BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U60W), a California corporation, for an order (1) authorizing it to increase rates for water service by $140,558,101 or 17.1% in test year 2026, (2) authorizing it to increase rates on January 1, 2027 by $74,162,564 or 7.7%, (3) authorizing it to increase rates on January 1, 2028 by $83,574,190 or 8.1% in accordance with the Rate Case Plan, and (4) adopting other related rulings and relief necessary to implement the Commissions ratemaking policies.	A.24-07-003 (Filed July 8, 2024)

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

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SUMMARY OF RECOMMENDATIONS

California Water Service Company ("CWS" or the "Company") recommends that the California Public Utilities Commission ("CPUC") issue a decision with the following pursuant to CWS's Application and supporting testimony for this General Rate Case ("GRC"):

- Finding that CWS's proposed rate increases for the test and escalation years are just and reasonable.
- Finding that CWS's estimates of its operations and maintenance, and administrative and general expenses reasonable.
- Finding that CWS's proposed plant additions are accurate, reasonable, and justified.
- Finding that CWS's proposed revenue requirement is just and reasonable.
- Finding that CWS's proposed full decoupling rate design is just and reasonable.
- Finding that CWS's has complied with prior CPUC orders, including but not limited to those in the decision that resolved CWS's last GRC, D.20-12-007.
- Finding that CWS's proposal for the Low Use Water Equity Program is just and reasonable.
- Finding that CWS's water rights leases comply with prior Commission orders.
- Finding that CWS is in compliance with California's regulatory requirements for the provision of safe and reliable water service, including but not limited to adequate emergency preparedness plans, the Low-Income Rate Assistance program, and any other conservation, accessibility, and water equity safeguards.
- Finding that CWS's water quality meets all applicable local, state and federal drinking water standards and other provisions of General Order 103-A.
- Finding that CWS's Application supports the goals and objectives of the CPUC's Environmental and Social Justice Action Plan.
- Finding that CWS's proposed balancing and memorandum accounts are reasonable and in the public interest.
- Adopting CWS's proposal to remove the Rate Support Fund ("RSF") subsidy that is currently embedded in the rates for Dixon district customers, and to instead address the affordability concerns of the area by consolidating Dixon district's revenue requirements with that of the Livermore district.

- Adopting CWS's proposal to update the RSF, which would retain the RSF subsidies for the Willows district and an enhanced RSF for the Kern River Valley district, eliminate the annual subsidy currently provided to the Dixon district, and apply an annual RSF subsidy to decrease the revenue requirement and mitigate bill impacts for customers in the small, economically disadvantaged Selma district.
- Authorizing CWS's proposed decoupling program and sales reconciliation mechanism ("SRM"), which includes: (1) a Safe Infrastructure Balancing Account to track the difference between actual and adopted revenues; (2) a Supply Cost Balancing Account to track the difference between actual and adopted production expenses; (3) a proposal to amortize net decoupling program balances in base rates using the adopted rate design (as opposed to separate surcharges or surcredits); and (4) reinstating and modifying the SRM.
- Authorizing CWS's proposed annual sales and services forecasts, which would provide discrete annual sales and services forecasts over the GRC period.
- Granting CWS's request to incorporate subsequent rate changes into final rates, which would incorporate rate changes due to other proceedings or the advice letter process, as well as due to this proceeding, into the rates applied to customers.
- Granting CWS's request to update escalation factors for final rates, which would require the Water Division to use the most current CPUC escalation rates for expenses and capital when calculating the final revenue requirement and rates for the final decision in this proceeding.
- Granting CWS's request to implement payroll escalation based on union contracts, which would calculate the labor expenses for CWS's escalation and attrition year step filings using the Company's actual union contract annual wage increases.
- Granting CWS's request to amortize balancing accounts, which would allow CWS to amortize the balances in the following balancing and memorandum accounts within 90 days or more of a final decision: Conservation Expense Balancing Account (CEBA 5), Pension Cost Balancing Account (PCBA 5), Healthcare Cost Balancing Account (HCBA 5), General District Balancing Account (District BA), Catastrophic Event Memorandum Account (CEMA), Asbestos Litigation Memorandum Account (ALMA), Public Safety

Shut-Off Memorandum Account (PSPS MA), and Drinking Water Fees Balancing Account (DWFBA).

- Granting CWS's request to reauthorize balancing accounts, which would re-authorize the Conservation Expense Balancing Account (CEBA), Pension Cost Balancing Account (PCBA), and Health Cost Balancing Account (HCBA).
- Authorizing CWS to establish the proposed Liability Insurance Balancing Account, which would establish a two-way balancing account for liability insurance costs and would track the difference between the liability insurance expense (third party premium amounts for general liability, excess liability and umbrella policies) included in the revenue requirement and the actual liability insurance expense CWS incurs.
- Authorizing CWS to establish the proposed Water Contamination Remediation Memorandum Account.
- Granting CWS's request for Attrition Year normalization, which would authorize CWS to deviate from the Rate Case Plan to update its practice for applying deferred taxes during the attrition year (*i.e.*, third year) of the GRC cycle to avoid a normalization violation.
- Granting CWS's request regarding deferred tax liability and current year capital additions, which authorize CWS to modify its practice for prorating deferred tax liabilities for current year capital additions to conform with the normalization proration rules.

CWS also urges the CPUC in its decision to reject the proposals and recommendations from the Public Advocates Office that would result in drastic departures from established CPUC policy and practice, penalize CWS for taking prudent action to ensure that it is able to continue to provide safe and reliable service to its customers, and hinder efforts to improve the transparency and efficiency of the GRC process.

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OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

I. INTRODUCTION

In accordance with Rule 13.12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC") and the June 19, 2025 *Administrative Law Judge's Ruling After the June 17, 2025 Status Conference Hearing*, Applicant California Water Service Company ("CWS" or the "Company") hereby submits its opening brief in this General Rate Case ("GRC") proceeding. This opening brief addresses the disputed issues between CWS and Public Advocates Office ("Cal PA"). It does not address undisputed and partially resolved issues that have been identified in Exh. Joint-02 which CWS and Cal PA intend to present in the form of a proposed settlement agreement at a later time.

CWS's 2024 GRC was developed to meet the unique needs of each community it serves and reflects the necessary costs of providing safe and reliable service while rising to meet the challenge of changing environmental, economic, and regulatory climates. The Company's key goals in this proceeding include enhancing affordability, promoting water conservation, protecting customer health, and ensuring system resiliency and reliability. As discussed in more detail below, each facet of CWS's proposed increase in rates is necessary, just, and reasonable.

By contrast, the proposals and recommendations from Cal PA—including such radical proposals as denying nearly all funding for generators or removal of previously-authorized plant assets from rate base that are under construction or are already being used to serve customers—would result in drastic departures from established CPUC policy and practice, penalize CWS for taking prudent action to ensure that it is able to continue to provide safe and reliable service to its customers, and hinder efforts to improve the transparency and efficiency of the GRC process.[1] Many of Cal PA's recommendations challenge the very legitimacy of the CPUC's fundamental regulatory framework. When Cal PA opposes reasonable requests, CWS's ability to act efficiently and effectively on behalf of its customers is diminished. Ultimately, the CPUC, like CWS, must pursue balance—a balance that considers short-term and long-term needs, keeping in mind the primacy of affordable, universal service that is always safe and reliable.

The record in this proceeding provides ample evidence demonstrating CWS's dedication to delivering a reliable supply of safe drinking water at reasonable rates to the customers and communities it proudly serves. Therefore, the Commission should timely approve CWS's proposals and recommendations in this GRC as just and reasonable in balancing the overall public interest.

II. PROCEDURAL HISTORY

CWS filed this GRC Application on July 8, 2024, seeking CPUC authorization to increase rates for GRC period January 1, 2026 through December 31, 2028, implement Special Requests ("SR"), and to obtain other requested relief. CWS's Application is substantiated by the attachments thereto, direct testimony, rebuttal testimony, and other supporting materials presented in this proceeding. The *Assigned Commissioner's Amended Scoping Memo and Ruling* ("Amended Scoping Memo") was issued on March 13, 2025, which serves as the operative scoping memo for purposes of this proceeding. Concurrently with this opening brief, CWS and other parties are jointly submitting a motion requesting to move certain exhibits into evidence—if granted, these exhibits will provide the evidentiary basis on which the CPUC may render its decision for this GRC. In addition, evidentiary hearings were held virtually on May 14, 15, and

[1] CWS-50, Chapter 1, Section A, pp. 2-6 (addressing global deficiencies in fundamental ratemaking principles throughout Cal PA's testimony). There are some inadvertent errors in the page numbering for the initial pages of Exhibit CWS-50, but the remaining pages appear to be correctly numbered sequentially. Therefore, all pincite references to this exhibit herein are to the page of the exhibit shown on the page, unless otherwise specifically indicated.

22, 2025 and CWS also submitted further information in its June 13, 2025 Response to the May 30, 2025 Administrative Law Judge ("ALJ") Ruling Requesting Additional Information ("CWS Response to ALJ Ruling").

III. BURDEN OF PROOF AND STANDARD OF REVIEW

As the applicant, CWS bears the burden of proof in this GRC proceeding to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.[2] In this context, CWS must meet the standard of a preponderance of the evidence.[3] The CPUC has explained this standard as follows: "[p]reponderance of the evidence usually is defined in terms of probability of truth, e.g., such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth."[4] Although the utility bears the ultimate burden to prove the reasonableness of the relief it seeks and the costs it seeks to recover, the Commission has held that when other parties propose a different result, they too have a "burden of going forward" to produce evidence to support their position and overcome the utility's evidence.[5] As demonstrated below, on each of the disputed issues, CWS has provided evidence to support its requests. The evidence supporting CWS's proposals, when weighed against that of Cal PA, has far more convincing force and a greater probability of truth. As demonstrated below for each disputed issue, CWS carried its burden of proof.

IV. ISSUES IN DISPUTE

A. Scoping Issue ("SI") #1 – Whether CWS's proposed rate increases for the Test and Escalation Years are just and reasonable

CWS addresses SI #1 through its discussion of SIs #2 through #5 below. As explained in further detail below, the CPUC should find that CWS's proposed rate increases for the Test and Escalation Years are just and reasonable.

In determining whether CWS's proposed rates are just and reasonable, the CPUC should consider its role as a regulator. Utilities accept regulatory oversight on rates and service standards by the CPUC in exchange for an exclusive franchise over a specific service area.[6] This

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[2] D.18-12-021, p. 10.

[3] *Id.* ("Although prior Commission decisions have stated the standard of proof as one of clear and convincing evidence, the Commission has clarified in recent decisions that the standard of proof the applicant must meet in rate cases is that of a preponderance of evidence.").

[4] *Id.* (internal quotation marks omitted).

[5] D.21-08-036, p. 10; D.20-07-038, pp. 3-4.

[6] CWS-50, Chapter 1: Global Issues, Section A, p. 2.

framework—also known as the regulatory compact—ensures that customers receive safe, reliable service at reasonable rates and that regulated utilities such as CWS are provided a reasonable opportunity to recover their costs of service, including a fair return on investments.[7] CPUC regulation is not, as Cal PA claims, a substitute for competition. Under regulation, customers are limited as to choice of provider, and utilities are limited as to the returns that may be achieved.[8] Furthermore, the risks for investor-owned utilities perceived by the capital markets are increasingly associated with the regulatory environment itself, rather than how a utility operates.[9] Increased perceived risk and uncertainty of future returns can lead to higher costs of capital and overall reduced investment, neither of which are beneficial to customers or the utility.[10] While regulatory oversight can make sure that utilities operate cost-effectively, it should not—and cannot—mimic all aspects of a free market.[11] Instead, responsible regulation is a carefully calibrated balance that ensures that customers have reliable access to safe drinking water at reasonable rates and utilities are able to sustain long-term financial viability.[12]

B. SI #2 – Whether CWS's estimates of its operations and maintenance, and administrative and general expenses are reasonable

1. Postage

CWS estimates postage expense by calculating postage cost per service. The cost per service is calculated by taking the last recorded (2023) postage expense divided by the number of services in the last recorded year (2023), which is increased by the percent increase of the postage rate—this resulted in 5.43% as the percent increase for the July 2024 Application.[13] Cal PA does not contest CWS's methodology, however, they recommend a percent increase of 3.0303%, which is the postage rate increase between July 2023 and January 2024.[14] However, the postage rate has consistently increased in the last five years, with the latest increase of 7.35% from January 2024 to July 2024.[15] CWS's projection is reasonable given the latest increase, so the CPUC should adopt a postage rate increase of 5.43%.

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[7] *Id.*
[8] *Id.*, Chapter 1: Global Issues, Section A, p. 3.
[9] *Id.*, Chapter 1: Global Issues, Section A, p. 4.
[10] *Id.*, Chapter 1: Global Issues, Section A, p. 5.
[11] *Id.*, Chapter 1: Global Issues, Section A, p. 3.
[12] *Id.*
[13] CWS-01, p. 63.
[14] CalAdv-09, p. 2-6.
[15] CWS-50, p. 125.

2. Transportation

CWS projects operation, maintenance and administrative transportation expenses for expenses related to the company's fleet of vehicles.[16] CWS uses a five-year inflation adjusted average as well as projected maintenance for new fleet additions associated with proposed complements and capital projects.[17] The transportation expenses are direct costs incurred with the fleet for any given year and using the average accounts for fluctuations in expenses as well as number of vehicles in the fleet. The five-year inflation adjusted average is an industry standard for forecasting expenses.

Cal PA used an alternate methodology to forecast transportation expenses but made errors when compiling the recorded expenses by excluding certain A&G expenses. Cal PA's actual transportation expense recommendation including A&G transportation expense, should have been $8,895,660, which would have been $10,034,188 when adjusted for inflation.[18] This corrected amount exceeds the proposed Test Year expense of $7,797,034 proposed by CWS.[19] Cal PA also recommends removing expenses associated with proposed complements and capital projects.[20] CWS will adjust its transportation expense based on new vehicles pending the outcome of the proposed complements. Therefore, the CPUC should adopt the industry-accepted methodology proposed by CWS.

3. Uncollectibles

CWS's methodology for forecasting test year uncollectible expenses is to use a two-year (2022 and 2023) average of the annual uncollectible rate.[21] To calculate uncollectible expenses for the test year, the uncollectible rate is multiplied by forecasted revenues.[22] Cal PA disagrees with CWS's forecast methodology and recommends including 2018 and 2019 into the average while at the same time excluding years 2020 and 2021.[23] CWS disagrees with using 2018 data for the purpose of forecasting the uncollectible rate as it is outside of the five-year scope that is

[16] CWS-01, p. 62.
[17] *Id.*
[18] CWS-50, p. 123.
[19] *Id.*, p. 124.
[20] *Id.*, p. 123.
[21] CWS-01, p. 64.
[22] CWS Response to ALJ Ruling, pp. 39-40 (providing more information on uncollectibles methodology).
[23] CalAdv-09, p. 2-21.

generally used for forecasting expenses.[24] While Cal PA is correct in that 2019 did not have any outstanding events that increased uncollectibles to an abnormal level, 2022 and 2023 better reflect the new norm in uncollectibles post the COVID-19 pandemic.[25] The CPUC should approve CWS's methodology of using 2022 and 2023 annual averages to calculate the uncollectible rate.

4. Source of Supply

Source of supply expenses are expenses incurred in the operation of source of supply facilities including, but not limited to, supplies and supply mains, removing sediment and organic growth, patrolling and inspection, compilation of records and reports including water level reports.[26] As relevant here, CWS forecasts additional costs associated with the Sustainable Groundwater Management Act ("SGMA") in Test Year 2026 source of supply expenses to Customer Support Services ("CSS").[27] Cal PA raises flawed arguments in opposition to the SGMA costs.[28]

First, Cal PA asserts that these are one-time costs. There is an annual need for these analyses due to the evolving nature of SGMA implementation.[29] Cal PA recommendations are inconsistent with understanding the current conditions and requirements.

Second, Cal PA challenges the costs for the SGMA technical advisory committee support based on the proposed consultants. However, many of the relevant groundwater sustainability agency Advisory Committees requires local, qualified representative to serve on the Committee.[30] Cal PA recommendations are not reasonable to allow CWS to be properly represented in these Committees, and their recommendations add additional costs to regions where it is not needed.

Lastly, Cal PA challenges two water supply and demand assessments. However, multiple water supply studies for districts in the Central Valley region recommend further investigation

[24] CWS-50, p. 122.
[25] *Id.*
[26] CWS-01, p. 65.
[27] *Id.*, p. 66.
[28] CalAdv-09, pp. 2-9 to 2-14.
[29] CWS-50, p. 109.
[30] CWS-50, pp. 110-111.

into alternative water sources including groundwater banking to fulfill projected water supply gaps in the next 25 years.[31] These assessments are needed to do this investigation.

Additionally, for this and other purchased services discussed below (Source of Supply, Pumping, Water Treatment, Transmission and Distribution, and Customer Accounting), Cal PA incorrectly determines non-recurring expenses by using general ledger entries, some of which are accruals or are in fact recurring costs that should be included.[32] For these reasons, the CPUC should adopt the full costs proposed by CWS.

5. Pumping

Pumping expenses include non-labor expenses incurred in the operation of pumping equipment including operating pumps, oiling, testing, checking and adjusting meters and gauges, cleaning pumps and motors, supplies as lubricants, fuses, waste, gaskets and charts.[33] This expense category also includes DMV fees on portable booster pumps, radio data channel applications and telephone lines from operations computer to pump sites.[34] CWS's methodology in forecasting pumping expenses is based on the inflation adjusted five-year average (2019-2023), with certain adjustments discussed in testimony.[35]

In particular, Bayshore, Bear Gulch, Los Altos, Los Angeles County Region and Westlake reflect savings for improved leak analysis resulting from Advanced Metering Infrastructure ("AMI") which reduce system water loss.[36] Cal PA proposes modifications to the program, acknowledging that approval will result in changes to the AMI savings included in the pumping forecast, but did not make any changes in the results of operations ("RO") model to reflect their position (AMI is discussed further in Section IV.C.1.w below).[37] CWS's position results in reducing the AMI related savings for pumping expenses by 50%.[38] However, if the CPUC rejects CWS's proposed AMI project in its entirety, then 100% of the savings must be removed from the RO model. Additionally, the CPUC should reject Cal PA's incorrect removal

[31] *Id.*, pp. 111-112.
[32] *Id.*, p. 108; Attachment 6-3 (showing list of expense items at issue).
[33] CWS-01, p. 67.
[34] *Id.*
[35] *Id.*, pp. 67-68.
[36] *Id.*, p. 68.
[37] CalAdv-09, pp. 2-16 to 2-17.
[38] CWS-50, p. 112.

of expenses that it alleges are non-recurring based on a flawed reading of general ledger entries, as described above.[39]

6. Production

Total water production supply is the sum of water produced from all sources.[40] Components of production expenses generally include groundwater production, surface water production, purchased wholesale water, purchased power, pump taxes and chemicals.[41] The details for the production expenses for each of CWS's districts is summarized in CWS's testimony and Minimum Data Request responses.[42] In general, CWS and Cal PA generally agree on the majority of components of production expense as indicated in the undisputed issues list, so only the disputed aspects of production expense are addressed here.

a) Purchased Water

CWS projects purchased water expenses by taking the most recent (at the time of the filing) variable wholesaler rate and applying it to projected purchased water production plus the most recent fixed rate.[43] In its rebuttal testimony, CWS also made two corrections to its original purchased water expense forecast relating to the Westlake and Los Altos districts.[44]

Cal PA recommends using an average of recent wholesaler rates, rather than the most recent rate, based on an assertion that some of the purchased water rates have decreased in recent years.[45] This argument is flawed. As a preliminary matter, Cal PA's assertion that some of the purchased water rates have decreased is incorrect because such decreases in the variable rate are often matched with an offsetting, if not higher, increase in the fixed rate or vice versa.[46] CWS also presented testimony that demonstrated that purchase water unit costs have in fact increased annually in recent years.[47] The only exception to that trend was for Bakersfield between 2022 and 2023, where 2021 and 2022 had dry year surcharges and a delay in the PG&E Ocele sharing costs that are driving the unit costs to appear higher than 2023.[48] Thus, using the most recent

[39] *Id.*, p. 108; Attachment 6-3 (showing list of expense items at issue).
[40] CWS-01, p. 48.
[41] *Id.*
[42] *Id.*, pp. 48-57; CWS-04 (Minimum Data Requirements Book), pp. 77-85.
[43] CWS-01, p. 52.
[44] CWS-50, p. 102.
[45] CalAdv-09, p. 1-3.
[46] CWS-50, p. 101.
[47] *Id.*, pp. 101-102.
[48] *Id.*

information available regarding purchased water rates is a more reasonable methodology than Cal PA's recommendation.

For these reasons, the CPUC should approve a purchased water forecast of $214,774,570, which incorporates CWS's methodology, proposed production based of proposed sales, and the above-mentioned corrections.

b) Purchased Power

Purchased power captures the cost for pumping, boosting, treating and distributing water throughout the system.[49] CWS uses the recorded 2023 purchased power unit cost, calculated by taking total purchased power expenses divided by recorded kWh, and applies the unit cost to projected production converted to kWh per kccf to estimate purchased power expenses.[50] CWS used 2023 data specifically because it was the latest year of available data at the time of filing.[51] CWS also made certain adjustments for certain solar projects that it has proposed in this GRC, the assumptions for which were updated in its rebuttal testimony.[52] Together, this methodology resulted in a forecasted Test Year expense for purchased power of $30,825,370.

Cal PA argues that 2023 is an atypically high-power cost year.[53] However, Cal PA disregards the power requirements from different sources of supply such as pumped ground water from wells versus purchased treated water generally already at water pressure levels comparable to CWS's systems.[54] The associated pumping costs for these varied sources of supply in this production-related expense are quite different.[55] In addition, Cal PA tries to negate the impacts of increasing power costs for electric utilities that the CPUC is currently grappling with.[56]

Instead, Cal PA ignores the increases in rates for CWS's electricity providers and instead attributes higher purchased power costs—without basis or any actual evidence—to inefficient power use during peak times by CWS.[57] However, CWS presented evidence in its rebuttal

[49] CWS-01, pp. 54-55.
[50] *Id.*
[51] CWS-50, p. 106.
[52] *Id.*, p. 107.
[53] CalAdv-09, p. 1-6.
[54] CWS-50, p. 106.
[55] *Id.*
[56] *Id.*
[57] CalAdv-09, p. 1-8.

testimony showing that in reality, the Company's electricity usage during the peak period of the day is lower than during other times during the day.[58] CWS's witness also explained during evidentiary hearings that the Company's "engineering department analyzes the energy usage and that we do try and take advantage of utilizing energy during off-peak hours."[59] The CPUC should approve CWS's unit cost based on 2023 since it most accurately reflects purchased power rates from the last recorded year and its updated sales forecast, which results in a Test Year expense of $30,825,370.

c) Pump Taxes

Pump taxes are groundwater replenishment assessment fees.[60] CWS estimates pump tax expenses by using the most recent assessment rate applied to the projected pumped groundwater, resulting in a projected Test Year expense of $19,670,984.[61] CWS also uses the surface water production when estimating pump taxes for Bakersfield because that is how the district is assessed pump tax fees by the local agency.[62] Cal PA does not object to CWS's methodology with the exception of the Bakersfield district, and any variations in other pump taxes is due to a difference in forecasted sales.[63]

For the Bakersfield district, Cal PA argues that the Company has improperly included surface water costs relating to Kern Delta Water District ("KDWD") in its pump tax expense forecast.[64] This argument is incorrect. For that district, CWS pays both pump tax fees to the Kern Company Water Agency and a separate water replenishment fee to KDWD.[65] KDWD has several unlined dirt canals in the Bakersfield District service territory, through which water in the canals naturally percolates into the groundwater basins from which CWS pumps groundwater. This is simply a replenishment fee lumped in with pump taxes. Therefore, Cal PA's argument should be disregarded and the CPUC should approve a pump tax forecast of $19,670,984, which incorporates CWS's methodology, ground water production based of proposed sales and the special replenishment fee of $423,138 paid to KDWD.

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[58] CWS-50, p. 107.
[59] Tr. Vol. 3 (CWS/Alexander) at 181:25 to 182:2.
[60] CWS-01, p. 56.
[61] *Id.*
[62] CWS-50, p. 103.
[63] CalAdv-09, p. 1-13.
[64] *Id.*, p. 1-14.
[65] CWS-50, pp. 103-104.

d) Purchased Chemicals

CWS purchases chemicals to treat groundwater, surface water, raw purchased water and to maintain the water quality throughout its distribution system.[66] For most service areas, CWS utilizes the standard methodology for forecasting purchased chemicals expense which is to calculate a unit cost ($/ccf), and multiply it by the estimated groundwater and surface water treatment plant production quantities.[67] In rebuttal testimony, CWS agreed to make certain adjustments to its original purchased chemicals expense forecast for certain districts.[68]

In its report, Cal PA argues that the projected production used to calculate chemical costs should include purchased water.[69] While CWS does purchase some untreated water, it also purchases treated water which doesn't require additional chemicals upon entering its water systems.[70] CWS is amenable to including purchased water production into the chemical calculation for the Lucerne and Oroville districts because of their unique circumstances. However, it does not make sense to extrapolate this information to the purchased treated water in other districts. For example, Cal PA fails to acknowledge that the raw purchased water is categorized as surface water for production purposes and is already included in the calculation of purchased chemicals for the Bakersfield and Kern River Valley districts.[71]

The CPUC should consider the nuance of the nature of chemical costs for each district rather than apply the blanket adjustment recommended by Cal PA. To do that, the CPUC should approve CWS's methodology of forecasting purchased chemicals to treat groundwater, surface water, raw purchased water and to maintain the water quality throughout its distribution system, which results in a Test Year expense of $3,498,690.[72]

7. Water Treatment

Water treatment expenses include the cost of operating water treatment plants, chlorination equipment, water sampling at wells, outside laboratory expense, in-house laboratory expenses, and other miscellaneous treatment costs.[73] CWS's methodology in forecasting water

[66] CWS-01, p. 57.
[67] *Id.*
[68] CWS-50, p. 104.
[69] CalAdv-09, p. 1-12.
[70] CWS-50, p. 105.
[71] *Id.*
[72] *Id.*
[73] CWS-01, p. 69.

treatment expenses is based on the inflation adjusted five-year average (2019-2023), with certain adjustment described in testimony.[74] Additionally, the CPUC should reject Cal PA's incorrect removal of correct expenses that it alleges are non-recurring based on a flawed reading of general ledger readings, as described above.[75]

As relevant here, as part of the AMI initiative in certain, CWS included expenses of $131,415 for the software required to integrate AMI data with other systems.[76] Cal PA proposes modifications to the program, acknowledging that approval will result in changes to the AMI savings included in the water treatment forecast, but did not make any changes in the RO model to reflect their position (AMI is discussed further in Section IV.C.1.w below).[77] CWS's position results in reducing the AMI related savings for pumping expenses by 50%.[78] However, if the CPUC rejects CWS's proposed AMI project in its entirety, then 100% of the savings must be removed from the RO model.

Separately, CWS originally estimated the completion of the East LA Water Quality in 2027 which resulted in annual savings of $534,667, but has since revised its completion date to 2025.[79] Therefore, CWS agrees with Cal PA that the CPUC should adopt the changes resulting from the lab starting in 2026 with $802,000 in savings each year.[80]

8. Transmission & Distribution

Transmission and Distribution ("T&D") expenses include supervision and engineering, flushing, transmission and distribution lines, turn-on and turn-off for services, installation and miscellaneous expenses.[81] CWS estimates T&D expenses for all districts and CSS based on inflation-adjusted five-year average (2019-2023), with adjustments described in testimony.[82] The CPUC should reject Cal PA's incorrect removal of correct expenses that it alleges are non-recurring based on a flawed reading of general ledger readings, as described above.[83] Additionally, CWS has made a change to its CSS solar project model which results in a decrease

[74] *Id.*, pp. 69-71.
[75] CWS-50, p. 108; Attachment 6-3 (showing list of expense items at issue).
[76] *Id.*, p. 113.
[77] CalAdv-09, pp. 2-19.
[78] CWS-50, p. 113.
[79] *Id.*
[80] *Id.*
[81] CWS-01, p. 72.
[82] *Id.*, pp. 72-73.
[83] CWS-50, p. 108; Attachment 6-3 (showing list of expense items at issue).

in expenses from its July 2024 Application: the July 2024 expense estimate was $23,266 annually and it should be decreased to $5,669 in the final decision.[84] CWS recommends adopting the full T&D expenses with this adjustment.

9. Customer Accounting

Customer accounting expenses include customer records maintenance, meter reading expenses, billing expenses, telephone service, supplies and equipment and other miscellaneous expenses related to customer service.[85] CWS's estimates are based on inflation-adjusted five-year average, with specific adjustments noted in testimony.[86] The CPUC should reject Cal PA's incorrect removal of correct expenses that it alleges are non-recurring based on a flawed reading of general ledger readings, as described above.[87] CWS also discussed further minor adjustments to these expenses in its rebuttal that the CPUC should adopt.[88]

10. Contracted Maintenance

CWS's estimate for Contracted Maintenance is generally based on the five-year historical average (2019-2023) adjusted with inflation.[89] In addition to the inflation-adjusted estimates for test year 2026, CWS adds amortization for tank painting projects and well rehabilitation projects.[90] The projected amortized expenses related to tank painting projects are normalized over three years.[91] The budget for the Test Year and Escalation Year vary by year, however for ratemaking purposes CWS has calculated the sum of the Test Year, Escalation Year, and Attrition Year and allocated the total over three years for the GRC cycle.[92]

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[84] *Id.*, p. 114.
[85] CWS-01, p. 73.
[86] *Id.*, pp. 73-75.
[87] CWS-50, p. 108; Attachment 6-3 (showing list of expense items at issue).
[88] *Id.*, p. 114 (properly accounting for AMI savings); *id.*, p. 115 (accounting for Hyperion Upgrade and Enterprise Reporting and Analysis); *id.* (accounting for savings from East LA Water Quality lab); *id.*, pp. 115-116 & Attachment 6-4 (showing that a three-year inflation-adjusted average for software expenses best reflects the most recent licensing fees); *id.*, p. 116 & Attachment 6-5 (updating CAD License expenses); id., p. 117 (correcting and normalizing Digital Twin data analytics system); *id.*, pp. 117-118 (addressing virtual reality technology expense); *id.*, p. 119 & Attachment 6-6 (correcting expense for cloud-based Mitel phone system); *id.*, pp. 119-120 & Attachment 6-7 (revising estimate for service desk upgrade).
[89] CWS-01, p. 77.
[90] *Id.*
[91] *Id.*
[92] *Id.*

Cal PA erroneously recommends to remove all recorded and previously authorized tank painting expenses from contracted maintenance.[93] Specifically, while Cal PA witnesses reference each other's testimony, it does not offer an argument as to why CWS should not continue to amortize recorded and previously authorized coatings in progress.[94] Cal PA also incorrectly determines non-recurring expenses by using general ledger entries, some of which are accruals or are in fact recurring costs that should be included.[95] Accruals are made to record expenses in the period they are incurred and not paid, which means they do not have an impact on the five-year expense average; while other items were in fact recurring expenses.[96] Therefore, the CPUC should approve CWS's forecasted expenses for this category as proposed.

11. Administrative and General Non-Specifics

Non-specifics expenses represent miscellaneous administrative and general ("A&G") expenditures encompassing multiple sub-accounts. CWS provides an estimate for the combined amount for 2026 based on the five-year (2019-2023) historical average adjusted for inflation.[97] Details regarding several specific expenses were included in CWS's direct testimony.[98]

Among these are expenses for the proposed apprenticeship program, which will help generate readily-trained employees who are able to obtain distribution certification and operate water systems safely and efficiently.[99] This extensive and broad-based training program at the start of a new employee's career will create employees with wide ranging fundamentals, who will be better prepared to handle a large variety of emergencies and potential disasters.[100] Additionally, having more highly trained employees can lead to more availability of employees to meet customer demands and resolve issues faster, benefiting customers.[101] A recent internal study of CWS data showed that 22% of the workforce is eligible to retire now (over 55 years old and over 5 years of service) and an additional 13% of employees will be eligible to retire in the

[93] CalAdv-09, pp. 2-29 to 2-30.
[94] CWS-50, pp. 120-121.
[95] *Id.*, p. 108; Attachment 6-3 (showing list of expense items at issue).
[96] *Id.*, p. 121; Attachment 6-8 (showing list of expense items at issue).
[97] CWS-01, p. 82.
[98] *Id.*, pp. 82-85.
[99] *Id.*, pp. 89-96.
[100] CWS-50, p. 126.
[101] *Id.*

next 5 years.[102] While the apprenticeship program is not intended to have apprentices replace retiring employees directly as Cal PA mistakenly claims, these potential retirements will result in a shift of employees to more senior positions, thus resulting in entry level positions for which the apprenticeship program can help train individual to shorten the learning curve than would otherwise be required.[103] This same problem applies with the trend of employees moving to lower cost area and other workforce dynamics—an apprenticeship program will help CWS adapt to these significant changes that are occurring throughout the utility industry.[104] Therefore the CPUC should authorize CWS to implement this valuable program and include the expenses for it in its forecasts. CWS has also incorporated savings associated with proposed complements into the A&G non-specifics expense forecast.[105]

Cal PA also recommended two adjustments that affect the A&G non-specific expense. The first adjustment to remove certain land assets from rate base, along with an estimated amount to reduce operating expenses. This recommendation is addressed in Section IV.D.2.a below and should be rejected for the reasons set forth there. The second adjustment Cal PA is for the removal of the long-term incentive component of CWS's at-risk pay program for executive compensation, which is addressed in Section IV.A.13.b below. Because the CPUC should allow those elements of reasonable total executive compensation in rates for the reasons set forth there, it should reject Cal PA's adjustment here. In summary, the CPUC should approve CWS's forecast of $44,439,975 for A&G non-specifics.[106]

12. Conservation

CWS recommends that the CPUC approve $16,255,637 in annual conservation expense for each of the three years in this GRC cycle.[107] The proposed conservation program was discussed at length in CWS's direct testimony,[108] including the Conservation Program Budget Report prepared by the Company's consultant M.Cubed,[109] as well as in CWS's Response to the

[102] CWS-01, p. 90; *see also* CWS-50, pp. 128-129 (providing further information on the methodology used to calculate the data shown).
[103] CWS-50, p. 127.
[104] *Id.*, p. 128.
[105] CWS-01, p. 84. If the proposed complement positions are denied, then these savings must also be removed from this expense forecast.
[106] CWS-50, p. 125.
[107] CWS-51, Appendix C, p. 47.
[108] CWS-02, pp. 117-120.
[109] *Id.*, Attachment H.

ALJ's Ruling.[110] Cal PA recommends a significant reduction to the proposed conservation budget to $4,406,156 per year, an amount that is almost half the budget approved in the last GRC.[111] These should be rejected because Cal PA has put forward an illogical and misguided conservation budget that if adopted would render conservation programs impossible to implement.[112]

a) CWS Must Expand Conservation Programs Now to Meet State-Mandated Urban Water Use Targets

Cal PA's assertion that compliance with the new water use standards is not required until June 30, 2041,[113] is simply not true. The State Water Resources Control Board ("SWRCB") may issue conservation orders to non-compliant suppliers as early as January 1, 2026, and impose monetary penalties of up to $10,000 per day during drought years and $1,000 per day in non-drought years beginning January 1, 2027.[114] Additionally, CWS must achieve the distribution system water loss reductions by January 1, 2028.[115] Moreover, such societal changes can take decades to implement; early and sustained action is needed to meet the mandated deadlines.[116] Postponing conservation investments will only make compliance more challenging and expensive, to the detriment of both the Company and its customers.[117]

b) CWS's Groundwater-Dependent Service Areas Require Proactive Demand Management

CWS operates in eight service areas that rely primarily on groundwater from basins the state has designated as being in critical or high-priority overdraft under SGMA (another five districts are in medium priority basins) – groundwater extraction must be reduced to sustainable yield by 2040.[118] This underscores the urgent need for proactive conservation planning well before the 2040 deadline. CWS proposes increasing conservation budgets in service areas

[110] CWS Response to ALJ Ruling, pp. 40-44.
[111] CalAdv-10, pp. 1-1 to 1-13.
[112] CWS-51, Appendix C, pp. 25-45 (providing criticisms of Cal PA's methodology).
[113] CalAdv-10, p.1-3.
[114] CWS-51, Appendix C, p. 10.
[115] *Id.*
[116] *Id.*, pp. 7-9.
[117] *Id.*, p. 11.
[118] *Id.*, p. 13.

impacted by SGMA only if these increases are not already required to comply with Making Conservation a California Way of Life regulations.[119]

c) Expanded Conservation is the Most Cost-Effective Solution in CWS's High-Cost Purchased Water Service Areas

In CWS's service areas that rely on high-cost purchased water, expanded conservation is the most cost-effective alternative and provides immediate benefits to customers.[120] In nine service areas, the variable cost of purchased water far exceeds the unit cost of conservation.[121] Contrary to Cal PA's argument to reduce conservation programming in these districts, it is economically advantageous to pursue such efforts there. Cal PA's proposal would burden customers by increasing dependence on expensive purchased water.

d) CWS's Conservation Budget is Based on a Comprehensive Demand Analysis

CWS's proposed conservation budget is built upon a detailed analysis of future demand, incorporating conservation achieved through rate design, updated plumbing codes, restrictions on non-functional turf, and other passive measures.[122] Cal PA's claim that CWS assumes future decrease in customer water use absent its conservation programs is incorrect.[123] Projections included in CWS's testimony clearly shows that this trend toward lower water use is accounted for.[124]

e) Conservation Rates Are Important but Not a Standalone Solution for Meeting State-Mandated Demand Reductions

CWS's assessment clearly demonstrates that water rates and passive conservation alone will not achieve compliance with water use standards in many service areas.[125] As a result, expanding proactive conservation programs is essential. Cal PA's failure to recognize this reality disregards the practical limitations of passive conservation and undermines efforts to achieve compliance with the state-mandated water use reductions.

