December 10 and April 10). Cal Advocates also incorrectly used the estimated payment dates for individuals, rather than corporations, in its recommendation regarding the FIT expense lag. Finally, while both the Service Company and CAW are affiliates and subsidiaries of American Water Works, they are separate legal entities and have their own costs. Therefore, the fact that they are subsidiaries of American Water is not a valid argument to exclude the need to include the Service Company costs in the calculation of working cash in the rate base.

RESOLUTION:

The Parties agree to adopt CAW's methodology of calculating allowance for working cash.

REFERENCES:

Updated Application, Exhibit A, Ch. 9, Table 9.1, (PDF) pp. 43-44, 139-140, 263-264, 391-392, 517-518; Exh. CALAM-BP-001, Pourtaherian Direct, pp. 19-36; Exh. CALAD-PA-001, Adhikari Testimony, pp. 6-11; Exh. CALAM-BP-003, Pourtaherian Rebuttal, pp. 2-6.

11. MEMORANDUM AND BALANCING ACCOUNTS

CAW REQUEST:

CAW presented information on 55 memorandum and balancing accounts as of May 31, 2022, including the amount of over or under collection and whether the account should remain open. CAW requested recovery of an under collection of \$2,374,657 based on the balances of thirty-one of its memorandum and balancing accounts. Attachment F-1 to this Settlement reflects the 55 memorandum and balancing accounts CAW reported on in this general rate case proceeding.

CAL ADVOCATES' POSITION:

Cal Advocates argued that the Commission should authorize a net over collection of \$992,234 to be returned to the ratepayers via a refund. Cal Advocates also recommended that the Commission require CAW to close certain memorandum and balancing accounts.

CAW REBUTTAL:

CAW disagreed with Cal Advocates' recommendations. CAW argued that Cal Advocates' collection analysis erroneously included accounts such as the TCP Litigation Proceeds Memorandum Account and omitted several accounts for which CAW provided ample support. CAW also explained how its requests to recover the \$2,374,657 under collection was supported by voluminous data, contrary to Cal Advocates' position.

RESOLUTION:

The Parties agree that CAW shall recover the \$2,374,657 under collection. Attachment F-1 to this Settlement shows balances for the thirty-one accounts which total to \$2,374,657. The Parties agree that the following 12 accounts will be closed once any balance is transferred to the CEBA with interest through the transfer date:

- Dunnigan Consulting Memorandum Account
- Hillview Tariffed Balancing Account
- Hillview Purchased Power Balancing Account
- Hillview Water Testing Cost Memorandum Account
- Hillview Water Treatment Cost Memorandum Account
- Credit Card Memorandum Account (Assuming approval of Special Request #16)
- Chromium 6 Memorandum Account
- Water-Energy Nexus Program Memorandum Account
- Drinking Water Fees Memorandum Account
- Rio Plaza Transaction Memorandum Account
- Fruitridge Vista Transaction Memorandum Account
- East Pasadena Transaction Memorandum Account

The Parties further agree that once the ratemaking integration for this general rate case proceeding is implemented and any balance in the following East Pasadena accounts is transferred to the CEBA with interest, the accounts will be closed:

- East Pasadena Purchased Power Balancing Account
- East Pasadena Purchased Water Balancing Account
- East Pasadena Pumping Assessment Cost Balancing Account

The Parties further agree that the Seaside Groundwater Basin Memorandum Account is closed but, as authorized in D.21-11-018, California American Water can request the Commission to reestablish the account when needed through a Tier 2 advice letter filing.

REFERENCES:

Exh. CALAM-MS-001, Clarke Direct, pp. 2-40; Exh. CALAD-MD-001, Dawadi Testimony, pp. 1-46; Exh. MSC-002, Clark Rebuttal, pp. 1-8, Attachments 1, 2; Exh. CALAM-JM-002, Morse Rebuttal, pp. 9-31.

12. SPECIAL REQUESTS

12.1. Special Request #5 – Acquisition Rate Base Normalization

CAW REQUEST:

CAW requested authorization to normalize the rate base of four acquired systems – East Pasadena, Bellflower, Piru (previously referred to as Warring), and Bass Lake – by allocating a portion of acquisition rate base statewide.

