

Docket	:	<u>A.22-07-001</u>
Exhibit Number	:	<u>Cal Adv - #</u>
Commissioner	:	<u>Genevieve Shiroma</u>
Administrative Law Judge	:	<u>Jacob Rambo</u>
Public Advocates Office	:	
Witness	:	<u>Cortney Sorensen</u>



PUBLIC ADVOCATES OFFICE
CALIFORNIA PUBLIC UTILITIES COMMISSION

**REPORT ON EXECUTIVE SUMMARY AND
SPECIAL REQUESTS 5, 9, AND 15**

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 and the preparer of this report. Mr. Mukunda Dawadi is the
9 oversight supervisor. Ms. Angela Wuerth and Ms. Emily Fisher are the legal counsel.

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

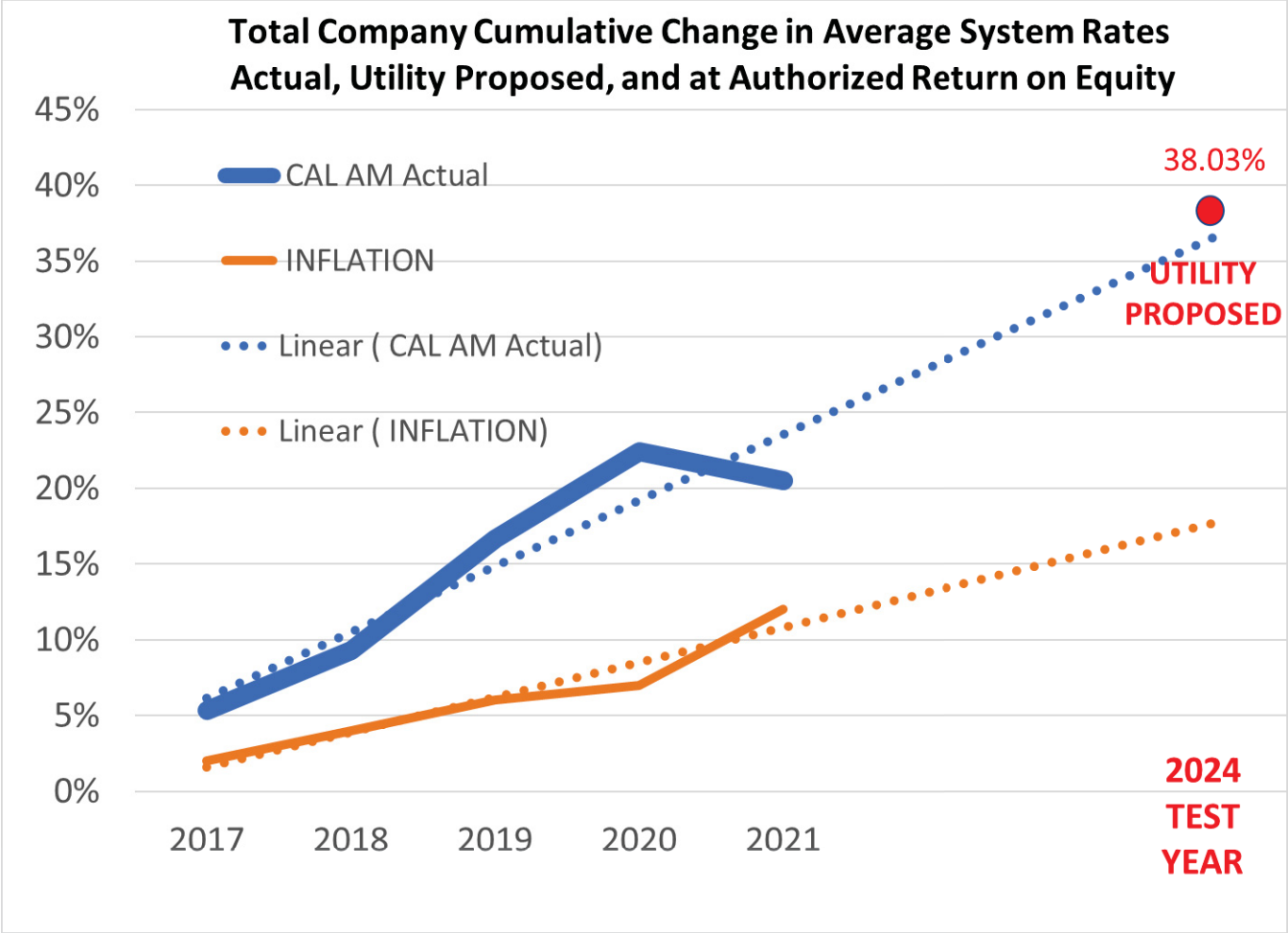
CHAPTER 1 Executive Summary

Cal Am filed its original GRC Application (A.) 22-07-001 on July 1, 2022, requesting to increase current average system rates for water service by approximately \$95.2 million or 32% by 2026.¹ On January 27, 2023, Cal Am filed an updated application proposing Water Revenue Adjustment Mechanism (WRAM) and Monterey-Style WRAM (M-WRAM) as alternatives for the Commission’s consideration.² Cal Advocates recommends a revenue requirement reduction of \$23.6 million (-7.03%) in Test Year 2024, and an estimated revenue increase of \$16.1 million (5.20%) in escalation year 2025, and \$8.9 million (2.73%) in escalation year 2026. Also, Cal Advocates recommends that the Commission reject Cal Am’s WRAM proposal. Cal Advocates’ recommendations are consistent with the mandate that utilities provide safe, reliable, affordable utility service.

