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Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CWS-02, Attachment D, pp. 12-21

3. How decoupling improves affordability

The demand patterns identified in Section 2 carry important implications for water rate design and affordability. By every proxy analyzed here—CAP participation, home size, lot size, presence/absence of swimming pools, and property value—total water consumption and peak water consumption correlate positively with household financial resources in Cal Water's customer base. These differences in water demand are often quite substantial.

This section discusses the likely effects of rate decoupling for customer-level affordability implied by the aggregate demand patterns shown in Section 2.

3.1 Rate design and affordability

As discussed in Section 1, rate decoupling encourages resource efficiency by allowing utilities to manage revenue risks associated with conservation measures. For water utilities, such conservation measures include progressive pricing. The link between household income and discretionary water consumption found in past research and affirmed in the present analysis indicates that utility rate structures can significantly affect the relative burden that water utility service costs place on low-income customers (Burger et al. 2020; Patterson and Doyle 2023; Ruijs, Zimmermann, and van den Berg 2008). Rates structures with modest prices for basic volumes and steeply inclining prices at higher volumes can promote resource efficiency while also addressing affordability and equity (Chappelle and Hanak 2021). It is now widely recognized that this kind of progressive pricing—that is, prices that raise marginal unit costs as consumption increases—is an especially useful means of addressing water affordability because it does not involve the significant administrative costs and burdens that accompany income-qualified assistance programs (AWWA 2022).

3.1.1. Decoupling and affordability

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

3.1.2. Understanding outliers: what about older fixtures and larger families?

Although water consumption patterns clearly and significantly correlate positively with income proxies across Cal Water's customer base, it is important to recognize that the correlation is not perfect. The relationship between water demand and affluence is probabilistic, not deterministic. Just as not all smokers suffer from lung cancer, many high-income customers use water conservatively and many low-income customers use high volumes of water. Some lower-income customers may use more water due to older,

inefficient fixtures and appliances, for example. Although household income correlates positively with household size in the United States, a minority of low-income households with large numbers of people may use higher than average volumes of water relative to households of similar income levels. For this reason, CAPs are important complements to rate structures as part of a water utility's overall affordability strategy.

However, the relevant question in evaluating affordability for purposes of rate-setting is how various rate designs will affect customers of varying income and wealth *on average.* The analysis in Section 2 makes clear that, on average, higher-income customers use significantly more water than lower-income customers—particularly in peak periods where water consumption reflects discretionary use—and more progressive pricing will result in lower average bills for lower-income customers. Although there are certain to be many exceptions across Cal Water's large and diverse customer base, more progressive pricing under decoupling is likely to have salutary overall affordability impacts.

3.2 Illustrations of rate impacts for representative customers

To illustrate the likely distributional effects of decoupling, I project the impacts of two alternative Cal Water rate structures—one conventional, one decoupled—for six real Cal Water customers. These customers were selected to represent various segments of the customer base.

For each customer, I report service district, meter size, assessed value, home size, lot size, and average water consumption from 2019-2022. I calculate hypothetical monthly and annual bills based on each customer's actual water consumption under two proposed rate structures provided by Cal Water staff for each service district: one with and one without decoupling. The non-decoupled rates raise the share of revenue collected through the fixed service charge by 10%, and apply gradually increasing volumetric tiers compared to the current rate design. The decoupled rates include no changes to the share of revenue collected through the fixed service charge, and apply much more steeply increasing tiered volume charges compared to the current rate design. I present the illustrative cases in inclining order of 2019 assessed property value. The property values and other household income proxies for these illustrative cases generally correlate with water consumption in ways that align with the broader analyses presented in Section 2. As we will see, decoupling is associated with lower total bills for the more modest properties and higher total bills for the more valuable properties.

These property profiles and water consumption reported here include real data, but in the interest of customer privacy I do not report specific addresses and the images provided are not of the actual properties. Rather, the image that accompanies each profile is of a different property in California that is similar in size, value, and appearance to the actual property at the location.

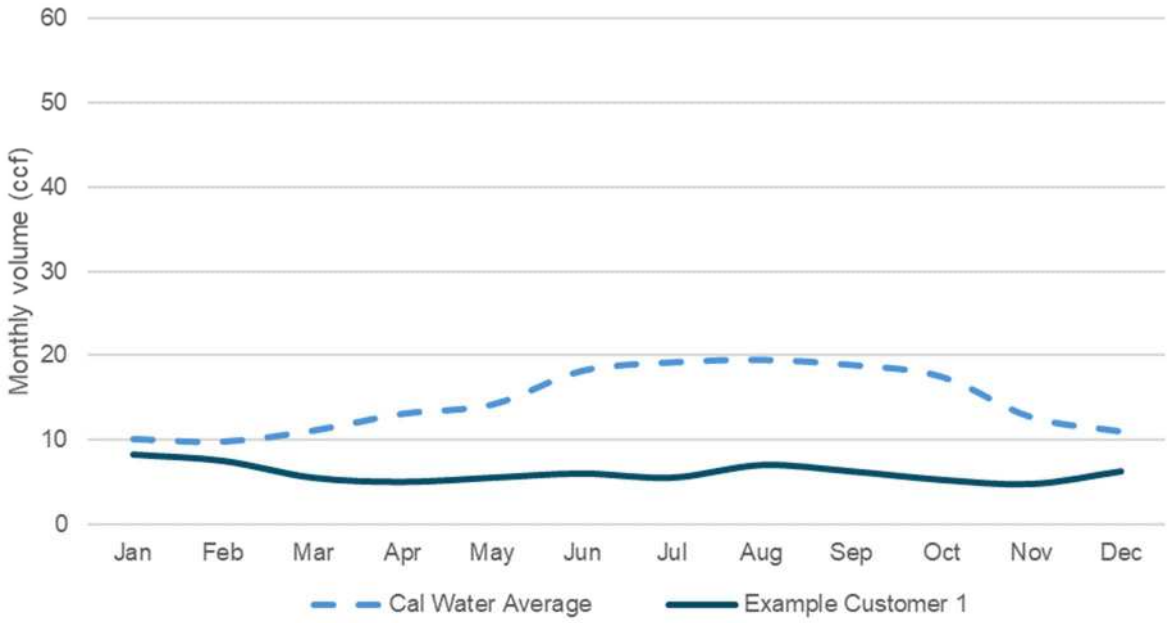
3.2.1. Decoupling impact: Example Customer 1

Property profile	
District	Stockton
Living space	1,048 sqft
Lot size	0.12 acres
Meter size	5/8 inch
2019 Assessed value	$150,559

Representative image

This property in Stockton has 1,048 sqft of living space and was assessed at $150,559 in 2019, putting it significantly below average size and value within Cal Water's customer base. This customer participated in the low-income CAP in 2020 and 2021. As Figure 8 shows, this customer used significantly less water than average for Cal Water single-family residential customers from 2019-2022. Moreover, this customer effectively had no summer demand peak, with roughly even water consumption year-round. At these volumes, *this customer would pay $182.19 less over the course of a year with the Stockton district's decoupled rates* compared with the non-decoupled alternative. This reduction amounts to **14.9% lower annual costs for this customer under rate decoupling**.

Figure 8. Monthly water consumption for Example Customer 1, 2019-2022



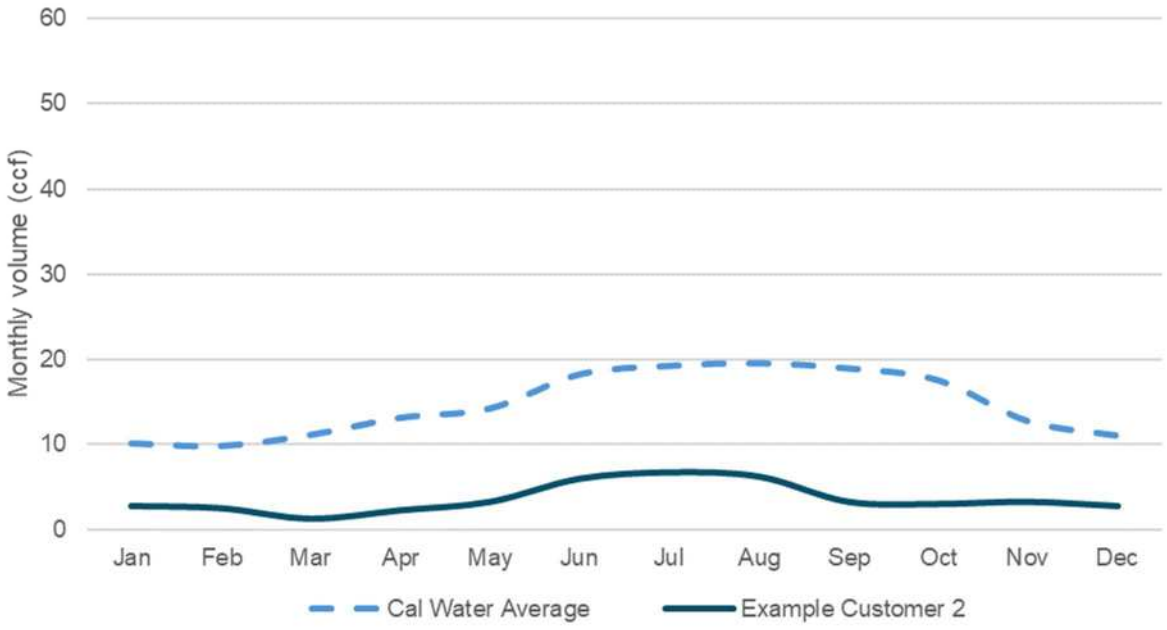
3.2.2. Decoupling impact: Example Customer 2

Property profile	
District	Chico
Living space	1,144 sqft
Lot size	0.30 acres
Meter size	5/8 inch
2019 Assessed value	$251,256

Representative image

This parcel in Chico has 1,144 sqft of living space and is smaller than average. Its $251,256 assessed value in 2019 is approximately equal to the median value for single-family residential customers of Cal Water. As Figure 9 shows, water consumption at this address showed mild peaking on average from 2019-2022, but overall demand at this location was very low compared to average for Cal Water single-family residential customers during this period, with only very slight peaking. At these volumes, *this customer would pay $55.41 less over the course of a year with the Chico district's decoupled rates* compared with the non-decoupled alternative. This reduction amounts to **14.7% lower annual costs for this customer under rate decoupling**.