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[119] *Id.*, p. 14.
[120] CWS-51, Appendix C, p. 15.
[121] *Id.*
[122] *Id.*, p. 17.
[123] CalAdv-10, p. 1-7.
[124] CWS-51, Appendix C, p. 18.
[125] *Id.*, pp. 18-22.

f) CWS's Conservation Programs Deliver Proven Water Savings

CWS's projected water savings are based on solid empirical evidence and practical experience.[126] Cal PA's claim that expanded programs would not yield demonstrable water savings is false and entirely unsupported. Cal PA's position is not only factually inaccurate by ignoring the water conservation achievements by CWS, but also disregards well-established conservation methodologies that have been widely adopted across the water industry. Research conducted by the Alliance for Water Efficiency clearly illustrates this, demonstrating that CWS's conservation programs have helped to reduce customer bills by up to 20%.[127]

Going forward, CWS proposes to further enhance the customer experience through use of a Customer Relationship Management system described in rebuttal and later in this brief.[128] This capital project was added in rebuttal, and the budget CWS now requests was decreased by approximately $460,000 so that the change is revenue neutral to customers.

Finally, CWS has proposed certain budgetary safeguards and the use of a **one-way** balancing account to offer further customer protections. The latter mechanism ensures that if CWS is unable to implement programs as quickly as anticipated, or if actual expenditures are lower than authorized, any budgetary surplus is refunded to customers as surcredits at the end of each rate cycle.[129] There are also spending caps on certain types of expenses, dedicated program funding for other types of expenses, and non-fungible district budgets.[130] This budgetary structure and its safeguards ensure that every dollar allocated to conservation is used effectively and transparently, maximizing water savings while maintaining strict fiscal oversight.

For these reasons, the CPUC should disregard Cal PA's recommendations and instead adopt the full conservation budget proposed by CWS.

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[126] *Id.*, pp. 24-25.
[127] *Id.*, p. 11, *citing to* "Alliance for Water Efficiency. (2024, September 30). The Economic Value of Efficiency for California Water Service: Lower Water Bills. Alliance for Water Efficiency."
[128] CWS-51, Appendix C, p. 46; CWS Opening Brief, Section IV.C.2(a)(1).
[129] CWS-51, Appendix C, p. 45.
[130] *Id.*

13. Payroll

a) CWS Payroll Expense Forecast

For this GRC, CWS estimates its payroll costs for operations, maintenance, and administrative purposes collectively based on the cost of total labor using the last recorded year (2023) as its base year for estimated labor costs, adjusted for known quantifiable or projected changes in employees and escalated using the last agreed union rate increases.[131] Using this base year concept allows the Company to assume a constant level of vacancies and overtime, allowing CWS to estimate the need for additional personnel incrementally and avoid double-counting that could occur by trending employees or labor dollars. Additionally, CWS includes in payroll expense the new "at-risk" pay program ("ARP") available for all eligible company employees—CWS presented testimony explaining the purpose of the ARP program and that it is a component of the Company's total compensation strategy that is paid on top of employees' base salary.[132] The ARP program benefits customers and CWS proposes only to include expense for it up to 100% of the target amount for each year.[133] To the extent that the Company achieves superior performance beyond the target amount for the employee ARP program, then any excess amount would be paid solely by stockholders.

In its testimony, CWS also presented position-specific detailed justifications demonstrating the need for the proposed additional complements for the test year and position-specific summaries of existing complement that were hired between GRCs that the Company believed were too important to wait until the next GRC and so will be absorbing the payroll costs through 2025.[134] For each one of the proposed new positions, CWS provided detailed justifications in its testimony that included a description of the position, basis for the anticipated salary, allocation of salary (expense versus capital), detailed need for the position, changes in operations necessitating the new position, alternatives considered, value to customers, and other information supporting each personnel request.[135] Based on this substantial evidential support and the sound methodology used to forecast payroll expenses, CWS recommends that the CPUC adopt the Company's proposed test year payroll expense forecast.

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[131] CWS-01, p. 148.
[132] *Id.*, pp. 157-159.
[133] *Id.*, p. 159.
[134] *Id.*, pp. 149-156; Attachment A.
[135] *Id.*, Attachment A.

Cal PA makes several flawed recommendations regarding payroll expense. Critically, Cal PA does not present any arguments regarding the specific positions CWS requested, nor does Cal PA refute the need for hiring new personnel set forth in the Company's position-by-position justifications. During evidentiary hearings, Cal PA's witness for payroll matters confirmed that he did not consider any other factors in evaluating whether to remove these positions from the payroll forecast beyond those in Cal PA's testimony.[136] The CPUC should reject Cal PA's recommendations regarding payroll expense.

(1) Cal PA's Recommendation to Reduce Payroll Expense Based on the Number of Unfilled Positions is Flawed

Cal PA recommends that the CPUC reduce CWS's forecasted payroll expense to remove what it describes as "recorded unfilled positions."[137] Specifically, Cal PA attempts to apply the percentage of purported unfilled positions as a proportional reduction to CWS's payroll expense forecast. This argument is flawed for multiple reasons. First, as explained above, the forecasted payroll expense assumes a constant level of vacancies and overtime.[138] Therefore, CWS's total forecasted payroll expense **already** excludes expenses for vacant positions. The further disallowance recommended by Cal PA results in double-counting the impact of vacancies. Second, Cal PA's adjustment incorrectly assumes that all positions are expensed. However, certain positions are calculated as expense whereas payroll costs for other positions have been capitalized due to the employee's participation in capital projects. Salaries for positions that are 100% capitalized are not reflected in the payroll expense, yet Cal PA treats all positions as fully expensed in their calculation.[139]

Additionally, Cal PA's assertion that CWS has historically failed to fill positions authorized by the CPUC is not true. CWS presented rebuttal testimony demonstrating its track record in filling positions over the course of the last few GRC cycles.[140] The Company needs to have the flexibility to adapt to evolving conditions and new circumstances that arise in between

[136] Tr. Vol. 5 (Cal PA/Keowen) at 319:21 to 320:1 ("Q. Earlier, you mentioned the data request and meeting with Cal Water, but were there any other factors that you considered in evaluating whether to remove -- whether to suggest the removal of these positions from ·the payroll forecast? A. Your Honor, I believe it's all in my testimony.").
[137] CalAdv-04, p. 1-14.
[138] CWS-50, p. 75.
[139] *Id.*, p. 76.
[140] *Id.*

GRCs and the positions deemed important at the time a GRC is being prepared may change due to unforeseen circumstance such as new state law or regulation mandates.[141]

(2) Cal PA's Recommendation to Deny Proposed New Positions is Flawed

Cal PA asserts that CWS has not demonstrated the need in this GRC for 50 new positions, attempting to use a novel methodology in which it ties the number of employees directly to the customer growth rate for CWS's California operations.[142] As a preliminary matter, this number does not accurately reflect the number of new positions that CWS is proposing. CWS's is requesting 31 new positions, not the 50 positions discussed in Cal PA's report—the remaining 19 positions in dispute include employees that CWS has **already** hired between GRCs and those that were authorized in the prior 2021 GRC proceeding.[143]

Rather than refute the need for specific positions based on sound analysis, Cal PA recommends a blanket denial of CWS's request and attempts to rely on a passage from a generic editorial submitted on Indeed (an online job-seeking platform) regarding measurement of the economic growth of emerging businesses in a competitive environment.[144] Cal PA's methodology is highly flawed because the number of employees required by CWS does not have a linear relationship with the number of customers served. The Company must constantly meet increasing demands and new challenges to continue to provide customers with the same level of safe, clean, and reliable water service that it has always done.[145] CWS illustrated this non-linear trend with examples such a proposed Regional Cross-Connection Control Specialist needed to meet new cross connection rules that have nothing to do with customer growth.[146]

Notably, every one of the justifications for each new proposed complement details the specific new need for that individual position and not one of them is for customer growth—Cal PA does not substantively refute any of these justifications.[147] For these reasons, the CPUC should reject Cal PA's highly flawed argument.

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[141] *Id.*
[142] CalAdv-04, p. 1-17.
[143] CWS-50, p. 74.
[144] CalAdv-04, p. 1-18, fn. 56.
[145] CWS-50, p. 77.
[146] *Id.*
[147] *Id.*

(3) CWS's Forecast Does Not Include Group Expenses

Cal PA also suggests that CWS's payroll expense forecast included expenses for California Water Services Group ("Group") and that it is based on a "company-wide payroll" covering Group and other CWS affiliates.[148] This is incorrect. The forecasted payroll expense is based solely on CWS's employees' time and benefits allocated to CWS. Group does not have its own direct employees—time and benefits spent by employees for Group are allocated to Group and are **not** included in the forecasted payroll expense for CWS.[149] Additionally, CWS applies an affiliate allocation factor to its projected CSS payroll expenses for 2026 to 2028, which it allocates a portion of CSS payroll to the affiliates.[150] Therefore, there is no basis for Cal Advocate's proposed reduction.

(4) CWS's Forecast is Already Adjusted to Account for a Delay in the Prior GRC Decision and Hiring

Cal PA argues that the CPUC should apply certain ratemaking adjustments to account for attrition year changes.[151] As explained above, CWS already made adjustments to its forecasted payroll expenses to account for the anticipated delay between when a decision is issued in this GRC and when hiring will occur.[152] CWS adjusted salaries for proposed complements to start in the middle of the Test Year, to account for a potential delayed decision and with the understanding that some positions may be hired sooner than others.[153] Therefore, this argument should be rejected.

(5) Subsequent Corrections to Cal PA's Recommendations

Following receipt of Cal PA's report, Cal PA confirmed in data requests that there were certain errors in their payroll expense calculations and that they also made reductions to the Company-wide ARP expenses, but did not expressly discuss such expenses in their report or otherwise present testimony on employee ARP.[154] CWS presented the corrected numbers in its rebuttal testimony.[155] While the CPUC should reject all of Cal PA's proposed reductions for the

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[148] CalAdv-04, p. 1-13.
[149] CWS-50, p. 75.
[150] *Id.*
[151] CalAdv-04, p. 1-19.
[152] CWS-50, p. 78.
[153] *Id.*
[154] *Id.*, p. 72.
[155] Note that CWS served an errata version of CWS-50 that shows the corrected numbers in Table 5-1 on page 73. The version of CWS-50 in the joint exhibit list is to this errata version.

reasons set forth above, if it chooses to adopt Cal PA position, then it should factor in the corrections summarized in the Company's rebuttal testimony.[156]

b) Executive Compensation

CWS's executive officers receive annual total compensation that is composed of a base salary, short-term ARP, long-term ARP, and benefits.[157] For these such expenses, CWS is requesting that the CPUC allow $14.746 million for total executive compensation expense for Test Year 2026.[158] CWS provided significant details on executive compensation in the 2024 Proxy Statement for Group that was attached as Attachment B to CWS's Application in this proceeding and also provided further information in its direct testimony.[159]

(1) Summary of CWS Executive Compensation

CWS's compensation programs reward excellent job performance, identify exceptional leadership, and represent fair, reasonable, and competitive total compensation that aligns officers' interests with the long-term interests of customers and stockholders.[160] CWS must offer executive compensation packages that are competitive with the compensation offered by peer companies; otherwise, prospective qualified executives will choose to work at peer companies rather than join CWS. Additionally, top performing CWS executives will be more likely to leave CWS for peer companies offering higher total compensation.[161] In its testimony, CWS provided numerous specific examples of ways that its executives have provided direct benefits to customers.[162] The CPUC has also consistently held that customers benefit from and should pay the reasonable costs required to hire and retain qualified executives.[163]

Each year, the Organization and Compensation Committee ("O&C Committee") of Group's Board of Directors reviews, assesses, and recommends to Group's full Board of Directors all compensation for the Company's officers. This is done after the O&C Committee

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[156] *Id.*, p. 73.
[157] CWS-01, p. 160.
[158] *Id.*
[159] *Id.*, pp. 160-179
[160] *Id.*, p. 161.
[161] *Id.*
[162] CWS-50, pp. 79-81.
[163] D.04-07-022, pp. 203-209 ("the requirement to attract and retain qualified employees means the utility "needs to be a competitive employer.").

determines that the compensation for the Company's officers is competitive relative to companies of comparable size, complexity, location, and business nature.[164]

With respect to 2023 compensation decisions, the O&C Committee engaged Meridian Compensation Partners ("Meridian") as its independent, third-party executive compensation consultant.[165] Having an independent evaluation of compensation is beneficial to ensuring that executive compensation decisions are both competitive and fair. To determine competitive compensation practices, the O&C Committee relied, in part, on published survey compensation data, as well as proxy data for specific individual peer companies, referred to as the "Proxy Peer Group" in the 2024 Proxy Statement, compiled by Meridian.[166] In partnership with Meridian, a robust process has been established to determine which companies are included in the Proxy Peer Group. The process assesses the relevance of different companies in the context of making competitive compensation comparisons using a number of factors. Further details on the elements of the executive compensation program and the factors used when assessing the relevance of companies for the Proxy Peer Group were provided in CWS's testimony.[167]

It is critical that the CPUC understand that the base salary alone which the company pays its officers is much less than the total compensation paid by the company's peers. It is also critical that the CPUC understand that the short-term ARP and long-term ARP are **not** a "bonus" for executive officers. Short-term ARP and long-term ARP are components of compensation that, in addition to base salary, make up total compensation that is competitive with the company's peers' total compensation. Instead, following today's compensation practices that are ubiquitous in the utility industry and elsewhere, short-term and long-term compensation make up the "at-risk" portion of total compensation.[168] These two compensation components, added together with base salary, are intended in total to be in the competitive market value compensation range, as derived by the compensation disclosed by the companies in the proxy peer group. Without these "at-risk" pay elements, then Company would need to substantially increase the base pay of its officers to be competitive with Group's proxy peer group total

[164] CWS-01, p. 162.
[165] *Id.*
[166] *Id.*
[167] *Id.*, pp. 168-179.
[168] *Id.*, p. 164.

compensation packages.[169] If CWS did not raise the base salary to offset the value of the at-risk pay elements, then it would not be able to attract and retain qualified executives that benefit customers through improved operation of the water utility.

Proxy advisory firms such as Institutional Shareholder Services ("ISS") and Glass Lewis also expect a portion of executive compensation to be at-risk.[170] Stockholders voice their opinions through Say on Pay, which is a term used to describe stockholder proxy proposals whereby the stockholders have the right to cast an advisory vote on the compensation of the company's top executives.[171] ISS and Glass Lewis publish detailed compensation policies that they follow to determine whether they will recommend to stockholders that they vote "For" or "Against" Say on Pay.[172] In connection with the Company's 2024 proxy, ISS and Glass Lewis recommended votes in favor of the Say on Pay proposal—and the Say on Pay proposal was subsequently and overwhelmingly approved by stockholders.[173]

(2) Responses to Cal PA's Arguments

In its report, Cal PA argues that the CPUC should deny expense recovery of a significant portion of executive compensation. As discussed below, these arguments should be rejected because they are based on erroneous data, fail to acknowledge the importance of competitive executive compensation to attract and retain qualified executives, and ignore the benefit CWS's customers receive from qualified executives.

First, Cal PA erroneously assumed that the executive compensation totals stated in CWS's 2024 Proxy are inclusive of CWS's entire leadership team that includes its CEO, its five senior officers, and its 11 other officers, when in fact it was only the seven **named** executive officers.[174, 175] Correcting for Cal PA's error produces a significantly different view of the

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[169] *Id.*
[170] *Id.*
[171] *Id.*
[172] *Id.*
[173] *Id.*, p. 167.
[174] CWS-50, pp. 81-82. Each of these 17 corporate officers were also listed in Group's 2023 Annual Report, which was linked in CWS's rebuttal testimony. *See id.*, p. 92, fn. 159, *citing to* Group 2023 Annual Report, pp. 46-47, *available at* https://www.calwatergroup.com/_assets/_73f93f8a365d0c90ecb9f702d8b5b7e6/calwatergroup/db/2510/24171/annual_report/CalWater-2023AR-WebVersion-040124.pdf (listing all of Group's 17 corporate officers).
[175] 17 C.F.R. § 229.402(a)(3) (U.S. Securities and Exchange Commission regulation identifying which individuals are "named executive officers" for purposes of corporate proxy statement

relevant data, as shown in CWS's rebuttal testimony.[176] Additionally, Cal PA referenced in its report that Equilar published data that CEO pay increased 12.6% in 2023 as well as a Harvard Business Forum post that stated CEO compensation increased 11.3% annually from 2022 to 2023.[177] The proposed annual increase for CWS's CEO is 3.2%, which includes all at-risk pay and is significantly less than either of the two reference points provided by Cal PA.[178]

Second, Cal PA's makes observations regarding CWS's proxy peers—which are used to help benchmark CWS's executive compensation and pay practices—that are selective, overly simplified, and misinformed. As summarized above, CWS engages in a robust process with the help of Meridian, an independent, third-party executive compensation consultant.[179] Cal PA falsely describes CWS as selecting comparison companies to achieve the goal of bolstering executive pay by selecting a peer group with revenues more than double CWS's annual revenue.[180] Specifically, Cal PA also states that CWS's peer group is not reasonable because it uses a proxy peer group with revenues between 0.5 and 2 times annual revenue.[181] Cal PA's recommendation is not based on any analysis or best practice, rather it is just its opinion and is contradicted by relevant authorities. For example, Pearl Meyer[182] describes a qualifying revenue range for peer group selection as 0.5 times to 2.0 times and market capitalization of 0.25 times to 3.0 times.[183] ISS applies a similar two-size guideline to qualify potential peers.[184]

Cal PA's allegation that the peer group analysis is easily manipulated by cherry-picking is also false. In addition to the assistance of Meridian as an independent consultant, proxy peer groups are heavily scrutinized by proxy advisory firms, including both Glass Lewis and ISS. Both issue analysis annually that evaluate executive compensation and will recommend

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disclosures and requiring that disclosures regarding executive compensation are only required for such "named executive officers").

[176] CWS-50, p. 82 (showing that the corrected comparison between the recorded 2023 and forecasted 2026 executive compensation's annual of change was 5.2% and explaining that "[t]his 5.2% is significantly less than the inaccurate and miscalculated 31% annual increase included in Cal Advocate's report").

[177] CalAdv-04, p. 1-24.

[178] CWS-50, p. 82.

[179] *Id.*, p. 83.

[180] CalAdv-04, p. 1-25.

[181] *Id.*

[182] Pearl Meyer is a leading compensation consulting firm. *See* CWS-50, p. 83.

[183] CWS-50, p. 84.

[184] *Id.*

stockholders to vote against executive compensation if they conclude from their independent analysis that it is excessive. They make this determination using their own respective peer groups, and not the peer group selected by the Company's O&C Committee with assistance from Meridian. As explained above, these proxy advisory firms recommended a yes on the 2024 say-on-pay proxy vote and 96% of stockholders approved the executive officers' compensation packages.

Furthermore, Cal PA's analysis using only 2023 revenue for CWS as a basis for proxy peer selection is misrepresentative as CWS's 2023 revenue was heavily and negatively impacted by the 15-month delay of CWS's 2021 GRC decision.[185] Had CWS's 2023 revenue been normalized with 2023 interim rate relief revenue that was subsequently recorded in 2024, its 2023 revenue would have been $882M.[186] Using the normalized data presented in its rebuttal testimony, CWS is within 0.63 to 2.6 times revenue and 0.30 to 1.30 times market capitalization of all of its proxy companies, except Black Hills Corporation which is negligibly (0.1 times) above the high-end revenue guideline.[187] Black Hills met the other proxy requirements and allowed for a more complete set of proxy companies.[188] As such, the proxy group companies are within the best practice guidelines summarized above by Peral Meyer and ISS.[189] Thus, Cal Advocate's objections to the proxy group process should be ignored.

Lastly, Cal PA is misguided and misleading by referring to all variable compensation as "a bonus."[190] The only portion of at risk compensation that could be considered "a bonus" is the amount, if any, paid out for performance that is better than the target.[191] CWS's request for executive compensation is **only** the target amount, removing the possibility of customers paying for performance bonuses.[192] Additionally, Cal PA's opinion that customers only receive a fraction of the benefit from short-term and long-term at-risk compensation is short-sighted and flawed. CWS presented multiple examples in its rebuttal testimony on how the metrics

[185] *Id.*, p. 85.
[186] *Id.*
[187] *Id.*, p. 86.
[188] *Id.*
[189] *Id.*
[190] *See, e.g.,* CalAdv-04, p. 1-26.
[191] CWS-50, p. 87.
[192] *Id.*, p. 88.

underlying CWS's at-risk executive compensation elements align with customer benefits.[193] Variable pay tied to financial performance helps encourage and motivate responsible financial management, not to just drive earnings or to solely benefit stockholders, but to help finance the cost of operations which provides direct benefits to customers.[194] For this reason, it is unreasonable to argue that financial metrics only benefit stockholders and therefore there should be no variable compensation cost recovery by the Company.[195]

In summary, the CPUC should reject Cal PA's flawed arguments regarding executive compensation and instead authorize CWS to include the full proposed amount of $14.746 million in the revenue requirement.

c) SI #19 – SR #7: Payroll Escalation Based on Union Contracts

In SR #7, CWS requests to calculate the escalation year labor expenses for its escalation and attrition year advice letter filings using the Company's actual annual wage increases in the contracts with CWS's unions, as opposed to the CPUC's labor inflation factors.[196] CWS provided more information regarding the unique circumstances relating to CWS's union contracts in the CWS Response to ALJ Ruling.[197] To more accurately reflect the impact of wage increases in rates, CWS recommends that the CPUC approve the use of actual union wage increases instead of the CPUC's labor escalation factors in CWS's step increase filings.

In its report, Cal PA argues that the CPUC should deny SR #7, asserting that the proposal is inconsistent with the CPUC's Rate Case Plan for Class A Water Utilities.[198] The CPUC should disregard these arguments because this special request would allow the CPUC to more accurately tie the labor expense element of its step filings for CWS with the actual labor expense. While the Rate Case Plan's use of general labor escalation factors for step filings may be appropriate elsewhere, the recent data shows a material shortfall unique to CWS for its labor expense.[199] For this reason, CWS has already incorporated its union contract annual wage increase escalation factors to calculate its test year labor expense forecasts for this GRC—there is no good reason

[193] *Id.*
[194] *Id.*, p. 89.
[195] *Id.*
[196] CWS-01, p. 100.
[197] CWS Response to ALJ Ruling, pp. 37-38.
[198] CalAdv-04, pp. 1-7 to 1-9.
[199] CWS-01, p. 103.

why the same factors should not be utilized to determine the escalation and attrition year labor expenses.[200]

The CPUC's Standard Practice U-26 specifically discusses how union contracts are generally considered reasonable and allowed in rates (while portions of Standard Practice U-26 are intended for Class B, C, and D water utilities, it nonetheless demonstrates the CPUC's intent on how to handle this issue generally):[201]

> Normally we allow in rates any formal contract that the utility has signed such as a lease for rent, or a **contract with a union for wages. As a matter of policy these contracts are generally considered reasonable. If you disagree with the reasonableness of these contracts you have the burden of proof that the utility signed the contract imprudently.** Either the utility was conspiring with the company contracted with to charge higher than normal fees (see affiliated transactions above) or the utility was generally imprudent and allowed itself to sign a contract that was unreasonable, figuring it could just pass the costs on in rates. Imprudence usually means that the company did not follow normal managerial or negotiation techniques when it negotiated the contract. Higher than normal costs compared to other contracts for similar services in the same area can indicate imprudence also.

Thus, the CPUC's policy is that such contracts are generally reasonable and the burden of proof is on Cal PA to demonstrate that such contracts were unreasonable. Cal PA does not allege that the union contracts at issue here were reached improperly.

For these reasons, the CPUC should reject Cal PA's arguments and instead grant CWS's SR #7 in order to reach the most accurate labor expense forecast possible in escalation and attrition year advice letter submissions.

14. Benefits

CWS collectively estimates benefits costs for operations, maintenance, and administrative purposes.[202] In its testimony, CWS has reviewed the last five years of expenses for all benefits categories and developed a ratio of the cost of the benefit to total Company payroll in that year for use in its analysis.[203] CWS uses actuarial reports as its basis for estimating

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[200] *Id.*
[201] Standard Practice U-26, p. 8 (emphasis added).
[202] CWS-01, p. 180.
[203] *Id.*

the following benefit components: Retirement Fund (Pension and the Supplemental Executive Retirement Plan ("SERP")), Group Insurance (including medical, dental and vision), Retirees' Group Health costs, and Post-retirement Benefits Other Than Pension ("PBOP") costs.[204] Cal PA does not oppose the use of the calculations provided by these actuarial forecast for the pension plan, PBOP, or medical expenses, therefore the CPUC should utilize these actuarial reports and make adjustments to reflect the ultimate number of positions approved in this proceeding.[205]

a) Methodology for Forecasting Benefit Expenses

CWS uses a calculation based on the number of participants and positions to derive a per employee healthcare cost, pension plan and SERP, and PBOP.[206] The calculation multiplies the ratio of enrolled participants from the actuarial report by the 2026 proposed headcount (with new complements since the actuarial report excludes the new complements).[207] Then, CWS divides the total 2026 expense by the 2026 participant count from the actuarial report for a "per participant cost."[208] Finally, CWS multiplies the "per participant cost" by the ratio of enrolled participants from the first step of the calculation.[209] Cal PA does not oppose CWS's methodology of calculating healthcare, PBOP, and pension.[210]

However, Cal PA recommends using the 1,118 positions from CWS's SEC 10-K as the base, rather than 1,294 which is the total number of positions.[211] CWS is amenable to updating the employee count to 1,118 to reflect the positions as of December 31, 2023.[212] Though, CWS also requests that any positions approved as part of this proceeding be included in the overall base to calculate healthcare expenses.[213]

Cal PA does not address the other components of the benefits expenses, which include the retirement savings plan, widow's benefits, employee welfare administration, benefits transferred to unregulated and capital, off-duty time—sick leave, disability benefits received, off-

[204] CWS-50, p. 90.
[205] *Id.*
[206] *Id.*
[207] *Id.*
[208] *Id.*
[209] *Id.*
[210] *Id.*
[211] CalAdv-04, p. 1-30.
[212] CWS-50, p. 91. Note that the headcount in the RO model at issue here is strictly for calculation of benefits and does not direct impact payroll expense.
[213] *Id.*

duty time—all other, and synergy adjustments.[214] Since the methodology used to calculate benefits is not in dispute, CWS requests that the calculation used to forecast benefits be updated with the 1,118 employees as of December 31, 2023 plus any hires between cases and proposed complements that are approved in this proceeding.[215] Based on the evidence presented by CWS, the CPUC should adopt CWS's updated forecast of $27,134,154.15.[216]

b) SERP Expenses

In addition to the tax-qualified defined benefit plan that covers all permanent employees, supplemental retirement benefits are provided to CWS's officers under the SERP.[217] CWS presented significant testimony and other supporting materials in this proceeding describing the purpose of the SERP, the size of the fund, and other details of the program. The SERP is designed primarily to compensate for limitations imposed by the Internal Revenue Code on allocations and benefits that may be paid to officers under the Group's tax-qualified pension plan.[218] Because the tax code restricts benefits under the tax-qualified plan, CWS's officers otherwise would not be eligible to receive the retirement benefits that are proportional to the benefits received by other Company employees.[219] The SERP is an unfunded, unsecured obligation of the Group and is designed to assist in attracting and retaining key officers while providing a competitive, total compensation program.[220] In this GRC, CWS retained Ernst & Young LLP ("EY") to prepare actuarial cost projection for SERP expenses for the period at issue.[221] Based on these actuarial cost projections, CWS's proposed SERP expense in 2026 is $5,242,000 and the proposed rate recovery of this amount is clearly presented in the RO model for this proceeding.[222] CWS is at a competitive disadvantage if it fails to offer a robust SERP similar to what its peers offer, and therefore SERP costs are reasonable expenses incurred for the benefit of customers and such costs should be authorized for rate recovery.

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[214] *Id.*
[215] *Id.*
[216] *Id.*
[217] CWS-01, p. 177.
[218] *Id.*
[219] *Id.*
[220] *Id.*
[221] *Id.*, p. 179. A copy of the complete E&Y report is found in Attachment B to CWS-01.
[222] *Id.*

In its report, Cal PA argues that the CPUC should exclude SERP expense from the overall pension expenses.[223] However, the arguments presented by Cal PA regarding SERP misrepresent this critical compensation program and are otherwise flawed.

First, Cal PA argues that CWS has not shown any benefit from SERP expenses for ratepayers who would be funding the program.[224] This is false. The SERP is part of the total compensation package used to attract and retain key CWS employees and officers.[225] CWS has discussed the importance of providing market-based executive compensation in its testimony.[226] The SERP is an important component of the total compensation package paid to key CWS employees and officers that allows the company to achieve such benefits.

In D.14-06-028, the CPUC examined similar SERP benefits provided by Southwest Gas Corporation and found that they were "essential components of Southwest Gas' overall compensation package that not only provided important tools for the Company to competitively attract and retain qualified executives, but to maintain a level of parity in benefits."[227] Specifically, the CPUC examined unopposed testimony showing that by excluding such benefits, this would place the company at the bottom of the market for executive compensation.[228] Thus, the CPUC held, "[b]ased on the foregoing, we find that Southwest Gas' request for 100 percent recovery of its SERP [...] expenses is reasonable and supported by the evidence, and we approve this request."[229] The CPUC should reach a similar result here for CWS.

Second, Cal PA alleges that CWS stated that the purpose of the SERP is to circumvent IRS qualified pension limits.[230] CWS has never made such a statement and this allegation by Cal PA mischaracterizes the nature of the program. As explained in CWS's testimony, the SERP is described as a "top-hat" plan, which means the SERP sits on top of the qualified pension plan and allows for higher compensated employees to receive the same proportional retirement plan benefits as lower compensated employees.[231]

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[223] CalAdv-04, p. 1-31.
[224] *Id.*, p. 1-32.
[225] CWS-50, p. 95.
[226] *Id.*
[227] D.14-06-028, p. 56.
[228] *Id.*, p. 57.
[229] *Id.*
[230] CalAdv-04, p. 1-32.
[231] CWS-50, p. 94.

In contrast to Cal PA's characterization of the program, the IRS encourages the use of pension plans as retirement vehicles through tax incentives (immediate tax deductions), but it is only willing to do so up to certain dollar limits, as defined.[232] Because SERP benefits are provided under a non-qualified plan, the Company cannot take a tax deduction for plan contributions until the benefits are withdrawn by the participant.[233] The Company and our customers receive the benefit of the IRS tax deduction in the future when the SERP benefit is paid.[234] The SERP does not "circumvent" IRS rules. On the contrary, the SERP is fully in accordance with IRS rules. In other words, similar to CWS's qualified pension plan, utilizing the SERP allows CWS to take advantage of IRS tax benefits for the benefit of CWS and its customers while also providing a key component of the total compensation package necessary to retain critical corporate officers.

Third, Cal PA includes a calculation of SERP expense benefits by participant that divides the test year cost of the SERP by just seven officers and asserts that each of these seven officers receive a benefit of $749,000 annually from the SERP.[235] This calculation is misleading for multiple reasons. Cal PA mistakenly uses this argument on the seven named executive officers in 2023 proxy statement, but CWS actually has seven named executive officers and ten additional corporate officers, as listed in the 2023 annual report, that participate in the SERP.[236] Further these costs are not payments to SERP participants, as Cal PA alleges, and misleadingly refers to them as bonuses and additional officer compensation.[237] SERP participants do not receive this funding. Rather, this is the amount paid by CWS to provide SERP participants retirement benefits.[238] Therefore, the CPUC should disregard these incorrect characterizations of the SERP.

Lastly, Cal PA argues that CWS has not provided evidence the SERP is necessary to be competitive with peers.[239] This, too, is incorrect. As explained above, SERP benefits are part of market compensation and must be offered by CWS to attract and retain qualified officers. More broadly, as discussed above, CWS engages Meridian to assist in the determination of market

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[232] *Id.*
[233] *Id.*, p. 92.
[234] *Id.*
[235] CalAdv-04, p. 1-32.
[236] CWS-50, p. 92.
[237] *Id.*, p. 93.
[238] *Id.*
[239] CalAdv-04, p. 1-33.

compensation for CWS officers.[240] Meridian uses compensation data from peer group company proxies and company surveys to evaluate the adequacy of officer total compensation.[241] With the current mix of base cash, equity, and benefits, officer total compensation is approximately at the mid-range target level.[242]

Without the SERP benefits, either base cash, equity compensation, or another benefit would need to be increased to attract and retain key officers and employees.[243] Total compensation recommendations made by Meridian (which considers SERP benefits) are subject to Group Board approval, review by ISS and Glass Lewis, and subject to a stockholder say-on-pay vote.[244] These reviews and the stockholder say-on-pay vote affirming officer compensation provide strong evidence that officer total compensation, including SERP benefits, is at market and therefore necessary for CWS to be competitive with its peers. Accordingly, the CPUC should reject Cal PA's assertion that there is no evidence justifying the need for the SERP.

In summary, the CPUC should reject the arguments made by Cal PA regarding the SERP program and should instead adopt CWS's proposed SERP expense in 2026 of $5,242,000.

C. SI #3 – Whether CWS's proposed plant additions are accurate, reasonable, and justified

1. Common Plant

a) Projects in Progress

In each GRC, CWS proposes capital additions to utility plant over multiple years as part of GRC filings. Due to the cyclical nature of our GRC proceedings, every three years CWS proposes four years of capital additions, amounting to over 2,500 capital projects for that period in this GRC.[245] In addition, projects budgeted for previous years that weren't completed and booked to CWS's Utility Plant in Service by the end of 2023 are also included in the forecast.[246] As shown in CWS's direct testimony, CWS has consistently completed projects which result in total recorded rate base very close to the adopted amounts.[247] The value in which customer rates

[240] CWS-50, p. 96.
[241] *Id.*, p. 97.
[242] *Id.*
[243] *Id.*
[244] *Id.*
[245] CWS-01, p. 33.
[246] *Id.*, p. 34.
[247] *Id.*, p. 35.

are to be measured must consider not just an examination of individual projects whose schedules may have changed but must also assess the overall rate base. This is consistent with the CPUC's approach to capital project budgets in GRC proceedings, which it recently summarized in the GRC proceeding for Great Oaks Water Company in D.25-06-011:[248]

> Actual events can cause a utility to determine that of the many projects it planned to pursue during the test year and attrition years some other more urgent needs may arise. The company has an obligation to provide safe and reliable service, which means it must timely use its expert judgement to adapt its actions and not blindly adhere to an adopted forecast. The Commission authorizes rate recovery of the utility's budgeted amount and expects it to be used in the most responsible way. If any project included in the forecast for the test year is deferred the utility must justify that project again in the subsequent general rate case if it believes that the deferred project is still necessary. That subsequent justification can be disputed by intervenors in the next proceeding. Intervenors may also challenge the reasonableness of the substituted project.

With respect to CWS's projects in progress, Cal PA draws misleading conclusions on planning and historical performance based on inaccurate calculations.[249] In its workpapers, Cal PA removes dollars for any capital project that was not identified as being complete by CWS in a data request response provided prior to the end of 2024.[250] As discussed below, Cal PA's overly simplistic assessment and broad-brush recommendation to eliminate all projects in progress not completed as of the end of 2024 mischaracterizes CWS's performance for delivering capital and fails to properly account for the complexities associated with the budgeting and management of thousands of capital projects in a three-to-four-year timeframe.

(1) Cal PA's Calculations and Conclusions Regarding Projects in Progress are Flawed

Cal PA asserts that CWS forecasted "$618M for incomplete capital projects that CWS estimates will be in service by 2025."[251] Contrary to Cal PA's assertions, CWS forecasted $323.4M for projects to be completed in 2024.[252] In fact, much of this budget includes the

[248] D.25-06-011, pp. 20-21 (footnotes omitted).
[249] CalAdv-07, pp. 2-1 to 2-4.
[250] CWS-50, p. 26.
[251] CalAdv-07, p. 2-1.
[252] CWS-50, p. 27.

projects that were forecasted for 2024 in the 2021 GRC.[253] Cal PA proceeds to evaluate CWS's performance of these projects, in some instances based on dollars forecasted with completed projects (not the actual costs associated with these projects) and in others based on number of projects completed, in an attempt to reach the conclusion that ultimately CWS only spent 20.4% of the forecasted budget for 2024.[254] In particular, Cal PA references CWS's response to Data Request SIH-005, Attachment #1 as proof of 2024 performance.[255] This response was provided to Cal PA in November 2024 for capital project completions through the end of October 2024—thus, Cal PA is assessing CWS's performance based on only approximately 80% of the performance period.[256] Additionally, CWS has completed work on a number of projects that are used and useful and serving our customers but have not been administratively booked.[257] In its rebuttal testimony, CWS included an updated accounting, which updates the completion status, investment with these projects as of the end of 2024.[258] Accounting for the update, this brings the forecasted $618.1M for projects in progress that Cal PA should be reviewing down just to $207.1M.[259] While Cal PA does not examine these projects on a project-by-project basis, CWS provided adequate justification for each and therefore the CPUC should approve them.

