



OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix C: Courtesy Copies of Cited and Paraphrased Commission Decisions **FILED**

Commission Decisions

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with certainty that SCE's compensation, on an overall basis, is above market because of the margin of error in this study.

Greenlining, which indicates it is concerned with excessive executive compensation, believes that the total compensation study is of limited value with respect to executives because, according to Greenlining, it is predicated upon comparisons with inflated compensation packages. We believe Greenlining misunderstands the use and purpose of the study. Our interest is in assuring that SCE is positioned to provide safe, reliable public utility service to its customers.

This requires that SCE be able to attract, retain, and motivate qualified employees, including employees in the management and executive ranks, which means it needs to be a competitive employer. We look to market comparators to determine the level of employee total compensation needed to provide reasonable assurance that SCE is a competitive employer that is not providing above-market salary/benefit packages that would add unnecessarily to ratepayer costs.⁵⁸ The total compensation study allows us to do that. The executive compensation of comparator firms may be considered by some observers to be excessive according to their standards of societal worth, but it is not our objective to define such notions of excessive compensation, or to apply our own values of societal worth as a substitute for market comparisons.

SCE and ORA, along with Hewitt, have fulfilled our directives in earlier decisions, and have provided the value we expected with respect to the total compensation study. Any contention that the study is flawed because it uses

⁵⁸ Greenlining witness Gamboa acknowledges that "compared to corporate America generally, the Edison [executive] compensation packages do not appear to be excessive." (Exhibit 268, p. 7.)

comparative values, or because the comparative values used are excessive, is without merit.

Greenlining also takes issue with the total compensation study's value because "it ignores the information that we have recently discovered from the Jack Welch case at General Electric and the John W. Snow case at CSX about unreported compensation unknown to even the [Securities and Exchange Commission (SEC)], shareholders, or board members." (Greenlining opening brief, p. 5.) However, there is no evidence in this proceeding that SCE's executives are receiving unreported compensation, that any unreported compensation that does exist is included in the GRC request, or that the Hewitt study failed to consider all executive compensation relevant to ratemaking. The media reports of problems with unreported executive compensation do not undermine the evidentiary value of the Hewitt study for our purposes, even if, as Greenlining witness Phillips testified, "the entire financial institution of the United States has been shaken to its core to find out that annual reports and filings with the SEC can exclude very significant parts of the executive compensation..." (Tr. V. 38, p. 3448.)

Finally, Greenlining takes issue with the total compensation study process, calling it "highly secretive." We do not find any lack of transparency to be problematic. The study methodology is extensively outlined in Exhibit 77. The study was jointly managed by SCE and ORA, which contradicts contentions of undue secrecy.⁵⁹ Even if Hewitt has proprietary intellectual property that was

⁵⁹ This is in contrast to the situation encountered in SCE's last GRC, where SCE and DRA (ORA's predecessor) were unable to pursue a cooperative approach to the total compensation study, and there were confidentiality issues (D.96-01-011, 64 CPUC 2d 241, 360-361.)

utilized in the study, we find no basis for concluding it was in any way flawed because of the protection of such property.

Greenlining asks that we adopt a requirement that SCE report annually on the total compensation packages for each of the top ten executives, including the value of stock options and retirement plans. We are not persuaded of the merits of such a requirement at this time, and therefore decline to adopt the proposal. Greenlining also asks that we adopt a requirement that SCE report annually on the total compensation packages for each of the top ten executives, including the value of stock options and retirement plans. This information would be instructive as part of the Commission's effort to better understand the nature of SCE's executive compensation practices. We will adopt this requirement.

6.7.2.2. Executive Compensation

6.7.2.2.1. Executive Bonuses

SCE's request for executive salaries in Account 920 includes the costs of incentive compensation received by executive officers. Based upon its position that ratepayers and shareholders should contribute equally to the costs of executive bonuses, ORA recommends that SCE's forecast be reduced by one-half the costs of such bonuses, or \$2.358 million. SCE opposes this recommendation.

Discussion

SCE states that the total compensation study shows that total compensation for the executive category is 1.1% lower than competitive market norms. As a preliminary matter, we note that in making this statement, SCE commits the same error it accused ORA of committing when ORA said that SCE's overall total compensation is 4.3% above market. If the study's margin of error does not permit ORA to make such a statement, it also does not permit SCE to claim that its executives receive less than competitive norms. In fact, we cannot

rule out the possibility that SCE's executives receive above market total compensation. Nevertheless, neither the total compensation study nor any other record evidence provides us with any basis for concluding that SCE's executive total compensation, including base salary, incentive pay, and non-cash compensation, is unreasonable. At issue is which of differing policies regarding ratepayer funding of incentive programs that have been applied in the past should be pursued here.

The approach favored by SCE is that adopted in GRCs of PG&E and SoCalGas in 1992 and 1993, respectively. In D.92-12-057, the Commission noted the following conclusions of a workshop conducted by the Commission staff:

"The consensus reached in the workshop was that the Commission should not attempt to micromanage utility incentive compensation programs. Instead of adopting a 'cookie cutter' approach, workshop participants recommend that the Commission review incentive compensation programs utility by utility, as a component of the total cash compensation requested in each utility's general rate case. They proposed, moreover, that the allocation of total cash compensation between salaries and incentives should be left to each utility's discretion." (47 CPUC 2d 143, 201.)

The Commission stated that these conclusions "make it clear how the issue of incentive compensation programs should be handled." (*Id.*) It also stated that "we find in this proceeding that the [Performance Incentive Plan (PIP)] program as PG&E has designed it is an appropriate part of the total cash compensation which we have already found to be reasonable." (*Id.*, 203.)

The Commission reached a similar result in D.93-12-043, in SoCalGas' 1994 GRC, notwithstanding the conceptual concern that the SoCalGas incentive program may not motivate executives to exceed expectations:

On the other hand, the incentive program appears to be part of a package of compensation benefits offered to SoCalGas executives. In

D.92-12-057, we found that incentive compensation should be analyzed as “part and parcel of the overall compensation scheme,” and that “the allocation of total cash compensation between salaries and incentives should be left to each utility’s discretion.” Including incentive compensation amounts in SoCalGas’s total budget for executive compensation does not move that budget out of line with executive compensation packages for other California utilities. If, in the future, management incentive awards would push executive compensation levels out of the range offered by comparable utility companies, we will not hesitate to disallow them. (52 CPUC 2d 471, 496.)

ORA favors the approach taken in other, more recent GRC decisions. In SCE’s 1995 GRC the Commission followed the approach that it had taken in an earlier PG&E GRC:

In PG&E’s test year 1987 general rate case, even though we noted that PG&E’s executive compensation (including its proposed incentive plan) is commensurate with levels paid by utilities of comparable size, we concluded that a 50/50 sharing of the cost of its incentive plan was reasonable, stating that “we find merit in the staff argument that if PG&E’s executives perform well enough to justify the ‘bonus’ then there should be enough savings to pay for the” incentive plan. (D.86-12-095, 23 CPUC 2d 149, 187.) We think a similar approach is appropriate here. (D.96-01-011, 64 CPUC 2d 241, 368.)

In PG&E’s test year 1996 GRC, the Commission found that only 50% of the costs of PG&E’s Management Incentive Program should be allowed.

(D.95-12-055, 63 CPUC 2d 570, 592.) In PG&E’s test year 1999 GRC, the

Commission again allowed 50% ratepayer funding of PIP incentives.

(D.00-02-046, mimeo., p. 259.) In the latter decision, the Commission noted that continuing the practice of 50/50 sharing mitigated the concern of overcollection that could occur if the employees failed to perform well enough to earn targeted PIP payouts.

Acknowledging that the Commission has decided these issues differently over the years, SCE submits that its favored approach of full ratepayer funding should be approved because the Commission decisions that have adopted that approach were informed by the staff workshop process. SCE submits that the Commission got it right when deciding that as long as the total compensation package is reasonable, the allocation of that compensation among cash, benefits, and long-term incentives should be left to utility management's discretion.

There is no evidence in this proceeding that SCE's executive incentive plan produces inappropriate incentives or results in possible overcollections that would be mitigated by 50/50 sharing. The only evidence that speaks directly to the issue is the total compensation study, which shows that SCE's executive compensation, including annual and long term incentives, is at market levels subject to the study's margin of error.

If SCE had decided that the total cash compensation received by executives should be in the form of base salary without any incentive plan, there presumably would be no issue of ratepayer cost responsibility as long as total compensation for executives is at market levels. In the absence of any evidence that the executive incentive program itself produces outcomes that are contrary to ratepayer interests, we will not interfere with the utility's discretion to adjust the appropriate mix of base salary and incentives. ORA's proposed adjustment of \$2.358 million therefore will not be approved.

6.7.2.2.2. Executive Retirement Benefits

ORA recommends that the policy of 50/50 sharing of the costs of cash incentives for executives be extended to retirement plans. ORA therefore recommends that SCE's request for Supplemental Executive Retirement Plans be reduced by 21%, or \$3.642 million.

Discussion

The total compensation study shows that SCE's total executive compensation, including the Executive Retirement Plan, is competitive with and does not exceed the relevant market level by more than the margin of error. Accordingly, and also because we are not adopting 50/50 sharing for executive cash incentives, we find no evidentiary basis for adoption of this proposed reduction.

6.7.2.2.3. Executives and Philanthropy

Greenlining witness Gamboa does not suggest any curtailment of SCE's executive compensation packages or bonuses. (Exhibit 268, p. 7.) Nevertheless, he believes that the SCE executive compensation packages appear excessive when compared to SCE's philanthropic practices. (*Id.*, p. 8.) Greenlining witness Phillips also suggests a relationship between executive compensation and corporate philanthropic expenses:

...[D]ue to the difficulties of analyzing executive compensation, it may be appropriate to compare it to corporate philanthropy since both are deductible expenses. What ratio is appropriate cannot be determined without further analysis. At a minimum, that analysis should also include the relationship of philanthropy to pre-tax income, as well as the relationship of executive compensation to pre-tax income. (Exhibit 269, p. 3.)

Discussion

It is clear that Greenlining's concern has more to do with philanthropy than it does executive compensation. During cross-examination, Greenlining witness Phillips agreed that the reasonableness of a utility's compensation should be based on a comparison of its compensation of other employers with which the utility competes for labor resources. (Tr. V. 38, p. 3456.)

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D.06-04-037, p. 22

2. Class A water utilities should report on the status of their balancing accounts in their general rate cases and should propose adjustments to their rates in that context to amortize under- or over-collections in those accounts subject to reasonableness review; they also should be permitted to propose such rate adjustments by advice letter at any time that the under- or over collection in any such account exceeds two percent (2%) of annual revenues for the utility or a ratemaking district of the utility.

3. Because utility advice letters complying with D.03-06-072 are due on or before March 31, 2006, this order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. The California Water Association's April 4, 2005 petition for modification of Decision (D.) 03-06-072 is granted as set forth below.

2. The annual advice letter filing and application of the earnings test adopted in D.03-06-072 are eliminated.

3. Class A water utilities shall report on the status of their balancing accounts in their general rate cases and shall propose adjustments to their rates in that context to amortize under- or over-collections in those accounts subject to reasonableness review. They also may propose such rate adjustments by advice letter at any time that the under- or over-collection in any such account exceeds two percent (2%) of annual revenues for the utility or a ratemaking district of the utility.

4. Rulemaking 01-12-009 is closed.

This order is effective today.

Dated April 13, 2006, at San Francisco, California.

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D.07-05-062, Appendix A, p. A-19

The most recent memorandum entitled, “Estimates of Non-labor and Wage Escalation Rates” as described in D.04-06-018, shall be used for Escalation Years 1 and 2 rate increase requests and shall be sought by Tier 1 advice letter no later than 45 days prior to first day of the escalation year. The advice letter filing shall include all calculations and documentation necessary to support the requested rate change. The requested rate increase shall be subject to the pro forma earnings test, as specified in D.04-06-018. Revenue requirement amounts otherwise subject to rate recovery, e.g., through balancing or memorandum accounts, shall not be subject to escalation.

All rate base items, including capital additions and depreciation, shall not be escalated but rather shall be subject to two test years and an attrition year, consistent with D.04-06-018. If the Escalation Year and Attrition Year advice letters are in compliance with this decision, GO 96-B, and other requirements, the advice letter shall be effective on the first day of the escalation or attrition year, consistent with the procedures set forth in GO 96-B.

Utilize the following methods for preparing escalation year requests:¹

1. Estimate escalation year labor expenses by the most recent labor inflation factors as published by the DRA.
2. Estimate non-labor escalation year expenses, excluding water production related expenses, by the most recent composite non-labor 60%/compensation per hour 40% inflation factors published by DRA.
3. Estimate escalation year water production related expenses based on escalation year sales.
4. Adjust for all non-recurring and significant expense items prior to escalation. A significant expense is equal to or greater than 1% of test year gross revenues.
5. Expense items subject to recovery via offset accounts, e.g., balancing accounts, shall not be escalated.
6. Estimate escalation year expenses not specifically addressed in DRA’s published inflation factors, (such as insurance) based on CPI-U for most recently available 12 months, as provided in D.04-06-018.

¹ In each water utility’s escalation year advice letter filing, the most recent DRA inflation factors will be used.

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D.07-05-062, Appendix A, p. A-28

4. In connection with the water loss audit described above, the utility shall conduct and submit the results of a cost/benefit analysis for reducing the level of unaccounted water reported in the water loss audit. If unaccounted water is more than approximately 7% for each district or service area, submit a plan to reduce unaccounted water to a specific amount.
5. Identify specific measures taken to reduce unaccounted water in the last five years and proposed test year.
6. Identify number of leaks in the last five years.
7. Describe leak detection program.
8. Provide leak repair time and cost statistics for last five years.
9. Identify specific measures taken to reduce number of leaks in the last five years and proposed test year.
10. Calculate the average age of distribution system.
11. List number of feet of and size of mains replaced for last authorized test years, last five years recorded data, and proposed test year amounts.
12. Concisely list all major water sources, including the permit number or contract, remaining duration of the entitlement, and any pending proceedings or litigation concerning any major source. Location of the source need not be included.
13. Identify water supply (in gpm) added to system for the last three years and proposed test years.
14. Identify storage volume (in million gallons) added to water system for the last three years and proposed test years.
15. Identify treatment volume (in million gallons) added to water system in the last three years and proposed test years.
16. Include a copy of the latest Department of Water Resources Water Management Plan.
17. Provide confirmation of compliance with EPA Vulnerability Assessment and Office of Emergency Services Response Plan.
18. 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. The Plan should be consistent with recommendations and elements of comprehensive asset management identified in the General Account Office's March 2004

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D.09-11-032, pp. 22-25

Unlike the Cox project, the Alum Rock and Hostetter projects would not provide a direct benefit to SJWC and its ratepayers. Neither Alum Rock nor Hostetter has wells or pumps at their locations. Therefore, any power generated at these locations must be sold back to PG&E under a power purchase agreement.²⁹ Indirect benefits would result because these projects would improve PG&E's energy reliability during peak demand times, reduce SJWC's carbon footprint, and reduce SJWC's operating expenses with any revenues received from selling power generated from these projects. These kinds of projects ought to be considered in a joint application with PG&E or another joint venture partner or partners.

SJWC is in the business of providing quality and reliable water service to its ratepayers and not in the business producing and marketing power. Therefore, hydro-turbine projects that directly benefit SJWC and its ratepayers in providing quality and reliable water service while reducing its purchased power consumption should be given priority over hydro-turbine projects that do not. The Alum Rock and Hostetter hydro-turbine projects should not be approved at this time. SJWC is encouraged to propose additional hydro-turbine projects that meet this criterion in its next GRC.

7.3. Montevina Station Project

The \$4,768,000 test year difference in Montevina Station project costs between SJWC and DRA resulted from a difference on need for this four-year project to meet new water quality standards. This difference consists of \$206,000 applicable to a 2009 facilities plan study and \$4,562,000 for test year environmental, pilot testing, and detailed design and specifications. SJWC

²⁹ Exhibit 9 at 8-12 and 8-13.

forecasted an additional \$7,648,000 in 2011 to implement a water treatment process to meet water quality regulations.

SJWC proposed this project to upgrade its Montevina Station water treatment facility that treats surface water flows from the Los Gatos Creek watershed for delivery into SJWC's distribution system. The upgraded project was proposed to comply with new water quality standards. Effective January 2008, stricter standards on individual filter effluent turbidity were imposed as part of the Interim Enhanced Surface Water Treatment Rule (IESWTR). Effective April 2012, water sample points are expected to change to comply with an updated State 2 Disinfectants and Disinfection Byproducts Rule (DBP2).

Most of SJWC's surface water comes from the Montevina Station during the winter months, which takes water from intakes on the Los Gatos Creek and its tributaries. However, this water has been subject to rapid changes in turbidity, making it difficult to comply with current and new water quality filtration rules in treating high turbidity water. For example, SJWC was cited by the California Department of Public Health in January and February of 2008 for exceeding IESWTR operating criteria at the Montevina Station. Corrective action to comply with IESWTR required SJWC to reduce the amount of raw water that could be treated at Montevina Station to 15 Nephelometric Turbidity Units, resulting in decreased production of 1,243 acre feet in an average rain year due to turbidity.³⁰ That reduction in filtering surface water limited SJWC's surface

³⁰ Nephelometric Turbidity Unit (NTU) is a unit measurement of a lack of clarity of water. Water containing one milligram of finely divided silica per liter has a turbidity of one NTU.

water production and had a potential effect of reducing SJWC's water rights at these intakes.³¹

The DBP2 rule would regulate disinfection byproduct concentrations at specific locations in the distribution system rather than at a system wide average. SJWC's preliminary results indicate that Montevina Station effluent would not comply with these standards for total Trihalomethane.³²

SJWC has shown that it has lost surface water supplies from the Los Gatos Creek and its tributaries due to high turbidity and that it could suffer additional surface water losses due to its potential inability to satisfy new water quality standards. Although this loss of surface water could be made up from the purchase of additional water from other sources, such as the Santa Clara Valley Water District, there is no assurance that replacement water sources would be available, or at what cost.³³

SJWC has substantiated a need to plan for a Montevina Station upgrade project to maintain water quality and to maintain, if not increase, local senior water rights and supply through surface water treatment.³⁴ To the extent that SJWC is able to increase its water supply at Montevina Station, which uses less energy than pumping groundwater from the valley below, SJWC would be in a better position to meet the Commission's Water Action Plan's mandate that

³¹ Exhibit 2 at 16-7 through 16-9 and Exhibit 5 at 3-24.

³² *Id.* at 16-8.

³³ Exhibit 5 at 3-25 and 3-26.

³⁴ Exhibit 2 at 16-8 and 16-9.

Class A water utilities reduce their energy consumption by 10 percent over a three-year period.³⁵

As of its January GRC filing date, SJWC was preparing a contract for the planning study with a selected consultant to evaluate and recommend a technology to satisfy future regulatory compliance and to consider technologies for treating waters of various turbidity levels at Montevina Station.³⁶

The \$209,000 forecasted facilities plan study is reasonable and should be approved. With the Montevina Station project being at an early stage of planning, the remaining project costs should not be approved until a facilities plan study has been completed and a specific project design has been established. SJWC should file a separate application outside of this GRC seeking approval of its project costs and recovery for upgrading its Montevina Station to maintain water quality and to increase its capacity to treat surface water upon completion of a facilities plan study and specific project design.

