

STATE OF CALIFORNIA

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

April 13, 2023

-

**Agenda ID #21528**  
**Ratesetting**

**TO PARTIES OF RECORD IN APPLICATION 20-07-012:**

~~This is the proposed decision of Administrative Law Judge Ferguson. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's May 18, 2023 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 an 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~~

~~Acting Chief Administrative Law Judge~~

MLC:mph

~~Attachment~~ALJ/CFG/mph **PROPOSED DECISION** Agenda ID #21528 ([Rev. 1](#))

**Ratesetting**

**[6/29/2023 Item #2](#)**

Decision **PROPOSED DECISION OF ALJ FERGUSON** (Mailed 4/13/2023)

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

In the matter of the Application of the  
GOLDEN STATE WATER COMPANY  
(U133W) for an order (1) authorizing it to  
increase rates for water service by \$49,518,400  
or 14.97% in 2022; (2) authorizing it to  
increase rates by \$16,107,100 or 4.22% in 2023,  
and increase rates by \$17,207,900 or 4.31% in  
2024 in accordance with the Rate Case Plan;  
and (3) adopting other related rulings and  
relief necessary to implement the  
Commission's ratemaking policies.

Application 20-07-012

**DECISION APPROVING AND ADOPTING A SETTLEMENT AGREEMENT,  
RULING ON DISPUTED ISSUES AND AUTHORIZING A GENERAL RATE  
INCREASE FOR GOLDEN STATE WATER COMPANY FOR 2022, 2023,  
AND 2024**

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**DECISION APPROVING AND ADOPTING A SETTLEMENT AGREEMENT,  
RULING ON DISPUTED ISSUES AND AUTHORIZING A GENERAL RATE  
INCREASE FOR GOLDEN STATE WATER COMPANY FOR 2022, 2023,  
AND 2024**

**Summary**

This decision grants a joint and unopposed motion by the applicant, Golden State Water Company (GSW), and the protestant, Public Advocates Office (Cal Advocates), for adoption of a partial settlement agreement (Settlement Agreement) [attached to this decision as Appendix A](#), which adopts a Test Year 2022 rate increase systemwide totaling \$~~27,796,100~~[31,648,765](#) and a total systemwide revenue requirement of \$~~279,657,852~~[374,626,992](#) for the Test Year.

The resulting rate increases for all ratemaking areas for the Test Year that we approve of in this decision represents ~~an almost 50 percent~~ [a significant reduction of those from that](#) sought in GSW's application. The average increase we approve for all ratemaking areas combined is ~~8.19.2~~ percent of the rates in effect during 2021, as opposed to the 14.97 percent GSW requested. This ~~significant reduction is included in~~ [figure reflects the authorized rate increase resulting from](#) the Settlement Agreement and ~~is approved in this decision. the recent approvals of two Advice Letter Projects.~~ [This decision approves this significant reduction.](#)

The *average use residential customers* in each of GSW's eight individual ratemaking areas will see billing increases ranging from 0.65 percent (for Simi

Valley) to 13.46 percent (for Los Osos), as shown in the following table, Table 1:<sup>1</sup>

<b>Table 1</b> Monthly bill comparison for average residential use per district on a 5/8 x3/4" meter (excluding applicable surcharges)						
<b>Ratemaking Area</b>	<b>Usage (CCF)</b>	<b>Usage (Gallons)</b>	<b>Current</b>	<b>New</b>	<b>Change</b>	
Arden Cordova	13	9724	\$37.81	\$39.24	\$1.43	3.78%
Bay Point	7	5236	\$62.40	\$68.66	\$6.25	10.02%
Clearlake	5	3740	\$92.95	\$102.45	\$9.50	10.22%
Los Osos	6	4488	\$85.66	\$97.19	\$11.53	13.46%
Santa Maria	14	10473	\$68.66	\$69.88	\$1.22	1.78%
Simi Valley	12	8977	\$71.21	\$71.68	\$0.47	0.65%
Region 2	9	6732	\$58.67	\$65.21	\$6.54	11.15%
Region 3	12	8977	\$65.97	\$71.67	\$5.70	8.63%

This decision also resolves all outstanding disputed issues and authorizes or directs GSW to do the following:

- Convert all customers on a two-month billing cycle to a one-month cycle;
- Express water usage in terms of gallons used instead of cubic feet, and include in each bill an example of how gallons can be converted to cubic feet for the convenience of those customers wishing to compare their current usage to past usage;
- Allow customers to pay bills by credit card as a standard option;

<sup>1</sup> Table 1 takes into account two Advice Letter Projects pursuant to the Settlement Agreement.

- Distribute ~~\$308,702~~89,600 and \$79,465 to customers in Region 3 and Santa Maria respectively as credits on their bills, through a Tier 1 advice letter;~~and~~
- Cancel its present schedules for such service upon the effective date of its 2023 escalation filing. 2022 authorized rates shall be subsumed within the escalation filing for attrition year 2023;
- Continue the existing surcharge for the Santa Maria Water Rights Memorandum Account, Preliminary Statement Part M, to be recalculated annually through December 31, 2024;
- File a Tier 1 advice letter implementing surcharges for the amount and duration indicated in Table 7. Any small residual balance can be transferred to the General Ratemaking Area Balancing Account via Tier 1 advice letter; and
- Expand the volumes allowable in Tier One, the lowest cost water, or Tier Two, the next lowest-cost water, for all customers and provide flat-rate customers in Arden-Cordova a 12-month transition period into tiered rates.

~~Due to volatility in the markets for insurance, we also authorize~~This decision denies GSW's request (1) to consolidate its Los Osos and Santa Maria districts for rate purposes, and (2) for balancing account treatment of its purchases of group healthcare insurance and general liability insurance coverages. Instead, this decision authorizes GSW to initiate two new ~~balancing~~memorandum accounts for consideration in GSW's next GRC, one for its group health insurance premium costs and the other for its general liability, umbrella, and excess insurance premiums. ~~However, we deny GSW's request to consolidate its Los Osos and Santa Maria districts for rate purposes, for reasons explained in more detail below.~~

This proceeding is closed.

## 1. Background

Golden State Water Company (GSW) is one of the largest regulated water companies in California. GSW serves approximately 264,000 customers of all classes. Pursuant to the Rate Case Plan adopted in Decision (D.) 07-05-062, GSW filed an application (Application (A.) 20-07-012) on July 15, 2020, for authority to increase rates charged for water service by \$49,518,400<sup>12</sup> or 14.97% in 2022; \$16,107,100 or 4.22% in 2023; and \$17,207,900 or 4.31% in 2024.

On August 19, 2020, the Public Advocates Office (Cal Advocates) filed a protest to GSW's application. There were no other protests filed and no other entity or individual sought party status.

The assigned Administrative Law Judge (ALJ), Charles Ferguson, held a prehearing conference on February 8, 2021. On April 14, 2021, the assigned Commissioner, Darcie L. Houck, issued her Scoping Memo and Ruling (Scoping Memo) and extended the deadline for resolution of this proceeding. The Scoping Memo listed twenty-one issues to be addressed in this proceeding. At the time, it was assumed that all issues would be contested. Accordingly, the Commissioner's Scoping Memo set the dates for an evidentiary hearing.

Cal Advocates submitted its opening testimony on February 17, 2021, and GSW submitted its rebuttal testimony on May 3, 2021.

Following the submission of testimony, GSW and Cal Advocates (Settling Parties) engaged in settlement discussions with the help of a Commission ALJ-neutral. On November 22, 2021, the parties held a formal settlement conference pursuant to Rule 12.1(b). Following the formal settlement conference, they executed the partial Settlement Agreement attached hereto as Appendix A.

<sup>1</sup> ~~As indicated in the preceding section, this~~ <sup>2</sup> This decision authorizes \$27,796,100 of GSW's original request for a ~~revenue amount~~ rate increase of \$~~49,518,400~~ 49,518,400 for its test year ~~2022~~.



A day later, November 23, 2021, the Settling Parties filed a Joint Motion for Approval of the Settlement Agreement (Joint Motion). Prior to submitting their ~~joint motion for settlement approval~~[Joint Motion](#), on October 22, 2021, and November 5, 2021, the Settling Parties simultaneously filed opening and reply briefs addressing three outstanding issues, which were not resolved by the Settlement Agreement.

This proceeding was submitted on November 23, 2021.

## **2. Issues Before the Commission**

The issues remaining to be decided in this decision are the following:

- Does the proposed Settlement Agreement comply with Commission's Rules of Practice and Procedure, Rule 12.1(d), which requires that a settlement be "reasonable in light of the whole record, consistent with the law, and in the public interest?"; and
- How should the following three unsettled issues be resolved?
  - (i) Should the Commission authorize GSW to use a two-way balancing account for its group health insurance costs (Special Request No. 2)?
  - (ii) Should the Commission authorize GSW to use a two-way balancing account for its general liability insurance purchases (Special Request No. 8)? and
  - (iii) Should the Commission consolidate GSW's two, non-contiguous, Los Osos ratemaking areas with GSW's six, non-contiguous, Santa Maria ratemaking areas (Special Request No. 13)?

### 3. Burdens on the Parties and Standard of Review

As joint moving parties, the Settling Parties jointly bear the burden of establishing that the Settlement Agreement [\(attached to this decision as Appendix A\)](#) meets the criteria set forth in Rule 12.1(d).<sup>3</sup>

GSW bears the burden of production and burden of proof with respect to the contested Special Requests and must show by a preponderance of all the evidence in the record that its positions should be adopted by the Commission.

### 4. Approval of the Proposed Settlement

As discussed below, this decision concludes that the proposed Settlement Agreement [meets the criteria set out in Rule 12.1\(d\) and](#) is (i) reasonable in light of the record; (ii) consistent with the law; and (iii) in the public interest.

~~In a general rate case, for a utility of GSW's size, there are many cost items initially disputed by the parties, for each one of the utility's ratemaking areas. GSW has many ratemaking areas, so the list of contested items can be quite long. Consequently, in~~ the negotiations leading up to their Settlement Agreement, GSW and Cal Advocates ~~chose to assemble~~[assembled](#) categories of cost items across ratemaking areas into groups, such as a group of all capital expense items systemwide, and ~~settle~~[settled](#) on a projected cost for the entire group rather than negotiate the cost of each item, one-by-one, in each of GSW's several ratemaking areas.

~~For example, GSW offered the following explanation of how the individual costs of its numerous capital projects were settled by bundling all of them into a single, systemwide "pool of funds" instead of negotiating a price for each proposed capital project in each of its eight ratemaking areas:~~

<sup>3</sup> Rule 12.1(d) states "[t]he Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. The Commission may reject any proposed settlement for failure to disclose the information required pursuant to subsection (a) of this rule."

~~After weighing all the issues, the [Settling] Parties agreed to capital budgets that provide a pool of funds for capital projects that is less than the amount originally requested by Golden State but sufficient for Golden State to provide safe and reliable water service at affordable rates ....<sup>2</sup>~~

This approach is ~~logical~~, reasonable, ~~and efficient~~. Accordingly, we will follow that approach in our discussion of issues as we evaluate and approve the Settlement Agreement below.

#### 4. Approval of the Revenue Proposals for Each Ratemaking Area

The Settlement Agreement cuts GSW's request for the ~~test year, 2022, Test Year 2022~~ revenue increase ~~nearly in half~~ significantly, from ~~the~~ GSW's proposed 14.97 percent to

8.1 percent.<sup>34</sup> ~~GSW also agreed~~ Settlement Agreement combined with recent approvals of two Advice Letter Projects led to a revised total of 9.2 percent increase in approved revenue. GSW also agreed in the Settlement Agreement to adhere to the 2007 Rate Case Plan for calculating increases for the escalation years, 2023 and ~~2023.~~ 2024.<sup>5</sup>

The total revenue increases, measured in dollars and percentages, expected to be collected from all customer classes combined for 2022, 2023 and 2024, are illustrated in Table 2 by ratemaking area:<sup>5</sup>

<sup>2</sup> ~~Joint Settlement Motion, at 3.~~

<sup>34</sup> ~~Id.~~, Attachment A, at 168, section 19.1.

<sup>45</sup> ~~Ibid.~~ However, in light of the significant increase in the applicable Consumer Price Index [CPI-U] during the pendency of this general rate application, and other unforeseen factors, in sections 5.3 – 5.6, below, we find it prudent to authorize ~~two-way, balancing~~ memorandum accounts for two insurance cost items, group medical and general liability insurance.

<sup>5</sup> ~~Actual increases for escalation years 2023 and 2024 will be determined at the time the advice letters to implement the increases are approved by the Commission and will be calculated pursuant to the Rate Case Plan methodology adopted in D.04-06-018 and D.07-05-062, subject to our orders, below, on balancing accounts.~~

Table 2<sup>6</sup>

Rate increases for Test Year 2022 and estimated increases for the Escalation Years 2023 and 2024						
(\$000)	2022	2022	2023	2023	2024	2024
RMA	\$	%	\$	%	\$	%
Arden Cordova (RMA)	1,927.7	12.50%	483.1	2.77%	404.9	2.24%
Bay Point (RMA)	629.7	10.06%	130.4	1.89%	143.8	2.04%
Clearlake (RMA)	248.1	10.15%	84.1	3.12%	79.8	2.87%
Los Osos (RMA)	537.9	13.20%	154.7	3.35%	149.2	3.12%
Santa Maria (RMA)	238.8	1.50%	273.6	1.67%	588.3	3.50%
Simi Valley (RMA)	249.9	1.59%	346.9	2.17%	339.2	2.06%
Region 2 - Metro (RMA)	16,759.6	11.55%	6,071.9	3.74%	5,973.5	3.54%
Region 3 - (RMA)	11,054.5	8.01%	5,327.7	3.56%	5,413.6	3.48%
Total	31,648.8	9.23%	12,863.8	3.42%	13,088.6	3.36%

~~Although the Settlement Agreement would result in increases that are substantially lower than what GSW requested in its application, the~~ The Settling Parties agree that the increased revenue to be collected pursuant to the Settlement Agreement as compared to 2021, if approved, will allow GSW to recover a reasonable amount of the costs needed to provide safe and reliable water services to its customers while providing satisfactory operational efficiency and prudent infrastructure development. Based on the ~~representations by the Settling Parties~~ record in this ~~record~~ proceeding, we find the rate increases ~~they parties~~ have agreed to in the Settlement Agreement, ~~while substantially lower than the aggregated total GSW originally requested,~~ is sufficient ~~additional revenue~~ for GSW to maintain safe and reliable service at a reasonable cost to its customers.

#### 4. Approval of the Capital Projects Program

~~Cal Advocates disputed the need for various capital projects included in GSW's application as well as recommended in its own testimony that adjustments should be made to other capital budgets for projects. As noted~~

<sup>6</sup> See footnote 1.

~~above, in~~ In the Settlement Agreement, the Settling Parties agreed on a pool of funds (\$404.8 million) for capital projects that is almost \$46 million less than the amount GSW originally requested, but, in their respective views, is adequate to provide safe and reliable water service to GSW's customers during this rate cycle. The change in initial litigation positions by GSW and Cal Advocates and the final budgets agreed to by both for each year of the rate cycle and for each ratemaking region as well as for the General Office are shown in Table 3:

Table 3

Settled Capital Budgets by Region and General Office				
		Golden State	Cal Advocates	Settlement
Region 1	2021	\$30,448,017	\$18,840,779	\$27,403,216
	2022	\$19,125,435	\$16,840,135	\$17,212,892
	2023	\$20,607,900	\$15,109,700	\$18,822,150
Region 2	2021	\$46,766,654	\$21,707,490	\$42,089,989
	2022	\$65,120,870	\$17,976,218	\$58,608,783
	2023	\$69,397,672	\$7,670,072	\$62,457,905
Region 3	2021	\$53,478,710	\$40,022,372	\$48,255,039
	2022	\$63,715,858	\$38,616,258	\$56,973,472
	2023	\$64,087,977	\$19,965,477	\$56,993,109
General Office	2021	\$9,334,183	\$6,095,302	\$8,356,395
	2022	\$4,363,553	\$2,819,562	\$3,927,198
	2023	\$4,181,060	\$2,840,384	\$3,735,684
Total		\$450,627,889	\$208,503,749	\$404,835,832

A detailed list of all individual capital projects is set forth in Appendix B to the Settlement Agreement, which ~~itself~~ is attached as Appendix A to this decision. As Table 3, above, shows, ~~GSW~~the agreed ~~to reduce its~~upon aggregated capital projects budgets in each of the three years of the rate cycle represent a reduction of the initial request in GSW's application by an aggregated total of \$45,792,057.