CAW also requested authority to deviate from the Commission’s Uniform System of Accounts and to book the acquisitions as gross plant with accumulated depreciation.

CAL ADVOCATES’ POSITION:

Cal Advocates recommended that the Commission should conditionally approve the inclusion of the East Pasadena, Bellflower, and Bass Lake systems’ rate bases in rates, contingent on CAW receiving permits from the State Water Resources Control Board (“SWRCB”) for the operation of the East Pasadena, Bellflower, and Bass Lake systems before the start of Test Year 2024. Additionally, Cal Advocates argued that the Commission should reject CAW’s allocation methods and reject CAW’s proposed deviation from Standard Practice U-38-W, the Commission’s Uniform System of Accounts for Class A Water Utilities.

CAW REBUTTAL:

CAW explained that the authorizing decisions for its acquisition of the East Pasadena, Piru (Warring), and Bellflower systems did not include provisions requiring CAW to obtain a permit from the SWRCB prior to operating the system. CAW also explained that the authorizing decision for the Bass Lake acquisition did include provisions requiring CAW to obtain an operating permit from the SWRCB before operating the system, and CAW is in compliance with this requirement. Additionally, CAW argued that Cal Advocates does not present any basis for their recommended accounting methodology or for rejecting CAW’s methodology.

RESOLUTION:

The Parties agree to all aspects of CAW’s Special Request #5, except for CAW’s request to deviate from the Uniform System of Accounts. CAW’s request to deviate from the Uniform System of Accounts is not resolved in this Settlement and will be resolved by Commission decision.

Parties further agree that the final decision shall incorporate the amortization rate of the Utility Plant Acquisition Adjustment (“UPAA”) associated with its Meadowbrook acquisition. The Commission-authorized Meadowbrook UPAA treatment was implemented by CAW following D.21-11-018,³ but was inadvertently omitted from the Results of Operations Model in this proceeding.

REFERENCES:

Exh. CALAM-JTL-001, Linam Direct, pp. 41-43; Exh. CALAM-SWO-001, Owens Direct, pp. 40-58; Exh. CALAD-CS-001, Sorensen Testimony, pp. 8-15; Exh. CALAM-SWO-002A, Owens Rebuttal, pp. 78-90; Exh. CALAM-GH-002, Hofer Rebuttal, pp. 33-38.

12.2. Special Request #6 – Catastrophic Event Memo Account

CAW REQUEST:

CAW requested that the cost recovery associated with recent and future catastrophic event costs be achieved on a statewide basis. CAW requested recovery of three categories of costs recorded to the Catastrophic Events Memorandum Account (“CEMA”): 1) wildfire related costs, 2) COVID-19 financial impacts and 3) costs associated with the request for earthquake insurance.

CAL ADVOCATES’ POSITION:

Cal Advocates asserted that CAW should not be authorized any recovery for balances tracked in the CEMA because CAW included a material error in its request, and therefore, the request is moot, as there are no costs to normalize. Cal Advocates also recommended the Commission deny CAW’s request to recover \$3.3 million per year in earthquake insurance premiums because CAW’s proposal is not cost effective. Further, Cal Advocates recommended that the Commission deny CAW’s request to track earthquake insurance costs through CEMA because the proposal is inconsistent with the purpose of the CEMA.

CAW REBUTTAL:

CAW argued that there was no material error included in its CEMA request because CAW is not seeking recovery of CEMA capital expenditures through a transfer to the CEBA. CAW also argued tracking earthquake insurance costs in the CEMA is appropriate because an earthquake powerful enough to cause damage triggering the proposed policy would likely be large enough to be considered a catastrophic event.

³ D.21-11-018, p.104.

RESOLUTION:

The Parties agree to all aspects of CAW's Special Request #6, except for CAW's request to recover \$3.3 million per year in earthquake insurance premiums and to track costs associated with the purchase of earthquake insurance in the CEMA. CAW's request to authorize CAW to recover \$3.3 million per year in earthquake insurance premiums and to track these earthquake insurance premiums in the CEMA is not resolved in this Settlement and will be resolved by Commission decision.