Cal Am’s focus on meeting targeted earnings per share growth goals, rather than a fair and reasonable approach to growth based on actual water system needs, has resulted in exorbitant customer rates that have outpaced inflation. The graph below compares the cumulative change in Cal Am’s average system rates since 2017 with inflation. The blue line shows the change since 2017 that would have been necessary for Cal Am to achieve its authorized rate of return. A linear trend line extending to the test year in this proceeding has been added for comparison with Cal Am’s proposed rate changes (red dot) in this proceeding. If Cal Am’s proposals are granted, average system rates will have increased 38% since 2017.

¹ \$55,771,300 or 18.7% in Test Year 2024, \$19,565,300 or 5.5% in escalation year 2024, and \$19,892,400 in escalation year 2025.

² *Updated Application (A.)22-07-001 of California-American Water Company to Increase Revenues in Each of its Districts Statewide* (January 27, 2023) (Updated Application), at 12.



1
2 The Commission should consider a utility’s incentive to increase capital
3 investment beyond what is operationally necessary when determining whether proposed
4 investments are reasonable. Certain aspects of cost-based regulation motivate utilities to
5 invest in systems to an unnecessary degree, burdening ratepayers with unnecessary costs.
6 The greater the capital investment, the greater the return or profit for the utility. For
7 example, Cal Am’s parent company, American Water, has a targeted 7-9% compound
8 annual growth rate for 2022-2026.³ American Water asserts that accelerating capital
9 investment and continued rate base growth are “foundational to overall growth.”⁴ To

³ Testimony of Cal Advocates’ witness Sari Ibrahim at 6.

⁴ Testimony of Cal Advocates’ witness Sari Ibrahim at 6.

1 achieve its targeted earnings per share growth, American Water plans to increase
2 acquisitions by 1.5-2.5% and regulated capital investment by 5-7%.⁵

3 Cal Am's recent acquisitions of the Fruitridge, Rio Plaza, Hillview, Bass Lake,
4 East Pasadena, Bellflower and Warring systems is consistent with American Water's
5 earnings per share goals. Cal Advocates estimates that approximately 28% of Cal Am's
6 requested revenue requirement increase is due to recent acquisitions. The revenue
7 requirement increase related to these acquisitions represents a significant portion of Cal
8 Am's total proposed revenue requirement.

9 Cal Am has requested several capital projects in this GRC that are not based on
10 operational need, but rather are included to attain Cal Am's earnings per share goal by
11 increasing regulated capital investment. For example, Cal Am requests a budget for
12 construction of an unnecessary nitrate treatment facility at Well 2 in the El Rio water
13 system.⁶ Well 2 sampling data shows Well 2 has never exceeded the nitrate maximum
14 contaminant level (MCL) of 10 mg/L and the highest single detection was at 7.63 mg/L,
15 which is below 80% of the MCL.⁷ Similarly, Cal Am seeks to construct a manganese
16 treatment facility at Wittkop Well 2 in the Sacramento District, even though sampling
17 data shows Wittkop Well 2 is currently non-detect for manganese.⁸ Accordingly, Cal
18 Advocates recommends that the Commission deny these unnecessary projects.

19 Cal Am has engaged in deceptive practices to help meet American Water's
20 earnings per share goals, such as deliberately under-forecasting costs tracked in balancing
21 accounts to make rate increases appear lower than what Cal Am ratepayers will actually
22 experience. Cal Am is then able to recoup these costs through future surcharges outside
23 of base rates set by the Commission. Accordingly, Cal Advocates recommends that the

⁵ Testimony of Cal Advocates' witness Sari Ibrahim at 6.

⁶ Testimony of Cal Advocates' witness Sari Ibrahim at 44.

⁷ Testimony of Cal Advocates' witness Sari Ibrahim at 44.

⁸ Testimony of Cal Advocates' witness Justin Menda at 14-16.

1 Commission implement a Deceptive Pricing Adjustment that would deny Cal Am
2 recovery of the amounts it deliberately under-forecasted, as well as suspend Purchased
3 Water and Purchased Power balancing accounts.

4 One way the Commission can protect ratepayers against potentially deceptive
5 practices and counteract Cal Am’s incentive to overspend is to require Cal Am to
6 demonstrate the need for infrastructure investment based on the actual, physical condition
7 of the current system, rather than simply on infrastructure age. Accordingly, Cal
8 Advocates has considered both the physical conditions and operational alternatives
9 available to Cal Am when recommending appropriate capital investment amounts. For
10 example, Cal Advocates recommends that the Commission deny \$1,624,709 in 2024 and
11 \$2,186,558 for the Raymond Basin Replacement Project because the Los Angeles County
12 District will have adequate supply capacity without this project.²

13 In addition, Cal Advocates has applied general policies for setting rates that appear
14 to be especially relevant in the current proceeding. First, the Commission should deny
15 Cal Am’s request to automatically retire assets significantly earlier than their useful life.¹⁰
16 In this GRC, Cal Am proposes to retire \$12.3 million in used and useful assets.¹¹ As a
17 result, ratepayers will have to pay the full cost of these assets without receiving the full
18 benefit for these assets that are still used and useful but retired early. Cal Advocates
19 recommends the Commission reject Cal Am’s proposal to prematurely retire these used
20 and useful assets because it would result in increased costs for ratepayers.

