

DATE OF ISSUANCE: 02/04/2025

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5287

January 30, 2025

RESOLUTION

**(RES. W-5287), CALIFORNIA WATER SERVICE COMPANY.
ORDER AUTHORIZING CALIFORNIA WATER SERVICE
COMPANY'S REQUEST FOR A RATE BASE OFFSET AND
AMORTIZATION OF THE PALOS VERDES
MEMORANDUM ACCOUNT FOR THE PALOS VERDES
PENINSULA WATER RELIABILITY PROJECT.**

SUMMARY

This Resolution grants California Water Service Company's (Cal Water) request for a rate base offset to recover \$14,165,909 in additional capital costs for the Palos Verdes Peninsula Water Reliability Project (PVPWRP). This rate base offset results in an increased revenue requirement of \$1,769,134. In addition, Cal Water should be authorized to implement a temporary surcharge of \$0.2832 per hundred cubic feet (CCF) for 24 months starting April 1, 2025, to amortize the \$3,821,015 recorded in Cal Water's Palos Verdes Memorandum Account (PVMA). The recovery of the rate base increase and the surcharge will result in an estimated \$5.83 (6.5%) increase in rates on the typical monthly bill for a residential Palos Verdes customer in Los Angeles County using 11 CCF.

BACKGROUND

The Palos Verdes Peninsula Water Reliability Project (PVPWRP) was originally proposed by California Water Service Company (Cal Water) in its 2015 General Rate Case (GRC). The project aimed to address supply reliability concerns for the Palos Verdes Peninsula by constructing two major components: the Crenshaw Ridge Pipeline and the D-500 Pipeline. These components were necessary to provide a second supply feed to 90% of the peninsula and to replace aging infrastructure. The initial estimated cost for the combined projects was approximately \$57 million, which was authorized in

Decision (D.) 16-12-042.¹ At that time, Cal Water was permitted to recover these costs through a Tier 2 advice letter after project completion, subject to final review.

In its 2018 GRC, Cal Water indicated that the costs associated with the PVPWRP had increased significantly due to additional permitting requirements, design changes, and unforeseen challenges encountered during construction. The company filed Advice Letter 2387² requesting approval to increase the total project cost by \$39.2 million, bringing the total estimate to \$96.1 million. This increase was negotiated and agreed upon in a Settlement Agreement between Cal Water and the Public Advocates Office. As a result, the project's cost cap was revised to \$96.1 million, and the associated costs were limited to Palos Verdes customers only, reflecting a restructuring of the Los Angeles County Region tariffs. Advice Letter 2387 was approved on January 29, 2021, with an effective date retroactive to August 27, 2020, allowing the updated costs to be included in Cal Water's base rates.

Following this approval, Cal Water submitted Advice Letter 2396³ on February 12, 2021, to incorporate the \$96.1 million PVPWRP cost into the base rates for Palos Verdes customers. The company sought to implement new tariffs exclusively for residential, non-residential, and recycled water customers in the Palos Verdes area. This advice letter also included purchased water cost increases for the broader Los Angeles County Region, which had been previously requested in Advice Letter 2394.⁴ The Commission approved the implementation of the new rates, effective February 1, 2021, which included an approximate 16.7% increase in typical residential water bills.

Despite the initial approval of \$96.1 million, Cal Water later reported that actual project costs had increased to \$102.5 million, exceeding the authorized cap by \$6.4 million. This increase was attributed to various construction-related issues, including unresolved disputes with the project's design-builder and subcontractor. The 2021 GRC Decision

¹ D.16-12-042 Granting Joint Motion to Adopt the Proposed Settlement Agreement Authorizing California Water Service Company's General Rate Increases for 2017, 2018, and 2019, and Resolving Contested Issues and Related Special Requests. [ALJ/MLC/tcg \(ca.gov\)](https://www.alj.ca.gov/ALJ/MLC/tcg)

² Tier 2 AL 2387: Palos Verdes Peninsula Water Reliability Project (PVPWRP) Rate Base Offset Filing. Submitted on 07/28/2020. [AL 2387 PVPWRP RBO.pdf](#)

