



PUBLIC UTILITIES COMMISSION

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Agenda ID #23212
Alternate to Agenda ID #23073
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 23-08-010:

Enclosed is the Alternate Proposed Decision of Commissioner Darcie L. Houck to the Proposed Decision Revision 2 of Administrative Law Judge (ALJ) Amin Nojan previously mailed to you. This cover letter explains the comment and review period and provides a digest of the alternate decision.

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

Public Utilities Code Section 311(e) requires that an alternate to a proposed decision or to a decision subject to subdivision (g) be served on all parties, and be subject to public review and comment prior to a vote of the Commission.

Parties to the proceeding may file comments on the alternate proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3 opening comments shall not exceed 15 pages.

A.23-08-010 COM/DH7/jnf

Comments must be filed pursuant to Rule 1.13 and served in accordance with Rules 1.9 and 1.10. Electronic copies of comments should be sent to Commissioner Houck's advisor Victor Smith at Victor.Smith@cpuc.ca.gov. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ MICHELLE COOKE

Michelle Cooke

Chief Administrative Law Judge

MLC:jnf

Attachment

*DIGEST OF DIFFERENCES BETWEEN
ADMINISTRATIVE LAW JUDGE NOJAN'S PROPOSED DECISION REVISION 2
AND THE ALTERNATE PROPOSED DECISION OF COMMISSIONER HOUCK*

Pursuant to Public Utilities Code Section 311(e), this is the digest of the substantive differences between the proposed decision revision 2 of Administrative Law Judge (ALJ) Nojan (mailed on 12/17/2024) and the proposed alternate decision of Commissioner Houck (mailed on 12/27/2024).

The proposed decision revision 2 (PD) of ALJ Nojan denies GSW's request to continue the SRM with modifications on the grounds that it was first instituted as a means to draw down a large WRAM balance and notes that without the WRAM, the mechanism no longer serves its intended purpose. The PD argues that without the WRAM, the SRM serves as a means by which the utility seeks to modify its forecast in between GRC filings after the adoption of a revenue requirement. This decreases the incentive to the utility to propose an accurate forecast and shifts the risk from the utility to the ratepayer. The PD ultimately argues that the more instances the sales forecast is modified after the GRC filing, the less significant having an accurate initial forecast, which plays a large role in adopting the revenue requirement, becomes to the utility.

The alternate proposed decision (APD) of Commissioner Houck differs from the PD Revision 2. This alternate proposed decision grants, in part, Golden State Water Company's Special Request 3 to continue its Sales Reconciliation Mechanism (SRM). Golden State Water Company requests modifications to its existing SRM, including a semi-annual evaluation of the difference between recorded and adopted sales. This modification is not adopted. The existing practice of an annual evaluation shall continue. This alternate proposed decision also requires specific reporting requirements from Golden State Water Company on the SRM in GSW's next GRC filing to obtain more data on how the SRM is operating in tandem with the transition to the M-WRAM.

ATTACHMENT

COM/DH7/sgu/jnf **ALTERNATE PROPOSED DECISION**

Agenda ID #23212
Alternate to Agenda ID #23073
Ratesetting

Decision **ALTERNATE PROPOSED DECISION OF COMMISSIONER HOUCK**
(Mailed 12/27/2024)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the
GOLDEN STATE WATER
COMPANY (U133W) for an order (1)
authorizing it to increase rates for
water service by \$87,060,700 or 22.95%
in 2025; (2) authorizing it to increase
rates by \$20,699,200 or 4.42% in 2026,
and increase rates by \$22,408,200 or
4.57% in 2027 in accordance with the
Rate Case Plan; and (3) adopting other
related rulings and relief necessary to
implement the Commission's
ratemaking policies.

Application 23-08-010

**DECISION ADOPTING SETTLEMENT AGREEMENT,
RESOLVING REMAINING ISSUES, AND
AUTHORIZING A GENERAL RATE INCREASE FOR
GOLDEN STATE WATER COMPANY FOR 2025, 2026, AND 2027**

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Appendix A – Settlement Agreement

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**DECISION ADOPTING SETTLEMENT AGREEMENT,
RESOLVING REMAINING ISSUES, AND
AUTHORIZING A GENERAL RATE INCREASE FOR
GOLDEN STATE WATER COMPANY FOR 2025, 2026, AND 2027**

Summary

This decision grants the joint motion by the Public Advocates Office at the California Public Utilities Commission and Golden State Water Company for adoption of a partial settlement agreement (Settlement Agreement) attached to this decision as Appendix A.

This decision also adopts the revenue requirement for a test year 2025 and two subsequent years and authorizes Golden State Water Company's general rate increases for 2025, 2026, and 2027 as follows: \$44,239,000 or 10.52% for 2025, \$19,895,100 or 4.26% for 2026, and \$19,882,500 or 4.07% for 2027.

This decision denies GSW's Special Request No. 2, 3, 8, and 9.

This proceeding is closed.

1. Procedural Background

On August 14, 2023, Golden State Water Company (GSW) (U133W) filed Application (A.) 23-08-010 for an order (1) authorizing it to increase rates for water service by \$87,060,700 or 22.95% in 2025; (2) authorizing it to increase rates by \$20,699,200 or 4.42% in 2026, and increase rates by \$22,408,200 or 4.57% in 2027 in accordance with the Rate Case Plan; and (3) adopting other related rulings and relief necessary to implement the California Public Utilities Commission's (Commission) ratemaking policies.

On September 20, 2023, the Public Advocates Office at the California Public Utilities Commission (Public Advocates Office) filed a Protest to the Application.

On October 2, 2023, GSW filed a Reply to Protest.

The Commission held a telephonic prehearing conference on October 27, 2023 to determine the schedule and scope of the proceeding.

On January 4, 2024, Commissioner Shiroma issued Assigned Commissioner's Scoping Memo and Ruling (Scoping Ruling or Scoping Memo).

On May 13, 2024, the assigned Administrative Law Judge (ALJ) issued a ruling directing the filing of stipulated facts and setting remote evidentiary hearings.

On June 13, 2024, the Commission held a remote evidentiary hearing.

On June 24, 25, and 26, the Commission held remote Public Participation hearings.

On July 12, 2024, parties filed a Joint Motion for Adoption of Settlement Agreement.¹

On July 15, 2024, GSW filed Motion Requesting Oral Argument Before the Commission.

On July 16, 2024, GSW filed a Motion for Interim Rate Relief. On the same date, Golden State Water Company also filed a motion to strike portions of two exhibits of the Public Advocates Office.

On July 18, 2024, parties filed their opening briefs. On July 29, 2024, parties filed reply briefs.

On July 30, 2024, the Public Advocates Office filed a response to GSW's Motion Requesting Oral Argument.

On July 31, 2024, the Public Advocates Office filed a Response in Opposition to GSW's Motion to Strike.

¹ On June 21, 2024, the assigned ALJ set a deadline for a motion for adoption of settlement agreement and provided guidance on briefs.

On August 9, 2024, GSW filed replies to the Public Advocate Office responses to Golden State Water's Motion to Strike and GSW's Motion Requesting Oral Argument.

This proceeding was submitted on November 14, 2024.

2. Issues Before the Commission

The Settlement Agreement in this proceeding resolves all but six of the issues. The issues remaining to be decided by the Commission in this decision are as follows, numbered according to how they were presented in the Scoping Ruling:

Issue No. 1e: Whether GSW's proposed sales forecast and rate designs are just and reasonable;

Issue No. 1f:² Whether GSW's proposed supply mix and supply costs are just and reasonable;

Issue No. 8: Special Request 2: Whether the Commission should authorize Golden State to implement a new revenue decoupling program, the Water Conservation Advancement Plan;

Issue No. 9: Special Request 3: Whether GSW's request to continue its current Sales Reconciliation Mechanism is reasonable;

Issue No. 14: Special Request 8: Whether GSW's request to modify its existing Polyfluoroalkyl Substances (PFAS) Memorandum Account to allow inclusion of carrying costs at Golden State's adopted rate of return on all incremental plant investments to address treatment for PFAS is reasonable; and

Issue No. 15: Special Request 9: Whether the Commission should authorize GSW's proposed pilot Supply Mix Adjustment Mechanism in its

² This issue was not separately listed in the Scoping Ruling, but parties have specified it as a subset of Issue 1.

Region 2 ratemaking area, which would adjust the adopted well production volumes in the escalation years if a threshold trigger is met.

3. Settlement Agreement

On July 12, 2024, GSW and the Public Advocates Office filed a Joint Motion for Adoption of Settlement Agreement (Settlement Agreement). As noted in Section 2 of the instant decision, the Settlement Agreement resolves all but six of the contested issues in this proceeding. Section 3 is dedicated to presenting a summary of the specific items in the Settlement Agreement consistent with the order in which the issues were presented in the Scoping Ruling.

3.1. Reasonableness of Estimates for Operation and Maintenance Expenses, and Administrative and General Expenses

The items discussed in this subsection correspond to Issue 1a of the Scoping Ruling.

3.1.1. Water Loss

GSW uses a five-year average methodology for non-revenue water volumes and non-revenue water percentage. The non-revenue water in its supply forecast methodology is used to derive total water supply forecasts in each ratemaking area. The Public Advocates Office did not oppose GSW's methodology, interpreting non-revenue water percentage as water loss percentage in a Customer Service Area (CSA). The Settling Parties agree to use the rates proposed and used by GSW, as presented in Section 4.3 of the Settlement Agreement.³

³ See Settlement Agreement at 49.

3.1.2. Labor for Regions 1, 2, and 3

GSW based its forecasts for total labor for its three service areas on its 2023 organizational structure and annual salaries. GSW also requested eight new positions, the elimination of eight positions, and the transfer of 27 other positions to its General Office. GSW utilized the base cost, applied adjustments for inflation, overtime, and merit increases, stand-by and call-out pay, and finally adjusted for vacancies to develop the forecast for the Test Year. GSW also included a customer growth factor to determine its forecasts for the 2025 Test Year.

The Public Advocates Office objected to the request for the new positions, but not the elimination or transfer of existing positions. The Public Advocates Office also objected to the inclusion of the customer growth factor.

The Settling Parties ultimately agreed to adopt GSW requested forecasts, organizational changes, and additions. Specific dollar amounts can be found in Section 5.1 of the Settlement Agreement.

3.1.3. General Office Labor

GSW based its forecast for total General Office labor expense on its 2023 organizational structure and actual annual salaries. GSW utilized the base cost, applied adjustments for inflation, overtime, and merit increases, stand-by and call-out pay, and finally adjusted for vacancies to develop the forecast for the Test Year.

The Public Advocates Office agreed with GSW's forecasting methodology but objected to GSW's request for new positions and to GSW's full recovery of executive labor costs in the General Office.

The Settling Parties ultimately agreed to adopt GSW's labor expense forecasts, organizational changes, and additions. Specific dollar amounts for 2025

General Office Labor Expenses can be found in Section 5.2 of the Settlement Agreement.

3.1.4. Escalation Factors

GSW used the annual inflation (escalation) factors from the Public Advocates Office's May 2023 "Estimates of Non-Labor and Wage Escalation Rates" and "Summary of Compensation per Hour" memoranda ("Public Advocates Office Memos"), and the May 2023 CPI-U index to develop inflation-adjusted (escalated) estimates for Administrative & General (A&G) and Operations & Maintenance (O&M) expenses. GSW requested that these factors be updated to the most current information available at the time of the Commission's final decision in this proceeding.

The Public Advocates Office used the same factors from the Public Advocates Office Memos, however the Public Advocates Office opposed using the May 2023 CPI-U index and recommended using the November 2023 Consumer Price Index for All Urban Consumers (CPI-U) index.

The Settling Parties ultimately agreed to the expense levels identified in the Settlement Agreement Sections 5.0, 7.0, 8.0, 10.0, 11.0, and 14.0. The Settling Parties also agreed that expense escalation for 2026 and 2027 will be calculated in accordance with Rate Case Plan guidelines. The settled figures for escalation factors reflect values that fall in between those originally proposed by GSW and the Public Advocates Office.⁴

3.1.5. Customer Growth Impact

GSW included a customer growth impact calculation in addition to annual escalation factors to escalate inflation-adjusted recorded costs in ratemaking

⁴ See Section 6.1 of the Settlement Agreement at 58.

areas to develop Test Year forecast amounts for Operations, Other Maintenance, Office Supplies, Business Meals, Outside Services, Miscellaneous, Other Maintenance of General Plant, and Labor expense estimates. The Public Advocates Office objected to the inclusion of customer growth impacts to Test Year forecasts.

The Settling Parties ultimately agreed to the A&G and O&M expense amounts set forth in Sections 5.0, and 7.0 through 8.0, which resolves the Parties' disagreement over this item.⁵

3.1.6. Other Revenue (6.3)

GSW used the five-year average of recorded Other Revenue across all Rate Making Areas (RMAs) to forecast Other Revenue for all regions except Region 2. For the latter, GSW used the five-year average of recorded Other Revenue adjusted to exclude revenue from ABC roofing. The Public Advocates Office used the five-year average of recorded Other Revenue across all RMAs. The Settling Parties ultimately agreed to adopt the Public Advocates Office's recommendation, which includes revenues from ABC roofing in Region 2.⁶

3.1.7. Office Supplies

GSW used an inflation-adjusted five-year average, further adjusted to: (1) to remove any historical costs tracked in memorandum accounts; (2) forecast new cellular service fees in Bay Point, Clearlake, Northern District Office, and Region 3; (3) increase SCADA cell connection expense forecast in relation to new capital projects; (4) to increase forecasted expenses related to cloud migration in Santa Maria, Simi Valley, Foothill District Office, and Region 3; (5) to increase forecasted expenses related to building expenses in Arden Cordova and Orange

⁵ See Section 6.2 of the Settlement Agreement at 58-59.

⁶ See Section 6.3 of the Settlement Agreement.

County District Office; and (6) to increase forecasted expenses for garbage disposal expenses in Arden Cordova.

The Public Advocates Office recommended a decrease in the adjustment for new cellular service fees, a decrease in the adjustment for the SCADA (Supervisory Control and Data Acquisition) cell connection fees in relation to new capital projects, denial of the building expense adjustment and to adjust all Office Supplies and Expense to be based on a three-year inflation adjusted historical average of the years 2020-2022.

The Settling Parties compromised and adopted the expenses as shown in the table below for Office Supplies.⁷

⁷ See Section 7.1 of the Settlement Agreement.

Office Supplies	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	109,857	94,847	109,857
Bay Point	71,710	55,885	60,332
Clearlake	81,594	72,496	81,594
Los Osos	83,153	76,030	83,153
Santa Maria	132,811	112,219	132,811
Simi Valley	95,408	89,024	95,408
Northern Dist.	52,470	37,038	52,470
Coastal Dist.	25,910	21,981	25,910
Region 2	544,249	519,478	544,249
Central Dist.	170,996	163,371	170,996
Southwest Dist.	262,018	258,411	262,018
Region 3	903,309	843,901	903,309
Foothill Dist.	138,512	140,982	138,512
Mountain/Desert Dist.	71,391	61,368	71,391
Orange County Dist.	98,248	66,500	98,248

3.1.8. Property Insurance

This item is discussed in Section 3.1.39, entitled Property Insurance Expenses, below.⁸

3.1.9. Injuries and Damages

GSW forecasted injuries and damages expenses at the General Office and then allocated to the CSAs and District Offices. The Public Advocates Office did not contest GSW's estimates. The small differences in the figures are due to non-capitalized percentage forecasts.⁹

⁸ See Section 7.2 of the Settlement Agreement.

