

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by \$55,771,300 or 18.71% in the year 2024, by \$19,565,300 or 5.50% in the year 2025, and by \$19,892,400 or 5.30% in the year 2026.

Application 22-07-001

**ORDER MODIFYING DECISION 24-12-025 AND DENYING
REHEARING OF THE DECISION, AS MODIFIED**

I. INTRODUCTION

On December 9, 2024, the Commission issued Decision (D.) 24-12-025 (Decision) resolving California-American Water Company's (Cal-Am's) Test Year (TY) 2024 General Rate Case (GRC).¹ D.24-12-025 approves a partial settlement agreement between Cal-Am and the California Public Advocates Office (Cal Advocates) and resolves multiple issues that were unaddressed in the settlement agreement. Relevant to the issues addressed in this Order, the Decision: (1) denies Cal-Am's request for a Water Revenue Sustainability Plan (WRSP), which is Cal-Am's proposal to continue its Water Rate Adjustment Mechanism (WRAM) with adjustments; (2) grants Cal-Am's alternative request for a Conservation Adjustment for Rate Tier Designs Mechanism (CART Designs), which is equivalent to a Monterey-Style Water Revenue Adjustment Mechanism (M-WRAM); (3) denies Cal-Am's request for a full cost balancing account; (4) denies Cal-Am's request to partially consolidate transmission and distribution (T&D)

¹ Unless otherwise noted, citations to Commission decisions and resolutions are to the official pdf versions, which are available on the Commission's website at: <http://docs.cpuc.ca.gov/DecisionsSearchForm.aspx> and <https://docs.cpuc.ca.gov/ResolutionSearchForm.aspx>.

net plant costs; (5) denies Cal-Am's request to deviate from the Commission's Uniform System of Accounts set forth in *Decision Adopting Updated Uniform Systems of Accounts for Class A and for Class B, C, and D Water Utilities* (2016) [D.16-11-006] by booking acquisitions as gross plant with accumulated depreciation for three recently acquired systems; and (6) denies Cal-Am's request for a chemical cost balancing account.

Cal-Am timely filed for rehearing of the Decision on December 12, 2024, challenging each of the above determinations. Cal-Am alleges that the denial of the WRSP is contrary to the intent of the Legislature to authorize decoupling mechanisms, that the Decision mischaracterizes or misstates the evidentiary record on both WRAM and M-WRAM, and reaches a determination on WRAM that is arbitrary and capricious. Cal-Am also alleges that the Decision's denial of the utility's request to consolidate T&D net plant costs is arbitrary, that the Decision errs in its rejection of Cal-Am's request to deviate from the Commission's Uniform System of Accounts, and that the denial of Cal-Am's request for the Chemical Cost Balancing Account ignores evidence of chemical cost volatility and misapplies the criteria for balancing accounts.

The Monterey Peninsula Water Management District (MPWMD), the California Water Association (CWA), and Cal Advocates submitted responses to the rehearing application on December 27, 2024. MPWMD and Cal Advocates assert that Cal-Am fails to show legal error in the Decision and likewise assert that the Decision correctly determines that Cal-Am fails to justify its proposed WRSP. CWA's response supports the application for rehearing, and argues that the Decision's findings are not supported by substantial evidence, that the Decision fails to address legislative criteria, and fails to provide a rational basis for judicial review.

We have carefully reviewed each of Cal-Am's contentions presented in its application for rehearing. For the reasons explained herein, we deny rehearing but do make several modifications to the Decision for clarity, in the manner described in the Ordering Paragraphs presented in this Order.

II. DISCUSSION

Cal-Am's rehearing application is largely a resuscitation of the arguments the utility has already made and presented to the Commission in this proceeding. The Commission has already considered the evidence and arguments and found that Cal-Am did not justify its WRSP proposal or its various requests. The purpose of a rehearing application is to specify legal error, not to relitigate issues already determined by the Commission. (Pub. Util. Code, § 1732;² Cal. Code Regs., tit. 20, § 16.1, subd. (c).) To the extent Cal-Am's rehearing application seeks to have the Commission reweigh the arguments and evidence in the record, this does not constitute a basis for granting rehearing. (See *Toward Utility Rate Normalization v. Public Utilities Com.* (1978) 22 Cal.3d 529, 540; D.96-07-027, 1996 Cal. PUC Lexis 750, *4 [it is not a function of the appeals process to reweigh evidence]; *Order Granting Limited Rehearing of Decision (D.) 12-04-009, and Denying in All Other Respects* (2013) [D.13-12-030], p. 8 [the rehearing process is not intended for relitigating decided issues or reweighing the evidence].)

