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Appendix A: Courtesy Copies of Cited and Paraphrased Transcripts

Transcripts **Appendix Page**

OPENING BRIEF OF CALIFORNIA WATER SERVICE COMPANY

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Tr. Vol. 3 (CWS/Alexander) pp. 181-182

A I want to make sure that I address your question, so I'm just going to pause real quick to take a look. So I believe, your Honor, we have an input into our Results of Operations Model, which we refer to as our "ROM," which is a series of spreadsheets that we use in order to calculate our customer rates. In this ROM, we have a schedule that outlines the deferred revenue and applies it to reduce the revenues.

Q Thank you. Just as a follow-up, do you know whether this schedule is something that has been provided to the Commission as part of this proceeding?

A I believe if you look at our -- the RO tables in each of the districts of the -- was it 20-something books that were just marked? -- we do have a table that lists out for each district the amounts.

Q Just to be clear, those tables are found in what has been marked as CWS-06 through 26; correct? The various district reports?

A I believe that's correct, your Honor.

Q Thank you, Mr. Alexander. My next question is, has Cal Water performed any sensitivity analysis for purchased water or energy costs based on wholesale price volatility or peak demand scenarios?

A So, your Honor, I'm certainly not an expert on this, but I do know that our engineering department

analyzes the energy usage and that we do try and take advantage of utilizing energy during off-peak hours. When -- you know, trying to fill our tanks or pumping water, whenever we can in an effort to save energy but also to reduce costs.

Q Thank you, Mr. Alexander. Next question, how does Cal Water validate the accuracy of its gallons/connection/day water loss estimate across systems with varying infrastructure age?

A Your Honor, I believe that we do report water loss information on an annual basis for the previous calendar year every year to one of our state regulators. We do provide this information as part of our minimum data requirements. I believe it's for either three or five historical years.

Q A follow-up to that -- it's based on my understanding that the specific district of Travis where it is currently unmeasured -- so my follow-up question is, what steps are planned for tracking water loss in districts like Travis where it is currently unmeasured?

A That is an excellent question, your Honor, and I do not believe I could venture an educated answer on that one at this point in time.

Q Understood, Mr. Alexander. I'm just making a note to myself that this might be one of those areas

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Tr. Vol. 3 (CWS/Milleman) pp. 201-211

A Yes. The way it achieves the goal is by allowing us to have a more progressive rate design that Mr. Alexander explained. So we're able to shift -- with the decoupling, we're able to shift more costs into the higher third and fourth tiers or revenues into those tiers and therefore shift those away from the customers that are using less water with -- with the goal of having the customers that are driving the need for more water to be paying more of the price of that water.

Q And just as a follow up and more specifically, could you explain how the decoupling mechanism design achieves this goal in practice when volumetric price signals are reduced?

A Yes. And that would simply be -- I'm sorry, your Honor. Could you repeat the question?

Q Yes. That was a follow up to your previous answer, but I was hoping you could focus your answer and explain how the decoupling mechanism design achieves the goal in practice when volumetric price signals are reduced.

A Yeah. I mean, the goal is to have affordable rates and to provide -- in practice, the way it would work is that by having lower pricing in the first and second tier, the customers in those tiers would be using -- or have a lower rate and lower water bills.

But with that, with -- when the Commission determines what the appropriate revenue requirement on an annual basis is for the company, we need to spread that into the rates that our customers pay. And by -- with a decoupling mechanism, you can take the chance and shift more of the revenues into your higher tiers in the event that those higher prices in the higher tiers, customers react to that and don't purchase as much water as what we've predicted them to use.

If I didn't have that mechanism -- the decoupling mechanism, then it would be too much of a risk for a utility to take to do a pricing structure like that because if you don't collect those revenues and you don't have the decoupling mechanism, then the utility will not collect the revenues it needs to deliver the dependable supply of safe drinking water to its customers.

And as Mr. Alexander said, you know, these are generally -- utilities are roughly 60 to 70, maybe even 80 percent of fixed costs. And so those -- those fixed costs are what the Commission -- what we include in rates. Those fixed costs are what the Commissions deem necessary and reasonable to provide that dependable supply of drinking water.

So I guess the main point for me is just

because that water is not consumed -- whether it's the pricing, whether it's a hot year, whether it's a wet year, just because that price -- or those units aren't consumed, in my mind, suddenly does not make the fixed costs that the Commission has determined reasonable and prudent -- it doesn't make them suddenly become unreasonable.

I mean, it's -- we -- we go through this rate case process like we're doing now. You know, you're reviewing our stuff, so is Public Advocates. And we're ultimately deciding on what we need to do to deliver that safe drinking water to our customers and then setting those rates. And so as long as we can collect that revenue in one form or another, whether it's through a decoupling mechanism or whether it's through higher fixed services charges, it benefits our customers because we're able to do -- we have the funds to do just what the Commission has wanted us to do.