We approve the \$404,835,832 "pooled" capital budget encompassing the capital projects GSW deems appropriate to undertake during this rate cycle. This portion of the Settlement Agreement is reasonable in light of the whole record.

The \$45,792,057 reduction in GSW's original \$450,627,889 represents a nearly 10 percent reduction. We find that it will allow GSW to recover a reasonable amount of the costs needed to ensure safe and reliable water service to its customers, while promoting operational efficiency and prudent infrastructure development and keeping rates as low as reasonably practicable. We base this on GSW's [and Cal Advocates'](#) representation in this record<sup>67</sup> ~~and Cal Advocates' acceptance of GSW's representation,~~ that the funding for GSW's capital improvement program, as settled, is [reasonable and](#) designed to align with regulatory mandates, ~~safety, climate change, water quality, conservation, and technology—all of which are laudatory goals.~~

Some of the key projects that will be funded by the ~~settlement~~[Settlement Agreement](#) are: (i) a systemwide SCADA Upgrade Project in Region 1 and several other ratemaking areas; (ii) improvements of wells in the Santa Maria ratemaking area; (iii) reservoir improvements in Simi Valley; (iv) tank upgrades and recoating in Region 2; and (v) replacement of reservoirs that have cracked and are undersized as well as replacement of an 85-year-old well in Region 3. In addition, the ~~settlement~~[Settlement Agreement](#) will fund replacement of pipelines in accordance with the replacement program approved by the Commission in D.16-12-067.

~~As already noted, by the terms of the Settlement Agreement,~~ GSW is not obligated to construct any individual project included in the \$404,835,832 settled capital budget. This term will allow GSW leeway to address emergencies and unforeseen events. However, we expect that with this flexibility, GSW will manage the timing of construction projects to maximize efficiency and will put the approved budget to its highest priorities and best uses first.

<sup>67</sup> ~~Joint Settlement~~ Motion, at 3.



~~We are further assured by the provision in the~~[The](#) Settlement Agreement ~~which~~[also](#) provides that capital projects not constructed ~~when and~~ as projected ~~are~~[in the Settlement Agreement will be](#) subject to review in subsequent rate cases.

#### 4. Approval of Projected Expenses

Cal Advocates initially objected to several of GSW's expense forecasts, including in some instances, taking exception to GSW's estimations of anticipated inflation rates for escalation-year rate adjustments, or the proposed deviation from the standard Rate Case Plan forecasting method. In other instances, Cal Advocates objected to the inclusion of an expense item in rates for future operations.

The Settling Parties were able to resolve these differences in the Settlement Agreement. The following Table 4 shows the related settled results on a region-by-region basis. A more detailed description of expense items can be found in Appendix A of the Settlement Agreement, which is attached in its entirety as Appendix A to this decision.

**Table 4**

Expense Groupings by Region				
		GSWC	Cal Advocates	Settlement
Region 1	O&M	\$23,775,665	\$23,917,023	\$23,786,249
	A&G	\$13,644,009	\$11,448,573	\$12,651,066
	Depreciation	\$5,746,920	\$5,499,937	\$5,665,062
	Taxes	\$7,037,813	\$5,326,555	\$6,677,445
Region 2	O&M	\$67,345,988	\$70,181,456	\$67,039,354
	A&G	\$25,766,520	\$21,271,964	\$24,002,646
	Depreciation	\$12,360,206	\$11,511,920	\$12,233,607
	Taxes	\$17,348,346	\$14,052,297	\$16,436,431
Region 3	O&M	\$60,303,639	\$59,796,936	\$60,167,852
	A&G	\$26,752,813	\$22,192,617	\$24,639,093
	Depreciation	\$11,819,497	\$11,062,460	\$11,665,225
	Taxes	\$15,512,175	\$12,390,211	\$14,693,822

In each region and each expense category, ~~GSW reduced its~~ the Settling Parties agreed to a reduction to the initial projection. ~~However, in their~~ The Joint Motion, ~~they represent~~ represents that the expense amounts settled upon will allow GSW to continue to provide safe, reliable water service to its customers- ~~notwithstanding GSW's willingness to reduce its projected expenses~~. This is consistent with the record of the proceeding. It is also consistent with the law and in the public's interest for us to approve of the amounts upon which they settled.

#### **4. Approval of GSW's Special Requests**

GSW made 14 Special Requests in its Application. Eleven of its Special Requests were settled in the Settlement Agreement, and three remain contested. Our approvals of the settled Special Requests are discussed in this section, and our resolutions of the contested Special Requests (Nos. 2, 8, and 13) are discussed below in section 5 and its subsections.

#### **4. Memorandum and Balancing Accounts, Special Request No. 1**

The Settling Parties agreed on the treatment to be afforded each of forty distinct memorandum and balancing accounts maintained by GSW. A complete description of each of the accounts and the dispositions reached for each are described in section 17.1 and Appendix C of the Settlement Agreement. Appendix C to the Settlement Agreement shows how amortizations of those accounts ~~to be amortized~~ will be carried out through surcharges or surcredits on GSW's customers' bills. Those surcharges and surcredits are based on forecasts of the sales and number of customers that the Settling Parties agreed to in section 4 of the Settlement Agreement.

~~Of note, there~~ There was no dispute between the Settling Parties that the California Alternative Rates for Water Balancing Accounts for each of GSW's



regions should be continued until the end of this rate cycle, December 31, 2024. Based on the funds that remained in these accounts at the end of the last rate cycle and the amount of Customer Assistance discounts ordered in this decision, the differences between the Customer Assistance discounts and the surcharges paid by unassisted customers will continue to be tracked in these balancing accounts.

~~Also of note,~~ GSW and Cal Advocates agreed that no Commission action with respect to amortization of GSW's Water Revenue Adjustment Mechanism or its Modified Cost Balancing Account was necessary in this proceeding.

Likewise, the Settling Parties agreed that no Commission action was necessary in this proceeding with respect to GSW's Pension and Benefits Balancing Account which measures the difference between authorized pension costs included in rates and GSW's actual pension costs.

The Settling Parties agreed that certain accounts should be amortized through surcharges to the customers in appropriate ratemaking areas. For example, to remove a balance of \$1,081,210 remaining on a use fee assessed by the Randall-Bold Water Treatment Plant, the Settling Parties agreed to the continuation of a surcharge of \$0.856 per one hundred cubic feet (Ccf) of water which we had previously approved for payment by the customers in GSW's Bay Point ratemaking area.

Also, to amortize the Aerojet Water Litigation Memorandum Account amount of \$7,168,908 for legal fees incurred on behalf of the customers in the Arden-Cordova ratemaking area, the Settling Parties agreed to a surcharge rate of \$0.286/Ccf for metered customers and \$7.94/month for flat rate customers.

The Settling Parties agreed to amortize several other memorandum and balancing accounts, all of which are listed in both section 17.1 and Appendix C of the Settlement Agreement.

After examining the resolutions of the balancing and memorandum accounts identified in the Settlement Agreement, we find that the individual resolutions regarding each one of the accounts are reasonable. The Settlement Agreement reflects the carefully negotiated compromises reached between the Settling Parties on each account. The results are reasonable in light of the record, consistent with the law and in the public interest.

**4. Sales Reconciliation Mechanism,  
Special Request No. 3**

GSW requested authority to rename its Sales Adjustment Mechanism as the Sales Reconciliation Mechanism and maintain the Sales Reconciliation Mechanism through this rate cycle. Cal Advocates proposed certain conditions be attached to the authorization, and GSW has agreed to abide by those conditions. GSW also agreed to abide by whatever Commission decision is in effect at the time of its next General Rate Case filing regarding the renamed Sales Reconciliation Mechanism.

Given how advanced the rate cycle for this proceeding is and the fact that sales are a matter of record now for the Test Year, as are the increased rain and snow falls during the last quarter of 2022, this decision approves this request and the terms agreed to by the Settling Parties as reasonable in light of the record, consistent with the law and in the public interest.

**4. Customer Use of Credit Cards,  
Special Request No. 4**

This request concerns the use of credit cards by customers to pay GSW bills. Pursuant to AB 1058, the Settling Parties agreed that GSW could include

the cost of its credit card payment pilot program in rates and remove the pilot program status. To ensure that Customer Assistance Program (CAP) enrollees are excluded from program cost recovery, in compliance with Public Utilities Code section 755.5, as amended by AB 1058, the CAP discount for eligible customers will be increased by \$0.11 in the Bay Point ratemaking area, \$0.09 in the Los Osos ratemaking area and \$0.10 in all other ratemaking areas.

We find this provision of the Settlement Agreement reasonable in light of the record, consistent with AB 1058 and the amended section 755.5, and in the public interest.

#### **4. Treatment of Two Previously Approved Projects, Special Request No. 5**

The ~~Settling~~[Settling](#) Parties agreed that should two specific Advice Letter [Capital] Projects be completed and submitted for approval prior to a final decision in this proceeding but after January 1, 2022, the rate impact of the two projects should be included in rates retroactively as of the effective date of the advice letter. Any retroactive rates prior to the effective date of the advice letter would exclude the rate impact of the Advice Letter Projects. The Settling Parties further agreed that these advice letter projects should be completed by the end of the current rate case cycle.

We find this provision of the Settlement Agreement reasonable, consistent with the law, and in the public interest. [These capital projects were reflected in rates and revenues as of February 15, 2022, and are included as part of this decision in Tables 1 and 2.](#)

#### **4. Conversion to Monthly Billing, Special Request No. 6**

The Settling Parties agreed that GSW should convert from bi-monthly billing to monthly billing for those customers that are currently billed on a

bi-monthly basis. Monthly billing allows customers to monitor their usage more frequently and aids conservation efforts.

We concur and approve of the change as reasonable, consistent with the law and in the public's interest.

#### **4. Finding on Water Quality, Special Request No. 7**

Cal Advocates reviewed the most recent State Water Resources Control Board's Department of Drinking Water (DDW) inspection reports and contacted DDW representatives for appraisals of the water systems and then concurred with GSW's position that the utility meets all minimum water quality standards. DDW representatives ~~stated~~[informed Cal Advocates](#) that GSW's water systems are compliant with its permit provisions.

We agree with ~~DDW~~[Cal Advocates that GSW is compliant](#) and have included the requisite finding in this decision.

#### **4. 123-TCP Contamination Proceeds, Special Request No. 9**

GSW received settlement monies from a lawsuit filed in a United States District Court seeking damages and other relief for 123-TriChloropropane (TCP) readings detected at four of its wells located in the Santa Maria and Region 3 ratemaking areas. This request addresses GSW's proposal to dispose of the proceeds in accordance with Commission decisions, D.10-10-018 and D.10-12-058.

The total recovery from the lawsuit was \$6.5 million. After negotiations on how to utilize the recovery to return the wells to useful operation and taking out legal fees and other expenses (including agreeing on a \$300,000 reserve for operating expenses), the Settling Parties agreed that the net proceeds would

amount to \$338,112. This amount they agreed should be split between shareholders and ratepayers 50/50.

They further agreed that the ratepayer half of the \$338,112 should be further split between the ratepayers in the Santa Maria ratemaking area and the ratepayers in Region 3 because the wells that had been contaminated were in those areas. They agreed the split should be calculated based on the capital costs of the wells that were the subjects of the lawsuit, resulting in 53% (a total of \$89,600 for Region 3 ratepayers and \$79,456 for Santa Maria ratepayers).

They further agreed to refund the \$300,000 operating reserve to the ratepayers during this rate cycle by using a different formula proposed by Cal Advocates that is based on a comparison of future operating expenses in the two different areas. This formula awards 73 percent of the unused operating reserve (\$219,102) to Region 3 ratepayers and 27 percent (\$80,898) to Santa Maria ratepayers.

We find the formulas used to determine the refunds to these two ratemaking areas reasonable, consistent with the law and in the interests of the public.

#### **4. COVID-19 Memorandum Account, Special Request No. 10**

This request was withdrawn by GSW.

#### **4. Rate Tier Break Points, Special Request No. 11**

After negotiations, the Settling Parties agreed to the following tier breaks, which are reasonable compromises of their litigated positions:

#### **Table 5**

Settled Tier Break Points (Ccf per Month)			
Ratemaking Area	Tier 1	Tier 2	Tier 3
Arden Cordova CSA	0-13	14-46	Over 46
Bay Point CSA	0-8	9-15	Over 15
Los Osos CSA	0-8	9-18	Over 18
Santa Maria CSA	0-14	15-42	Over 42
Simi Valley CSA	0-10	11-22	Over 22
Region 2 RMA	0-9	10-21	Over 21
Region 3 RMA	0-12	13-44	Over 44

In addition, the Settling Parties agreed to provide flat rate customers in Arden Cordova a 12-month transition period before being billed at the metered rate, when a meter is installed on their respective service points.

The impact of these tier breaks upon the average usage customer's monthly bill in each of GSW's ratemaking areas is incorporated into Table 1, above. This carefully balances affordability and conservation goals, and we find these compromises and resulting billing impacts reasonable, consistent with the law and in the public interest.

#### **4. Proceeds from Water Rights Transfer, Special Request No. 12**

The Settling Parties request approval of the way in which they have agreed that revenues from a possible, future, Non-Tariffed Products and Services (NTP&S) opportunity should be treated. More specifically, the issue is whether GSW can treat revenues from a temporary transfer of excess water supply according to the provisions for revenue sharing for NTP&S adopted by the Commission in D.12-01-042.

The Settling Parties developed the following conditions upon which they agree that GSW may treat revenues from an NTP&S opportunity according to the revenue sharing provisions set forth in D.12-01-012. Those conditions are the following:

- A. At the time GSWC enters a Water Transfer Agreement (WTA), GSW must submit a Tier 1 Advice Letter filing with the following information:
  - (i) A copy of the WTA contract;
  - (ii) Location and portion of water supply that is part of the WTA;
  - (iii) Amount of water being traded, expected gross revenues, and expenses associated with the WTA contract; and
  - (iv) Identification and quantification of any current or future changes to water supply costs recovered through water service rates.
- B. Record and credit ratepayers' portion of shared gross revenues in the Modified Cost Balancing Account (MCBA). These amounts must be tracked in a separate sub-account under the MCBA for ease of review and auditability.
- C. The gross revenues prior to sharing should be exclusive of any contract and utility administrative expenses, and any incremental increases to water supply costs that results from the WTA.

We find the settled conditions, above, to be reasonable, consistent with the law and in the public interest. GSW must follow them for any water transfer agreement like that which prompted this special request.

#### **4. Billing Units on Customer Bills, Special Request No. 14**

The Settling Parties have agreed that GSW should present water usage volumes on customers' bills in units of one hundred gallons (Cgl) instead of one

hundred ~~cubic feet~~ (Ccf). Further, they agreed that GSW should permanently present on customer bills the conversion rate between the two billing systems.

The proposal is long overdue, reasonable, rational, consistent with the law and unquestionably in the public's interest.

## 5. ~~Resolutions~~[Resolution](#) of Remaining Issues

Three issues were not resolved in the Settlement Agreement: (i) whether GSW should be permitted to open a two-way balancing account for the costs of purchasing group health insurance coverage for its employees; (ii) whether GSW should be permitted to open a two-way balancing account for the costs of purchasing several liability insurance products; and, (iii) whether GSW should be permitted to consolidate its Los Osos and Santa Maria ratemaking areas for rate purposes.

## 5. ~~Context of the Remaining Disputed~~[Overview of Insurance Expense](#) Issues

With respect to the [purchase of](#) insurance ~~products~~[policies](#), after submitting extensive, written testimony and arguments over the projected costs of such ~~products~~[policies](#), the Settling Parties agreed on projections to include in the Settlement Agreement for ~~test-year~~[Test Year](#) premium costs for the group health insurance ~~products~~[policies](#) (medical, dental and vision) and for ~~several~~[certain](#) liability insurance policies, [specifically, General Liability, Umbrella, and Excess Liability policies.](#)

They also agreed upon a method to convert the ~~test-year projection~~[Test Year projections](#) of insurance premiums into projections for escalation years 2023



and 2024.<sup>78</sup> Specifically, they agreed to use the methodology set forth in the Rate Case Plan, as found in D.07-05-062.<sup>89</sup>

We approve the projections for ~~test year~~Test Year insurance premiums that the Settling Parties settled upon and the formula (the Rate Case Plan formula) for converting those estimates into estimates for insurance costs in 2023 and 2024, but we do so ~~given the fact that GSW has requested two~~recognizing that, in the Settlement Agreement, GSW preserved its right to request two, two-way balancing accounts,~~each of which we will grant.~~<sup>9</sup> for its insurance costs.