Figure 9. Monthly water consumption for Example Customer 2, 2019-2022



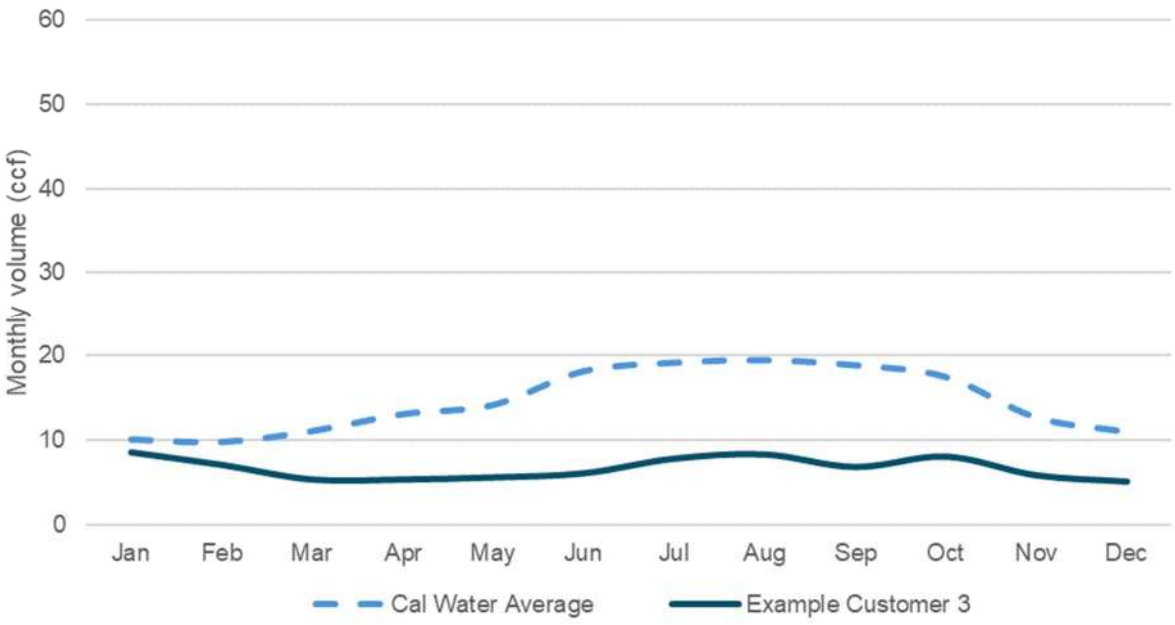
3.2.3. Decoupling impact: Example Customer 3

Property profile	
District	East Los Angeles
Living space	1,084 sqft
Lot size	0.12 acres
Meter size	5/8 inch
2019 Assessed value	$509,590

Representative image

This Monterey Park property's 1,084 sqft of living space makes it a smaller than average home, but its $509,590 assessed value in 2019 is slightly higher than average for Cal Water's single-family residential customers. Water consumption at this location was significantly below average in 2019-2022, with little to no peaking (see Figure 10). At these volumes, *this customer would pay $53.98 less over the course of a year with the East Los Angeles district's decoupled rates* compared with the non-decoupled alternative. This reduction amounts to **9.2% lower annual costs for this customer under rate decoupling**.

Figure 10. Monthly water consumption for Example Customer 3, 2019-2022



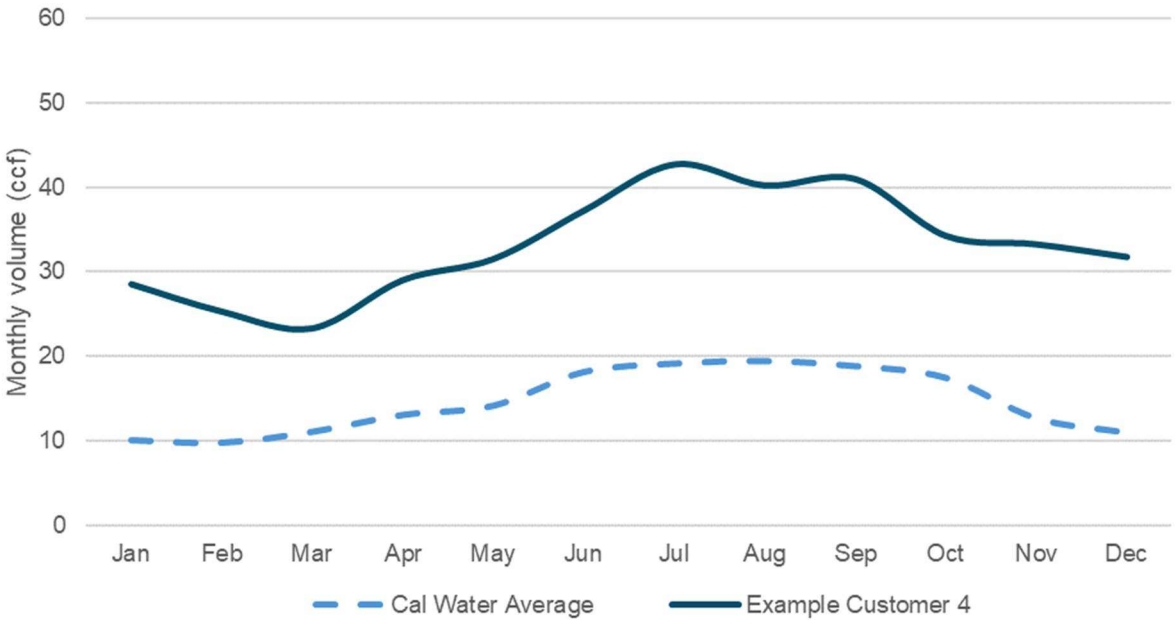
3.2.4. Decoupling impact: Example Customer 4

Property profile	
District	Westlake
Living space	2,668 sqft
Lot size	0.41 acres
Meter size	5/8 inch
2019 Assessed value	$782,867

Representative image

With 2,668 sqft of living space, this Westlake Village property is about one standard deviation above the mean in indoor size, and its .41 acre lot is markedly larger than the .25 acre average for Cal Water's single-family customers. The property also has a swimming pool. Its 2019 assessed value of $782,867 was roughly 50% higher than average. Water consumption at this location was significantly above average in 2019-2022, with notable peaking in the summer period (see Figure 11). At these volumes, *this customer would pay $192.86 more over the course of a year with Westlake's decoupled rates* compared with the non-decoupled alternative. This reduction amounts to **8.0% higher annual costs for this customer under rate decoupling**.

Figure 11. Monthly water consumption for Example Customer 4, 2019-2022



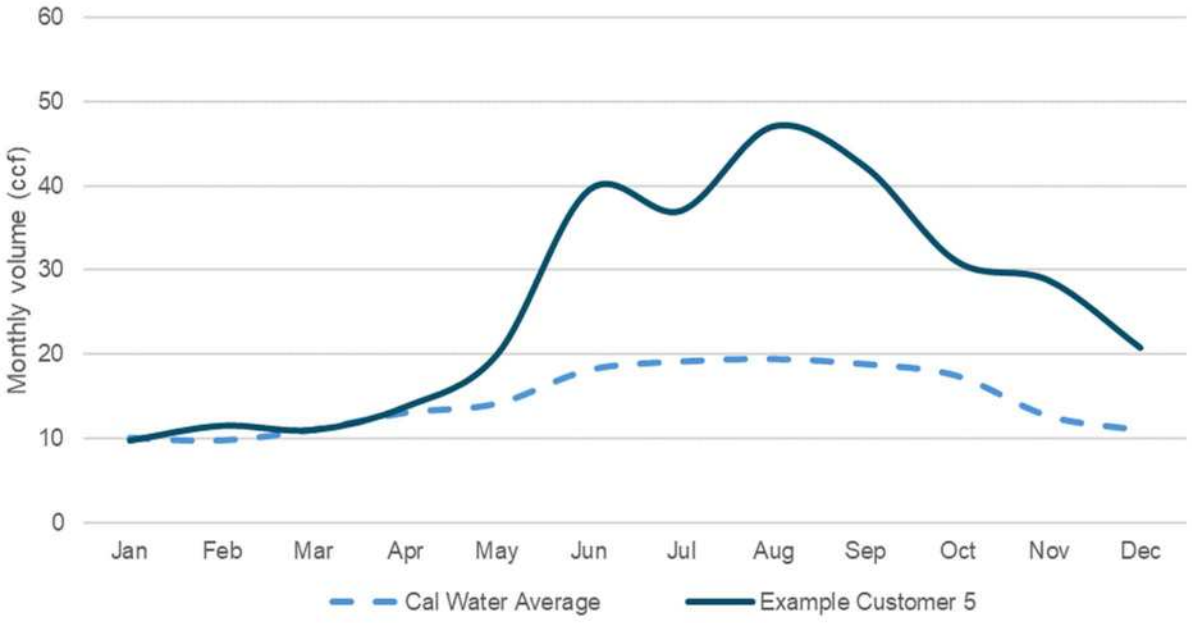
3.2.5. Decoupling impact: Example Customer 5

Property profile	
District	Livermore
Living space	2,851 sqft
Lot size	0.28 acres
Meter size	1 inch
2019 Assessed value	$1,087,287

Representative image

With 2,851 sqft of living area and a large backyard pool and hot tub, this Livermore property was valued at $1.1 million in 2019—roughly four times higher than the median home price for single-family residential customers in Cal Water's service area. Figure 12 shows that water consumption at this location was significantly higher than average from 2019-2022, with sharply higher peaking during the summer months. At these volumes, *this customer would pay $470.15 more over the course of a year with the district's decoupled rates* compared with the non-decoupled alternative. This increase amounts to **15.9% higher annual costs for this customer under rate decoupling**.

Figure 12. Monthly water consumption for Example Customer 5, 2019-2022



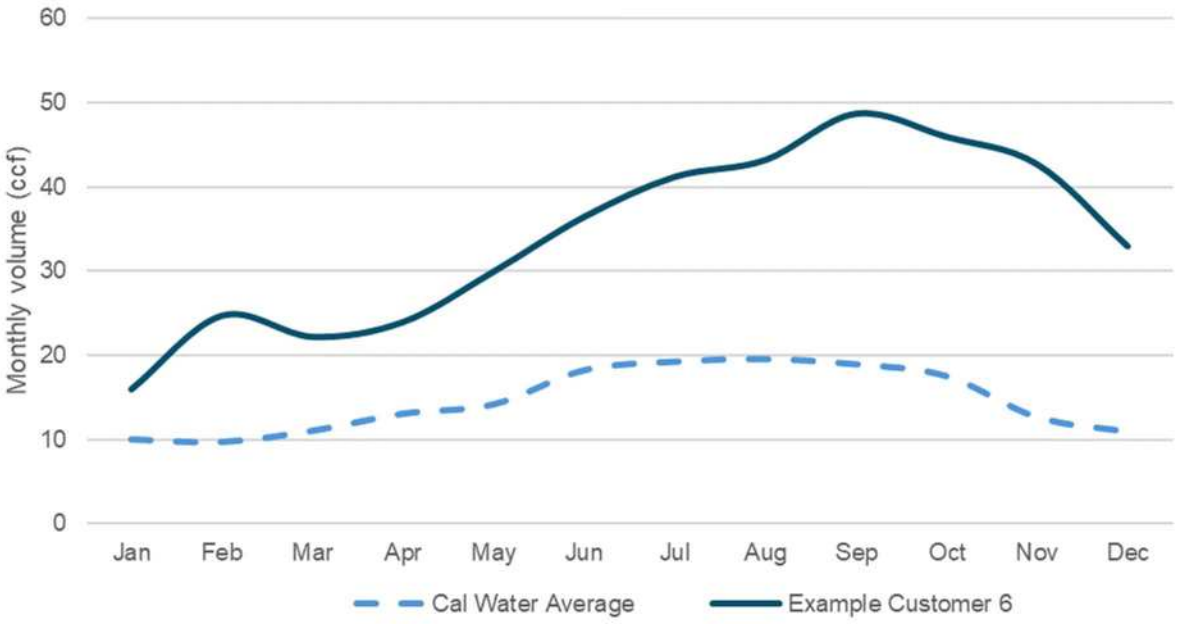
3.2.6. Decoupling impact: Example Customer 6

Property profile	
District	Los Altos
Living space	3,884 sqft
Lot size	0.40 acres
Meter size	1 inch
2019 Assessed value	$1,809,397

Representative image

This Los Altos parcel's 3,884 sqft of living area makes it two standard deviations larger than the average Cal Water single-family residential customer, and its 0.40 acre lot is nearly three times larger than the median customer's lot size. The home also has a swimming pool and significant landscaping, and was valued at $1.8 million in 2019—more than three times the average for single-family residential customers in Cal Water's service area. Figure 13 shows that water consumption at this address was significantly higher than average from 2019-2022, with far higher demands during the peak summer months. At these volumes, *this customer would pay $332.28 more over the course of a year with the Los Altos district's decoupled rates* compared with the non-decoupled alternative. This increase amounts to **8.8% higher annual costs for this customer under rate decoupling**.