Q Thank you, Mr. Milleman.

My next question: On page 28 of your testimony in Chapter 2, you stated that Cal Water proposes the Safe Infrastructure Balancing Account and Supply Cost Balancing Account to stabilize cost recovery. Can you clarify whether Cal Water proposes thresholds for amortizing Safe Infrastructure Balancing Account and

Supply Cost Balancing Account through -- I'm sorry -- through base rates?

A Yes. What we propose to do is take the net of those two balancing accounts, whether it's an over-collection or an under-collection, and add that to the next year's -- the entire amount, add that to the next year's revenue requirement and then calculate rates accordingly to recover that over the next year.

The reason why we want to do it that way -- we're proposing to do it that way is so, again, if there is an under-collection of that account, our customers that are using low amounts of water in the first or second tier, they're only going to pay those -- those lower tier prices. And the customers in the upper tiers will be paying a larger portion of what the under-collected balance is.

Q And we've previously heard about M-WRAM. So my question is if you can clarify whether these thresholds concerning Safe Infrastructure Balancing Account and the Supply Cost Balancing Account, whether those thresholds differ from the M-WRAM?

A Yes, they do. Those two balancing accounts are proposed for a decoupling scenario. The M-WRAM is a non-decoupled scenario.

Q Thank you, Mr. Milleman.

Next question: Can you explain what is Cal Water's definition of essential water use for purposes of its progressive rate design?

A Yes, I can. The essential water use is what the typical family would use in its home for bathing and washing, dishes, what have you. It was developed by the Commission in its affordability proceeding. And that's what Cal Water -- to be consistent with the Commission's definition, Cal Water selected that for our first tier of essential water usage.

Q I'm sorry. Can you explain how that -- how that threshold was ascertained or reached?

A From the affordability proceeding.

Q I'm trying to understand -- let me take a step back. I'm trying to understand whether there's data that supports the threshold as adequate and equitable.

A Okay. I would have to go back and look into the proceeding -- the Commission's affordability proceeding to understand how the Commission developed the six CCFs as the essential usage. But I'm sure that in that proceeding there would be a record on how they -- on how the Commission landed on that.

Q Thank you, Mr. Milleman. We're going to move on.

My next question is: It is my understanding

that Cal Water has asserted a correlation between low-income status and low water usage. Is there any statistical evidence or analysis demonstrating the asserted correlation between low-income status and low water usage across Cal Water's ratemaking areas?

A Yes, there is, your Honor. We hired a consultant, Dr. Manny Teodoro of the University of Wisconsin, to take a look at that very premise. And his report is included as an appendix in our testimony -- our original testimony.

And what he did was he took a look at the water usage across all our districts. He took a look at the water usage per home and matched that up with the assessor parcel number. He then took a look at the correlation of four separate things.

He looked at home size to water use. He looked at lot size to water use. He looked at assessor property value to water use. And then he also took a look at CAP and non-CAP customers as well as he also took a look at swimming pools and saw a correlation that the -- using a proxy of home size, of lot size, of assessed property value, of CAP versus non-CAP, took -- made an assessment of income as a proxy and then compared that to the water use. And in all cases where the lots were larger, homes were larger, assessor

property values was larger, where they were a non-CAP customer, they all used greater amounts as of water than those with smaller homes or less value and CAP customers.

Q Thank you, Mr. Milleman.

Next question: How does the proposed decoupling program impact bills for different income brackets and customer classes?

A The proposed decoupling will impact bills for different income brackets and customer classes. I'm going to start with -- I'm going to -- I'm going to use, if it's okay with you, income brackets meaning how we made that assessment ourselves through the study from Dr. Teodoro because I don't actually have our customers' direct income. Do you follow that?

Q Understood. Please.

A All right. So really the -- again, the decoupling program allows for that progressive rate design. So what we've done here is -- with that progressive rate design, we have a lot higher rates in tiers three and four where the water starts to become discretionary. It's where you could use water for irrigating your landscapes and various areas, but it's not really kind of that other side where you have the essential usage on the first tier. So the progressive

rate design allowed by the decoupling accomplishes just that. It shifts the price of water to the higher tiers which are driving those costs of water up.

In regards to customer classes, the tiered rate structure -- the progressive rate design is only for our residential customers. It does not impact our other customer classes.

Q Thank you, Mr. Milleman. You might have -- I think you started to answer my next question when you were talking about the over- and under-collection. But let me specifically ask my next question, which is under the two-way balancing structure of Safe Infrastructure Balancing Account and Supply Cost Balancing Account, how are risks of over- or under-collection allocated between ratepayers and shareholders?

A Well -- okay. The -- first, I'll go with how the mechanism functions. And generally, if -- the way it functions is when your sales are lower, your water production costs are lower. So you net the two and result in a net under-collection. When your sales are higher, then your water production costs are going to be higher. Then you net the two, and then you have an over-collection.