A. Cal-Am fails to show that the Commission does not uphold the legislative intent behind Public Utilities Code section 727.5 when it denies the utility's WRAM proposal.

Cal-Am argues that the Commission's denial of its proposed WRSP is legally erroneous "because it is contrary to the express intent of the Legislature in passing [Senate Bill (SB)] 1469." (Rehg. App., p. 4). This argument is unpersuasive. First, Cal-Am's legislative intent argument regarding section 727.5 has already been addressed in the Decision. Section 727.5 provides that:

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

² All section references are to the Public Utilities Code, unless otherwise specified.

(§ 727.5(d)(2)(A) [emphasis added]).³

As explained in the Decision, section 727.5 does not require the Commission to adopt a decoupling mechanism, but instead, requires the Commission to consider the adoption of a decoupling mechanism. (Decision, p. 51.) Cal-Am itself acknowledges in its rehearing application that the Commission is not required to adopt a decoupling mechanism. (Rehg. App., p. 7 [acknowledging that it is correct that the Legislature did not mandate that the Commission approve a decoupling mechanism].)

The Commission plainly considered the adoption of Cal-Am's proposed WRSP decoupling mechanism and found that Cal-Am failed to justify its proposal. (See Decision, pp. 40-43.) The Commission thus complied with the plain language of the statute by giving full consideration to Cal-Am's request. As explained above, Cal-Am's attempt to relitigate this issue does not demonstrate a legal error in the Decision.

Cal-Am attempts to rely on the legislative findings in SB 1469, which include a statement that:

[i]t is the intent of the Legislature to ensure that water corporations are authorized to establish revenue adjustment mechanisms that provide for a full decoupling of sales and revenue in order to further incentivize water conservation efforts.

(See Rehg. App., pp. 4-5 citing SB 1469, §1(b).⁴) Cal-Am asserts that the Decision errs “by not only choosing to revisit these express determinations by the Legislature, but inexplicably deciding the [sic] reach contrary conclusions to that of the Legislature notwithstanding the evidence presented in the case.” (Rehg. App., pp. 5-6.)

Cal-Am's attempt to rely on a legislative finding versus the plain language of the statute fails to establish legal error. The plain language of the statute controls and this legislative finding does not override the plain language of the statute. (See *Tuolumne Jobs & Small Business Alliance v. Superior Court* (2014) 59 Cal.4th 1029, 1037 [a court

³ Cal-Am has more than 10,000 service connections.

⁴ See SB 1469's legislative findings and declarations at: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB1469

will first consider the words of a statute “as the most reliable indicator of legislative intent”].) Further, other legislative documents demonstrate that the Legislature’s intent is to leave the ultimate determination as to whether to adopt a decoupling mechanism up to the Commission. The various Assembly and Senate Analyses of the bill repeatedly state that “[t]his bill authorizes the CPUC to authorize a full decoupling of water utility sales and revenue forecasts, thereby instituting the full WRAM, in reviewing a water utilities’ GRC application, but not require the CPUC to do so.” (See e.g., Senate Floor Analyses, p. 4 (May 11, 2022).⁵)

In sum, section 727.5 requires that the Commission consider the authorization of a decoupling mechanism, but does not require the Commission to adopt the utility’s proposed mechanism. Cal-Am fails to show that the Commission’s determination to reject its WRSP/WRAM proposal constitutes legal error.

B. Cal-Am is incorrect that the Decision holds the company to a higher standard than permitted under the Public Utilities Code.

Cal-Am argues that its proposed WRSP meets the criteria set forth for a full decoupling mechanism in Section 727.5, and therefore, the Commission holds Cal-Am to a higher standard than what the Legislature permits by denying the utility’s proposal. (Rehg. App., p. 7.) Cal-Am’s argument is based on a misinterpretation of the statute and lacks merit.

