

Docket	:	<u>A.22-07-001</u>
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Commissioner	:	<u>Genevieve Shiroma</u>
Administrative Law Judge	:	<u>Jacob Rambo</u>
Public Advocates Office	:	
Witness(es)	:	<u>Prashanta Adhikari</u>



PUBLIC ADVOCATES OFFICE
CALIFORNIA PUBLIC UTILITIES COMMISSION

**REPORT ON INCOME TAXES, TAXES OTHER
THAN INCOME, RATE BASE, AND RESULTS OF
OPERATIONS MODEL**

CALIFORNIA AMERICAN WATER COMPANY

General Rate Case Application 22-07-001

Test Year 2024

San Francisco, California

April 13, 2023

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1 **MEMORANDUM**

2 The Public Advocates Office at the California Public Utilities Commission (“Cal
3 Advocates”) examined application material, data request responses, and other
4 information presented by California American Water Company (“Cal Am”) in
5 Application (“A.”) 22-07-001 to provide the California Public Utilities Commission
6 (“Commission” or “CPUC”) with recommendations in the interests of ratepayers for safe
7 and reliable service at the lowest cost. Mr. Cortney Sorensen is Cal Advocates’ project
8 lead for this proceeding. This Report is prepared by Mr. Prashanta Adhikari. Mr.
9 Mukunda Dawadi is the oversight supervisor. Ms. Angela Wuerth and Ms. Emily Fisher
10 are the legal counsel.

11 Although every effort was made to comprehensively review, analyze, and provide
12 the Commission with recommendations on each ratemaking and policy aspect presented
13 in the Application, the absence from Cal Advocates’ testimony of any particular issue
14 connotes neither agreement nor disagreement of the underlying request, methodology, or
15 policy position related to that issue.

Chapter #	Description	Witness
1	Income Taxes	Prashanta Adhikari
2	Taxes Other than Income	Prashanta Adhikari
3	Rate Base	Prashanta Adhikari
4	Results of Operation (RO) Model	Prashanta Adhikari

1 **CHAPTER 1 INCOME TAXES**

2 **I. INTRODUCTION**

3 This chapter presents analysis and recommendations for Cal Am’s income taxes in
4 Test Year (TY) 2024. As a business operating in the state of California, Cal Am’s
5 revenue requirement will reflect income taxes to both the federal government (“Federal
6 Income Taxes” or “FIT”) and the state government (“California Corporate Franchise
7 Tax” or “CCFT”). The CCFT rate is 8.84%, and the FIT rate is 21%. Taxable income on
8 both the state and federal level includes deductions for various expenses.

9 **II. SUMMARY OF RECOMMENDATIONS**

10 The Commission should deduct approved 2023 CCFT amounts from Cal Am’s escalation
11 filings in each division to calculate TY 2024 Federally Taxable Income and FIT,
12 decreasing TY 2024 FIT and revenues by \$446,927.

13 **III. ANALYSIS**

14 The Commission should deduct approved 2023 CCFT amounts from Cal Am’s
15 escalation filings in each division to calculate TY 2024 Federally Taxable Income and
16 FIT. While Cal Am is allowed to deduct the previous year’s CCFT from federally
17 taxable income, per D.89-11-058, it must be a previously approved amount.¹ This
18 requirement was confirmed in D.17-06-008.²

19 In its application, Cal Am deducts 2023 estimated CCFT to calculate TY 2024
20 federally taxable income.³ This is not proper because ratepayers will have paid for
21 service in 2023 based on the numbers approved in 2023 escalation filings. Among those

¹ Attachment 2, D.89-11-058 at 12.

² Attachment 3, D.17-06-008 at 38.

³ RO Model, ALL_CH02_SE_RO, _RevReq, J88.

1 numbers is the 2023 CCFT. Because ratepayers will have to pay for those CCFT
 2 amounts in 2023 through rates, they should receive the tax benefits of what they paid for
 3 through a deduction in TY 2024 Federally Taxable Income. The following table shows
 4 the taxes paid in 2023 in each of Cal Am’s divisions and what Cal Am is projecting, as
 5 well as the difference between these two amounts.

Division	2023 CCFT in Escalation Filings	2023 CCFT Projected RO Model	Difference
Northern ⁴	\$1,444,390	\$857,866	\$586,524
Central ⁵	\$1,471,350	\$1,125,443	\$345,907
Southern ⁶	\$1,503,560	\$351,057	\$1,152,503
Monterey Wastewater ⁷	\$18,900	-\$24,402	\$43,292
Total	\$4,438,200	\$2,309,965	\$2,128,225

6 The total difference between CCFT approved in 2023 escalation filings and Cal
 7 Am’s projected CCFT figures in the RO Model is \$2,128,225. Use of 2023 authorized
 8 CCFT amounts in estimating TY 2024 FIT decreases the federal income tax amount
 9 compared to Cal Am’s use of estimated 2023 CCFT amount. Based on the 21% federal
 10 tax rate, TY 2024 income taxes and revenues will decrease by \$446,927. Any other
 11 differences in Cal Advocates’ Results of Operation Model are caused by the differences
 12 of expense and plant amount recommended by Cal Advocates and Cal Am. The
 13 Commission should adopt the income tax figures recommended by Cal Advocates in
 14 Table 1-1 of Cal Advocates’ RO report.

⁴ Attachment 4, Cal Am Advice Letter 1393, Workpaper 116, Line 14.

⁵ Attachment 5, Cal Am Advice Letter 1394, Workpaper 116, Line 14.

⁶ Attachment 6, Cal Am Advice Letter 1395, Workpaper 116, Line 14.

⁷ Attachment 7, Cal Am Advice Letter 72, Workpaper 116, Line 14.

1 **IV. CONCLUSION**

2 The Commission should deduct approved 2023 CCFT amounts from Cal Am's
3 escalation filings in each of Cal Am's divisions to calculate TY 2024 Federally Taxable
4 Income and FIT.

1 **CHAPTER 2 TAXES OTHER THAN INCOME**

2 **I. INTRODUCTION**

3 Cal Am’s Taxes Other Than Income includes property taxes, payroll taxes, and
4 franchise fees, among others. Property taxes are taxes on properties that the utility owns
5 and that Cal Am pays to the relevant local government. Payroll taxes are taxes on
6 employee wages and are used to fund benefits such as Social Security and Medicare.
7 Franchise fees are also called business license fees and are paid to local governments to
8 operate businesses.