GSW contends that balancing accounts for its group health insurance purchases and liability coverages are necessary because the projections of its insurance costs to which it has agreed, stand a good chance of missing the mark due to circumstances beyond GSW's control~~and its ability~~, such as the lingering effects of the pandemic and the current inability of even insurance experts to forecast what future insurance premiums might be.<sup>10</sup>

<sup>78</sup> The provisions of the Settlement Agreement addressing test year projections of insurance premiums are found in the Settlement Agreement sections 14.09 (liability insurance coverages) and 14.10 (group health care premiums). In section 14.09 of the Settlement Agreement, GSW and Cal Advocates agreed to a projection of \$3,804,588 for the aggregate cost of liability coverages for the ~~test year~~Test Year. For the projected cost of the group health care plan (medical, dental and vision coverage), in section 14.10, GSW and Cal Advocates settled on an aggregate, projected dollar cost of \$6,590,811. As for a methodology to project the group health costs and the liability insurance costs in escalation years, in section 6.1 of the Settlement Agreement, GSW and Cal Advocates settled on using the Rate Case Plan methodology. Notwithstanding these agreements, GSW still seeks authority to open two-way balancing accounts for both group health insurance and liability insurance costs for the entire rate case cycle.

<sup>89</sup> The Rate Case Plan escalates projected prices using pre-determined labor inflation factors. D.07-05-062 at A-19.

<sup>9</sup> ~~Finding of Fact No. 24 (group health insurance); Finding of Fact No. 47 (liability insurance); and Conclusions of Law Nos. 8–11.~~

<sup>10</sup> All GSW's insurance purchases for insurance years beginning February 1, 2022, and February 1, 2023, were purchased after the Joint Motion to Approve the Settlement Agreement was filed, and this data is not included in the record.

As discussed below, GSW's requests for balancing accounts for the cost of group healthcare insurance and certain liability insurance are denied. However, we acknowledge GSW's concern that the "uncertainty of the impact of COVID-19 on medical costs in the 2022 – 2024 rate cycle [was] difficult to determine,"<sup>11</sup> and it is possible that this decision's adopted insurance costs, found in the Settlement Agreement, may differ from GSW's original forecasts and, more significantly, its actual insurance costs.

Accordingly, instead of balancing accounts, we will order GSW to record its portion of its actual group health insurance and actual liability insurance costs in memorandum accounts and address the prudence and reasonableness of the actual premiums it paid for these insurance policies during the current rate cycle in its forthcoming general rate proceeding. We recognize the uncertainties raised by GSW and thus allow a special circumstance for cost review here that shall not be used as precedence for standard issues like insurance in future GRCs.

The projected insurance costs agreed to ~~by~~in the ~~Settling Parties~~Settlement Agreement are all less than what GSW projected originally. This suggests that we should examine how GSW produced its initial projections and litigation position on insurance costs. Moreover, one of the criteria for ordering ~~balancing~~memorandum accounts for costs requires that we find that the costs in question could not have been foreseen by a reasonable effort to forecast them. In other words, we must be persuaded that a reasonable effort to project a cost item was made, but the prognosticators were unsure of their projections due to extraordinary market conditions.

In sections ~~5.3~~5.2 through 5.6, below, we examine GSW's processes for predicting the cost of and purchasing its insurance coverages and find that they

<sup>11</sup> Exh. GSW-11 (Currie Prepared), at 25, lines 7-8. We also acknowledge the uncertainty of liability insurance costs due to the indirect effects of COVID-19 on supply chains.

were reasonably well-designed to produce reasonably accurate projections of the lowest possible costs for reasonably adequate coverages. We also find that GSW-~~has also~~ established that ~~during this rate cycle~~, there has been and ~~will~~may continue to be acontinued potential for ~~previously~~-unpredictable volatility in the relevant insurance markets. ~~We further find that GSW has met all the criteria for instituting two-way balancing accounts for its purchases of group health and liability insurance coverages.~~

~~With respect to the third disputed issue, consolidation of two, non-contiguous Los Osos service areas with six non-contiguous Santa Maria service areas for ratemaking purposes, we will deny GSW's request for this rate case cycle, for the reasons set forth in section 5.7.~~

## **5. ~~Standard and Burden of Proof~~Criteria To Establish BalancingMemorandum Accounts**

~~As explained in the preceding section, GSW requests permission to establish balancing accounts for its purchases of group health insurance and liability insurance coverages. On the other hand, Cal Advocates maintains that balancing accounts for purchasing group health and liability insurance are not appropriate for GSW.~~

The criteria that must be met ~~for our approval of a balancing~~to establish a memorandum account are ~~set forth in several Commission decisions, most recently D.22-06-021.~~<sup>11</sup>

~~The conditions are:~~the following:<sup>12</sup>

<sup>11</sup> ~~D.22-06-021, at pp. 533—536. The criteria were initially applied to request for approval of memorandum accounts. The criteria were added to the Water Standard Practice Manual U-27-W, at 6, citing to D.08-03-020 and D.94-06-033. Subsequent Commission decisions applied the standards to balancing accounts.~~

<sup>12</sup> The criteria are found in the Water Standard Practice Manual U-27-W, at 6, citing to ¶ D.08-03-020 and D.94-06-033.

- (i) The costs identified by the utility for ~~balancing~~[memorandum](#) account treatment could not reasonably have been foreseen in the utility's last general rate case;
- (ii) The costs will be incurred before the utility's next scheduled rate case;
- (iii) The costs are of a substantial nature such that the amount of money involved is worth the effort of processing a ~~balancing~~[memorandum](#) account; and
- (iv) The ~~balancing~~[memorandum](#) account has ratepayer benefits.<sup>[12](#)[13](#)</sup>

~~If GSW successfully meets its burden to make a *prima facie* case for one or both requested balancing accounts, the burden of persuasion shifts, and it becomes Cal Advocates' obligation to introduce a preponderance of admissible evidence that outweighs GSW's evidence. The position supported by the preponderance of record evidence will prevail. The Commission applies its criteria for balancing accounts, on a case-by-case basis, and the results have differed.<sup>13</sup>~~

## 5. Approval of [Settlement of GSW's](#) ~~Process for Cost~~ [of](#) Purchasing Group Health Insurance

~~GSW carries the initial burden of proving a *prima facie* case that its projected costs of health insurance in each year of the rate case cycle are reasonable and, if adopted, would result in just rates. Ordinarily, GSW would be expected to assume the risks that its projections are short of actual costs and that~~

<sup>12</sup><sup>13</sup> *Ibid.*

<sup>13</sup> ~~See, e.g., D.18-12-021, at pp. 228–231; see also D.22-06-021, at pp. 533–536. In its briefing, Cal Advocates avoids referencing decisions where the Commission has approved the use of balancing accounts using these criteria, implying that the Commission has never actually approved use of a balancing account under these criteria. This is not an accurate implication. *Ibid.*~~

~~its shareholders will have to bear the shortfall. However, GSW has established by a preponderance of evidence that market conditions during this rate cycle have been and continue to be significantly abnormal, thus, it should not be required to bear the usual risk. Instead, a two-way balancing account should be instituted to be fair to both GSW and its ratepayers.~~

~~To carry its burden~~[In this proceeding](#), GSW ~~first~~ showed that it made a prudent, reasonable effort to project its group health (medical, dental and vision) insurance costs. ~~It then described why unusual, and heretofore unpredictable, market conditions for such insurance made any projection uncertain. For both those purposes~~[To explain how it projected group health insurance costs](#), GSW offered the testimony of Mr. Mathew Currie. Mr. Currie is the Director of Human Capital Management Department at GSW.<sup>14</sup> He has been a Manager, Interim Director, and finally, the Director of the Human Capital Management Department since 2008.<sup>15</sup> ~~In these positions, he has been responsible for purchasing and managing part or all of GSW's group health insurance portfolio, including group coverages for health, vision and dental policies for GSW's employees.~~<sup>16</sup> After 14 years of buying group health insurance for GSW employees,

Mr. Currie is well-qualified to testify on the process of purchasing the group health insurance policies for GSW ~~and to explain why GSW's process produces reasonable cost projections ordinarily, but the process was unable to predict prices reliably in the current market conditions.~~<sup>17</sup> [.](#) Mr. Currie explained that to

<sup>14</sup> Exh. GSW-11 (Currie Prepared), at ~~p.~~ 1 and Exhibit A. He also manages the Risk Services Department of GSW, which is the department responsible for purchasing liability insurance coverages for GSW. *Ibid.*

<sup>15</sup> *Ibid.*

<sup>16</sup> ~~*Ibid.*~~

<sup>17</sup> ~~GSW refers to Mr. Currie in its briefing as its "insurance expert." GSW Opening Brief on Contested Issues, at 21.~~

make a reasoned decision about ~~what to pay~~the costs for group health insurance, GSW retains the services of insurance brokers. ~~Together with the brokers, he assembles data from three respected consultants on health care premiums: Oliver Wyman, Segal Consulting and National Health Expenditures.~~<sup>18</sup> He further explained that ~~insurance brokers do not sell insurance themselves, rather they function as advisors and agents for buyers of insurance, such as GSW.~~<sup>19</sup> He further explained that ~~brokers painstakingly assemble data about what~~brokers assemble data on the costs insurance carriers have historically been charging for the type of insurance coverage that a client like GSW wants to buy, given the prevailing economic conditions of the market for the desired line of insurance and the degree of ~~health~~-risk that GSW's employees represent.<sup>2016</sup>

~~Since the underwriting of insurance policies is a closely guarded trade secret for every insurance carrier, the carriers themselves do not share any data about the make-up of their insurance pools or their algorithms for assessing their financial risk as they underwrite group healthcare policies for specific employers.~~<sup>21</sup> This means that insureds, like GSW, and their brokers must assemble relevant data themselves. After receiving pertinent demographic data about the group to be insured, brokers collect relevant data from the individual clients for whom they secure insurance policies and from other insureds who may be willing to share what they paid for insurance. Brokers also collect data from insurance consultants who assemble insurance pricing data and sell it to brokers. Brokers then use their expertise to assess what all the assembled data indicates about the possible cost of a new policy for a specific client, such as GSW.

An individual broker's data is obviously never as comprehensive as any one insurance carrier's confidential data, let alone the information for all carriers-

<sup>18</sup> GSW Opening Brief on Contested Issues, at 9–10.

<sup>19</sup> Exh. GSW-11 (Currie Prepared), at 2, lines 5–15.

<sup>2016</sup> Exh. GSW - 71 (Currie Rebuttal), at 6, line 15 – at 8, line ~~15~~15

<sup>21</sup> See *id.*, at 18, lines 11–20 (Blue Shield, GSW's group health insurer, "obviously would not publish" data or pricing for GSW's group health insurance).

~~offering identical coverage, but it is certainly far superior to what a water, gas, electric or any other type of utility company could assemble on its own. Such information and expertise are, of course, an insurance broker's stock-in-trade, and, as Mr. Currie points out, GSW expects to be charged a substantial amount every year for such data and advice from its brokers.<sup>22</sup>~~

~~We find the foregoing process to be prudent and reasonable process for making predictions about future costs for group health policies, although in extraordinary times it is necessarily less dependable. In this proceeding, it resulted in a projected cost of \$7,219,342 for GSW's group health insurance for the test year 2022.<sup>23</sup> Through Mr. Currie's testimony, GSW projected a cost of \$7,219,342 for its group health insurance for the test year 2022.<sup>17</sup> In the Settlement Agreement, GSW agreed to use a lower projection, \$6,590,811. However, in the same settlement document, GSW continued to insist on creating a two-way balancing account so that whatever projected cost of group health insurance the Settling Parties might settle on, neither GSW nor its ratepayers would be at risk.~~

~~After review of this issue, this decision authorizes a two-way balancing account for group health insurance purchases for this rate cycle. It might be said that GSW's original projection of \$7,219,342 for group health insurance in the test year and GSW's subsequent projections for 2023 and 2024 are irrelevant and all that is important is the \$6,590,811 projection found in the Settlement Agreement.~~

~~However, it is important for us to determine whether a prudent, reasonable effort was behind GSW's \$7,219,342 projection before we determine~~

<sup>22</sup> ~~Exh. GSW-31 (Currie Prepared) at 2, lines 17–21.~~

<sup>23</sup><sup>17</sup> Appendix A, hereto, at p. 110, Table 14.1. This projection and all projections for what GSW might pay for group health insurance or any one of its three components (health, dental or vision) includes only what GSW would have to pay. GSW's employees pay a portion of the actual cost of the group health policies.



~~whether GSW should have foreseen the volatility it cites as a reason for requesting a two-way balancing account. If \$7,219,342 was merely a number picked out of thin air by Mr. Currie, it would certainly negatively affect our assessment as to whether the volatility he claims exists in the market for group health insurance, and upon which GSW's request for a balancing account is based, was as hard to foresee as he maintains.~~

~~On the other hand, given the quality and quantity of effort that the record evidence shows went into Mr. Currie's \$7,219,342 projection, we are more inclined than not to conclude that the current volatility of the group health insurance market was indeed hard to predict.~~

~~We find that Cal Advocates' evidence was insufficient to overcome Mr. Currie's testimony regarding the extent and quality of the effort that went into his original projection. Cal Advocates' put forward a projection of \$6,778,182 to counter Mr. Currie's \$7,219,342 projection.<sup>24</sup> Cal Advocates' \$6,778,182 projection does not undermine the prudence or reasonableness of Mr. Currie's \$7,219,342 projection or the process by which Mr. Currie arrived at it.~~

~~We also give little weight to Cal Advocates' \$6,778,182 projected cost for GSW's group health insurance policy in test year 2022. It is supported by the prepared testimony of Mr. Mehboob Aslam<sup>25</sup> whose credentials do not include any direct experience purchasing group health or liability insurance for an employer or client. Nor has he published any academic paper on either industry. He was trained as an accountant, but there is no record evidence of his having been an employee of an insurer or insurance broker; acted as an accountant for any insurance company or brokerage company clients; published any economic~~

<sup>24</sup> ~~Appendix A, hereto, at 110, Table 14.1~~

<sup>25</sup> ~~Exh. Cal PA-3, at 48, lines 5—22.~~



~~studies of the market in California for group health or liability insurance; or had substantial responsibility for purchasing group health or liability insurance for any organization by which he himself was employed.—~~

~~While Mr. Aslam is familiar with the arithmetical formulas found in the Rate Case Plan and has applied them in Commission proceedings, the issues here are quite different—how insurance premium costs are ordinarily projected by GSW and companies like it, and whether any unpredictable events have seriously impaired the usefulness of the process GSW, and companies like it, have historically followed to purchase insurance policies.—~~

~~Mr. Currie's testimony is based on his own experience buying insurance policies for GSW for many years and upon the advice he received from insurance brokers and consultants regarding the costs of similar policies.<sup>26</sup>~~

~~—In contrast,~~

~~Mr. Aslam, obtained his projection by applying the Rate Case Plan formula and then contacting an organization known as I.H.S. Markit, which gave him a projection of what was self-described by I.H.S. Markit as the product of “the deepest intelligence across the widest set of capital-intensive industries and markets” derived “by connecting data across variables.”<sup>27</sup> The information supplied by I.H.S. Markit is neither useful nor permissible evidence for us to consider. An unidentified, undifferentiated mass of homogenized “data across variables”—whatever that may mean—coming from the “widest [but never identified] set of capital-intensive industries and markets” is irrelevant to the matter at hand.—~~

<sup>26</sup> ~~Exh. GSW-31 (Currie Prepared) at 1, lines 4–9; at 24, lines 10–20; Exhibit A; Exh. I GSW-71 (Currie Rebuttal) at 12, lines 8–14; at 18, lines 4–20.~~

<sup>27</sup> ~~Exh. Cal PA-3 (Aslam), at 48, lines 5–14.~~

~~We are concerned in this section of our decision with one, and only one market, the market for employer group health insurance in the State of California. An array of other, unidentified, unexplained data has little relevance. Further, we are not permitted to base a material decision on such evidence,<sup>28</sup> nor can a decision based on such information be legitimized by labelling our decision a “policy” decision, as counsel for Cal Advocates attempted to do in her briefing on this topic.<sup>29</sup>~~