21 Second, the Commission should not continue to include delayed carry-over
22 projects in rates. Customers should not pay twice for projects they have never received a
23 benefit from once. This would include projects that were previously authorized by the
24 Commission and included in customer rates but remain unfinished as of this General Rate

² Testimony of Cal Advocates’ witness Sari Ibrahim at 24.

¹⁰ Testimony of Cal Advocates’ witness Isaac Gendler at 3-6.

¹¹ Testimony of Cal Advocates’ witness Isaac Gendler at 4.

1 Case (“GRC”). Because customers have already reimbursed Cal Am under the
2 assumption that the carry-over projects would be providing beneficial service, it is
3 unreasonable to allow continuing rate recovery for the projects until they are actually in-
4 service and providing ratepayer benefits that Cal Am can demonstrate in a subsequent
5 GRC. For example, Cal Advocates recommends that the Commission remove
6 \$6,498,835 in 2024 and \$7,106,315 in 2025 from Cal Am’s budget for the Rosemead
7 Operations Center relocation project.¹² The Commission approved and included the
8 Rosemead relocation project in customer rates during the 2016 GRC cycle, but Cal Am
9 failed to complete this project within the given timeframe.¹³

10 Third, the ratemaking process should be transparent to decisionmakers and
11 ratepayers and should encourage utilities to operate efficiently and within budget.
12 Memorandum and Balancing Accounts (“surcharge accounts”) are alternative ratemaking
13 mechanisms that are counter to both of these principles. The amounts that are tracked in
14 these accounts can appear as surcharges on customer bills but are not included in the rate
15 changes presented in this proceeding. More importantly, these surcharge accounts allow
16 utilities to operate without the discipline of an established budget, which is inconsistent
17 with the role of regulation as a substitute for competition. Cal Advocates recommends
18 elimination of 31 surcharge accounts. Also, Cal Advocates recommends issuing net
19 surcredits totaling \$992,234 to be returned to ratepayers.

20 Fourth, Cal Am’s request for contingency allowances for most capital projects
21 should be denied advance ratepayer funding. Cal Am requests contingency factors
22 ranging from 5% to 25%. In a GRC, the utility must be able to demonstrate the
23 reasonableness of every dollar in its revenue requirement.¹⁴ Contingency amounts are,
24 by definition, unknown, and therefore inappropriate for inclusion in revenue

¹² Testimony of Cal Advocates’ witness Sari Ibrahim at 9.

¹³ Testimony of Cal Advocates’ witness Sari Ibrahim at 9.

¹⁴ D.96-12-066 *Re Pacific Gas and Electric Company*, 69 CPUC2d 691 (December 20, 1996) at 695.

1 requirement.¹⁵ Accordingly, Cal Advocates recommends that the Commission deny Cal
2 Am’s requested contingency budget.

3 Fifth, a utility’s GRC application should advance and fully address the
4 Commission’s Environmental and Social Justice (“ESJ”) objectives. Cal Am states that
5 its GRC application generally furthers the Commission’s ESJ goals.¹⁶ Cal Am’s
6 application lists the following Cal Am service areas as disadvantaged communities:¹⁷
7 Meadowbrook located in Merced County, Fruitridge located in Sacramento County, and a
8 portion of Rosemont located in Sacramento County.¹⁸ However, while Cal Am briefly
9 discusses its proposal to increase the Customer Assistance Program from 20 to 25% in all
10 of its service areas, it does not appear that Cal Am’s goals were specifically developed to
11 address the Commission’s ESJ Action Plan objectives in these disadvantaged
12 communities. The Commission should order Cal Am to develop a plan that specifically
13 addresses the Commission’s revised ESJ Action Plan’s goals and objectives in these
14 disadvantaged communities and present its achievements in Cal Am’s next GRC.

15
16 **PUBLIC ADVOCATES OFFICE’S REPORTS AND WITNESSES**

17
18 The following table identifies the various Public Advocates Office’s reports and
19 witnesses that provide analysis and recommendations relevant to the requests made by
20 Cal Am in the current proceeding:

21
22

¹⁵ See D.21-08-036 at 331 (stating that “budgeting for contingencies is not necessarily appropriate in the context of a general rate case, where the utility must demonstrate the reasonableness of every dollar in its forecast revenue requirement”).

¹⁶ Tilden Direct Testimony at 22; Simon Direct Testimony at 16.

¹⁷ Disadvantaged community as defined by Health and Safety Code Section 116275, subd. (aa)

¹⁸ Resolution W-5241 at 7.