7.4. Recycled Water Mains

The \$8,444,000 test year difference in recycled water mains expenses between SJWC and DRA resulted from a difference in how recycled water mains projects should be funded. SJWC proposed using ratepayer funding. DRA concurred with SJWC on a need to expand its recycled water facilities. However, DRA opposed any funding for these projects because SJWC had not done enough to pursue partners or public financing for these capital projects.³⁷ DRA

³⁵ Reporter's Transcript Vol. 4, p. 323 and Exhibit 5 at 3-13.

³⁶ Exhibit 2 at 16-8 and 16-9.

³⁷ Exhibit 9 at 8-31.

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D.14-06-028, pp. 56-57

should be shared equally⁵⁷.

Based on the foregoing, we find that a 50/50 allocation between ratepayers and shareholders is reasonable.

Southwest Gas's Overall Compensation: The unopposed testimony and executive compensation study provided by Southwest Gas Establish that the SERP and EDCP are essential components of Southwest Gas 's 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. ORA offers no objection to the remainder of Southwest's Gas's overall compensation. Under the circumstances, Southwest Gas explains, denying recovery for certain pieces of the overall compensation would produce an illogical and inequitable result, as follows:⁵⁸

There seem to be no arguments in the direct testimonies of the [O]RA about the overall level of compensation, and the market study presented in my direct testimony defines a reasonably competitive compensation package for the executive group, including showing that the executives at Southwest Gas are consistently paid at a level at or below the competitive median level as defined by the market. Including in rates a reasonable competitive compensation package for this group should not be viewed as unjust or unreasonable. However, the removal of these components from rates would certainly be unjust and unreasonable to Southwest Gas, and cause misalignment with what I believe to be proper comparison data. The testimony reviewed offers no alternatives to any of Southwest Gas's current compensation packages – other than a proposal to exclude from rates. This makes it difficult to understand what might be considered a “fair” compensation package by the [O]RA.

⁵⁷ *Id.*

⁵⁸ SWG-19 at 5, 6.

Disallowance of 100 percent of the SERP and 100 percent of the EDCP would place the Southwest Gas executives' compensation at the bottom of the market....

Based on the foregoing, we find that Southwest Gas's request for 100 percent recovery of its SERP and EDCP expenses is reasonable and supported by the evidence, and we approve this request.

5.4.3.4. Labor Loadings

Parties disagree on the appropriate labor loading calculation. Due to the errors referenced above, in Section 5.4.3.1, ORA's labor loading calculation is wrongly calculated using escalated 2014 dollars rather than 2011 dollars. It is also based on ORA's miscalculated benefits recommendations, which use nominal dollars instead of 2011 dollars. In addition, by basing its labor loading calculation on the labor and the pension and benefits recorded on Southwest Gas's books during 2011, ORA incorrectly includes payroll taxes in the calculation, and it includes pension amounts based on an accrual, rather than a cash basis.

Here, Southwest Gas's testimony establishes that the correct calculation of labor loading rates is based on 2011 dollars, includes pension amounts on a cash basis, and excludes payroll taxes. As such, the appropriate labor loading rate should be calculated using these parameters upon the Commission's final decision concerning the various expenses referenced herein.

5.4.3.5. Balancing Account for Pension Expense

ORA agrees with Southwest Gas's recommended pension expense included in the Company's cost of service. However, ORA requests the Commission to establish a one-way balancing account for the Company's pension expenses. The basis ORA provides for its proposal is that, "[g]iven the

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D.14-08-011, p. 94

impose a precedent in this or any future proceeding. Cal Water must not presume in any subsequent application that the Commission would deem the outcome adopted herein to be presumed reasonable and it must, therefore, fully justify every request and ratemaking proposal without reference to, or reliance on, the adoption of the settlement.

12. The proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The Motion to Adopt Settlement Agreement Between California Water Service Company (U60W), the Office of Ratepayer Advocates, the City of Carson, the City of Lancaster, the City of Selma, the City of Visalia, the County of Kern, the County of Lake, The Leona Valley Town Council, Residents Against Water Rates, The Utility Reform Network, and Jeffrey Young, filed on October 30, 2013, is granted. The settlement agreement attached to the motion, and included as Exhibit A to this decision, is adopted.

2. Within 60 days of the effective date of this decision, California Water Service Company is authorized to file Tier 1 Advice Letters with revised tariff schedules in compliance with this decision for each district and rate area in this proceeding. The adopted rates for test year 2014 are included as Exhibit A to this decision. This filing shall be subject to approval by the Commission's Division of Water and Audits.

3. California Water Service Company shall take steps described in Chapter 7, Section 1 of the Settlement Agreement to establish more formal internal procedures to ensure that its memo and balancing accounts are more consistently

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D.14-08-011, Attachment A, pp. 213-216

ISSUE: The scope of work for this project is to conduct a water quality audit to determine treatment requirements for Well 219-02. A permanent storm drain connection is required to allow Cal Water to collect samples and complete the project. Cal Water is working with the pertinent City to complete the storm drain connection.

RESOLUTION: The Parties agree to include the cost of this study for \$151,200 in rate base in 2013. Cal Water will provide detailed justification for the incremental cost incurred, if any, in the next GRC.

D. ADVICE LETTER PROJECTS

The Parties agree to include the following Advice Letter projects in the capital budget for the years 2012 through 2015.

Dominguez: Advice Letter Projects

("Discussion" identifies projects discussed in detail below.)

Project	Discussion	Description	Year	Advice Letter Cap
00020768	X	Treatment - Sta. 275-01	2014	\$ 4,793,000.0
00020772	X	Treatment - Sta. 294-01	2014	\$ 4,964,000.0
00020775	X	Drill, Develop, & Equip New Well - Central Basin	2015	\$ 6,617,000.0
00020838	X	Construct and Equip Well	2015	\$ 6,617,000.0
00030287	X	Enhance Central Basin Water Rights	2014	\$ 225,000.0
00063837	X	Nitrification Control	2014	\$ 200,000.0
00076394	X	Cal Water 1997 Agreement with BP Carson Refinery relating to additional recycled water utilization	2015	\$ 4,000,000.0
00079995		Cal Water RAMCAP Vulnerability Assessment	2015	\$ 51,393.7
Total				\$ 27,467,393.7

Project 20768 –Treatment at Station 275-01 and Project 20772 –Treatment at Station 294-01

ISSUE: Water produced from the wells in the Dominguez District is impacted with contaminants at levels above the secondary MCLs (Maximum Contaminant Levels). In the 2009 GRC, Cal Water proposed to install a GAC system at these well sites at a significantly lower cost. In this GRC, Cal Water proposed an alternate treatment technology and provided new cost estimates for Projects 20768 and 20772 of \$4,793,000 and \$4,964,000, respectively. The revised estimates incorporate actual costs to-date, contractor bids, and Cal Water labor and overhead.

ORA noted that Cal Water did not pursue a waiver as a mean to comply with water quality standards for the constituents detected in groundwater in lieu of installing

costly treatment facilities. ORA contended that Cal Water underestimated the construction costs, skewing the economic analyses to support investment in water treatment facilities. ORA expressed its concern that Cal Water did not take into consideration Title 17 and Title 22 of the California Code of Regulations, which allow a water utility to apply for a waiver from complying with secondary MCLs for certain constituents. Moreover, ORA does not agree with Cal Water's claim of savings for ratepayers.

RESOLUTION: After many discussions and in consideration of the overall supply needs of the district, the Parties agree to include Projects 20768 and 20772 as advice letter projects with cost caps of \$4,793,000 and \$4,964,000, respectively. ORA agrees with the proposal to install treatment facilities at the subject wells because the water from these wells needs to meet water quality standards.

Projects 20768, 20772, 20775, 20838, 63837, 76615, 76673, 76813, 76833, 79593, 79614, and 79615 – Groundwater Well and Treatment Projects

ISSUE: Cal Water proposed a number of treatment and well-property purchase projects in its Dominguez District to increase well production capacity over time and achieve full utilization of groundwater pumping rights in the West Coast and Central Groundwater Basins. Cal Water, in response to ORA's recommendations, provided analyses comparing the long-term cost of installing wells and treatment to the cost of purchasing more import water from the West Basin Municipal Water District to show that it is in the best interest of Cal Water's customers to use more well water rather than purchased water. Cal Water stated that it refined treatment requirements and costs for wells in Dominguez while working on several treatment projects approved in prior GRCs, which provided a more realistic indication of the cost of treatment. The revised estimates for Projects 20838 and 20775 went from \$1.9 million to \$6.6 million per project. To offset this increase, Cal Water proposed deferral of projects 76615, 76813 and 76833 to the next GRC.

Although ORA supports efforts to utilize local water supply, it pointed out that groundwater extracted from the underlying aquifer in the Dominguez area are impacted with many constituents that require extensive and costly treatments. Some of these constituents do not have an impact on human health but present an aesthetic concern to consumers. ORA stated that consumers should decide whether to accept water that contain aesthetic effects as allowed under Title 22 of the California Code of Regulations.

This may be accomplished with a customer survey to allow consumers a voice in the decision making process prior to investing over \$24 million to treat water from existing water wells. ORA noted that Cal Water's current water supply plan will require an additional \$24 million in treatment costs for new wells in the district. In addition, ORA contended that a comprehensive water supply and treatment plan for the Dominguez district is needed to address the water supply and quality in the district and it is only prudent for Cal Water to consider the feasibility of combining treatment facilities and/or blending facilities to reduce costs to ratepayers.

RESOLUTION: Cal Water and ORA engaged in lengthy discussions on the district's water quality and supply needs and the various water supply projects and options. Ultimately, the Parties agree to advise letter status for the following treatment projects –

Project 20768: Ion Exchange at Station 275	\$4,793,000
Project 20772: Ion Exchange at Station 294	\$4,964,000

The Parties further agree that Cal Water should undertake a comprehensive study on source of supply optimization options including the possible use of blending, alternative treatment technologies, and centralized treatment plant options with dedicated supply pipelines. Cal Water will also conduct a well-siting analysis to help identify optimal well locations. This information will facilitate property purchase planning efforts as well as capital project review in the next GRC. The comprehensive study shall also include the results of a customer survey to gauge customers' acceptance of water with aesthetic effects in the Dominguez District. The Parties agree that Cal Water's comprehensive study should also address the issue of nitrification in the distribution system. The Parties agree to designate Project 63837 to complete the study as an advice letter project capped at \$200,000. Cal Water will submit detailed justification to support any incremental cost overruns for Commission review in the next GRC. The Parties agree to meet and confer on the Request for Proposal (RFP) for the proposed study before issuing the RFP.

The Parties agree to advise letter treatment for the construction of wells at existing properties under Project 20838 at the Alameda Property (Station 298/215) for \$1.974 million and under Project 20775 at Station 290 for \$1.912 million. The Parties further agree that Cal Water can start construction of these wells while the comprehensive supply study is underway. If the comprehensive study shows that these wells need individual treatment, Cal Water may include in its advice letter filing additional

1 \$4.6 million at each site for treatment provided that Cal Water can demonstrated that it is
2 the least cost option.

3 Furthermore, the Parties agree Cal Water should defer its requests to purchase
4 properties for three well sites (Projects 79593, 79614 and 79615) and related treatment
5 projects to the next GRC.
6

7 Project 30287 – Enhance Central Basin Water Rights

8 ISSUE: Cal Water proposed capitalizing its litigation costs concerning a Central
9 Basin water rights issue. The Central Basin overlies about 227 square miles of the
10 southeastern part of the Los Angeles Coastal Plain in Los Angeles County, which
11 includes Cal Water's East Los Angeles and parts of its Dominguez systems. This is an
12 adjudicated groundwater basin with limited groundwater extractions under continuing
13 jurisdiction of the Superior Court of Los Angeles. The basin has excess capacity to store
14 additional groundwater. Since early 2000, groundwater users of the basin have
15 proposed and sought Court action to utilize the storage space.

16 Cal Water has participated in the litigation to protect its adjudicated water rights
17 and secure water storage rights on behalf of ratepayers' interests. Water and water
18 storage rights are real property rights and in perpetuity. Costs associated with litigation
19 to create and secure a real property right are non-depreciable capital costs (i.e. land
20 rights). Cal Water anticipates conclusion of the litigation in 2014.

21 ORA has concern on the uncertainty of both the litigation costs and the time it will
22 take to resolve it.

23 RESOLUTION: The Parties agree that due to the uncertainty of the timing and
24 cost, it is appropriate to treat this as an advice letter project capped at \$225,000. Cal
25 Water may file for a rate base offset at the conclusion of the litigation.
26

27 Projects 63837– Nitrification Control Study (and related Projects 63861 and 63895 –
28 Nitrification Control Implementation)

29 ISSUE: Cal Water proposed Project 63837 at \$115,752 for a nitrification study to
30 identify and understand the potential issues of chloramines in the distributions system.
31 Cal Water also requests Projects 63861 and 63895, at \$286,200 each, to implement the
32 resulting nitrification control recommendations from the study. ORA agreed with the
33 need for this study; however, ORA contended that it is premature to include Projects
34 63861 and 63895 to implement the results of the study.

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D.16-12-026, pp. 24-28

could stop this cycle, as would mechanisms to allow for timely true-up of forecasts to actual consumption behavior.

We have entered a new paradigm for water consumption as the drought continues and the weather brings us less rain and snow. Californians have heeded our calls and conserved in record numbers, and water IOU customers have done a particularly good job at conservation. As Governor Brown stated in his 2016 Executive Order B-37-16, water conservation must be a California way of life. Governor Brown's orders and the Commission's resolutions, the work of sister state and local agencies and the efforts of Californians have literally changed the landscape of California by incentivizing the removal of lawns, less outdoor watering, and taking steps to eliminate water waste and minimize leaks.

We need new forecast methods. The "New Committee Method" is based on assumptions not applicable in this prolonged and likely continuing drought. High levels of conservation are the "new normal." We should not defend inaccuracy in forecasting or prolong this ill-suited mechanism for the new drought-conscious California landscape. **Our forecast mechanisms must recognize and use the drought years as a basis for forecasting or at least explain why any non-drought years should be considered a reliable predictor of future consumption, weather or rain.** The time to expect better forecasting has arrived.

6.1.2. SRM and other proposals to update forecasts between GRCs

In addition to updating the forecast mechanism, CWA recommends establishing a policy favoring timely adjustment of sales forecasts for the WRAM/MCBA companies, and any other company that may request such a mechanism, when current forecasts prove inaccurate. CWS and CWA request that the Commission approve use of methods such as the SRM adopted in D.14-08-011 to correct more frequently for GRC forecast errors.

That SRM allows a water IOU that experiences more than a five percent difference (higher or lower) between aggregates sales for the past year as compared to adopted test year sales to adjust the estimated annual sales forecast during the remainder of the rate case cycle by 50 percent of the difference between the GRC-adopted forecast and actual water sales. Changes in rates due to SRM adjustments are included in the annual escalation year rate changes for the following GRC test years. The balance of the 50 percent of the mismatch between sales as adopted in the GRC and recorded sales, as well as imbalances under the five percent trigger, are collected through surcharges imposed over the following six months to three years, as is customary with the recovery of WRAM/MCBA under-collections. CWS and CWA argue that the SRM amplify conservation price signals sent to customers due to their clarity and swiftness as compared to the WRAM.

CWS and CWA also request two changes in applying the SRM:

(1) eliminating the five percent trigger so that the SRM would be applied for any variation between actual and forecasted sales; and (2) eliminating the current 50 percent adjustment limitation used in the CWS SRM so that rates are adjusted for the entire change in sales. CWS argues that the SRM should adjust the forecast to account for 100 percent of the difference between forecasted as compared to actual recorded sales to reduce WRAM amounts and include revenue shortfalls in base rates, a position supported by CWA. CWA would also apply the SRM to all WRAM/MCBA companies, and allow non-WRAM/MCBA utilities to apply it at their discretion.

ORA counters that SRM is not a necessary tool for mitigating drought effects and it opposes allowing all utilities discretion to implement SRM. ORA argues that such discretion may allow some utilities to manipulate the

ratemaking process. ORA argues that forecasts are not the only consideration and that accounting mechanisms are also important. ORA recommends forecasts be adopted at conservation levels set by Commission policy and that deviations should result in financial penalties. We note that ORA and Cal Water have proposed authorization of an SRM in the settlement of the pending Cal Water GRC before this Commission.

The Water Demand Attrition Model (WDAM) proposed by the Commission's PPD in a white paper that was attached to Judge Weatherford's Ruling as Attachment C is another mechanism for forecast updates that reflect the effect of reduced demand on forecasts. CWA's comments in response to the workshop recommend adopting the Sales Reconciliation Mechanism/Demand Attrition Model as a permanent feature for WRAM companies and any other companies that may request such a mechanism. PPD's WDAM proposes:

The algorithm would specify how the water sales forecast would be updated in each year. Some inputs to the algorithm might include drought conditions, reduction in water demand, and hardening of water demand. With this knowledge, an updated expected water demand could be calculated. This new recalculated water sales forecast would establish an updated revenue requirement. The new rate could then be recalculated using the same algorithm establish in the GRC. This is not the same as WRAM balance adjustment, which simply tracks costs and then recovers them in subsequent years.¹⁷

PPD ran a simulation of a WDAM on a theoretical water IOU and found that "cumulative WRAM balances are reduced by more than half simply by updating the sales forecasts in year 2 and 3."³¹ CWA recommends making the WDAM a rate design option for water utilities that request them.

³¹ PPD, WRAM White Paper, *supra* n. 21 at 15.

PPD did not urge adoption of the WDAM model through the Balanced Rates OIR, but suggested that “If the Commission wanted to develop further and discuss this idea then we suggest opening a formal Rulemaking to further investigate.” We agree that the WDAM merits further exploration, and encourage utilities to file in their GRC for a WDAM after analyzing mechanisms to analyze and account for drought conditions and hardening of water demand. Such an application should compare the benefits of the WDAM as compared to the SRM, and show that the suggested mechanism is consistent with the principles adopted in this Decision.

The SRM was litigated in Cal Water’s 2014 GRC, D.14-08-011, and ordered by the Commission, though the parties did not include it in the proposed settlement in the GRC. The SRM is triggered by a five-percent difference (higher or lower) between forecast and recorded sales, and allows 50 percent of the difference to be recovered in rates during the remaining second and third years of the rate case cycle, with the balance recovered through a WRAM/MCBA mechanism.