9 **II. SUMMARY OF RECOMMENDATIONS**

10 The Commission should adopt the taxes other than income recommended by Cal
11 Advocates in Table 5-1 of Cal Advocates’ RO report.

12 **III. ANALYSIS**

13 **A. Payroll Taxes**

14 There are several components of payroll taxes: Federal Insurance Contribution Act
15 (“FICA”), Federal Unemployment Tax Act (“FUTA”), and State Unemployment Tax Act
16 (“SUTA”). Social Security (“OASDI”) and Medicare are the two parts of FICA. Cal
17 Am’s estimate of Payroll Tax uses the following tax rates:

- 18 • OASDI 6.2%
- 19 • Medicare 1.45%
- 20 • FUTA 0.6%
- 21 • SUTA 6.2%

22 Medicare tax is applied to total wages, with a \$118,500 cap for OASDI and a
23 \$7,000 cap for FUTA and SUTA. Any differences between Cal Am and Cal Advocates’
24 estimated payroll taxes are the result of differences in estimated payroll. The
25 Commission should adopt the payroll tax number recommended by Cal Advocates in
26 Table 5-1 of Cal Advocates’ RO report.

1 **B. Property Taxes**

2 Cal Am calculates property taxes for each year by multiplying the average of the
3 current year’s and past year’s allocable taxable plant (adds taxable plant for each district
4 plus an allocation of the corporate taxable plant) by the 2021 property tax rate of each
5 district (dividing the tax payment amount by taxable plant). For example, in 2022, the
6 average of 2022 and 2021 taxable plants is multiplied by the 2021 property tax rate. Cal
7 Advocates does not oppose Cal Am’s calculation methodology. Any differences between
8 Cal Am’s and Cal Advocates’ estimates are the result of different estimates of total
9 plant.⁸ The Commission should adopt the property tax amounts recommended by Cal
10 Advocates in Table 5-1 of Cal Advocates’ RO report.

11 **C. Franchise Fees**

12 Cal Am collects Franchise Fees from customers through a bill surcharge, rather
13 than rates.⁹ Therefore, it does not project franchise fees in rates. Cal Advocates does not
14 oppose this method.

15 **IV. CONCLUSION**

16 The Commission should adopt values for taxes other than income based on the
17 recommendations of Cal Advocates.

⁸ See the testimonies of Cal Advocates witnesses Sari Ibrahim and Justin Menda.

⁹ Attachment 6, Cal Am’s Response to Cal Adv Data Request PAD 05, Question 1.A.

1 **CHAPTER 3 RATE BASE**

2 **I. INTRODUCTION**

3 This chapter presents analysis and recommendations regarding Cal Am’s proposed
4 Rate Base for TY 2024 and 2025, including allowance for working cash, deferred taxes,
5 depreciation reserve, and adjustments to the utility plant. Cal Am is proposing
6 \$950,157,114 in rate base in TY 2024 and \$1,063,039,157 in 2025.¹⁰ These rate base
7 amounts include an unreasonable allowance for working cash related to inaccurate
8 expense lags for property taxes, Federal Income Tax (FIT) and service company
9 expenses.

10 **II. SUMMARY OF RECOMMENDATIONS**

- 11 **A.** The Commission should use a property tax expense lag of 40.5 days to
12 calculate working cash allowance. This lowers revenues by \$145,661 and
13 \$160,539 in TY 2024 and 2025, respectively.
- 14 **B.** The Commission should use a FIT expense lag of 44.75 days to calculate
15 working cash allowance, reducing revenues by \$24,825 in TY 2024 and
16 \$26,049 in 2025.
- 17 **C.** The Commission should remove service company expenses from the
18 calculation of working cash allowance. This reduces revenues by \$175,303
19 and \$180,374 in TY 2024 and 2025, respectively.

20 **III. ANALYSIS**

21 **A. Allowance for Working Cash**

22 **1. Property Tax Expense Lag**

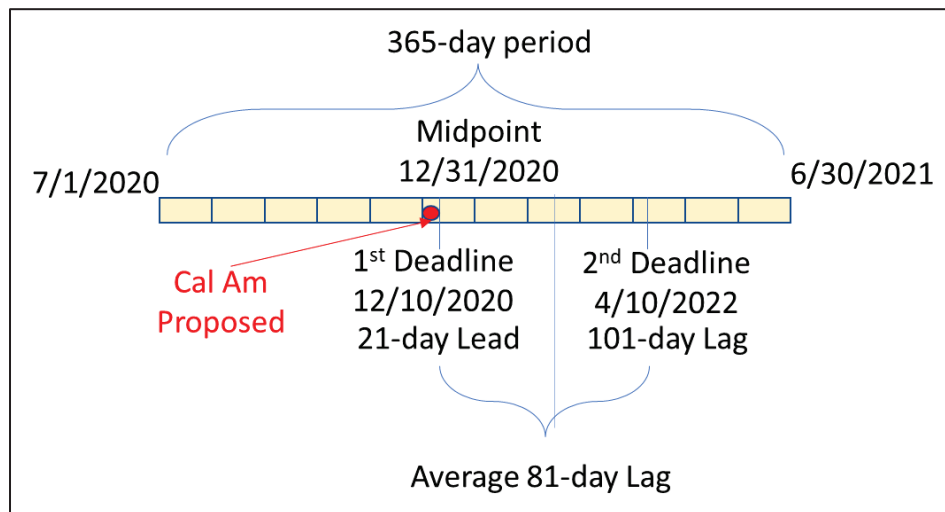
23 The Commission should use a property tax expense lag of 40.5 days to
24 calculate an allowance for working cash. Currently, the utility is projecting -21.47

¹⁰ RO Model, ALL_CH09_RB_RO, Weighted Avg Rate Base WS-01

1 days.¹¹ A negative lag means Cal Am paid property taxes before such property
2 taxes were due. As a data request response, Cal Am provided copies of its
3 property tax invoices for 2020 and 2021.¹²

4 The invoices Cal Am provided showed that its tax period for its property
5 was from July 1, 2020 to June 30, 2021. There were two installments due for that
6 period. The first was due on November 1, 2020, and the second was due on
7 February 1, 2021. However, Cal Am had until December 10, 2020 and April 10,
8 2021 to pay each property tax installment, respectively, before incurring additional
9 fees.¹³

10 The median date between July 1, 2020, and June 30, 2021 is December 31,
11 2020. This date was found by taking the 365 days in that one-year period and
12 adding half, 182.5, to the first date in the period, July 1st. Using a negative
13 property tax expense lag of 21.47 days, as Cal Am projects, would mean that Cal
14 Am is paying all property taxes before the first time they would incur late fees on
15 the first installment, December 10, 2021. This is not prudent cash management as
16 it relates to working cash because ratepayers would be paying earlier for an



¹¹ RO Model, ALL_CH09_RB_WP_Lead Lag Support, EXP_Ad Valorem Taxes E18, Cell S5001

¹² Attachment 7, Cal Am's Response to Cal Adv Data Request PAD 01 Q003, Attachment 01.

