

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298**FILED**

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A2401002

April 10, 2026

**Agenda ID #24138**  
**Alternate Agenda ID# 24140**  
**Ratesetting**

TO PARTIES OF RECORD IN APPLICATION 24-01-002, et al.:

This is the proposed decision of Administrative Law Judge Margery Melvin. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's May 14, 2026, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE

Michelle Cooke

Chief Administrative Law Judge

MLC: asf

Attachment

Decision (PROPOSED DECISION OF ALJ MELVIN (Mailed 4/10/2026))

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

<p>Application of Liberty Utilities (Park Water) Corp. (U 314-W) for Authority to Increase Rates Charged for Water Service by \$9,260,000 or 22.08% in 2025, \$2,182,928 or 4.24% in 2026, and \$2,139,448 or 3.96% in 2027.</p>	<p>Application 24-01-002</p>
<p>And Related Matter.</p>	<p>Application 24-01-003</p>

**DECISION ADOPTING THE REVENUE REQUIREMENTS FOR TEST YEAR 2025 GENERAL RATE CASES OF LIBERTY UTILITIES (PARK WATER) CORP. AND LIBERTY UTILITIES (APPLE VALLEY WATER) CORP.**

**TABLE OF CONTENTS**

<b>Title</b>	<b>Page</b>
DECISION ADOPTING THE REVENUE REQUIREMENTS FOR TEST YEAR 2025 GENERAL RATE CASES OF LIBERTY UTILITIES (PARK WATER) CORP. AND LIBERTY UTILITIES (APPLE VALLEY WATER) CORP.	
Summary.....	2
1. Background.....	4
1.1. Park Water and Apple Valley Ranchos.....	4
1.2. Park Water’s Service Territory .....	4
1.3. Apple Valley Ranchos’ Service Territory.....	6
1.4. Procedural Background.....	7
2. Legal Principles .....	10
2.1. Just and Reasonable Rates.....	10
2.2. Prudent Manager Standard .....	11
2.3. Burden of Proof.....	11
2.4. The Standard of Proof.....	12
3. Uncontested Issues .....	12
4. Contested Issues.....	16
5. Water Sales Forecast & Water Supply Forecast.....	16
5.1. Water Supply – Park Water .....	18
5.2. Water Sales – Park Water .....	21
5.3. Water Supply – Apple Valley Ranchos.....	23
5.4. Water Sales – Apple Valley Ranchos.....	23
6. Revenue Requirement .....	23
6.1. General Office .....	23
6.2. Operating Expenses .....	25
6.2.1. Park Water .....	26
6.2.1.1. Purchased Water and Leased Water .....	26
6.2.2. Positions .....	27
6.2.2.1. Facilities Manager Park Water .....	27
6.2.2.2. Facilities Manager Apple Valley Ranchos.....	29
6.2.2.3. Senior Manager, Engineering - Park Water .....	29
6.2.3. Transmission & Distribution (T&D) Operating Meter Expenses.....	31
7. Escalation Rates.....	33
7.1. Labor Expense Escalation Factors 2025-2026 .....	33
7.2. Non-Labor Expense Escalation Factors 2025-2026 .....	36
7.3. Escalation Factors.....	37

- 7.3.1. Forecast of 2026 Expenses for Park Water and Apple Valley Ranchos .....37
- 7.3.2. Water Conservation for Park Water and Apple Valley Ranchos ..... 39
- 7.3.3. Mailing Service Expenses for Park Water and Apple Valley Ranchos ..... 41
- 7.3.4. Regulatory Commission Expenses for Park Water and Apple Valley Ranchos ..... 42
- 7.3.5. Merit and Short Term Incentive Pay for Park Water and Apple Valley Ranchos ..... 44
- 7.3.6. Medical, Dental, Vision Insurance Benefits for Park Water and Apple Valley Ranchos ..... 47
- 7.3.7. Travel, Business Meals, Office Supplies, Employee Membership for Park Water and Apple Valley Ranchos ..... 48
- 7.3.8. Telemetry Account – General Office for Park Water and Apple Valley Ranchos ..... 49
- 7.3.9. General Office for Park Water and Apple Valley Ranchos ..... 50
- 7.3.10. Customer First Project Capital Request for Park Water and Apple Valley Ranchos ..... 52
  - 7.3.10.1. Customer First Annual Maintenance Costs for Park Water and Apple Valley Ranchos ..... 53
  - 7.3.10.2. Head Office Expenses for Park Water and Apple Valley Ranchos 54
  - 7.3.10.3. Credit Card Fees for Park Water and Apple Valley Ranchos ..... 55
  - 7.3.10.4. Replenishment Make-Up Assessment Expenses for Apple Valley Ranchos Only ..... 56
- 8. Utility Plant – Common Issues For Park Water and Apple Valley Ranchos .. 56
  - 8.1. Previously Authorized Projects..... 57
    - 8.1.1. Background..... 57
    - 8.1.2. Liberty’s Position ..... 58
    - 8.1.3. California Water Association’s Position..... 60
    - 8.1.4. Cal Advocates’ Position ..... 60
    - 8.1.5. Conclusion ..... 61
  - 8.2. Capital Escalation Factors ..... 63
  - 8.3. Meters..... 64
  - 8.4. Pipeline Project Cost Estimate Adjustments ..... 65
    - 8.4.1. Consultant/Design..... 66
    - 8.4.2. Inspections ..... 66
    - 8.4.3. Miscellaneous Charges ..... 67
  - 8.5. Emergency Main Replacements, Hydrants, and Services..... 68

8.6.	Disputed Utility Plant Items .....	70
8.6.1.	Area 41 & Target Phase 2 Project .....	70
8.6.2.	Generators.....	72
8.6.3.	PFAS/PFOA Treatment - Wells 46C, 41A, 41A VFD .....	73
8.6.4.	Site and Structure Improvements and Booster Pump Stations (BPS) & Electrical Improvement.....	77
8.6.5.	Removal of Recorded Plant - Wells 28D, 4B, 28B, 40D, 41A, 12C, Compton East Well (Land).....	78
8.6.5.1.	Well 28D .....	78
8.6.5.2.	Wells 4B, 28B, 40D, 41A .....	79
8.6.5.3.	Compton East Well (Land) .....	80
8.6.5.4.	Removal of Miscellaneous Recorded Plant for Downey Office....	80
8.7.	Utility Plant Items for Apple Valley Ranchos.....	81
8.7.1.	Well 34 Building.....	81
8.7.2.	New Well and Land Purchase .....	82
8.7.3.	Apple Valley Ranchos Office Building and Proposed Campus Solar Project .....	84
8.8.	Project Forecast Methodology .....	85
8.8.1.	Formal System for Designing & Managing Capital Expenditures.....	86
9.	Revenue Decoupling Program and the Water Revenue Adjustment Mechanism/ Modified Cost Balancing Account.....	88
9.1.	Summary.....	88
9.2.	Background .....	88
9.3.	Discussion.....	89
9.4.	California Water Association's Position on Revenue Decoupling Generally and Applicants' Water Conservation Program and Revenue Decoupling Program.....	92
9.5.	Conclusion.....	94
10.	Conservation Memorandum Account (Park Water and Apple Valley Ranchos) .....	95
11.	Polyfluoroalkyl Substances Memorandum Account Modification (Park Water Only) .....	96
12.	Suburban Memorandum Account (Park Water).....	97
13.	Catastrophic Event Memorandum Account (Park Water and Apple Valley Ranchos) .....	100
13.1.	Park Water.....	100
13.1.1.	Apple Valley Ranchos.....	102
13.1.2.	Sativa Revenue Memo Account (Park Water Only).....	102

13.2. Consolidated Expense Balancing Account (Park Water and Apple Valley Ranchos)..... 104  
 13.2.1. Park Water ..... 104  
 13.2.2. Apple Valley Ranchos ..... 105  
 13.3. Tax Cuts and Jobs Act Memorandum Account (Park Water and Apple Valley Ranchos) ..... 105  
 13.3.1. Park Water ..... 105  
 13.3.2. Apple Valley Ranchos ..... 106  
 13.3.3. Employee & Retiree Healthcare Balancing Account (Apple Valley Ranchos) ..... 106  
 13.4. Rates, Revenue, and Rate Design for Park Water ..... 107  
 13.4.1. Revenue Allocation ..... 107  
 13.4.2. Quantity Rate Ratios ..... 110  
 13.5. Rates, Revenue and Rate Design for Apple Valley Ranchos ..... 114  
 13.5.1. Revenue Allocation ..... 114  
 13.5.2. Quantity Rate Ratios ..... 114  
 14. Environmental and Social Justice Action Plan ..... 114  
 15. Motion to Establish Interim Rates and Related Memorandum Account ..... 115  
 16. Admittance of Exhibits into the Record..... 116  
 17. Joint Motion to Seal..... 116  
 18. Public Comments Received..... 117  
 19. Comments on Proposed Decision ..... 118  
 20. Assignment of Proceeding..... 118  
 Findings of Fact..... 118  
 ORDER ..... 148

**Appendix A:** Liberty Utilities (Apple Valley Ranchos Water) Corp. - Domestic Summary of Earnings, Ratebase, Taxes, Quantities, Bill Comparison

**Appendix B:** Liberty Utilities (Apple Valley Ranchos Water) Corp. - Irrigation Summary of Earnings, Ratebase, Taxes, Quantities, Bill Comparison

**Appendix C:** Liberty Utilities (Park Water) Corp. Summary of Earnings, Ratebase, Taxes, Quantities, Bill Comparison

**Appendix D:** Liberty Utilities (Park Water) and Liberty Utilities (Apple Valley Ranchos Water) Corp. General Office Summary of Expense Allocation

**Appendix E: Liberty Utilities (Park Water) Corp. and Liberty Utilities (Apple Valley Ranchos Water) Corp. Rate Schedules**

**DECISION ADOPTING THE REVENUE REQUIREMENTS  
FOR TEST YEAR 2025 GENERAL RATE CASES OF  
LIBERTY UTILITIES (PARK WATER) CORP.  
AND LIBERTY UTILITIES (APPLE VALLEY WATER) CORP.**

**Summary**

This decision adopts rates for Liberty Utilities Corporation (Park Water Company) and Liberty Utilities Corporation (Apple Valley Ranchos Water Company) in consolidated proceedings for Test Year 2025 and two subsequent attrition years, 2026 and 2027. This decision increases the average residential bill for Park Water Company from \$88.46 to \$112.75 and for Apple Valley Ranchos Water Company from \$83.78 to \$97.34 for both companies' Test Year 2025.

This decision adopts an annual increase in revenue requirements, total revenue requirement, rate base, and service charge for Park Water Company (Park Water) with resulting percentage increases as set forth below:

<b>Table 1</b>				
<b>Park Water Company</b>				
<b>Adopted Revenue Requirement, Rate Base, and Service Charge</b>				
	Present Rates <sup>1</sup>	Test Year 2025-2026	Escalation Year 2026-2027	Attrition Year 2027-2028
Revenue Requirement	\$41,657,254	\$47,617,254	\$49,617,254	\$51,234,359
Annual Increase		\$5,960,000	\$1,738,283	\$1,351,061
Percentage Increase		14.31%	3.63%	2.71%
Rate Base		\$ 154,712,915	\$165,516,667	\$176,320,420
Rate of Return <sup>2</sup>		7.17%	7.17%	7.17%
Service Charge 5/8 Inch Meter	\$88.46 per month	\$105.76 per month	\$109.72 per month	\$112.75 per month

This decision adopts an annual increase in revenue requirements, total revenue requirement, rate base, and service charge for Apple Valley Ranchos Water Company (Apple Valley Ranchos), with resulting percentage increases as set forth below:

<b>Table 2</b>				
<b>Apple Valley Ranchos Water Company</b>				
<b>Adopted Revenue Requirement, Rate Base, and Service Charge</b>				
	Present Rates <sup>1</sup>	Test Year 2025-2026	Escalation Year 2026-2027	Attrition Year 2027-2028
Revenue Requirement	\$30,420,894	\$33,305,000	\$34,188,000	\$36,057,105
Annual Increase		\$1,884,105	\$1,727,193	\$1,717,885
Percentage Increase		6.19%	5.32%	5.00%
Rate Base		\$128,181,939	\$137,644,249	\$147,135,134
Rate of Return <sup>2</sup>		7.17%	7.17%	7.17%
Service Charge 5/8 Inch Meter	\$83.78 per month	\$87.92 per month <sup>3</sup>	\$92.61 per month	\$97.34 per month

We find the adopted revenue requirements for Park Water and Apple Valley Ranchos are just and reasonable in accordance with Public Utilities Code Section 451. We also find that both Park Water and Apple Valley Ranchos' water quality meet all applicable state and federal drinking water standards and the provisions of General Order 103. We also find that Park Water and Apple Valley Ranchos' customer service programs and rate designs comply with the Commission's ESJ goals.

This decision closes the consolidated proceedings, A.24-01-002 et. al.

## **1. Background**

### **1.1. Park Water and Apple Valley Ranchos**

Liberty Utilities Corporation (Park Water Company (Park Water) is a California Public Utilities Commission (Commission) regulated Class A investor-owned water utility providing regulated service in and near Los Angeles County. Historically, Park Water's water supply has been sourced primarily from imported water from the Central Basin Municipal Water District (CBMWD). Park Water has 10 wells, consisting of three currently active groundwater wells and seven inactive wells due to water quality issues.

Liberty Utilities Corporation (Apple Valley Ranchos Water Company (Apple Valley Ranchos) is a Class A investor-owned water utility providing regulated service in and near the Towns of Apple Valley and Yermo in San Bernardino County, California. Apple Valley Ranchos is a wholly owned subsidiary of Liberty Utilities Corp., a California Corporation. Apple Valley Ranchos provides irrigation water through a gravity-fed irrigation system separate from its domestic water system. Apple Valley Ranchos' system is supplied entirely by groundwater. The Apple Valley Ranchos system includes 24 wells (four abandoned and two inactive). Of the active wells, five were built in the 1950s and 1960s, and four were built in the 1980s. Its largest well, Well 35, has a capacity of 3,112 Gallons Per Minute (GPM), representing 12.4% of the total capacity of the system.

Algonquin Power & Utilities Corporation owns both Park Water and Apple Valley Ranchos companies.

### **1.2. Park Water's Service Territory**

Park Water has four separate systems in southeastern Los Angeles County. Park Water's Lynwood/Rancho Dominguez system serves 4,481 active

connections and a population of 24,171. Park Water supplies portions of the cities of Lynwood and Compton, as well as some unincorporated areas of Los Angeles County. In 2022, the system's two active groundwater wells supplied 99.83% of the system's supply, but the system maintains three purchased water connections for emergency supply.

Park Water's Compton/Willowbrook system also operates in portions of the City of Compton and an unincorporated area of Los Angeles County known as Willowbrook. It serves a total of 7,006 connections associated with 23,802 customers. Compton/Willowbrook draws water from two active wells, which provide most of the system's supply, but it also purchases water from the Metropolitan Water District of Southern California (MWD). It also has two emergency interconnections with Golden State Water Company for the supply of limited quantities of purchased water. In 2022, only 0.12% of the system's source water was purchased, with the remaining 99.88% pumped from the Central Basin aquifer.

The Bellflower/Norwalk system is Park Water's largest system, with 16,619 connections and a population of 72,964. The system serves portions of the cities of Bellflower and Norwalk, as well as portions of Artesia and Santa Fe Springs. It has four active wells. The system also maintains three active purchased water connections, two standby sources, four emergency interconnections, and 26 other inactive sources. Bellflower/Norwalk purchased 89.9% of its water in 2022, with the remaining 10.1% was pumped from the Central Basin aquifer.

Mesa Crest is a small system serving portions of the city of La Cañada Flintridge. It was formerly a Class C regulated utility acquired by Park Water in 2019. The service area consists of approximately 600 acres of hilly mountainous

terrain bounded to the north by Angeles National Forest and to the south by the city of La Cañada Flintridge. The service area is predominantly residential with a large golf course, with 708 active service connections and a population of 2,336. Mesa Crest obtains its entire potable water supply from Foothill Municipal Water District, a wholesaler water system that purchases treated surface water from the MWD.<sup>1</sup>

### **1.3. Apple Valley Ranchos' Service Territory**

Apple Valley Ranchos has two main service areas: the first comprising the Apple Valley and Bellview Heights systems, and the second is the small Yermo system acquired by Apple Valley Ranchos in 2015.

Apple Valley's primary service area is in and around the Town of Apple Valley in the Mojave Desert. The company serves approximately 81% of the Town as well as additional surrounding areas, with approximately 20,780 service connections. All of Apple Valley Ranchos' water supply is drawn from nineteen wells within the adjudicated Mojave groundwater basin. The basin is recharged by the Mojave River and snowmelt from the San Bernardino Mountains; the Mojave Water Agency also imports water from the State Water Project to supplement natural recharge. The Apple Valley Ranchos system has emergency connections with the City of Victorville and Golden State Water.

The basic underlying system of ratemaking in California has been, and remains, a forward test year of the expected cost and scope of a utility's operations. That is, Park Water and Apple Valley Ranchos' rates are set prospectively in a general rate case based on a forecast of sales and operating costs, plus taxes, interest, and an expected return for investors based on

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<sup>1</sup> Liberty's February 7, 2024, Response to the Commission's Water Division's February 5, 2024, Data Request on Park Water's water systems.

investment in long-lived assets that serve the ratepayers. Rates are set to give Park Water and Apple Valley Ranchos a reasonable opportunity to earn a fair return, but are not a guarantee of a specific profit during the actual test year.

#### **1.4. Procedural Background**

On January 2, 2024, Park Water and Apple Valley Ranchos filed its 2025 Test Year (TY) general rate case (GRC) Applications (A.) 24-01-002 and (A.) 24-01-003 (Applications) respectively with the Commission for an order authorizing it to increase rates for water over a three-year period and adopting other related relief necessary to implement the Commission's ratemaking policies, beginning on July 1, 2025, in accordance with the General Rate Case Plan (RCP) prescribed in Decision (D.) 07-05-062 and D.04-06-018, and other applicable Commission decisions, resolutions, and standard practices.

- Park Water seeks to increase its rates for water service by:
- \$9.3 million or 22.08 percent in 2025;
- \$2.2 million or 4.24 percent in 2026; and
- \$2.1 million or 3.96 percent in 2027.
- Apple Valley Ranchos seeks to increase its rates for water service by:
- \$3.1 million or 10.15 percent in 2025;
- \$2.2 million or 6.31 percent in 2026; and
- \$2.2 million or 6.18 percent in 2027.

On February 5, 2024, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) protested both Applications. No other party responded to or protested the Applications. On February 7, 2024, Cal Advocates moved to consolidate the two Applications, which the assigned Administrative Law Judge (ALJ) granted on February 9, 2024.

A Prehearing Conference (PHC) was held on February 22, 2024. On March 18, 2024, the companies filed and served the required Rule 3.2(e) Compliance Filing.<sup>2</sup>

On March 27, 2024, the Assigned Commissioner issued the Scoping Memo and Ruling (Scoping Memo) setting out the issues within the scope of the proceeding and the procedural schedule.

All of the issues identified in the Scoping Memo were resolved by the parties' partial settlement agreement, stipulation where there was no dispute, or through litigation of contested issues as presented in this decision.

Pursuant to the Scoping Memo schedule, on December 20, 2024, Liberty Utilities Corp. filed its "Motion for Authority to Implement Interim Rates by Tier 1 Advice Letter" (Interim Rates Motion), which was granted on May 30, 2025.

On June 24, 2024, the California Water Association (CWA) moved for party status, which the assigned ALJ granted on June 26, 2024.

The Commission held two public participation hearings (PPH) for Park Water's application, consisting of one in-person hearing on July 30, 2024, and one virtual hearing on July 31, 2024. The Commission also held two PPH for Apple Valley Ranchos application, consisting of an in-person hearing on July 29, 2024, and a virtual hearing on July 31, 2024. Apple Valley Ranchos and Cal Advocates made presentations at each PPH.

Cal Advocates served its Opening Testimony on July 24, 2024. On September 23, 2024, Liberty served Rebuttal Testimony. Following the service of Liberty's Rebuttal Testimony, Liberty and Cal Advocates engaged in settlement

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<sup>2</sup> All references to Rule or Rules refer to the Commission's Rules of Practice and Procedure.

negotiations but were unable to reach an agreement. Liberty complied with the RCP requirement to conduct a noticed settlement conference.

Evidentiary hearings were scheduled for October 21, 2024, through November 1, 2024. On October 11, 2024, the parties filed a Joint Statement stipulating to admission of exhibits into the record and waiving cross-examination of all witnesses. The parties also attached a list of disputed and undisputed issues.

On October 14, 2024, Cal Advocates moved to strike Liberty's errata to rebuttal testimony. Liberty filed a timely response to the motion on October 18, 2024. On October 16, 2024, the assigned ALJ amended the evidentiary hearing schedule from two weeks to two days, October 22, 2024, and October 23, 2024.

On October 22, 2024, Cal Advocates argued its motion to strike Liberty's errata to rebuttal testimony, Cal Advocates and Liberty summarized their positions, and confirmed their waiver of cross-examination. In addition, Cal Advocates and Liberty moved to admit all testimony and exhibits into the record. The ALJ received the marked testimony and exhibits into the record.<sup>3</sup> The ALJ cancelled the second day of the evidentiary hearings.

On October 28, 2024, the assigned ALJ issued a ruling denying Cal Advocates' motion to strike Liberty's errata to rebuttal testimony. The ruling also directed Liberty to provide Cal Advocates with a red-line version of its previously served rebuttal testimony and extended the deadline for parties to file and serve briefs and other pertinent documents by two weeks.

On November 1, 2024, the parties filed a joint response to the assigned ALJ's ruling containing the required additional information.

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<sup>3</sup> Reporter's Transcript (RT), volume 4, page 171: line 16 - page 175: line 18.

On December 20, 2024, parties filed Opening Briefs addressing contested issues. With its Opening Brief, Cal Advocates filed a motion to file its brief under seal as confidential.

On December 31, 2024, Liberty, Cal Advocates, and Cal Water Association filed Reply Briefs. On that same date, Liberty and Cal Advocates filed a Joint Comparison Exhibit.

On January 9, 2025, Cal Advocates and Liberty moved to seal portions of the evidentiary record.

On June 30, 2025, an Order extending the statutory deadline was issued that extended the statutory deadline to January 31, 2026. On January 15, 2026, a second Order was issued extending the statutory deadline in the proceeding to May 29, 2026.

## **2. Legal Principles**

The Commission considers and applies its prior decisions and long-established general practices as appropriate to the facts and circumstances presented in this proceeding to adopt a just and reasonable revenue requirement. Below is an overview of the applicable legal principles.

### **2.1. Just and Reasonable Rates**

Public Utilities (Pub. Util.) Code Section 451 provides that “all charges demanded or received by any public utility ... shall be just and reasonable.” Pub. Util. Code Section 454(a) requires that “... a public utility shall not change any rate or so alter any classification, contract, practice, or rule for result in any new rate, except upon a showing before the commission and a finding by the commission that the new rate is justified.”<sup>4</sup>

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<sup>4</sup> [https://leginfo.ca.gov/faces/codes\\_displayText.xhtml?lawCode=PUC&division=1.&title=&part=1.&chapter=3.&article=1](https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=PUC&division=1.&title=&part=1.&chapter=3.&article=1). (As of March 13, 2025.)

## **2.2. Prudent Manager Standard**

When the necessity of Liberty's actions is called into question, the Commission may, in some circumstances, apply the prudent manager standard. Under the prudent manager standard, the Commission does not evaluate reasonableness based on hindsight, but based on what the utility knew or should have known at the time it made its decision.<sup>5</sup> This standard reaches not just the activities and associated costs for which Liberty seeks recovery here but extends to the actions or inactions that resulted in those activities being necessary.<sup>6</sup>

## **2.3. Burden of Proof**

It is well-established that Liberty, the applicant, carries the burden of proving that it is entitled to the relief it is seeking. Thus, Liberty initially has the burden of affirmatively establishing the reasonableness of its position on each issue in its application.<sup>7</sup> Although the utility bears the ultimate burden to prove the reasonableness of the relief it seeks and the costs it seeks to recover, the Commission has held that when other parties propose a different result, they too

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<sup>5</sup> D.22-06-032, Decision Addressing Southern California Edison Company's Track 3 Request for Recovery of Wildfire Mitigation Memorandum and Balancing Account Balances (June 23, 2022) at 18.

<sup>6</sup> D.18-07-025, Order Denying Rehearing of D.17-11-033 (July 12, 2018) at p. 3, 5, 6 (citing to D.87-06-021); D.21-11-036, Order Modifying Decision 19-09-025 and Denying Rehearing of Decision 19-09-025, as Modified (November 19, 2021) at 15.

<sup>7</sup> D.21-08-036, Decision on Test Year 2021 GRC for Southern California Edison Company (August 19, 2021) at 9, citing to D.09-03-025, Alternate Decision of President Peevey on Test Year 2009 GRC for Southern California Edison Company (March 13, 2009) at 8; D.06-05-016, Opinion on Southern California Edison Company's Test Year 2006 General Rate Increase Request (May 11, 2006) at 7.

have a “burden of going forward” to produce evidence to support their position and overcome the utility’s evidence.<sup>8</sup>

#### **2.4. The Standard of Proof**

The standard of proof for all parties in rate cases is preponderance of the evidence.<sup>9</sup> Preponderance of the evidence usually is defined “in terms of probability of truth, e.g., ‘such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.’”<sup>10</sup> For example, to meet its burden, a GRC applicant must produce a preponderance of evidence, when weighed against the evidence of those in opposition, that the forecasted costs are just, reasonable, and necessary. For the opponents, the same is true; their evidence must outweigh that of the applicant on the issues they dispute.

### **3. Uncontested Issues**

With respect to the individual uncontested issues, we find that Liberty has made a *prima facie* just and reasonable showing, and we approve Liberty’s

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<sup>8</sup> D.21-08-036, Decision on Test Year 2021 General Rate Case for Southern California Edison Company (August 19, 2021) at 10; D.20-07-038 at 3-4; D.87-12-067 at 25-26, 1987 Cal. PUC LEXIS 424, \*37.

<sup>9</sup> See: California Evidence Code Section 115: “‘Burden of proof’ means the obligation of a party to establish by evidence a requisite degree of belief concerning a fact in the mind of the trier of fact or the court. The burden of proof may require a party to raise a reasonable doubt concerning the existence or nonexistence of a fact or that he establish the existence or nonexistence of a fact by a preponderance of the evidence, by clear and convincing proof, or by proof beyond a reasonable doubt.

Except as otherwise provided by law, the burden of proof requires proof by a preponderance of the evidence.” (Enacted by Stats. 1965, Ch. 299.)”  
([https://leginfo.ca.gov/faces/codes\\_displayText.xhtml?lawCode=EVID&division=2.&title=&art=&chapter=&article=](https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=EVID&division=2.&title=&art=&chapter=&article=) as of January 15, 2025.

<sup>10</sup> D.08-12-058, Decision Granting a Certificate of Public Convenience and Necessity for the Sunrise Powerlink Transmission Project (December 18, 2008) at 19, citing to Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184.

uncontested requests, unless otherwise stated. We find it reasonable and adopt the stipulations for each of the issues listed below in Table 3.<sup>11</sup>

**Table 3**  
Resolved Issues for Park Water and Apple Valley Ranchos

<b>Resolved Issues - Park Water</b>			
<b>Customer, Water Sales, and Present Revenues</b>			
	Company's Request	Cal Advocates' Recommendation	Stipulated
Customer Forecast	2025-2026: 28,522 2026-2027: 28,576 2027-2028: 28,629	2025-2026: 28,522 2026-2027: 28,576 2027-2028: 28,629	2025-2026: 28,522 2026-2027: 28,576 2027-2028: 28,629
Unaccounted for Water	2025-2028: 1.38%	2025-2028: 1.38%	2025-2028: 1.38%
<b>Balancing and Memorandum Accounts</b>			
	Company's Request	Cal Advocates' Recommendation	Stipulated
Customer Assistance Program (CAP) Reallocation Balancing Account <sup>12</sup>	(\$1,620,796)	(\$1,620,796)	(\$1,620,796)
Incremental Cost Balancing Account (ICBA) - Potable <sup>13</sup>	\$688,898	\$688,898	\$688,898
Incremental Cost Balancing Account (ICBA) - Recycled Water <sup>14</sup>	\$26,443	\$26,443	\$26,443
Pension Expense Balancing Account <sup>15</sup>	\$0	\$0	\$0

<sup>11</sup> Joint Statement of the Public Advocates Office, Liberty Utilities (Apple Valley Ranchos) Corp., Liberty Utilities (Park Water) Corp. and California Water Association at Attachment 2.

<sup>12</sup> Park Water accepts Cal Advocates' balance as of 12/31/2023, including newer numbers of CAP participations in the calculation.

<sup>13</sup> Park Water accepts Cal Advocates' balance as of 12/31/2023.

<sup>14</sup> Park Water accepts Cal Advocates' balance as of 12/31/2023.

<sup>15</sup> No recovery is requested in this GRC as surcharge is currently in effect.

