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TO PARTIES OF RECORD IN APPLICATION 26-01-001:

This is the proposed decision of Administrative Law Judge Amin Nojan. 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 **December 17, 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:smt

Attachment

Decision **PROPOSED DECISION OF ALJ NOJAN (Mailed 11/13/2026)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Suburban Water Systems (U339W) for Authority to Increase Rates Charged for Water Service by $19,971,673 or 19.41% in 2027, by $10,876,890 or 8.91% in 2028, and by $10,831,656 or 8.15% in 2029.	Application 26-01-001

DECISION AUTHORIZING A GENERAL RATE INCREASE FOR SUBURBAN WATER SYSTEMS FOR 2027, 2028, AND 2029

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DECISION AUTHORIZING A GENERAL RATE INCREASE FOR SUBURBAN WATER SYSTEMS FOR 2027, 2028, AND 2029

Summary

This decision adopts the revenue requirement for test year 2027 and two subsequent years and authorizes Suburban Water Systems' general rate increases for 2027, 2028, and 2029 as follows: $7,253,386, or 7.07 percent for 2027; $9,064,752, or 8.32 percent for 2028; and $9,059,059, or 7.67 percent for 2029.

This decision grants Special Request # 1, 3, 5, 6, 9, and 11, and denies Special Request # 2, 4, 7, 8, 10.

This proceeding is closed.

1. Background

On January 2, 2026, Suburban Water Systems (Suburban, or Applicant) filed Application (A.) 26-01-001 for authorization to increase rates charged for water service by $19,971,673 or 19.41% in 2027, by $10,876,890 or 8.91% in 2028, and by $10,831,656 or 8.15% in 2029.

On February 9, 2026, the Public Advocates Office filed its Protest to the Application.

On February 17, 2026, California Water Association (CWA) filed a Motion for Party Status.

On February 19, 2026, Suburban filed a Reply to Protest of Public Advocates Office.

On February 23, 2026, the assigned Administrative Law Judge (ALJ) issued a ruling granting CWA's Motion for Party Status.

On February 24, 2026, the ALJ held a telephonic prehearing conference.

On April 7, 2026, the assigned Commissioner issued a Scoping Ruling.

On April 8, 2026, the Public Advocates Office filed a Motion for an Extension of the Due Date to File Testimony.

On April 9, 2026, the ALJ issued Ruling Modifying Proceeding Schedule.

On April 13, 14, and 15, the Commission held Public Participation Hearings.

On April 16, 2026, California Water Efficiency Partnership (CWEP) filed Motion for Party Status, which was granted on May 4, 2026.

On April 23, 2026, the ALJ issued Ruling Directing the Filing of Stipulated Facts and Proposed Witness Schedule and Setting Evidentiary Hearings.

On June 5, 2026, CWEP filed a Motion to Enter Testimony into the Record. On the same date, the Public Advocates Office filed Motion for Admission of Exhibits into the Evidentiary Record. On June 9, 2026, Suburban filed Motion to Enter Testimony into the Record.

On June 10, 2026, the ALJ issued Ruling Providing Guidance on Settlement Agreement and Briefs.

On June 30, 2026, Suburban Water Systems filed a Motion for Oral Argument.

On July 1, 2026, Suburban, the Public Advocates Office, and CWA filed opening briefs. On July 15, 2026, Suburban, the Public Advocates Office, and CWA filed reply briefs.

This matter was submitted on July 15, 2026 upon filing of reply briefs.

2. Issues Before the Commission

The issues before the Commission, as enumerated in the Commissioner's Scoping Ruling, are as follows:

1. Whether Suburban's proposed rate increases for the Test Year and Escalation Years are just and reasonable;
2. Whether Suburban's estimated number of customers, consumption, and forecasted revenues at present rates are reasonable and supported;

3. Whether Suburban's proposed revenue requirement (and the various components of that revenue requirement) are reasonably calculated to provide safe and reliable service at just and reasonable rates;
4. Whether Suburban's proposed rate designs are equitable and promote the Commission's goals of affordability, conservation and social justice;
5. Whether Suburban's proposed alternative ratemaking mechanisms, including its various balancing and memorandum accounts are reasonable and in the public interest.

In addition to the issues listed above, the Commission considered the following special requests:

6. Special Request No. 1: Suburban requests a one-time surcharge consisting of the sum of six offsets, in addition to the residual amounts from previously authorized amortizations of Parent Company IT Rate Base and Catastrophic Event Memorandum Account (CEMA) – COVID-19, which is proposed to be netted and charged to customers as a one-time surcharge $0.357 per hundred cubic feet of consumption per customer.
7. Special Request No. 2: Suburban requests authority to amortize the Customer Assistance Program (CAP) Memorandum Account with a debit balance of $1,362,918 as of August 2025 as a one-year surcharge of $0.098 per 100 cubic feet of water used. In order to support the CAP program, beginning January 1, 2027, Suburban requests authority to increase the amount of CAP credit based on fifty percent of monthly service charge for ¾" meter size, and a surcharge increase from $0.09 (as of September 2025) to $0.195 per 100 cubic feet.
8. Special Request No. 3: Suburban is in compliance with all water quality regulations and requirements and requests that the Commission make a finding that Suburban's water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103.

9. Special Request No. 4: Suburban proposes to transition from the Monterey-Water Rate Adjustment Mechanism (M-WRAM) and Incremental Cost Balancing Account (ICBA) to a decoupling Revenue Stabilization Mechanism (RSM) to address the potential for substantial revenue variability associated with the implementation of Suburban's proposed three-tier rate design.
10. Special Request No. 5: Suburban requests explicit Commission authorization to incorporate into new rates any rate changes that occurred after this proceeding opened and acknowledgement that these changes will also need to be placed into present rates for the determination of the actual rate increase caused by this application.
11. Special Request No. 6: Suburban requests that the adopted rates reflect the most current escalation rates published by the Commission's Public Advocates Office and the Consumer Price Index (CPI-U) at the time the final decision is issued.
12. Special Request No. 7: In the event Suburban and Public Advocates reach a settlement agreement on the revenue requirement, and the final decision is not adopted on the first day of the Test Year 2027, Suburban requests that the Commission issue an interim decision allowing Suburban to implement interim rates at the levels reflected in the settlement agreement, subject to adjustment upward or downward when the final decision is adopted.
13. Special Request No. 8: Suburban requests approval of the reinstatement of the Recycled Water Balancing Account which was closed at the end of attrition year 2023 per D.21-10-024.
14. Special Request No. 9: Suburban requests to delete the following Memorandum Accounts from its Preliminary Statement once the balance included in the Special Request No. 1 have been fully amortized and trued-up: Allocated Parent Company IT Rate Base Memorandum Account, and Sativa Transaction Memorandum Account.

15. Special Request No. 10: Suburban requests an authorization to open Backflow Device Upgrades Memorandum Account in response to the adoption of Cross Connection Control Policy Handbook (CCCPH) by State Water Resources Control Board with the latest amendments on March 19, 2025.
16. Special Request No. 11: Suburban requests authorization to retain the Lead and Copper Rule Revisions Memorandum Account due to the additional physical service line inspections which will be conducted on an ongoing basis, and the cost is unknown.

3. Discussion

3.1. Reasonableness of Rate Increase for Test Year and Escalation Years

As part of the discussion on Scoping Issue 1, the parties litigated two issues. First, the Public Advocates Office claims that Suburban is currently overcollecting due to errors in its Results of Operation Model in its prior GRC proceeding.[1] The Public Advocates Office filed a Petition for Modification (PFM) on September 26, 2025, requesting the Commission correct the errors it identified. Simultaneous with its request in Suburban's prior GRC proceeding, the Public Advocates Office made the same request in the instant proceeding. On July 2, 2026, the Commission adopted D.26-07-003, granting the Public Advocates Office's PFM. As such, the issue has been addressed in the appropriate proceeding and will be afforded no further discussion here.

Second, the Public Advocates Office recommends the Commission should require Suburban to file Tier 2 advice letters in its escalation and attrition years to ensure that any increase or decrease in tariff rates is equally captured and ratepayers are not only subject to potential increases without the benefit of

[1] *See* Public Advocates Office Opening Brief at 5-6.

potential decreases.[2] This issue is discussed and addressed in Section 3.2.2 of the instant decision, below.

The reasonableness of the increase for test and escalation years is the total effect of the various subcomponents, individual requests, and overall treatment of the application. There is no specific request or finding to be made pursuant to this issue, but it sets the parameters for the issues under Commission consideration and forms the lens through which we evaluate this request as a whole.

3.2. Reasonableness of Estimated Number of Customers, Consumption, and Forecasted Revenues at Present Rates

Suburban states that its forecast "flagged customer-specific differences, seasonal differences, variations in weather, ongoing deterministic trends, and the response to the real price of water consumption as different demand drivers."[3]

The Public Advocates Office recommends the Commission use a five-year weighted average to forecast sales, arguing it "prevents a faulty statistical relationship and gives more consideration in the sales forecast to the most recent trend in sales."[4] The Public Advocates Office notes that "Suburban itself uses a non-weighted five-year average of sales per customer" and contends the weighted version should apply to every class.[5] The Public Advocates Office's formula multiplies the year's data by a number based on recency (2025 sales is multiplied by 5, whereas 2021 sales is multiplied by 1).[6] According to the Public

[2] *See* Public Advocates Office Opening Brief at 9-10.

[3] *See* Suburban Opening Brief at 18.

[4] *See* Ex. PUBADV-CR-001A at 1-7.

[5] *See* Public Advocates Office Opening Brief at 14.

[6] *See* Ex. PUBADV-CR-001A at 1-7.

Advocates Office, this "gives more consideration to the most recent trend in sales."[7]

Suburban responds, arguing "[t]he factors that influence residential business consumption do not necessarily have the same impact on certain other customer categories" and "to use a simple five-year average for industrial customers in its Whittier/La Mirada service area would overstate expected usage due to consistently declining use over time."[8] Suburban contends the Public Advocates Office's approach "selectively emphasizes dry years while ignoring that 2023 and 2024 were also abnormal weather years" and Suburban's forecast utilizes statistical models that control for the effect of weather variability.[9]

Weather undoubtedly impacts water usage. It does not appear that the Public Advocates Office's methodology controls for this, beyond the variability included in the last five years. This is discounted by the weighting methodology proposed, which seems to imply that more recent usage is more reflective of future usage, regardless of how the more recent years may vary from historical norms due to abnormal weather patterns. We also recognize that the years immediately following the pandemic and lockdown reflected abnormalities in usage based on the widespread directives to work from home or employ a hybrid work model. Suburban notes that its analysis controls for the "global pandemic lockdown."[10]

Suburban notes that utilizing the methodology put forth by the Public Advocates Office to predict historical sales and connection data from 2010 to

[7] *See* Ex. PUBADV-CR-001A at 1-7.

[8] *See* Suburban Opening Brief at 18-19.

[9] *See* Suburban Opening Brief at 11.

[10] *See* Ex. SWS-TC-002 at 1-2.

2024 resulted in figures that were "8.5% too high for San Jose Hills and 7.4% too high for Whittier/La Mirada" for 1-year ahead forecasts from 2015 to 2024, whilst during the 2019 to 2024 period the figures overpredicted for San Jose Hills by 11.4 percent and for Whittier/La Mirada by 8.2 percent.[11] In response to the Public Advocates Office's criticism, Suburban testifies that it also accounted for demand hardening.[12]

We agree with Suburban that the methodology put forth by the Public Advocates Office is not adequately nuanced to capture year-to-year variance, nor does it account for significant variables that can and do impact usage, such as weather patterns or years altered by the pandemic and lockdown. We find the higher weight given to more recent years to be arbitrary and not persuasively predictive of future usage. Accordingly, we adopt Suburban's proposed sales forecast.

3.2.1. Reasonableness of Suburban's Forecasted NTP&S Revenue

Suburban offers a Lifeline Maintenance Plan Program (Lifeline Program) as one of its non-tariffed products and services (NTPS). Under the Commission's rules for NTPS, Suburban allocates ten percent of the revenue from this program to customers after satisfying the initial $100,000 threshold. Under this program, customers pay a monthly fee to have, in case of breakage, Suburban repair the portion of the water pipe on the customer side that is not normally Suburban's responsibility to repair.[13]

[11] *See* Ex. SWS-TC-002 at 3.

[12] *See* Ex. SWS-TC-002 at 5:21-24.

[13] *See* Suburban Opening Brief at 19.

Suburban states that in the course of this GRC, it discovered that it "unintentionally and improperly relied on a previous decision for guidance and did not separately track incidental employee labor hours attributable to Lifeline activities as required."[14] Suburban notes that since discovering the error, it has corrected its practices and begun tracking labor hours in compliance with the Commission's NTPS rules. The Public Advocates Office argues that because Suburban was "in violation of NTP&S cost-allocation rules (funding program labor through customer rates with no cost tracking) the appropriate remedy is to reclassify it as a miscellaneous revenue source, which attributes 100% of the program's revenue to ratepayers."[15]

Suburban requests the Commission reject the Public Advocates Office's recommendation and adopt Suburban's NTPS estimate, arguing allocating all revenues to customers for the violation would jeopardize the continued availability of the program.[16]

Because Suburban has since corrected the error, we do not agree that all Lifeline revenues should be allocated to customers, however some amount of reallocation to customers as a penalty for the failure to appropriately track costs is appropriate. We therefore direct Suburban allocate $49,192 of the Lifeline revenues to customers, as this is the maximum labor cost for Lifeline in 2025.[17]

3.2.2. Escalation / Attrition Year Filing

The Public Advocates Office requests the Commission require Suburban to file a Tier 2 advice letter in 2028 and 2029 proposing a new revenue requirement

[14] *See* Suburban Opening Brief at 20.

[15] *See* Public Advocates Office Opening Brief at 18.

[16] *See* Suburban Opening Brief at 20.

[17] *See* Suburban Opening Brief at 20.

and revised tariff schedule.[18] The Public Advocates Office argues that failing to require Suburban to do so may result in Suburban choosing "to file escalation advice letters only during the years it under earns" and not during years it over earns, thereby avoiding any rate decrease regardless of how much, or how often it over earns.[19] Suburban responds, arguing the Public Advocates Office's request is inconsistent with General Order (GO) 96-B and the Rate Case Plan.[20]

As the Public Advocates Office correctly noted, the current Rate Case Plan allows, but does not mandate, utilities to file escalation advice letters, creating a loophole that utilities could exploit. Several Commission decisions have addressed this issue by mandating that water utilities such as California-American Water, Liberty Utilities, Golden State Water Company, and Suburban itself, in its last GRC (Decision (D.)24-12-030), to submit advice letters during escalation years. This ensures transparency and fairness for ratepayers, guaranteeing that they benefit from rate decreases when applicable. The evidence submitted supports requiring Suburban to file Tier 2 advice letters in its 2028 and 2029 escalation years. These filings should propose new revenue requirements and revised tariff schedules, subject to review by the Water Division to ensure compliance with the Rate Case Plan and other Commission decisions. This requirement enhances regulatory oversight and protects ratepayers from unfair practices.

We agree with the Public Advocates Office and find it appropriate to implement the request concerning Escalation and Attrition year filings. Suburban

[18] *See* Ex. PUBADV-SI-001A at 1-3.

[19] *See* Ex. PUBADV-SI-001A at 1-3.

[20] *See* Suburban Opening Brief at 20.

is directed to file Tier 2 advice letters in its 2028 and 2029 escalation years, which propose new revenue requirements and appropriate tariff schedules.

3.3. Reasonableness of Proposed Revenue Requirement

3.3.1. Rate Base

3.3.1.1. Payment of Property Tax

The Public Advocates Office recommends the Commission reduce Suburban's working cash to adjust for Suburban "paying its property taxes prior to the due date."[21] Suburban notes that its first installment is due November 1, with a 10 percent penalty applied after December 10 if payment is delinquent. Its second installment is due February 1 and becomes delinquent after April 10.[22] Suburban argues that waiting until the last day prior to delinquency would "unnecessarily expose customers to risk of late fees." Suburban testifies that it mailed the first installment on November 12, 2024, and the second installment on April 1, 2025.[23]

While the precise date of submitting payment may impact working cash, we do not find that Suburban submitted either of its payments significantly earlier than was required. In this case, both payments were submitted after the due date but before the delinquency date. We find the timing of these installment payments to be reasonable and it does not appear that Suburban is intentionally seeking to submit payments at the earliest possible date to take advantage of increasing working cash.

[21] *See* Ex. PUBADV-CS-001 at 1-3.

[22] *See* Ex. SWS-KC-002 at 11.

[23] *See* Ex. SWS-KC-002 at 11.

We find that Suburban's approach was reasonable and decline to adopt the Public Advocates Office's proposal to reduce working cash.