REFERENCES:

Exh. CALAM-JTL-001, Linam Direct, pp. 43-47; Exh. CALAD-MD-001, Dawadi Testimony, p. 50; Exh. CALAD-CS-002, Gendler Testimony, pp. 10-11; Exh. CALAM-MS-002, Clarke Rebuttal, pp. 3-4; Exh. CALAM-LC-001, Carothers Rebuttal, p. 31; Exh. CALAM-SWO-002A, Owens Rebuttal, pp. 90-91; D.19-07-015, Ordering Paragraph 10, p.67.

12.3. Special Request #10 - Rate Mitigation Plan for Recently Acquired Systems

CAW REQUEST:

CAW requested that certain elements of the approved consolidation of Meadowbrook customers onto the Northern Division tariff and rates be delayed in order to mitigate the rate impact. CAW also requested that certain existing and proposed surcharges be made applicable to its recently acquired systems.

CAL ADVOCATES' POSITION:

Cal Advocates recommended that the Commission approve the rate mitigation plan for CAW's recently acquired systems, provided that Cal Advocates' recommended rate design structure for Meadowbrook is adopted. Cal Advocates also recommended that the Commission deny CAW's request to include the Full Cost Balancing Account ("FCBA") in all of its acquisitions.

CAW REBUTTAL:

CAW disagreed with Cal Advocates' recommendation that Cal Advocates' proposed rate design for Meadowbrook should be adopted as a part of Special Request #10. CAW argued that its proposed rate design for Meadowbrook better balances the following factors: (1) gradualism and mitigating rate impacts of consolidation; (2) conservation efforts; and (3) socioeconomic factors.

RESOLUTION:

The Parties agree CAW's Special Request #10 should be adopted. Specifically, CAW will retain flexibility to move Meadowbrook customers onto the Northern Division tariff when appropriate to balance the needs for further conservation with the impact to customer bills. CAW will also implement the following:

- (1) For Fruitridge Vista in the Northern Division, CAW will add the CEBA surcharge in 2024 and the applicable Commission approved adjustment mechanism⁴ when fully metered in 2025. The CAP surcharge is already applicable to Fruitridge Vista customers.
- (2) For Bass Lake, CAW will add the CAP and CEBA surcharge in 2024 and the applicable Commission approved adjustment mechanism when fully metered in 2025.
- (3) For East Pasadena, Bellflower and Warring in the Southern Division, CAW will add the CAP, CEBA, and the applicable Commission approved adjustment mechanism in 2024 with the implementation of new rates.

For Fruitridge Vista and Bass Lake, CAW will file a tier 2 advice letter to implement the applicable Commission approved adjustment mechanism once fully metered. CAW agrees to notify Commission's Water Division and Cal Advocates as soon as the Fruitridge Vista and Bass Lake systems are billed at meter rates.

REFERENCES:

Exh. CALAM-JTL-001, Linam Direct, pp. 69-75; Exh. CALAD-HM-001, Merida Testimony, pp. 47-49; Exh. CALAM-JM-002, Morse Rebuttal, pp. 1-4.

12.4. Special Request #11 – Alignment of Operations Expense Recovery

CAW REQUEST:

CAW requested that the authorized level of necessary and prudent regulatory expenses be amortized over 27 months instead of 36. CAW proposes that the recovery for regulatory expenses be authorized for 3 months of the test year with the remaining amount recovered equally in the Escalation and Attrition years.

CAL ADVOCATES' POSITION:

Cal Advocates recommended that the Commission reject CAW's Special Request #11 because it is inconsistent with the Rate Case Plan, which allows for a single test year forecast of expenses.

CAW REBUTTAL:

CAW argued that while rate case expenses are inconsistent on a year-over-year basis in a rate case period, they are consistent in occurrence during a rate case cycle. Hence rate case expense is not like other expenses.

RESOLUTION:

The Parties agree that CAW's Special Request #11 shall be withdrawn without prejudice.