Cal-Am’s argument relies on subsections (2)(B) and (2)(C) of section 727.5(d), which provide the requirements that a decoupling mechanism must meet, if the Commission does adopt such a mechanism. This portion of the statute provides that a utility’s decoupling mechanism “shall be designed to ensure that the differences between actual and authorized water sales do not result in the overrecovery or underrecovery of the water corporation’s authorized water sales revenue.” (§ 727.5(d)(2)(B).) In addition, a decoupling mechanism “shall not enable the water corporation to earn a revenue

⁵ Available at:

https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202120220SB1469

windfall by encouraging higher sales.” (§ 727.5(d)(2)(C).) Cal-Am argues that because its WRSP meets these criteria, the Decision commits legal error by denying the proposed decoupling mechanism. (Rehg. App., p. 7.)

Cal-Am misreads the statute. These subsections are applicable if the Commission adopts a full decoupling mechanism, but do not require the Commission to adopt such a mechanism, nor do these subsections state that the Commission must adopt such a mechanism if these standards are met. Because the Commission opts not to adopt Cal-Am’s WRSP/WRAM proposal, there is no need to ensure that the requirements set forth in section 727.5, subsections (d)(2)(B) and (C) are met.

Along similar lines, Cal-Am asserts that it “need not show that decoupling is the best or only method of promoting water conservation, it need only provide a further incentive towards conservation.” (Rehg. App., p. 7.) It is unclear what Cal-Am bases this assertion on. Nothing in the statute states that a decoupling mechanism must be approved if the utility demonstrates that mechanism provides a further incentive towards conservation.

Section 727.5 must also be read in its broader statutory context, and thus, even assuming Cal-Am’s WRSP/WRAM proposal meets the criteria in section 727.5, subsections (d)(2)(B) and (2)(C), the Commission is still required to ensure just and reasonable rates per section 451. (See *Cal Advocates Response to Application for Rehearing*, p. 3.) The intent for section 727.5 to be read in conjunction with section 451 can also be seen in the legislative documents. For instance, an analysis from the Senate Committee on Energy, Utilities, and Communications references section 451 and states that existing law “[r]equires all charges demanded or received by any public utility for any product or commodity furnished or any service rendered shall be just and reasonable.” (Senate Committee on Energy, Utilities and Communications, p. 1 (April

18, 2022).⁶) As such, there is no indication that the Legislature intended to override section 451.

In sum, Cal-Am's argument -- that the Commission is holding the utility to a higher standard than what is set forth in section 727.5, subsections (d)(2)(B)-(D) -- fails. These subsections supply the applicable criteria if the Commission approves a decoupling mechanism, but do not require the Commission to approve a decoupling mechanism, even assuming that these criteria are met.

C. Cal-Am fails to show that the Decision errs in rejecting its WRSP proposal and likewise fails to show that the Commission errs in adopting the utility's alternatively proposed M-WRAM.

Cal-Am presents a variety of arguments asserting that the Commission mischaracterizes or does not consider certain evidence regarding its WRSP proposal and the M-WRAM. Cal-Am contends that it and other parties to the proceeding presented evidence demonstrating that utilities that adopted WRAMs achieved greater conservation savings than utilities that adopted an M-WRAM. (Rehg. App., p. 8.) Cal-Am thus asserts that the Decision is factually erroneous because it mischaracterizes the evidence on historical water conservation. (*Ibid.*)

This is an argument directly addressed in the Decision. (Decision, pp. 40-43.) The Decision analyzes the conservation-related evidence presented by the parties and finds that Cal-Am is unable to show a sufficient causal connection between the WRAM and conservation savings. (*Ibid.*; see also *Cal Advocates' Opening Brief on Decoupling* (December 6, 2023), pp. 25-28; Ex. CALAM-DM-002, p. 12:10-12 and 21-24; [Supplemental Direct Testimony of David Mitchell]; Ex. Cal Ad RR-001 [Cal Advocates Testimony], pp. 6-8.) While conservation savings were achieved during the period examined, in which Cal-Am did have a WRAM in certain of its service territories, Cal-Am did not present an analysis showing that this conservation saving was attributable

⁶ Available at:
https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202120220SB14

to WRAM as opposed to other conservation measures. (See Decision, pp. 40-43; see also Exhibit CALAM-DM-002, Attachment 1, p. 22; Reporter’s Transcript, Volume 5, p. 249:3-5 (CALAM/Mitchell).) The Commission weighed the limited record regarding the WRAM’s impact on conservation and found that it did not outweigh concerns regarding intergenerational transfer and risk transfer. (*Id.* at p. 43.) Cal-Am’s rehearing application reiterates arguments and evidence previously presented, which were addressed and rejected in the Decision. Cal-Am’s attempt to relitigate this issue fails to demonstrate legal error.