¹³ Attachment 7, Cal Am's Response to Cal Adv Data Request PAD 01 Q003, Attachment 01.

1 expense than is necessary and paying Cal Am a full rate of return on that pre-
2 mature payment (see image below).

3 As an example, if there was another utility company in Cal Am's service
4 area, customers would be able to choose between Cal Am and this hypothetical
5 utility company. Let us assume that this hypothetical utility company's costs are
6 equal to Cal Am's costs and that this hypothetical utility company owed the same
7 amounts of property taxes as Cal Am on the same dates. If this hypothetical utility
8 company paid property taxes on December 10, 2020 and April 10, 2021, this
9 hypothetical utility company's working cash needs would be lower than Cal Am's,
10 thereby lowering rates as well. In a competitive market, ratepayers would
11 theoretically choose the other utility, where they could get service for lower rates.
12 However, because Cal Am is a monopoly, ratepayers do not have another option.

13 Therefore, in its role as a substitute for competition, the Commission
14 should not allow ratepayers to be burdened with costs that in a competitive
15 environment would be eliminated by market forces. Using the differences
16 between the final due dates (December 10, 2020 and April 10, 2021) and the
17 median date of the period (December 31, 2021), an average of 40.5 days is
18 calculated. To reflect the final payment due dates and serve as a substitute for
19 competition, the Commission should adopt a property tax expense lag of 40.5
20 days. This will reduce the allowance for working cash by \$1,914,080 in TY 2024
21 and \$2,109,579 in 2025. With a 7.61% rate of return, this recommendation lowers
22 revenues by \$145,661 and \$160,539 in TY 2024 and 2025, respectively. Further
23 changes may occur because of the recommendations of Cal Advocates witnesses
24 Sari Ibrahim and Justin Menda.

25 **2. Federal Income Tax Expense Lag**

26 The Commission should use a FIT expense lag of 44.75 days to calculate
27 allowance for working cash. Currently, Cal Am is projecting a FIT expense lag of
28 37 days. Income taxes are paid on a quarterly basis. The installments are due on

1 April 15, June 15, September 15, and January 15 the following year.¹⁴ However,
2 Cal Am is calculating its FIT expense lag based on an earlier due date for the final
3 payment, December 15.¹⁵ Using the due date of January 15 of the following year,
4 the FIT lag increases to 44.75 days. Therefore, the Commission should adopt a
5 FIT expense lag of 44.75 days. This recommendation reduces the allowance for
6 working cash by \$326,213 and \$342,297 in TY 2024 and 2025, respectively.
7 Using a 7.61% rate of return, revenues would fall by \$24,825 in TY 2024 and
8 \$26,049 in 2025. Changes to the total FIT amount may lead to a different final
9 revenue impact based on this recommendation.

10 3. Service Company Expenses in Working Cash 11 Calculation

12 The Commission should remove service company expenses from the
13 calculation of allowance for working cash. According to Cal Am, service
14 company expenses "...include customer service, water quality testing,
15 environmental compliance, human resources, communications, technology and
16 innovation, finance, accounting, legal, engineering, supply chain, and risk
17 management services."¹⁶ The purpose of working cash in rate base is to
18 compensate investors for day-to-day expenses. Because Cal Am is a subsidiary of
19 American Water Company, its investor is American Water Company. The service
20 company is also a subsidiary of American Water Company.

21 Therefore, costs to the service company from Cal Am are going from one
22 subsidiary of the investor, American Water Company, to another. Ratepayers

¹⁴ Internal Revenue Service, *Pay As You Go, So You Won't Owe: A Guide to Withholding, Estimated Taxes, and Ways to Avoid the Estimated Tax Penalty*, available at <https://www.irs.gov/payments/pay-as-you-go-so-you-wont-owe-a-guide-to-withholding-estimated-taxes-and-ways-to-avoid-the-estimated-tax-penalty>.

¹⁵ RO Model, ALL_CH09_RB_WP_Lead Lag Support, EXP_Current FIT E21, Cell G35.

¹⁶ Direct Testimony of John M. Watkins, A7.

1 should not bear these costs in rate base. Service company expenses are already
2 included in the calculation of Operations and Maintenance Expenses.¹⁷ Removing
3 service company costs from the calculation of the allowance for working cash
4 reduces rate base by \$2,303,585 in TY 2024 and \$2,370,219 in 2025. This
5 reduces revenues by \$175,303 and \$180,374 in TY 2024 and 2025, respectively,
6 based on a rate of return of 7.61%. The Commission should remove service
7 company expenses from the calculation of the allowance for working cash. Any
8 other differences in the recommended allowance for working cash are the result of
9 different estimated expenses, as discussed in the testimony of Cal Advocates
10 witnesses.¹⁸ The Commission should adopt the working cash amounts from table
11 9-1 of the Cal Advocates RO Report for TY 2024 and from table 9-2 for 2025.

12 **B. Depreciation Reserve**

13 Based on a data request response, Cal Am corrected an error it made in the
14 original application relating to changes in the depreciation reserve from December 2018
15 to January 2019 in the 100-day update.¹⁹ Any other difference in Cal Advocates
16 recommended Depreciation Reserve are the result of differences in recommended
17 depreciation accruals.²⁰ The Commission should adopt the Depreciation Reserve from
18 table 8-1 of the Cal Advocates RO report for TY 2024 and 2025.

19 **C. Tank Painting Amortization**

20 Cal Advocates has not identified issues with the amortization of tax painting
21 expenses as calculated by Cal Am. Any differences in the amounts amortized are the

¹⁷ ALL_CH04_O&M_RO_Service Co.

¹⁸ See the testimonies of Cal Advocates witnesses Kerrie Evans, Timothy Gee, and Andrew Sweeney.

¹⁹ Attachment 8, Cal Am's Response to Cal Adv Data Request PAD 02 Q001.

²⁰ See the testimony of Cal Advocates witness Isaac Gendler.