The Commission found in D.14-08-011 that the SRM was in the public interest “as it would limit the revenue disparity that is tracked by the WRAM by changing rates, as opposed to applying surcharges and surcredits after the fact, when a disparity between adopted and actual sales will contribute to the WRAM balance at the end of the year.”³² The Decision added, “Rather than benefit Cal Water as TURN claims, the SRM can mitigate the rate adjustments under the WRAM. Such a result would be consistent with the Commission’s objective, expressed in D.12-04-048, to consider ways to bring revenue closer to the adopted

³² Cal Water General Rate Case Decision, 2014, D.14-08-011 at 19-20.

revenue requirement.”³³ The Commission approved the SRM for Cal Water in 2014 in light of the drought, and authorized a drought SRM Balancing Account to track rate changes associated with this mechanism and enable review of the SRM in the next GRC.³⁴ Both the SRM and the WDAM reduce WRAM balances and surcharges, increasing immediately the accuracy of price signals, and providing more transparency to the customer about the cost of water service.

6.1.3. Decision Regarding Forecasting and SRM

Over-estimates of water sales lead to deficits in revenue recovery, and corresponding increases in WRAM balances, surcharges, or other revenue collection adjustment mechanism. PPD’s White Paper on the WRAM describes the relationship between the forecasting model currently used in water GRCs to authorize and collect water rates, and high WRAM and under-collection balances that lead to surcharges collected often years after water consumption declines:

If forecast revenues exactly matched actual revenue than WRAM balances would be exactly zero. When demand is lower than expected, however, revenues drop off and utilities collect less than expected: an under-collection of revenue. Conversely, when demand is greater than expected, utilities will exceed the revenue requirement and over collect revenue. These over and under collections are tracked by the WRAM accounts on a yearly basis. One would expect - if the forecast models were both accurate and stable - that these balances would cancel each other out over time. Over the 7 years of the WRAM program, however, utilities have consistently experienced under collection. This experience has brought attention to the quality and accuracy of

³³ *Id.*, at 20 (citing Decision Addressing Amortization of Water Revenue Adjustment Mechanism Related Accounts and Granting in Part Modification to Decision D.08-02-036, D.08-08-030, D.08-09-026, and D.09-05-005).

³⁴ Cal Water General Rate Case Decision, 2014, D.14-08-011 at 19-20.

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D.16-12-042, Exhibit A, p. 239

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** Amounts listed are inclusive of estimated capitalized financing cost adjustment.

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D.16-12-067, pp. 58-60

similarities with the proposed recoating project for Coloma Reservoir #2. We also find that ORA's witness did not have sufficient knowledge regarding the more specific details concerning the Evora Recoat Project from which it is basing its cost recommendations. Based on the above, we find that the requested amount to recoat Reservoir #2 at the Coloma WTP is reasonable and should be approved.

6.1.3.2. Bay Point CSA

Disputed Capital Projects requested for Bay Point CSA are as follows:

(a) \$20,700 to capitalize costs for share in the Randall-Bold WTP;⁷⁷ (b) \$515,800 in 2015 for Madison Reservoir improvements; and (c) \$70,700 in 2017 for design and permit costs of Hill Street Plant improvements and \$50,000 in 2017 for design and permit portion of Skyline Reservoir improvements.

6.1.3.2.1. Positions of the Parties

ORA objects to Golden State's computation regarding its share of costs in the Randall-Bold WTP and recommends that costs be expensed instead. ORA also objects to the Madison Reservoir improvements stating that it is not needed to meet operational and storage requirements in the region. Lastly, ORA recommends a reduction of costs for the Hill Street Plant and Skyline Reservoir improvements, using the same estimates used in the Evora Reservoir project, and imposing certain conditions with respect to completion of the two projects.

Golden State removed \$3,600 in overhead costs for the Randall-Bold WTP and explains that it is not authorized to treat 2015 costs as an expense because its purchased water costs are not being reviewed in this proceeding. Regarding the

⁷⁷ Golden State originally requested \$24,300 but agreed to forego \$3,600 in overhead costs.

improvements for the Madison Reservoir in order to bring it back into service, Golden State argues that the Madison Reservoir is needed to provide sufficient fire flow for the southern portion of Highway 4. Lastly, Golden State provides that the Evora Reservoir project is dissimilar to the Hill Street Plant and Skyline Reservoir projects.

6.1.3.2.2. Discussion

After consideration of the arguments raised by the parties, we find that Golden State should be authorized to recover its share of 2015 costs for Contra Costa County District's Randall-Bold WTP. Golden State explained that it is not able to include costs in its existing MCBA account for 2015, because its purchased water costs for 2015 were adopted by the Commission in D.13-05-011 and we agree. Additionally, Golden State reduced the amount requested by removing \$3,600 of overhead costs.

Regarding the restoration of the Madison Reservoir, Golden State explained that it has compensated for the loss by operating the Chadwick Booster 24 hours a day and 7 days a week plus reconfiguring valves between the Madison Reservoir and Hill Street Reservoir Zones. In addition, the Madison Reservoir is needed to provide sufficient fire flow in the area to ensure safety in case of a fire. We agree with Golden State regarding the need to restore operation of the Madison Reservoir and find the request for improvements to be reasonable and should be approved.

After review of the evidence and arguments raised by the parties, we find the costs and request for improvements for the Hill Street Plant and Skyline Reservoir to be reasonable and should be approved. Golden State provided

testimony that the two projects are dissimilar to the Evora Reservoir project⁷⁸ and we agree. We also find that the requested conditions recommended by ORA are not necessary and we will not micromanage Golden State's construction and completion of these two projects.

6.1.3.3. Clearlake CSA

For Clearlake CSA, disputed capital projects are the following: (a) \$4,400 and \$6,500 in 2017 for design costs to install a generator connection panel at the Lakeshore Plant and the Sonoma WTP; and (b) \$179,100 in 2015 to repair the roof and install a cathodic protection system to enhance and prolong the life of the Sonoma WTP.

6.1.3.3.1. Positions of the Parties

ORA claims that generators for the Lakeshore Plant and Sonoma WTP are not necessary because Golden State has sufficient capacity in Clearlake and because Clearlake has an interconnection with the Highland Water Company. ORA supports the enhancement project to prolong the life of the Sonoma WTP but recommends a cost of \$131,200.

Golden State claims that any extended power outage in the Clearlake area is also likely to affect the Highland Water Company. Regarding the Sonoma WTP repair and enhancements, Golden State argues that its forecast is based on costs of a similar project.

6.1.3.3.2. Discussion

After review of the evidence presented, we find that Golden State was not able to fully justify the need for backup generators at the Lakeshore Plant and

⁷⁸ See Exhibit GS-29.

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D.16-12-067, p. 74

proposed project. We therefore find the forecast amount of \$616,500 for the Orcutt Hill Plant Recoat Reservoir and associated projects to be reasonable and should be approved.

Regarding the proposed roof replacement and other construction for the Mira Flores #1 Reservoir, we find that based on the evidence and arguments presented, the proposed project and forecast costs are reasonable and should be approved. Golden State submitted a tank inspection report⁸⁵ that provides that the roof at the reservoir is failing and in need of immediate replacement or repair. We agree with Golden State's reasoning that this is a good opportunity to address the height of the walls and other issues concerning the reservoir while the roof replacement process is ongoing and that this will provide savings.

Regarding the construction of a storage tank and boosters at the Pinewood Plant, we find that the project and forecast costs are reasonable and should be approved. We find that Golden State provided sufficient justification for the project and provided that the project will improve efficiency of wells in the area because it will allow them to operate close to their design point, improve reliability, and address fire flow demand issues.

Regarding the continuation of design work and construction of the Tanglewood Reservoir and boosters, the Commission already authorized the design portion of this project in D.13-05-011⁸⁶ and so we find that it is reasonable to allow Golden State to perform the design work for this project.

Regarding the purchase of spare pumps/motors for two wells, we find that the request is reasonable and should be approved. Golden State provided

⁸⁵ Exhibit GS-73 Attachment SM02.

⁸⁶ See D.13-05-011, Attachment 3.

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D.18-12-021, p. 10

3. Standard of Review

3.1. Standard of Review for GRCs

As the applicant, Cal-Am bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.⁸ The utility “has the burden of affirmatively establishing the reasonableness of all aspects of its application. Intervenors do not have the burden of proving the unreasonableness of [the utility’s] showing.”⁹

CTO argues that the clear and convincing evidence standard should apply to this case.¹⁰ 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.¹¹ Preponderance of the evidence usually is defined “in terms of probability of truth, e.g., ‘such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.’”¹²

⁸ In the Rate Case Plan for Class A Water Utilities (Decision (D.) 04-06-018), the Commission stated that: “A utility’s application for a rate increase must identify, explain, and justify the proposed increase.” (D.04-06-018, Appendix at 5.) The application must be supported by testimony, with supporting analysis and documentation, describing the components of the utility’s proposed increase. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

⁹ D.06-05-016 at 7.

¹⁰ CTO Opening Brief at 8-9.

¹¹ D.14-12-025 at 20-21 (“It is clear from a review of D.12-11-051, D.11-05-018, and D.09-03-025 that the standard of proof that a utility has to meet in a GRC is one of preponderance of the evidence.”); *see also* D.08-12-058 at 18-19, fn. 28 (discussing the origin of the mistaken citations to a “clear and convincing” standard in rate applications).

¹² D.08-12-058 at 19, citing Witkin, Calif. Evidence, 4th Edition, Vol. 1, 184.

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D.18-12-021, pp. 190-194

renovation of the Imperial Beach Operations Center in its San Diego District because in contrast to the Rosemead Operations Center, the Imperial Beach Operations Center was leased by Cal-Am and there were a number of unknowns about the building when design of the renovation commenced.⁵⁵²

We find that Cal-Am has failed to justify the reasonableness of its overall budget for the project. The Rate Case Plan states: “All significant capital additions shall be identified and justified, and must include need analysis, cost comparison and evaluation, conceptual designs, and overall budget.”⁵⁵³ Cal-Am did not conduct or provide the required cost comparison and evaluation for this project. Cal-Am states that it is considering two options for the project but only provided a cost estimate for one of the two options.

However, we find that Cal-Am has adequately justified the need for this project and there is no dispute between Cal-Am and ORA that this project is needed.⁵⁵⁴ Therefore, we find it reasonable to approve Cal-Am’s requested design dollars for 2018, which will enable Cal-Am to develop the full scope and cost estimate for the entire project. Cal-Am may seek Commission approval of the construction costs for the project in a subsequent GRC provided it is able to justify the reasonableness of these costs.

⁵⁵² *Ibid.*

⁵⁵³ D.07-05-062, Appendix A at A-26.

⁵⁵⁴ Exh. CAW-12 at 157-158; Exh. CAW-24 at 10-13; Exh. CAW-31 at 24-25.

11.6. San Diego District Projects

11.6.1. Silver Strand Main Replacement (I15-300010)

Cal-Am requests \$2,998,671 for 2018, \$6,597,145 for 2019, and \$6,500,000 for 2020 for the Silver Strand Main Replacement project.⁵⁵⁵ This capital investment project is related to the replacement of approximately 52,000 linear feet of 16-inch diameter transmission main, which was originally installed in 1912. This water main has a history of eleven main breaks since the 1980s and there is evidence of increased risk to the overall system operation.⁵⁵⁶ The overall investment project will take more than one GRC timeframe to complete, and therefore, Cal-Am believes it prudent to separate the project into phases.⁵⁵⁷ In this GRC cycle, Cal-Am plans to undertake the first phase (Phase A), which includes design and permitting for the entire length of the investment project and also replacement of 5.7 miles (30,096 feet) of transmission main. The second phase (Phase B) would encompass the replacement of the remaining approximately three miles (21,120 feet) of transmission main and would take place during the next GRC. Cal-Am states that construction is planned to begin in the second half of 2019 but that the actual start date could change to 2020 or later.⁵⁵⁸

ORA recommends that the Commission approve a budget of \$6,655,434 over the 2018-2019 period for this project.⁵⁵⁹ ORA's recommended budget includes funding for the design of the entire project, as well as replacement of

⁵⁵⁵ *Id.* at 12.

⁵⁵⁶ Exh. CAW-12 at 109.

⁵⁵⁷ *Id.* at 110.

⁵⁵⁸ *Id.* at 111.

⁵⁵⁹ Exh. ORA-1 at 46.

two miles of main. ORA argues that it is reasonable to authorize a replacement of two miles for the 2018-2019 period based on the original proposed replacement rate of approximately one mile per year over a ten-year period.⁵⁶⁰ ORA argues that Cal-Am's replacement rate is not realistic due to the uncertainty in the scheduling of the project, challenges in construction, and Cal-Am's start date for the project.⁵⁶¹ ORA also notes that Cal-Am's requested budget does not take into account any additional funding provided by the U.S. Navy due to the portions of the main that the Navy needs to relocate for the Navy Coastal Campus Project.

Cal-Am has adequately justified the need for this project and there is no dispute that this project is needed. We find Cal-Am's proposed accelerated replacement rate and requested budget for 2018-2019 to be reasonable.⁵⁶² The fact that a replacement rate of 1-mile per year was previously proposed is not dispositive. The record supports that a rate of 5.7 miles over this GRC cycle is attainable.⁵⁶³ Given that this project will take place in a high traffic area and the risk of failure to sections of original pipeline, we find Cal-Am's proposed accelerated replacement schedule to be preferable to the original ten-year replacement schedule. Furthermore, we find that Cal-Am's budget request does not include the portions of the main that will be replaced through the Navy's

⁵⁶⁰ The original scope of the project was to replace the full span of the approximately 10-mile Silver Strand main over a ten-year period. (*Id.* at 44.)

⁵⁶¹ *Id.* at 45.

⁵⁶² Pursuant to the Rate Case Plan and Revised Rate Case Plan, all rate base items are subject to two test years and an attrition year, and therefore, this decision does not approve a budget for 2020. (D.04-06-018, Appendix at 2; D.07-05-062, Attachment A at A-19.)

⁵⁶³ Exh. CAW-31 at 11-12.

Coastal Campus Project, and therefore, that the funding from the U.S. Navy has no impact on Cal-Am's budget request.⁵⁶⁴

**11.6.2. Coronado Reliability Supply Project
(I15-300014)**

Cal-Am requests that the Commission recognize the original estimated preliminary engineering and initial design costs of \$648,092 in 2018 and \$623,110 in 2019 for the Coronado Reliability Supply Project.⁵⁶⁵ This project includes a study and analysis of recommended improvements to reduce the potential of catastrophic failure of a 20" transmission line that runs from San Diego to Coronado.⁵⁶⁶

ORA recommends that the Commission allow \$341,315 in the 2018-2019 period for the initial design and preliminary engineering component of the Coronado Reliability Supply Project.⁵⁶⁷ ORA contends that the Commission should not authorize the full amount requested by Cal-Am because of uncertainties regarding what improvements are necessary.⁵⁶⁸ ORA argues that Cal-Am's requested costs include construction costs and that it is more prudent for Cal-Am to first conduct the study and analysis portion of the project to determine the project's full scope and most cost-effective alternative before pursuing construction.⁵⁶⁹

⁵⁶⁴ Cal-Am Reply Brief at 49.

⁵⁶⁵ Cal-Am Opening Brief at 143.

⁵⁶⁶ Exh. CAW-12 at 163.

⁵⁶⁷ ORA Opening Brief at 95.

⁵⁶⁸ *Ibid.*

⁵⁶⁹ *Id.* at 95-96.

Cal-Am notes that ORA does not dispute the need for the project. Cal-Am contends that ORA's recommended reductions are based on a misunderstanding of the component costs of the project. Cal-Am states that this project would not involve any construction efforts during this GRC cycle but would only involve preliminary engineering work, design, and permitting activities.⁵⁷⁰

Cal-Am claims that ORA misinterprets the component costs of this project, however, Cal-Am fails to cite to any evidence in the record that supports its claim. In its reply brief, Cal-Am cites to an excel file attached to a data response, which is not in the evidentiary record.

There is no dispute as to the need for this project. There is also no dispute that initial design and preliminary engineering costs totaling \$341,315 for 2018-2019 should be allowed for this GRC cycle. We agree with ORA that it is more prudent for Cal-Am to first conduct the study and analysis portion of the project. Given that Cal-Am fails to adequately justify the remainder of the costs requested, we find it reasonable to approve \$341,315 for 2018-2019.

12. Rate Base

12.1. Construction Work in Progress

CWIP is the amount of capital expended on projects that are at any time under construction for customer benefit. The purpose of CWIP for ratemaking is to provide the utility the ability to cover the carrying cost of the plant under construction, before it is transferred to plant-in-service for accounting book purposes. Generally, the Commission has allowed utilities to recover the carrying costs for plant under construction either through CWIP in rate base or

⁵⁷⁰ Cal-Am Opening Brief at 143-144; Cal-Am Reply Brief at 49-50.

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D.20-07-032, pp. 22-25

5.2. Essential Water Service

The revised staff proposal recommends that the definition of essential water service be set at 600 cubic feet per household per month. This amount is intended to cover essential indoor usage adequate for human consumption, cooking, and sanitary purposes.⁴⁸ Staff granted that although there were limitations with using a single figure statewide for essential water service where average household sizes may vary, given the limitations of current data it was expedient to adopt a single statewide figure to be used to compare water utilities across California.⁴⁹

The revised staff proposal also noted that the 600 cubic feet per household per month figure aligned with essential water service amounts under development by other state agencies. Staff stated that OEHHA released a draft assessment in August 2019 that found that 600 cubic feet per household per month represented essential water need, given currently available statewide data. Additionally, at an August 2, 2019 workshop in R.17-06-024, the State Water Resources Control Board (Water Board) noted that it was also considering adopting an essential usage quantity of 600 cubic feet per household per month as part of the Statewide Low-Income Water Rate Assistance Program.⁵⁰

Staff stated that they planned to update this figure in the future if warranted by findings in other proceedings, or if more refined data became available concerning regional and water system-specific levels of water usage.⁵¹

⁴⁸ Revised staff proposal at 19.

⁴⁹ Revised staff proposal at 19.

⁵⁰ Revised staff proposal at 19.

⁵¹ Revised staff proposal at 19-20.

TURN supported this approach,⁵² as did several other parties.⁵³ UCAN called the figure “defensible” while recommending that the figure be compared against real-world usage patterns to see if the number should be revised downward.⁵⁴

While Cal Advocates supported a household, rather than per capita, approach to setting an essential usage figure, they also believed that it may “be more appropriate to rely on an estimate of median winter water demand that is calculated from the company’s actual single-family residential customer data (by district, where applicable)” instead of assigning a single statewide figure for essential water service. Cal Advocates claims to have analyzed data showing that an essential water service quantity of 600 cubic feet could over- or under-estimate actual indoor demand by 200 cubic feet or more for approximately 35% of the single-family residential connections reviewed by Cal Advocates.⁵⁵

CforAT argues against using regional variations in water usage to set an essential service quantity, reasoning that regional variations are likely driven by non-essential outdoor usage rather than essential indoor usage.⁵⁶

CWA continued to recommend a per capita approach to setting essential water service, rather than a household-level amount, in order to maintain consistency with other state standards for water use adopted by the Legislature.

⁵² TURN opening comments at 3.

⁵³ *See, e.g.*, Cal Advocates opening comments at 8.

⁵⁴ UCAN opening comments at 4.

⁵⁵ Cal Advocates opening comments at 9.

⁵⁶ CforAT reply comments at 5-6.