Cal-Am’s challenge to the Commission’s approval of Cal-Am’s alternate proposed M-WRAM request likewise fails to show legal error. Cal-Am alleges that the Decision’s determination “to require a transition to the M-WRAM has significant negative impacts on customer affordability and utility risk,” which the Decision “misstates or otherwise fails to properly recognize.” (Rehg. App., p. 11.) Cal-Am alleges that the M-WRAM has “significant shortcomings” including that it is “not compatible with the current complex conservation-oriented rate design for the Monterey District.” (*Id.* at p. 12.) Cal-Am fails to show legal error in the Decision’s adoption of the M-WRAM.

First, Cal-Am’s arguments ignore the fact that the M-WRAM proposal is Cal-Am’s own proposal. Cal-Am’s application requests authorization of M-WRAM in the alternative if the Commission denies Cal-Am’s WRSP request. (Decision, p. 44; see also *Application of Cal-Am to Increase Revenues in Each of its Districts Statewide* [A.22-07-001], pp. 8-9 [proposing an M-WRAM as the utility’s Special Request 1].) Cal Advocates and MPWMD both correctly point out that the utility can also adjust M-WRAM in future rate cases if additional modifications are needed. (*Cal Advocates Response to Rehearing Application*, p. 8; *Reply Comments of Monterey Peninsula Water Management District on Proposed Decision* (September 23, 2024) at pp. 2-3.)

The Commission’s finding that M-WRAM’s tiered rate design is “tailored to address declining revenue attributable to conservation,” is also supported by the record. (Decision, p. 42; see also Ex. CALAD RR-001, p. 8:3-7; *Cal Advocates’*

Opening Brief on Decoupling, p. 15.) This includes evidence that Cal-Am itself put into the record. For instance, Cal-Am's expert witness, David Mitchell, testified, "[t]he one thing economists can really hang their hat on is the law of demand, which is a very simple law. It says that as price goes up, consumers, in general, will demand less of a good or the service" (Reporter's Transcript, Vol. 5, pp. 271:12 to 272:2 (CALAM/Mitchell).) The Decision considers evidence of the relative risks and benefits of both WRAM/WRSP and M-WRAM and concludes that the risk from WRAM/WRSP is not compatible with just and reasonable rate making. (Decision, p. 58, Conclusion of Law 18.)

Cal-Am contends that the Decision fails to acknowledge the substantial evidence in the record demonstrating that decoupling benefits customers by allowing utilities to implement more aggressive conservation-oriented rate designs that enhance affordability and reduce costs over the long-term. (Rehg. App., p. 14.) In contrast to Cal-Am's assertions, however, the Decision indeed considers WRAM's impacts on customers. The Decision notes, for instance, that "[c]ustomers who have made efforts to conserve water perceive WRAM surcharges as being charged for water they did not consume, a confusing price signal that frustrates the goal of conservation." (Decision, p. 43.)

Cal-Am also asserts that it introduced evidence demonstrating that water conservation keeps rates lower than they would have been had conservation not taken place. (Rehg. App., p. 15.) The Decision does not refute this or otherwise take issue with the concept that conservation leads to savings. Cal-Am's argument, however, does not address the core issue discussed in the Decision. As explained in the Decision, WRAM is at best, one of an array of conservation measures, but the record does not establish the extent to which WRAM played a role in conservation. (Decision, p. 41)

In sum, the Commission considered the evidence presented by the parties to this proceeding and reasonably found that Cal-Am fails to justify its WRSP/WRAM proposal. The Decision weighs the risks and benefits of either continuing a WRAM

mechanism or implementing M-WRAM and makes a reasonable, record-based determination. Cal-Am's attempt to relitigate this issue fails to demonstrate legal error.

We do make several modifications to the Decision as set forth in the Ordering Paragraphs below. These modifications further clarify that the M-WRAM decouples the utility's tiered rate revenues from what the utility would have received under a single block rate, but that the M-WRAM does not fully separate the utility's revenues and its water sales. In addition, the Commission modifies the Decision to restate language from the Decision pertaining to the M-WRAM in the findings of fact portion of the Decision. (See *id.* at p. 42 and p. 44 [stating that M-WRAM is narrowly tailored to address declining revenue attributable to conservation achieved through tiered rate design, and that M-WRAM is a ratemaking tool that provides reasonable revenue recovery with a focus on promoting conservation signals in the pricing structure].)