~~Furthermore, our confidence in Mr. Aslam’s knowledge and understanding of the structure of and forces at work in the California market for group health insurance is not helped by his assertion that GSW is requesting an expense allowance for health premiums “eight times its actual premiums in 2020,” followed by his mischaracterization of GSW’s request for an 11 percent increase in group medical insurance as an “exaggerated” projection.<sup>30</sup> The “exaggeration” is entirely by Mr. Aslam. An eight fold increase in premiums would be an 800 percent increase, far more than the 11 percent increase projected by Mr. Currie which resulted in the \$7,219,742 projection put forward by GSW.~~

Cal Advocates’ witness, Mr. Mehboob Aslam, recommended rejecting GSW’s projected premium rates for its group health (and liability) insurance,

~~<sup>28</sup> See *The Utility Reform Network v. Public Utilities Com.*, 223 Cal. App. 4th 945 (2014) (*Oakley*). In *Oakley*, the Commission was cautioned to adhere to the *residuum* rule, which requires that evidence to support a Commission decision must consist of a *residuum* of evidence both legally admissible and of substantial weight, notwithstanding the Commission’s relaxed application of evidentiary rules. 223 Cal. App. 4th at 960—963. Mr. Aslam does not qualify as an expert on the insurance industry generally, nor the pricing of insurance products, nor the market structure of the insurance industry. His lay opinions on such topics are entitled to little or no weight and there is no other evidence in the record to corroborate any of his opinions on these topics. The I.H.S. Markit materials he offers as corroborating evidence have no discernible relevance to the issue at hand, as explained in the text above. Mr. Currie’s testimony, based on fourteen years of purchasing insurance policies for GSW, far outweighs the I.H.S. Markit data and Mr. Aslam’s lay opinions about purchasing group health insurance for a corporate entity.~~

~~<sup>29</sup> Reply Brief of the Public Advocates Office, at 10.~~

~~<sup>30</sup> Exh. Cal PA-3 (Aslam), at p. 48, line 23—at 49, line 13.~~

since their “projected increases greatly exceed historical trends and the increases are several times greater than [GSW]’s most recent actual renewal amounts in 2020.”<sup>18</sup> Cal Advocates recommends that the Commission adopt insurance premium rates based on GSW’s most recent renewal amounts and projections that are supported by IHS Markit, a firm that the Commission regularly relies on.<sup>19</sup> Cal Advocates also pointed out that GSW selected the highest projections for group health insurance and asserts they failed to justify the selection.<sup>20</sup> Cal Advocates’ recommended amount for group healthcare insurance cost was \$6,778,182 for Test Year 2022.<sup>21</sup>

~~We conclude that GSW made a convincing showing that it conducted a prudent and reasonable effort to project and purchase its group health insurance costs for the test year, 2022, and with that finding in mind, we will progress to a determination whether GSW has met the criteria for establishing a two-way balancing account with its newly agreed to entry amount of \$6,590,811.<sup>31</sup>~~ Despite the competing projections and testimony, the fact remains, GSW and Cal Advocates, in the Settlement Agreement, settled on a projected group Healthcare

<sup>18</sup> Exh. Cal PA 3 (Aslam), 39, lines 13-16.

<sup>19</sup> Exh. Cal PA 3 (Aslam), at 48 lines 5-7

<sup>20</sup> Exh. Cal PA 3 (Aslam), at 47 lines 20-23

<sup>21</sup> Appendix A, hereto, at 109.

<sup>31</sup> ~~We do not view the projection of group health premiums for the test year contained in the Settlement Agreement as impugning the prudence or reasonableness of GSW’s initial projection of \$7,219,742 or the process employed to reach it. The Settlement Agreement preserves GSW’s right to ask for a balancing account, which, if granted, would remove all risk to both GSW and its customers from any projected cost number chosen for inclusion in the Settlement Agreement. Mr. Aslam and Cal Advocates seize on this fact as a basis for arguing that, as a policy matter, the Commission must deny GSW’s request for a balancing account, lest GSW behave in a cavalier, self-serving manner when purchasing insurance during the balance of this rate cycle. However, there is no evidence that any such thing would ever happen. On the contrary, the record demonstrates that GSW makes prudent and reasonable efforts to develop insurance costs projections that are as sound as market conditions will allow. Mr. Aslam’s and his counsel’s opinions about GSW’s future conduct are sheer speculation with no record evidence to support them.~~

Insurance cost of \$6,590,811 in Test Year 2022.<sup>22</sup> We find this settled figure, which is lower than both parties' initial projections, reasonable, consistent with the law, and in the public interest, as required by Rule 12.1(d).

## **5. Approval of Group Health Insurance BalancingMemorandum Account**

While GSW settled on the above figure discussed in Section 5.3, we nonetheless find the testimony, approach, reasoning, and conclusions thoughtfully detailed in Mr. Currie's testimony for GSW and supported by his relevant experience, persuasive regarding the group health insurance issue. We also find Mr. Currie's thorough analysis reflects that GSW conducted a prudent and reasonable effort to project and purchase its group health insurance costs for Test Year 2022. With that, we will progress to a determination whether GSW has met its burden to establishing a two-way balancing account (or memorandum account).<sup>23</sup>

In his testimony, Mr. Currie addressed the important forces in the insurance market leading up to the 2022 – 2024 rate cycle. He presented persuasive evidence that the ~~COVID-19~~ pandemic, the first in the United States history since the Spanish flu pandemic a century ago, roiled the markets for group health insurance programs, particularly the group medical policy, the costliest of the three health policies, making it impossible for anyone to predict

<sup>22</sup> Ibid.

<sup>23</sup> Settlement Agreement preserves GSW's right to ask for a balancing account. Cal Advocates argued that, as a policy matter, the Commission must deny GSW's request for a balancing account, lest GSW behave in a cavalier, self-serving manner when purchasing insurance during the balance of this rate cycle. There is no evidence in the record to support tof such that any such thing would ever happen. On the contrary, the record demonstrates that GSW makes prudent and reasonable efforts to develop insurance costs projections that are as sound as market conditions will allow. Mr. Aslam's and his counsel's opinions about GSW's future conduct are sheer speculation with no record evidence to support them. Furthermore, for this proceeding we will only permit GSW to open two, new memorandum accounts which moots Cal Advocates' concern about balancing accounts promoting lax behavior.

with accuracy what the aggregate group health insurance premiums will be for GSW, other than, at most, a 12-month period immediately following a prediction.<sup>3224</sup> GSW's ~~request is for~~requested a two-way balancing account in order to protect both GSW's finances, as well as the pocketbooks of its ratepayers, from errant projections.<sup>3325</sup>

Here, we will order a memorandum account instead of a balancing account. A memorandum account will still afford an opportunity for protecting both GSW's finances as well as ratepayers' pocketbooks, although a final decision on an appropriate allocation of the insurance cost will be delayed until GSW's next GRC and accordingly, some risk to the utility's shareholders remains as compared to a balancing account.

GSW and Cal Advocates identified the same, seminal Commission authority setting out the ~~conditions~~criteria for opening balancing accounts.<sup>34</sup>

To qualify for a ~~two-way expense~~ balancing or memorandum account, GSW must present admissible evidence sufficient to constitute a ~~prima facie~~preponderance of evidence<sup>26</sup> case on each of the following four ~~conditions~~criteria:

<sup>3224</sup> See, e.g., Exh. GSW-31 (Currie Prepared) at 21, line 9 – at 23, line 15; Exh. GSW-71 (Currie Rebuttal) at 23, lines 1-17.

<sup>3325</sup> Exh. GSW-71 (Currie Rebuttal) at 20, lines 9 - 18 (balancing account “would protect customers from a forecast that is too high” and would protect GSW “if the rates of inflation exceed the forecast because of market changes” out of GSW's control.).

<sup>34</sup> ~~Both GSW and Cal Advocates identify D.20-09-019 as setting out four conditions for approval of a balancing account. GSW Opening Brief [on Disputed Issues], at pp. 13–14; ¶ Cal Advocates Opening Brief [on Disputed Issues], at p. 13, fn. 65. The origin, however, is Standard Practice Manual U-27-W, at 6, which derived the conditions from D.08-03-020 and D.94-06-033. Standard Practice Manual U-27-W described the conditions as the criteria for authorizing memorandum accounts, but the Commission applies the same criteria to balancing accounts.~~

<sup>26</sup> A preponderance of evidence “in terms of probability of truth, e.g., ‘such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.’” See D.23-02-003, citing D.08-12-058 at 19; see also Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184.

1. The unpredictability of the expense is caused by an event of an exceptional nature that is not under GSW's control;
2. The unpredictability of the expense could not have been foreseen in GSW's last rate case and has arisen or will arise before GSW's next scheduled rate case;
3. The potential expense is of a substantial nature; and
4. Ratepayers will benefit from the **balancing** account, if authorized.

To satisfy the first criteria, the occurrence of an exceptional event,

Mr. Currie pointed to the ~~Covid-19~~ pandemic:

No company in world history has been faced with these circumstances before. ... This ongoing event is outside of anyone's control. <sup>3527</sup>

~~We agree. We take official notice of the health and macro-economic impacts of the Covid-19 pandemic.<sup>36</sup> To date, over 11,000,000 cases of Covid-19 have been reported in the State of California. Since repeat cases are comparatively few, this equates to more than one quarter of California's current population having contracted some form of Covid-19 during the pandemic.~~

~~We also take notice of the accumulated, detailed data kept by the California Department of Health on deaths, hospitalizations and reported positive cases as evidence of just how serious the disease has been and is.<sup>37</sup> Outbreaks of Covid-19 still occur throughout the world, including the United States and California. Health insurers still must reckon with the presence of lingering Covid-generated medical costs, while employees and their employers who split the costs, must reckon with escalating premium costs. [We agree.](#) We~~

<sup>3527</sup> [GSW-71 \(Currie Rebuttal\)](#), at 23, lines 4-11.

<sup>36</sup> ~~Rule of Practice and Procedure 13.10 ("Official notice may be taken of such matters as may be judicially noticed by the courts ... pursuant to Evidence Code section 450, *et seq.*")—California Evidence Code section 451 (f) provides: "Judicial notice shall be taken of ... (f) Facts and propositions of generalized knowledge that are so universally known that they cannot reasonably be the subject of dispute."~~

<sup>37</sup> ~~California Department of Public Health at [Main Page \(ca.gov\)](#) last visited February 27, 2023.~~

find that GSW is correct, the health and widespread economic effects of ~~Covid-19~~the pandemic presented an unpredictable and exceptional interference with the usual process of predicting group health insurance premiums in GRC proceedings, requiring the Commission to step in and ~~protect~~afford some protection to both GSW and its ratepayers ~~with a two-way balancing account~~.

Cal Advocates relies on the same witness to counter Mr. Currie as it did for disputing GSW's projection of group health insurance costs. ~~Cal Advocates' witness lacked qualifications for addressing the balancing account issues and did not proffer any evidence of personal work experience that would qualify him as an expert in purchasing group health insurance nor any expertise in epidemiology or any other medical field that would entitle him to express an opinion about the frequency or potency of a virus like Covid-19 and its mutant strains. Instead,~~ Cal Advocates' witness ~~avoided the extraordinary health and cost effects of Covid-19 and merely asserted that GSW's request for a two-way balancing account should be denied because~~asserted that "forecasting ... insurance costs are not of an exceptional nature."<sup>3828</sup> We are not persuaded by this interpretation and application of the first and second criteria for instituting a ~~balancing~~memorandum account. It is not the process of forecasting costs that is the "event" to be measured for infrequency; rather, it is the infrequency of an event that complicates the forecasting process that must be ascertained.

As to the second criteria specifically, all the circumstances surrounding ~~Covid-19 and continual re-appearance of Covid-19 mutations in the world, including the United States, the high rate of transmissibility of the Covid-19 variants~~pandemic and the ripple effects were far beyond GSW's knowledge or control during its prior GRC. No amount of tabulating pre-~~Covid-19~~pandemic

<sup>3828</sup> Exh. Cal PA-3 (Aslam), at ~~p~~-89, lines 1 - 2.



health insurance costs in the previous GRC, or reliance on the forecasting formula in the Rate Case Plan, would or could have predicted the emergence and re-emergence of the disease and its mutations and their effects on the healthcare system in California. That is precisely why ~~we have established~~ the first two criteria for opening a balancing or memorandum account are satisfied.

Neither Cal Advocates' nor its witness ~~does not challenge~~ challenges the fact that the third criteria has been met ~~by GSW—for~~ the health insurance premiums for medical, dental and vision are in fact substantial costs. <sup>3929</sup>

Cal Advocates' witness disputes Mr. Currie's testimony on the fourth criteria. He argues that ~~the~~ ratepayers will not benefit from a two-way balancing account. ~~He argues and~~ that the existence of a balancing account will tempt GSW to act in an unreasonably lax manner toward its customers when procuring group health insurance policies for its employees ~~in two ways: (i) "the balancing account would remove incentives for GSW to explore ways to minimize or contain health care costs;" and (ii) "[t]he balancing account[] would simply allow GSW to pass on imprudently incurred health ... insurance costs to captive ratepayers."~~<sup>4030</sup> As noted above,<sup>31</sup> Cal Advocates produced no evidence corroborating these "potential" concerns. ~~Thus, we are not persuaded and find and the memorandum account we order today moots~~ these concerns ~~to be speculative and accord them no weight.~~

~~A decision to deny GSW's balancing account request must be based on evidence that GSW has in the past, or is in fact planning to do something now, of the sort imagined by Cal Advocates' witness. In contrast, the evidence presented by GSW through Mr. Currie explains what GSW has done to secure group health-~~

<sup>3929</sup> Mr. Currie projected \$7.2 million in the test year to \$8.85 million in the second escalation year. Exh. GSW-31 (Currie Prepared) at 23, lines 6-9.

<sup>4030</sup> Exh. Cal PA-3 (Aslam), at 88, lines 6 - 7.

<sup>31</sup> See footnote 33 and accompanying text.



~~insurance at a reasonable cost and what GSW plans to continue doing.—~~  
~~Mr. Currie described the careful process followed by GSW when purchasing~~  
~~health insurance coverage for GSW's employees. His testimony demonstrates~~  
~~that GSW has made a good faith effort to achieve the best coverage for its~~  
~~employees at a reasonable cost by obtaining as much data and advice as possible~~  
~~before making a purchase and then basing its choice of group health insurers on~~  
~~that data and advice. In~~[Furthermore, in](#) addition to the care that GSW employs  
when purchasing coverage for its employees, we are persuaded by Mr. Currie's  
testimony that GSW's competition with other employers in and out of the utility  
sector for human resources requires that GSW procure the best health coverage  
for the lowest reasonable price so that the group plan is attractive to top talent.

Finally, Cal Advocates' witness contends that because we denied a request  
for a group health balancing account in D.20-09-019, we should do so here. The  
circumstances and record leading to that decision are dissimilar to the  
circumstances leading up to and the record in this proceeding. Thus, D.20-09-019  
is inapposite here.—, [and we are ordering creation of a memorandum, instead of](#)  
[balancing, account.](#)

~~In D.20-09-019, the record (the prepared testimony and evidentiary hearing~~  
~~transcripts) upon which the Commission's decision were based was assembled~~  
~~well before Covid-19 surfaced in the United States. Specifically, the~~  
~~years 2013—2017 were used as the only reference point in that prior proceeding.—~~  
~~No event, even remotely resembling Covid-19 was part of the proceeding leading~~  
~~to D.20-09-019.—~~

~~Here, in this proceeding record, through Mr. Currie, GSW has established~~  
~~that the best GSW can do when purchasing insurance is to invite insurers to bid~~  
~~against one another for GSW's business, if they are so inclined. There is no~~  
~~guarantee any will accept GSW's invitation. Thus, there is no evidence in this~~  
~~record that GSW possesses any degree of monopsony or even oligopsony power,~~  
~~nor can we give weight to Cal Advocates' witness' unsubstantiated, vague~~

~~testimony that GSW is “large” and therefore should be presumed to have monopsony or oligopsony bargaining power.<sup>41</sup> A qualified expert’s testimony explaining how GSW has some measure of market power as a buyer of group health insurance must be offered, if it is to be considered, but Cal Advocates did not provide such a witness.~~

~~Lastly, insofar as D.20-09-019 assumes that authorizing a utility to use a two-way balancing account for group health insurance would induce lax behavior by the utility when purchasing group health insurance, this decision rejects that assumption as wholly unsupported. The record here shows that GSW is striving to do its best to purchase adequate group health insurance for its employees through a cautious purchasing process incorporating the best expert estimates that GSW can obtain. No such evidence was cited in D.20-09-019.~~

The criteria for ~~a two-way balancing~~[creation of a memorandum](#) account for group health insurance costs have been met. We will authorize that it be implemented. If the actual cost to GSW of group health insurance policies for the test year and/or the first attrition year exceeded the projections contained in the Settlement Agreement, the excess of what GSW paid should be recorded in the [memorandum](#) account. Similarly, if the projections for group health insurance premiums were greater than what GSW paid or is paying, the differences should be recorded in ~~the balancing account. When GSW’s cost for group health insurance in the second attrition year is known, the excess or shortfall as compared to the projection for that year upon which the parties have settled shall~~

<sup>41</sup>~~Labelling a utility as “large” is unhelpful here. “Large” as to what? Certainly not as compared to an individual who buys health insurance—the two purchasers are not at all in the same market competing against one another. “Large” as to insurance companies? Again, there is no evidence that GSW is “larger” than any insurer with which it interacts, even if that were a meaningful comparison. “Large” as to every other purchaser of group health insurance in California? There is nothing in the record to support that comparison either. The correct step for Cal Advocates would have been to offer an academic article by, or testimony from, an economist who had completed a detailed study of a water utility’s bargaining power in the proper insurance markets.~~

~~also be recorded~~[that account](#). The amortization and/or continuance of the ~~balancing~~[memorandum](#) account can be addressed in GSW's next GRC.