(2) Cal PA's Consideration of Currently Authorized Used and Useful projects is Too Narrow

Cal PA forms their opinion that CWS's customers are funding incomplete projects based on changes to the timing of closing for certain projects since they were originally forecasted 5 years ago for the prior GRC. However, Cal PA fails to take into account the other capital-related impacts to rate base on which customers' rates are based.[260] For each forecasted capital project, there are also forecasted rate base reductions via accumulated depreciation and deferred income tax liabilities ("DTL").[261] Further, Cal PA fails to recognize the other projects CWS has completed during this timeframe that are benefiting customers. All of these capital-related items

[253] *Id.*
[254] CalAdv-07, pp. 2-1 to 2-4.
[255] CWS-50, p. 27.
[256] *Id.*
[257] *Id.*, p. 28.
[258] CWS-51, Appendix F.
[259] CWS-50, p. 29.
[260] *Id.*, pp. 19-20 (providing example demonstrating flaws in Cal PA's arguments).
[261] *Id.*, p. 30.

are netted against each other into CWS's rate base.[262] CWS's customers "fund" rate base through their water rates. They do not simply fund capital additions. Therefore, to properly consider Cal PA argument on "funding" the CPUC needs to look at recorded versus adopted rate base. In fact, in 2023, the sum of CWS's recorded rate base and additional plant in service was 96.3% of 2023 last adopted.[263]

Furthermore, when performing its evaluation on forecasted project closing discrepancies, Cal PA's sweeping assertions that customers have already funded these projects completely discounts $32.9M in projects that were not part of the annual capital budget included in customer rates, such as projects that were advice letter status or projects CWS completed as a result of emerging issues.[264] Furthermore, $46M in wildfire hardening and $4.7M in PSPS-related capital that has been serving customers going back to 2021 has yet to be included in customer rates.[265] These projects were **not** part of the identified projects that supported the original capital budget approved by the CPUC—customers enjoy the benefits of these assets even though they were not in the original capital budget approved.[266] In taking into account authorized rate base reductions from accumulated depreciation and DTL, the total level of recorded plant additions, plus the dollar amount of projects that were benefitting CWS customers that haven't yet been added to utility plant in service, and the level of requested projects in progress that haven't been included in customer rates, we see a very different picture than was painted by Cal PA.

(3) Ratemaking Mechanisms are In Place to Mitigate Recovery for Plant Not Yet Used and Useful

Contrary to Cal PA's historical ratemaking recommendations, in California, rates are appropriately based on forward-looking projections that are proposed by the company, are evaluated by Cal PA, and then are ultimately approved by the CPUC.[267] As a result, there will never be a perfect correlation between the levels of capital authorized and completed. However, there are mechanisms in place to ensure that customers are appropriately paying for the utility plant investment benefits they are receiving.

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[262] *Id.*
[263] *Id.*
[264] *Id.*
[265] *Id.*
[266] *Id.*, pp. 20-25 (explaining fallacies in Cal PA's argument that customers have paid for projects already).
[267] *Id.*, p. 31.

One such mechanism is through the earnings test. In a given GRC proceeding, customer rates are established for the Test Year and then are adjusted for subsequent years based on a variety of factors, primarily a weighted-average rate base analysis.[268] If the Company does not close a certain level of utility plant in a timely manner to increase its rate base, their authorized capital budget, and ultimately their rates, are not adjusted upwards for the subsequent year.[269]

Another mechanism CWS utilized in prior rate cases to mitigate recovery for capital budgets that haven't been completed is through its "carryforward" adjustment that reduces the capital that goes into proposed rates.[270] CWS recognized that there are many factors out of the Company's control that will inevitably cause a portion of its capital program to be delayed, and for the past few GRCs, the Company made a significant downward adjustment of $100M to its overall utility plant in all districts to acknowledge this delay.[271] In this GRC, CWS has implemented a different ratemaking adjustment that conceptually aimed to achieve a similar goal by electing to delay the inclusion of certain projects in rates.[272] This mechanism thereby accounts for the delay in schedules that will occur with some of the projects places a larger portion of the capital budget into the test years. This is a benefit that goes directly to CWS's customers and is intended to acknowledge that there will be factors beyond CWS's control that will result in delays to installing capital.

(4) Reasons for Delay in Project Completion

Contrary to Cal PA's claim, unexpected schedule delays and project challenges are ubiquitous throughout the construction industry and project management in general. A Price Waterhouse Coopers survey conducted of over 10,640 projects from 200 companies across 30 countries and various industries found that only 2.5% of companies successfully completed 100% of their projects on schedule and budget.[273] Similarly, the Harvard Business Review analyzed 1,471 information technology projects and found that the average overrun was 27%, and a full one in six projects had a schedule overrun of almost 70%.[274] A similar report focused on construction and infrastructure industries found that projects typically take on average about

[268] *Id.*
[269] *Id.*
[270] *Id.*
[271] *Id.*
[272] *Id.*
[273] *Id.*, p. 32.
[274] *Id.*

20 percent longer to finish than originally scheduled.[275] In its testimony, CWS summarized some of unique factors that resulted in delayed project completion during the previous GRC cycle, including (1) permitting-related delays, (2) material and equipment supply chain issues, (3) a delayed 2021 GRC decision, (4) operational constraints, (5) land acquisition delays, (6) coordination challenges with other utilities, (7) COVID-19 impacts, (8) the need to address emerging issues, and (9) the need to address unexpected challenges.[276] As detailed in the following section, CWS has taken substantial steps to mitigate the impacts of these factor in this current GRC cycle.

(5) CWS is Taking Proactive Measures to Address the Institutional Constraints of a Compressed Project Completion Cycle

In the previous GRC, CWS proposed two similar but slightly different approaches to address long-lead projects: Design and Permitting Only Projects, and Multi-GRC Projects. Ultimately, the goal of these proposals is to allow the CPUC to review and sign off on CWS's longer-term capital plans. For the Design and Permitting Only Projects, CPUC approval will secure initial funding in this rate case so that CWS can go through the process of refining scope, and performing design, while securing requisite permits.[277] For the Multi-GRC Projects, preliminary CPUC approval (without immediate funding) will enable CWS to proceed without delay so that it remains feasible to complete them in the next GRC.[278] Both of these will result in more defined scopes and therefore minimize uncertainty, as well as better quality cost estimates, and finally a more manageable schedule with which the company can complete its work.[279] This will also reduce the unrealistic expectations regarding the completion of projects with necessarily long lead-times, and the associated stigma of having projects that span multiple rate cases.[280]

Furthermore, CWS is continuing to take steps to increase its productivity in terms of timely plant closings. The Company has implemented strategies to increase capital execution through organizational changes and role specialization, additional project management tools and

[275] *Id.*
[276] *Id.*, pp. 34-42.
[277] CWS-50, p. 42.
[278] *Id.*
[279] *Id.*
[280] *Id.*

processes, and other enhancements.[281] In particular, the organization changes, validated by assessments from Jacobs, an engineering consultant, and Deloitte, a management consultancy firm, as well as internal piloting, aim to improve efficiency, consistency, quality, and cost-effectiveness while aligning with industry best practices as the Company's capital project program size grows.[282] This is reflected in CWS's record capital investment for 2024, which reached $386 million—a 21% increase from 2023.[283] Additionally, CWS's team that delivers the largest capital projects, Capital Delivery, achieved its highest investment year on record at $101 million, nearly doubling its 2023 investment and exceeding its previous high by over $30 million.[284]

In summary, for the reasons discussed herein, the CPUC should reject Cal PA's arguments on this topic and approve CWS's projects in progress as proposed.

b) Project Contingencies

CWS's approach to contingency planning in capital improvement projects is a critical aspect of financial planning and risk management.[285] Contingency serves as a safeguard against the unpredictable nature of construction projects, where unforeseen events can lead to additional costs.[286] By including a contingency allowance in estimates, project managers can ensure financial flexibility to address these challenges without compromising project integrity. CWS's methodology, based on recommendations from Blair, Church & Flynn Consulting Engineers ("BCF"), involves classifying cost estimates and identifying location factors.[287] Routine replacements and equipment purchase projects are considered Class 4 estimates with a 10% contingency, while all other projects are deemed Class 5 with a 20% contingency.[288] The complete analysis and recommendations by BCF was included in CWSs' testimony, providing evidentiary support for CWS's proposed contingency costs.[289] This approach aligns with industry

[281] *Id.*
[282] *Id.*, p. 45.
[283] *Id.*, p. 44.
[284] *Id.*
[285] CWS-31, p. 547.
[286] *Id.*
[287] CWS-31, p. 549.
[288] *Id.*
[289] *Id.*, pp. 547-645.

standards and is designed to manage the unpredictability of capital improvement projects effectively.[290]

Cal PA recommends rejecting CWS's proposal to include a contingency factor in rates for most forecast capital projects.[291] In particular, Cal PA argues that CWS has not provided sufficient justification for the contingencies and that allow contingencies discourages prudent forecasting. As discussed below, these arguments should be rejected.

(1) Contingency is a Fundamental Cost Element That Extends Beyond Simple Addition

Cal PA attempts in their testimony to diminish the importance of contingency by characterizing it as a mere "adder". However, the use of contingency factors is a standard, integral practice in financial planning and risk management, ensuring that projects are adequately funded to handle unexpected circumstances.[292] The three most widely regarded cost estimating organizations in the United States are the Association for Advancement of Cost Engineering ("AACE"), the American Society of Professional Estimators ("ASPE') and the International Cost Estimating and Analysis Association ("ICEAA").[293] Each has its own target industries, standards and approaches, but they all converge on the same two basic principles: (1) all projects contain an element of risk that absolutely must be accounted for, and (2) uncertainty is very high in the initial planning phase and decreases as the project progresses towards completion.[294]

(2) CWS Can Demonstrate its Contingency Proposal is Reasonable

The gap between parties on the methods CWS employs to estimate contingency can be bridged by understanding that CWS's proposal reflects its vast experience in delivering complex water infrastructure projects. The key to this understanding lies in the sequencing and timing of events in project management. In its rebuttal testimony, CWS included a helpful table that relates project scope definition (Class 1 – Class 5) to project phase.[295] The way engineers and project managers reduce uncertainty (risk) and therefore contingency is to increase the definition of the

[290] *Id.*, pp. 547-548.
[291] CalAdv-07, pp. 1-1 to 1-7.
[292] CWS-52, p. 142.
[293] *Id.*
[294] *Id.*, pp. 142-143.
[295] *Id.*, p. 148.

project.[296] To increase the definition of the project, more information needs to be collected. This can be done by working through design formulas and layouts, contracting subject matter experts for studies, or collaborating with various agencies and communities to establish the final requirements.[297]

In this proceeding, CWS has proposed various studies, including: (a) site topographical studies, (b) geotechnical studies, (c) noise studies, (d) hydrogeological assessments, and (e) sub-utility research.[298] These studies frequently appear as line items in the estimates for major capital work because CWS knows there is key information needed to correctly design its infrastructure, and it needs to determine that information every time. It is a known known. What CWS does not know definitively is what the study will conclude. The table shown in CWS's rebuttal testimony illustrates some of these studies possible outcomes that could alter the approach, feasibility, or design of a project.[299] It is highly unlikely all of these issues will arise in any one singular project, but it is extremely likely at least one of these issues will arise in most of the projects CWS pursues.[300] To put in estimates for all such work knowing that, practically, there is no chance of all of these risks coming to fruition would result in the exact excessive bloating of CWS's budget that Cal PA is accusing CWS of proposing. However, entirely omitting allowances for such events places CWS in position to unfairly carry these costs for several years.

The industry best practice is generally to fund projects at what is known as the P50 level—that is the budget that has a 50% probability of being either over or under budget on that amount.[301] The theory is that over a large class of similar projects, some estimates will have too much contingency and in other cases, not enough contingency to cover the true final cost of any given project in the portfolio. However, net, there will be roughly the correct amount needed to finance the entire endeavor. This pattern can be extrapolated over CWS's entire 2021 GRC forecasted budgets and final costs to show how overruns and underruns scale on the whole.[302] Since CWS recorded to plant approximately what it forecasted, the Company actually does **not**

[296] *Id.*, p. 144.
[297] *Id.*
[298] *Id.*
[299] *Id.*, pp. 149-150.
[300] *Id.*, p. 144.
[301] *Id.*, p. 145.
[302] *Id.*

engage in the gold plating practices alleged in Cal PA report but runs under budget almost as frequently as it goes over the proposed budget.[303] This means that CWS is actually reasonably managing its authorized budget, forecasting for a wide range of difficult to quantify costs and risks, and appropriately adjusting its portfolio of work to stay within the prescribed budgets the CPUC has deemed appropriate for its customers rates.[304]

(3) Contingency in Estimating Promotes Prudent Forecasting and Cost Control

Contingency factors play a crucial role in incentivizing accurate forecasting and budgeting. By encouraging CWS to account for potential risks and uncertainties during project planning, these factors promote a proactive approach to cost management.[305] This proactive stance helps reduce the likelihood of cost overruns and ensures that projects are completed within budget.[306] Moreover, contingency factors strike a balance between risk and reward. They allow CWS to manage potential cost increases while maintaining financial stability. By including these factors, CWS can allocate resources more effectively, ensuring that projects are adequately funded and minimizing the impact of unforeseen events on our customers.[307] Additionally, contingency factors contribute to the timely completion of projects, reducing the risk of delays and disruptions that could affect service reliability.[308] By incorporating these factors, CWS can address challenges and maintain the quality and reliability of its services, ultimately benefiting customers.

In summary, the CPUC should allow CWS to include contingency costs for its capital project estimates in accordance with industry best practices. Cal PA has removed contingency for almost all of CWS's proposed projects. While CWS does not repeat these general arguments for every single project at issue, the CPUC should reject Cal PA's recommendations for the general reasons set forth here regarding contingency costs.

c) Construction Management and Special Inspections

Construction management and special inspections ("CMSI") are critical, industry best practices that improve schedule, cost and quality during construction—in fact, the Special

[303] *Id.*
[304] *Id.*
[305] *Id.*, p. 146.
[306] *Id.*
[307] *Id.*
[308] *Id.*

Inspections component is **required** by California code.[309] As detailed in testimony, CWS has optimized its approach to CMSI, integrating specialized staff to conduct the work in response to a marked increase in project volume and complexity and has adopted a percentage factor approach to account for the cost, an approach that provides best visibility and ability to benchmark to industry.[310]

Cal PA claims that CMSI is an unjustified "cost adder" that is being included in projects to inflate project costs.[311] This argument is unsupported and shortsighted. By denying the CMSI, Cal PA fails to recognize the resource needs of the proposed capital program: an equivalent labor cost would need to be approved to address the resource needs of the capital program in the absence of CMSI.[312] The CMSI cost factor approach was first introduced in the 2021 GRC to provide visibility on the marked change in who does the work (engineers to roles specialists) and to indicate the cost in a way (% of construction) that can be validated against industry as reasonable.[313] In the 2021 GRC decision, the CPUC recognized the construction management services as an industry practice and approved the proposed CMSI costs for various projects.[314] The CPUC should approve the similar costs for CMSI proposed here for the same reasons.

d) Non-Specifics and Unscheduled

In D.24-03-042, the CPUC approved CWS's request to create separate Non-Specific and Unscheduled capital expense budgets for each of its ratemaking districts.[315] Unscheduled capital projects are "all unplanned damage related to mains, meters, service lines and hydrants that can always be expected to randomly happen somewhere in the CWS system, but without predictability as to exactly when or where."[316] Non-Specific projects "are responsive to unexpected facility or equipment failures, a need to maintain operations, or they address work items that were not previously anticipated when Cal Water developed its advance capital budgets."[317] In approving CWS's request to differentiate the two as separate concepts, the CPUC

[309] *Id.*, p. 152.
[310] CWS-31, pp. 681-691.
[311] CalAdv-07, pp. 1-5 to 1-7.
[312] CWS-52, p. 152.
[313] *Id.*, p. 153.
[314] *See, e.g.*, D.24-03-042, p. 57 ("We recognize that the construction management services amount is industry standard, so we approve that amount.").
[315] *Id.*, pp. 179-180.
[316] *Id.*, p. 180.
[317] *Id.*, p. 34.

noted that it "will help the Commission more easily focus on Cal Water's responses to the totally unexpected damage to Cal Water's system" and "will replicate what the Commission has previously directed California American Water Company to do."[318]

CWS requests a total Non-Specific budget of $55,918,600[319] and a total Unscheduled budget of $144,098,390.[320] To develop its Non-Specific budget, CWS used a five-year historical average with any outlying capital projects that it considers to be statistical anomalies removed to develop a base year estimate for the filing year.[321] It then forecasted that cost into the three rate case years assuming a 2.5% escalation rate.[322] CWS based its Unscheduled budget on four categories of projects: (1) mains (including valve casings), (2) service lines, (3) meters, and (4) hydrants.[323] Similar to the Non-Specific budget, CWS estimated costs for each of these categories based on a five-year historical average and 2.5% escalation rate.[324]

The mains portion of the Unscheduled budget is for unplanned replacements of distribution mains that are between 1-100 feet long, distribution system valves, and valve casings. CWS cannot include these projects in its planned mainline replacement program because they arise as emergency failures that CWS cannot predict in advance and must address immediately. By contrast, CWS identifies and plans its mainline replacement projects based on established asset management performance indicators that signal and approach towards the end of the main's useful life.[325]

Service lines bring finished water from the distribution main to the customer's point of use. A complete service begins with the connection on the main and extends to the meter connection. The costs in this category consist of the cost installed, including pavement, of defective or failed service pipes and accessories leading to the customer's premises. CWS cannot include these projects in its mainline replacement program because they arise as emergency failures or from customer complaints that CWS cannot predict in advance.[326]

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[318] *Id.*, p. 36, *citing* D.18-12-021, pp. 147-149.
[319] CWS-31, p. 649, Table 1.
[320] *Id.*, p. 655, Table 6.
[321] *Id.*, pp. 646-648.
[322] *Id.*, p. 648.
[323] *Id.*, p. 649.
[324] *Id.*, p. 650.
[325] *Id.*, p. 650.
[326] *Id.*, pp. 651-652.

The allocation for meters in the Unscheduled budget is for the replacement of defective or failed customer meters, new meter sets, and unanticipated customer requests to change their meter size. The costs in this category include costs for the installation of meters, boxes and covers, labor, paving, travel, parts, and expenditures related to meter repairs.[327] These projects are separate from CWS's small and large meter replacement programs, which replace meters due to age or obsolescence.[328]

The hydrant category is a reactionary budget item to address replacement of hydrants hit by vehicles, failed components, or other unexpected emergencies. "Hydrants are critical water distribution system assets primarily used for fire suppression, water main flushing activities, construction activities, and for filling water-hauling trucks."[329] The projects in this category ensure that CWS can provide necessary fire protection to customers as required by local fire protection agencies, consistent with the CPUC's General Order 103-A.[330]

Cal PA recommends that the CPUC deny CWS's requested Non-Specific and Unscheduled budgets.[331] In support of its recommendation, Cal PA claims that the Non-Specific and Unscheduled budgets fall outside of the capital planning process and implies that CWS will use these funds to circumvent CPUC review.[332] These arguments are recycled from the previous rate case, however, and the CPUC rejected them in D.24-03-042. In that decision, the CPUC stated, "Cal Advocates argues that by separating out different types of unplanned capital expense CWS could hide major predictable capital expenses from scrutiny by the Commission. However, this assertion is not supported by the record."[333] The CPUC further found:[334]

> There is no evidence in the record to support Cal Advocates' implication that Cal Water has misused or, in the future, will intentionally misuse its Non-Specific budget to circumvent the Commission's review of Cal Water's capital expenditures. To the contrary, the record contains evidence that Cal Water's historic record with respect to Non-Specific capital spending puts it in the

[327] *Id.*, p. 653.
[328] *Id.*
[329] *Id.*, p. 651.
[330] General Order 103-A § VI.1.A.
[331] CalAdv-07, p. 3-5.
[332] *Id.*, pp. 3-3, 3-5.
[333] D.24-03-042, p. 36.
[334] *Id.*, p. 35.

> top-performing (lowest expenditures) quartile of the nation's water utilities.

Similarly, in this proceeding, there is absolutely **no** evidence in the record to support Cal PA's claims. CWS provided detailed information on its Non-Specific and Unscheduled budget estimates in the supporting documents to its application.[335] Additionally, CWS provided individual project justifications in Chapter 13 of each ratemaking area's RO books for all Non-Specific/Unscheduled projects over $200,000,[336] explained why the forecasted and adopted budgets from the last GRC were too low,[337] and discussed the development of new controls and management strategies to limit and reduce future non-specific and unscheduled spending.[338] Finally, CWS continues to be in the top quartile of water utilities in the country with respect to limiting spending on these types of projects.[339]

Cal PA also criticized CWS for including land costs in its Non-Specific budget and claimed that CWS's asset management program should result in a direct reduction in Non-Specific and Unscheduled spending.[340] CWS included small budgets for land for each of its 24 ratemaking districts.[341] These budgets cover purchase of land, surveying, curbs, gutters, sidewalks and driveway approaches in the public right of way, easements and diversion rights.[342] As CWS explained:[343]

> Land is an ephemeral resource that becomes available unpredictably and unavailable suddenly and rapidly and Cal Water needs a mechanism to make such purchases. Similarly, easements may need to be negotiated unexpectedly for planned or unplanned capital work, since Cal Water does not always own all the land needed to fully access all of its facilities.

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[335] *See* CWS-31, pp. 646-655.
[336] *See* CWS-06 through CWS-29, Chapter 13. Cal PA did not dispute any of these specific justifications.
[337] CWS-31, pp. 646-648.
[338] *Id.*
[339] CWS-52, p. 118.
[340] CalAdv-07, pp. 3-5, 3-7.
[341] In preparing its rebuttal, CWS identified a land purchase that had been allocated in error and removed it from its request. CWS-52, p. 116.
[342] *Id.*, p. 117.
[343] *Id.*

It is therefore reasonable for CWS to include estimates for land purchases that it cannot postpone until the next general rate case cycle in its Non-Specific budget.

Cal PA's claim that CWS's asset management program should eliminate the need for Non-Specific and Unscheduled budgets demonstrates a purposeful mischaracterization of these projects. Cal PA's argument is based on the premise that the unscheduled and unplanned work covered by these budgets is completely under CWS's control. In reality, numerous non-specific and unscheduled projects have been necessary due to external factors well out of CWS's control, such as unanticipated relocation of CWS pipelines associated with municipal street improvement projects in the public right of way, replacing assets that have prematurely failed, and addressing incidents where vehicles crash into hydrants.[344]

In its testimony, CWS provided multiple examples of these types of projects, including projects in response to the recent unprecedented land movement in Palos Verdes, which caused damage to CWS's system and customers' service lines.[345] CWS has also experienced increased costs due to more stringent permitting agency requirements for paving restoration, higher costs for materials, and labor costs in emergency situations that require overtime and night time work.[346] Finally, CWS's Non-Specific and Unscheduled budgets are to replace assets that have prematurely failed and must be replaced in order to keep customers in service or maintain fire protection. This is different from the purpose of the asset management program, which is to replace assets that have reached the end of their useful life.[347]

As CWS noted, "[b]y denying this budget, Cal Advocates are effectively claiming that there will be no future incidents of vehicles hitting hydrants, no municipal requests for pipeline relocations, and no premature asset failures due to external factors."[348] Cal PA's recommendation to deny CWS's Non-Specific and Unscheduled budgets is not only based on a preposterous premise, but is also inconsistent with past CPUC decisions. The CPUC should reject Cal PA's recommendation and approve CWS's requested budgets.

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[344] *Id.*
[345] *Id.*
[346] *Id.* p. 120; *see also* CWS-31, pp. 646-647.
[347] CWS-52, p. 120.
[348] *Id.*, p. 122.

e) Design and Permitting

CWS has proposed a two-phased delivery approach for a limited number of complex projects to ensure that these projects are cost-effective, technically sound, and efficiently executed.[349] By implementing this phased approach, CWS ensures that each project is tailored to its unique challenges, optimizing costs and efficiency while maintaining accountability and transparency for customers. A phased approach mitigates customer rate impacts by spreading costs over multiple GRCs rather than through a single GRC, while also enhancing cost estimate accuracy for high-cost construction phases through improved project definition. Cal PA categorically opposes allowing these phased design and permitting costs to be included in rate base.[350]

In D.24-03-042, the CPUC limited review of two-phased project delivery to only those select cases where the necessity and reasonableness of the project warrant it.[351] Accordingly, CWS has submitted a small subset of highly complex projects that necessitate a two-phased project approval based on their unique challenges. In its testimony, CWS provided examples that demonstrated that some solutions require additional time for thorough review to ensure that the best and most cost-effective option is selected.[352] The phased approach instead provides certainty by confirming both the project schedule and cost estimate ahead of construction. The phased approach is also consistent with CPUC precedent involving complex projects for many different water utilities.[353]

Critically, Cal PA's blanket rejection of all such phased projects fails to evaluate each project individually for its reasonableness and necessity. CWS has highlighted the individual circumstances for each of the proposed phased projects in its testimony that justify this approach in this proceeding.[354] The CPUC should reject Cal PA's blanket proposal to design such phase projects and instead examine them on their individual merit.

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[349] *Id.*, p. 246.
[350] CalAdv-08, pp. 10-1 to 10-6.
[351] CWS-52, p. 247; *see, e.g.,* D.24-03-042, p. 69 (approving design and permitting costs for CWS's D-500 Main Replacement Preliminary Design Report).
[352] CWS-52, p. 247.
[353] *Id.*, p. 250, *citing* D.18-12-021, pp. 190, 194 (approving phased projects for California-American Water Company); D.16-12-067, pp. 58-60 and 74 (approving phased projects for Golden State Water Company); D.09-11-032, pp. 22-25 (approving phased projects for San Jose Water Company).
[354] CWS-52, pp. 251-260.

f) Multi-GRC

CWS identifies 60 projects that need to be started in the current GRC cycle but will extend into the subsequent GRC for completion.[355] For each of these Multi-GRC projects, CWS has provided comprehensive project scopes, justifications, and cost estimates for the CPUC's review. They are **not** included in the rates proposed for the 2024 GRC cycle.[356] Instead, capital projects scheduled for completion in 2028, 2029, and 2030 will be proposed in the 2027 GRC cycle to establish rates for 2029, 2030, and 2031.[357] CWS merely seeks acknowledgment by the CPUC that these projects with longer lead times are appropriate.

Cal PA declines to review these Multi-GRC projects and objects to them even being proposed in this proceeding.[358] This opposition to Multi-GRC projects directly contradicts the CPUC's guidance in San Jose Water's recent GRC Decision, in which the CPUC explained:[359]

> We find that Cal Advocates' witnesses incorrectly applied or misinterpreted several prior Commission decisions where it unreasonably wanted to ignore projects which would be under construction during this rate cycle but would not be completed until a later rate cycle. The Commission must address the reasonableness of San Jose Water pursuing any project crossing over more than one rate cycle in order to make timely findings on the reasonableness and necessity of those projects. Additionally, the Commission must make timely findings on the appropriate rate recovery mechanism for those projects.

For these same reasons, it is appropriate for the CPUC to consider the proposed projects here to provide adequate guidance for CWS. Cal PA also fail to provide any data that would support their mischaracterization that Multi-GRC projects as speculative and complex—there is nothing that would distinguish them from any other proposed project other than the fact that they cannot be completed in the period of a single GRC cycle.[360] CWS requests that the CPUC simply provide an acknowledgement by the CPUC that the proposed projects are reasonable and necessary given the information currently available.

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[355] *Id.*, p. 262.
[356] *Id.*
[357] *Id.*
[358] CalAdv-08, pp. 10-9 to 10-13; CalAdv-06, pp. 1-2 to 1-3.
[359] D.24-12-077, p. 15-16 (footnote omitted).
[360] CWS-52, p. 265.

g) Analyzers and Instrumentation Program

The Analyzers and Instrumentation Program aims to replace outdated and unreliable instrumentation used for monitoring and controlling the water system.[361] By upgrading these instruments, the Company can improve overall system reliability, performance and compliance with regulatory requirements.[362] Customers benefit from improved water quality and system reliability.[363] The program is necessary to address the aging instrumentation infrastructure and to ensure accurate data collection for water management and regulatory compliance.[364]

Cal PA recommends approval of the program, but argues for a reduction in the budget for the program based upon the Company's historical performance in 2022 only.[365] This approach neglects the continuing significant impact of the COVID-19 pandemic in 2022, which affected project timelines and capacities.[366] Cal PA's recommendation is flawed because it incorrectly assumes that the past rate of completion will meet the future needs of the water system and otherwise fails to provide an accurate assessment on the rate at which CWS can currently complete such projects. By comparison, 100% of CWS's 2024 analyzer replacement projects were also completed in 2024.[367] Cal PA does not otherwise address the technical merits of the program or the critical need for it. Analyzers and instrumentation not in working condition can necessitate more manual interventions, leading to inefficiency, substantial errors, and a higher risk of failing to meet regulatory requirements, thereby significantly impacting operational performance.[368] The CPUC should reject this cherry-picked data from Cal PA and instead allow the full proposed budget for this program.

h) Cathodic Protection Systems Program

The Cathodic Protection Systems Improvement Program is a critical component of CWS's strategy to combat corrosion and maintain water system reliability.[369] Cathodic protection

[361] CWS-31, pp. 331-352.
[362] CWS-52, p. 8.
[363] *Id.*
[364] *Id.*
[365] CalAdv-06, pp. 7-1 to 7-4.
[366] CWS-52, p. 9.
[367] *Id.*, p. 10.
[368] *Id.*
[369] CWS-31, pp. 289-303.

("CP") systems are designed to suppress unwanted anodic corrosion by applying an opposing current to interrupt the formation of a corrosion cell.[370]

Cal PA recommends a reduction in the budget for this program, based on CWS's historical performance adjusted by a 2.5% inflation factor.[371] However, this recommendation is flawed because it improperly assumes that the past completion rate will meet the future needs of the water system. CWS is forecasting a modest increase to an average of approximately $244,000 per year based on forecasted costs and the needs of the water system.[372] To meet the small, incremental increase in work, and to mitigate supply chain delays, CWS now contracts with four CP firms to deliver these projects, where historically CWS relied on only two.[373] It has also reallocated internal resources to complete these projects.[374] Without proactive measures to protect large and essential infrastructure from corrosion-related failures, CWS will have to resort to costly and unplanned repairs, which are not beneficial to customers. The full budget should be approved.

i) Control Valve Overhaul and Replacement Program

The Control Valve Overhaul and Replacement Program is designed to overhaul or replace control valves before they fail catastrophically, ensuring they function as intended and extending their lifespan without increasing risk.[375] CWS uses a risk-based asset management approach to assess control valve conditions, inspecting them routinely to determine if overhaul or replacement is necessary.[376]

Cal PA provides no technical objection to this program but recommends a significant reduction in the proposed budget for this program, citing historical performance and excluding contingency.[377] This approach ignores the actual needs of the water system today, to the detriment of customers. CWS plans control valve rebuilds and replacements around the total control valve inventory counts, the scheduled inspection rates, and the condition and age of the

[370] CWS-52, p. 15.
[371] CalAdv-05, pp. 7-1 to 7-3.
[372] CWS-52, p. 15.
[373] *Id.*, p. 16.
[374] *Id.*
[375] CWS-31, pp. 304-330.
[376] CWS-52, p. 20.
[377] CalAdv-05, pp. 9-5 to 9-7.

valve bodies.[378] Based on the present valve counts, this amounts to approximately 360 total rebuilds and replacements per year—this is the basis for CWS's program request.[379] CWS is proposing more control valve overhauls and replacements than in prior GRCs and has built up its capacity to implement this program over the past few GRCs.[380] Practically, the proposed reduction will limit the number of valve rebuilds CWS will be able to complete and push out routine overhauls for years, elevating the failure risk for this asset class.[381] A single control valve failure can trigger a main overpressure event causing millions of dollars in damages, and the reduction proposed by Cal PA would leave numerous control valves unaddressed.[382] Therefore, the CPUC should authorize the full amount for this important program.

j) Flowmeter Replacement Program

The flowmeter replacement program aims to upgrade and standardize the flowmeters used across all districts.[383] This initiative is crucial for accurately monitoring water flow, ensuring sufficient water pressure for customer consumption and emergency situations, and maintaining precise production reports.[384]

Cal PA recommends removing the budget for 46 flowmeters that it asserts do not warrant replacement at this time.[385] Specifically, Cal PA's position is that flowmeters that do not show demonstrated calibration problems should not be planned for replacement. This position essentially states that until a flowmeter has failed, the utility should not plan to replace it in a future year. However, assets will fail in the future and CWS has to anticipate a reasonable replacement of these assets prior to failure so that it can continue to operate the water system.[386] CWS needs to proactively replace flowmeters that are critical to operations, such as ones that control treatment processes or chemical dosing, before they fail in order to maintain the operations of those facilities.[387] Cal PA's proposed flowmeter cuts conflict with SWRCB requirements for accurate water loss reporting. Thus, it is appropriate to not only replace

[378] CWS-52, p. 21.
[379] *Id.*
[380] CWS-52, pp. 21-22.
[381] *Id.*, p. 22.
[382] *Id.*
[383] CWS-31, pp. 149-166.
[384] CWS-52, p. 37.
[385] CalAdv-08, pp. 6-1 to 6-6.
[386] CWS-52, p. 37.
[387] *Id.*

flowmeters with calibration issues, but also to replace obsolete older flowmeters for ones that are more reliable and accurate.[388] The CPUC should approve the full budget for this program.

k) New and Replacement Generators

CWS requires constant and reliable power to operate its facilities, but is subject to power outages due to storms, wildfires, or other unexpected events beyond its control.[389] These outages can cause interruptions in water treatment, water supply, and communications, which affect CWS's ability to keep appropriate water pressure for fire flows and to keep the minimum pressure in the pipes as required for water quality.[390] CWS therefore relies on both permanent and portable generators to supply emergency power and to feed power when there is a shortage in the main power supply during an emergency or planned power outage.[391] CWS determines the type and size of the generator based on the needs of the specific site and the applicable compliance requirements.[392]

In support of its requests for new and replacement generators, CWS provided information on its generator maintenance program, evaluation criteria, and ratings system.[393] It also included a detailed generator asset plan.[394] This plan addresses the types of generators, service expectations, asset lifecycle, failure modes and condition assessments, operational and safety plans, and maintenance, rehabilitation and replacement strategies. CWS also provided information on the district specific generator projects.[395]

Cal PA recommends that the CPUC deny CWS's request for all fixed generators, claiming, without any support, that portable generators are more versatile and cost-effective.[396] Cal PA's recommendation, however, fails to recognize the limitations of portable generators.

Even a short-term power outage can lead to a water quality problem. Once power is out, it may only be minutes before a complete loss of system pressure.[397] Portable generators require

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[388] CWS-52, p. 38.
[389] CWS-31, p. 446.
[390] *Id.*
[391] *Id.*, p. 458.
[392] *Id.*, p. 446.
[393] *Id.*, pp. 446-450.
[394] *Id.*, pp. 445-465.
[395] CWS-28, p. 295; CWS-29, pp. 209-210; CWS-40, p. 56; CWS-41, pp. 120-127, 170, 199-203; CWS-46, pp. 24-37.
[396] CalAdv-05, p. 11-1.
[397] CWS-52, p. 43.

personnel and time to deploy and often need to be transported to remote sites. If an emergency event begins during off hours, it could take four to six hours to deploy a single generator. It could take even longer if multiple generators are required, particularly in situations where a larger service area is threatened by an emergency event that affects several CWS facilities.[398]

Furthermore, portable generators are not one-size-fits-all. The size of the generator must match the capacity of the assets it will support. For larger facilities, CWS would need to connect multiple portable generators to provide adequate power, which would further require the necessary electrical infrastructure to run multiple portable generators in parallel.[399] Towing larger generators requires specialized equipment and a towing license. In order to connect to portable generators, CWS may have to install specific components at its facilities, including a transfer switch and portable generator connector. Finally, there are regulatory limits as to how long a portable generator may remain at a given site.[400]

As CWS explained, portable generators may be particularly difficult to deploy in fast-moving wildfire situations. The recent Eaton fire spread so quickly that residents had to evacuate by foot.[401] Towing heavy portable generators into an area already packed with people fleeing a fire, whether by vehicle or on foot, could hamper firefighters' efforts to secure and area and evacuate the public from the wildfire danger zone. In such instances, the effort necessary to deploy a portable generator would put firefighters, the public, and CWS employees in danger.[402] In its rebuttal testimony, CWS also provided information on the site-specific challenges related to deployment of portable generators,[403] as well as the likelihood of public service power shutoff events and fire risk.[404]

Although Cal PA recommends portable generators instead of permanent generators, it provides only approximately $10,000 in funding for a single portable generator.[405] Cal PA

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[398] *Id.*, p. 43.
[399] *Id.*
[400] *Id.*
[401] *Id.*
[402] *Id.*, p. 42.
[403] *See* CWS-54, pp. 11-12, 144-148, 201-204.
[404] *See* CWS-53, pp. 74-77; CWS-54, pp. 144-148.
[405] CalAdv-07, p. 4-5. Cal PA recommended that the CPUC approve a drastically reduced budget for a single portable generator in CWS's Redwood Valley district (LUC PID 133261). CalAdv-08, p. 4-9, *see* CWS-28, p. 295; CWS-54, p. 114. CWS addresses that project separately below.

suggests that CWS instead should rely on CPUC-regulated energy utilities to provide portable generators.[406] The CPUC has made clear, however, that it is CWS's responsibility to ensure that it has adequate backup power resources. Indeed, the CPUC removed a requirement that energy investor-owned utilities provide generators and batteries to critical facilities such as water systems "since most critical facilities are required to have their own back-up power resources" and limited such provisions to "critical facilities that are not well prepared for a power shut off."[407]

Cal PA's recommendation that the CPUC deny almost all funding for generators is astonishingly short-sighted, and, quite frankly, dangerous. The fact that Cal PA made such a recommendation shortly after the devastating fires in Southern California demonstrates an alarming level of callousness towards the well-being of CWS's customers. To ensure CWS's ability to maintain continuous water service throughout its systems in all emergencies, the CPUC should approve CWS's proposed budgets for permanent and portable generators.

l) Panelboard (MCC) Replacement Program

CWS's Motor Control Centers and Panelboard Replacement Program is designed to systematically upgrade and replace electrical systems.[408] While Cal PA agrees with the merit of these projects, it recommends disallowing the associated contingency costs for this program.[409] Cal PA's contingency arguments are generally addressed in Section IV.C.1.b above—those arguments should be disregarded here for the same reasons.

m) Main Replacement Program

CWS has requested $157,827,624 for 2025, $169,836,596 for 2026, and $170,645,497 for its Main Replacement Program ("MRP").[410] CWS's comprehensive and systematic MRP addresses the increasing need to renew infrastructure, provide service to customers, and manage risk. The regular replacement of mains is necessary to avoid catastrophic failures, damage to the environment, reduced service to customers, and higher costs in the long term due to increased repair needs.[411]

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[406] CalAdv-05, pp. 11-2 – 11-3.
[407] Resolution ESRB-8, pp. 7-8.
[408] CWS-31, pp. 407-445.
[409] CalAdv-05, pp. 10-1 to 10-2.
[410] CWS-31, p. 29.
[411] *Id.*, p. 13.