CWA also believes that the definition of essential water service should vary on a regional and local basis rather than be set at a single state-wide figure.⁵⁷

CforAT has concerns about a single defined essential water service amount for all households, including larger households that may have greater indoor water needs. CforAT recommends that staff “continue to explore methods to evaluate essential service levels based on household size, as that is a main factor affecting essential indoor use.”⁵⁸ CforAT seeks a statement of Commission intent that this refinement to the adopted quantity of essential water service will be pursued.⁵⁹

SCE also objected to a single state-wide figure for residential water use, stating that different customers in different areas of the state use varying amounts of water. As an example, SCE cited customers using their Catalina Island water system as using only 30 gallons per capita per day on average, which is reflected in SCE’s water rate structure. SCE’s water baseline rates are set at a household usage of approximately 270 cubic feet per month, rather than the 600 proposed by the revised staff proposal. The impact of the larger essential quantity proposed by the revised staff proposal would be, in SCE’s view, an overstatement of the cost of providing essential water service.⁶⁰

Despite the objections of the parties to a statewide figure that is per household rather than per capita, the definition of essential water service as recommended by the revised staff proposal is reasonable and should be adopted. It allows for

⁵⁷ CWA opening comments at 5.

⁵⁸ CforAT opening comments at 4.

⁵⁹ CforAT reply comments at 6.

⁶⁰ SCE opening comments at 3.

comparisons of costs for water across the state, and uses a reasonably defensible per household figure to do so. However, the parties' recommendations concerning regional and household variation in water usage are noted and staff will further investigate the need for refinements to the definition of essential water service in a later phase of this proceeding.

5.3. Essential Communications Service

The revised staff proposal recommends defining essential levels of communications service as multiple service elements, including residential basic telephone service (basic service) or wireless voice service with 1,000 minutes per month in addition to fixed broadband at a minimum connection speed of 20 megabits per second (Mbps) downstream / 3 Mbps upstream and a minimum capacity of 1,024 gigabytes (GB) per month.

5.3.1. Essential Voice Communications Service

TURN argues that the definition of essential voice communications service should be expanded to include at least one mobile communications account per adult household member, and that unlimited voice minutes should be adopted as the minimum mobile communications service, rather than the 1,000 voice minutes proposed by staff.⁶¹ UCAN argues that the cost of landline telephone service should not automatically be used as a value for essential communications service as many Californians may rely exclusively on mobile telephone services, and instead a proxy value based on mobile telephone rates should be used.⁶² However, UCAN also contends that for certain areas of the state without access to mobile telephone

⁶¹ TURN opening comments at 15-16.

⁶² UCAN opening comments at 3.

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D.20-07-038, pp. 3-4

considering nonutility owned alternatives; and (4) failed to properly ascertain the scope of SCG's existing easements and land rights. POC also requests oral argument. A Joint Response was filed by SCG and SDG&E.

We have carefully considered the arguments raised in the Applications for Rehearing and are of the opinion that the Decision would benefit from modifications to clarify or correct its text, findings, and/or conclusions regarding: (1) Edison Electric Institute (EEI) dues; (2) non-executive incentive compensation allocated from the Sempra Energy Corporate Center (Corporate Center); (3) voluntary dues, donations and charitable contributions; (4) SCG's proposed PSEP cost estimates; (5) SCG's Aliso Canyon Gas Storage Facility (Aliso) Turbine Replacement Project; and (6) DER funding findings.

We find that otherwise, good cause has not been established to grant rehearing. Accordingly, we deny the Applications for Rehearing of D.19-09-051, as modified, because no legal error has been shown.

II. DISCUSSION

TURN REHEARING APPLICATION

A. Burden of Proof

TURN's rehearing application repeatedly claims that we failed to hold the utilities to their burden of proof, and wrongly shifted the burden to the intervenors. (See, e.g., TURN Rhg. App., pp. 6, 9, 16, 18, 19, 20.) We disagree with this claim.

Commission decisions consistently hold the utilities to their ultimate burden to prove the reasonableness of the relief they seek and the costs they seek to recover.⁵ Yet when other parties propose a different result, they too have a "burden of

⁵ See, e.g., *Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective January 1, 1999, and Related Matters* [D.00-02-046] (2000) 4 Cal.P.U.C.3d 315, 339-341.

going forward” to produce evidence to support their position and raise a reasonable doubt as to the utility’s request.⁶

Although we agree our Decision can be modified in some respects, in most instances where TURN claims the burden was shifted, TURN merely failed to meet its burden of going forward. In addition, just because an intervenor’s recommendations may not prevail does not mean we improperly shifted the burden. We have previously explained:

...a party may fulfill its burden of proof to demonstrate the facts it asserts but still receive an unfavorable decision outcome. This is because many of our decisions are policy judgements. In many cases, we must consider how our decision influences utility decision-making, customer options, the structure of the industry, and whether a proposal is consistent with other policy decisions and rules....

(In the Matter of the Application of Southern California Gas Company for Authority to Increase Rates Charged for Gas Service Based on Test Year 1994 and to Include an Attrition Allowance for 1995 and 1996; Order Instituting Investigation into the Rates, Charges, and Practices of Southern California Gas Company [D.93-12-043] (1993) 52 Cal.P.U.C.2d 471, 484.)

We discuss TURN’s specific substantive challenges below.

B. Overhead Pools

Overhead pool accounts reflect the costs for: (1) local engineering for electric distribution projects; (2) local engineering for substation projects; (3) department overheads; and (4) capital project contract administration.⁷

⁶ See, e.g., D.87-12-067, *supra*, 27 Cal.P.U.C.2d pp. 34-38.

⁷ See, e.g., D.19-09-051, pp. 286-287 (Section 21.2.3.7.); SDG&E Exhibit (Exh.) 74, pp. AFC-68 to AFC-74. (See also SDG&E Exh.-14-CWP, Section 00901 [local engineering – electric distribution pool], Section 00904 [local engineering – substation pool], Section 00905 [department overhead pool], and Section 00906 [contract administration pool].)

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D.20-08-047, p. 2

DECISION AND ORDER

Summary

This decision resolves Phase I issues in this proceeding. This decision evaluates the sales forecasting processes used by water utilities and concludes that, after years as a pilot program, the Water Revenue Adjustment Mechanisms have proven to be ineffective in achieving its primary goal of conservation. This decision therefore identifies other benefits the Water Revenue Adjustment Mechanisms provide that are better achieved through the Monterey-Style Water Revenue Adjustment Mechanisms and requires water utilities to propose Monterey-Style Water Revenue Adjustment Mechanisms in future general rate cases. This decision also:

- (1) directs water utilities to provide analysis in their next general rate case to determine the appropriate Tier 1 rate breakpoint that aligns with the baseline amount of water for basic human needs for each ratemaking area;
- (2) adopts consistent terminology for low-income rate assistance programs for all Commission-regulated water utilities and directs the creation of a low-income multi-family housing rate assistance pilot;
- (3) authorizes a pilot program that provides a discount to water users in low-income multi-family dwellings that do not pay their water bill directly through the utility; and
- (4) directs standardized reporting requirements to be followed by water utilities and provides direction with respect to specific information required to streamline consideration of consolidation requests.

This proceeding will remain open upon issuance of this decision to consider Phase II issues.

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The Public Advocates Office of the Public Utilities Commission urged the Commission should maintain current ratepayer protections that require all incremental costs associated with providing non-tariffed (*i.e.* administrator) services to be allocated to unregulated operations and not reduce the portion of non-tariffed revenues that are credited to ratepayers.

4.2.9. Safe Drinking Water Loan Funds Comments

California Water Association recommended speedy approval of safe drinking water fund loan authorization requests and greater assistance from Commission staff in working with Board staff in the application and implementation process.

5. Water Sales Forecasting

All parties agreed that California's rising drought risks created new challenges for sales forecasting and water efficiency. However, the alternative solutions presented offered varying levels of specificity and little agreement among the parties.²³ California Water Association proposed no substantive change from the current method and advocated against any uniform requirements. The Public Advocates Office of the Public Utilities Commission provided the most persuasive approach, setting forth specific factors water utilities should use in their individual sales forecasts. Southern California Edison Company sought to move the sales forecast to an annual process, similar to the electric Energy Resource Recovery Account (ERRA) with annual updates, or

²³ California Water Association at 11-12, The Public Advocates Office of the Public Utilities Commission at 1-3, SCE at 2-4.

include the possibility for multiple forecasts to be approved in the GRC process with the water utility selecting the drought or non-drought option each year depending on more recent forecasts.

5.1. Requiring Specific Factors in Future Sales Forecasts

We have long recognized that sales forecasting is specific to each water utility and the areas they serve; however, in adopting the initial Water Action Plan in 2005, we determined that there were some uniform best practices that should be adopted to govern how all water utilities approach and work within the regulatory framework in California. After reviewing the comments and the record in this case, we are persuaded that additional guidance is needed to ensure water utilities incorporate the rising drought risk in California.

5.1.1. Short Term Forecasting

Specifically, we agree with the Public Advocates Office of the Public Utilities Commission that drought year data should be included in forecasting. Further, certain factors should be included in the sales forecasting model presented by a water utility in its GRC or equivalent. While water utilities may still choose their preferred water sales forecasting model, the following factors should be incorporated into the model they choose:

1. Impact of revenue collection and rate design on sales and revenue collection.
2. Impact of planned conservation programs.
3. Changes in customer counts.
4. Previous and upcoming changes to building codes requiring low flow fixtures and other water-saving measures, as well as any other relevant code changes.

5. Local and statewide trends in consumption, demographics, climate population density and historic trends by ratemaking area.
6. Past Sales Trends.

Thus, in any future GRC submitted after the effective date of this decision, a water utility applicant must discuss how these specific factors impact the sales forecast presented in the application.

5.2. Water Revenue Adjustment Mechanisms

The issue of adapting the sales forecast over time and matching as closely as possible the revenue generated by rates to the costs approved for the year is made more difficult as we consider the impacts of drought risks in each service area. Parties identified the WRAMs as one way we could further adapt our policies to changing conditions while still allowing utilities the ability to earn a reasonable rate of return and keep rates just and reasonable.²⁴ Southern California Edison Company's proposal to allow utilities to update sales forecasts yearly was an approach we considered, but we reject it at this time as this approach is intended to work in conjunction with a WRAM/MCBA counter to our preferred alternative.

The WRAM tracks the difference between the authorized quantity rate revenues and actual billed quantity-rate revenues over a calendar year period

²⁴ Pub. Util. Code § 451. Cal-Am 2017 Comments at 3, California Water Association 2018 2018 Comments at 7-9, The Public Advocates Office of the Public Utilities Commission 2018 Comments at 7-8, San Gabriel Valley Water Company 2017 Comments at 8. *See also*, The Public Advocates Office of the Public Utilities Commission Sept. 2019 Comments at 5, California Water Association Sept. 2019 Comments at 13-16, SCE Sept. 2019 Comments at 3-5.

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D.20-12-007, pp. 20-32

water treatment issues, as is promoted by Cal PA. In this decision, we choose to uphold the more demanding state standards and proactive approach.

Cal Water seeks authority to construct \$10 million of plant improvements in its Dominguez District. All proposed construction projects in the Dominguez District (34,000 customer accounts) involve water treatment facilities. For each project, Cal Water proposes to follow California Division of Drinking Water (DDW) instructions and DDW permit conditions, regardless of whether the water quality of a well associated with the proposed construction does or does not exceed maximum acceptable contaminant levels set by the federal government. As justification for following DDW rather than federal standards, Cal Water points out that its rate proposal depends heavily on the use of groundwater to serve the residents of the Dominguez District.²⁶ Cal Water presented evidence showing that should it fail to bring water quality up to the stricter DDW standards, DDW could order Cal Water to cease relying on groundwater from one or more wells in the Dominguez District. In turn, that would likely result in higher rates or a revenue shortfall because Cal Water would have to rely on importing water, which is an expensive proposition.²⁷

With one exception (a \$413,000 allowance for a feasibility study and basic pumping equipment at Well 219-02), Cal PA contends that the Commission should follow federal maximum contaminant standards, none of which have been violated frequently enough by Cal Water to require remedial

²⁶ CW Opening Brief at 59-60 (“The cost of constructing and operating the [improved] treatment facilities [is] substantially less than purchasing water Indeed, Cal Water indicated that it would be seeking groundwater usage in the Dominguez District as part of [this] general rate case”).

²⁷ *Ibid.*

measures, and deny Cal Water the revenue necessary to follow DDW's instructions and permit requirements. Cal PA also points out that some of the wells at which Cal Water proposes remedial construction projects are currently listed as "active" wells by DDW, contrary to Cal Water's insistence that the same wells are currently shut down.

We shall follow the guidance of our sister agency, DDW. Removing methane gas in well water, as well as fixing odor and color problems that may be indicators of more serious health threats for customers, is within the purview of DDW, and we will support such measures, not ignore them, in these Covid-19 circumstances, even though there is no sustained violation of federal maximum contaminant standards occurring. The physical and mental health of the public is especially important for us to protect during the current pandemic.

Furthermore, the overall purpose of the proposed construction projects is to maximize the amount of high-quality water taken from the ground rather than purchasing more expensive water elsewhere. By delivering high quality, lower-cost ground water to its Dominguez customers, rather than expensive bottled water, Cal Water will avoid adding further financial pressure to that already being experienced by its customers due to Covid-19, as well as avoid further mental and physical stress on its customers.

4. Ratemaking Issues Before the Commission

The following ratemaking issues are not as sensitive to the presence of the Covid-19 pandemic. They raise issues concerning our specific ratemaking methodologies, our accounting standards, and Cal Water's approach to consolidation of its districts and regions.

4.1. Should Cal Water Be Ordered to Eliminate from Its Balancing Accounts the Pension and Health Care Costs Associated with 23 New Employment Positions Filled Between GRCs?

Cal PA opposes Cal Water's request to recover the pension and health care costs (recorded in balancing accounts for such costs) associated with 23 newly hired or recently promoted employees,²⁸ while simultaneously urging us to authorize the very positions for which the same employees were hired.²⁹ The basis for Cal PA's seemingly contradictory positions is a former Commission decision, D.92-03-094. As Cal PA puts it, D.92-03-094 is the applicable law, and it compels such a result, namely, failure to accurately forecast future hiring needs with full accuracy precludes recover from ratepayers of the associated pension and health care costs.³⁰ We disagree.

D.92-03-094 is inapposite to this proceeding. That decision concerned the sale and leaseback of a water utility's headquarters building in downtown Los Angeles and the construction of its new headquarters in San Dimas, several miles distant. Both the former and new headquarters were major capital assets of the utility. The sale/leaseback of the old and the construction of the new headquarters required our permission. That aspect of the decision alone distinguishes it from the present situation where our permission is not necessary for a utility to hire individual employees on an as-needed-basis.

²⁸ Several of the employees were promoted and new employees were hired to fill their prior positions. *See* CW Opening Brief at 28-29 ("[M]any of the created positions were promotional causing vacancies at the prior positions ...").

²⁹ *Compare* Exh. PA-11 at 6, lines 10-11 ("Commission should adopt the new positions Cal Water actually hired") *with id.* at 6, line 21- at 7, line 2 ("Commission should disallow recovery of pension costs and health care costs incurred for new hires ... until TY 2020").

³⁰ CA Reply Brief at 4-6.

There are additional, pertinent distinguishing aspects to D.92-03-094. In an earlier related decision, D.89-04-079, we authorized the same Los Angeles water utility to open memorandum accounts, one to track the ownership-costs collected in its rates and another to track the costs it incurred as a result of the sale/leaseback of its headquarters. Most importantly, we expressly provided that while over-collections for ownership costs were subject to refund, the utility would be at risk for under-collections. There was a significant under-collection during the sale/leaseback period, and we held in D.92-03-094 that the under-collection of revenue in rates could not be passed through in future rates.

Here, Cal PA has offered no evidence whatsoever to show us that our prior authorizations of Cal Water's pension and health care balancing accounts contained express prohibitions against combining the pension or health care costs associated with necessary, but unpredicted employment positions between GRCs with those same costs for existing employees. Nor did Cal PA provide evidence of any express provision prohibiting recovering of such costs in rates. As Cal Water points out, we authorized creation of these balancing accounts to track pension and health care costs in the aggregate on a companywide basis, without distinguishing between existing employees and employees newly hired or promoted of necessity.³¹ Cal Water has done exactly what we expected it to do, unlike the water utility in D.92-03-094 which ignored our express prohibition of its request and tried to do what we had prohibited.

For the same reason, we also are not persuaded by Cal PA's reliance on and quotations from the remaining portion of D.92-03-094. The remainder of

³¹ CW Reply Brief at 28-29 ("[B]alancing account mechanisms at issue were never designed to track the costs of specific personnel, but instead ... the pension and medical costs for the Company as a whole.").

D.92-03-094 concerns costs associated with the new office headquarters of the water utility that were not recorded in any memorandum account because the utility failed to ask for authority to create one. For that reason, we prevented the utility from seeking to recover the unrecorded costs in rates.

The undisputed facts here are that we have already authorized balancing accounts for Cal Water to track its pension and health care costs for our review on a companywide basis, and Cal Water has done what it was supposed to do. In contrast, we denied recovery in D.92-03-094 precisely because the utility failed to do what it was supposed to do. Thus, because of these factual differences, we do not find D.92-03-094 instructive here.

Cal Water's expenses for pension and health care benefits associated with filling new employment positions will be treated in the aggregate with all other employees when it is clear from the record that the employees are needed (which Cal PA concedes) for the utility to provide safe, reliable service to customers and no express prohibitions against doing so exist.

4.2. Should Cal Water's Pension Cost and Health Care Cost Balancing Accounts Be Re-Authorized?

Cal Water has asked that we authorize it to maintain pension cost and health care cost balancing accounts for this rate-case cycle just as we have customarily done in past GRCs.³² Cal PA objects and contends that: (1) past practice prevents the balances in the accounts from being reviewed in their entirety during a GRC proceeding; (2) customary procedures for amortizing these accounts allow no opportunity for the Commission to review the amount to be amortized; and (3) the existence of the balancing accounts has incentivized

³² CW Opening Brief at 51-57.

Cal Water purposefully to underestimate its pension and health care costs for its employees.³³

We find there is no reason to agree with Cal PA's opposition to following past practice and authorizing the same type of balancing accounts again.

As for Cal PA's criticism that past practice prevents the balances in the account from being reviewed in their entirety in a GRC proceeding, care must be taken to distinguish between merely authorizing the use of balancing accounts to track pension and health care costs for Cal Water's employees and actually amortizing some or all the balances in the accounts. In this proceeding, Cal Water asks merely that we approve of the use of balancing accounts for the coming rate case cycle. Cal Water has not asked us to rule on the proper amount to be amortized in the currently existing balancing accounts. The Commission will determine the amounts to be amortized from the currently existing balancing accounts when Cal Water files an Advice Letter with a request for a determination. The total amount recorded in each balancing account over the appropriate three-year rate cycle will be reviewed. Pursuant to past and present practice, should Cal PA want to object to the amount Cal Water asks to amortize from one or both balancing accounts, it will have an opportunity to do so and to seek the full Commission's review of the Water Division's decision. We see nothing wrong with this existing process, and Cal PA has failed to offer any good reason for changing it.