D. Cal-Am fails to show that the denial of the WRSP is arbitrary and capricious because the Commission has previously granted decoupling to energy utilities.

Cal-Am argues that the Decision is arbitrary and capricious because it unjustifiably deviates from the Commission's treatment for energy utilities, which have been permitted to implement decoupling mechanisms. (Rehg. App., p. 19.) Cal-Am fails to show that the Decision is arbitrary and capricious, and otherwise fails to show legal error.

The Commission has the discretion to depart from its own precedent where there are factual distinctions between cases justifying the Commission's differing determinations. (See *Postal Telegraph-Cable Co. v. Railroad Com. of California* (1925) 197 Cal.426, 436-437; see also *Order Modifying Decision and Denying Rehearing* (1993) [D.93-12-048] 52 CPUC.2d 673, pp. 4-5 ["The Commission may legally depart from its own precedent . . . so long as circumstances peculiar to a given situation may justify such a departure."] [internal citations omitted]; *Order Denying Rehearing of D.24-01-043* (2024) [D.24-09-052], pp. 8-9 ["The Commission is not bound by its precedent and circumstances may justify departure from precedent."]; *Order Modifying D.24-04-034*

(2024) [D.24-04-041], p. 10 [“[I]t is not legal error for us to deviate from our prior decisions. As the California Supreme Court has long held, the Commission has the discretion to reach different conclusions in different cases as a matter of policy because of their unique facts.”].) Thus, merely because the Commission has previously authorized energy utilities to implement decoupling mechanisms does not equate to a legal error when the Commission denies a water utility its requested decoupling mechanism.

Each proceeding is a fact intensive inquiry, and the Commission reasonably found that Cal-Am fails to justify its WRSP request here. Cal-Am has failed to establish that it is similar to an energy utility or otherwise explained why the justifications for energy decoupling apply to it. A decision is not arbitrary if relevant data is examined and a satisfactory explanation is provided, establishing a “rational connection between the facts found and the choice made.” (*Motor Vehicle Manufacturers Association v. State Farm Mutual Insurance Co.* (1983) 463 U.S. 29, 43, quoting *Burlington Truck Lines, Inc. v. U.S.* (1962) 371 U.S. 156, 168.) The Decision meets this standard, and merely because the Commission has granted decoupling to energy utilities in the past does not require the Commission to grant all future decoupling requests or make the Commission’s decision arbitrary where it finds a utility fails to justify a decoupling request.

E. Cal-Am fails to show legal error in the Commission’s denial of the utility’s requested full cost balancing account.

Cal-Am sought authorization for Incremental Cost Balancing Accounts (ICBAs) in two of its districts and Full Cost Balancing Accounts (FCBAs) for its Monterey, Los Angeles, Sacramento, and Larkfield Districts, if its WRAM is eliminated. (Decision, p. 44.) The Decision grants Cal-Am’s request for the ICBAs, denies Cal-Am’s request for FCBAs, and instead grants authorization for Cal-Am to establish ICBAs and Supply Source Cost Memorandum Accounts (SSCMAs) for its Monterey, Los Angeles, Sacramento and Larkfield Districts. (*Id.* at p. 46.)

Cal-Am argues that this result is arbitrary and capricious because the Commission has approved the same balancing account for other water utilities under

similar circumstances. (Rehg. App., p. 22.) In support, Cal-Am points to the Commission’s authorization of an FCBA for San Gabriel Valley Water Company (San Gabriel). (*Id.* at p. 23.) Cal-Am asserts that the Commission found this FCBA justified due to variations in water production and power supply costs in San Gabriel’s territory. (*Ibid.* citing *Opinion Authorizing Increase in Revenue* (2004) [D.04-07-034], p. 63 [authorizing San Gabriel to continue its FCBA].) The Commission granted San Gabriel an FCBA based on a “supply mix . . . determined by hydrogeological conditions that are beyond San Gabriel’s ability to predict or control.” (D.04-07-034, *supra*, p. 63.) Cal-Am asserts that similar conditions exist in its service territory and that therefore, denying Cal-Am its own FCBA is arbitrary.