⁹ See Section 7.3 and Section 14 of the Settlement Agreement for more information.

The Settling Parties agreed to the estimates in the table below for Injuries and Damages expenses, to ensure that GSW has sufficient funding for this item for the duration of the rate cycle.

Injuries and Damages	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	141,716	141,407	167,381
Bay Point	52,347	52,233	61,828
Clearlake	52,533	52,418	62,047
Los Osos	55,320	55,200	65,339
Santa Maria	129,470	129,188	152,917
Simi Valley	61,264	61,131	72,359
Northern Dist.	80,233	80,058	94,764
Coastal Dist.	72,087	71,930	85,142
Region 2	710,945	703,912	839,702
Central Dist.	118,430	118,172	139,878
Southwest Dist.	145,001	144,686	171,262
Region 3	841,714	839,882	994,154
Foothill Dist.	108,277	108,041	127,887
Mountain/Desert Dist.	64,072	63,932	75,675
Orange County Dist.	123,456	123,188	145,815

3.1.10. Pensions and Benefits

This item is discussed in Section 3.1.41, Pension and Benefits, below.

3.1.11. Business Meals

GSW utilized an inflation-adjusted five-year average to forecast Business Meals. Notwithstanding the issues raised in Section 6.2 of the Settlement Agreement, the Public Advocates Office did not contest GSW's estimates. The

Settling Parties agreed to the figures in the table below for Business Meals expense.¹⁰

Business Meals	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	1,549	1,542	1,549
Bay Point	396	395	396
Clearlake	1,032	1,041	1,032
Los Osos	1,302	1,301	1,302
Santa Maria	1,637	1,627	1,637
Simi Valley	861	856	861
Northern Dist.	4,009	4,009	4,009
Coastal Dist.	2,232	2,232	2,232
Region 2	7,813	7,791	7,813
Central Dist.	1,869	1,869	1,869
Southwest Dist.	4,162	4,162	4,162
Region 3	6,854	6,831	6,854
Foothill Dist.	1,684	1,684	1,684
Mountain/Desert Dist.	1,316	1,316	1,316
Orange County Dist.	1,265	1,265	1,265

3.1.12. Outside Services

GSW used an inflation-adjusted five-year average, further adjusted (1) to remove any historical costs tracked in memorandum accounts, (2) to forecast costs related to newly regulated water loss audit standards, and (3) to increase forecasted expenses related to consulting in Arden Cordova for forecasting Outside Services expenses.

¹⁰ See Section 7.5 of the Settlement Agreement.

The Public Advocates Office opposed the adjustment for costs related to water loss audit standards and the adjustment for consulting fees in the Arden Cordova CSA. The Settling Parties agreed to GSW's figures in the table below for Outside Services expense.¹¹

Outside Services	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	97,853	85,508	97,853
Bay Point	6,805	6,618	6,805
Clearlake	10,480	10,303	10,480
Los Osos	7,940	7,727	7,940
Santa Maria	153,350	148,483	153,350
Simi Valley	6,195	6,003	6,195
Northern Dist.	55,789	13,161	55,789
Coastal Dist.	78,861	17,605	78,861
Region 2	122,728	119,224	122,728
Central Dist.	105,461	24,378	105,461
Southwest Dist.	123,869	62,796	123,869
Region 3	89,617	87,014	89,617
Foothill Dist.	76,209	16,019	76,209
Mountain/Desert Dist.	108,631	63,189	108,631
Orange County Dist.	87,761	29,836	87,761

3.1.13. Miscellaneous

GSW used an inflation-adjusted five-year average, further adjusted to remove any historical costs tracked in memorandum accounts to forecast Miscellaneous expenses. The Public Advocates Office, notwithstanding the issue addressed in Section 6.2 of the Settlement Agreement, did not contest GSW's

¹¹ See Section 7.6 of the Settlement Agreement.

estimates. The Settling Parties agreed to the estimates in the table below for Miscellaneous expenses.¹²

Miscellaneous	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	48,408	48,192	48,408
Bay Point	669	668	669
Clearlake	513	518	513
Los Osos	1,406	1,404	1,406
Santa Maria	324	322	324
Simi Valley	5,844	5,812	5,844
Northern Dist.	5,454	5,454	5,454
Coastal Dist.	141	141	141
Region 2	4,760	4,746	4,760
Central Dist.	11,806	11,806	11,806
Southwest Dist.	9,998	9,998	9,998
Region 3	9,791	9,757	9,791
Foothill Dist.	1,525	1,525	1,525
Mountain/Desert Dist.	290	290	290
Orange County Dist.	718	718	718

3.1.14. Allocated General Office Expenses – Corporate Support

GSW forecasted Allocated General Office Expenses-Corporate Support at the General Office and then proceeded to allocate them to the ratemaking areas. The Settling Parties ultimately compromised on the forecasts and arrived at figures that fell in between each party's respective positions, as shown in the table below.¹³

¹² See Section 7.7 of the Settlement Agreement.

¹³ See Section 7.8, Section 13, and Section 14 of the Settlement Agreement for more detailed information.

Allocated General Office Expenses – Corporate Support	2025 (\$)		
CSA	GSWC	Cal Advocates	Settlement
Arden Cordova	1,910,044	1,425,273	1,697,272
Bay Point	383,308	285,055	339,454
Clearlake	120,190	88,916	106,264
Los Osos	211,144	159,526	188,914
Santa Maria	1,078,460	805,475	959,328
Simi Valley	1,062,218	792,399	944,569
Region 2	9,897,797	7,385,266	8,799,251
Region 3	9,741,875	7,262,352	8,657,565

3.1.15. Allocated General Office Expenses – Centralized Operations Support

GSW forecasted Allocated General Office Expenses – Centralized Operations Support at the General Office and then allocated expenses to the ratemaking areas. The Settling Parties ultimately agreed to the figures in the table below, which reflect a compromise in their respective positions.¹⁴

Allocated General Office Expenses – Centralized Operations Support	2025 (\$)		
CSA	GSW	Pub Advocates	Settlement
Arden Cordova	2,095,392	1,811,573	1,994,823
Bay Point	420,149	363,240	399,984
Clearlake	131,129	113,368	124,836
Los Osos	232,821	201,286	221,647
Santa Maria	1,182,839	1,022,625	1,126,069

¹⁴ See Section 7.9, Section 13, and Section 14 of the Settlement Agreement for more detailed information.

Simi Valley	1,164,107	1,006,430	1,108,235
Region 2	10,854,290	9,384,088	10,333,335
Region 3	10,677,667	9,231,389	10,165,189

3.1.16. Allocated District Office Expense

GSW used equivalent customer data to develop the factors for allocating District Office Expenses to individual ratemaking areas. The Public Advocates Office did not contest GSW's allocation factors. The Settling Parties ultimately agreed to figures in between their respective positions, as shown in the table below.¹⁵

Allocated District Office Expense	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	912,831	744,228	850,232
Bay Point	182,751	148,996	170,218
Clearlake	56,692	46,221	52,804
Los Osos	93,119	76,792	89,500
Santa Maria	473,759	390,695	455,345
Simi Valley	466,628	384,814	448,491
Region 2	5,466,536	4,073,470	5,364,224
Region 3	5,567,629	4,391,727	5,348,923

3.1.17. Other Maintenance of General Plant

GSW used an inflation-adjusted five-year average further adjusted to account for a permit fee reimbursement in Los Oso to forecast Other Maintenance of General Plant expenses. The Public Advocates Office, in addition to the issue addressed in Section 6.2 of the Settlement Agreement, recommended a decrease to the adjustment for permit fees. The Settling Parties ultimately

¹⁵ See Section 7.10 of the Settlement Agreement.

agreed to the estimates in the table below for Other Maintenance of General Plant expense.¹⁶

Other Maintenance General Plant	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	14,618	14,552	14,618
Bay Point	1,853	1,849	1,853
Clearlake	387	391	387
Los Osos	15,967	14,538	15,967
Santa Maria	29,397	29,216	29,397
Simi Valley	20,741	20,627	20,741
Northern Dist.	1,981	1,981	1,981
Coastal Dist.	265	265	265
Region 2	22,605	22,539	22,605
Central Dist.	1,374	1,374	1,374
Southwest Dist.	1,076	1,076	1,076
Region 3	315,198	314,130	315,198
Foothill Dist.	16,584	16,584	16,584
Mountain/Desert Dist.	1,563	1,563	1,563
Orange County Dist.	11,174	11,174	11,174

3.1.18. Rent

GSW used cost data from its lease agreements to forecast Rent expense. The Public Advocates Office did not oppose GSW's estimates. The Settling Parties agreed to the figures in the table below, which reflect GSW's forecasting amounts.¹⁷

¹⁶ See Section 7.11 of the Settlement Agreement.

¹⁷ See Section 7.12 of the Settlement Agreement.

Rent	2025 (\$)
CSA	Settlement
Arden Cordova	60,725
Bay Point	30,093
Clearlake	15,959
Los Osos	0
Santa Maria	110,537
Simi Valley	75,882
Northern Dist.	42,040
Coastal Dist.	0
Region 2	488,735
Central Dist.	126,777
Southwest Dist.	94,426
Region 3	346,664
Foothill Dist.	0
Mountain/Desert Dist.	25,542
Orange County Dist.	120,357

3.1.19. Depreciation Expense

GSW and the Public Advocates Office's estimates for Depreciation Expense vary due to differences in each party's Capital Budget estimates for each area and differences in depreciation accrual rates, addressed in Section 3.6 of the Settlement Agreement. The Settling Parties ultimately agreed that the Depreciation Expense should be updated to reflect the settled Capital Budget, as shown in the table below.¹⁸

¹⁸ See Section 7.13 of the Settlement Agreement.

Depreciation Expense	2025 (\$)		
CSA	GSWC	Cal Advocates	Settlement
Arden Cordova	2,338,433	2,169,848	2,308,366
Bay Point	607,366	573,652	603,869
Clearlake	389,403	376,687	354,432
Los Osos	866,439	740,761	829,989
Santa Maria	2,518,084	2,180,884	2,374,611
Simi Valley	1,010,283	955,751	990,452
Northern Dist.	26,498	26,360	26,308
Coastal Dist.	40,000	33,069	39,502
Region 2	15,435,336	13,469,959	14,749,722
Central Dist.	208,390	(53,348)	205,083
Southwest Dist.	669,707	(19,031)	665,293
Region 3	16,402,794	14,301,528	15,563,038
Foothill Dist.	225,453	27,007	221,178
Mountain/Desert Dist.	23,786	(18,411)	23,258
Orange County Dist.	242,324	13,791	236,980

3.1.20. Utility Support Services Allocated from General Office

GSW forecasted Utility Support Services expenses at the General Office and then allocated them to the ratemaking areas. The Settling Parties ultimately settled on figures that fall between their respective positions, as shown in the table below.¹⁹

Allocated GO - Utility Support Services	2025 (\$)		
CSA	GSW	Pub Advocates	Settlement
Arden Cordova	521,205	473,281	503,509
Bay Point	104,840	94,931	101,280
Clearlake	32,950	29,580	31,831
Los Osos	57,662	52,281	55,704
Santa Maria	294,301	266,908	284,309
Simi Valley	289,808	262,781	279,968

¹⁹ See Section 8.1, Section 13, and Section 14 of the Settlement agreement for more detailed information.

Region 2	2,701,128	2,451,705	2,609,418
Region 3	2,657,694	2,411,806	2,567,459

3.1.21. Other Operating Expenses

GSW used an inflation-adjusted five-year average, further adjusted (1) to remove any historical costs tracked in memorandum accounts; (2) for a forecasted increase in brine disposal costs in Region 3; (3) for forecasted increases in State Water Resources Control Board (SWRCB) drinking water fees; (4) for accounting changes for brine removal expenses in Los Osos; (5) to normalize equipment expense in Simi Valley RMA and Southwest CSA; (6) for accounting changes to filter media change outs in San Gabriel CSA; (7) for a forecasted increase in Neutral Output Discharge Elimination System (NO-DES) filter replacements in Region 3; (8) for forecasted increased costs for oxygen tank rentals in Southwest CSA; (9) for SCADA equipment costs in Santa Maria and Orange County District Office; and (10) for forecasted increased expenses for generator and analyzer maintenance in Region 3.

The Public Advocates Office recommended reductions to forecasted brine disposal costs, generator and analyzer maintenance costs, and SCADA equipment costs, in addition to the issue addressed in Section 6.2 of the Settlement Agreement. The Public Advocates Office also opposed the expense adjustments for NO-DES filter replacements and equipment expense normalization.

The Settling Parties ultimately compromised on the estimates for Other Operation Expenses, with the final numbers displayed in the table below.²⁰

²⁰ See Section 8.2 of the Settlement Agreement.

Other Operation Expenses (including conservation)	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	518,920	517,189	518,920
Bay Point	157,228	156,982	157,228
Clearlake	136,915	138,121	136,915
Los Osos	499,275	498,790	499,275
Santa Maria	636,108	626,833	636,108
Simi Valley	240,421	231,381	240,421
Northern Dist.	6,981	6,981	6,981
Coastal Dist.	1,408	1,408	1,408
Region 2	2,442,033	2,410,220	2,442,033
Central Dist.	284,479	284,479	284,479
Southwest Dist.	238,816	238,816	238,816
Region 3	4,975,987	3,936,233	4,303,726
Foothill Dist.	250,807	250,807	250,807
Mountain/Desert Dist.	153,205	153,205	153,205
Orange County Dist.	196,134	183,059	196,134

3.1.22. Uncollectible Rates

GSW used a five-year average rate, based on actual amounts expensed, to forecast Uncollectible Rates. The forecasted amounts were increased to reflect expected increases in the uncollectible rate as a result of new legislation, adopted under Senate Bill 998 (Dodd 2018), restricting customer service disconnections. The new legislation increases the number of days a customer is allowed to defer payment prior to having water service discontinued by over 50 percent.

The Public Advocates Office does not agree with GSW's adjustment to account for the higher uncollectible rate and argues that the effects of the new legislation are yet to be determined.

The Settling Parties ultimately agreed to adopt GSW's adjusted figures, as part of the compromise encompassing the Settlement in its entirety.²¹ Those figures are shown below.

Uncollectible Rate	2025		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	0.412%	0.275%	0.412%
Bay Point	0.856%	0.571%	0.856%
Clearlake	1.164%	0.776%	1.164%
Los Osos	0.156%	0.104%	0.156%
Santa Maria	0.198%	0.132%	0.198%
Simi Valley	0.359%	0.239%	0.359%
Region 2	0.470%	0.313%	0.470%
Region 3	0.321%	0.214%	0.321%

3.1.23. Other Maintenance Expenses

GSW used an inflation-adjusted five-year average, further adjusted (1) to remove any historical costs tracked in memorandum accounts; (2) to forecast the additional maintenance costs pertaining to the Robbins System in Arden Cordova; and (3) to forecast the increased maintenance costs in the Los Alamitos and Placentia CSAs to forecast Other Maintenance Expenses. The Public Advocates Office, in addition to the issue addressed in Section 6.2 of the Settlement Agreement, recommended a decrease in the adjustment related to maintenance costs for the Robbins System and opposed the adjustment for increased maintenance costs in the Los Alamitos and Placentia CSAs. The Public Advocates Office also recommended a decrease in expenses related to pump

²¹ See Section 8.3 of the Settlement Agreement.

efficiency tests.²² The Settling Parties ultimately agreed to GSW figures in the following table.