³ Tier 1 AL 2396: Palos Verdes Tariffs for 2021. Submitted on 12/29/2020. [CWS AL 2396- Palos Verdes Tariffs \(Feb 1 2021\) \(1\).pdf](#)

⁴ Tier 1 AL 2394: Purchased Water and Pump Tax Offset (January 2021) for Dominguez, East Los Angeles, Hermosa Redondo, Livermore, Los Altos, Los Angeles County Region, and Westlake. Submitted on 12/17/2020. [AL 2394 \(Various Districts PWOs Jan-2021\) \(1\).pdf](#)

(D.) 24-03-042,⁵ accounted for the possibility of cost overruns, allowing Cal Water to request recovery of any additional, reasonable, and prudent costs. The Commission in D.24-03-042 approved Cal Water's request for an additional \$6.4 million in capital costs related to the PVPWRP, bringing the total approved project cost to \$102.5 million. As of the 2021 GRC filing, Cal Water projected potential additional claims could increase project costs by up to \$17.5 million beyond the current \$102.5 million cap.

In Advice Letter 2524, Cal Water requests approval to incorporate \$14,775,805 in additional costs into rate base, which includes a \$12,297,527 settlement with the project's design-builder, Black & Veatch, for 40 final change orders, along with additional costs for post-completion modifications, permitting, overhead, and warranty support. In addition, Cal Water is seeking recovery of \$3,821,015 through a temporary surcharge of \$0.2832 per CCF for 24 months to address revenue requirement shortfalls tracked in the Palos Verdes Memorandum Account authorized in D.24-03-042 caused by delayed cost recovery for additional project costs. If approved, these rate changes and additional surcharges would result in a 6.5% increase for a typical Palos Verdes residential customer using 11 CCF per month.

NOTICE AND PROTESTS

In accordance with General Rules 4.3 and 7.2 and Water Industry Rule 4.1 of General Order 96-B, Cal Water served copies of Advice Letter (AL) 2524 to the appropriate mailing list on July 30, 2024.

No protests or responses were received within the designated protest period for Advice Letter 2524.

DISCUSSION

Although work on the pipeline was completed and the project has been in service since July 2020, Cal Water still had several outstanding cost claims to resolve with its design-builder, Black & Veatch. To track these costs which were expected but not finalized, Cal Water requested the creation of the Palos Verdes Memorandum Account (PVMA), which the commission approved in D.24-03-042 with an effective date of

⁵ Decision (D) 24-03-042: Decision Approving a Partial Settlement Agreement and Adopting Rates for California Water Service Company's Test Year 2023 General Rate Case. [527446177.PDF \(ca.gov\)](#)

February 1, 2023.

As work on the project was completed, Cal Water chose to wait for Black & Veatch to submit final change orders as a single comprehensive proposal to negotiate into a final settlement. Cal Water received this proposal on September 1, 2022. Out of 85 outstanding change orders, Black & Veatch submitted claims for 40 of them, waiving the remaining 45. The proposed claims totaled \$13,232,730. Cal Water assessed these claims through the following criteria: (1) the circumstances were truly uncontrollable; (2) the extent to which the design-builder mitigated such uncontrollable circumstances; and (3) the overall reasonableness and fairness of the costs. This led to negotiations between Cal Water and Black & Veatch that concluded on November 28, 2022. Cal Water agreed to pay \$11,789,490 for the 40 pending change orders, along with \$508,037 for two previously agreed change orders for a total of \$12,297,527. A summary of the 40 change orders is shown in Table 1, and a breakdown of the final Black & Veatch settlement is shown in Table 2.