Figure 13. Monthly water consumption for Example Customer 6, 2019-2022



4. Conclusion

Traditionally regarded as a means of facilitating resource conservation, rate decoupling also can have important implications for affordability when it allows more progressive pricing. Lower fixed charges and steeply inclined, tiered volumetric charges allow customers greater control over their bills. Although household water use for essential uses like drinking, cooking, cleaning, and sanitation is relatively insensitive to differences in income, empirical research on residential water consumption in the United States finds that discretionary water consumption correlates positively with income (Havranek, Irsova, and Vlach 2018). In practical terms, then, lower-income households are, on average, more conservative consumers of water—particularly in peak demand periods.

Analysis of Cal Water customer billing data yields findings consistent with these expectations. Monthly consumption records for more than 400,000 Cal Water customers demonstrates that, on average, low-income CAP participants consume less water than other single-family residential customers. When billing records are matched to parcel-level data on home characteristics, analysis finds that overall water consumption and peak period consumption correlate positively with home size, lot size, the presence of swimming pools, and assessed property value—all of which are reasonable proxies for household income. Cal Water's proposed decoupled rates would result in lower average bills for its most modest homes, while average bills would rise substantially for the 0.5% of Cal Water residential customers with properties valued at over $5.5 million in 2019. Although some high-income households are conservative water users and some low-income households use high volumes of water, the data clearly indicate that water consumption increases with household financial resources. These findings suggest that more progressive rate schedules can have salutary affordability effects for lower-income Cal Water customers.

Decoupling allows utilities to manage revenue risk while pricing more progressively. Cal Water has prepared two alternative rate schedules: one with decoupling, the other without. The decoupled rates are notably more progressive in design, with lower fixed charges and more steeply inclined tiered rates. Conventional, non-decoupled rates collect more revenue from fixed charges and lower volume tiers, which effectively means that more conservative water customers bear the revenue risk associated with fluctuating demand. Analysis of six illustrative customers shows that decoupling reduces total prices for customers in more modest homes, while raising prices for higher-volume customers in larger, more expensive homes. Taken together with the analyses of overall water demand, these results strongly indicate that decoupling will, on average, benefit lower-income households in Cal Water's service area.

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

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CWS-31, p. 651

Table 2. Companywide Unscheduled Mains Subcategory Budgets

District	Direct Cost			District Direct Cost
	2025	2026	2027	2025-2027
Bayshore	$1,465,518	$1,502,155	$1,539,709	$4,507,382
Bear Gulch	$804,882	$825,004	$845,629	$2,475,515
Bakersfield	$1,819,548	$1,865,037	$1,911,663	$5,596,248
Chico	$182,011	$186,561	$191,225	$559,797
Dixon	$45,894	$47,041	$48,217	$141,152
Dominguez	$587,255	$601,937	$616,985	$1,806,177
East Los Angeles	$895,689	$918,081	$941,033	$2,754,803
Hermosa-Redondo	$177,491	$181,928	$186,476	$545,895
King City	$100,527	$103,040	$105,616	$309,183
Kern River Valley	$73,111	$74,938	$76,812	$224,861
Livermore	$210,642	$215,908	$221,305	$647,855
Los Altos	$811,362	$831,646	$852,437	$2,495,445
Marysville	$72,634	$74,449	$76,311	$223,394
Oroville	$196,034	$200,933	$205,957	$602,924
Palos Verdes	$457,124	$468,552	$480,267	$1,405,943
Redwood Valley	$127,844	$131,040	$134,315	$393,199
Selma	$173,376	$177,710	$182,153	$533,239
Salinas	$600,600	$615,615	$631,005	$1,847,220
Visalia	$505,799	$518,444	$531,405	$1,555,648
Westlake	$881,582	$903,624	$926,214	$2,711,420
Willows	$84,782	$86.902	$89,074	$173,943
Total	**$10,273,705**	**$10,443,730**	**$10,793,808**	**$31,511,243**

Hydrants

Hydrants are critical water distribution system assets primarily used for fire suppression, water main flushing activities, construction activities, and for filling water-hauling trucks. According to the American Water Works Association, hydrant owners are morally obliged to make sure that adequate fire flow can be delivered from a hydrant and if adequate fire flow is not possible, the hydrant is not achieving its primary purpose.[42] The Unscheduled hydrant replacement category is a reactionary budget item intended to address replacement of hydrants hit by vehicles, failed components, or other unexpected emergencies to ensure that Cal Water Districts continue to provide the necessary fire protection to customers as required by local fire protection agency in accordance with CPUC GO 103-A § VI.1.A. A summary of the companywide Hydrants portion of the *Unscheduled Budget* is presented in Table 3 by District and year.

Table 3. Companywide Unscheduled Hydrants Subcategory Budgets

District	Direct Cost			District Direct Cost
	2025	2026	2027	2025-2027
Bayshore	$577,813	$592,259	$607,065	$1,777,137

[42] AWWA, *M17 Installation, Field Testing, and Maintenance of Fire Hydrants.* Fourth Edition. 2006. pp. 29.

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CWS-50, p. 73

Table 5-1 (Corrected)

	CWS Recommendation[1]	Cal Advocates Recommendation	Cal Advocates Corrected by CWS[4]
Company Payroll Excluding Execs	112,128,672	85,350,898	92,925,504
Executive Base (Payroll)	6,966,535	3,635,781[2]	**6,838,851**
Executive ST ARP (Payroll)	3,013,682	740,186[2]	**887,534**
Total	122,108,890	8,9726,865[3]	**100,651,889**
Executive LT ARP (A&G Non-Specifics)	4,765,982	0	0
Executive Compensation (Base + ST ARP + LT ARP)	14,746,199	4,375,967	**7,726,385**

(1) Testimony Book #1, Chapter 8.
(2) Cal Advocates Report on A&G, Table 1-22.
(3) Cal Advocates Report on A&G, Table 1-5.
(4) Please see Attachment 5-3.

Therefore, the Commission should ignore those further reductions relating to company-wide-at-risk pay expense that lack evidentiary support. Factoring these corrections to Cal Advocates' recommendations results in a $ **21,457,001** reduction to Cal Water's proposed test year total payroll expense forecast, resulting in Cal Advocates' forecast of $ **100,651,889.**[122] While the Commission should reject all of Cal Advocates' proposed reductions for the reasons set forth further below, if it chooses to adopt Cal Advocates position, then it should only adopt the $ **21,457,001** reduction factoring in these corrections.

c) Recap of Cal Water methodology to calculate payroll expense forecast

Cal Advocates' payroll-related recommendations are based in part upon a misunderstanding of how Cal Water has calculated its payroll expense forecast. Before addressing the specific arguments made by Cal Advocates on this issue, it is helpful to recap the methodology that Cal Water used to forecast its payroll expense in this GRC. Further details on this methodology were previously provided in **Chapter 8 of Testimony Book #1**.

[122] *See* CWS Rebuttal Book #1, Attachment 5-3.

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CWS-50, p. 82

officers (NEOs).[134] Correcting for Cal Advocates' error in their Table 1-14[135] of their report, Cal Water's 2023 direct executive compensation for the entire officer team would be as follows:

Cal Advocates 2023 executive compensation with only 7 NEOs	Cal Advocates **corrected** 2023 executive compensation with the entire (17) Officer team
$7,581,671	$12,669,031

Revising table 1-15: Comparison of CWS Recorded 2023 and Forecasted Test Year 2026 Executive Compensation, the annual change is 5.2%.[136]

2023 Total Direct Compensation Earned	**Proposed TY 2026 Total Direct Compensation** [137]	**Total Difference for the Four Years 2023-2026**	**Total Percent Change for the Years 2023-2026**	**Annual Percent Change Per Year**
$12,669,031	$14,746,200	$2,077,169	16.4%	5.2%

This 5.2% is significantly less than the inaccurate and miscalculated 31% annual increase included in Cal Advocate's report.

Cal Advocates referenced in their report that Equilar published data that CEO pay increased 12.6% in 2023 as well as a Harvard Business Forum post that stated CEO compensation increased 11.3% annually from 2022 to 2023.[138] The proposed annual increase for Cal Water's CEO is 3.2%, which is significantly less than either of the two reference points provided by Cal Advocates.

a) Proxy Peer Group Selection

Cal Advocates' comments and observations regarding Cal Water's proxy peers, which is used to help benchmark Cal Water's executive compensation and pay practices, is selective,

[134] Proxy disclosures are mandated by the Securities and Exchange Commission's (SEC) Item 402 of Regulation S-K (Reg. S-K) only include specific NEO's, not all officers, of a Company. The SEC rules require listing the CEO, CFO, and three other officers with the highest compensation. In 2023 Cal Water's CFO and another named officer retired and thus disclosure for seven officers was required. California Water Service Group 2024 Proxy and 2023 10-k - 2024 GRC Application, Attachment B, p. 55.
[135] Keowen Testimony, p. 1-23.
[136] Keowen Testimony, p. 1-23.
[137] CWS Testimony Book #1, p. 160.
[138] Keowen Testimony, p. 1-24.

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CWS-52, pp. 117-122

These sums are spread across ALL 24 districts and are actually quite small per district. Per Cal Water's units of Property Policy, "Land" (utility account 103061 and 103062) can include the purchase of land, surveying, curbs, gutters, sidewalks and driveway approaches in the public right of way, easements and diversion rights. Damaged gutters, curbs and sidewalks in the public right of way are a safety hazard and need immediate replacement.

Cal Advocates narrowly and unfairly labels non-specifics as only "emergency" but Cal Water characterizes them as unable to wait until the next filing. From this lens, it is easier to see why property purchases and easements are also reasonable costs for this category of budgets. Land is an ephemeral resource that becomes available unpredictably and unavailable suddenly and rapidly and Cal Water needs a mechanism to make such purchases. Similarly, easements may need to be negotiated unexpectedly for planned or unplanned capital work, since Cal Water does not always own all the land needed to fully access all of its facilities.

Cal Water's use of Non-Specific and Unscheduled Budgets are Consistent with Prior Commission Decisions

Cal Advocates' concern regarding Cal Water's Non-Specific budgets are inconsistent with its position with regard to other regulated Investor Owned Utilities (IOU) that provide water service. For example, in a recent GRC Cal AM also proposed a similar budget structure for unplanned projects, referring to these as "recurring projects." Recurring project (RP) capital expenditures are primarily for smaller unforeseen operational capital investment tasks and routine every year-type of projects. Cal-Am divides its RPs into seventeen areas. Cal- Am budgets the RPs by taking into consideration the inflation-adjusted five-year historical average of the specific RP, as well as the results from the 2013 GRC to determine consistency. Since the 2010 GRC, the Commission has authorized Cal-Am to manage its various district RP budgets to an overall budget number, with flexibility to reallocate funds among individual RP line items as necessary over the course of the year, and Cal-Am proposes to continue this approach in the current GRC period[36]

Cal Water's approach has been historically supported as well. In the recent decision on the 2021 GRC, the Commission determined that this litigated issue was prudent, remarking that "there is no evidence in the record [...] that Cal Water has misused or, in the future, will intentionally misuse it's 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

[36] D.18-12-021, 147

historic record with respect to Non-Specific capital spending puts it in the top-performing (lowest expenditure) quartile of the nation's water utilities.[37]" The decision went on to support the prudency of the Unscheduled budgets as well noting that it will "help the Commission more easily focus on Cal Water's responses to the totally unexpected damage to Cal Water's system."