Other Maintenance Expenses	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	296,460	256,956	296,460
Bay Point	103,596	101,450	103,596
Clearlake	76,756	73,060	76,756
Los Osos	179,089	170,011	179,089
Santa Maria	328,165	302,729	328,165
Simi Valley	156,002	144,295	156,002
Northern Dist.	29,390	29,390	29,390
Coastal Dist.	113	113	113
Region 2	3,518,344	3,456,136	3,518,344
Central Dist.	34,665	34,665	34,665
Southwest Dist.	3,644	3,644	3,644
Region 3	4,823,237	4,677,040	4,823,237
Foothill Dist.	38,639	38,639	38,639
Mountain/Desert Dist.	1,463	1,463	1,463
Orange County Dist.	4,516	4,516	4,516

3.1.24. Chemical Expenses

GSW used inflation-adjusted methodologies to calculate unit costs per acre-foot of water to forecast Chemical Expenses. GSW applies the forecasted volume of water supply needing treatment to the unit costs to obtain chemical expense forecasts. GSW used the 2022 recorded unit cost in Arden Cordova, Bay Point, Clearlake, Los Osos, Santa Maria, Simi Valley, Region 2 except for Southwest district, and all CSAs in Region 3 except San Dimas.

²² See Section 8.4 of the Settlement Agreement.

The Public Advocates Office did not contest GSW's forecasting methodology for Chemical Expenses. The Public Advocates Office did, however, recommend a reduction to Clearlake Customer Service Area's forecasted chemical expenses as part of its recommendation to reduce Clearlake supply expenses due to high non-revenue water volumes.²³

The dispute between the Settling Parties is not over chemical expenses, but over forecasted chemical expenses, which itself is based on disputed forecast water supply volumes. The amount of chemical treatment needed depends on the volume of water supply to be treated and since the latter is in dispute, the chemical expense forecast is in dispute.

As part of the Settlement, the Public Advocates Office agreed to withdraw its recommendation to reduce Clearlake's chemical expense by 43.39 percent.²⁴

3.1.25. Property Taxes

GSW calculated Property Taxes as a percentage of modified rate base (rate base excluding working cash and common utility allocations). The property tax expense has been forecasted by applying a rate to the forecasted rate base. The Public Advocates Office found GSW's forecasting methodology for Property Taxes to be reasonable.²⁵ The Settling Parties agreed to use the Property Tax rates and expenses in the tables below for 2025.

²³ See Section 8.5 and 10.2 of the Settlement Agreement.

²⁴ See Section 8.5 of the Settlement Agreement for Chemical Unit costs; See Section 10.1 and 10.2 of the Settlement Agreement for additional details on the parties' respective positions on forecasting.

²⁵ See Section 9.1 of the Settlement Agreement.

Property Taxes Rate %	
	2025
CSA/Region	
Arden Cordova	1.1619%
Bay Point	1.0279%
Clearlake	1.1289%
Los Osos	0.9005%
Santa Maria	1.0764%
Simi Valley	1.0906%
Northern Dist.	1.2760%
Coastal Dist.	0.9578%
Region 2	1.1243%
Central Dist.	1.1117%
Southwest Dist.	1.0261%
Region 3	1.1371%
Foothill Dist.	1.0627%
Mountain/Desert Dist.	1.1075%
Orange County Dist.	1.2945%

Property Taxes Expense (\$)	
	2025
CSA/Region	
Arden Cordova	712,247
Bay Point	189,784
Clearlake	127,873
Los Osos	208,214
Santa Maria	789,194
Simi Valley	281,740
Northern Dist.	4,424
Coastal Dist.	4,976
Region 2	6,499,166
Central Dist.	26,341
Southwest Dist.	17,878
Region 3	6,499,166
Foothill Dist.	17,202
Mountain/Desert Dist.	1,936
Orange County Dist.	18,736

3.1.26. Payroll Taxes

The Settling Parties both applied a Payroll Tax rate of 7.6 percent to all payroll expenses. The difference between their respective positions involved differences in payroll estimates. The Settling Parties agreed to GSW's figures, as shown in the table below for Payroll Taxes.²⁶

Payroll Taxes	2025 (\$)		
	GSW	Pub Advocates	Settlement
CSA			
Arden Cordova	92,657	92,705	92,657
Bay Point	31,038	31,141	31,038
Clearlake	26,936	27,317	26,936
Los Osos	30,581	30,704	30,581
Santa Maria	90,673	90,566	90,673
Simi Valley	45,013	44,992	45,013
Northern Dist.	38,093	38,284	38,093
Coastal Dist.	39,938	40,139	39,938
Region 2	463,119	421,452	463,119
Central Dist.	68,948	68,878	68,948
Southwest Dist.	68,691	68,618	68,691
Region 3	530,325	531,179	530,325
Foothill Dist.	54,393	54,666	54,393
Mountain/Desert Dist.	29,573	29,721	29,573
Orange County Dist.	61,513	61,821	61,513

²⁶ See Sections 5.0 and 9.2 of the Settlement Agreement.

3.1.27. Local Taxes

The Settling Parties applied the five-year average recorded rate of Local Taxes on all revenues. The revenue requirement adopted in this decision reflects the rates shown below.²⁷

Local Taxes	2025
CSA/Region	Rate
Arden Cordova	1.165%
Bay Point	1.143%
Clearlake	1.020%
Los Osos	0.000%
Santa Maria	0.001%
Simi Valley	1.056%
Northern Dist.	0.000%
Coastal Dist.	0.000%
Region 2	1.393%
Central Dist.	0.000%
Southwest Dist.	0.000%
Region 3	1.048%
Foothill Dist.	0.000%
Mountain/Desert Dist.	0.000%
Orange County Dist.	0.000%

3.1.28. Income Taxes

GSW used the most readily available prior-year California Corporate Franchise Taxes (CCFT) deduction for federal income tax purposes in 2025. The Public Advocates Office used the adopted 2024 CCFT amounts for calculating Test Year 2025 federal income tax deductions. The Settling Parties ultimately agreed that income tax calculations should be updated to reflect the revenues and expenses adopted in the final decision and the latest rate of return and

²⁷ See Section 9.3 of the Settlement Agreement.

income tax rates. The Settling Parties also agreed to use the adopted 2024 CCFT expense to determine the CCFT deduction for federal income tax in 2025.²⁸

3.1.29. Conservation Expenses

GSW forecasted conservation expenses based on the authorized levels in Decision (D.) 23-06-024, the decision resolving its prior GRC. The Public Advocates Office agrees with GSW's expense forecast but recommends allocating more funds to conservation measures. The Settling Parties ultimately agreed to the following figures for Conservation Expenses.²⁹

Conservation Expenses (Included in Other Operation Expenses)	2025 (\$)
CSA	Settlement
Arden Cordova	132,488
Bay Point	12,252
Clearlake	4,143
Los Osos	13,964
Santa Maria	72,830
Simi Valley	47,047
Region 2*	389,511
Region 3*	443,954

*Conservation amounts are included in District Office Expenses in Section 8.2.

²⁸ See Section 9.4 of the Settlement Agreement for the settled amounts for this item.

²⁹ See Section 11.1 of the Settlement Agreement.

3.1.30. Escalation Factors

The Settling Parties agree that the escalation factors used to develop General Office revenue and expense forecasts should be handled in accordance with Section 6.1 of the Settlement Agreement.³⁰

3.1.31. Other Revenues

GSW used an inflation-adjusted five-year average to forecast Other Revenues. The Public Advocates Office did not contest GSW's estimates, however recommended disallowance of GSW's proposal of a new Tampering Fee that would generate additional revenues. GSW agreed to withdraw its request for the Tampering Fee.³¹

3.1.32. Common Customer Account Expense

GSW used an inflation-adjusted five-year average, further adjusted (1) to remove any historical costs tracked in memorandum accounts and (2) to forecast on-going annual expenses that will be incurred following the full transition of remaining bi-monthly billed customers to monthly billing. The Public Advocates Office opposed the inclusion of adjustments to account for the on-going annual expenses that will be incurred following the full transition of remaining bi-monthly billed customers to monthly billing. The Settling Parties agreed to the following estimates of Common Customer Account expense.³²

³⁰ See Section 14.1 of the Settlement Agreement.

³¹ See Section 14.2 of the Settlement Agreement for the settled amounts related to this item.

³² See Section 14.3 of the Settlement Agreement.

Common Customer Account	2025 (\$)		
	GSWC	Cal Advocates ¹¹	Settlement
GO Segment			
Corporate Support	0	0	0
Utility Support	282,430	282,430	282,430
COPS	135,522	135,522	135,522
Total GO	417,952	417,952	417,952

Footnote 11 in the Table above notes that while the Public Advocates Office opposed adjustments to Common Customer Account expenses, the adjustments for the Public Advocates Office's position are reflected in Section 14.14 of the Settlement Agreement - Miscellaneous expenses.

3.1.33. Postage

GSW used an inflation-adjusted five-year average further adjusted to reflect forecasted increases related to ongoing annual expenses that will be incurred following the full transition of remaining bi-monthly billed customers to monthly billing to forecast Postage expense. The Public Advocates Office opposes GSW's estimates for this account and recommended denial of expense adjustments related to on-going annual expenses that will be incurred following the full transition of remaining bimonthly billed customers to monthly billing. The Settling Parties settled on final numbers.³³

3.1.34. All Other Operating Expenses

GSW used an inflation-adjusted five-year average, further adjusted (1) to remove any historical costs tracked in memorandum accounts, (2) to reflect forecasted increases related to on-going annual expenses that will be incurred following the full transition of remaining bi-monthly billed customers to monthly

³³ See Section 14.4 of the Settlement Agreement for the table showing settled figures.

billing to forecast All Other Operating Expenses. The Public Advocates did not contest GSW's estimates for this account.³⁴

3.1.35. All Other Maintenance Expenses

This item was not contested by the Public Advocates Office.³⁵

3.1.36. Office Supplies Expense

GSW used an inflation-adjusted five-year average, further adjusted to remove any historical costs tracked in memorandum accounts to forecast Office Supplies expenses. The Public Advocates Office recommended to adjust all Office Supplies and Expense to be based on a three-year inflation adjusted historical average of the years 2020-2022. The Settling Parties ultimately agreed to the following estimates for Office Supplies & Expense.³⁶

Office Supplies & Expenses	2025 (\$)		
	GSWC	Cal Advocates	Settlement
GO Segment			
Corporate Support	1,323,397	1,231,163	1,323,397
Utility Support	147,152	94,054	147,152
COPS	628,033	561,104	628,033
Total GO	2,098,582	1,886,321	2,098,582

3.1.37. Property Insurance Expense

The Public Advocates Office did not contest GSW's estimates for this item.³⁷

³⁴ See Section 14.5 of the Settlement Agreement for the agreed-upon estimates for this item

³⁵ See Section 14.6 of the Settlement Agreement for agreed-upon figures.

³⁶ See Section 14.7 of the Settlement Agreement.

³⁷ See Section 14.8 of the Settlement Agreement for agreed-upon figures for this expense item.

3.1.38. Injuries & Damages Expense

The Public Advocates Office did not contest GSW's estimates for this item.³⁸

3.1.39. Pension & Benefits

GSW forecasts Pension and Benefits at the General Office and then allocates to the CSAs and District Offices. The pension and benefits costs for GSW include costs associated with employee training, annual cash incentive bonuses, restricted stock, discretionary bonuses, employee relocation costs, other miscellaneous employee benefits; 401(k) plan employer contribution; group health insurance benefits including medical, dental and vision; copaid life insurance; employee assistance program; pension plan (defined benefit); supplemental executive retirement plan (SERP); voluntary employees' beneficiary association plan (VEBA); and the defined contribution plan. GSW used the labor inflation factor from the Public Advocates Office's "estimates of Non-Labor and Wage Escalation Rates" memo to forecast estimates for other miscellaneous employee benefits.

The Public Advocates Office contested the Healthcare, Defined Benefit Pension Plan, and Defined Contribution Plan expense levels, recommended disallowing executive and manager short-term incentive program and long-term incentive program from the expense forecast and disagreed with the inclusion of the customer growth factors used by GSW in 2025 to escalate salary levels to derive the 2025 labor expense.

³⁸ See Section 14.9 of the Settlement Agreement for agreed-upon figures for this expense item.

The Settling Parties ultimately compromised and agreed that: (1) the Employee Assistance Program and Co-Paid Life Insurance expense will be funded at GSW's requested level; (2) the 2025 expense level for the Pension Plan will not be escalated in the attrition years, in compliance with the Rate Case Plan, because GSW has a two-way Pension and Benefits Balancing Account that tracks this item; (3) SERP will be funded at GSW's requested level; (4) VEBA will be funded at GSW's requested level; (5) 401(k) expense for 2025 will be calculated using GSW's forecasting methodology; (6) GSW's Defined Contribution Plan expense will be funded in 2025 based on GSW's forecasting methodology; (7) Manager and Director annual incentive bonuses will be funded in 2025 based on GSW's forecasting methodology; and (8) Manager and Director restricted stock units will be funded in 2025 at GSW's request level. The settled amounts for group health care expenses, Pension Plan expense, executive compensation programs, and Pension and Benefit costs, *see* Section 14.10 of the Settlement Agreement.

3.1.40. Business Meals

The Public Advocates Office did not contest GSW's estimates for this item.³⁹

3.1.41. Regulatory Expenses

Beyond the issues raised in Section 6.1 of the Settlement Agreement, the Public Advocates Office did not object to GSW's estimates for this item.⁴⁰

3.1.42. Outside Services

GSW used an inflation-adjusted five-year average, further adjusted (1) to remove any historical costs tracked in memorandum accounts, (2) to forecast lock

³⁹ *See* Section 14.11 of the Settlement Agreement.

⁴⁰ *See* Section 14.12 of the Settlement Agreement.

box service costs, (3) to forecast costs related to a new workforce management system, (4) to forecast a study that will research and weigh the benefits of owning offices as opposed to leasing and (5) various technology service projects to forecast Outside Services expenses.

In addition to the issue addressed in Section 6.1, the Public Advocates Office opposed the study that will research and weigh the benefits of owning offices as opposed to leasing.

The Settling Parties agreed to the following estimates for Outside Services reflecting the removal of the expenses related to the real estate ownership study.⁴¹

Outside Services	2025 (\$)		
	GSWC	Cal Advocates	Settlement
GO Segment			
Corporate Support	4,958,689	4,831,985	4,958,689
Utility Support	964,738	942,061	964,738
COPS	3,520,317	2,937,569	3,020,317
Total GO	9,443,744	8,711,615	8,943,744

3.1.43. Miscellaneous Expenses

The Public Advocates Office did not contest GSW's estimates for this item.⁴²

3.1.44. Maintenance of General Plant

The Public Advocates Office did not contest GSW's estimates for this item.⁴³

⁴¹ See Section 14.13 of the Settlement Agreement.