Prior to 2016, CWS replaced mains at a rate of approximately 0.3% per year, which equates to a 330-year replacement cycle.[412] Recognizing that this replacement rate exposed its customers to increasing risks of water main breaks and failures, CWS has worked to ramp up its replacement rate toward the industry standard of one percent per year, which would result in a more manageable 100-year replacement cycle consistent with best practices.[413] CWS's proposed MRP, if approved, will result in an estimated overall companywide replacement rate of approximately 0.7% (142-year replacement cycle).[414]

CWS's MRP consists of six primary elements: (1) distribution and transmission system analysis, (2) qualitative risk analysis, (3) district operations assessment, (4) engineering assessment, (5) implementation, and (6) program enhancements.

As water mains age, they tend to fail at an increasing rate. As part of its distribution and transmission system analysis CWS evaluated more than 30 years of break rate data to develop a forecast model for main breaks based on material and age.[415] Based on CWS's inventory of main and the forecast models developed for each material, CWS forecasted the average number of breaks it can anticipate per year based on different replacement rates.[416]

The impact of a main break and the magnitude of the required repairs can range from routine to catastrophic. For its qualitative risk analysis, CWS developed a risk exposure model to quantify risk exposure from pipelines. CWS analyzed the potential risk associated with certain facilities or land features, and their proximity to CWS's pipelines. CWS's risk matrix considers the likelihood of failure and the consequences of failure to determine which pipelines expose CWS, its customers, and the community to higher levels of risk.[417]

CWS's district operations assessment adds input from field personnel in each district who have specialized knowledge of the system. CWS's engineering department presents a proposed main replacement projects list to district operations personnel, who evaluate it based on

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[412] *Id.*
[413] CWS-52, p. 51, *citing* Utah State University, *Water Main Break Rates in the USA and Canada: A Comprehensive Study*, March 2023, p. 45, *available at* https://digitalcommons.usu.edu/cgi/viewcontent.cgi?article=1169&context=mae_facpub (accessed June 9, 2023).
[414] CWS-52, p. 51.
[415] CWS-31, p. 16.
[416] *Id.*, pp. 15-18.
[417] *Id.*, pp. 18-20.

institutional knowledge and modify it to incorporate additional considerations such as customer complaints, regional pressure issues, or emerging water quality problems.[418]

District operations and Engineering collaboratively evaluate opportunities to improve overall hydraulic performance, compliance with industry best practices, local requirements, and the long-term strategic plan for the district distribution system. The engineering assessment considers multiple factors including but not limited to the location of the proposed main replacement and hydraulic function of the main, size requirements based on customers served and fire flow requirements, low pressure or low fire flow issues, zone boundaries, and hydraulic modeling.[419]

CWS's final list for implementation consists of a mixture of pipelines that address operational concerns, long term system improvements, risk mitigation and pipelines at the estimated useful life. Recognizing that it will have to replace these pipelines over several GRC cycles, CWS proposes projects for the GRC that are highest priority and distributes the projects as evenly as possible for each year, 2025 through 2027, to maintain a consistent workload. CWS revaluates its list quarterly and yearly and makes adjustment as needed.[420]

CWS has included opportunities to get feedback throughout all these steps to enhance the MRP continually. As it gathers more data, a better understanding of the pipeline assets, and increased capabilities to analyze the data, CWS can better identify replacement candidates, enhance cost estimating, and reprioritize the pipelines to be replaced.[421]

In support of its MRP proposal, CWS included a MRP breakdown by district,[422] a list of proposed projects,[423] a detailed pipeline asset plan,[424] a geographic information systems ("GIS") overview of the MRP,[425] and district-specific main break forecasts.[426]

Cal PA did not challenge any of the elements of CWS's MRP or the support that CWS provided. Instead, Cal PA recommended that the CPUC drastically reduce the proposed MRP

[418] *Id.*, pp. 20-22.
[419] *Id.*, pp. 22-23.
[420] *Id.*, p. 23.
[421] *Id.*, pp. 23-24.
[422] *Id.*, p. 29.
[423] *Id.*, pp. 30-39.
[424] *Id.*, pp. 40-51.
[425] *Id.*, pp. 52-110.
[426] *Id.*, pp. 111-138.

because CWS fell short of previous proposed replacements targets.[427] Cal PA's proposed MRP budget would result in a 232-year replacement rate.[428]

In making its recommendation, Cal PA ignores CWS's efforts to stay within authorized budgets, rather than strictly adhering to replacement rate targets. It is not that CWS does not have the capability to replace mains at a higher rate, as Cal PA claims, but that adhering to the main replacement budgets approved in prior GRC decisions limited the number of mains that CWS has been able to replace.[429] Over the last three GRC periods, CWS has met and exceeded the cumulative MRP investment targets, which means that contrary to Cal PA claims, customers have experienced the full benefits of all of the MRP projects completed with these funds.[430]

Numerous factors – many of which are entirely outside of CWS's control—affect the footage of mains that CWS can replace within the approved MRP budget. CWS bases its GRC estimated replacement rate on projects up to four years in advance of their construction. Over the course of the GRC period, however, as CWS obtains new information, such as heightened failure risks, recent pipeline breaks, or operational changes in the district, the priority of projects may change, which can affect both the cost and the footage of mains that CWS replaces.[431] Additionally, many MRP projects in a GRC are in the preliminary design stage, and as the plans mature, CWS may need to make scope adjustments to optimize its budget.[432]

Coordination challenges with municipalities and other utilities also affect project execution, which may require rerouting, redesigning or reprioritizing projects.[433] Permit conditions such as additional paving, environmental monitoring, soil remediation, or imported fill, increase costs and extend timelines.[434] The construction phase often reveals surprises, even with meticulous planning, which may demand extra excavation and reinforcement or redesign. CWS is also subject to market forces such as inflation, material shortages, and labor

[427] CalAdv-08, p. 8-6. Cal PA also removed all contingencies from CWS's proposed MRP budget.
[428] CWS-52, p. 52.
[429] *Id.*, pp. 52-53.
[430] *Id.*, pp. 53-54.
[431] *Id.*, p. 55.
[432] *Id.*
[433] *Id.*, pp. 55-56.
[434] *Id.*, p. 56.

constraints.[435] All of these factors can drive up costs and limit the number of mains that CWS is able to replace within the approved MRP budget.

As CWS explained, however, it is taking steps to improve its MRP estimates and performance. For example, in the past CWS used historical estimates to calculate the cost per foot for main replacement in each district. In this GRC, however, CWS has developed cost estimates that consider its master contractor pricing that reflects the specific needs, requirements and constraints of each project. This provides more accurate and reliable estimates that will allow CWS to meet its targeted main replacement goals within its forecasted budget.[436]

CWS has also developed a new approach for MRP timelines. Previously, CWS tried to complete design, permitting and construction for each MRP in one calendar year. Recognizing that this tight turnaround was not sustainable, however, CWS now initiates the design phase one year before the expected installation year, which has reduced delays and improved overall project efficiency. The benefits of this change are evidenced by the fact that CWS was able to increase its main replacements from 159,822 feet in 2023 to 189,135 feet in 2024.[437]

CWS is also taking steps to improve the completion of all capital projects, which will also apply to the MRP. These include improved schedule estimating, adding dedicated positions for specialized tasks, implementing a programmatic approach to capital delivery, tools for advanced project management, enhanced project resourcing, addressing program challenges, and proactively interacting with agencies.[438]

It is also important to note, however, that in D.24-03-042, the CPUC also removed contingencies from CWS's proposed MRP budget.[439] Contingencies are industry-standard critical safeguards on construction projects, where unknown factors routinely lead to additional costs. As the unforeseen factors outside CWS's control discussed above led to increased costs, CWS had to reallocate funds from subsequent pipeline projects. Over the three-year GRC period, these unforeseen costs, which are traditionally addressed through contingencies, contributed significantly to the gap between CWS's proposed and actual pipeline footage replaced,

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[435] *Id.*
[436] CWS-50, pp. 49-50.
[437] CWS-51, p. 50.
[438] *Id.*, pp. 44-51.
[439] D.24-03-042, p. 129.

demonstrating the risk of omitting reasonable contingencies from critical construction projects and programs.[440]

Cal PA's drastic cuts threaten the stability of CWS's distribution system and its ability to provide fire protection and safe reliable water service. CWS conducted a statistical analysis, based on over 30 years of main break data across its districts, to project future break rates under various replacement scenarios. CWS's analysis shows that Cal PA's proposed 0.43% rate replacement rate triggers a steep, unrelenting rise in breaks, inflating costs and eroding service quality, risking a dramatic spike in pipeline failures with no discernible customer benefit. Instead of delivering savings, Cal PA's recommendation would impose a financial burden on customers by increasing avoidable and excessive repair costs due to frequent emergency maintenance.[441]

Cal PA's claims are also inconsistent with respect to the CPUC's decisions on CWS's MRP. In D.24-03-042, the CPUC did not adopt a specific replacement rate as Cal PA claims but instead adopted annual MRP budgets (minus contingencies) based on CWS's multi-factor selection process.[442] The CPUC also rejected Cal PA's similar proposal in that proceeding to drastically slash CWS's MRP budget based on its replacement footage,[443] finding that "Cal Advocates' rationale for drastically limiting the budgets for pipe replacements in this GRC cycle is not supported by the record."[444]

In CWS's 2018 GRC, it settled this issue with Cal PA. The settlement adopted by the CPUC in that proceeding included proposed replacement rates, but with the explicit acknowledgement that CWS would exercise prudent oversight, balancing replacement footage with costs in each district. The settlement agreement stated:[445]

> Projects will be completed at the current market cost per foot and as proposed in Cal Water's Application. Cal Water will exercise reasonable efforts to maintain the replacement rate and total replacement cost for each district as agreed upon in this Agreement. Given that market conditions, including material costs and labor rates, can change quickly, Cal Water will prudently manage these

[440] CWS-52, p. 56.
[441] *Id.*, p. 58-60.
[442] D.24-03-042, pp. 124-129.
[443] CWS-52, p. 57, *citing* A.21-07-002, Cal PA Report on Allocations and Plant for CSS & RDOM District, Pipeline Replacement, and Physical Security, p. 4-3.
[444] D.24-03-042, p. 125.
[445] D.20-12-007, Exhibit A, p. 108.

> costs, while considering customer impact and the need to complete main replacement projects.

These decisions confirm CWS's obligation to manage the MRP responsibly, balancing the need to replace mains while remaining mindful of the allocated capital budget.

Cal PA's recommendation to drastically cut CWS's MRP, which reflects a misunderstanding of the complexities of long-term infrastructure planning, regulatory requirements, and industry best practices, is misguided, overlooks key factors, and would ultimately work against customers' interests. The record evidence demonstrates that Cal PA's assertion that customers are funding incomplete projects is utterly false—CWS has fully invested all authorized funding into necessary pipeline replacements while adapting to real-world conditions that affect project execution. The CPUC should therefore approve CWS's proposed MRP budget, which will ensure continued access to safe, reliable water, promote sensible infrastructure improvement, and help manage risks and costs effectively over time, benefiting the communities that CWS serves.

n) Pressure Vessel Improvement Program

CWS's Pressure Vessel Improvement Program is designed to enhance the reliability and safety of the water system by systematically upgrading and replacing pressure vessels.[446] The program involves a thorough evaluation process, including annual visual inspections by trained technicians and more detailed engineering assessments. Based on these evaluations, pressure vessels are either improved through coating applications, metal work, and appurtenance replacements, or replaced entirely if they are found to be outdated or structurally compromised. CWS aims to ensure the consistent and reliable operation of its water system, ultimately benefiting its customers through improved service and reduced risk of infrastructure failures.

Cal PA argues that the CPUC should deny three pressure vessel replacement projects (PIDs 132742, 132743, and 132660), along with the contingency associated with those projects.[447] However, it appears that this recommendation was based on the projects inadvertently being listed as multi-GRC projects.[448] As shown in rebuttal, the assets will be operational, used, and useful to the customer by the scheduled completion dates in 2027, which

[446] CWS-31, pp. 382-297.
[447] CalAdv-06, pp. 5-1 to 5-3.
[448] CWS-52, p. 68.

is within the GRC period at issue in this proceeding.[449] Therefore, the CPUC should approve these projects. Additionally, the CPUC should reject Cal PA's arguments regarding contingency costs for the reasons set forth above in Section IV.C.1.b.

o) Pump and Motor Replacement Program

CWS's Pump and Motor Replacement Program is a critical initiative aimed at maintaining the efficiency and reliability of its water system by systematically evaluating and replacing over 1,100 pumping equipment.[450] The condition of these pumps is assessed based on various factors, including their age, condition, performance, and environmental conditions. The program involves routine efficiency testing and detailed evaluations to identify pumps that need replacement due to declining performance, obsolescence, or physical failure. By replacing outdated or failing pumps, CWS aims to prevent unpredicted failures, reduce energy costs, and ensure continuous and reliable water service to its customers.

While Cal PA does not disagree with the merits of these projects, Cal PA recommends the CPUC consider reducing the budget based on CWS's historical performance.[451] This recommendation is flawed because it assumes that the past rate of completion will meet the future needs of the water system. CWS provided five reasons for its requested pump and motor replacement: low energy efficiency, environmental concerns, reliability concerns, operational concerns, and functionality concerns.[452] Moreover, when considering all pump replacement projects, both specific and non-specific, CWS has completed an average of 58 pump and motor projects per year between 2012 and 2022 which is nearly three times Cal PA's erroneous calculation, thus underestimating CWS's true capability.[453] Additionally, CWS has effectively doubled the number of contractors it has available to conduct such work and has dedicated internal resources towards this effort.[454] Cal PA's recommendation increase risks to customers from delayed pump replacements which results in unplanned pump failure and compromises system reliability. The CPUC should instead approve CWS's full proactive Pump and Motor Replacement Program.

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[449] *Id.*, p. 69.
[450] CWS-31, pp. 199-242.
[451] CalAdv-06, pp. 6-1 to 6-3.
[452] CWS-52, p. 72.
[453] *Id.*, pp. 72-73.
[454] *Id.*, p. 73.

p) Service Line Replacement Program

The Service Line Replacement Program aims to proactively replace aging plastic service lines in the Bakersfield District, where failure rates have been significantly higher than copper services, particularly in rocky soil conditions.[455] By implementing this program, CWS seeks to prevent expensive emergency repairs, mitigate water loss, and reduce service interruptions—ultimately enhancing both customer experience and system reliability.[456] To support this effort, CWS is proposing a budget of $6,988,593 in 2025, $7,119,322 in 2026, and $7,266,066 in 2027, enabling the proactive replacement of 1,154 plastic service lines.[457]

Cal PA recommends that the CPUC approve the Service Line Replacement Program but at a significantly reduced scale—less than 11% of CWS's original proposal.[458] This argument reflects a fundamental misunderstanding of its purpose and long-term benefits and also fails to acknowledge the necessity of a structured, proactive approach to asset management and the long-term benefits to customers. Limiting the Service Line Replacement Program to the small-scale pilot rate contradicts the principles of sound water utility management and the CPUC's own directives on infrastructure planning.[459]

Data from the Bakersfield district indicates that most service leaks originate from plastic pipes, particularly in the northern areas with rocky soil.[460] Given this reality, delaying a programmatic replacement program would be a failure of sound utility management. Moreover, Cal PA fails to explain how they determined that CWS's proposed replacement plan was unrealistic or why 25 service replacements per year is a more realistic rate. The data shows that based on the current pace, the district is on track to meet its target replacement rate for the program by year-end.[461]

The CPUC should approve the Service Line Replacement Program in its entirety to safeguard the reliability and sustainability of Bakersfield's water infrastructure for the future.

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[455] CWS-31, pp. 370-381.
[456] CWS-52, p. 83.
[457] *Id.*
[458] CalAdv-05, pp. 8-1 to 8-4.
[459] CWS-52, pp. 84-85.
[460] *Id.*, p. 85.
[461] *Id.*, p. 87.

q) Tank Improvements Program

CWS's Tank Improvement Program is a comprehensive initiative aimed at maintaining and enhancing the reliability of its tank infrastructure, which is crucial for water storage and distribution.[462] The program involves regular inspections and evaluations of tanks to assess their structural integrity, compliance with regulations, and effectiveness of corrosion control systems.[463] By implementing these measures, CWS aims to provide its customers with a consistent and reliable water supply while minimizing the risk of infrastructure failures.

While Cal PA does not disagree with the merit of these projects, it recommends the CPUC consider reducing the budget based on CWS's 2022 performance only.[464] These arguments are flawed. The comprehensive completion rate of $9.57 million per year accomplished by CWS when comprehensively considering tank-related projects is significantly higher than the erroneous completion rate of 9.83% ($340,328/year) calculated by Cal PA.[465] The Company also awarded contracts to two more suppliers, increasing the number of contractors it has available to complete such work.[466] Cal PA's recommendation to reduce the proposed budget will result in greater corrosion to the water tanks, necessitating more unplanned repairs that could take tank offline during high wildfire risk period. This does not benefit customers. Therefore, CWS recommends that the CPUC find the full proposed Tank Improvement Program warranted and appropriate given that consistent and reliable water supply is critical to fight fires and meeting the needs of customers.

r) Well Renewal Program

CWS's Well Renewal Program ensures a reliable water supply by renewing and enhancing well inventories before issues arise.[467] The program identifies candidates for renewal and implements improvements like installing structural liners and redeveloping wells to extend their service life. Wells are evaluated on a scale from 1 (excellent) to 5 (failed), using desktop evaluations, performance analysis, and visual inspections. Factors include age, performance, sand production, work history, and water quality.

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[462] CWS-31, pp. 243-288.
[463] CWS-52, p. 91.
[464] CalAdv-06, pp. 4-1 to 4-2.
[465] CWS-52, p. 92.
[466] *Id.*, p. 93.
[467] CWS-31, pp. 473-532.

While Cal PA does not disagree with the merit of these projects, Cal PA recommends the CPUC consider reducing the budget based on CWS's historical performance.[468] Cal PA calculates CWS's historical replacement rate by using data from only one year, 2022, which is not representative because it was marked by ongoing challenges stemming from the pandemic, such as supply chain disruptions.[469] Rather, when considering projects from 2022, 2023, and 2024, the data presented in CWS's rebuttal shows that the Company has accomplished much more than what Cal PA presents.[470] CWS is proposing 7 projects from 2025 through 2027, which is equivalent to 2.33 projects per year and thus is within CWS's capabilities to deliver.[471] Without this essential program, CWS would face significant risks in meeting its supply needs, as aging wells would be at a higher risk of failure. Therefore, CWS recommends that the CPUC find the Well Renewal Program warranted and appropriate, given that reliable water supply wells are critical for maintaining water supply to fight fires and serve customers.

s) Routine Granular Activate Carbon Changeout Program

CWS has granular activated carbon ("GAC") treatment units in several districts, which treat the water to remove organic contaminants to below the maximum contaminant level ("MCL") or as required by the SWRCB Division of Drinking Water ("DDW"). CWS must replace the GAC media when it detects a contaminant above the permit limit in the treated water or at certain points in the treatment process. Additionally, as the GAC media continues to treat water, its absorption sites are eventually filled by organic contaminants until there is no surface area available that can adsorb and remove organic contaminants, it is then considered exhausted, and CWS must replace it.[472] CWS's routine GAC changeout program is crucial to CWS's continued compliance with water quality standards and the effective removal of organic contaminants from the water supply.[473] CWS included with its support for its application the GAC media program breakdown by district,[474] a list of projects and assets to be replaced,[475] and

[468] CalAdv-06, pp. 6-4 to 6-5.
[469] CWS-52, p. 107.
[470] *Id.*, p. 108.
[471] *Id.*
[472] CWS-31, p. 533.
[473] CWS-52, p. 155.
[474] CWS-31, p. 535.
[475] *Id.*, p. 536.

provided an example of a GAC treatment unit.[476] CWS originally proposed a total budget of $6,540,963,[477] but reduced its proposed budget to $6,088,586 in rebuttal to correct an error in the amount of media in CWS's original calculation for its Chico district[478] identified by Cal PA.[479] CWS also corrected an error in its calculation in the number of vessels for the Bakersfield district, but this correction did not change the estimated budget for this district.[480]

Since CWS's corrections address the issues raised by Cal PA, the CPUC should adopt CWS's updated budget for the routine GAC changeout program.

t) Water Quality Sample Station Program

The Water Quality Sample Stations Program aims to ensure high-quality water delivery by maintaining and upgrading dedicated sample stations across its districts.[481] The program includes funding for new locations required to meet regulatory changes and system supply updates, ensuring reliable testing and monitoring of water quality delivered to customers.[482] While Cal PA agree with the merit of these projects, Cal PA recommends the CPUC consider reducing the budget based on CWS's historical performance in 2022.[483] This argument neglects the significant impact of the pandemic in 2022, which affected project timelines and capacities.[484] The specific calculation done by Cal PA also does not fully reflect the actual investment made, since historical expenditures for this program were allocated under a different budget category.[485] The proposed budget is based on a thorough assessment of the system's needs and the cost of ensuring compliance with regulatory requirements.[486] Reducing the budget would have a significant impact on the Company's ability to ensure regulatory compliance, prevent cross contamination risks, address growing infrastructure needs, and efficiently utilize resources for multi-year projects. The CPUC should therefore approve the full budgeted amount for this important program.

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[476] *Id.*, p. 537.
[477] *Id.*, p. 535.
[478] CWS-52, p. 157.
[479] CalAdv-06e, p. 9-4.
[480] CWS-52, p. 156.
[481] *Id.*, pp. 398-406.
[482] CWS-52, p. 161.
[483] CalAdv-06, pp. 8-1 to 8-2.
[484] CWS-52, p. 162.
[485] *Id.*
[486] *Id.*, p. 163.

u) Physical Security Program

CWS's Physical Security Program is a proactive initiative aimed at safeguarding its water facilities against potential threats, including terrorism and other criminal activities. The program follows best practices outlined by the American Water Works Association ("AWWA") and the American Society of Civil Engineers ("ASCE") and is designed to enhance the protection of CWS's infrastructure, employees, and the public.[487] Cal PA agrees with the importance of this program and does not dispute the merit of individual projects in it, but recommends a reduction in the overall budget based on the historical completion rate of physical security projects.[488] As detailed in its rebuttal, CWS has undertaken significant steps to improve its capabilities in the physical security program over the course of both the 2018 and 2021 GRC cycles.[489] CWS demonstrated that it had made the necessary program adjustments and improvements to effectively complete approved physical security projects "on-time," by completing all 2021 GRC approved physical security projects by December 31, 2024 (other than those cancelled for various reasons), despite the challenging schedule resulting from the delayed decision in that case.[490] Based on this improved track record and the critical need of this program, the CPUC should approve the full budgeted amount.

v) Vehicle Replacement Program

CWS's Vehicle Replacement Program for the 2025 to 2027 rate cycle involves the upfitting and replacement of 206 vehicles.[491] The program was developed using an Optimal Replacement Cycle Analysis ("ORCA") conducted by a third-party vendor, which evaluates life cycle costs and determines the optimal year and mileage for vehicle replacement. The replacement cycle for CWS is in line with the guidelines established by the California Department of General Services ("DGS"). The program also aligns with California Governor's Executive Order N-79-20, which mandates that all vehicles sold after 2035 be zero-emission.[492] Cal PA recommends denying 67 of 206 vehicles replacement proposed by CWS and using a higher replacement criteria of 120,000 miles.[493] CWS disagrees. DGS criteria no longer mandate

[487] CWS-31, p. 538-546.
[488] CalAdv-07, p. 3-1.
[489] CWS-52, pp. 168-169.
[490] *Id.*, p. 170.
[491] CWS-31, pp. 167-189.
[492] Executive Order N-79-20.
[493] CalAdv-07, pp. 3-5 to 3-8.

vehicle replacement after reaching a 120,000-mile threshold.[494] CWS's proposed replacement strategy is closely aligned with the revised replacement schedule set forth by the DGS, as shown in testimony, with CWS's criteria being more conservative than DGS's updated thresholds for the majority of vehicle types recommending later replacements than the State guideline.[495] Moreover, Cal PA's recommendation fails to account for the inherent unreliability of older vehicles—this presents safety risks for employees and unexpected costs for customers. Therefore, CWS recommends approval of the full costs of the program.

w) Advanced Metering Infrastructure

CWS proposes implementation of AMI across five ratemaking areas: Bay Area Region (Bayshore and Redwood Valley districts), Bear Gulch district, Los Altos district, Los Angeles County Region (Antelope Valley and Palos Verdes districts), and Westlake district.[496] The initiative aims to enhance water management, reduce water loss, and improve customer conservation efforts by providing near real-time water usage data and includes components such as water meters, registers, and radio endpoints, which transmit consumption data via a two-way telecommunications network.[497] The recommended solution is to deploy AMI in the specified areas over a four-year period, leveraging cellular AMI technology to minimize personnel needs and environmental impact.[498] The requested direct capital project costs for AMI implementation are $4,482,831 in 2026 and $32,721,122 in 2027.[499] On the expense side, incremental annual AMI-related expenses of $141,511 will be offset by incremental annual expense savings of $1,749,778.[500] Further details on CWS's proposed AMI implementation are found in extensive testimony presented by CWS,[501] with minor corrections to certain individual projects identified in rebuttal testimony.[502]

[494] CWS-52, p. 176.
[495] *Id.*, pp. 176-177.
[496] CWS-31, p. 139.
[497] *Id.*
[498] *Id.*
[499] CWS-52, p. 186.
[500] *Id.*
[501] CWS-03, Attachments E, F, and G.
[502] CWS-52, p. 187.

(1) Response to Cal PA AMI Ratemaking Issues

Cal PA recommends that the CPUC approve implementation of AMI in the five ratemaking areas proposed, with partial cost recovery contingent on meeting specific performance standards.[503] Cal PA's recommendation does not address certain practicalities, however, such as when and how the performance standards and related cost recovery should interact given that the performance standards assume a completed AMI system.

CWS does not object to putting some cost recovery at risk by applying performance criteria, but urges the CPUC to follow the example of San Jose Water Company ("SJWC"), which is currently being allowed to file annual advice letters to recover capital costs as deployment occurs over a four-year period.[504] The same should be allowed for CWS, with the requested cost recovery in each advice letter consisting of the revenue requirement associated with completed capital projects in the area above the 50% already in rates, plus adjustments of certain expenses and cost savings discussed below.[505]

In particular, for used and useful capital that exceeds the 50% already in rates, CWS should be authorized to file a Tier 2 advice letter each year demonstrating completion and proposing an increase in rates for the following year.[506] On the expense side, additional costs and cost savings should also be adjusted in the advice letters.[507] There should be symmetry in how expenses and savings are treated in the RO Model, so CWS agrees with only allowing 50% of forecasted expenses in initial rates, but also proposes keeping in only 50% of the forecasted savings in initial rates, with the remaining balances to be addressed and justified in the annual Tier 2 advice letters as discussed further below.[508]

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[503] CalAdv-08, pp. 7-1 to 7-8.

[504] D.22-06-013, Attachment 1, pp. A-3 to A-9. CWS acknowledges that this treatment for SJWC was adopted as part of a settlement agreement and therefore does not represent precedent here—however, it still represents a reasonable outcome that the CPUC may consider, aspects of which Cal PA itself recommends for this case. *See* CalAdv-08, p. 7-7: 3-10.

[505] CWS-50, p. 51.

[506] *Id.*, p. 56.

[507] In the rates proposed by Cal PA, 50% of the forecasted expenses and 100% of the forecasted savings are reflected, even though 50% of both would be more consistent with the framework for limited cost recovery proposed by Cal PA. *Id.*, p. 57.

[508] *Id.*, p. 58.

As with SJWC, the performance standards should then be applied to CWS only after full AMI deployment has been in place for one year in a given district.[509] Due to the nature of the performance standards, neither SJWC nor CWS should be measured against them **until there has been an opportunity for AMI to be fully up and running for at least a year**. At that time, if some performance standards are not met, CWS would then be subject to a decrease in capital cost recovery until such time as all the performance standards are met.[510] Such an analysis could be done in a GRC or an advice letter, depending upon when deployment is completed.

Finally, CWS clarifies the performance criteria proposed by Cal PA below.

First, Cal PA proposes that the operations and maintenance *savings* CWS has identified be treated as a "baseline for this rate case."[511] This criterion makes more sense in the context of SJWC's AMI program, where rates do not reflect an immediate savings.[512] For CWS, however, the partial savings in expenses will be embedded in rates.[513] CWS proposes to address this performance criterion by considering both the additional expenses and the cost savings in the annual advice letter process. When CWS submits its Tier 2 advice letter, CWS can also include the 50% of the forecasted expenses and savings that are not in rates.

Second, Cal PA states that "[a]ctive customer engagement with AMI is important to maximize any potential benefits related to AMI," so "Customer enrollment [in the AMI portal] should be used as a metric to motivate Cal Water to encourage as many customers as possible to enroll in the customer portal."[514] While Cal PA does not specify a specific metric for this performance standards related to this AMI proposal, a customer education and outreach plan is included in

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[509] *Id.*, p. 55.

[510] *Id.*, p. 51. The cost recovery process for SJWC differs somewhat in that no program costs are included in rates initially (for CWS, Cal PA includes approximately 50% in rates up-front). CWS's understanding for SJWC is that 100% of the actual costs for completed projects are included in SJWC's revenue requirement while deployment is occurring (through the filing of annual advice letters), and that revenues may be decreased **after** full deployment if performance criteria are not met. CWS recommends mirroring the last steps of SJWC's process – completed projects should be added to revenue during deployment (albeit the actual costs *above* the 50% already in rates, up to caps), subject to *later* potential revenue decreases (until CWS demonstrates full compliance with the performance standards).

[511] CalAdv-08, p. 7-5.

[512] CWS-50, p. 58.

[513] *Id.*

[514] CalAdv-08, p. 7-5.

this AMI initiative, and CWS agrees to report on customer enrollment in the portal and customer engagement.[515]

Third, Cal PA states that CWS "should be able to achieve a 5% reduction in system-side water loss [] after implementing AMI in the five proposed ratemaking areas."[516] In this AMI initiative, CWS estimates that AMI will be able to decrease system-side water loss by 5% "on average."[517] As explained in CWS's testimony, the approximate 5% metric should apply to the "real" water losses identified in the annual water loss audits of CWS's ratemaking areas before and after full AMI deployment.[518] In addition, given that ratemaking areas can include more than one water system, and that each system will vary according to the age and materials of its pipes, its soil, and system design, CWS recommends that the performance criterion for system-wide water loss should be an approximate 5% reduction, on average.[519]

Fourth, Cal PA states that CWS "should be able to achieve less than 10% consumed water lost due to leaks after implementing AMI in the five proposed ratemaking areas."[520] CWS believes that AMI will significantly reduce customer-side leaks and that it is feasible to decrease such leaks to a level that is less than approximately 10% of consumed water.[521]

Finally, Cal PA does not address how AMI costs should be treated in CWS's 2027 GRC capital budgets for 2028 and 2029, or for CWS's expense budget for Test Year 2029. CWS's next GRC will be filed in July 2027, but a decision in that case cannot become effective until January 1, 2029, so in the absence of explicit CPUC direction in this rate case, there will be no clear ratemaking process to address the continuation of AMI deployment past 2027.[522] Therefore,

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[515] CWS-50, p. 59.
[516] CalAdv-08, p. 7-6.
[517] CWS-50, p. 60.
[518] *Id.*. For example, if a water loss audit showed that a system had a "real" water loss of 8% prior to AMI, applying a 5% decrease from that level as a performance standard would mean that, after AMI, that system's real water loss should be 7.6% or lower (5% of 8% is equal to 0.4%).
[519] *Id.*, p. 60.
[520] CalAdv-08, p. 7-6.
[521] CWS-50, pp. 60-61. "Consumed water" should be defined as water that was measured as a result of going through a customer's meter. Based on a definition programmed into the AMI software the AMI software can flag consumed water as a "potential" customer side leak and proactively notify both the customer and CWS.
[522] *Id.*, p. 61.

it is appropriate to also continue the Tier 2 advice letter process for projects completed in 2028 above the 50% threshold to avoid unnecessarily pausing the rollout halfway through.[523]

(2) Response to Cal PA AMI Capital Issues

According to Cal PA Witness Ibrahim, the CSS project for Information Technology ("IT") software integration and development intended to support the entire AMI initiative (PID 133646) should not be included in rates.[524] Mr. Ibrahim does not provide a justification for the recommended disallowance other than to indicate that its elimination is consistent with Cal PA Witness Menda's testimony.[525] However, Mr. Menda recommends that standard meter replacement costs should go into rates, plus 50% of the remaining capital costs for AMI.[526] He does not include PID 133646 or the vehicle/equipment projects in his proposal to put 50% of their costs in rates;[527] nor does he recommend denying them entirely. Instead, he just recommends that any contingency costs in PID 133646 and the vehicle/equipment projects should be removed. Further, in Cal PA's RO Model, Mr. Menda allowed the vehicle/equipment projects to be reflected in full except for contingency.[528] These facts together indicate that the proposed removal of 100% of the CSS IT project may have been an oversight.

However, if Cal PA's position is actually to remove PID 133646 from rates entirely, such a recommendation should be denied. The IT software integration and development activity in PID 133646 is a vital initial foundational phase of the AMI Initiative, its costs should be included in customer rates.[529] CWS provided further details of what this project entails in its testimony.[530] In sum, without the successful initial phase integration and development of this CSS project, customers will not experience the maximum benefits of AMI meters deployed in the districts. In addition, Cal PA also recommends removing the 10% contingency for a subset of capital projects relating to AMI implementation. For the reasons set forth above more generally and in IV.C.1.b) above, contingency costs included for AMI project should be retained also.

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[523] *Id.*
[524] CalAdv-07, p. 4-5.
[525] *Id.*
[526] CalAdv-08, p. 7-1.
[527] The specific calculations for the capital costs that would be subject to performance standards is provided in a table in Attachment 7-5 (mislabeled as Table 7-3) to Cal-Adv-08. Neither PID 133646 nor the vehicle/equipment projects are listed in that table. CWS-50, p. 54.
[528] CWS-52, p. 188.
[529] *Id.*
[530] *Id.*

x) Nitrification (Tank and Mixing) Projects

CWS has proposed several projects to address nitrification in its water systems:[531]

> In East Los Angeles, PIDs 133068 and 133069 focus on installing tank mixers, chemical addition equipment, and continuous water quality monitoring to combat high nitrite concentrations and low chlorine residuals. Similarly, in the Dominguez district, PID 133047 aims to improve nitrification by implementing packaged mixing and disinfectant residual control systems, along with automated dosing of free ammonia and chlorine. In the Livermore district, PIDs 133111, 133113, and 133115 involve the installation of tank mixers, chemical addition equipment, and chemical storage tanks to adjust the chlorine to ammonia ratio and prevent nitrification.

These projects will allow CWS to maintain high water quality by preventing nitrification and ensuring continuous water quality sampling and monitoring.

The purpose of these projects is to address nitrification,[532] not, as Cal PA claims, to bring nitrite levels below the MCL.[533] Nitrification normally does not result in regulatory violations. However, if nitrite is left unmanaged, nitrification can result in bacteriological growth, low total chlorine residuals, odors, and discolored water.[534] CWS may need to take tanks out of service for long periods following nitrification events.[535]

CWS monitors water quality parameters at susceptible areas within its distribution systems. AWWA recognizes nitrite at 0.01 mg/L as N as an indication of nitrification and recommends that a water utility take action to address nitrification at that level. The nitrification evaluation completed by Corona Environmental Consulting, LLC in 2023 showed nitrates well above this level in the East Los Angeles, Livermore, and Dominguez districts.[536] Total chlorine less than 1.5 mg/L and free ammonia greater than 0.1 mg/L are also indicators of nitrification according to AWWA.[537] The Corona report also showed total chlorine below the relevant level in the Dominguez district and free ammonia in excess of the relevant level in both the

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[531] *Id.*, p. 195.
[532] *Id.*
[533] CalAdv-06e, p. 1-5. Cal PA incorrectly used the word "nitrate" in its report, but "nitrite" is actually the indicator of nitrification.
[534] CWS-52, p. 196.
[535] CWS-24, p. 24.
[536] *Id.*, p. 18, CWS-37, p. 24, CWS-43, p. 41.
[537] CWS-52, p. 196.