Table 1. Summary of (40) Black & Veatch Change Orders

PCO #	Description	Settled Amount	Original Requested	Difference
8D	Extended GCs - 8.5-month delay (BVCI)	\$2,226,878	\$2,969,171	(\$742,293)
8C	Pump station Slope Stability & LA County B&S Review Design & Construction Changes and delay (B&V costs)	\$437,246	\$437,246	\$0
72	Reach 5B Uncontrollable Circumstances	\$1,891,016	\$2,094,457	(\$203,441)
67	Reach 5D Uncontrollable Circumstances	\$1,801,295	\$1,801,295	\$0
116	Final 51 Day GC Claim	\$1,011,714	\$1,379,624	(\$367,910)
58B	Reach 5A Uncontrollable circumstances. (Teichert)	\$1,009,263	\$1,031,058	(\$21,795)
16	Impacts from unforeseen existing utilities encountered along Reach 1A & 1B	\$528,396	\$578,396	(\$50,000)
10	Volumetric CLSM Production 1A, 1B, 2B, 3A, 3B	\$420,461	\$454,552	(\$34,091)
35	Unforeseen conditions/Impacts Reach 4A	\$363,879	\$363,879	\$0
66	Change to rubberized asphalt cap paving on Crenshaw within LAC jurisdiction	\$311,570	\$311,570	\$0
68	Reach 5C Uncontrollable Circumstances	\$271,311	\$271,311	\$0
24	Unforeseen utilities encountered in 3B & 3A	\$252,708	\$252,708	\$0

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58A	Reach 5A Uncontrollable circumstances. (Rados)	\$246,492	\$246,492	\$0
36	Unforeseen conditions/Impacts Reach 4C	\$171,894	\$195,602	(\$23,709)
14	Impacts from existing utilities encountered along Reach 2B	\$180,603	\$180,603	\$0
65	Installation of underground power conduit to RHLL & Generator Costs	\$136,171	\$136,171	\$0
28A	PS Site Power Delays and CSE Driven Scope Changes	\$106,128	\$106,128	\$0
99	Montecito Dr Rubberized Asphalt Addition	\$81,084	\$81,084	\$0
30	Asphalt testing of Rubberized & base by G3 ENGR'ing on PV Drive North	\$65,095	\$65,095	\$0
97	Sinkhole at PS Retention Pond	\$49,481	\$49,481	\$0
88	CWS Delays due to Staffing support of Project Tie-ins, disinfection, and training	\$45,682	\$45,682	\$0
109	Warranty Call #001	\$27,618	\$27,618	\$0
86	CHRE Striping & Median design change in Reach 5D on Crenshaw Blvd.	\$24,320	\$24,320	\$0
34	Unforeseen conditions/Impacts Reach 4B	\$23,689	\$23,689	\$0
38	Additional Blackout days at the SCBG	\$21,585	\$21,585	\$0
25	SCBG pedestrian & fence improvements during construction	\$17,131	\$17,131	\$0
33	Saturday Paving Overtime (PV Dr. North/Montecillo)	\$14,102	\$14,102	\$0
102	New Location of ARV at Station 25+90 - Reach 5A	\$14,084	\$14,084	\$0
114	Additional Generator storage & pick fees	\$13,592	\$13,592	\$0
73	Additional Paving on Lariat Lane	\$12,865	\$12,865	\$0
85	Diesel Generator Petrochemical permitting & construction costs through LA County	\$12,500	\$12,500	\$0
74	Reach 3A Brick Pillar Construction	\$8,170	\$8,170	\$0
103	Miscellaneous Wire at Station 266+0	\$3,521	\$3,521	\$0
91	Rubber float finish to shotcrete on PS Retaining Wall	\$3,353	\$3,353	\$0
49	DDW Variance @ Earpod Tree - Wrap pipes	\$3,163	\$3,163	\$0
101	2" Water line at Station 481+21.6	\$2,158	\$2,158	\$0
112	Removal of dead tree in SCBG Reach 4A along alignment	(\$1,200)	(\$1,200)	\$0

12	Repair to Traffic Light conduit at Dapplegray School & PV Dr. N Intersection	(\$2,526)	(\$2,526)	\$0
39	Credit for not removing trees along private Rolling Hills Road	(\$4,500)	(\$4,500)	\$0
31	Pipe spacing tolerance @ RHUMC	(\$12,500)	(\$12,500)	\$0
Total	-	\$11,789,491	\$13,232,730	(\$1,443,239)

Table 2. Black & Veatch Final Settlement Breakdown

Description	Amount
Black & Veatch initial claim on (40) outstanding change orders	\$13,232,730
Final settlement negotiation	(\$1,443,239)
(2) previously agreed change orders	\$508,037
Total Black & Veatch Settlement	\$12,297,527

Water Division requested Cal Water provide documentation detailing the charges and invoices associated with the 40 change orders. In its analysis, Water Division reviewed a sample of the change orders to verify the claimed settlement amounts, and confirmed that the orders were reasonable and prudent, in that they were beyond the control of Cal Water or Black & Veatch, and necessary for the completion of the project. Water Division then verified the sum of the 40 change orders against the total settlement cost of \$12,297,527.