<b>Miscellaneous Revenues</b>			
	Company's Request	Cal Advocates' Recommendation	Stipulated
Misc. Service Revenues	\$157,839	\$157,839	\$157,839
Late Fees	\$134,559	\$134,559	\$134,559
Other Rates and Fees - Charges for Tariff Schedule PR-9CM/Rule 11 Reconnection Charge	<b>Reconnection:</b> Regular Hours: \$63, Other Than Working Hours: \$188. <b>Tariff Schedule PR-9CM:</b> Meter Relocation: \$60, Backflow test: \$75, 3" Meter Deposit with/without backflow: \$3,000	<b>Reconnection:</b> Regular Hours: \$63, Other Than Working Hours: \$188. <b>Tariff Schedule PR-9CM:</b> Meter Relocation: \$60, Backflow test: \$75, 3" Meter Deposit with/without backflow: \$3,000	<b>Reconnection:</b> Regular Hours: \$63, Other Than Working Hours: \$188. <b>Tariff Schedule PR-9CM:</b> Meter Relocation: \$60, Backflow test: \$75, 3" Meter Deposit with/without backflow: \$3,000

<b>Resolved Issues - Apple Valley Ranchos Water</b>			
<b>Customer and Water Sales</b>			
	Company's Request	Cal Advocates' Recommendation	Stipulated
Customer Forecast	<b>2025-2026:</b> 21,447 <b>2026-2027:</b> 21,556 <b>2027-2028:</b> 21,665	<b>2025-2026:</b> 21,447 <b>2026-2027:</b> 21,556 <b>2027-2028:</b> 21,665	<b>2025-2026:</b> 21,447 <b>2026-2027:</b> 21,556 <b>2027-2028:</b> 21,665
Unaccounted for Water	<b>Domestic:</b> 5.4%, <b>Irrigation:</b> 69.2%	<b>Domestic:</b> 5.4%, <b>Irrigation:</b> 69.2%	<b>Domestic:</b> 5.4%, <b>Irrigation:</b> 69.2%
<b>Utility Plant</b>			
	Company's Request	Cal Advocates' Recommendation	Stipulated
2023 CWIP <sup>16</sup>	Main Rep 1: \$70,662 Main Rep 2: \$18,143 Main Rep 3: \$6,684	Main Rep 1: \$70,662 Main Rep 2: \$18,143 Main Rep 3: \$6,684	Main Rep 1: \$70,662 Main Rep 2: \$18,143 Main Rep 3: \$6,684

<sup>16</sup> Parties agree that Main Replacement 1, 2, and 3 should be closed to plant in 2024.

Gravity Irrigation Ag Well 4 <sup>17</sup>	2024: \$0 2025: \$0	2024: \$0 2025: \$0	2024: \$0 2025: \$0
<b>Balancing and Memorandum Accounts</b>			
	Company's Request	Cal Advocates' Recommendation	Stipulated
Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA) <sup>18</sup>	(\$ 112,663)	(\$ 112,663)	(\$ 112,663)
Customer Assistance Program (CAP) Reallocation Balancing Account <sup>19</sup>	\$409,207	\$409,207	\$409,207
Incremental Cost Balancing Account (ICBA) - Irrigation <sup>20</sup>	\$285,102	\$285,102	\$285,102
Office Remodel Balancing Account (ORBA) <sup>21</sup>	Terminated	Terminated	Terminated
<b>Rates, Revenue and Rate Design</b>			
	Company Request	Cal Advocates' Recommendation	Stipulated
Fixed Charge Ratios <sup>22</sup>	Company withdrew its request	No reduced rates for these customers.	No reduced rates for these customers.

<sup>17</sup> Liberty withdraws its request for Ag Well 4 capital expenditures in years 2024 and 2025.

<sup>18</sup> Apple Valley Ranchos accepts Cal Advocates' balance as of 12/31/2023.

<sup>19</sup> Apple Valley Ranchos accepts Cal Advocates' balance as of 12/31/2023, including newer numbers of CAP participations in the calculation.

<sup>20</sup> Apple Valley Ranchos accepts Cal Advocates' balance as of 12/31/2023.

<sup>21</sup> Parties agree this account has already been terminated.

<sup>22</sup> Apple Valley Ranchos accepts Cal Advocates' proposed fixed charge ratios for residential customers with private fire sprinklers.

Pension Expense Balancing Account <sup>23</sup>	\$0	\$0	\$0
<b>Misc. Service Revenues</b>			
Misc. Service Revenues	<b>2025-2028:</b> \$55,947	<b>2025-2028:</b> \$55,947	<b>2025-2028:</b> \$55,947
Late Fees	<b>2025-2028:</b> \$51,741	<b>2025-2028:</b> \$51,741	<b>2025-2028:</b> \$51,741
NTPS - HomeServe	<b>2025-2028:</b> \$55,500	<b>2025-2028:</b> \$55,500	<b>2025-2028:</b> \$55,500
Rule 11 Reconnection Charge <sup>24</sup>	Regular Hours: \$38, Other Than Working Hours: \$188	Regular Hours: \$38, Other Than Working Hours: \$188	Regular Hours: \$38, Other Than Working Hours: \$188

#### 4. Contested Issues

The general framework for our review of those contested issues comes under provisions of the RCP for Class A water utilities prescribed in D.04-06-018 and D.07-05-062. Under the RCP, Park Water and Apple Valley Ranchos are authorized to request general rate changes covering the three-year period, namely, 2025 (TY), 2026 (Escalation Year), and 2027 (Attrition Year).

We will review each contested issue chronologically as raised in the parties' Opening Briefs, starting with Park Water and then with Apple Valley Ranchos.

#### 5. Water Sales Forecast & Water Supply Forecast

In their applications, Park Water and Apple Valley Ranchos developed water sales forecasts using the following methodology to calculate customer consumption based on multiple regression analysis utilizing: monthly consumption data for ten years; a thirty-year average for forecast values for temperature and rain; and accounting for periods where there were drought

<sup>23</sup> No recovery is requested as the surcharge is currently in effect.

<sup>24</sup> Cal Advocates did not contest this request.

provisions.<sup>25</sup> Park Water and Apple Valley Ranchos contend this methodology conforms to the Commission's RCP adopted in D.07-05-062.<sup>26</sup>

Both Park Water and Apple Valley Ranchos' water sales and water supply forecasts are tied to their respective proposals for proposed utility plant items. Cal Advocates raises similar concerns on water sales and water supply forecasts for both companies. We will therefore discuss the issue only once, starting with Park Water. We will note any unique differences as necessary and separately present the adopted outcomes for each company.

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<sup>25</sup> Liberty Utilities Opening Brief (OB) at 6.

<sup>26</sup> Liberty Utilities OB at 6 to 8.

**Table 4<sup>27</sup>**  
Test Year 2025-2026 Water Supply Forecast

	Park Water		Apple Valley Ranchos	
	Park Water's Proposal	Cal Advocates' Proposal	Apple Valley Ranchos' Proposal	Cal Advocates' Proposal
Water Supply Forecast				
Pumped (AF <sup>28</sup> )	3,789	3,912		
Purchased (AF)	5,774	6,008		
Total Annual Production 2025-2026 (AF)			13,406	13,535
Total Supply for Test Year 2025	9,563	9,920	13,406	13,535

### 5.1. Water Supply – Park Water

Park Water's water supply forecast is a function of its water supply mix, which includes purchased water costs and pumped groundwater costs.<sup>29</sup> Park Water established an initiative to increase its groundwater supply production.<sup>30</sup> Park Water's water supply forecast takes into consideration its initiative to increase groundwater supply, increase its groundwater production by over 50% from 2015 to 2020, and the necessary removal of multiple wells (wells 28B, 41A, & 46C) from service to address water quality concerns.<sup>31</sup> Park Water's supply

<sup>27</sup> Joint Response to ALJ Ruling Requiring Additional Information, Attachment 1 at 1 and 5.

<sup>28</sup> AF = Acre Feet. An Acre foot is a unit of volume commonly used in the U.S. for large-scale water management, representing the amount of water needed to cover 1 acre of land to a depth of 1 foot. It is also equivalent to 43,560 cubic feet.

<sup>29</sup> Liberty Utilities OB at 8.

<sup>30</sup> *Id.* at 9.

<sup>31</sup> *Id.*

forecast is based on pumped and purchased water costs limited by its well capacity and considers operations, maintenance, and regulatory requirements.<sup>32</sup>

Park Water estimates from pumped water 3,789 Acre Feet (AF) in year 2025-2026, 4,039 AF in year 2026-2027, and 4,639 AF in year 2027-2028. In purchased water, Park Water estimates 5,774 AF in 2025-2026, 5,581 AF in year 2026-2027, and 5,038 AF in 2027-2028.<sup>33</sup>

Cal Advocates argues that the total of water-supply-related differences for Park Water, as well as the differences in irrigation system water supply, should be resolved based on the resolution of the issues of sales forecast.<sup>34</sup> Cal Advocates' water supply forecast excludes the Compton East Well Project's cost estimates.<sup>35</sup> Cal Advocates argues that Park Water can continue to operate the Compton East water system and meet water supply requirements without building a new well.<sup>36</sup> Cal Advocates' forecast is therefore based on its recommendations to rely solely on Well 9D to meet demand for customers of the Compton East system. Cal Advocates believes that Park Water should utilize Well 19C to its full capacity to meet demand for customers of the Compton West system.<sup>37</sup>

Regarding Park Water's Compton East Well Project, Cal Advocates argues that Park Water's testimony fails to adequately justify the Compton East Well

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<sup>32</sup> *Id.*

<sup>33</sup> Liberty Utilities OB at Exhibit 1 (Attachment 1, Listing of Unresolved Issues at 5).

<sup>34</sup> Cal Advocates OB at 17.

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

Project.<sup>38</sup> Cal Advocates argues that Park's Compton East Well (including land purchase) estimates should be excluded from rates because Cal Advocates contends that Park can continue operating the Compton East water system and meet water supply requirements without building a new well.<sup>39</sup>

Cal Advocates recommends a water supply of 3,912 AF in year 2025-2026, 4,162 AF in year 2026-2027, and 4,762 AF in year 2027-2028 from pumped water. In purchased water, Cal Advocates recommends a water supply of 6,008 AF in 2025-2026, 5,789 AF in year 2026-2027, and 5,219 AF in 2027-2028.<sup>40</sup>

Park Water took Wells 28B, 41A, and 46C out of service to address water concerns.<sup>41</sup> After Park Water filed its GRC Application in January 2024, the Final PFAS National Primary Drinking Water Regulation was adopted in 2024, establishing federal PFAS MCLS with initial monitoring commencing by 2027 and full compliance by 2029.<sup>42</sup> Park Water's Well 9D has operational limitations (hydraulic and treatment plant), and increasing its capacity to the level proposed by Cal Advocates would harm the well and risk poor water quality.<sup>43</sup> As a result of: 1) Park Water taking Wells 28B, 41A, and 46C out of service to address water concerns; 2) Park Water's need to address the PFAS National Primary Drinking Water Regulation adopted in 2024, and 3) the operational limitations of Park Water's Well D9, Park Water's water supply forecast is properly based on

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<sup>38</sup> *Id.*

<sup>39</sup> Cal Advocates OB at xiii.

<sup>40</sup> Liberty Utilities OB, Exhibit 1 (Attachment 1, Listing of Unresolved Issues at 5).

<sup>41</sup> Liberty Utilities OB at 9 and 10.

<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

pumped and purchased water costs based on well capacity and considers operations, maintenance and regulatory requirements and is adopted.

The resolution of Park Water's reasonable water supply forecast is tied to the Commission's decision on Park Water's reasonable water sales forecast. Because the Commission adopted Park Water's proposal to use the New Committee Method (NCM) in forecasting water sales, the Commission adopts, as just and reasonable, Park Water's water supply forecast, including the forecast for the new Compton East Well, which is based on pumped and purchased water costs, taking into consideration operations, maintenance, and regulatory requirements.

## **5.2. Water Sales – Park Water**

Park Water's water sales forecast for fiscal-year 2025-2026 is \$4,216,501, for fiscal-year 2026-2027 is \$4,240,861 and for fiscal 2027-2028 is \$4,265,660.<sup>44</sup> Park Water's forecast on water sales and water supply is tied to its proposal for and position on various Park Water utility plant items (Compton East Well 4B and 9B; and PFAS/PFOA Treatment Wells 46C, 41A and 41VFD). We will consider each project on its own merits, including cost and the need for water supply to enable the utilities to have an adequate supply for safe and reliable service.

Park Water argues that its water sales forecast meets Commission standards and remains lower than Cal Advocates' forecast by 0.76 percent.<sup>45</sup> Park Water argues that it revised its water sales forecast by taking multiple steps to address Cal Advocates' concerns, and its revised forecast is 0.76 percent higher

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<sup>44</sup> *Id.* at 5

<sup>45</sup> Liberty Utilities OB at 8.

than its original forecast.<sup>46</sup> Cal Advocate argues that Park Water used the modified NCM on performing a sales forecast Park Water.<sup>47</sup>

Cal Advocates' forecast on water sales and water supply is tied to its opposition to various proposed Park Water utility plant items (Compton East Well 4B and 9B; and PFAS/PFOA Treatment Wells 46C, 41A and 41VFD). Cal Advocates opposes Park Water's proposed construction to replace Well 4B in the Compton East Water System. Cal Advocates argues that the Commission should adopt its proposal for a water sales forecast that uses a five-year weighted average for sales per customer calculations because, according to Cal Advocates, it produces a more accurate forecast than Liberty's proposed NCM methodology.<sup>48</sup> Cal Advocates argues that its proposed methodology emphasizes the most recent sales to best capture recent trends, while giving less weight to less recent sales.<sup>49</sup> Cal Advocates recommends water sales forecast for Apple Valley Ranchos Water of \$4,379,181 for 2025-2026, \$4,410,310 for 2026-2027, and \$4,441,438 for 2027-2028.

After careful review of Park Water's proposed methodology using the NCM for forecasting water sales and Cal Advocates' five-year weighted average proposal for forecasting water sales, Park Water and Apple Valley Ranchos both propose using the standard NCM for forecasting sales. In the absence of a more persuasive argument for using any other method, we adopt the NCM for this proceeding. We find that the companies were more persuasive than Cal Advocates and had appropriately addressed Cal Advocates' concerns.

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<sup>46</sup> Cal Advocates Opening Brief (OB) at 8.

<sup>47</sup> Cal Advocates OB at 11.

<sup>48</sup> Cal Advocates OB at 11-12.

<sup>49</sup> Cal Advocates OB at 12.

### **5.3. Water Supply – Apple Valley Ranchos**

Based on the identical analysis used for Park Water, the Commission adopts, as just and reasonable, Apple Valley Ranchos' proposal using the NCM in forecasting water sales and resolves the issue of its water supply forecast based on Apple Valley Ranchos' forecast for water sales.

### **5.4. Water Sales – Apple Valley Ranchos**

Apple Valley Ranchos' water sales forecast for fiscal-year 2025-2026 is \$4,45,941; for fiscal-year 2026-2027 is \$4,474,582; and for fiscal 2027-2028 is \$4,493,224.<sup>50</sup> Cal Advocates recommends water sales forecast for Apple Valley Ranchos Water of \$4,508,979 for 2025-2026, \$4,527,900 for 2026-2027, and \$4,546,822 for 2027-2028. Based on the identical analysis used for Park Water and considering D.20-08-047, we adopt the company's forecast of water sales using the NCM.

## **6. Revenue Requirement**

### **6.1. General Office**

Park Water argues that its General Office expenses are allocated to Park Water's Central Basin Division and Apple Valley under the Algonquin Cost Allocation Manual (CAM) allocation factors. Park Water contends its General Office Reports submitted with the GRC Applications discuss the relevant allocation factors. Liberty's general office expenses include three key shared services groups - California Water Operations, California Water & Electric Operations, and West Region shared services, each with its own cost allocation factor.<sup>51</sup>

Utilizing these allocation factors, Liberty contends that it developed its

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<sup>50</sup> *Id.* at 1

<sup>51</sup> Liberty Utilities OB at 11-12.

Test Year General Office forecast based on anticipated headcount and non-labor expenses anticipated for this rate cycle, escalated to 2025 dollars.<sup>52</sup> Liberty contends that its incremental expenses include IT system maintenance expenses related to the Customer First project deployed in May 2023, cybersecurity-related maintenance expenses, an expanded supplier diversity program, customer credit card fees, and additional general office headcount.<sup>53</sup>

Cal Advocates argues the Commission should deny Liberty's requested increase for General Office expenses.<sup>54</sup> Cal Advocates proposes that the Commission adopt a budget based on a five-year average of Liberty's recorded expenses for General Office expenses, escalated to TY 2025, and allocated by the Commission's last adopted factor of 57.6%. Cal Advocates recommends a 58% reduction of Liberty's Test Year General Office forecast based upon its utilization of a five-year average of historical recorded costs from 2019-2023.<sup>55</sup> Cal Advocates contends that the five-year average anchors forecasted rates to actual expense levels, making the five-year average a more reliable indicator of necessary rate changes.<sup>56</sup>

The Commission adopts Liberty's General Office forecast as reasonable over that of Cal Advocates' because Cal Advocates' forecast fails to consider incremental costs, does not accurately escalate recorded costs, and utilizes a flawed allocation factor.

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<sup>52</sup> *Id.*

<sup>53</sup> *Id.*

<sup>54</sup> Cal Advocates OB at 18.

<sup>55</sup> *Id.* at 18-21.

<sup>56</sup> *Id.*

The Commission adopts Liberty's proposal with respect to the following Revenue Requirement items: Customer First, Head Office Expenses, Telemetry Account, and Credit Card Fees. See Sections 7.1.11, 7.1.11.2, 7.1.9, and 7.1.11.3, below, for further detail.

## **6.2. Operating Expenses**

Park Water's and Apple Valley Ranchos' Operating Expenses are composed of Operations & Maintenance (O&M) expenses and Administrative & General (A&G) expenses. As discussed in Rebuttal Testimony, for the Test Year, Park Water forecasts O&M expenses of \$17.300 million and A&G expenses of \$9.277 million; Cal Advocates' recommended forecast is O&M expenses of \$17.504 million and A&G expenses of \$5.727 million.<sup>57</sup> For the Test Year, Apple Valley forecasts O&M expenses of \$6.160 million and A&G expenses of \$8.125 million; while Cal Advocates' recommended forecast is O&M expenses of \$5.364 million and A&G expenses of \$4.908 million.<sup>58</sup>

According to Liberty, after the submission of Rebuttal Testimony, the respective forecasts were updated based on the Commission's decision in Park Water's and Apple Valley's Cost of Capital Proceeding (D.24-12-007 issued on December 12, 2024), November 2024 non-labor escalation factors, and certain calculation errors.<sup>59</sup> The revised forecast for both Liberty and Cal Advocates will be reflected in the Joint Comparison Exhibit to be filed with the Reply Briefs. The following discussion addresses only the disputed issues.<sup>60</sup>

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<sup>57</sup> Ex. LIB-28 at 1 (Table I-1), Liberty Utilities OB at 18.

<sup>58</sup> Ex. LIB-27 at 1 (Table I-1), Liberty Utilities OB at 18.

<sup>59</sup> Liberty Utilities OB at 18.

<sup>60</sup> *Id.*

Liberty indicated that with respect to the Operating Expenses for Park Water and Apple Valley, both utilities applied a consistent methodology in developing the forecasts for the Test Year. However, Cal Advocates raised some concerns and proposed its own recommendations for those forecasts.<sup>61</sup> The parties' forecasts, positions, and corresponding recommendations for those forecasts are presented in the sections below.

### **6.2.1. Park Water**

#### **6.2.1.1. Purchased Water and Leased Water**

Park Water argues in its Rebuttal Testimony that the difference between its forecast and Cal Advocates' forecast of Purchased Water and Leased Water Rights arises from the differences in each party's proposed water supply mix, sales, and number of customers.<sup>62</sup>

Park Water's initial forecast was based on the 2022 actual unit cost per acre foot (AF) of \$168.43, which was the latest recorded data available at the time the GRC application was filed. In its Rebuttal Testimony, Park Water revised its forecast downward using the 2023 actual unit cost per AF of \$127.41.<sup>63</sup>

Cal Advocates' forecast used the cost per AF from the three leased water contracts between Park Water and Suburban Water in 2023 and 2024, which range from \$70 per AF to \$175 per AF.<sup>64</sup> According to Cal Advocates, it estimated leased water rights costs by starting with delivered water and then subtracting the volume derived from the water rights Park owns to derive its estimate of leased water. Thus, the higher the leased water cost per AF used in

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<sup>61</sup> *Id.* at 19.

<sup>62</sup> Ex. LIB-28 at 14-15 and Liberty Utilities OB at 30.

<sup>63</sup> Ex. LIB-28 at 16 and Liberty Utilities OB at 30.

<sup>64</sup> Liberty Utilities OB at 30.

the forecast, for example, the higher cost that ratepayers would have to pay for leased water rights.<sup>65</sup>

After a review of the parties' testimony, exhibits, opening briefs and reply briefs, the Commission finds that Park Water's methodology is more reasonable because it utilizes an average unit cost across various water purveyors from only the most recent year, 2023, at the corrected cost of \$127.41.

### **6.2.2. Positions**

Liberty requests funding to add three positions: a Facilities Manager and Senior Management (Engineering) position at Park Water and a Facilities Manager position at Apple Valley Ranchos. For Park Water, Liberty requests authorization of \$222,666 for the positions for TY 2025, and \$231,578 for escalation year 2026. For Apple Valley Ranchos, Liberty requests authorization of \$33,575 for its requested positions for TY 2025, and \$34,918 for escalation year 2026. Cal Advocates proposes that ratepayers do not fund any of Liberty's requested positions.

#### **6.2.2.1. Facilities Manager Park Water**

Liberty seeks to add one Facilities Manager position.<sup>66</sup> Liberty currently has one Facilities Manager position authorized in rates at its Park Water Downey Office. Liberty changed the title of the authorized Facilities Manager position at Park Water to Supervisor II, Facilities and Fleet; Liberty then consolidated the role it initially wanted at each Park Water and Apple Valley Ranchos respective facilities, into one position based in its Park Water's Downey office. Liberty allocated the payroll costs between the two companies.<sup>67</sup> According to Park

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<sup>65</sup> Cal Advocates OB at 59.

<sup>66</sup> Liberty Utilities OB at 31.

<sup>67</sup> *Id.*

Water, the Facilities and Fleet Supervisor II manages the maintenance of office buildings and fleet.<sup>68</sup>

Cal Advocates argues Park Water's request for an additional Facilities Manager position is duplicative. They contend that the requested Facilities Manager position duties are currently spread among and performed by other positions including the Operations Supervisor - Field Services and the Supervisor of Customer Care.<sup>69</sup> Cal Advocates argues that authorizing an additional Facilities Manager position would therefore be an unreasonable expense to ratepayers. Ratepayers would have to pay twice for a position that is already being performed through other positions at Liberty.<sup>70</sup> Cal Advocates notes that Liberty's job description for the position in response to data requests states, "assures capital projects, operation projects are handled by facilities team with outstanding customer service."<sup>71</sup>

According to Liberty, the proposed Facilities Manager position does not overlap with other existing unique and different positions (Customer Care Supervisor, Field Service Supervisor, and Facilities & Fleet Supervisor) that Cal Advocates points out and uses as a basis for denying Liberty's request.<sup>72</sup>

The Commission rejects Park Water's request to add a Facilities Manager position to its workforce because Park Water fails to persuasively justify a need for the position in such a way that it would be distinguishable from the existing Supervisor II, Facilities and Fleet position. Liberty failed to sufficiently explain

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<sup>68</sup> *Id.*

<sup>69</sup> Cal Advocates OB at 63.

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> *Id.* at 32.

how the Facilities Manager position differs from other existing positions. Having failed to provide sufficient information on the job duties for Park Water's requested Facilities Manager position and how the funding of the position would be a reasonable expense to impose upon ratepayers, the Commission cannot authorize rates to fund the position at this time.

In any future request to authorize rates to fund a Facilities Manager position, Liberty must provide a clear explanation of the position's job duties, an allocation of the costs, and the location of the position.

#### **6.2.2.2. Facilities Manager Apple Valley Ranchos**

Liberty proposes a Facilities Manager position for both Park Water and Apple Valley Ranchos. Liberty provides the same rationale in support of the Facilities Manager position for Apple Valley Ranchos as it offered for Park Water. Cal Advocates presents the same concerns in opposition. Based on the identical analysis used for Park Water, the Commission rejects Liberty's request for a Facilities Manager position for Apple Valley Ranchos.

#### **6.2.2.3. Senior Manager, Engineering - Park Water**

Cal Advocates argues that the Commission should remove the [existing] senior manager position from the TY 2025 Park Water payroll forecast because the position does not serve Park Water customers.<sup>73</sup> The discovery process revealed that Park Water submitted an incorrect job description for the position.<sup>74</sup> Liberty acknowledged that it inadvertently submitted the wrong job description for the senior manager position in response to Cal Advocates' data

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<sup>73</sup> *Id.*

<sup>74</sup> *Id.*

request.<sup>75</sup> Liberty later submitted the correct job description in its Rebuttal testimony.<sup>76</sup> According to Liberty, the position “serves as an essential role in planning and designing facilities, project management, construction administration, and supervising, training, and recruiting engineering personnel.”<sup>77</sup> Park Water needs to add a senior manager engineering position to its workforce.<sup>78</sup>

After clarifying and correcting its request, we find that Park Water has justified its need for the new Senior Manager, Engineering. Cal Advocates’ position that the Commission should not consider Park Water’s position request because it initially filed an incorrect response to Cal Advocates’ data request is rejected. The Commission may review all timely submissions that allow it to make a sound and reasonable decision in its proceedings. While we encourage utilities to carefully review the information provided in response to any data request, it is also important to encourage corrections when errors are identified. Here, we note that Park Water promptly corrected its September 23, 2024, response in its Rebuttal testimony by providing Cal Advocates and the Commission with accurate information to consider on September 27, 2024, four days later. Park Water inadvertently erred by failing to include attachments to its September 23, 2024, Rebuttal testimony, which it should be allowed to and did promptly correct.

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<sup>75</sup> Liberty Utilities OB at 32.

<sup>76</sup> *Id.*

<sup>77</sup> *Id.*

<sup>78</sup> *Id.*

### **6.2.3. Transmission & Distribution (T&D) Operating Meter Expenses**

Park Water's Test Year forecast of Transmission & Distribution (T&D) Operating Meter Expenses in the Other - T&D Meter Exp account (7717.663) includes meter-related operations and maintenance costs and is based on a five-year average of recorded costs from 2019 to 2023.<sup>79</sup> Park Water argues that Cal Advocates is excluding two specific years (2019 and 2023), based on Cal Advocates' belief that Park Water experienced atypical levels of failure with Automatic Meter Reading (AMR) registers requiring an outside contractor to assist with addressing meters during those two years.<sup>80</sup> According to Park Water, Cal Advocates incorrectly assumes that the level of expenses seen in 2019 and 2023 will not recur, and meter failures are unanticipated and cannot be readily projected.<sup>81</sup>

Cal Advocates argues that the Commission should exclude from rates Park Water's request to replace all meters in this GRC when Park Water can continue repairing the existing meters under warranty.<sup>82</sup>

We agree with Park Water's assertion that Cal Advocates' position runs counter to longstanding Commission guidance that a historical average should be used for accounts that have significant fluctuations in recorded expenses from year to year, or which are impacted by external forces beyond the utility's control.<sup>83</sup> Park Water argues that, given the multiple years it incurred non-labor

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<sup>79</sup> *Id.* at 31.

<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

<sup>82</sup> Cal Advocates Reply Brief at v.

<sup>83</sup> *Id.*

costs to address aging meters and AMR register failures, Park Water's use of a five-year average of recorded costs from 2018 to 2022 is reasonable and should be adopted.<sup>84</sup>

Based upon the expertise and experience as presented in the witness qualifications declaration of Liberty's expert witness, James P. Elliott<sup>85</sup>, who provided Rebuttal testimony on Liberty's aging meters, the Commission concludes that the likelihood of continued meter failures and the need for external consultants remains.

The Commission agrees with Park Water's rationale. As a result, we find Liberty's use of recorded costs from 2018-2022 reasonable and adopt Liberty's methodology for forecasting meter-related operations and maintenance costs. It is not reasonable to selectively edit out an individual year's data. Cal Advocates failed to provide a basis to support using a single year. Over time, those years will drop out of the 5-year average and subsequent data will reflect the ongoing trend of expenses.

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<sup>84</sup> *Id.*

<sup>85</sup> Liberty Utilities OB at 30, 37-38; Ex. LIB-27; and Ex. LIB-28 at Attachment 6. Liberty expert witness, James P. Elliott, offered Rebuttal testimony on the issue of aging meters for Park Water and Apple Valley Ranchos. Elliott is the Senior Manager, Engineering for Liberty Utilities who is a registered professional civil engineer in the State of California. He is a Grade 2 Water Distribution Operator with over 38 years of engineering experience. He was hired by Liberty Park Water in 1993 during which time he has developed expertise in areas such as water facility design, master planning, emergency planning, and water system operations and maintenance. As the Senior Manager, Engineering, Elliott is responsible for the planning and design of all facilities, project management, construction administration, and the supervision, training, and recruitment of engineering personnel in southern California.

## 7. Escalation Rates

Escalation rates are used to adjust a forecast made in a base year's dollars for the effects of inflation over time.<sup>86</sup> For example, if a project would cost \$1,000 today, but the work will not occur for two more years, then applying an appropriate escalation rate would give a better idea of the cost in two years. If the expected rate is 3% per year, then in two years the cost would be \$1,061. The Commission has long recognized the need for escalation to cost forecasts and has often resolved disagreements between the utilities and the intervenors on the most reasonable rate(s) to apply.

Park Water proposed a fixed labor escalation rate of 4%, which corresponds with a merit rate increase granted during 2023.<sup>87</sup> Cal Advocates proposes the use of the RCP, which it argues appropriately provides for the adjustment of forecasted expenses. The escalation factor utilized would, in this case, impact the forecasts adopted for the following expense categories: Operations-Other, Customer-Other, Maintenance-Other, Clearings-Other, Outside Services, A&G-Other, and Taxes-Other.<sup>88</sup>

### 7.1. Labor Expense Escalation Factors 2025-2026

For the years 2025 and 2026, Park Water argues its forecast of labor and non-labor expenses includes an annual increase of 4%, which corresponds to the merit increase rate granted during 2023. Pursuant to the RCP, Park Water points

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<sup>86</sup> Any allowance for escalation is separate from any allowance for contingencies. Escalation provides a uniquely different estimate to account for inflation or other increases in costs, whereas a contingency provides a separate allowance for unforeseeable changes to the project.