Dominguez and Livermore districts.[538] CWS's proposed projects are therefore consistent with industry standards and best practices.

Cal PA also claims, incorrectly, that CWS can address nitrification by increased system flushing.[539] Cal PA holds up the City of Manhattan Beach as support for its increased flushing recommendations, even though Manhattan Beach has a total of 18 dead ends as compared to more than 600 dead ends in CWS's East L.A. District alone (as well as indications that the city did not complete the flushing that Cal PA claims).[540] Cal PA also points to Golden State Water Company's ("Golden State") use of neutral output discharge elimination system ("NO-DES") technology,[541] which minimizes water waste when flushing by connecting two hydrants to a portable water treatment vessel that sits on a truck or trailer, but fails to provide any data regarding the results of Golden State's use of this technology. CWS is evaluating NO-DES technology, but it is still relatively new, requires heavy equipment that may result in additional Department of Transportation requirements, and would require additional personnel.[542] Cal PA also mischaracterizes DDW's flushing requirements. In lieu of the flushing recommended by Cal PA, CWS conducts enhanced water quality monitoring and reporting to DDW, consistent with state regulations.[543] Indeed, Cal PA does not dispute that CWS met every primary and secondary federal and state water quality standard in 2024.[544]

More importantly, while flushing would address water quality at dead ends, it would not address the problem of nitrification at storage tanks.[545] Storage tanks are the ideal locations for CWS to prevent nitrification before it starts by adjusting the chlorine residual and the chlorine to ammonia ratio.[546] The Corona report recommended the installation of packaged mixing and disinfectant residual control systems at storage tanks.[547]

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[538] CWS-43, p. 41, CWS-37, p. 24.
[539] CalAdv-06e, pp. 1-6 – 1-7.
[540] CWS-52, p. 199.
[541] CalAdv-06e, p. 1-9.
[542] CWS-52, p. 199.
[543] *Id.*, p. 198, *citing* Cal. Code Regs. Tit. 22, § 64449.5.
[544] CalAdv-06e, pp. 11-1 to 11-2.
[545] CWS-52, p. 196.
[546] *Id.*, p. 195.
[547] CWS-24, p. 19, CWS-43, p. 42.

Cal PA made a similar argument regarding flushing in the last GRC, which the CPUC rejected. In that instance, Cal PA similarly argued that other water quality issues at the source could be remedied through flushing. In D.24-03-042, the CPUC observed, "[f]lushing addresses completely different problems that occur in water that has been trapped in capped pipes. Flushing does nothing to help alleviate problems at the well source, which is where the [total organic carbon] originates."[548] As it did previously, the CPUC should reject Cal PA's misguided argument.

CWS's proposed nitrification projects are aligned with industry standards and best practices and represent a proactive approach to system improvements before nitrification begins. The Commission should ignore Cal PA misguided and uninformed recommendations (including its recommendation to remove the previously approved Corona report from rate base)[549] and approve CWS's nitrification projects.

y) Engineering and Planning Studies

Engineering and planning studies analyze the technical, economic, and operational aspects of water infrastructure, ensuring that utilities, like CWS, assess long-term needs, strategic goals, and regulatory requirements.[550] These studies encompass critical projects, including master plans, construction feasibility studies, water source evaluations, pilot treatment projects, wildfire impact assessments, and seismic resilience evaluations. By proactively addressing future demand, regulatory compliance, and risk mitigation, they help strengthen system resilience, optimizing resources, and safeguarding public health.

Cal PA recommends eliminating the majority of CWS's engineering and planning studies based on a fundamental misunderstanding of their value to the district and its customers, with this flawed argument presented in a highly inconsistent and ad hoc manner.[551] Their position directly contradicts industry best practices, and in some cases, the very studies they recommend rejecting are either regulatory requirements or were proposed previously by Cal PA. The United States Environmental Protection Agency ("EPA") recognizes proactive planning as essential for an effectively managed utility and has long advocated for integrating engineering and planning

[548] D.24-03-042, p. 49.
[549] CalAdv-06e, p. 1-4.
[550] CWS-52, pp. 201-234.
[551] *Id.*, p. 201.

studies into water infrastructure management.[552] Similarly, AWWA has made similar recommendations in support of such studies.

Examples like the Flint water crisis and the Milwaukee cryptosporidium outbreak highlighted in CWS's testimony demonstrate the catastrophic risks associated with failing to conduct proper engineering and water quality studies before making major infrastructure decisions.[553] Some of the studies at that Cal PA recommends denying are also contrary to mandatory requirements for CWS to complete such studies, such as the *Water Supply Facilities Master Plan* for the Salinas district (PID 133229).[554] This study is expressly mandated by the CPUC as part of the Rate Case Plan Minimum Data Requirements.[555] In its testimony, CWS summarized each contested engineering and planning study and outlined customer benefits, including improved water quality, system reliability, and long-term cost savings.[556]

Engineering and planning studies are necessary efforts that enhance CWS's resilience and provide the foundation for determining the most prudent future capital investments.[557] Given the critical role these studies play in ensuring infrastructure resilience, regulatory compliance, and long-term cost-effective decision-making, the CPUC should reject Cal PA's recommendations and approve all of these studies as CWS originally proposed.

z) Land Held for Future Use

CWS proposes 11 specific land purchase projects as Plant Held for Future Use ("PHFU") in rate base.[558] Recognizing CWS's need for new land by authorizing these projects in rates ensures that essential infrastructure—such as wells, storage tanks, treatment plants, and pumping stations—can be developed in a cost-effective and timely manner. Cal PA opposes including any new or existing land assets that are not actively in service, arguing that only in-service land is beneficial to customers and including these land assets negatively impacts customers financially.[559] Cal PA's recommendation reflects a fundamental misunderstanding of both the

[552] *Id.*, p. 202.
[553] *Id.*, p. 208.
[554] *Id.*, p. 203.
[555] D.07-05-062, Appendix A, p. A-28 ("Any water utility filing a GRC on or after July 1, 2008 must submit a long-term, 6-10 year Water Supply and Facilities Master Plan to identify and address aging infrastructure needs.").
[556] CWS-52, pp. 209-234.
[557] *Id.*, p. 202.
[558] *Id.*, pp. 243-244, Table 1.
[559] CalAdv-05, pp. 12-1 to 12-4.

necessity and customer benefits associated with acquiring land in advance for future infrastructure needs.

(1) Cal PA's Recommendations Ignores Long-Term Negative Impacts to Customers

Given the consistent increase in land values across California, proactive land purchases are essential to controlling costs and ensuring long-term project feasibility.[560] Cal PA's approach would essentially discourage CWS from making timely acquisitions by only allowing them in rates only after a project has been completed.[561] The long-term benefits to customers of securing land early far outweigh the short-term issues raised by Cal PA.

According to the California Legislative Analyst's Office, the cost of a mid-tier home (including land) has increased more than 315% since 2000—an average annual increase of 12.6%.[562] Similarly, farmland prices in the Central Valley have increased from $8,150 per acre in 2001 to $52,200 per acre in 2021, a 530% increase over that time.[563] This steady increase in real estate values has been similarly observed across all of CWS's districts over the last 40 years.[564] Purchasing land today at lower prices ultimately yields net benefits and cost savings for customers, compared with waiting until a project is fully designed and permitting in a future GRC at which point land costs are likely to be significantly higher.

Cal PA's arguments also overlook the significant land availability constraints in many of CWS's highly urbanized districts. As of February 2025, the median number of days properties remained on the market in California was only 46 days, underscoring the rapid turnover of available land.[565] Assuming that suitable property will be available precisely when needed for California's utility infrastructure is completely unrealistic. It is helpful to analogize these land assets to materials and supplies that the CPUC has long-authorized utilities to include in rate base. CWS makes investments in its materials and supplies inventory that it reasonably anticipates using.[566] This allows the Company to ensure that it has what it needs on hand in order to rapidly respond to needs in its utility infrastructure.

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[560] CWS-52, p. 240.
[561] *Id.*
[562] *Id.*, p. 241.
[563] *Id.*
[564] *Id.*.
[565] *Id.*
[566] *Id.*

Cal PA's recommendations ignore the unfair carrying costs that it would impose on CWS if the Company purchased land but could not put it into rate base. In addition to challenges in acquiring land in California, there are carrying costs associated with holding the land until the project is designed, permitted, and built.[567] If the CPUC declines to allow land in rate base when purchased, one potential alternative to address the issue of carrying costs, while still encouraging CWS to acquire land, particularly in areas where property on the open market is a rare opportunity, is to allow the utility to put the land into rate base using the fair market value of the land at the time the project is placed in service.[568] This compensates CWS for the carrying costs through the difference between the original cost (when it was purchased but withheld from rate base treatment) and the fair market value, and defers inclusion of such costs into rate base until the project is placed in service as recommended by Cal PA.[569] Financially, this would be neutral for customers as compared to if CWS had waited to buy the land until closer to construction, and then paid fair market value.[570]

Finally, the inclusion of land held for future use in rate base also aligns with recognized industry best practices for utility planning and asset management. Organizations such as AWWA and the EPA emphasize the importance of long-term strategic planning to ensure the sustainability, reliability, and affordability of water systems.[571] The EPA's Clean Water and Safe Drinking Water Infrastructure Sustainability Policy advocates for water utilities to develop comprehensive planning and asset management strategies which anticipate future infrastructure needs and minimize unnecessary capital cost and maximize benefit to customers.[572] The CPUC should in fact be facilitating CWS's ability to secure land by authorizing advance property purchases in rate base; the alternative is a reactive, short-term approach that could expose customers to higher financial risks in the long run.

(2) Responses on Specific Land Purchase Projects

In addition to general issues on PHFU, CWS also provides specific responses to Cal PA's recommendation on individual PHFU projects:

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[567] *Id.*, p. 242.
[568] *Id.*
[569] *Id.*
[570] *Id.*
[571] *Id.*, p. 243.
[572] *Id.*

BK Low Zone Property Purchase & BK NG Property Purchase (PID #133192 & #133194) – Cal PA states that it is impossible to determine if these well property purchases are necessary at this time due to incomplete well siting studies. This reflects Cal PA's fundamental misunderstanding of the purpose of a well siting study. Conducting a study prior to a land purchase is to identify the optimal location for the well not to determine if the well property purchases are necessary.[573]

Stockton Property Purchase 1 & STK Land Purchase 2 (PID #133216 & #133216) – The Stockton district faces significant water supply risks due to aging infrastructure and unscheduled interruptions to purchased water supply from the Stockton East Water District ("SEWD"), which have occurred in the past.[574] Without new wells as a secondary source for when Stockton East water is not available, the District will be unable to meet system demands and will leave customers vulnerable to potential water shortages and service disruptions.[575]

In their testimony, Cal PA raised concerns regarding the groundwater basin being overdrawn. CWS is actively working with the Eastern San Joaquin Groundwater Authority and the requirements of the Groundwater Sustainability Plan regarding safe pumping yields.[576] Municipal pumping is not the primary cause of the basin overdraft, and represents less than 10% of the overall basin pumping.[577] The new wells are part of a comprehensive strategy to enhance water supply reliability by providing a secondary supply source when SEWD is not available. The risk of not acquiring land now—such as potential project delays and increased costs—far outweighs the minimal investment required to secure the property today. Thus, funding the land purchase is a prudent decision that minimizes risks for ratepayers and ensures the long-term reliability of the district's water supply system.

LAS New Well Property Purchase (PID# 133287) – Cal PA states that the existing land purchase project in Los Altos from 2021 GRC has been delayed, and therefore the CPUC should exclude the new land purchase project. Through CWS's diligent efforts, the Company has identified several promising leads.[578] Although some opportunities did not come to fruition, the

[573] *Id.*, p. 244.
[574] *Id.*
[575] *Id.*
[576] *Id.*
[577] *Id.*
[578] *Id.*, p. 245.

process provided invaluable insights. Moreover, previous efforts to secure land were significantly hampered by the uncertainty associated with the late 2021 rate case decision. Given the magnitude of the capital investment at risk for non-recovery and the stagnant customer rates, CWS had to prioritize the use of its resources.[579] To address this, CWS is hiring a dedicated property acquisition manager to actively pursue such projects, ensuring that the Company now has the necessary resources to complete this acquisition.[580]

2. District Plant

a) Customer Support Services and Rancho Dominguez Plant

(1) PID 135805 Salesforce CRM Project

The Customer Relationship Management ("CRM") system that CWS is developing for its conservation program will streamline the rebate and program application processes, improve customer support capabilities through automated status updates, and increase efficiency in marketing and administration of conservation programs.[581] It will also support compliance with the new conservation regulations recently adopted by the SWRCB. To reflect these capital components of the conservation program, CWS included this CSS capital project in its rebuttal at a direct cost of $2,216,189 and made a corresponding reduction in the administrative/research budget in operations and maintenance expenses.[582] CWS discusses the benefits of its conservation plan in Section IV.B.12. above.

(2) PID 00134646 – CSS - Vehicles for New Complements

See related discussion in Sections IV.B.2 and 13. Discussion of specific vehicles for the East Los Angeles and Livermore districts are addressed below.

(3) PID 00132575, 00132576, & 00132577 – PC & Device Replacements

CWS uses more than 4,000 technological devices such as desktops, laptops, monitors, and mobile devices to provide water service to customers.[583] PCs and mobile devices remain the primary tools for employees to interact with the applications both cloud-based solutions and other software.[584] For the last decade, CWS has maintained a replacement schedule that allows it

[579] CWS-52, p. 245.
[580] *Id.*
[581] CWS-52, p. 288.
[582] *Id.*
[583] CWS-32, p. 13.
[584] CWS-52, p. 275.

to replace approximately 25% of its technological devices every year.[585] This is consistent with standard manufacturer warranties, which typically last 1-3 years.[586] Failure to replace technological devices at this rate can lead to crashes and compatibility issues that disrupt workflows and delay access to critical applications.[587] Obsolete hardware is not supported by newer software, which increases security and operational risks. Failure of technological devices can result in water quality violations, tank overflows, degradation of customer service, and delays in emergency response, among other issues.[588] CWS provided detailed estimates, including vendor quotes, for the technological devices that it seeks to replace,[589] as well as a comparison of its forecasted 2021 GRC costs for this category and its actual costs in both dollars and units of equipment.[590] The CPUC should therefore approve the estimated costs of $744,630 (2025), $753,823 (2026), and $772,651 (2027) for this project.

(4) PID 00132815 – Digital Twin OPS Optimization

CWS requests $1,137,370 to implement the Digital Twin project.[591] A Digital Twin provides a high-fidelity virtual replica of existing operations to enable staff to "see inside" the physical systems that run CWS's production lines, pump stations, and facilities. This will allow CWS to run simulations, model scenarios, create data visualizations and refine the accuracy of its calculations.[592] CWS will use the Digital Twin to optimize coagulant operations, reducing the risk of plant shutdowns due to incorrect dosage levels during turbidity spikes. Benefits of the Digital Twin also include higher quality water, less water loss, freed-up personnel hours, and improved safety for operators.[593] Given the timing of the project, CWS does not expect operational savings during this GRC cycle, but did provide relevant industry case studies demonstrating the potential for future savings beyond this GRC cycle.[594]

[585] CWS-32, p. 14.
[586] CWS-52, p. 275.
[587] *Id.*
[588] *Id.*, p. 274.
[589] CWS-32, pp. 13-33.
[590] CWS-52, pp. 277.
[591] CWS-32, p. 154; CWS-52, p. 279.
[592] CWS-32, p. 151.
[593] CWS-52, p. 279.
[594] *Id.*, pp. 280-282.

(5) PID 00133533 – CSS Rooftop Solar

CWS proposes to install rooftop solar facilities at its customer support service center headquarters. CWS's initial estimate for the project was approximately $3,600,000.[595] After CWS filed its GRC application, however, it received updated construction bids that optimized the system size and design, resulting in an updated estimated direct cost of approximately $800,000.[596] CWS anticipates that the project will pay for itself in about seven years and generate over $1.4 million in long-term customer savings over the thirty-year project lifetime. CWS will also reduce rate base approximately $354,000 through a thirty-year amortization from investment tax credits.[597] The CPUC should approve this strategic investment that addresses the critical need for climate mitigation and provides significant savings to customers.

b) District Plant – Antelope Valley (Los Angeles County Region)

The projects in dispute for this district are covered in the Common Plant sections, above.

c) District Plant – Bakersfield

(1) PID 00133192 – BK Low Zone Property Purchase & PID 00133194 – BK NG Property Purchase

CWS relies on groundwater, treated surface water, and purchased water to serve its Bakersfield district customers via two systems: the Bakersfield main system and the North Garden system.[598] Of the 67 active wells in the Bakersfield main system, 40% have reached the end of their useful life, and approximately 94% will reach the end of their useful life by 2050.[599] CWS is experiencing maximum day demand and peak hour demand deficits in the west portion of its North Garden system, which is limited to supply from two active wells.[600]

The analyses in the Bakersfield district's 2023 *Water Supply and Facilities Master Plan*, CWS's 2021 *Well Infrastructure Renewal Program* report,[601] and CWS's 2020 Wildfire Risk Assessment[602] have made clear the risks associated with aging infrastructure and established the need for new wells in the Bakersfield District in both systems. Now that the need for

[595] CWS-32, p. 209.
[596] CWS-52, p. 283.
[597] *Id.*, pp. 283-284.
[598] CWS-27, p. 50.
[599] *Id.*, p. 51.
[600] *Id.*, p. 55; CWS-53, p. 27.
[601] CWS-53, p. 26.
[602] CWS-27, p. 51.

replacement wells has been established, CWS has undertaken a well siting study to identify where replacement wells can be optimally located to maximize production capacity and water quality while minimizing future operational risks. These projects are to secure suitable land so that well development proceeds without unnecessary delays.[603] Please also see Section IV.C.1.z. above, which addresses the purchase of land for future projects.

(2) PID 00133199 – BK Property Purchase (Office)

The current Bakersfield district field office is too small, and its location is threatening the safety of CWS employees. The growth of the Bakersfield district over the last thirty years has led to an increase in staff, and a corresponding need for additional space for office operations, parking, and storage for emergency equipment.[604] A new facility will create a safer, more efficient, and collaborative environment, that will also allow CWS to improve response times to maintain or restore service to customers.[605] This $3,500,000 project is to purchase land for a new facility.[606] Please also see Section IV.C.1.z. above, which addresses the purchase of land for future projects.

(3) PID 00134719 – BK - Vehicles for New Complements

This project is for vehicles related to new positions in this district. See related discussion in Sections IV.B.2 and 13.

d) District Plant – Bayshore (Bay Area Region)

(1) PID 00132992 – BAY Grid Strengthening - NC

CWS has multiple districts, including its Bayshore district, with systems that have significant elevation differentials, which causes issues with water pressure and supply. To address these issues, CWS created pressure zones by closing existing valves, which isolates an area that is being served by a booster pump or well. Creation of these pressure zones, however, has led to certain water quality issues.[607] CWS is proposing a grid strengthening pilot project in its Mid-Peninsula San Carlos systems, which have numerous closed valves. As part of this pilot project, CWS will replace certain closed valves with pressure reducing valves to provide additional connectivity in the distribution system. Depending on the effectiveness of these

[603] CWS-53, p. 26.
[604] CWS-27, p. 70.
[605] *Id.*, p. 71.
[606] *Id.*, pp. 70-71.
[607] CWS-28, p. 171; CWS-53, p. 52.

replacements in the Mid-Peninsula San Carlos systems, CWS may seek to make similar replacements in other districts in the future.[608]

Cal PA mischaracterized this project as a study only and did not address the merits of the pilot program.[609] The CPUC should approve this pilot program.

(2) PID 00134125 – BAY Grid Strengthening - Dead Ends

In all of CWS's districts it has "dead end" pipelines that come to an abrupt ending. These dead ends, which can occur for a variety of reasons, have the potential to cause water quality problems. Although CWS may eventually connect a dead end to the rest of the system due to main replacement or development, there is no certain timing for such actions.[610] Moreover, given the volume of dead ends throughout the system, it would not be reasonable to develop projects to connect each and every dead end. CWS has therefore developed a pilot project focused on connecting sections of the existing pipe network that have gaps that are within five hundred feet or less of another pipeline.[611] By piloting this effort on a small scale, CWS will be able to evaluate the effectiveness of such a connection in improving water quality, deliverability, and reliability.[612]

Cal PA again mischaracterized this project as a study only and did not address the merits of the pilot program.[613] The CPUC should approve this pilot program.

(3) PID 00134769 – BAY - Vehicles for New Complements

This project is for vehicles related to new positions in this district. See related discussion in Sections IV.B.2 and 13.

e) District Plant – Bear Gulch

(1) PID 00134775 – BG - Vehicles for New Complements

This project is for vehicles related to new positions in this district. See related discussion in Sections IV.B.2 and 13.

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[608] CWS-28, p. 171; CWS-53, p. 53.
[609] CalAdv-08, p. 1-4.
[610] CWS-28, p. 175; CWS-53, p. 55.
[611] CWS-28, p. 175; CWS-53, p. 55.
[612] CWS-53, p. 56.
[613] CalAdv-08, p. 1-4.

f) District Plant – Chico (North Valley Region)

(1) PID 00123979 & 00133029 – CH 050 Station Rebuild Design and Construction

CWS has proposed improvements to Station 50, including piping modifications, roof replacement, and electrical equipment replacement to address mechanical and electrical deficiencies. These improvements are necessary to ensure a reliable water supply, especially in peak summer months when customer water demand is highest.[614] CWS has previously proposed the design project, but the execution was delayed due to the delay in receiving a decision in its last GRC, as well as by the EPA's issuance of final primary drinking water standards for PFAS in 2024, which meant that CWS had to revalidate the project scope.[615] CWS had dedicated additional resources to this project, and will complete the design in 2025 and construction in 2027.

g) District Plant – Dixon

The projects in dispute for this district are covered in the Common Plant sections above.

h) District Plant – Dominguez (South Bay Region)

(1) PID 020768, 00098099 & 00118107 – Station 275 Treatment

In D.14-08-011, the CPUC approved a settlement between CWS and the Office of Ratepayer Advocates ("ORA," predecessor to Cal PA).[616] In the settlement, CWS and ORA agreed that CWS needed to install treatment facilities at Station 275 to address water quality issues.[617] Pursuant to the decision approving the settlement, CWS installed an air stripping and ion exchange system (PID 020768) at Station 275 in 2015.[618] Shortly after installation, however, the treatment system began experiencing unanticipated bacteriological fouling. To address this issue, CWS explored disinfection, flushing and other operational changes, during which the station would periodically be offline.[619] CWS also completed a pump and motor replacement project (PID 00098099) at Station 275 in 2020.[620]

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[614] CWS-53, p. 97.
[615] *Id.*, pp. 97-98.
[616] D.14-08-011, p. 94, Ordering Paragraph 1.
[617] D.14-08-011, Attachment A, pp. 213-216. The project was identified as PID 020768.
[618] CWS-53, p. 119.
[619] *Id.*
[620] CWS-21, p. 193. CWS proposed a new pump and motor for Station 275 in error and now withdraws its request for approval of that project (PID 00123738).

CWS's water quality sampling demonstrated the presence of fecal indicators.[621] In the Well 275-01 permit and engineering report, DDW indicated that CWS must mitigate bacteriological issues as needed. Additionally, CWS sought to address these bacteriological issues to allow sustained use of the well to take advantage of the extensive benefits of groundwater supply over purchased water.[622] Although CWS initially proposed to design and construct additional ultraviolet treatment facilities to inactivate viruses prior to distribution (PID 00118107), after thorough testing, analysis, and close collaboration with DDW, CWS developed a lower-cost solution using chloramination disinfection prior to the first customer, which effectively addresses the bacteriological issues.[623]

Cal PA recommended that the CPUC remove the air stripping and ion exchange system (PID 020768) and the replacement pump and motor (PID 00098099) from rate base, claiming that Well 275-01 has not been active since 2012.[624] Cal PA also recommended that the CPUC deny the project to address bacteriological issues in the treatment system until DDW specifically directs CWS to pursue ultraviolet treatment.[625]

Cal PA's claim that this station has been offline since 2012 is incorrect. CWS has used Station 275 to provide service to customers following the installation of the air stripping and ion exchange system in 2015. Although the station did experience downtime due to bacteriological issues, it was not completely offline for a decade.[626] Now that CWS has been able to address bacteriological issues using chloramination disinfection, it has been able to use Station 275-01 to provide service to customers on a more stable basis.[627] Because the air stripping and ion exchange system (PID 020768) and the replacement pump and motor (PID 00098099) are currently being used to provide service to customers, the CPUC should reject Cal PA's recommendation to remove these facilities from rate base.

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[621] CWS-53, p. 134.
[622] *Id.*, pp. 134-135. The CPUC has previously recognized the financial benefits to customers of maximizing groundwater in the Dominguez District. D.20-12-007, p. 20.
[623] CWS-53, p. 135.
[624] CalAdv-06e, p. 3-12.
[625] *Id.*, p. 3-13.
[626] CWS-53, p. 119. CWS originally incorrectly stated that it was offline for a decade and apologizes for any confusion this may have caused. *See* CWS-43, p. 9.
[627] CWS-53, p. 119.

The CPUC should also reject Cal PA's recommendation to deny funding for a project to address bacteriological issues in the treatment system (PID 00118107). Cal PA's recommendation to condition approval of this project until DDW specifically orders CWS to implement ultraviolet treatment is no longer applicable, since CWS has developed a lower cost solution using chloramination disinfection. CWS has completed construction of the facilities to allow chloramination disinfection and is now using them to provide service to customers, in compliance with the DDW permit amendment.[628] As such, the CPUC should approve this project.

(2) PID 00020838 – Construct/Equip Well 216-02

CWS proposed construction of Well 216-02 to increase groundwater pumping capacity, which would reduce the reliance on imported water and result in significant cost savings.[629] The CPUC approved a settlement agreement that included this project in 2016.[630] In 2017, after DDW granted well location approval, CWS completed drilling and construction of the well and conducted the initial Title 22 water quality sampling.[631] The draft water quality evaluation was conducted in 2018, and CWS worked with DDW to establish a centralized treatment plant and conducted a secondary water quality evaluation in 2019. CWS experienced delays in design, permitting and construction over the next several years, however, due to factors beyond its control.[632] CWS was able to complete the site work and treatment facilities in 2024, with testing and commissioning this spring and the final DDW operating permit approval process to allow the well and treatment facilities to go online this year.[633]

Cal PA recommended that the CPUC deny this project because Cal PA believed that it had already been completed and because it alleges that CWS has not completed the required water quality analyses under Title 22.[634] As explained above, however, although well construction was completed in 2017, other factors delayed CWS's ability to put the well and treatment facilities into service. Additionally, contrary to Cal PA's claims, CWS has conducted

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[628] *Id.*, p. 136.
[629] *Id.*, p. 120.
[630] D.16-12-042, Exhibit A, p. 239.
[631] CWS-53, p. 122. *See* Cal. Code Regs. tit 22, §64560(b)(4).
[632] CWS-53, p. 123.
[633] *Id.*
[634] CalAdv-06e, p. 3-10.

multiple Title 22 events as requested by DDW. The CPUC should reject Cal PA's recommendation and approve this project.

(3) PID 00114507 – Station 215 Treatment

The purpose of this project is to address water quality deficiencies that DDW identified in its 2017 Sanitary Survey Report. The well's running annual averages have exceeded the Secondary Maximum Contamination Level 7 ("SMCL") for odor threshold, and it also has high levels of color close to the SMCL, high levels of total organic carbon ("TOC"), and naturally occurring ammonia. These constituents have led to unstable water quality in the distribution system, causing low chlorine residuals, chlorine loss, and nitrification. High TOC levels could cause disinfection by-product ("DBP") compliance issues, like increased total trihalomethanes ("TTHMs").[635] While CWS has been able to operate this well, the existing treatment plant is ineffective in addressing the emergent water quality issues.[636]

Cal PA recommends that the CPUC reject this project because it does not believe treatment is needed. In D.20-12-007, however, the CPUC approved multiple projects addressing water quality in the Dominguez District, including this one. The CPUC stated that it supported measures to fix "odor and color problems that may be indicators of more serious health threats for customers," even if "there is no sustained violation of federal maximum contaminant standards occurring."[637] For projects, such as this one, where DDW has directed CWS to ensure compliance with the SMCL for odor, the CPUC stated that it "shall follow the guidance of our sister agency, DDW."[638]

In D.24-03-042, the CPUC again addressed this project. In that decision, the CPUC noted that the issues cannot be addressed through flushing, as Cal PA recommended.[639] The CPUC also recognized that the water quality problems in Dominguez have persisted and that the situation is "precarious and in need of improvement."[640] In that decision, the CPUC stated that it must "come down on the side of safety by taking proactive steps now that prevent exposing the public to such dangers."[641]

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[635] CWS-53, p. 128.
[636] *Id.*, pp. 129-130.
[637] D.20-12-007, p. 21.
[638] *Id.*.
[639] D.24-03-042, pp. 49-50.
[640] *Id.*, p. 49.
[641] *Id.*, p. 49.

Cal PA also recommends that the CPUC deny this project because it has evolved from its original form.[642] CWS's original plan was for treatment at Station 215, but before the CPUC issued D.20-12-007, CWS informed Cal PA that it had modified the project to take advantage of a more cost-effective option: transporting and blending the water from Well 215-01 and 216-02 and treating it through a centralized treatment plant at Station 216.[643] Transitioning to this more cost-effective option added more time to the project due to the need to collect and evaluate additional water quality information and work with DDW on the best solution. CWS has started construction on this project and will complete the project during this rate case period.[644]

The CPUC should reject Cal PA's proposal to penalize CWS for pursuing the most cost-effective option for its customers and approve this project.

(4) PID 00099341 – Well 297-01 Treatment

CWS completed this project in 2021, and it is being used to provide service to customers.[645] The color level in well 297-01 has exceeded the SMCL, and it has also experienced high TOC levels and had issues with methane. Although CWS explored a centralized treatment plant for this well and two nearby wells, it determined that it would be more cost-effective to address the issues at this well separately through chlorine contact time piping treatment.[646]

Cal PA recommends that the CPUC deny this completed and in-service project because Well 297-01 is unable to produce 700 gallons per minute (gpm).[647] As CWS explained, however, this well is 30 years old and, as is customary, its production has decreased over time. CWS has confirmed that it is able to sustainably produce 300 gpm from this well, which is still more beneficial to customers than the alternative of purchasing that quantity of water.[648] Therefore, it was reasonable for CWS to install treatment to allow it to continue to take advantage of this valuable resource. The CPUC should reject Cal PA's recommendation and approve this completed project.

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[642] CalAdv-06e, p. 3-9.
[643] CWS-53, p. 128.
[644] *Id.*, p. 129.
[645] *Id.*, p. 126.
[646] *Id.*, pp. 125-126.
[647] CalAdv-06e, p. 3-11.
[648] CWS-53, pp. 125-127.

(5) PID 00117757 – UV Treatment at Station 294

CWS has experienced issues with bacterial growth in its treatment system at the Station 294 treatment facility. In D.24-03-042, the CPUC approved CWS's request to install ultraviolet ("UV") treatment facilities to mitigate bacterial growth in the system. CWS completed construction, testing, and commissioning of these facilities, and is currently waiting for DDW to approve CWS's permit amendment so that it is able to operate the UV system.[649] In the meantime, however, due to significant cost savings of groundwater versus purchased water, CWS is currently running the well without the UV system and managing the bacteriological issues as best as possible.[650]

Although Cal PA recommends that this project be removed from plant in service,[651] since the UV system is fully installed, tested and functional and ready to operate when approved by DDW, the CPUC should reject Cal PA's recommendation and approve this project.

(6) PID 00133051 – DOM 2027 - Hydrant Iso Valve Installs

CWS experiences fire hydrant damage in its Dominguez district—mostly caused by high truck traffic—as frequently as once a week. Since hydrants in the Dominguez district do not have isolation valves, which would allow CWS to isolate the hydrants, repairing or replacing hydrants is costly, difficult, and disruptive to service to customers.[652] CWS proposes to replace the existing fire hydrants with 15 new hydrants, each with a new check valve and isolation valve at the hydrant connection. The check valve's doors will spring shut if the hydrant is sheered, effectively shutting off flow from the water main, and the isolation valves will make responding to hydrant damage or failure easier to address, safer, and faster for district staff.[653] Although CWS mistakenly included this project in the under-threshold section of the South Bay Region Project Justification Book (CWS-43) it subsequently provided a detailed description of the need for this project and its benefit to customers,[654] and the CPUC should therefore approve this much-needed project.

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[649] *Id.*, p. 131.
[650] *Id.*, p. 132.
[651] CalAdv-06e, p. 3-14.
[652] CWS-53, p. 141.
[653] *Id.*, pp. 140-141.
[654] *Id.*

(7) PID 00133053 – Station 203 Rebuild

The current Dominguez District Station 203 is in pressure Zone III, consists of four 3.5 million-gallon (mg) above ground storage tanks and seven booster pumps, and is the primary supply and storage station for Zone II and Zone III. The booster pumps continuously run to service Zone III, a high elevation boosted pressure zone without gravity storage. CWS proposes to rebuild Station 203 to replace inefficient equipment, improve access for emergency repairs, allow for future expansion, and protect facilities from exposure to the elements.[655] Without this project, this facility could potentially fail or become unable to meet demand, resulting in a loss of supply and service to customers given the lack of gravity storage in Zone III.[656]

Cal PA recommended that the CPUC deny this project on the basis that it will not be completed during this rate case period.[657] As CWS explained, however, it had listed this project as Multi-GRC project by mistake;[658] the project will actually be completed during this rate case cycle. The design and permitting was done under separate project number (PID #114504), with the final design in May 2025 and permitting expected to be completed by the end of 2025. CWS will begin bidding and procurement in March 2026 and will complete this project within this rate case period.[659]

i) District Plant – East Los Angeles

(1) PID 00124112 – ELA - Land Purchase

CWS will need to purchase land to construct a new groundwater well due to other wells being taken out of service because of concerns about perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA) water quality issues, as well as the need to replace aging assets.[660] Not acquiring the land now creates the risk of project delays, reduced water supply, and increased operation costs. The CPUC should approve this project because funding the land purchase is a prudent decision that minimizes risks for customers and ensures the long-term reliability of the water supply system.[661]

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[655] CWS-43, p. 61.
[656] *Id.*, p. 63.
[657] CalAdv-06e, p. 3-2.
[658] CWS-53, p. 142.
[659] *Id.*
[660] *Id.*, p. 153.
[661] *Id.*, p. 154. Please also see the discussion of land held for future use in Section IV.C.1.z above.

(1) PID 00125358 – ELA Main Office Improvements

This project will provide safer roof access for staff and vendors by replacing the existing ladder access with a stairwell and will increase efficiency by providing an on-site fueling station through the installation of a fuel tank.[662] As CWS explained, buying bulk fuel for use at an on-site fueling station provides significant savings as compared to fueling operations vehicles at an outside gas station.[663] The planned fuel tank will also be split to provide both gasoline for vehicles and red dyed diesel for equipment, such as portable generators, which will allow for quicker response times to emergency events.[664] The CPUC approved this project, minus contingency, in D.24-03-042.[665] This project has been designed, engineered, and submitted for permit through the City of Commerce Building Department,[666] and is expected to be completed this year.[667] Contrary to the claims of Cal PA,[668] CWS provided sufficient updated detail regarding this previously approved project in its direct and rebuttal testimony.[669] The CPUC should therefore reject Cal PA's recommendation and approve this 2025 project.

(2) PID 00126483 & 00126484 – ELA Carbon Changeouts

In CWS's prior GRC, it included forecasted projects PID 00126480 and PID 00126481, which were to replace GAC at East Los Angeles Station 62 in 2022 and 2023, respectively. CWS also included forecasted projects PID 00126483 and PID 00126484, to replace GAC at East Los Angeles Station 63 in 2022 and 2023, respectively.[670]

CWS completed the Station 62 GAC replacement projects in 2023 and has removed PID 00126480 and PID 00126481 as forecasted projects in this GRC. Because CWS had not replaced the GAC at Station 63 by the end of 2023, it remains a forecasted 2024 project in this GRC.[671] Cal PA objected this project because it believed that CWS was seeking to replace GAC that it

[662] CWS-34, pp. 180-181; CWS-53, pp. 155-157.
[663] CWS-53, p. 156.
[664] *Id.*
[665] D.24-03-042, p. 54.
[666] CWS-34, p. 181.
[667] CWS-53, p. 155.
[668] CalAdv-06e, pp. 1-10 to 1-11.
[669] CWS-34, pp. 180-181; CWS-53, pp. 155-157.
[670] CWS-53, p. 158.
[671] *Id.*

had just replaced in 2022 and 2023.[672] Since that is not the case, the CPUC should approve this project.