Water Division then reviewed workpapers to verify overhead and small construction costs such as permitting, warranty support, and SCADA integration. This accounted for \$2,478,278 of the total PVMA balance of \$14,775,805 not accounted for in the \$12,297,527 Black & Veatch Settlement. The delay between the effective date of the PVMA of January 1, 2023, and the effective date of this advice letter results in 2 years of depreciation at \$304,947 per year, totaling \$609,895. This depreciation amount netted against the \$14,775,805 balance results in an overall rate base increase of \$14,165,909 for Cal Water that can be seen in Table 3.

Table 3. Increased Rate Base Breakdown

Description	Amount
Design-Builder fees (Black & Veatch)	\$12,297,527
Waterhole (Doty)	\$17,818
Warranty Support (on-site)	\$37,157
Permitting (Los Angeles County, CA Department of Fish and Wildlife, and Palos Verdes Peninsula Land Conservancy)	\$10,476
SCADA Integration (Communications Enterprises, Inc.)	\$1,743
Slope Stability Monitoring (Dan Brown & Assoc.)	\$16,340
Overhead	\$2,476,212
Other/Retirements	(\$81,468)
(2) years Depreciation	(\$609,895)
Total	\$14,165,909

This increase in rate base results in an incremental revenue requirement increase for incorporated into Cal Water’s base service charge and commodity rates.

Table 4. 2025 Incremental Revenue Requirement Calculation.

	Description	Amount
A)	Total Capital Cost (as of Jan. 1, 2025)	\$14,165,909
B)	Current Adopted Rate of Return	7.46%
C)	Revenue Requirement for Rate Base Adjustment (A * B)	\$1,056,777
D)	Net to Gross Multiplier	1.2206
E)	Gross Revenue Requirement (C * D)	\$1,289,915
F)	Annual Depreciation Expense	\$304,948
G)	Ad Valorem Tax Rate	1.14459%
H)	Ad Valorem Taxes (A * G)	\$169,123
I)	Net to Gross Multiplier	1.01086
J)	Expense Changes (F + H) * I	\$479,220
Total	Revenue Increase Requested (E + J)	\$1,769,134

In addition to the above increase, Cal Water should recover \$3,821,015 of revenue requirement shortfalls from delayed recovery in the PVMA through a temporary surcharge of \$0.2832 per CCF for 24 months. This total includes \$3,621,572 of revenue requirement from 2023 and 2024 (each year calculated using the same method as shown in Table 4), plus \$199,443 of interest at the 90-day Commercial Paper rate. This interest is calculated from the effective date of the PVMA, January 1, 2023, through December 31, 2024, as shown in Table 5 below.