Cal Water's Unplanned Budgets are Reasonable Compared to Industry Standards

Cal Advocates asserts that Cal Water's proposed budget based on "inflation adjusted average of historical expenditures" does not allow for increases in efficiency. Cal Advocates presumes that all of these costs are completely in Cal Water's control and implies that Cal Water is being irresponsible in managing the program based solely on the increasing aggregate Non-Specific spend over the last 10 years. However, in the interest of full transparency for both Cal Advocates and the Commission to review, Cal Water provided individual project justifications in Chapter 13 of each ratemaking area's Results of Operations books for all Non-Specific projects over $200,000, and where the Non-Specific budget was overrun. Cal Advocates did not dispute the merits of any of these Non-Specific project justifications, but merely assumes that since the aggregate program costs are trending upwards they must be unreasonable. Cal Water submits that it would be more appropriate to ascertain whether the individual project costs presented within the program are reasonable, rather than jumping to conclusions based on an aggregate cost.

During the time period, 2010 – 2020, Cal Water installed over $2.18 billion dollars of capital improvements,[38] the actual total unplanned costs is approximately $483 million. Comparing the total unplanned costs to the total capital of the Company amounts to 22.1%. While Cal Water believes the most appropriate course of action is to review each project for on its merits, Cal Water also looks quite good following Cal Advocates simplified total dollars spent approach. In comparison to other water utilities across the nation, an AWWA benchmarking survey found that water utilities with an unplanned spend of less than 29% compared with their total spend were in the top performing quartile of water utilities.[38] While Cal Advocates suggest that Cal Water's proposed non-specific program based on unplanned historical spend is unreasonable, in actuality this cost is much more in line with some of the top utilities in the country. Therefore, in addition to Cal Advocates not disputing any of the individual project costs associated with past Non-Specific

[37] D.24-03-042 pp 35-36
[38] A.21-07-002. *Book - General Plant Rebuttal*, p. 44.

spend, their concern over aggregated Non-Specific spend over the last decade misrepresents Cal Water performance, when in actuality it is operating in a manner that is in line with current best practices.

Reasons for non-specific projects

Cal Advocates recommended rejecting the entire requested amount for the non-specific and unscheduled budgets, claiming "misuse of resources, inadequate asset management, or imprudent business decisions typically result in a loss in profit." [31] This presumption that the unscheduled and unplanned work covered by this program is under Cal Water's control is entirely unfounded. In reality, numerous non-specific projects have been necessitated in recent years due to external factors beyond Cal Water's control. Typical instances include the unanticipated relocation of Cal Water pipelines to resolve conflicts with municipal street improvement projects in the public right of way, replacing assets that have prematurely failed, and addressing incidents where vehicles crash into hydrants.

- PID 122623 - In Los Altos, water main was relocated out of the County ROW due to the County of Santa Clara widening Foothill Expressway and lowering the roadway grade
- PID 130599 - In South San Francisco, a tank roof had to be replaced as it failed during a recent storm to ensure the tank's interior is secure and capable of providing reliable fire service to customers.
- PID 134270 - In Livermore, a large eucalyptus tree fell and damaged a tank shell at Station 23, which needed to be immediately repaired.
- In ELA, on a private property, a 16" butterfly valve failure caused water to seep through the concrete and asphalt, necessitating over-depth excavation with deep trench shoring. Repairs had to be conducted during late hours due to the extensive damage caused by the leakage, which necessitated over-depth excavation and main replacement.

Another example of unanticipated projects that do not fall under the purview of Asset Management program is the unprecedented land movement in Palos Verdes causing damage to our water system and customers' service lines. Cal Water promptly took action by swiftly detecting and addressing the leaks.

Rise in Costs Associated with Unplanned Budgets (Unscheduled) are out of Cal Water's Control

The bulk of the historical Non-Specific budgets can be directly attributed to the "Unscheduled" portion of the budget (i.e. unplanned replacement of hydrants, mains, meters, and services), which also generally account for the steady increase in overall spend. Many of the rising costs associated with the Unscheduled budgets are unavoidable and outside of Cal Water control. There are increasingly stringent permitting agency requirements for paving restoration associated with trenching and pipeline replacement and increasing cost of materials and labor in California (especially in an emergency situation that requires overtime and night work), all of which are outside of Cal Water's control.

Cal Advocates contends that because Cal Water has preventative asset replacement programs that this area of spending should immediately go down. While it is important to note that Cal Advocates is proposing to reduce the same asset management programs they say should replace the unscheduled budgets, these budgets are to replace assets that have prematurely failed and must be replaced in order to keep customers in service or maintain fire protection. In contrast, asset management program budgets are intended to replace assets that have reached the end of their useful life.

There are many factors that can influence unexpected failures expected even with a robust asset management program. For example, pipelines can have early failure due to tree root intrusion, soil conditions, corrosion, soil settlement or instability such as landslides excavation or construction activities, or excessive pressures caused by water hammer. Another example is fire hydrants, which can be struck by vehicles. There is no defensible correlation between hit hydrant failures and a hydrant replacement/maintenance program. Such corrections cannot be deferred to a later GRC because the public utilities code requires Cal Water to immediately repair such deficiencies.[39]

Cal Water's Non-Specific Budgets Have Been Under-Funded

In the last GRC, Cal Water demonstrated that its shareholders have been carrying the cost of the majority of these recorded non-specific expenditures for many rate case cycles, making the company's request extremely reasonable. (see Figure 1). While it is true that these

[39] Public Utilities Code 768.6 and 8386

costs can be submitted for recovery in a subsequent GRC, a portion of the incurred costs cannot ever be recovered[40]. Given that Cal Advocates did not dispute the merits of the individual completed Non-Specific projects, it is clear that Cal Water's Non-Specific budgets have historically been significantly underfunded. Therefore, Cal Advocates' approach to simply cut the Non-Specific budgets by 20%, and remove the Unscheduled budget entirely, without any additional analysis or support (beyond Cal Advocates dislike of numbers trending upwards), exposes Cal Water to significant costs being carried by shareholders until the next rate case application.

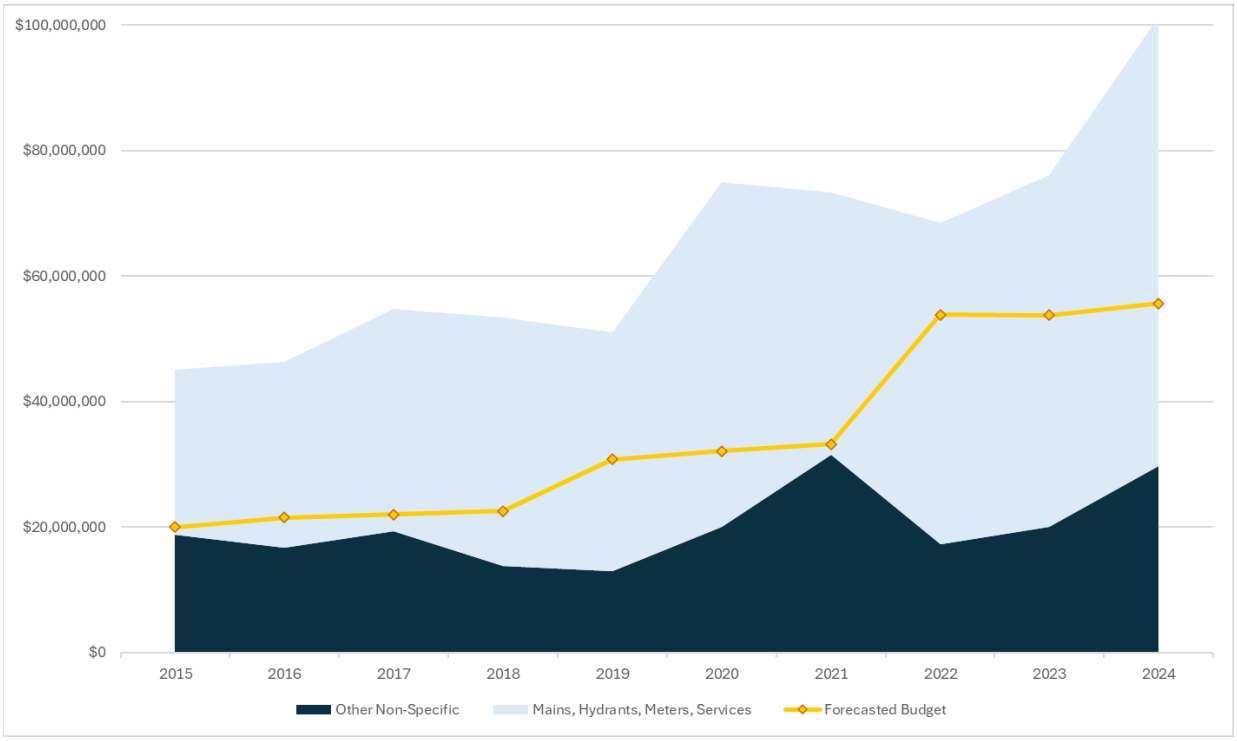


Figure 1. 10 year Recorded Non-Specific Budget Expenditures- All Districts

Conclusion

Cal Advocates' assertion that the non-specific program is unnecessary due to Cal Water's robust asset management program demonstrates a fundamental misunderstanding of the purpose of non-specific and unscheduled budgets. These budgets are essential for addressing

[40] "The depreciation expense and return on investment for Cal Water's capital assets will not be recovered from its customers during this period. However, its customers will benefit from these capital assets without incurring any costs.