<sup>87</sup> Liberty Utilities OB at 19; Ex. LIB-27 at 14 and Ex. LIB-28 at 18.

<sup>88</sup> *Id.* at 20.

out that it is permitted to forecast Test Year estimates using any reasonable and appropriate methodology.<sup>89</sup>

Park Water and Apple Valley Ranchos used estimated escalation factors for those expenses where escalation provided the most reasonable estimate and then applied that escalation to recorded expenses over a multi-year period as part of the averaging methodology.<sup>90</sup>

Cal Advocates argues that the Commission should reject Park Water's proposal to use a fixed 4% factor for TY 2025 to escalate labor expenses because Park Water's proposal deviates from the RCP without providing substantiation for the deviation.<sup>91</sup> Cal Advocates argues that Park Water's forecast is unnecessarily inflated and unreasonable. Cal Advocates indicates that in the RCP, the Commission sought to streamline the GRC process by using preapproved rates for certain expenses.<sup>92</sup> Cal Advocates argues that instead of following the Commission's RCP, Park Water proposes to use its own 4% fixed charge, to the detriment of ratepayers. Cal Advocates argues that Park Water's use of a 4% fixed rate starting in 2024 is unsupported with sufficient documentation and, thus, unjustified.<sup>93</sup>

In accordance with the Commission's RCP plan, Cal Advocates published the following escalation rates:

**Table 5:**

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<sup>89</sup> Liberty Utilities OB at 19.

<sup>90</sup> Liberty Utilities OB at 20.

<sup>91</sup> Cal Advocates OB at 39.

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* at 40.

Wage Escalation Rates from 2023-2027<sup>94, 95</sup>  
Year Percentages as of June 2024

Year	Percentages
2023	8%
2024	4.1%
2025	3.2%
2026	2.4%
2027	2.5%

Here, Cal Advocates indicates that instead of using the Commission’s approved escalation factors, Park Water proposes using a flat 4% escalation factor for 2026 and 2027, nearly doubling the Commission’s pre-approved factors. In support of this approach, Park Water argues that the RCP “allows utilities to forecast Test Year estimates using whatever methodology is reasonable and appropriate.”<sup>96</sup> However, Cal Advocates asserts that Park Water does not explain why the flat 4% escalation factor for labor is reasonable and appropriate.<sup>97</sup>

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<sup>94</sup> See D.07-05-062, at A-18 – A-20 (Escalation and Attrition Advice Letter Procedure); Table 5 taken from Cal Advocates OB at 40, Table 5: Non-Labor and Wage Escalation Rates from 2023-2027.

<sup>95</sup> Pertinent aspects of A-19, D.07-05-062 on escalation state, “The most recent memorandum entitled, “Estimates of Non-labor and Wage Escalation Rates” as described in D.04-06-018, shall be used for Escalation Years 1 and 2 rate increase requests and shall be sought by Tier 1 advice letter no later than 45 days prior to first day of the escalation year. The advice letter filing shall include all calculations and documentation necessary to support the requested rate change.”

<sup>96</sup> Liberty Utilities OB at 19.

<sup>97</sup> Cal Advocates OB at 40.

Park Water agreed to a labor increase of 4%, which it characterized in its brief as a “merit increase rate granted during 2023.”<sup>98</sup> It is reasonable for Park Water’s requested labor escalation rate to correspond with its contractually obligated labor expenses. In this case, Park Water agreed to a 4% labor increase, and it would be reasonable for the Commission to allow a corresponding escalation rate increase of 4%, absent consideration of other factors. For this reason, the Commission adopts Park Water’s proposal to apply a fixed 4% escalation rate for labor expense escalation for TY 2025, and Attrition Years 2026 and 2027.

## **7.2. Non-Labor Expense Escalation Factors 2025-2026**

Although Liberty requests that a fixed rate of 4% be imposed on non-labor expense escalation for both Park Water and Apple Valley Ranchos, Liberty presents insufficient information in support of the request, other than the agreement to a 4% merit increase rate granted during 2023. Liberty points out that although they agreed “that the current non-labor escalation factors available at the time the Joint Comparison Exhibit is being prepared should be applied”, it indicates that the methodology including this and proposed by Cal Advocates “is specific to the escalation year advice letter process where the adopted Test Year expenses are increased by the certain escalation factors and customer growth”, and was not consistently applied for all the years utilized in calculating non-labor expense forecast based on a five-year average methodology.

Liberty accepted Cal Advocates’ recommendation for non-labor escalation factors, which was influenced by the Results of Operation Model that Liberty provided to Cal Advocates. Liberty failed to present sufficient evidence to

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<sup>98</sup> Liberty Utilities OB at 19.

support a fixed 4% escalation rate. As a result, the Commission adopts Cal Advocates' proposed escalation factor calculation, calculated by taking 2023 recorded costs of Liberty's five-year average forecast and escalated by the Commission approved escalation factors.

Similarly for Attrition Years 2026 and 2027, the Commission adopts the Water Division's Energy Cost of Service Branch (ECSB) memo which presents the appropriate escalation rates.<sup>99</sup>

The Commission adopts Cal Advocates' recommendation to use the Commission's pre-approved escalation factors, per the Commission's RCP for Liberty's non-labor expense escalation expenses: Operations-Other, Chemicals, Customer-Other, Maintenance-Other, Clearings, Employee Benefits, Insurance, Outside Services, A&G-Other, and Taxes.

### **7.3. Escalation Factors**

#### **7.3.1. Forecast of 2026 Expenses for Park Water and Apple Valley Ranchos**

Based on the identical analysis used for Park Water, the Commission adopts the same escalation factors as ordered for non-labor expense escalation expenses for Park Waters's and Apple Valley Ranchos' business, medical, dental and vision Insurance. The companies' Test Year period in this GRC uses a fiscal year of July 1, 2025, through June 30, 2026, rather than the 2025 calendar year.<sup>100</sup> The Commission adopts an average of the forecasts for those calendar years (2025 and 2026) in those categories of expenses as they are necessary to develop an accurate project of the applicable Test Year period.<sup>101</sup>

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<sup>99</sup> *Id.* at 41.

<sup>100</sup> Liberty Utilities OB at 20.

<sup>101</sup> *Id.* at 20.

Uncollectible Expense Rate for Park Water and Apple Valley Ranchos.

The applicants propose a rate of 0.84% for the uncollectible expense rate for Park Water and a rate of 0.73% for Apple Valley Ranchos, both of which include a 50% adjustment for Senate Bill 998 the Water Shutoff Protection Act (SB 998).<sup>102</sup> The bill provides 79 days from the date of mailing of bill for services for residential customers to make payment prior to disconnection of water service. Accordingly, an upward adjustment of 50% reflects the reasonable expectation that residential customers will carry larger unpaid account balances than in previous years leading to higher uncollectible expenses.<sup>103</sup>

Cal Advocates proposes an authorization of a 0.56% uncollectible expense rate for Park Water and 0.49% for Apple Valley Ranchos, as the rates for uncollectible expense for TY 2025. These rates are the average ratio of uncollectible expense to revenue for 2018-2022, representing five-years of recorded data.<sup>104</sup>

According to Cal Advocates, the rate that the applicants propose increasing the Uncollectible rate by 50% is unreasonable because the effects of SB 998 remain to be seen as Governor Newsom's Executive Order N-42-20 suspended implementation of SB 998 due to the COVID-19 pandemic and Cal

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<sup>102</sup> Under SB 998, starting February 1, 2020, the requirements and procedures for discontinuation of residential water service for non-payment were significantly changed, including affording residential customers a total of 79 days from the date of mailing of bill for services to make payment prior to disconnection of its water service.(citing, Liberty Opening Brief at 21; and Ex. LIB-02 at 51 and Ex. LIB-15 at 48-49).

<sup>103</sup> *Id.* at 21.

<sup>104</sup> Cal Advocates OB at 43.

Advocates argues that Liberty did not provide support or analysis for estimating a 50% increase in the uncollectible rate.<sup>105</sup>

The applicants have made an unsubstantiated proposal for the 50% uncollectible rate increase, and, coupled with Cal Advocates' assertion that the implementation of SB 998 has been suspended, good cause exists for rejecting their proposal and adopting Cal Advocates' proposal which appears to be based upon reliable historical data. As such, the Commission authorizes a 0.56% uncollectible expense rate for Park Water and a 0.49 expense rate for Apple Valley Ranchos.

### **7.3.2. Water Conservation for Park Water and Apple Valley Ranchos**

Both Park Water and Apple Valley Ranchos' Water Use Efficiency Plan (WUEP) were updated in 2023 to forecast program needs to continue providing customers with effective and efficient programs that help save water, assist with affordability, and comply with recent conservation regulations.<sup>106</sup> Their forecasts for conservation program expenses are based on 20 conservation programs that are either currently in effect or planned for the Test Year.<sup>107</sup> The programs are detailed in the applicants' WUEP.<sup>108</sup> Both companies currently implement 13 conservation measures listed in the WUEP.<sup>109</sup> Park Water and Apple Valley

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<sup>105</sup> *Id.* at 44.

<sup>106</sup> *Id.* at 22.

<sup>107</sup> *Id.* at 22.

<sup>108</sup> *Id.*

<sup>109</sup> Liberty Utilities OB at 22 – 23, “water loss, water waste enforcement, landscape and irrigation residential hot water recirculating pump rebate, residential and commercial outdoor survey, residential water budgets, residential and commercial drip irrigation kits, residential weather-based irrigation controllers, residential fixture distribution, commercial weather based irrigation controller, and, for Liberty Park Water only, an emergency leak repair program.”

Ranchos propose seven additional conservation measures planned for customer assistance and regulatory compliance including, 1) residential turf removal, 2) commercial turf removal, 3) spray rinse nozzle distribution, 4) school landscape equipment retrofit, 5) commercial incentives, 6) surveys and equipment replacement, and 7) high efficiency urinal direct install for a total of 20 conservation programs for the test year.<sup>110</sup> Based on the 20-program water conservation proposal, \$423,138 would be allocated to Park Water and \$407,681 to Apple Valley Ranchos for water conservation expenses for TY 2025.<sup>111</sup>

Cal Advocates recommends that the Commission adopt water conservation expenses using a five-year average recorded costs escalated to TY 2025 using the Commission-approved ECOS memorandum.<sup>112</sup> Using this methodology, Cal Advocates argues that \$245,807 would be allocated to Park and \$188,949 to Apple Valley Ranchos for water conservation expenses.<sup>113</sup> Cal Advocates opposes basing water conservation expenses on 20 conservation programs because it argues that Park Water and Apple Valley Ranchos only pursued seven of the 20 proposed programs consistently between 2018 and 2022.<sup>114</sup>

The Commission rejects Cal Advocates' proposal and adopts Park Water and Apple Valley Ranchos' proposal to base water conservation expenses on its proposed 20-program water conservation plan. The explanation that during 2020 and 2021, the water utilities had to pause multiple state-mandated

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<sup>110</sup> *Id.*

<sup>111</sup> Joint Response to ALJ Ruling Requiring Additional Information at 2 and 6.

<sup>112</sup> Cal Advocates OB at 46.

<sup>113</sup> *Id.*

<sup>114</sup> Cal Advocates OB at 46.

conservation programs due to safety protocols instituted by the state to minimize the spread of COVID-19 amongst its customers and employees is a plausible explanation for why it pursued only seven of the 20 proposed conservation programs between 2018 and 2022. Moreover, the applicants' forecast provides a more reasonable estimate of the costs associated with conservation programs during the TY and provides customers with effective and efficient programs that help save water, assist with affordability, and comply with recent conservation regulations.<sup>115</sup>

### **7.3.3. Mailing Service Expenses for Park Water and Apple Valley Ranchos**

The applicants' Test Year forecast for mailing service expenses is based on a five-year average of recorded costs from 2019 to 2023. Cal Advocates concurs with the use of this methodology but adds an additional 18% reduction to account for paperless bill savings. Liberty rejects Cal Advocates' reduction because its own evidence showed that the percentage of customers who signed up for paperless billing from 2019 through May 2024 remained relatively flat. Cal Advocates failed to present evidence to refute this. We agree with Liberty's assertion that Cal Advocates fails to support a reduction for mailing service expenses because it failed to show an increasing trend of customers seeking paperless billing. Additionally, given the flat level of customer participation to date, any savings associated with paperless billing have already been captured in the historic costs used to derive the forecast. Accordingly, the Commission rejects Cal Advocates' proposed reduction and accepts Liberty's proposal to base mailing expenses on Liberty's forecast of five-year average recorded costs from 2019 to 2023, with no reduction in amount to account for paperless billing.

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<sup>115</sup> Liberty Utilities OB at 22; and Ex. LIB-27 at 17 and Ex. LIB-28 at 21.

#### **7.3.4. Regulatory Commission Expenses for Park Water and Apple Valley Ranchos**

A ruling dated October 28, 2024, admitted Liberty's September 27, 2024, and October 8, 2024, Errata, which included Liberty's missing attachments to its September 23, 2024, Rebuttal testimony and redlines of the testimony.<sup>116</sup>

According to Liberty, attachment 6 of the missing attachments included data responses in support of its Regulatory Commission Expenses budget for TY 2025.<sup>117</sup> As such, the Commission reviewed and considered Liberty's data responses on its Regulatory Commission expenses in support of its forecast for these expenses for TY 2025.

Park Water and Apple Valley Ranchos both seek approval for expenses related to regulatory compliance and interactions with the Commission. Liberty forecasts expenses of \$207,598 for 2025-2026 for Park Water and \$166,116 for 2025-2026 for Apple Valley Ranchos.<sup>118</sup> Liberty argues that the forecasts include outside costs associated with Commission proceedings, including General Rate Case and Cost of Capital proceedings. Liberty also argues that its forecasts are based on the last proceedings recorded costs escalated to the Test Year, plus anticipated consulting costs associated with sales and customer forecasts, rate design, working capital, and updates to the Water Use Efficiency Plan (WUEP).

Cal Advocates proposes that the Commission approve a lower budget for regulatory Commission expenses of \$103,668 for Park Water and \$82,953 for

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<sup>116</sup> October 28, 2024, ALJ's E-Mail Ruling on Cal Advocates' Motion to Strike Liberty Utilities' Errata.

<sup>117</sup> October 18, 2024, Liberty Utilities' Joint Response to Motion of the Public Advocates' Office to Strike Liberty Utilities' Correction to Rebuttal Testimony.

<sup>118</sup> See, Suburban's Opening Brief at 54-55; Reply Brief at 45-46; Exhibits 15 at 16-18; 26 at 146-184; and 37 at 47:20.

Apple Valley Ranchos, as approved in the prior 2019 GRC, because it argues that Liberty's Data Responses, particularly as it related to its WUEP were unreasonable and do not support the costs for producing the WUEP. In addition, Cal Advocates argues that a 2014 invoice Liberty produced in support of its recorded costs for TY 2025 did not substantiate any of its recent recorded costs used as part of its TY 2025 forecasts. Moreover, Cal Advocates rejects the consideration of Liberty's Data Request responses on this issue, which includes invoices dated July 2, 2021, and May 4, 2021, totaling \$24,999, because it argues that it is new information that Liberty withheld from it during discovery.

Liberty has the right to recover reasonable expenses associated with regulatory Commission expenses, which, in this case, Liberty argues includes outside costs associated with Commission proceedings, including General Rate Case and Costs of Capital proceedings. Specifically, Liberty's forecast included the last proceedings' (2019) recorded costs escalated to the Test Year plus anticipated consulting costs associated with sales and customers forecasts, rate design, working capital, and updates to WUEP. In review of these expenses, there is no indication that Liberty engaged in unreasonable actions or included unreasonable events in support of the expenses. Liberty is entitled to recover reasonable costs associated with being regulated. Cal Advocates' request that the Commission ignore Liberty's invoices because they were produced after Liberty's Rebuttal testimony was ruled upon in the ALJ's October 28, 2024, Ruling, and deprives the Commission of the opportunity to consider all information in determining a reasonable revenue requirement and rate design for this proceeding. The Commission rejects Cal Advocates' proposal for Liberty's TY 2025 Regulatory Commission expense budget. The Commission has reviewed and considered Liberty's rebuttal testimony, including all of its data

responses in support of its Regulatory Commission expenses. We adopt Liberty's Regulatory Commission Expense forecast for TY 2025 in its entirety.

### **7.3.5. Merit and Short Term Incentive Pay for Park Water and Apple Valley Ranchos**

Park Water and Apple Valley Ranchos' compensation model consists of two main components – base wages and at-risk compensation.<sup>119</sup> According to Liberty, its pay philosophy is to set pay at P50 of market (50<sup>th</sup> percentile of market).<sup>120</sup> Liberty performed a market review of total remuneration utilizing standard roles, benchmarked against the market median compensation or P50 of market. Liberty states the market review considered total compensation, including base pay and Short Term Incentive Pay (STIP), which are part of the overall compensation structure.<sup>121</sup>

Park Water and Apple Valley Ranchos' merit-based compensation system for each employee is based on a budget allocated to the respective department, employee performance and related rating, and the employee's salary relative to the wage band applicable for their position.<sup>122</sup> Park Water and Apple Valley Ranchos' STIP-based compensation system is based on prudent fiscal management, continuous improvement, and efficient operations, which inure benefit to all stakeholders, including customers.<sup>123</sup> Absent "at-risk" compensation in the form of STIP, Park Water and Apple Valley Ranchos would have to increase base wages to account for the absence of STIP for Park Water

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<sup>119</sup> Liberty Utilities OB at 25.

<sup>120</sup> *Id.*

<sup>121</sup> *Id.*

<sup>122</sup> *Id.* at 26.

<sup>123</sup> *Id.*

and Apple Valley Ranchos to maintain 50<sup>th</sup> percentile of market of compensation.<sup>124</sup>

Cal Advocates recommends the Commission disallow both STIP and merit-based payments provided in Liberty's market review, arguing that the methodology for Merit is not consistently applied based on performance rating.<sup>125</sup> Cal Advocates also argues for disallowance of STIP and merit based pay on the premise that Liberty ties STIP compensation to meeting targets that either benefit shareholders rather than ratepayers or are targets that are already Commission standards.<sup>126</sup> But Cal Advocates does not offer a compensation proposal to achieve market-median pay in base salaries, it only deletes that portion of the compensation package which is necessary to achieve market parity to attract and retain employees.

Cal Advocates argues against incentives tied to, for example, the company earning its authorized rate of return. The rationale is that earning the return benefits shareholders not ratepayers. This is a simple view true on the surface. It could also be argued that by controlling expenses and staying within capital budgets it leads to earning the authorized return and by controlling costs it benefits customers as well. The important point is whether the incentives are correctly structured to benefit both ratepayers and shareholders. Here, we agree with Cal Advocates that the specific incentives need to be thoroughly revised and justified in detail in the next GRC. We need Park Water and Apple Valley

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<sup>124</sup> *Id.* at 27.

<sup>125</sup> Cal Advocates OB at 50.

<sup>126</sup> *Id.*

Ranchos to either propose a total compensation package<sup>127</sup> reasonable to the local job market and the need for a well-trained and stable workforce without incentives or a total compensation package reasonable to the local job market and the need for a well-trained and stable workforce that has robust and reasonable incentive components. We are not prepared to consider in the next GRC that the compensation package is simply consistent with prior packages or even that it is similar to packages Algonquin offers in any other affiliate.

We find Liberty's philosophy of setting pay at P50 of market plus STP and merit-based payments to be a reasonable forecast of labor costs for this proceeding. Liberty asserts that compensating employees fairly is critical to attracting and retaining qualified personnel who are knowledgeable about industry standards and specific Liberty systems to serve customers effectively and efficiently.<sup>128</sup> Based on the evidence Liberty provided in its market study, we limit STIP to the P50 of market STIP percentages set forth in the market study. If a P50 of market STIP percentage is specified for a specific position, then the STIP for the position shall be limited to the specified percentage. If a P50 of market STIP percentage is not specified for a specific position, then the STIP for the position shall be limited to the average P50 of market STIP target for the relevant grade of the position.

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<sup>127</sup> Total compensation is the full value of everything an employer provides to an employee, including base salary, bonuses, commissions, health insurance, retirement contributions, paid time off, and perks like gym memberships, representing the entire financial package beyond just take-home pay. It helps employees see the true worth of their job and assists employers in creating competitive offers and retaining talent by valuing all forms of remuneration, direct cash and indirect benefits alike.

<sup>128</sup> Liberty Utilities OB at 43.

We will adopt Liberty's Merit and STIP methodology as a reasonable forecast of compensation for TY 2025. We also order that Park Water and Apple Valley Ranchos must justify, through a detailed and comprehensive explanation, a total compensation package that is reasonable to the local job market and the need for a well-trained and stable workforce.

### **7.3.6. Medical, Dental, Vision Insurance Benefits for Park Water and Apple Valley Ranchos**

For insurance premium costs, Liberty utilized recorded costs based on 2023 insurance premiums, forecasted an annual increase of 9% in 2024, 12% in 2025, and 9% in 2026, and averaged the totals to derive the Test Year forecast. The forecast increases are reasonable considering Liberty's premiums increased by an average of 16% from 2022 to 2024, and, comparing 2022 to 2024 directly, Liberty's premiums have increased by approximately 34%.

Park Water and Apple Valley Ranchos' Test Year forecast for medical, dental, and vision insurance costs was calculated based on rates anticipated to be in effect as of January 1, 2025, along with 5% annual increases.<sup>129</sup> The cost of healthcare is escalating at a materially higher rate than the consumer price index for all urban consumers (CPI-U).<sup>130</sup> Park Water and Apple Valley Ranchos' 5% increase is relatively modest in comparison to historic averages.<sup>131</sup>

Cal Advocates recommends using the CPI-U ECOS escalation factors to forecast the insurance premium expense. Liberty, however, makes a reasonable argument that insurance premiums have risen faster than inflation and are influenced by factors such as industry risk, claim history, business size and

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<sup>129</sup> Liberty Utilities OB at 28.

<sup>130</sup> *Id.*

<sup>131</sup> *Id.*

revenue, location, coverage limits, asset values, number of employees, and economic conditions. As such, the actual premium increases experienced by Liberty in recent years form a more reasonable basis to project future year increases.

The Commission rejects Cal Advocates' recommendation and adopts Liberty's forecast of insurance premium expenses as requested. Liberty's argument for calculating forecasted insurance costs is reasonable. As such, the Commission adopts Liberty's forecast for medical, dental, and vision insurance costs, using rates anticipated to be in effect as of January 1, 2025, along with 5% annual increases as requested.

**7.3.7. Travel, Business Meals, Office Supplies, Employee Membership for Park Water and Apple Valley Ranchos**

Liberty seeks reimbursement for the expense categories of travel, lodging, miscellaneous, business meals, office supplies, and employee membership for its 2025 TY budget. Liberty argues that it submitted sufficient documentation in support of these expenses.

Cal Advocates argues that the Commission should exclude travel, business meals, office supplies, employee memberships – including limousine services, donations to charity, golf club memberships, and Poker and Casino Night that it argues do not benefit ratepayers.<sup>132</sup> Cal Advocates argues that these expenses should be disallowed because they are unreasonable, bear no relation to the provision of service, and offer no customer benefit.<sup>133</sup> Moreover, Cal Advocates argues that these expenses are not supported by sufficient documentation.

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<sup>132</sup> Cal Advocates OB at xi. and 58.

<sup>133</sup> Cal Advocates OB at 58.

The Commission agrees with Cal Advocates. Liberty is not entitled to recover employee expenses and miscellaneous expenses that do not benefit ratepayers in the course of being regulated. In this case, Liberty's expenses for travel and business meals appear to be self-promoting in nature and unreasonable rather than those types of expenses that would directly or indirectly benefit ratepayers. Cal Advocates argues that Liberty should receive \$0 allocated to travel, etc. for TY 2025 and the attrition years. The Commission agrees with Cal Advocates' assertion and authorizes Liberty \$0 for this category.

### **7.3.8. Telemetry Account – General Office for Park Water and Apple Valley Ranchos**

According to Liberty, the Telemetry Account includes costs associated with telemetry, network, internet, SCADA phone lines, and wireless plans for cell phones. Although formerly recorded in O&M Account No. 7011.9, Liberty argues that it accepted Cal Advocates' recommendation to forecast the Telemetry accounts for Liberty Park Water and Apple Valley Ranchos under General Office expenses based on the change in recording practices beginning in 2021.<sup>61</sup> However, Liberty's forecast of the expenses is based on an average of the two most recent recorded years (2021-2022) consistent with the timing of the change in accounting practice for telemetry expenses.<sup>62</sup> Cal Advocates applied a five-year average of recorded costs to derive its forecast despite the change in accounting practice not occurring until 2021.

We find it reasonable to adopt a five-year average for this account with a \$53,244 deduction to Park Water's initially reported 2024 recorded expense and a deduction of \$9,130 to Apple Valley Ranchos' 2024 recorded expense for Liberty's forecasted 2025 Telemetry account budget. As Cal Advocates asserts, the five-year average methodology is consistent with the rest of the General

Office expenses methodology, and the five-year average methodology ensures that there is an accurate capture of reasonably recorded expenses, and should be adopted. The Commission agrees that telemetry should not be segregated with its own forecasting method.

### **7.3.9. General Office for Park Water and Apple Valley Ranchos**

Park Water and Apple Valley Ranchos are indirectly owned by Algonquin Power & Utilities Corp. (Algonquin), as previously noted. In providing service to their customers, Park Water and Apple Valley Ranchos receive a suite of necessary and essential corporate services from Algonquin, Liberty Utilities (Canada) Corp. (“LUC”), and Liberty Utilities Service Corp. (“LUSC”). As the ultimate corporate parent, Algonquin provides financial management, strategic management, corporate governance, administrative, and support services to Liberty Utilities, Liberty Power, and its international utilities in Chile and Bermuda. Algonquin is a publicly traded holding company and provides substantial benefits to its regulated utilities and generation facilities through executive management, access to capital markets, the issuance of long-term debt and equity, and access to short-term credit facilities. Park Water and Apple Valley Ranchos also receive shared corporate services from LUC and LUSC, including services through the Liberty Algonquin Business Services (“LABS”) business unit.

Park Water’s General Office expenses are allocated to Park Water’s Central Basin Division and Apple Valley Ranchos according to the Algonquin CAM allocation factors. The General Office Reports submitted with both Park Water’s and Apple Valley Ranchos’ GRC applications discuss the relevant allocation factors. Liberty’s general office expenses include three key shared services

groups -- California Water Operations, California Water & Electric Operations, and West Region shared services, each with its own cost allocation factor. Utilizing these allocation factors, Liberty developed its Test Year General Office forecast for Park Water and Apple Valley Ranchos based on anticipated headcount and non-labor expenses that are expected for this rate cycle, escalated to 2025 dollars. Incremental expenses include IT system maintenance expenses related to the Customer First project deployed in May 2023, cybersecurity-related maintenance expenses, an expanded supplier diversity program, customer credit card fees, and additional general office headcount.

Cal Advocates recommends a 58% reduction to both utilities' Test Year General Office forecast based upon its utilization of a five-year average of historical recorded costs from 2019-2023.

Liberty argues that Cal Advocates ignores all necessary incremental costs, resulting in an understated forecast. Liberty also argues that, beyond Cal Advocates' methodology failing to consider incremental costs forecast during Test Year, Cal Advocates' recommended forecast does not accurately escalate recorded costs and uses a flawed allocation factor.

The utilities argue that the Commission should compare the 2022 TY period authorized expenses to the 2023 recorded expenses. The comparison shows that both Park Water and Apple Valley Ranchos recorded General Office expenses higher than the authorized amount for the 2022 TY period. We do not agree with Cal Advocates that the utilities' forecasts would result in unreasonable rates for Park Water or Apple Valley. We find the utilities' forecasts are reasonable, reflecting recent actual expenditures, and we therefore adopt a TY forecast using CAM allocation factors and anticipated headcount and non-labor expenses expected for this rate cycle, escalated to 2025 dollars.

### **7.3.10. Customer First Project Capital Request for Park Water and Apple Valley Ranchos**

Liberty argues that the Commission approved its Customer First project as part of both Park Water's and Apple Valley Ranchos' 2022 GRCs as a multi-year, phased project to improve Liberty's legacy computer systems. The Customer First project, among other things, upgrades customer information systems to enhance customer service by providing customers options to receive communications from Liberty through online, text, mobile application, or in-person options, and implements new digital tools that allow customers to control real-time usage. According to Liberty, the total project costs are collected at the corporate level and allocated to Liberty's subsidiaries based on an allocation methodology in accordance with the Algonquin CAM. The final phase of the Customer First project was not completed until April 2024. Liberty argues that the forecast was based on an allocation of the estimated total project costs at the time the current GRC Applications were filed in January 2024.

Cal Advocates recommends that costs associated with the Customer First project be disallowed because Liberty failed to sufficiently support the requests with documentation of the expense, which Cal Advocates argues totals \$16,193,308. Cal Advocates points to Liberty's March 25, 2024, data response to its request for information on the expense, "[t]he authorized amount of \$16,193,308 was an estimated total amount agreed upon between Cal Advocates and Liberty as a whole for the Customer First project. As such, there is no line-item breakdown of that estimated amount." Cal Advocates argues that Liberty's April 11, 2024, supplemental response to the request was a "transaction analysis" that failed to explain the costs associated with the Customer First IT project.

The Commission adopts Liberty's forecasts for the Customer First IT project using total project costs collected at the corporate level and allocated to Liberty's subsidiaries, Park Water and Apple Valley Ranchos, based on an allocation methodology in accordance with the Algonquin CAM. Liberty's rationale that the project has now been completed and is used and useful and the Customer First project costs included in rate base correspond to the amount authorized in the 2022 GRC decision, supports the use of this methodology. As such, the Commission rejects Cal Advocates' recommendation to disallow costs associated with the Customer First project and adopts Liberty's forecast for this expense.