Relying on a strained interpretation of a portion of Cal Water's prepared testimony, Cal PA argues that the balancing accounts act as incentives for Cal Water to intentionally lower its forecasts of pension and health care costs,

³³ CA Opening Brief at 28-29; CA Reply Brief at 6-7.

knowing that when it is time to amortize the accounts, they will likely be trued-up. Cal Water denied the allegation both from the witness stand and in prepared rebuttal testimony by its Vice President, CFO Thomas Smegal.³⁴ Mr. Smegal's prepared testimony provides a detailed historic account of Cal Water's forecasts of pension and health care costs compared to what subsequently occurred.³⁵ We find no indication in the record evidence of any intention to underestimate costs and then fall back on a true-up process, when amortizing the balancing accounts, to recover under-collections.

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.³⁶ No evidence is offered for such a sweeping statement. We reject the argument. And, we invite Cal PA to consider the enormous, unprecedented damage to the health and finances of the American workforce and employers rendered by a single virus strain, which no one predicted – precisely the kind of environment in which balancing accounts should be used.

4.3. Should the Cost of Removing Main and Service Lines Be Added to the Cost of Installing New Lines or Continue to Be Included in Depreciation Calculations for the Vintage Lines?

The debate over this issue has no place in this proceeding. We agree with Cal Water that the position espoused by Cal PA “appears to be trying to establish new precedent on depreciation expense ... wholly out of step with Commission

³⁴ EH Tr. (Smegal) at 997, line 4 – at 1000, line 3; Exh. CW-103 at 94, line 5 – at 96, line 8.

³⁵ Exh. CW-3 at 36 -- 42; *see also* Exh. CW-103 at 94, line 5 – at 96, line 8.

³⁶ CA Reply Brief at 7 (“pension and health care costs are foreseeable”).

history, past practice and with generally accepted accounting principles.”³⁷ It is especially out of step with Standard Practice U-38-W. Furthermore, if a Class A water utility, a member of the public or Cal PA feels a different accounting treatment should be applied to the removal of main and service pipes, the *Uniform System of Accounts for Class A Water Utilities* provides a process for requesting such a change, and that process was not followed here by Cal PA.³⁸ Briefly, the Commission’s Standard Practice U-1-W authorizes the Director of the Water Division to determine whether it is appropriate to change an existing practice and provides appropriate procedures to follow.

Cal PA recognizes that the long-standing practice for treating costs associated with the retirement of utility plant facilities is to book the costs with the vintage facility rather than the replacement facility for purposes of depreciation expense.³⁹

However, Cal PA purports to have discovered an exception to this general accounting practice that is applicable to water mains and service pipes. Cal PA bases its argument on the following language found in U-38-W: “[t]he cost of disposing of material excavated in connection with construction shall be

³⁷ CW Reply Brief at 6.

³⁸ “When the public, staff, a utility or [Public Advocates Office] sees the need to revise a standard practice, it will forward the suggested changes to the Director. The Division will consider the suggestions, coordinate with all affected parties, and modify the existing standard practice as appropriate. After the Director’s review, staff will send the modified standard practice out for comment. After staff receives comments, the Director will finalize and issue as a revised standard practice.” Standard Practice U-1-W, Section E-Revising Standard Practices, *Uniform System of Accounts for Class A Water Utilities* (January 2018) at 4, par. 9.

³⁹ CA Opening Brief, at 53 (“Total depreciation accrual is the sum of the depreciation accrual for the recovery of a utility’s investments in plant (plant less net salvage value) plus the depreciation accrual for the future cost of removal.”)

considered *as part of the cost of such work*.”⁴⁰ Cal PA contends that the quoted language was intended to apply to water mains and service lines and that it means that costs associated with removing vintage pipes from service must be associated with the costs of installing new pipes, for depreciation purposes.

We do not accept Cal PA interpretation of Standard Practice U-38-W. The language cited by Cal PA is taken out of context, as Cal Water points out.⁴¹ It is taken from a section of U-38-W that addresses structures and improvements to land, such as buildings, and does not address main and service pipelines. Standard Practice U-38-W is organized to distinguish “Structures and Improvements” to land from facilities that comprise “Transmission and Distribution Mains” or “Service[]” lines.⁴² There simply would not be any reason to provide these two separate sections were Cal PA’s proffered interpretation of U-38-W correct.

Neither would Utility Plant Instruction 12, entitled “Additions and Retirements of Utility Plant,” have been included in Standard Practice U-38-W, if Cal PA’s interpretation was correct. Instruction 12 directly addresses the issue raised by Cal PA: “[When] property is of depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the depreciation reserve provided for such property.”⁴³ Moreover, the portion of U-38-W entitled

⁴⁰ *Id.*, at 55 citing Standard Practice U-38-W, *Uniform System of Accounts for Class A Water Utilities* (January 2018) at A59 (emphasis in original Cal PA’s Opening Brief).

⁴¹ CW Reply Brief at 4 – 7.

⁴² See Standard Practice U-38-W, *Uniform System of Accounts for Class A Water Utilities* (January 2018) at A64 (listing accounts for “Structures and Improvements” separately from accounts for “Transmission and Distribution” or “Services”); see also, *id.*, at A63 (providing a separate Utility Plant Instruction 16 entitled “Classification of Mains” that addresses water mains specifically).

⁴³ *Id.*, at A60.

“Reserve for Depreciation of Utility Plant” (Account 250) provides specific instructions for how the depreciation reserve should be allocated:

- B. At the time of retirement of depreciable utility plant in service, this account shall be charged with the book cost of the property retired and cost of removal, and shall be credited with the salvage value and any other amounts recovered, such as insurance.
- C. The credits and debits to the reserve shall be so made as to show separately (1) the amount of accrual for depreciation, (2) the book cost of property retired, (3) cost of removal, (4) salvage, and (5) other items, including recoveries from insurance.⁴⁴

U-38-W’s inclusion of broad, general directions such as these, without any written exception specifically applicable to water mains and service pipes, strongly implies that water mains and service pipes are to be accounted for under the general instructions, above. That being the case, Cal PA’s position on this issue is properly presented to the Director of the Water Division as a request to change U-38-W as currently written, understood and applied. We will not change it in this GRC.⁴⁵

⁴⁴ *Id.*, at A42 (emphasis added).

⁴⁵ Cal PA also raised a corollary issue: Because Cal Water theoretically could avoid all “removal” costs by abandoning all vintage mains and service pipes in place, shouldn’t the removal costs for abandoned pipes always be zero? *See* CA Opening Brief at 52-55. However, Cal PA offered no proof to support the critical presumption that there are no costs associated with abandoning a pipe in place. On the contrary, there is record evidence that there are always costs associated with abandoning a pipe in place. *See* CW Reply Brief at 2-3. Accordingly, we need not address this hypothetical issue.

4.4. Should Cal Water Be Required to Use Short Term Interest Rates for Funding Any Portion of Construction Work in Progress (CWIP)?

Cal PA requests that we deny Cal Water's proposed financing of construction projects during 2020-2022 at Cal Water's authorized rate of return.⁴⁶ Cal Water's authorized rate of return is a combination of equity and long-term debt.⁴⁷ It currently is authorized at 7.48 percent.⁴⁸ Assuming Cal PA's estimate of the additional amount of financing necessary during each year of the current rate cycle (\$6.75 million/year), Cal Water admits that the annual impact on its revenue requirement would be an additional \$878,000 annually.⁴⁹ Cal PA promotes using only financing costs at or near Cal Water's short-term debt rate of 2.91 percent,⁵⁰ which would produce a significantly smaller impact on revenue requirement. Cal PA offers four arguments why we should order Cal Water to devote all or as much of its available short-term interest financing to CWIP before using any more expensive financing for CWIP. We are not persuaded by any of Cal PA's arguments for the following reasons.

First, Cal PA appears to object to the "doubling" or "compounding" effect of capitalized interest associated with CWIP.⁵¹ However, the same is true

⁴⁶ CA Opening Brief at 60-70.

⁴⁷ Exh. CW-103 at 165.

⁴⁸ Exh. CW-02 at 82, lines 15-16.

⁴⁹ However, Cal Water expressly declines to agree with Cal PA's assumption of an additional \$6.75 million per year for CWIP. CW Reply Brief at 16, fn. 59.

⁵⁰ CA Opening Brief at 69.

⁵¹ Exh. PA-01 at 92. A utility has a choice to record CWIP, including the financing costs, in either rate base on an annual basis, or record the costs in an account labelled Allowance for Funds Used During Construction (AFUDC) and then capitalize all costs as soon as the plant goes into service. Cal Water chooses to follow the latter procedure and Cal PA does not oppose Cal Water's use of the AFUDC vehicle for adding construction financing into rate base.

whether we order Cal Water to use its short-term interest rate (2.91 percent) or its rate of return (7.48 percent). Once capitalized, the interest rate on construction projects will be “doubled” (compounded) if it is equal to or lower than Cal Water’s rate of return, which it almost always is. Thus, this reality is not much help in distinguishing whether a rate at or near to Cal Water’s rate of return is an appropriate interest rate for CWIP. It is simply an illustration that a higher interest rate has a greater effect on rates than a lower one.

Cal PA next argues that Cal Water has provided “no evidence to support its claim that it uses equity to finance its capital projects.”⁵² On the contrary, Cal Water presented both testimonial evidence and explained in its briefing that little or none of its short-term borrowing capacity, totaling \$212 million, is typically available to finance CWIP, hence long-term financing, including equity, is realistically the only type of financing available. More specifically, Cal Water presented both prepared and live testimony showing that for the years 2015-2018 it had an average of only \$16.95 million in short-term borrowing capacity remaining after financing under-collections in its balancing accounts.⁵³ The only financing sources available to Cal Water in amounts large enough to use on CWIP, including equity financing, were higher priced than short-term financing.

Cal PA also invites our attention to several accounting standards and regulatory provisions that it claims compel use of “the cheapest sources of funding” available first. In reliance on those standards, Cal PA argues that only

⁵² CA Opening Brief at 61.

⁵³ Exh. CW-103 at 170; EH Tr. 1019, lines 2-8 (Ferraro) (“... there’s approximately 17 million of short-term borrowing that was not used by the balancing account on the collections, you know, nowhere near the amount that would be needed to fund construction work in progress.”). Cal Water presented evidence that some short-term borrowings are also used for “general working capital due to seasonal cash requirements and for unexpected short-term cash requirements.” *Ibid.*

the lowest cost of funding is just and reasonable when it comes to financing CWIP.⁵⁴ However, it is clear to us that Cal Water is putting its cheapest source of funding available to good use, given that it uses almost all its short-term financing capacity for purposes of funding shortfalls in revenue collection. The issue then is whether short-term financing should be allocated first to CWIP before it is used for anything else.

We are reluctant under the current pandemic circumstances to require that Cal Water use short-term financing to do construction work before using it for anything else. These are not normal circumstances we are in, and decisions concerning the deployment of financing should remain with Cal Water's management who are aware on a day-by-day basis of the impacts on the utility of the pandemic. If necessary, management's decisions can and will be examined later for reasonableness.

Furthermore, the accounting and regulatory provisions cited by Cal PA do not require that a utility's short-term borrowing capacity always be allocated entirely to financing the construction of capital projects before being used to finance anything else. Indeed, the Uniform System of Accounts 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.

With respect to the accounting standards set by the Financial Accounting Standards Board (FASB), we conclude Accounting Standards Codification (ASC) 980-835-30, expressly displaces ASC 980-835-20,⁵⁵ the standard that Cal PA relies

⁵⁴ CA Opening Brief at 64-65 (if short-term debt has been exhausted on other expenses, "then the rate of the marginal long-term borrowing funds should be applied.").

⁵⁵ See CW Opening Brief at 16-17.

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix C: Courtesy Copies of Cited and Paraphrased Commission Decisions

D.20-12-007, pp. 59-64

9. It is reasonable and appropriate for Cal Water to (1) continue its Low-Income Ratepayer Assistance; (2) recalculate the surcharge based on the final adopted rates in this proceeding; (3) implement the recalculated surcharge by filing a Tier 1 advice letter within 45 days of the effective date of this decision; and (4) increase public awareness of the program.

10. It is reasonable and appropriate for Cal Water to continue its Rate Support Fund as described in the Settlement Agreement approved in this decision.

11. It is reasonable and appropriate to use ratepayer funds to meet DDW standards.

12. D.92-03-094 should not be applied to this proceeding.

13. Maintaining balancing accounts for pension costs and health care costs in the present rate-case cycle is both necessary and appropriate.

14. Cal Water should be ordered to revise its health care and pension costs within 90 days of the issuance of this decision by means of a Tier 2 Advice Letter filing with the Commission's Water Division.

15. It is not appropriate for the Commission to modify Standard Practice U-38-W, *Uniform System of Accounts for Class A Water Utilities* (January 2018) in this General Rate Case proceeding.

16. Specific decisions on how best to deploy financing options should be left for management of a utility to decide, particularly in times of crisis. Those decisions, including how and when various financing options are used, should be subject to review under a just and reasonable standard.

17. The Uniform System of Accounts, as interpreted and applied by the Commission, does not mandate that Cal Water use short-term financing options first before utilizing any longer-term or higher-priced financing for construction work in progress.

18. ASC 980-835-20 of the Financial Accounting Standards Board does not require Cal Water to devote its short-term financing capacity to CWIP before using any longer-term or higher-priced financing for CWIP.

19. The Commission is not obligated to conform its accounting treatment of financing for CWIP to accounting standards employed by the Internal Revenue Service.

20. D.09-03-025 does not require Cal Water to devote its short-term financing capacity to CWIP before using any longer term or higher priced financing for CWIP.

21. The Commission's Standard Practice U-16-W determines the proper methodology for calculating the working cash allowance for a water utility.

22. Cal Water's inclusion of non-cash items like depreciation, deferred state and federal taxes and amortization of regulatory assets in its calculation of working cash needs is consistent with Standard Practice U-16-W.

23. Cal Water's exclusion of items like interest payments on long-term debt from its calculation of working cash needs is consistent with Standard Practice U-16-W.

24. It is appropriate and useful for Cal Water to prepare a consolidation study of its entire system as well as potential consolidation with municipally-owned systems and serve it on the Executive Director of the Commission and the Director of Cal PA within 12 months of the effective date of this decision.

25. It is appropriate to limit Cal Water to deploying AMI to no more than one percent of its total customers systemwide and at a cost of \$2.92 million or less.

26. It is appropriate to spread the cost of an AMI pilot program to all customers in a district, whether all customers in a district participate in the pilot program and receive an AMI meter at this time or not. It is appropriate and

reasonable for Cal Water to refund installation and/or removal costs to all customers who bore such cost and have not yet been reimbursed.

27. All pending motions not expressly ruled on in this decision or in the course of the proceeding should be denied.

28. The confidential versions of Cal Water's post-evidentiary hearing Opening Brief and Cal PA's post-evidentiary hearing Reply Brief and all exhibits marked with the letter "C" after the exhibit identification number offered by either Cal Water or Cal PA should be permanently sealed, except Exhibits PA-10C, PA-11C, and Excerpt #2 in Exhibit CW-10C.

29. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The joint motion to adopt the Settlement Agreement of California Water Service Company and Public Advocates Office (attached hereto as Attachment 1) is granted. The Settlement Agreement is approved and adopted.

2. We authorize California Water Service Company's revenue requirement of \$696,501,780 for Test Year 2020.

3. We adopt the rates (labelled "Proposed") for each rate district and rate area of California Water Service Company for the Test Year 2020 as illustrated in Appendices A through X attached hereto, reflecting all terms of the Settlement Agreement and this decision.

4. We adopt the post-test year ratemaking mechanisms and estimated rates for each rate district and rate area for California Water Service Company, as illustrated in Appendices A through X attached hereto, reflecting all terms of the Settlement Agreement and this decision.

5. For Test Year 2020, within 60 days of the effective date of this decision, California Water Service Company shall file Tier 1 advice letters with revised tariff schedules in compliance with this decision for each of its districts and rate areas considered in this proceeding, consistent with the adopted rates for each rate area as illustrated in the attached Appendices A through X. This filing shall be subject to approval by the Commission's Water Division.

6. For escalation years 2021 and 2022, California Water Service Company shall file Tier 1 advice letters, in conformance with General Order 96-B and the Revised Water Rate Case Plan (Decision 07-05-062), proposing new revenue requirements and corresponding revised tariff schedules in each rate district and rate area in this proceeding, consistent with the adopted estimated rates for each rate area as illustrated in the attached Appendices A through X. This filing shall be subject to approval by the Commission's Water Division.

7. The advice letters shall follow the escalation procedures set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 and shall include supporting workpapers. California Water Service Company shall file for rate reduction due to negative rate base growth, inflation factors, or customer growth. The revised tariff schedules shall take effect on January 1, 2021 and January 1, 2022, respectively, and apply to services rendered on and after their effective dates. The proposed revised revenue requirements and rates shall be reviewed by the Commission's Water Division. The Water Division shall inform the Commission if it finds that the revised rates do not conform to the Revised Rate case Plan, this decision, or other Commission decisions, and if so, reject the filing.

8. California Water Service Company shall (1) continue its current Low-Income Ratepayer Assistance program;(2) recalculate the surcharge based on the

adopted rates in this proceeding; (3) implement the recalculated surcharge by filing a Tier 1 advice letter within 45 days of the effective date of this decision; and (4) increase public awareness of the program.

9. California Water Service Company shall continue its Rate Support Fund (RSF) as described in the Settlement Agreement approved in this decision. All customers will be assessed an RSF surcharge, except for Low-Income Ratepayer Assistance customers who reside in an RSF area and fire protection service customers.

10. To the extent that other matters before the Commission impact the rates or tariffs adopted in this decision, California Water Service Company is authorized to incorporate those outcomes into the tariffs implemented for this General Rate Case, consistent with the terms and conditions of the Settlement Agreement approved in this decision.

11. The Public Advocates Office's request that we order California Water Service Company to transition from a full Water Revenue Adjustment Mechanism (WRAM) to a Monterey-Style WRAM is denied.

12. California Water Service Company's request for authority to surcharge customers more than an aggregate sum of ten percent of its most recently approved revenue requirement when amortizing its Water Revenue Adjustment Mechanism balancing accounts is denied.

13. California Water Service Company's request for authority to modify its Sales Reconciliation Mechanism to incorporate one hundred percent of the difference between its prior year's sales quantity and its approved projection of sales for the Test Year 2020 is denied.

14. California Water Service Company is authorized to construct \$10 million of plant improvements in its Dominguez District for the purpose of meeting both

federal and California water quality standards and proactively protecting the health and safety of its customers.

15. California Water Service Company is authorized to include the pension and health care costs associated with 23 new employment positions it created and filled between the preceding and instant General Rate Cases, in its previously approved balancing accounts for such costs.

16. California Water Service Company is authorized to maintain balancing accounts for pension cost and health care costs in the present rate-case cycle.