As explained, the departure by the Commission from its own precedent does not constitute a legal error, particularly where there are factual distinctions between cases justifying the Commission reaching differing conclusions. (See section II.D., *supra*.) The Commission’s grant of an FCBA for San Gabriel was a fact-specific determination based on the specific needs of San Gabriel’s Fontana Division water production and power supply costs and the limited supply mix in that region. (See D.04-07-034, *supra*, p. 63.) This fact-specific inquiry was heavily focused on San Gabriel’s limited supply from Lytle Creek and the specific conditions it faces there. Merely because the Commission rejects requests for FCBA in other circumstances does not equate to a legal error. For instance, the Commission denied San Gabriel’s request for an FCBA in its Los Angeles division. (See *Decision Authorizing Changes in Rate Design and Ratesetting* (2010) [D.10-04-031], pp. 35-36.)

Cal-Am fails to point to evidence in the record demonstrating that the same factual circumstances upon which San Gabriel justified its FCBA exist here. While Cal-Am suggests that similar water supply variabilities exist, it has not produced an evidentiary basis for this claim. Finally, the Commission has granted Cal-Am the additional tool of a Supply Source Cost Memorandum Account “to track and record costs related to extraordinary events outside of its control that adversely impact Cal-Am’s

ability to use a particular supply source.” (Decision, p. 46.) Cal-Am fails to show why this is not sufficient to address supply source issues and an FCBA is needed.

F. Cal-Am fails to show legal error in the denial of the request to consolidate transmission and distribution net plant costs.

Cal-Am asserts that the Decision’s determination to reject the utility’s request to consolidate its water transmission and distribution (T&D) net plant assets across its ratemaking districts is arbitrary and capricious because the Commission has allowed consolidation of T&D costs across a utility’s customer base for energy utilities. (Rehg. App., p. 24.) Cal-Am asserts that the Decision errs because it “fails to explain what it is that sets the Company apart from [an] energy utility justifying such differential treatment. . .” (Rehg. App., pp. 24-25.) Cal-Am fails to show legal error.

The Commission is under no obligation to address every legal argument, and thus, is under no obligation to specifically address what “sets the Company apart from [an] energy utility.” (See *In re San Diego Gas and Electric Co.* (2003) [D.03-08-072], 2000 Cal. PUC LEXIS 1136, pp. 20-21 [“The Commission is “not required to make express legal or factual findings as to each and every issue or sub-issue raised by a party.”]; *Clean Energy Fuels Corp. v. Pub. Util. Com.* (2014) 227 Cal.App.4th 641 [Commission only must make findings on material issues and it is the Commission that determines what the material issues are]; *Order Modifying Decision 08-12-058 and Denying Rehearing of Decision, as Modified* (2009) [D.09-07-024] at p. 29, citing *Toward Utility Rate Normalization v. Pub. Util. Com.* (1978) 22 Cal.3d 529, 540 [no legal requirement that every piece of evidence in the record be mentioned in the decision].)

Further, departure by the Commission from prior decisions does not equate to a legal error, particularly where there are factual distinctions justifying the Commission’s differing determinations. (See section II.D., *supra*.) The Commission’s rationale for rejecting this request is explained in the Decision. (See Decision, p. 31.) The Decision agrees with Cal Advocates and MPWMD that Cal-Am’s proposal violates cost causation principles, i.e., the principle that customers who cause the utility to incur

the expense be borne by those same customers. (*Ibid.*) Further, the Decision specifically addresses past instances where the Commission has allowed consolidation of T&D costs, stating:

[t]o the extent that we have deviated from cost causation, we have done so where the facts merited the departure. Here they do not. Cal-Am, for example, has not demonstrated to our satisfaction that the foreseeable T&D net plant costs of its operations across the state are sufficiently similar in nature that they merit uniform statewide treatment.

(*Ibid.*)

The Decision goes on to state that consolidation of T&D is a matter of a balancing test between rate shock and cost causation principles, and that in this instance, Cal-Am has not sufficiently made the case for a deviation from cost causation principles. (*Ibid.*) Thus, in contrast to Cal-Am's assertions in its rehearing application, the Decision specifically acknowledges that consolidation has been allowed in the past, but in this instance, Cal-Am has failed to show that a deviation from cost causation principles is warranted. In sum, Cal-Am fails to demonstrate legal error with regard to the Commission's denial of its T&D consolidation request.