1 result of recommendations Cal Advocates' witness Justin Menda regarding total tank
2 painting amounts.

3 **IV. CONCLUSION**

4 The Commission should adopt Cal Advocates' recommendations for rate base and
5 the projected total Rate Base as seen in Cal Advocates RO Table 9-1 for TY 2024 and 9-
6 2 for 2025.

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CHAPTER 4 RESULTS OF OPERATION (RO) MODEL

I. INTRODUCTION

The RO Model is the collection of Excel files that compile all data in the General Rate Case (“GRC”), such as Operations & Maintenance (OM) expenses, Administrative & General (AG) expenses, rate base, and rate design, among others, to generate revenue requirements in the period covered in the GRC and to determine reasonable water rates the Commission allows Cal Am to recover from ratepayers. Both Cal Am and Cal Advocates have run RO Models with their respective recommendations implemented., The final revenue recommendations are based on the calculations from the RO Model.

II. SUMMARY OF RECOMMENDATIONS

- A.** Cal Am should escalate O&M and A&G expenses in Escalation Year 2025 per the Commission’s Rate Case Plan²¹ and not propose separate forecasts for expenses after TY 2024.
- B.** The commission should adopt overall escalation factors of 6.2% in 2021 and 5.82% in 2022.

III. ANALYSIS

A. 2025 Escalation

The Commission should require Cal Am to escalate O&M and A&G expenses in Escalation Year 2025. Currently, Cal Am is escalating some expenses, and projecting others, at rates both above and below the escalation rate. This conflicts with the Rate Case Plan (RCP), which states:

Utilize the following methods for preparing escalation year requests:

²¹ D.07-05-062

1 1. Estimate escalation year labor expenses by the most recent labor inflation
2 factors as published by the DRA.

3
4 2. Estimate non-labor escalation year expenses, excluding water production
5 related expenses, by the most recent composite non-labor 60%/compensation per
6 hour 40% inflation factors published by DRA.²²

7
8 Cal Am is not following the Rate Case Plan. Many expenses are being calculated
9 again in 2025, not just escalated. Expenses such as regulatory expense amortization and
10 chemicals, among others, are increasing at rates higher than the escalation rates, while
11 other expenses are increasing below the escalation rates.²³

12 Expenses are currently increasing from \$142,658,315 in TY 2024 to \$146,973,811
13 in 2025, an increase of 3.025%.²⁴ While this is close to Cal Am's projected escalation
14 factor of 3.02%, this total increase comes from individual expenses that are increasing at
15 different levels, as previously stated.²⁵ To be consistent with the rate case plan, the
16 Commission should escalate all expenses from TY 2024 to 2025. Using the 3.02%
17 escalation factor proposed by Cal Am, this decreases 2025 expenses to \$146,966,597, a
18 decrease of \$7,214 from Cal Am's proposal. Any other differences in expenses are the
19 result of different recommendations made by Cal Advocates witnesses Andrew Sweeney
20 and Timothy Gee for test year 2024. The Commission should adopt 2025 expenses from
21 Cal Advocates RO tables 3-2 and 4-1.

22 **B. Historical Inflation**

23 The Commission should utilize inflation factors of 6.20% and 5.82% for 2021 and
24 2022, respectively, in estimating the budgets for various categories of expenses.
25 Currently, using data from March 2022 ECOS Factor memos, Cal Am is proposing to use

²² D.07-05-062, Appendix A at A-19.

²³ ALL_CH04_O&M_RO, OUT_Costs by NARUC.

²⁴ ALL_CH04_O&M_RO, OUT_Costs by NARUC, Cells Q2245 and R2245.

²⁵ ALL_CH04_O&M_RO, IN_Escalation, Cell J6.

1 10.94% in 2021 and 7.76% in 2022.²⁶ However, Bureau of Labor Statistics (BLS) data
2 shows that overall inflation factors are 6.2% in 2021 and 5.82% in 2022.

3 Determining budgets using higher inflation factors than the historical inflation
4 factors provided by BLS inflates the estimated budgets. Additionally, though the use of
5 ECOS factor data is required for escalation and attrition years, there is no requirement for
6 using ECOS memo factors to estimate the test year budget.²⁷ Using the data from BLS
7 would reduce TY 2024 Operations and Maintenance expenses by \$1.2 million, labor
8 expenses by \$17,416, and service company costs by \$461,856. These numbers may
9 change based on the testimony of other Cal Advocates witnesses.

10 Overall escalation factors are calculated from labor and non-labor expense
11 increases. Non-labor increases are weighted at 60%, while labor costs are weighted at
12 40%.²⁸ In 2021, Cal Am is proposing a non-labor escalation factor of 14.7%, and a labor
13 escalation factor of 5.3%. In 2022, Cal Am proposes 9% for non-labor and 5.9% for
14 labor. With the weighting methodology, this leads to overall escalations of 10.94% in
15 2021 and 7.76% in 2022. These numbers are from the ECOS factor memos in March
16 2022, which is based on information from Standard and Poor's Global Market
17 Intelligence.

18 The Commission should instead use data from the Bureau of Labor Statistics
19 (BLS). The latest data shows non-labor escalation of 7% in 2021 and 6.5% in 2022, with
20 labor escalation 5% and 4.8% in 2021 and 2022, respectively.²⁹ Using the same
21 weighting method as Cal Am, this would lead to overall escalation factors of 6.2% in
22 2021 and 5.82% in 2022. The Commission is not required to use ECOS factor memo

²⁶ RO Model, ALL_CH04_O&M_WP_Escalation Factors, Inflation Rates - CAW, G20 and H20.

²⁷ Attachment 11, Excerpt from Rate Case Plan

²⁸ Attachment 12, March 2022 ECOS Factor Memo

²⁹ Attachment 13, Escalation Rate Calculation Data

1 data for historical inflation.³⁰ Using the data from BLS would reduce TY 2024
2 Operations and Maintenance expenses by \$1.2 million. The commission should adopt
3 overall escalation factors of 6.2% in 2021 and 5.82% in 2022.

4 **IV. CONCLUSION**

5 The Commission should escalate O&M and A&G expenses in Escalation Year 2025 and
6 not forecast specific expenses after TY 2024. The Commission should utilize inflation
7 factors of 6.20% in 2021 and 5.82% in 2022.