⁴² See Section 14.14 of the Settlement Agreement for agreed-upon figures for this item.

⁴³ See Section 14.15 of the Settlement Agreement for agreed-upon figures for this item.

3.1.45. Rent Expense

The Public Advocates Office did not contest GSW's estimates for this item.⁴⁴

3.1.46. A&G Capitalized

GSW's A&G Capitalized amounts are comprised of 25.9% of Office Supplies & Expense, Outside Services Expense and Corporate Expenses. The Public Advocates Office did not oppose GSW's methodology, reflecting the final adopted expenses in those line items.⁴⁵ The agreed-upon figures are shown in the table below.

A&G Capitalized	2025 (\$)		
	GSWC	Cal Advocates	Settlement
GO Segment			
Corporate Support	(2,207,076)	(2,136,103)	(2,207,076)
Utility Support	(288,439)	(267,010)	(288,439)
COPS	(1,077,024)	(902,500)	(947,318)
Total GO	(3,572,539)	(3,305,613)	(3,442,832)

3.1.47. General Office Labor

This item is discussed in Section 3.1.3 of the instant decision.⁴⁶

3.1.48. Depreciation Expense

The difference in party estimates for this item is due to differences in each respective party's Capital Budget estimates for the General Office. The Settling Parties agreed that Depreciation Expense should be updated to reflect the settled Capital Budget for the General Office and the depreciation accrual rates

⁴⁴ See Section 14.16 of the Settlement Agreement for agreed-upon figures for this item.

⁴⁵ See Section 14.17 of the Settlement Agreement.

⁴⁶ See Section 14.18 and Section 5.2 of the Settlement Agreement.

addressed in Section 12.1 of the Settlement Agreement, as shown in the table below.⁴⁷

Depreciation Expense	2025 (\$)		
	GSWC	Cal Advocates	Settlement
GO Segment			
Corporate Support	698,937	580,614	646,781
Utility Support	1,115,461	1,111,041	1,113,210
COPS	2,763,404	2,322,891	2,709,850
Total GO	4,577,802	4,014,546	4,469,841

3.1.49. Local Taxes

The Public Advocates Office did not contest GSW's methodology for this item.⁴⁸

3.1.50. Property Taxes

The Public Advocates Office did not contest GSW's methodology for this item.⁴⁹

3.1.51. Payroll Taxes

GSW and the Public Advocates Office both applied a Payroll Tax rate of 7.6% to all labor (payroll) expenses in the General Office. The differences in the Parties' initial estimates were due to the differences in payroll estimates. The payroll estimates have been settled as described in Section 5.2. *See* Section 14.22 of the Settlement Agreement for the agreed-upon figures for Payroll Taxes.

⁴⁷ *See* Section 14.19 of the Settlement Agreement.

⁴⁸ *See* Section 14.20 of the Settlement Agreement for agreed-upon figures for this item.

⁴⁹ *See* Section 14.21 of the Settlement Agreement for agreed-upon figures for this item.

3.1.52. Rates Charged for Purchased Water and Pump Taxes

The Settling Parties recommend that the latest available purveyor rates for purchased water, purchased power, and pump taxes be updated in the final decision as described in Section 10.2 of the Settlement Agreement.⁵⁰

3.1.53. Present Rates

The Settling Parties agreed that present rates used to determine revenue increases or decreases should be the rates in effect at the time the final decision is prepared, to reflect accurately the revenue changes adopted in the decision. The appendices to the Settlement Agreement use the rates in effect at the time the document was prepared to calculate the rate.⁵¹

3.1.54. Private Fire Service Charge

The Public Advocates Office did not contest this item.⁵²

3.1.55. Return on Rate Base

GSW filed its general rate case (GRC) request on August 14, 2023, utilizing the most recently adopted Cost of Capital, with a return on rate base (ROR) of 7.53 percent. The Public Advocates Office used the same Cost of Capital and ROR.

The Settling Parties recommend that the final decision in this proceeding reflect the most recently adopted Cost of Capital. The Summary of Earnings Tables, which are in Appendix A – Comparison Exhibit of the Settlement Agreement, present the position of the Settling Parties at the 7.93% ROR, which

⁵⁰ See Section 15.1 of the Settlement Agreement.

⁵¹ See Section 15.2 of the Settlement Agreement.

⁵² See Section 15.3 of the Settlement Agreement.

is the rate in effect at the time that the settlement was submitted to the Commission for approval.⁵³

3.1.56. Customer Assistance Program

The Public Advocates Office did not dispute GSW's Customer Assistance Program (CAP) forecasts, methodology for calculating discounts for eligible customers, or the surcharge to fund the program or recover program costs through the CAP Balancing Account. *See* Section 18.1 of the Settlement Agreement for the agreed-upon CAP Customer Forecasts.

3.2. Reasonableness of Golden State Water's Estimates of Rate Base

The items discussed in this subsection correspond to Issue 1b of the Scoping Ruling.

3.2.1. Depreciation Accrual Rates

GSW prepared separate depreciation studies for each of its ratemaking areas and the district offices in its operating regions. GSW states that it created separate studies for these district offices to more accurately reflect the depreciation activity in these offices and be consistent with the separate studies already being performed for the district offices in Region 1.⁵⁴

The Public Advocates Office disagreed with GSW on the depreciation accrual rates for Region 2, Region 3, Central District Headquarters, Southwest District Headquarters, Orange County District, Mountain Desert District Headquarters, and Foothill District Headquarters. The Public Advocates Office recommended that GSW maintain consolidated depreciation studies for the Central and Southwest District Offices within the Region 2 study, and for the

⁵³ *See* Section 16.1 of the Settlement Agreement.

⁵⁴ *See* Section 3.6 of the Settlement Agreement.

Orange County, Foothill, and Mountain Desert District Offices within the Region 3 study, consistent with GSWC's prior rate cases.

The Settling Parties ultimately agreed to the composite depreciation rates in the table shown below as part of the Settlement.

Operating Area	Composite Depreciation Rate (%)
Northern District Office	8.92
Coastal District Office	6.98
Arden Cordova	2.04
Bay Point	1.76
Clearlake	2.10
Los Osos	2.43
Santa Maria	2.24
Simi Valley	1.95
Central District Office	6.78
Southwest District Office	13.04
Region 2 (CSAs)	1.77
Foothill District Office	8.64
Mountain/Desert District Office	10.25
Orange County District Office	12.54
Region 3 (CSAs)	1.91

3.2.2. Working Cash (3.7)

The Settling Parties disagreed on whether to adjust working cash revenue lag days for the Water Revenue Adjustment Mechanism⁵⁵ (WRAM) balancing account net of the Modified Cost Balancing Account (MCBA). Ultimately, the Settling Parties agreed on revenue lag days to estimate working cash in this GRC,

⁵⁵ The Water Revenue Adjustment Mechanism is used by water utilities to balance rate-making and costs that severs the connection between usage and revenue. This effect is also known as "decoupling".

as shown in the table below. The Settling Parties state that the final expense lag days and working cash amounts should be calculated based on adopted expenses in the final decision.⁵⁶

CSA	Settlement
Arden Cordova	56.5
Bay Point	34.4
Clearlake	32.9
Los Osos	47.7
Santa Maria	54.0
Simi Valley	45.0
Region 2	49.3
Region 3	44.2

3.2.3. Depreciation Expense

The difference between the Settling Parties' respective positions is due to differences in their Capital Budget estimates for each area and the differences in depreciation accrual rates, as discussed in Section 3.6 of the Settlement Agreement.⁵⁷

The Settling Parties ultimately agreed that the Depreciation Expense should be updated to reflect the settled Capital Budget in each area as shown in the table below.

⁵⁶ See Section 3.7 of the Settlement Agreement.

⁵⁷ See also Section 7.13 of the Settlement Agreement.

Depreciation Expense	2025 (\$)		
	GSWC	Cal Advocates	Settlement
CSA			
Arden Cordova	2,338,433	2,169,848	2,308,366
Bay Point	607,366	573,652	603,869
Clearlake	389,403	376,687	354,432
Los Osos	866,439	740,761	829,989
Santa Maria	2,518,084	2,180,884	2,374,611
Simi Valley	1,010,283	955,751	990,452
Northern Dist.	26,498	26,360	26,308
Coastal Dist.	40,000	33,069	39,502
Region 2	15,435,336	13,469,959	14,749,722
Central Dist.	208,390	(53,348)	205,083
Southwest Dist.	669,707	(19,031)	665,293
Region 3	16,402,794	14,301,528	15,563,038
Foothill Dist.	225,453	27,007	221,178
Mountain/Desert Dist.	23,786	(18,411)	23,258
Orange County Dist.	242,324	13,791	236,980

3.2.4. General Office Plant Corporate Support, Utility Support, and Centralized Operations Support

GSW requested a capital contingency rate of 5% for all new General Office (GO) Capital budget items and an escalation rate of 6% based on the February 2023 CPI-U for all new GO Capital Budget items.

The Public Advocates Office disputed the need for various capital projects and recommended adjustments to the amounts included in GSW's proposed capital budgets for the GO. The Public Advocates Office also contested GSW's request to apply a contingency rate to any capital project and recommended removing the contingency rate from all capital projects requested by GSW.

The Settling Parties ultimately agreed to the GO capital additions and Construction Work in Progress (CWIP) budgets by GO segment shown in the table below.⁵⁸

Table 12.2				
GSWC GO Plant Settled Capital Budgets (\$)				
Capital Budget	2023	2024	2025	2026
Corporate Support	0	6,005,190	9,067,520	3,229,110
COPS	0	3,784,630	2,609,910	3,342,600
Utility Support Serv.	0	379,410	0	1,981,730
CWIP	2023	2024	2025	2026
Corporate Support	2,146,951	0	0	0
COPS	2,363,332	104,366	0	0
Utility Support Serv.	0	0	0	0
Total	4,510,283	10,273,596	11,677,430	8,553,440

3.2.5. Depreciation Accrual Rates

GSW prepared separate depreciation studies for each of its GO areas. The Public Advocates Office did not object to GSW's proposed composite depreciation rates for GO plant. The Settling Parties agreed to use the depreciation rates shown in the table below for the GO plant.⁵⁹

⁵⁸ See Section 12.1 of the Settlement Agreement for more details on this item. A list of GSW's new capital projects for the GO that are accepted as part of the Settlement can be found in Appendix F of the Settlement Agreement; a list of all GO CWIP projects accepted in the Settlement can be found in Appendix G of the Settlement Agreement.

⁵⁹ See Section 12.2 of the Settlement Agreement.

General Office Operating Area	Composite Depreciation Rate
Corporate Support	6.32%
Utility Support	8.11%
COPS	13.57%

3.3. Reasonableness and Accuracy of Golden State Water's Additions to Plant Budgets

The items discussed in this subsection correspond to Issue 1c of the Scoping Ruling.

3.3.1. Region 1, 2, and 3 Capital Budgets (3.2)

GSW requested a 2024-2026 capital budget (including CWIP Closed to Plant) total of \$578.0 million for Regions 1, 2, and 3. The Public Advocates Office recommended \$166.2 million.

Ultimately, the Settling Parties agreed on a 2024-2026 capital budget of \$524.9 million, as shown in the table below.

Table 3.3				
Region 1, 2 and 3 Total Capital Budgets by Region (\$)				
		GSWC	Cal Advocates	Settlement
Region 1	2024	34,799,063	10,740,661	27,047,944
	2025	27,212,984	7,514,073	25,580,205
	2026	52,771,566	11,379,909	53,309,221
Region 2	2024	79,384,572	18,977,538	61,996,809
	2025	85,413,573	20,869,362	80,288,759
	2026	63,339,447	19,674,602	64,056,021
Region 3	2024	96,940,933	21,096,203	78,720,737
	2025	80,557,756	27,928,511	75,724,291
	2026	57,613,648	28,059,481	58,225,391
Total		578,033,542	166,240,340	524,949,378

The Settling Parties also agreed to 75 additional capital projects that GSW may treat as Advice Letter projects totaling \$75,887,649 for costs incurred after December 31, 2022. The total Advice Letter projects amount include \$58,233,087 in 2023 and \$17,654,562 in 2024. *See* Appendix B of the Settlement Agreement for a listing of these Advice Letter projects. A memorandum account (*see* Appendix C of the Settlement Agreement) will track accrued interest during the construction period for each Advice Letter project at GSW's adopted cost of debt until the assets are in service, and the full rate of return and applicable components of revenue requirement, such as depreciation and property taxes, for the projects from the period the assets are in service to the date GSW files its attrition year filings for 2026 and 2027. At that time, the completed assets and the associated amounts in the memorandum account will be added to the adopted rate base, subject to Commission confirmation that the amounts were appropriately recorded in the memorandum account. Projects that are incomplete at the time of filing GSW's 2027 attrition filing will not be afforded memorandum account treatment.⁶⁰

3.3.2. Contingency

GSW requested a contingency rate of 5 percent for pipeline projects and Blankets and a contingency rate of 10 percent for non-pipeline projects included in the Region 1, 2, and 3 capital budgets. The Public Advocates Office recommended removing the contingency rate from all requested capital projects. The Settling Parties ultimately resolved the issue of contingency rate by agreeing

⁶⁰ *See* Section 3.2 of the Settlement Agreement for more details. A complete list of the CWIP and new capital projects can be found in Appendix D and Appendix E of the Settlement Agreement, respectively.

to the total capital budget as shown in Section 3.2 and Section 12.1 of the Settlement Agreement.⁶¹

3.3.3. Construction Work in Progress

GSW requested to include its CWIP budget in its rate base, which includes 2022 recorded CWIP amounts plus estimated costs for 2023 through 2026 to complete the CWIP projects, amounting to a total of \$272.6 million. The Public Advocates Office recommended a budget of \$140.1 million, arguing that the Commission deny requests for additional CWIP funding for 2024 through 2026 as they are related to the prior GRC. The Parties settled on final numbers and agreed to a total CWIP capital budget of \$190.4 million for 2023 through 2026.⁶²

3.3.4. Regions 1, 2, and 3 New Capital Budgets (3.5)

GSW requested to include new capital projects for Regions 1, 2, and 3 in its rate base, with total estimated expenditures of \$443.6 million for 2024 through 2026. The Public Advocates Office recommended a total budget of \$159.2 million for this item. The Settling Parties ultimately agreed to a total budget of \$414.5 million for new capital projects for Regions 1, 2, and 3 for the 2024 through 2026 period.⁶³

3.4. Reasonableness of Golden State Water's Proposed Cost Allocation from its General Office

The items discussed in this subsection correspond to Issue 1d of the Scoping Ruling.

⁶¹ See Section 3.3 of the Settlement Agreement.

⁶² See Section 3.4 of the Settlement Agreement for a breakdown of CWIP costs by region and the settled figures.

⁶³ See Section 3.5 of the Settlement Agreement for a breakdown of the settled amounts by region.