(3) PID 00132141 & 00132144 – ELA 2025 Chemical Pump Replacements

CWS is seeking to replace six chemical pumps that have outlived their useful life. Because the cost of this project is $9,334, well below the $400,000 threshold for a full project justification, CWS did not include a full project justification in its direct testimony.[673] Nonetheless, this project is essential and urgently needed. CWS must have properly functioning chemical pumps to ensure the accurate dosing of chemicals, avoid contamination and health hazards, and maintain compliance with water quality regulations. Replacing chemical pumps also eliminates inefficiencies and minimizes the need for repairs.[674]

(4) PID 00132441 – ELA - Additional Fire Hydrant Maintenance Truck

As with the previous project, CWS did not include a full justification for this project since its cost of $159,153 is below the threshold for a full project justification.[675] Nonetheless, this is a vital project that helps ensure the safety of CWS staff and customers. CWS has more than 3,000 fire hydrants in its East Los Angeles system to maintain and inspect annually.[676] CWS is requesting a F450 class fire hydrant maintenance truck with a utility bed that can support a hoist, a liftgate and a workstation for rebuilding fire hydrants for the foreman of fire hydrant maintenance.[677]

j) District Plant – Hermosa Redondo (South Bay Region)

The projects in dispute for this district are covered in the Common Plant sections above.

k) District Plant – Kern River Valley

The projects in dispute for this district are covered in the Common Plant sections above.

l) District Plant – King City (Salinas Valley Region)

The projects in dispute for this district are covered in the Common Plant sections above.

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[672] CalAdv-06e, p. 1-12.
[673] CWS-53, p. 159.
[674] *Id.*, p. 159-160.
[675] *Id.*, p. 163.
[676] *Id.*
[677] *Id.*

m) District Plant – Livermore

(1) PID 00134776 – LIV - Vehicles for New Complements

This project is for vehicles related to new positions in this district. See related discussion in Sections IV.B.2 and 13.

n) District Plant – Los Altos

(1) PID 00133283 – LAS 117 Station Rebuild Construction

Station 117 has aging infrastructure and no backup power supply. CWS cannot meet peak hour demand in several zones without this station being fully operational, and it serves an area that CWS identified as being at very high risk for wildfire.[678] CWS is proposing a full station rebuild and installation of a permanent generator.[679] The differences between CWS and Cal PA with respect to this project are due to Cal PA's removal of contingency and its removal of funding for a permanent generator.[680] These issues are addressed in Sections IV.C.1.b and IV.C.1.k above.

(2) PID 00133287 – LAS New Well Property Purchase

CWS serves its Los Altos district customers through a combination of purchased water and locally produced groundwater. In addition to being exposed to high wildfire risk in this district, CWS faces several challenges, including aging groundwater wells, supply deficiencies in certain pressure zones, and unreliable access to purchased water.[681] The CPUC should therefore approve this project to purchase property for a new well to enhance water supply reliability and mitigate wildfire risks.[682] Cal PA recommended that the CPUC deny this project because it involves purchasing land for a future project.[683] CWS discusses the benefits of purchasing land for future projects in Section IV.C.1.z above.

(3) PID 00134768 – LAS - Vehicles for New Complements

This project is for vehicles related to new positions in this district. See related discussion in Sections IV.B.2 and 13.

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[678] CWS-38, pp. 64-68; CWS-54, p. 40
[679] CWS-38, pp. 68-74; CWS-54, p. 40
[680] CWS-54, pp. 40-41; CalAdv-08, p. 3-6.
[681] CWS-38, p. 58.
[682] *Id.*, p. 60.
[683] CalAdv-08, p. 3-4.

o) District Plant – Marysville

(1) PID 00133119 – Well Property Acquisition

CWS serves its Marysville district customers solely using groundwater but has experienced recent outages due to aging wells and water quality issues. There is no feasible option to import water for this district, and CWS could struggle to meet peak hour demand and maximum day demand in the near future due to well outages.[684] The CPUC should therefore approve this project to purchase property for a new well to address these demand and reliability issues.[685] Cal PA recommended that the CPUC deny this project because it involves purchasing land for a future project.[686] CWS discusses the benefits of purchasing land for future projects in Section IV.C.1.z above.

(2) PID 00133402 – Fire Flow/Hydrant Testing Equipment

CWS seeks to replace its current hand-held fire flow testing equipment, which is inefficient and can produce inaccurate results.[687] Cal PA's only change to this project is to remove the contingency.[688] CWS explains why the CPUC should approve contingencies in project estimates in Section IV.C.1.b. above.

p) District Plant – Oroville (North Valley Region)

(1) PID 00133123 – ORO 15 Clarification Improvements, PID 00133124 – Station 015 Chlorine System, PID 00133125 ORO-015 Sedimentation Basin Pipeline Improvements

CWS's Oroville Treatment Plant (Station 015) was built in the 1970s and is the only treatment plant in the district. CWS has recently detected PFAS in the groundwater wells in this district, which means that it must rely on surface water treated at this facility instead of groundwater to serve its Oroville customers.[689] Because it is the primary drinking water

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[684] CWS-39, p. 19.
[685] *Id.*, p. 22.
[686] CalAdv-05, pp. 5-2 to 5-3.
[687] CWS-39, p. 52; CWS-54, p. 75.
[688] CalAdv-05, p. 29.
[689] CWS-40, p. 105. In 2020, surface water made up 99% of CWS's supply and surface water is projected to be approximately 95% of supply in 2025 and beyond. *See* CWS-04, p. 44. 2020 Urban Water Management Plan, Oroville District, p. 66, Table 6-8, p. 67, Table 6-9. (Urban Water Management Plans provided electronically.)

treatment facility serving the Oroville service area, CWS must be able to keep it in service while it makes much-needed upgrades.[690]

The January 2024 expert evaluation by CDM Smith sets forth the challenges and solutions for this plant.[691] The plant's aging infrastructure is reaching the end of its useful life. The existing systems have become inefficient and inflexible, and the current operations building houses chemical systems with little separation from occupied areas.[692] The existing sedimentation basins do not have a mechanical solids removal system, thus requiring CWS to shut down the plant for manual removal. Cleaning the basins takes an entire day and a minimum of seven employees, some of which have to be borrowed from other districts.[693] With the detection of PFAS, however, CWS can no longer shut down the plant for manual solids removal because it would not be able to meet customer demand if it took the plant offline for extended periods to perform maintenance.[694] Additionally, CWS's existing disinfection system at Station 015, a ClorTec on-site hypochlorite generation system, is aged and requires regular maintenance and increasingly frequent repair.[695] CWS is also experiencing difficulties with the outlet drainage system, where root intrusions are causing water and sediment to back up.[696]

Therefore, CWS must implement near-term solutions that allow it to take some plant facilities offline for maintenance without shutting down the entire plant, as well as long-term solutions that modernize the plant to provide greater treatment robustness and operational flexibility.[697] Working with CDM Smith, CWS specifically developed these projects to avoid improvements that would be abandoned or made obsolete when CWS implements the long-term solution for the plant.[698]

CWS has proposed near-term and long-term solutions to address the issues at this plant. In the near term, CWS proposes to rent a remote operated vehicle to remove sludge from the

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[690] CWS-40, p. 111.
[691] *See* CWS-40, Attachment J, CDM Smith Technical Memorandum, pp. 105-142.
[692] CWS-40, pp. 106-107.
[693] *Id.*, p. 96.
[694] *Id.*, p. 110.
[695] *Id.*, p. 90.
[696] *Id.*, p. 96.
[697] *Id.*, pp. 106, 110.
[698] *Id.*, p. l09.

sedimentation basins without taking them offline.[699] CWS also proposes replacing the on-site hypochlorite generation system, which will allow for more reliable operations.[700] Additionally, CWS seeks to replace the existing 16-inch outlet drainage pipe with an 18-inch High-Density Polyethylene ("HDPE") pipe for the first 350 feet of the outlet drainage system.[701]

In the long term, CWS proposes to install a pumped water flash mix system and design a new flocculation and sedimentation basin.[702] CWS will also construct a new chemical facility to consolidate the chemicals systems as part of the treatment plant upgrade.[703] CWS would also continue to use the 18-inch drainage pipeline after the completion of the full sedimentation basin upgrade.[704]

Although Cal PA only addresses the near-term improvements in its testimony, it recommends that the CPUC deny funding for the near-term **and** long-term projects.[705] Cal Advocate argues that the near-term projects are not necessary and will become obsolete when CWS completes its long-term projects.[706]

Since CWS cannot take the plant offline for sludge removal, it can only address the issue by running the plant with indirect filtration, but its ability to do this is very limited and does not allow CWS to fully perform maintenance on the sedimentation basins.[707] The near-term solution—removal of sludge by a remote operated vehicle—is therefore necessary. In recognition of the short-term need for this option, however, CWS is proposing to rent, not buy, the remote operated vehicle. This will allow CWS to maintain its existing sedimentation basins until it is able to install the pumped water flash mix system and design of a new flocculation and sedimentation basin.[708]

CWS's existing near-term disinfection project is similarly necessary. The inefficiencies in the existing system, a ClorTec on-site hypochlorite generation system, have led to more than

[699] *Id.*, pp. 84-85; CWS-54, p. 83.
[700] *Id.*, pp. 91-92.
[701] *Id.*, p. 97.
[702] *Id.*, pp. 85-86; CWS-54, p. 83.
[703] CWS-40, pp. 91-92.
[704] CWS-54, p. 89.
[705] CalAdv-05, pp. 4-6 to 4-7.
[706] *Id.*
[707] CWS-40, p. 83.
[708] *Id.*, p. 106.

20 instances of downtime—lasting from several hours to several weeks—in the past year alone. This disrupts the treatment process and increases the risks of water outages, particularly during peak demand periods.[709]

Therefore, as a near-term solution, CWS will replace the on-site hypochlorite generation system, which will allow for more reliable operations. Next, for the long-term, CWS will construct a new chemical facility to consolidate the chemicals systems as part of the treatment plant upgrade.[710] Moreover, even after the upgrade, CWS will continue to use the new on-site hypochlorite generation system for the rest of its useful life.[711]

CWS's proposed replacement of the first 350 feet of the outlet drainage pipeline is also much needed. The current drainage systems poses a constant risk to the water supply and water quality of the Oroville District.[712] It requires constant oversight to prevent flooding of the properties downhill of Station 15.[713] CWS conducted a camera investigation of the root intrusions, which demonstrated that the tree roots are too thick for CWS to cut and remove.[714] Cal PA does not address this project specifically, and just states, without explanation, that it will be obsolete once CWS completes its long-term plant improvements[715] (which it also recommends that the CPUC deny). As noted above, however, CWS would also continue to use the 18-inch HDPE pipe with the new flocculation and sedimentation basin.[716]

The evidence in the record disproves Cal PA's claims that the near-term improvements are unnecessary and will become obsolete. Both the near-term projects and the long-term solution for this plant (which Cal PA did not address) are vitally needed- particularly given CWS's reliance on the plant to meet customer demand in the wake of recent PFAS detection. The CPUC should therefore reject Cal PA's recommendation and approve these projects.

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[709] CWS-54, p. 86.
[710] CWS-40, pp. 91-92.
[711] CWS-54, pp. 86-87.
[712] *Id.*, p. 88.
[713] CWS-40, p. 96.
[714] *Id.*
[715] CalAdv-05, p. 4-6.
[716] CWS-54, p. 89.

q) District Plant – Palos Verdes (Los Angeles County Region)

(1) PID 00123009 – PV 4" Main Replacement

CWS completed this project in 2024 and is currently using it to serve customers.[717] The Palos Verde district has experienced fires in the past and has "very high" fire risk rating from Cal Fire.[718] This project replaced existing four-inch mains with eight-inch mains and six-inch fire hydrant laterals with updated fire department compliant hydrants to ensure adequate fire flow capacity.[719]

The area where these mains are located is on a landslide formation and experienced an unprecedented land movement while CWS was designing the main replacements that caused the City of Rancho Palos Verdes to declare a state of emergency.[720] CWS had to install mains in accessible locations, above-ground where possible, and use special materials and joints to minimize pipe breaks in case of future land movement.[721] This project was unconventional since it started as a non-specific project and required multiple adjustments due to the continuous movement of the land.[722]

Cal PA claimed that CWS failed to justify this project.[723] CWS did, however, include a justification for this project in support of its application,[724] and provided more detail in rebuttal, after it had completed the project.[725] Please also refer to Section IV.C.1.a. for further discussion of projects in progress.

(2) PID 00124233 – Station 15 Rebuild

Station 15 is facing differential subsidence, drainage deficiencies, and outdated electrical equipment, and the booster pumps are not operating efficiently.[726] This project is for the final design and permitting for the rebuilding of the station, which will include pump replacement, upgraded electrical equipment, improved site security, and geotechnical solutions. The project

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[717] *Id.*, p. 98.
[718] CWS-36, p. 45; CWS-54, p. 98.
[719] CWS-36, pp. 45-46; CWS-54, p. 97.
[720] CWS-54, p. 98.
[721] CWS-36, p. 45; CWS-54, p. 98.
[722] CWS-54, p. 98.
[723] CalAdv-06e, p. 2-4.
[724] CWS-36, pp. 45-46.
[725] CWS-54, pp. 97-98.
[726] *Id.*, p. 99.

will minimize construction challenges and costs, while increasing reliability and reducing service disruptions.[727]

Cal PA recommend the CPUC prohibit CWS from including this project in rate base until CWS has completed rebuilding the station.[728] The CPUC, however, has stated that phased cost review is appropriate in select cases.[729] Such an approach is reasonable here due to the complexity of the design, caused by the number of assets to be replaced, the critical nature of the project, and the need to consider multiple design alternatives.[730] As part of this process, CWS's standard design report evolved into a preliminary design report, which incorporated additional design items. Because of this complexity, the project should be completed and reviewed in phases to ensure more accurate construction cost estimates for budgeting purposes.[731] The phased approach protects customers from financial risks and ensures that the scope is accurate and that the design is optimized.[732]

Please also refer to Section IV.C.1.a. for further discussion of projects in progress.

r) District Plant – Redwood Valley (Bay Area Region)

(1) PID 00133268 – Coast Springs 4 Station Rebuild

This station is a wooden building in poor condition subject to flooding of up to 10 inches deep during heavy rains.[733] CWS proposes to rebuild the station above the flood plain to ensure water reliability and staff safety.[734] The only disagreements between CWS and Cal PA concern Cal PA's removal of contingency from the project estimate and its removal of costs associated with fencing, claiming that the fencing costs were redundant.[735] CWS addresses the need to include contingencies in project estimates in Section IV.C.1.b. above. Furthermore, although CWS included estimates for fencing in its previous GRC, it did not fund that project. Instead, it strategically deferred the fencing work to coordinate with the rebuilding of the station.[736] The CPUC should reject Cal PA's recommendations and adopt CWS's estimate for this project.

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[727] *Id.*
[728] CalAdv-06e, p. 2-4.
[729] D.24-03-042, p. 31.
[730] CWS-54, p. 100.
[731] *Id.*, p. 101.
[732] *Id.*
[733] CWS-28, p. 239.
[734] CWS-54, p. 117.
[735] CalAdv-08, p. 4-4; CalAdv-08c, p. 4-4.
[736] CWS-54, p. 118.

(2) PID 00133486 – Noel Heights Station 202 Paving & Grading

Noel Heights Station does not have vehicle access, which means that staff must carry equipment (including spare parts, tools, water quality materials and a portable generator) by hand using a steep, often muddy, slope path to the tank site. If this station experiences a serious equipment failure during a storm event, CWS will not be able to repair it until the site becomes accessible after the storm.[737] CWS proposes to pave and grade a new access road. It will secure an easement for the road and expects to begin paving and grading in 2025.[738] Although CWS initially mistakenly categorized this project as a multi-GRC project, it will actually complete construction of this project in this GRC period.[739]

s) District Plant – Salinas (Salinas Valley Region)

(1) PID 00133233 – SLN New Well Station 155 Zone

CWS solely uses groundwater to supply its customers in its Salinas district. The 155 zone of that district is facing reliability issues due to its aging wells, water quality, and risk of seawater intrusion. CWS proposes to construct a new well to improve reliability, mitigate seawater intrusion impact, and reduce reliance on water treated for nitrates.[740] Although CWS is still determining the best site for the well, the need for this well has already been established through extensive technical analyses, including the 2020 *Water Supply and Facilities Master Plan*, the 2021 *Well Infrastructure Renewal Program Report*, and the 2023 *Salinas Supply-Demand Projection*.[741] The CPUC should approve this much-needed project.

(2) PID 00133235 – SLNH Property Purchase

CWS is concerned about the risk of wildfire in its Salinas Hills (SLNH) system, which is served solely by groundwater and reliant on moving water from lower zones to higher zones.[742] CWS proposes to purchase property for a new well to improve water supply reliability and help to meet fire flow demand.[743] CWS discusses the benefits of purchasing land for future projects in Section IV.C.1.z above.

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[737] CWS-28, p. 259.
[738] CWS-54, p. 122.
[739] *Id.*
[740] CWS-41, p. 26; CWS-54, p. 154.
[741] CWS-41, p. 28; CWS-54, p. 154.
[742] CWS-41, p. 113.
[743] *Id.*, p. 115.

t) District Plant – Selma

(1) PID 00133249 – New Well 2 Land Purchase

CWS serves its Selma district using ten groundwater well sources, two of which will shortly reach the end of their expected service life. Moreover, several wells are equipped with granular activated carbon treatment systems, which require routine maintenance and media replacement, during which the wells are removed from service. CWS's sustained capacity to supply water to its Selma district customers will be at risk if it does not initiate a new well development project.[744] CWS proposes to purchase property for a new well to improve water supply reliability.[745] CWS discusses the benefits of purchasing land for future projects in Section IV.C.1.z above.

u) District Plant – Stockton

(1) PID 00133216 & 00133217 – Land Purchase #1 & Land Purchase #2

The Stockton district faces significant water supply risks due to aging infrastructure and unscheduled interruptions to purchased water supply from SEWD, which has occurred in the past.[746] Without new wells as a secondary source for when SEWD water is not available, the District will be unable to meet system demands and will leave customers vulnerable to potential water shortages and service disruptions.[747] Specifically, the new wells are part of a comprehensive strategy to enhance water supply reliability by providing a secondary supply source when SEWD is not available.[748] The risk of not acquiring land now—such as potential project delays and increased costs—far outweighs the minimal investment required to secure the property today. Thus, funding the land purchase is a prudent decision that minimizes risks for customers and ensures the long-term reliability of the district's water supply system. CWS discusses the benefits of purchasing land for future projects in Section IV.C.1.z above.

(2) PID 00133209 – Station Rebuild 080

Station 80 is in need of a station rebuild given its outdated electrical equipment and lack of backup power, to ensure reliable water supply to customers during power outages.[749] The

[744] CWS-42, p. 27.
[745] *Id.*, p. 30.
[746] CWS-52, p. 244.
[747] *Id.*
[748] *Id.*, p. 245.
[749] CWS-44, pp. 38-43.

project includes replacing the existing panelboard, installing a new permanent generator, and upgrading station controls. While Cal PA does not dispute the need for this project, they believe the project's scope of work overlaps with the separate programmatic budget for panelboard and generator replacements.[750] Though to be coordinated, this project was submitted separately from the Programmatic MCC/Panelboard Replacement Program due to the additional scope of installing a permanent backup generator at the same facility.[751] The programmatic budgets for MCC replacement and generator replacement are strictly meant for replacement of existing equipment due to condition – there is **no** double-counting as Cal PA argues.[752] Therefore, the whole budget for this entirely separate project should be approved.

v) District Plant – Travis

(1) PID 00133516 – TAB-002-T2 Surface Aeration

The TAB Station 2 Tank 2 surface aeration project is a crucial initiative for CWS aimed at addressing the increasing levels of TTHMs in the Travis water system.[753] This project involves the installation of surface aeration equipment within this station to ensure compliance with water quality regulations and to protect public health. Cal PA opposes this project, claiming that the nitrate level here is well below the California and Federal limit.[754] However, CWS proactively seeks ways to improve our system **before** exceeding the State or Federal regulatory limit. CWS's water quality threshold is to start looking into treatment once concentrations reach 80% of the MCL.[755] This limit provides a safety buffer to implement treatment before exceeding the MCL and to protect public health. If the TAB Station 2 Tank 2 surface aeration project is not approved, the high TTHM levels can pose health risks for customers and CWS could receive a regulatory violation.

w) District Plant – Visalia

(1) PID 00133149 – VIS Property Purchase

The Visalia water system consists of a single pressure zone supported by 60 active wells, 8 booster pumps, and 2.6 million gallons of storage (two booster stations and two tanks are

[750] CalAdv-07, pp. 6-1 and 6-9.
[751] CWS-55, p. 169.
[752] *Id.*
[753] CWS-45C, pp. 13-78.
[754] CalAdv-07, pp. 6-10 to 6-11.
[755] CWS-55, p. 183.

currently under design/construction).[756] As pressures drop during peak demands and the existing sources of supply near the end of their expected useful life, new sources must be proactively added to the system to ensure a long-term, reliable water supply and maintain system pressures in accordance with regulatory requirements.[757] To address supply and pumping deficiencies and minimize duplicated efforts in purchasing separate properties for a well and a future tank with boosters, it is recommended to pursue the purchase of a single property capable of accommodating the construction of both a new well and a tank through this project.[758] Cal PA recommended that the CPUC deny this project solely because it involves purchasing land for a future project.[759] CWS discusses the benefits of purchasing land for future projects in Section IV.C.1.z above.

(2) PID 00133416 – VIS Building Upgrades Design

The current Visalia district office location relies heavily on an adjacent leased property for much-needed parking and emergency equipment storage.[760] In addition, the office building requires moderate improvements, including update of the mechanical system as it is not fully functional, re-sealing of the roof, interior refresh, including retrofitting light fixtures to LED, replacing ceiling tiles, flooring and repainting, access control and alarm. This project will also secure additional property, which will enable CWS to develop a master plan to organize and support operational functions, increase efficiency through correct sized work areas, and improve communication to continue delivering reliable customer support.

Cal PA opposes this project on the mistaken understanding that this project includes only design (design and permitting only projects are discussed separately above in Section IV.C.1.e).[761] However, notwithstanding the name for the project used here, this project's scope will consist of immediate physical improvements to the building and will not include any design or study activities.[762] Additional improved workspaces will provide teams with sufficient and functional workspace to work collaboratively and focus on providing reliable services to customers. Therefore, this project should be authorized.

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[756] CWS-46, pp. 64-68.
[757] *Id.*, p. 64.
[758] *Id.*
[759] CalAdv-02, p. 6-3.
[760] CWS-46, pp. 74-120.
[761] CalAdv-08, pp. 10-2 to 10-6.
[762] CWS-54, p. 206.

(3) PID 00134771 – VIS - Vehicles for New Complements

This project is for vehicles related to new positions in this district. See related discussion in Sections IV.B.2 and 13.

x) District Plant – Westlake

The projects in dispute for this district are covered in the Common Plant sections above.

y) District Plant – Willows

The projects in dispute for this district are covered in the Common Plant sections above.

D. Other Rate Base Items

1. Allowance for Funds Used During Construction

CWS utilizes Allowance for Funds Used During Construction ("AFUDC") instead of including Construction Work In Progress ("CWIP") in rate base in order to finance the cost of projects while they are under construction.[763] AFUDC represents the capitalized cost of funds used to finance the construction of the utility plant.[764] CWS includes AFUDC for the estimated time of construction in the budgeted cost of proposed plant additions at its CPUC approved 7.46% return on rate base in this GRC.[765] Cal PA argues that the CPUC should include an interest rate equal to CWS's short-term debt rate, instead of CWS's proposed AFUDC rate.[766] Cal PA has made this argument CWS's last few GRC and the CPUC has rejected it each time – it should reject it here once again.[767]

For ratemaking, the appropriate AFUDC rate for capitalizing interest on CWIP is CWS's adopted rate of return, which includes both equity and long-term debt components.[768] Capitalized interest refers to the financing cost associated with CWIP that is added to plant.[769] In D.20-12-007, the CPUC denied the same arguments now being repackaged by Cal PA here, explaining that the CPUC's Uniform System of Accounts ("USOA") "expressly provides for a 'reasonable rate upon the utility's own funds when used' to finance CWIP, terminology that is commonly understood to refer to a utility's authorized rate of return, not its short-term borrowing rates."[770]

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[763] CWS-01, p. 117.
[764] CWS-50, p. 148.
[765] CWS-01, p. 117.
[766] CalAdv-02, p. 7-2.
[767] *See, e.g.,* D.20-12-007, p. 32.
[768] CWS-50, p. 149.
[769] *Id.*
[770] D.20-12-007, p. 32.

The CPUC went on to state that "[t]he Uniform System of Accounts, as interpreted and applied by the CPUC, does not mandate that CWS use short-term financing options first before utilizing any longer-term or higher-priced financing for construction work in progress."[771] The evidence presented in this GRC continues to show that CWS finances CWIP using long-term financing, including through issuance of debt and equity.[772] Cal PA presents nothing new in this GRC that would justify a different result.

First, Cal PA argues that while CWS uses the term AFUDC and interest during construction ("IDC") interchangeably, IDC "does not contain a profit component."[773] However, Cal PA's definition of IDC is not consistent with the CPUC's USOA definition referenced in D.20-12-007 discussed above, which expressly contemplates including a reasonable return on the utility's own funds:[774]

> (17) "Interest during construction" includes the net cost of borrowed funds used for construction purposes and **a reasonable rate upon the utility's own funds when so used**. Interest during construction may be charged to the individual job upon which the funds are expended and, if so charged, shall be credited to Account 536, Interest Charged to Construction-Cr.

Second, Cal PA argues that it is unnecessary to allow the authorized rate of return for AFUDC because CWS has access to enough resources to fund capital projects entirely using lower-cost short-term debt.[775] This is incorrect, as CWS needs to utilize its short-term financing for its regulatory asset balances and to meet operational cash requirements that may fluctuate throughout the year.[776] Moreover, this argument by Cal PA is contrary to Ordering Paragraph 8 of D.24-08-011 in which the CPUC last addressed CWS's financing capacity, providing in the relevant part that CWS "is authorized to issue new short-term debt securities under its revolving credit arrangements for short-term purposes for a term of up to 24 months."[777] Thus, this is

[771] *Id.*, p. 59, Conclusion of Law 17.
[772] CWS-50, p. 152.
[773] CalAdv-02, p. 7-12.
[774] Standard Practice U-38-W, p. A53 (emphasis added).
[775] CalAdv-02, p. 7-14.
[776] CWS-50, pp. 152-153.
[777] D.24-08-011, p. 20, Ordering Paragraph 8.

incompatible with longer-term capital projects and should not be used as the relevant financing rate for AFUDC.

In summary, CWS's rebuttal testimony details the flaws in Cal PA arguments. Consistent with CWS's past GRC decisions, the CPUC should authorize CWS to continue using its latest adopted rate of return as the AFUDC rate.

2. Removal of Assets from Rate Base

The Utility Plant in Service ("UPIS") account includes the cost of utility plant owned and used by the utility in its utility operations. In its report, Cal PA recommended certain adjustments to the UPIS in various districts. As discussed below, CWS disagrees with these recommendations.

a) Removal of Land From Rate Base

Cal PA recommends removal of $1,021,385 from the beginning plant balances for land currently not in use or useful but held for future use.[778] Cal PA does not provide any support for the calculation for this amount and therefore their recommendation should be disregarded. However, given the dollar amounts of the parcels of land it is probable that Cal PA assumed that all parcels of land were owned by CWS since the time that they were purchased and Cal PA also assumed that the land was never in use. These unfounded assumptions raise questions as to the validity of Cal PA's calculation.

Cal PA bases their recommendation on CWS's response to their data request KN3-008 where the Company was asked to provide a list of all land properties currently not in use or held for future use. The information to respond to the data request was not readily available, but CWS collected this information to the best of its ability and provide a timely response during discovery.[779] Therefore, CWS concedes that for this GRC cycle an adjustment should be made in this proceeding to remove the land identified in KN3-008 from rate base.[780] However, this should

[778] CalAdv-05, pp. 12-1 to 12-3.

[779] CWS still needs to perform a due diligence effort on each of the 214 parcels of land to confirm whether they in fact are not housing assets that are used and useful and that there are no plans in the immediate future to place them in the appropriate account (Land Held for Future Use or Non-Operating). Due diligence will include field checking each property to make sure there are no unmapped existing underground facilities, clearing the properties of easements, and verifying they are not needed for access requirements to neighboring water production facilities.

[780] CWS-50, p. 132

only be a temporary adjustment until the Company is able to validate that these properties are in fact not used and useful. Once CWS is able to verify this information, it will take the appropriate steps to transfer the properties into non-operating land or land held for future use.

Furthermore, Cal PA recommends to reduce operating expenses by $339,549 for corresponding maintenance expenses for the land at issue.[781] Cal PA calculates this amount by prorating CWS's 2023 recorded Operations Expenses based on the value of the land in question to the total value of CWS's recorded rate base in 2023.[782] This direct calculation is unreasonable, vegetation management (for wildfire prevention) and security are minor portion of operations expense charged to many different expense accounts.[783] Should the CPUC choose to make an adjustment to CWS's expenses, a more appropriate calculation would be to apply the same percentage calculated by Cal PA to the recorded expenses for only these accounts for the districts in which the land in question resides. This results in an annual adjustment to operating expenses of $3,652.[784]

b) Removal of Other Assets from Rate Base

Cal PA also recommends removal of certain assets from CWS's recorded plant balances and in many other areas, Cal PA refers to removing forecasted plant additions from rate base.[785] CWS disagrees with these recommendations.

In particular, Cal PA recommends a removal of a list of assets from rate base CWS indicated would be out of service during the GRC years for this proceeding (2026-2028). These assets are grouped into three buckets: (1) not to be returned to service, (2) to be returned to service, and (3) to be determined. Cal PA calculates the total rate base reduction from removing the assets to be $2,599,213.[786] Cal PA's calculations are very inaccurate, did not take into account cost of removal, and are not consistent with group accounting standards including the CPUC's own Standard Practice U-4-W.

In compiling the response provided to Cal PA for Data Request CHA-011, CWS realized that most of these capital assets have a useful life of several decades and that the future cost of

[781] CalAdv-05, pp. 12-3.
[782] CWS-50, p. 132.
[783] *Id.*
[784] *Id.*; Attachment 7-2 (providing specific calculation for this adjustment).
[785] CalAdv-02, pp. 7-5 to 7-7; CalAdv-06, pp. 3-12 to 3-14.
[786] CalAdv-02, p. 7-6.

removal was almost two times the capitalized cost of the asset.[787] Further, these older assets still need to be taken offline from time to time for a variety of reasons.[788] As it turns out, removal of these capital assets from rate base in a manner prescribed by Cal PA, but properly including cost of removal, would result in a net **increase** in rate base of $339,328.[789] In its rebuttal testimony, CWS provided an extensive and very detailed technical explanation on plant retirements, the appropriate calculations for the removal of the assets, and how properly including cost of removal would result in this rate base increase if these capital assets removed from rate base.[790] Cal PA's calculation is flawed because it ignores basic tenets of group depreciation in calculating their results used for the basis of these recommendations.[791]

Given the rate impacts described above and the need to investigate the assets further, the CPUC should not remove these capital assets out of rate base. CWS proposes to take a further review of these assets outside of this GRC proceeding and properly retire the applicable assets that will not be returned to service in accordance with CPUC retirement policy for group depreciation. Once CWS has completed its review of these assets, the Company intends to present additional information regarding the assets and the appropriate ratemaking treatment for each asset in its next GRC.

However, should the CPUC nonetheless agree with Cal PA's proposal regarding these assets, then it must apply all of the necessary ratemaking adjustments described in CWS's rebuttal testimony for purposes of the RO Model for this GRC.

E. SI #4 – Whether CWS's proposed revenue requirement is just and reasonable

CWS addresses SI #4 through its discussion of SIs #2 through #3 above. As explained in further detail above, the CPUC should find that CWS's proposed revenue requirement is just and reasonable. CWS further address cost allocations here as well.

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[787] CWS-50, p. 134.
[788] *Id.*
[789] *Id.*
[790] CWS-51, Appendix D.
[791] *Id.*, p. 3.

1. Cost Allocations

a) Affiliate Allocations

CWS has several affiliated companies that share a common parent company (Group) and the Company's corporate headquarters provides limited support for these operations in several areas.[792] To account for these affiliate costs, CWS employs a modified four-factor affiliate allocation methodology approved by the CPUC in D.24-03-042 for CWS's 2021 GRC, with changes to reflect new activities for certain affiliates.[793] The CPUC should adopt this proposed methodology here for the same reasons that it did in the prior GRC, which is this methodology is well-adapted to the unique characteristics of CWS's affiliates. Cal PA raises certain objections to CWS's proposed four-factor affiliate allocation methodology. As explained below, each of those arguments should be denied.

First, Standard Practice U-6-W provides guidance on the CPUC's four-factor allocation method. Cal PA argues that CWS must use the default factors in Standard Practice U-6-W rather than the modified factors that CWS has selected based on its circumstances.[794] As explained in CWS's testimony, these modified factors are more representative of how its shared costs should be allocated amongst its affiliates.[795] This methodology has been consistently applied and adopted in CWS's prior rate cases. The CPUC agreed with CWS in its most recent GRC when this issue was litigated, stating "[w]e find that while the CPUC does encourage adherence to standard practices when they fit the circumstances, we have and will continue to adapt to unique circumstances. We will again depart from S.P. U-6-W Four Factor Allocation in recognition of prior departures and because we believe the facts and evidence at hand favor the decision. We therefore adopt Cal Water's estimates"[796] and "the exercise of judgement must always prevail when there is good cause for departing from any deference to a standard practice."[797] Cal PA has not provided a legitimate reason as to why these factors are no longer valid.

Second, Cal PA recommends applying the four-factor allocation across all CSS expenses without any explanation, regardless of whether they contribute or not to the activities of the

[792] CWS-01, p. 191.
[793] *Id.*, pp. 191-192; D.24-03-042, pp. 97-99.
[794] CalAdv-07, p. 5-1.
[795] CWS-50, p. 159.
[796] D.24-03-042, p. 98.
[797] *Id.*

affiliates. For ratemaking purposes, the share of the allocable CSS department costs only includes CWS's CSS departments that assist the affiliates.[798] The non-allocable department costs should fully be included in California's share of expenses. CWS evaluates each CSS department's time spent on activities involving out-of-state operations to determine the CSS expenses that are appropriate to allocate. CWS then uses the affiliate allocation factor calculated based on a modified four-factor methodology to allocate the allocable expenses among the affiliates. As shown in the calculations provided in CWS's rebuttal testimony, this approach supports a reallocation of 4.46% of total CSS expenses to affiliates.[799]

Finally, Cal PA recommends the same affiliate allocation factor to be applied to CSS rate base without considering difference in between expenses and capital. However, the plant included in CSS rate base will have little or no operational use for affiliate entities, which are located outside of California.[800] Standard Practice U-6-W acknowledges this and recommends that CSS expenses and plants allocation should be made on use basis.[801] Therefore, the CPUC should adopt an affiliate allocation factor for CSS rate base calculated based on allocable basis for the CSS plants. This factor was 1.4% in based on 2024 data.[802]

In summary, the CPUC should adopt CWS's proposed modified four-factor for affiliate allocations of 4.46% for CSS expenses and 1.4% for CSS rate base. This is consistent with the methodology approved by the CPUC in previous rate cases and results in the equitable distribution of CSS costs across CWS and to all its affiliates.

F. SI #5 – Whether CWS's proposed rate designs are just and reasonable

1. Rate Design

In this GRC, CWS proposes to modify its rate design supported by a study conducted by CWS's consultant M.Cubed, which is included in CWS's testimony.[803] These rate design changes have been applied to the proposed revenue requirements of each ratemaking area to develop the quantity base rates included in the GRC application, proposed tariffs, and supporting

[798] CWS-50, p. 159.
[799] *Id.*, pp. 159-160.
[800] CWS-50, p. 161.
[801] Standard Practice U-6-W, p. 3.
[802] CWS-50, pp. 162-163.
[803] CWS-02, pp. 104; Attachment F.

reports. With its rate designs, CWS aims to balance three co-equal beneficial goals of affordability, conservation, and financial (revenue) stability.

a) Summary of CWS's Rate Design Proposals

For this GRC, to place more emphasis upon CWS's affordability and conservation goals, CWS is proposing a Low Use Water Equity Program ("LUWEP" or "Decoupling Program") to decouple quantity revenues from sales as, discussed in Section IV.H below, to assist the rate design in achieving financial stability, as the rate design addresses affordability and conservation.[804] With the condition that it will work in tandem with the Decoupling Program, CWS has pursued the development of a new rate design with the following principles: (1) increase affordability for low-volume water users and CAP customers; (2) encourage conservation by high-volume water users, (3) include a Safe Infrastructure Balancing Account ("SIBA")/ Supply Cost Balancing Account ("SCBA") as part of the Decoupling Program; and (4) changes in rate design should be made gradually so that customers can adapt over time to the adjusted price signals.[805] The proposed new rate design is grounded in actual data and sound analysis.

For example, in its testimony, CWS presented a report prepared by Professor Manny Teodoro at the University of Wisconsin in which he analyzed data from the Company and found that lower-income households generally have fewer people and higher-income households generally have more people.[806] During evidentiary hearings, CWS's witness Mr. Greg Milleman explained the process undertaken by Professor Teodoro to gather and examine the data:[807]

> We hired a consultant, Dr. Manny Teodoro of the University of Wisconsin, to take a look at that very premise. And his report is included as an appendix in our testimony -- our original testimony. And what he did was he took a look at the water usage across all our districts. He took a look at the water usage per home and matched that up with the assessor parcel number. He then took a look at the correlation of four separate things. He looked at home size to water use. He looked at lot size to water use. He looked at assessor property value to water use. And then he also took a look at CAP

[804] CWS-02, p. 105.
[805] CWS-02, p. 105.
[806] *Id.*, Attachment D (providing report of Professor Teodoro in which he presented data demonstrating that lower-income households generally have fewer people and higher-income households generally have more people).
[807] Tr. Vol. 3 (CWS/Milleman) 206:6 to 207:4.