Witness for the Public Advocates Office	Subject Matter
Cortney Sorensen	Executive Summary; Special Requests 5, 9, and 15
Prashanta Adhikari	Rate Base; Income Taxes; Taxes Other Than Income; Results of Operations
Herbert Merida	Revenues (Customers and Consumption); Rate Design; Special Requests 10, 12, 17, 18, 19, and 20
Justin Menda	Recorded & Proposed Plant (Northern & Central Division); and Tank Painting
Sari Ibrahim	Recorded & Proposed Plant (Southern Division and Corporate Office); Construction Work in Progress; Special Request 14
Isaac Gendler	Depreciation; Earthquake Insurance; Customer Service; Wildfire and Safety (Portable Generator Study)
Andrew Sweeney	Labor and Salaries; Administrative and General Expenses; and Special Request 11
Timothy Gee	Operation and Maintenance Expenses
Kerrie Evans	General Office, Service Company Cost
Mukunda Dawadi	Memorandum and Balancing Accounts; Special Requests 2, 3, 6, 13, 14, and 16
Richard Rauschmeier	Special Request 1

1 **1. State Water Resources Control Board (SWRCB)**
2 **Division of Drinking Water (DDW) Permit Status**

3 As of February 24, 2023, Cal Am had not yet received a permit from the SWRCB
4 DDW for the operation of the East Pasadena system.²⁰ An acquiring water company
5 may not include the acquired water system in rates until the acquiring water company
6 has received a permit from the SWRCB DDW for the operation of the acquired
7 system.²¹ Therefore, Cal Am must receive a permit from the SWRCB DDW prior to the
8 start of Test Year 2024 to operate the East Pasadena system in order to include East
9 Pasadena’s rate base in rates in the current GRC. If Cal Am receives the operating
10 permit after January 1, 2024, consistent with Commission precedent it may file an
11 advice letter to include the East Pasadena system’s approved rate base in its rates.²²

12 **2. Water Rights (Intangible Assets)**

13 D.21-08-002 approved Cal Am’s acquisition of the East Pasadena system and
14 states that the water rights owned by East Pasadena are 1,708 acre-feet in the Main San
15 Gabriel Basin and 515 acre-feet in the Raymond Basin, of which only 360.5 acre-feet is
16 available for withdrawal.²³ Per Main San Gabriel Basin Watermaster Reports
17 (“Watermaster Reports”) for 2018 through 2021, East Pasadena Water Company owned

²⁰ Cal Am Response to Data Request CSN-03, question 1.a.

²¹ In D.19-04-015, page 39, the Commission stated that “...within 30 days of receipt of the SWRCB permit, Cal-Am will file a Tier 1 Advice Letter revising its tariffs to incorporate Rio Plaza’s service area and rates in conformance with Commission practice.” See also D.17-05-003 at 16 (stating “Del Oro [water company] should not operate the [acquired] Benbow system nor collect tariffed rates from Benbow customers until it has received an operating permit from SWRCB DDW”).

²² D.17-05-003 at 17 (stating that “[within] 30 days of receipt of the operating permit from the State Water Resources Control Board, Division of Drinking Water, Del Oro Water Company, Inc., must file a Tier 1 advice letter updating the tariff sheets with new rates granted pursuant to this decision and revising ownership information”).

²³ D.21-08-002 at 5.

1 water rights with a prescriptive pumping right of 1407.69 acre-feet.²⁴ The 2021-2022
2 Watermaster Report states that on September 21, 2021, water rights with a prescriptive
3 pumping right of 1407.69 acre-feet and a production right of 1122.12 acre-feet were
4 transferred from East Pasadena Water Company to California American Water Company
5 – San Marino.²⁵

6 As confirmed in the Commission’s decision approving Cal Am’s acquisition of the
7 East Pasadena system, the system uses all its water rights and does not have excess water
8 rights that can be shared with any other Cal Am systems—rather, the opposite is true.²⁶
9 Cal Am will need to supply East Pasadena with additional groundwater rights to avoid
10 continued over-pumping. The 2021-2022 Watermaster Report shows that the East
11 Pasadena Water Company over-pumped; i.e., pumped more than its prescriptive pumping
12 right of 1407.69 acre-feet, in each year from July 2017 – June 2021.²⁷ Therefore, East
13 Pasadena’s water rights can benefit only the East Pasadena system and the value of the
14 water rights should not be allocated anywhere else.

15 3. Acquisition Premium

16 Cal Am’s acquisition of East Pasadena had an acquisition premium of \$30 million,
17 which is the difference between fair market value and book value of East Pasadena
18 assets.²⁸ The majority of this premium is the value of the water rights. These are the
19 same water rights that East Pasadena has used and will continue to use. The transfer of

²⁴ Main San Gabriel Basin Watermaster Reports (Watermaster Reports), available at <https://www.watermaster.org/reports>; 2018-2019 Watermaster Report, Appendix L, at L9; 2019-2020 Main San Gabriel Basin Watermaster Report, Appendix L, at L9; 2020-2021 Watermaster Report, Appendix L, at L9.

²⁵ 2021-2022 Watermaster Report, Appendix K, at K1.

²⁶ D.21-08-002, at 31 (noting that Cal Am’s testimony that “by combining Cal-Am and East Pasadena’s ground water rights through this transaction East Pasadena customers’ water demand can be met without costly over-pumping from the Main water basin, where East Pasadena currently must over-pump”).

²⁷ 2021-2022 Watermaster Report, Appendix H, at H2.

²⁸ D.21-08-002 at 17.

1 these water rights to Cal Am does not provide any new or additional benefit to either the
2 East Pasadena customers or Cal Am’s customers in other service areas; however, East
3 Pasadena customers will pay considerably more for these water rights when their valued
4 amount of \$26.7 million²⁹ is added to rate base.