In both cases where you have an over-collection or under-collection, what -- those balances would be

added to the base rates -- sorry -- the revenue requirement of the district in the following year. And then we would calculate base rates that would incorporate either that over-collection or under-collection.

Q And as a follow up -- we briefly talked about this when we were talking about the M-WRAM. But how does what you're talking about now for the decoupling program -- how does that compare to the current M-WRAM or the ICBA framework?

A Okay. On decoupling, you have -- it is as it sounds like. There are -- you decouple sales from revenues. And so the utility will neither gain nor lose from the sale of water. It's going -- we would only collect the revenues that the Commission has determined are necessary for us to provide a dependable supply of safe drinking water to our customers. That's on the revenue side.

The same holds true with the water production costs for the SCBA. It would be where we would only recover the costs that the Commission has determined are -- we would only recover the costs that the Commission has determined are appropriate for -- your Honor, I need to pause for a second.

I apologize. I can't remember -- I want to

make sure I get it right. And I'm drawing a blank on how we -- right now on how we make sure that if we sell less water and have lower production costs, that that's being shared with our customers.

In the meantime, though, I will address -- on the ICBA -- what the ICBA does is -- all that it does is change the price of your water. The -- the -- and the better way to explain it would be that the SCBA is volume times price times mix. The ICBA is just price. So if the wholesaler changes the price of water, that's all that's going to change.

On the M-WRAM -- the M-WRAM is a rates adjustment mechanism. And what it will do is the -- I'll say it this way. The SIBA, S-I-B-A, is -- it is your -- the difference between your adopted -- well, really what it is is it's adopted sales times price. The M-WRAM is actual sales priced at a single quantity rate. So if you're -- it just basically takes your actual sales that you have collected at the tiered rates and now reprices those actual sales at a single quantity rate.]

ALJ ROSAS: (Line muted.)

MX. WILLMAN: Judge, you are muted.

ALJ ROSAS: Thank you for that. Yes, I was muted, and I was just keeping all of you on your toes.

Thank you.

Q With that said, let me start again.

Mr. Milleman, is there historical data that supports the effectiveness of the sales reconciliation mechanism in improving forecast accuracy and rate stability?

A In regards to historical data, we have included in testimony when this mechanism has kicked in before. And it's not going -- it will improve the forecast accuracy for the next year because of the fact that it is going to adjust your sales for what your customers' most current usage patterns are.

And if we are in the third year of a rate case, we would have done our sales estimates four years earlier. So various things could have happened during that timeframe that would, you know, impact that. And so it's going -- if -- that mechanism would make your next year's forecast more in line with what customers' current patterns are, and then, further, in regards to rate stability, it is now going to more accurately match up your sales with what your revenue requirement is.

Q Thank you, Mr. Milleman.

I only have one final question regarding this chapter. Does Cal Water plan to educate customers about the change from surcharges to base rate recovery?

A At this time, your Honor, we have not crossed

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Tr. Vol. 5 (Cal PA/Keowen) pp. 319-320

don't know every single one.

Q May you please clarify how you arrived at your position that these 129 unfilled position should be removed from the payroll forecast?

A Yes, your Honor. As stated in my testimony, when reviewing the workpapers, I found a California Water Service showed a recorded payroll cost of approximately 90 million in 2023, and then on their workpaper for that same year, they are reporting an employee count of 1,247; and that's on page 1-12 of my testimony.

I issued an -- in asking for the payroll accounts, I issued a data request and the data request came back and said that there were 1,121 positions, not 1,247 that show on the workpapers. Then I found -- or the review process, I find their annual report to investors, which shows that they only have 1,118 employees in 2023; and so, we met with Cal Water Service to discuss the discrepancy, and they informed us that the difference was due to unfilled positions.

Q Earlier, you mentioned the data request and meeting with Cal Water, but were there any other factors that you considered in evaluating whether to remove -- whether to suggest the removal of these positions from the payroll forecast?

A Your Honor, I believe it's all in my testimony.

Q Let me specifically ask: Were any unfilled positions tied to compliance roles?

A I don't know, your Honor.

Q Were any of these unfilled positions tied the public safety roles?

A I -- I don't know.

Q Were any of these unfilled positions tied to wildfire mitigation roles?]

A I don't know, your Honor.

Q Thank you, Mr. Keowen. And without having to repeat yourself other than what's in your prepared testimony and what you already referenced here today as well as additional information that you provided as part of today's testimony, is there anything else that you think the Commission should know about the recommendation that these unfilled position should be removed from the payroll forecast?

A I do, your Honor. I would probably just recommend if your Honor would take a look at California Water Service's website regarding the interim reports and the employee counts. I think that would be beneficial for ratepayers.

Q And I'll ask you, Mr. Keowen, but if Ms. Fisher wants to chime in are these interim reports that you're