Table 5. Surcharge recovery amount calculation with interest

		Beginning Balance	Incremental Revenue Requirement	End Balance	
2023	Interest rate				Interest
23-Jan	4.56%	\$0	\$152,056	\$152,056	\$289
23-Feb	4.71%	\$152,345	\$152,056	\$304,401	\$896
23-Mar	4.86%	\$305,297	\$152,056	\$457,353	\$1,544
23-Apr	4.88%	\$458,897	\$152,056	\$610,953	\$2,175
23-May	5.10%	\$613,128	\$152,056	\$765,184	\$2,929
23-Jun	5.20%	\$768,113	\$152,056	\$920,169	\$3,658
23-Jul	5.20%	\$923,827	\$152,056	\$1,075,883	\$4,333
23-Aug	5.34%	\$1,080,215	\$152,056	\$1,232,271	\$5,145
23-Sep	5.34%	\$1,237,416	\$152,056	\$1,389,472	\$5,845
23-Oct	5.38%	\$1,395,317	\$152,056	\$1,547,373	\$6,597
23-Nov	5.38%	\$1,553,969	\$152,056	\$1,706,025	\$7,308
23-Dec	5.36%	\$1,713,333	\$152,056	\$1,865,389	\$7,992
2023 balance			\$1,824,670		\$48,711
2024	Interest rate				Interest
24-Jan	5.31%	\$1,873,381	\$149,742	\$2,023,123	\$8,621
24-Feb	5.31%	\$2,031,744	\$149,742	\$2,181,486	\$9,322
24-Mar	5.32%	\$2,190,808	\$149,742	\$2,340,550	\$10,045
24-Apr	5.34%	\$2,350,594	\$149,742	\$2,500,336	\$10,793
24-May	5.34%	\$2,511,129	\$149,742	\$2,660,871	\$11,508
24-Jun	5.32%	\$2,672,379	\$149,742	\$2,822,121	\$12,179
24-Jul	5.32%	\$2,834,300	\$149,742	\$2,984,042	\$12,897
24-Aug	5.32%	\$2,996,939	\$149,742	\$3,146,681	\$13,618
24-Sep	5.32%	\$3,160,300	\$149,742	\$3,310,041	\$14,343
24-Oct	5.32%	\$3,324,384	\$149,742	\$3,474,126	\$15,070
24-Nov	5.32%	\$3,489,196	\$149,742	\$3,638,938	\$15,801
24-Dec	5.32%	\$3,654,738	\$149,742	\$3,804,480	\$16,535
2024 balance			\$1,796,902		\$150,731
Total			\$3,621,572		\$199,443
Sum of Recovery Amount with Interest					\$3,821,015

For an average customer using 11 CCF per month in the Palos Verdes region, the increase in base rates and the 24-month surcharge to amortize the PVMA results in a bill increase of \$5.83 per month, or 6.5%. Water Division verified these calculations using workpapers provided by Cal Water to ensure the figures are accurate and the recovery costs are correctly applied.

ENVIRONMENTAL AND SOCIAL JUSTICE

The Environmental and Social Justice (ESJ) Action Plan establishes goals that address health and safety, consumer protection, program benefits, and enforcement across the Commission's regulated sectors. On April 7, 2022, the Commission adopted Version 2.0 of the ESJ Action Plan, reinforcing its commitment to advancing equity throughout the state through its regulatory authority. This resolution directly addresses two key ESJ Action Plan goals: Goal #1: "Consistently integrate equity and access considerations throughout Commission regulatory activities," and Goal #3: "Strive to improve access to high-quality water, communications, and transportation services for ESJ communities."

In alignment with these goals, the resolution supports water reliability improvements through the Palos Verdes Peninsula Water Reliability Project, ensuring equitable distribution of costs. By approving the revised revenue requirement and associated surcharge, the resolution considers the potential financial impact on disadvantaged communities (DACs) and low-income customers, seeking to mitigate the risk of disproportionate cost burdens on these populations thus addressing Goal #1 to: consistently integrate equity and access considerations through Commission regulatory activities. Secondly, it promotes the broader goal of ensuring equitable access to high-quality water services, supporting continued reliable and affordable water delivery to all customers, including those from historically marginalized communities to address Goal #3, Strive to improve access to high-quality water, communications, and transportation services for ESJ communities).

While the Palos Verdes service area does not meet the criteria of a Disadvantaged Community as defined by the California Communities Environmental Health Screening Tool (CalEnviroScreen 4.0), the Water Division has nevertheless considered equity and access issues in its review of this resolution. According to CalEnviroScreen 4.0, the relevant census tracts within the Palos Verdes service area rank in the 1st to 29th percentile statewide. It is important to note that census tracts in the 75th to 100th percentile are classified as DACs. Based on the Water Division's review, the proposed memorandum account recovery is not anticipated to adversely affect the environmental and social justice conditions in the Palos Verdes area.

SAFETY CONSIDERATIONS

Cal Water is currently in compliance with all safety standards mandated by the State Water Resources Control Board.