⁴ CAW's proposed full decoupling Water Resources Sustainability Plan is not included in the terms of this settlement agreement. In the alternative CAW has proposed a Monterey-style Water Revenue Adjustment Mechanism (M-WRAM) and a Full Cost Balancing Account. Cal Advocates has recommended a M-WRAM and a Incremental Cost Balancing Account. "Applicable Commission approved adjustment mechanism" is a general term intended to refer to the ultimate mechanism adopted by the Commission in this proceeding.

REFERENCES:

Exh. CALAM-JTL-001, Linam Direct, pp. 75-79; Exh. CALAD-AS-001, Sweeney Public Testimony, pp. 69-71; Exh. CALAM-SWO-002A, Owens Rebuttal, pp. 91-94.

12.5. Special Request #12 - Rate Case Recovery and Subsequent Rate Changes

CAW REQUEST:

CAW requested explicit Commission authorization to incorporate into new rates any rate changes that occurred after this proceeding opened and acknowledgement that these changes will also need to be placed into present rates for the determination of the actual rate increase caused by this application.

CAL ADVOCATES' POSITION:

Cal Advocates recommended that the Commission allow subsequent rate changes, with the following stipulations: First, changes to present rate revenue (and proposed rate revenue if affected) must be included before issuance of a final decision in this GRC; Second, changes to purchased water and purchased power expenses will only be allowed if there is a need to change the proposed rate revenue.

CAW REBUTTAL:

CAW argued that Cal Advocates provides no explanation of why this and other changes to revenue requirements would be excluded in the calculation of the final 2024 rates authorized in this proceeding. CAW also argued that these subsequent rate changes, which occur on a separate tract from this GRC proceeding, are filed by CAW, reviewed by the Water Division and ultimately approved or denied by the Commission. Therefore, this request would merely incorporate those approved rate changes into present and proposed rates in this GRC proceeding.

RESOLUTION:

The Parties agree CAW's Special Request #12 should be adopted. CAW should be authorized to incorporate into new rates any rate changes including, but not limited to, updates for cost of capital, that occurred after this proceeding opened. These changes will also be placed into present rates for the determination of the actual rate increase caused by CAW's general rate case application.

REFERENCES:

Exh. CALAM-JTL-001, Linam Direct, pp. 79-81; Exh. CALAD-HM-001, Merida Testimony, pp. 49-50; Exh. CALAM-JM-002, Morse Rebuttal, pp. 4-6.

12.6. Special Request #14 – Extension of Existing 15% Cap on WRAM

Amortization

CAW REQUEST:

CAW requested that the current 15% cap on the annual amortization of the WRAM/MCBA, authorized by D.18-12-021 and extended in D.21-11-018, remain in place as long as there are

WRAM/MCBAs balances to be recovered.

As part of the Water Resources Sustainability Plan (“WRSP”), CAW requested to maintain the 15% cap, but sought authorization to collect balances beyond the 15% cap in extraordinary circumstances where the balances grow large enough that they cannot be recovered in less than 24 months.

CAL ADVOCATES’ POSITION:

Cal Advocates argued that the unfair nature and considerable dollar amount of surcharges on customer bills is a frequent complaint echoed by CAW ratepayers. Cal Advocates also argued that (1) a request to remove the 15% cap means it would be possible for CAW to levy even higher surcharges, and (2) removal of this cap is inconsistent with reasonable rates and the Commission should therefore deny this request.

CAW REBUTTAL:

CAW argued that CAW serves approximately 187,000 water service customers throughout the state of California; seven complaints since 2017 and nine mentions in the public record hardly constitute “a frequent complaint” as Cal Advocates claims. CAW also argued that the current WRAM/MCBA and the proposed WRSP are designed to collect Commission approved fixed costs as sales decrease. Since these are Commission approved costs, they are by definition reasonable rates.

RESOLUTION:

The Parties agree to the continuation of the 15% cap of the authorized revenue requirement for recovery of the under-collected WRAM/MCBA balances. The following issue is not resolved in this Settlement and will be resolved by Commission decision: CAW’s request, as part of its WRSP, to maintain the current 15% cap on annual amortization and for authorization to collect balances beyond the 15% cap in extraordinary circumstances where the balances grow large enough that they cannot be recovered in less than 24 months.