#### **7.3.10.1. Customer First Annual Maintenance Costs for Park Water and Apple Valley Ranchos**

As previously discussed, the Customer First project was implemented for Park Water and Apple Valley Ranchos in May 2023. The Customer First project was an enterprise-wide, multi-year implementation to replace and improve legacy computer systems for all the Algonquin utilities, including Park Water and Apple Valley Ranchos. The project estimates used to forecast costs are based on an allocation of those estimates. The utilities state that they require an allocated share of operating and maintenance expenses related to Customer First, which includes annual support fees, software maintenance, hosting, and managed services on an annual basis. Park Water and Apple Valley Ranchos' forecast for these costs was developed based on the estimated allocation of the Customer First O&M expenses. Cal Advocates, on the other hand, believes that the entire Customer First IT project is unreasonable and argues that the Commission should exclude the project's associated O&M Annual Maintenance

Costs of \$774,548 or the proposed depreciation expense of \$976,366.

It is not disputed that these costs will be incurred and recorded by Liberty during this GRC cycle. The Commission rejects Cal Advocates' recommendation that O&M Annual Maintenance Costs be denied. We adopt instead Park Water and Apple Valley Ranchos' proposed O&M Annual Maintenance Costs based on an allocated share of operating and maintenance expenses related to the Customer First project.

#### **7.3.10.2. Head Office Expenses for Park Water and Apple Valley Ranchos**

As discussed earlier, Park Water and Apple Valley Ranchos' parent company, Algonquin, provides shared services to the utilities. According to them, the forecast for Head Office expenses (indirect labor and non-labor costs) is based on 2022 recorded costs and escalated to the Test Year. Cal Advocates argues that a five-year average of total General Office expenses, calculated by Liberty's last allocation factor of 57.6% and escalated to TY 2025, should be used rather than the last recorded year because customers are paying more than their fair share. Cal Advocates points out that the TY 2025 forecast of \$3,556,295 is an increase of \$841,633 over the prior TY 2022 forecast of \$2,714,662. In other words, a 31% increase in only 3 years.

Cal Advocates argues that Liberty's average customer sales growth from 2019 to 2023 has been stagnant at a mere 0.62% and, as such, would not support a 31% increase in Head Office Expenses absent a commensurate increase in customer sales growth. Absent such growth, Cal Advocates argues it is unreasonable for Liberty to expect ratepayers to absorb this expense. Cal Advocates proposes a five-year average of total General Office expenses,

allocated by Liberty's last allocation factor of 57.6%, and escalated to TY 2025 for this forecasted expense.

Park Water and Apple Valley Ranchos argue that Algonquin has grown and increased the services it provides on a shared basis, while the total costs to serve Park Water and Apple Valley Ranchos customers have not increased at the same rate. The Commission adopts Park Water and Apple Valley Ranchos forecast for Head Office expenses. We agree with the companies that its forecast of Head Office expenses is reasonably based on the last recorded year (2022), consistent with the increasing trend over the historic period.

#### **7.3.10.3. Credit Card Fees for Park Water and Apple Valley Ranchos**

According to Park Water and Apple Valley Ranchos, the 2022 GRC decision, D.23-02-003, authorized credit card fees to be included in Liberty Park Water and Liberty Apple Valley's cost of service. With the implementation of the Customer First project, credit card fees incurred for the enterprise are allocated to General Office. Liberty based its forecast of credit card fees on annualization of the recorded fees from July 2023 through July 2024 and adjusted that figure upward for 10% inflation and growth, resulting in a total credit card fee forecast of \$248,075 for the Test Year.<sup>63</sup>

Cal Advocates argues that the Commission should consider credit card fees as part of the overall General Office expense, rather than individually within Head Office expense. Cal Advocates includes credit card fees in its overall recommendation for the Commission to take the five-year average of GO expenses escalated to TY 2025 and then allocate using the Commission's last authorized allocation factor of 57.6%.

In D.23-02-003, the Commission authorized including credit card fees in

Liberty Park Water and Apple Valley's Ranchos' cost of service. In this proceeding, the Commission again adopts a credit card fee based on annualization of the recorded fees from July 2023 through July 2024, adjusted upward by a 2024 inflation rate of 10%. The Commission authorizes a total of \$248,075 for credit card fees forecast for the Test Year.

#### **7.3.10.4. Replenishment Make-Up Assessment Expenses for Apple Valley Ranchos Only**

Apple Valley Ranchos incurs Replenishment Make-up Assessments in connection with its water production from the Mojave River Basin.<sup>134</sup> Apple Valley Ranchos forecast of the Replenishment Make-up Assessment Expenses is based on a two-year recorded average with an estimated unit cost of \$35 per AF for its makeup water obligation, resulting in a total make-up water expense of \$33,024 annually for years 2025, 2026 and 2028.<sup>135</sup> Apple Valley Ranchos' forecast for makeup water obligation utilizing a two-year recorded average with an estimated unit cost of \$35 per AF is based on more current data than Cal Advocates' estimated unit cost that utilized a five-year average.<sup>136</sup> Apple Valley Ranchos' forecast utilizing \$35 per AF is reasonable and is adopted.

### **8. Utility Plant – Common Issues For Park Water and Apple Valley Ranchos**

In this section, we address Park Water and Apple Valley Ranchos' previously authorized projects and specific proposals for eleven new utility plant items. We also address the appropriate escalation factors for plant additions, and then we address disputed carryover and new projects. Before we discuss the

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<sup>134</sup> Liberty Utilities OB at 32.

<sup>135</sup> *Id.*

<sup>136</sup> *Id.* at 33.

specific utility plant items for each company, we address the common issues for both companies in section 8, directly below.

For Park Water, we resolve contested issues on the following utility plant items in §§ 8.1.5 to 8.7.3, below:

1. Area 41 and Target Phase 2 Project,
2. Compton East Well,
3. Generators,
4. PFAS/PFOA Treatment – Wells 46C, 41A and 41A VFD,
5. Site and Structure Improvements and Booster Pump Stations (BPS) Electrical Improvements,
6. Recorded Plant – Wells 28D, 4B, 28B, 40D, 41A, and 12C, and
7. Miscellaneous Recorded Plant for Downey Office Building.

For Apple Valley Ranchos, we resolve issues on the following utility plant items listed in the same sections (8.1.5 to 8.7.3), below, as presented on Park Water:

1. Well 34 Building,
2. New Well and Land Purchase,
3. Apple Valley Ranchos Campus Solar Project, and
4. Apple Valley Ranchos Office Building.

## **8.1. Previously Authorized Projects**

### **8.1.1. Background**

In a general rate case, the Commission requires that the applicant sponsor and justify a detailed forecast of specific projects that the utility asserts are necessary for continued safe and reliable service. Park Water and Apple Valley Ranchos are expected to present their best expert opinion of the necessary projects to be pursued and the estimated cost of those projects. Cal Advocates is

expected and allowed to fully investigate through discovery and challenge that forecast and methodology with its own expert testimony.

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

### **8.1.2. Liberty's Position**

Park Water and Apple Valley Ranchos argue that their customers' rates do not include capital costs for uncompleted projects.<sup>137</sup> According to the companies, customers have not been charged for previously authorized projects, and the utilities have not recovered funds related to these projects.<sup>138</sup> Accordingly, "no customer pays for a project until it is completed, added to rate base and starts depreciating."<sup>139</sup>

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<sup>137</sup> Liberty Utilities OB at 34.

<sup>138</sup> *Id.*

<sup>139</sup> *Id.*

The applicants argue that they have completed many higher-priority projects, and they seek to move forward with previously deferred projects. Therefore, Liberty correctly included the forecast expenditures for both utilities.<sup>140</sup> The two applications provided descriptions of capital budget reprioritizations for both utilities.<sup>141</sup> Both companies argue that the Commission should reaffirm its allowance of projects authorized in the prior GRC because no costs associated with deferred projects have been recovered from customers and the companies prudently and reasonably elected to proceed with other capital projects, recording expenditures above amounts authorized for each utility.<sup>142</sup>

Cal Advocates argues that 22 projects were not completed, which had a projected (and adopted) \$9,849,515 in capital costs for Apple Valley and \$26,704,900 in capital costs for Park Water. But Cal Advocates argues as though the company received all of this funding in one rate cycle. We disagree and find that Cal Advocates' argument is invalid. Long term assets' costs are included in rate base and recovered over their useful lives, which could be 10, 20, or more years. While Cal Advocates reasonably identifies a concerning problem of deferrals over several prior proceedings, it fails to address the substitution of more urgent projects. Therefore, Cal Advocates expresses no opinion on whether the substitutions' revenue requirements in total equal, exceed, or fall short of the adopted revenue requirement. If a project is deferred, it does not carry forward to the next general rate case in the beginning balance of net plant in service. In other words, it is not included in the beginning balance for rate base

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<sup>140</sup> Id. at 36.

<sup>141</sup> Id. at 36.

<sup>142</sup> *Id.* at 36.

going forward. Any substituted higher priority project would be included in net plant instead, and Cal Advocates would be expected to review that project and, where appropriate, raise any objections to its continued inclusion in rate base. Park Water and Apple Valley Ranchos would be allowed to request renewed authority to include a previously deferred project in the next rate case, assuming they could still justify the project's construction or acquisition.

### **8.1.3. California Water Association's Position**

CWA is a "friendly" party, i.e., closely aligned with the applicants and represents other water utilities' joint interests in many issues, including Cal Advocates' ongoing objections to recovery for carry-over projects. It supported Park Water and Apple Valley Ranchos' position.

### **8.1.4. Cal Advocates' Position**

Cal Advocates opposes funding any of Park Water or Apple Valley Ranchos' projects previously forecast in prior GRCs but not yet constructed.<sup>143</sup> Cal Advocates presents a long list of projects: funding for 22 projects approved in rates in the previous GRC. Applicants and CWA do not dispute the quantity of carry-over projects, including \$9,849,515 in capital costs for Apple Valley carry-over projects and \$26,704,900 in capital costs for Park's carry-over projects.<sup>144</sup>

Cal Advocates also fails to address Park Water and Apple Valley Ranchos' argument that they substituted more urgent projects, i.e., it spent the funding but redirected it. This is important given that Cal Advocates repeatedly argues that ratepayers should not pay twice for the same project. Cal Advocates correctly

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<sup>143</sup> Cal Advocates' OB at 66-73.

<sup>144</sup> Cal Advocates' Reply Brief at 29.

notices that this has been an issue before. Cal Advocates' arguments have been rejected in prior decisions, and the Commission rejects them again.

#### **8.1.5. Conclusion**

We find that, as discussed below, Park Water and Apple Valley Ranchos have deferred many projects, but that they have also substituted other projects. Cal Advocates did not analyze how closely the deferred projects' budget is offset by the substituted projects, which the utilities argue were more urgently needed. Nor does Cal Advocates argue that the deferred projects are no longer needed, because of focusing on the debunked double recovery argument.

As both utilities and CWA point out, neither Park Water nor Apple Valley Ranchos, in any way, *shortchanged* ratepayers. The record shows the contrary. Both companies spent *more* on capital projects than the amounts adopted in the past GRC: Park Water spent \$8.3 million more in 2022 and 2023, and Apple Valley spent about \$5 million.<sup>145</sup> If the utilities had significantly underspent the authorized revenue requirement, with or without deferrals and substitutions, then Cal Advocates would have a creditable argument disallowing double recovery for deferred projects. But there is no evidence that the companies unfairly kept the money.

We find that Park Water and Apple Valley Ranchos have reasonably justified the continued need for the identified deferred projects in this proceeding. We therefore authorize these projects and include them in the calculation of rate base and the revenue requirement for both utilities, consistent with our normal ratesetting practices. We find that Cal Advocates did not demonstrate that any of the substituted projects were unreasonable. Therefore,

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<sup>145</sup> See, Ex. LIB-28 at 41 (Park Water's Rebuttal) and Ex. Lib 27 at 36 (Apple Valley Rebuttal).

these costs may be included in the beginning balance of plant in service, which forms part of each company's rate base.

In response to Cal Advocates' and the Commission's concerns about the increasing number of deferred capital addition projects, we impose two new requirements on the companies. First, Park Water and Apple Valley Ranchos must file a Semiannual Report on Project Status (SRPS) for all construction or other capital acquisitions approved in this decision. The SRPS must be submitted to the Commission's Water Division and served on this proceeding's service list within 14 days of the end of each reporting period. The SRPS must disclose the project(s) deferred and the approved costs from this proceeding for any project deferred or delayed from the scheduled in-service date, as proposed by the utilities in their applications and workpapers for this proceeding. They must also disclose the project(s) and costs that are pursued in place of the projects proposed and authorized in this decision. Park Water and Apple Valley Ranchos must also include a rationale and justification in the SRPS for selecting any deferred or delayed project.<sup>146</sup> Secondly, the utilities must sponsor detailed expert testimony in the next GRCs disclosing and explaining the deferral of any project authorized in this decision and the reason for the substituted project.<sup>147</sup> This reporting will help the Commission address this issue in the next GRC by providing a detailed tracking of whether and which authorized projects are deferred and which project substitutions were made, and, importantly, why.

Park Water and Apple Valley are two of California's large Class A regulated water companies. As Class A water utilities, Park Water and Apple

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<sup>146</sup> That is, why was the deferred project more deferrable than others?

<sup>147</sup> For example, why was it not foreseen and included in this proceeding, or what unforeseeable event necessitated this substitution?

Valley Ranchos are required to submit well-written and accurate applications in their GRC proceedings. Park Water and Apple Valley Ranchos' next GRC applications must include thorough, comprehensive, and transparent expert testimony to enable the Commission to more thoroughly evaluate their requests. The addition of the SRPS and the specific testimony in subsequent GRCs is intended as an exercise to reduce or eliminate the concerns surrounding the issue of deferring approved projects and substituting alternative projects.

## **8.2. Capital Escalation Factors**

Park Water and Apple Valley Rancho propose the standard five-year average of the California Construction Cost Index (CCCI) from 2018 – 2022 be used to develop its forecast escalation factor of 6.08%, contending that the Commission has adopted this methodology in past GRC Decisions.<sup>148</sup>

Cal Advocates proposes a 3.12% escalation rate for capital projects for 2024 to 2027<sup>149</sup> based on the five-year average of the CCCI for the years 2016-2020. For these reasons, Cal Advocates argues a 3.12% escalation rate is a more accurate forecast for 2024-2027, rather than Liberty's proposed 6.08% annual rate.<sup>150</sup> The CCCI accounts for geographical differences within the State of California, representing an average cost of building construction in San Francisco and Los Angeles.

Cal Advocates uses older data (years 2016 – 2020) than the applicants used (years 2018 – 2022) to propose an escalation rate for forecasting 2024 to 2027

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<sup>148</sup> Liberty Utilities OB at 36.

<sup>149</sup> Cal Advocates OB at 74.

<sup>150</sup> *Id.*

construction costs that is about half of the more current trend.<sup>151</sup> Cal Advocates and the applicants begin their respective forecasts using the pre-pandemic years of 2016 and 2018 respectively. Cal Advocates goes on to use three additional pre-pandemic years (2017, 2018, 2019), while the applicants used one additional pre-pandemic year (2019) in its forecast. Based on the data the parties provided, it appears that construction inflation is returning to pre-pandemic rates.

Cal Advocates appears to be picking and choosing years to include in forecasting its capital escalation rates for years 2024-2027. Cal Advocates does not get to pick and choose years when the outcome of the choice works in its favor and disregard other years (the historical five-year average of 2018-2022) when it does not like the outcome. There is no evidence to support Cal Advocates' assertion that rates will decrease from the post-pandemic era. In fact, it appears that rates are more likely to continue upwards.

The Commission adopts Park Water and Apple Valley Ranchos' forecast for a capital escalation rate of 6.08% as reasonable because it is taken from a methodology (CCCI) that the Commission relied on in past GRC decisions, it is more recent data, and because the CCI method uses current recorded data rather than speculative outlooks used by Cal Advocates.

### **8.3. Meters**

Park Water and Apple Valley Ranchos argue that older Automated Meter Reading (AMR) meters need to be replaced due to aged meters and battery

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<sup>151</sup> Cal Advocates did not exclude COVID years on everything else they looked at. Cal Advocates uses COVID years for sales forecast for water sales forecast proposing a 4% escalation (see p. 12 of Cal Advocates OB) but for capital additions selectively does not use the five-year weighted historical average for escalation rates for capital additions (p. 74 of Cal Advocates OB).

failure.<sup>152</sup> Battery failure greatly increases the labor involved in reading meters because it requires meter readers to visually read meters, many of which are located in backyards and easements that are difficult to access.<sup>153</sup> Park Water is continuing to aggressively replace meters to keep up with meter aging and battery failure rates.<sup>154</sup>

Cal Advocates argues that the Commission should reject the proposal to replace all meters in this GRC.<sup>155</sup> Cal Advocates argues that Park Water and Apple Valley Ranchos should continue to repair existing meters under warranty<sup>156</sup> and that its recommendation is in line with the Commission's previous decisions examining this issue for the utilities in their 2018 and 2021 GRCs.<sup>157</sup>

We find Park Water and Apple Valley Ranchos' proposal to replace aged meters as reasonable. It is clear these meters are a lingering problem, and continued warranty repair is an inadequate solution. Replacing aged meters with new ones reduces the labor costs associated with repairing aged and poorly functioning meters and eliminates the labor costs of physically and visually reading failing meters. This should reduce ratepayer costs in the long run.

#### **8.4. Pipeline Project Cost Estimate Adjustments**

For pipeline replacement projects, Park Water and Apple Valley Ranchos developed project cost estimates that included multiple line items covering

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<sup>152</sup> Liberty Utilities OB at 37.

<sup>153</sup> *Id.*

<sup>154</sup> *Id.*

<sup>155</sup> Cal Advocates OB at 77.

<sup>156</sup> *Id.*

<sup>157</sup> *Id.*

various aspects of the project. Cal Advocates has proposed removing certain line items, arguing that such projects are “routine” and such items are duplicative of other line items. The utilities' project line included the following requests for the Commission’s adoption: consultant/design, inspections, miscellaneous charges.

#### **8.4.1. Consultant/Design**

Park Water and Apple Valley Ranchos propose a Consultant/Design charge estimate of \$75,000. Cal Advocates believes that the Commission should exclude from rates certain price adders used to estimate pipeline projects, including consultant/design, inspection costs, and miscellaneous charges.<sup>158</sup> Cal Advocates does not support the utilities’ consultant/design charge because they argue that it is not an actual estimate or invoice but, rather, a hypothetical amount that the applicants believe may be charged for consultant or design fees.<sup>159</sup> Cal Advocates argues that the consultant/design addition is speculative.<sup>160</sup> The Commission adopts as reasonable Park Water and Apple Valley Ranchos’ estimate for the consultant/design charge of \$75,000 as a reasonable cost of project estimation, because it is likely that they will incur consultant/design, inspection costs, and miscellaneous charges when they plan and build these projects.

#### **8.4.2. Inspections**

Park Water and Apple Valley Ranchos forecast inspections will cost \$200/hour for projects completed during 2023, with a 20% increase in the average unit rate to account for labor costs, for a forecasted rate of \$240/hour as the unit rate for estimating inspecting costs. Cal Advocates argues that the

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<sup>158</sup> Cal Advocates OB at 79.

<sup>159</sup> *Id.* at 79.

<sup>160</sup> *Id.* at 80.

\$240/hour inspection rate is unreasonable and should be reduced to \$130/hour, after removing a proposed 20% increase in the hourly rate, 10% for inflation, and 10% for contingency. Cal Advocates argues that the 10% contingency should be denied because the Commission should not include estimates for unpredictable and uncertain costs in the calculation of customer rates.

We find that Park Water and Apple Valley Ranchos' forecast inspection rate of \$240/hour rate as reasonable because Cal Advocates' adjustments would result in a forecast rate below the known rate of \$200 for 2023 (only \$130) and would not allow for any increase in labor costs, inflation, or contingencies. In this decision we are not disallowing contingencies, and we believe we need to recognize the other likely component increases to this expense. Therefore, we will adopt companies' proposed \$240 rate.

#### **8.4.3. Miscellaneous Charges**

Park Water and Apple Valley Ranchos propose miscellaneous charges covering additional work not covered in design or construction, such as traffic control planning and electrical and site work (specifically \$100,00 or \$200,000).<sup>161</sup> They argue that the miscellaneous estimated material charges are a part of a normal and prudent practice in their forecasting process.<sup>162</sup> Park Water and Apple Valley Ranchos request that their consultant/design, inspection and miscellaneous costs be included in the forecast. They argue that these charges account for essential elements that, based on completed projects from recent years, are commonly incurred during the construction of projects and ask that these costs be incorporated to provide a more accurate forecast of the actual cost

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<sup>161</sup> Liberty Utilities OB at 41.

<sup>162</sup> *Id.*

of a project.<sup>163</sup>

Cal Advocates recommends the acceptance of Park Water's proposal for a \$100,000 charge for the CBMR - 16 - Area 41 & Target - Phase 2 pipeline project because Park Water provided Cal Advocates with substantiation and reasonable support. Except for \$200,000 for the Apple Valley Ranchos project - 24 Symeron to St. Timothy Hwy 18, Apple Valley Ranchos' proposed miscellaneous charges of either \$100,000 or \$200,000 should be removed from its pipe replacement projects, which total \$1,400,000 in miscellaneous charges. We are persuaded that these miscellaneous costs are an essential element of their projects and should be incorporated into the forecast of the actual project cost. Therefore, the Commission adopts the forecast for miscellaneous costs as a line item for Park Water and Apple Valley Ranchos' Pipeline Project.

#### **8.5. Emergency Main Replacements, Hydrants, and Services**

Park Water and Apple Valley Ranchos argue that their forecasts reasonably include the replacement or installation of new emergency mains, hydrants, and services where failures, leaks, or breaks have occurred.<sup>164</sup> Park Water and Apple Valley Ranchos believe that such emergency replacements are small, non-engineered replacements that are unavoidable, necessary, and performed on an as-needed basis.<sup>165</sup> Their forecasts for what they deem critical infrastructure items are based on a five-year average of recorded costs from 2018 to 2022, then escalated to 2022 dollars.<sup>166</sup> The utilities argue that "this

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<sup>163</sup> *Id.*

<sup>164</sup> Liberty Utilities OB at 42.

<sup>165</sup> *Id.*

<sup>166</sup> *Id.*

methodology reflects realistic cost expectations and accounts for necessary adjustments, including an increasing trend in recent years [that] necessitated a higher allocation of resources than previously anticipated.”<sup>167</sup>

Cal Advocates believes that the Commission should reduce Apple Valley Ranchos and Park Water proposed budgets for main replacements, hydrants and services by 35%, authorizing \$6.1 million in Apple Valley Ranchos (from the proposed \$9.4 million budget) and \$5.9 in Park Water (from the proposed \$9.1 million budget) for emergency main replacements, hydrants, and services for 2024-2027.<sup>168</sup>

Cal Advocates argued that there is a continuing discrepancy in Liberty’s workpapers.<sup>169</sup> It argues that in Liberty’s Results of Operation Model’s workpapers, there is an ongoing timing error with the closing balances in CWIP, artificially increasing rate base additions in subsequent GRCs. The Utilities argue this was a one-time error, which they have corrected by introducing a new SAP system. Cal Advocates says this is not the case because the same error has occurred in prior proceedings.

We cannot verify Cal Advocates’ derivation of the 35% reduction as a reasonable correction. We will therefore accept the updated values from Park Water and Apple Valley Ranchos for this proceeding. In the next GRC, we expect the utilities to clearly demonstrate in their workpapers that their underlying accounting systems are, in fact, reliable and consistent.<sup>170</sup>

We adopt Liberty’s proposal for a five-year average of recorded costs

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<sup>167</sup> *Id.*

<sup>168</sup> Cal Advocates OB at 85.

<sup>169</sup> *Id.*

<sup>170</sup> *Id.*

from 2018 to 2022, then escalated to 2022 dollars for both companies' forecast for emergency main replacement, hydrants, and services.

### **8.6. Disputed Utility Plant Items**

Park Water and Apple Valley Ranchos each requested capital projects, which Cal Advocates challenged. As discussed below, we individually approve, modify, or reject those projects based on the evidence in the record and Commission ratemaking policies and practices. Where the utility has made a convincing argument justifying the need for the project and the reasonableness of its cost forecast, we approve the project. We reject or defer some of the requested projects where Cal Advocates has convincingly shown us that the utilities' arguments and justifications were not persuasive. Apple Valley Ranchos states that its new office project will be requested in a separate application. Therefore, we need not consider cost recovery for Apple Valley Ranchos' new office project here. Because Apple Valley Ranchos' request for the costs of a solar charging station is dependent on the construction of its new office project, we also defer consideration of the related solar charging installation to that subsequent proceeding.

#### **8.6.1. Area 41 & Target Phase 2 Project**

Park Water's Bellflower Norwalk Water System will install the second phase of a main installation, named the Area 41 & Target Phase 2 Project, which connects a Norwalk neighborhood and a major commercial center to provide a looped water system that will improve the system's reliability and increase fire-flow capacity. Cal Advocates' concerns regarding this project are limited to the

utility's capital escalation factor and the Miscellaneous Charges included in the cost estimate.<sup>171</sup>

We adopt Park Water's forecast as modified based on the escalation factor and the Miscellaneous Charges adopted in this decision. We otherwise find the construction cost forecast reasonable.

Park Water's Compton East water system relies on both groundwater wells and purchased water connections to meet customer demand. These water sources help meet peak water demands, maintain local pressures during high-demand periods, and provide fire-flow capacity for fire protection. The CBMWD supplies purchased water to Park Water. Park Water explains that it is a member of the CBMWD, which in turn is a member of the MWD. The MWD has requirements that apply whenever there are service interruptions. Park Water argues these requirements apply to CBMWD deliveries to Park Water. Cal Advocates says the requirements do not flow through to CBMWD water deliveries to Park Water, but Cal Advocates fails to explain why the MWD requirements do not apply.<sup>172</sup> These purchased water connections deliver treated surface water, which is critical for Park Water's systems. Park Water must also be able to withstand up to seven days of interruptions of this supply. Park Water has two existing groundwater wells in the Compton East system, Well 4B and Well 9D. Well 4B was drilled in 1952 and is 73 years old. It is declining in production. Park Water cites its various problems with Well 4B and argues that upgrading the well is not a viable solution.<sup>173</sup>

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<sup>171</sup> Liberty Utilities OB at 43.

<sup>172</sup> See Both Cal Advocates Opening Brief at 89 ff and Park Water's Opening Brief at 43 ff.

<sup>173</sup> *Id.* at 43-45.

Park Water proposes building a new Compton East Well to replace Well 4B. This new well, in conjunction with existing Well 9D and purchased water from CBMWD, will allow Park Water to safely and reliably service the Compton East District customers.

Cal Advocates argues that water from just the existing well, Well 9D, plus the available CBMWD water source, is sufficient. It further disagrees with Park Water's claim that MWD service interruption restrictions support the need for the new well.

We disagree. We find that Park Water has justified its request for a new Compton East Well. We cannot see how the MWD requirements would not apply to water deliveries by CBMWD to Park Water because CBMWD is part of MWD. Cal Advocates did not challenge the cost forecast for the new Compton East Well; its objection was limited to the well being built, and so we adopt Park Water's estimate.

### **8.6.2. Generators**

At issue is how large a fleet of mobile and stationary generators is needed to support the operations of Park Water's system. Park Water has eight generators entering this rate case: three stationary generators and five mobile generators that can be relocated as needed for backup power during an emergency, and three stationary generators fixed at specific sites.

Park Water requests funding to purchase two new generators: an additional 400 kW mobile generator for newer facilities with greater power needs and a new 75 kW generator to replace an existing, but elderly, stationary generator. After retiring one of the current eight generators and acquiring two new ones, Park Water would have nine working generators. To remain in service, the older stationary generator requires expensive air quality control

upgrades to remain compliant with current emissions regulations. Park Water argues that power outages are frequent in the mountainous foothills area (where this generator is installed) due to weather and public safety power shutoffs. Park Water contends that reliable power is critical to keep the hydro pneumatic tank operational and supply water to customers located at elevations higher than the Forest Green tanks.<sup>174</sup>

Cal Advocates disagrees with Park Water's justifications and argues that the existing fleet of generators is sufficient, without an additional, more powerful mobile 400kW generator and without replacing the older 75kW unit. Cal Advocates proposes the continued use of the existing generators and suggests that Park can juggle these generators, including moving, if needed, the one generator that is currently stationary but has wheels.<sup>175</sup> Neither party addressed the generators in the reply briefs.

We find Park Water has met its burden and has justified the two new generators, one to replace an older 75 kW unit and a new, larger 400 kW unit to meet changing needs. We therefore adopt Park Water's forecast of costs.

### **8.6.3. PFAS/PFOA Treatment – Wells 46C, 41A, 41A VFD**

Park Water's capital forecast includes the design and construction of treatment systems at Wells 46C and 41A to remove PFOS and PFOA.<sup>176</sup> Park

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<sup>174</sup> Liberty Utilities OB at 46-47.

<sup>175</sup> Park Water Opening Brief at 91.

<sup>176</sup> PFOS and PFOA are part of a larger group of chemicals called per- and polyfluoroalkyl substances (PFASs). PFASs, which are highly fluorinated aliphatic molecules, have been released to the environment through industrial manufacturing and through use and disposal of PFAS-containing products... PFOS and PFOA are the most widely studied of the PFAS chemicals. PFOS and PFOA are persistent in the environment and resistant to typical environmental degradation processes. As a result, they are widely distributed across all trophic

*Footnote continued on next page.*

Water describes the design work at Well 46C as scheduled to commence in 2025, with construction completed by 2026 and the design work at Well 41A as scheduled to commence in 2027. Until the PFOS and PFOA Notifications levels were exceeded, both wells were utilized daily as a source of supply since they were in excellent condition with consistent and non-degrading flow rates.<sup>177</sup>

The dispute with Cal Advocates on these projects centers on timing and cost recovery.