3.3.1.2. Early Retirements, Group Depreciation, And Accounting Principles

The Public Advocates Office recommends that the Commission increase Suburban's depreciation reserve by $933,040 to account for projects retired early.[24] The Public Advocates Office explains that "an asset is fully depreciated when retired at the end of its estimated useful service life" and "[a]n early retirement occurs when an asset is retired from service earlier than the useful service life."[25] The Public Advocates Office argues that Standard Practice U-4-W states unexpected early retirements "can be 'extraordinary obsolescence' and "may require some form of an adjustment.'"[26] The Public Advocate Office proposes relying on a 50 percent benchmark to define early retirements, as the Commission did in D.24-12-030, to ensure that ratepayers only pay for assets that are truly used and useful.[27] The Public Advocates Office provides a list of 83 early retired assets from years 2020 through 2024, amounting to $933,040.[28]

Suburban argues that the amount, equal to 0.087 percent of Suburban's rate base, is insignificant.[29] The issue is one of fairness, as continuing to charge ratepayers for prematurely retired assets, regardless of their individual cost, is unjust.

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[24] *See* Ex. PUBADV-CS-001A at 1-7.

[25] *See* Ex. PUBADV-CS-001A at 1-4.

[26] *See* Ex. PUBADV-CS-001A at 1-5.

[27] *See* Ex. PUBADV-CS-001A at 1-6 and D.24-12-030 at 69.

[28] *See* Ex. PUBADV-CS-001A at 1-6.

[29] *See* Suburban Opening Brief at 27.

Accordingly, we agree with the Public Advocates Office and adopt its recommendation to adjust the depreciation reserve to reflect the early retirements. This will help prevent ratepayers from funding shareholder profits on these retired assets.

3.3.2. Payroll and Benefits

Suburban requests that the Commission approve its incentive compensation and permit Suburban to determine the allocation of that compensation between base salary and short and long-term incentive compensation.[30] Suburban further requests the Commission approve the same headcount it was authorized in its prior GRC, and recommends the Commission reject the Public Advocates Office's argument regarding a vacancy/slippage adjustment.[31]

The Public Advocates Office recommends the Commission deny Suburban's incentive compensation, deny Suburban's request for new employee positions, and apply a slippage adjustment to the payroll forecast.[32] Each item is discussed separately below.

3.3.2.1. Incentive Compensation

Suburban requests the Commission approve its market-based total direct compensation and permit Suburban to determine the allocation of that compensation among base salary and short and long-term incentive compensation.[33]

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[30] *See* Suburban Opening Brief at 35.

[31] *See* Suburban Opening Brief at 36-37.

[32] *See* Public Advocates Office Opening Brief at 33.

[33] *See* Suburban Opening Brief at 35.

The Public Advocates Office recommends the Commission exclude $2,356,364 in incentive compensation from rates, arguing incentive compensation programs primarily benefit shareholders "by rewarding executives for meeting performance goals, including goals that Suburban is required by law to meet, such as maintaining safe and reliable service."[34]

Suburban responds, arguing "[r]egulatory metrics that confirm Suburban provides its customers with safe and reliable service directly demonstrate undisputable measured results for ratepayers." Suburban notes that "if performance pay were eliminated, the Company would likely be forced to increase fixed pay (i.e., base salary) to above market competitive levels of base salary in order to provide total compensation at the median market level to attract and retain talent."[35]

We agree with the Public Advocates Office that the metrics Suburban proposes to use to determine performance pay reflect goals and standards Suburban is already required to meet to maintain safe and reliable service and to justify its expenditures and requested costs.[36] Meeting minimum standards is an expectation already included in the cost of service and should not result in a premium.

Accordingly, we exclude $2,356,364 in incentive compensation from rates.

3.3.2.2. Headcount and Repurposing Positions

Suburban states that it proposed a 2027 headcount of 137, which is the same as its previously approved headcount.[37] Suburban claims that since 2023, it

[34] *See* Public Advocates Office Opening Brief at 35.

[35] *See* Ex. SWS-RM-002 at 2.

[36] *See* Ex. SWS-RM-002 at 3-4 for Suburban's scorecard for informing incentive compensation.

[37] *See* Ex. SWS-CB-002 at 19.

has repurposed eight roles to more properly focus its existing staff and to avoid hiring additional employees. Specifically, Suburban seeks to increase the number of customer service representatives to address compliance with General Order 103-A, water quality technicians to ensure it can complete its backflow inspections, and associate engineers to address insufficient staffing.[38]

The Public Advocates Office recommends the Commission deny Suburban's request for new employee positions, including two Associate Engineers, three Water Quality Technicians, and three Customer Service Representatives, with a combined salary of nearly $800,000 annually.[39] The Public Advocates Office argues "[t]he headcount stability argument presupposes the wrong standard. The operative question is not whether the headcount is the same, but whether the eight roles now performing new and different functions are reasonable."[40] The Public Advocates Office notes that Suburban's stable headcount framing "fails to explain the proposed cost increases: its payroll forecast rises from $13,791,896 recorded in 2024 to $14,711,316 for Test Year 2027, an increase of $919,420, with the $799,640 in combined salaries of the eight disputed positions making up the bulk of that increase."[41] The Public Advocates Office argues that "Suburban could repurpose positions already in rates to meet any genuine new need" and if that is what is being done, ratepayers should not fund an incremental salary expense of $799,640.[42]

[38] *See* Ex. SWS-008 at 3-5.

[39] *See* Public Advocates Office Opening Brief at 33.

[40] *See* Public Advocates Office Opening Brief at 34.

[41] *See* Public Advocates Office Opening Brief at 34.

[42] *See* Ex. PUBADV-RK-001 at 2-4.

Suburban responds, arguing it "repurposed positions that were already in rates, just as Cal Advocates recommends" and that it "outlined the need and benefits for each position in both direct and rebuttal testimony."[43] Suburban contends that removing $799,640 from Suburban's 2027 test year forecast would reduce headcount to a level below what is currently authorized.

We find the focus on the number of employees less significant than the rate impact incurred by the proposed changes. Indeed, what we are examining here are requests that produce a rate increase, not whether one particular headcount is more appropriate than another. Any request that results in an increased cost must be fully justified. Suburban fails to explain why repurposing results in a $799,640 increase in payroll expenses, which undermines Suburban's contention that the cost is already in rates. The Commission does not limit Suburban's discretion in repurposing existing positions, but we find that Suburban fails to explain how and why repurposing the eight positions should result in approximately $800,000 in additional costs annually.

We agree with the Public Advocates Office and find that "Suburban could repurpose positions already in rates to meet any genuine need" and if these are not new positions, we find that Suburban failed to explain and justify the additional cost. Accordingly, we reduce the authorized amount in this category by $799,640.

3.3.2.3. Vacancy / Slippage Adjustment

The Public Advocates Office recommends the Commission apply a 3.8 percent payroll and slippage adjustment to Suburban's regular payroll forecast to

[43] *See* Suburban Opening Brief at 36.

reflect its typical workforce vacancy rates and hiring delays.[44] The Public Advocates Office argues "utilities forecast payroll based on full staffing levels" and "adjustments are commonly applied to account for vacancy, hiring delays, and normal workforce turnover," so "ratepayers do not fund payroll expenses associated with positions that remain unfilled during the forecast period."[45]

Suburban responds, arguing the Public Advocates Office's methodology is flawed and furthermore relied on two years of data rather than three.[46] Suburban nonetheless utilized the Public Advocates Office's methodology to perform its own analysis based on three years of data and determined the resulting vacancy rate is 2.57 percent and, when applied to the same payroll amount used by the Public Advocates Office, amounts to a vacancy adjustment of $354,736.[47]

We find that all three years should be utilized to develop the average and apply a 2.57 percent adjustment to the forecasted payroll as a vacancy/slippage adjustment.

3.3.3. Expenses

3.3.3.1. Conservation Outreach Program

Suburban requests the Commission approve its proposed annual budget of $500,000 for its conservation outreach program.[48] The Public Advocates Office recommends the Commission suspend Suburban's conservation outreach budget for TY 2027, arguing "there is a limit to how much customers can reduce their

[44] *See* Ex. PUBADV-RK-001 at 2-6.

[45] *See* Ex. PUBADV-RK-001 at 2-6.

[46] *See* Ex. SWS-CB-002 at 19.

[47] *See* Ex. SWS-CB-002 at 20.

[48] *See* Suburban Opening Brief at 44.

usage and Suburban's customers have already reached it."[49] The Public Advocates Office notes that despite meeting its conservation targets, Suburban's proposed $500,000 budget "is 18% higher than its own five-year recorded average conservation spending for 2020 through 2024 of $422,054."[50]

Suburban responds, arguing "effective water management depends on combining rate structures with public outreach and customer-focused programs that address behavioral, informational, and structural constraints on water use."[51] Suburban contends it cannot sustain the gains achieved through its conservation outreach program unless the Commission approves continuing the program, while the Public Advocates Office, in contrast, argues that continuing the conservation outreach program will not yield any further conservation gains because it has achieved its purpose.

We agree that water use will reach a point where demand cannot be decreased any further and becomes inelastic. We also agree that some level of outreach is necessary to sustain the gains made thus far and to prevent regression and the need for full-fledged reinstatement of an outreach program in the future. It does not seem prudent, however, to continue the program at the same level of funding as necessary in the past, or to maintain the same budget for outreach when the level of marginal gains to be achieved once demand has hardened decreases. For this reason, we approve half of Suburban's requested budget for customer outreach and reduce the amount from $500,000 annually to $250,000 annually. This issue should be revisited in Suburban's next filing to assess the program's continued need and efficacy.

[49] *See* Public Advocates Office Opening Brief at 49.

[50] *See* Public Advocates Office Opening Brief at 50.

[51] *See* Opening Brief at 40.

3.3.3.2. Administrative and General Expenses

The Public Advocates Office recommends the Commission reduce Suburban's forecasted 2027 budgets by 11 percent for the following Administrative and General expense accounts: Account 792 (Office Supplies and Other Expenses); Account 795 (Employee Pension and Benefits); subaccounts Employee Welfare (416), Training/Seminars (320), and Employee Education (420); Account 798 (Outside Services Employed), subaccounts Legal Fees (310) and Other Professional Services (324); Account 805 (Maintenance of General Plant), subaccount Machine Rent/Repair (338); and Account 799 (Miscellaneous General Expenses), subaccount Professional Dues, Company (330).[52]

The Public Advocates Office states that its review of an $11,714,010 sample of Suburban's 2020-2024 recorded expenses across these five accounts found $1,277,299, or 11 percent, to be "unreasonable, unjustified, and inappropriate for inclusion in TY 2027 rates."[53] The Public Advocates Office attributes the recording of these costs, in part, to Suburban's lack of written procedures for reviewing recorded expenses before they are included in the revenue requirement and recommends the Commission require Suburban to "establish and file written procedures for reviewing expenses for ratemaking appropriateness before they are included in a revenue requirement."[54] Suburban's response to the reductions in individual accounts is discussed below.

In general, we agree with the Public Advocates Office's assessment of the sampled expenses and find that the 11 percent reduction provides a reasonable basis for adjusting the administrative and general expense forecasts collectively.

[52] *See* Public Advocates Office Opening Brief at 48.

[53] *See* Public Advocates Office Opening Brief at 48.

[54] *See* Public Advocates Office Opening Brief at 49.

This is not a reduction to specific items, but an estimate that is based on the sample taken by the Public Advocates Office and applied to the whole.

Office Supplies and Other Expenses (Account 792)

Suburban requests $2,694,780 for 2027 and $2,759,993 for 2028 for office supplies and other expenses.[55] Suburban argues that while the Public Advocates Office provided a chart and data showing 4.65 percent of the entries met its criteria for non-recoverable, it is still recommending an 11 percent reduction. Suburban characterizes the Public Advocates Office's recommendation as baseless and that the penalty and methodology used to arrive at the penalty should both be rejected.[56]

The Public Advocates Office notes "164 entertainment entries, 289 undetailed purchasing-card entries, DJ and limousine services, and charitable contributions…" as examples of costs inappropriate for inclusion.[57]

We agree that ratepayers should not be funding DJs, limousine, entertainment, or charitable contributions made in Suburban's name. As is true for all of the accounts discussed in this section, the Public Advocates Office is not calling for the disallowance of specific costs, but rather an 11 percent reduction to the total amount based on its review of $11,714,010 in recorded expenses across five accounts, of which $1,277,299 (approximately 11 percent), was deemed inappropriate for recovery. This results in a greater cost reduction in some accounts and a smaller reduction in others than were we to make the individual and specific disallowances, however the effect is spread evenly and reflects the sample that showed eleven percent of costs were unreasonable for recovery.

[55] *See* Suburban Opening Brief at 48.

[56] *See* Suburban Opening Brief at 48-49.

[57] *See* Public Advocates Office Opening Brief at 49.

We agree with the Public Advocates Office and reduce Suburban's request in this category by 11 percent, or $296,426, from $2,694,780 to $2,398,354. Furthermore, we direct Suburban to establish and file written procedures for reviewing expenses for ratemaking appropriateness before they are included in a revenue requirement as part of its next GRC filing.

Employee Pension and Benefits Expenses (Account 795)

Suburban requests $288,983 for Training/Seminars, $432,403 for Employee Welfare, and $219,600 for Employee Education, totaling $940,986.[58] The Public Advocates Office includes these categories of costs in its recommendation for an 11 percent reduction.[59] Suburban responds, arguing it explained in evidentiary hearing the necessity of these costs. Yet the costs in question pertain to items such as company breakfasts, pet water bowls, and other company logo branded materials.[60] When asked whether this request should be in rates "given the grave affordability impact Suburban's request would have on customers," Suburban's witness replied "Yes. Because when you be with the customer, you could help the customer especially when they have leak instead of for the customer to have to pay high water bill because they have leak. So during this time they might be able to tell us because they're there and because they see a Suburban logo."[61]

It is unclear why a customer would wait until an in-person event or encounter to request assistance with a leak, or why they would not contact Suburban's customer service. We agree with the Public Advocates Office that expenditures on items such as branded pet bowls, company breakfasts, and other

[58] *See* Ex. SWS-001 at 39.

[59] *See* Public Advocates Office Opening Brief at 48.

[60] *See* RT Vol. 8 at 886-888.

[61] *See* RT Vol. 8 at 887.

logo branded materials should not be funded by ratepayers. We adopt the Public Advocates Office's recommended 11 percent adjustment and reduce the requested amount by $103,508, from $940,986 to $837,478.

Outside Services Employed (Account 798)

Suburban requests $416,970 for 2027 and $427,061 for 2028 for outside services employed.[62]

Suburban agrees with the Public Advocates Office that $117,338 in legal fees should be transferred to its Water Contamination Litigation Expense Memorandum Account. Suburban explains that the entries the Public Advocates Office disputes related to the hospital and sober living facility are related to an employee health insurance reimbursement and Suburban cannot provide additional detail due to restrictions on the disclosure of health information.[63]

Suburban is directed to transfer the $117,338 in legal fees to its Water Contamination Litigation Expense Memorandum Account. Suburban shall ensure that the transferred costs are not also recovered through base rates. We recognize the need to protect confidential health information. Based on Suburban's explanation that these entries concern health insurance reimbursement, we do not adopt any additional adjustments.

Maintenance of General Plant (Account 805)

Suburban requests $104,027 for 2027 and $106,544 for 2028 for maintenance of general plant – Machine Rent/Repair (subaccount 338).[64] The Public Advocates Office contends "[o]f the Account 805 sample of 2020-2024 recorded expenses totaling $394,468, an amount of $395 represents costs that are

[62] *See* Ex. SWS-001 at 26.

[63] *See* Suburban Opening Brief at 50.

[64] *See* Ex. SWS-001 at 40.

inappropriate, unreasonable, and unjustified, and therefore should not be borne by ratepayers."[65] Specifically, the Public Advocates Office argues Suburban lists the entries for "P-card" but fails to provide "any detailed description of the expense."[66]

Suburban responds, explaining "P-cards function as a company credit card that allow a very limited number of employees to directly procure business-related goods and services in accordance with company policy."[67]

We agree with the Public Advocates Office that entries in documents submitted to justify expenditures must contain an adequate level of detail so that the item may be assessed for reasonableness. Consistent with our adoption of an 11 percent adjustment based on the Public Advocates Office's review of recorded expenses across five administrative and general accounts, we reduce the authorized amount for Account 805 by $11,443, from $104,027 to $92,584.