Rebuttal Response Book 2 pg. 121

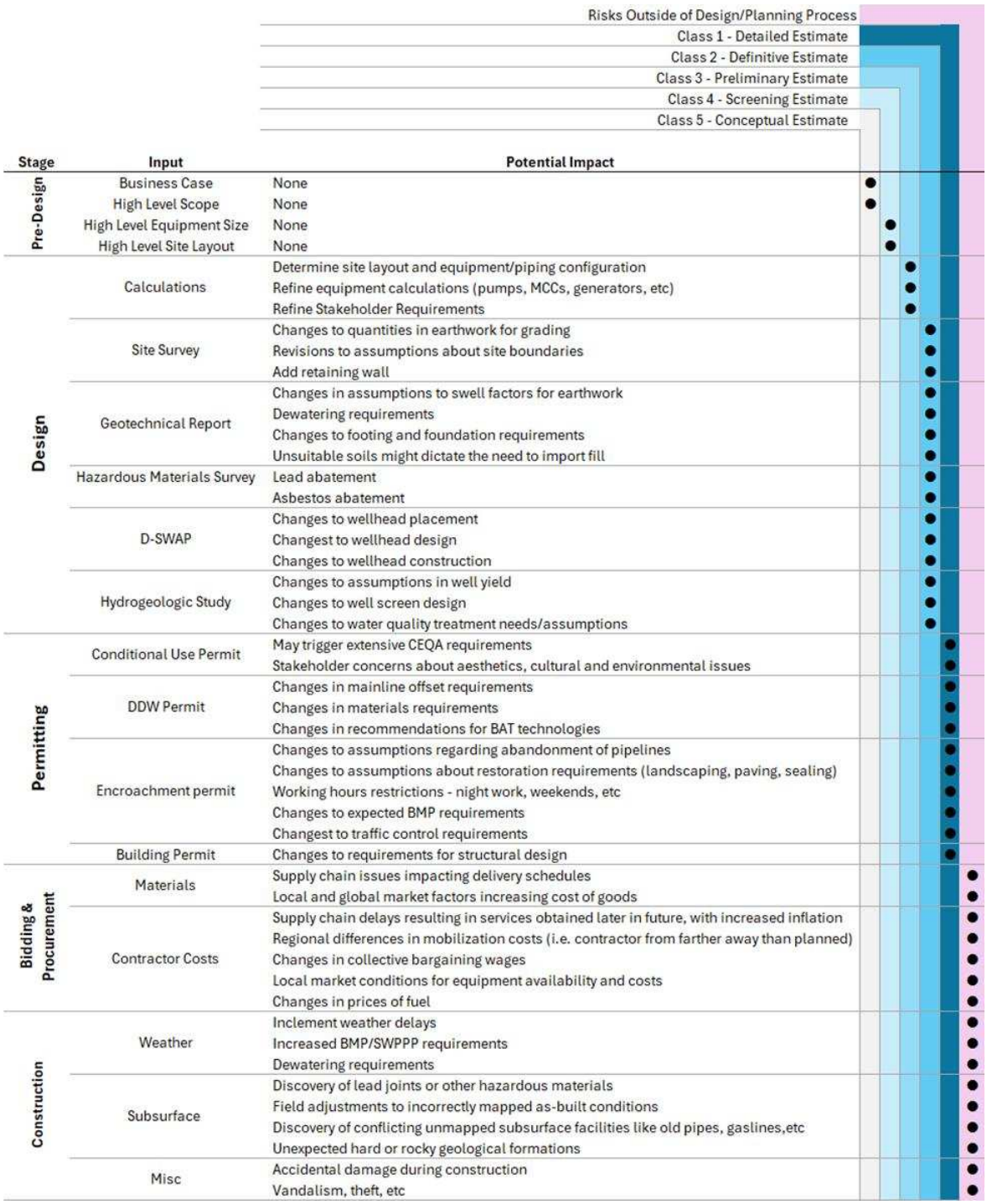
operational reliability risks arising from asset failures beyond Cal Water's control. By denying this budget, Cal Advocates are effectively claiming that there will be no future incidents of vehicles hitting hydrants, no municipal requests for pipeline relocations, and no premature asset failures due to external factors. Such assumptions are not only unrealistic but also conflict with the Commission's past decisions. The Commission supported Cal Water's non-specific program request in the 2021 GRC, rejecting similar claims from Cal Advocates aimed at denying the budget. Therefore, Cal Water recommends the Commission reject Cal Advocates' position and approve the full amount of the Non-Specific and Unscheduled budgets as proposed in the 2024 GRC application.

Rebuttal Response Book 2 pg. 122

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CWS-52, pp. 148-150



Stage	Input	Potential Impact
Pre-Design	Business Case	None
	High Level Scope	None
	High Level Equipment Size	None
	High Level Site Layout	None
Design	Calculations	Determine site layout and equipment/piping configuration
		Refine equipment calculations (pumps, MCCs, generators, etc)
		Refine Stakeholder Requirements
	Site Survey	Changes to quantities in earthwork for grading
		Revisions to assumptions about site boundaries
		Add retaining wall
	Geotechnical Report	Changes in assumptions to swell factors for earthwork
		Dewatering requirements
		Changes to footing and foundation requirements
		Unsuitable soils might dictate the need to import fill
	Hazardous Materials Survey	Lead abatement
		Asbestos abatement
	D-SWAP	Changes to wellhead placement
		Changest to wellhead design
		Changes to wellhead construction
	Hydrogeologic Study	Changes to assumptions in well yield
		Changes to well screen design
		Changes to water quality treatment needs/assumptions
Permitting	Conditional Use Permit	May trigger extensive CEQA requirements
		Stakeholder concerns about aesthetics, cultural and environmental issues
	DDW Permit	Changes in mainline offset requirements
		Changes in materials requirements
		Changes in recommendations for BAT technologies
	Encroachment permit	Changes to assumptions regarding abandonment of pipelines
		Changes to assumptions about restoration requirements (landscaping, paving, sealing)
		Working hours restrictions - night work, weekends, etc
		Changes to expected BMP requirements
		Changest to traffic control requirements
	Building Permit	Changes to requirements for structural design
Bidding & Procurement	Materials	Supply chain issues impacting delivery schedules
		Local and global market factors increasing cost of goods
	Contractor Costs	Supply chain delays resulting in services obtained later in future, with increased inflation
		Regional differences in mobilization costs (i.e. contractor from farther away than planned)
		Changes in collective bargaining wages
		Local market conditions for equipment availability and costs
		Changes in prices of fuel
Construction	Weather	Inclement weather delays
		Increased BMP/SWPPP requirements
		Dewatering requirements
	Subsurface	Discovery of lead joints or other hazardous materials
		Field adjustments to incorrectly mapped as-built conditions
		Discovery of conflicting unmapped subsurface facilities like old pipes, gaslines,etc
		Unexpected hard or rocky geological formations
	Misc	Accidental damage during construction
		Vandalism, theft, etc

Figure 1. Potential Project Risk by Scope Definition and Phase

Rebuttal Response Book 2 pg. 148

Table 1: Examples of Actual Risk Drawing from Contingency Budget

PID	Project	Contingency	Change Amt.	Details
00098326	BG Station 4 Yard Piping Updates	$161,829	$21,626	Wet weather delays, scope addition of crushed rock and steel plates to allow vac truck to enter yard under wet soil conditions
			$86,134	Broken valves discovered during shut down for tie-in. Valve repairs required to complete project
			$34,226	Schedule delays from valve repair (1 month) resulted in extended rental of excavation shoring.
			$56,191	A section of 24" cast iron pipe had to be replaced when it was discovered to be deformed (oval) upon excavation.
			$5,133	Existing sections of Tie-in C had multiple failures when attempting to perform the tie in. Tie-in was extended to a new location at an MJ valve which also had failed and needed replacement.
		TOTAL	$203,310	

Rebuttal Response Book 2 pg. 149

00121245	BG-007 PSPS Genset	$53,728	$10,069	Design drawing called for tie-in to existing PG&E conduit, but PG&E as-built had wrong size. Correct size had to be run all the way to the transformer
			$24,000	Proposed generator pad had to be relocated 8ft to avoid a discharge pipe discovered in the field that was on the existing as-built plans.
		TOTAL	$34,069	
00124068	CH Wildfire 475 Zone Bruce Main	$36,700	$12,900	Increased spoils hauling costs to landfill instead of stockpile in yard in response to wet weather.
			$47,638	Increased contractor costs due to hard rock formation excavation and modifications to storm drain crossings, tie-ins and main alignment due to multiple utility conflicts discovered during construction
			$19,800	Tie-in had to be re-aligned due to differences between field conditions and as-built documentation of existing 12" main. Original design would not meet distance requirements with existing 6" gas main.
		TOTAL	$80,338	

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Rebuttal Response Book 2 pg. 150

CWS-52, p. 195

Nitrification (Tank and Mixing) Projects

Issue:

The issue of nitrification in the water systems of the East Los Angeles, Dominguez, and Livermore districts is being addressed through several capital projects. In East Los Angeles, PIDs 133068 and 133069 focus on installing tank mixers, chemical addition equipment, and continuous water quality monitoring to combat high nitrite concentrations and low chlorine residuals. Similarly, in the Dominguez district, PID 133047 aims to improve nitrification by implementing packaged mixing and disinfectant residual control systems, along with automated dosing of free ammonia and chlorine. In the Livermore district, PIDs 133111, 133113, and 133115 involve the installation of tank mixers, chemical addition equipment, and chemical storage tanks to adjust the chlorine to ammonia ratio and prevent nitrification. These projects collectively aim to maintain high water quality by preventing nitrification and ensuring continuous water quality sampling and monitoring across the affected district.

Cal Advocates Position:

Cal Advocates recommends that the Commission should not approve the requests for six projects, including funding for three new Chloramination systems and three mixing and dosing control systems in Livermore, Dominguez and East Los Angeles Districts based on the nitrate current levels in the system and Detection Limit for Purposes of Reporting (DLR). Their testimony also recommends a different approach to address the nitrification issue in the system.

Cal Water Rebuttal:

Cal Advocates' argument for canceling the projects due to nitrite concentrations being below the Maximum Contaminant Level (MCL) and detectable chlorine residuals reflects a misunderstanding of the project's goal. The project is not aimed at reducing nitrite levels below the MCL. Instead, the presence of nitrite and low chlorine levels are indicators of nitrification within the tank reservoirs. This nitrification issue is confirmed by the water quality data presented in the original project justification.

Preventative Strategies for Nitrification in Water Systems

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CWS-52, pp. 243-244

market, the challenges of land availability, and the requirements for design and permitting projects.

Proactive Property Purchases Align with Industry Best Practices

The inclusion of land held for future use in rate base aligns with recognized industry best practices for utility planning and asset management. Organizations such as the American Water Works Association (AWWA) and the U.S. Environmental Protection Agency (USEPA) emphasize the importance of long-term strategic planning to ensure the sustainability, reliability, and affordability of water systems. The USEPA's *Clean Water and Safe Drinking Water Infrastructure Sustainability Policy* advocates for water utilities to develop comprehensive planning and asset management strategies which anticipate future infrastructure needs and minimize unnecessary capital cost and maximize benefit to customers. Securing land in advance of infrastructure development is a logical and prudent application of these principles, allowing utilities to avoid last-minute acquisitions at inflated costs, prevent project delays due to land unavailability, and facilitate a smoother regulatory approval process. The Commission should in fact be facilitating Cal Water's ability to secure land by authorizing advance property purchases in rate base; the alternative is a reactive, short-term approach that could expose customers to higher financial risks in the long run. A proactive planning approach, as encouraged by industry best practices, ensures that infrastructure investments remain cost-efficient and strategically positioned to meet long-term service demands.

Summary of Projects with Land Purchases and Additional Discussion

Table 1 presents a list of property purchase projects proposed in the 2024 GRC that are contested by Cal Advocates, including one in-progress land purchase. Furthermore, the following discussion addresses additional Cal Advocates' concerns regarding specific projects to underscore the value these projects have in supporting District staff and engineering teams effectively deliver the project and service to customers.

Table 1 – List of Proposed Land Projects and Cal Advocates' Recommendations

PID	Description	District	Cal Water Proposed	Cal Advocates Recommended
124112	ELA - Land Purchase	ELA	$627,136	$0
133119	Well Property Acquisition	MRL	$614,396	$0
133149	VIS Property Purchase	VIS	$865,686	$0

133192	BK Low Zone Property Purchase	BK	$545,083	$0
133194	BK NG Property Purchase	BK	$551,276	$0
133199	BK Property Purchase (Office)	BK	$3,500,000	$0
133216	Stockton Property Purchase 1	STK	$762,450	$0
133217	STK Land Purchase 2	STK	$787,097	$0
133235	SLNH Property Purchase	SLN	$791,998	$0
133249	SEL New Well 2 Land Purchase	SEL	$352,894	$0
133287	LAS New Well Property Purchase	LAS	$4,786,474	$0

BK Low Zone Property Purchase & BK NG Property Purchase (PID #133192 & #133194)

Cal Advocates states that it is impossible to determine if these well property purchases are necessary at this time due to incomplete well siting studies. This reflects Cal Advocates fundamental misunderstanding of the purpose of a well siting study. Conducting a study prior to a land purchase is to identify the optimal location for the well not to determine if the well property purchases are necessary. Please refer to Book #3, Rebuttal Testimony on Capital Projects, Chapter 2, Bakersfield District for a detailed rebuttal for PIDs #133192 and #133194.