CONCLUSION

Following the Water Division's analysis of Cal Water's request to adjust rates and add a surcharge for Palos Verde customers in Los Angeles County from additional capital costs associated with the Palos Verdes Peninsula Water Reliability Project, we conclude that Cal Water's request should be approved. We find that these project costs were reasonable, prudent, and necessary for the completion of the project, which provides increased water reliability for Palos Verdes customers. This aligns with the CPUC's goals of ensuring reliable, high-quality water service and efficient utility operation.

COMMENTS

Public Utilities Code Section 311(g)(2) provides the 30-day public review and comment period may be reduced or waived for an uncontested matter in which the resolution grants the relief requested. Accordingly, this Proposed Resolution was not mailed for public review and comment.

FINDINGS AND CONCLUSIONS

1. California Water Service Company's (Cal Water) request to incorporate \$14,165,909 in additional capital costs for the Palos Verdes Peninsula Water Reliability Project (PVPWRP) into rate base is reasonable and consistent with prior Commission decisions. These additional costs were tracked appropriately in the Palos Verdes Memorandum Account (PVMA) and include a final settlement of \$12,297,527 with Black & Veatch, as well as other associated project expenses.
2. Cal Water should be authorized to increase its revenue requirement by \$1,769,134, which reflects the incremental cost recovery needed to incorporate the PVPWRP costs into base rates.

3. Cal Water's request for a temporary surcharge of \$0.2832 per CCF, effective for 24 months, to recover \$3,821,015 from the PVMA, including accrued interest, is reasonable and necessary to address the revenue shortfall resulting from delayed cost recovery for the PVPWRP.
4. The estimated \$5.83 monthly increase (6.5%) on the average residential customer bill for a Palos Verdes customer using 11 CCF is appropriate and reflects Cal Water's commitment to minimizing the long-term impact on ratepayers.
5. Cal Water's proposed surcharge and rate base adjustments have been calculated in accordance with regulatory guidelines and CPUC policies that support infrastructure investment to enhance water supply reliability for Palos Verdes customers.
6. The CPUC finds that Cal Water's request satisfies the requirements for recovery under the advice letter process, as the additional project costs are determined to be reasonable, prudent, and necessary for the completion of the PVPWRP and for ensuring continued reliability of service in the Palos Verdes service area.
7. No protests or responses were filed within the designated protest period for Advice Letter No. 2524.
8. Cal Water should be authorized to implement the base rate change effective February 1, 2025.
9. Cal Water should be authorized to implement the 24-Month surcharge effective April 1, 2025.

THEREFORE, IT IS ORDERED THAT:

1. California Water Service Company is authorized to incorporate \$14,165,909 in additional capital costs for the PVPWRP into its rate base, resulting in an increased revenue requirement of \$1,769,134.
2. California Water Service Company is authorized to implement a temporary surcharge of \$0.2832 per hundred cubic feet (CCF) for all water usage in the Palos Verdes service area for a period of 24 months, beginning on April 1, 2025, to recover \$3,821,015 tracked in the Palos Verdes Memorandum Account (PVMA), which includes accrued interest. No interest shall accrue during the period between the date of this Resolution and the implementation of the surcharge.
3. The effective date for the tariff schedules implementing the base rate increase shall be February 1, 2025.
4. The effective date of the 24-month surcharge shall be April 1, 2025.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 30, 2025; the following Commissioners voting favorably thereon:

/s/ Rachel Peterson

RACHEL PETERSON
Executive Director

ALICE REYNOLDS
President

DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
MATTHEW BAKER

Commissioners

CALIFORNIA WATER SERVICE COMPANY SERVICE LIST

Natalie Wales

Nwales@calwater.com

Rami Kahlon

Rkahlon@calwater.com

Syreeta Gibbs

syreeta.gibbs@cpuc.ca.gov

Zaved Sarkar

Zaved.Sarkar@cpuc.ca.gov

Richard Rauschmeier

richard.rauschmeier@cpuc.ca.gov

PAO

publicadvocatesoffice@cpuc.ca.gov

Cal Water Service Lists for all Class A Districts