Miscellaneous General Expenses (Account 799)

Suburban requests $178,833 for 2027 and $183,161 for 2028 for Miscellaneous General Expenses – Professional Dues – Company (Subaccount 330).[68] The Public Advocates Office recommends these costs be denied because "ratepayers are more harmed than helped from Suburban's membership in any of those organizations" due to their "anti-rate-ratepayer [sic] positions" in Commission proceedings.[69]

[65] *See* Ex. PUBADV-DG-001 at 1-16.

[66] *See* Ex. PUBADV-DG-001 at 1-16.

[67] *See* Suburban Opening Brief at 51.

[68] *See* Ex. SWS-01 at 26:23.

[69] *See* Ex. PUBADV-DG-001 at 1-16.

Suburban responds, arguing "[j]ust because Cal Advocates disagrees with certain positions taken by an organization does not mean that costs related to that organization are unreasonable or unsuited for recovery…"[70] Suburban states that it "has already made ratemaking adjustments related to CWA and National Association of Water Companies membership dues to exclude non-recoverable expenses" and that its membership in organizations "are necessary to Suburban's ability to operate effectively."[71]

If Suburban is electing to become a member of these organizations and wishes to secure funding for this purpose, it must demonstrate that the cost is worth the benefit. In this case, arguing that "Cal Advocates has made recommendations in this proceeding that are against customer interests"[72] does nothing to demonstrate the reasonableness of this request. Suburban claims that "participation in organizations such as economic partnerships and chambers of commerce enables it to engage with local business leaders, participate in community events, and maintain open dialogue regarding local economic conditions and customer concerns."[73] We find this explanation of benefits to be vague, intangible, and unpersuasive. We agree with the Public Advocates Office and reduce the 2027 forecast for Account 799, Professional Dues–Company (Subaccount 330), by 11 percent, or $19,672, from $178,833 to $159,161. For 2028, we reduce the forecast by $20,148, from $183,161 to $163,013.

Insurance, Injuries and Damages, Claims Reserve – Account 794 (Subaccount 233)

[70] *See* Suburban Opening Brief at 52.

[71] *See* Suburban Opening Brief at 52-53.

[72] *See* Suburban Opening Brief at 52.

[73] *See* Suburban Opening Brief at 53.

Suburban requests $50,000 for 2027 and $50,000 for 2028 for insurance, injuries and damages, claims reserve.[74] The Public Advocates Office recommends denying Suburban's request, arguing "ratepayers receive no water service benefit from this account" and "ratepayers should not be expected to pay for Suburban's negligence because the acts that would trigger such payments are speculative, and the funds would not be returned to ratepayers if unused, which does not benefit them."[75]

Suburban responds, arguing the deductible is something it would have to pay regardless of fault and does not indicate that Suburban anticipates negligence, but rather that its request "reflects prudent financial planning to ensure funds are available if a claim is filed and settled."[76]

We agree with the Public Advocates Office that there is no benefit to ratepayers from authorizing this budget, something that has been acknowledged separately in Suburban's prior GRC. Ratepayers should bear additional costs for incidents that happened on the utility's watch. Accordingly, we deny Suburban's request for $50,000 for 2027 and $50,000 for 2028.

Regulatory Commission Expenses – Account 797, Regulatory Expenses (Subaccount 344)

Suburban requests $426,184 for 2027 and $436,498 for 2028 for regulatory expenses.[77] Suburban states that its request is based on a five-year average of

[74] *See* Ex. SWS-01 at 39.

[75] *See* Public Advocates Office Opening Brief at 40 and Ex. PUBADV-DG-001 at 1-5.

[76] *See* Suburban Reply Brief at 44 and Ex. SWS-KC-002B at 23.

[77] *See* Ex. SWS-KC-002B at 25.

recorded expenses escalated to test year 2027, which is the same methodology that the Public Advocates Office recommended in Suburban's prior GRC.[78]

The Public Advocates Office recommends the Commission authorize $105,078 for Suburban's Subaccount 344, "based on the five-year unescalated average of recorded Regulatory Commission Expenses for 2020 through 2024 of a comparable neighboring utility, Liberty Utilities Apple Valley."[79] The Public Advocates Office states that it used a comparable neighboring utility as a proxy for its recommendation "because Suburban produced no reliable recorded figure of its own."[80] The Public Advocates Office recommends utilizing unescalated numbers "because it reflects actual case-driven spending without building in an inflation premium that has no demonstrated connection to expected regulatory activity."[81]

Suburban responds, arguing that the Public Advocates Office's recommendation "fails to account for the 'differences in operations, regulatory structure, and cost drivers' and ignores that Suburban's request is based on recorded data that was properly escalated."[82] Suburban notes that it employed the methodology utilized by the Public Advocates Office in its prior GRC, in which it used a five-year average of recorded expenses, escalated to Test Year 2027 as the basis for forecasting regulatory expenses.[83] The difference, Suburban

[78] *See* Suburban Opening Brief at 54.

[79] *See* Public Advocates Office Opening Brief at 41.

[80] *See* Public Advocates Office Opening Brief at 43.

[81] *See* Public Advocates Office Opening Brief at 41–42.

[82] *See* Suburban Reply Brief at 45.

[83] *See* Ex. SWS-KB-001B at 23.

notes, "is that Suburban uses a five-year average of recorded expenses, escalated to Test Year 2027, rather than a single year or a prior GRC forecast."[84]

We find both approaches to be problematic. In D.24-12-030, the Commission authorized regulatory expenses of $393,796 annually for 2024 and 2025.[85] We do not agree with the Public Advocates Office's approach of comparing Suburban to another utility when data for Suburban is available. We also remain unconvinced that any change to how Suburban's regulatory expenses were calculated and escalated in its prior GRC is required. GRC proceedings are not something new, and Suburban has sufficient knowledge and experience. Suburban fails to explain the value of altering how it calculates the new forecast from its prior calculation method. We therefore authorize Suburban a budget equal to the amount authorized in its prior GRC, adjusted for inflation.

3.3.3.3. Operations and Maintenance Expenses

Main San Gabriel Basin Operating Safe Yield

Suburban requests the following operating safe yields for the Main San Gabriel Basin: 154,000 acre-feet (AF) for 2027 and 154,000 AF for 2028.[86] The Public Advocates Office recommends the Commission require Suburban to update its Main San Gabriel operating safe yield to 160,000 AF.[87] The Public Advocates Office notes that the operating safe yield "has followed a consistent pattern" by setting an initial figure and then revising upward.[88] According to the

[84] *See* Ex. SWS-KB-001B at 24.

[85] *See* D.24-12-030 at 59.

[86] *See* Ex. SWS-01 at 43:1.

[8787] *See* Public Advocates Office Opening Brief at 44.

[88] *See* Public Advocates Office Opening Brief at 44-45.

Public Advocates Office, updating the operating safe yield from 154,000 AF to 160,000 AF will save ratepayers $842,940 annually.[89]

Suburban responds, arguing the "claim that it will update the OSY specifically to 160,000 AF is pure speculation."[90] Instead, Suburban proposes the Commission approve its approach of using a five-year average, which is how Suburban arrived at its recommendation of 154,000 AF.[91]

The Main San Gabriel Basin Watermaster issues a resolution setting the OSY. This is typically set for a five-year period, but an update can be issued changing the OSY at any time. On May 13, 2026, in Resolution No. 05-26-345, the Watermaster set an OSY of 160,000 AF for 2026/2027. Since the OSY has been updated, Suburban's argument in favor of 154,000 AF is moot. Accordingly, we adopt the Public Advocates Office's recommendation of 160,000 AF, which saves ratepayers $842,940 annually in rates.

Pumped Water – Central Basin Unused Water Rights

Suburban requested $105/AF for 2027 and 2028 for leasing out its Central Basin unused rights.[92] The Public Advocates Office recommends the Commission require Suburban to forecast unused Central Basin water rights leases at the current market rate of $185/AF.[93] The Public Advocates Office argues $185/AF is "the weighted average of the three available data points on Central Basin lease

[89] *See* Public Advocates Office Opening Brief at 45.

[90] *See* Suburban Reply Brief at 50.

[91] *See* Suburban Reply Brief at 50.

[92] *See* Suburban Opening Brief at 55.

[93] *See* Public Advocates Office Opening Brief at 46.

prices between 2023 and 2026."[94] The Public Advocates Office notes the higher the rate, the higher the resulting credit to ratepayers.[95]

Suburban responds, arguing the Public Advocates Office's "reliance on a single three-year agreement based on one water rights holder is unreasonable."[96] Suburban states that it "has been actively working to lease out its unused rights with a price of $110/AF (*i.e.*, roughly 24% lower than Cal Advocates' recommendation) and was unable to find any buyers at that price and instead had to settle for $100/AF.[97] Suburban states that its proposed rate is based on an average of its own historical transactions for the past three years with multiple lessees executed at different times.[98]

We find both proposals to have their shortcomings. The Public Advocates Office relies on one contract with one lessor, while Suburban's data is from 2023-2024. It is unclear why Suburban is not utilizing more recent contracts or data. For this reason, we adopt a figure between the two proposals—Suburban is directed to adopt a rate of $145/AF to reflect the midpoint between the two proposals. This is comparable to the $146.31/AF rate adopted in D.24-12-030 resolving Suburban's prior GRC.[99]

Purchased Power

[94] *See* Public Advocates Office Opening Brief at 46.

[95] *See* Public Advocates Office Opening Brief at 46-47.

[96] *See* Suburban Opening Brief at 56.

[97] *See* Ex. SWS-KC-002B, at 36-38.

[98] *See* Ex. SWS-KC-002 at 37.

[99] *See* D.24-12-030 at 148, OP 46.

For purchased power, Suburban requests a budget of $4,240,468 for 2027 and $4,205,501 for 2028.[100] The Public Advocates Office recommends the Commission authorize $5,108,064 for TY 2027, arguing that Suburban undercollected between July 2024 and June 2025 and any undercollection would result in the recovery of those expenses through an advice letter and 12-month temporary surcharge on customer bills.[101] Suburban states it agrees with the Public Advocates Office's methodology; however, it "recommends that the escalation rates reflect the most up-to-date [Commission] escalation factors available at the time the final decision is issued, rather than relying on factors published as of August 2025…."[102]

We find merit in minimizing surcharges on customer bills as much as possible and therefore adopt Suburban's recommendation of applying the most up-to-date escalation factors for purchased power at the time the decision is adopted.

3.3.3.4. General Office Expenses

For its total Nexus Water Group expenses, Suburban requests $8,341,123 for 2027 and $8,613,754 for 2028.[103]

The Public Advocates Office notes that as a condition of the Commission's approval of Suburban's merger into Nexus Water Group, Suburban must honor the ratepayer indifference standard, which, according to the Public Advocates Office, requires that customers be no worse off as a result of the merger.[104] The

[100] *See* Suburban Opening Brief at 57.

[101] *See* Public Advocates Office Opening Brief at 47.

[102] *See* Suburban Opening Brief at 58.

[103] *See* Suburban Opening Brief at 58.

[104] *See* Public Advocates Office Opening Brief at 28.

Public Advocates Office argues "[t]he magnitude of the increase confirms that it is a direct result of the merger, not of Suburban's standalone operational needs."[105]

The Public Advocates Office argues the Commission "should not authorize the recovery of expenses that Suburban cannot document or substantiate" and recommends the Commission adopt its approach, where it "took Suburban's five-year average recorded parent company allocation expense, reduced that recorded average by 60% to remove the undocumented entries, and projected the result forward to TY 2027 on a per-customer basis using Suburban's recorded five-year average customer growth rate."[106] The Public Advocates Office notes that Suburban "conceded that audited 2025 data would not exist until May 2026—after Cal Advocates' testimony was due" and argues "[w]ithout cost details, the Commission cannot determine whether the forecasted costs that are based on unaudited summary data reflect reasonable operating expenses, merger-related integration costs, expanded corporate allocations or non-operational expenditures."[107]

Suburban responds, arguing the "general ledger is not supposed to include every detail possible—that is not the role of the general ledger."[108] Suburban further contends that the Public Advocates Office's "failure to understand Suburban's data and standard industry processes is a reason to reject" the Public Advocates Office's recommendations, not to approve them.[109]

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[105] *See* Public Advocates Office Opening Brief at 31.

[106] *See* Public Advocates Office Opening Brief at 30.

[107] *See* Public Advocates Office Opening Brief at 28-29.

[108] *See* Suburban Opening Brief at 59.

[109] *See* Suburban Opening Brief at 60.

We agree with the Public Advocates Office that without information that has been audited and confirmed, we cannot assess the reasonableness of the request and the pragmatic course is "to ground the forecast in Suburban's own recorded pre-merger experience… which establishes a reasonable and measurable level of ratepayer indifference."[110] We find it particularly concerning that approximately 60 percent of entries for the 2020 through 2023 period were for "entries with no description (including non-descript "p-card" entries)"[111] and find Suburban's argument that the general ledger is not the place for that information to be unsatisfactory. It is not reasonable to approve costs that are not satisfactorily recorded and explained. Suburban is advised to provide more detail regarding its entries in the future if it expects the costs to be approved, whether that be in using its existing record-keeping and expanding on the description entries or tracking them in a parallel system that makes it easy to verify. We adopt the Public Advocates Office's recommendation and reduce Suburban's TY 2027 parent company allocation forecast by $5,417,949, resulting in an allocation forecast of $2,923,174 for 2027 and $3,195,805 for 2028.

3.3.4. Plant

There are a number of projects that Suburban forecasted and the Commission approved in its prior GRC; however, for some of these projects Suburban used the funding to place other projects into service instead. Suburban contends that, contrary to arguments made by the Public Advocates Office, requesting funding for those projects again in the instant application would not constitute duplicative recovery.[112] Suburban states that it decided to "move

[110] *See* Public Advocates Office Opening Brief at 29.

[111] *See* Public Advocates Office Opening Brief at 30.

[112] *See* Suburban Opening Brief at 63.

forward with its 2023 projects, even though it does not know definitively if the Commission will approve them" because the decision for its prior GRC was delayed.[113]

Suburban requested the Commission recognize the reasonableness of the projects listed below and adopt Suburban's proposed capital budget.[114]

3.3.4.1. Suburban's Pipeline Replacement Program

Suburban requests the Commission adopt its proposed 1 percent pipeline replacement rate, meaning 1 percent of the pipelines in Suburban's service territory is replaced annually.[115] Suburban currently operates under a 0.33 percent replacement rate[116] and argues that if it continues at this rate, it will have a break rate of 27 annual breaks per 100 miles in 2050, or 232 breaks annually.[117] Suburban contends that it currently averages 13 main breaks annually per 100 miles, or double the regional average break rate of 6.5 breaks per 100 miles and higher than the national break rate of 11 breaks per 100 miles.[118] According to Suburban, a 1 percent replacement rate would result in all of its pipelines being replaced in 100 years and a break rate of 10 annual breaks per 100 miles, or 87 breaks per year in 2050.[119]

The Public Advocates Office recommends the Commission authorize a 0.66 percent annual pipeline replacement rate, arguing that it "is consistent with what

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[113] *See* Suburban Opening Brief at 63.

[114] *See* Suburban Opening Brief at 64.

[115] *See* Suburban Opening Brief at 75 and Ex. SWS-JL-002 at 34.

[116] *See* Ex. SWS-JL-002 at 34.

[117] *See* Suburban Opening Brief at 66.

[118] *See* Suburban Opening Brief at 65.

[119] *See* Suburban Opening Brief at 66.

comparable utilities have determined is appropriate for similar system performance."[120] The Public Advocates Office notes that the Los Angeles Department of Water and Power (LADWP), which operates in the same county and whose "system is larger and older than Suburban's," has determined a 0.66 percent replacement rate is appropriate for its service territory.[121]

Suburban is currently operating at a 0.33 percent annual pipeline replacement rate. It seeks to triple that rate to 1 percent; however, when Suburban's witness, Mr. Lopez, was asked whether Suburban's break rate analysis provided a cost-benefit comparison of one percent versus 0.66 percent, Mr. Lopez responded that Suburban did not have time to do that analysis.[122] The issue here is not that Suburban should have anticipated the rate that the Public Advocates Office would have recommended and conducted an analysis of that number, but rather that when requesting to increase its annual replacement rate threefold, a thorough analysis would demonstrate why rates that fall in between its current authorized replacement rate and the requested rate fall short of its stated goals. Suburban's assertion that it lacked sufficient time to analyze a cost-impacting request does not demonstrate the thoroughness and care expected of a prudent manager when evaluating whether a cost-impacting request is just and reasonable.

We agree that some increase in annual replacement rate is necessary; however we do not find that Suburban fully justified its request. We therefore adopt a 0.66 percent annual replacement rate.

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[120] *See* Public Advocates Office Opening Brief at 68.

[121] *See* Public Advocates Office Opening Brief at 69.

[122] *See* RT Vol. 5 at 293.