G. Cal-Am fails to show legal error in the Commission's determination to deny the utility's request for a Chemical Cost Balancing Account.

Cal-Am alleges that the Decision errs by denying its request for a Chemical Cost Balancing Account, a determination that Cal-Am contends is reached "by ignoring evidence of increased volatility in the cost of chemicals and by misapplying the criteria for balancing accounts in Standard Practice U-27-W." (Rehg. App., p. 28.) Cal-Am's arguments are nothing more than a summary of the arguments it has already presented and which the Commission has already found fail to justify a deviation from standard ratemaking practices.

Cal-Am asserts that there have been "drastic year-to-year swings for certain chemicals," and asserts that the Decision errs by failing to explain why these "unique circumstances" are insufficient to justify the proposed balancing account treatment. (*Id.*

at. p 29.) The Decision plainly considers Cal-Am’s assertions of price volatility and finds Cal-Am’s evidence lacking to justify that a new balancing account is warranted here. (See Decision, pp. 39-40). It is for the Commission to weigh the evidence presented in the proceeding and reach a reasonable determination based on that evidence. (See *Securus Technologies, LLC v. Pub. Util Com.* (2023) 88 Cal.App.5th 787, 802.) The Decision demonstrates consideration of the evidence in the proceeding and displays a reasonable determination based on that evidence. Merely because Cal-Am disagrees with the outcome does not establish legal error. (See *Toward Utility Rate Normalization*, *supra*, 22 Cal.3d at 540; D.21-09-045, *supra*, p. 7 [disagreement with the Commission’s determination does not establish legal error].)

Further, Cal-Am fails to show its proposed balancing account meets the criteria for balancing accounts as stated in Standard Practice U-27-W. (See Rehg. App., p. 29.) Standard Practice U-27-W states that the requirements for a balancing account are: (1) the expense is caused by an event of exceptional nature that is not under the utility’s control, (2) the expense cannot have been reasonably foreseen in the utility’s last GRC and will occur before the utility’s next scheduled rate case, (3) the expense is of a substantial nature in the amount of money involved; and (4) customers will benefit by the balancing account treatment.⁷ The Decision explains the Commission policy that “[f]uture test year ratemaking encourages utilities to operate efficiently and within budgets. Memorandum and balancing accounts are alternative ratemaking mechanisms that are worthwhile in some instances but should be used sparingly.” (Decision, p. 40.) The requested balancing account does not meet the standards set forth in Standard Practice U-27-W, as the Decision notes that the parties agreed to a chemical budget in the settlement and finds that Cal-Am fails to show that ratepayers require further protection against volatility by authorizing a balancing account, i.e., customers will not benefit from

⁷ While Standard Practice U-27-W specifically references memorandum accounts, the Commission has held that the standards set forth in this document are equally applicable to balancing accounts. (See *Decision Authorizing Rate Changes for Liberty Utilities* (2020) [D.20-09-019], p. 47, fn. 65.)

balancing account treatment. (*Ibid.*) In sum, the Decision reasonably finds that Cal-Am fails to justify its proposed balancing account and it is not arbitrary to deny Cal-Am's request.

H. Cal-Am fails to show that the Decision commits legal error in its rejection of the utility's request for a deviation from the Commission's Uniform System of Accounts.

As part of its GRC, Cal-Am proposed to deviate from the Commission's Uniform System of Accounts set forth in D.16-11-006, by booking acquisitions as gross plant with accumulated depreciation for three recently acquired systems. (Rehg. App., p. 26.) Cal-Am fails to show legal error in the Decision's denial of this request.

It is within the Commission's discretion to grant or deny a deviation from its own regulations. The Commission's explanation for why it is opting not to grant the requested deviation is set forth in the Decision. The Decision states that the request may impede the Commission's ability to make equivalent comparisons of acquisitions made by different utilities. (Decision, p. 33.) The Decision also states that Cal-Am's assumption that different accounting treatment would not result in any change in ratebase or revenues may not prove to be accurate. (*Id.* at pp. 33-34.)