## 5. Approval [Settlement](#) of GSW's ~~Process for Cost of~~ Purchasing Liability Insurance

There are several distinct types of liability coverages for which GSW purchases liability insurance to cover claims from third parties over and above what GSW self-insures.<sup>4232</sup> It purchases different coverages from different insurers. Its process for purchasing liability coverages is similar to that described above for its purchases of group health insurance.

Mr. Currie<sup>4333</sup> explained that GSW executives meet annually with just one broker for liability insurance, the well-known, international insurance brokerage, Aon PLC (Aon), "to discuss the renewal strategy, the insurance market conditions and economic factors, preliminary indications from [the] incumbent carrier [], the appropriateness of the current limits of coverage" as well as many other relevant factors bearing on the purchase of a liability insurance policy.<sup>4434</sup> At that point, Aon "enters the [appropriate] insurance market and solicits proposals from carriers with the resources, knowledge, and willingness to fulfill"

<sup>4232</sup> The coverages GSW purchases are Property; General Liability; Commercial Auto; Umbrella and Excess Insurance; Worker's Compensation; Professional Liability; Environmental; Cyber Liability; Executive Liability; Directors & Officers Liability; Employment Practices; Fiduciary Liability; and Crime. [Balancing account treatment was requested for only General Liability, Umbrella and Excess Liability insurance policies.](#)

<sup>4333</sup> GSW relied on the testimony of Mathew Currie again to justify its process for selecting liability insurers. In addition to managing the purchase of group health insurance for GSW employees as Director of the Human Capital, Mr. Currie also manages the purchases of GSW's liability insurance policies in his parallel role as Director of Risk Services at GSW. GSW Opening Brief, at p. 21 (Mr. Currie is "Golden State's insurance expert" on the "extraordinarily elevated risk that liability insurance costs will increase at rates that are significantly higher" than what the "R[ate] C[ase] P[lan] directs be used for escalating insurance costs"). Accordingly, he is qualified to testify as an expert on purchasing liability insurance for GSW. He has extensive first-hand knowledge of the process GSW uses for purchasing liability insurance, including GSW's consultations with Aon, as well as GSW's marketplace interactions with liability insurers.

<sup>4434</sup> Exh. GSW-31 (Currie Prepared), at 2, line 24 - 26.

GSW's needs.<sup>4535</sup> When proposals are received, Aon summarizes and analyzes each one as compared to GSW's existing coverage. If the existing insurance carrier is willing to underwrite coverage for another year at favorable and competitive prices to what the competition has produced, GSW may choose to continue with that carrier. If not, then it will choose from among the other insurers responding to Aon's requests for proposals.<sup>4636</sup>

Extensive data regarding GSW's risk profile is assembled and shared with Aon each year. Requests for quotes are sent out; comparisons of the responses to the renewal costs charged by the incumbent liability insurers are made; and only then does GSW select its insurers, with the advice of Aon.

~~This decision approves GSW's process for estimating the costs of purchasing the policies that make up its liability insurance portfolio as reasonably well-designed for projecting the costs of liability insurance and purchasing reasonably priced coverage.~~

Before settling with GSW on projected liability insurance costs, Cal Advocates contended that the proper way for GSW to have projected its liability insurance costs for ~~the test year~~ Test Year 2022 was to calculate the percentages of premium increases/decreases for each line of coverage in the policy year 2019 (as compared to 2018) and do the same for policy year 2020 (as compared to 2019), then average the percentage increases/decreases for each line of insurance and apply those averages to the actual 2021 policy year costs to derive the projections for each particular type of coverage in the test year 2022.

To project the costs for liability insurance policies for the attrition years 2023 and 2024, Cal Advocates contended that GSW should have followed the

<sup>4535</sup> Id. at 3, lines 4 – 6.

<sup>4636</sup> Id., at 3, lines 8 – 23.

Rate Case Plan and used the rate of inflation at the time GSW filed its application, ~~which was at an historically low 0.1 percent,~~ and apply it to the test year projections to arrive at projected costs for 2023 and then to the 2023 projections to create a projection for insurance in ~~year 2024. Since the rate of inflation in 2019 and 2020 were so low, Cal Advocates' proposed formula distills down to assuming simply that whatever the projected cost of all liability insurance for GSW in the test year, that projected cost would continue until January 31, 2025, with only a very slight change.~~ year 2024.<sup>37</sup>

~~Cal Advocates offered no expert testimony, no academic paper, and no insurance industry consultant's testimony endorsing this system for estimating liability insurance costs in the current and recent market climates for liability insurance. Instead, Cal Advocates relied entirely upon the prepared testimony of one witness, who did not present any qualifications to testify as an expert on liability insurance pricing, or whether GSW possesses bargaining strength in the markets for liability insurance. Specifically, the Cal Advocates' witness presented no experience at purchasing liability insurance policies for any of his employers; no experience advising corporate clients on the purchase of liability insurance policies; and no qualifications as an economist who has studied the liability insurance markets. As previously noted, this witness's expertise is limited to accounting and making projections using the Rate Case Plan arithmetical formulas.~~

This decision approves Cal Advocates' and GSW's settled amount for the estimated costs of purchasing the policies that make up its liability insurance portfolio for Test Year 2022. The settlement amount for Test Year 2022 is \$3,804,558.<sup>38</sup> We find this settlement amount reasonable, consistent with the law,

<sup>37</sup> Exh. Cal PA 3 (Aslam), at 45, lines 3-16.

<sup>38</sup> Appendix A, hereto, at 107.

and in the public interest, as required by Rule 12.1(d) of the Commission's Rules of Practice and Procedure.

Since the parties settled on the liability insurance cost for the Test Year, we will progress to a determination of whether GSW has met the criteria for establishing a memorandum account with its newly agreed to entry amount of \$3,804,558.

#### **5.6. Approval of a General Liability Insurance Memorandum Account**

Based on the foregoing, this decision finds that GSW's process for making liability insurance cost projections and selecting liability insurers was prudent and reasonable, notwithstanding GSW's subsequent decision to compromise on the projections of costs for liability coverages in the Settlement Agreement. We also find that Cal Advocates' objections and criticism of GSW's process for projecting the cost of future liability insurance policies is misplaced.<sup>47</sup> GSW's process produces reasonably accurate projections. Accordingly, we find While GSW settled on the above figure discussed in Section 5.5, we find the testimony, approach, reasoning, and conclusions thoughtfully detailed in Mr. Currie's testimony for GSW and supported by his relevant experience, persuasive regarding the group health insurance issue. We also find Mr. Currie's thorough analysis reflects that GSW conducted a prudent and reasonable effort to project and purchase its general liability insurance costs for Test Year 2022. We therefore

<sup>47</sup> In lieu testimony from a qualified insurance expert, Cal Advocates and its witness chose to misrepresent the liability insurance premium projections by Aon, asserting that Aon's projections are "not backed by any substantive analysis and at best [they] appear to be some high level estimates that are casually put together." Exh. Cal PA 3 (Aslam), at 40, lines 20—22. There is absolutely no evidence to substantiate Cal Advocates' assertion and to put a stop to such baseless assertions, we make a diametrically opposite finding here, which is completely supported by the record. From the record it appears that Cal Advocates and its witness never reviewed Aon's back-up data because they never requested Aon's back-up data, they only requested Aon's bottom line conclusions and never corrected that omission. See Exh. GSW 71 (Currie Rebuttal), at p. 6, line 15— at p. 8, line 15.

conclude that GSW's reliance on Mr. Currie's projections of future increases in the premiums for liability insurance as well as the process used by GSW to select insurers to cover its liability risks<sup>4839</sup> is designed to produce reasonably accurate prices for the policies in ordinary market conditions.<sup>49</sup> ~~With that finding in mind,~~ ~~we~~<sup>40</sup> We will now determine if there is sufficient indicia of unpredictability in the markets for liability coverages to authorize a memorandum or balancing account.

### **5.6. Approval of a General Liability Insurance Balancing Account**

The four conditions GSW must fulfill for us to approve a ~~balancing~~memorandum account for the cost of general liability insurance coverages are the same four criteria as listed in ~~section~~Section 5.4, above.

As with the group health insurance ~~balancing~~memorandum account, we find that the record evidence supports ~~GSW's request for a two-way general-~~ ~~balancing~~creation of a memorandum account for its liability insurance premium costs. ~~GSW has met its burden to show~~ The record shows by a preponderance of evidence that the conditions for a ~~balancing~~memorandum account have been met, ~~and Cal Advocates failed to introduce sufficient evidence to overcome~~ ~~GSW's evidence.~~

~~GSW has met~~ The record contains sufficient evidence to meet the first ~~criterion~~criterion for a liability insurance ~~balancing~~memorandum account.

There is expert testimony from

Mr. Currie in the record that the market price for each ~~type~~of the three types of liability insurance at issue reacts as soon as a significant risk of loss arises, or a

<sup>48</sup> ~~GSW relies on brokers and providers of insurance data for advice to select liability insurers just as it does to select group health insurers. See, e.g., Exh. GSW-31 (Currie Prepared), at 2, line 5—at 3, line 23.~~

<sup>49</sup> ~~We do not expect the level of accuracy in a roiled market to be the same as in ordinary times.~~



major calamity occurs. He testified that liability insurance premiums in California are:

... substantially influenced by the probability of future earthquakes and wildfires [and other] world-wide catastrophic losses ... [and] can cause drastic spikes in insurance rates when insurers find they have limited funds to write new policies.<sup>5041</sup>

To the risks affecting premium prices that Mr. Currie identified, we can add other well-known world events, with potential to affect liability insurance premiums. ~~To begin, the current rate of inflation is far higher than what it was in both July 2020 when GSW filed its application and in November 2021 when the Settlement Agreement in this proceeding was filed.~~ Corroborative and illustrative of Mr. Currie's testimony on this issue, is United States Bureau of Labor statistics<sup>5142</sup> show that the "all items" 12-month index was 2.5 percent on January 2020; increased 6.1 percent between January 2021 and January 2022 (from 1.4 percent to 7.5 percent); and the 12-month average at the end of January 2023 was 6.4 percent.<sup>5243</sup> In addition to the rapid growth of inflation, we take official notice that Hurricane Ian, which struck the State of Florida in September 2022, has been assessed by the United States National Oceanic and Atmospheric

<sup>5041</sup> Exh. GSW-11 (Currie Prepared), at 10, lines 18 -26.

<sup>51</sup> ~~See footnote 36, above, and California Evidence Code sections 450 (c) and (h).~~

<sup>52</sup> ~~U.S. Bureau of Labor Statistics, CPI for All Urban Consumers (CPI-U), 2020—2023, available at <https://data.bls.gov/pdq/SurveyOutputServlet> with output settings: (i) 12 Month Percent Change; (ii) base period 1982-84=100; (iii) date range 2020—2023; (iv) not seasonally adjusted; (v) U.S. city average and all items; and (vi) "January" timeframe selected. Data was extracted February 28, 2023. Data was extracted February 28, 2023. The time for GSW to purchase insurance for 2023, the first escalation year, has arrived and the 6.4 percent prevailing 12-month average for the CPI-U is far above what Cal Advocates witness projected, a 0.1 percent increase over the test year, see Exh. Cal PA 3 (Aslam), at 45, line 14— at 46, line 2. This 0.1 percent factor is found in the Settlement Agreement and were we not to order balancing account treatment for general liability insurance purchases GSW would suffer the consequences. The record of this proceeding provides no rational basis for doing so.~~

Administration (NOAA)<sup>5344</sup> as the costliest hurricane ever to strike that state, causing over \$100 billion of damage.<sup>5445</sup> NOAA also noted that it was the fifteenth storm to strike the US in 2022 and cause over one billion dollars of damage.<sup>5546</sup> We also take official notice of the fact that there remains some residual and continuing ripple effects of the pandemic.

~~We also take official notice that Covid-19 has not disappeared. It continues to spike in places throughout the world without warning as the virus mutates. It has had long-lasting effects on both domestic and international supply chains, driving replacement and repair costs resulting from calamities like hurricanes much higher than previously existed or were expected.~~

~~The exceptional unpredictability in the cost of liability insurance premiums due to inflationary pressures, the effect of Covid-19 on supply chains, and the significant loss of property covered by insurance in at least Florida recently, has been demonstrated. There is no record evidence that GSW could have anticipated these events in its last GRC.~~

~~The~~We further note the wide discrepancies in what GSW had to pay for liability insurance coverages in 2021 versus the extraordinarily low premium price increases Cal Advocates predicted would be the price increases through December 31, 2024, demonstrate the difficulty that exists predicting insurance costs right now.

Based on the foregoing, the first two conditions for establishing a balancing memorandum account have been satisfied. ~~Exceptional events, like rapid inflation, lingering effects of Covid-19 and the calamity in Florida, none of~~

<sup>53</sup> ~~See footnote 36, above, and California Evidence Code sections 450 (c) and (h).~~

<sup>54</sup> ~~U.S. National Oceanic and Atmospheric Administration (NOAA), *Record Drought Gripped Much of the U.S. in 2022*, published January 10, 2023, available at <https://www.noaa.gov/news/record-drought-gripped-much-of-us-in-2022>. Data was extracted February 28, 2023.~~

<sup>55</sup> ~~Ibid.~~

~~which could have been anticipated in GSW's last GRC, have occurred and made forecasting the price of liability insurance premiums difficult.~~ The third criterion, that liability insurance premiums are a substantial cost item for GSW, is not disputed. GSW's liability insurance premiums total more than \$2 million each year.

The record also shows that GSW's ratepayers will benefit from having a ~~two-way balancing account in place.~~ memorandum account in place. As with group health insurance premiums, GSW's liability insurance premiums will be recorded in the memorandum account we authorize today and the entries in the account will be scrutinized for reasonableness and prudence in GSW's next GRC. A lower cost than the cost listed in the Settlement Agreement for Test Year 2022 or projected using the Rate Case Plan methodology for years 2023 and 2024 will result in a credit to GSW's customers in their bills. A higher cost than that projected for the Test Year or each of the escalation years will be examined carefully and may not be entirely incorporated in rates unless those costs are found reasonable, which is also a benefit to ratepayers.

This decision therefore authorizes GSW to continue to follow its prudent multi-step process for projecting liability premiums and selecting liability policies for the final year of this rate cycle. However, should the actual price of a liability policy come in lower than GSW's estimate, then its ratepayers will receive ~~both the differential and the benefit of GSW's cautious approach to purchasing insurance policies.~~ the differential and if the actual cost is higher than the projected costs, GSW's ratepayers may, depending on our decision in the next GRC, avoid some or all of the excess cost over the projection.