³⁰ Attachment 11, Excerpt from Rate Case Plan

Attachment 1

Qualifications of Witness

STATEMENT OF QUALIFICATIONS – PRASHANTA ADHIKARI

1 Q.1 Please state your name and address.

2 A.1 My name is Prashanta Adhikari, and my business address is 505 Van Ness
3 Ave, San Francisco, CA 94102.

4

5 Q.2 By whom are you employed and what is your job title?

6 A.2 I am employed by the Public Advocates Office of the California Public
7 Utilities Commission as a Public Utilities Regulatory Analyst.

8

9 Q.3 Please describe your educational and professional experience.

10 A.3 I graduated from University of California, Davis in June 2017 with a BA in
11 economics and have worked for the Public Advocates Office since October 2019.

12

13 Q.4 What is your area of responsibility in this proceeding?

14 A.4 My areas of responsibility are income taxes, taxes other than income, rate
15 base, and the results of operation model.

16

17 Q.5 Does that complete your prepared testimony?

18 A.5 Yes

Attachment 2

Excerpt from D.89-11-058

Notwithstanding the lack of such documentation, we adopt the DRA/San Diego position that the test year CCFT number used is really an approximation for the prior year. Our conclusion is based on an understanding of what it takes to prepare a results of operations for a test year. The preparation of a results of operations for one test year is a major undertaking. The preparation of an additional results of operations for the year prior to the test year is likewise no small task. To do the work required to prepare the additional results of operations, solely for the purpose of deriving one number, arguably a more accurate CCFT number for the test year federal income tax calculation, does not make sense if the test year CCFT number is available, and it is a reasonable approximation.

We believe that our conclusion is supported by the conclusions reached in the OII 24 proceeding in 1984. The consensus was that the current (test year) number was a reasonable approximation. As pointed out by San Diego, this issue was mentioned in the OII 24 decision:

"The state income tax deduction for federal tax purposes is the amount of tax paid in the prior year. The state tax deduction computed for ratemaking purposes has been based on the current test-year. ..." (Emphasis added, D.84-05-036, p. 33b.)

Apparently, the parties to OII 24, including the utilities, did not disagree that the practice yielded a reasonable result over time and decided that no change was necessary. Of course, the issue was not framed as a working cash issue as it has now been presented to us. But it is the same issue in a different form.

We agree with San Diego and DRA that adopting the flow-through method for the ratemaking treatment of the CCFT deduction for the federal income tax calculation would negate any need for a working cash or deferred tax adjustment. The CCFT deduction would then be treated consistently for ratemaking and federal income tax

Attachment 3

Excerpt of D.17-06-008

recommended using the CCFT expense included within those rates as the TY 2017/2018 deduction.

For the Los Angeles Division, TY rates were most recently set in 2011. Thus, the CCFT amount adopted in 2011 is still the amount that is adopted in 2016 rates. ORA uses this amount for its 2017/18 TY recommendation. For the Fontana Division, ORA's recommends use of the CCFT amounts adopted in the Attrition Year 2014/2015 Advice Letter (AL) 440-C filing. As a result, ORA uses the prior year's (2016/2017) CCFT expense amount adopted in rates for this period, and recommends TY CCFT deduction amounts of \$1,067,700 for Fontana and \$1,090,900 for Los Angeles.

5.2. Discussion

We adopt the ORA position, affirming that for ratemaking purposes, the CCFT deduction used to calculate a TY FIT expense must be the prior year's CCFT expense amount adopted in rates. The CCFT deduction amounts used to calculate FIT expense for TY2017 will thus be the 2016 CCFT expense amounts adopted in the utility's most recent ratemaking filings, namely: \$1,067,700 for Fontana and \$1,090,900 for Los Angeles.

Consistent with D.89-11-058, a utility's adopted prior year CCFT should be used as the deduction amount from the TY. ORA's methodology complies with D.89-11-058 which requires "that test year and attrition year CCFT estimates adopted in rates be specifically defined and made available to the Commission staff responsible for putting together the FIT..."¹² Therefore, when calculating a utility's 2017 FIT, the 2016 CCFT adopted amount is used as the deduction.

¹² D.89-11-058 at 7.

Attachment 4

Excerpt of Cal Am Advice Letter 1393

CALIFORNIA-AMERICAN WATER
 NORTHERN DIVISION
 CALCULATION OF TAXES ON INCOME (000's)
 AT PROPOSED RATES

1596

Wkpr.: 116

Line No.	Description		2023 (if full step allowed)	2023 (per earnings test)	Reference
1	Revenues		\$80,658.4	\$80,658.4	Workpaper 114, Ln 1
	Deductions				
2	Operating Exps less Uncollectibles		\$57,666.4	\$57,666.4	Workpaper 114, (Lns 2:25) - Ln 10
3	Uncollectibles		\$509.6	\$509.6	Workpaper 114, Ln 10
4	Domestic Prod Activity Deduct		\$0.0	\$0.0	
5	R/M Interest ⁽¹⁾	2.51%	\$6,181.1	\$6,181.1	Workpaper 114, Ln 30 x 2.51%
6	Non-Deductible Meals		(\$37.9)	(\$37.9)	Workpaper 109, Ln 7, Wkp 113, Ln 5
7	Previous Year CCFT		\$1,343.8	\$1,343.8	Workpaper 114, Ln 26
8	Franchise Fees				
	Total Operating Revenue Deductions				
9	State		\$64,319.1	\$64,319.1	(Lns 2 thru 6) - Ln 4
10	Federal		\$64,319.1	\$64,319.1	Ln 9 - Ln 4
11	Taxable Net-State		\$16,339.3	\$16,339.3	Ln 1 - Ln 9
12	S.C.F.T. @ 8.84%	8.84%	\$1,444.39	\$1,444.39	Ln 11 x 8.84%
	Less:				
13	Deferred Taxes		\$0.0	\$0.0	Wkpr. 200-A, 200-B
14	STATE INCOME TAXES		\$1,444.39	\$1,444.39	Ln 12 - Ln 13
15	Taxable Net-Federal		\$14,995.4	\$14,995.4	Ln 1 - Ln 11
16	F.I.T. @ 21.00%	21.00%	\$3,149.0	\$3,149.0	Ln 16 x 21%
	Less:				
17	Deferred Taxes		\$0.0	\$0.0	Wkpr. 200-A, 200-B
18	Amort Excess Deferred Taxes		(\$860.5)	(\$860.5)	Wkpr. 200-A, 200-B
19	FEDERAL INCOME TAX		\$2,288.5	\$2,288.5	Lns 16:18
20	TOTAL TAXES ON INCOME		\$3,732.9	\$3,732.9	Ln 14 + Ln 19