3.3.4.2. PFAS Projects

Suburban requested funding for two projects—$34,639,000 for Plant 201 in the Whittier/La Mirada service area and $2,924,239 for Plant 804 in the Sativa service area—to treat the water from local wells to the United States Environmental Protection Agency's PFAS maximum contaminant levels (MCLs). Suburban states that the wells currently exceed the MCLs, and they must be treated to a level below the MCLs by 2029 if they are to remain operational.[123]

Plant 201

The Public Advocates Office recommends the Commission deny further rate recovery for the Plant 201 PFAS treatment project and remove the prior-GRC authorization from rate base.[124] Specifically, the Public Advocates Office recommends the Commission "deny Suburban's current request for $34,639,000 in new rate base funding for Plant 201" and "reduce rate base by $21,172,000 (the amount the Commission previously authorized for this project in the prior GRC) because that authorization was conditioned on construction being completed and the plant being in service, and neither condition has been met."[125]

Suburban argues that it did not begin construction on Plant 201 until after the Commission's decision in its prior GRC was final because of the size of the project and the need for Commission approval to qualify for grant funding.[126] According to Suburban, "[h]ad the Commission issued its decision on time, Suburban would have been able to build the project in 2025 and 2026. Instead,

[123] *See* Suburban Opening Brief at 75.

[124] *See* Public Advocates Office Opening Brief at 74.

[125] *See* Public Advocates Office Opening Brief at 74 citing Ex. PUBADV-AA-001A at 2-1 to 2-3.

[126] *See* Suburban Opening Brief at 79.

implementation was pushed into this GRC, with construction now scheduled to begin in 2026 and to be completed in 2027.[127]

The disagreement between the parties here hinges on Suburban allocating funding that was approved for Plant 201 in its prior GRC decision to other projects, then seeking funding for Plant 201 in the instant application. The Public Advocates Office considers this to be duplicative funding for the same project and therefore believes this request should be denied.[128]

While we understand that D.24-12-030 required these funds to be used exclusively for Plant 201, the delay in adopting the decision impacted the window of time available to Suburban to plan and make decisions for that GRC cycle. The PFAS remediation is a federal mandate, and therefore this is a necessary expenditure. We approve this request.

In the future, we expect Suburban to spend approved allocated funds for the purpose for which it requested funds. Furthermore, if Suburban seeks funding for a previously authorized project, it must adequately document and explain why it is reallocating funds from the authorized purpose so the Commission can assess whether the deviation was justified in light of considering the new request.

Plant 804

The Public Advocates Office recommends the Commission deny rate recovery for Plant 804 "because other funding is available."[129] Specifically, the Public Advocates Office contends the Sativa water system qualifies for grants,

[127] *See* Ex. SWS-JL-003 at 50-51.

[128] *See* Public Advocates Office Opening Brief at 74.

[129] *See* Public Advocates Office Opening Brief at 75.

and that Plant 804 is eligible for the Water Replenishment District of Southern California's PFAS Remediation Program.[130]

Suburban responds, arguing that grant funding is neither guaranteed nor predictable in the amount.[131] It further contends that denying rate recovery until the project is complete would make it ineligible for grants because eligibility requires proof of secured project funding, while pursuing funding from the Water Replenishment District of Southern California's PFAS remediation program would require Suburban to release any PFAS-related claims against the Water Replenishment District and to the detriment of its customers.[132]

While we find merit in the Public Advocates Office's suggestion that Suburban seek grant funding, we acknowledge the uncertainty this approach can create for a project that is necessary to meet PFAS MCL requirements. Therefore, grant Suburban rate recovery for its Plant 804.

3.3.4.3. Whittier / La Mirada

Suburban requests $10,721,833 for the Stage Road (P-9) at Plant 429, and $3,606,894 for Plant 216 (P-12), both capital projects in its Whittier/La Mirada service area.[133]

The Public Advocates Office recommends the Commission deny the P-9 and P-12 projects that Suburban proposes in the Whittier/La Mirada area, arguing "[b]oth are based on insufficient data on water quality and production and should not be included in rates."[134]

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[130] *See* Public Advocates Office Opening Brief at 76.

[131] *See* Opening Brief at 76-77.

[132] *See* Opening Brief at 80.

[133] *See* Public Advocates Office Opening Brief at 78-80.

[134] *See* Public Advocates Office Opening Brief at 78.

Stage Road (P-9)

The Public Advocates Office recommends the Commission exclude the entirety of Suburban's $10,721,833 request for this project at Plant 429 for two reasons. First, the Public Advocates Office notes that Suburban has only conducted a single sample to test the water quality at this site and "[i]t is unreasonable to commit ratepayers to over $10 million in capital costs for a well site that has not been adequately evaluated for water quality."[135] Second, Suburban's proposed equipping cost of $5,601,289 "reflects an unjustified 147 percent increase over the prior GRC estimate for the same scope of work ($2,267,385 in 2022).[136] The Public Advocates Office further contends that the project will not be used and useful in this GRC cycle, and should therefore be excluded from rate base.

Suburban responds, arguing that the Public Advocates Office' characterization of its final verification "as a 'single' test is highly misleading."[137] Suburban contends that the increase in cost "reflects the substantial increase in inflation since 2022" and while the Public Advocates Office utilizes the Consumer Price Index, it proposes utilizing the engineering News-Record indices, "which account for construction-specific labor, materials, and prevailing market conditions…"[138]

We share the Public Advocates Office's concerns on whether this site has been adequately evaluated for water quality. We also note that this site is not yet active and there is insufficient evidence that it will become active within the

[135] *See* Public Advocates Office Opening Brief at 78-79.

[136] *See* Public Advocates Office Opening Brief at 78-79.

[137] *See* Suburban Reply Brief at 85.

[138] *See* Suburban Opening Brief at 89.

current GRC cycle. Therefore, this project does not meet the used and useful standard. If this project becomes used and useful before the next GRC is filed, Suburban may request recovery of costs by filing a Tier 3 Advice Letter. This ensures ratepayers do not incur costs for a project prior to it being completed and providing a benefit.

Plant 216 (P-12)

Suburban requests $3,606,894 in 2028 to drill a production well at Plant 216.[139] The Public Advocates Office recommends the Commission deny this request because "there is limited data on current aquifer yields near Plant 216 because no active wells are nearby."[140] The Public Advocates Office further contends the report Suburban relies on for the viability of this project "draws its primary inference from Plant 231 W-1, a 10-inch well constructed in 1981 that tapped a deep section of the aquifer (260 to 946 feet)" and "was decommissioned in 1996 for unknown reasons, located 200 feet from the proposed site."[141]

Suburban responds, arguing the report used data from other plants in addition to Plant 216, and that the water can be treated and blended to meet applicable standards.[142]

We agree with the Public Advocates Office that "[u]sing a well that was taken out of service three decades ago for reasons no one can identify as the foundation for a $10 million capital investment is not reasonable or prudent."[143] In this case, the evidence available does not adequately establish the proposed

[139] *See* Suburban Opening Brief at 90.

[140] *See* Public Advocates Office Opening Brief at 80.

[141] *See* Public Advocates Office Opening Brief at 80.

[142] *See* Suburban Opening Brief at 94.

[143] *See* Public Advocates Office Opening Brief at 80.

well's production capability or support the request. Until further data on the viability of this well becomes available, we do not find it prudent to authorize the amount requested for a production well. Accordingly, we deny this request and advise Suburban that it must be prepared to speak more extensively about why this site is appropriate and viable, should it make this request in a future GRC.

3.3.4.4. Sativa Projects

Sativa Manganese Treatment Plant (P-2)

Suburban requests $3,927,656 for the Sativa Manganese Treatment Plant.[144] The Public Advocates Office recommends approving $3,603,354 to remove unjustified expenses.[145] The Public Advocates Office attributes this $324,302 difference to "a 9% General Administration" project cost added to the price tag by Suburban without justification, noting Suburban is not managing this project, nor is it the administrator.[146]

Suburban responds, arguing it participated in design meetings, reviewed material and equipment submittals, responded to the contractor request for information, assisted with the application process, coordinated site visits, and followed through with plan submittal.[147] While this reflects some level of involvement, we do not find that this additional level of work is commensurate to an additional $324,302, nor does it indicate management or administrator-level work. Coordinating site visits and following through with plan submittal, as an example, are tasks that easily fall within the purview of existing duties of entry-

[144] *See* Suburban Opening Brief at 96.

[145] *See* Ex. PUBADV-ZS-001 at 2-1.

[146] *See* Ex. PUBADV-ZS-001 at 2-3.

[147] *See* Suburban Opening Brief at 96.

level employees. We agree with the Public Advocates Office and reduce the request by $324,302.

Sativa Water System Land Purchase (P-5A)

Suburban requests $987,877.38 in rate base to purchase a 6,500 square-foot parcel adjacent to Plant 803.[148] The Public Advocates Office recommends the Commission exclude this cost "because neither the parcel nor associated projects will be used and useful in this rate cycle, and because Suburban's own rebuttal shows the request is not a land purchase but a site-development project that ratepayers have not been shown to need."[149] The Public Advocates Office raises numerous concerns with this item, including that "[t]he land itself is worth far less than the amount requested" and that, because the request would fund the demolition of an abandoned building and the construction of a paved maintenance lot, it will not be used and useful during this rate cycle.[150]

Suburban responds, arguing (1) because the land purchase closed a few days before it filed the instant application, it did not have complete cost information, (2) "the extra space will be used for operations and maintenance of the facilities, continuing once the manganese treatment is constructed…"[151] Suburban states "given rising levels of PFAS at nearby wells, it likely [sic] that the well at Plant 803 will need treatment for PFAS in the future, but there is no space for additional treatment equipment at Plant 803."[152]

[148] *See* Suburban Opening Brief at 98.

[149] *See* Public Advocates Office Opening Brief at 83.

[150] *See* Public Advocates Office Opening Brief at 83.

[151] *See* Suburban Opening Brief at 98.

[152] *See* Suburban Opening Brief at 97.

Although Suburban describes a conceptual purpose for this parcel's use, we find the explanation provided to be vague, speculative, and in its preliminary stages. We exclude the requested amount in rate base for this cycle and advise Suburban to be prepared to explain the usefulness of this parcel if it makes this request in the next cycle, along with a more specific timeline associated with how it proposes to use this asset.

Sativa Customers First in Line for Water Supply Project (P-8)

Suburban requests $3,140,168 in 2028 to install two 137,000-gallon bolted steel tanks at Plant 802 with two 60 HP pumps and two 20 HP pumps.[153]

The Public Advocates Office recommends the Commission deny this project "because the Sativa system already has adequate supply capacity and can meet the California Title 22 standards without additional storage."[154]

Suburban responds, arguing that relying on interconnections with neighboring entities is risky and that the State Water Resources Control Board concluded the Sativa water system lacks sufficient storage capacity for emergency conditions.[155]

We agree with Suburban that this project is necessary to address the SWRCB's findings and recommendations to ensure preparedness for emergency scenarios and approve this request.

Sativa Water System Pipeline Replacement (P-17)

[153] *See* Ex. SWS-JL-001B at 282.

[154] *See* Public Advocates Office Opening Brief at 84.

[155] *See* Ex. SWS-003 at 1030 of 3638 in the pdf, October 7, 2025 Letter from SWRCB to Mr. Michael De Ghetto.

Suburban completed Phase 1 of its Sativa pipeline replacement project in 2025 and intends to undertake Phase 2 during this GRC period.[156] The Public Advocates Office recommends the Commission "deny rate recovery for $5,355,163 that Suburban has already spent on Phase 1 pipeline projects and exclude Suburban's request for an additional $3,368,048 for Phase 2, a combined $8,723,211 in fire-flow-related pipeline work."[157] The Public Advocates Office argues Suburban is not required to meet GO-103A requirements because it is not constructing a new building and because it fails to quantify "what actual improvement Phase 1 projects produced in the system, and cannot explain what measurable benefit the seven additional Phase 2 pipeline replacements would provide beyond what is already achieved."[158]

Suburban responds, arguing the pipeline replacement is necessary to meet Los Angeles County Fire Department's minimum flow requirements, and without it there is "an elevated fire risk in a densely populated, lower-income residential area." [159] Suburban also contends that the pipelines cannot achieve the necessary flushing velocities required to clear sediment, leading to poor water quality and chronic discoloration.[160]

General Order 103-A was adopted to "establish minimum standards to be followed in the design, construction, location, maintenance and operation of the facilities of water and wastewater utilities operating under the jurisdiction of the

[156] *See* Ex. SWS-JL-001B at 432.

[157] *See* Public Advocates Office Opening Brief at 85.

[158] *See* Public Advocates Office Opening Brief at 85.

[159] *See* Suburban Reply Brief at 102.

[160] *See* Suburban Reply Brief at 102.

Commission."[161] Section VI, entitled Fire Protection Standards, provides guidance on replacement of mains as follows:

> 3. Replacement of Mains
>
> A. Changes to Fire Code: The utility shall not be responsible for modifying or replacing at its expense any existing facilities, which are otherwise adequate, in order to provide increased fire flow or duration due to changes in the standards after the initial construction.
>
> B. Replacement for Other Reasons: When a main requires replacement for other reasons, the new main, if used or useful for fire protection purposes, shall be sized to accommodate the governing fire flow standard.[162]

While the utility is not required to make the upgrades Suburban is proposing, we do find it concerning that the area is vulnerable to fires due to the density and the inadequate pressure of existing pipelines to meet minimum flow requirements. Accordingly, we grant Suburban's request for this item to enhance fire safety in the area.

3.3.4.5. Advanced Metering Infrastructure (P-15)

Suburban requests $1,666,048 to deploy Advanced Metering Infrastructure (AMI) across its service area.[163] Suburban states that AMI provides customers with continuous information to help them manage water consumption and quickly notifies customers of leaks to keep their bills affordable.

The Public Advocates Office argues that Suburban's proposal to hire an external consultant rather than relying on an internal inspector results in an unnecessarily higher cost to ratepayers and recommends the Commission reduce

[161] *See* GO 103-A at 1.

[162] *See* GO 103-A at 25.

[163] *See* Ex. SWS-JL-001B at 427.

Suburban's AMI capital budget by the difference between the $206,400 in 2028 to hire an external consultant and the cost of an internal inspector.[164]

Suburban responds, arguing that while it agrees with the Public Advocates Office that Suburban's internal staff would perform the work at a lower cost, "Suburban does not have the capacity to meet the inspection requirements for the AMI project internally."[165] We do not find this explanation to be adequately persuasive. If Suburban is requesting to roll out AMI throughout its service territory, it should not be done with outside consultants that result in a significant premium in cost. We agree with the Public Advocates Office and reduce the AMI capital budget by the difference between the $206,400 in 2028 and the cost of an internal inspector.[166]

3.3.4.6. Suburban's Proposed Annual Budgets for Vehicle Replacement and Meter Purchase and Installations

Vehicle Replacement (R-25)

Suburban requests $652,000 in 2026, $2,877,000 in 2027, and $1,647,000 in 2028 for vehicle replacement.[167] The Public Advocates Office recommends the Commission adopt its approach of taking Suburban's five-year average for vehicle replacement expenditures and adjusts it for inflation, amounting to a total of $557,300 for 2026, $573,400 for 2027, and $589,900 for 2028, an amount that is $3,455,400 lower than Suburban's total request.[168]

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[164] *See* Ex. PUBADV-CS-001A at 3-1 to 3-2. The cost for internal inspector is confidential and can be found in Ex. PUBADV-CS-001-A-C at 3-1.

[165] *See* Suburban Opening Brief at 118.

[166] The cost for an internal inspector is confidential and therefore not provided here.

[167] *See* Ex. SWS-JL-001B at 117.

[168] *See* Public Advocates Office Opening Brief at 62.

Suburban responds, arguing it seeks to implement the 2017 DGS standards for vehicle replacement that it was authorized under D.24-12-030, the decision resolving its prior GRC.[169] We agree with Suburban and grant its request for replacing its vehicles pursuant to the 2017 DGS standards.

Meter Purchase (R-5) and Meter Installations (R-16)

Suburban requests $12,261,905 for meter purchase and meter installations.[170]

The Public Advocates Office recommends the Commission reduce Suburban's request by $127,761 for meter purchase projects and $37,434 for meter installation projects, arguing "[r]atepayers should not fund overestimated budgets for meter purchase and installation projects" where "Suburban did not provide adequate data on all retrofit registers it proposed in its testimony."[171]

Suburban claims that the Public Advocates Office's "misleading argument omits 2028 data from their analysis" while simultaneously claiming when its testimony was written "Suburban did not have the data it needed to select specific registers to replace each year."[172]

Suburban should have its request prepared in its entirety at the time it submits its testimony. Providing information later in the course of the proceeding limits the ability of the Commission and other parties to assess and evaluate the data, particularly given the limited time for discovery and hearings. In light of this, we agree with the Public Advocates Office and reduce Suburban's

[169] *See* Ex. SWS-JL-003 at 134.