Stockton Property Purchase 1 & STK Land Purchase 2 (PID #133216 & #133216)

The Stockton district faces significant water supply risks due to aging infrastructure and unscheduled interruptions to purchased water supply from the Stockton East Water District (SEWD), which has occurred in the past. Without new wells as a secondary source for when Stockton East water is not available, the District will be unable to meet system demands and will leave customers vulnerable to potential water shortages and service disruptions.

In their testimony, Cal Advocates raised concerns regarding the groundwater basin being overdrawn.[105] While concerns about overdrafted groundwater in the Stockton district are valid for the basin as a whole, they should not deter the proposed well project. Cal Water is actively working with the Eastern San Joaquin Groundwater Authority and the requirements of the Groundwater Sustainability Plan regarding safe pumping yields. Municipal pumping is not the primary cause of the basin overdraft, and represents less than 10% of the overall basin pumping. The new wells are part of a comprehensive strategy to enhance water supply reliability by providing a secondary

[105] A.24-07-003. *Cal Advocates Report and Recommendations on Percentage Cost Adders, Previously Funded Incomplete Projects, Common Plant, Customer Support Services and Rancho Dominguez, Four Factor Allocation, Livermore District, Stockton District, and Travis District*, pg. 6-7 & 6-8

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CalAdv-03, pp. 1-14 to 1-20

authorization period to customers in rates.[69] CEBA6 will also track any grants that Cal Water receives for conservation-related expenses.[70]

The Commission should grant Cal Water's request to reauthorize its CEBA6; however, the Commission should require Cal Water to add the GO 96-B language mandating a prompt refund of any unspent budget to the CEBA6 preliminary statement. GO 96-B requires an overcollection to be promptly refunded to the ratepayers.[71] To prevent this situation from recurring in future GRCs, the associated Preliminary Statement (Z6) for CEBA6 should include language that reflects the requirement to promptly refund over-collections every year for the account duration.

2. Pension Cost Balancing Account (PCBA6)

Cal Water's request to reauthorize its PCBA6 includes an executive-only pension plan, the Supplemental Executive Retirement Plan or (SERP).[72] The Commission denied inclusion of SERP in in rates or Cal Water's PCBA in Cal Water's most recent GRC decision.[73] In this proceeding, the Commission should authorize Cal Water's PCBA6 but again exclude SERP, as explained below.

3. Exclude SERP from Pension Cost Balancing Account

Cal Water's SERP is an unfunded, non-qualified benefits plan intended to provide supplemental "top-hat plan, meaning it sits on top of the basic pension plan and allows participants to earn nonqualified pension benefits on earnings not covered by the basic pension."[74] The unfunded SERP accumulated benefit obligations were $69.7 million and

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[69] PS Z6 Section 1 Purpose at 1.

[70] PS Z6 Section 1 Purpose at 1.

[71] GO 96-B Water Industry Rule 8.5 at 8. As described in the other sections, Cal Water has not sought prompt refunding of over-collected balances—the current PCBA5 is over-collected by over $12.6 million, yet Cal Water does not request that these funds be refunded to ratepayers in the current application (see Attachment 1-2, Cal Water Response to DR KKE-002, Q.1.C.ii. and Q.1.D.ii. at 5).

[72] Cal Water Testimony Book 1 at 177.

[73] D. 24-03-042, OP 13 at 181.

[74] Cal Water Testimony Book 1 at 184:23-25.

$59.0 million as of December 31, 2023, and 2022, respectively.[75] Cal Water continues to maintain a Rabbi trust designated to fund its SERP obligations.[76] The Commission requires water utilities to follow the Uniform System of Accounting (USOA) procedures.[77] USOA provides guidance for segregating special trust funds, such as the Rabbi Trust in which SERP funds are held, from pension plan accounts.[78]

Cal Water claims that SERP is an important part of its total executive compensation because "SERP benefits are part of market compensation."[79] Although SERP may benefit Cal Water by attracting candidates for executive positions, it is not reasonable for ratepayers to fund a supplemental benefit to a limited segment of highly compensated Cal Water employees[80] Corporate officers have fiduciary duty to shareholders. Attracting competitive executive candidates promotes shareholders' interests. Therefore, SERP should continue to be a shareholder expense.[81] Ratepayers already fund a qualified retirement benefit plan that is available to all of Cal Water's permanent employees, including executives.[82]

Cal Water states that "At market-value total compensation is necessary to attract and retain qualified and quality employees" and that "[t]he Organization and Compensation Committee has determined that this 'pay-for-performance' philosophy that

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[75] February 29, 2024 - 10-K: Annual report pursuant to Section 13 and 15(d) | California Water Service Group (CWT) at 80.

[76] Information about the holdings of the Rabbi Trust can be found in Cal Water's Securities and Exchange Commission 10K filings. A.24-07-003, Attachment B (Proxy and 10-K) at 214 (Annual Report); Cal Water Securities and Exchange Commission Form 10-K Annual Report Year Ended December 31, 2022 at 76.

[77] D.16-11-006, OP 1 at 40.

[78] See Standard Practice (SP) U-38-W: Uniform System of Accounts (USOA) for Class A Water Utilities at A30 and A45.

[79] Cal Water Testimony Book 1 at 179.

[80] Cal Water Testimony Book 1 at 177, stating that Cal Water provides a retirement benefit plan that covers all permanent employees…." SERP is supplemental to this existing ratepayer-funded pension plan and benefits executives only.

[81] D. 24-03-042, OP 13 at 181.

[82] Cal Water Testimony Book 1 at 177.

sets goals tied to key performance indicators…best aligns the interests of executives with those of stockholders and customers."[83] The company-wide pension fund covers executives for their responsibilities to the ratepayers, and is paid for by the ratepayers.[84]

The Commission should grant Cal Water's request for PCBA6 re-authorization, it should again deny Cal Water's request for a SERP.[85] As stated above, the Commission excluded SERP from PCBA5 so Cal Water is familiar with segregating these funds.[86] In this proceeding, the Commission will save ratepayers nearly $17 million by rejecting Cal Water's SERP request, as shown in Table 1-4 below.[87]

Table 1-4: SERP estimated expense ($000s), 2026-2028[88]

					TOTAL
SERP		2026	2027	2028	
Service Cost $		-67	30	455	
Other costs		5,309	5,414	5,597	
Total expense $		5,242	5,444	6,052	**16,738**

In reauthorizing the PCBA6, the Commission should require Cal Water to add the following language to the PCBA6 Preliminary Statement AA6, Section 3a:

> Annual pension expense, excluding the Supplemental Executive Retirement Plan (SERP) expense, as determined by Cal Water's actuarial expert according to the method prescribed by the Financial Accounting Standards Board's Codification pension trust administrative costs such as the ERISA-required Pension Benefit Guaranty Corporation (PBGC) costs. The capitalized portion of pension costs at the adopted capitalization ratio will be excluded.

[83] Cal Water Testimony Book 1 at 164.

[84] Cal Water Testimony Book 1 at 177.

[85] Cal Water Testimony Book 1 at 185 (noting that D.24-03-042 adopted Cal Water's estimated pension costs but excluded the cost of the SERP).

[86] D. 24-03-042, OP 13 at 181.

[87] Cal Water Testimony Book 1, Attachment B – Actuarial Reports at 52.

[88] Cal Water Testimony Book 1, Attachment B – Actuarial Reports at 52.

Despite the Commission's history of excluding SERP from Cal Water's PCBA, if the Commission determines in this proceeding that ratepayers should fund extra retirement benefits for Cal Water executives, the Commission should not authorize advice letter recovery for these accounts in its decision on this proceeding. Instead, the Commission should direct Cal Water to submit a Tier 2 advice letter for approval beginning in January 2029, consistent with the amortization timeline Cal Water requested in the Preliminary Statement AA6.[89]

4. Healthcare Cost Balancing Account (HCBA6)

The Commission should deny Cal Water's request to reauthorize the Healthcare Cost Balancing Account (HCBA6) because healthcare costs are foreseeable and can be reasonably forecasted in rates, so a balancing account is no longer an appropriate mechanism for tracking employee healthcare costs.

a. Health Care Expenses Memorandum Account

Cal Water previously tracked costs of employee healthcare in the Health Care Memorandum Account (HCMA).[90] The Commission authorized the HCMA due "[to] unknown and potentially significant cost changes related to the federal health care bill passed by Congress in April 2010,"[91] known as the Affordable Care Act (ACA).[92]

In its GRC for 2014-2016, Cal Water proposed amortizing the balance in the HCMA at the end of 2013 and closing the account.[93] Cal Advocates (then Office of Ratepayer Advocates)[94] recommended closure of the account without amortization

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[89] Cal Water Testimony Book 1 at 11.

[90] D.10-12-017, OP 27 at 89.

[91] D.10-12-017 at 37-38.

[92] The Patient Protection and Affordable Care Act signed into law March 23, 2010.

[93] D.14-08-011 at 45.

[94] The Public Advocates Office was previously known as Office of Ratepayer Advocates (ORA).

because there was no balance in the account as of August 31, 2012.[95] Cal Water argued that $438,600 related to 2011 and 2012 health care changes were recoverable through the account.[96] Ultimately, the Commission approved a settlement that closed the HCMA with no recovery of costs and opened the HCBA.[97]

This uncertainty of recovery is the reason why memorandum accounts are considered "off-book" accounts.[98] SP U-27-W states: "A memo account is an accounting device that … may be used by a utility to record various expenses it incurs.…" As demonstrated by the denial of Cal Water's request to recover over $400,000 from the HCMA,[99] "the establishment of a memo account does not guarantee that the utility will recoup the tracked amount…."[100]

b. Healthcare Cost Balancing Account

The uncertain healthcare insurance market conditions that purportedly existed when the Commission authorized the HCMA are no longer present and the HCBA does not have the same rationale or justification. Costs are no longer unforeseeable. According to the HCBA Preliminary Statement accounting procedures, the HCBA includes only 85% of the difference between the adopted health care expenses and the actual cost incurred.[101] Further, increases in employee healthcare costs are covered under the RCP, which establishes increased expenses for attrition years that include insurance costs, which will "…be escalated by the most recently available, recorded, 12-month-ending change in the U.S. Cities [Consumer Price Index for All Urban Consumers] as published

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[95] D.14-08-011 at 45.

[96] D.14-08-011 at 45.

[97] D.14-08-011 at 45-46. The original HCBA was authorized as PS AB2.

[98] "A memo account is not recorded in the utility's accounting books; it represents an off-book accounting record." SP U-27-W at 6.

[99] D.14-08-011 at 45.

[100] SP U-27-W at 3.

[101] See A.24-07-003, Attachment F (Proposed Tariffs), PS AB6 at 1, Accounting Procedure.

by [the Commission's Energy Cost of Service Branch]…. "[102] The RCP does not guarantee that all expenses are available for an attrition year increase,[103] however, so it preserves the incentive to shop for competitive pricing.