As with group health insurance premiums, Cal Advocates ~~offers no qualified expert or competent evidence addressing the issue. Instead, Cal~~

~~Advocates simply assert~~simply asserted, without citing any evidence, that granting GSW a balancing account for liability insurance costs will tempt GSW to act carelessly about buying liability insurance to the detriment of its ratepayers. There is no evidence in the record that GSW has ever behaved in this way, as we have pointed out with respect to the purchase of group health insurance. ~~We find these contentions speculative and uncorroborated; therefore, we accord no weight to them.~~ And the substitution of memorandum account for a balancing account will encourage GSW to be responsible and diligent in its purchasing practices.

~~Cal Advocates also again suggests that, because GSW is "large," if GSW tried harder, it could wrestle better deals from liability insurers and alleviate some or all of Cal Advocates' concerns about a balancing account for purchases of liability insurance. Cal Advocates presented no supporting evidence on this contention. Thus, we find its contention unpersuasive and accord this argument no weight.~~

Upon weighing the evidence, we authorize GSW to continue its prudent purchasing efforts that are the product of Mr. Currie's extensive experience managing GSW's liability insurance purchases and Aon's proprietary database and expert consulting advice, and we ~~endorse~~order the use of a ~~two-way~~memorandum, instead of balancing, account as ~~a safety~~an added measure during the current unstable market conditions.

## 5. Denial of GSW's Request for Consolidation of Two Ratemaking Areas

GSW seeks consolidation for ratemaking purposes of all eight of its Los Osos<sup>5647</sup> and its Santa Maria<sup>5748</sup> service areas. GSW maintains that the cost to provide water to its two Los Osos service areas has increased so much as to make it nearly unaffordable for some undefined number of customers in the Los Osos service areas. More specifically, GSW states that the 3,294 customers in its two Los Osos service areas pay three times the amount of dollars per unit of water paid by the 14,934 customers in its six Santa Maria service areas, some nine miles away at their closest point between a Los Osos and a Santa Maria service area,<sup>5849</sup> yet GSW's Los Osos customers use 2.4 times less water than GSW's Santa Maria customers.

To reduce the alleged unaffordability burden for GSW customers in its Los Osos service areas, GSW proposes to consolidate its 3,294 Los Osos customers, which have a higher median household income, with its 14,934 Santa Maria customers, which have a lower median household income, for ratemaking purposes by instituting a gradual convergence of the rates for its Los Osos and Santa Maria customers in a manner that will ensure the impact on Santa Maria

<sup>5647</sup> GSW serves 3,294 customers in the unincorporated town of Los Osos, all of whom are in two, non-contiguous areas of the town. GSW OB, at 33. Groundwater is the primary water source for both Los Osos service areas. Exh. GSW-24 (Switzer Prepared), at 32, lines 1 – 3. Unfortunately, the cost of delivering potable water is high. Exh. GSW-24 (Switzer Prepared), at 32, line 4 – ¶ at 34, line 22.

<sup>5748</sup> GSW serves 14,934 customers in six, non-contiguous service areas scattered within and without the city of Santa Maria, no two of which are more than 25 miles apart. GSW Exh.-24 (Switzer Prepared), at 31, lines 9 – 27. As in Los Osos, groundwater is the primary water source for all six Santa Maria service areas. *Id.* at 32, lines 1 – 3.

<sup>5849</sup> Nine miles is apparently the shortest distance between one of the two Los Osos service areas and one of the six Santa Maria service areas. Exh. GSW-24 (Switzer Prepared), at 31, ¶ lines 16 – 20.

customers will be less (on a dollar per Ccf basis) than the savings per Ccf for Los Osos customers. Specifically, GSW proposes to allow the rates in effect for customers in its Los Osos service areas upon issuance of our final decision in this proceeding to rise only by the Consumer Price Index until convergence is reached. The difference between the revenue requirement for the eight consolidated service areas and the Los Osos rates would be covered by Santa Maria customers until convergence of all eight service areas occurs. Convergence would occur when the revenue requirement per Ccf for Santa Maria customers and the revenue requirement per Ccf for Los Osos customers equal each other. After that point in time, all eight service areas would bear responsibility for the full, combined revenue requirement for all eight service areas. [This consolidation is essentially a rate consolidation since there will not be a reduction in staffing or management demand.](#)

GSW contends that in 2014, customers in its two Los Osos service areas met the standard set forth in D.14-10-047 signaling extraordinarily high water costs.<sup>5950</sup> According to GSW, in 2014, the revenue requirement per Ccf of water in the two Los Osos service areas equaled 233 percent of GSW's system-wide average revenue requirement per Ccf.<sup>6051</sup> The demarcation line, set in D.14-10-047, signaling an extraordinary water cost in a GSW ratemaking area is costs that equal or exceed 150 percent of GSW's system-wide revenue requirement. The costs in Los Osos far exceeded the standard. Nevertheless, in 2014, GSW did nothing about the issue because the monthly cost of an essential amount of water for human use did not, in GSW's opinion, exceed 2.5 percent of median household income, the mark set in D.14-10-047 signaling that an

<sup>5950</sup> Exh. GSW-24 (Switzer Prepared), at 32, lines 16 – at 33, line 16.

<sup>6051</sup> Exh. GSW-86 (Switzer Rebuttal), at 54, lines 21 – 26.

unaffordability problem existed.<sup>6152</sup> According to GSW, the cost of water only reached 1.5 percent of household income in the Los Osos service areas at that time,~~although left unexplained is how GSW determined the median household income of its Los Osos residential customers in 2014.~~

In testimony submitted in this proceeding, GSW represents that the cost ~~of~~ <sup>aper</sup> Ccf of water in Los Osos is still far greater than 150 percent of the system-wide average cost of a Ccf and heading higher than before.<sup>6253</sup> Further, GSW states that the cost of an essential quantity of water for some of its Los Osos customers is equal to 1.7 percent of median household income in one of the two zip code areas GSW used to calculate median income. GSW asserts that this represents an increase of 0.2 percent over what GSW calculated in 2014.<sup>6354</sup>

As we noted above, the trigger point for unaffordability set in D.14-10-047 is 2.5 percent of household income and 1.7 percent,~~even if it is an accurate measurement,~~ is still below that trigger point.<sup>6455</sup> Nevertheless, GSW points to the increase from 1.5 to 1.7 percent of median household income figures as evidence of an upward trend that should not be ignored.

<sup>6152</sup> *Ibid.* at 34, lines 6 – 13.

<sup>6253</sup> Exh. GSW-24 (Switzer Prepared), at 34, line 6 – at 35, line 22.

<sup>6354</sup> *Id.*, at 35, lines 17 – 19. This computation was expressed by Mr. Switzer thusly: “[GSW’s] analysis [of median household income] revealed that, for one of the zip codes in [GSW’s] Los Osos] service area, the cost of essential water service is within 27% of the 2.5% median household income threshold.” For ease of comparison, we have changed “27% of the 2.5%” to 1.7 percent of median household income. Still, the absence of proof that the median household income of all residents in a single zip code is comparable to the median household income of just GSW’s residential customers in that zip code prevents us making a factual finding about the median household income of all GSW’s Los Osos customers or any subset thereof.

<sup>6455</sup> GSW’s witness Switzer testified that in the two Los Osos service areas together, without consolidation, an essential amount of water would require 1.7 percent of median household income if GSW’s proposed rates were approved, allegedly a 0.2 percent increase over the cost in 2014. Exh. GSW-86 (Switzer Rebuttal), at 55, lines 4 – 15.



~~Te data points do~~ Here, the record does not support a conclusion that the cost of an essential amount of water rose in either of the two Los Osos service areas ~~because there is no proof in this record that GSW's calculation of median income was the same in 2014 as it was in this proceeding. Furthermore, GSW relied on household income data derived from, not its own customers and only its customers, but from residents of two zip codes, including an undisclosed number who may not have been GSW customers at all. In other words, GSW offered no proof showing that the median household incomes of the two zip codes were reliable, statistical proxies for median household income of its two service areas in Los Osos. This is but one example of numerous fundamental flaws in the respective presentations by GSW and Cal Advocates concerning this consolidation request. The metrics each uses to make their respective cases have not been shown to be reliable.~~ GSW and Cal Advocates offered different competing proxies.

The proxies offered by GSW are of the median household incomes of the two zip codes that were not comparable, similar, or otherwise reliable statistical proxies for median household income of its two service areas in Los Osos.

~~For example, Cal Advocates alleges that the eight Santa Maria service areas are comparatively poorer than the, allegedly, wealthier two Los Osos service areas, whereas GSW contends that all eight of its service areas are demographically the same when it comes to percentage of low income households. To demonstrate that Los Osos customers are wealthier than Santa Maria customers, Cal Advocates relied~~ Cal Advocates offered proxies based on United States Census Bureau data for the entire census tract that includes the

whole town of Los Osos<sup>6556</sup> and the entire census tract for the city of Santa Maria<sup>6657</sup> when the indisputable record facts are that GSW serves only 3,294 customers in Los Osos and only 14,394 customers in six, non-contiguous service areas in the City of Santa Maria, two of which are as far as 25 miles apart from each other and one of which is not even in the city of Santa Maria. ~~These two census tracts are also not reliable proxies~~Cal Advocates' proxies too under these circumstances were not comparable, similar, or otherwise reliable statistical proxies for median household income of its two service areas in Los Osos for determining,~~with any reasonable degree of accuracy,~~ the median household income amongst GSW's 3,294 customers in its Los Osos service areas nor amongst its 14,394 customers in its Santa Maria service areas. ~~In Cal Advocates' proposed proxies, data points from an equal or greater number of households that are not taking service from GSW have been mixed with the income data from GSW customer households without any evidence that such doing so is inconsequential to the result.~~<sup>67</sup>

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<sup>65</sup> ~~GSW clearly serves less than the whole population of Los Osos. Precisely how much less than the whole population of Los Osos was not explained by either GSW or Cal Advocates. Nor were demographics supplied by either party showing specifically how many of GSW's Los Osos customers are residential, how many customers are homeowners versus renters whose absentee landlords pay the water bill, or, of most importance, what the household income statistics of only GSW's residential customers in its Los Osos service areas are.~~

<sup>66</sup> ~~Again, neither GSW nor Cal Advocates supplied demographic data limited to only these 14,934 GSW customers.~~

<sup>67</sup> ~~For example, according to U.S. Census Bureau statistics between 2017-2021, there were 28,803 households in Santa Maria. This means that the household income demographic offered by Cal Advocates for the 14,934 GSW customers in Santa Maria service areas incorporated income data from an almost equal number of households (13,869) of non-GSW customers, which makes the data unusable. It amounts to diluting the relevant income data related to the 14,934 GSW customers by an equivalent amount of irrelevant income data from non-GSW customers. A similar point could be made about the income demographic based on Census Bureau data for all households included in the Los Osos census tract.~~

~~What is missing from this record is Los Osos income statistics for two specific sets of GSW's customers and no one else, not the households in two zip codes nor the residents in U.S. Census tracts. It could be that the current cost of an essential quantity of water represents 2.5 percent or more of the median household income of GSW's 3,294 Los Osos customers. Or, it could be less, but in the absence of a showing that data derived from zip code areas or census tract areas is a reliable proxy for residents of GSW's service areas, we cannot make a defensible comparison of the median household income of Los Osos customers to that of Santa Maria customers.~~

~~In the future, what is needed to decide whether to consolidate all eight service areas is data that is confined to the 3,294 Los Osos and 14,394 Santa Maria GSW customers.~~

Unfortunately, ~~the~~[The](#) proxies (income data from zip code areas and census tracts) offered by the parties are neither sufficient nor reliable evidence for us to make the necessary finding on the level of median household income for GSW's customers. ~~The Commission's Affordability Ratio Calculator has similarly proven to be unhelpful in this instance. Its extensive reliance on Public Use Microsample Areas, each area of which contains 150,000 residents, is not an improvement in terms of granularity compared to zip codes and census tracts.~~

Accordingly, this decision denies GSW's request for consolidation in this proceeding and orders rates separately for Los Osos and Santa Maria service areas, as agreed to by the Settling Parties in the Settlement Agreement. GSW may renew its request for consolidation in its next GRC. [In addition, as admitted by GSW's own testimony, the cost of an essential amount of water is still 27% below the affordability trigger point of 2.5% in Los Osos. For this reason and the fact that consolidating the service areas is a rate consolidation that will not](#)

reduce staffing or demand, we deny GSW's request to merge these two service areas.

## **6. Public Participation Hearings**

The most frequent public comments either identified ~~Covid~~COVID-19 as a reason for lowering rates or pointed out that the water rates charged in a nearby town, city or area by different water companies were lower than the rates initially proposed by GSW. Many other GSW customers requested that the Commission limit GSW's rate increase to two percent, the approximate United States inflationary rate at the time they submitted their comments.<sup>6859</sup>

Although there remain many lingering economic and other effects of the pandemic, fortunately, California and the nation have made significant strides in moving past many of the pandemic's debilitating impacts. The unemployment rate has dropped to roughly pre-pandemic levels, and many employers and people have gradually adapted and are adapting to the post-pandemic way of life. Accordingly, on balance, pandemic alone is no longer a reason for us to delay addressing GSW's request for increased rates.

We do not calculate rate increases based on what other, nearby utilities may be charging. These "nearby," unnamed water companies frequently use sources of water different from GSW, and they may enjoy very low-cost supplies of water as the result of federal, state, or local preference laws.

Finally, rate increases for utility services are not set at the prevailing rate of inflation, as many customers requested be done. The revenue needs of a utility are driven by many factors beyond the cost-of-living adjustments and the inflationary rate in the United States. While the Commission considers the projected level of inflation, the Commission must also consider and weigh the

<sup>6859</sup> The Consumer Price Index has risen dramatically since then, as discussed at 44-45, below.

other factors affecting the cost of utility services. Furthermore, the cost of living and inflation rates in the United States can be volatile.

Just during the pendency of this proceeding, the rate of inflation in the United States rose dramatically, several multiples higher -- (6 or more percent rate of inflation for the rolling 12-month average) than what was true when public comments began appearing in the docket for this proceeding (two percent or less). Thus, the Consumer Price Index is not something to which we should directly or exclusively link GSW's rates.

## 7. Comments on Proposed Decision

The proposed decision of ALJ Charles Ferguson 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~~ May 1, 2023, by GSW and by Cal Advocates on May 3, 2023, and a reply ~~comments were~~ was filed on \_\_\_\_\_ ~~by~~ \_\_\_\_\_ May 8, 2023, by GSW.

In its Opening Comments, GSW recommended language be added to the decision to better align the decision to technical aspects of the Settlement Agreement and certain requests in GSW's Application that we approve, as well as to improve the mechanics for incorporating the interim rates, which became effective January 1, 2022, into the tariff schedules that are approved in this decision. Cal Advocates did not object to these recommendations.<sup>60</sup> We have incorporated all of those recommended revisions in this decision.

GSW also recommended attaching eight additional appendices to the decision. These additional appendices include summaries of earnings, rate base, income taxes, the quantifications of customers, sales, and production, supply

<sup>60</sup> Cal Advocates' continued opposition to the creation of two new balancing accounts is addressed below.

expenses, tariffs, and surcharges/surcredits in balancing and memorandum accounts.<sup>61</sup>

Both GSW and Cal Advocates object to that part of the proposed decision rejecting GSW's request for consolidation of GSW's Los Osos ratemaking areas with Santa Maria's ratemaking areas.<sup>62</sup> The record in this proceeding does not show that the proxies offered by the parties were comparable, similar, or otherwise reliable statistical proxies. The record also does not show that the cost of water in Los Osos has reached a benchmark percentage signaling water is likely unaffordable for GSW customers in its Los Osos service areas. As such, GSW's request for a consolidation of its Los Osos ratemaking areas is denied.

Cal Advocates' next comment concerns the ordering paragraphs in the proposed decision granting GSW's request for two new balancing accounts for its purchases of group health insurance coverages and for general liability insurance coverages. Cal Advocates argues that because the proposed decision improperly took official notice of numerical data computed and published by the California Department of Health<sup>63</sup>, the balancing accounts should be denied.

We find no merit in Cal Advocates' objections to taking official notice of these figures. The officially noticed figures were sourced from government agencies that are responsible for compilation and publication of such data.<sup>64</sup>

<sup>61</sup> See Appendices B through and including I, attached to this decision.

<sup>62</sup> Cal Advocates approves of the ALJ's proposed result but criticizes the proposed decision's reason for rejecting the consolidation.

<sup>63</sup> Statistical data officially noticed were general pandemic health-related numbers in the state; numerical data published by the U.S. Department of Labor indicating the rate of inflation in the country; and an estimated figure for the dollar amount of damage from Hurricane Ian published by U.S. National Oceanic and Atmospheric Administration.