These findings are reasonable and Cal-Am fails to show legal error. First, Cal-Am does not specifically address or challenge the finding that Cal-Am's deviation request could impede its ability to make equivalent comparisons of acquisitions made by different utilities. (*Id.* at p. 33.) Further, the Commission is permitted to draw reasonable conflicting inferences from uncontroverted evidence. (See *Southern Pac. Co. v. Public Utilities Com.* (1953) 41 Cal.2d 354, 362; *Pacific Telephone & Telephone Co. v. Public Utilities Com.* (1965) 62 Cal.2d 634, 647.) Cal-Am has explained that its assumption of no-revenue-impact from its request is based on an assumption that the amortization period will be consistent with the remaining useful life of associated assets. (See *Cal-Am Opening Brief on Disputed Non-Decoupling Issues* (January 5, 2024), p. 9.) The Commission is able to reasonably infer that this assumption may not prove to be accurate. For these reasons, Cal-Am fails to show legal error.

However, Cal-Am also takes issue with the Decision’s directive for Cal-Am to use the deviation process set forth in Standard Practice U-1-W. (Rehg. App., p. 27.) The Decision already articulates a substantive reason to reject Cal-Am’s deviation request. As such, for clarity, the Commission removes the directive to use the deviation process set forth in Standard Practice U-1-W from the Decision, as set forth in the Ordering Paragraphs below.

I. Cal-Am’s request for oral argument is denied.

Given that the Commission denies rehearing in this matter, Cal-Am’s request for oral argument is also denied. The Commission has the discretion to determine the appropriateness of oral argument in any particular matter and declines to grant oral argument here. (See Cal. Code Regs, tit. 20, § 16.3 [“The Commission has complete discretion to determine the appropriateness of oral argument in any particular matter.”]; *Ordering Denying Rehearing* (2024) [D.24-06-027], p. 12 [noting same].)

III. CONCLUSION

For the reasons stated above, D.24-12-025 is modified as set forth in the Ordering Paragraphs below. The application for rehearing of D.24-12-025, as modified, is denied because no legal error has been shown.

THEREFORE, IT IS ORDERED that:

1. Decision (D.) 24-12-025 is modified as follows:
 - a. Section 1.2, the last paragraph on page 5, following the sentence beginning “M-WRAM is a mechanism that protects water utilities utilizing tiered rates,” the following sentence is added: “In contrast to a WRAM, it is not a full decoupling mechanism (i.e., it does not fully separate, or sever, a water corporation’s revenues from its water sales).”
 - b. Section 5.2, page 33, is modified to delete the sentences, along with accompanying footnote 54, reading: “Standard Practice U-1-W prescribes the process for deviation from a standard practice. We decline to address Cal-Am’s request in this proceeding and instead direct Cal-Am to the process articulated in Standard Practice U-1-W, section F - “Deviating From Standard Practices.”⁵⁴

- c. Section 5.2, page 34, is modified to delete the sentence reading:
“If Cal-Am continues to seek a deviation from using USOA,
Cal-Am should use our adopted method for seeking deviations
from standard practices.”
 - d. Section 11 (Comments on Proposed Decision), page 51, the second
full sentence is modified to state: “Here, we grant Cal-Am’s
alternatively requested CART-Design, and deny Cal-Am’s requested
WRSP mechanism.”
 - e. Finding of Fact 24, page 54, is modified to delete the finding stating
that: “Standard Practice U1W, section F establishes the process Cal-
Am may follow to deviate from a standard practice without filing a
formal application. Cal-Am did not utilize that process with respect
to the portion of Special Request 5 that seeks to deviate from
U38W.”
 - f. Finding of Fact 40 is added on page 56 to state: “M-WRAM is
narrowly tailored to address declining revenue attributable to
conservation achieved through tiered rate design.”
 - g. Finding of Fact 41 is added on page 56 to state: “M-WRAM is a
ratemaking tool that provides reasonable revenue recovery with a
focus on promoting conservation signals in the pricing structure.”
 - h. Conclusion of Law 11, page 57, is modified to delete the conclusion
stating that: “Cal-Am should utilize the process to request deviations
from the established standard practices described in Standard
Practice U-1-W.”
- 2. As modified, the application for rehearing of Decision 24-12-025 is denied.
 - 3. Application 22-07-001 is closed.

This order is effective today.

Dated May 15, 2025, at Kings Beach, California.

ALICE REYNOLDS

President

DARCIE L. HOUCK

JOHN REYNOLDS

KAREN DOUGLAS

Commissioners

Commissioner Matthew Baker recused
himself and did not participate

in the vote of this item.