3.4.1. Structure of the Allocation of Costs to American States Utility Services (ASUS)

When allocating costs, GSW separated its General Office into three separate categories or functional areas: (1) Corporate Support; (2) Utility Support; and (3) Centralized Operations Support Department. The Public Advocates Office did not object to this approach.⁶⁴

3.4.2. Allocation of Corporate Support Function

The positions of the Settling Parties differed regarding the allocation of the Corporate Support function. GSW recommended the following four categories be used in the four-factor calculation: (1) gross plant; (2) operating expenses; (3) number of customers; and (4) direct operating labor expenses. GSW's proposal resulted in 15.57% of Corporate Support being allocated to ASUS, 9.34% to Bear Valley Electric Service (BVES), and 75.09% to GSW.

The Public Advocates Office recommended using three factors: (1) gross plant; (2) operating expenses; and (3) direct operating labor expenses, resulting in 20.8% of Corporate Support being allocated to ASUS, 9.6% to BVES, and 69.6% to GSW.

The Settling Parties ultimately agreed to 17.17% being allocated to ASUS, 9.34% to BVES, and 73.49% to GSW.⁶⁵

3.4.3. Allocation of Utility Support Function

GSW allocated the costs of Utility Support between GSW and BVES using the four-factor methodology. This resulted in 11.06% of GO Utility Support costs being allocated to BVES and 88.94% to GSW. The Public Advocates Office used the three-factor methodology 1) gross plant; (2) operating expenses; and

⁶⁴ See Section 13.1 of the Settlement Agreement.

⁶⁵ See Section 13.2 of the Settlement Agreement.

(3) direct operating labor expenses. The Settling Parties ultimately agreed to use GSW's allocation percentage of 11.06% to BVES and 88.94% to GSW.⁶⁶

3.4.4. Allocation of Centralized Operations Support Function

GSWC proposed to allocate Centralized Operations Support to its ratemaking areas using an equivalent number of customers methodology. The Public Advocates Office did not contest GSW's methodology.⁶⁷

3.5. Adequacy of GSW's Customer Service and Safety Programs

This item corresponds to Issue 2 of the Scoping Ruling. The Commission's General Order 103-A adopts standards and reporting requirements for six customer service quality metrics: 1) telephone performance standards; 2) billing performance standards; 3) meter reading performance standard; 4) work completion performance standards; 5) response to customer and regulatory complaints performance standard; and 6) service interruptions. GSW reports its compliance with these standards in its annual reports submitted to the Commission.

The Public Advocates Office reviewed GSW's performance for customer service from 2019 to September 2023 and noted that GSW did not meet performance standards for General Order 103-A, Appendix E, Section 1A (Call Answering Service Level) for years 2019, 2022 and 2023, Section 1B (Abandoned Call Rate) for years 2022 and 2023, and General Order 103-A Section 4A (Scheduled Appointment performance measure) for 2023, and recommended

⁶⁶ See Section 13.3 of the Settlement Agreement.

⁶⁷ See Section 13.4 of the Settlement Agreement.

that the Commission require GSW to develop and implement a plan to bring GSW in compliance with all General Order-103A customer service standards. The Public Advocates Office notes that since such time, GSW has addressed the circumstances that resulted in missing the identified General Order 103-A performance standards and recommends the Commission find GSW's safety program meets regulatory requirements.⁶⁸

3.6. Compliance with Statutory and Regulatory Requirements

This item corresponds to Issue 3 of the Scoping Ruling. The Public Advocates Office states that it reviewed GSW's compliance with statutory and regulatory requirements and did not find that GSW violates any applicable statutory or regulatory requirements.⁶⁹

3.7. Impact on Environmental and Social Justice (ESJ) Action Plan

This item corresponds to Issue 4 of the Scoping Ruling. The Settling Parties agree that GSW's proposals in this proceeding and the provisions of the Settlement Agreement meet the Commission's ESJ Action Plan (Plan) objectives. The Settling Parties make reference to the Public Participation Hearings, focus on mitigating rate increases in ESJ disadvantaged areas, the inclusion of CAP assistance, provision of multilingual notices and forms, capital improvement planning in traditionally disadvantaged communities, and increased customer outreach and protections as some examples of how GSW and the Settlement Agreement meet the Commission's Plan objectives.⁷⁰

⁶⁸ See Settlement Agreement at 7-8.

⁶⁹ See Settlement Agreement at 8.

⁷⁰ See Settlement Agreement at 8-11.

3.8. Reasonableness of Deviation from Rate Case Plan for Specified Estimates

This item corresponds to Issue 5 of the Scoping Ruling.

In A.20-07-012, GSW requested a deviation from D.04-06-018 (interim order adopting rate case plan (RCP)) for setting the third year (Year-3) rates to the extent necessary to ensure consistency of the components used to compute Year-3 rate base and Year-3 cost-of-service. The Internal Revenue Code requires consistency in order to satisfy tax normalization requirements. Per D.23-06-024, GSW requested a Private Letter Ruling (PLR) from the Internal Revenue Service to determine if implementing Year-3 rates under the RCP Method is permissible or would violate the normalization consistency requirement. For the purpose of determining Year-3 rates in this proceeding, Year-3 rate base was initially computed in the filing using the RCP Method.

The Public Advocates Office maintains its previously established position that GSW should only deviate from the RCP if directed to do so in the PLR.

GSW received a PLR after the filing of its Application in this proceeding confirming GSW's concern that implementation of rates under the RCP Method would result in a normalization violation, the Year-3 (*i.e.* 2027) depreciation-reserve and deferred-income-tax components of rate base should be calculated to make an appropriate adjustment necessary to achieve consistency with the Year-3 (*i.e.* 2027) cost-of-service depreciation and income-tax expenses.⁷¹

3.9. Reasonableness of Golden State Water's Overhead Rate and Methodology for Allocating Overhead (3.1)

This item corresponds to Issue 6 of the Scoping Ruling. GSW requested a capital overhead rate of 12.20% in 2024, 2025 and 2026 for Regions 1, 2 and 3 and

⁷¹ See Section 18.2 of the Settlement Agreement.

the GO with the exception of the GO Corporate Support and Utility Support segments. For the GO Corporate Support and Utility Support segments, GSW requested a capital overhead rate of 2.52% in 2024, 2025 and 2026. The overhead rates were calculated based on (1) the estimated charges to be booked to GSW's overhead pool; and (2) GSW's requested Capital Budgets. GSW included the overhead rates as a fixed input in its Application workpapers.

The Public Advocates Office did not contest GSW's methodology in calculating the capital overhead rate, but did recommend using a lower inflation factor in the overhead rate calculation workpapers and recalculating the overhead rate based on revised capital budgets. The Settling Parties ultimately resolved this issue by agreeing on a total capital budget, as described in Section 3.2 and 12.1 of the Settlement Agreement.⁷²

3.10. Special Request 1 – Reasonableness of GSW's Memorandum and Balancing Accounts (17.1)

This item corresponds to Issue 7 of the Scoping Ruling. GSW's Special Request 1 seeks amortization and continuation of several balancing and memorandum accounts, hereafter referred to collectively as "BAMAs." At the time of the filing of the instant Application, GSW had 31 active BAMAs. For purposes of brevity and to avoid repetition, we shall only include discussion of the items that faced opposition or resulted in a modified request as a result of compromise. The rest of the items that were not opposed and adopted in the Settlement as requested by GSW can be found in Section 17.1 of the Settlement Agreement.

⁷² See Section 3.1 of the Settlement Agreement.

3.10.1. Item 5 – OO. Pension and Benefits Balancing Account

The purpose of the Pension and Benefits Balancing Account (PBBA) is to track the difference between authorized pension costs included in rates (based on the Employment Retirement Income Security Act's minimum funding levels) and actual pension costs based on Accounting Standard Codification 715-10, Compensation - Retirement Benefits (formerly known as FAS 87). In this Application, GSW requested to continue this account until December 31, 2027. The balance in the PBBA as of May 31, 2023 is (\$1,236,744).

The Public Advocates Office opposed GSW's request to delay refunding the \$1,236,744 over-collection in this account to customers and recommended that the balance be amortized. The Public Advocates Office did not oppose continuing the account until December 31, 2027.

The Settling Parties ultimately agreed that this account shall continue through December 31, 2027 and GSW shall refund the May 31, 2023 over-collection of \$1,236,744 to customers through surcredits. The implementation of the surcredit should be concurrent with or as part of the revised tariff schedules adopted in this proceeding. The Parties recommend that the final decision contain an Ordering Paragraph authorizing GSW to include this surcredit in its Tier 1 advice letter implementing tariff schedules resulting from the final decision.⁷³

3.10.2. Item 9 – HHH. CEMA – Emergency Disaster Relief Customer Outreach

The Catastrophic Events Memorandum Account (CEMA) – Emergency Disaster Relief Customer Outreach (EDRCO) was activated on September 9, 2019,

⁷³ See Settlement Agreement at 119.

to extend the applicability section of the CEMA to include costs for implementing customer protections for all disasters in which the Governor of California or the President of the United States has declared a state of emergency. GSW requested to continue the account until December 31, 2027. The balance in the CEMA-EDRCO account as of May 31, 2023, is \$41,545.⁷⁴

The Public Advocates Office recommended that GSW remove the recorded cost of \$9,537 on May 12, 2023, from the balance, amortize the undercollection and close the account.

The Settling Parties ultimately agreed that \$9,537 should be removed from the May 31, 2023, balance, resulting in an adjusted balance of \$32,008. The implementation of the surcharge should be concurrent with or as part of the revised tariff schedules adopted in this proceeding. The Parties recommended that the final decision contain an Ordering Paragraph authorizing GSW to include this surcharge in its Tier 1 Advice Letter implementing tariff schedules resulting from the final decision. The account shall continue through December 31, 2027, because this is a Commission mandated account.

3.10.3. Item 10 – HHH. CEMA – COVID-19

The CEMA-COVID-19 was activated on March 4, 2020 as a result of the State of Emergency Declaration by Governor Gavin Newsom for COVID-19. GSW sought review and amortization (recovery) of the non-arrearage-related costs recorded in the CEMA-COVID-19, which totals \$1,245,729. Additionally, GSW acknowledged that recovery of CEMA- COVID 19-related unpaid bills shall not occur until state and federal funding appropriated has been disbursed and

⁷⁴ See Settlement Agreement at 123.

applied to customer accounts. The balance in the CEMA-COVID-19, for non-arrearage-related expenses, as of May 31, 2023, is \$1,245,729.

The Public Advocates Office recommended GSW be allowed to recover the requested \$1,245,729 undercollection of non-arrearage-related expenses for the CEMA-COVID 19 Memorandum Account, as of May 31, 2023. Additionally, the Public Advocates Office recommended GSW close this account by June 2026, after the amortization of the requested \$1,245,729. The remaining \$2,472,226 recorded in this account is Account Receivable (AR) reserve, which should be offset by incoming state and federal funding.

The Settling Parties ultimately agreed that GSW should be allowed to recover the requested \$1,245,729 undercollection of non-arrearage-related expenses for the CEMA-COVID-19, as of May 31, 2023. The implementation of this surcharge should be concurrent with or as part of the revised tariff schedules adopted in this proceeding. The Parties recommended that the final decision contain an Ordering Paragraph authorizing GSW to include this surcharge in its Tier 1 Advice Letter implementing tariff schedules resulting from the final decision. When the amortization expires, GSW shall transfer any residual balance to the General Ratemaking Area Balancing Account (GRABA), close this account and remove its reference from GSW's Preliminary Statement. The Settling Parties further agreed that the AR balance in this account, in the amount of \$2,472,226, should be offset by incoming state and federal funding before GSW seeks a request for amortization.⁷⁵

⁷⁵ See Settlement Agreement at 123-125.

3.10.4. Item 14 – RRR. Aerojet Water Litigation Memorandum Account

The Aerojet Water Litigation Memorandum Account (Aerojet) was authorized on July 21, 2005, in D.05-07-045 to record costs incurred by GSW associated with water contamination in the Arden-Cordova CSA. GSW was permitted to recover the balance over a 20-year period. D.05-07-045 directs recalculation of the surcharges in each subsequent GRC. GSW requested authority to continue the Aerojet amortization until August 2025, as ordered in D.05-07-045, and keep the account open to track any residual balance and any Water Availability Fees (WAF) received from developers, pursuant to D.05-07-045, that will be credited to customers in the future. The balance in the Aerojet account as of May 31, 2023 is \$3,614,317.

The Public Advocates Office recommended that GSW continue the authorized amortization until August 2025, close the account by June 2026, remove the account from its Preliminary Statement, and future WAF payments should be recorded in the GRABA.

The Settling Parties ultimately agreed that GSW shall amortize the Aerojet until August 2025. The implementation of the surcharge should be concurrent with or as part of the revised tariff schedules adopted in this proceeding. The Settling Parties recommended that the final decision contain an Ordering Paragraph authorizing GSW to include this surcharge in its Tier 1 advice letter implementing tariff schedules resulting from the final decision. GSW shall recalibrate the Aerojet surcharge concurrently with the rates adopted in this application and the amortization will expire in August 2025. Further, GSW agrees that when the amortization expires, the account shall be removed from GSW's preliminary statement, and any residual balance will be transferred to the

GRABA. GSW will track WAF payments (if any) in the GRABA once the Aerojet account is closed.⁷⁶

**3.10.5. Item 15 – TTT. Clearlake
Supply Expense Balancing Account
(CSEBA)**

CSEBA tracks the incremental difference between the actual purchased water costs per centum cubic foot (Ccf) and purchased electricity costs per kilowatt-hour (kWh) and the adopted purchased water costs per Ccf and purchased electricity per kWh, respectively. Since the Clearlake CSA does not have a Modified Cost Balancing Account (MCBA), this balancing account tracks purchased water and purchased power rate fluctuations in the Clearlake CSA on an ongoing basis. GSW is seeking authority to include Clearlake supply expenses in the proposed Water Conservation Advancement Plan. If granted, then GSW will amortize and close the CSEBA, via a Tier 1 Advice Letter, and remove reference to the CSEBA from its Preliminary Statement. The residual balance in the CSEBA account as of May 31, 2023, is \$36,906.

The Public Advocates Office recommended amortizing the May 31, 2023 balance recorded in the CSEBA and closing the account, regardless of the outcome of GSW's request to include Clearlake supply expenses in the Water Conservation Advancement Plan.

The Settling Parties ultimately agreed to the amortization recorded in the CSEBA, which is \$36,906, by implementing a surcharge in the applicable ratemaking area. The implementation of the surcharge should be concurrent with or as part of the revised tariff schedules adopted in this proceeding. The Parties recommend that the final decision contain an Ordering Paragraph authorizing

⁷⁶ See Settlement Agreement at 128-129.

GSW to include this surcharge in its Tier 1 Advice Letter implementing tariff schedules resulting from the final decision. When the amortization expires, GSW shall transfer any residual balance to the GRABA, close this account and remove its reference from GSW's Preliminary Statement.