5 **4. Rate Base Allocation**

6 Cal Am requests that the Commission include the total authorized purchase price
7 of \$34 million in rate base, with \$17,610,000 allocated to the Southern Division and the
8 remaining \$16,390,000 allocated statewide.³⁰ However, \$26.7 million of the authorized
9 purchase price to be included in rate base is the value of East Pasadena water rights.³¹
10 These water rights should be included in only East Pasadena’s rate base because they
11 solely benefit East Pasadena and no other system. Therefore, the Commission should
12 reject Cal Am’s requested rate base normalization for the East Pasadena acquisition and
13 include the full acquisition premium of \$30 million, which includes \$26.7 million for
14 East Pasadena’s water rights, in East Pasadena’s rate base. The remaining \$4 million
15 should be included in Cal Am’s Southern Division.

16 **B. Bellflower**

17 The Commission approved Cal Am’s acquisition of the Bellflower Municipal
18 Water System in D.22-10-003, directing Cal Am to file a Tier 2 Advice Letter for the
19 approval of post-acquisition rates of a municipal water utility.³² Cal Am filed the advice
20 letter on February 17, 2023,³³ requesting to incorporate the Bellflower system into

²⁹ D.21-08-002 at 41.

³⁰ Direct Testimony of Stephen (Wes) Owens (Owens Direct Testimony) at 45: 27-28, 46:1-3.

³¹ D.21-08-002 at 41.

³² D.22-10-003 at 27.

³³ Advice Letter 1404

1 authorized rates even though Cal Am does not have permit from the SWRCB DDW to
2 operate the Bellflower system.

3 **1. SWRCB DDW Permit Status**

4 As of February 24, 2023, Cal Am had not received a permit from the SWRCB
5 DDW for the operation of the Bellflower system.³⁴ An acquiring water company may not
6 include the acquired water system in rates before it has received a permit from the
7 SWRCB DDW for operation of the acquired water system.³⁵ Cal Advocates’
8 recommendations regarding Bellflower are contingent on Cal Am receiving a permit
9 from the SWRCB DDW for the operation of the Bellflower system prior to the start of
10 Test Year 2024. The Commission should not authorize Cal Am’s inclusion of the
11 Bellflower system in rate base before the operating permit is received. Upon receiving
12 the permit from the SWRCB DDW, Cal Am can file an advice letter to include the
13 Bellflower system’s approved rate base in rates.

14 **C. Bass Lake**

15 Cal Am filed A.22-03-002 requesting Commission authorization for Cal Am to
16 purchase Bass Lake Water Company. Bass Lake is not under current ownership or
17 operation of California American Water, and this system is currently being operated by
18 Bass Lake Water Company.³⁶

³⁴ Cal Am Response to Data Request CSN-03, question 1.b.

³⁵ D.19-04-015 at 39 (stating that within 30 days of receipt of the SWRCB permit, the utility “will file a Tier 1 Advice Letter revising its tariffs to incorporate [the acquired utility’s] service area and rates in conformance with Commission practice”); D.17-05-003 at 16 (stating that the acquiring utility should not operate the acquired system nor collect tariffed rates from customers “until it has received an operating permit from SWRCB DDW”).

³⁶ Data Request Response CSN-03, question 1.b. A Proposed Decision authorizing Cal Am’s purchase of Bass Lake Water Company assets issued on February 17, 2023.

1 **1. SWRCB DDW Permit Status**

2 While it is reasonable to assume that the Commission will issue a final decision
3 authorizing Cal Am’s purchase of Bass Lake before the start of Test Year 2024, inclusion
4 of Bass Lake assets in rate base will still be contingent on Cal Am’s receipt of a permit
5 from the SWRCB DDW for the operation of the Bass Lake system, which Cal Am does
6 not yet have.³⁷ An acquiring water company may not include the acquired water system
7 in rates until the acquiring water company has received a permit from the SWRCB DDW
8 for the operation of the acquired water system.³⁸ After the acquisition is final and Cal
9 Am receives an operating permit from the SWRCB DDW, Cal Am can file an advice
10 letter to include the Bass Lake system’s approved rate base in rates.³⁹

11 **2. Rate Base Allocation**

12 Based on Cal Am’s assumption that the Commission will issue a final decision
13 authorizing purchase of Bass Lake Water Company assets within the timeframe of this
14 GRC,⁴⁰ Cal Am requests that the Commission include the total authorized purchase price
15 of \$5,923,933 in rate base with \$4,446,500 allocated to the Northern Division and the
16 remaining \$1,476,800 allocated statewide.⁴¹ The Commission should reject this request.

³⁷ Owens Direct Testimony at 42:27-28 to 43:1-2 (noting that Cal Am’s application for purchase of Bass Lake Water Company was not protested); Cal. Hlth & Safety Code sec. 116525(a) requiring buyer of a public water system to apply for new operating permit; Data Request Response CSN-03, question 1.b.

³⁸ D.19-04-015, at 39 (stating that within 30 days of receipt of the SWRCB permit, Cal-Am “will file a Tier 1 Advice Letter revising its tariffs to incorporate [acquired utility’s] service area and rates in conformance with Commission practice”); D.17-05-003 at 16 (stating that the acquiring utility should not operate the acquired utility’s system nor collect tariffed rates from customers until it has received an operating permit from SWRCB DDW).