[170] *See* Ex. SWS-JL-001A at 71.

[171] *See* Ex. PUVADV-CS-001 at 2-7 to 2-8.

[172] *See* Ex. SWS-JL-003 at 126 and 130.

request by $127,761 for meter purchase projects and $37,434 for meter installation projects.

3.3.4.7. Purchase Water Rights Shares

Suburban requests the Commission approve $1,098,000 for the purchase of California Domestic Water Company (Cal Domestic) water rights shares and $755,800 for the purchase of Covina Valley Water Company (CVWC) water rights shares for a total request of $1,853,800.[173]

The Public Advocates Office argues Suburban "has not demonstrated that the purchased water shares are used and useful in providing water service during this rate cycle."[174] The Public Advocates Office further contends that "[b]ecause the water rights were denied in the 2024 decision, Suburban is now selling them" and "it is unreasonable for ratepayers to fund projects that are not used or useful."[175]

Suburban responds, claiming its purchase would break even in six years and save customers $2,461,510 over 40 years for the shares purchased from Cal Domestic and $466,913 over 40 years for the shares purchased from CVWC.[176] We find that Suburban has provided data on how the purchase will be useful and grant Suburban's request.

[173] *See* Ex. SWS-JL-001A at 35-36.

[174] *See* Public Advocates Office Opening Brief at 61.

[175] *See* Ex. PUBADV-CS-001 at 1-4.

[176] *See* Suburban Opening Brief at 123 and Ex. SWS-JL-001B at 35.

3.3.4.8. Reasonableness of Allocated Parent Company Rate Base

Suburban requested $3,888,939 for 2027 and $6,096,681 for 2028 for its Allocated Parent Company rate base.[177] Suburban also requested the associated depreciation expense of $1,255,352 for 2027 and $1,821,211 for 2028.[178]

The Public Advocates Office argues the Commission should forecast parent company IT rate base for Test Years 2027 and 2028 using the five-year average recorded per-customer IT rate base cost from 2020-2024, multiplied by Suburban's projected customer counts for each test year, arguing this "ensures that forecasted rate base remains consistent with historical levels and protects ratepayers from potential cost increases associated with changes in the utility's parent company structure."[179]

Suburban responds that "[t]he costs at issue have nothing to do with the merger."[180] Suburban explains that the costs relate to investments to protect its ratepayers against cybersecurity attacks and adopting the Public Advocates Office's recommendation would "negatively impact risk mitigation against criminals attempting to take over water treatment plants and distribution systems and therefore Suburban's ability to sustain operations during emergency situations…"[181]

While the forecasted costs need not remain the same as prior years, Suburban's forecast represents a significant departure from the five-year average

[177] *See* Ex. SWS-001 at 79.

[178] *See* Ex. SWS-001 at 54.

[179] *See* Ex. PUBADV-RK-001 at 1-11.

[180] *See* Ex. SWS-JF-002 at 4.

[181] *See* Suburban Opening Brief at 126.

and comes at a time that coincides with the merger with Nexus Water Group without an adequate explanation or justification that these costs are necessary or independent of the merger. We agree with the Public Advocates Office that the Commission took significant interest in ensuring ratepayers were not worse off as a result of the merger. Accordingly, we adopt the Public Advocates Office's recommendation for this item.

3.3.4.9. Efficiency of Cost of Removal Estimate

Suburban's capital budget includes the depreciation reserve (accumulated depreciation), which is the cumulative pool of cash or reserved funds set aside to eventually replace or renew those assets.[182] The depreciation reserve includes the estimated cost of removal for certain assets. Suburban proposes $7,522,956 in 2026, $7,861,639 in 2027, and $8,197,586 in 2028 for cost of removal.[183]

The Public Advocates Office recommends reducing the cost of removal Suburban requests by $3,788,556 for 2026, $4,019,139 for 2027, and $4,244,086 for 2028, arguing that Suburban fails to explain "why the cost of removal is equivalent to the cost of additions."[184]

Suburban responds, arguing "[b]ecause these activities are usually combined, to estimate (1) the cost of removal and (2) installing the proposed addition, Suburban split the total cost estimate evenly (50/50) between removal and new installation."[185]

Suburban does not appear to have a dollar amount assigned to removal without installation. As demonstrated during the cross-examination of Witness

[182] *See* Suburban Opening Brief at 127.

[183] *See* Ex. PUBADV-CS-001A at 4-1.

[184] *See* Ex. PUADV-CS-001A at 4-3.

[185] *See* Suburban Opening Brief at 128.

Lopez, the 50/50 assignment is arbitrary because the two activities tend to be undertaken together.[186] When asked why it was broken down 50/50, Mr. Lopez testified, "[i]t was to demonstrate that the operations are very similar and that we actually have cost savings or a cost benefit from us doing it at the same place at the same time rather than doing two different locations."[187] There is a contradiction here; you cannot have installation constitute half of the expense and also argue that whether installation occurs or the site is abandoned, the cost is the same. Although Mr. Lopez was given ample opportunity to explain this, he did not elucidate in a manner that reconciles these two statements.

We adopt the Public Advocates Office's cost-of-removal recommendation of $3,734,400 for 2026, $3,842,500 for 2027, and $3,953,500 for 2028, which reduces Suburban's forecasts by $3,788,556 for 2026, $4,019,139 for 2027, and $4,244,086 for 2028. We direct Suburban to promulgate a more accurate cost breakdown for these activities in its future GRC filings so that the Commission can conduct a more granular examination of the costs associated with these activities.

3.4. Rate Design

Suburban requests the Commission adopt its proposed rate design, which consists of a 40/60 fixed-to-variable revenue split, a residential three-tier structure with what it describes as "moderate price steps," and a Customer Assistance Program (CAP) credit equivalent to 50 percent of the ¾-inch meter charge.[188] We discuss each of the three components in greater detail below, along with the proposal put forth for consideration by the Public Advocates Office, which consists of retaining the 30/70 fixed-to-variable revenue split, a three-tier

[186] *See* RT Vol. 5 at 369 and onward.

[187] *See* RT. Vol. 5 at 377:13-16.

[188] *See* Ex. SWS-DM-001 at 2-3.

structure with a wider second tier set at the Standard Quantity Rate (SQR), and a fixed CAP credit that increases in tandem with changes to revenue requirement from year to year.

3.4.1. Fixed-to-Variable Revenue Ratio

As noted above, Suburban proposes moving from a 30/70 fixed-to-variable revenue ratio to a 40/60 fixed-to-variable revenue ratio.

The Public Advocates Office recommends the Commission deny Suburban's request for three reasons. First, the Public Advocates Office argues that the guidance in D.16-12-026 (Decision Providing Guidance on Water Rate Structure and Tiered Rates) does not apply to Suburban, as the rationale for increasing the percentage of revenue derived from fixed-costs was to "[r]educe the burden of the large, open-ended surcharges that accumulated under the pilot full-WRAM program."[189] Second, the Public Advocates Office argues "the Commission found that water utilities' fixed costs are generally about 70 percent of total costs and built its revenue-allocation guidance on that premise."[190] However, "Suburban's fixed costs are only 52 percent of total costs in 2024 (well below the level the decision assumed) and Suburban forecasts that percentage to decline further from 2024 to TY 2027."[191] Third, the Public Advocates Office notes the Commission directed that "fixed-charge increases be gradual."[192] According to the Public Advocates Office, a ten percent increase is not gradual and "would increase the fixed charge on the most common ¾-inch meter from $24.83 to

[189] *See* Public Advocates Office Opening Brief at 19.

[190] *See* Public Advocates Office Opening Brief at 20 and D.16-12-026 at 53.

[191] *See* Ex. PUBADV-CR-001A at 2-4.

[192] *See* Public Advocates Office Opening Brief citing D.16-12-026 at 56.

$39.07 per month, a 56% monthly rate increase that falls hardest on low-income, low-use customers who cannot avoid it by conserving."[193]

Suburban responds, arguing D.16-12-026 applies to it as a Class A water utility; however, when making its claim, it fails to quote the entire sentence in the relevant ordering paragraph, leaving out critical context. The entirety of Ordering Paragraph 13 is reproduced below:

> Class A and Class B water utilities shall consider proposing in their General Rate Case application adjustments to the percentage of revenue recovery collected from fixed charges with a floor of at least 40 percent of revenues collected from fixed charges and up to 50 percent fixed charges, or submit alternative proposals **to reduce reliance on Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account balances**, maintain an incentive for conservation for conservation of water, and address utility circumstances. Such proposals shall consider the impact of shifting revenue recovery to fixed costs on low-income customers and propose appropriate adjustments to low-income programs to maintain affordability and equity, while signaling conservation and **reducing reliance on WRAM balance and surcharges**.[194]

The plain language above makes it clear that the directive seeks to reduce reliance on the WRAM and, as the Public Advocates Office correctly points out, Suburban has never been on the WRAM. As the Public Advocates Office notes, "Suburban does not operate under the full WRAM" but rather the Monterey WRAM (M-WRAM) that "does not generate the large balances the Commission was concerned about; the surcharge problem that drove the fixed- charge guidance simply does not arise for Suburban."[195] We agree that when the Commission issued the relevant guidance, it found that the utilities it applied to

[193] *See* Public Advocates Office Opening Brief at 21 and Ex. PUBADV-CR-001A at 2-18.

[194] *See* D.16-12-026, Ordering Paragraph 13 at 88, emphasis added.

[195] *See* Public Advocates Office Opening Brief at 19-20.

had approximately 70 percent of their costs fixed—something which is untrue for Suburban.

Furthermore, we agree with the Public Advocates Office that Suburban's circumstances do not warrant increasing its revenue from fixed cost rates from 30 percent to 40 percent. There are drawbacks to altering the revenue ratio in favor of higher fixed cost recovery. For example, as customers notice that less of their bill is impacted by their usage behavior, it may negatively impact conservation efforts. We also note that as a utility recovers a greater percentage of its revenue through fixed costs, the impact is greater on lower-income customers for whom the fixed charge would consume a greater proportion of their discretionary income. We agree with the Public Advocates Office and reject Suburban's proposal to alter its fixed-to-variable cost recovery ratio.

3.4.2. Tier Rates and Structure

Suburban currently employs a two-tier quantity rate for residential customers, with all other customers served under a single-tier quantity rate. Suburban's current rate design provides for a breakpoint between Tier 1 and Tier 2 that varies depending on the meter size, with increasing meter size resulting in a higher amount of Tier 1 usage.[196] Suburban states that "[n]early all residential customers have either a 5/8 x ¾ inch or a ¾ inch meter," the first 20 CCF of usage is charged at the Tier 1 rate and anything above it is charged at the Tier 2 rate.[197]

Suburban operates in the Whittier/La Mirada service area and the San Jose Hills service area, with each being divided into three tariff areas. The differences

[196] *See* Ex. SWS-DM-001 at 5.

[197] *See* Ex. SWS-DM-001 at 5.

between the tariff areas reflect differences in production and pumping costs. Consequently, Suburban has 12 different residential quantity rates and six different non-residential quantity rates, depending on service area, tariff area, and rate tier.[198] An added layer of complexity comes in the form of different breakpoints for different meter sizes. Suburban currently has six different residential meter sizes and five different breakpoints. The Public Advocates Office notes that "[n]o other Class A water utility uses tier break points that differ by meter size."[199]

In the prior Suburban GRC decision, the Commission directed Suburban to "prepare evidence and testimony related to a three-tier rate structure."[200] In the instant proceeding, both Suburban and the Public Advocates Office propose a three-tier rate design. Suburban characterizes its design as having "a slightly wider first tier and a somewhat narrower second tier than the Public Advocates Office's proposal."[201] The breakpoints for the tiers as presented by each party are presented below.

Tier Structure Breakpoints Comparison (Proposed)

	Suburban Water Systems		Public Advocates Office	
	Tier 1 Usage Up To (Ccf)	Tier 2 Usage Up To (Ccf)	Tier 1 Usage Up To (Ccf)	Tier 2 Usage Up To (Ccf)
Meter Size				
5/8 x 3/4-inch	12	22	10	34
3/4-inch	12	22	10	34
1-inch	16	32	10	34

[198] *See* Ex. SWS-DM-001 at 6.

[199] *See* Ex. PUBADV-CR-001 at 2-8.

[200] *See* D.24-12-030, Ordering Paragraph 36 at 147.

[201] *See* Ex. SWS-DM-001 at 7.

1-1/2-inch	35	80		10	34
2-inch	115	238		10	34
3-inch	160	330		10	34

We include Suburban's current residential rate tiers below for illustrative purposes.[202]

Table 1
Residential Rate Tiers Under Suburban's Current Rate Design

Meter Size (inches)	Tier 1 Usage	Tier 2 Usage
5/8 x 3/4 and 3/4	1st 20 CCF	All use over 20 CCF
1	1st 28 CCF	All use over 28 CCF
1 1/2	1st 70 CCF	All use over 70 CCF
2	1st 233 CCF	All use over 233 CCF
3	1st 321 CCF	All use over 321 CCF

Suburban's existing residential rate structure sets the breakpoints for Tier 1's most common meter size (3/4 inch and 5/8 x ¾ inch) at 20 CCF. Suburban's new proposal includes both Tier 1 and Tier 2 at below 22 CCF. In other words, under Suburban's new design, its Tier 1 and Tier 2 are almost identical to what would have been Tier 1 in its prior design. As evident from this comparison, Suburban's design has essentially split its prior Tier 1 usage into two rates, with its prior Tier 2 usage now constituting Tier 3.

The Public Advocates Office's proposal widens the second tier to include any usage above 10 CCF to below 34 CCF and assigns it the Single Quantity Rate (SQR). The Public Advocates Office recommends the Commission adopt a three-

[202] *See* Ex. SWS-DM-001 at 5.

tier rate structure that "sets the Tier 2 rate at the SQR (the average cost of a unit of water), which is the most revenue-stable rate a utility can charge," with Tier 3 set at 150 percent of the SQR to maintain conservation signals, and Tier 1 at below the SQR, "delivering a lower effective rate on essential usage that dominates low-income customers' bills."[203]

Suburban argues that the Public Advocates Office's proposal would increase revenue instability because it "concentrates on a disproportionate share of revenue recovery in the highest-priced usage tier" where consumption is most likely to fluctuate."[204]

The Public Advocates Office responds, arguing that Suburban's claim that three-tiers will cause revenue instability is undercut by the existence of the M-WRAM, which recovers revenue differences resulting from tier-usage shifts under a conservation rate design.[205]

We prefer the Public Advocates Office's proposal for several reasons. First, as the Public Advocates Office highlights, Suburban remains the only Class A water utility that has different break points for different residential meter sizes. Suburban states in its testimony that "[n]early all residential customers have either a 5/8 x ¾ inch or a ¾ inch meter," yet it still proposes five different breakpoints for each tier. We agree with the Public Advocates Office that maintaining tier breakpoints for different meter sizes "increases the risk of revenue instability by overcomplicating the tier sales forecasting process and failing to have any tier priced at the actual average cost (i.e. the SQR)."[206] Finally,

[203] *See* Public Advocates Office Opening Brief at 21.

[204] *See* Suburban Opening Brief at 138.

[205] *See* Ex. PUBADV-CR-001A at 2-11.

[206] *See* Ex. PUBADV-CR-001A at 2-7.

we find merit in the Public Advocates Office's argument that stability is enhanced by having an appropriately sized tier set at the SQR rate to capture a large portion of sales at the same rate that would be charged with no inclining blocks. This also decreases uncertainty and volatility because only the first and third tier vary from the SQR. For these reasons, we adopt the proposal set forth by the Public Advocates Office.

3.4.3. Customer Assistance Program Credit

Suburban administers a Customer Assistance Program (CAP) that provides a monthly bill credit to low-income residential customers, non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers. The CAP credit is funded through a surcharge placed on the water usage of non-qualifying customers.[207]

As part of its Special Request 2, discussed here because it is part of its rate design proposal, Suburban proposes to change its current CAP credit from a flat $10.74 per month to 50 percent of the ¾ inch meter charge.[208] Suburban notes that it uses the ¾ inch meter charge as the basis because it is the most common meter size among its residential customers. Suburban argues that based on its overall rate design, its CAP proposal would improve affordability, improve equity, and the cost to non-CAP customers of improving the affordability is minimal.[209]

The Public Advocates Office recommends the Commission reject this request, arguing that, in tandem with the other components of its proposed rate design, CAP customers will benefit more from a credit independent of meter

[207] *See* Ex. SWS-DM-001 at 6.