Further, the Settling Parties agree that the outcome of Special Request #2 will determine if the Clearlake supply expenses will be tracked in the consolidated Arden Cordova/Clearlake ratemaking area's Full Cost Balance or part of the consolidated Arden Cordova/Clearlake ratemaking area's Incremental Cost Balancing Account.⁷⁷

3.10.6. Item 18 – KKKK. Public Safety Power Shut-Off Memorandum Account (PSPSMA)

The purpose of the PSPSMA is to record the incremental Operation and Maintenance (O&M) expenses and carrying costs of the new facilities costs, that are not otherwise covered in GSW's revenue requirement, to address public safety needs in the event of a proposed or declared Public Safety Power Shut-off (PSPS) event by any of the electric utilities that provide electric service to GSW's ratemaking areas, including advanced preparation costs. GSW requested to amortize the expenses incurred post-September 30, 2020 until May 31, 2023 and to continue this account until December 31, 2027. The balance in the PSPSMA as of May 31, 2023 is \$1,546,802.

The Public Advocates Office objected to the continuance of the account and recommended closing it by June 2026 and for GSW to forecast the PSPS expenses in its next GRC.

The Settling Parties ultimately agreed to the amortization of the balance incurred in the PSPSMA post-September 30, 2020 until May 31, 2023, which is

⁷⁷ See Settlement Agreement at 129-130.

\$961,139, by implementing surcharges in the applicable ratemaking areas. The implementation of the surcharge should be concurrent with or as part of the revised tariff schedules adopted in this proceeding. The Settling Parties recommend that the final decision contain an Ordering Paragraph authorizing GSW to include this surcharge in its Tier 1 Advice Letter implementing tariff schedules resulting from the final decision. Further, the account shall continue until December 31, 2027. In its next GRC, GSW shall forecast expenses related to PSPS events and close the memorandum account.⁷⁸

3.11. Special Request 4 – General Order 103-A and other Applicable Standards for Water Quality

This item corresponds to Issue 10 of the Scoping Ruling. GSW requested that, based upon the Company's operational data and results, the Commission make an explicit finding that, with the exception of the Robbins system, the GSW is in compliance with all pertinent and necessary state and federal water quality standards. With respect to the Robbins system, GSW is in compliance with United States Environmental Protection Agency's (EPA's) Administrative Order on Consent and is in progress to bring the system into compliance by June 2025.

The Public Advocates Office reviewed GSW's Consumer Confidence Reports, Annual Reports, and discovery responses, coordinated with the State Water Resources Control Board and recommended that the Commission should grant GSW's Special Request #4. The Settlement Agreement notes that GSW has entered into an Administrative Order on Consent with the United States Environmental Protection Agency to bring the Robbins system arsenic Maximum Contaminant Level (MCL) running average into compliance by June 2026 by

⁷⁸ See Settlement Agreement at 132-133.

adhering to the Compliance Plan. The Settling Parties agree that the Commission grant GSW's Special Request 4.⁷⁹

3.12. Special Request 5 – Consolidation of Arden Cordova and Clearlake Ratemaking Areas

This item corresponds to Issue 11 of the Scoping Ruling. GSW requests approval to consolidate its Arden Cordova and Clearlake areas for ratemaking purposes. GSW's goal is to implement, after a transition period, a single, combined set of rates for these two areas in the new, consolidated Northern District ratemaking district. Golden State proposes to freeze the metered rates for the existing Clearlake district for the instant GRC cycle as part of its transition to the fully combined rates. The Public Advocates Office does not oppose GSW's request.⁸⁰ Consolidating ratemaking areas can create a more equitable rate, particularly if one of the areas to be consolidated is a historically disadvantaged area.

3.13. Special Request 6 – Reasonableness of Golden State Water's use of Customer Assistance Balancing Account for Credit Card Payment Program

This item corresponds to Issue 12 of the Scoping Ruling. GSW requests approval to continue its credit card payment program and to recover the costs of the program through the Customer Assistance Program (CAP) Balancing Account, so that the cost will not be recovered from customers who participate in the CAP, as required by California Assembly Bill 1180. The Public Advocates Office agrees with GSW's request.⁸¹

⁷⁹ See Section 17.4 of the Settlement Agreement.

⁸⁰ See Section 17.5 of the Settlement Agreement.

⁸¹ See Section 17.6 of the Settlement Agreement.

3.14. Special Request 7 – Reasonableness of Increase in Various Fees

This item corresponds to Issue 13 of the Scoping Ruling. GSW requested approval to increase fire flow testing fees from \$300 to \$375 per test, reconnection fees from \$40 to \$45 during regular working hours, and from \$120 to \$130 after working hours, Cross Connection Control fees from \$1.98 to \$2.42 per month, and to implement a new Tampering Fee. The Public Advocates Office supports GSW's request to increase fire flow testing fees, reconnection fees and Cross Connection Control fees, but objects to the implementation of the new Tampering Fee.

The Settling Parties ultimately agreed to increase fire flow testing fees, reconnection fees and Cross Connection Control fees as recommended by GSW and GSW agreed to withdraw its request to establish a Tampering Fee.⁸²

4. Burdens on the Parties and Standard of Review

As joint moving parties, the Settling Parties jointly bear the burden of establishing that the Settlement Agreement (attached to this decision as Appendix A) meets the criteria set forth in Rule 12.1(d).⁸³

GSW bears the burden of production and burden of proof with respect to the contested Special Requests and must show by a preponderance of all the evidence in the record that its positions should be adopted by the Commission.

⁸² See Section 17.7 of the Settlement Agreement.

⁸³ Rule 12.1(d) states “[t]he Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. The Commission may reject any proposed settlement for failure to disclose the information required pursuant to subsection (a) of this rule.”

We will proceed with a discussion whether the Settlement Agreement meets the specified criteria for approval pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure (Rule).

5. Approval of the Proposed Settlement

When considering whether to adopt a settlement agreement, Rule 12.1(d) requires that the settlement: (i) be reasonable in light of the record; (ii) be consistent with the law; and (iii) in the public interest. We evaluate the Settlement on all three criteria, following the summary of the settled issues presented in Section 3 of the instant decision.

We find that the Settlement Agreement is reasonable in light of the whole record. We recognize that the Settling Parties carefully considered the facts relevant to each issue. We have weighed each party's argument, noting that each party reasonably and mutually compromised on the issues resulting in compromises in the Settlement Agreement that substantially lessen the burden on ratepayers relative to GSW's initially requested rate increases in the instant application. In turn, the Settlement Agreement will keep the rate burden as low as practicable while allowing GSW to recover a reasonable amount of increased costs and while continuing to provide safe and clean water service in an efficient and cost-effective manner. We therefore find the terms of the Settlement Agreement mutually beneficial to both GSW and ratepayers.

We also find that the Settlement Agreement is consistent with the law and Commission decisions. The Settling Parties complied with the provisions of Rule 12. Furthermore, we find that there are no terms within the Settlement Agreement that would bind the Commission in the future or violate existing law. The Settling Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement

Agreement. Further, the Settling Parties entered into the Settlement Agreement voluntarily and upon review and advice by their respective legal counsels and technical staff. Finally, we find that the Settlement Agreement is in the public interest for the following reasons:

1. The Settling Parties represent both sides of this case: the utility and the ratepayers and the Settlement Agreement balances those interests at stake;
2. The Settlement Agreement serves the public interest by resolving competing concerns in a collaborative and cooperative manner;
3. The Settlement Agreement minimizes the costs of evidentiary hearings and resources of the Commission, thus saving public and ratepayer funds to litigate the dispute;
4. The Settlement Agreement will provide efficient resolution of the majority of the contested issues, thus saving unnecessary litigation expenses and Commission resources;
5. The Settlement Agreement is consistent with the Commission's long-standing policy favoring the settlement of disputes to avoid costly and protracted litigation; and
6. The Settlement Agreement ensures that customers have continued access to an affordable, safe, and reliable water supply system.

Adoption of the Settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the Settlement Agreement does not bind or otherwise impose a precedent in this or any future proceeding. GSW should not presume that the Commission would deem the outcome adopted in this decision to automatically be reasonable in any subsequent application. Hence, future applications filed by GSW should fully justify every request and ratemaking proposal, as required by statute and Commission rule, and without reference to, or reliance on, the adoption of the Settlement Agreement.

6. Resolution of Remaining Issues

The Scoping Ruling listed 15 issues for consideration in this proceeding. Of the 15, six issues were not resolved in the Settlement Agreement, as listed above in Section 2. Those issues are discussed and addressed below in Section 6 of the instant decision.

6.1. Proposed Sales Forecast and Rate Design

This item corresponds to Issue 1e of the Scoping Ruling.

The first of the disputed issues is GSW's sales forecast and rate design. GSW characterizes its sales forecast as a detailed econometric methodology to forecast sales, backed up with expert testimony and detailed data that accounts for expected economic trends and variability in weather.⁸⁴

GSW argues that its forecast "includes all of the forecast elements required by the Commission in D.20-08-047, including:

- a. Impact of revenue collection and rate design on sales and revenue collection;
- b. Impact of planned conservation programs;
- c. Changes in customer counts;
- d. Previous and upcoming changes to building codes requiring low flow fixtures and other water-saving measures, as well as any other relevant code changes;
- e. Local and statewide trends in consumption demographics, climate population density, and historic trends by ratemaking area; and
- f. Past sales trends.⁸⁵

⁸⁴ See GSW Opening Brief at 14.

⁸⁵ See D.20-08-047, OP 1, which also states that a water utility must discuss how these specific factors impact sales forecast presented in the application.

GSW states that in developing its forecast, it used the following five factors: (1) customer heterogeneity; (2) economic drivers; (3) seasonal driers; (4) weather variability; and (5) demand shocks.⁸⁶

The Public Advocates Office recommends the Commission adopt its proposed sales forecast, which comprises a five-year average for every service class. The Public Advocates Office argues that GSW's econometric models include parameters selected by GSW's consultant "that are favorable to its desired outcome over those that are fair and reasonable to ratepayers."⁸⁷ The Public Advocates Office also argues that should the Commission decide not to authorize the full WRAM, it should require GSW to retain a rate design where it collects 30 percent of its revenue requirement from fixed charges.

GSW argues that the Public Advocates Office's sales forecast employs "a simple five-year historical average spanning 2018-2022, without further thought or analysis."⁸⁸ GSW also argues that the Public Advocates Office's approach ignores Commission guidance that directs water utilities to place 40 to 50 percent of the total revenue requirement in fixed service charges, unless extraordinary circumstances justify doing otherwise.⁸⁹

We find that GSW has satisfied the directive in D.20-08-047 for the inclusion of a discussion on the specified factors' impact on the sales forecast. Furthermore, we find that a nuanced methodology for forecasting sales is consistent with prior Commission guidance encouraging utilities to pursue

⁸⁶ See GSW Opening Brief at 19.

⁸⁷ See Public Advocates Office Opening Brief at 6.

⁸⁸ See GSW Opening Brief at 13.

⁸⁹ See D.16-12-026, Ordering Paragraph 13.

methods that would result in more accurate forecasting.⁹⁰ We adopt GSW's request for recovering 45 to 48 percent of its revenue requirement through fixed charges, depending on the service area. The shift to recovering more revenue through fixed charges is a trend across the industry and consistent with the D.16-12-026, which states that Class A water utilities shall propose adjustments to the percentage of revenue recovery collected from fixed charges with a floor of at least 40 percent of revenues collected from fixed charges and up to 50 percent fixed charges.⁹¹ We therefore adopt GSW's proposed sales forecast and rate design along with the transition to the M-WRAM⁹², discussed below as part of Special Request 2. This includes an adoption of GSW's proposed tier breaks.

6.2. Supply Mix Ratio and Supply Volume Forecast

This item corresponds to Issue 1f of the Scoping Ruling. This item was not explicitly included in the Commissioner's Scoping Ruling, however the parties have added it as part of Issue 1 and it is therefore addressed accordingly. As discussed in Section 6.1 above, the instant decision adopts GSW's sales forecast,

⁹⁰ D.16-12-026 OP 2 states that Class A and Class B Utilities shall propose improved forecast methodologies to more accurately determine how authorized revenue determined in a General Rate Case will be collected through water rates, and shall consider consumption trends during and following the drought that began in 2013, and factors that may affect consumption in the next General Rate Case such as drought, flood, climate change, water supply, any proposals to shift the collection of rates to fixed as opposed to variable charges, and the transition to Advanced Metering Infrastructure.

⁹¹ See D.16-12-026, Ordering Paragraph 13.

⁹² The M-WRAM, or Monterey WRAM, is a revenue adjustment mechanism, but in contrast to a WRAM, it is not a full decoupling mechanism; the M-WRAM instead adjusts for the difference between revenue collected under a tiered conservation rate structure, designed to impose increased costs for use of water exceeding certain thresholds, and the revenue that would have been collected, at actual sales levels, with a uniform rather than tiered structure in place.

which includes GSW's forecast for total supply volume.⁹³ The dispute between the Settling Parties is on the supply mix ratios for Region 2 and Region 3.

GSW states that it has forecasted production volumes for each well based on a five-year historical average, adjusted for site-specific conditions or factors that GSW believes are likely to impact production during this GRC period.⁹⁴ GSW provides various reasons for why a source in a particular CSA may need to be taken offline or may yield a particular production volume. These reasons include a well's age, the presence of PFAS contaminants, or the presence of benzene, among other factors.⁹⁵

The Public Advocates Office recommends that the Commission adopt the five-year historical average absent the adjustments made by GSW, arguing that the five-year historical average captures any described incidents.⁹⁶ The Public Advocates Office goes on to argue that "[i]f a well has gone offline in the last five years, the loss of production is captured in the average."⁹⁷ The Public Advocates Office also argues that GSW "only reduces the pumping forecast based on wells projected to be offline, rather than projecting any capacity increases based on wells being rehabbed or new wells coming online."⁹⁸ GSW's responded by stating that even when a well comes back online, they may require "fine-tuning

⁹³ See Settlement Agreement at 81-83

⁹⁴ See GSW Opening Brief at 5.

⁹⁵ See GSW Opening Brief at 52-63.

⁹⁶ See Public Advocates Office Opening Brief at 10.

⁹⁷ See Public Advocates Office Opening Brief at 11.

⁹⁸ See Public Advocates Office Opening Brief at 11.

and maintenance” and “may not return to historic production levels for some time after installation of a treatment system.”⁹⁹

We find GSW’s response to be ambiguous and speculative. It is unclear how long a well or treatment system would need to be fine-tuned, how probable such an occurrence is, and why it should require maintenance of such a nature shortly following installation that renders it incapable of increasing production volume. We are unconvinced that a potential increase from these sources of production should be excluded in their entirety from supply mix forecasts.

While we find that the Public Advocates Office’s argument that GSW has failed to increase any of its supply forecast for wells coming back online noteworthy, we also find some merit in GSW’s nuanced forecast for each specific customer service area. We also acknowledge the fact that new MCLs for PFAS have been established that could impact supply in a way that was not captured in the period utilized by the Public Advocates Office for determining the five-year average. We therefore adopt a supply mix ratio that splits the difference between the amount requested by GSW and the amount recommended by the Public Advocates Office for Region 2 and Region 3, as shown in the table below.

Water Supply Volume Forecast (100 cubic feet “CCF”)			
Region 2	2025	2026	2027
Wells Production	9,663,458	9,663,458	9,663,458
Purchased Water	11,721,881	11,766,584	11,811,288
Purchased-Reclaim/Recycle	358,708	358,708	358,708
Total Supply	21,744,047	21,788,750	21,833,455

Region 3	2025	2026	2027
Wells Production	13,653,458	13,673,125	13,692,794

⁹⁹ See GSW Opening Brief at 63.