> and non-CAP customers as well as he also took a look at swimming pools and saw a correlation that the -- using a proxy of home size, of lot size, of assessed property value, of CAP versus non-CAP, took -- made an assessment of income as a proxy and then compared that to the water use. And in all cases where the lots were larger, homes were larger, assessor property values were larger, where they were a non-CAP customer, they all used greater amounts as of water than those with smaller homes or less value and CAP customers.

This central premise supported by actual data on CWS's customers substantiates the affordability benefits offered by the Company's rate design proposal under the Decoupling Program.

In particular, CWS wanted to evaluate ways to increase affordability for low-volume and low-income customers. CWS did not want to make changes to the rate design that would incentivize additional water use by high-volume water users. Therefore, M.Cubed assessed the impact of making the third and fourth tier of water use steeper for high-volume water users and in addition adjusting the tier widths so that tiers 3 and 4 begin at the 75th and 95th percentile of usage respectively.[808] M.Cubed constructed a bill impact simulation model to evaluate the effects these changes would have on affordability, conservation, and revenue stability.[809] The model is based on bill tabulations for residential and non-residential customers for 2022.[810] Additionally, CWS proposed certain deviations from the standard rate design to account for unique circumstances for specific ratemaking areas (Coast Springs, Kern River Valley, and Palos Verdes – Private Fire Hydrants), as discussed in further detail in CWS's testimony.[811] Further details regarding these rate design proposals were provided in the CWS Response to ALJ Ruling, including how M.Cubed derived the specific proposed breakpoints and other rate design features using its sophisticated bill impact simulation model to evaluate impacts on affordability, conservation, and revenue stability.[812]

In summary, CWS is proposing a primary rate design based on M.Cubed's work that can only be adopted if the CPUC approves the Decoupling Program. If the Decoupling Program is not granted, CWS is proposing an alternative M-WRAM rate design that was updated in rebuttal

[808] *Id.*, p. 107.
[809] *Id.*
[810] *Id.*
[811] *Id.*
[812] CWS Response to ALJ Ruling, pp. 10-12.

based on recent outcomes in GRCs for other Class A water utilities.[813] Both the proposed rate design with decoupling and the alternate M-WRAM rate design are revenue-neutral.

b) Responses to Cal PA Rate Design Recommendations

In its Report, Cal PA makes several recommendations regarding rate design. Cal PA's proposed rate design is incomplete, fails to follow a cogent methodology, and would result in rates that could unfairly threaten the financial stability of CWS by not providing an opportunity for the company to earn its authorized rate of return. Therefore, the CPUC should ignore these recommendations.

First, Cal PA incorrectly asserts that rate design and revenue decoupling are independent of one another.[814] These elements are inherently interconnected because rate design affects revenue volatility and decoupling can reduce these rate design tradeoffs.[815] Rate design dictates how revenue is collected and influences customer behavior, while revenue decoupling ensures revenue stability and the recovery of fixed costs.[816] Cal PA's failure to recognize this relationship results in a fundamentally flawed rate proposal that could create more revenue instability and jeopardize CWS financially.[817]

Second, Cal PA recommends that the CPUC adopt its rate proposals but fails to provide sufficient details for proper evaluation. Cal PA (1) does not define the total revenue that must be recovered; (2) fails to address revenue allocation between classes of customers; (3) omits the proportion of revenue recovered from fixed service charges versus volumetric rates; and (4) improperly attempts to utilize CWS's decoupling-based rate multipliers to an entirely different tiering structure without decoupling.[818] These serious flaws make it impossible for the CPUC to properly assess Cal PA's rate design proposal and renders it unusable.

Third, Cal PA's proposed rate design contradicts State and CPUC policies.[819] For example, in D.20-08-047, the CPUC directed Class A utilities to "determine the appropriate Tier

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[813] CWS-50, p. 64.
[814] CalAdv-10, p. 3-14.
[815] CWS-51, Appendix A, p. 5, *citing to* Lazar, J., Weston, F., & Shirley, W. (2016). *Revenue Regulation and Decoupling: A Guide to Theory and Application*. The Regulatory Assistance Project; pp. 6-7.
[816] CWS-51, Appendix A, p. 4.
[817] *Id.*
[818] *Id.*, pp. 10-11; 17-23.
[819] *Id.*, pp. 10-16.

1 breakpoint that is not less than the essential amount of water for basic human needs for each ratemaking area"[820] In D.20-07-032, the CPUC defined essential water service as 6 CCF per month.[821] Cal PA's recommended Tier 1 breakpoints that fall below this minimum threshold in 7 of CWS's 21 distinct rate areas,[822] directly contradicting the CPUC's directive.[823] Cal PA also cites to certain legislation as the basis for the Tier 1 and Tier 2 breakpoints – however, this adopted framework is designed to establish aggregate urban water use objectives for retail water suppliers, not to create household-level water budgets.[824] Moreover, while Cal PA asserts that the Tier 2 width should be based on efficient residential outdoor use, they paradoxically set the Tier 2 width based on the State's **indoor** residential water use standard.[825]

In summary, Cal PA has put forward an incomplete rate design that does not make sense and that disregards CPUC directives and contradicts State policy. CWS, in contrast, has developed two well-structured and analytically supported rate designs that appropriately align with the revenue mechanisms under consideration in this rate case—the Company recommends that the CPUC authorize the Decoupling Program and adopt the corresponding rate design for that program. In the alternative, if the Decoupling Program is not authorized, then the CPUC will need to adopt the M-WRAM rate design instead.

2. Sales

The total metered potable water sales for the residential, business, multi-family, and public authority customer classifications, which together comprise 95% of CWS's sales, are calculated based on the projected number of services multiplied by the consumption per customer.[826] The consumption per customer for the residential, business, multi-family, and public authority customer classifications was forecast using robust regression analysis conducted by CWS's consultant M.Cubed. The forecast model was designed to account for factors, such as

[820] D.20-08-047, p. 2.
[821] D.20-07-032, p. 22-25.
[822] Each rate area has its own unique rates provided in its own set of tariffs. There are 19 ratemaking regions in this GRC. There are 21 distinct "rate areas." Rate design is relevant in 20 of those rate areas (this excludes Travis).
[823] CWS-51, Appendix A, p. 11.
[824] *Id.*, p. 12.
[825] CalAdv-10, p. 9-11.
[826] CWS-02, p. 114.

seasonality, weather, drought, and various economic factors, that cause sales to fluctuate.[827] M.Cubed's methodology is set forth in its complete report presented as Attachment G to CWS's Testimony Book #2 (Exh. CWS-02).[828] M.Cubed's forecast methodology addresses each of the required sales forecasting elements articulated in D.16-12-026 and D.20-08-047 by the CPUC.[829] Moreover, through the use of Monte Carlo simulation, the methodology integrates stochastic information on weather, hydrology, and the economy, making the forecast more robust to these uncertainties.[830]

For all other customer classifications, which comprise only 5% of CWS's sales and are idiosyncratic in nature, projected future consumption is based on the five-year historic average of total consumption for each separate customer classification.[831] Additionally, in adopting the Partial Settlement Agreement in the 2021 GRC, the CPUC allowed for a different adopted sales per customer classification forecasts over the GRC period to reflect declining customer usage.[832] Therefore, M.Cubed calculated the sales per customer classification for 2026, 2027 and 2028 that CWS has incorporated into the revenue requirement and rates in its 2024 GRC application.[833]

As relevant here, M.Cubed used the econometric model to produce two forecasts for water usage in the 2026 Test Year: (1) an Unrestricted Sales forecast that reflects the average water use expected in a scenario without any drought restrictions representing the best-case scenario with normal weather patterns in the Test Year and (2) an Expected Sales forecast that incorporates the possibility of drought restrictions impacting water use in the Test Year that provides a more realistic picture by considering the potential effect of droughts on overall water consumption.[834] In D.16-12-026, the CPUC directed water utilities to incorporate drought risk in

[827] *Id.* M.Cubed did not provide a sales forecast for recycled water. Therefore, the total metered recycled and reclaimed water sales used to project future consumption is based on the five-year historic average of total consumption. *Id.* Palos Verdes will have a recycled service starting in 2026, with an estimate yearly consumption of 218 AF. *Id.*
[828] CWS-02, Attachment G.
[829] *Id.*, Attachment G, p. 1; pp. 22-38.
[830] CWS-02, p. 115.
[831] *Id.*
[832] D.24-03-042, Appendix 1, pp. 12-15.
[833] CWS-02, p. 116.
[834] CWS-02, Attachment G, p. 62.

their forecast.[835] Additionally, in D.20-08-047 the CPUC required sales forecasts to incorporate historic consumption trends, the impact of conservation programs, and trends in demographics, and climate, among other factors.[836] Following the CPUC's directive in these decisions to incorporate drought risks and other factors into sales forecasts, CWS recommends that the CPUC adopt the Expected Sales Forecast because it explicitly accounts for these factors and produces a more realistic forecast.[837]

In its Report, Cal PA recommends the CPUC deny CWS's Expected Sales forecast and instead approve an Unrestricted Sales forecast.[838] However, Cal PA does not give these critical factors from D.16-12-026 and D.20-08-047 appropriate consideration, while also mischaracterizing CWS's proposed sales forecast. Cal PA's recommendation is contrary to long-term usage trends and would expose CWS and its customers to unnecessary risk and financial instability.[839] Specifically, by ignoring hydrology and the probability of drought-induced sales restrictions, Cal PA's recommended sales forecast is upwardly biased.[840] Cal PA's insistence that the sales forecast should reflect only "normal" weather conditions ignores both historical patterns and CPUC directives, resulting in an unrealistic and flawed projection.

First, Cal PA mischaracterizes CWS's consideration of drought risk as forecasting imposed drought restrictions, notwithstanding the fact that the Company's methodology is consistent with the CPUC's regulatory guidance. Cal PA misleadingly labels its recommended forecast as "Normal" and CWS's expected sales as "Drought-Restricted."[841] Cal PA's incorrectly implies that CWS's Expected Sales forecast is a forecast necessary only during a drought or one that assumes there will be a drought in the Test Year and is thus lower than it should be. This is clearly false.

Cal PA acknowledges the directives to utilize drought year data in D.16-12-026 and D.20-08-047, but then illogically argues that the CPUC intended utilities to study past drought

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[835] D.16-12-026, p. 24 ("Forecast mechanisms must recognize and use the drought years as a basis for forecasting.").
[836] D.20-08-047, pp. 49-51; *see also* p. 50 ("We agree with the Public Advocates Office of the Public Utilities Commission that drought year data should be included in forecasting.").
[837] CWS-50, p. 68.
[838] CalAdv-10, p. 2-3.
[839] CWS-50, p. 68.
[840] CWS-51, Appendix B, p. 3.
[841] CalAdv-10, p. 2-7.

impacts without applying those findings to future forecasts. Contrary to Cal PA's misrepresentation, CWS's sales forecast does not assume drought conditions in the Test Year.[842] Instead, it calculates expected (*i.e.*, average) sales outcomes for each service area and revenue class based on the full range of potential weather and hydrological conditions, some of which entail drought.[843] While the forecast accounts for the possibility of drought, it does not presume that a drought will necessarily occur, much like an auto insurer assesses the likelihood of an accident but does not assume that every insured vehicle will be involved in a crash.[844] This approach precisely aligns with the CPUC's directives for future sales forecasting.

Second, Cal PA also mischaracterizes the impact of drought protections as well, asserting that there are ratemaking protections in place to avoid impacts to revenues such as the Lost Revenue Memorandum Account ("LRMA").[845] However, the LRMA is only applicable during a declared drought period and does not align with changes in customer use as demonstrated in CWS's testimony.[846] Customers also do not return to their predrought consumption patterns immediately after a drought is declared over, but rather over time.[847] Furthermore, even if some behavioral drought related water use patterns creep up over time, modifications to landscape or fixtures are permanent reductions in sales.[848]

Lastly, Cal PA falsely alleges that CWS objected to providing the model files for its sales forecast methodology.[849] The issue was not file size but Cal PA's lack of access to the proprietary software required to run the models.[850] Recognizing this, CWS instead offered to meet with Cal PA, walk through the data and methodology, and address any questions regarding its sales forecast.[851] If Cal PA obtains the necessary software to run the sales forecast models, CWS has no objection to sharing its sales forecast models and datasets, just as it does with its results of operations model.

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[842] CWS-51, Appendix B, p. 5.
[843] *Id.*, Appendix B, p. 5.
[844] *Id.*, Appendix B, p. 10.
[845] CalAdv-10, p. 69.
[846] CWS-50, p. 69; Figure 10-1.
[847] *Id.*, p. 69.
[848] *Id.*
[849] CalAdv-10, p. 2-4.
[850] CWS-51, Appendix B, p. 11.
[851] *Id.*

For these reasons, the CPUC should reject Cal PA's arguments regarding forecasted sales and instead adopt CWS's annually declining Expected Sales forecasts, which provides a more realistic forecast in accordance with the CPUC's existing guidance.

G. SI #6 – Whether CWS has complied with prior CPUC orders

Cal PA argues that the Application was deficient for not including PFAS projects in the proposed capital budgets.[852] As explained in CWS's rebuttal testimony, the CPUC determined that these issues were outside the scope of this proceeding[853] and separately directed CWS to file its PFAS application for such costs no later than June 2, 2025.[854] CWS did so by filing Application 25-06-001 on June 2, 2025. The CPUC should disregard Cal PA's arguments and find that CWS has complied with prior CPUC orders, including relevant orders relating to PFAS capital projects.

H. SI #7 – Whether CWS's proposal for the LUWEP is just and reasonable

The CPUC should approve CWS's proposed LUWEP as just, reasonable, and in the overall public interest. CWS's proposed Decoupling Program supports the co-equal beneficial goals of affordability and conservation, while preserving CWS's rightful opportunity to timely recover its authorized revenue requirements. The LUWEP includes the following components:[855]

1. Establish a SIBA to track the difference between actual and adopted quantity revenues,

2. Establish a SCBA to track the difference between actual and adopted water production expenses,

3. Recover or refund Decoupling Program balances as a component of quantity base rates, and

4. Reinstate the Sales Reconciliation Mechanism ("SRM") with slight modification.

CWS's Decoupling Program ensures that revenue recovery occurs through quantity base rates rather than through separate, time-phased surcharges that may confuse customers. In doing so, it also ensures that low-income and low-usage customers are not burdened with an unfair

[852] CalAdv-01, p. 6.
[853] Amended Scoping Memo (identifying issues to be considered in the scope of this proceeding, but none including PFAS capital projects).
[854] CWS-50, pp. 14-15.
[855] CWS-02, pp. 27-28; p. 42.

share of high water production and sourcing costs driven primarily by higher-volume users.[856] Further details on the proposed mechanics of CWS's Decoupling Program are found in its direct testimony.[857]

1. Decoupling

While the structure of the proposed balancing accounts is similar to the Water Revenue Adjustment Mechanism ("WRAM") and Modified Cost Balancing Account ("MCBA") previously authorized for CWS, the proposed Decoupling Program here includes multiple improvements to more effectively balance established policy goals – including rate design, sales forecasting, and recovery procedures.[858] CWS is also proposing to amortize (recover or refund) Decoupling Program balances through quantity base rates as opposed to separate surcharges or surcredits.[859] This proposal has multiple benefits, notably leveraging the progressive tiered rate design to reinforce affordability and conservation benefits while also simplifying bill messaging and reducing customer confusion and frustration.[860] Furthermore, the amortization of Decoupling Program balances in quantity base rates (as authorized revenues and part of an authorized regulatory program for the utility) is consistent with the adopted approach for energy utilities.[861]

There are multiple important distinctions for both the existing Monterey-style WRAM ("M-WRAM") and incremental cost balancing account ("ICBA"), and CWS's proposed Decoupling Program. The M-WRAM is a rate design tool that only allows for tracking of the difference in revenues collected under a tiered rate structure with the revenues that would have been collected under a uniform (*i.e.*, single quantity) rate structure at an equivalent level of

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[856] *Id.*, p. 28.
[857] *Id.*, pp. 42-51.
[858] *Id.*, pp. 43-44.
[859] Surcharges are generally applied as a single, per-CCF rate to all water usage, treating low and high water usage the same. Surcredits are generally applied as a credit per connection, also without a distinction between low and high water usage. Embedding recovery in base rates effectively means that more of a decoupled under-collection is being recovered through each CCF used at a higher tier as compared to a CCF used at a lower tier.
[860] *Id.*, pp. 47-49; *see also* Tr. Vol. 3 (CWS/Milleman) at 204:10-16 ("we're proposing to do it that way is so, again, if there is an under-collection of that account, our customers that are using low amounts of water in the first or second tier, they're only going to pay those -- those lower tier prices. And the customers in the upper tiers will be paying a larger portion of what the under-collected balance is.").
[861] *See, e.g.,* D.04-07-022, p. 356, Ordering Paragraph 2 (allowing certain balancing account balances to be amortized in base rates); p. 357, Ordering Paragraph 7 (authorizing a revenue balancing account to adjust for sales variations).

sales.[862] As the M-WRAM is not a decoupling mechanism, it does not achieve the same social, economic, or environmental benefits of the proposed Decoupling Program. The ICBA only balances the changes in adopted and actual unit prices for production expenses based on actual quantities, as opposed to expense amounts.[863] Neither the M-WRAM nor ICBA allow for adjustments based on changes in sales (or water production).[864] This primarily contemplates under-recovery of authorized fixed costs that were projected to be recovered through commodity sales, which harms the utility, but also over-recovery of revenue in the case of sales exceeding projections, which harms the customer. In contrast, CWS's proposed Decoupling Program provides for the true-up of adopted and actual quantity revenues, and of production expenses based on actual quantities, equitably balancing the co-equal beneficial goals of affordability and conservation with utility financial stability and thus creating a robust regulatory framework.[865] CWS provides an illustrative example demonstrating these key differences in its testimony.[866]

If the CPUC does not approve CWS's proposed Decoupling Program, an alternative proposal should be considered. That alternative proposal, to be considered only if the CPUC declines to approve the proposed Decoupling Program, includes (1) continuation of the M-WRAM and ICBA adopted in D.24-03-042,[867] but also (2) modified rate design and sales forecasts (discussed above).[868] This alternative proposal, while reasonable and necessary for non-decoupled utilities, does not achieve the optimal balance between affordability for low use and low-income customers, conservation of scarce water resources, and financial stability that decoupling can provide, but it is necessary to provide CWS a reasonable opportunity to timely recover its authorized revenue requirements.

a) The Decoupling Program Supports Affordability and Equity Through Progressive Rate Designs

As discussed above in Section IV.F.1, the proposed Decoupling Program supports affordability by allowing for more progressive rate designs to be implemented than are otherwise

[862] CWS-02, p. 45.
[863] *Id.* Technically, there are individual ICBAs for purchased power, purchased water, and pump taxes, however the purpose and methodology for calculating them are the same.
[864] *Id.*
[865] *Id.*
[866] CWS-50, Attachment 10-2.
[867] CWS-02, p. 51
[868] CWS-50, pp. 63-66; CWS-51, Appendix A.

feasible. One important rate design factor is the amount of revenue recovered through fixed service charges. Lower service charges support affordability by reducing the first-gallon cost of water, providing customers with more control over their monthly bill.[869] This is particularly relevant for low-use, low-income customers and other vulnerable populations on fixed incomes.

As mentioned above, a report submitted in this proceeding by Professor Teodoro presents data demonstrating that usage positively correlates with income.[870] This means that in general, lower-income households use less water and higher-income households use more water. Income also positively correlates with household size.[871] This means that lower-income households generally have fewer people and higher-income households generally have more people. The key takeaway is that the lower service charges and more progressive rate tiering made feasible with decoupling support affordability for low use and low-income households.[872] Professor Teodoro describes this phenomenon in his report submitted in this proceeding:[873]

> The patterns of water consumption revealed in Section 2 indicate that decoupling can have significant distributional consequences and affordability impacts. Decoupling allows more progressive prices, which results in lower average bills for customers with lower average and peak demands. By the same token, decoupling leads to higher average bills for customers with higher average and peak demands. The strong, positive correlations between water demand and income proxies in Section 2 indicate that decoupling will, on average, distribute relative rate burdens from less affluent to more affluent customers.

Professor Teodoro also highlights the fact that progressive pricing structures provide this affordability benefit with little to no additional administrative cost and no additional action on the customer's behalf as with some low-income programs:[874]

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[869] CWS-50, p. 209.
[870] CWS-02, Attachment D.
[871] CWS-50, p. 209.
[872] Tr. Vol. 3 (CWS/Milleman) at 201:3-9 ("with the decoupling, we're able to shift more costs into the higher third and fourth tiers or revenues into those tiers and therefore shift those away from the customers that are using less water with -- with the goal of having the customers that are driving the need for more water to be paying more of the price of that water.").
[873] CWS-02, Attachment D, p. 12.
[874] *Id.*, Attachment D, p. 21.

> It is worth noting that progressive pricing can improve affordability with little to no additional administrative costs. For utilities, adopting more steeply inclined volumetric rates does not require the additional advertising, outreach, enrollment, record-keeping, or audit processes that accompany an income-qualified CAP. For low- or moderate-income customers who use relatively little water, more progressive rates provide automatic relief, without the need to learn about, apply for, qualify for, or renew participation in a CAP.

As discussed above, without full decoupling to break the link between revenues and sales, utilities need to adopt more balanced rate designs—one way of doing this is by increasing recovery through service charges.[875] The original adoption of decoupling for water utilities occurred in conjunction with the implementation of tiered rate designs, recognizing the relationship between the mechanisms. Even today, the CPUC has continued to authorize other utilities to implement similar decoupling mechanisms to break the link between revenue from sales. For example, the CPUC recently authorized Southern California Edison Company's ("SCE") Santa Catalina Island Catalina Gas Utility ("Catalina Gas") to implement an undisputed full decoupling mechanism called the Gas Base Revenue Requirement Balance Account ("GBRRBA") in the final decision for its GRC proceeding, D.25-06-010.[876] The CPUC should authorize CWS's Decoupling Program to achieve these same benefits here.

The less progressive rate designs (which would be necessitated without decoupling) shift revenue burden from more affluent higher water users to lower-income, lower water users. This raises an important equity issue among customers and is contrary to affordability objectives. The proposed recovery of LUWEP balances in quantity base rates further accounts for the inequities between customer groups by allowing these water conservation signals to flow through to tier rates, rather than through a separate surcharge or surcredits.[877] In other words, recovering through quantity base rates allows for greater recovery from higher-income, high-volume customers than is the case with a separate surcharge, thereby providing further rate relief to low-

[875] CWS-50, p. 210.

[876] D.25-06-010, p. 17; 37, Finding of Fact 28 ("SCE's proposed GBRRBA would allow SCE to recover undercollections, or return overcollections, the following year."). While the CPUC also approved a settlement agreement to resolve disputed issues in Catalina Gas's GRC proceeding, the issue of decoupling was resolved **separately** in the decision as an **uncontested** issue that was not addressed by the settlement agreement.

[877] CWS-50, p. 211.

income customers. CWS presented an illustrative example of these affordability benefits in its rebuttal testimony.[878]

b) The Decoupling Program Supports Financial Stability and Equitably Balances Risk

It is critical to note that decoupling neither eliminates sales forecast risk nor guarantees revenues for the utility. Instead, it is an effective ratemaking tool for balancing co-equal affordability and conservation goals with utility financial stability. Recovery of authorized costs of service always occurs in customer rates – in other words, customers bear the revenue burden of utility service.[879] Decoupling only seeks to true-up to the authorized revenue requirement, so here is no change to the fundamental risk structure.[880] Decoupling merely preserves the utility's reasonable opportunity to timely recover its authorized revenue requirements. Over time multiple factors have contributed to declining water sales such as regulations and climate change, increasing the likelihood that utilities under-collect their authorized revenue requirements. Water utilities also face many risks beyond those associated with sales forecasts. For example, the utility must still efficiently manage its capital expenditure programs, its operations (*e.g.*, salaries and wages, benefits, overtime, maintenance programs, uncollectibles, outside services, etc.), and tax payments in order to have the opportunity to realize its authorized rate of return.[881]

The CPUC also addressed this aspect of decoupling in the recent Catalina Gas decision highlighted above, explaining that "[it] is reasonable to allow SCE to establish the GBRRBA to remedy any under or overcollections, in order to ensure that Catalina Gas has sufficient income to meet its revenue requirements and operate safely and reliably."[882] The CPUC also specifically found in that decision that "[i]f a utility undercollects revenue, it can lead to operational difficulties."[883] The CPUC should reach the same conclusion here.

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[878] CWS-50, Attachment 10-1.
[879] CWS-50, p. 229.
[880] Tr. Vol. 3 (CWS/Milleman) at 202:25 to 203:7 ("So I guess the main point for me is just because that water is not consumed -- whether it's the pricing, whether it's a hot year, whether it's a wet year, just because that price -- or those units aren't consumed, in my mind, suddenly does not make the fixed costs that the Commission has determined reasonable and prudent -- it doesn't make them suddenly become unreasonable.").
[881] CWS-50, p. 229.
[882] D.25-06-010, p. 17.
[883] *Id.*, p. 37, Finding of Fact 29.

The issue of business risk associated with decoupling or lack of decoupling is more appropriately addressed in CWS's cost of capital proceeding, where the CPUC has previously evaluated that issue in the past. As detailed in CWS's testimony, the CPUC declined to make any adjustments to the authorized return on equity for water utilities both when decoupling was first implemented[884] and when it was anticipated that decoupling would be eliminated in 2023,[885] as well as for companies without decoupling.[886] Empirical studies have also found that decoupling does not impact utility cost of capital in a statistically significant way.[887] The data summarized in CWS's testimony shows that the historical use of the WRAM has resulted in a fair balance of risk—decoupling provides the necessary stability for CWS to implement aggressive rate designs in support of utility service affordability and water use efficiency public policy objectives while not exposing the Company to excessive financial risk.[888]

c) The Decoupling Program Supports Water Conservation

Similar to affordability, decoupling supports conservation by facilitating the use of more aggressive rate designs, which feature larger tier differentials, higher tier breakpoints, more revenue recovered in the upper usage tiers, and less revenue recovered in fixed service charges.[889] As discussed above in the context of rate design, these features are only possible with full decoupling as it provides the necessary revenue stability by mitigating any under- or over-collections resulting from this more aggressive rate design. The M.Cubed rate design report presented in CWS's rebuttal demonstrated that decoupled rate designs increase the marginal price for water as usage increases—while there is no added incentive for utilities to promote conservation, the disincentive to promote conservation is clearly removed.[890]

As summarized in CWS's testimony, the historical data under the WRAM shows that full decoupling allowed CWS to achieve stronger water conservation, with long-term sales declining

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[884] CWS-50, p. 230.
[885] *Id.*, pp. 230-231.
[886] *Id.*, p. 231.
[887] *Id.* pp, 237-238.
[888] *Id.*, pp. 234-236; Tr. Vol. 3 (CWS/Milleman) at 202:10-17 ("If I didn't have that mechanism – the decoupling mechanism, then it would be too much of a risk for a utility to take to do a pricing structure like that because if you don't collect those revenues and you don't have the decoupling mechanism, then the utility will not collect the revenues it needs to deliver the dependable supply of safe drinking water to its customers.").
[889] CWS-50, p. 212.
[890] CWS-51, Appendix A.

over the relevant period.[891] For example, between 2007 (before the WRAM was adopted) to 2023 (the final year the WRAM was in effect), CWS saw a reduction of nearly 65 million gallons in annual water savings.[892] Comparing performance against water utilities without decoupling, the WRAM companies experienced 12 percent greater reductions in per capita usage than the M-WRAM companies since the implementation of the WRAM, allowing for incremental reductions resulting in savings of 315,000 AF of water since that time.[893] Cal PA does not refute the data, but instead presents flawed claims regarding the historical performance of the WRAM, which should be rejected for the methodology deficiencies identified in CWS's rebuttal testimony.[894]

d) The Decoupling Program Meets the Criteria in SB 1469

Senate Bill ("SB") 1469 (2022, Bradford) sets forth the State's policy in support of water revenue decoupling and expressly identified limited criteria for the CPUC to consider when evaluating decoupling proposals:[895]

> (A) Upon application by a water corporation with more than 10,000 service connections, the commission shall consider, and may authorize, the implementation of a mechanism that separates the water corporation's revenues and its water sales, commonly referred to as a "decoupling mechanism."
>
> (B) An authorized decoupling mechanism shall be designed to ensure that the differences between actual and authorized water sales do not result in the over recovery or under recovery of the water corporation's authorized water sales revenue.
>
> (C) An authorized decoupling mechanism shall not enable the water corporation to earn a revenue windfall by encouraging higher sales.
>
> (D) The water corporation may only submit an application to the commission pursuant to this paragraph as part of its triennial general rate case application.

[891] CWS-50, pp. 215-217.
[892] *Id.*, p. 215.
[893] CWS-02, pp. 86 (Table 4), 88 (Table 5).
[894] CWS-50, pp. 220-228.
[895] Pub. Util. Code § 727.5(d)(2).

As shown in CWS's testimony, only the proposed Decoupling Program meets the criteria set forth in SB 1469.[896] The M-WRAM does not meet any of the criteria. While Cal PA has attempted to argue for a broad definition of decoupling under SB 1469 in an attempt to qualify the M-WRAM in GRCs for other water utilities, Cal PA acknowledges that the M-WRAM is **not** a full decoupling mechanism.[897]

In summary, the new decoupling proposals in the LUWEP create a viable regulatory framework which equitably balances affordability and conservation policy objectives while preserving the utility's opportunity to timely recover its authorized revenue requirements in the overall public interest. CWS's LUWEP and SRM proposals (discussed below) include novel features and are supported by extensive and novel evidence.[898] For these reasons, the CPUC should grant these important proposals.

2. SRM

CWS's SRM was in place from 2014 through 2023.[899] The SRM adjusts the adopted sales forecast for escalation years if recorded aggregate sales for the past year are more than 5% different (higher or lower) than adopted sales.[900] The SRM is applied for the escalation years of the GRC period if triggered.[901] The mechanism then makes a 50% adjustment to the sales forecast and calculates a revenue requirement that reflects the adjusted consumption.[902] In this GRC, CWS is requesting to (1) reinstate the SRM, (2) update the method for calculating the SRM adjustment in the escalation years to match CWS's proposal for discrete sales forecasts for each GRC year (with the adjustment being the greater of the adopted sales forecast or the SRM adjustment amount), (3) restrict the SRM to a one-way adjustment to make it consistent with water conservation objectives, and (4) make the SRM an ongoing component of CWS's regulatory program.[903] Further details on the mechanics and history of the SRM are found in CWS's testimony.[904]

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[896] CWS-50, p. 206.
[897] *Id.*
[898] *Id.*, p. 204.
[899] CWS-02, pp. 52-53.
[900] *Id.*, p. 52.
[901] *Id.*
[902] *Id.*, pp. 52-54.
[903] *Id.*, pp. 55-56.
[904] *Id.*, pp. 51-59.

a) The SRM Provides Numerous Benefits

The SRM provides numerous benefits, to both customers and the utility. The SRM provides for timely sales forecast and rate adjustments, increases the transparency and accuracy of price signals, and helps to stabilize rates for customers and revenues for the utility.[905] The CPUC has also noted the SRM's benefits of "increasing immediately the accuracy of price signals, and providing more transparency to the customer about the cost of water service."[906] If customers don't receive accurate price signals on the current cost of delivering water, it can affect customer behavior when attempting to achieve affordability and conservation objectives.[907] CWS's testimony demonstrated that the simple mechanics of the SRM positively provided customers with rates and price signals for 2015 through 2021 as the commodity water rates were reset to more accurately reflect customer's most current usage patterns.[908] Without the SRM adjustment, water rates would have been based on sales estimates generated up to four years earlier.[909] CWS also highlighted numerous other benefits provided by the SRM in its testimony:[910]

- Addresses exogenous events beyond CWS's control that affect the sales forecast such as government mandated water use restrictions due to drought, water infrastructure failure, source contamination, etc.;
- Provides more transparency to the customer about the cost of water service;
- Provides a timely price signal to customers;
- Increases inter-generational equity by more quickly reflecting sales declines in rates;
- Provides a rate structure that is easy to understand and easy to administer;

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[905] CWS-50, p. 241.
[906] D.16-12-026, p. 28.
[907] CWS-50, p. 241; Tr. Vol. 3 (CWS/Milleman) at 211:12-20 ("And if we are in the third year of a rate case, we would have done our sales estimates four years earlier. So various things could have happened during that timeframe that would, you know, impact that. And so it's going -- if -- that mechanism would make your next year's forecast more in line with what customers' current patterns are, and then, further, in regards to rate stability, it is now going to more accurately match up your sales with what your revenue requirement is.").
[908] CWS-02, pp. 54-55.
[909] *Id.*, p. 55.
[910] *Id.*, p. 57.

- Results in more precise sales forecasts and reduces the magnitude of rate changes;
- In the case of sales declines during the rate case period, the mechanism increases the conservation price signals given to customers, while effectively phasing a necessary rate change over a longer period;
- Reduces sales-related increases in subsequent GRCs; and
- By incorporating sales reconciliation into the CPUC's process for escalation increases, eliminates the need for an additional advice letter filing.

Cal PA opposes the continuation of the SRM based solely on the argument that since the SRM was originally intended to reduce decoupling balances, the CPUC should reject decoupling and thus eliminate the need for the SRM.[911] Not only should the CPUC authorize decoupling for the reasons addressed above, but this simplistic argument ignores the plethora of benefits provided by the SRM irrespective of whether there is decoupling or not.[912]

b) The SRM is Consistent With Recent CPUC Precedent

In resolving the recent GRCs for California-American Water Company and Golden State, the CPUC authorized sales forecast update mechanisms as part of each company's regulatory program in balancing the overall public interest.[913] In authorizing the sales adjustment mechanisms, the CPUC recognized the importance of aligning rates with sales, just as CWS has demonstrated in this GRC. The CPUC's limiting of sales forecast adjustments to once per year in those decisions is also consistent with CWS's proposed SRM here.

In those decisions, the CPUC also rejected a lot of the same arguments that Cal PA is making here regarding the SRM, including Cal PA's allegations that the SRM is inconsistent with the Rate Case Plan.[914] Beyond not giving credence to CPUC's ability to carry out its duties effectively, Cal PA's argument fails to acknowledge the adequacy of the CPUC's regulatory process in general. The proposed SRM operates along with the existing escalation year procedures, so there is no validity to claims that the changes are somehow not allowed by the Rate Case Plan or create additional administrative burden.[915]

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[911] CalAdv-09, p. 3-13.
[912] CWS-50, p. 242.
[913] D.24-12-025, pp. 46-48; D.25-01-036, pp. 74-76.
[914] D.25-01-036, p. 75.
[915] CWS-50, p. 244.

In summary, the CPUC should recognize the value the SRM provides and approve CWS's improved SRM proposals as part of the LUWEP, including making it permanent.

I. SI #15 – SR #3: Authorizing Decoupling and Sales Reconciliation Mechanism

In SR #3, CWS is requesting authorization for the proposed LUWEP, which is addressed in Section IV.H above and should be granted for the reasons therein.

J. SI #10 – Whether CWS's water quality meets all applicable local, state and federal drinking water standards and other provisions of General Order 103-A

CWS submitted its Report on Water Quality as Chapter 6 of Testimony Book #3 (Exh. CWS-03) along with its Application.[916] This contained a summary of water quality by operating district as well as reports, program updates and current regulatory impacts. Cal PA presented an analysis and recommendations on water quality for CWS almost solely focused on compelling CWS to increase its frequency of flushing. These issues relating to tank and mixing projects addressed above in Section IV.C.1.x and Cal PA's recommendations should be rejected for the reasons set forth therein. Other than this single issue, Cal PA identifies no other issues relating to CWS's water quality. Therefore, based on the testimony presented, the CPUC should include a finding in its final decision for this GRC that CWS's water quality meets all applicable local, state and federal drinking water standards and other provisions of General Order 103-A.

K. SI #11 – Whether CWS's Application supports the goals and objectives of the CPUC's Environmental and Social Justice Action Plan

The Environmental & Social Justice ("ESJ") Action Plan version 2.0 lays out the CPUC's ongoing efforts to integrate ESJ principles throughout its work.[917] CWS provided a robust testimony summarizing the Company's many beneficial projects and programs impacting ESJ Communities in this GRC, spanning seven categories: (1) Affordability and Access; (2) Water Quality and Compliance; (3) Service Quality, Reliability, and Resiliency; (4) Climate Adaptation and Readiness; (5) Customer Service, Education, and Engagement; (6) Workforce Engagement and Development; and (7) Corporate Governance.[918] Additionally, CWS described additional positive impacts of its GRC requests on ESJ Communities in the CWS Response to ALJ Ruling, including how several key metrics align with the seven categories here.[919] Based on this

[916] CWS-03, pp. 75-150.
[917] CWS-50, p. 198.
[918] CWS-03, pp. 60-74.
[919] CWS Response to ALJ Ruling, pp. 31-36.

showing, the CPUC should find that CWS's Application aligns with the goals and objectives of the CPUC's ESJ Action Plan.