[208] *See* Ex. SWS-DM-001 at 8.

[209] *See* Suburban Opening Brief at 130.

charges.[210] The Public Advocates Office further notes that while Suburban's proposal would result in a $0.195 per CCF surcharge on non-CAP customers, the Public Advocates Office's proposal would result in a $0.153 per CCF surcharge. The Public Advocates Office also recommends the credit increase annually "by the same adopted annual revenue requirement percent increases after the TY."[211]

The Public Advocates Office's proposal results in a lower fee to non-CAP customers whilst maintaining a total dollar amount that would produce a significant reduction regardless of usage. This is helpful because customers have fixed costs that are regressive in nature and unaffected by usage. We find this approach to be more beneficial to ratepayers. Furthermore, to avoid the diminishing value of the CAP credit, we also agree with the proposal to increase the CAP credit by the same adopted revenue requirement percent increases after the Test Year. Accordingly, we agree with the Public Advocates Office on this component of rate design.

3.5. Reasonableness of Alternative Ratemaking Mechanisms, Balancing Accounts, and Memorandum Accounts

Suburban notes that it addresses recommendations of the Public Advocates Office regarding memorandum accounts in its discussion on the Special Requests.[212] We follow a similar approach in the instant decision and discuss the various memorandum and balancing accounts below.

3.6. Special Request 1: One-Time Surcharge

Suburban requests a one-time surcharge consisting of the sum of six offsets, in addition to the residual amounts from previously authorized

[210] *See* Ex. PUBADV-CR-001 at 2-16 to 2-17.

[211] *See* Ex. PUBADV-CR-001 at 2-17.

[212] *See* Suburban Opening Brief at 144.

amortizations of Parent Company IT Rate Base and CEMA – Covid-19, which is proposed to be netted and charged to customers as a one-time surcharge of $0.357 per hundred cubic feet of consumption per customer.[213] The six accounts corresponding to the offsets are as follows: (1) ATR – Employee Transfer Memorandum Account; (2) Mandatory Conservation Memorandum Account; (3) Drinking Water Fees Balancing Account; (4) PFAS – Per and Polyfluoroalkyl Substances Memorandum Account (PFASMA); (5) Sativa Transaction Memorandum Account; (6) Lead and Copper Rules Revision Memorandum Account.[214]

The Public Advocates Office argues "Suburban's proposed $0.357/ccf surcharge reflects balances that include unsupported amounts and accounts that have remained inactive for extended periods after the last recorded entry, during which the balances continued to accrue interest that provided no benefit to ratepayers."[215] Of the eight accounts listed above, the Public Advocates Office recommends revising five of them down to the cumulative balance through each account's last supported entry.[216] According to the Public Advocates Office, this would save ratepayers approximately $50,000 in costs that accrued from interest. The Public Advocates Office further recommends the Commission spread cost recovery across TY 2027 to improve affordability.[217]

Suburban responds, arguing "[i]nterest accruals are inherently symmetrical: Under collections accrue interest in favor of the utility, and

[213] *See* Application at 6.

[214] *See* Application at 6.

[215] *See* Public Advocates Office Opening Brief at 88.

[216] *See* Public Advocates Office Opening Brief at 88.

[217] *See* Public Advocates Office Opening Brief at 89.

Overcollections accrue interest in favor of ratepayers."[218] Suburban contends that a one-time surcharge, rather than spreading it over 12 months, is more appropriate because it provides "transparency, finality, and predictability."[219]

We agree that interest accrual has historically been symmetrical, in that under-collections accrue interest for the benefit of the utility and over-collections accrue interest for the benefit of customers. Unless there is evidence of deliberate delay for the purpose of accruing interest, we do not find it reasonable to penalize Suburban by removing the interest accrued from the cumulative balance for the specified accounts, as recommended by the Public Advocates.

Accordingly, we grant Suburban's Special Request 1.

3.7. Special Request 2: Increase of CAP Credit

The alterations to the CAP credit are discussed as part of Special Request 4 and rate design, below. Consequently, we do not discuss it separately here.

3.8. Special Request 3: Water Quality Regulations and Requirements

Suburban requests the Commission make a finding that Suburban's water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103 based upon the evidence presented in the Direct Testimony of Michael De Ghetto.[220] This request is not opposed by the Public Advocates Office.[221]

We are not aware of Suburban being out of compliance with any applicable state and federal drinking water standards.

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[218] *See* Ex. SWS-KC-002 at 7.

[219] *See* Suburban Opening Brief at 146.

[220] *See* Application at 7.

[221] *See* Suburban Opening Brief Attachment 2, List of Non-Disputed Issues.

3.9. Special Request 4: Rate Adjustment Mechanism and Decoupling

Suburban requests Commission authorization to transition from the M-WRAM and Incremental Cost Balancing Account (ICBA) to a fully decoupled mechanism, historically referred to as the Water Revenue Adjustment Mechanism (WRAM), which Suburban labels as a Revenue Stabilization Mechanism (RSM) in this proceeding. As the Public Advocates Office notes, this is essentially the "full WRAM under a new name."[222] As part of its request for a full WRAM, Suburban also requests authorization for a Revenue Stability Mechanism Balancing Account (RSMBA) and a Production Expense Balancing Account (PEBA).

Suburban is also requesting a Sales Reconciliation Mechanism (SRM) to "adjust the forecast for escalation years if recorded aggregate sales for the past year are more than five percent higher or lower than adopted sales."[223] If the SRM threshold is met, Suburban "would make a 50% adjustment to the sales and calculate a revenue requirement to reflect the adjusted consumption. Suburban would set its escalation year rates based on the adjusted revenue requirement and the adjusted sales forecast."[224] Suburban argues this is necessary to avoid accumulating large balances in the RSMBA.

Suburban states it is requesting to transition to full decoupling because adding a third tier to its rate design "substantially increases the potential for revenue variability because even relatively small differences between forecasted and actual consumption can have a big impact due to the higher cost for each

[222] *See* Public Advocates Office Opening Brief at 25.

[223] *See* Ex. SWS-CB-001 at 16.

[224] *See* Ex. SWS-CB-001 at 16.

unit of water in the third tier."[225] Suburban claims the M-WRAM and ICBA which it currently utilizes does not address this issue.

The Public Advocates Office recommends the Commission deny Suburban's request to transition from the M-WRAM to full decoupling, deny the request for the RSMBA and the PEBA, and deny the request for the SRM.[226] The Public Advocates Office argues full decoupling shifted "the entire risk of sales forecasting from shareholders to ratepayers regardless of the reason sales fell" and "[t]he Commission has rejected full WRAM for every Class A water utility and continues to do so."[227] The Public Advocates Office further contends the WRAM has resulted in large balances that are recovered through surcharges on ratepayers, while the use of the M-WRAM achieved virtually identical conservation results along with much smaller bill impacts. The Public Advocates Office adds the SRM should be rejected "because it exists only to patch a problem the RSMBA creates"[228] and, as Suburban states, "is necessary to avoid accumulating large balances in the RSMBA."[229]

Suburban responds, arguing "water demand has become highly unpredictable due to state-mandated conservation, severe weather variability, and evolving customer habits" and decoupling aggressively promotes conservation while also mitigating sales volatility "driven by forces entirely outside the utility's control."[230] Suburban further claims that decoupling is

[225] *See* Ex. SWS-CB-001 at 14-15.

[226] *See* Public Advocates Office Opening Brief at 24.

[227] *See* Public Advocates Office Opening Brief at 25.

[228] *See* Public Advocates Office Opening Brief at 26.

[229] *See* Ex. SWS-CB-001 at 16.

[230] *See* Suburban Reply Brief at 146.

symmetrical in benefit to both ratepayer and utility, arguing [w]hen sales drop and revenues fall short of authorized targets, the utility recovers the difference" and "when sales exceed expectations and revenues surpass authorized levels, customers receive direct refunds or bill credits."[231]

Suburban claims that decoupling is of symmetrical benefit to both the utility and to ratepayers. While this can be true in theory, the data that illustrates WRAMs have resulted in an aggregate of hundreds of millions of dollars in surcharges across the water utilities renders the probability of ratepayers benefiting highly unlikely, if not entirely improbable.[232] Suburban goes on to claim that "[b]y severing the link between utility revenue and sales volumes, decoupling eliminates the need for high fixed service charges."[233] Yet in spite of this claim, Suburban makes a request to increase the proportion of revenue it recovers from fixed service charges in the instant application. Suburban claims that decoupling allows for a progressive rate structure, however both of the three-tier rate designs under consideration in this proceeding already provide for a progressive rate structure—that element is not contingent on the transition to a WRAM.

We agree with the Public Advocates Office that "the M-WRAM is more in line with the Commission's original intent of preventing revenue loss due to conservation" and [w]hile the full WRAM shifts the entire risk of sales forecasting from the utility to the ratepayer, the M-WRAM only shifts the risk of customer sales changing between tiers to the ratepayer."[234] We also find merit in

[231] *See* Suburban Reply Brief at 146.

[232] *See* Ex. PUBADV-CR-001 at 3-2.

[233] *See* Suburban Reply Brief at 146.

[234] *See* PUBADV-CR-001 at 3-5.

the Public Advocates Office's description of the intent of the SRM, which was established as a complementary mechanism to the WRAM to reduce large surcharges. Without the WRAM, the SRM serves no purpose, other than to limit the risk to the utility from significantly inaccurate sales forecasts.

We deny Suburban's request to transition from the M-WRAM to the WRAM, referred to as the RSM in the instant application. We further deny the request for an SRM, as Suburban presented its request for an SRM as a tool to reduce high WRAM charges—a moot issue without granting the authority to transition to the WRAM.

3.10. Special Request 5: Incorporation of Rate Changes into New Rates

Suburban requests the Commission explicit authorization to incorporate into new rates any rate changes that occurred after this proceeding opened as an acknowledgement that these changes will also need to be placed into present rates for the determination of the actual rate increase caused by the instant application.[235] This request is not opposed by the Public Advocates Office.[236]

We agree that it is important and necessary for any rate changes that occurred after this proceeding opened to be incorporated into new rates and used to determine the actual rate increase of the instant application.

We grant Special Request 5.

3.11. Special Request 6: Adopted Rates, Escalation Rates, and Consumer Price Index Utilities

Suburban requests that the adopted rates reflect the most current escalation rates published by the Commission's Public Advocates Office and the

[235] *See* Application at 7-8.

[236] *See* Suburban Opening Brief Attachment 2, List of Non-Disputed Issues.

Consumer Price Index (CPI-U) at the time the final decision is issued.[237] This request is not opposed by the Public Advocates Office.[238]

We find the request reasonable and grant Special Request 6.

3.12. Special Request 7: Interim Rates in the Event of a Settlement Agreement

In the event Suburban and the Public Advocates Office reached a settlement agreement, Suburban requested the Commission issue an interim decision allowing Suburban to implement interim rates at the levels reflected in the settlement agreement, subject to adjustment upward or downward when the final decision is adopted.[239]

The parties did not reach a settlement agreement, therefore Special Request 7 is denied.

3.13. Special Request 8: Reinstatement of the Recycled Water Balancing Account

Suburban requests reinstatement of the Recycled Water Balancing Account (RWBA), which was closed at the end of 2023 per D.21-10-024.[240] Suburban contends it "is unable to forecast recycled water costs as the quantity rate of recycled water varies based on the Main San Gariel Bains Water Master's, Upper San Gabriel Valley Municipal Water District Replacement Water Assessment rate."[241]

The Public Advocates Office recommends the Commission deny Suburban's request, arguing that [a] balancing account is reserved for costs of an

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[237] *See* Application at 8.

[238] *See* Suburban Opening Brief Attachment 2, List of Non-Disputed Issues.

[239] *See* Application at 8.

[240] *See* Application at 6 and Suburban Opening Brief at 149.

[241] *See* SWS-KC-001 at 3.

exceptional nature, outside the utility's control, that could not reasonably have been foreseen in the last GRC; Suburban's recycled water costs meet none of those criteria, and Suburban already forecasts them."[242] The Public Advocates Office contends that because these costs are forecastable in the GRC process, "the balancing account adds nothing but deferred recovery, advice-letter surcharges outside the GRC, and reduced transparency."[243]

The Commission stated in D.21-10-024 that "unexpected balancing account surcharges are burdensome to customers" and "can make budgeting and financial planning difficult" and noted that Suburban can use historical data as a basis upon which to make a forecast for future recycled water expenses.[244] None of these factors has changed, and Suburban fails to make a compelling case as to why the Commission should change what was adopted in the prior decision. Forecasts are inherently difficult and imprecise, but the utility has data and an incentive to forecast as accurately as possible. Accordingly, we deny Special Request 8.

3.14. Special Request 9: Deletion of Memorandum Accounts: Allocated Parent Company IT Rate Base and Sativa Transaction

Suburban proposes to close the following memorandum accounts once their balance was amortized via Special Request 1: the Allocated Parent Company IT Rate Base Memorandum Account and the Sativa Transaction

[242] *See* Public Advocates Office Opening Brief at 54.

[243] *See* Public Advocates Office Opening Brief at 55.

[244] *See* D.21-10-024 at 29-30.

Memorandum Account.[245] The Public Advocates Office agrees that closing these memorandum accounts is appropriate.[246]

The Public Advocates Office goes on to recommend that the Commission direct the closure of three additional memorandum accounts that Suburban did not request to close as part of Special Request 9, but "are equally eligible for closure once their balanced are incorporated into SR 1: the Employee Transfer MA, the Mandatory Conservation MA [MCMA], and the PFAS MA [PFASMA]."[247] These recommendations hinge on arguments that these memorandum accounts have "been dormant for an extended period" or, for the PFASMA, more certainty has emerged regarding costs and policy and therefore these costs can and should be forecasted.[248] For the MCMA, the Public Advocates Office notes that "it was conservation during the Governor's drought state of emergency, which has expired, and the account has been inactive since 2023."[249]

While Suburban agrees that it should close its Employee Transfer Memorandum Account once the balance in Special Request No. 1 has been fully amortized, it opposes the closure of the PFASMA and the MCMA.[250] Suburban argues that the MCMA should remain open "because it tracks incremental costs and penalties that arise from future mandatory conservation or water rationing directives" and that "[w]hile specific conservation orders may lapse, the risk of

[245] *See* Suburban Opening Brief at 151.

[246] *See* Public Advocates Office Opening Brief at 89.

[247] *See* Public Advocates Office Opening Brief at 90.

[248] *See* Public Advocates Office Opening Brief at 90.

[249] *See* Public Advocates Office Opening Brief at 90-91.

[250] *See* Suburban Opening Brief at 151.

additional mandatory conservation actions remains…"[251] In opposing the closure of the PFASMA, Suburban contends that "PFAS compliance requirements represent an ongoing and evolving regulatory obligation" and closing the PFASMA "would improperly shift this regulatory risk to the utility and could result in unrecovered, Commission-mandated expenses."[252]

We agree with both parties that the Allocated Parent Company IT Rate Base Memorandum Account, the Sativa Transaction Memorandum Account, and the Employee Transfer Memorandum Account should be closed once the balance in Special Request 1 has been fully amortized. While conservation orders may have lapsed and we may not be in a current state of declared drought, California experiences unpredictable rainfall from year to year. We find that closing the MCMA only to have the utility file to reopen it places unnecessary administrative burden on the Commission's staff, with little benefit to be achieved from the account's closure. Therefore, we find it prudent that Suburban retain its MCMA. We also agree with Suburban that there is still uncertainty regarding PFAS regulations and requirements, therefore we authorize Suburban to retain its PFASMA. This issue can and should be revisited in the future as the Commission doesn't expect the current uncertainty to be perpetual.

We agree with Suburban and grant Special Request 9.

3.15. Special Request 10: Backflow Device Upgrades Memorandum Account

Suburban requests Commission authorization to open Backflow Device Upgrades Memorandum Account (BDUMA) "in response to the adoption of Cross Connection Control Policy Handbook (CCPH) by State Water Resources

[251] *See* Ex. SWS-KC-002 at 5-6.

[252] *See* Ex. SWS-KC-002 at 6.

Control Board with the latest amendments on March 19, 2025."[253] Suburban "anticipates that the costs to modify or replace, and additional backflow assemblies will be too great to be included in the revenue requirement in this proceeding."[254]

Suburban argues that its "historical compliance with cross-connection regulations is not germane to the new requirements."[255] Suburban testifies that, in the past, public water utilities "had to review and approve backflow prevention assemblies for new developments under the standards that were in place at the time the development or individual buildings were built"[256] whereas now it is required to conduct "hazard assessments for all existing customer connections, including properties that have never been subject to such evaluations and locations where no backflow prevention devices currently exist."[257] Suburban describes this as "a fundamental change in regulatory obligations, not a routine continuation of prior compliance activities."[258]

The Public Advocates Office asks the Commission to deny this request because "cross connection control is a known, continuing operational and regulatory obligation that is under Suburban's control and is forecastable in the ordinary course of utility operations" and therefore "should be addressed through the normal GRC revenue requirement."[259] The Public Advocates Office

[253] *See* Application at 9.