Therefore, the Commission should eliminate the HCBA and enforce the RCP by specifically authorizing healthcare coverage expenses under "Pension and Benefits" at its labor escalation rate, or an as item under "Loans, Insurance, Contracted Services, Rents" at the most recent CPI-U rate.[104] Healthcare costs are reasonably known and do not require a balancing account. The original HCMA addressed the assumed chaotic marketplace due to passage of 2010 Federal legislation. What followed was creation via settlement agreement of the HCBA, which burdens ratepayers by creating a disincentive for Cal Water to search for competitive healthcare insurance pricing. The Commission should encourage Cal Water to "shop around" for the best prices for healthcare coverage. Because adequate justification for the HCBA no longer exists, the Commission should deny Cal Water's request for reauthorization of the HCBA.

C. SR #10

In Special Request #10, Cal Water seeks Commission authorization of a new "General Insurance Balancing Account" because it claims that the estimated attrition year inflation costs are greater than increases authorized by RCP.[105] The purpose of the proposed General Insurance Balancing Account is to record Cal Water's insurance costs based on the established attrition year escalation rate.[106]

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[102] D.04-06-018 at 12-13.

[103] D.04-06-018 at 14 (stating that "[for] utilities organized with a general office structure, the prorated comparable general office items may also be escalated by the applicable escalation rate. No other amounts may be escalated").

[104] D.04-06-018 at 13-14.

[105] Cal Water Testimony Book 3 at 26. D.04-06-018 at 14 authorizes an escalation rate of CPI-U (previous 12 months) for Loans, Insurance, Contracted Services, and Rents.

[106] Cal Water Testimony Book 1 at 11.

The RCP does not guarantee that all expenses are available for an attrition year increase.[107] The Commission should not authorize a new account because the RCP establishes increased expenses for attrition years that include insurance costs, which will "…be escalated by the most recently available, recorded, 12-month-ending change in the U.S. Cities [Consumer Price Index for All Urban Consumers] CPI-U as published by [the Commission's Energy Cost of Service Branch]…. "[108]

The Commission also recognizes that some accounts with use of the "…escalation methodology will tend to overcompensate the utility for increased costs. We believe that this outcome will offset any issues where we make simplifying assumptions for escalation purposes that may not fully encompass all possible future cost increases."[109] A General Insurance Balancing Account provides Cal Water with excessive guarantees against risk in accounts for which the RCP provides attrition year escalation, eliminating the incentive to prudently manage costs. Further, establishment of a General Insurance Balancing Account to record Cal Water's insurance costs would create an item-specific escalation rate within a GRC, which is specifically denied in the RCP. The RCP states that each GRC application cannot be tailored to the whims of any one utility.[110] Further, establishment of a General Insurance Balancing Account removes the utility's incentive to prudently manage insurance costs, because these costs would be passed onto ratepayers rather than borne by the utility.

Accordingly, the Commission should deny Cal Water's SR #10 because it conflicts with RCP requirements. Instead, Cal Water should negotiate market rates that anticipate attrition year values.

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[107] D.04-06-018 at 14 (stating that "[for] utilities organized with a general office structure, the prorated comparable general office items may also be escalated by the applicable escalation rate. No other amounts may be escalated").

[108] D.04-06-018 at 12-13.

[109] D.04-06-018 at 11.

[110] D.04-06-018 at 10 (denying "the utilities' request to derive item-specific escalation rates in each GRC").

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CalAdv-04, p. 1-14

employee counts was not due to CWS's use of the CWSG employee count, but to unfilled positions. This means that in 2023, CWS had 129 unfilled positions at year-end.[47]

While CWS states that its payroll forecast is based on recorded dollars, its workpapers do not show the accurate employee count.[48] CWS's workpapers show an employee count of 1,294 for $122 million in TY 2026, based on 129 unfilled positions.[49] Therefore, to ensure fairness to ratepayers, the Commission should deny CWS's payroll budget request and forecast, and adopt the payroll recommendations discussed below.

1. CWS Payroll Forecast Should Exclude Expenses for 129 Unfilled Positions.

CWS's payroll forecast includes 129 unfilled positions, which should be removed from proposed TY2026 rates. Ratepayers should not pay twice for a benefit that they have not received.

CWS workpapers show 1,247 employees while CWS's 10-K filing shows that only 1,118 employees worked for CWS's California Operations in 2023, a difference of 129 employees.[50] CWS's TY2026 projected employee counts are based on CWS's 2023 employee count, which according to CWS are due to unfilled positions (and not company-wide payroll). Unfilled positions are positions that were approved by the Commission in a previous GRC but remain unfilled. It is not reasonable to base a forecast on employee counts that include unfilled positions. Therefore, CWS's recorded expense should be adjusted to remove recorded unfilled positions. Figure 1-6 shows the percentage difference in employee counts.

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[47] 1,247 employees reported in CWS's workpaper, less 1,118 employees reported in CWS's 10K filing with the Securities and Exchange Commission (SEC) is 129.

[48] CWS RO Model Workpaper "CH05_OM_FDR_Benefits_WorkersComp.xlsb," Tab "SD_EMP_Complement" at Cell F4.

[49] CWS RO Model Workpaper "CH05_OM_FDR_Benefits_WorkersComp.xlsb," Tab "SD_EMP_Complement" at Cell K4.

[50] CWS RO Model Workpaper "CH05_OM_FDR_Benefits_WorkersComp.xlsb," Tab "SD_EMP_Complement" at Cell F4 show 1,247 employees at year-end 2023 and https://www.calwatergroup.com/_assets/_71648a31dec444c196dc93974da35500/calwatergroup/db/2251/21693/file/California_Water_Service_Group-10K2023.pdf at 21 states that California Water Service California operations employee counts at year-end 2023 are 1,118.

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CalAdv-04, p. 1-26

Table 1-16 demonstrates that CWS selected peer group ranges are not really half the size of CWS annual revenue and that 7 out of the 12 (58%) of peer group companies have more annual revenues than CWS, five (41%) of which are more than double. It is no wonder that CWS's forecast nearly doubles executive compensation, CWS is not really comparing itself to companies half its size and is really comparing itself to much larger companies instead. It is a skewed and unfair peer-group analysis.

CWS seeks to double its direct executive compensation in just three years, an estimate based on a highly subjective and unfair methodology. CWS offers no evidence or even description in testimony indicating that customers will benefit from the proposed salary increases.

In a competitive environment, CWS would need to control costs passed on to customers or customers would seek out a competitor for service. Because CWS is a monopoly and customers do not have the option to choose a more efficient provider, the Commission should act as a substitute for competition and only allow reasonable cost increases into rates. Doubling executive compensation from one rate case to the next is not reasonable. The Commission should reject CWS's unjustified executive compensation funding proposals.

CWS forecasts its regular employee payroll based on recorded 2023 amounts. CWS should forecast executive compensation using the same methodology, rather than based on a peer-group analysis selected to justify the proposed 30% annual pay increase.

2. The Commission Should Reject CWS's At-Risk Pay Program

The Commission should reject CWS's forecast of executive compensation for short-term and long term "at-risk pay" (i.e., bonus or incentive pay) because these specific expenses are unreasonable. In CWS's most recent rate case decisions, the Commission agreed.[76]

[76] D.24-03-042 *Decision Approving a Partial Settlement Agreement and Adopting Rates for California Water Service Company's Test Year 2023 General Rate Case* at 104.

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CalAdv-07, p. 2-1

CHAPTER 2 PREVIOUSLY FUNDED INCOMPLETE PROJECTS

I. INTRODUCTION

This chapter presents Cal Advocates' recommendations concerning previously funded, incomplete projects. Previously funded but incomplete projects (which CWS refers to as "carryover")[34] have already been included in rates and funded by ratepayers. Because they are incomplete, however, they provide no benefit to ratepayers.

II. SUMMARY OF RECOMMENDATIONS

The Commission should deny CWS's request to include previously funded, incomplete projects in rates in this GRC cycle.

III. ANALYSIS

In the current GRC, CWS budgets $618 million for incomplete capital projects that CWS estimates will be in service by 2025.[35] These incomplete projects are separate from the more than $1 billion CWS requests for new capital projects. CWS has a history of failing to complete a significant portion of approved capital projects. Continuously including previously funded, incomplete projects in rates harms ratepayers because the projects are not used or useful and provide no benefit to ratepayers.

In its previous test year (TY) 2021 GRC, CWS had an Incomplete Project budget of approximately $420 million.[36] Cal Advocates opposed including $182 million for incomplete projects that CWS forecast to complete after the previous GRC's TY 2021.[37] The Commission allowed CWS to request these projects be adopted into rates through the advice letter process once they are complete.[38] In March, 2024, CWS filed Advice Letter

[34] Testimony Book #1 at 39.

[35] Results of Operations Model (RO Model) CH07_RB_FDR_Proposed Capital Budget sheet, IN_2021 GRC CO.

[36] A.21-07-002 RO Model CH07_RB_FDR_Proposed Capital Budget sheet, IN_2018 GRC CO.

[37] D.24-03-042 at 165 line 16.

[38] D.24-03-042 at 31-33.

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

Appendix B: Courtesy Copies of Cited and Paraphrased Prepared Testimony

CalAdv-07, p. 4-5

D. PID# 133661 Portable Emergency Power Generators

CWS forecasts $2,889,218.75 in 2025 for purchasing portable generators.[98] For Cal Advocate's recommendation regarding generators, please refer to witness Katherine Nguyen's testimony, Report And Recommendations On Customer Service, ESJ Plan, Chico, Oroville, Marysville, Willows And Dixon Utility Plant In Service, And Common Plant.

The Commission should exclude the budget for the CSS portable generators from rates.

E. PID # 133646 CSS 2026 AMI INTIATIVE-IT INT/DEV

CWS forecasts $1,537,615 in 2026 for IT spending related to supplemental AMI spending.[99] Consistent with Cal Advocates' recommendation regarding further AMI spending, the CSS AMI-related projects should not be included in rates. For discussion regarding AMI spending, please refer to witness Justin Menda's testimony.

F. PID # 134646 CSS - VEHICLES FOR NEW COMPLEMENTS

CWS forecasts $118,107 in 2026 for new vehicles related to new CSS positions. For discussion on new positions, please refer to witness Roy Keowen's testimony, Report on California Water Service Company's Administrative & General Expenses And Special Requests #7. Consistent with Cal Advocates' recommendation against increased budgets for new employees, the vehicle budget for new employees should not be included in rates.

IV. CONCLUSION

The above discussed CSS capital requests are not justified and reasonable. Ratepayers should not fund projects that are not justified. Ratepayers also should pay for projects that are not supported by valid cost benefit analysis. The forecasted capital budgets associated with the above discussed projects should be excluded in rates.

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[98] CSS & RDOM PJ Book at 216.

[99] CSS & RDOM PJ Book at 353.

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

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CalAdv-08, pp. 7-1 to 7-6

CHAPTER 7 ADVANCED METERING INFRASTRUCTURE

I. INTRODUCTION

This chapter discusses CWS's request to implement AMI in five ratemaking areas.

II. SUMMARY OF RECOMMENDATIONS

One half of the revenue CWS requests beyond the $1,893,288 in 2027[213] related to meter replacement should be contingent on meeting the performance standards listed in Section III.B of this chapter.[214] The remaining half should be added to rates based on a standard review of the reasonableness and prudency of costs. CWS should track and report the criteria listed below and present them in subsequent rate cases comparing the actual and forecasted criteria metric for each year.