(1) Workpaper 109, Ln 6

Attachment 5

Excerpt of Cal Am Advice Letter 1394

CALIFORNIA-AMERICAN WATER
CENTRAL DIVISION
CALCULATION OF TAXES ON INCOME (000's)
AT PROPOSED RATES

CEN

Wkpr.: 116

Line No.	Description		2023 (If full step allowed)	2023 (per earnings test)	Reference
1	Revenues		\$78,852.3	\$78,519.3	Workpaper 114, Ln 1
	Deductions				
2	Operating Exps less Uncollectibles		\$52,739.4	\$52,408.9	Workpaper 114, Ln 32
3	Uncollectibles		\$3,282.7	\$3,281.0	Workpaper 114, Ln 10
4	Domestic Prod Activity Deduct		\$0.0	\$0.0	
5	R/M Interest ⁽¹⁾	2.51%	\$6,216.2	\$6,216.2	Workpaper 114, Ln 28 x 2.51%
6	Non-Deductible Meals		(\$30.2)	(\$30.2)	Wkpr. 200-A, 200-B
7	Previous Year CCFT		\$1,412.5	\$1,412.5	Workpaper 114, Ln 24
8	Franchise Fees				
	Total Operating Revenue Deductions				
9	State		\$62,208.1	\$61,875.8	(Lns 2 thru 6) - Ln 4
10	Federal		\$62,208.1	\$61,875.8	Ln 9- Ln 4
11	Taxable Net-State		\$16,644.2	\$16,643.5	Ln 1 - Ln 9
12	S.C.F.T. @ 8.84%	8.84%	\$1,471.35	\$1,471.28	Ln 11 x 8.84%
	Less:				
13	Deferred Taxes		\$0.0	\$0.0	Wkpr. 200-A, 200-B
14	STATE INCOME TAXES		\$1,471.35	\$1,471.28	Sum Ln 12:13
15	Taxable Net-Federal		\$15,231.7	\$15,231.0	Ln 1 - Ln 7 - Ln 10
16	F.I.T. @ 21.00%	21.00%	\$3,198.7	\$3,198.5	Ln 15 x 21%
	Less:				
17	Deferred Taxes		(\$21.7)	(\$21.7)	Wkpr. 200-A, 200-B
18	Amprt Excess Deferred Taxes		(\$664.1)	(\$664.1)	Wkpr. 200-A, 200-B
19	FEDERAL INCOME TAX		\$2,512.8	\$2,512.7	Sum Ln 16:18
20	TOTAL TAXES ON INCOME		\$3,984.2	\$3,983.9	Ln 14 + Ln 19

(1) Workpaper 109, Ln 6

Attachment 6

Excerpt of Cal Am Advice Letter 1395

CALIFORNIA-AMERICAN WATER
SOUTHERN DIVISION
CALCULATION OF TAXES ON INCOME (000's)
AT PROPOSED RATES

1595

Wkpr.: 116

Line No.	Description		2023 (If full step allowed)	2023 (per earnings test)	Reference
1	Revenues		\$130,800.8	\$130,800.8	Workpaper 114, Ln 1
	Deductions				
2	Operating Exps less Uncollectibles		\$106,309.5	\$106,309.5	Workpaper 114, Ln 31
3	Uncollectibles		\$945.8	\$945.8	Workpaper 114, Ln 10
4	Domestic Prod Activity Deduct		\$0.0	\$0.0	
5	R/M Interest ⁽¹⁾	2.51%	\$6,564.1	\$6,564.1	Workpaper 114, Ln 27 x 2.51%
6	Non-Deductible Meals		(\$27.2)	(\$27.2)	Wkpr. 200-A, 200-B
7	Previous Year CCFT		\$1,381.3	\$1,381.3	Workpaper 114, Ln 23
8	Franchise Fees				
	Total Operating Revenue Deductions				
9	State		\$113,792.3	\$113,792.3	(Lns 2 thru 6) - Ln 4
10	Federal		\$113,792.3	\$113,792.3	Ln 9 - Ln 4
11	Taxable Net-State		\$17,008.5	\$17,008.5	Ln 1 - Ln 19
12	S.C.F.T. @ 8.84%	8.84%	\$1,503.56	\$1,503.56	Ln 11 x 8.84%
	Less:				
13	Deferred Taxes		\$0.0	\$0.0	Wkpr. 200-A, 200-B
14	STATE INCOME TAXES		\$1,503.56	\$1,503.56	Sum Ln 12:13
15	Taxable Net-Federal		\$15,627.2	\$15,627.2	Ln 1 - Ln 7 - Ln 10
16	F.I.T. @ 21.00%	21.00%	\$3,281.7	\$3,281.7	Ln 15 x 21%
	Less:				
17	Deferred Taxes		(\$21.2)	(\$21.2)	Wkpr. 200-A, 200-B
18	Amort Excess Deferred Taxes		(\$1,119.0)	(\$1,119.0)	Wkpr. 200-A, 200-B
19	FEDERAL INCOME TAX		\$2,141.5	\$2,141.5	Sum Ln 16:18
20	TOTAL TAXES ON INCOME		\$3,645.1	\$3,645.1	Ln 14 + Ln 19