³⁹ D.19-04-015 at 39 (stating that within 30 days of receipt of the SWRCB permit, Cal-Am “will file a Tier 1 Advice Letter revising its tariffs to incorporate [acquired utility’s] service area and rates in conformance with Commission practice”); D.17-05-003 at 16 (stating that the acquiring utility should not operate the acquired utility’s system nor collect tariffed rates from customers until it has received an operating permit from SWRCB DDW).

⁴⁰ Owens Direct Testimony at 42:27-28 to 43:1-2.

⁴¹ Owens Direct Testimony at 48: 11-13.

1 The acquisition premium of \$2,856,300 should remain in Bass Lake’s rate base. The
2 remaining amount should be included in Cal Am’s Northern Division.

3 **D. Warring Water Company**

4 Cal Am filed A.20-04-017 requesting Commission authorization to purchase
5 Warring Water Company (“Warring”). The Commission approved Cal Am’s acquisition
6 of Warring in D.22-08-005.

7 **1. Acquisition Premium**

8 Cal Am’s acquisition of Warring has an acquisition premium of \$3.2 million,
9 which is the difference between fair market value and book value of East Pasadena
10 assets.⁴² This premium should remain in Warring’s rate base.

11 **2. Rate Base Allocation**

12 Cal Am requests that the Commission include the total authorized purchase price
13 of \$4.6 million in rate base with \$2,255,400 allocated to the Southern Division and the
14 remaining \$2,344,600 allocated statewide.⁴³ The Commission should reject this request.
15 The acquisition premium of \$3.2 million should remain in Warring’s rate base. The
16 remaining amount should be included in Cal Am’s Southern Division, consistent with
17 what Cal Am stated in A.20-04-017. Cal Am proposed consolidating Warring into Cal
18 Am’s Los Angeles County District for ratemaking purposes, on the rationale that Warring
19 and Los Angeles County District cost structures are similar in nature as their main water
20 sources are groundwater.⁴⁴

⁴² D.22-08-005 at 24.

⁴³ Owens Direct Testimony at 47: 12-13.

⁴⁴ D.22-08-005 at 6.

1 **E. Accounting Methodology**

2 Specifically for the Bellflower, East Pasadena, and Warring acquisitions, Cal Am
3 requests to deviate from Standard Practice U-38-W, the Commission’s Uniform System
4 of Accounts for Class A Water Utilities, which gives accounting instructions for Utility
5 Plant Acquisition Adjustment (“UPAA”). This adjustment books any purchase price
6 amounts in excess of the balances in the seller’s plant, depreciation, and amortization
7 accounts to a UPAA account.⁴⁵ Instead of following the established UPAA method
8 outlined in Standard Practice U-38-W, Cal Am proposes to “gross up” acquired assets so
9 that post-acquisition plant, less depreciation reserve, would equal the authorized post-
10 acquisition rate base.⁴⁶ Cal Am provides no justification for its request to deviate from
11 the Commission’s accounting instructions, but asserts that customers would be indifferent
12 to the use of either methodology.⁴⁷ Since customers would be indifferent, there is no
13 benefit to customers that would result from the deviation. Given Cal Am’s failure to
14 justify the proposal, the Commission should reject Cal Am’s request to deviate from the
15 Commission’s established UPAA accounting method for acquisitions.

16 **IV. CONCLUSION**

17 Cal Am must obtain SWRCB DDW operating permits for its recently acquired
18 water systems before those systems are included in rate base. Further, the Commission
19 should reject Cal Am’s request to allocate portions of the rate bases of East Pasadena,
20 Bass Lake and Warring statewide. Finally, the Commission should reject Cal Am’s
21 proposed deviation from the Commission’s Uniform System of Accounts to account for
22 UPAA amounts in acquisitions.

⁴⁵ USOA for Class A Water Utilities, Standard Practice U-38-W, at A50; Owens Direct Testimony at 52.

⁴⁶ Owens Direct Testimony at 52-53.

⁴⁷ Owens Direct Testimony at. 53.

1 **CHAPTER 3 Special Request #9 – Placer County Water Agency**
2 **Capacity Cost Recovery**

3 **I. INTRODUCTION**

4 In Special Request #9, Cal Am requests a deviation from Standard Practice U-27-
5 W to enhance shareholder profits by increasing the rate of return from the appropriate 90-
6 day commercial paper rate to Cal Am’s authorized full rate of return for the Placer
7 County Water Agency Special Facilities Fee Memorandum Account (“PCWA Memo
8 Account”). Further, Cal Am requests that the Commission retroactively make this
9 change effective as of April 1, 2022.

10 **II. SUMMARY OF RECOMMENDATIONS**

11 The Commission should reject special request #9 because Cal Am should not be
12 allowed to deviate from Standard Practice U-27-W, which states the appropriate rate of
13 return is the 90-day commercial paper rate.

14 **III. ANALYSIS**

15 **A. Standard Practice U-27-W**

16 The Commission approved Cal Am’s Placer County Water Agency Special
17 Facilities Fee Memorandum Account in Resolution W-5111 (“W-5111”), indicating:

18 Cal Am states that its request to establish a
19 memorandum account to track all fees collected and
20 offset by the costs associated with purchasing
21 additional units of water from PCWA meets the
22 criteria to establish a memorandum account set forth in
23 Standard Practice (SP) U-27-W.⁴⁸

24 Because meeting SP U-27-W criteria was the basis for the approval of the PCWA
25 Memo Account, the appropriate rate of return on the memo account should be the 90-day

⁴⁸ Resolution W-5111 at 12.