REFERENCES:

Exh. CALAM-JM-001, Morse Direct, pp. 9-10; Exh. CALAM-JTL-002, Linam Supplemental Direct, pp. 13-14; Exh. CALAD-MD-001, Dawadi Testimony, p. 51; Exh. CALAM-JM-002, Morse Rebuttal, pp. 6-8.

12.7. Special Request #15 – Eliminate Monterey Joint Annual Conservation

Report

CAW REQUEST:

CAW requested elimination of the requirement to submit the Annual Joint Conservation Report, which the Commission previously directed CAW to complete with the Monterey Peninsula Water Management District, as the Annual Joint Conservation Report is duplicative of other conservation reporting done by CAW.

CAL ADVOCATES' POSITION:

Cal Advocates argued that the Commission should reject this Special Request because filing the Joint Conservation Report is in the public interest and allows for sufficient regulatory oversight.

CAW REBUTTAL:

CAW argued that Cal Advocates did not address or respond to any of the argument brought forth by CAW for eliminating the report and reiterated its reasons for requesting elimination of this report, including that the report would be duplicative of the information contained in CAW's required Annual Conservation Report (for all its service areas) that is filed with the Commission annual reports. The Monterey Peninsula Water Management District also agreed to elimination of the requirement to submit the Annual Joint Conservation Report.

RESOLUTION:

The Parties agree CAW's Special Request #15 should be adopted.

REFERENCES:

Exh. CALAM-PP-001A, Pilz Direct, pp. 37-38; Exh. CALAD-CS-001, Sorensen Testimony, pp. 19-20; Exh. CALAM-PP-002, Pilz Rebuttal, pp. 9-10.

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

CAW REQUEST:

CAW requested authorization to add (1) credit/debit card expenses and (2) Low-Income Water/Energy Direct Install program expenses to the Customer Assistance Program ("CAP") Balancing Account, and to recover these costs from non-CAP customers through the CAP surcharge.

CAL ADVOCATES' POSITION:

Cal Advocates argued that CAW is correct that CAP customers should not incur credit/debit card fee expenses as required by AB 1058, but that CAW's proposed solution is incorrect. Cal Advocates argued that tracking and recovering debit/credit card expenses for recovery in the CAP balancing account would remove this expense from the GRC budgeting and forecasting process, as any difference between authorized and actual expenses would be picked up and recovered later. Cal Advocates also argued that authorizing this request would remove CAW's incentive to control costs and CAW would not have to exercise budgetary discipline. Cal Advocates argued that the Commission should instead require CAW to forecast credit/debit card expenses in base rates and increase the non-CAP surcharge commensurate with the amount authorized. This approach would satisfy the requirement in AB 1058 that CAP customers not incur credit and debit card fee expenses and would encourage CAW to operate within the constraints of its budget.

CAW REBUTTAL:

CAW argued that under Cal Advocates' proposal, non-CAP CAW customers would be paying for the credit card program twice, once in base rates and a second time through the CAP surcharge. Additionally, CAP customers would still be paying for the program through base

rates, in violation of PUC § 755.5. CAW also argued that Cal Advocates seems opposed to balancing account treatment of these costs yet proposes to increase the (balancing account) surcharge commensurate with the authorized credit/debit card costs. CAW proposed to recover these costs in the CAP balancing account which is also the appropriate mechanism to account for any variability of these costs due to changing customer payment behavior. Therefore, the Commission should adopt CAW's proposal in Special Request #16 which would increase the CAP surcharge charged to non-CAP customers (and thereby protecting CAP customers), through the CAP Balancing Account and in compliance with PUC § 755.5.

RESOLUTION:

The Parties agree CAW's Special Request #16 should be adopted. Credit/debit card expenses and Low-Income Water/Energy Direct Install program expenses will be tracked in the CAP Balancing Account and recovered from non-CAP customers through the CAP surcharge.