Purchased Water	11,357,946	11,405,061	11,452,174
Purchased Reclaim/Recycle	96,840	96,840	96,840
Total Supply	25,108,245	25,175,026	25,241,808

Table 1: Water Supply Volume Forecast for Region 2 and Region 3

6.3. Special Request 2: Implementation of a New Revenue Decoupling Program, the Water Conservation Advancement Plan

GSW requests authorization to establish the Water Conservation Advancement Plan (WCAP) as part of its Special Request 2. GSW states that its WCAP, which includes the Water Consumption Revenue Balancing Account (WCRBA) and the Water Consumption Cost Balancing Account (WCCBA), would function in the same manner as its current WRAM and Modified Cost Balancing Account (MCBA) and also allow GSW to maintain its current conservation-oriented rate design.

In stressing the merits of full decoupling¹⁰⁰ relative to the M-WRAM, which GSW describes as “not a true revenue decoupling mechanism,”¹⁰¹ the Applicant argues that under full decoupling, the utility “do[es] not have a financial incentive to promote sales or discourage conservation” whereas under the M-WRAM it does have an incentive to promote sales and discourage conservation.

The National Association of Water Companies (NAWC) echoes the arguments made by GSW, arguing that revenue decoupling as achieved by the WRAM provide conservation benefits and flexibility to account for

¹⁰⁰ Full decoupling, WCAP, and the WRAM or full WRAM shall be used interchangeably throughout this decision.

¹⁰¹ See Exhibit GSW-DM-070 at 7.

“unpredictable weather patterns and the specter of drought conditions, while also continuing to incentivize investments to maintain California’s water infrastructure.”¹⁰² NAWC emphasizes that revenue decoupling provides revenue stability to the utility.

The California Water Association (CWA) also argues in favor of revenue decoupling. CWA makes the same arguments that GSW and NAWC advance — namely, that decoupling allows the utility to promote conservation and confers other revenue stability related benefits.¹⁰³

The Public Advocates Office recommends the Commission deny GSW’s request to implement the WCAP and instead authorize GSW to transition to M-WRAM and ICBA.¹⁰⁴ The Public Advocates Office offers three reasons why the Commission should deny GSW’s continuation of a full WRAM.

First, the Public Advocates Office argues that the WCAP does not promote conservation in a meaningful way when compared to the M-WRAM, stating “[c]onsumption can change due to effects of conservation programs, rate designs, weather, drought, economic effects, or inaccurate sales forecast.”¹⁰⁵ Second, the Public Advocates Office argues that the WCAP harms customers in that the full WRAM “profoundly impacted customers’ monthly bills” and “transfers risk for utility operations from shareholders to ratepayers.”¹⁰⁶ Third, the Public Advocates Office notes that while GSW argues that the WRAM helps low-

¹⁰² See NAWC Opening Brief at 1.

¹⁰³ See CWA at 4.

¹⁰⁴ See Public Advocates Office Opening Brief at 13.

¹⁰⁵ See Exhibit PUBADV-SL-002 at 6-7.

¹⁰⁶ See Public Advocates Office Opening Brief at 17.

income and low-use customers, the surcharges can actually have the opposite effect.

While GSW's argument that the M-WRAM gives it an incentive to promote sales and discourage conservation in theory, it is unclear how it could or would be applied practically. Consumers are already deterred from high water consumption by ever-increasing utility bills. Although the argument can be made that usage only constitutes one component of overall billing, it is still the only element of the bill that the customer has control over and therefore the prospect of increasing consumption whilst protesting high bills is improbable. Therefore, it is unclear based on the record how GSW would act on the financial incentive to "promote sales or discourage conservation" under the M-WRAM.

Furthermore, while GSW argues that the M-WRAM will discourage conservation, it fails to make a case on how a full WRAM incentivizes the utility to encourage conservation. Under a full WRAM, the utility's revenue would be adjusted whether under or over collected to what was authorized in the general rate case, therefore if operating under the assumption that an incentive is what induces behavior on the part of the utility, there is an absence of an incentive under the full WRAM for the utility to act in a manner that promotes conservation.¹⁰⁷ Therefore, we do not find the argument that full decoupling provides better incentives to the utility to promote conservation than the M-WRAM to be persuasive.

GSW argues that moving to an M-WRAM would place more of the service bill charge in fixed costs, incentivizing higher use by consumers.¹⁰⁸ Yet GSW also

¹⁰⁷ This is not to be confused with the presence of a disincentive, but akin to no incentive in either direction.

¹⁰⁸ See Exhibit GSW-DM-070 at 28.

argues that water demand is inelastic.¹⁰⁹ It is unclear how it could be affected by price signals in one example of moving to the M-WRAM and unresponsive in another.

We agree with the Public Advocates Office that the full WRAM does not incentivize conservation; at most, it does not create a financial disincentive for promoting conservation. When considering whether to authorize the continuation of the WRAM or to transition GSW to the M-WRAM, we seek to balance rising costs to customers with the financial solvency of the utility. We find that the M-WRAM achieves this balance more effectively than the WRAM. We deny GSW's request for its WCAP and accompanying MCBA, and we direct GSW to transition to the M-WRAM and establish an Incremental Cost Balancing Account (ICBA).

6.4. Special Request 3: Continuation of the Sales Reconciliation Mechanism

Golden State Water requests authorization to continue the use of its Sales Reconciliation Mechanism (SRM), which the Commission has previously authorized in D.19-05-044 and D.23-06-024. The purpose of the SRM is to account for inaccuracies on the part of the utility when forecasting water consumption, thereby reducing a high WRAM balance.

CWA argues in favor of GSW being authorized to continue its SRM, stating that the SRM "would allow Golden State to adjust its sales forecast throughout the GRC cycle to address significant fluctuations in consumption due to unforeseen conditions resulting from factors such as climate change," citing drought and extremely wet winters as examples.¹¹⁰

¹⁰⁹ See Exhibit GSW-DM-070 at 10.

¹¹⁰ See CWA Opening Brief at 16.

The Public Advocates Office argues that the Commission should deny GSW's request to continue its SRM for three reasons. First, the Public Advocates Office argues that the SRM enables GSW to modify the sales forecast between GRCs and therefore results in a significant modification to the cost of service outside of the GRC process, contrary to what is required in the Commission's Rate Case Plan (RCP). Second, the Public Advocates Office argues that the SRM may create administrative issues for the Commission. Third, the Public Advocates Office argues that the SRM was authorized for the purpose of reducing or stabilizing the large WRAM balances and if the Commission transitions GSW to M-WRAM, then there is no reason for the continuation of the SRM.

We do not agree with the first two reasons put forth by the Public Advocates Office. First, the SRM has been twice previously authorized for GSW and therefore we decline to revisit the issue here. Second, we reject the argument that review of advice letters creates administrative issues for Commission staff as it does not give enough credence to the Commission's ability to carry out its duties effectively.

GSW argues that the SRM is beneficial to ratepayers and the utility because it would adjust the sales forecast either upward or downward, depending on the applicable facts.¹¹¹

The SRM was first authorized in D.14-08-011 to give Cal Water "the opportunity to deploy the SRM as a means to mitigate against a high WRAM balance."¹¹² It was subsequently authorized for other water utilities, such as

¹¹¹ See GSW Opening Comments at 14-15.

¹¹² See D.14-08-011 at 19.

GSW. The existence of the SRM was intended to help ratepayers by mitigating surcharges after the fact and presumably induce conservation or changes in usage through annual rate adjustments. Although we are directing GSW to move away from the use of the WRAM, we authorize the continuance of the SRM, in part, for this particular GRC cycle. The SRM is to continue with an annual evaluation, not the modified bi-annual evaluation requested by GSW. As part of this authorization, we seek to obtain more information in GSW's next GRC application on whether the mechanism is benefitting both ratepayers and the utility when considering its continuation. Therefore, GSW is directed to include metrics on how many times the SRM was triggered, the forecasted and consumption values at the time it was triggered (and by extension the difference between the two), what customer impacts could be attributed to the triggering of the SRM (how did usage and consumption change as a result, did rates increase or decrease as a result of each triggering of the SRM), and any other information the utility finds pertinent in relation to the performance of the SRM in tandem with the M-WRAM.

In sum, the SRM is to be continued with an annual evaluation. We therefore approve Special Request 3 with the two modifications requested by GSW as follows: that the adjustment would be made to all adopted sales forecasts in a ratemaking area if the trigger is met (rather than being limited to sales associated with decoupled rate tariffs) and the SRM would not adjust sales upward if mandated drought reductions are in effect such that Schedule 14.1 is active in the ratemaking area. The current annual evaluation of the SRM should be continued, and the requested semi-annual evaluation is denied.

6.5. Special Request 8: Inclusion of Carrying Costs at Rate of Return on Incremental Plant Investments to Address PFAS Treatment

On August 6, 2020, the Commission established the Polyfluoroalkyl Substance Memorandum Account (PFASMA) in Commission Resolution W-5226. This resolution granted GSW, among other water utilities, authorization to record costs to the PFASMA.

Golden State Water's Special Request 8 requests authorization to modify its existing PFASMA to include the ability to track carrying costs at its adopted rate of return for all incremental plant investment. GSW states that it is seeking this modification due to "newly promulgated PFAS Maximum Contaminant Levels (MCLs) from the EPA. GSW argues that tracking these costs separately from other contaminant remediation measures will make them more transparent and easier for customers to understand.¹¹³ GSW also argues that the Commission refrained from authorizing capital costs for inclusion in the PFASMA because, among other reasons, the lack of an MCL to determine appropriate levels of treatment. GSW states that because the EPA has now established an MCL, the aforementioned reasoning no longer applies.¹¹⁴ Golden State Water states that should this request be denied, GSW would "continue to track incremental expenses in the PFASMA and will track the return on and carrying costs of capital improvements needed to treat for PFAS in the existing Contaminant Remediation Memorandum Account (CRMA).¹¹⁵

¹¹³ See GSW Opening Brief at 124.

¹¹⁴ See GSW Opening Brief at 125.

¹¹⁵ See Exhibit GSW-SP-080 at 24.

The Public Advocates Office argues that the request should be denied as the Commission has previously stated [in Resolution W-5226]:

The appropriate place to request rate increases to cover incremental plant costs is an application where the utility can make the showing that the incremental plant is necessary to provide safe water service.¹¹⁶

The Public Advocates Office further argues that GSW has the operational flexibility to build urgent projects when needed and that because of the high cost of the capital projects they should be reviewed in the context of GSW's overall capital planning process. The Public Advocates Office also expressed concern during evidentiary hearing that if the Commission were to deny Special Request 8 to modify the PFASMA, GSW would record the costs in the CRMA, something that the Public Advocates Office believes Golden State does not have the authority to do.

We caution GSW that costs that are recorded without the requisite authority may be denied. The CRMA should not be utilized to avoid Commission review and authorization of capital projects in a GRC or stand-alone application, prior to capital expenditures for those projects. Reliance on the CRMA for such projects would result in an after-the-fact reasonableness review of capital expenditures, as opposed to the authorization of a budget prior to projects beginning construction. Furthermore, to the extent possible, we encourage GSW to pursue state and federal grants for construction of PFAS remediation facilities.

Similarly, we do not find merit in expanding the kinds of costs that are authorized to be recorded in the PFASMA for the purpose of making the new

¹¹⁶ See Commission Resolution W-5226 at 9.

costs more clearly attributable to a particular cause on a customer bill. When considering this, we also consider the lesser levels of review that would accompany such an expansion of authorized costs and the potential for a larger bill impact as a result. A large bill impact would negate any positive effect to be gained by the customer from knowing that it is related to PFAS remediation. Capital investments for purposes of meeting newly established MCLs for PFAS should be presented in a general rate case application or in a separate application, for Commission review. We therefore deny GSW's Special Request 8.

**6.6. Special Request 9: Pilot Supply
Mix Adjustment Mechanism in Region 2**

Golden State Water's Special Request 9 entails "a pilot mechanism that will trigger if the recorded well production volume in its Region 2 deviates from the adopted production level by more than 5%."¹¹⁷ If the threshold for the trigger is met, the adopted well production deviation will be adjusted by 50 percent of the deviation, with a corresponding increase or decrease.

To provide context, a well that GSW utilizes for water provision may be taken offline for reasons such as contamination or failing to meet standards regarding contaminants. While GSW takes measures to rectify the deficiencies in that particular source of water, the well must be taken offline. According to GSW, it proposes this program as a pilot because it is not aware of any other similar program in existence and believes assessing its effectiveness as a pilot to be prudent before implementing it on a larger scale. The "supply mix" refers to the purchase of water from sources outside of GSW's wells in the event that its well production is lower than forecasted. In support of this special request, GSW states the following:

¹¹⁷ See Exhibit GSW-JDL-003 at 20.

However because of water quality standards that Golden State must comply with, and source water quality issues that Golden State does not control but must address in order to meet mandatory water quality standards, it is not always possible to accurately forecast well production capabilities for future years, which can be several years into the future.¹¹⁸

The Public Advocates Office argues that GSW's Special Request 9 be denied because "it is an unnecessary alternative ratemaking mechanism that shifts risks of sales forecasting from GSWC to ratepayers and can result in increased customer bills and reduced transparency."¹¹⁹ The Public Advocates Office argues that granting this request will allow GSW to take wells offline without regulatory oversight. Although not explicitly stated by the Public Advocates Office, the implication seems to be that the periods between review of the GRC filing constitute a lack of oversight, despite the review and approval of the GRC application and its contents.

The Public Advocates Office argues that GSW has previously abused the authority to take wells offline by doing so prematurely, at times when it was not in fact necessary based on existing MCL standards. To buttress their claim, the Public Advocates Office provides two examples of instances where it believes GSW prematurely took wells offline. The first relates to Dace Well, where the Public Advocates Office cites to samples taken that, based on significant figures, indicated benzene as a contaminant were at or below the 1 microgram per liter MCL. This was the case for all twenty-two samples taken, between 2015 and 2023.¹²⁰

¹¹⁸ See Exhibit GSW-JDL-003 at 23-24.

¹¹⁹ See Public Advocates Office Opening Brief at 27.

¹²⁰ See Exhibit PUB-ADV-CS-013 at 3-2 and 3-3.

GSW responds by stating that before rounding the MCL levels down, the actual level exceeded the MCL and GSW found it prudent to take the well offline and not delay treatment.¹²¹ . The EPA guidance states that “[i]n calculating data for compliance purposes, it is necessary to round-off by dropping the digits that are not significant.¹²² Therefore, the threshold for whether a MCL is exceeded is determined by rounding and reporting according to EPA guidelines. Although the well was not considered to be at unsafe levels yet, as determined by EPA standards and guidance on how to report the measured contaminant levels, GSW took the wells offline due to contamination levels at nearby sites and the proximity of the measured contaminant level to the MCL.¹²³ . In this instance, we remind GSW of its responsibility to act as a prudent manager when determining the point at which to take wells offline as they approach the established MCLs.