(1) Workpaper 109, Ln 6

Attachment 7

Excerpt of Cal Am Advice Letter 72

CALIFORNIA-AMERICAN WATER
 MONTEREY WASTEWATER
 CALCULATION OF TAXES ON INCOME (000's)
 AT PROPOSED RATES

1542

Wkpr.: 116

Line No.	Description		2023 (If full step allowed)	2023 (per earnings test)	Reference
1	Revenues		\$3,870.1	\$3,870.1	Workpaper 114, Ln 1
	Deductions				
2	Operating Exps less Uncollectibles		\$3,543.8	\$3,543.8	Workpaper 114, Ln 32
3	Uncollectibles		\$19.8	\$19.8	Workpaper 114, Ln 10
4	Domestic Prod Activity Deduct		\$0.0	\$0.0	
5	R/M Interest ⁽¹⁾	2.51%	\$93.4	\$93.4	Workpaper 114, Ln 28 x 2.51%
6	Non-Deductible Meals		(\$0.6)	(\$0.6)	Wkpr. 200-A, 200-B
7	Previous Year CCFT		\$16.6	\$16.6	Workpaper 114, Ln 24
8	Franchise Fees		\$0.0	\$0.0	
	Total Operating Revenue Deductions				
9	State		\$3,656.4	\$3,656.4	(Sum Lns 2:8) - Ln 4 - Ln 7
10	Federal		\$3,656.4	\$3,656.4	Ln 9 - Ln 4
11	Taxable Net-State		\$213.7	\$213.7	Ln 1 - Ln 9
12	S.C.F.T. @ 8.84%	8.84%	\$18.89	\$18.89	Ln 11 x 8.84%
	Less:				
13	Deferred Taxes		\$0.0	\$0.0	Wkpr. 200-A, 200-B
14	STATE INCOME TAXES		\$18.89	\$18.9	Ln 12 - Ln 13
15	Taxable Net-Federal		\$197.1	\$197.1	Ln 1 - Ln 7 - Ln 10
16	F.I.T. @ 21.00%	21.00%	\$41.4	\$41.4	Ln 16 x 21%
	Less:				
17	Deferred Taxes		\$0.0	\$0.0	Wkpr. 200-A, 200-B
18	Amort Excess Deferred Taxes		(\$37.0)	(\$37.0)	Wkpr. 200-A, 200-B
19	FEDERAL INCOME TAX		\$4.4	\$4.4	Sum Ln 16:18
20	TOTAL TAXES ON INCOME		\$23.3	\$23.3	Ln 14 + Ln 19

(1) Workpaper 117

Attachment 8

**Excerpt from Cal Am's Response to Cal Adv
Data Request PAD 05, Question 1.A.**

California-American Water Company

APPLICATION NO. A.22-07-001
DATA REQUEST RESPONSE

Response Provided By: Jonathan Morse
Title: Senior Manager Rates & Regulatory
Address: California American Water
520 Capital Mall, Suite 630
Sacramento, CA 95814
Cal Adv Request: A2207001 CAL ADV DATA REQUEST # PAD-05
Company Number: Cal ADV PAD 05 Q001
Date Received: October 20, 2022
Date Response Due: November 3, 2022
Subject Area: Franchise Taxes

DATA REQUEST:

1. Per ALL_CH05_OTAX_RO, OTAX By Category WS12 of the Results of Operation (RO) Model, Cal Am is projecting \$0 in Franchise Taxes in any district for TY 2024.

- A. Is Cal Am projecting not having to pay Franchise Taxes?
- B. If the answer to A is no, please explain why Cal Am is projecting no franchise taxes. Please provide franchise tax rates for each city Cal Am operates in.

CAL-AM'S RESPONSE

- A. California American Water collects franchise fees as a separate line item on customer bills and does not forecast those amounts.
- B. See answer above. See attachment CAW Response Cal Adv PAD 05 Q001 Attachment 1.

Attachment 9

**Excerpt from Cal Am's Response to Cal Adv
Data Request PAD 01 Q003, Attachment 01**

DETACH AND MAIL THIS STUB WITH YOUR 2ND INSTALLMENT PAYMENT
DO NOT INCLUDE NOTES WITH YOUR PAYMENT
DO NOT STAPLE, TAPE OR CLIP PAYMENT STUB OR CHECK

[Empty box for stamp]

ANNUAL 2020

CALIFORNIA AMERICAN WATER CO
PO BOX 5627
CHERRY HILL NJ 08034-0519

ASSESSOR'S ID. NO. YR SEQ CK PK
4201 031 052 20 000 16 2

OR MAILING ADDRESS CHANGE
PLEASE MARK BOX BELOW AND
COMPLETE FORM ON REVERSE SIDE
OF THIS PAYMENT COUPON.

2ND INSTALLMENT DUE INDICATE AMOUNT PAID

PAYMENT DUE 02/01/21 → \$1,134.79
IF NOT RECEIVED OR POSTMARKED BY 04/10/21
REMIT AMOUNT OF \$1,258.28

MAKE PAYMENT PAYABLE TO:
Please write the ASSESSOR'S ID. NO.
on the lower left corner of your payment.
76193

LOS ANGELES COUNTY TAX COLLECTOR
P.O. BOX 54018
LOS ANGELES, CA 90054-0018

21720000642010310520000113479000012582619320412

2ND

DETACH AND MAIL THIS STUB WITH YOUR 1ST INSTALLMENT PAYMENT
DO NOT INCLUDE NOTES WITH YOUR PAYMENT
DO NOT STAPLE, TAPE OR CLIP PAYMENT STUB OR CHECK

[Empty box for stamp]

ANNUAL 2020

CALIFORNIA AMERICAN WATER CO
PO BOX 5627
CHERRY HILL NJ 08034-0519

ASSESSOR'S ID. NO. YR SEQ CK PK
4201 031 052 20 000 16 1

OR MAILING ADDRESS CHANGE
PLEASE MARK BOX BELOW AND
COMPLETE FORM ON REVERSE SIDE
OF THIS PAYMENT COUPON.

1ST INSTALLMENT DUE INDICATE AMOUNT PAID

PAYMENT DUE 11/01/20 → \$1,134.81
IF NOT RECEIVED OR POSTMARKED BY 12/10/20
REMIT AMOUNT OF \$1,248.29

MAKE PAYMENT PAYABLE TO:
Please write the ASSESSOR'S ID. NO.
on the lower left corner of your payment.
06175

LOS ANGELES COUNTY TAX COLLECTOR
P.O. BOX 54018
LOS ANGELES, CA 90054-0018

20020000642010310520000113481000012482917511210

1ST

Attachment 10

Excerpt from Cal Am's Response to Cal Adv Data Request PAD 02 Q001

1

Total	380,361,015	353,871,051	(26,489,963)
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- a. Please explain the reasons(s) for the \$26,489,963 reduction in the depreciation reserve from December 2018 to January 2019.
- b. Provide in Excel format a detailed calculation showing how the reduction of depreciation reserve amounts in each district was calculated, including any formulas, inputs and outputs, multipliers, and other components.

CAL-AM'S RESPONSE

4

California-American Water Company

APPLICATION NO. A.22-07-001
DATA REQUEST RESPONSE

Difference is due to manual adjustments for weighting calculation purposes that were unintentionally carried over from the 2019 GRC for years 2018 and prior, which are not applicable to the recorded period in this GRC cycle. California American Water will correct this in the 100-Day Update.