17. California Water Service Company shall revise its previously filed forecasts of pension and health care costs by means of a Tier 2 Advice Letter filing with the Water Division within 90 days of the date of issuance of a final decision in this proceeding to account for Covid-19 impacts on its costs of health care and financial investments.

18. California Water Service Company shall continue to associate the removal costs of its main and service pipes with the vintage, rather than replacement, pipes.

19. The Public Advocates Office's request to order California Water Service Company to use short term financing for calculating the cost of construction work in progress is denied.

20. California Water Service Company is authorized to include non-cash items, including depreciation, deferred state and federal taxes and amortization of regulatory assets, to calculate its working cash needs.

21. California Water Service Company is authorized to exclude interest payments on long-term debt to calculate its working cash needs.

22. California Water Service Company (Cal Water) shall prepare for consideration in its next General Rate Case a consolidation study. The scope of

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Appendix C: Courtesy Copies of Cited and Paraphrased Commission Decisions

D.20-12-007, Exhibit A, p. 108

CHAPTER 13: COMMON PLANT ISSUES

1 stated that its outlier population of pipes constitutes roughly 6.2% of Cal Water’s inventory,
 2 which is well above the requested replacement rates of 0.74%, 0.88% and 1.01%, for 2019,
 3 2020 and 2021, respectively.

4 **RESOLUTION:** The Parties agree on a replacement rate at an amount between the
 5 Parties’ original positions as a way to mitigate the impacts of pipeline breaks that threaten
 6 property and public safety, and increase water rates. The settlement rates for Company-wide
 7 pipeline replacement are, 0.58% for the year of 2019, 0.66% for the year of 2020, and 0.76% for
 8 the year of 2021. The agreed-upon project costs are presented in **Table 1** of Attachment 10.
 9 Projects will be completed at the current market cost per foot and as proposed in the Cal
 10 Water’s Application. Cal Water will exercise reasonable efforts to maintain the replacement
 11 rate and total replacement cost for each district as agreed upon in this Agreement. Given that
 12 market conditions, including material costs and labor rates, can change quickly, Cal Water will
 13 prudently manage these costs, while considering customer impact and the need to complete
 14 main replacement projects. Any overage in the total cost per district, as compared to the total
 15 agreed-upon cost, will be presented in Cal Water’s next GRC (e.g. 2021) for a reasonableness
 16 review. The specific breakdown per district is shown below:

District	Total District Mains (Ft)	CWS Application Annual Average	Cal PA Report Annual Average	Settled Replacement Rate (%)			Settled Replacement Rate (ft)			Settled Replacement Cost (Escalated Direct \$)		
				2019	2020	2021	2019	2020	2021	2019	2020	2021
Antelope Valley	158,400	1.13%	0.67%	0.50%	0.55%	0.60%	792	871	950	\$ 205,468	\$ 231,665	\$ 259,044
Bakersfield	5,021,280	0.68%	0.42%	0.50%	0.60%	0.70%	25,106	30,128	35,149	\$ 8,004,094	\$ 9,845,198	\$ 11,773,252
Bear Gulch	1,726,560	2.00%	0.91%	1.00%	1.25%	1.75%	17,266	21,582	30,215	\$ 9,218,066	\$ 11,810,659	\$ 16,948,303
Bayshore	2,756,160	1.00%	0.61%	0.50%	0.67%	0.75%	13,781	18,466	20,671	\$ 5,835,265	\$ 8,014,746	\$ 9,196,027
Chico	2,022,240	0.68%	0.33%	0.50%	0.55%	0.60%	10,111	11,122	12,133	\$ 2,804,436	\$ 3,162,066	\$ 3,535,758
Dixon	174,240	0.67%	0.67%	0.50%	0.55%	0.60%	871	958	1,045	\$ 354,498	\$ 399,593	\$ 446,806
Dominguez	1,932,480	0.68%	0.16%	0.50%	0.50%	0.50%	9,662	9,662	9,662	\$ 3,538,685	\$ 3,627,305	\$ 3,717,970
East Los Angeles	1,388,640	0.72%	0.48%	0.50%	0.55%	0.60%	6,943	7,638	8,332	\$ 1,677,392	\$ 1,878,153	\$ 2,114,724
Hermosa Redondo	1,098,240	0.68%	0.67%	0.50%	0.55%	0.60%	5,491	6,040	6,589	\$ 2,186,731	\$ 2,465,631	\$ 2,757,013
Kern River Valley	485,760	0.68%	0.60%	0.50%	0.55%	0.60%	2,429	2,672	2,915	\$ 498,399	\$ 557,767	\$ 628,311
King City	179,520	0.50%	0.39%	0.50%	0.55%	0.60%	898	987	1,077	\$ 347,009	\$ 391,253	\$ 437,492
Los Altos	1,531,200	1.00%	0.85%	0.50%	0.60%	0.70%	7,656	9,187	10,718	\$ 3,396,470	\$ 4,177,663	\$ 4,995,790
Livermore	1,156,320	0.68%	0.21%	0.50%	0.55%	0.60%	5,782	6,360	6,938	\$ 2,278,623	\$ 2,568,972	\$ 2,872,661
Marysville	285,120	0.68%	0.68%	0.50%	0.55%	0.60%	1,426	1,568	1,711	\$ 415,299	\$ 468,118	\$ 523,612
Oroville	311,520	0.68%	0.68%	0.50%	0.55%	0.60%	1,558	1,713	1,869	\$ 509,558	\$ 574,380	\$ 642,281
Palos Verdes	1,737,120	0.68%	0.24%	0.50%	0.55%	0.60%	8,686	9,554	10,423	\$ 2,893,767	\$ 3,262,574	\$ 3,648,270
Redwood Valley	172,234	0.70%	0.69%	0.50%	0.55%	0.60%	861	947	1,033	\$ 365,136	\$ 411,774	\$ 460,406
Salinas	1,774,080	1.00%	0.22%	0.50%	0.55%	0.60%	8,870	9,757	10,644	\$ 3,349,872	\$ 3,776,980	\$ 4,223,351
Selma	454,080	0.50%	0.15%	0.50%	0.50%	0.50%	2,270	2,270	2,270	\$ 515,858	\$ 528,754	\$ 541,973
Stockton	2,787,840	1.75%	0.88%	1.50%	1.50%	1.56%	41,818	41,818	43,490	\$ 16,480,021	\$ 16,891,873	\$ 18,006,807
Visalia	2,930,400	0.36%	0.21%	0.22%	0.30%	0.40%	6,447	8,791	11,722	\$ 1,465,081	\$ 2,047,747	\$ 2,798,588
Westlake	586,080	0.30%	0.30%	0.10%	0.25%	0.40%	586	1,465	2,344	\$ 213,328	\$ 546,729	\$ 896,503
Willows	195,360	0.88%	0.84%	0.50%	0.65%	0.80%	977	1,270	1,563	\$ 351,152	\$ 467,815	\$ 590,166
Company Wide	30,864,874	0.88%	0.47%	0.58%	0.66%	0.76%	180,286	204,829	233,466	\$ 66,904,208	\$ 78,107,414	\$ 92,015,107

18 **References:** Exhibits CW-34C, pp. 25, 31-35, 14-72; PA-02, pp. 25 – 39; CW-104, pp. 58-
 19 75.

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Appendix C: Courtesy Copies of Cited and Paraphrased Commission Decisions

D.21-08-036, p. 10

truth, *e.g.*, ‘such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.’”¹⁴

Although the utility bears the ultimate burden to prove the reasonableness of the relief they seek and the costs they seek 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 raise a reasonable doubt as to the utility’s request.¹⁵

Since the evidence and arguments in this proceeding are voluminous, the discussion in this decision focuses on the major points of contention and does not provide detailed summaries of the evidence and arguments for every issue. However, we have reviewed and considered the exhibits in this proceeding pertaining to each section, the evidentiary hearing transcripts, and all the arguments raised by the parties, in deciding the revenue requirements and related policy directives adopted in this decision. As a general matter, with respect to individual uncontested issues in this proceeding, we find that SCE has made a *prima facie* just and reasonable showing, and adopt the proposal, unless otherwise stated.

With respect to any settlement agreement, pursuant to Rule 12.1(d), we will only approve settlements that are reasonable in light of the whole record, consistent with the law, and in the public interest. Proponents of a settlement agreement have the burden of proof of demonstrating that the proposed settlement meets the requirements of Rule 12.1 and should be adopted by the Commission.¹⁶

¹⁴ D.08-12-058 at 19, citing Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184.

¹⁵ D.20-07-038 at 3-4; D.87-12-067 at 25-26, 1987 Cal. PUC LEXIS 424, *37.

¹⁶ D.12-10-019 at 14-15; D.09-11-008 at 6.

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D.24-03-042, pp. 31-36

these costs may be significant, the utility records the financing costs of CWIP through its Allowance for Funds Used During Construction³⁴ (AFUDC).

We also agree with Cal Advocates' second point that the full impact on rates cannot be determined until the entire project is completed. The project also does not always get completed as proposed and can sometimes require modifications or be abandoned for compelling reasons. However, in these situations, the one-step approach affords the Commission the opportunity to fully examine all project elements or abandoned projects issues for reasonableness once the projects are completed and the costs are presented in a subsequent GRC for recovery. Alternatively, and pursuant to General Order 96-B Water Industry Rule 7.3.3(8), Cal Water can submit Tier 3 advice letters once the projects are used and useful. Insofar as possible, and if Cal Water chooses to submit Tier 3 advice letters, we encourage Cal Water to group projects in any and all advice letters submitted to reduce administrative burden to both Cal Water and the Commission.

In sum, Cal Advocates' recommended approach reflects established practice for the majority of long-term projects and is consistent with the Commission's USA. **Phased cost review is applicable only in select cases**, not as a blanket approach. Therefore, Cal Water's two-step phased cost review for these thirty Cal Water projects is denied.

5.3. Carryover Projects

5.3.1. Introduction

Cal Advocates asks us to reject all requests in this GRC for approval of capital budgets and the requisite revenue requirement Cal Water has requested

³⁴ AFUDC compensates a utility for the financing costs it incurs during construction of new facilities before the facilities are included in plant in service and thus in the utility's rate base.

to complete plant additions, repairs and improvements that are being “carried over” from its previous GRC rate cycle to this one, on the ground that such projects should have been completed in the previous rate case cycle.³⁵ Cal Advocates attaches the label “carryover” to a host of different situations.

5.3.2. Discussion

As we understand it, Cal Water does not object to affixing the label “carryover” to many of its projects, however it does object to Cal Advocates request for a blanket denial of Cal Water’s request for recovery of costs associated with these “carryover” projects.

We are concerned with the magnitude of projects that were authorized in the 2018 GRC but never completed for a variety of reasons. The failure to complete these projects is an example of why the “used and useful” doctrine is important and its application ensures proper safeguards are in place to protect ratepayers from bearing the costs for projects that may not come to fruition.

Here we authorize these projects in the amount consistent with the previous GRC’s authorization, but decline to allow them to be recovered in rates at this time. Instead, Cal Water is authorized to follow the Commission’s existing process for adding previously authorized projects that are completed and used and useful to rate base through our Industry Division’s approval process. This process would allow for carry-over projects completed at a later

³⁵ We understand Cal Advocates’ position to be that it does not oppose Cal Water finishing a carryover project and, subsequent to the project being put in service, seeking recovery for the actual cost of the project. *See* Cal Advocates Reply Brief, at page 45 (“As Cal Advocates recommends both in its testimony and Opening Brief, the Commission should not allow Cal Water to include previously funded but significantly delayed projects in rates until such projects are demonstrated to be complete and providing service.”).

date to be placed into rate base once these projects are considered “used and useful.”

Pursuant to General Order 96-B, Water Industry Rule 7.3.3(8) Cal Water may submit Tier 3 advice letter(s) requests for Commission approval as rate base offsets for these carry-over projects. Water Industry Rule 7.3.3(8) also provides that rate base offsets previously approved by the Commission, as is the case for these carry-over projects, will be processed as Tier 2 advice letters when staff verifies that the scope is consistent with what the Commission approved, and the Commission approval included a budget cap and where the rate base offset is at or below the budget cap.³⁶

As Cal Water completes these projects, it should seek to package rate base offset approval requests for multiple projects into a single advice letter request both for administrative efficiency and to minimize the number of rate requests outside of the GRC. These efforts should also assist in providing timely authorization of carry-over projects into rate base, especially if these projects may be approved as Tier 2 advice letters.

5.3.3. Conclusion

The budgets for carryover projects from the 2018 Cal Water GRC represent a substantial portion of the total test-year revenue requirement requested by Cal

³⁶ Tier 2 advice letters are subject to Industry Division disposition where such disposition would be a ministerial act. Industry Division disposition is appropriate where the Commission has previously authorized projects with a specified scope and budget. Cal Water should present workpaper/documentation supporting its advice letter requests for rate base offsets consistent with the Commission’s approval of these projects. Whenever such determination requires more than ministerial action, the disposition of the advice letter on the merits will be by Commission resolution. See General Order 96-B, Rule 7.6.1.

Water in this proceeding.³⁷ That scale is worrisome and raises a red flag. Accordingly, in future Cal Water GRC proceedings, if the sum of the individual budgets for Cal Water's carryover projects is equal to 15 percent³⁸ or more of the proposed total revenue requirement for the test year, Cal Water must serve testimony describing in detail (i) the circumstances giving rise to each unanticipated project that delayed an approved project; (ii) the management review process which selected and justified each decision for a project deferral; and (iii) the reasons why ratepayers are not, and will not, be disadvantaged by each deferral.

5.4. Non-Specific and Unscheduled Projects

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

However, in this proceeding Cal Water proposes removal of certain kinds of damaging events from its "Non-Specific" budget category into a new category to be called the "Unscheduled" event budget. Specifically, Cal Water proposes to

³⁷ Test year budget for capital projects, excluding AFUDC and construction overhead, is \$265,263,274.

³⁸ We select 15% to set a margin for requiring this extra testimony at a level just below the 20% difference calculated as the carryover percentage from the 2018 GRC.

remove from the Non-Specific budget category all unplanned anticipated damage related to mains, meters, service lines and hydrants, but without predictability as to exactly when and where, and list those in its new Unscheduled category. All other unplanned projects would remain in the now-reduced scope, Non-Specific budget category. Cal Water asserts that this two-category system will provide the Commission a better understanding of the difference between those unplanned costs that are completely unexpected and will be budgeted in the Non-Specific category versus those costs that are unplanned but are of a type known to occur somewhere in the Cal Water system regularly and cannot avoid being addressed. Again, these latter damage incidents will go into the Unscheduled budget category.³⁹

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

There is no evidence in the record to support Cal Advocates’ implication that Cal Water has misused or, in the future, will intentionally misuse its Non-Specific budget to circumvent the Commission’s review of Cal Water’s capital expenditures. To the contrary, the record contains evidence that Cal Water’s historic record with respect to Non-Specific capital spending puts it in the top-performing (lowest expenditures) quartile of the nation’s water utilities.⁴¹

Furthermore, separating out the types of occurrences that Cal Water will now

³⁹ Cal Water Opening Brief at pp. 126 – 131.

⁴⁰ Cal Advocates Brief at p. 80.

⁴¹ Exh. CW-55, at p. 44.

classify as “unscheduled capital projects,” that is, the type of pipe, valve or hydrant breaks that occur year after year, will help the Commission more easily focus on Cal Water’s responses to the totally unexpected damage to Cal Water’s system that Cal Water will continue to characterize as “Non-Specific” capital project expenses.⁴²

Cal Advocates argues that by separating out different types of unplanned capital expense Cal Water could hide major predictable capital expenses from scrutiny by the Commission.⁴³ However, this assertion is not supported by the record. By creating a new category out of the Non-Specific capital expenses, the Commission will be better able to scrutinize the efficacy of Cal Water’s separate classification process. Furthermore, authorizing Cal Water to create a distinct, new category of capital expense for regularly occurring damage to its system will replicate what the Commission has previously directed California American Water Company to do.⁴⁴ Accordingly, Cal Water will be authorized to use separate “Non-Specific” and “Unscheduled” capital expense budgets for each of its ratemaking districts. Its proposed budgets in this proceeding for each category for each district are approved.

6. District Specific Plant Projects

In this section, we will address Cal Water’s proposed capital project budgets on an individual basis by Project Identification number (PID). All the proposed projects are opposed by Cal Advocates.

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

⁴³ Cal Advocates Reply Brief at pp. 35 – 37.

⁴⁴ D.18-12-021 at pp. 147 – 149.

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the governing California regulation makes clear that TOCs in the groundwater, when mixed with the chlorine Cal Water uses to disinfect the water, produce dangerous chemical byproducts. The record shows those byproducts can cause severe liver, kidney and nervous system problems and may lead to cancer.

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

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

The record here continues to show that the TOC problem in Dominguez is difficult to handle. Color and odor problems have not gone away and furthermore, for a short period of time, methane gas was found in the water. The use of chlorination continues, but, of course, at a low level to avoid the proliferation of harmful byproducts. We do not view Cal Water's balancing act as evidence that Dominguez drinking water from these two wells is safe for the foreseeable future. The record of this proceeding shows the situation still to be precarious and in need of improvement.

Finally, Cal Advocates argues that the recurring problem with TOCs is due to Cal Water's failure to flush its pipes properly. We disagree. The record, particularly, the live testimony of Cal Water's witness on this issue, shows that the TOC problem originates in the groundwater at the well, not inside Cal Water's pipes. Flushing addresses completely different problems that occur in water that has been trapped in capped pipes. Flushing does nothing to help alleviate problems at the well source, which is where the TOC originates. Thus,

even if Cal Water's flushing practices were substandard (we make no finding to that effect), they are not relevant to the TOC problem.

There is no need for us to approve a new budget for these projects, as we approved budgets for these projects in D.20-07-012. here. We will not modify D.20-07-012 to remove the contingency factor from the budget we authorized for these projects in D.20-07-012.

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

Cal Water proposes construction of a multi-stage treatment plant at Station 219 to allow use of a currently inactive, closed well to offset the cost of purchased water, improve reliability and lower overall life cycle cost for customers. In Cal Water's last GRC, we approved a budget for designing this facility. The question before us now is whether to approve a budget of \$5,849,917 for completion of the design and construction of the facility.

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

In addition to Cal Advocates' above concerns, we observe that this is a project that Cal Water has advanced for two-step approval. Pursuant to our discussion in Section 5.2., we deny rate base treatment of this project until such time as it is used and useful.

6.7.3. PID123393 – Land Acquisition

Cal Water requests approval to purchase land for the future construction of as many as four wells and an adjacent treatment facility. The proposed budget to acquire the land is \$1,270,946. Cal Water has calculated that by purchasing the property and developing the four wells and treatment facility, its Dominguez

customers could save as much as \$540 million over the next 50 years compared to continuing the current practice of having Cal Water purchase water from another purveyor in order to supply its own customers.

Cal Advocates states that Cal Water's proposed parcel acquisition was not recommended by the 2016 Drinking Water Supply Study. Moreover, Cal Advocates recommends that Cal Water does not need to drill a new well while it is still not fully using the existing wells in the Dominguez District. We agree and deny this project. Cal Water can resubmit this project in its next GRC cycle.