The second example that the Public Advocates Office cites to is GSW’s taking McKinley Well 3 offline when the PFAS levels were below the standards established by the State Water Resources Control Board.¹²⁴ GSW argues that since the time it took McKinley Well 3 offline, EPA MCL standards for PFAS have been published and the levels GSW measured were higher than the MCL that was adopted, thereby justifying GSW’s actions.¹²⁵ When assessing whether a utility is in compliance or in violation, we look to the standards in place at the time in question. If we adopt GSW’s logic here, where an action’s merit is judged by a future law, standard, or regulation, a utility can also be found in violation

¹²¹ See GSW Reply Brief at 79.

¹²² See Exhibit PUB-ADV-CS-013 at 3-2.

¹²³ See Exhibit GSW-SP-080 at 17-19.

¹²⁴ See Exhibit PUB-ADV-CS-013 at 3-2.

¹²⁵ See GSW Reply Brief at 80.

retroactively. Unless specifically authorized, legal history presumes laws and regulations are applied prospectively and retroactive application of a law or regulation is prohibited as it undermines due process. Therefore, we do not find GSW's action justified by the establishment of a standard that it was not aware of at the time of its action. We agree with the Public Advocates Office that taking wells offline, prior to the establishment of standards by regulatory agencies, was premature.

Regulatory agencies conduct extensive rulemakings and other involved processes, based on science and stakeholder input, that lead to the establishment of standards. The utility is responsible for complying with these standards. At a time when utility bills are at historically high levels, the Commission must consider the benefits to be gained from treating water to levels below MCL standards and the impact to low and fixed-income households from the cost of such action on the part of the utility. The establishment of a supply-mix adjustment mechanism decreases the importance of proposing an accurate supply forecast in its GRC filing and allows for periodic adjustments to that forecast within the GRC cycle. We do not find GSW's argument in favor of the establishment of a supply-mix adjustment mechanism at this time to be compelling, and therefore we deny GSW's Special Request # 9.

7. Public Participation Hearings

The most frequent public comments noted that bills have increased despite similar or decreased water usage on the part of the consumer. Although water usage is a component of calculating costs, we note that costs for maintaining infrastructure, water treatment plants, and other fixed costs remain unaffected by usage but are necessary for the provision of safe and reliable water service.

We also note that rate increases for utility services are not set at the prevailing rate of inflation, as many customers requested be done. The revenue needs of a utility are driven by many factors beyond the cost-of-living adjustments and the inflationary rate in the United States. While the Commission considers the projected level of inflation, the Commission must also consider and weigh the other factors affecting the cost of utility services. Furthermore, the cost of living and inflation rates in the United States can be volatile.

8. Comments on Proposed Decision

The proposed decision of ALJ Amin Nojan in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure.

On December 5, 2024, the Public Advocates Office, Golden State Water Company, California Water Association, and the National Association of Water Companies filed comments. On December 10, 2024, the aforementioned parties filed reply comments.

Comments on proposed decisions are governed by Rule 14.3, which states that comments must "focus on factual, legal, or technical errors in the proposed or alternative decision and, inciting such errors, shall make specific references to the record or applicable law. Comments which fail to do so will be accorded no weight." Our discussion of the comments is limited to the criteria specified by Rule 14.3.

GSW argues that the record does not support the PD's adoption of a supply mix ratio and supply volume forecast that falls at the midpoint of what was proposed by GSW and Public Advocates. However, despite GSW's

contention, we find that the record fails to fully justify either party's proposed forecast. We therefore find the midpoint between the two proposals to be the most reasonable outcome. GSW contends that various factors may prevent it from bringing wells online, however despite the PD's explicit acknowledgement that it is unclear based on the record of this proceeding how long a well or treatment system would need to be fine-tuned, how probable such an occurrence is, and why it should require maintenance of such a nature shortly following installation that renders it incapable of increasing production volume, GSW fails to provide any meaningful clarity on these ambiguities or any reference to the record that would elucidate its position. Instead, GSW would have the Commission approve a GRC application that allocates costs to well rehabilitation, yet provides no timeframe or likelihood of the well becoming available again for the foreseeable future and excluding the production of that well from supply forecasts. The PD adopts an approach that acknowledges there may be some deviations from a historical five-year forecast in addition to acknowledging that there will be some increased volume of production from wells being rehabilitated and coming back online.

GSW, CWA, and NAWC argue in favor of the Commission authorizing the full WRAM and against the transition to the M-WRAM. The arguments raised by the parties has been addressed in Section 6.2 of the instant decision and will not be discussed again here. The primary argument in favor of a continued authorization to utilize the WRAM appears to be conservation. However, we see that there is no significant change in conservation achieved between utilities with the WRAM and those without the WRAM.¹²⁶ We agree that there are myriad

¹²⁶ See Figure 1, Exhibit PUBADV-SL-002 at 6-7.

factors that affect conservation, including rate design and tier breaks, weather, drought, economic effects, and the accuracy of sales forecasts. We find the contention that the WRAM is the primary or determining factor in achieving conservation, or that the WRAM achieves conservation in a more significant manner than the M-WRAM, to be unsupported by the record of this proceeding.

GSW argues that the SRM benefits both the utility and ratepayers because it can be adjusted up or down when the trigger threshold is met. GSW states that the benefit can continue even in the absence of the full WRAM. We authorize the continuance of the SRM, however we retain the annual evaluation rather than the bi-annual requested by GSW. We also would like to continue monitoring its effectiveness and therefore require reporting on specified metrics in GSW's next GRC. We approve the continuance of the SRM with the modifications outlined above and in greater detail in Section 6.4.

The PD rejects GSW's Special Request 9, a request for approval of a pilot mechanism that would adjust its supply-mix in Region 2 once specified criteria are met. The PD discusses two instances in which GSW took wells offline when the measurements returned did not indicate the contaminant level was in violation of established standards. GSW states that "[t]he Commission should not require water quality violations before a utility may take a well offline." The instant decision imposes no such requirement on the utility and contains no restriction on when GSW may opt to take a well-offline when the water is no longer safe for consumers. Rather, we caution GSW to act as a prudent manager when determining to take a well offline, particularly in instances where an MCL has not yet been adopted.

Determining when to take a well offline as it approaches an MCL is something that must be done with the consideration of the costs and benefits.

Under ideal circumstances, drinking water would have a zero-contaminant level. However, regulatory agencies have conducted rulemakings based on science and stakeholder input that establishes Maximum Contaminant Levels, considered acceptable levels for a particular contaminant in drinking water. The cost of treating water to an increasingly lower level than the MCL, when there are no discernible benefits to doing so and no reportable harm to be incurred from not doing so, would not reflect actions taken as a prudent manager.

Upon review of the comments and reply comments, we have made changes to the proposed decision to clarify existing language and incorporate comments from the parties. To the extent justified, revisions have been incorporated herein to reflect the substance of comments received.

9. Comments on Alternate Proposed Decision

The alternate proposed decision of Assigned Commissioner Darcie L. Houck in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by _____ on _____. Reply comments were filed by _____ on ____.

10. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Amin Nojan is the ALJ for this proceeding.

Findings of Fact

1. On August 14, 2023, Golden State Water Company filed A.23-08-010 for authorization to increase rates for water service by \$87,060,700 or 22.95% in 2025; (2) authorizing it to increase rates by \$20,699,200 or 4.42% in 2026, and increase rates by \$22,408,200 or 4.57% in 2027 in accordance with the Rate Case Plan; and

(3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

2. On July 12, 2024, Golden State Water Company and the Public Advocates Office filed Joint Motion for the Adoption of Settlement Agreement.

3. The Settlement Agreement resolves all but six issues identified in this proceeding's Scoping Ruling.

4. The terms of the Settlement Agreement are mutually beneficial to both GSW and to ratepayers.

5. The Settling Parties adequately reflect and balance diverse interests.

6. The Settlement Agreement serves the public interest by resolving competing interests in a collaborative and cooperative manner.

7. The Settlement Agreement is consistent with the Commission's long-standing policy favoring the settlement of disputes to avoid costly and protracted litigation.

8. There are no terms within the Settlement Agreement that would bind the Commission in the future or that would violate existing law.

9. The Settling Parties consist of the utility and an entity dedicated to advocating for customer interests.

10. Golden State Water Company did not correctly interpret U.S. EPA guidelines on how to report MCL levels for purposes of determining compliance with established standards.

11. Taking wells offline prematurely may result in the unnecessary purchase or lease of water, with additional costs passed onto ratepayers.

12. Tracking capital costs in memorandum accounts diminishes the Commission's opportunity to review projects prior to approval.

13. The WRAM neither encourages nor discourages conservation efforts on the part of the utility.

14. The WRAM protects the utility from inaccuracies in forecasts by guaranteeing the revenue requirement adopted by the Commission.

15. The M-WRAM provides a link between customer usage and utility revenue.

16. The M-WRAM encourages conservation through tiered rates.

17. The SRM was authorized to mitigate against high WRAM balances.

18. Golden State Water Company did not include production from wells coming back online in its supply forecasts.

19. The record of this proceeding does not indicate when the production capacity of wells that were taken offline can be considered available for use.

20. Golden State Water Company satisfies the requirements of D.20-08-047 by including discussion of specified factors when discussing its proposed sales forecast.

21. Golden State Water Company's request to increase the portion of revenue it derives from fixed charges is consistent with prior Commission guidance provided in D.16-12-026.

Conclusions of Law

1. Golden State Water Company should be authorized the general rate increases for 2025, 2026, and 2027, as follows: \$44,239,000 or 10.52% for 2025, \$19,85,100 or 4.26% for 2026, and \$19,882,500 or 4.07% for 2027.

2. The Joint Motion for Adoption of Settlement Agreement, filed July 12, 2024, should be granted.

3. The Settlement Agreement (attached to this decision as Appendix A) is reasonable in light of the whole record, consistent with the law, and in the public interest, and should be approved and adopted.

4. The Settling Parties complied with the provisions of Rule 12.

5. Pursuant to Rule 12.5, the Settlement Agreement does not bind or otherwise impose a precedent in this or any future proceeding.

6. Golden State Water Company should present plans for capital investments related to PFAS treatment in a separate application or in its GRC filing, rather than recording them in its PFASMA.

7. Golden State Water Company should transition to the Monterey WRAM.

8. The Commission should approve the continuance of the Sales Reconciliation Mechanism with modifications in concert with its decision to transition Golden State Water Company from the full WRAM to the M-WRAM.

9. Supply mix and volume forecasts should include wells coming back online due to rehabilitation or the installation of treatment facilities.

10. Golden State Water Company should be authorized to recover a greater portion of revenue in fixed charges.

11. The Commission should deny Golden State Water Company's request to establish the pilot Supply Mix Adjustment Mechanism.

12. All rulings issued by the assigned Commissioner and ALJ should be affirmed herein; and all motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ should be denied.

13. This proceeding should be closed.

O R D E R**IT IS ORDERED** that:

1. Golden State Water Company is authorized the general rate increases for 2025, 2026, and 2027, as follows: \$44,239,000 or 10.52% for 2025, \$19,894,700 or 4.26% for 2026, and \$19,883,300 or 4.07% for 2027.
2. The Joint Motion for Adoption of Settlement Agreement, filed July 12, 2024, is granted, and the Settlement Agreement attached to this decision as Appendix A is approved and adopted.
3. Golden State Water Company shall present plans for capital investments related to Polyfluoroalkyl Substances (PFAS) treatment in a separate application or in its next general rate case filing, and shall not record them in its PFAS memorandum account.
4. Golden State Water Company shall transition to the Monterey Water Revenue Adjustment Mechanism, establish an Incremental Cost Balancing Account, and discontinue its use of the full Water Revenue Adjustment Mechanism and Modified Cost Balancing Account.
5. Golden State Water Company is authorized to increase the revenue it collects through service charges to the amounts presented in Table 2, Attachment 4 of Exhibit GSW-DM-070. The service charges range from 45 percent to 48 percent, depending on the Rate Area, as follows:
 - a. Arden Cordova – 45.4%
 - b. Bay Point – 45.8%
 - c. Clearlake – 47.5%
 - d. Los Osos – 47.9%
 - e. Santa Maria – 45.0%
 - f. Simi Valley – 44.0%

g. Region 2 – 45.0%

h. Region 3 – 45.0%

6. The supply mix ratios for Region 2 and Region 3 shall be the average of Golden State Water Company's and the Public Advocates Office's supply mix ratio forecasts.

7. Golden State Water shall continue its use of the Sales Reconciliation Mechanism with the modifications adopted herein and shall include, at minimum, the following information on the performance of the SRM in its next GRC filing:

- a. The number of times the SRM was triggered, the forecasted and consumption values at the time it was triggered (and by extension the difference between the two)
- b. The customer impacts that could be attributed to the triggering of the SRM (how did usage and consumption change as a result, did rates increase or decrease as a result of each instance of the triggering of the SRM)
- c. Any other information the utility finds pertinent in relation to the performance of the SRM in tandem with the M-WRAM

8. Golden State Water Company is not authorized to utilize a Supply Mix Adjustment Mechanism.

9. Golden State Water Company is authorized to include the surcharges from the following in its Tier 1 advice letter implementing tariff schedules resulting from the instant decision: (1) Customer Assistance Program Balancing Account; (2) Pension and Benefits Balancing Account; (3) Catastrophic Event Memorandum Account - Emergency Disaster Relief Customer Outreach; (4) Catastrophic Event Memorandum Account – COVID-19; (5) Los Osos Basin

Management Committee Memorandum Account; (6) Basin Pumping Rights Litigation Memorandum Account; (7) Aerojet Water Litigation Memorandum Account; (8) Clearlake Supply Expense Balancing Account; (9) General Ratemaking Area Balancing Account; (10) San Luis Obispo Valley Groundwater Basin Memorandum Account; (11) Public Safety Power Shut-off Memorandum Account; (12) Polyfluoroalkyl Substances Memorandum Account; (13) Catastrophic Event Memorandum Account – Extreme Heat Event; (14) Water Conservation Memorandum Account; (15) Drinking Water Fees Balancing Account; and (16) Santa Maria Steelhead Recovery Plan Memorandum Account.

10. When the amortization expires, Golden State Water Company shall transfer any residual balance in the following accounts to its General Ratemaking Area Balancing Account, close the following accounts, and remove reference to them from Golden State Water Company's Preliminary Statement: (1) Catastrophic Event Memorandum Account – COVID-19; (2) Aerojet Water Litigation Memorandum Account; (3) Clearlake Supply Expense Balancing Account; (4) Catastrophic Event Memorandum Account – Extreme Heat Event; (5) Water Conservation Memorandum Account; (6) Drinking Water Fees Balancing Account.

11. For escalation year 2026, Golden State Water Company shall file Tier 1 advice letters, in conformance with General Order 96-B and the Revised Water Rate Case Plan (Decision 07-05-062), proposing new revenue requirements and corresponding revised tariff schedules in each rate district and rate area in this proceeding, and in conformance with the Settlement Agreement and adopted estimated rates for each rate area as illustrated in the attached Appendices. This filing shall be subject to approval by the Commission's Water Division.

12. All rulings issued by the assigned Commissioner and Administrative Law Judge (ALJ) are affirmed; and all motions not specifically addressed herein or previously denied by the assigned Commissioner or ALJ are denied.

13. Application 23-08-010 is closed.

This order is effective today.

Dated _____, at Sacramento, California.

APPENDICES A through H