Cal Advocates objects to the recovery of costs for these projects first because they span rate case cycles. Cal Advocates argues that recovery is premature. Cal Advocates argues for a “one-step” review after this GRC cycle for Well 41A because the project will span two GRCs. Cal Advocates points out that in the prior GRC, the Commission agreed with Cal Advocates and adopted a “one-step” after-the-fact review of the project only when it is completed. In other words, Park Water assumes all risks of any cost recovery only after completion of all work on the project and only if the Commission approves the project as reasonable after the fact.

Park Water seeks pre-approval to pursue the project. Park sees the need for the project now and requests Commission approval before undertaking an expensive project. Any approval now would in no way give Park Water a “free pass” on a reasonableness review of the finished project. If Park Water fails to properly manage, control costs, or reasonably complete the project, it will still be

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levels and are found in soil, air, and groundwater at sites across the United States. The toxicity, mobility, and bioaccumulation potential of PFOS and PFOA result in potential adverse effects on the environment and human health. (United States Environmental Protection Agency, Office of Land and Emergency Management (5106P), EPA 505-F-17-001 November 2017.)

<sup>177</sup> Park Water Opening Brief at 47.

subject to disallowance later. But this one-step approach puts Park Water at risk of no recovery for a completed project if, after the fact, it is somehow deemed unnecessary. This is neither just nor reasonable to Park Water. Park Water presented its arguments in this proceeding, and we should either reject or approve the project now.

We find that Park Water has made a sufficiently robust proposal to support our approval of the Well 41A Project now. Park Water's final costs can still be challenged for reasonableness and prudent management in the next GRC.

We now turn to the argument about alternative financing of the project. Cal Advocates argues that there are other sources of cost recovery for this project that we should require Park Water to pursue as part of any Commission approval.

Cal Advocates argues that Park Water has ignored three potential sources of funding for PFOS and PFOA mitigation:

1. Bipartisan Infrastructure Law, which makes over \$10 billion over five years to help communities address PFAS in drinking water;
2. The settlement agreement between the chemical manufacturer 3M Company and US Public water suppliers that will provide \$10.3 billion over 13 years to address PFAS mitigation; and
3. The Water Replenishment District of Southern California (WRD), which is the management agency for the Central and West Coast Ground Water Basins, established \$60 million for the PFAS Remediation Program in 2020.<sup>178</sup>

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<sup>178</sup> Cal Advocates Opening Brief (Public) at 93 citing to Ex. CalAdv 04, at 2-10.

Cal Advocates asserts that Park Water has deliberately ignored these sources in favor of capital expenditures that would be included in the rate base, allowing shareholders to earn a return on the project.<sup>179</sup>

Cal Advocates argues in its Reply Brief that it has found one example where Golden State Water, another California Class A water utility, was granted \$5 million in forgiveness by the Water Resources Control Board for well PFAS remediation. It also disputes Park Water's assertion that the terms of dealing with the WRD were onerous to Park Water, requiring it to release WRD from any liability. Cal Advocates does not explain how Park Water could specifically benefit from the 3M settlement or quantify any potential recovery.

We find the positions of both parties to be primarily argumentative and conclusionary. As a result, we find that both parties failed to support their respective positions with sufficient factual detail or offer objective evidence or expert testimony to persuasively demonstrate whether these three options are legitimately applicable to this project.

We note that the current federal administration has demonstrated a concerted and deliberate animus towards the legislative acts and policies of the prior administration. We must question whether the infrastructure funding that Cal Advocates believes should be used is still actually available. Cal Advocates has raised concern about whether Park Water or its parent companies, Liberty and Algonquin, have made any effort to access these funds for any of their other utility operations, and if not, why not? Simply relying on ratepayer funding of every project is not the action of a prudent or reasonable manager when other

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<sup>179</sup> Cal Advocates Opening Brief at 95 citing to Ex. CalAdv 15 at 18.

funding may be available. Nor is Park Water persuasive or detailed about the potential “risks” to Park Water if it pursued funding from WRD.

Therefore, we order the following:

- a. Park Water is required to pursue the project as proposed at the forecast cost approved as necessary and reasonable to protect ratepayers from harmful PFOS and PFOA exposure;
- b. Park Water will record the costs in a new Wells 46C and 41A PFOS & PFOA Mitigation Recovery Memorandum Account (Wells 46C and 41A to remove PFOS and PFOA); and
- c. Park Water may only seek recovery of the Wells 46C and 41A to remove PFOS and PFOA in its next GRC. In the next GRC, Park Water must provide specific expert testimony and all detailed documentary evidence of Park Water’s efforts to actively pursue financial recovery for the PFOS and PFOA mitigation costs recorded in the memorandum account. This includes, but is not limited to, providing a detailed analysis of legal exposure for WRD funds, a detailed record of efforts to pursue federal infrastructure funding, or any recovery from the 3M settlement. Ratepayer recovery will be limited to the costs that could only be recovered from ratepayers after Park Water recovered any reasonably available funds from the Bipartisan Infrastructure Act, the 3M Settlement, or WRD.

#### **8.6.4. Site and Structure Improvements and Booster Pump Stations (BPS) & Electrical Improvement**

Park Water requests a very specific forecast of \$1,125,297 to install a planned Electric Vehicle (EV) Stations and Infrastructure Project. In fact, the showing by Park Water was a continual fumble, claiming first one EV and then more for a total of 6 vehicles. We agree with Cal Advocates’ contention that the company failed to provide an adequate cost-benefit

analysis. The Park Water proposal was poorly presented and inadequately justified. The proposal lacks any credible basis to find that this system is necessary or plausible for Park Water to economically switch enough gasoline/diesel vehicles to EVs to justify its own installation.

We deny the proposed project for funding in this GRC. If Park Water decides to seek approval for such a project in its next GRC, it must make a complete and accurate showing, including sound expert analysis and factual support.

**8.6.5. Removal of Recorded Plant – Wells 28D, 4B, 28B, 40D, 41A, 12C, Compton East Well (Land)**

Cal Advocates raises questions about six separate wells, 28D, 4B, 28B, 40D, 41A, and 12C. Cal Advocates also raises concerns with the land associated with the Compton East Well. As discussed below, we find Cal Advocates' concerns to be reasonable, except for the new Compton East Well's land. We will remove these six wells from rate base for this proceeding.

Park Water must revisit these wells in its next GRC and either fully justify their cost recovery in future rates or address the retirement/abandonment of these wells. We should be clear that removing these wells from rate base for the purpose of determining the test year revenue requirement does not require Park Water to abandon or retire the plant for accounting or tax purposes at this time. We are putting Park Water on notice that it must justify future use and possible future ratemaking treatment in the next GRC. The final decision in that proceeding will control any permanent accounting repercussions.

**8.6.5.1. Well 28D**

Well 28D has a long and troubled history. Cal Advocates argues that Well 28D was delayed for over 10 years and was finally completed in 2022 but has yet

to be placed into service. The well has been included in prior rates and, more recently, was excluded from rates.<sup>180</sup> Further, the well is still not expected to be in service before 2028. Park Water has offered various reasons for the delays and must still install a treatment facility for this well before it is placed into service.<sup>181</sup>

We will continue to exclude Well 28D from rate base until Park Water can demonstrate, in a subsequent GRC, that it has successfully finished the well and installed a treatment facility so that it can be operated safely and reliably. Cal Advocates correctly points out that we include construction work in progress in rate base with the expectation of a timely completion of a project. This well no longer deserves that deference.

#### **8.6.5.2. Wells 4B, 28B, 40D, 41A**

The four wells, 4B, 28B, 40D, 41A currently have a recorded value of \$2,874,549 which Park Water proposes to include in rate base for determining the test year revenue requirement. All four are out of service for various reasons including contamination issues. The utilities' original testimony addressing this issue was limited, and Cal Advocates has raised concerns about the usefulness of these wells.<sup>182</sup>

We agree with Cal Advocates that these wells are problematic for continued rate recovery at this time. We therefore exclude them from the test year rate base. In a subsequent GRC Park Water must either fully and completely justify the cost recovery in future rates of Wells 4B, 28B, 40D, and 41A, or address their retirement/abandonment.

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<sup>180</sup> Currently, the investment in this project is \$6,418,681 which Park Water would include in rate base. See Cal Advocates Reply Brief at 99.

<sup>181</sup> Cal Advocates Reply Brief at 99-102.

<sup>182</sup> Cal Advocates Reply Brief at 102-104.

### **8.6.5.3. Compton East Well (Land)**

In Section 8.6.2, above, we found Park Water's request for the new Compton East Well to be necessary and a reasonable project necessary to ensure an adequate long-term water supply. Accordingly, we also find it reasonable to include the land associated with the new well to be a reasonable addition to rate base. We therefore adopt Park Water's proposed inclusion of the land in its test year revenue requirements calculations.

### **8.6.5.4. Removal of Miscellaneous Recorded Plant for Downey Office**

Park Water proposed to purchase office improvements for its Downey building, which included approximately \$153,000 for ice machines, refrigerators, as well as items of décor and gym facilities.<sup>183</sup> It argues they are reasonable to provide an attractive and efficient work environment for its employees. Cal Advocates recommends a disallowance of these expenditures.<sup>184</sup> Cal Advocates argues these amenities are not "necessary" for the provision of utility service. We will make a policy-based discretionary decision. Park Water has not sufficiently shown that ratepayers should fund these items even though the rate impact to ratepayers would be *de minimis*. As such, the Commission rejects Park Water's request for miscellaneous recorded plant for Downey office building in rate base.

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<sup>183</sup> These costs would be depreciated over the life of the assets, which for a refrigerator or ice machine could be 10 years, or about \$15,000 per year in revenue requirement plus a return on investment annually on the declining net book value.

<sup>184</sup> See Park Water's Opening Brief at 53 and Cal Advocates' Opening Brief at 106.

## **8.7. Utility Plant Items for Apple Valley Ranchos**

### **8.7.1. Well 34 Building**

Apple Valley Ranchos requests approval of \$1,081,546 for a new building at Well 34. Apple Valley Ranchos justifies this capital addition stating that Well 34 is not currently housed in a building; this project will construct a building to house the Well 34 equipment that will enhance security of the site; protect the well from the environment; and abate noise and other issues arising from its location in the middle of the housing tract. The project also includes replacement of the site's antiquated electrical system to extend the life of the well equipment and enhance reliability.<sup>185</sup>

Cal Advocates opposes the new building but only raises one valid argument regarding noise abatement. Cal Advocates points out that the noise measurements used by Apple Valley Rancho were taken at the site of machinery rather than at the site of nearby houses. While we might agree that noise measurements should have been taken at the site of nearby houses, noise is not the primary justification offered by Apple Valley Ranchos.

Cal Advocates next argues an existing chain-link fence protects the existing equipment and the existing disinfection system is enclosed by its own container. Cal Advocates points out the facility has functioned for years without a building and the Commission denied a prior request.<sup>186</sup>

Overall, we find Apple Valley Ranchos' proposal to be reasonable and we approve its construction. The project budget also includes the enhanced electrical system, i.e., not just the new building. A new building will avoid

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<sup>185</sup> Apple Valley Ranchos Opening Brief at 54.

<sup>186</sup> Cal Advocates Opening Brief at 108.

possible future noise disputes as the existing neighborhood sees continued development, but more importantly, a solid structure will protect the new electrical system as well as the existing site equipment. A building will also provide greater security than the existing fencing. Therefore, Park Water's request provides a reasonable benefit of protecting existing and new equipment from the environment or vandals.

### **8.7.2. New Well and Land Purchase**

Apple Valley Ranchos proposes to acquire land and build a new well to update its supply source inventory. The company is entirely dependent on groundwater, which it pumps itself and has no outside source for purchased water. It approaches the new well from the perspective of dealing with ageing infrastructure and keeping an eye on its future needs:

... the Apple Valley system includes four abandoned wells and two wells have been put on an inactive status over the last 10 years. As the inventory of wells continues to age, additional wells will fail or degrade. Of the remaining 18 wells, five were constructed in the 1950s or 60s and four were constructed in the 1980s. Of the four wells abandoned in recent years, one was constructed in 1953 and the other three were constructed in or after 1985. ... A comparison of existing well capacity to the Maximum Day Demand ("MDD") indicates that Liberty currently has more well capacity than required by regulation. A firm capacity of 21,906 GPM less the required MDD amount of 12,517 GPM indicates a surplus of 9,389 GPM. That apparent surplus, or buffer, will quickly change as wells continue to fail and demands gradually increase. As Liberty Apple Valley loses the older wells, source capacity of over 9,000 GPM will be lost while demands are gradually increasing and varying.<sup>187</sup>

Cal Advocates looks at the supply situation on a more instantaneous basis  
- the existing wells meet the current system requirements:

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<sup>187</sup> Apple Valley Ranchos Opening Brief at 55 & 56.

[Apple Valley Ranchos] admits in Rebuttal Testimony that, “A comparison of existing well capacity to the [maximum daily demand] indicates that Liberty currently has more well capacity than required by regulation.”

Cal Advocates argues that even if the older wells went offline, Apple Valley Ranchos could still meet its demand.<sup>188</sup>

We agree with Apple Valley Ranchos’s assertion that a new well can take up to two years from the project start to first water flow. Similarly, we agree that currently Apple Valley Ranchos’ production capacity is highly dependent on its ageing system. Cal Advocates suggests that we disallow this project now, but if Apple Valley Ranchos chooses to build it anyway, it is “capable of recovering in a future GRC the costs of the project if shown to be used and useful.”<sup>189</sup> This is a bad regulatory practice. Apple Valley Ranchos has properly proposed a project in a GRC in accordance with our rate case plan, which is intended to bring structure and order to the setting of just and reasonable rates. It is proper to address the project now.

Apple Valley Ranchos admits that its current supply infrastructure is adequate, but it argues for a dynamic, not a reactive plan, so that it can be prepared for the future.

A comparison of existing well capacity to the Maximum Day Demand (“MDD”) indicates that Liberty currently has more well capacity than required by regulation. A firm capacity of 21,906 GPM less the required MDD amount of 12,517 GPM indicates a surplus of 9,389 GPM. That apparent surplus, or buffer, will quickly change as wells continue to fail and demands gradually increase. As Liberty Apple Valley loses the older wells, source capacity of over 9,000 GPM will be lost while demands are gradually increasing and

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<sup>188</sup> Cal Advocates Opening Brief at 110.

<sup>189</sup> Ibid.

varying. The prudent course is to install new wells gradually over the years rather than waiting until the buffer in source capacity dwindles away providing the long-term assurance that Liberty Apple Valley can meet the water demands of the system.

We approve Apple Valley Ranchos' proposal for a new well and land site. We recognize that Cal Advocates argues that the company could build another well on an existing site, but that does not improve Apple Valley Ranchos' supply diversity, nor has Cal Advocates shown that a new well would be suitable for the current location. We can readily see that Apple Valley Ranchos' wells are ageing, and that added diversity in the age of its wells (i.e., adding a new well into the mix of older wells) and a new location can only improve Apple Valley Ranchos' supply security. We caution Apple Valley Ranchos (as well as Park Water) that their future GRC applications must fully address Cal Advocates' concerns and that all options must be fully explored. Liberty's final proposals for water supply projects and all other major capital expenditures for Park Water and Apple Valley Ranchos must be robustly developed, and the project proposals must present complete industry-standard analyses and industry-standard cost forecasts. See Section 8.8 below.

### **8.7.3. Apple Valley Ranchos Office Building and Proposed Campus Solar Project**

Apple Valley Ranchos responded to testimony by Cal Advocates opposing both a new Apple Valley Ranchos office building and a Campus Solar Project. We do not approve this request. Apple Valley Ranchos failed to present sufficient evidence showing how ratepayers would benefit from the campus solar project. Apple Valley Ranchos' particular proposal in this GRC did not demonstrate long-term cost savings. As Cal Advocates argues and as the Commission agrees, ratepayers should not be required to pay for the proposed

solar project without any indication from Apple Valley Ranchos on how ratepayers might benefit.

Apple Valley Ranchos may either request these projects in its next GRC, as proposed by Cal Advocates, or, given the cost and policy implications regarding the state government's encouragement of greater adoption of electric vehicles, Apple Valley Ranchos may prefer to file a separate, specific-purpose application as it already intends to do.<sup>190</sup> Apple Valley Ranchos will be expected to fully justify the need and the costs forecast for these projects. See our discussion below regarding project forecast methodology.

### **8.8. Project Forecast Methodology**

In this section we discuss both industry standards and our expectations for Park Water and Apple Valley Ranchos' specific practices on a prospective basis. We raised these concerns in our recent San Jose Water Company GRC decision, D. 24-12-077.<sup>191</sup> We see an ongoing industry-wide issue of the robustness and reliability of engineering designs and cost forecasts for new water utility plant.

As discussed below, Park Water and Apple Valley Ranchos must provide specific expert testimony and robust supporting documentation in their next GRC. We do this here and now because we are concerned that there is a continuing disconnect between the two applicants and Cal Advocates concerning the necessary level of documentation and the professional quality of the applicants' forecasts necessary to justify approving and including Park Water and Apple Valley Ranchos' capital projects in test year revenue requirements.

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<sup>190</sup> Apple Valley Ranchos Opening Brief at 57-58.

<sup>191</sup> D. 24-12-077 mimeo at 15-17.

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

#### **8.8.1. Formal System for Designing & Managing Capital Expenditures**

Cost Engineering is the application of scientific principles and techniques to problems of estimation, cost control, business planning and management science, profitability analysis, project management, and planning and scheduling.<sup>192</sup>

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

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<sup>192</sup> <https://web.aacei.org/about/about-aace/what-is-cost-engineering> (Current as of January 8, 2026.)

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

Simply stated, it is a systematic approach to managing cost throughout the life cycle of any enterprise, program, facility, project, product, or service. This is accomplished through the application of cost engineering and cost management principles, proven methodologies, and the latest technology in support of the management process.<sup>193</sup>

We expect our jurisdictional utilities to conduct their engineering tasks using Total Cost Management RP or a similar framework and the above language is a good representation of the performance we expect from the utility before setting rates based on any utility's testimony and forecasts in a general rate case or any other rate setting proceeding.

In the past, we have not definitively mandated that Park Water and Apple Valley Ranchos specifically use AACE's RPs, nor do we make that specific order here. We will, however, require them to demonstrate in testimony in the next general rate case that they have adopted and embedded in their operations an overall formal system for designing and managing capital expenditures using either AACE's RPs or some other industry standard that is a professionally recognized and documented system of cost engineering management in some form of industry best practices.

This additional testimony in the next general rate case will assist Cal Advocates, other intervenors, and the Commission to better understand and

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<sup>193</sup> *Ibid.*

assess the capital forecasts proposed in the next proceeding and provide greater confidence in Park Water and Apple Valley Ranchos' project forecasts and cost estimates.

## **9. Revenue Decoupling Program and the Water Revenue Adjustment Mechanism/ Modified Cost Balancing Account**

### **9.1. Summary**

As detailed in direct and rebuttal testimony, Park Water and Apple Valley Ranchos each request authorization to implement a new, full revenue decoupling mechanism, the Water Conservation Program (WCP). The proposed WCP consists of two new balancing accounts: the Consumption Revenue Balancing Account (CRBA) and the Consumption Cost Balancing Account (CCBA). The CRBA and CCBA would operate mechanically like the Water Rate Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) previously authorized for both utilities from 2008 through the first half of 2022.

### **9.2. Background**

Decoupling is a process whereby the utility and its customers are both protected from the risks of sales volume and revenue-recovery forecast errors so that the utility can recover its authorized revenue requirement necessary to provide safe and reliable service, and customers are not subject to the risks of forecast errors. For example, weather cannot be precisely forecast, and, as a result, actual sales volumes will likely vary if a test year is significantly colder or hotter, rainier or drier, than the normal weather forecast would predict. This means volumetric rates will likely result in over- or under-collection.

Decoupling corrects this type of error. A second forecast "error" can result from successful conservation programs or price signals embedded in tiered rates, either of which or both result in changes in sales revenues, which can result in

over- or under-collection of the adopted revenue requirement. Historical rate programs like the WRAM discussed below were intended to address these risks to the utility and its customers.

### 9.3. Discussion

In this proceeding, Park Water and Apple Valley Ranchos have proposed a decoupling mechanism, which they believe satisfies the statutory requirements in Pub. Util. Code § 727.5(d)(2)(A).<sup>194</sup> Both companies argue that the proposed

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<sup>194</sup> Pub. Util. Code § 725

(a) In establishing rates for water service, the commission *shall consider, and may establish*, separate charges for costs associated with customer service, facilities, variable operating costs, including fixed and variable costs associated with supplying the water, or other components of the water service provided to water users.

(b) The commission *shall consider, and may authorize*, a water corporation to assess a fee for future water service, or a reservation charge for future water service, for persons or entities occupying or owning property within the service territory of the water corporation.

(c) The commission *shall consider, and may authorize*, a water corporation to establish a balancing account, rate stabilization fund, or other contingency fund, the purpose of which shall be the long-term stabilization of water rates.

(d) (1) The commission *shall consider, and may authorize*, a water corporation to establish programs, including rate designs, for achieving conservation of water and recovering the cost of these programs through the rates.

(2) (A) Upon application by a water corporation with more than 10,000 service connections, the *commission shall consider, and may authorize*, the implementation of a mechanism that separates the water corporation's revenues and its water sales, commonly referred to as a "decoupling mechanism."

(B) An authorized decoupling mechanism *shall be designed to ensure* that the differences between actual and authorized water sales do not result in the overrecovery or underrecovery of the water corporation's authorized water sales revenue.

(C) An authorized decoupling mechanism *shall not enable* the water corporation to earn a revenue windfall by encouraging higher sales.

(D) The water corporation may only submit an application to the commission pursuant to this paragraph as part of its triennial general rate case application described in Section 455.2, unless the commission and the water corporation mutually agree for the application to be otherwise submitted. (Emphasis added.)

*Footnote continued on next page.*

WCP is designed to accommodate fully decoupled revenues and sales, and track differences between recorded volumetric revenues and Commission-authorized expenses. As such, the WCP balances customer benefits on the one hand with financial stability for each utility to provide safe and reliable water service on the other hand. The utilities argue that their customers benefit from rate designs that provide incentives for greater conservation by high-volume users, lower monthly service charges that benefit low-usage customers and reduce the volatility of customers' bills. Both companies argue that their customers will benefit from mitigating revenue uncertainty because the companies' financial stability provides them access to lower costs for capital to fund critical investments needed to provide safe and reliable water service.

Cal Advocates recommends that we reject the companies' request for the WCP, arguing that the CRBA would allow them to circumvent the GRC process of forecasting and being accountable to a set budget. In support of its contention, Cal Advocates submitted analyses which they believe shows: (1) Monterey WRAM ("M-WRAM") customers conserve more water than WRAM customers; (2) historical Park Water and Apple Valley Ranchos sales show little impact on water conservation; and (3) the declining historic WRAM balances of Park and

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(e) In establishing rates for recovery of the costs of used and useful water plant, the commission may use a capital structure and payback methodology that maintains the reliability of water service, minimizes the long-term cost to ratepayers, provides equity between present and future ratepayers, and affords the utility an opportunity to earn a reasonable return on its used and useful investment, attract capital for investment on reasonable terms, and ensure the financial integrity of the utility.

*(Amended by Stats. 2022, Ch. 890, Sec. 2. (SB 1469) Effective January 1, 2023.)*

[https://leginfo.legislature.ca.gov/faces/codes\\_displayText.xhtml?lawCode=PUC&division=1.&title=&part=1.&chapter=4.&article=2](https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=PUC&division=1.&title=&part=1.&chapter=4.&article=2). As of December 9, 2025.)

Water Apple Valley Ranchos show full revenue decoupling is unnecessary.

Cal Advocates argues that “the Commission should deny [the companies’] request to implement full WRAM (CRBA) and instead authorize [the companies] to transition to Monterey WRAM (M-WRAM).”<sup>195</sup> Cal Advocates states that M-WRAM is not a full revenue decoupling mechanism. Instead, it is a revenue adjustment mechanism that allows the utility to true-up the revenue it recovers under its conservation rate design with the revenue it would have collected if it had an equivalent uniform rate design at actual sales levels.<sup>196</sup> M-WRAM only allows the recovery of revenues a utility would have received under a Single Quantity Rate (SQR), as opposed to a conservation rate design, such as an increasing block rate structure.<sup>197</sup>

Cal Advocates goes on to argue that as a result, M-WRAM is a more targeted approach to promoting conservation. By only allowing recovery of revenues lost due to the utility having an increasing block rate structure, the balances recovered will be smaller and limited to the results of price signaling to ratepayers. Because of the limited mechanism, Cal Advocates believes an M-WRAM will likely lead to lower under collections and fewer surcharges than full WRAM for ratepayers. Therefore, it believes M-WRAM is less harmful to customers than full WRAM.

Pub. Util. Code § 727.5(d)(2)(A), requires that the Commission “consider” requests to implement decoupling mechanisms, such as the companies’ request to implement full WRAM (CRBA). The Commission’s consideration must

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<sup>195</sup> Cal Advocates OB. at 119.

<sup>196</sup> *Id.*

<sup>197</sup> *Id.*

include an analysis of whether the decoupling mechanism is just and reasonable. Thus, the Commission has the authority to deny or modify a request that it determines to be incompatible with just and reasonable ratesetting.

#### **9.4. California Water Association’s Position on Revenue Decoupling Generally and Applicants’ Water Conservation Program and Revenue Decoupling Program**

CWA, in its Opening Brief, focuses on disputed utility plant items and Park Water and Apple Valley Ranchos’ proposed revenue decoupling mechanism in this general rate case for both utilities. CWA supports the Applicants’ proposed revenue decoupling mechanism and argues that the Commission should approve the request to implement the proposed WCP, including the full decoupling mechanism that Park Water and Apple Valley Ranchos proposed. CWA contends that the Commission should reject Cal Advocates’ arguments on the issues as both unsupported and misguided.<sup>198</sup> In its Opening Brief, CWA provides information on decoupling mechanisms generally, and on Senate Bill 1469 (2022, Bradford),<sup>199</sup> signed into law by Governor Newsom on September 30, 2022, in support of its argument that the Commission should approve Liberty’s WCP and proposed decoupling mechanism.<sup>200</sup>

CWA argues, the proposed revenue decoupling mechanism does not affect the authorized revenue requirement by the Commission. In that respect, the

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<sup>198</sup> California Water Association (CWA) Opening Brief (OB) at 21.

<sup>199</sup> “Accordingly, the new statutory language implemented by SB 1469 in Public Utilities Code Section 727.5 expressly allows the Commission ‘to authorize, the implementation of a mechanism that separates the water corporation’s revenues and its water sales’ – i.e., full decoupling – if that mechanism best suites that particular utility.” *Id.* at 15 and 16.

<sup>200</sup> *Id.* at 10-17.

proposed revenue decoupling mechanism clearly meets the revenue neutral criteria set forth by the Legislature in SB 1469 for decoupling proposals, in that is ‘designed to ensure that the differences between actual and authorized water sales do not result in the over-recovery or under-recovery of the water corporation’s authorized water sales revenue.’ As a result, because it breaks the link between revenue and sales, the proposed decoupling mechanism here will ‘not enable the water corporation to earn a revenue windfall by encouraging higher sales.’ Liberty’s decoupling proposal therefore meets the criteria set forth by the Legislature in SB 1469.<sup>201</sup>

CWA asserts that Liberty’s revenue decoupling mechanism is not a policy goal, rather it is a means to achieve the policy goal – to decouple from sales and revenue to facilitate the implementation of conservation rates and spending on conservation programs by the investor-owned water utilities.<sup>202</sup> CWA declares that, based on Liberty’s circumstances, decoupling is necessary to implement steeply tiered rates intended to encourage water conservation.<sup>203</sup>

CWA summarizes its recommendations on Liberty’s revenue decoupling mechanism with the following points: (1) decoupling is a widely-accepted utility ratemaking mechanism that is critically important to encourage conservation activities without financially penalty to the utility and provides significant customer benefits; (2) decoupling benefits not only individual customers who avail themselves of water conservation programs and avoid future water consumption but it also benefits customers system-wide because its lowers total

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<sup>201</sup> *Id.* at 18 and 19.

<sup>202</sup> *Id.* at 19.

<sup>203</sup> *Id.*

water usage and helps avoid future infrastructure investment by the utility; and (3) decoupling frees water utilities like Park Water and Apple Valley Ranchos from the negative effects of declining use per customer (i.e. customer-funded conservation, stricter appliance efficiency and building codes, economic and demographic drivers, government mandates, California weather uncertainty) none of which CWA argues are within the control of Liberty, and for which Liberty should not be penalized between general rate cases for what CWA characterizes as “exogenous events.”<sup>204</sup>

### **9.5. Conclusion**

The Commission has considered both the proposals by Park Water and Apple Valley Ranchos as well as the alternative proposals of Cal Advocates and CWA. We are mindful of Pub. Util. Code § 727.5, which directs that the Commission’s evaluation, we “shall consider, and may authorize, the implementation of a mechanism that separates the water corporation’s revenues and its water sales, commonly referred to as a “decoupling mechanism.”” We find Park Water and Apple Valley Ranchos have proposed a full revenue decoupling mechanism, the Water Conservation Program (WCP), that should be implemented and authorized for TY 2025 because it is just and reasonable. We believe, based on the evidence, that the proposed decoupling mechanism protects ratepayers as well as shareholders from the risks of forecast errors, weather anomalies, and the risks that conservation programs fail to achieve or overachieve conservation goals. The Commission agrees with Park Water, Apple Valley Ranchos, and CWA, that the companies’ WCP: (1) balances customer benefits with financial stability for each utility to provide safe and

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<sup>204</sup> *Id.* at 20.

reliable water service; and (2) that customers benefit from rate designs which provide incentives for greater conservation by high volume users, lowers monthly service charges benefiting low usage customers, and reduces volatility of customer bills, all of which are just and reasonable for the WCP's implementation.