[254] *See* Application at 9.

[255] *See* Ex. SWS-MD-002 at 2.

[256] *See* Ex. SWS-MD-002 at 6.

[257] *See* Suburban Reply Brief at 152-153.

[258] *See* Suburban Reply Brief at 153.

[259] *See* Public Advocates Office Opening Brief at 91-92.

agrees with Suburban that while the changes have expanded the scope of Suburban's program obligations by requiring hazard assessments at all existing connections, not just new construction, but argues that "it continued the same fundamental compliance framework in which the water user is responsible for providing backflow protection on its own premises."[260] The Public Advocates Office notes that Suburban's tariff explicitly states that backflow preventers "shall be installed by and at the expense of the customer" and therefore the approximately $47 million estimated costs associated with the backflow device upgrade process seems to include costs property owners would ostensibly bear.[261] The Public Advocates Office further argues that "[o]nce customer-premises device costs are properly excluded, Suburban's actual program expenditure reduces to the categories that are legitimately utility-borne: conducting hazard assessments, administering the compliance tracking program, issuing notices, and verifying the BPA installations after property owners complete them."[262] The Public Advocates Office states that other Class A water utilities address these costs without memorandum accounts and because the costs are foreseeable and quantifiable, they do not meet the criteria for establishment of a memorandum account. [263] As an alternative to forecasting, the Public Advocates Office suggests the Commission may consider the model Golden State Water Company uses—a Cross-Connection Control Fee, which is "a

[260] *See* Public Advocates Office Opening Brief at 92-93.

[261] *See* Public Advocates Office Opening Brief at 93-94.

[262] *See* Public Advocates Office Opening Brief at 94.

[263] *See* Public Advocates Office Opening Brief at 95.

per-device administrative fee charged to customers whose connections require BPAs, recovering the utility's legitimate program costs…"[264]

We agree with Suburban and the Public Advocates Office that the changes do constitute an expansion in the scope of the program. Although the final amendments are noted to have been adopted on March 19, 2025,[265] the record does not indicate a deadline or timeline by which the utility must complete a hazard assessment of the connections in its service territory, much less the subsequent upgrades, where necessary. Suburban states that the costs to modify, replace, or install backflow assemblies "will be too great" to be included in the revenue requirement in this proceeding.[266] It is unclear why a cost should be considered "too great" for consideration in a general rate case application and similarly why a memorandum account should be considered more appropriate for such costs. On the contrary, separating costs of great magnitude from the general rate case process impacts rates between general rate case cycles, with the general rate case request failing to accurately reflect the totality of the utility's request for the coming years.

The Commission's Standard Practice U-27-W provides guidance on memorandum accounts:

> Memo accounts track costs that the Commission has directed to be tracked and costs that have been approved to be tracked due to events of an exceptional nature that
>
> a. are not under the utility's control,

[264] *See* Public Advocates Office Opening Brief at 97.

[265] *See* Suburban Opening Brief at 152.

[266] *See* Suburban Opening Brief at 153 and Application at 9.

b. could not have been reasonably foreseen in the utility's last general rate case,
c. that will occur before the utility's next scheduled general rate case,
d. are of a substantial nature in that the amount of money involved is worth the effort of processing a memo account and
e. have ratepayer benefits.[267]

Suburban appears to employ an inconsistent definition for "events of an exceptional nature" when explaining how its request satisfies the five criteria. For criteria (a), Suburban states that the "rules were passed by the State Water Resources Control Board and thus are out of Suburban's control."[268] However, for criteria (b), Suburban describes the costs (and/or work to be done) as an event of an exceptional nature that could not have been foreseen and will occur before Suburban's next GRC. For criteria (c), Suburban refers to the work required for compliance.[269]

We consider the work that must be done to bring its service territory into compliance with the latest CCCPH amendments to be the event of an exceptional nature. We are not persuaded that establishing a memorandum account for backflow device upgrades satisfies criteria (a) or (e) of Standard U-27-W. Criteria (a) states that the event associated with the cost must be of an exceptional nature that is not under the utility's control. In this case, the event would be the hazard assessment and any necessary replacement, modification, or installation of a backflow prevention device. Without a clear timeline or deadline

[267] *See* Standard Practice U-27-W at 6.

[268] *See* Suburban Opening Brief at 153.

[269] *See* Suburban Opening Brief at 153.

identified in the record, Suburban can control when it performs the work and when costs are incurred. This is not a catastrophic or emergency event—the amendments that expand the scope are a means by which a uniform standard is implemented across the utility's service area. Criteria (e) states that the event must have ratepayer benefits. While the work would have ratepayer benefits, any benefits must be measured against associated costs to accurately assess the net effect on ratepayers. In this, we agree with the Public Advocates Office that "[t]he Commission should not authorize general rate recovery from all customers that Suburban's own Commission-approved tariff places on property owners."[270] It would not be equitable to prior property owners who paid the associated fees to now allow these costs to be spread over all ratepayers, nor are we persuaded that we should deviate from Suburban's established tariff.

We find merit in the suggestion that Suburban recover fees through a cross-connection fee. Suburban is directed to file a Tier 3 advice letter that details how it calculated the fee, which must be limited to recovering the costs of the hazard assessment borne by the utility, for review by the Commission's Water Division. This will ensure Suburban has a continuous revenue stream to perform the necessary work without creating a rate impact across its service territory. Special Request 10 is denied.

3.16. Special Request 11: Continuation of Lead and Copper Rule Revisions Memorandum Account

On January 15, 2021, the final Lead and Copper Rule Revisions (LCRR) were published in the Federal Register. The final rule listed a compliance date of October 16, 2024.[271]

[270] *See* Public Advocates Office Opening Brief at 94.

[271] *See* Ex. SWS-MD-001 at 31.

Suburban requests authorization to retain its Lead and Copper Rule Revisions Memorandum Account (LCRRMA), arguing that "additional physical line inspections" will be conducted on an ongoing basis and the cost is unknown.[272]

The Public Advocates Office recommends the Commission deny Special Request 11, require Suburban to close the LCRRMA, transfer the balance into SR 1, and remove the account from Suburban's preliminary statement.[273] The Public Advocates Office argues the Lead and Copper Rule Revisions "reflect the ordinary evolution of drinking-water regulation, not an exceptional event outside Suburban's control."[274] The Public Advocates Office further notes that "[b]ecause Suburban holds the inventory and monitoring data needed to budget each phase, the costs as ascertainable through the normal GRC process and belong in the forecast." The Public Advocates Office contends the LCRRMA is "dormant" because it "has no recorded entries since May 2024" and is therefore no longer tracking "volatile, substantial, unforeseen expenses" and thereby fails Standard Practice U-27-W's requirements.[275]

The Commission's Standard Practice U-27-W provides explicit guidance on memorandum accounts:

> Memo accounts track costs that the Commission has directed to be tracked and costs that have been approved to be tracked due to events of an exceptional nature that
>
> a. are not under the utility's control,

[272] *See* Application at 9.

[273] *See* Public Advocates Office Opening Brief at 98.

[274] *See* Public Advocates Office Opening Brief at 98.

[275] *See* Public Advocates Office Opening Brief at 99.

b. could not have been reasonably foreseen in the utility's last general rate case,

c. that will occur before the utility's next scheduled general rate case,

d. are of a substantial nature in that the amount of money involved is worth the effort of processing a memo account and

e. have ratepayer benefits.[276]

Suburban responds, arguing that the "State Water Resources Control Board, Division of Drinking Water (DDW) staff continue to debate and study the requirements of the LCRI and further compliance with the LCRR" and that Suburban's initial compliance with the LCRR "is not relevant to the continuation of this memorandum account because of unknown improvements that will be needed…"[277] Suburban states that "[a]dditional physical inspections will be needed, but that quantity has not been determined by DDW yet, and as a result of these inspections an unknown quantity of service line replacements may be needed."[278] Suburban contends that using a memorandum account, rather than forecasting these costs, benefits customers because they do not face higher costs until the costs are incurred.[279] Suburban attests that it will need to perform "a yet to be determined number of additional line inspections" and "[o]nce they are completed, there may be additional service line replacements needed, and the rate payers should not have to have higher rates up front prior to these costs occurring."[280] Suburban contends that "requirements are still developing so

[276] *See* Standard Practice U-27-W at 6.

[277] *See* Ex. SWS-MD-002 at 3.

[278] *See* Ex. SWS-MD-002 at 4-5.

[279] *See* Ex. SWS-MD-002 at 5.

[280] *See* Ex. SWS-MD-002 at 5.

instead of trying to forecast expenses on yet-to-be-determined standards, it seeks to continue memorandum account treatment to ensure that its customers only pay for necessary costs."

While we recognize the importance of minimizing unnecessary memorandum accounts to avoid customers facing charges outside of what is adopted in the utility's general rate case application, if DDW staff have yet to finalize guidance that influences the number of inspections and thereby affects costs, Suburban cannot be expected to forecast these expenses accurately yet. This would be considered outside the utility's control, not something that could have been reasonably forecasted in its last or be forecast in its current general rate case, and potentially beneficial to ratepayers if costs are not passed along before they are incurred. We agree with Suburban that it makes sense to continue this memorandum account for the time being. Once the number of inspections becomes predictable and falls within the utility's planning process, we expect Suburban to forecast these costs. In the interim, we grant Suburban's Special Request 11.

4. Summary of Public Comment

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

As of this writing, the Commission received 27 public comments on the docket card. Commenters emphasize that the rate increases far outpace inflation and hurt already struggling customers, particularly those on fixed incomes.

Commenters also note that too much of the bill is unaffected by usage, and they are frustrated by increasing rates despite their efforts to conserve water.

5. Procedural Matters

This decision affirms all rulings made by the Administrative Law Judge and assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

6. Comments on Proposed Decision

The proposed decision of ALJ Amin Nojan in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

7. Assignment of Proceeding

Matthew Baker is the assigned Commissioner and Amin Nojan is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Suburban's proposed sales forecast utilizes a more nuanced methodology that will more accurately predict future sales.
2. The prior year's sales, without controlling for variables, is a poor predictor of future sales.
3. Suburban failed to properly track employee labor hours attributable to Lifeline activities, in violation of NTP&S cost-allocation rules.
4. Filing escalation year advice letters to propose new revenue requirements and revised tariff schedules ensures a symmetrical approach to any variance experienced by the utility.

5. Requiring a Tier 2 advice letter for the filing of escalation year advice letters to propose new revenue requirements and revised tariff schedules is consistent with the Commission's direction in other water general rate cases.

6. Suburban did not inappropriately delay the payment of its Property Tax.

7. Submitting property tax payments after the due date and before the delinquency date does not unfairly burden ratepayers.

8. The early retirement of assets before the end of their useful life when they are fully depreciated results in customers continuing to pay for assets that are no longer used and useful.

9. Customers paying for assets that have been retired prematurely is unjust.

10. Meeting minimum standards of service should not result in a cost premium to customers.

11. The benefit to customers from Suburban's incentive compensation is not quantifiable.

12. Suburban's repurposing of positions request results in $799,640 in additional costs, despite the headcount remaining the same.

13. Suburban fails to explain the reason for the increase in cost when seeking Commission authorization to repurpose the positions.

14. Workforce vacancies, hiring delays, and normal turnover result in reduced payroll expenses for the utility.

15. A vacancy adjustment applied to the payroll forecast ensures customers are not paying for positions that remain unfilled.

16. Calculating a vacancy rate and slippage adjustment utilizing the past three years more accurately captures the average for the prior GRC cycle than utilizing two years of data.

17. A vacancy/slippage adjustment of 2.57 percent effectively captures the average vacancy rate for Suburban's prior GRC cycle.

18. Customers' ability to conserve water is finite, eventually limiting itself to essential usage.

19. The gains achievable through conservation outreach programs diminish as demand becomes increasingly inelastic.

20. Ratepayers should not fund expenditures on DJs, limousines, entertainment, or charitable contributions made in the utility's name.

21. Suburban does not have written procedures for reviewing expenses for ratemaking propriety before including these in its requested revenue requirement.

22. Expenditures on company breakfasts, pet water bowls, and other company logo-branded materials do not provide a direct or measurable benefit to customers.

23. The level of detail that can be included in relation to healthcare expenditures is limited by HIPAA regulations.

24. Expenditures made using company credit cards must contain an adequate level of detail in the description field or in accompanying documentation to allow intervenors and the Commission to assess the reasonableness of the costs properly.

25. Suburban failed to include an adequate level of description and detail for P-Card related expenditures in Account 805 in the amount of $395,000.

26. Membership in professional organizations does not provide a tangible or measurable benefit to ratepayers.

27. It is not reasonable for ratepayers to fund Suburban's membership dues in various organizations that yield no tangible benefit to ratepayers.

28. Any funds granted to Suburban for insurance claims reserve as part of Account 794 (Subaccount 233) would not be returned to ratepayers if unused.

29. Ratepayers do not benefit from funding Suburban's claims reserve, which may be used in the event of negligence on the part of Suburban.

30. Regulatory expenses for utilities include predictable and routine activities.

31. The Main San Gabriel Basin Watermaster issued Resolution No. 05-26-345, setting an OSY of 160,000 AF for 2026/2027.

32. A higher OSY results in savings for ratepayers.

33. When forecasting unused Central Basin water rights leases, the most recent data from multiple contracts provides the most accurate and balanced average.

34. Suburban's proposed market rate for water rights leases relied on data from 2023-2024.

35. The Public Advocates Office's recommendation for determining the market rate for Suburban to lease out its unused Central Basin Water Rights relied on only one contract from 2023 to 2026.

36. Utilizing the most up-to-date escalation factor for purchased power will minimize surcharges on customers.

37. Approximately 60 percent of entries for Suburban's General Office Expenses lacked a description of the cost or transaction.

38. It is not reasonable to approve costs that are recorded with an insufficient amount of detail or explanation.

39. D.24-12-030 authorized Suburban a pipeline replacement rate of 0.33.

40. Suburban analyzed a 0.33 percent pipeline replacement rate and a 1 percent pipeline replacement rate, without analyzing other potential replacement rates that fall in between.

41. Suburban did not fully justify why a three-fold increase in the pipeline replacement rate is better than any rate between its existing rate and its requested replacement rate.

42. D.24-12-030, resolving A.23-01-001, was adopted approximately 12 months after the start of Test Year 2024.

43. Suburban made decisions on how to allocate funds and which projects to pursue prior to the final Commission decision in its Test Year 2024 GRC.

44. Suburban's Plant 804 in the Sativa water system area qualifies for State Water Resources Control Board (SWRCB) grants.

45. Suburban is not guaranteed to receive SWRCB funding for Plant 804.

46. The Stage Road P-9 project is not yet used and useful.

47. The costs for the Stage Road P-9 project should not be included in rate base until the project is used and useful.

48. Suburban is not managing the Sativa Manganese Treatment Plant, nor is it the administrator.

49. Adding an overhead premium of nine percent, or $324,302, for tasks such as responding to requests for information, participating in meetings, and coordinating site visits is not reasonable.

50. Suburban does not provide a clear use of the P-5A land purchase nor a specific timeline of when it will be usable.

51. It is not reasonable to include the P-5A land purchase in rate base for this ratemaking cycle.

52. The State Water Resources Control Board concluded the Sativa water system lacks sufficient storage capacity for emergency conditions.

53. The State Water Resources Control Board recommended Suburban install water storage tanks in its Sativa area.

54. Suburban's pipeline replacement project in its Sativa area as part of P-17 is designed to address infrastructure that fails to meet Los Angeles County Fire Department's minimum flow requirements.

55. Pipelines that do not meet minimum flow requirements can elevate danger from fires, particularly in densely populated areas.

56. Employing external consultants when existing staff can perform the work may result in higher cost to ratepayers.

57. Vehicle replacement needs can vary drastically from year to year.

58. The California Department of General Services adopted standards for vehicle replacement in 2017.

59. Suburban did not provide full details regarding its meter purchase and installation plans when its testimony was written for R-5 and R-16.

60. Providing project details after filing testimony hinders the ability of the Commission and intervenors to assess the reasonableness of requests.

61. Suburban's purchase of water rights shares will result in customer savings in the future.

62. There are no active wells near Plant 216, where Suburban seeks to drill a production well.

63. A well located 200 feet from the proposed site for the Plant 216 well was decommissioned in 1996 for unknown reasons.