1

Attachment 11
Excerpt from Rate Case Plan

The most recent memorandum entitled, "Estimates of Non-labor and Wage Escalation Rates" as described in D.04-06-018, shall be used for Escalation Years 1 and 2 rate increase requests and shall be sought by Tier 1 advice letter no later than 45 days prior to first day of the escalation year. The advice letter filing shall include all calculations and documentation necessary to support the requested rate change. The requested rate increase shall be subject to the pro forma earnings test, as specified in D.04-06-018. Revenue requirement amounts otherwise subject to rate recovery, e.g., through balancing or memorandum accounts, shall not be subject to escalation.

All rate base items, including capital additions and depreciation, shall not be escalated but rather shall be subject to two test years and an attrition year, consistent with D.04-06-018. If the Escalation Year and Attrition Year advice letters are in compliance with this decision, GO 96-B, and other requirements, the advice letter shall be effective on the first day of the escalation or attrition year, consistent with the procedures set forth in GO 96-B.

Utilize the following methods for preparing escalation year requests:¹

1. Estimate escalation year labor expenses by the most recent labor inflation factors as published by the DRA.
2. Estimate non-labor escalation year expenses, excluding water production related expenses, by the most recent composite non-labor 60% / compensation per hour 40% inflation factors published by DRA.

Attachment 12

March 2022 ECOS Factor Memo

MEMORANDUM

Date: April 4, 2022
 To: R. Rauschmeier, Program Manager, Public Advocates Office
 From: P. Adhikari, Regulatory Analyst, Public Advocates Office, Water Branch
 File No. : S-2559
 Subject: Public Advocates Office: Estimates of Non-labor and Wage Escalation Rates for 2022 through 2026 from the March 2022 IHS Global Insight U.S. Economic Outlook

The purpose of the monthly Escalation Memorandum is to inform division management of the trends in the general price level of utility non-labor expenses and wage contracts. Data are provided for 13 years, which include eight historic years, the estimated current year, and four forecasted years.

The following table summarizes the major changes in forecasted labor and non-labor inflation for years 2022 through 2026. Data for 2021 are provided as benchmarks. The factors for February 2022 are presented for comparison.

	Labor		Non-Labor	
	<u>March</u> <u>-22</u>	<u>February</u> <u>-22</u>	<u>March</u> <u>-22</u>	<u>February</u> <u>-22</u>
2021	1.2%	1.2%	14.7%	14.7%
2022	4.7%	4.7%	9.0%	7.8%
2023	6.2%	4.5%	3.3%	2.3%
2024	2.6%	1.9%	2.3%	1.6%
2025	2.1%	2.1%	2.3%	1.8%
2026	2.1%	2.1%	2.3%	1.9%
Compounde d	20.3%	17.7%	38.4%	33.4%

A more extensive explanation of the derivation and use of the above factors and a complete presentation of the escalation factors from 2014 through 2026 are provided in the attached appendix.

APPENDIX: EXPLANATION OF ESCALATION RATES

The recommended NON-LABOR ESCALATION RATES for 2014 through 2026 are presented in Table A. The values for 2014 through 2021 are provided for comparison.

TABLE A

Year	Non-Labor Inflation Rate*
2014	0.9%
2015	-2.8%
2016	-1.1%
2017	3.7%
2018	4.1%
2019	0.1%
2020	-0.5%
2021	14.7%
2022	9.0%
2023	3.3%
2024	2.3%
2025	2.3%
2026	2.3%

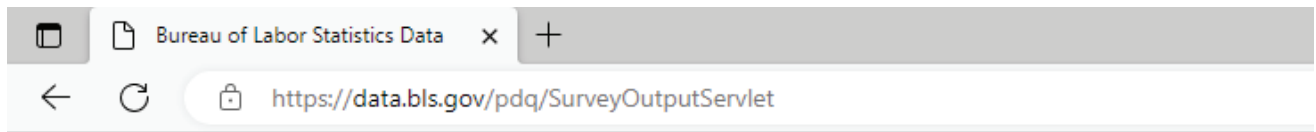
* Revised 07/17/97 based on 1995 re-weighted purchases. [Source: BLS, Supplement to Producer Price Indexes, 1995, Table 12]

These escalation rates represent the calendar year average, or alternatively stated, the 12-month-ended spot rate at mid-year. These price factors have not been adjusted for real growth of expensed materials and services. The escalation factors are generated from a composite index of 10 Wholesale Price Indexes (WPI) for materials and supplies expenses and the CPI-U weighted 5% for services and consumer-related items. **These non-labor rates are not applicable to plant, contracted services, loans, insurance, rents, and pensions and other utility employee benefits. Escalation of these expenses is addressed on pages 10-15 of D.04-06-018/R.03-09-005 (Water Rate Case Plan).**

Attachment 13

Escalation Rate Calculation Data

Figure 1: CPI for All Urban Consumers (CPI-U), 12-Month Percent Change



Data extracted on: April 5, 2023 (8:21:53 PM)

CPI for All Urban Consumers (CPI-U)

12-Month Percent Change

Series Id: CUUR0000SA0

Not Seasonally Adjusted

Series Title: All items in U.S. city average, all urban consumers, not seasonally adjusted

Area: U.S. city average

Item: All items

Base Period: 1982-84=100

Download: [xls](#) [xlsx](#)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2
2013	1.6	2.0	1.5	1.1	1.4	1.8	2.0	1.5	1.2	1.0	1.2	1.5	1.5	1.4
2014	1.6	1.1	1.5	2.0	2.1	2.1	2.0	1.7	1.7	1.7	1.3	0.8	1.7	1.5
2015	-0.1	0.0	-0.1	-0.2	0.0	0.1	0.2	0.2	0.0	0.2	0.5	0.7	-0.1	0.3
2016	1.4	1.0	0.9	1.1	1.0	1.0	0.8	1.1	1.5	1.6	1.7	2.1	1.1	1.5
2017	2.5	2.7	2.4	2.2	1.9	1.6	1.7	1.9	2.2	2.0	2.2	2.1	2.2	2.0
2018	2.1	2.2	2.4	2.5	2.8	2.9	2.9	2.7	2.3	2.5	2.2	1.9	2.5	2.4
2019	1.6	1.5	1.9	2.0	1.8	1.6	1.8	1.7	1.7	1.8	2.1	2.3	1.7	1.9
2020	2.5	2.3	1.5	0.3	0.1	0.6	1.0	1.3	1.4	1.2	1.2	1.4	1.2	1.2
2021	1.4	1.7	2.6	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0	3.4	6.0
2022	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	8.3	7.7
2023	6.4	6.0												

Figure 2: Employment, Hours, and Earnings from the Current Employment Statistics survey (National), 12-Month Percent Change