1 commercial paper rate identified as applicable in SP U-27-W.⁴⁹ The procedures outlined
2 in SP U-27-W for amortizing a memorandum account state that the average monthly
3 balance in the account accrues interest at the 90-day commercial paper rate.⁵⁰
4 Accordingly, the appropriate rate of return for the PCWA Memo Account is the 90-day
5 commercial paper rate.

6 **B. Recorded Costs**

7 The purpose of the PCWA Memo Account is to record all the costs associated
8 with purchasing additional capacity from Placer County Water Agency (“PCWA”).⁵¹
9 Since the PCWA Memo Account tracks purchased water expenses, much like other Cal
10 Am accounts that track expenses receiving interest at the 90-day commercial paper rate, it
11 would be inappropriate to use the full rate of return for this account as requested by Cal
12 Am.

13 **C. Risk**

14 In addition to Cal Am’s request contradicting SP-U-27-W, in Decision 22-12-006
15 indicated that that risk must be considered when determining interest rate treatment.⁵²
16 Cal Am claims that it “is ‘fronting’ capital to purchase capacity in advance of the
17 offsetting connection fees that are meant to pay for such capacity.”⁵³ However, the risk
18 that Cal Am will not receive the offsetting connection fees is very low: if an under
19 collection in the PCWA Memo Account exceeds 2% of the gross operating revenue
20 authorized, then Cal Am may file a Tier 2 Advice Letter requesting recovery.⁵⁴ In the

⁴⁹ SP U-27-W at 8.

⁵⁰ SP U-27-W at 13.

⁵¹ Resolution W-5111 at 14.

⁵² D.22-12-006 at 14.

⁵³ Direct Testimony of Jeffrey T. Linam at 66:4-6.

⁵⁴ Resolution W-5111 at 8.

1 event that PCWA adjusts the capacity charge, Cal Am is allowed to file a Tier 2 advice
2 letter to request modification of the Special Facilities Fee as needed.⁵⁵ Since Cal Am is
3 afforded these safeguards, there is little to no risk that Cal Am will not receive all the
4 capital it fronts; therefore, a full rate of return is not warranted.

5 The Commission has found that using facilities fees to offset costs entails less risk
6 than other funding options.⁵⁶ Therefore, the full rate of return is not necessary for the
7 PCWA Memo Account.

8 **D. Cal Am’s Proposed Effective Date is Outside the Scope of**
9 **this GRC**

10 Cal Am requests to retroactively make this change effective last year, April 1,
11 2022. This date is outside the scope of this GRC, which covers years 2024, 2025, and
12 2026. Also, the Commission has stated that memorandum account tracking could only
13 occur prospectively.⁵⁷ Therefore, it is inappropriate for Cal Am to request an effective
14 date one year in the past.

15 **IV. CONCLUSION**

16 The Commission should reject Cal Am’s request to deviate from Standard Practice
17 U-27-W for the PCWA Memorandum Account and keep the interest rate for the account
18 at the appropriate 90-day commercial paper rate.

⁵⁵ Resolution W-5111 at 5.

⁵⁶ D.22-12-006 at 20.

⁵⁷ D.02-08-054 at 3.

1 **CHAPTER 4 Special Request #15 – Monterey Joint Annual**
2 **Conservation Report**

3 **I. INTRODUCTION**

4 Cal Am requests elimination of the requirement to submit an Annual Joint
5 Conservation Report (“Joint Conservation Report”), which the Commission previously
6 directed Cal Am to complete with the Monterey Peninsula Water Management District
7 (“MPWMD”).

8 **II. SUMMARY OF RECOMMENDATIONS**

9 The Commission should reject Special Request 15 because filing the Joint
10 Conservation Report is still in the public interest and allows for sufficient regulatory
11 oversight.

12 **III. ANALYSIS**

13 In D.09-05-029, the Commission required Cal Am to file the Joint Conservation
14 Report for the Monterey district summarizing in detail the conservation efforts of Cal Am
15 and MPWMD.⁵⁸ D.09-05-029 states:⁵⁹

16 Fourth, the Settlement continues the collaboration of
17 Cal-Am and MPWMD in working together to better
18 achieve effective and efficient conservation programs
19 for Cal-Am’s customers. The level of funding and the
20 types of programs, together with the reporting
21 requirements, are in the public interest and allow the
22 Commission sufficient regulatory oversight.

⁵⁸ Pilz Direct Testimony at 37.

⁵⁹ D.09-05-029 at 12.

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Therefore, because the Commission has determined that filing the Annual Joint Conservation Report is in the public interest and allows sufficient regulatory oversight, the Public Advocates Office sees no reason to eliminate Cal Am’s requirement to file an Annual Joint Conservation Report.

IV. CONCLUSION

The Commission should continue to require Cal Am to file the Annual Joint Conservation Report with the MPWMD.