REFERENCES:

Exh. CALAM-PP-001A, Pilz Direct, pp. 38-40; Exh. CALAD-MD-001, Dawadi Testimony, p. 52; Exh. CALAM-PP-002, Pilz Rebuttal, pp. 10-11.

12.9. Special Request #17 – Proposed Operational Tariff Modifications

CAW REQUEST:

CAW requested proposed operational tariff modifications to water Operating Rules 10 and 18 and wastewater Operating Rule 11 which are intended to improve the customer experience by clarifying responsibilities between the customer and utility and by reducing inequities between customers. Specifically, the proposals were designed to address areas of the Company's tariffs that have caused customer confusion.

CAL ADVOCATES' POSITION:

Cal Advocates recommended that the Commission reject CAW's Rule 10 and Rule 18 proposals because CAW's proposals would limit customers' ability to collect refunds of overpaid billing amounts that were caused by CAW's error. Also, the three other Class A water utilities closest in size to CAW do not have language in their tariffs that is similar to CAW's proposals. However, Cal Advocates recommended the Commission authorize proposed changes to Wastewater Rule 11 to avoid confusion over discontinuation of service for customers who receive wastewater service only.

CAW REBUTTAL:

CAW argued that the fact that the water utilities closest in size to CAW have not proposed modifications to Rule 10 and Rule 18 is not a reasonable ground for denying CAW's request. CAW reiterated that all of California's major energy utilities have tariff language nearly identical to CAW's request.

RESOLUTION:

The Parties agree CAW's proposed changes to Wastewater Rule 11 be adopted. The Parties further agree that CAW's request to modify Rules 10 and 18 shall be withdrawn without prejudice.

REFERENCES:

Exh. CALAM-GH-001, Hofer Direct, pp. 74-78; Exh. CALAD-HM-001, Merida Testimony, pp. 50-52; Exh. CALAM-GH-002, Hofer Rebuttal, pp. 39-41.

12.10. Special Request #18 – Monterey Wastewater Rate Phase-In

CAW REQUEST:

CAW requested that the authorized revenue requirement increase approved by the Commission for test-year 2024 for its active and passive wastewater customers be phased-in over the entirety of the applicable rate case three-year period (2024-2026).

CAL ADVOCATES' POSITION:

Cal Advocates recommended that the Commission deny CAW's request. Cal Advocates argued the phase-in is not necessary because the GRC proposed rate increases do not meet the Commission's CAPS (deferral of a portion of a general rate increase) criteria.

CAW REBUTTAL:

CAW argued that although the percentage increase proposed by California American Water is below the CAPS threshold, unlike water customers, wastewater customers are not able to limit discretionary use by using less water that will result in a smaller bill. Also, the wastewater service provided by CAW in Monterey County serves a high number of customers in lower income areas and this phased approach is targeted to benefit not only customers eligible for the Customer Assistance Program (CAP) but also those customers falling just outside the income eligibility guidelines for the CAP program.

RESOLUTION:

The Parties agree Special Request #18 shall be withdrawn without prejudice.

REFERENCES:

Exh. CALAM-JTL-001, Linam Direct, pp. 81-87; Exh. CALAD-HM-001, Merida Testimony, pp. 52-54; Exh. CALAM-JM-002, Morse Rebuttal, pp. 8-9.

12.11. Special Request #19 – Paperless Billing

CAW REQUEST:

CAW requested a pilot to increase customer participation in paperless billing that would target non-CAP customers that are not on paperless billing but who are participating (at the onset of the pilot) in CAW's online myWater portal and have provided an email address to CAW.

CAL ADVOCATES' POSITION:

Cal Advocates agreed that the Commission should allow the paperless billing opt-out pilot.

CAW REBUTTAL:

CAW did not submit rebuttal testimony regarding this request, as Cal Advocates agreed that the Commission should grant the request.

RESOLUTION:

The Parties agree CAW may undertake a pilot to move to paperless billing all customers that meet the following requirements: (1) non-CAP, (2) participate in CAW's myWater portal, (3) have provided CAW with an email address, and (4) are not on paperless billing. The pilot would be initiated following approval in a final decision in this proceeding and would run through the rate case period of 2024-26. Prior to the next rate case, CAW will conduct a customer satisfaction survey, analyze the results, and present in its next general rate case an overall evaluation of the pilot to decide on future options for paperless billing efforts.