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

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

Cal Advocates objects to the proposed budget on the ground there should be an internal inspection of the pipeline's condition before authorizing its replacement. However, the record shows that given the age of the pipe an internal investigation poses a realistic danger of breaking the pipe. The record shows that Cal Water's approach to determining which facilities to replace incorporates many factors beyond age, for example, the fact that a break on this pipeline could result in draining a large capacity water tank. The record also shows that Cal Water has consistently followed its multi-factor test for when to replace aging facilities and that process has identified this pipeline as appropriate for replacement. It is a prudent approach, and we approve it. However, we deny Cal Water's proposed 20 percent contingency factor, for a total of \$1,936,527.

6.7.5. PID125762 – Station 300-01 Treatment Facility

Cal Water requests approval of a budget of \$3,096,242 for construction of a new water treatment plant in the Dominguez district to add oxygen into the water system there. Cal Advocates opposes the request and contends that Cal Water should be required to continue testing the oxygen levels in the water at Station 300-01 before concluding the levels are too low and a treatment plant is needed.

Here, the water testing undertaken by Cal Water to date is sufficient to indicate a looming problem with the low level of oxygen in the water. Thus, the time to fix the problem has arrived. The evidence offered by Cal Water, since its 2015 GRC cycle when this project was first brought to our attention, amply demonstrates that the water in this part of the Dominguez District needs to be treated, but there is no treatment facility, and the problem is not going away by itself. Enough evidence has been produced to persuade us that the treatment plant is needed, however, we here disallow Cal Water's proposed 20 percent contingency factor and authorize a total of \$2,558,714.

6.8. East Los Angeles District

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

Three Cal Water mainline pipelines cross Interstates 5 and 710 in East Los Angeles. The pipes are hung from the bridges crossing the federal highways. Two are 20-inch diameter pipes and one is a 12-inch pipe. All are cast iron pipes, made in the late 1940's through mid-1950's, and none have interior plastic lining. The record indicates that the American Water Works Association describes such pipes as being of particular concern from a reliability and safety standpoint because none of them have the lining that only became an industry standard

beginning in the 1960's. Given their placement over the intersection of heavily used Interstates 5 and 710, if one of the pipes were to rupture, it would pose a very serious risk to drivers passing under the overcrossings. Cal Water requests our approval of a \$348,865 budget for design and permitting work for three new pipes at these overcrossings.

Cal Advocates opposes approving the project based on two arguments: (1) the budget should not include a 20 percent contingency factor; and (2) ratepayers should not be made to pay for design and permitting work until a facility has been fully built and put in use. We have explained our position with these objections in Sections 5.1 and 5.2, above. While we appreciate that this project should be completed expeditiously to prevent catastrophic pipe failure over the Interstates, we incorporate our discussion of our approach to design and permitting project from above. Cal Water should first complete this project and then request rate base treatment for all costs associated with it after completion.

6.8.2. PID124112 – Land Acquisition for New Well

Cal Water requests \$491,121 for the acquisition of land for a new, high capacity well near Station 63. Cal Water introduced evidence of studies it had performed to assess the longevity and viability of the existing wells in Dominguez. Based on those studies, Cal Water concluded that it was necessary to open a new, high capacity well in the Dominguez district. Cal Water also showed that without a new well it could only meet State water reliability standards by purchasing water, a questionable strategy for Cal Water to follow since droughts are increasingly occurring events in southern California.

Cal Advocates argued that Cal Water could meet its Title 22 requirements including the system's Maximum Day Demand and Peak Hour Demand without these wells. Cal Water responds that it needs these wells for reliability and safety

reasons. We are persuaded by Cal Water and authorize this project less its contingency for a total of \$448,512.

6.8.3. PID124256 – Water Supply/Facility Master Plan

Cal Advocates advances its argument against the inclusion of a 10 percent contingency factor in the budget of \$311,434 for this plan to be prepared. We have discussed the inclusion of contingency factors in Section 5.1 above and incorporate that discussion here. We approve the project and the budget of \$283,122.

6.8.4. PID125358 – Main Office Improvements

Cal Advocates advances only its argument against the inclusion of a 20 percent contingency factor in the budget of \$913,260 proposed for these building improvements to be made. We have discussed the inclusion of contingency factors in Section 5.1 above and incorporate that discussion here. We approve the project but not Cal Water's requested 20 percent contingency for a budget of \$761,050.

6.8.5. PID124404 – Supervisory Control and Data Acquisition Project

Cal Water has requested our approval for a budget of \$1,158,534 to replace the existing Supervisory Control and Data Acquisition (SCADA) system in the East Los Angeles Office. The record shows that the existing system requires a dedicated operations center, staffed around the clock with certified operators, to send commands manually to operate the water system.⁵³ Cal Water showed that continued operation in this manner is costly and inefficient and prevents the implementation of a regional approach to monitoring all the water systems Cal

⁵³ Exh. CW-35, at p. 84.

Water operates in southern California as a group. Furthermore, the record shows that the inability of the existing system to integrate with the Cal Water SCADA system for its other districts has resulted in inconsistent or incorrect data for key metrics such as water loss accounting or water production, both critical monitoring elements in a drought.⁵⁴ Cal Water explained that, without long-term historical process data, it cannot identify inefficiencies in the water distribution process or determine where to target system improvements and improve operational efficiency to better meet state regulations.⁵⁵ Additionally, testimony showed that the lack of process data limits Cal Water's ability to perform mandatory programs such as water loss control required by the State Water Code.⁵⁶ By installing a Cal Water standard SCADA system in the East Los Angeles District, Cal Water can eliminate the costs of maintaining the non-standard system historically used there, collect and archive vital process data for long-term system improvements and optimal operations, and minimize cybersecurity threats. All these improvements will benefit Cal Water customers.⁵⁷

Cal Advocates disagrees with replacing the East Los Angeles SCADA system unless Cal Water agrees that the new system will not be included in rates.⁵⁸ Cal Advocates believes that Cal Water can continue to utilize the software that is currently in use, asserting that there are no additional costs associated with upgrading the current system. However, the record shows that Cal Water

⁵⁴ *Ibid.*

⁵⁵ *Ibid.*

⁵⁶ Exh. CW-56, at p. 251. *See* California Water Code §10608.34.

⁵⁷ *Id.* at p. 251.

⁵⁸ Exh. Cal Adv -10 (Sarkar – Public), pp. 1-5 to 1-7.

pays monthly charges for these services.⁵⁹ The record also shows that hardware replacement is not free-of-charge.⁶⁰

Cal Water also demonstrated that equipping the entire East Los Angeles District system with Cal Water's standard SCADA system is the most cost-effective alternative for its East Los Angeles District customers.⁶¹ We understand that advantage, but we are particularly concerned about cybersecurity. On that score, Cal Water has provided sufficient evidence to show that East Los Angeles is not as cybersecure as it should and would be if it were integrated into the standard Cal Water SCADA system. The improved cybersecurity demonstrates a need for the project. However, we do not approve the requested 10 percent contingency factor. In addition to our discussion in section 5.1. above, we also consider that the SCADA system in question is Cal Water's standard system which raises questions as to why a contingency factor might be appropriate here. Cal Water's briefs offer no compelling arguments in favor of approving a contingency for this particular project. We approve a budget of \$1,050,039 for this project.

6.8.6. PIDs 126483, 126484 and 126485 – Routine Granular Activated Charcoal Changeouts

We approve Cal Advocates' proposal to remove the 10 percent contingency factors from these three project budgets. We have explained our reasons in Section 5.1 above and incorporate that discussion here by reference.

⁵⁹ Exh. CW-56, at p. 252.

⁶⁰ Cal Water Opening Brief at 316.

⁶¹ First, the entire cost of the East Los Angeles SCADA system is born by only by East Los Angeles customers whereas all other districts share the costs of maintaining the standard SCADA system used throughout the rest of Cal Water's districts. There are many other cost-related reasons for the changeover supported by the record. *See* Cal Water Opening Brief at 316 – 318.

The budgets, less the requested 10 percent contingency factors, are approved:

(i) PID126483 – \$364,215 approved; (ii) PID126484 –\$373,321 approved; and (iii) PID126485 – \$382,655 approved.

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

Cal Advocates asserts its arguments against the inclusion of a 20 percent contingency factor and the inclusion of an estimate for construction management services in the budget of \$1,425,740 for this project. We have discussed the inclusion of contingency factors and construction management services in Section 5.1 above. We recognize that the construction management services amount is industry standard, so we approve that amount. We approve the project and the proposed budget less Cal Water’s 20 percent contingency factor, for a total of \$1,188,117.

6.8.8. PID124407 – Station 55 Panel Board Replacement

Cal Water requested approval for a \$359,823 budget to replace a panel board that was installed 70 years ago. The normal service life of the circuit breakers, motor control and other equipment on the panel board is 35 years, half their current age. Cal Advocates opposes the request on the basis that the equipment’s maintenance logs indicate that all recent maintenance done on the panelboard was routine and that the maintenance reports do not recommend replacing the panel board.⁶² Age, safety concerns, consequences of failure, and the availability of replacement parts are major assessment factors that should be considered to ensure station reliability. We approve the project with a budget of \$327,112, which removes Cal Water’s proposed contingency.

⁶² Cal Advocates Opening Brief, p. 146

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

We have discussed Cal Advocates' argument related to contingencies in Section 5.1 above and we incorporate those discussions here. We find the project should not be approved for rate base treatment until such a time as it is used and useful.

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

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

6.16. Redwood Valley District

6.16.1. PID125647 – Lucerne Pier and Water Treatment Equipment

Cal Water has water treatment equipment located at the end of a pier in the Lucerne community on the shore of Clearlake. Both equipment and pier need extensive repair and upgrading. The pier itself has deteriorated to the point that it is dangerous for Cal Water employees who service the equipment at the end of the pier to walk on the pier. Cal Water has minimal experience with marine

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different numbers. The correct expense that Cal Advocates and Cal Water now agree on is \$2,125,954.⁹⁸ We will use this number.

9.3. A&G Affiliates Allocation Factor

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

⁹⁸ Cal Water Reply Brief at 20 citing in its footnote Ex. CW-54 (Cal Water Rebuttal Book #1), p. 79 of Chapter 5 Attachments.

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

We disagree; we have standard practices precisely because they are standards to be followed. It may be necessary to exercise judgment how to apply the terms of U-16-W as between one utility industry and another or between a small utility and a large one, but that does not mean that U-16-W is entirely elective or something that can be redefined on a case-by-case basis.⁹⁹ (Emphasis added.)

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

The Current version of S.P. U-6-W Four Factor Allocation provides a standardized method to allocate costs which cannot be allocated directly among a group of entities or activities. Although revised recently in 2003, the entire document including all of the provisions were originally published on July 26, 1956 (pp 3-6); April 18, 1955 (pp 7-11).¹⁰⁰ The exercise of judgement must always

⁹⁹ D.20-12-007 at pp. 36-37. In D.20-12-007 the Commission was clearly expressing displeasure over the repeated attempts to skirt prior holdings by the Commission on the identical topic in prior proceedings. It does not matter that this citation refers to Working Cash and this proceeding’s dispute here involves a different standard practice on Four Factor Allocations.

¹⁰⁰ Both assigned ALJs admit to being older than S.P. U-6-W Four Factor Allocation but we were mere children in 1955 and 1956, not its authors. We support the reasonable application of all long-serving standard practices, but we believe they must always be viewed carefully in the

Footnote continued on next page.

prevail when there is good cause for departing from any deference to a standard practice.

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

10. Payroll and Benefits

In the following section we address the disputes between Cal Water and Cal Advocates over the number of new hires proposed during the test year cycle, and how hires between rate cases are relevant for ratemaking purposes. As discussed below we find Cal Advocates' position unconvincing. Cal Advocates does not present evidence to support a departure from well-established Commission practices.

10.1. Forecasting New Hires and Hiring Between Rate Cases

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

In its testimony and workpapers provided to Cal Advocates, Cal Water provided its justification for each new positions with a description of the position, basis for the anticipated salary, allocation of salary (expense versus capital), detailed need for the position, changes in operations necessitating the

light of fairness and specific current facts, i.e., judgement must also be used to fit the circumstances at hand.

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a reduction of Cal Water's request by nearly two-thirds. Cal Advocates explains that it selected the number \$5,257,336 because that was the precise amount Cal Water spent in its last GRC cycle on physical security, and it also points out that Cal Water did not complete all the security projects it proposed and received approval for in the last GRC cycle.

We share Cal Advocates concerns regarding Cal Water's inability to complete its proposed work. While we here authorize Cal Water to perform the work it proposes, for a total of \$13,624,906, we also require Cal Water to track its actual expenditures and the projects it completes, and report those amounts compared to the amount authorized in its next GRC. Cal Advocates should also continue to review and evaluate Cal Water's performance in security spending in future GRCs.

12.2. Main Replacement Program

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

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

These budgets are supported by the record evidence and will be adopted, less their included contingencies, for the reasons explained below.

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

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

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

The record shows that in response to a discovery request from Cal Advocates, on September 10 and 13, 2021, Cal Water gave Cal Advocates a detailed explanation of how Cal Water selects which pipes in its statewide system need replacement.¹⁴⁴

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

¹⁴⁴ See Exh. Cal Adv – 5R at pp. A-68 to A-73.

leaks will result in lowering the ranking of the remaining lifespan of a pipe by one full grade, regardless of the pipe's actual age.

After making the ranking adjustments for pipes with leakage conditions, Cal Water determines the “consequences of failure” for each pipe. This second calculation allows for a multiplicity of factors associated with each pipe to be included in the final determination. This stage of Cal Water’s analytics was devised with the help of a third-party business consulting firm specializing in assessing business risks. Accordingly, the calculations made at this stage of analysis identify safety and reliability problems. Multiple data points enter the assessment, such as pipe size, land use zoning, road classifications, environmental sensitivity, fire hazards, etc., to reveal potential social, environmental, and financial impacts of the consequences of each pipe’s failure.

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

Based on the record evidence of Cal Water’s analytics, as a hypothetical, a large diameter, high-pressure pipe, near to the end of its AWWA-estimated life span, with only one leak in its history, would nevertheless receive a final score indicating a comparatively high need for replacement were it hung underneath an overpass of a multi-lane, interstate highway in a densely populated area of Los Angeles County due to the threat to the public were there a break during rush hour traffic. As illustrated by this not-so-hypothetical situation, this kind of analytical assessment is designed to highlight risks. Safety and reliability are its

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

objectives. As Cal Water aptly puts it, this two-formula, multi-factor process is all about preventing or at least reducing the risk of harm to the public, damage to property, interruption of water supply and loss of critical utility equipment.¹⁴⁶

Cal Advocates argues that Cal Water's process for selecting pipes to replace would measurably improve were the Commission to order Cal Water to abandon its allegedly solely-age-based process in favor of what Cal Advocates calls a "condition-based" program. The improvement Cal Advocates contends would result by switching to a condition-based program is strictly financial – supposedly pipes would last longer than their AWWA assigned life expectancy and utilities would replace pipes less frequently.¹⁴⁷ Cal Advocates identifies a small utility in southern California¹⁴⁸ that it asserts uses a "condition-based" pipe-replacement program exclusively. Cal Advocates explains that the useful lives of this small utility's pipes have increased remarkably, to well over one hundred years; and its pipe replacement costs have dropped in equal measure since implementing a "condition-based" program. Such programs emphasize fixing the specific leaking or broken portions of a pipe rather than removing and replacing the entire pipe.

We return to our hypothetical, above, a high-pressure water main hung beneath an overpass of an interstate highway and nearing the end of its AWWA projected life expectancy. Cal Advocates offers no evidence that Mesa Water Service must maintain high pressure pipes presenting such a risk or pipes

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

¹⁴⁷ Cal Advocates contends life expectancies of nearly 150 years are achievable with "condition-based" pipe replacement programs, although there is no record evidence that Mesa Water Service has a single pipe of that age in its system.

¹⁴⁸ Mesa Water Service, a municipal agency, located in Orange County, California.

associated with a similar high degree of risk if they should break, yet California's Class A water utilities do possess and maintain many such pipes throughout their respective statewide systems. It is true that if a water utility repeatedly fixes leaks and breaks that occur in a pipe, there may be some portion(s) of the legacy pipe that remain in use for far longer than the AWWA-projected life expectancy of that pipe. The Public Utilities Code to which the Commission and Cal Water must conform requires us to balance cost considerations with public safety or system reliability.

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

Finally, Cal Advocates' recommendation that we order Cal Water to change to a "condition-based" selection process is declined because there is no direct comparison of Cal Water's multi-factor selection process to a condition-based system in the record of this proceeding. Cal Advocates contends that its presentation here shows that "[u]sing a condition-based replacement method reflects more informed decision making because it accounts for key factors that contribute to pipeline life more than simply the age of the pipe."¹⁴⁹ (Emphasis added.) However, Cal Advocates admits that it has simply compared a condition-based system to a hypothetical water company that makes its replacement decisions based "simply [on] the age of the pipe."¹⁵⁰ The record does not show that Cal Water has made any replacement decision simply based on the

¹⁴⁹ Cal Advocates Opening Brief at pp. 71-72.

¹⁵⁰ *Ibid.*

age of the pipe. Thus, we are not persuaded by Cal Advocates' comparison argument here.

In following from our discussion in Section 5.1, however, we disallow the contingencies in Cal Water's Main Replacement Program, and authorize total recovery of \$282,390,162. Broken out by year, the authorized amounts are:

- 2022: \$89,347,184
- 2023: \$95,272,324
- 2024: \$97,770,654

12.3. Cathodic Protection

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

CP equipment protects tank linings and the tank substrate from corrosion once the protective linings begin to fail. The National Association of Corrosion Engineers and AWWA have established standards for Auto-Potential Impressed Current of internal submerged surfaces of carbon steel water storage tanks for design, installation, and maintenance (NACE SP0388-2007 and AWWA D104-11). Using these standards, Cal Water assessed the age and performance of each CP system through field inspection or records. Systems with poor performance or that are beyond their designed lifespan, or components that are broken or have poor performance or system incompatibilities, are recommended for replacement. To reduce overhead and project management costs, all CP work for a given year and district were consolidated into a single project where feasible.¹⁵¹

¹⁵¹ Cal Water Opening Brief at p. 152 *citing* Ex. CW-27 at p. 63, ff.

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this decision are adopted consistent with the provisions of this decision and shall be included in the final rate base calculations and adopted revenue requirement for the test year 2023 and attrition years. All Administrative and Maintenance expenses presented in this proceeding are approved consistent with the provisions of this decision. Similarly, all Operations and Maintenance Expenses presented by Cal Water in this proceeding are approved consistent with the provisions of this decision. Those project budgets in the Livermore and Stockton rate districts below the previously agreed minimums set by the parties for consideration in this proceeding are also approved in their entirety.