#### **10. Conservation Memorandum Account (Park Water and Apple Valley Ranchos)**

Park Water and Apple Valley Ranchos each request Commission approval to establish a Conservation Memorandum Account to track the incremental costs associated with the new conservation regulation proposed by the State Water Resources Control Board (SWRCB), Make Conservation a California Way of Life. The proposed regulation outlines conservation objectives for urban water suppliers, including new targets to achieve greater statewide water savings.<sup>205</sup>

Cal Advocates recommends that the Commission deny the companies' requests, arguing that any conservation expenses were foreseeable prior to the filing of the GRC Applications, conservation expenses will not increase substantially, and ratepayers will not benefit.<sup>206</sup> Cal Advocates recommends that Park Water and Apple Valley Ranchos transition to Monterey-WRAM (M-WRAM), which is not a full revenue decoupling mechanism.<sup>207</sup> Cal Advocates argues that the full revenue decoupling mechanism that Park Water and Apple Valley Ranchos propose does not promote water conservation, harms ratepayers, and does not benefit low-use and low-income customers.<sup>208</sup>

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<sup>205</sup> Liberty Utilities OB at 77.

<sup>206</sup> *Id.*

<sup>207</sup> Cal Advocates OB at 119.

<sup>208</sup> *Id.* at 120, 123 and 124.

The Commission adopts Liberty's request for a Conversation Memorandum Account for Park Water and Apple Valley Ranchos. Contrary to Cal Advocates' contentions, the companies made their requests to protect customers by limiting recovery to the actual recorded costs rather than estimates subject to a reasonableness review by the Commission to help ensure that only recorded costs are passed on to consumers and the costs associated with the amendments contained in the second and third SWRCB drafts could not have been included in the GRC forecast.

#### **11. Polyfluoroalkyl Substances Memorandum Account Modification (Park Water Only)**

Park Water requests Commission approval to modify its existing Polyfluoroalkyl Substances Memorandum Account (PFASMA) to include capital-related costs necessary to comply with national drinking water regulations for the six per- and polyfluoroalkyl substances (PFAS). On September 9, 2020, Park Water submitted Advice Letter 302-W filed to implement the PFASMA to track the incremental operating costs related to PFAS ordered by Resolution W-5226 (Resolution).<sup>209</sup>

Park Water indicates that the Resolution only allowed companies to establish memorandum accounts to track PFAS-related expenses, not capital carrying costs. On October 21, 2020, the Commission's Water Division approved Advice Letter 302-W. In this GRC, Park Water requests a revision to its existing PFASMA to include carrying costs at Park Water's rate of return on all incremental capital investments to address treatment for PFAS based on the established MCLs.<sup>210</sup>

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<sup>209</sup> Liberty Utilities OB at 78.

<sup>210</sup> Liberty Utilities OB at 79.

Cal Advocates recommends denying Park Water's request, arguing that Park Water has no existing plans to construct treatment facilities for PFAS-affected wells and that Park Water would be recording "profit on the profits" while under construction.

Both California and federal regulations require compliance with PFAS standards by 2029, and the tracking of capital-related costs in the PFASMA facilitates a smoother and more efficient implementation of PFAS treatments as the compliance deadlines approach and conditions evolve.<sup>211</sup>

Park Water provided persuasive evidence that its request for modification of the existing PFASMA supports the exploration of treatment alternatives and preparations for future requirements. In addition, Park Water convincingly argues that the proposed modification provides Park Water with the financing necessary to initiate critical planning and design work for PFAS treatment at Well 40D which has total projected costs of approximately \$3.7 million. Accordingly, we approve the installation of the PFAS treatment project requested by Park Water and authorize a budget of \$3.7 million. With that, we approve the modification of the existing PFASMA for Park Water to include capital-related costs necessary to comply with national drinking water regulations for the six per- and polyfluoroalkyl substances (PFAS).

## **12. Suburban Memorandum Account (Park Water)**

For context, the Sativa Water District (Sativa) was a locally managed water agency in Willowbrook and Compton that was dissolved in 2018 when the County of Los Angeles intervened to take over Sativa's daily operations. The Sativa Los Angeles County Water District (Sativa Los Angeles County) refers to

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<sup>211</sup> Cal Advocates OB at xv. & 126.

the transitional period when the Los Angeles County Department of Public Works took over operations of Sativa to fix water safety issues. On April 7, 2022, in Decision (D.) 22-04-010, the Commission approved Suburban Water Systems' (Suburban) acquisition of Sativa.<sup>212</sup>

Park Water states that the purpose of a Suburban Revenue Memorandum Account (SRMA) is to track customers' share (30%) of the net revenue associated with the Non-Tariffed Products and Services (NTPS) contract between Park Water and Suburban, ensuring that customers receive their proper allocation. The net revenue is the difference between the gross revenue and associated production expenses (purchased power, replenishment, leased water rights, and chemicals).<sup>213</sup>

Park Water indicated in its Opening Brief that due to problems with water quality, Sativa installed an emergency interconnection to Park Water's Compton system in 2019 to allow Sativa to draw clean water on an emergency basis for its customers pending a planned sale of its water system to Suburban.

Park Water provided the initial written agreement between Park Water and Sativa Los Angeles County to the Commission via Advice Letter (AL) 321-W, which the Commission approved in May 2022. Under that approval, the contract between Park Water and Sativa Los Angeles County is treated as an NTPS service, and 30% of the revenues from that agreement are shared with customers. Approval of AL 321-W also established the Sativa Revenue Memorandum Account. Effective as of December 24, 2022, the Commission approved AL 330-W, which authorized the establishment of the Suburban Revenue Memorandum

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<sup>212</sup> *Id.*

<sup>213</sup> Liberty Utilities OB at 59.

Account (SRMA) and affirmed that the executed contract complies with NTPS rules.<sup>214</sup>

Cal Advocates claims that the NTPS contract between Suburban and Park Water violates the anticompetitive provisions of the NTPS rules. Cal Advocates asks the Commission to classify all revenues from this contract as miscellaneous revenues in this rate case and to reduce Park Water's test year revenue requirements in relation thereto. Cal Advocates also requests that the parties be ordered to enter into a new contract reflecting the per CCF rates the Commission adopts for other resale customers.<sup>215</sup>

Park Water argues that because Cal Advocates' recommendation is based on total gross revenue billed, it does not account for associated production expenses, such as purchased power, replenishment, leased water rights, and chemicals, which, AL 330-W (approved by the Commission effective December 2022), expressly provides.<sup>216</sup>

Park Water further argues that if Cal Advocates' recommendation were adopted, Park Water's rates would be less than the amount required to recover its approved cost of service in violation of longstanding Commission precedent. Finally, with respect to Cal Advocates' proposal that the Commission compel Park Water and Suburban to enter into a new contract with adopted tariff rates, Park Water argues that such a proposal fails to acknowledge the Commission's prior approval of the existing contract.<sup>217</sup>

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<sup>214</sup> *Id.*

<sup>215</sup> *Id.* at 87.

<sup>216</sup> Liberty Utilities OB at 87.

<sup>217</sup> *Id.* at 88.

The Commission adopts both Park Water's request to have the contract between Park Water and Sativa Los Angeles County treated as an NTPS service, with 30% of the revenues from that agreement to be shared with customers, and the establishment of the SRMA because the Commission has already approved the allocation of 30% of revenue to customers as their share of revenue.

### **13. Catastrophic Event Memorandum Account (Park Water and Apple Valley Ranchos)**

#### **13.1. Park Water**

Park Water requests that the Commission review its Catastrophic Event Memorandum Account (CEMA) for approval to recover the under-collected balance and continuation of this account. As provided in Park Water's approved Preliminary Statement, its CEMA was authorized in D.19-07-015 to record costs associated with a catastrophic event when either the Governor of California or the President of the United States has declared a state of emergency related to a specific event affecting Park Water. On March 4, 2020, Governor Gavin Newsom declared a state of emergency in California as part of California's response to the COVID-19 pandemic. On March 13, 2020, the President of the United States proclaimed a National State of Emergency in response to the COVID-19 pandemic.

The interest accrued in the CEMA compensates Park Water for the time value of money during the period between incurring the costs and when Park Water is authorized to recover them through rates. The costs recorded in the CEMA were related to COVID-specific expenses, including masks, disinfectants, sanitizers, and additional cleaning services for extra precaution. Activation of the CEMA was authorized in AL 297-W, effective March 4, 2020. As of February 1, 2022, no new expenses are recorded in the CEMA due to the end of the COVID

moratorium.<sup>218</sup>

Park Water argues that the costs recorded in the CEMA were related to COVID-specific expenses, including masks, disinfectants, sanitizers, and additional cleaning services for extra precautions. In contrast, the funding received from the SWRCB was allocated to specific residential and commercial accounts for water service periods, from March 4, 2020, through December 31, 2022. In accordance with SWRCB requirements, these funds were applied directly to the appropriate customer accounts, reducing the accounts receivable balances, and any unused funds were returned to the SWRCB.<sup>219</sup>

Cal Advocates also recommends removing interest accrued from February 1, 2022, and adding the arrearage funding relief from the SWRCA. Additionally, Cal Advocates recommends closing this account.<sup>220</sup>

The Commission rejects Cal Advocates' recommendation because its proposal to include the SWRCB arrearage funding in the CEMA is incorrect. The SWRCB funding was tied only to specific customer accounts meeting specific requirements. Cal Advocates' approach of adding the arrearage funding to the CEMA without accounting for Park Water's revenue losses leads to double-counting. Cal Advocates' request to close the account is premature and unwarranted. The Commission finds that the balance recorded in the CEMA properly accrues interest until the full balance is amortized in accordance with the Preliminary Statement and that Park Water is authorized to recover through rates. Park Water is authorized to recover \$112,083 as a reasonable cost and the

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<sup>218</sup> Liberty Utilities OB at 60.

<sup>219</sup> *Id.*

<sup>220</sup> Cal Advocates OB at xiv.

CEMA is authorized to continue.

### **13.1.1. Apple Valley Ranchos**

Apple Valley requests that the Commission review its CEMA for approval to recover the under-collected balance and continuation of this account. This account was authorized by D.19-07-015. The purpose of this account and its activation as a result of both state and national emergencies is discussed above. Activation of the CEMA was authorized in AL No. 239-W, effective March 4, 2020.<sup>221</sup>

The situation for Apple Valley Ranchos is identical to Park Water's CEMA, and without repeating the various arguments, we also approve Apple Valley Ranchos' proposal.<sup>222</sup>

### **13.1.2. Sativa Revenue Memo Account (Park Water Only)**

Park Water requests that the Commission review the over-collected balance in its SRMA, approve the refund of the over-collected balance, and approve termination of this account. This account was authorized in AL 321-W-A. The purpose of this account is to track the customers' share of the revenue (30%) of the net revenue associated with the NTPS contract with Sativa.<sup>223</sup>

Cal Advocates claims that Park Water failed to comply with NTPS rules related to allocating ratepayers the first \$100,000 of revenue from the Sativa Contract and that Park Water miscalculates the over-collected balance as a direct result thereof.<sup>224</sup>

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<sup>221</sup> Liberty Utilities OB at 66.

<sup>222</sup> Liberty Utilities OB at 67.

<sup>223</sup> *Id.* at 86.

<sup>224</sup> Cal Advocates at 116.

Park Water argues that Cal Advocates' claim is based on a misreading of the applicable NTPS rules. The allocation of the first \$100,000 is not based on each NTPS contract; rather, it is based on the first \$100,000 of annual Other Operating Revenue (i.e. aggregate revenues from NTPS contracts).<sup>225</sup> During the period from 2021-2022, when the SRMA tracked ratepayers' share of revenue from the NTPS contract with Sativa Los Angeles County, Park Water also had NTPS contracts with other parties, including the City of Bell Gardens, Sativa, HomeServe, and Suburban. For simplicity in tracking, Park Water allocated the first \$100,000 associated with its NTPS contract with the City of Bell Gardens to ratepayers within the first four months of each applicable year. Thereafter, the allocation of revenues generated by NTPS contracts was shared between Park Water and the ratepayers.<sup>226</sup>

Based upon the information from Park Water, as discussed in Section 12, above, the Commission finds that Park Water's interpretation of the NTPS rules on revenue sharing was correct, and that Park Water correctly complied with the NTPS rules by allocating the first \$100,00 associated with its NTPS contract with the City of Bell Gardens to ratepayers within the first four months of each applicable year.<sup>227</sup> Therefore, Cal Advocates' recommendation is rejected, and Park Water is authorized to amortize the over-collected balance of \$283,994 as of December 31, 2023. Accordingly, the SRMA is terminated as requested.

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<sup>225</sup> Liberty Utilities OB at 62; See, D.10-10-019, Appendix, A, p. A13 ("For those utilities with annual Other Operating Revenue (OOR) of \$100,000 or more, revenue sharing shall occur only for revenues in excess of that amount. All NTP&S revenue below that level shall accrue to the benefit of ratepayers.")

<sup>226</sup> Liberty Utilities OB at 62.

<sup>227</sup> If the first contract had not yielded \$100,000 we would expect Park Water to allocate the difference from a second contract until the required \$100,000 had been directly and correctly allocated to ratepayers.

## **13.2. Consolidated Expense Balancing Account (Park Water and Apple Valley Ranchos)**

### **13.2.1. Park Water**

Park Water requests that the Commission review its Consolidated Expense Balancing Account (CEBA) for approval to refund the over-collected balance recorded in this account. The purpose of this account is to consolidate the amortization of Commission-approved balancing accounts and memorandum accounts where appropriate. The Commission authorized this account in AL 266-W-A effective May 25, 2016. Park Water argues that consolidating these accounts through the CEBA simplifies billing while maintaining transparency. Park Water's workpapers illustrated an authorized recovery amount of \$494,252 and amortization with the surcharges billed. Park Water indicated that as of December 31, 2023, the ending balance was an over-collection of \$10,844.<sup>228</sup>

Cal Advocates asserts that Park Water is misusing the CEBA and recommends limiting the CEBA to Interim Rates and regulatory lag-related accounts. They argue that the Commission should require Park Water to amortize overcollections in its CEBA. Going forward, Cal Advocates contends that the Commission should permit Park Water to include only accounts such as Interim Rates or those relating to regulatory-lag. For Park Water, Cal Advocates asserts the CEBA balance of \$10,843 should be amortized and returned to ratepayers.<sup>229</sup>

The Commission finds that the practice of consolidating the amortization of Commission-approved balancing accounts and memorandum accounts is reasonable and, thus, approves the refund of the over-collected balance recorded

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<sup>228</sup> Liberty Utilities OB at 64.

<sup>229</sup> Cal Advocates OB at 116.

in the account of \$10,844. Accordingly, the CEBA account is continued without modification to consolidate approved recovery of memorandum/balancing accounts, which helps to reduce multiple surcharges/sur-credit and allows for one surcharge/sur-credit.

### **13.2.2. Apple Valley Ranchos**

Apple Valley Ranchos also requests that the Commission review its CEBA for approval to refund the residual over-collected balance recorded in this account. Based on the identical analysis used for Park Water, we adopt Apple Valley Ranchos' request for approval to refund the residual over-collected balance recorded in the CEBA.

### **13.3. Tax Cuts and Jobs Act Memorandum Account (Park Water and Apple Valley Ranchos)**

#### **13.3.1. Park Water**

Park Water requests Commission approval to transfer the residual balance recorded in its Tax Cuts and Jobs Act Memorandum Accounts (TCJA) to the CEBA and refund to customers. AL 337-W-A authorized a one-time surcredit refunding the balance recorded in the TCJA effective September 1, 2023.<sup>230</sup> Cal Advocates argues that the Commission should order Park Water to close the TCJA account and immediately amortize the overcollection of \$39,042 for TCJA because Park Water stipulated to do this in the last GRC.<sup>231</sup>

In response, Park Water argues that Cal Advocates incorrectly asserts that Park Water and Apple Valley consolidated the TCJA accounts into CEBA and that they failed to refund the balances to customers as authorized in D.23-02-003. The TCJA balances were refunded to customers through a one-time surcredit as a

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<sup>230</sup> Liberty Utilities OB at 70.

<sup>231</sup> Cal Advocates OB at 117.

separate line item on customers' bills in accordance with the approval of AL 337-W-A for Park and AL 275-W-A for Apple Valley Ranchos, effective September 1, 2023. The TCJA accounts are closed, meaning no new activity is recorded, and only interest accrues on the residual balances.<sup>232</sup>

Park Water presented sufficient evidence to show that the TCJA balances have been refunded to customers. There is no longer a need for the TCJA account. Accordingly, the Commission orders that the TCJA be closed.

### **13.3.2. Apple Valley Ranchos**

Apple Valley Ranchos also requests Commission approval to transfer the residual balance recorded in its TCJA to the CEBA. The issues and arguments are identical to those for Park Water.<sup>233</sup> There is no longer a need for the Apple Valley Ranchos TCJA account. Accordingly, the Commission orders that the TCJA be closed and the balance be refunded to customers.

### **13.3.3. Employee & Retiree Healthcare Balancing Account (Apple Valley Ranchos)**

Apple Valley requests Commission approval to the transfer of the over-collected balance of \$932 recorded in its Employee Retiree Healthcare Balancing Account (ERHBA) to the CEBA.<sup>234</sup> Cal Advocates argues that overcollections in Apple Valley Ranchos' CEBA should be amortized. Cal Advocates contends that Apple Valley Ranchos should only be permitted to include accounts relating to Interim Rates or regulatory lag in the CEBA.<sup>235</sup> Cal Advocates argues the CEBA balance should be amortized

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<sup>232</sup> Liberty Utilities OB at 65.

<sup>233</sup> Cal Advocates OB at 117.

<sup>234</sup> Liberty Utilities OB at 70.

<sup>235</sup> Cal Advocates OB at 116.

and returned to ratepayers.<sup>236</sup>

The Commission finds that the transfer of the over-collected balance in Apple Valley Ranchos' ERHBA to the CEBA would reasonably allow Apple Valley Ranchos to consolidate the amortization of Commission-approved balancing accounts and memorandum accounts where appropriate and mitigate customer confusion. The Commission adopts Apple Valley Ranchos' proposal on the ERHBA.

### **13.4. Rates, Revenue, and Rate Design for Park Water**

There were litigated rate design issues in these consolidated proceedings related to revenue allocation and quantity rate ratios. With respect to revocation allocation, Park Water currently collects 40% of its revenue from fixed charges and 60% from quantity charges (40/60 split).<sup>237</sup> With respect to Quantity Rate Ratios, Park Water's current Tier Rate ratio is 75% of the Single Quantity Rate (SQR)<sup>238</sup> for Tier 1, 100% of the SQR for Tier 2, and 169% of the SQR for Tier 3.<sup>239</sup>

#### **13.4.1. Revenue Allocation**

Park Water made two proposals regarding revenue allocation, depending on whether the Commission authorizes it to implement full WRAM, which Park Water has renamed the Consumption Revenue Balancing Account (CRBA), and revenue decoupling. If the Commission adopts Park Water Option 1, Park Water's request for a full revenue decoupling program, then the company proposes that the Commission also adopt a revenue allocation where the

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<sup>236</sup> *Id.*

<sup>237</sup> Liberty Utilities OB at 81 & 84.

<sup>238</sup> The SQR is derived by taking total usage revenues and dividing them by total sales. Cal Advocates OB at 130.

<sup>239</sup> Cal Advocates OB at 130.

authorized revenue requirement recovered through fixed charges is 30% and quantity charges is 70% (30/70 split).<sup>240</sup>

In support of its preferred proposal for full revenue decoupling with a 30/70 split, Park Water argues that the revenue decoupling program would minimize the under- or over-recovery of the authorized revenue requirement, adjust for differences between actual customer usage and estimated customer usage, and mitigate the need for the higher fixed charge allocation.<sup>241</sup> Park Water also argues that a decrease in the portion of the authorized revenue recovered through fixed service charges balances important rate design objectives: stability in customer bills and Company revenues and price signals that encourage conservation of water.<sup>242</sup>

Alternatively, if the Commission denies Park Water's request to implement full revenue decoupling, Park Water's second, alternative rate design proposal, Park Water Option 2, calls for collecting 50% of its revenue from fixed (meter) charges and 50% from quantity charges, respectively (50/50 split).<sup>243</sup>

Park Water points to the language in D.16-12-026 where the Commission finds, "[maintaining] the current WRAM and MCBA ratemaking mechanism, and the current 10 percent cap on the recovery of revenues that applies to the WRAM mechanism though utilities may propose alternatives in their GRC proposals and negotiate those outcomes" for its proposal of an alternative

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<sup>240</sup> Liberty Utilities OB at 83.

<sup>241</sup> *Id.* at 83-85.

<sup>242</sup> *Id.* at 85.

<sup>243</sup> Liberty Utilities OB at 81.

consisting of a 50/50 fixed/standard revenue requirement split.<sup>244</sup> Park Water argues that the proposal conforms to the Commission's determination that the water utilities should shift more water rate collection to up to 50% of fixed charges.<sup>245</sup>

Cal Advocates rejects both Park Water's proposed options and argues that the Commission should deny both options.<sup>246</sup> Instead, Cal Advocates recommends that the Commission maintain the current allocation split of 40% of revenue from fixed charges and 60% from quantity charges.<sup>247</sup> Cal Advocates points to D.16- 12-026 where the Commission ordered, "Class A and B water utilities, that seek to adjust current rate design, to consider submitting proposals in their next GRC application to shift more water rate collection to fixed charges, with a floor of 40 percent of revenues collected from fixed charges, and up to 50 percent fixed charges" for its position that Park should be required to maintain the 40/60 split.<sup>248</sup> In addition, Cal Advocates recommends a transition to M-WRAM.<sup>249</sup>

The record supports approval of Park Water's rate design with respect to revenue allocation that allows for the under- or over-recovery of the authorized revenue requirement, adjusting for differences between actual customer usage and estimated customer usage; and promotes the important design objectives of stability in customer bills and Company revenue while balancing price signals

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<sup>244</sup> *Id.*

<sup>245</sup> *Id.*

<sup>246</sup> Cal Advocates OB at 127.

<sup>247</sup> *Id.*

<sup>248</sup> *Id.*

<sup>249</sup> *Id.*

that encourage water conservation. As such, we adopt Park Water's rate design recommendation, Park Water's Option 1, for a revenue allocation that adopts a full revenue decoupling program with a 30/70 split as just and reasonable, and consistent with D.16-12-026.

#### **13.4.2. Quantity Rate Ratios**

Cal Advocates argues that to ensure water conservation and equity to ratepayers, the Commission should adjust Park Water's tier differential changes in its Original Application.<sup>250</sup> According to Cal Advocates, "under Park Water's 30/70 split (with WRAM authorization) proposal, Park Water's rate design decreases its Tier 1 rate and decreases the Tier 3 relative to Tier 2 rates [Park Water Quantity Rate Ratio Option 1]. Under Park Water's alternative 50/50 split (if WRAM is denied) proposal, Park Water's rate design decreases Tier 1 rates and increases Tier 3 rates [Park Water Quantity Rate Ratio Option 2]." (See also Table 6, below.)<sup>251</sup>

This Commission adopted Option 1 and rejected Option 2 altogether. As such, the discussion below, explaining the Commission's rationale for adopting Option 1, will only address Option 1.

Cal Advocates rejects Park Water's Quantity Rate Ratios Option 1, arguing that the Commission should consider a rate design that maintains revenue neutrality where the revenue Park Water receives under a fixed single rate equals

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<sup>250</sup> Cal Advocates OB at 130.

<sup>251</sup> *Id.*

that under a block rate structure<sup>252</sup> and its current tier rate is modified to encourage water conservation.<sup>253,254</sup>

Park Water proposed to revise its Quantity Rate Ratios Option 1 with: (1) a Fifty percent movement of Tier 2 rates towards SQR to reflect the principle of gradualism and avoid any rate shock to customers and (2) a rate increase of both Tier 1 and Tier 3 at a uniform percentage [Modifications of Park Water Quantity Rate Ratios Option 1].”<sup>255</sup>

Cal Advocates notes that, “Tier 1 rate differentials should not increase because keeping Tier 1 rate differentials lower results in benefits for low water users and low-income ratepayers who use less water than non-low income ratepayers. . . Tier 3 rates should move rather than Tier 1 and Tier 3 moving uniformly as Liberty Proposes.”<sup>256</sup> Cal Advocates proposes that for the foregoing reasons the Commission adopt its proposed quantity rate ratios to reach revenue neutrality.<sup>257</sup>

Cal Advocates rejects Park Water’s proposed modifications to its recommendations of: (1) gradually moving Tier 2 rates toward SQR by implementing 50% of the move towards 100% SQR for Tier 2; and (2) uniformly making increases to Teir 1 and 3 rates be made under the position that both

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<sup>252</sup> *Id.* at 131.

<sup>253</sup> *Id.*

<sup>254</sup> *Id.* “When designing rates, it is typical for a Class A water utility to set the medium tier (such as Tier 2 in a 3-tier rate structure) to the Standard Quantity Rate (SQR). The lower tier is set below SQR to encourage conservation, while the higher tier differential is set higher than the SQR.”

<sup>255</sup> *Id.*

<sup>256</sup> *Id.*

<sup>257</sup> *Id.*

modifications “would result in lower-water users paying more for the benefit of higher water users in Tier 3, inconsistent with rate design’s water conservation objectives (such as aligning the middle tier to SQR).”<sup>258</sup>

In its Opening Brief, Cal Advocates provides a table that represents Park Water’s Tier Differentials as follows:

**Table 6:**  
Park Water Residential Tier Rate Differential Changes<sup>259</sup>

	<b>Current</b>	<b>Proposed</b>	<b>Alternative</b>
Tier 1	75%	65%	30%
Tier 2	100%	100%	100%
Tier 3	169%	160%	180%

The record supports approval of Park Water’s Option 1 on revenue allocation, i.e., 30 % fixed and 70% volumetric allocation, and its proposed rate-design framework with respect to quantity rate ratios because it has targeted modifications, strengthened affordability, and maintains fairness.

Park Water shall enhance its CAP by increasing eligibility thresholds and discount levels to mitigate affordability impacts on low-income and essential-use customers. Park Water shall file a Tier 2 Advice Letter within 90 days of this decision proposing specific program improvements. Attached hereto as Appendix B and incorporated herein by reference is a list of all Tier 2 Advice Letter Compliance Filing Requirements.

We therefore adopt a moderate tiered pricing structure that still maintains conservation incentives but reduces tier differentials to improve affordability for essential-use consumption.

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<sup>258</sup> Cal Advocates OB at 132.

<sup>259</sup> *Id.* at 130 (Table 9: Liberty’s Residential Tier Rate Differential Changes).

Park Water shall conduct an updated cost-allocation and elasticity study in its next GRC to evaluate evolving consumption patterns, affordability metrics, and the effectiveness of conservation pricing.

In addition, Park Water shall include in that study: (1) a district-level affordability analysis applying Pub. Util. Code section 739.8 metrics; (2) evaluation of CAP participation rates and targeted outreach strategies; and (3) quantification of drought-period revenue variance to assess whether current balancing accounts adequately stabilize recovery.

We caution that future modifications to the tiered-rate structure should be evaluated for their potential impact on revenue stability and on the distribution of costs between program participants and non-participants. Lowering Tier 1 rates and compressing tier differentials can heighten revenue-requirement uncertainty and may increase pressure for additional decoupling mechanisms. Expanding low-income benefits may alleviate affordability challenges but can shift fixed-cost recovery to non-participating customers. Accordingly, Park Water shall include an analysis of these revenue-stability and cost-distribution effects as part of its next rate design proposal.

We order Park Water to collaborate with Cal Advocates to refine standardized affordability indicators to be used for Park Water and Apple Valley Ranchos' future GRC rate-design analyses, ensuring consistent evaluation of affordability outcomes.

This approach maintains cost-of-service integrity while addressing equity concerns, ensuring that Park Water's rates remain just and reasonable and consistent with the Commission's statutory and policy objectives.

### **13.5. Rates, Revenue and Rate Design for Apple Valley Ranchos**

Apple Valley Ranchos' proposal on rate design (30/70 split with a request for full revenue decoupling) mirrors that of Park Water's. Cal Advocates raises the same concerns against Apple Valley Ranchos' proposal as were raised in Park Water.

#### **13.5.1. Revenue Allocation**

Because the rationale for Apple Valley Ranchos' revocation allocation is the same as that in Park Water discussed directly above, we need not duplicate that discussion here. For the reasons discussed above, in section 13.5, the Commission adopts Apple Valley Ranchos' rate design recommendation for a revenue allocation that adopts a full revenue decoupling program with a 30/70 split as just and reasonable, and consistent with D.16-12-026.

#### **13.5.2. Quantity Rate Ratios**

Based on the identical analysis used for Park Water, the Commission adopts the same quantity rate ratio tier-pricing structure for Apple Valley Ranchos as was adopted in Park Water, in Section 13.5.2, directly above.

### **14. Environmental and Social Justice Action Plan**

The Commission is committed to addressing the inequities that create barriers for citizens seeking safe and affordable utility services. In February 2019, we adopted the Environmental and Social Justice (ESJ) Action Plan. The ESJ Action Plan 2.0 was adopted in 2022. The ESJ Action Plan sets nine goals that establish a roadmap to improve services to targeted communities and expand public inclusion in the Commission's decision-making process.

ESJ communities include those that may be subject to a disproportionate impact from one or more environmental hazards, or that are likely to experience disparate implementation of environmental regulations and socioeconomic

investments in their communities. With respect to these communities, the Commission considers: (1) whether the proposed action may have a disproportionate impact on service quality and availability of service in the community, or (2) whether the proposed action may have a disproportionate safety impact or burden on the community.

ESJ Action Plan Goal 3 provides that the Commission will “[s]trive to improve access to high-quality water . . . services for ESJ Communities.” ESJ Action Plan Objective 3.2 addresses water customer resilience, “Support ESJ customers and communities with discounted rates for low-income customers and sustainable systems.” (ESJ Action Plan 2.0, p. 24). The decision includes funding for Park Water and Apple Valley Ranchos programs. The tiered rate program adopted in this decision ensures customers have the lowest possible costs for basic needs. These programs directly support ESJ customers and communities, providing payment assistance to low-income ratepayers across each of these water utilities’ districts. Therefore, we find that our ESJ goals are reasonably met.