REFERENCES:

Exh. CALAM-PP-001A, Pilz Direct, pp. 40-42; Exh. CALAD-HM-001, Merida Testimony, pp. 54-55.

12.12. Special Request #20 – Changes to Late Payment Fees

CAW REQUEST:

CAW requested to eliminate late payment fees for residential customers only. Non-residential customers would continue to be assessed late payment fees for payments made after the bill due date.

CAL ADVOCATES' POSITION:

Cal Advocates recommended the Commission deny CAW's request for the elimination of late fees for residential customers and argued that the proposal disincentivizes residential ratepayers from paying their water bill timely, which can result in CAW undercollecting, raising rates, and ratepayers that pay their bill timely unfairly subsidizing the non-paying ratepayers.

CAW REBUTTAL:

CAW argued that it introduced late payment fees to incentivize timely bill payment but has seen little to no impact on undercollections as a result of late fees, or bill nonpayment. CAW argued that customers not paying their bills will ultimately receive a shut off notice/warning which typically prompts the customers to submit payment.

RESOLUTION:

The Parties agree to CAW's request to eliminate late payment fees for residential customers only. Accordingly, forecasted Other Revenues does not include estimated late fees for residential customers.

REFERENCES:

Exh. CALAM-PP-001A, Pilz Direct, pp. 42-43; Exh. CALAD-HM-001, Merida Testimony, p. 55; Exh. CALAM-PP-002, Pilz Rebuttal, pp. 17-18.

13. OTHER ISSUES

13.1. Safety & Water Quality

CAW REQUEST:

CAW considers safety to be a core value, as well as a strategy. CAW has numerous programs and processes in place to support employee safety, security of CAW's assets, and emergency response. CAW is also committed to water quality and environmental compliance and has a robust water quality and environmental compliance program in place.

CAL ADVOCATES' POSITION:

Prior to authorizing any additional funds for stationary generators, the Commission should require CAW to complete a Portable Generator Planning Study.

Additionally, in response to a public comment about the water quality in the Fruitridge service area, Cal Advocates recommended CAW follow Best Management Practices of the State Water Resources Control Board and flush its distributions systems at least annually.

CAW REBUTTAL:

CAW argued a portable generator study had been conducted in accordance with the prior rate case decision (D.21-11-018), it was provided to Cal Advocates during discovery and another study was unnecessary.

CAW argued that the Fruitridge Sanitary Survey completed in coordination with the State Water Resources Control Board found no deficiencies regarding flushing. CAW also noted that there is not Best Practices regarding flushing.

RESOLUTION:

The Parties agree that CAW complied with D.21-11-018 regarding the portable generator study and does not need to do another one at this time. The Parties also agree that CAW does not need to make any adjustments to its flushing program at this time.

REFERENCES:

Exh. CALAM-GH-001, Hofer Direct, pp. 26-53; Exh. CALAM-GH-003, Hofer Supplemental Rebuttal, pp. 1-6; Exh. CALAM-NM-001, Miller Rebuttal, pp. 8-10; Exh. CALAD-CS-002, Gendler Testimony, pp. 20-22; Exh. CALAD-CS-003, Sorenson Supplemental Testimony, pp. 1-7.

13.2. Elimination of the Non-Revenue Water Penalty/Reward Mechanism

CAL ADVOCATES' POSITION:

Cal Advocates argued that the Commission should discontinue CAW's Non-Revenue Water Reward/Penalty Mechanism, because it is no longer necessary or effective as an incentive for reducing non-revenue water since the non-revenue water percentages for Monterey Main and the Central Division in aggregate are lower than when the Mechanism was established and are at the non-revenue water target percentage of 7.0% set by the Commission in D.18-12-021. Cal Advocates also argued that the mechanism shifts risks of sales forecasting from CAW to ratepayers and can result in increased customer bills with decreased transparency.