III. ANALYSIS

CWS requests funding to implement AMI in the following ratemaking areas: Bay Area Region, Bear Gulch, Los Altos, Los Angeles County Region, and Westlake.[215] This represents approximately 125,000 service connections or approximately 26% of CWS's current customer base.[216] CWS plans on implementing AMI over a four year period which includes one ramp up year followed by a three-year deployment phase.[217] CWS plans to replace small meters (less than 2") in accordance with the GO 103-A replacement schedule[218] and to replace small meters scheduled under GO 103-A three years of AMI deployment. CWS states that any meter not scheduled for full replacement

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[213] Attachment 7-4 (2027 Meter Replacement due to GO 103-A).

[214] Cost shown is direct project cost.

[215] CWS Common Plant 2024 GRC PJ Book at 146.

[216] CWS Common Plant 2024 GRC PJ Book at 144; CWS Testimony Book #3, Attachment F at 8.

[217] CWS Common Plant 2024 GRC PJ Book at 146.

[218] CWS Testimony Book #3, Attachment F at 9.

will be retrofitted with an encoded register.[219] Table 7-1 below shows CWS's request on an individual district level.

Table 7-1: 2025-2027 AMI– Direct Project Costs220,221

District	2025	2026	2027
Antelope Valley	$ -	$ -	$ 219,633.38
Bayshore	$ -	$ 1,048,688.51	$ 13,485,590.70
Bear Gulch	$ -	$ 559,956.80	$ 5,109,121.36
CSS	$ -	$ 1,537,614.52	$ -
Los Altos	$ -	$ 474,131.98	$ 4,939,695.02
Palos Verdes	$ -	$ -	$ 6,281,129.21
RDOM	$ -	$ 559,956.80	$ -
Redwood Valley	$ -	$ -	$ 497,499.31
Westlake	$ -	$ 302,482.26	$ 2,188,453.00
Direct Total	$ -	$ 4,482,830.87	$ 32,721,121.98

While CWS only requests implementing AMI in these five ratemaking areas, CWS plans to fully implement AMI companywide in future rate cases.[222] CWS estimates that it will cost $195.4 million to fully implement AMI in the five ratemaking areas over an eighteen-year period.[223] Because this high cost will increase customer rates in these

[219] CWS Testimony Book #3, Attachment F at 9.

[220] CWS Common Plant 2024 GRC PJ Book at 147. CWS provided a revised version of Attachments A and B in response to data request A2407003 Cal Advocates DR JMI-014 (AMI 2). Attachment 7-1(CWS Response to A2407003 Cal Advocates DR JMI-014 (AMI 2)).

[221] The PIDs for the Bayshore AMI projects shown in CWS Common Plant 2024 GRC PJ Book, Attachment B differs from the PIDs shown in CWS's RO model (CWS RO model file "CH07_RO_RB_PLT," tab "Budget (ACB) Adjustments WS-2.1"). CWS confirmed that PID 133599 is the correct PID for the Bayshore (BSH)-AMI Initiative-Vehicles/Equipment project in response to data request A2407003 Cal Advocates DR JMI-014 (AMI 2). CWS confirmed that the correct PIDs for the MPS 2027 AMI Initiative-Meters and SSF 2027 AMI Initiative-Meters projects are PID 133627 and PID 133634, respectively in response to data request A2407003 Cal Advocates DR JMI-014 (AMI 2). CWS also states that the project year for AMI Initiative-Vehicles/Equipment projects in the Bayshore, Bear Gulch, Los Altos, Rancho Dominguez, and Westlake districts (PIDs 133599, 133593, 133597, 133598, and 133601, respectively) is 2026 instead of 2025 in their response to data request A2407003 Cal Advocates DR JMI-014 (AMI 2). CWS states that one of the BSH-AMI Initiative-Vehicles/Equipment projects was erroneously duplicated in Common Plant 2024 GRC PJ Book at 147-148.

[222] CWS Testimony Book #3, Attachment F at 8.

[223] CWS Testimony Book, #3, Attachment E at 12.

five ratemaking areas, it is important to have performance metrics to measure and monitor whether CWS completes the project as scheduled and achieves the stated customer benefits.

A. The Commission Acting as a Substitute For Competition

In a competitive market, a company makes an investment with the hope of earning a profit on investment. There is no guarantee that an investment will earn a profit. If a company makes an investment that does not result in a profit, then the company will incur potential losses.

However, utilities do not operate in a competitive market. Under rate-of-return regulation, utilities have a financial incentive to make capital investments because the only profit that is included in customer rates is the authorized return applied to these capital investments. This can be in the public interest when the investment made is necessary and provides customer benefits. However, in a monopoly environment, if the need and anticipated benefits of investments fail to materialize, unreasonable profit can be sustained unless economic regulation intercedes.

The National Regulatory Research Institute's Primer on Public Utility Regulation says "Because regulated utilities exist within and are important to the overall economy, regulation of public utilities cannot be divorced from the operating logic of competition in the rest of the economy. Instead, regulation is a substitute for competition and should attempt to put the utility sector under the same restraints competition places on the industrial sector."[224] Requiring CWS to share the risk of capital investments that have highly speculative customer benefits will encourage more disciplined investment decisions and project execution.

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[224] "A Primer on Public Utility Regulation for New State Regulatory Commissioners." The National Regulatory Research Institute, Apr. 2003 at 2. https://energycollection.us/Energy-Regulators/Primer-Public-Utility.pdf.

B. Performance Criteria

Without the performance criteria, customers would be responsible for paying 100% of the costs and profit of AMI, regardless of whether CWS's alleged benefits are achieved. To fulfill its role as a substitute for competition, the Commission should require that 50% of the budget CWS requests for AMI per year beyond the cost of meter replacement be contingent on meeting the standards in the performance criteria. This shifts the costs of a speculative infrastructure project from being entirely borne by ratepayers to being shared equally with CWS.

For this rate case, CWS requests $4,482,831 in 2026 and $32,721,122 in 2027 for capital additions.[225] CWS also requests $140,597 annually for AMI-related expenses.[226] In 2030, this means 50% or $17,451,567 in capital costs[227] and $210,896 in expenses[228] would be subject to the criteria mentioned below. If CWS is unable to meet certain criteria, each criterion would be weighted equally. This means that, beginning in 2030, when the AMI project is scheduled for implementation, CWS would be able to recover up to half of the annual projects from customers if these standards are not met.[229]

CWS should track and report the criteria listed below and present them in subsequent rate cases, comparing the actual and forecasted criteria metric for each year. This will allow the Commission to review the recorded metric criteria.

1. Operations and Maintenance (O&M) Savings

CWS states that it adjusted its RO model to include the following savings as a result of AMI: reduction in leak/courtesy adjustments, reduced meter reading expenses,

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[225] Attachment 7-1(CWS Response to A2407003 Cal Advocates DR JMI-014 (AMI 2)).

[226] CWS RO model file "CH05_OM_FDR_Other_OM," tab "SD_Misc Adjustments."

[227] Direct project costs. This calculation is discussed in Section F of this chapter.

[228] $140,597.25 per year × 3 years × 50% = $210,895.87.

[229] CWS's AMI implementation schedule occurs over a four year period. CWS capital request for AMI begins in 2026 and the first year of meter replacement or retrofitting begins in 2027. The remaining two years of meter replacement or retrofitting would occur during the next rate case in 2028 and 2029. This means AMI should be fully implemented by the end of 2029, assuming CWS completes these projects as scheduled.

reduction in system water loss, and lower pumping expense due to water loss reductions.[230] CWS should track and report these savings. Attachment 7-3 shows these alleged O&M savings CWS included in its RO model,[231] which should be used as a baseline for this rate case.

2. Customer Adoption Rate

CWS states that one of the main ways AMI benefits its customers is by providing a method to view, understand, and ultimately better manage their water consumption.[232] CWS states that AMI will help customers comply with conservation mandates enacted through legislation such as Senate Bill 606 and Assembly Bill 1668.[233] Active customer engagement with AMI is important to maximize any potential benefits related to AMI.

CWS's AMI pilot in the Dominguez District, however, shows a low engagement rate. Approximately 33% of the almost 7,000 customers with AMI endpoints enrolled in the customer portal.[234] CWS states that this customer enrollment rate was achieved with minimal outreach.[235] CWS claims that it anticipates a higher enrollment level through a comprehensive customer communications campaign that would support a larger AMI program.[236] Customer enrollment should be used as a metric to motivate CWS to encourage as many customers as possible to enroll in the customer portal.

3. Reduction in Water Loss

CWS claims that one of the alleged benefits for AMI includes reducing water loss.[237] CWS prioritizes implementing AMI in its Los Angeles County Region and

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[230] CWS Testimony Book #3, Attachment G at 5.

[231] Attachment 7-3 (CWS O&M Savings Included in RO Model).

[232] CWS Testimony Book #3, Attachment E at 6.

[233] CWS Testimony Book #3, Attachment E at 8.

[234] CWS Response to A2407003 Cal Advocates DR JMI-002 (AMI), Attachment 1.

[235] CWS Response to A2407003 Cal Advocates DR JMI-002 (AMI), Attachment 1.

[236] CWS Response to A2407003 Cal Advocates DR JMI-002 (AMI), Attachment 1.

[237] CWS Testimony Book #3, Attachment E at 17.

Westlake District due to the high cost of water loss[238] based on information from San Jose Water Company's (SJWC) AMI pilot. In SJWC's pilot, approximately 2.8% of the total water use was lost to leaks.[239] The US Environmental Protection Agency (EPA) states that 10% of all indoor consumption in the United States is lost due to leaks.[240] CWS claims that one of the benefits of AMI is quicker notification of leaks.[241] CWS should be able to achieve less than 10% consumed water lost due to leaks after implementing AMI in the five proposed ratemaking areas.

CWS also anticipates a 5% reduction in system-side water loss attributed to AMI.[242] CWS should be able to achieve a 5 % reduction in system-side water loss of after implementing AMI in the five proposed ratemaking areas.

C. The Results Related to AMI Pilot are Currently Pending

CWS requests to fully implement AMI in the Bear Gulch District. The Commission approved a pilot in Portola Valley (under PID 114644), which is part of CWS's Bear Gulch service area. PID 114644 was originally expected to be completed in 2022,[243] but is now expected to be completed in 2024.[244] The status of the pilot was provided during discovery.[245] CWS states that deployment is planned to be completed by the end of 2024.[246] The report of the pilot results is currently anticipated to be

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[238] CWS Testimony Book #3, Attachment F at 8-9.

[239] CWS Testimony Book #3, Attachment E at 17. Ms. Anklan provides testimony in this application regarding AMI and in SJWC's AMI application (A.19-12-002).

[240] Smart Water Meters and Data Analytics Decreased Wasted Water due to Leaks. Journal AWWA, Volume 110, Number 11 at E.24-30. http://awwa.onlinelibrary.wiley.com/doi/10.1002/awwa.1124. Accessed 11/26/2024.

[241] CWS Testimony Book #3, Attachment E at 4-5.

[242] CWS Testimony Book #3, Attachment E at 9.

[243] Bear Gulch Report on the Results of Operation at 83.

[244] Bear Gulch Report on the Results of Operation at 72.

[245] Attachment 7-2 (CWS Response to A2407003 Cal Advocates DR JMI-002 (AMI)).

[246] Attachment 7-2 (CWS Response to A2407003 Cal Advocates DR JMI-002 (AMI)).