#### **15. Motion to Establish Interim Rates and Related Memorandum Account**

Pursuant to the Scoping Memo schedule, by a ruling dated May 30, 2025, the assigned ALJ granted Park Water and Apple Valley Ranchos’ Interim Rates Motion to establish interim rates and a memorandum account, noting that a final Commission decision was not likely to be issued by July 1, 2025. We affirm the ALJ’s ruling and make further provision herein for amortizing the accumulated balance in the memorandum account by December 31, 2026.

**16. Admittance of Exhibits into the Record**

We affirm the ALJ's ruling at the October 22, 2024, Evidentiary Hearing, admitting all identified exhibits into the record. All motions not specifically ruled on regarding exhibits are deemed denied.

**17. Joint Motion to Seal**

Pursuant to Rules 11.4 and 11.5 of the Commission's Rules, the parties filed a joint motion on January 9, 2025, for leave to file various exhibits as confidential.

Park Water and Apple Valley Ranchos' exhibits include confidential information on critical infrastructure, as well as information protected as trade secrets and proprietary information. As such, it is necessary to place this information into the record under seal. In compliance with General Order 66-D, Park Water and Apple Valley Ranchos: (a) identified the specific portions of the documents that are confidential, (b) specified the basis for confidentiality and provided a detailed explanation, and (c) included with each document a declaration in support of the confidential designation signed by an officer of Park Water and Apple Valley Ranchos.

Park Water requests confidential treatment of the following exhibits:

1. Exhibit LIB-28C – Park Rebuttal (CONFIDENTIAL)
2. Exhibit LIB-30C – Errata (October 8, 2024) Park Rebuttal (CONFIDENTIAL)
3. Exhibit LIB-53C – GO Section 2 Workpapers (CONFIDENTIAL)
4. Exhibit LIB-62C – Park Section 4 Workpapers (CONFIDENTIAL)
5. Exhibit LIB-63C – Park Section 5 Workpapers

(CONFIDENTIAL)

Apple Valley Ranchos requests confidential treatment of the following exhibits:

1. Exhibit LIB-27C – Apple Valley Ranchos Rebuttal (CONFIDENTIAL)
2. Exhibit LIB-29C – Errata (October 8, 2024) Apple Valley Ranchos Rebuttal(CONFIDENTIAL)
3. Exhibit LIB-35C – Apple Valley Ranchos Section 4 Workpapers (CONFIDENTIAL)
4. Exhibit LIB 36C – Apple Valley Ranchos Section 5 Workpapers (CONFIDENTIAL).

Cal Advocates requested confidential treatment of the following:

1. Exhibit CalAdv-02-C - Public Advocates Office Report on General Office Expenses and Rate Base (CONFIDENTIAL)
2. Exhibit CalAdv-03-C - Public Advocates Office Report on Operations and Maintenance Expenses, Admin and Gen Expenses, Payroll, and Conservation (CONFIDENTIAL)<sup>260</sup>

We agree that this information is sensitive and should be kept under seal.

We have granted similar requests in the past and do so here.

## **18. Public Comments Received**

The Commission held four Public Participation Hearings (PPHs) in these consolidated proceedings. On July 30, 2024, one in-person PPH was held for

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<sup>260</sup> Joint Motion of the Public Advocates Office, Liberty Utilities (Apple Valley Ranchos) Corp. (U 346-W), and Liberty Utilities (Park Water) Corp. (U 314-W), to Seal Portions of the Evidentiary Record on January 9, 2025, at 1.

Park Water and one remote one was held on July 31, 2024. On July 29, 2024, one in-person PPH was held for Apple Valley Ranchos and one remote one was held on July 31, 2024. The remote PPHs were held to provide Liberty's customers with an opportunity to communicate directly with the Commission regarding the Applications and the proposed rate increases.

In addition to the comments at the PPHs, 51 written public comments were submitted in these consolidated. Twenty-five of the comments addressed Apple Valley Ranchos's application, while 26 of them addressed Park Water's application.

The comments provided at the PPH and on the proceeding Docket Card are not a part of the evidentiary record but, rather, are a part of the proceedings record. Comments raised general concerns about affordability.

#### **19. Comments on Proposed Decision**

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with § 311 of the Pub. Util. Code and comments were allowed under Rule 14.3.

#### **20. Assignment of Proceeding**

Commissioner Darcie L Houck is the assigned Commissioner and Margery L. Melvin is the assigned ALJ and the presiding officer in this proceeding.

#### **Findings of Fact**

##### *General Background (§ 1)*

1. Park Water and Apple Valley are Class A water companies subject to the Commission's jurisdiction.
2. Liberty is the parent company of both Park Water and Apple Valley Ranchos.

*Uncontested Issues (§ 3)*

3. The parties stipulated to each of the issues listed in the “Joint Statement of the Public Advocates Office, Liberty Utilities (Apple Valley Ranchos) Corp., Liberty Utilities (Park Water) Corp., and California Water Association”, Attachment 2, filed on October 11, 2024.

*Water Sales Forecast & Water Supply Forecast (§ 5)*

4. Park Water and Apple Valley Rancho’s water supply forecast methodology incorporates the factors required by D.20-08-047 by integrating drought year data, rate design impact, climate trends, and past sales.

5. Park Water and Apple Valley Rancho’s water supply forecast is based on pumped and purchased water costs, based on well capacity, and considers operations, maintenance, and regulatory requirements.

6. The resolution of Park Water’s reasonable water supply forecast is tied to the Commission’s decision on Park Water’s reasonable water sales forecast.

7. Park Water took Wells 28B, 41A, 46C out of service to address water concerns.

8. The Final PFAS National Primary Drinking Water Regulation establishing federal PFAS MCLS with initial monitoring commencing by 2027 and full compliance by 2029 was adopted in 2024, before the instant applications were filed.

9. Park Water’s Well 9D in the Compton East system has operational limitations (hydraulic and treatment plant) and, therefore, Park Water cannot rely on Well 9D to meet demand for customers of the Compton East system.

10. Park Water's Well 19C in the Compton West system cannot be used at full capacity to meet demand for customers of the Compton West system because it needs periodic maintenance.

11. Park Water's Well 12C of the Compton West system cannot be removed from rate base because it needs to serve as backup to Well 19C during periodic maintenance and efficiency shutdowns.

12. Park Water's water supply forecast for Wells 28B, 41A, and 46C, which were taken out of service to address water quality concerns, is influenced by Park Water's need to address the PFAS National Primary Drinking Water Regulation adopted in 2024 as it relates to these wells.

13. Park Water's water supply forecast for all wells of the Compton East and Compton West systems is based on pumped and purchased water costs, well capacity, and regulatory requirements, among other factors.

***General Office (§ 6.1)***

14. Utilizing relevant allocation factors, Park Water and Apple Valley Ranchos developed its Test Year General Office forecast based on anticipated headcount and non-labor expenses that it expected for this rate cycle and then escalated to 2025 dollars.

***Customer First (§ 7.3.11)***

15. The Customer First project was an enterprise-wide, multi-year implementation to replace and improve legacy computer systems for all the Algonquin utilities, including Apple Valley Ranchos and Park Water.

16. Park Water and Apple Valley Ranchos' forecast for the Customer First project is based on an allocation of the estimated total project costs.

*Head Office Expenses (§ 7.3.11.2)*

17. Park Water and Apple Valley Ranchos' forecast for Head Office expenses is based on the last recorded year (2022), consistent with the increasing trend over the historic period.

*Telemetry Account (§ 7.3.9)*

18. Park Water and Apple Valley Ranchos' forecast of the costs associated with telemetry, network, internet, SCADA, phone lines, and wireless plans for cell phones is based on an average of the two most recent recorded years (2021-2022), consistent with the timing of the change in recording practice for telemetry expenses.

19. For the Telemetry Account, Park Water and Apple Valley Ranchos use a five-year average with a \$53,244 deduction to Park Water's initially reported 2024 recorded expense and a deduction of \$9,130 to Apple Valley Ranchos' 2024 recorded expense for their respective forecast 2025 Telemetry Account budget.

*Credit Card Fees (§ 7.3.11.3)*

20. Park Water and Apple Valley Ranchos based its forecast of credit card fees on annualization of the recorded fees from July 2023 through July 2024, adjusted upward by 10% for inflation and growth, resulting in a credit card fee forecast of \$248,075 for the Test Year.

*Labor & Non-Labor Expense Escalation Factors (§§ 7.1 & 7.2)*

21. For the years 2025 and 2026, Park Water and Apple Valley Ranchos' forecast of labor and non-labor expenses includes an annual increase of 4%, which corresponds to the merit increase rate granted during 2023.

22. Pursuant to the RCP, utilities are permitted to forecast Test Year estimates using any reasonable and appropriate methodology.

*Escalation Factors (§ 7.3)*

23. Park Water and Apple Valley Ranchos used estimated escalation factors for those expenses where escalation provided the most reasonable estimate, they then applied that escalation to recorded expenses over a multi-year period as part of the averaging methodology.

24. The companies' Test Year period in this GRC uses a fiscal year of July 1, 2025, through June 30, 2026, rather than the 2025 calendar year.

*Forecast of 2026 Expenses (§ 7.1.1)*

25. Park Water and Apple Valley Ranchos included an average of the forecasts for those calendar years (2025 and 2026) in those categories of expenses, as they are necessary to develop an accurate project of the applicable Test Year period.

*Water Conservation (§ 7.3.3)*

26. Both Park Water and Apple Valley Ranchos' WUEP were updated in 2023 to forecast program needs to continue to provide customers with effective and efficient programs that help save water, assist with affordability, and comply with recent conservation regulations.

27. Both Park Water and Apple Valley Ranchos currently implement 13 conservation measures listed in the WUEP, including water loss, water waste enforcement, landscape and irrigation codes, public information and outreach, residential high efficiency toilet distribution, residential hot water recirculating pump rebate, residential and commercial outdoor survey, residential water budgets, residential and commercial drip irrigation kits, residential weather-based irrigation controllers, residential fixture distribution, commercial weather-based irrigation controller, and, only for Park Water, an emergency leak repair program.

28. The six additional conservation measures planned for customer assistance and regulatory compliance for Park Water and Apple Valley Ranchos include residential turf removal, commercial turf removal, spray rinse nozzle distribution, school landscape equipment retrofit, commercial incentives, surveys and equipment replacement, and high efficiency urinal direct install.

29. Park Water and Apple Valley Ranchos base their respective water conservation expenses on their proposed 20-program water conservation plan.

*Mailing Service Expenses (§ 7.3.4)*

30. Park Water and Apple Valley Ranchos base their respective mailing expenses on their forecast of five-year average recorded costs from 2019 to 2023, with no reduction in amount to account for paperless billing.

*Regulatory Commission Expenses (§ 7.3.5)*

31. Park Water and Apple Valley Ranchos' Regulatory Commission Expenses are based on the last GRC proceedings recorded costs escalated to the Test Year plus anticipated consulting costs associated with sales and customers forecasts, rate design, working capital, and updates to WUEP.

*Merit & STIP (§ 7.3.6)*

32. Park Water and Apple Valley Ranchos' compensation model consists of two main components – base wages and at-risk compensation.

33. Park Water and Apple Valley Ranchos' compensation model includes both short-term incentive programs (STIP) and merit compensation.

34. To attract and retain qualified personnel who are knowledgeable about water industry standards, and to serve their customers effectively and efficiently, Park Water and Apple Valley Ranchos must include both STIP and merit-based compensation.

35. For each employee receiving merit-based compensation, Park Water and Apple Valley Ranchos base the compensation system on the budget allocated to the employee's department, employee performance and rating, and the employee's salary relative to the wage band applicable for their position.

36. Park Water and Apple Valley Ranchos' STIP-based compensation system is based around prudent fiscal management, continuous improvement, and efficient operations which inure to benefit all stakeholders, including customers.

37. Absent "at-risk" compensation in the form of STIP, Park Water and Apple Valley Ranchos would have to increase base wages to account for the absence of STIP for Park Water and Apple Valley Ranchos to maintain compensation at approximately the 50<sup>th</sup> percentile of the market of compensation.

*Medical, Dental & Vision Insurance Premiums & Benefits (§ 7.3.7)*

38. For insurance premiums, Park Water and Apple Valley Ranchos utilized recorded costs based on 2023 insurance premiums, then forecasted an annual increase of 9% in 2024, 12% in 2025, and 9% in 2026 and averaged the totals to derive the Test Year forecast.

39. Park Water and Apple Valley Ranchos' insurance premiums increased by an average of 16% from 2022 to 2024.

40. Comparing its insurance premiums from 2022 to 2024, Park Water and Apple Valley Ranchos' insurance premiums increased approximately 34%.

41. Park Water and Apple Valley Ranchos' Test Year forecast for medical, dental, and vision insurance costs were calculated based on rates anticipated to be in effect as of January 1, 2025, along with 5% annual increases.

42. The cost of healthcare is escalating at a materially higher rate than the consumer price index for all urban consumers (CPI-U).

43. Park Water and Apple Valley Ranchos' 5% increase is modest in comparison to historic averages.

44. Park Water used a 4% escalation rate for Park Water's business, medical, dental, vision, and insurance expenses.

***Travel, Business Meals, Office Supplies, Employee Membership (§ 7.3.8)***

45. Park Water and Apple Valley Ranchos provided insufficient general ledger transaction details to support the expense categories of Travel, Lodging and Miscellaneous, Business Meals, Office Supplies, and Employee Membership.

46. Park Water and Apple Valley Ranchos expenses for Travel, Lodging, and Miscellaneous, Business Meals, and Office Supplies were unreasonable expenses imposed upon ratepayers.

***Purchased Water & Leased Water Park Water Only (§6.2.1.1)***

47. Park Water used the 2023 actual unit cost per AF of \$127.41 for forecasting Purchased Water, Power Water, Replenishment, and Leased Water Rights.

***T&D Operating Meter Expenses - Park Water Only (§ 6.2.3)***

48. Park Water used a five-year average of recorded costs from 2109 to 2023 in forecasting T&D Operating Meter Expenses.

49. In forecasting its Test Year forecast of T&D Operating Meter Expenses in the Other – T&D Meter Exp account, Park Water included meter-related operations and maintenance costs and is based on a five-year average of recorded costs from 2019 to 2023.

***Facilities Manager & Senior Manager, Engineering Positions – Park Water (§ 6.2.2)***

50. Park Water's requested Facilities Manager position exists in the current Facilities and Fleet Supervisor II position.

51. Park Water needs to add a senior manager engineering position to its workforce.

52. The requested Facilities Manager position for Park Water overlaps with the other existing roles cited by Cal Advocates.

53. The new Senior Manager, Engineering position serves as an essential role in planning and designing facilities, project management, construction administration, and supervising, training, and recruiting of engineering personnel for Park Water.

*Facilities Manager Position – Apple Valley Ranchos*

*(§6.2.2.1)*

54. The requested Facilities Manager position for Apple Valley Ranchos overlaps with the other existing roles cited by Cal Advocates.

*Escalation Rate – Park Water Only (§ 7.0)*

55. Park Water used a 4% escalation rate for the following expense categories: Operation-Other, Customer-Other, Maintenance-Other, Outside Services, A&G-Other, and Taxes-Other.

56. Park Water used a 4% escalation rate for forecasting labor expenses for TY 2025, and Attrition Years 2026 and 2027.

57. For multiple years, Park Water incurred non-labor costs to address aging meters and AMR register failures, requiring Park Water to use a five-year average of recorded costs from 2018 to 2022.

*Operating Expenses – Apple Valley Ranchos Only (§ 6.1)*

58. Apple Valley Ranchos incurs Replenishment Make-up Assessments in connection with its water production from the Mojave River Basin.

59. Apple Valley Ranchos' forecast of the Replenishment Make-up Assessment Expenses is based on a two-year recorded average with an estimated unit cost of

\$35 per AF for its makeup water obligation, resulting in a total make-up water expense of \$33,024 annually for years 2025, 2026, and 2028.

60. Apple Valley Ranchos' forecast for makeup water obligation utilizing a two-year recorded average with an estimated unit cost of \$35 per AF is based on accurate data.

*Utility Plant (§ 8)*

61. Park Water and Apple Valley Ranchos deferred many projects, and substituted other projects.

62. Park Water and Apple Valley Ranchos did not shortchange ratepayers in deferring a project and substituting deferred projects with other projects.

63. Park Water and Apple Valley Ranchos can move forward with deferred projects after having completed higher priority projects.

64. The deferred projects for both Park Water and Apple Valley Ranchos are necessary to provide safe and reliable service.

65. In calculating the revenue requirement and rate base, it is correct to include the costs of these deferred projects for both Park Water and Apple Valley Ranchos.

66. Park Water and Apple Valley Ranchos methodology, California Construction Cost Index (CCCI), for forecasting the capital escalation rate of 6.08% for Park Water and Apple Valley Ranchos' construction cost is correct.

67. Park Water and Apple Valley Ranchos' proposal to replace aged meters with new ones is necessary.

68. All of Park Water and Apple Valley Ranchos' project cost estimate adjustments (consultant/design, inspections, miscellaneous charges) on its Pipeline Replacement Projects for Park Water and Apple Valley Ranchos are correctly forecast.

69. Park Water and Apple Valley Ranchos' proposal for a five-year average of recorded costs from 2018 to 2022, then escalated to 2022 dollars, forecast for emergency main replacement, hydrants, and services is necessary.

*Disputed Utility Plant Items and Park Water (§ 8.6.6.1 - 8.6.6.4)*

70. Park Water's Bellflower Norwalk Water System will install the second phase of a main installation, named the Area 41 & Target Phase 2 Project, which connects a Norwalk neighborhood and a major commercial center to provide a looped water system that will improve the system's reliability and increase fire flow capacity.

71. Park Water has two existing groundwater wells in the Compton East system, Well 4B and Well 9D. Well 4B was drilled in 1952 and is now 73 years old, and it is declining in production.

72. Park Wark's system operational needs require 2 new generators: an additional 400 kW mobile generator for newer facilities with greater power needs and a new 75 kW generator to replace an existing, elderly, stationary generator.

73. Park Wark's system operational needs require treatment systems at Wells 46C and 41A to remove PFOS and PFOA.

74. Park Water timely seeks Commission authority for PFOS and PFOA treatment facilities in this proceeding.

75. The land associated with Park Water's new Compton East Well is necessary for the new well.

76. Cal Advocates can investigate the prudence of Park Water's project management of PFOS and PFOA treatment projects in a subsequent GRC and may challenge imprudent expenditures for exclusion from rate base.

77. There is no certainty that Park Water can find alternative funding for PFOS and PFOA treatment projects.

78. Construction of Park Water's Well 28 D was delayed for over 10 years. Well 28 D was completed in 2022, but is still not in service. The well has been included in rates in the past, but has recently been excluded from rates.

79. Excluding Well 28 D from rate base protects ratepayers from paying for a plant that is still not in service.

80. Four of Park Water's wells, 4B, 28B, 40D, 41A four wells, 4B, 28B, 40D, 41A are out of service. Excluding them from rate base will protect ratepayers from paying for a plant that is still not in service.

81. Liberty failed to demonstrate that the miscellaneous building fixtures and other items for Park Water's Downey Office should be funded by ratepayers.

#### *Apple Valley Ranchos (§§ 8.7.1 – 8.7)*

82. Apple Valley Ranchos' new building at Well 34 will avoid noise complaints as the existing neighborhood continues development. A solid structure will protect the new electrical system and the existing site equipment. A building provides greater security than the existing fencing.

83. Apple Valley Ranchos' system includes four abandoned wells, and two wells have been put on an inactive status over the last 10 years.

84. Apple Valley Ranchos has 18 remaining wells: five constructed in the 1950s or 60s and four constructed in the 1980s. Of the four wells abandoned in recent years, one was constructed in 1953, and the other three were constructed in or after 1985.

85. Apple Valley Ranchos is currently meeting MDD; however, it requires a new well and land to provide reliable service into the future.

*Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA) (§ 9.0)*

86. To implement a full revenue decoupling mechanism, the WCP, Park Water and Apple Valley Ranchos need to implement two new balancing accounts: the CRBA and the CCBA.

87. The CRBA and CCBA will operate mechanically like the WRAM and the MCBA, previously authorized for Park Water and Apple Valley Ranchos from 2008 through the first half of 2022.

*Conservation Expense One-Way Balancing Account (CEWOBA) (§ 10)*

88. The Conservation Expense One-Way Balancing Account (CEWOBA) was necessary to allow Park Water and Apple Valley Ranchos to track the difference between the actual program expenses and authorized program expenses for rate cycle 2019-2021.

89. The CEWOBA was authorized to track conservation program costs specifically for rate cycle period from July 1, 2019, through June 30, 2022, for Park Water and Apple Valley Ranchos.

*Catastrophic Event Memorandum Account (CEMA) (§ 13)*

90. On March 4, 2020, Governor Gavin Newsom declared a state of emergency in California in response to the COVID-19 pandemic.

91. On March 13, 2020, the President of the United States proclaimed a National State of Emergency in response to the COVID-19 pandemic.

92. Activation of the CEMA was authorized by Advice Letter No. 297-W, effective March 4, 2020.

93. The CEMA needs to be continued for Park Water and Apple Valley Ranchos in case there is a catastrophic event such as a disaster or an emergency

declared by the government and Park Water and Apple Valley Ranchos need to record costs incurred associated with the catastrophic event or emergency.

94. The authorization of the CEMA for Park Water and Apple Valley Ranchos allows for the recovery of the under-collected balance from this account.

***Sativa Revenue Memorandum Account (SRMA) (§ 13.2)***

95. A Sativa Revenue Memorandum Account (SRMA) allows Park Water to track the customers' share of the revenue (30%) of the net revenue associated with the non-tariffed products and services (NTPS) contract with the Water District of the City of Sativa (Sativa).

96. It is necessary for the Commission to review the over-collected balance in the SRMA, approve any refunds of the over-collected balance from the account after review, and approve termination of the account after refunds have been dispersed.

***Consolidated Expense Balancing Account (CEBA) (§ 13.3)***

97. A CEBA allows Park Water and Apple Valley Ranchos to consolidate the amortization of Commission-approved balancing accounts and memorandum accounts where appropriate.

98. D.20-09-019 authorized the recovery or refund of balances from eight balancing and memorandum accounts for Park Water.

99. Consolidating these accounts through the CEBA simplifies billing while maintaining transparency.

100. Park Water must refund the over-collected balance in the CEBA account to customers and continue the account without modifications.

*Tax Cuts and Jobs Act Memorandum Account (TCJA)**(§ 13.4)*

101. It is necessary to transfer the residual balance recorded in its TTCJA to the CEBA so that Park Water and Apple Valley Ranchos can refund the surcredit balance to customers as authorized in D.23-02-003.

*Employee and Retiree Healthcare Balancing Account (ERHBA) (§ 13.4.3)*

102. It is necessary to transfer the over-collected balance in its ERHBA to the CEBA to enable Apple Valley Ranchos to consolidate the amortization of Commission-approved balancing accounts and memorandum accounts where appropriate and mitigate customer confusion.

*Revenue Decoupling Program (§ 9)*

103. Park Water and Apple Valley Ranchos each request authorization to implement a new, full revenue decoupling mechanism, the WCP.

104. The WCP consists of two new balancing accounts – the CRBA and the CCBA.

105. The WCP is designed to accommodate fully decoupled revenues and sales and track differences between recorded volumetric revenues and Commission-authorized expenses.

106. The WCP balances customer benefits, on the one hand, with financial stability for each utility to provide safe and reliable water service, on the other hand.

107. Customers benefit from rate designs that provide greater incentives for conservation by high-volume users, lower monthly service charges benefiting low-usage customers, and that reduce the volatility of customer bills.

108. Customers of Park Water and Apple Valley Ranchos benefit from the mitigation of revenue uncertainty because Park Water and Apple Valley

Ranchos' financial stability reduces the cost of accessing capital to fund critical investments needed to provide safe and reliable water service.

109. It is necessary for Park Water and Apple Valley Ranchos to implement a full revenue decoupling mechanism, the WCP.

110. It is necessary for Park Water and Apple Valley Ranchos to establish the WCP with two new balancing accounts (CRBA and CCBA).

*Conservation Memorandum Account (§§ 10 & 11)*

111. Park Water and Apple Valley Ranchos seek a Conservation Memorandum Account to track the incremental costs associated with the new conservation regulation proposed by the SWRCB, Make Conservation a California Way of Life.

112. Make Conservation a California Way of Life outlines objectives for urban water suppliers, including new targets to achieve greater statewide water savings.

113. In Section 7.3.3. of this proposed decision, above, Park Water and Apple Valley Ranchos provided their lists of conservation programs to adhere to the Make Conservation a California Way of Life regulation.

114. It is necessary for Park Water and Apple Valley Ranchos to establish the Conservation Memorandum Account for Park Water and Apple Valley Ranchos.

*Polyfluoroalkyl Substances Memorandum Account (PFASMA)  
(§ 11)*

115. Park Water requests Commission approval to modify its existing PFASMA to include capital-related costs necessary to comply with national drinking water regulations for the six per- and polyfluoroalkyl and polyfluoroalkyl substances (PFAS).

116. Liberty's Special Request to modify the PFASMA for Park Water is necessary to provide safe water.

117. On September 9, 2020, Liberty Park Water submitted Advice Letter 302-W requesting establishment of the PFASMA to track the incremental operating costs related to PFAS pursuant to Resolution W-5226.

118. Resolution W-5226 only allowed companies to establish memorandum accounts to track expenses related to PFAS, not capital carrying costs.

119. Park Water requests a revision to its existing PFASMA to include carrying costs at Park Water's rate of return on all incremental capital investments to address treatment for PFAS based on the established MCLs.

120. Park Water's request for modification of the existing PFASMA supports the exploration of treatment alternatives and preparations for future requirements and provides Park Water with the financing flexibility necessary to initiate critical planning and design work for PFAS treatment at Well 40K, which has total projected costs of approximately \$3.7 million.

121. The addition of capital-related costs to Park Water's existing PFASMA supports proactive planning and preparing for the future construction of treatment facilities.

*Rate Design (§§ 13.4, 13.5 & 13.6)*

122. The Commission authorized Park Water and Apple Valley Ranchos to implement a revenue decoupling program during this GRC.

123. The revenue decoupling program minimizes under- or over-recovery of the authorized revenue requirement and adjusts for differences between actual customer usage and estimated customer usage, thereby mitigating the need for a higher fixed charge allocation.

124. Park Water and Apple Valley Ranchos' revenue allocation, allocating 30% of its authorized revenue requirement to fixed service charges and 70% to quantity charges, encourages water conservation by balancing the rate design objectives of stabilizing customers' bills and company revenues and price signals.

125. Allocating 30% of the Park Water and Apple Valley Ranchos authorized revenue requirement to fixed service charges and 70% to quantity charges so that Park Water and Apple Valley Ranchos can shift more water from water rate collection to up to 50% of fixed charges, conforms with the Commission determination for water utilities.

126. A moderated tiered pricing structure for Park Water and Apple Valley Ranchos maintains conservation incentives but reduces tier differentials to improve affordability for essential-use consumption.

127. Park Water and Apple Valley Ranchos' proposed quantity rate ratios for its rate design framework for Park Water and Apple Valley Ranchos promotes water conservation and benefits low water users.

128. An updated cost-allocation and elasticity study for Park Water and Apple Valley Ranchos will allow for an evaluation of evolving consumption patterns, affordability metrics, and the effectiveness of conservation pricing.

***Park Water Miscellaneous Revenues (§§ 12 & 13.2)***

129. Effective December 24, 2022, the Commission approved Advice Letter 330-W, which established the SRMA and affirmed that the executed contract between Park Water and Suburban Water Systems complies with Non-Tariff Product and Services (NTPS) rules.

130. The purpose of the SRMA is to track customers' share (30%) of the net revenue associated with the NTPS contract between Park Water and Suburban Water Systems.

131. The NTPS contract with the City of Bell Gardens allows Park Water to operate the city's water system.

132. Pursuant to the Commission's Affiliate Transaction Rules covering active NTPS contracts, non-incremental costs are charged to utility expense and incremental costs are charged to the contract and borne by shareholders, 100% of the first \$100,000 of revenues, net of incremental costs, is allocated to ratepayers, and the remainder of the revenues, associated with active contracts are allocated 10% to ratepayers.

133. Treating the contract between Park Water and Sativa Los Angeles County as a Suburban NTPS Contract, with 30% of the revenues from the agreement shared with customers and establish the SRMA to track customers' share of revenue from the contract, is consistent with practice.

#### *Environmental & Social Justice (§ 14)*

134. In 2022, the Commission adopted the updated Environmental and Social Justice Action Plan.

135. A moderated tiered-pricing structure that maintains conservation incentives but reduces tier differentials improves affordability for essential-use consumption.

136. Liberty's low-income and other customer-assistance programs ensure customers have the lowest possible costs for basic needs.

#### **Conclusions of Law**

1. Park Water and Apple Valley Ranchos have the burden of affirmatively establishing the reasonableness of all aspects of their applications.

2. All the forecasts and ratemaking mechanisms we find to be just and reasonable should be approved.

3. Park Water and Apple Valley Ranchos' revenue requirements and rate increase, as set forth in this decision, are just and reasonable.

***Stipulation and Settlement (§ 3)***

4. Park Water, Apple Valley Ranchos, and Cal Advocates bear the burden of proof to show that their request for approval of their Settlement Agreement is reasonable considering the whole record, consistent with the law, and in the public interest.

5. We find the partial settlement in this proceeding to be just and reasonable.

6. We find the stipulations for each of the issues listed in the Joint Statement of the Public Advocates Office, Apple Valley, Park Water and California Water Association, Attachment 2, filed on October 11, 2024, just and reasonable and they should be adopted.