64. It is not in the public interest for ratepayers to incur increased costs associated with the Allocated Parent Company rate base due to a merger.

65. Suburban's assignment of 50/50 for cost of removal and cost of installation of certain assets is not grounded in actual costs.

66. Suburban does not have a dollar figure amount assigned to removal of certain assets without installation of those assets.

67. The cost of removal and installation cannot be the same as removal without installation if the cost for each is 50 percent of the total cost.

68. D.16-12-026's rationale for increasing the percentage of revenue derived from fixed costs was to reduce the burden of large, open-ended surcharges that accumulated under the full-WRAM program.

69. D.16-12-026's guidance on increasing the percentage of revenue derived from fixed costs was made when estimating the fixed costs for Class A water utilities to be approximately 70 percent of total costs.

70. Suburban's fixed costs equate to approximately 52 percent of total costs in 2024.

71. Increasing the percentage of revenue derived from fixed costs decreases the incentive for customers to conserve.

72. Increasing the percentage of revenue derived from fixed costs results in a regressive rate increase that disproportionately impacts lower-income customers.

73. The greater the number of variables involved in a rate design, the greater the uncertainty and possibility of volatility in revenue collected.

74. Suburban remains the only Class A water utility with different break points in rates for different residential meter sizes as part of its rate design.

75. Suburban states that nearly all residential customers have either a 5/8 x ¾ inch meter or a ¾ inch meter.

76. Designating different break points for different meter sizes complicates tier sales forecasting.

77. A flat dollar amount credit for low-income customers on the Customer Assistance Program (CAP) that increases in proportion to revenue requirement increases provides a greater benefit than a credit based on usage.

78. Interest accrual for undercollection and overcollection is a symmetrical mechanism.

79. No applicable state and federal drinking water standards have been identified that Suburban is not in compliance with.

80. The Revenue Stabilization Mechanism proposed by Suburban and the WRAM are the same mechanism.

81. The WRAM results in large balances that are recovered through surcharges on ratepayers.

82. The M-WRAM matches the WRAM in conservation benefits, with much smaller bill impacts.

83. The SRM was introduced to mitigate the large balances that resulted from the use of the WRAM.

84. Incorporating any rate changes that occurred after this proceeding opened into new rates and determining the actual rate increase is necessary to provide accurate rates for customers and revenue requirement for the utility.

85. Adopted rates must reflect the most current escalation rates published by the Commission's Public Advocates Office and the Consumer Price Index (CPI-U) to be accurate at the time the decision is adopted.

86. The parties to this proceeding did not propose a settlement agreement.

87. Suburban closed its Recycled Water Balancing Account at the end of 2023, pursuant to D.21-10-024, resolving its TY 2021 GRC application.

88. Suburban has historical data on recycled water costs that it can utilize for forecasting purposes.

89. California experiences regular, yet unpredictable, droughts.

90. Closing the MCMA and requiring Suburban to file an advice letter to reopen it creates unnecessary administrative burden on Commission staff.

91. PFAS regulations and requirements are not fully established, making the forecasting of costs difficult.

92. It is not equitable to prior property owners who paid a fee for Backflow Device Upgrades to now have the cost spread across the entire service territory.

93. A cross-connection control fee, which is a per-device administrative fee charged to customers whose connections require BPAs, will allow Suburban to recover program costs.

94. SWRCB's DDW has not yet determined the quantity of additional inspections and consequent service line replacements that Suburban will need to comply with Lead and Copper Rules.

95. Suburban is not currently able to forecast costs that are being tracked in its LCRRMA.

96. The WRAM protects the utility from inaccuracies in forecasts by guaranteeing the revenue requirement adopted by the Commission.

97. The M-WRAM provides a link between customer usage and utility revenue.

98. The M-WRAM encourages conservation through tiered rates.

99. The SRM was introduced as a mechanism to mitigate high WRAM balances.

100. It is not in the public interest to authorize the continuation of an SRM in the absence of the WRAM.

101. Suburban satisfies the requirements of D.20-08-047 by including discussion of specified factors when discussing its proposed sales forecast.

102. Suburban has never operated under a full WRAM.

103. Suburban's fixed costs approximate 52 percent and are significantly lower than the 70 percent for other Class A water utilities identified in D.16-12-026.

Conclusions of Law

1. The Commission should authorize Suburban Water Systems' general rate increases for 2027, 2028, and 2029 as follows: $7,253,386, or 7.07 percent for 2027; $9,064,752, or 8.32 percent for 2028; and $9,059,059, or 7.67 percent for 2029.

2. The Commission should not authorize Suburban to move from the M-WRAM to the WRAM (or RSM, as it is referred to in the instant application).

3. The Commission should deny Suburban's request for a Sales Reconciliation Mechanism in concert with its decision to deny the transition to a full WRAM.

4. The Commission should adopt the sales forecast proposed by Suburban.

5. Suburban should allocate $49,192 of Lifeline revenues to customers as a credit, due to its failure to properly track employee labor hours in compliance with NTP&S rules.

6. Suburban should be required to file an updated revenue requirement and revised tariff for escalation years via a Tier 2 advice letter.

7. Suburban's depreciation reserve should be increased by $933,040 to account for early retired projects.

8. Suburban should not be authorized to implement an incentive conservation program.

9. Repurposing positions already present in rates should not result in additional costs.

10. Suburban should apply a vacancy/slippage adjustment to its payroll forecast.

11. Suburban should be authorized a $250,000 annual budget for conservation outreach.

12. Suburban should establish written procedures for reviewing expenses for ratemaking propriety before they are included in a revenue requirement and include its procedures in its next GRC filing.

13. Suburban's authorized recovery for Account 792 should be reduced by 11 percent, or $296,426, to reflect the reduction for expenditures related to funding DJs, limousine services, entertainment, and charitable contributions made in Suburban's name.

14. Suburban's combined 2027 forecast for Account 795 subaccounts Training/Seminars (320), Employee Welfare (416), and Employee Education (420) is reduced by 11 percent, or $103,508, from $940,986 to $837,478 to reflect the reduction for company breakfasts, pet bowls, and other logo branded materials that should not have been included for recovery.

15. Suburban should be authorized full recovery for Account 798.

16. Suburban's authorized recovery for Account 805 should be reduced by 11 percent, or $11,443, from $104,027 to $92,584.

17. Suburban should not be granted funding for professional dues in various organizations that provide no tangible ratepayer benefits.

18. Suburban should not be granted funding for insurance claims reserve as part of Account 794 (subaccount 233).

19. Suburban should be authorized a regulatory budget equivalent to its prior GRC, adjusted for inflation.

20. Suburban should update its Main San Gabriel OSY to 160,000 AF.

21. Suburban should adopt a rate of $145/AF as the rate for leasing its Central Basin water rights.

22. Suburban's purchased power budget should reflect the most up-to-date Commission escalation factors at the time the final decision is issued.

23. Suburban's General Office expenses should be reduced by 60 percent to reflect insufficient detail and description in 60 percent of entries and an unjustified increase from the prior GRC forecast following its merger.

24. Suburban should be authorized a 0.66 percent pipeline replacement rate.

25. Suburban should be granted funding for Plant 201 PFAS treatment project.

26. Suburban's request for Plant 804 should be granted.

27. Suburban's request for Sativa Manganese Treatment Plant (P-2) should be reduced by $324,302.

28. Suburban should not be authorized to include $987,877.38 for P-5A land purchase in rate base for this cycle.

29. Suburban should be authorized $3,140,168 in 2028 to install water storage tanks as part of P-8.

30. Suburban should be authorized funding for its Sativa Water System Pipeline Replacement project (P-17).

31. Suburban should not be authorized funding to employ an external consultant to roll out its AMI project (P-15).

32. Suburban should be granted $652,000 in 2026, $2,877,000 in 2027, and $1,647,000 in 2028 for vehicle replacement.

33. Suburban's request of $12,261,905 for R-5 and R-16 should be reduced by $165,195.

34. Suburban's request for $1,853,800 for purchase water rights shares should be granted.

35. Suburban should not be authorized to include the costs for the P-9 project in rate base until the project is used and useful.

36. Suburban should not be authorized to proceed with drilling a production well at Plant 216 until more information is presented on the viability of the well.

37. Suburban should be authorized an amount equal to its five-year average recorded per-customer IT rate base cost from 2020 to 2024, multiplied by Suburban's projected customer counts for each test year, for its parent company IT rate base.

38. Suburban's capital budget depreciation reserve should be reduced by $3,788,556 for 2026, $4,019,139 for 2027, and $4,244,086 for 2028.

39. Suburban should not be authorized to increase its fixed-to-variable cost ratio from 30 percent to 40 percent.

40. Suburban should be placed on the rate design put forth by the Public Advocates Office.

41. Suburban should adopt the Public Advocates Office's proposal for its CAP credit.

42. Suburban's Special Request 1 should be granted.

43. Suburban's Special Request 2 should be denied.

44. Suburban's Special Request 3 should be granted.

45. Suburban's Special Request 4 to transition from the M-WRAM to the WRAM and to implement the SRM should be denied.

46. Suburban's Special Request 5 should be granted.

47. Suburban's Special Request 6 should be granted.

48. Suburban's Special Request 7 should be denied.

49. Suburban's Special Request 8 should be denied.

50. Suburban's Special Request 9 should be granted.

51. Suburban's Special Request 10 should be denied. Suburban should be required to file a Tier 3 advice letter detailing how it calculated a cross-connection control fee, which must be limited to recovering the costs of the hazard assessment borne by the utility.

52. Suburban's Special Request 11 should be granted.

53. Suburban should not be authorized to recover a greater share of its revenue through fixed charges.

54. All rulings issued by the assigned Commissioner and ALJ should be affirmed herein and all motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ should be denied.

55. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. Suburban Water Systems is authorized general rate increases as follows: : $7,253,386, or 7.07 percent for 2027; $9,064,752, or 8.32 percent for 2028; and $9,059,059, or 7.67 percent for 2029.

2. Suburban Water Systems shall allocate $49,192 of the Lifeline revenues to customers.

3. Suburban Water Systems shall file a Tier 2 advice letter with an updated revenue requirement and revised tariff schedule for escalation years.

4. Suburban Water Systems' depreciation reserve is increased by $933,040 to account for early retired projects.

5. Suburban Water Systems' request for $2,356,364 in incentive compensation is denied and excluded from rates.

6. Suburban Water Systems' authorized amount for payroll is reduced by $799,640.

7. Suburban Water Systems' payroll forecast should be adjusted for vacancy by 2.57 percent.

8. Suburban Water Systems' requested annual budget for customer outreach for conservation is reduced from $500,000 to $250,000.

9. Suburban Water Systems' requested budget for Account 792, Office Supplies and Other Expenses, is reduced by 11 percent, or $296,426, from $2,694,780 to $2,398,354.

10. Suburban Water Systems shall establish and include written procedures for reviewing expenses for appropriateness before including them in a revenue requirement as part of its next GRC filing.

11. Suburban Water Systems' requested budget for Account 795 is reduced by 11 percent, or $103,508, from $940,986 to $837,478.

12. Suburban Water Systems (Suburban) is granted $416,970 for 2027 and $427,061 for 2028 for Outside Services Employed (Account 798). Suburban shall transfer $117,338 in legal fees to its Water Contamination Litigation Expense Memorandum Account.

13. Suburban Water Systems' requested budget for Account 805 is reduced by 11 percent, or $11,443, from $104,027 to $92,584.

14. Suburban Water Systems is authorized $159,161 for 2027 and $163,013 for 2028 for Account 799, Professional Dues—Company (Subaccount 330), reflecting an 11 percent reduction to Suburban's forecast.

15. Suburban Water Systems' requested $50,000 for 2027 and $50,000 for 2028 as part of Account 794 (Subaccount 233) is denied.

16. Suburban Water Systems is authorized a budget equivalent to what was authorized in its prior general rate case filing, adjusted for inflation, for Account 797 (Subaccount 344), Regulatory Expenses. This amounts to a $393,796 annual allowance, as adopted in D.24-12-030, adjusted for inflation for 2027 and 2028.

17. Suburban Water Systems shall update its Main San Gabriel Basin Operating Safe Yield to 160,000 acre-feet.

18. Suburban Water Systems shall offer its Central Basin water rights for lease at a rate of $145 per acre-foot.

19. Suburban Water Systems is authorized $5,108,064 for Test Year 2027 and $4,205,501 for 2028 for purchased power, updated for the escalation factors at the time of the adoption of this decision.

20. Suburban Water Systems is authorized a parent company allocation forecast of $2,923,174 for Test Year 2027 and $3,195,805 for 2028.

21. Suburban Water Systems is authorized a pipeline replacement rate of 0.66 percent.

22. Suburban Water Systems' (Suburban) request for funding for Plant 201 – PFAS treatment project is granted.

23. If Suburban Water Systems (Suburban) elects to reallocate funds authorized for specific projects in the future, Suburban shall include an explanation in its next GRC filing providing the reason behind its decision along with naming and describing the specific projects to which it chose to reallocate the funds and the amounts reallocated.

24. Suburban Water Systems (Suburban) shall pursue grant funding for Plant 804 in the Sativa service area. Suburban shall include evidence of its efforts and the result in its next GRC filing. To ensure eligibility for funding and to allow for the project to move forward should the funds not be awarded, we grant Suburban's request for Plant 804.

25. Suburban Water Systems is authorized $3,603,354 for the Sativa Manganese Treatment Plant (P-2).

26. Suburban Water Systems' request to include $987,877.38 in rate base for P-5A land purchase is denied.

27. Suburban Water Systems is granted $3,140,168 in 2028 for P-8 project at Plant 802.

28. Suburban Water Systems is granted funding for its Sativa Water System Pipeline Replacement (P-17).

29. Suburban Water Systems' request for $1,666,048 in 2028 to deploy Advanced Metering Infrastructure (AMI) is reduced by the difference between $206,400 and the cost of utilizing an internal inspector as part of P-15.

30. Suburban Water Systems is granted $652,000 in 2026, $2,877,000 in 2027, and $1,647,000 in 2028 for vehicle replacement as part of R-25.

31. Suburban Water Systems is granted $12,096,710 for R-5 and R-16 for meter purchase and meter installation.

32. Suburban Water Systems is granted $1,853,800 for purchase water rights shares.

33. Suburban Water Systems' (Suburban) request to include the costs related to the Stage Road project (P-9) is denied. Suburban may request recovery of costs by filing a Tier 3 Advice Letter if the project becomes used and useful before the next GRC is filed.

34. Suburban Water Systems' (Suburban) request for Plant 216 (P-12) is denied. If Suburban chooses to make the request again in a future GRC filing, it must speak more extensively about why the site is appropriate and viable.

35. Suburban Water Systems is authorized an amount equal to its five-year average recorded per-customer IT rate base cost from 2020 to 2024, multiplied by Suburban's projected customer counts for each test year, for its parent company IT rate base.

36. Suburban Water Systems' capital budget depreciation reserve should be reduced by $3,788,556 for 2026, $4,019,139 for 2027, and $4,244,086 for 2028.

37. Suburban Water Systems' request to increase its fixed cost recovery ratio from 30 percent to 40 percent is denied.

38. Suburban Water Systems shall implement the rate design put forth by the Public Advocates Office.

39. Suburban Water Systems shall implement the Public Advocates Office's proposal for its Customer Assistance Program credit.

40. Suburban Water Systems' Special Request 1 is granted.

41. Suburban Water Systems' (Suburban) Special Request 2 is denied. Suburban is directed to implement the Public Advocates Office's proposal for its Customer Assistance Program.

42. Suburban Water Systems' Special Request 3 is granted. We are not aware of any applicable state or federal drinking water standards that Suburban Water Systems is not in compliance with.

43. Suburban Water Systems' Special Request 4 to transition from the M-WRAM to the WRAM and to implement the SRM is denied.

44. Suburban Water Systems' Special Request 5 is granted.

45. Suburban Water Systems' Special Request 6 is granted.

46. Suburban Water Systems' Special Request 7 is denied.

47. Suburban Water Systems' Special Request 8 is denied.

48. Suburban Water Systems' Special Request 9 is granted.

49. Suburban Water Systems' (Suburban) Special Request 10 is denied. Suburban shall file a Tier 3 advice letter detailing how it calculated a cross-connection control fee, which must be limited to recovering the costs of the hazard assessment borne by the utility.

50. Suburban Water Systems' Special Request 11 is granted.

51. All rulings issued by the assigned Commissioner and Administrative Law Judge (ALJ) are affirmed; and all motions not specifically addressed herein or previously denied by the assigned Commissioner or ALJ are denied.

52. Application 26-01-001 is closed.

This order is effective today.

Dated _____, at San Francisco, California.