CAW REBUTTAL:

The Commission previously instituted the Non-Revenue Water Penalty/Reward Mechanism in CAW's Monterey District in D.09-07-021 (A.08-01-027). CAW argued that the incentive is still necessary today, as CAW is still required to abide by the production limits as spelled out in State Water Resource Control Board Cease and Desist Order. CAW also explained that the NRW Penalty/Reward is not tied to sales forecasting, so Cal Advocates' claim that it increases customer bills is unfounded. Likewise, transparency is not an issue, since the Penalty/Reward is fully detailed and explained in CAW's tariffs.

RESOLUTION:

The Parties agree to eliminate the Non-Revenue Water Penalty/Reward mechanism as of the effective date of a final Decision in this proceeding.

REFERENCES:

Exh. CALAM-DPS-002A, Stephenson Corrected Rebuttal, pp. 14-21; Exh. CALAD-HM-001, Merida Testimony, pp. 15-18.

13.3. Withdrawal of "Deceptive Pricing Adjustment" Without Prejudice

CAL ADVOCATES' POSITION:

Cal Advocates argued that CAW under-forecasted purchased water and purchased power expenses because CAW can recoup the difference between authorized and actual costs through balancing accounts. Cal Advocates recommended instituting a "deceptive pricing adjustment" to highlight CAW's under-forecasting to the Commission.

CAW REBUTTAL:

CAW argued that its forecasting methodology is consistent with the Rate Case Plan and past precedent. CAW noted that Cal Advocates raised this issue previously in CAW's most recent GRC and the Commission identified no concerns with CAW's forecasting methodology. CAW argued that the Commission should deny Cal Advocates' request for a penalty.

RESOLUTION:

The Parties agree that Cal Advocates' proposed "deceptive pricing adjustment" shall be withdrawn without prejudice.

REFERENCES:

Exh. CALAM-BP-001, Pourtaherian Direct, pp. 14-16; Exh. CALAD-TG-001, Gee Testimony, pp. 1-31; Exh. CALAM-SWO-002A, Owens Corrected Rebuttal, pp. 101-106; Exh. CALAM-BP-003, Pourtaherian Rebuttal, pp. 6-14.

13.4. Bass Lake Water Company – Revenue Requirement

CAW REQUEST:

CAW requested ratemaking integration of still-pending acquisitions, including the Bass Lake water system, assuming that the acquisition applications are approved.

CAL ADVOCATES' POSITION:

Cal Advocates agreed that it was reasonable to assume that the Commission would issue a final decision authorizing purchase of Bass Lake Water Company assets within the timeframe of this GRC. However, Cal Advocates disagreed with CAW's proposed rate base allocation.

CAW REBUTTAL:

CAW disagreed with Cal Advocates' proposed rate base allocation. CAW also noted that acquisition of Bass Lake Water Company was approved in D.23-04-007 effective April 6, 2023. CAW also explained that it anticipated closing the acquisition and integrating the Bass Lake System by the end of 2023.

RESOLUTION:

CAW does not anticipate the acquisition of the Bass Lake Water Company will close before the start of the 2024 Test Year due to issues outside CAW's control. Therefore, the Parties agree that CAW will remove the related components of the acquisition from the revenue requirement agreed to in this Settlement. The Parties agree that upon closing of the acquisition, CAW may file a Tier 2 advice letter to incorporate the acquisition into authorized rates. This procedure is consistent with the approval provided for the Bellflower acquisition in D.21-11-018.

REFERENCES:

Updated Application, Exhibit A, Chs. 1, 3, (PDF) pp 157, 167, 176, 278-279; Exh. CALAM-SWO-001, Owens Direct, pp. 40-58; Exh. CALAD-CS-001, Sorensen Testimony, pp. 12-15; Exh. CALAM-SWO-002A, Owens Corrected Rebuttal, p. 82.

Dated: _____, 2023

By:

California-American Water Company

Dated: _____, 2023

By:

The Public Advocates Office

SIGNED COPY ON FILE IN DOCKET A.22-07-001

(END OF ATTACHMENT 1)