***Water Sales Forecast and Present Revenues (§ 5)***

7. Park Water and Apple Valley Rancho's water sales forecasts to calculate customer consumption conforms with the Commission's RCP adopted in D.07-52-062.

8. Park Water and Apple Valley Ranchos' proposed water sales and water supply forecast are just and reasonable.

9. Park Water and Apple Valley Ranchos reasonably considered the six factors mandated by D.20-08-047 and relevant trends when forecasting their water sales.

10. Park Water and Apple Valley Ranchos' proposal for using the New Committee Method (NCM) for forecasting water sales is just and reasonable and should be approved.

11. Park Water and Apple Valley Ranchos' proposal for water supply for their respective wells is just and reasonable and should be approved.

*General Office (§ 6.1)*

12. Park Water and Apple Valley Ranchos' General Office forecasts are just and reasonable and should be approved.

13. A test year forecast using CAM allocation factors, anticipated headcount, and non-labor expenses that are expected for this rate cycle, escalated to 2025 dollars, is just and reasonable.

14. Park Water and Apple Valley Ranchos' forecast for the Customer First IT project using total project costs collected at the corporate level and allocated to Liberty's subsidiaries, Park Water and Apple Valley Ranchos, based on an allocation methodology in accordance with the Algonquin CAM is just and reasonable.

15. Park Water and Apple Valley Ranchos' proposal to adopt O&M Annual Maintenance Costs based on an allocated share of operating and maintenance expenses related to the Customer First project on an annual basis is just and reasonable.

16. A five-year average of total General Office expenses, allocated by Park Water and Apple Valley Ranchos' last allocation factor of 57.6%, and escalated to TY 2025 for Head Office Expenses is just and reasonable.

17. For Credit Card Fees, a credit card fee based on annualization of the recorded fees from July 2023 through July 2024 and adjusted upward for a 2024 inflation of 2.9% is just and reasonable for Park Water and Apple Valley Ranchos.

*Operating Expenses (§ 6.2)*

18. Park Water and Apple Valley Ranchos' forecast for operating expenses is just and reasonable.

19. Park Water's methodology using the 2023 actual unit cost per AF of \$127.41 for forecasting Purchased Water, Power Water, Replenishment, and Leased Water Rights is just and reasonable.

20. Park Water and Apple Valley Ranchos' use of the five-year average of recorded costs from 2019 to 2023 in forecasting T&D Operating Meter Expenses is just and reasonable.

21. Park Water and Apple Valley Ranchos' use of a 4% escalation rate for the following expense categories: Operation-Other, Customer-Other, Maintenance-Other, Outside Services, A&G-Other, and Taxes-Other, is just and reasonable.

22. Park Water and Apple Valley Ranchos' use of a 4% escalation rate for forecasting labor expenses for TY 2025, and Attrition Years 2026 and 2027, is just and reasonable.

23. Park Water and Apple Valley Ranchos' escalation rate for Park Waters' business, medical, dental, vision, and insurance expenses is just and reasonable.

24. Park Water use of a 0.56% uncollectible expense rate is just and reasonable.

25. Apple Valley Ranchos' use of a 0.49% uncollectible expense rate is just and reasonable.

26. Park Water and Apple Valley Ranchos' base water conservation expense on its proposed 20-program water conservation plan is just and reasonable.

27. Park Water and Apple Valley Ranchos' conservation expense on its proposed 20-program water conservation plan is just and reasonable.

28. Park Water and Apple Valley Ranchos' conservation measures for their Water Use Efficiency Plan is just and reasonable.

29. Park Water and Apple Valley Ranchos' forecast using five-year average recorded costs from 2019 to 2023, with no reduction in amount to account for paperless billing for Mailing Service Expenses, is just and reasonable.

30. Park Water and Apple Valley Ranchos' proposal for Regulatory Commission Expenses forecast for TY 2025 is just and reasonable.

31. Park Water and Apple Valley Ranchos' proposal using Merit and STIP as essential compensation elements in the compensation forecast for TY 2025 is just and reasonable.

32. Park Water and Apple Valley Ranchos' forecast for insurance premium expenses and costs, as requested, is just and reasonable.

33. Park Water and Apple Valley Ranchos' forecast for insurance premium expenses and costs, as requested (average of nine percent increase in 2024, twelve percent increase in 2025, and nine percent increase in 2026), is just and reasonable.

34. Park Water and Apple Valley Ranchos' forecast for medical, dental, and vision insurance costs, using rates anticipated to be in effect as of January 1, 2025, along with 5% annual increase as requested, is just and reasonable.

35. Park Water and Apple Valley Ranchos' forecast for the Telemetry Account - General Office budget is just and reasonable.

36. A test year forecast using CAM allocation factors, anticipated headcount, and non-labor expenses that are expected for this rate cycle, escalated to 2025 dollars, for Park Water and Apple Valley Rancho is just and reasonable.

37. Park Water and Apple Valley Ranchos' forecast for the Customer First IT project using total project costs collected at the corporate level and allocated to Liberty's subsidiaries based on an allocation methodology in accordance with the Algonquin CAM, is just and reasonable.

38. Park Water and Apple Valley Ranchos' proposal to adopt O&M Annual Maintenance Costs based on an allocated share of operating and maintenance expenses related to the Customer First project on an annual basis is just and reasonable.

39. A five-year average of total General Office expenses, allocated by Park Water and Apple Valley Ranchos' last allocation factor of 57.6% and escalated to TY 2025 for Head Office Expenses is just and reasonable.

40. For Credit Card Fees, a credit card fee based on the annualization of the recorded fees from July 2023 through July 2024 and adjusted upward for 2024 inflation of 2.9% for Park Water and Apple Valley Ranchos is just and reasonable.

#### *Utility Plant (§ 8)*

56. Park Water deferred a large number of projects and substituted other projects.

57. Apple Valley Ranchos deferred a large number of projects and substituted other projects.

58. Neither Park Water nor Apple Valley Ranchos shortchanged ratepayers in deferring a project and substituting deferred projects with other projects.

59. Park Water made a reasonable justification for the continued need for the deferred projects in this proceeding. The authorization of all of Park Water's deferred projects is just and reasonable.

60. Apple Valley Ranchos made a reasonable justification for the continued need for the deferred projects in this proceeding. The authorization of all of Apple Valley Ranchos' deferred projects is just and reasonable.

61. In calculating the revenue requirement and rate base, it is just and reasonable to include the costs of these deferred projects for both Park Water.

62. In calculating the revenue requirement and rate base, it is just and reasonable to include the costs of these deferred projects for Apple Valley Ranchos.

63. Park Water and Apple Valley Ranchos' methodology, CCCI, for forecasting the capital escalation rate of 6.08% for Park Water and Apple Valley Ranchos' construction cost is just and reasonable.

64. Park Water and Apple Valley Ranchos' proposals to replace aged meters with new ones are just and reasonable.

65. Park Water's project cost estimate adjustments (consultant/design, inspections, miscellaneous charges) on its Pipeline Replacement Projects for Park Water are just and reasonable.

66. Apple Valley Ranchos' project cost estimate adjustments (consultant/design, inspections, miscellaneous charges) on its Pipeline Replacement Projects for Apple Valley Ranchos are just and reasonable.

67. Park Water and Apple Valley Ranchos' proposal for a five-year average of recorded costs from 2018 to 2022, then escalated to 2022 dollars, forecast for emergency main replacement, hydrants, and services is just and reasonable.

68. Park Water's utility plant items for Park Water (Previously Authorized Projects, Meters, Pipeline Project Cost Estimate Adjustments, Emergency Main Replacement, Hydrants and Services, Area 41 and Target Phase 2 Project, Compton East Well, Generators, PFAS/PFOA Treatment - Wells 46C, 41A, and 41A VFD, Site and Structural Improvements and BPS Electrical Improvements, Removal of Recorded Plant) are just and reasonable.

69. Apple Valley Ranchos' utility plant items for Apple Valley Ranchos (Previously Authorized Projects, Meters, Pipeline Project Cost Estimate Adjustments, Emergency Main Replacement, Hydrants and Services, Well 34

Building, New Well and Land Purchase, Apple Valley Campus Solar Project, and Apple Valley Office Building) are just and reasonable.

***Project Forecast Methodology (§ 8.8)***

74. It is reasonable to require Park Water and Apple Valley Ranchos to include testimony that clearly demonstrates that they have adopted and embedded a formal system for designing and managing their capital expenditures or some other industry standard and professionally recognized and documented system of cost engineering management best practices into their operations in the next general rate case.

***Special Requests (§§ 9, 10 & 11)***

75. Park Water's Special Request to implement a full revenue decoupling mechanism, the WCP for Park Water is just and reasonable.

76. Apple Valley Ranchos' Special Request to implement a full revenue decoupling mechanism, the WCP for Park Water is just and reasonable.

77. Park Water's Special Request to establish the Conservation Memorandum Account for Park is just and reasonable.

78. Apple Valley Ranchos' Special Request to establish the Conservation Memorandum Account for Apple Valley Ranchos is just and reasonable.

79. Park Water's Special Request for modification of the PFASMA for Park Water is just and reasonable.

***Balancing Accounts and Memorandum Accounts (§§ 10, 11, 13, 13.2, 13.3, 13.4 & 13.4.3)***

80. Treatment of Park Water's balancing and memorandum accounts is just and reasonable as set forth in this decision.

- a. The establishment of a conservation memorandum account to track the incremental costs associated with the new conservation regulation proposed by the SWRCB, Make

Conservation a California Way of Life for Park Water is just and reasonable.

- b. The transition from a WRAM and ICBA to a CRBA and CCBA for Park Water is just and reasonable.
- c. The filing of an Advice Letter seeking recovery of the final balance of its 2022 WRAM/MCBA and termination of its WRAM/MCBA for Park Water is just and reasonable.
- d. The filing of an Advice Letter to establish a CRBA and CCBA for Park Water to track the incremental costs associated with the new conservation regulation proposed by the SWRCB is just and reasonable.
- e. Applying the under-collected recorded balance in its CAP Reallocation Balancing Accounts through December 31, 2023, to the surcharge rate funding discounts provided to qualified low-income customers for Park Water is just and reasonable.
- f. Transferring the over-collected recorded balance in its CEOWBA to its CEBA, refunding the balance to customers for Park Water, and then closing the CEOWBA is just and reasonable.
- g. The continuation of the CEMA to recover the under-collected recorded balance associated with a catastrophic event through December 31, 2023, for Park Water is just and reasonable.
- h. The review, amortization, and refunding of the over-collected recorded balance in its SRMA through December 31, 2023, and termination of this account for Park Water is just and just and reasonable.

- i. The filing of an Advice Letter for Park Water to terminate the SRMA is just and reasonable.
- j. The review and refunding of the over-collected recorded balance of the CEBA through December 31, 2023, for Park Water is just and reasonable.
- k. The transfer of the recorded balances of its TCJA Memorandum Account to its CEBA through December 31, 2023, refunding of the balance to customers and termination of the TCJA Memorandum Account for Park Water is just and reasonable.
- l. The filing of an Advice Letter for Park Water to terminate the TCJA memorandum account is just and reasonable
- m. The modification of Park Water's existing PFASMA to include capital-related costs necessary to comply with national drinking water regulations for the six per- and PFAS is just and reasonable.

81. Treatment of Apple Valley Ranchos Water's balancing and memorandum accounts, as set forth in this decision is just and reasonable:

- a. The establishment of a conservation memorandum account to track the incremental costs associated with the new conservation regulation proposed by the SWRCB, Make Conservation a California Way of Life for Apple Valley Ranchos, is just and reasonable.
- b. The transition from a WRAM and ICBA to a CRBA and CCBA for Apple Valley Ranchos is just and reasonable.
- c. The filing of an Advice Letter seeking recovery of the final balance of its 2022 WRAM/MCBA and termination of its WRAM/MCBA for Apple Valley Ranchos is just and reasonable.

- d. The filing of an Advice Letter to establish a CRBA and CCBA for Apple Valley Ranchos to track the incremental costs associated with the new conservation regulation proposed by the SWRCB is just and reasonable.
- e. Applying the under-collected recorded balance in its CAP reallocation balancing accounts through December 31, 2023, to the surcharge rate funding discounts provided to qualified low-income customers for Apple Valley Ranchos is just and reasonable.
- f. Transferring the over-collected recorded balance in its CEOWBA to its CEBA, refunding the balance to customers for Apple Valley Ranchos, and then closing the CEOWBA is just and reasonable.
- g. The continuation of the CEMA to recover the under-collected recorded balance associated with a catastrophic event through December 31, 2023, for Apple Valley Ranchos is just and reasonable.
- h. The review and refunding of the over-collected recorded balance of the CEBA through December 31, 2023, for Apple Valley Ranchos is just and reasonable.
- i. The transfer of the recorded balances of its TCJA memorandum account to its CEBA through December 31, 2023, refunding of the balance to customers, and termination of the TCJA Memorandum Account for Apple Valley Ranchos is just and reasonable.
- j. The filing of an Advice Letter for Apple Valley Ranchos to terminate the TCJA memorandum account is just and reasonable.
- k. The transfer of the over-collected balance of its ERHBA to the CEBA for Apple Valley Ranchos is just and reasonable.

*Rate Design (§ 13.5 & 13.6)*

82. Park Water and Apple Valley Ranchos' respective rate design recommendations for a revenue allocation that adopts a full revenue decoupling program with 30% of revenue from fixed charges and 70% of revenue from quantity charges are just and reasonable.

83. Park Water and Apple Valley Ranchos' respective proposed rate-design frameworks for quantity rate ratios are just and reasonable.

84. A moderated tiered pricing structure for Park Water and Apple Valley Ranchos that still maintains conservation incentives but reduces tier differentials to improve affordability for essential-use consumption is just and reasonable.

85. Refining standardized affordability indicators for Park Water and Apple Valley Ranchos maintains cost-of-service integrity while addressing equity concerns, ensuring that Park Water's and Apple Valley Ranchos' rates remain just and reasonable and consistent with the Commission's statutory and policy objectives.

86. An updated cost-allocation and elasticity study for Park Water and Apple Valley Ranchos is just and reasonable.

*Miscellaneous Revenues (§§ 12 & 13.2)*

94. Park Water's request to have the contract between Park Water and Sativa NTPS Contract with 30% of the revenues from the agreement being shared with customers as well as the establishment of the SRMA to track customers' share of revenue from the contract, is just and reasonable.

95. The Commission should adopt Liberty's interpretation of the NTPS contract, where the first \$100,000 in Other Operating Revenue is attributed to ratepayers for a total of \$51,850 to ratepayers for Park Water's TY 2025 miscellaneous revenues because of Park Water's contract with Bell Gardens.

*Environmental and Social Justice Action Plan (§ 14)*

96. The Commission believes that this decision is consistent with Park Water and Apple Valley Ranchos' Environmental and Social Justice Action Plan and is just and reasonable.

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

1. Liberty Utilities' Park Water Corp. is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the Test Year 2025 revenue requirement set forth in Appendices C and D, effective July 1, 2025.

2. Liberty Utilities' Apple Valley Ranchos Water Company Corp. is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the Test Year 2025 revenue requirement set forth in Appendices A, B, and D, effective July 1, 2025.

3. For Test Year 2025, within 60 days of the issuance of this decision, Liberty Utilities' Park Water Corp. shall submit a Tier 1 advice letter with revised tariff schedules in compliance with this decision. This advice letter is subject to approval by the Commission's Water Division.

4. For Test Year 2025, within 60 days of the issuance of this decision, Liberty Utilities' Apple Valley Ranchos Corp. shall submit a Tier 1 advice letter with revised tariff schedules in compliance with this decision. This advice letter is subject to approval by the Commission's Water Division.

5. Treatment of Liberty Utilities' (Park Water) Corp.'s balancing and memorandum accounts is approved as set forth in this decision.

- a. Park Water is authorized to establish a Conservation Memorandum Account to track the incremental costs associated with the new conservation regulation proposed

- by the State Water Resources Control Board, Make Conservation a California Way of Life.
- b. Park Water's Request to transition from a Monterey-style Water Rate Adjustment Mechanism (WRAM) and Incremental Cost Balancing Account to the proposed Consumption Revenue Balancing Account and Consumption Cost Balancing Account is authorized
  - c. Park Water is authorized to file an advance letter seeking recovery of the final balance of its 2022 WRAM/ Modified Cost Balancing Account and request closure of this account.
  - d. Park Water is authorized to apply the under-collected balance in its Customer Assistance Program Reallocation Balancing Accounts through December 31, 2023, to the surcharge rate funding discounts provided to qualified low-income customers.
  - e. Park Water is authorized to transfer balances in its Conservation Expense One-Way Balancing Accounts to its Consolidated Expense Balancing Accounts (CEBA) and then close those accounts.
  - f. Park Water is authorized to recover the recorded balances in its Catastrophic Event Memorandum Accounts through December 31, 2023.
  - g. Park Water is authorized to continue tracking customers' share of revenue in its Suburban Revenue Memorandum Account and file an Advice Letter to refund the balance to customers following termination of the contract.
  - h. Park Water is authorized to refund the recorded balance in its Sativa Revenue Memorandum Account through December 31, 2023.

- i. Park Water is authorized to recover or refund recorded balances in their respective CEBA's through December 31, 2023.
  - j. Park Water is authorized to transfer recorded balances in its Tax Cuts and Jobs Act (TCJA) Memorandum Accounts to its CEBA's through December 31, 2023, and close the TCJA Memorandum Account.
6. Treatment of Liberty Utilities (Apple Valley Ranchos) Corp.'s balancing and memorandum accounts is approved as set forth in this decision:
- a. Apple Valley Ranchos is authorized to establish a Conservation Memorandum Account to track the incremental costs associated with the new conservation regulation proposed by the State Water Resources Control Board, Make Conservation a California Way of Life.
  - b. Apple Valley Ranchos' Request to transition from a Monterey-style Water Rate Adjustment Mechanism (WRAM) and Incremental Cost Balancing Account to the proposed Consumption Revenue Balancing Account and Consumption Cost Balancing Account is authorized.
  - c. Apple Valley Ranchos is authorized to refund the over-collected balance in its WRAM and Modified Cost Balancing Account and close that account.
  - d. Apple Valley Ranchos is authorized to apply the under-collected balance in its Customer Assistance Program Reallocation Balancing Accounts through December 31, 2023, to the surcharge rate funding discounts provided to qualified low-income customers.
  - e. Apple Valley Ranchos is authorized to transfer balances in its Conservation Expense One-Way Balancing Accounts to its Consolidated Expense Balancing Accounts (CEBA) and then close those accounts.

- f. Apple Valley Ranchos is authorized to recover the recorded balances in its Catastrophic Event Memorandum Accounts through December 31, 2023.
- g. Apple Valley Ranchos is authorized to recover or refund recorded balances in their respective CEBA through December 31, 2023.
- h. Apple Valley Ranchos is authorized to transfer recorded balances in its Tax Cuts and Jobs Act (TCJA) Memorandum Accounts to its CEBA through December 31, 2023, and close the TCJA Memorandum Account.
- i. Apple Valley Ranchos is authorized to transfer the recorded balance in its Employee and Retiree Healthcare Balancing Account to its CEBA through December 31, 2023.

7. Liberty Utilities (Park Water) Corp.'s request for a Revenue Decoupling Program is authorized. Park Water's request for a Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA) upon the conclusion of the active surcharge in accordance with Advice Letter 332-W-A is granted. Park Water must file a Tier 1 Advice Letter to include the WRAM Account once the active surcharge concludes and must amortize the final balance in Liberty Park Water's 2022 WRAM/MCBA in its Preliminary Statement.

8. Liberty Utilities (Apple Valley Ranchos) Corp.'s request for a Revenue Decoupling Program is authorized. Apple Valley Ranchos' request for a Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA) upon the conclusion of the active surcharge in accordance with Advice Letter 332-W-A is granted. Apple Valley Ranchos must file a Tier 1 Advice Letter to include the WRAM Account once the active surcharge concludes and must amortize the final balance in Apple Valley Ranchos' 2022 WRAM/MCBA in its Preliminary Statement.

9. Liberty Utilities (Park Water) Corp. shall, as a best practice in their operations, include testimony that clearly demonstrates that they have adopted and embedded a formal system for designing and managing their capital expenditures or other industry recognized standard of documented system of cost engineering management in the next general rate case.

10. Liberty Utilities (Apple Valley Ranchos) Corp. shall, as a best practice in their operations, include testimony that clearly demonstrates that they have adopted and embedded a formal system for designing and managing their capital expenditures or other industry recognized standard of documented system of cost engineering management in the next general rate case.

11. Liberty Utilities (Park Water) Corp. shall collaborate with the Commission's Public Advocates' Office in refining standardized affordability indicators to be used for Park Water's future GRC rate-design analyses, ensuring consistent evaluation of affordability outcomes for presentation in its next GRC.

12. Liberty Utilities (Apple Valley Ranchos) Corp. shall collaborate with the Commission's Public Advocates' Office in refining standardized affordability indicators to be used for Apple Valley Ranchos' future GRC rate-design analyses, ensuring consistent evaluation of affordability outcomes for presentation in its next GRC.

13. Liberty Utilities (Park Water) Corp. shall conduct and present in its next GRC an updated cost-allocation and elasticity study as an exhibit with written expert testimony. The updated cost-allocation and elasticity study shall evaluate evolving consumption patterns, affordability metrics, including a district-level affordability analysis applying Public Utilities Code section 739.8 metrics, Customer Assistance Program participation rates and targeted outreach

strategies, quantification of drought-period revenue variances to assess whether current balancing accounts adequately stabilize recovery, and the effectiveness of conservation pricing.

14. Liberty Utilities (Apple Valley Ranchos) Corp. shall conduct and present in its next GRC an updated cost-allocation and elasticity study as an exhibit with written expert testimony. The updated cost-allocation and elasticity study shall evaluate evolving consumption patterns, affordability metrics, including a district-level affordability analysis applying Public Utilities Code section 739.8 metrics, Customer Assistance Program participation rates and targeted outreach strategies, quantification of drought-period revenue variances to assess whether current balancing accounts adequately stabilize recovery, and the effectiveness of conservation pricing.

15. Liberty Utilities (Park Water) Corp. shall collaborate with the Commission's Public Advocates Office (Cal Advocates) in refining standardized affordability indicators to be used for Park Water's future GRC rate-design analyses, ensuring consistent evaluation of affordability outcomes. In refining standardized affordability indicators, Park Water and Cal Advocates shall consider affordability metrics, and a district-level affordability analysis applying Public Utilities Code section 739.8 metrics.

16. Liberty Utilities (Apple Valley Ranchos) Corp. shall collaborate with the Commission's Public Advocates Office (Cal Advocates) in refining standardized affordability indicators to be used for Apple Valley Ranchos' future GRC rate-design analyses, ensuring consistent evaluation of affordability outcomes. In refining standardized affordability indicators, Apple Valley Ranchos and Cal Advocates shall consider affordability metrics, and a district-level affordability analysis applying Public Utilities Code section 739.8 metrics.

17. Liberty Utilities (Park Water) Corp. shall include an analysis of these revenue-stability and cost-distribution effects as part of its next rate design proposal.

18. Liberty Utilities (Apple Valley Ranchos) Corp. shall include an analysis of these revenue-stability and cost-distribution effects as part of its next rate design proposal.

19. Liberty Utilities (Park Water) Corp.'s request to continue its Conservation Program known as the Water Use Efficiency Plan (WUEP) is authorized. Park Water must file a Tier 1 Advice Letter to include the WUEP in its Preliminary Statement and all 20 programs are included for Test Year 2025 and escalation years.

20. Liberty Utilities (Apple Valley Ranchos) Corp.'s request to continue its Conservation Program known as the Water Use Efficiency Plan (WUEP) is authorized. Apple Valley Ranchos must file a Tier 1 Advice Letter to include the WUEP in its Preliminary Statement and all 20 programs are included for Test Year 2025 and escalation years.

21. Liberty Utilities (Park Water) Corp.'s request to establish a Conservation Memorandum Account to track incremental costs associated with the new conservation regulation proposed by the State Water Resources Control Board, "Make Conservation a California Way of Life" is authorized. Park Water must file a Tier 1 Advice Letter to include "Make Conservation Way of Life" in their Preliminary Statements.

22. Liberty Utilities (Apple Valley Ranchos) Corp.'s request to establish a Conservation Memorandum Account to track incremental costs associated with the new conservation regulation proposed by the State Water Resources Control Board, "Make Conservation a California Way of Life" is authorized. Apple

Valley Ranchos must file a Tier 1 Advice Letter to include “Make Conservation Way of Life” in their Preliminary Statements.

23. Liberty Utilities (Park Water) Corp. is authorized to continue its Customer Assistance Programs. Park Water must file a Tier 1 Advice Letter updating the program in its Preliminary Statements.

24. Liberty Utilities (Apple Valley Ranchos) Corp. is authorized to continue its Customer Assistance Programs. Apple Valley Ranchos must file a Tier 1 Advice Letter updating the program in its Preliminary Statements.

25. Liberty Utilities (Park Water) Corp.’s proposed plan on the Modification to the Polyfluoroalkyl Substances Memorandum Account is authorized. Park Water must file a Tier 1 Advice Letter updating the programs in their Preliminary Statements.

26. Liberty Utilities (Apple Valley Ranchos) Corp.’s proposed plan on the Modification to the Polyfluoroalkyl Substances Memorandum Account is authorized. Apple Valley Ranchos must file a Tier 1 Advice Letter updating the programs in their Preliminary Statements.

27. Within 120 days of the issuance of this decision, Liberty Utilities (Park Water) Corp. shall submit Tier 1 advice letters to amortize the difference between interim rates and approved rates. The difference between interim rates and final approved rates here, which shall be recovered in accordance with Standard Practice U-27-W.

28. Within 120 days of the issuance of this decision, Liberty Utilities (Apple Valley Ranchos) Corp. shall submit Tier 1 advice letters to amortize the difference between interim rates and approved rates. The difference between interim rates and final approved rates here, which shall be recovered in accordance with Standard Practice U-27-W.

29. For each escalation year 2026 and 2027, Liberty Utilities (Park Water) Corp. shall submit Tier 1 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules. The advice letters must follow the escalation procedures set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 and must include supporting workpapers.

30. For each escalation year 2026 and 2027, Liberty Utilities (Apple Valley Ranchos Water) Corp. shall submit Tier 1 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules. The advice letters must follow the escalation procedures set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 and must include supporting workpapers.

31. Liberty Utilities (Park Water) Corp. shall file its next General Rate Cases in accordance with the schedule set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 or its successor.

32. Liberty Utilities (Apple Valley Ranchos) Corp. shall file its next General Rate Cases in accordance with the schedule set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 or its successor.

33. Liberty Utilities (Park Water) Corp. must, in their next general rate cases, serve specific detailed exhibit(s) with supporting testimony that clearly demonstrate they have adopted and embedded in their operations a formal system for designing and managing their capital expenditures or an industry standard and professionally recognized and documented system of cost engineering management best practices.

34. Liberty Utilities (Apple Valley Ranchos) Corp. must, in its next general rate cases, serve specific detailed exhibit(s) with supporting testimony that

clearly demonstrate they have adopted and embedded in their operations a formal system for designing and managing their capital expenditures or an industry standard and professionally recognized and documented system of cost engineering management best practices.

35. For all construction or other capital acquisitions approved in this decision, Liberty Utilities (Park Water) Corp. must file a Semiannual Report on Project Status (SRPS) for its company with the Commission's Water Division and serve a copy on this proceeding's service list. Park Water must file within 14 days of the end of each reporting period. The SRPS must disclose the project(s) deferred and the approved costs from this proceeding for any project deferred or delayed from the scheduled in-service date as proposed by Park Water in its application and workpapers for this proceeding. It must also disclose the project(s) and costs that are pursued in lieu of the projects proposed and authorized in this decision. Park Water must also include a rationale and justification in the SRPS for selecting any deferred or delayed project. Secondly, Park Water must sponsor detailed expert testimony in its next general rate case to disclose and explain the deferral of any project authorized in this decision and the reason for the substituted project.

36. For all construction or other capital acquisitions approved in this decision, Liberty Utilities (Apple Valley Ranchos) Corp. must file a Semiannual Report on Project Status (SRPS) for its company with the Commission's Water Division and serve a copy on this proceeding's service list. Apple Valley Ranchos must file within 14 days of the end of each reporting period. The SRPS must disclose the project(s) deferred and the approved costs from this proceeding for any project deferred or delayed from the scheduled in-service date as proposed by Apple Valley Ranchos in its application and workpapers for this proceeding. It must

also disclose the project(s) and costs that are pursued in lieu of the projects proposed and authorized in this decision. Apple Valley Ranchos must also include a rationale and justification in the SRPS for selecting any deferred or delayed project. Secondly, Apple Valley Ranchos must sponsor detailed expert testimony in the next GRC disclosing and explaining the deferral of any project authorized in this decision and the reason for the substituted project.

37. Applications 24-01-002 and 24-01-003 are closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.

# APPENDIX A

(Liberty Utilities (Apple Valley Ranchos Water) Corp. -  
Domestic Summary of Earnings, Ratebase, Taxes, Quantities, Bill  
Comparison)

(END OF APPENDIX A)

## **APPENDIX B**

(Liberty Utilities (Apple Valley Ranchos Water) Corp. -  
Irrigation Summary of Earnings, Ratebase, Taxes, Quantities, Bill  
Comparison)

**(END OF APPENDIX B)**

## **APPENDIX C**

(Liberty Utilities (Park Water) Corp. Summary of Earnings,  
Ratebase, Taxes, Quantities, Bill Comparison)

(END OF APPENDIX C)

## **APPENDIX D**

(Liberty Utilities (Park Water) and Liberty Utilities (Apple Valley Ranchos Water) Corp. General Office Summary of Expense Allocation)

**(END OF APPENDIX D)**

## **APPENDIX E**

(Liberty Utilities (Park Water) Corp. and Liberty Utilities  
(Apple Valley Ranchos Water) Corp. Rate Schedules)

**(END OF APPENDIX E)**