<sup>64</sup> The officially noticed statistics serve to illustrate the testimony of GSW witness Mathew Currie. However, his testimony, by itself, was enough to establish the need for memorandum accounts. Furthermore, removal of the officially noticed statistics from the proposed decision, if we were inclined to remove them, would not change our conclusion that memorandum accounts are appropriate in this instance.

These officially noticed facts were not necessary to reach our conclusion on the balancing (or memorandum) accounts but merely illustrative of GSW's witness's testimony. GWC's witness testimony by itself was sufficient to carry the burden of proof, without the officially noticed data, for the two requested balancing accounts and the memorandum accounts which we are substituting for them, as discussed in this decision.

Finally, only a few months ago, in *Securus Technologies, LLC v. Public Utilities Comm. (Securus)*, 88 Cal. App. 5th 787 (Cal. App. 2nd Dist. 2023) a California Court of Appeals held that it was proper for the Commission to take official notice of the price per minute of telecommunication service found in a press release prepared by the California Department of Corrections and Rehabilitation and for the Commission to base its Decision (D.) 21-08-037 on that price point. Our formal records of that proceeding indicate that Cal Advocates actively participated in the proceeding that culminated in D.21-08-037 and argued in support of the Commission's similar an indistinguishable use of official notice there.<sup>65</sup>

Cal Advocates also contends that it was prevented from having an opportunity to contest the facts officially noticed in the proposed decision before the evidentiary record closed.<sup>66</sup> Cal Advocates was afforded all process it is due.

Next, Cal Advocates objected to the treatment in the proposed decision of the prepared testimony of the only witness Cal Advocates offered to counter the testimony of GSW's primary witness in support of the new balancing accounts.

<sup>65</sup> In its objections, Cal Advocates did not mention its position favoring official notice in that governing and recent proceeding nor the *Securus* appellate decision itself.

<sup>66</sup> Cal Advocates claims entitlement to prior notice and an opportunity to contest officially noticed facts. Moreover, nothing in either the Commission's Rules of Practice and Procedure or the applicable statutory provisions of the California Evidence Code bars the taking of official notice in these proceedings after an evidentiary record closes. Indeed, the Law Commission Notes to Evidence Code section 452(h) explicitly states that probably "notice is not compulsory."



We find no merit in Cal Advocates' objection. The record reflects that Cal Advocates' witness did not present sufficient evidence to counter GSW's witnesses' preponderance of evidence.

Finally, Cal Advocates contends that we should disregard the proposed decision's approval for balancing accounts for GSW's group healthcare and general liability insurance expenses because the proposed decision did not follow Cal Advocates' understanding of the instructions in the Rate Case Plan for how to project insurance costs. Cal Advocates contends that the Rate Case Plan sets forth a process for projecting all three years of the rate cycle:

The Commission has used the [Rate Case Plan] process to forecast expenses in the test year and then escalate those expenses in the attrition year for all utility General Rate Cases since the Rate Case Plan took effect. (Emphasis added.)<sup>67</sup>

However, the cited portion of the Rate Case Plan does not address the forecast of test year expenses. Its focus is on projecting expenses for the escalation and attrition years, for which it proposes multiplying the prior year's expenses by a CPI-U statistic calculated by the U.S. Department of Labor. The Rate Case Plan does not require, recommend, or promote the use of the same process to project a utility's test year expenses. The Rate Case Plan leaves the projection of test year expenses to whatever prudent, reasonable method the Commission finds appropriate in the circumstances.

Upon review of the record, we have substituted creation of memorandum accounts in place of the balancing accounts, as reflected in this decision.

We have also made corrections or clarifications to the body of the proposed decision where necessary in order to establish two memorandum accounts in place of the balancing accounts described in the ALJ's proposed decision.

<sup>67</sup> Cal Advocates Opening Comments, at 16 (citing D.07-05-062).

## 8. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Charles Ferguson is the assigned Administrative Law Judge in this proceeding.

### Findings of Fact

1. ~~Golden State Water Company (GSW)~~ and ~~the Office of Public Advocates (Cal Advocates)~~ ~~have~~ reached a Settlement Agreement that resolved all but three issues in this proceeding. The unresolved issues are ~~these~~: (i) whether GSW should be permitted to open a two-way balancing account for the costs of purchasing group health insurance coverage for its employees; (ii) whether GSW should be permitted to open a two-way balancing account for the costs of purchasing ~~several~~[certain](#) liability insurance products; and (iii) whether GSW should be permitted to consolidate its Los Osos and Santa Maria ratemaking areas for rate purposes.

2. Where there is agreement between the Applicant and one or more other parties, Rule 12.1(d) provides that the Commission will not approve the settled issue(s) unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. The Settlement Agreement reached by ~~Golden State Water Company~~[GSW](#) and the ~~Office of Public~~[Cal](#) Advocates in this proceeding is, in its entirety and each constituent part, reasonable in light of the whole record, consistent with the law and in the public interest.

3. GSW's water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103, and its water systems comply with the State Water Resources Control Board's Division of Drinking Water standards for water quality standards.

4. GSW purchases group medical, dental and vision insurance policies (collectively, "group health insurance") for its employees.

5. GSW shares the cost of its group health insurance policy with its employees.

6. GSW's Director of the Human Capital Management Department, Mathew Currie, began his employment at GSW in 2008 and since then he has been a Manager, Interim Director, and finally, the Director of the Human Capital Management Department at GSW and is responsible for purchasing and managing GSW's purchase of annual group health insurance policies and is qualified as an expert to testify about the process used by GSW to find and purchase its annual group health insurance policies, and he is also qualified to express opinions about the structure and behavioral characteristics of the market for group health insurance plans and the volatility of the markets for group health insurance in the State of California.

[2.](#) ~~7.~~ Mr. Currie is also the Director of the Risk Services department at GSW and has been a Manager, Interim Director, and Director of the Risk Services Department, responsible for projecting the cost of and managing part or all GSW's purchase of annual liability insurance policies and is qualified as an expert to testify about the process used by GSW to project the cost of and purchase its annual liability insurance policies and qualified to express opinions about the structures and behavioral characteristics of the markets for corporate liability insurance in the State of California.

~~8. Cal Advocates' witness, Meboob Aslam, has limited professional experience to offer expert opinions on the structure or behavior of the market for group health insurance or of the structures or behaviors of the markets for corporate liability insurance policies in California or participants in those markets, including buyers such as GSW.~~

[3.](#) ~~9.~~ GSW's process for purchasing group health insurance policies for its employees is reasonably well-designed to project its premium costs and identify and purchase group health insurance at prices that are fair and coverages that are reasonably competitive with what other employers in California offer their employees.

[4.](#) ~~10.~~ GSW's process for projecting insurance costs and purchasing group health insurance includes relying on expert advice from an insurance broker.

[5.](#) ~~11.~~ Insurance brokers do not sell insurance policies, they provide data and advice to purchasers of insurance policies seeking the best coverage for a reasonably affordable price.

[6.](#) ~~12.~~ GSW's process for purchasing health insurance includes introducing as much competition as is possible among those health insurance companies that choose to express interest in providing insurance coverage to GSW.

[7.](#) ~~13.~~ After identifying health insurance companies that are interested in providing insurance to GSW's employees, GSW requires the insurance companies to bid against one another and then it compares the bids it receives to the prices and coverages offered for the upcoming policy year by its incumbent medical, dental and vision carriers.

[8.](#) ~~14.~~ With advice provided by its broker, GSW selects which health, dental and vision insurance companies will provide the best coverage for a fair price for itself and its employees.

~~15. There is no evidence in this record that GSW possesses monopsony or oligopsony power in the California markets for group health insurance.~~

~~16. There is no evidence in this record that GSW could have obtained a better price or quality of policy for any group health insurance policy it has purchased.~~

~~17. There is no evidence in this record of how GSW could improve its process for purchasing group health insurance.~~

~~18. There is no evidence in the record of this proceeding that GSW has ever behaved or considered behaving in less than a careful, thorough, detailed manner when projecting the cost of or purchasing group health insurance for its employees.~~

9. ~~19.~~ In the Settlement Agreement, the Settling Parties agreed upon projected prices for GSW's group health insurance policies for this rate cycle.

10. ~~20.~~ Volatility remains in the markets for group health insurance policies in California due to the continued presence of ~~Covid~~COVID-19 in the world at large and continued political uncertainty regarding the amount of financial assistance from the federal government fighting ~~Covid~~COVID-19 and other serious health threats to United States citizens at large.

11. ~~21.~~ The volatility in the California markets for group health insurance could not have been predicted by GSW during its prior GRC.

12. ~~22.~~ The volatility in the California markets for group health insurance lagged the appearance of ~~Covid~~COVID-19 and began during the present GSW GRC cycle and ~~is likely to~~may continue throughout the entire three-year cycle.

13. ~~23.~~ The annual cost of GSW's group health insurance policies is several millions of dollars, a substantial amount.

14. ~~24.~~ A ~~two-way balancing~~memorandum account for GSW's purchases of group health insurance during this GRC cycle would be fair to both GSW and its customers.

15. ~~25.~~ GSW purchases ~~a total of twelve~~several, separate, liability and casualty insurance policies (hereinafter, "~~general~~-liability insurance") annually to protect itself from third party claims and various casualty losses.

[16.](#) ~~26.~~ GSW's process for projecting the cost of and purchasing annual liability insurance policies for itself is reasonably well-designed to project the cost of and subsequently purchase liability insurance policies at prices that are fair and coverages that are acceptable to GSW.

[17.](#) ~~27.~~ GSW's process for projecting the cost of and purchasing annual liability insurance policies includes relying on expert advice from Aon, a prominent insurance brokerage in the United States.

[18.](#) ~~28.~~ GSW's process for projecting the cost of and then purchasing annual liability insurance policies includes introducing as much competition as is possible among those insurance companies that choose to express interest in providing insurance coverage to GSW.

[19.](#) ~~29.~~ After identifying insurance companies that are interested in providing liability insurance to GSW's, GSW invites those insurance companies to bid against one another and compares the bids it receives to the prices offered for the upcoming policy year by each of its incumbent liability insurance carriers.

[20.](#) ~~30.~~ With advice provided by Aon, GSW selects which liability insurance companies will provide the best coverage for a fair price.

~~31. There is no evidence in this record that GSW possesses monopsony or oligopsony power in any California market for corporate liability insurance coverage.~~

~~32. GSW does not possess market power to dictate to any extent the price it pays for any liability insurance policy it purchases.~~

~~33. There is no evidence in this record that GSW could have obtained a better price or quality of policy for any liability insurance policy it has purchased.~~

~~34. There is no evidence in this record of how GSW could improve its process for purchasing liability insurance coverages or any specific coverage.~~

~~35. There is no evidence in the record of this proceeding that GSW has ever behaved or considered behaving in less than a careful, thorough manner when purchasing liability insurance coverage for itself.~~

21. ~~36.~~ In the Settlement Agreement, the Settling Parties agreed upon projected prices for GSW's liability insurance policies for this rate cycle.

22. ~~37.~~ Volatility remains in the markets for liability insurance policies in California ~~due to (i) the continued presence of Covid-19 in the world at large; (ii) the lingering effects of the disease on supply chains throughout the world; (iii) a sudden spike in the Consumer Price Index in the United States; (iv) an ever-present potential for severe wildfires and earthquakes in California; and (v) the occurrence of severe weather-oriented calamities in California, Florida and other locations throughout the United States.~~

~~38. The cumulative magnitude of the events referenced in Finding of Fact 37 and therefore its volatile effect on the California markets for corporate liability insurance could not have been predicted by GSW during its prior GRC.~~

23. ~~39.~~ The volatility in the California markets for corporate liability insurance began during the present GSW GRC cycle and ~~will likely~~may continue throughout the entire three-year cycle.

24. ~~40.~~ The annual cost of GSW's liability insurance policies is more than two million dollars, a substantial amount.

25. GSW has requested authority to establish a two-way balancing account for three liability insurance coverages during this GRC cycle, specifically, its general liability, umbrella and excess liability coverages.

26. ~~41. The two-way balancing account requested by GSW for its A~~  
memorandum account for GSW's purchases of corporate general liability,



[umbrella and excess](#) liability insurance [coverages](#) during this GRC cycle would be fair to both GSW and its customers.

[27.](#) ~~42.~~ In this proceeding, GSW has requested consolidation, for ratemaking purposes, of its two non-contiguous service areas in the town of Los Osos and another six of its non-contiguous service areas, five of which are located within the city limits of Santa Maria and one of which is located outside the City of Santa Maria.

[28.](#) ~~43.~~ To justify the proposed consolidation, GSW maintains that its two Los Osos service areas are both “high cost” and unaffordable.

[29.](#) ~~44.~~ The Commission designates any service area of a multi-service-area utility as “high-cost” if the ratio of the revenue requirement per Ccf for the service area in question as compared to the average revenue requirement per Ccf throughout the utility’s entire system exceeds 150 percent.

[30.](#) ~~45.~~ The revenue requirement per Ccf ratio between GSW’s Los Osos service areas and GSW’s system-wide average at the time of filing its application was 260 percent and it will increase to 268 percent with the rates ordered herein.

[31.](#) ~~46.~~ GSW’s two Los Osos service areas are “high cost” using the standard described in Finding of Fact ~~45.~~[36.](#)

[32.](#) ~~47.~~ When the annual cost of water service at the essential usage level is 2.5 percent of median income for a utility’s customers in a service area, the Commission considers the service “unaffordable.”

[33.](#) ~~48. Relying on median income data drawn from a single zip code area that includes a portion of the town of Los Osos and is in GSW’s Los Osos service area,~~ GSW asserts that, without the type of rate consolidation GSW proposes, this subset of its Los Osos customers will be paying 1.7 percent of median income for water service.

[34.](#) ~~49.~~ Notwithstanding that 1.7 percent is less than 2.5 percent, GSW contends that now is the time to order consolidation because the cost of water is outpacing median income.

~~50. There is no reliable evidence in this record of the median household income of either GSW's Los Osos customers or its Santa Maria customers.~~

~~51. GSW's use of household income for residents of two zip code areas, each of which includes portions of the town of Los Osos was not shown to be to be a statistically reliable source for calculating the median household income of GSW's Los Osos customers.~~

~~52. Cal Advocates' use of household incomes for residents of the United States Census tract incorporating the town of Los Osos was not shown to be a statistically reliable source for calculating the median household income of GSW's Los Osos customers.~~

~~53. The Commission's own Affordability Calculator was not shown to be a statistically reliable indicator for the median household income of GSW's Los Osos customers or its Santa Maria customers.~~

~~54. The Commission has allowed consolidation of two or more water districts of a multi-district water utility for purposes of alleviating an unaffordability problem in one district by combining that district with one or more districts that have no affordability problem.~~

[35.](#) ~~55.~~ To consolidate its two Los Osos ratemaking areas with its six Santa Maria ratemaking areas for ratemaking purposes, GSW must demonstrate by a preponderance of evidence (i) that the revenue needed to deliver water in its Los Osos ratemaking areas is more than 150 percent of the average revenue needed for all other ratemaking areas system-wide; and (2) that the cost of an

essential volume of water is equal to or greater than 2.5 percent of the median average household income for GSW's Los Osos customers.

36. GSW's Special Request No. 5 requested continued advice letter treatment for two capital projects in GSW's Region 3 service area. Those capital projects were completed, and GSW Advice Letter 1870-W concerning a rate base offset in its Region 3 service area was approved with an effective date of February 15, 2022. The Settlement Agreement approved by this decision authorizes the rate impact of the rate base offsets to be included in rates as part of this decision, with an effective date of February 15, 2022. Tables 1 and 2 in this decision reflect the revenue and bill impacts of such rate base offsets.

37. With regard to supply costs, the Settlement Agreement approved by this decision allows for the inclusion of purveyor rates for purchased water and pump taxes in the rates adopted by this decision.

38. GSW timely sought and was granted authority to file a tariff to implement interim rates, effective on the first day of the Test Year, and to establish a memorandum account to track the difference between the interim rates and final rates. The first day of the Test Year for this proceeding was January 1, 2022.

39. In order to avoid multiple rate changes within a short period of time, it is reasonable for the revised schedules for 2022 authorized in this decision to be included in and subsumed in the escalation year filing for attrition year 2023 and for the effective date of the true-up of interim rates to coincide with the effective date of the 2023 escalation filing.