Attachment 1: Cal Am Response to Data Request CSN-03

1

California-American Water Company

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

Response Provided By: Todd Brown
Title: Director Water Quality & Environmental Compliance
Address: California American Water
1019 Cherry Ave
Imperial Beach CA 93932
Cal Adv Request: A2207001 CAL ADV DATA REQUEST # CSN-03
Company Number: Cal ADV CSN 03 Q001
Date Received: February 17, 2023
Date Response Due: February 24, 2023
Subject Area: SWRCB DOW Permits

DATA REQUEST:

1. Provide copies of the State Water Resources Control Board Division of Drinking Water permits issued to Cal Am for the operation of the four systems listed below. Include all engineering reports and appendices that are included in the permits.
 - a. East Pasadena
 - b. Bellflower
 - c. Bass Lake
 - d. Warring

CAL-AM'S RESPONSE

- e. East Pasadena: The change of ownership permit is still pending with the Division of Drinking Water.
- f. Bellflower: The change of ownership permit is still pending with the Division of Drinking Water.
- g. Bass Lake: California American Water does not have a Division of Drinking Water permit for this system because this system is not under current ownership or operation of California American Water. This system is currently being operated by Bass Lake Water Company.
- h. Warring: Please see CAW Response Cal Adv CSN 03 Q001 Attachment 1 for the change of ownership permit. Note: as part of the permitting process the name of this system was changed to Piru.

Attachment 2: Excerpt from the Main San Gabriel Watermaster 2021-2022 Annual Report

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APPENDIX K

**TRANSFERS OF ADJUDICATED
RIGHTS 2021-22**

Transferor	Transaction					Transferee
	Date	Date of lease explr.	Amount			
			Prescrip. pumping right (acre-feet)	Pumper's share (percent)	Production right (acre-feet)	
<u>PERMANENT TRANSFERS</u>						
East Pasadena Water Company	09/21/21	Perm.	1,407.69	0.71227	1,122.12	California American Water Company - San Marino
<u>TEMPORARY TRANSFERS</u>						
Jeffery Kirken	09/12/13	06/30/28	111.96	0.05665	84.98	California Domestic Water Company
The Maggione Family Trust	1/ 07/07/15	06/30/25	145.83	0.07379	110.69	Golden State Water Company - San Gabriel
Fox Family Trust Michael Edward and Crystal Marie Fox, Trustees	06/25/20	06/30/25	145.83	0.07378	110.67	California Domestic Water Company
El Monte Cemetery Association	08/13/20	06/30/23	18.50	0.00936	14.04	California American Water Company - Duarte
Hemlock Mutual Water Company	04/12/21	06/30/22	--	--	80.00	California Domestic Water Company
Mary Kay Dawes (Partridge)	06/03/21	06/30/22	--	--	335.39	La Puente Valley County Water District
NCL Co, LLC	07/07/21	06/30/22	--	--	1.50	2/ Vulcan Materials Company
Golden State Water Company - San Dimas	07/27/21	06/30/22	--	--	500.00	3/ Covina Irrigating Company
Vulcan Materials Company	07/28/21	06/30/22	--	--	41.99	City of Azusa
Vulcan Materials Company	08/17/21	06/30/22	--	--	700.00	San Gabriel Valley Water Company
Rados Bros	09/10/21	06/30/22	--	--	32.64	San Gabriel Valley Water Company
Nicholson Family Trust - Marital Trust	09/20/21	06/30/22	--	--	23.54	San Gabriel Valley Water Company
Co-Tenancy of Laurence R. Pellissier Irrevocable Trust, et al	09/21/21	06/30/22	--	--	4,925.76	California Domestic Water Company
Lucy A. Rosedale and Harry E. Rosedale III, Trustees of the Harry E. Rosedale Jr. Trust	10/07/21	06/30/22	--	--	168.00	Canyon Water Company
Kathryn W. Baker Trust	10/26/21	06/30/22	--	--	140.79	San Gabriel Valley Water Company
Jeanne Rana Living Trust	11/02/21	06/30/22	--	--	19.04	San Gabriel Valley Water Company

Attachment 3: Qualifications of Witness

QUALIFICATIONS AND PREPARED TESTIMONY

OF

CORTNEY SORENSEN

- 1 Q1. Please state your name, business address, and position with the California Public
2 Utilities Commission (“Commission”).
- 3 A1. My name is Cortney Sorensen and my business address is 320 West 4th Street,
4 Suite 500, Los Angeles, California 90013. I am a Senior Utilities Engineer
5 Specialist in the Water Branch of the Public Advocates Office.
- 6 Q2. Please summarize your education background and professional experience.
- 7 A2. I received a Bachelor of Science Degree in Chemical Engineering from the
8 University of California at Los Angeles and a Master of Accounting Degree from
9 the University of Southern California, Leventhal School of Accounting. I am a
10 registered chemical engineer in the State of California.
- 11 I have been employed by the Public Advocates Office – Water Branch since May
12 2018. From 2002 – 2018, I worked for the State Water Resources Control Board,
13 Division of Drinking Water (DDW) as an Associate Sanitary Engineer. My
14 experience at DDW includes performing inspections of public water systems,
15 writing engineering reports for newly constructed treatment plants, and conducting
16 enforcement activities to bring public water systems into compliance with
17 applicable state laws and regulations.
- 18 Q3. What is your responsibility in this proceeding?
- 19 A3. I am the project coordinator for the Cal Am GRC. I am also responsible for the
20 Executive Summary and Special Requests 5, 9, and 15.
- 21 Q4. Does this conclude your prepared direct testimony?
- A4. Yes, it does.