Cal PA included a limited discussion on the impacts of this GRC on ESJ Communities, choosing only to focus on location-based capital investments. To be clear, the purpose of the ESJ Action Plan is to lay out the goals, objectives, vision, and steps **the CPUC** will take (emphasis added) to ensure equity in its programs and services.[920] While the CPUC expects utilities to support the principles in the ESJ action plan, the goals and objectives are not defined as specific requirements for water utilities to meet. Additionally, contrary to what Cal PA asserts, the intention of CWS's ESJ testimony is to highlight the manner in which the Application aligns with the CPUC's efforts—it should not be viewed as replacing the justification for cost recovery for the projects discussed.[921] Finally, Cal PA's flawed methodology of discussing only a subset of projects that benefit ESJ communities also fails to consider the broad demographics that comprise ESJ Communities and how CWS's projects serve at-risk and under-represented populations across its districts, who are not limited to neatly defined census tract areas and percentiles.[922]

CWS's commitment to supporting ESJ principles throughout its service areas is thoroughly described in direct testimony. CWS respectfully requests the CPUC include a Finding of Fact and/or Conclusion of Law recognizing the Company's commitment to ESJ compliance when issuing a final decision in this GRC.

L. SI #12 – Whether CWS's proposed balancing and memorandum accounts are reasonable and in the public interest

SIs #20-23 addressing balancing and memorandum accounts ("BAMAs") are discussed below.

1. SI #20 – SR #8: Amortizing Balancing Accounts

In SR #8, CWS requests authority to file for amortization of eight specific BAMAs within 90 days or more of a final decision.[923] To the extent that multiple accounts apply to the same customer group within a ratemaking area, the process of implementing amortizations of BAMAs could be considerably streamlined if CWS is allowed to "net" balances against one

[920] CWS-50, p. 200.
[921] *Id.*, p. 201.
[922] *Id.*, pp. 202-203.
[923] CWS-03, p. 1.

another.[924] As proposed in CWS's testimony, this approach would simplify bills for the majority of customers who are only interested in a high-level understanding of their water bills, and need not sacrifice transparency for those customers who want to understand individual components on their bill.[925]

Cal PA and CWS generally agree in principle with amortizing the eight BAMAs through temporary surcharges and credits, but disagree on some issues addressed below.[926] For the accounts in SR #8, the identified amortization amounts are identified and not in dispute.[927]

a) Cal PA General Recommendations on Amortizing Accounts

First, Cal PA recommends netting the balance of the various balancing accounts in SR#8.[928] Cal PA's choice of aggregating these specific balances in this manner is problematic for several reasons discussed below, but there is merit in general in netting balances across multiple balancing and memorandum accounts, when (1) they apply to a common set of customers, (2) amortization can be timed together, and (3) financial accounting requirements can be met (*i.e.*, applying selectively so that, for financial accounting purposes, short-term and long-term regulatory assets and liabilities could be properly tracked and reported upon over time).[929]

The CPUC has allowed balances across multiple memorandum and balancing accounts to be netted against each other in the past when it authorized Great Oaks Water Company to do so in Resolution W-5267. The CPUC observed in that resolution: "[b]y applying [over-collected] surcharges in this manner, it would reduce the number of surcharges and or sur-credits that appear on customer bills and may reduce customer confusion regarding bill calculations."[930] For customers who want to understand the individual components of their bills and CWS's authority to charge them, tariffs could still contain narrative explanations like the examples provided in CWS's testimony.[931] The CPUC's Water Division and interested parties like Cal PA would also benefit from the aggregation of balancing and memorandum account funds for amortization purposes, allowing for the process to be streamlined with fewer separate workpapers that need to

[924] CWS-50, p. 169.
[925] *Id.*
[926] *Id.*, p. 168.
[927] *Id.*
[928] CalAdv-03, p. 1-10.
[929] CWS-50, pp. 169-170.
[930] Resolution W-5267, p. 7.
[931] CWS-50, p. 171.

be reviewed.[932] Therefore, consistent with Cal PA's general recommendation, CWS requests the flexibility to consider combining the under- and over-collected balances of the memorandum and balancing accounts for which amortization is authorized in a final decision.

Second, notwithstanding the validity in Cal Advocate's recommendation to net balancing account balances generally, netting all of the balancing accounts at issue in SR #8 does not work because three of the accounts at issue are still tracking costs for the 2023-2025 GRC period.[933] These accounts are the Conservation Expense Balancing Account ("CEBA5"), Pension Cost Balancing Account ("PCBA5"), Health Cost Balancing Account ("HCBA5").[934] CWS has historically amortized such accounts **after** the relevant rate case periods closes.[935]

For the PCBA5 and HCBA5, this is because balances may fluctuate (negatively and positively) throughout the 3-year period – the variability being the reason for having the balancing account.[936] Unless there is a reason to amortize on a specific date during the 3-year period, amortizing both accounts for all ratemaking areas at the end of the rate case period makes logical and administrative sense.

For the CEBA5, the conservation budget is specifically adopted for the three-year period, and the balance starts out containing the full budget as balance to be returned to customers.[937] It has been designed so that, as the company engages in conservation activities and incurs costs, the balance in the CEBA decreases.[938] The preliminary statement for the CEBA5 explicitly provides for amortization of refunds owed to customers as of December 31, 2025.[939] Because a CPUC decision in this case will be adopted right before the 2023-2025 rate case period ends, a CPUC requirement to "promptly" amortize these accounts will coincide with the end dates for the current CEBA, PCBA, and HCBA. This recommendation therefore has little relevance for the current accounts.

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[932] *Id.*, p. 172.
[933] *Id.*, p. 174.
[934] CWS identifies these accounts with the number "5" here to differentiate them from earlier iterations of the same accounts authorized in past GRCs and to differentiate them from the requested re-authorization of these accounts discussed in Special Request #9.
[935] CWS-50, p. 175.
[936] *Id.*
[937] *Id.*
[938] *Id.*
[939] *Id.*

Third, Cal PA argues that the CPUC should deny CWS's request to submit advice letters amortizing the balancing account balances within 90 days of the final decision in this proceeding.[940] Specifically, Cal PA argues that this request is inconsistent with processes for prompt amortization of balances of such accounts in General Order 96-B.[941] However, as CWS explained in its testimony, providing at least 90 days is necessary due to the complex process for CWS to calculate and validate the numerous rate changes occurring across multiple ratemaking areas.[942] For reference, amortization advice letters after the last two GRC decisions were filed between 82 and 152 days after the decisions.[943] In particular, CWS provided an example of when on October 1, 2024 the company had to implement numerous individual surcharges and credits requiring approval and implementation at the same time, to the detriment of staff resources within the company, the CPUC's Water Division, interested parties who review CWS's advice letters, and any customers trying to track all the changes on their water bills.[944] Cal PA's arguments simply ignore these logistical challenges and should be rejected.

Lastly, Cal PA states that if the CPUC grants CWS the requested 90 days to submit the appropriate advice letters, then it requests that the CPUC limit interest in the accounts to 30 days.[945] Such a limitation has the potential to hurt both customers and stockholders because many balances could result in refunds, as well as surcharges.[946] All of CWS's preliminary statements provide for interest at the 90-day commercial paper rate for the duration of the accounts.[947] Limiting interest to just 30 days is arbitrary—Cal PA does not claim that CWS should be able to submit all of its advice letters to amortize amounts approved in a final decision within 30 days of that decision. Nor does Cal PA claim that a delay in amortization, for the specific reasons CWS has discussed herein, hurts customers or somehow benefits the Company. Allowing a maximum of only 30 days of interest to be accrued in balancing and memorandum accounts (pending submission of advice letters to amortize them after a final GRC decision) is an unnecessary complication in a process that is already complicated, and should not be adopted.

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[940] CalAdv-03, p. 1-12.
[941] *Id.*
[942] CWS-50, pp. 168-169.
[943] *Id.*, p. 169.
[944] *Id.*, p. 173.
[945] CalAdv-03, p. 1-12.
[946] CWS-50, p. 174.
[947] *Id.*

In summary, CWS requests the flexibility to consider combining the under- and over-collected balances of the memorandum and balancing accounts for which amortization is authorized in a final decision. CWS also requests at least 90 days from a final decision to file advice letters amortizing the balances as proposed herein, with no unwarranted limitation on interest in the accounts.

b) Drinking Water Fees Balancing Account

As part of SR #9, CWS requests authorization to add the balance recorded in the Drinking Water Fees Balance Account ("DWFBA") as of December 31, 2024 in base rates by adding the balances to the proposed revenue requirement, consistent with the procedures set forth in D.06-04-037.[948]

Cal PA indicates that the balance in the DWFBA should be amortized through surcharges, rather than being included in the revenue requirement as proposed by CWS.[949] While Cal PA provides no basis for the use of surcharges alone, the CPUC has expressly provided that amortization can be addressed through "adjustments to rates."[950] Therefore, the CPUC should reject this argument by Cal PA to require a separate surcharge.[951]

Cal PA also argues that the CPUC should require CWS to close the account, alleging that it is unnecessary if CWS includes such balances in rates.[952] However, all of the large water companies regulated by the CPUC now have this account. While CWS initially submitted AL 2497 to establish the current DWFBA with the account closing on December 31, 2025, the CPUC's Water Division directed the Company to submit a supplemental advice letter that removed the end date for the DWFBA.[953] Moreover, the purchased water, purchased power, and pump tax balancing accounts the CPUC has likened to the DWFBA have no end date, and therefore exist in perpetuity. Requiring CWS to now close the DWFBA in this GRC would not

[948] CWS-03, p. 3.
[949] CalAdv-03, p. 1-6.
[950] D.06-04-037, p. 10, Ordering Paragraph 3.
[951] In the event the CPUC adopts Cal Advocates' proposal to amortize the DWFBA through surcharges, however, CWS urges the CPUC to include the DWFBA balances in an aggregated "net balance" that addresses all of the balancing and memorandum accounts being amortized, as discussed above.
[952] CalAdv-03, p. 1-6.
[953] CWS-50, p. 179.

only be contrary to the Water Division's recent guidance, it would also treat the Company differently from all other large water utilities. The DWFBA should remain open.

Lastly, Cal PA recommends that the CPUC authorize a more recent balance in the DWFBA—an amount of $1,653,180 as of June 30, 2024, rather than the December 31, 2023 balance of $1,334,220.[954] CWS does not oppose amortization of the more recent balance.

c) General District Balancing Accounts

As part of SR #8, CWS seeks authorization to amortize the balances in the General District Balancing Account ("District BAs").[955] The District BAs were approved in D.14-08-011 to aggregate the residual balances from BAMAs that have been accumulated into one balancing account (per ratemaking area) so that the aggregate amount can be amortized when certain conditions are met.[956] While emphasizing that allowing amortization of an unknown balance is generally inappropriate, Cal PA acknowledges that an exception should be made for these District BAs, does not oppose CWS's request, and also does not dispute the balance identified in the account as of December 31, 2023.[957] Therefore, CWS requests that the CPUC's final decision include an ordering paragraph allowing CWS to amortize whatever balances are in the District BAs at the time when CWS files the appropriate advice letter to do so.[958]

2. SI #21 – SR #9: Reauthorizing Balancing Accounts

In SR #9, CWS requests re-authorization of the following balancing accounts: Conservation Expense Balancing Account ("CEBA6"), Pension Cost Balancing Account ("PCBA6"), Health Cost Balancing Account ("HCBA6").[959] Specifically, CWS proposes re-

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[954] *Id.*
[955] CWS-03, p. 3.
[956] *Id.*, p. 14; D.14-08-011, pp. 104-105, Ordering Paragraphs 21 & 22.
[957] CalAdv-03, p. 1-6.
[958] In the Application, CWS requested to use a Tier 1 advice letter to amortize the General District Balancing Accounts as opposed to the Tier 2 advice letter process currently required. However, in its rebuttal testimony, CWS explained that while the Company continues to believe a Tier 1 advice letter is more appropriate, CWS withdraws its request and is willing to continue use of the Tier 2 advice letter process to amortize General District Balancing Accounts. CWS-50, p. 180.
[959] CWS-01, p. 11. The number "6" is used in the shortform to specifically reference the proposed iteration of these balancing accounts for the GRC cycle at issue in this proceeding. *See also* CWS-03, pp. 8-9.

authorization of these accounts with preliminary statements that are substantially similar to those provided in the proposed tariffs included in Attachment F to the Application.

a) CEBA6

The proposed CEBA6 is a one-way balancing account to record authorized and actual conservation expenses, track the difference between recorded expenses and authorized expenses and return funds unspent during the three-year authorization period to customers in rates.[960] CEBA6 will also track any grants that CWS receives for conservation-related expenses.[961]

Cal PA agrees that the CPUC grant CWS's request to re-authorize the CEBA6, but recommends including language in the preliminary statement "that reflects the requirement to promptly refund over-collections every year for the account duration."[962] This argument misunderstands how this account works. The conservation budget is specifically adopted for the three-year period, and the balance starts out containing the full budget as balance to be returned to customers.[963] It has been designed so that, as the Company engages in conservation activities and incurs costs, the balance in the CEBA6 decreases.[964] Thus, the balance in this one-way balancing will necessarily always reflect an over-collection. To require a refund in the middle of the three-year period would defeat the purpose of the balancing account since it would eliminate the funding for CWS to use towards conservation activities.

As relevant here, the date provided in the proposed tariffs included as Attachment F to the Application is December 31, 2028 for the account to end and be amortized.[965] Because this coincides with when the next GRC decision will be adopted right before the 2026-2028 GRC period ends, a CPUC requirement to "promptly" amortize these accounts will inevitably coincide with the December 31, 2028 end date of this account.[966] Cal PA's additional language is superfluous and may just lead to unnecessary confusion. Therefore, the CPUC should disregard it and instead re-authorize the CEBA6 as originally proposed by CWS.

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[960] Application, Attachment F, Proposed Tariffs, at PDF 62-63.
[961] *Id.*
[962] CalAdv-03, p. 1-14.
[963] CWS-50, p. 175.
[964] *Id.*
[965] *Id.*, p. 176.
[966] *Id.*

b) PCBA6

The proposed PCBA6 balancing account tracks the difference between the adopted pension expense and California-regulated pension expense recorded in accordance with Generally Accepted Accounting Principles (GAAP).[967] Cal PA recommends that the CPUC authorize the proposed PCBA6 for this GRC cycle, but argues that the CPUC should exclude SERP expenses from the account.[968] Specifically, Cal PA argues that the CPUC should exclude SERP expenses from the PCBA6 because it had done so in CWS's last GRC.[969]

As explained above, the CPUC should authorize CWS to include SERP expenses in rates based on the role they play in total executive compensation that provides customer benefits. For those same reasons, it is appropriate to include such SERP expenses in the PCBA6. Moreover, the alleged deficiencies highlighted by Cal PA that the CPUC highlighted regarding the SERP in CWS's last GRC proceeding in D.24-03-042 have been resolved in this proceeding.[970] As explained above, CWS has presented specific testimony on the SERP,[971] satisfying each of the documentation deficiencies alleged in the last GRC and providing a third-party actuarial report substantiating the proposed SERP expense in Test Year 2026 of $5,242,000. Moreover, including such SERP expenses in the PCBA6 as a **two-way** balancing account can help provide customers with benefits where the difficult-to-forecast SERP expenses come in below the forecasted amount.[972] Therefore, the CPUC should reject Cal PA's arguments that SERP expenses should be excluded from the PCBA6 due to the reasoning set forth in D.24-03-042, which can and should be distinguished from the current circumstances.

c) HCBA6

The proposed HCBA6 tracks the difference between the adopted health care expenses (including post-retirement benefits other than pension or PBOB and fees to administer the plans) and the total actual cost incurred as health care expenses.[973] As proposed in the Application, eighty-five percent (85%) of the reasonable cost difference will be flowed through to customers,

[967] Application, Attachment F, Proposed Tariffs, at PDF 64.
[968] CalAdv-03, p. 1-14.
[969] *Id.*
[970] CWS-50, p. 186.
[971] CWS-01, pp. 177-179 & Attachment B.
[972] CWS-50, p. 188.
[973] Application, Attachment F, Proposed Tariffs, at PDF 64.

and fifteen (15%) of the reasonable cost difference will be at the Company's risk, similar to what the CPUC authorized in previous iterations of the HCBA.[974]

Cal PA argues that the proposed HCBA6 should be denied and asserts that "healthcare costs are foreseeable and can be reasonably forecasted in rates, so a balancing account is no longer an appropriate mechanism for tracking employee healthcare costs."[975] This argument is misplaced and ignores the realities of forecasting healthcare costs today.

As a preliminary matter, Cal PA cites to a separate **memorandum** account in support of its argument, the Health Care Expenses Memorandum Account, that was authorized in CWS's 2009 GRC and is entirely different from proposed Health Cost Balancing Account at issue here.[976] This memorandum account was meant solely to track costs associated with the passage of the federal Affordable Care Act in 2010.[977] This focus is misplaced because the relevant issue is not the circumstances in 2010, but rather the volatile healthcare insurance market conditions that are present today.

Well after the passage of the federal Affordable Care Act in 2010, the CPUC has recognized the ongoing volatility and unpredictability in the healthcare insurance market, including reauthorizing an earlier iteration of this balancing account in 2020 over Cal PA's similar objections.[978] This argument should be rejected because Cal PA provides no evidence supporting its contention that healthcare costs are foreseeable. Furthermore, the notion that healthcare costs can be readily forecasted is easily dispelled by examining CWS's own variations in healthcare costs shown in its testimony, which substantiates the continuing year-over-year variability in the Company's healthcare costs.[979] CWS also presented materials from leading professional services firm Marsh & McLennan Agency that specializes in this area, which highlighted a number of difference factors that are anticipated to influence healthcare costs for employers like CWS in the coming year.[980] Similar concerns about uncertainty at the Federal

[974] *Id.*
[975] CalAdv-03, pp. 1-17 to 1-19.
[976] *Id.*
[977] CWS-50, p. 181.
[978] D.20-12-007, p. 64, Ordering Paragraph 16.
[979] CWS-50, p. 182.
[980] *Id.*, Appendix G.

level with respect to healthcare costs were also included in CWS's extensive testimony on this topic.[981] Cal PA offers no actual evidence to rebut this showing by CWS.

Cal PA also argues that re-authorizing this balancing account would remove incentives for CWS to control costs, stating that CWS should "shop around" for competitive healthcare insurance.[982] In fact, as summarized in its testimony, CWS self-funds the majority of its healthcare benefits and has taken effective steps to reduce medical insurance costs.[983] Despite the general trend in increasing medical costs, CWS's own medical costs have trended downward, resulting recently in over-collections of healthcare costs and the application of sur-credits on customers' bills.[984] These positive outcomes should alleviate Cal PA's unfounded concerns that having an HCBA causes CWS to be less vigilant in lowering healthcare costs. Lastly, Cal PA ignores the fact that the expenses recorded in this proposed balancing account will be subject to further CPUC review when CWS seeks to amortize such costs.[985]

For these reasons, the CPUC should reject Cal PA's arguments regarding the HCBA6 just as it did when this issue was last litigated in CWS's 2018 GRC where it explained:[986]

> Cal PA closes its reply brief on this matter with the assertion that pension and health care costs are not difficult to forecast and therefore they do not qualify for balancing account treatment. No evidence is offered for such a sweeping statement. We reject the argument.

Instead, the CPUC should grant the HCBA6 as proposed by CWS.

3. SI #22 – SR #10: Request for Liability Insurance Balancing Account

In SR #10, CWS requests a two-way balancing account for liability insurance costs (Liability Insurance Balancing Account).[987] The Liability Insurance Balancing Account will track the difference between the liability insurance expense (third party premium amounts for general liability, excess liability and umbrella policies) included in the revenue requirement and

[981] *Id.*, p. 183; Attachment 9-1; Attachment 9-2.
[982] CalAdv-03, p. 1-19.
[983] CWS-01, p. 189.
[984] CWS-50, p. 184.
[985] *Id.*, p. 185.
[986] D.20-12-007, p. 26 (footnote omitted).
[987] CWS-01, pp. 11-12; CWS-03, pp. 26-28.

the actual liability insurance expense CWS incurs.[988] In rebuttal, CWS updated its request so that only 85% of any balance is amortized as a surcharge or sur-credit, which mirrors the structure of the longstanding HCBA discussed above.[989]

Cal PA objects to SR #10 and asserts that it would create "an item-specific escalation rate within a GRC, which is specifically denied in the [Rate Case Plan]."[990] However, that is not relevant here – CWS is not seeking to create an item-specific escalation rate for liability insurance costs. The testimony presented merely indicates that the non-labor CPI-U escalation rate provided for under the Rate Case Plan is insufficient to account for the anticipated increases in liability insurance costs over the rate case period.[991] Instead, CWS is proposing to record the actual expenses recorded to its account 794400, including insurance costs and uninsured claims cost, against the adopted costs.[992] This is consistent with the Rate Case Plan, which address memorandum and balancing accounts separately from such escalation procedures.[993]

Cal PA also argues that the proposed balancing account eliminates the incentives for CWS to prudently manage insurance costs. This too is untrue. Not only are the costs tracked in the balancing account subject to CPUC review when the Company seeks to recover such costs, but CWS engages in an extensive process with its insurance broker Aon Risk Insurance Services West, Inc. ("Aon") that ensures it is able to obtain the best value in its insurance policies.[994] The material presented in the record shows that CWS has acted responsibly in managing it insurance costs.[995] The CPUC recently rejected this same argument by Cal PA in the context of a memorandum account request by Golden State in its GRC and authorized the account, finding that Cal PA presented no evidence that the utility failed to prudent manage insurance costs.[996] Cal PA again fails to present any such evidence in this proceeding for CWS.

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[988] CWS-03, p. 26.
[989] CWS-50, pp. 193-194.
[990] CalAdv-03, pp. 1-19 to 1-20.
[991] CWS-50, p. 189.
[992] *Id.*, p. 190.
[993] D.07-05-062, Appendix A, p. A-19.
[994] CWS-50, p. 191.
[995] *Id.*, pp. 191-192; Confidential Attachment A (discussing Aon's renewal strategy).
[996] D.23-06-024, pp. 32-33. CWS requests that the CPUC grant the proposed balancing account for the reasons set forth herein and in its testimony given the nature of the expenses at issue. However, if the CPUC does not grant the proposed balancing account, then in the alternative

Moreover, Cal PA does not address the volatile nature of such insurance costs that justify the establishment of a balancing account. For example, despite the marketing efforts of Aon discussed above, the cost of excess liability coverage increased (in total) by $570,000 or 19.8% in 2025 for less covered risks than 2024; this follows a $304,000 or 11.8% increase in 2024.[997] In addition, as a result of the 2025 Los Angeles wildfires, loss from wildfire risk will likely make it difficult to maintain the language exclusion in 2026.[998] This underscores the uncertainty in obtaining insurance coverages for identified risks, and the uncertainty and escalation of the cost to acquire such coverages each year, despite the Company's diligent efforts. For these reasons, the CPUC should grant SR #10.

4. SI #23 – SR #11: Request for Water Contamination Remediation Memorandum Account

In SR #11, CWS requests authorization to establish a Contaminant Remediation Memorandum Account ("CREMA") that would track and record incremental costs, previously not included in rates, incurred for new contaminants and changes to contaminant levels as established by federal and state agencies responsible for drinking water standards.[999] With an established CREMA, CWS will be able to address expenses associated with new or emerging water quality standards as they occur, ensuring that its customers receive water that meets all applicable health and safety standards.[1000] The regulations addressing emerging contaminants imposed by the EPA and the SWRCB do not neatly follow the CPUC's GRC cycle; it is critical that CWS be able to respond quickly and nimbly to ensure that all customers continue to receive safe and clean drinking water.

Cal PA opposes SR #11 largely on the argument that the CREMA is not needed for CWS.[1001] However, the establishment of the CREMA not only addresses the capital projects cited by Cal PA, but also operation and maintenance, administration and general, monitoring, and consultant expenses associated with activities to mitigate the effects of any new or changed

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CWS requests that the CPUC authorize it to establish the same memorandum account as it granted for Golden State.

[997] CWS-50, p. 190.
[998] *Id.*, p. 192.
[999] CWS-03, 28-30.
[1000] *Id.*, p. 29; CWS-50, p. 197.
[1001] CalAdv-06, p. 10-1 to 10-4.

rule or contaminant level.[1002] As shown in CWS's testimony, the proposed account meets the criteria for memorandum accounts summarized in the CPUC's Standard Practice U-27-W.[1003] Cal PA fails to appreciate the overall purpose of this account, which is to record expenses for new and emerging contaminants, reducing the administrative burden for both the CPUC and itself. Therefore, the CPUC should authorize the CREMA.

V. REPLY TO RESPONSES TO ALJ RULING REQUESTING ADDITIONAL INFORMATION

In this section, CWS replies to some of the responses provided by Cal PA on June 13, 2025 to the May 30, 2025 ALJ Ruling Requesting Additional Information ("Cal PA Response to ALJ Ruling").

A. 2022 Project Completion Rates

CWS does not agree with Cal PA's statement that the projects identified in Attachment A to Cal PA's response represent projects budgeted for 2022 that were not completed. The attachment, which is misleadingly identified as a "List of 2022 Incomplete Projects" appears to be an incomplete printout of a workbook schedule from CWS's previous rate case, providing what appears to be projects forecasted for completion not only in 2022, but also 2023 and 2024, plus some projects without a forecasted year. More importantly, a review of the "Work Order #" column shows that multiple lines often make up one project, likely because it is list of individual assets associated with each project, information needed for depreciation calculations. Cal PA provides a vague, one sentence explanation for an "analysis" of the attachment and references an advice letter that authorized completed capital projects to be included in rates (AL 2514). However, Cal PA fails to include two other such advice letters for used and useful capital project filed before Cal PA provided its response.[1004]

Cal PA recommends cuts to several common plant programs with an analysis that inexplicably focuses on 2022 budgeted plant. In addition, as CWS noted in rebuttal testimony and summarized above, Cal PA uses inconsistent methodologies based on data that is cherry-picked. Moreover, any analysis of project completions based only on those budgeted for 2022 should not be persuasive for other reasons. Prepared starting in 2020 and filed in July 2021,

[1002] CWS-50, p. 195.
[1003] CWS-03, p. 30.
[1004] CWS filed AL 2536 on October 28, 2024 and AL 2554 on May 16, 2025. All advice letters must be sent to Cal PA.

CWS's 2021 GRC occurred in the middle of the COVID-19 pandemic (generally experienced in the U.S. starting in early 2020). Aside from the mere challenge of preparing the application, the assumptions underlying the forecasted capital in that case were necessarily speculative given the unknowable impact of the pandemic on the country, much less on what projects CWS would be able to complete by the end of 2022.[1005] It is unsurprising that capital proposed in CWS's 2021 GRC, in particular, would deviate from actual construction.

Compounding this uncertainty was the lack of either a plant settlement or a final decision by the end of 2022.[1006] Even though capital projects had to be proposed for completion in 2022 and 2023, CWS had no sense about what the Commission would deem reasonable until March 2024, part way into the last capital budget year, when a decision was approved. Plus as the 2021 GRC was pending, the short-term impacts of the pandemic on worldwide supply chains were starting, with the longer-term impacts a mystery to everyone. All significant water projects now require multiple years for planning, construction, and permitting. CWS provides a detailed listing of reasons as to why schedules for capital projects can be delayed as well as the efforts that the Company is taking to address these issues.[1007] So while properly forecasting and completing capital projects is always a challenge, the pandemic and the lack of a GRC budget were compounding factors.

Other reasons for being cautious about drawing conclusions from discrepancies between recorded and authorized capital projects are that project completion dates are not necessarily reflective of when customers start benefitting from use of the asset,[1008] and proposed capital budgets reflect investments **intended at the time of filing** somewhat arbitrarily spread out over a specific 3-year cycle.[1009] In addition, with the benefits of scale come the challenges of accurately predicting and then managing the exact timing of over 1000 capital projects across 24 operating

[1005] *See* CWS-50, pp. 38-39.
[1006] In a previous rate case, a settlement covering major plant issues enabled CWS to make educated business decisions about capital investment despite an overdue (by almost one year) final decision.
[1007] CWS-50, pp. 32-51.
[1008] *Id.*, p. 28.
[1009] *See id.*, p. 22 (explaining why actual budgets will vary from previously authorized budgets). Also note that, prior to 2009, CWS had 24 districts and filed rate cases for approximately eight districts every year. Only one-third of the Company was ever on the same rate case cycle, illustrating how arbitrary a specific three-year cycle is. By contrast, large energy utilities have moved to a 4-year rate case cycle at the CPUC.

districts. Rather than tracking the completion of specific projects forecasted in a GRC, however, embedded in the CPUC's ratemaking is a more fundamental and useful check: a test that compares recorded rate base to authorized rate base before allowing rates to increase (confusingly referred to as an "earnings" test).[1010] With the addition of investments that are used and useful (and therefore already benefitting customers), CWS shows that recorded rate base in 2021, 2022, and 2023 was 95%, 93%, and 96%, respectively, of previously forecasted rate base.[1011]

Cal PA continues to advance the claim that "previously funded projects should not be in rate base until they are demonstrated to be in service and used and useful"[1012] – a claim that CWS explains in rebuttal is both inaccurate and misleading.[1013] Furthermore, Cal PA provides a hyperbolic dollar figure for their definition of CWS's projects that were "previously funded" where they inappropriately include projects that are appropriately forecasted as additions for 2024, as well as including projects that were not funded by customers in prior rate cases, such as over $50 million in projects to address emerging PSPS and wildfire mitigation efforts.[1014] CWS provides a more transparent accounting for what would qualify under Cal PA's definition of "previously funded" projects, which includes an update on the status of the projects that are serving our customers as of the end of 2024.[1015]

B. Contractor Capacity for Cathodic Protection: Does CWS's expansion to four contractors affect Cal Advocates' concern regarding project feasibility?

Cal PA denies that the addition of two contractors for this program mitigates its concern about timely project completion, claiming that CWS "does not show any nexus between the addition of contractors and productivity."[1016] As described in rebuttal testimony and in Section IV.C.1.h of this Opening Brief, the reason for adding resources is clearly to meet the proposed increase in work as well as address supply chain delays.[1017] With these workload adjustments,

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[1010] *Id.*, pp. 23-25 (elaborating on the earnings test, which is more accurately a test for capital investment, not for a company's "earnings").
[1011] CWS-01, p. 35.
[1012] Cal PA Response to ALJ Ruling, p. 3.
[1013] CWS-50, pp. 19-20.
[1014] *Id.*, p. 30.
[1015] *Id.*, pp. 27-31.
[1016] Cal PA Response to ALJ Ruling, p. 3.
[1017] CWS-52, p. 16.

implemented without any increase in requested cost recovery, the CPUC should approve CWS's proposed budget for this program.

C. Control Valve Rebuild Rate: Does the proposed rebuild pace differ substantially from historical achievement? If so, explain how so.

Cal PA continues to use incomplete data by alleging that the 5-year historical average of completed control valve overhauls is only 131 per year, as compared to the average of 290 overhauls CWS requests in this case. CWS clearly indicated in rebuttal that Cal PA's analysis is based on only half of 2024 (with 74 control valve overhauls), and that the 239 control valve overhauls CWS completed in 2023 is more reflective of the company's current capabilities.

D. Sales Reconciliation Mechanism (SRM) Adjustments

CWS addresses Cal PA's response above in section IV.H.2.

E. Customer Assistance and Outreach Programs

1. Customer Assistance Program

CWS's Customer Assistance Program ("CAP") program is described in direct testimony and is used to evaluate affordability according to the Commission's metrics.[1018] All metrics are calculated for CAP customers as well as for non-CAP customers.[1019]

2. Rate Support Fund

CWS also has a Rate Support Fund ("RSF") that decreases bills for entire districts that are high-cost.[1020] In some ratemaking areas, the RSF decreases the overall revenue requirement before rates are calculated. In Kern River Valley, RSF credits are provided on customer bills, and in this proceeding CWS proposes a three-tier system of discounted rates so that all customers in Kern River Valley, which has a smaller customer base and particularly high water costs, will receive a subsidy.[1021] Currently, only usage below 10 CCF receives a subsidy so, for example, businesses that may require more water due to the nature of their work may be bearing a cost burden that is ultimately a detriment to the communities that they hire from and serve.[1022]

[1018] CWS-02, pp. 21-22.
[1019] *Id.*, pp. 23-26.
[1020] *Id.*, pp. 17-21.
[1021] *Id.*, pp. 19-21.
[1022] *Id.*, pp. 19-20; fn. 39.

3. Decoupled Rate Design

CWS is also proposing in this case the most beneficial rate design for lower-income households—a rate design that has lower service charges and more progressive rate tiering—as discussed in Section IV.H.1.a, above. Both the CAP and RSF described above are funded solely by other CWS customers who are **not** in CAP—a low bar considering that this category consists of all non-residential customers, and any residential customers with annual incomes above 200% of the federal poverty income guidelines.[1023] Under decoupling, more revenues are funded by customers with higher water usage, so how much water a residential customer is willing to subsidize the water system is directly related to how much water they choose to use each month. Furthermore, CWS is proposing to apply the same principle to any under-collections that result from decoupling—wherein under-collections are recovered balances through base rates, rather than through surcharges that apply the same rate to each CCF of water used, without regard to whether total usage is high or low.[1024]

4. Water Conservation Program

In response to the ALJ's additional questions, Cal PA fails to identify any benchmarks or cost-effectiveness it used to evaluate CWS's proposals.[1025] Instead, Cal PA makes allegations that are confusing, at best, and ultimately misleading. For example, Cal PA claims that "Cal Water's entire conservation budget request is unreasonable and no benchmark or cost-effectiveness metrics could justify it *because it is not based on actual conservation programs*."[1026] Cal PA goes on to state that it favors "actual conservation programs, such as the installation of water efficient appliances" because they "can lead to actual measurable conservation."[1027] However, the largest component of CWS's conservation proposal consists of

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[1023] https://www.calwater.com/docs/rates/rates_tariffs/all/20250101-Schedule_CAP_-_Customer_Assistance_Program_CAP.pdf. Schedule No. CAP, page 2, Special Condition 1 (stating that eligibility is the same as for the CPUC's CARE program (California Alternative Rates for Energy)). https://www.cpuc.ca.gov/consumer-support/financial-assistance-savings-and-discounts/california-alternate-rates-for-energy (indicating that the Upper Limit Calculation for CARE Income Eligibility is equal to 200% of Federal Poverty Guidelines).

[1024] *See* Section IV.H.1, above.

[1025] Cal PA Response to ALJ Ruling, pp. 5-6.

[1026] *Id.*, p. 5 (emphasis added).

[1027] *Id.*, p. 5.

funding for programs[1028] such as turf replacement, irrigation equipment rebates, and indoor device rebates (these conservation activities will be referred to generally herein as "programs").[1029]

In fact, Cal PA would eliminate all conservation budget categories except for programs. This would have the direct consequence of eliminating all program marketing and recruitment (which are funded through the Public Information budget component) and all conservation staff positions (which are funded through the Administration/Research budget component). This would make it impossible for CWS to continue implementing conservation programs—an outcome that directly contradicts state conservation mandates and the Commission's long-standing water efficiency objectives.

Conservation programs do not run themselves. They require dedicated staff to manage implementation, targeted marketing and outreach to drive customer participation, and rigorous data collection and evaluation to meet regulatory reporting requirements and assess performance. These essential functions are funded through the Public Information and Administration/Research budget components.

Cal PA also criticizes the use of **any funds** for the purposes of either public information or school education programs.[1030] Cal Advocates fundamentally misunderstands the role of school education programs, conflating the difficulty of directly quantifying water savings with a lack of value.[1031] In reality, many critical programs—such as public health initiatives, traffic safety campaigns, and workforce development—deliver substantial long-term benefits, even when their impacts cannot be precisely measured.[1032] The suggestion that the Public Information, School Education, and Administration/Research budgets "*serve only as a means for Cal Water to burnish its corporate image and generate goodwill at ratepayer expense*" [1033] is ludicrous. This gratuitous and wholly unsupported allegation should not be given any weight.

[1028] CWS-01, Attachment H, p. 39 (showing "programs" make up $10M of the annual $16.7M conservation proposal).
[1029] *Id.*, Attachment H, p. 19 (providing examples of "programs"); CWS Response to ALJ Ruling, pp.40-41.
[1030] Cal PA Response to ALJ Ruling, p. 5.
[1031] CalAdv-10, p. 1-9.
[1032] CWS-51, Appendix C, p. 41-44.
[1033] Cal PA Response to ALJ Ruling, page 5 (emphasis added).

CWS explains in rebuttal how Cal PA's portrayal of CWS's research expenditures is inaccurate.[1034] There is no separate line item for expenditures, however. It is part of the budget component that includes administration, which includes salaries, benefits, dues, travel, research projects and other administrative expenses,[1035] which are essential aspects of an effective and efficient conservation program.

Finally, Cal PA fails to acknowledge that the foundation aspect of conservation program is that customers will receive credits for unspent conservation funds as a result of the proposed one-way balancing account.[1036] Cal PA's recommendation to dismantle the foundational components of CWS's conservation efforts—without evidence, context, or proper analysis—is both unfounded and counterproductive to the CPUC's established policy goals for sustainable water use and efficiency.

VI. CONCLUSION

The record evidence proves that CWS's proposed increase in rates is necessary, just, and reasonable. By contrast, the proposals and recommendations from Cal PA would result in drastic departures from established CPUC policy and practice, penalize CWS for taking prudent action to ensure that it is able to continue to provide safe and reliable service to its customers, and hinder efforts to improve the transparency and efficiency of the GRC process. CWS respectfully requests that the CPUC grant the requests described above.

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Respectfully submitted,

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[1034] CWS-51, Appendix C, pp. 38-40.
[1035] *Id.*, Appendix C, p. 38.
[1036] *Id.*, Appendix C, p. 45.