### **Conclusions of Law**

1. The Joint Motion of the Settling Parties should be granted, and the Settlement Agreement should be approved and adopted.

2. The Settlement Agreement adequately balances risks between ratepayers and shareholders of the Golden State Water Company.

3. The proposed Test Year revenue requirements, resulting from the Settlement Agreement, shown in Table 2, above [and subject to adjustment for completed rate base offset projects in GSW's Region 3 service area and updated purveyor rates for purchased water and pump taxes](#), are just and reasonable and will allow for the provision of safe and reliable water service to GSW's customers.

4. The Rate Case Plan methodology for calculating rate increases in the escalation years 2023 and 2024 will produce just and reasonable proposed rates, assuming no extraordinary circumstances.

5. GSW's Emergency Response Plan complies with the Rate Case Plan's requirement that GSW provide confirmation of compliance with the EPA Vulnerability Assessment and Office of Emergency Services Response Plan.

6. GSW's water quality and water quality management plan ~~are~~ [is](#) reasonable and in compliance with applicable law.

7. The water conservation provisions of the Settlement Agreement, as part of the Settlement Agreement as a whole, are just and reasonable, [consistent with the law](#), and in the public interest.

8. GSW should take the necessary actions to comply with the provisions set forth in the Settlement Agreement.

9. Each provision of the Settlement Agreement is reasonable in light of the record as a whole because it fairly balances the interests of GSW and its ratepayers.

10. Each provision of the proposed Settlement Agreement is consistent with the law because none of the Settlement Agreement provisions contravene or compromise any statutory provisions or prior Commission decisions.

11. Each provision of the proposed Settlement Agreement is in the public interest because it enhances GSW's ability to provide safe, reliable, and quality water service to all its residential customers at price levels that are appropriately set to be affordable at differing household income levels.

12. Each of the Settling Parties' respective request to treat selected portions of their exhibits as confidential should be granted.

13. Golden State's and Cal Advocates' request to receive testimony into the record should be granted.

14. The criteria for creating a ~~balancing account~~ are found in several ~~Commission decisions, including D.20-09-019. Those criteria~~ memorandum account are the following:

- (i) The unpredictability of a specific expense for a utility is caused by an event of an exceptional nature that is not under the utility's control;
- (ii) The unpredictability of the expense could not have been foreseen in the utility's last GRC and has arisen or will arise before utility's next scheduled rate case;
- (iii) The potential expense is of a substantial nature; and
- (iv) Ratepayers will benefit from the ~~balancing~~ memorandum account, ~~if~~ once authorized.

15. GSW has proven by a preponderance of the evidence that during this rate cycle, 2022 – 2024, its cost for the annual group health insurance policies it purchases for its employees satisfy the four criteria in ~~D.20-09-019~~ Conclusion of Law No. 14 for instituting a ~~two-way balancing~~ memorandum account for annual health insurance premiums (Special Request No. 2).

16. GSW has proven by a preponderance of the evidence that during this rate cycle, 2022 – 2024, its cost for ~~the annual~~general liability, umbrella and excess liability insurance policies it purchases satisfy the four criteria in

~~D.20-09-019~~Conclusion of Law

No. 14 for instituting a ~~two-way balancing~~memorandum account for annual insurance premiums (Special Request No. 13).

17. GSW failed to prove by a preponderance of evidence that ~~data for household income derived from all households in one or both of the only two zip codes used by GSW customers in Los Osos is a statistically reliable source from which to calculate the median household income of GSW's~~there are water affordability concerns in Los Osos that necessitate a merger of the Los Osos ~~customers~~and Santa Maria ratemaking areas.

18. The Settlement Agreement, upon approval and adoption by the Commission, is binding on all parties to the proceeding.

19. Pursuant to Rule 12.5, the Settlement Agreement does not bind or otherwise impose a precedent in this or any other future proceeding.

20. This proceeding should be closed.

## **O R D E R**

**IT IS ORDERED** that:

1. The Joint Motion of Golden State Water Company and the Public Advocates Office for the Adoption of a Settlement Agreement, filed November 23, 2021, is granted; and the Settlement Agreement attached to this decision as Appendix A is approved and adopted.

2. All rulings issued in this proceeding by the assigned Commissioner and Administrative Law Judge (ALJ) are affirmed.

~~3. 2. All rulings issued in this proceeding by the assigned Commissioner and Administrative Law Judge (ALJ) are affirmed.~~ Golden State Water Company's October 12, 2021 Motion for Leave to File Confidential Rebuttal Testimony and Other Information Under Seal and To Seal This Portion of the Evidentiary Record is granted; and the confidential information which is the subject of this motion shall not be disclosed to persons outside the Commission without a protective order first being issued.

~~4. All pending motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ, are denied.~~ Administrative Law Judge, are denied.

~~5. 3. Golden State Water Company shall file by Tier 1 advice letter within 90 days of a final Commission decision in this proceeding, revised (GSW) is authorized to revise~~ tariff schedules; ~~and concurrently, to~~ cancel its present schedules for such service. ~~This filing is subject to approval by the Commission's Water Division. The upon the effective date of the revised schedules is five days after the filing.~~ its 2023 escalation filing. GSW's revised tariff schedules for 2022 authorized rates shall be subsumed within GSW's escalation filing for attrition year 2023.

~~6. 4.~~ For escalation years 2023 and 2024, Golden State Water Company (GSW) must file Tier 1 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for each ratemaking area in this proceeding. The advice letters must follow the escalation procedures set forth in the Revised Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 and must include supporting workpapers. GSW must file for rate reduction if the escalation procedures result in a rate reduction due to negative rate base growth, inflation factors, or customer growth.



The revised ~~tariff~~tariffs shall be effective as of January 1, 2023, and January 1, 2024, respectively, and apply to services rendered on and after their effective dates. The proposed revised revenue requirements and rates must be reviewed by the Commission's Water Division. The Water Division must inform the Commission if it finds that the revised rates do not conform to the Revised Rate Case Plan, this decision, or other Commission decisions, and if so, reject the filing.

7. The surcharge to true-up the interim rates must comply with Standard Practice U-27-W. Golden State Water Company (GSW) shall file its tariff implementing the surcharge to true-up its interim rates by Tier 1 advice letter after GSW calculates the revenue difference between the interim rates and the authorized rates, but within 90 days after 2023 rates have been implemented. Because the effective date of this order is after the beginning of the 2023 escalation year, the surcharge shall include differences between interim rates and adopted rates through the effective date of the 2023 escalation year rates.

8. 5-Within 60 days of the issuance of this decision, Golden State Water Company (GSW) is authorized to establish a~~two-way~~ Group Health Insurance ~~Balancing~~Memorandum Account by filing a Tier 2 advice letter with the Commission's Water Division. In the advice letter filing, GSW shall propose tariff language for this ~~two-way~~ Group Health Insurance ~~Balancing~~Memorandum Account, which shall include the following terms and conditions: (a) GSW shall record in the Group Health Insurance ~~Balancing~~Memorandum Account the projected, aggregate cost of purchasing group medical, dental and vision insurance policies for the test year ~~2022~~2022, consistent with what was included in the Settlement Agreement ~~that was filed with~~as the projected cost for the test year 2022 and is now approved by the Commission ~~on November 23, 2021~~in this

decision for inclusion in rates; (b) if the amount GSW actually spent was not exactly the GSW-allocated portion of \$6,590,811, GSW shall record in the ~~balancing~~memorandum account the amount it actually spent on medical, dental and vision premiums in the test year; (c) the difference between the GSW-allocated portion of the projected amount, \$6,590,811, for the test year and the actual GSW-allocated amount paid by GSW shall be calculated and recorded in the ~~balancing~~memorandum account as either a “surplusage” if GSW spent less than the GSW-allocated portion of \$6,590,811 or as a “deficit,” if GSW spent more than the GSW-allocated portion of \$6,590,811; (d) similar calculations and entries in the Group Health Insurance ~~Balancing~~Memorandum Account ~~will~~shall be made for the first and second escalation years, 2023 and 2024, using the projections that have already been made for the costs of group health, dental and vision insurance using \$6,590,811 as a base and the Rate Case Plan methodology for calculating projections for each of the escalation years; (e) at the end of each escalation year, the difference between the projections calculated according to the methodology for doing so in the Rate Case Plan and GSW’s actual costs of group health insurance shall be identified either as a deficit or surplusage; and (f) the next general rate case proceeding shall review and determine the appropriate disposition of the balance in the Group Health Insurance ~~Balancing~~Memorandum Account and shall also review whether ~~this two-way balancing~~the Memorandum account is still necessary.

9. ~~6.~~ Within 60 days of the issuance of this decision, Golden State Water Company (GSW) ~~is authorized to establish a two-way~~may establish memorandum accounts for group health insurance premium costs and general

liability, umbrella, and excess insurance premiums as General Liability Insurance ~~Balancing Account~~Memorandum Accounts by filing a Tier 2 advice letter~~(s)~~ with the Commission's Water Division. The General Liability Insurance ~~Balancing Account shall be~~Memorandum Accounts, if established, maybe used for recording GSW's cost of purchasing the following ~~twelve policies: Property; General Liability; Commercial Auto; Umbrella and Excess Insurance; Worker's Compensation; Professional Liability; Environmental; Cyber Liability; Executive Liability; Directors & Officers Liability; Employment Practices; Fiduciary Liability; and Crime~~policies: Group health insurance premium costs, general liability, umbrella, and excess insurance premiums. The cost of any other insurance policies may be included in the General Liability Insurance ~~Balancing Account~~Accounts, so long as each additional policy can reasonably be described as either a Group Health Insurance, General Liability, Excess Liability or Umbrella Policy. The General Liability Insurance ~~Balancing Account~~Memorandum Accounts shall be strictly limited to policy premiums paid by GSW, no reserve funds, retentions, or self-insured payments shall be recorded in the General Liability Insurance ~~Balancing Account~~Memorandum Accounts. In the Tier 2 advice letter filing, GSW shall propose tariff language for the ~~two-way~~ General Liability Insurance ~~Balancing Account~~Memorandum Accounts, which shall include the following terms and conditions: (a) GSW will record in the General Liability Insurance ~~Balancing Account~~Memorandum Accounts the projected, aggregate cost of premiums for the specific insurance policies listed above as well as other policies qualifying for inclusion in the ~~balancing memorandum~~ account for the test year 2022 consistent with the projected premium expense that was agreed to between GSW and the Public Advocates in the Settlement Agreement ~~that was~~ filed with the Commission on

November 23, ~~2021~~2021, and approved in this decision for inclusion in rates; (b) if the amount GSW actually spent for ~~general liability, excess liability and umbrella policies~~these specified policies in the test year, 2022, does not exactly match the projection for the test year that Public Advocates and GSW agreed upon in their Settlement Agreement, GSW shall also record the difference between the amount of premiums it actually paid for ~~general liability, excess liability and umbrella~~those policies during the test year; (c) the difference between the ~~agreed-upon~~, projected amount for the test year and the actual amount ~~paid by GSW~~ shall be entered in the ~~balancing account~~Memorandum Accounts as either a “surplusage” if GSW spent less than the projected amount agreed to in the Settlement Agreement or as a “deficit,” if GSW spent more than the projected amount agreed to in the Settlement Agreement; (d) similar entries and calculations in the General Liability Insurance ~~Balancing Account~~Memorandum Accounts will be made for the first and second escalation years, 2023 and 2024, ~~using the projections that have already been made for the premium costs for GSW’s general liability, excess liability and umbrella insurance premiums~~ using the agreed upon test year projection as a base and the Rate Case Plan methodology for calculating projections for each of the escalation years; (e) at the end of each escalation year, the difference between the projections and the actual costs of ~~the three specific~~ general liability insurance premiums shall be identified either as a deficit or surplusage; and (f) the next general rate case proceeding shall review and determine the appropriate disposition of the balances in the General Liability Insurance ~~Balancing Account and shall also review whether this two-way balancing account is still necessary~~Memorandum Accounts and those Memorandum Accounts will be closed.

10. ~~7.~~ Golden State Water Company is authorized to include a surcharge of \$0.547 per one hundred cubic feet (Ccf) for 36 months in its Tier 1 Advice Letter implementing tariff schedules resulting from this decision to amortize the balance in its Los Osos Groundwater Adjudication Memorandum Account.

~~8.~~ 9. Golden State Water Company is authorized to amortize the September 30, 2020 balance for the 2018 Cost of Capital Interim Rate True-Up Memorandum Account by implementing a one-time flat rate monthly surcredit in its Tier 1 ~~Advice Letter~~advice letter implementing tariff schedules resulting from this decision.

~~9. Golden State Water Company is authorized to disburse the remaining~~

11. Golden State Water Company (GSW) is authorized to disburse the remaining 123-TCP Contamination Proceeds in the form surcredits to customer bills as follows:

- (a) ~~\$308,702~~\$89,600 to customers in the Region 3 ratemaking area; and
- (b) ~~\$160,354~~\$79,456 to customers in the Santa Maria ratemaking area.

GSW is authorized to disburse such surcredits in its Tier 1 advice letter implementing tariff schedules resulting from this decision.

12. ~~10.~~ Golden State Water is authorized to file a Tier 1 ~~Advice Letter~~advice letter to (a) transfer the September 30, 2020 residual balance in the 2019 Interim Rates Memorandum Account (IRMA) to the General Ratemaking Area Balancing Account; (b) close the account; and (c) remove the Preliminary Statement, Part GGGG, 2019 IRMA from its tariff book.

12. ~~11.~~ Golden State Water Company is authorized to amortize the General Ratemaking Area Balancing Account (GRABA) balance by implementing a

surcharge for twelve months in ratemaking areas with an under-collection. In ratemaking areas with an overcollection, refunds shall be made through a one-time surcredit. The GRABA shall continue through December 31, 2024.

13. Golden State Water Company is authorized to continue the existing surcharge for the Santa Maria Water Rights Memorandum Account, Preliminary Statement Part M, to be recalculated annually through December 31, 2024.

14. ~~12.~~ With respect to each of the accounts listed in the Table 7, below, Golden State Water Company (GSW) is authorized to (a) impose a surcharge in the amount and for the duration indicated, concurrent with or as part of the revised rate schedules adopted in this proceeding~~;~~, and (b) to file a Tier 1 ~~Advice Letter~~advice letter implementing this surcharge. At the time the relevant surcharge expires, GSW is authorized to file a Tier 1 ~~Advice Letter~~advice letter to transfer any small residual balance to the General Ratemaking Area Balancing Account, to close the account, and to remove the reference to the account from GSW's Preliminary Statement.

Table 7

Account	Preliminary Statement Part	Authorized Surcharge	Authorized Surcharge Duration
Santa Maria Steelhead Recovery Plan Memorandum Account	UU	\$0.115 per Ccf	12 months
California Alternative Rates for Water Balancing Accounts	Q	This surcharge shall be calculated at the time the final decision is prepared by Water Division and will remain in place for the entire rate cycle.	2022-2024
Tangible Property Regulations Collateral Consequences	GGG	\$0.015 per Ccf for metered services and \$0.30/month for each flat rate service identified	12 months
Memorandum Account		in Schedule AC-2	
Los Osos Basin Management Committee Memorandum Account	MMM	\$0.409 per Ccf	24 months
Basin Pumping Rights Litigation Memorandum Account	NNN	\$0.055 per Ccf	12 months
School Lead Testing Memorandum Account	OOO	\$0.0007 per Ccf for metered services and \$.01/month for each flat rate service per Schedule AC-2	6 months
Aerojet Water Litigation Memorandum Account	RRR	\$0.286 per Ccf for metered services per Schedule AC-1 and \$7.94/month for each flat rate service per Schedule AC-2	2022-2024
CEMA- Emergency Consumer Protection Memorandum Account	DDDD	\$0.00145 per Ccf for metered service and \$0.03/month for each flat rate service per Schedule AC-2	6 months



San Luis Obispo Valley Groundwater Basin Memorandum Account	JJJ	\$0.149 per Ccf for metered services	12 months
Public Safety Power Shut-Off Memorandum Account	KKKK	Surcharges in accordance with sales and customers forecasts in the applicable ratemaking areas	12 months

[15.](#) ~~13.~~ Golden State Water Company's request to consolidate its Los Osos ratemaking areas with its Santa Maria ratemaking areas is denied.

[16.](#) ~~14.~~ This proceeding is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.

APPENDIX A TO I

Document comparison by Workshare Compare on Wednesday, June 28, 2023  
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