4. In all subsequent General Rate Case (GRC) proceedings, should California Water Service Company (Cal Water) request funding for carryover projects equal to or more than 15 percent of its pending, total, test year revenue request, Cal Water must serve expert testimony describing in detail: (1) the circumstances giving rise to each unanticipated project that delayed an approved project; (2) the management review process which selected and justified each decision for a specific project's deferral; and (3) the reasons why ratepayers were not disadvantaged by each deferral.

5. California Water Service Company's Special Request 6 is granted. We will show the adopted increase in revenues, i.e., the change in authorized revenue requirements in this general rate case, as an increase over the authorized revenues in place at the time of this decision.

6. Cal Water must track its actual expenditures related to security at its plant facilities and the projects it completes, and present that information in its next general rate case (GRC) application.

7. California Water Service Company (Cal Water) shall separate the capital expense projections it has historically labelled "Non-Specific" costs into

two groups for its next general rate case. One group shall consist of all unplanned damage related to mains, meters, service lines and hydrants that can always be expected to randomly happen somewhere in the Cal Water system, but without predictability as to exactly when or where. This group shall be renamed “Unscheduled” capital project costs. All other project costs previously referred to as “Non-Specific” costs shall continue to be referred to and reported to the Commission as “Non-Specific” project costs. To further facilitate review of the new, Unscheduled, capital projects category, Cal Water must supply an additional report in its next GRC that accumulates similar types of damage systemwide into subcategories, for example, all incidents of fire hydrant damage, including the total expense to repair all such damage.

8. California Water Service Company’s requests for the annual budgets to replace main pipes are granted as follows:

- 2022: \$89,347,184
- 2023: \$95,272,324
- 2024: \$97,770,654

9. All expenditures for pipe replacements up to the amounts set forth above may be included in rate base when incurred. Advice Letter treatment for California Water Service Company’s project identification number 117409 in Marysville is extended through the entirety of the next general rate case cycle.

10. The proposed pre-construction budgets for the 30 capital projects listed on Appendix 2-3, totaling \$11,035,985 in the aggregate, are not approved. Cal Water can request rate base treatment of these projects either via Tier 3 advice letter or by subsequent general GRC cycle when they are used and useful.

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enhancement and interest rate management features from its authorized new debt securities.

6. California Water Service Company is authorized to issue and sell shares of new common equity securities, for capital expenditures and other proper purposes.

7. California Water Service Company is authorized to issue and sell shares of its new preferred equity securities to the public, in private placement, or to its parent, California Water Service Group for capital expenditures and other proper purposes.

8. California Water Service Company is granted a waiver from the requirements of Public Utilities Code § 818 and the Holding Company Rules (adopted in Decision 98-06-068) as they apply to California Water Service Company's new short-term borrowings under its revolving credit arrangements. By doing so, California Water Service Company 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.

9. California Water Service Company's request for the Public Utilities Code § 818 waiver remains in effect until the financing authority granted in this proceeding is fully utilized.

10. California Water Service Company shall submit a Tier 2 Advice Letter for a new Public Utilities Code § 818 waiver before the expiration of each twenty-four-month period.

11. California Water Service Company may not use the proceeds from the new debt securities, new common equity securities, and new preferred equity securities authorized by this order to fund its capital projects until California Water Service Company has obtained all required approvals for the projects,

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D.24-12-025, pp. 46-48

beyond Cal-Am's require changes in water production and sourcing.

Accordingly, we authorize Cal-Am to establish an ICBA and Supply Source Cost Memorandum Account (SSCMA) for the Monterey, Los Angeles, Sacramento, and Larkfield districts.

The SSCMA will allow Cal-Am to track and record costs related to extraordinary events outside of its control that adversely impact Cal-Am's ability to use a particular supply source. Cal-Am bears the burden of demonstrating that costs recorded in the SSCMA are just and reasonable. We find that this approach strikes an appropriate balance between protection against rising costs and potential abuse. We expect that this issue will be revisited during Cal-Am's next general rate proceeding and encourage the parties to review and address the matter thoroughly at that time.

6.3. Special Requests 3 and 14-ACAM Changes

Cal-Am proposed two special requests related to its WRSP/WRAM and M-WRAM proposals. The portion of Special Request 3 not resolved by the Settlement seeks modification of Cal-Am's ACAM as part of the WRSP proposal. If the WRSP proposal is denied, Cal-Am requests retention of the ACAM as a pilot program with modifications.⁷⁹

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

⁷⁹ Cal-Am Opening Brief, December 6, 2023, at 16.

ACAM was adopted as a measure to mitigate high WRAM balances. It allows annual adjustments of quantity rates based upon the prior year's sales. Cal-Am argues that continued ACAM is beneficial to ratepayers as a means of providing improved price information to promote conservation. Cal Advocates argues that ACAM is inconsistent with the Commission's Rate Case Plan⁸⁰ because it allows for rates to be adjusted between GRC cycles. They are concerned that ACAM creates customer planning, forecasting, and billing complications.⁸¹

We share Cal Advocates concerns about customer impact. Ratepayers face various rate increases throughout the GRC cycle. This decision approves increases in attrition years 2025 and 2026. It also approves various memorandum accounts that result in additional rate changes mid-cycle. ACAM adds yet another mid-cycle rate adjustment. Historically these rate increases and adjustments have occurred at different times throughout the year. The uncertainty regarding rates frustrates ratepayers and countermands the conservation benefits that clear price signals have on consumer behavior.

While we generally do not recognize Cal-Am's claims about the conservation benefits of ACAM, we recognize that Cal-Am raises legitimate concerns about the need to align rates with sales as means of recovering authorized revenue.⁸² Accordingly, we authorize Cal-Am to continue the use of ACAM in conjunction with CART-Design. In doing so, we are mindful of the need for consumer certainty regarding rates. We therefore limit Cal-Am to a single annual rate adjustment for ACAM. Cal-Am and the Commission's Water

⁸⁰ D.07-05-062.

⁸¹ Cal Advocates Opening Brief, December 6, 2013, at 18.

⁸² Cal-Am Opening Brief, December 6, 2023 at 16-17.

Division shall develop a process to ensure that all ACAM adjustments are consolidated into a single, annual change to customer bills. While we are persuaded that ACAM is necessary for the reasons outlined above, we deny the requested modification to the 15% amortization cap.

7. Safety

Safety is Scoped Issue 8 in this proceeding:

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

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

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

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

8. Environmental and Social Justice

The Commission is committed to addressing the inequities that create barriers for citizens seeking safe and affordable utility services. In February 2019,

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D.24-12-077, pp. 15-16

these 35 proposed projects, due to their high costs and duration, and we have also considered the positions of all parties on all 330 projects which cover all aspects of San Jose Water's operations. We will not interfere with this portion of the settlement. We find that the Settlement Agreement has reasonably considered the scope of the capital additions as proposed, and the parties have agreed to a reasonable budget that reflects San Jose Water's projected needs for the test year cycle and beyond. We therefore find the settlement reasonable in its treatment of capital additions.

4.3. Project Forecast Methodology

In this section we discuss both industry standards and our expectations as well as review San Jose Water's specific practices as presented in its witnesses' testimony.

We believe that San Jose Water, like all other jurisdictional utilities, is obliged to have sufficient competent trained and experienced technical staff or contractors to design, construct, operate and manage its complex water service system. When designing or constructing utility plant it must have either competent in-house or contract personnel suitable to perform the necessary tasks. One such task is having in place a competent system for estimation; cost control; business planning and management science; profitability analysis; project management; and planning and scheduling of necessary utility plant.

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.²³

4.3.1. AACE International: Association for the Advancement of Cost Engineering.

Cost Engineering is the application of scientific principles and techniques to problems of estimation; cost control; business planning and management science; profitability analysis; project management; and planning and scheduling.²⁴

The Association for the Advancement of Cost Engineering (AACE) for example publishes AACE International Recommended Practices (RPs) which are aligned with what it describes as the “Total Cost Management Framework,” and it established the technical foundation for its educational and certification products and services. The AACE’s RPs provide technical reference information, vetted by a review process, regarding specific competency areas. RPs may be industry-generic providing a broad overview of a specific practice that applies to most industries; or may be industry-specific describing a particular application of a practice in a specific industry.

Total cost management is that area of engineering practice where engineering judgment and experience are used in the application of scientific principles and techniques to problems of business and program planning; cost estimating; economic and financial analysis; cost engineering; program and project management; planning and scheduling; cost and schedule performance measurement and change control.

²³ For example, should San Jose Water be allowed to include construction work in progress in rate base or should it accumulate an allowance for funds used during construction as it accrues costs in a construction work in progress account.

²⁴ <https://web.aacei.org/about/about-aace/what-is-cost-engineering> (Current as of May 22, 2024.)

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D.25-01-036, pp. 74-76

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

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

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

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

The Public Advocates Office argues that the Commission should deny GSW's request to continue its SRM for three reasons. First, the Public Advocates

¹¹⁰ See CWA Opening Brief at 16.

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

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

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

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

¹¹¹ See GSW Opening Comments at 14-15.

¹¹² See D.14-08-011 at 19.

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

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

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D.25-06-010, p. 17

Tier 1 Advice Letter 60 days after the issuance of this decision, to add the mechanism as a new tariffed preliminary statement.

4.10.2. Gas Base Revenue Requirement Balancing Account (GRRBA)

SCE proposes to establish the GBRRBA to remedy potential undercollections between Catalina Gas' authorized revenue requirement and the amount of revenue actually recovered.²⁸ The effect of the balancing account will be to allow SCE to recover any undercollection in the following year or return any revenue overcollections in the following year. SCE states that it has under recovered \$1.5 million since the last Catalina Gas GRC.²⁹ SCE proposes to file a Tier 1 Advice Letter annually in March to recover or return any under or overcollection recorded in the GBRRBA. Such costs shall not include costs tracked in the GCAC. 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.

4.10.3. Catalina Gas Federal Grant Memorandum Account (CGFGMA)

SCE proposes to establish the CGFGMA to record match funding costs and associated tax impacts for projects seeking and/or awarded federal funding that have a match requirement.³⁰ Federal legislation has been passed that provides funding for projects that reduce carbon emissions, increase grid reliability and

²⁸ SCE-01, at 80-81.

²⁹ SCE-01, at 81, Table VII-29.

³⁰ SCE-01, at 83.

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D.25-06-010, p. 37

23. SCE's current residential baselines are out of compliance with Code Section 739.

24. SCE's proposed residential baseline rates satisfy Code Section 739.

25. SCE proposes to reduce the volumetric base revenue requirement allocated to residential customers to 16 percent, to maintain cost allocation ratios with commercial customers.

26. It is reasonable to maintain a 1 to 1:15 cost allocation ratio between residential and commercial customers.

27. The bill impacts of the Settlement Agreement are less than those of SCE's Application and rebuttal testimony.

28. SCE's proposed GBRRBA would allow SCE to recover undercollections, or return overcollections, the following year.

29. If a utility undercollects revenue, it can lead to operational difficulties.

30. The CGFGMA would allow SCE to track matching costs for purposes of obtaining federal grants.

31. SCE's proposal to submit a Tier 3 Advice Letter to transfer CGFGMA funds to the GBRRBA for recovery ensures Commission oversight of the funding.

32. SCE's proposal to submit a Tier 1 Advice Letter for attrition year ratemaking helps prevent Catalina Gas from running at a deficit.

33. SCE has not supplied the attrition year ratemaking mechanism for review.

34. The Settlement Agreement settled on authorizing SCE to recover revenue requirements of \$2.079 million in 2025, \$2.262 million in 2026, \$2.924 million in 2027, and \$2.34 million in 2028.

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D.25-06-011, pp. 20-21

appropriate advice letter, it should state what rates it is currently authorized to charge as of the date it submits the filing (and the related authorized revenue requirement) and how it proposes to increase or decrease those rates and that revenue requirement.

We expect Cal Advocates and any other intervenor to explain any recommendation as a change from the rate (and revenue requirement) authorized and in effect at the time it makes the recommendation. Thus if rates have independently changed due to another proceeding between the filing of a pending case and the service of testimony, filing briefs, or filing proposed settlements, the correct presentation of “calculating rate increases – or decreases at present rates” means the Commission authorized rates (and revenue requirement) in effect when the statement is made in testimony, briefs, settlements or any other document that is served or filed before this Commission.

5. The Meaning of Adopting a Test Year Forecast

5.1. Capital Projects

The Commission requires in a general rate case that the applicant sponsors and justifies a detailed specific forecast of projects that the utility asserts are necessary for continued safe and reliable service. Great Oaks was expected to present its best expert opinion of the necessary projects to be pursued and the estimated cost of those projects. Cal Advocates was expected and allowed to fully investigate via discovery and then challenge that forecast and methodology with its own expert testimony.

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.³³ 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.

In this proceeding Cal Advocates has accepted all Great Oaks' forecast capital projects except for the proposed Battery Energy Storage System discussed in the proposed memorandum account section, below. As discussed below we approve the memorandum account and therefore this decision adopts Great Oaks' entire capital budget.

5.2. Capital Asset Management Plan

Cal Advocates raised a concern that in its opinion Great Oaks did not comply with the prior 2018 GRC decision to implement a Capital Asset Management Plan. That decision, D. 19-09-010, adopted a settlement for the GRC. While that settlement is not precedential or binding on subsequent proceedings Great Oaks had a compliance obligation during the life of that

³³ See our discussion of the deferred capital asset management software in § 5.2.

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Resolution ESRB-8, pp. 7-8

- de-energization events, before putting the practice in effect in a particular area.
- Provide its de-energization and restoration policy in full, and in summary form, to the affected community officials before de-energizing its circuits.
 - Discuss the details of any potential shut-off and mitigation measures that the communities should consider putting in place, including information about any assistance that the IOU may be able to provide during events.
 - In anticipation of a specific de-energization event, the IOU shall:
 - Notify customers of planned de-energization as soon as practicable before the event.
 - As practicable and operationally feasible, notify and communicate with representatives from the fire departments, first responders, local communities, government, communications providers, and Community Choice Aggregators that may be affected by the de-energization event.
 - Discuss with local government and community representatives the details of any potential shut-off and mitigation measures the IOU can provide to lessen the negative impacts of the power outage (e.g., cooling centers).
 - Ensure that critical facilities such as hospitals, emergency centers, fire departments, and water plants are aware of the planned de-energization event.
 - The IOU shall retain documentation of community meetings and information provided in electronic form, and make that information available to SED upon request. The information shall be retained for a minimum of one year after the de-energization event or five years after the community meetings, whichever comes first.
 - After the de-energization event, IOUs shall assist critical facility customers to evaluate their needs for backup power and determine whether additional equipment is needed. To address public safety impacts of a de-energization event, the IOU may provide generators to critical facilities that are not well prepared for a power shut off.
 - The IOU shall retain records of customer notifications and make that information available to SED upon request. The information shall be retained for a minimum of one year after the de-energization event.

COMMENTS ON DRAFT RESOLUTION

PU Code Section 311(g)(1) provides that a resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding or in other specified situations.

The draft resolution was mailed to parties for comment on May 30, 2018, and was noticed on the Commission's Daily Calendar on June 8, 2018. The 30-day comment period for the draft resolution was neither waived nor reduced. Parties submitted comments by June 28, 2018, and reply comments by July 6, 2018.

Based on parties' comments, several modifications were made to the draft resolution, including the following:

- One of the factors specified in D.12-04-024 for consideration during reasonableness reviews was expanded for use when applied to all IOUs.
- The requirements for reporting events that do not eventually trigger de-energization were clarified.
- The full restoration reporting period to the SED was increased from 30 minutes to 12 hours.
- The period for convening De-Energization Informational Workshops was increased from 60 days to 90 days.
- The guidance for meeting with local communities was made a general requirement, rather than tied to specific de-energization events.
- Low-income, limited English, and disability communities were added to the list of parties to include in the De-Energization Informational Workshops.
- Communications providers were added to the list of representatives to be notified in anticipation of a de-energization event.
- The requirement to provide generators and/or batteries to critical facilities was removed since most critical facilities are required to have their own back-up power resources.

Also in response to comments by the parties, we clarify that the requirements adopted in this resolution are not in conflict with IOU authority to de-energize power lines to ensure public safety provided under the PU Code. We expect an IOU to use its best judgment on a case-by-case basis to determine whether de-energization is needed for public safety. We hold this expectation even if an IOU has not complied fully with each of the requirements in this resolution, for example, if a need for de-energization arises before an IOU has met with the impacted local communities. If an IOU did not fulfill one or more of the requirements in this resolution prior to a de-energization, the IOU shall identify the missed requirement(s) and provide an explanation in its report submitted to the Director of SED after the de-energization event.

FINDINGS

1. Under PU Code Sections 451 and 399.2(a), electric IOUs have the authority to shut off power in order to protect public safety.
2. The decision to de-energize electric facilities for public safety is complex and dependent on many factors including and not limited to fuel moisture; aerial and ground firefighting capabilities; active fires that indicate fire conditions; situational awareness provided by fire agencies, the National Weather Service and the United States Forest Service; and local meteorological conditions of humidity and winds.
3. The decision to shut off power may be reviewed by the Commission pursuant to its broad jurisdiction over public safety and utility operations.

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Resolution W-5267, p. 7

“Great Oaks Water Company is granted authority to implement the provisions regarding creation, modification, and/or amortization of balancing accounts and memorandum accounts as agreed to in the Partial Settlement Agreement (attached to this decision as Attachment C).”⁶

By applying excess usage 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. The Water Division acknowledges the simplification of customer bills and the potential reduction of authorized revenue charged to ratepayers for attrition year 2024-2025 as benefits to ratepayers. The Water Division recommends that Great Oaks be granted authority to apply similar treatment of excess usage surcharges as was previously implemented and according to the language proposed by Great Oaks in AL 318-W:

“Any remaining balance in the Excess Usage Surcharge and Conservation Expense Memorandum Account may be used by Great Oaks when amortizing under-collected balances in authorized balancing or memorandum accounts during the period between the effective date of this Resolution and the beginning of Great Oaks’ next rate year on July 1, 2024. Great Oaks shall use any remaining amounts as a deduction from authorized revenues in rate year 2024/2025 in its attrition year advice letter filing.”

In the Partial Settlement Agreement adopted by D.23-04-004, Great Oaks and Cal PA settled that Great Oaks may request to dispose various balancing and or memorandum accounts via advice letter submissions, but the Settlement Agreement did not indicate specific amounts to be disposed of. When Great Oaks submits an advice letter in the future requesting disposition of its balancing accounts and or memorandum accounts, the Water Division shall review the balances requested to be amortized for reasonableness.

AFFORDABILITY OF PROPOSED RATES

There is no rate component or costs associated with the approval of Great Oaks’ AL 318-W to offset the balance of the CLRMA with the balance of the EUSCEMA; apply the remaining balance of the EUSCEMA towards the future amortization of balancing accounts and memorandum accounts; and to utilize the remaining balance of the EUSCEMA, if any, towards the reduction of authorized revenues for attrition year 2024-2025. Although there is no rate component or costs associated with the approval of Great Oaks’ AL 318-W, applying the remaining balance of the CLRMA to offset under-collected balances in balancing and memorandum accounts would reduce the number of

⁶ Commission Decision 23-04-004, Ordering Paragraph No. 13, page 95.