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|-------------------------|--------------------------------------|
| Date Served: | April 20, 2023 |
| ALJ: | J. Rambo |
| Witnesses: | Keith Switzer |

PREPARED

DIRECT TESTIMONY

OF

KEITH SWITZER

ON BEHALF OF

THE CALIFORNIA WATER ASSOCIATION

APRIL 20, 2023

PREPARED DIRECT TESTIMONY OF KEITH SWITZER ON BEHALF OF THE CALIFORNIA WATER ASSOCIATION

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Resume of Keith Switzer

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1 Associates.

| 2 | Q: | Have you provided a copy of your qualifications with this testimony? |
|----|------------|--|
| 3 | A: | Yes. My statement of qualifications is provided in Appendix I. |
| 4 | Q: | Have you previously testified before the Commission? |
| 5 | A: | Yes. I have sponsored testimony in numerous Golden State proceedings, including those |
| 6 | | for the regulated water operations doing business as Golden State, and those for Bear |
| 7 | | Valley Electric Service, Golden State's regulated electric utility affiliate. My prior |
| 8 | | testimonies have dealt with a number of different ratemaking topics for both the water and |
| 9 | | the electric operations. |
| | | |
| 10 | | II. TESTIMONY |
| 11 | Q: | What is the purpose of your testimony in this general rate case (GRC) of California |
| 12 | | American Water Company (Cal-Am)? |
| 13 | A: | The primary purpose of my testimony is to respond to the testimony submitted by the |
| 14 | | Public Advocates Office (Cal Advocates) and to encourage the Commission to fairly |
| 15 | | consider Cal-Am's request for a full revenue decoupling program, the Water Resources |
| 16 | | Sustainability Plan (WRSP), as proposed in Cal-Am's Amended Application filed on |
| 17 | | January 27, 2023. CWA urges the Commission to evaluate Cal-Am's WRSP based on the |
| 18 | | merits of the program proposed by Cal-Am and the record in this proceeding. |
| 10 | <u>O</u> · | What is your specific concern regarding the Commission's consideration of of the |
| 17 | Q٠ | what is your specific concern regarding the commission's consideration of or the |
| 20 | | WRSP? |
| 21 | ٨٠ | The Commission should consider of Cal-Am's proposed decoupling mechanism on its own |

merits and based on current data. Cal-Am's proposal should not be prejudiced by the 1 Commission's prior conclusions and/or determinations from D.20-08-047.¹ In particular. 2 3 the Commission should not rely on prior comparisons and conclusions regarding the relative effectiveness of the Water Rate Adjustment Mechanism (WRAM) and what is 4 5 commonly referred to as the Monterey-Style WRAM (or M-WRAM) as a basis for 6 evaluating the request for the WRSP in this Application.

7 **O**: Do you contend that the Commission should consider the M-WRAM as a comparable 8 mechanism and alternative to the WRAM?

9 As a general matter, comparing the WRAM and the M-WRAM is the proverbial "apples A: 10 and oranges" comparison. The two mechanisms are very different from one another.

11 The WRAM is a ratemaking mechanism that facilitates full revenue decoupling, i.e., it 12 breaks the link between recorded sales and annual revenues. The WRAM works to adjust revenues back to adopted levels when sales deviate from forecasted amounts, thereby de-13

14 linking sales and revenues.

15 The M-WRAM on the other hand, does not decouple sales and revenues. With an M-16 WRAM, sales deviations from adopted levels will result in revenue fluctuations, up or 17 down. The M-WRAM is simply a pricing adjustment mechanism. It is not a decoupling mechanism. In contrast to the WRAM, the M-WRAM functions to adjust revenues to

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¹ Order Instituting Rulemaking Evaluating the Commission's 2010 Water Action Plan Objective of Achieving Consistency between Class A Water Utilities' Low-Income Rate Assistance Programs, Providing Rate Assistance to All Low – Income Customers of Investor-Owned Water Utilities, and Affordability, Decision and Order, Aug. 27, 2020.

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offset the effect of tiered rates vis-à-vis single quantity rates when sales deviate from forecasted amounts.

3 **O**: In testimony served by Cal Advocates on April 13 in this proceeding Cal Advocates' 4 witness, Mr. Richard Rauschmeir, asserted that the WRAM has been ineffective in 5 promoting conservation. Mr. Rauschmeir presented two figures in support of his 6 claim. Do you have any response to Mr. Rauschmeir's testimony on this issue?

7 Yes. Mr. Rauschmeir provides two figures in his testimony pertaining to this point. Figure A: 8 1 purports to demonstrate that the trend in customer usage fluctuations over time does not 9 significantly differ for the WRAM companies compared to the companies with an M-10 WRAM. As noted in his testimony, Figure 1 is an update of a graph presented by Cal 11 Advocates in the Rulemaking (R.) 17-06-024, Order Instituting Rulemaking Evaluating 12 the Commission's 2010 Water Action Plan Objective of Achieving Consistency between 13 Class A Water Utilities' Low-Income Rate Assistance Programs, Providing Rate Assistance to All Low – Income Customers of Investor-Owned Water Utilities, and 14 Affordability (Low Income Proceeding). Figure 2 provides a bar chart intended to 15 16 demonstrate the difference in cumulative reductions in usage that have occurred at each of the individual Class A companies for the period 2010 to 2021. There are shortcomings to 17 18 both figures. I will address them individually.

19 **O**: Please describe the problems you have identified with Figure 1 in Mr. Rauschmeir's 20 testimony.

21 A: There are three specific problems I would like to point out regarding Figure 1. First is the 22 observation that Figure 1 does not accurately present the trend in usage over time for 23

WRAM companies. The analysis underlying Figure 1 misrepresents the effect of the

WRAM; it doesn't compare what is happening to per capita usage over time for the two
 sets of companies. The second problem with Figure 1 is the start date for the data
 considered. The third problem associated with Figure 1 is how the data was interpreted in
 the testimony.

5 Q: Please briefly describe the Cal Advocates graph in the Low Income Proceeding and 6 your concerns with the graph.

7 A: In the prior Low Income Proceeding, Cal Advocates presented a graph on which they 8 plotted data points representing the year-over-year percent changes in consumption 9 between 2008 (the beginning point for the implementation of the WRAMs and the M-10 WRAMs) and 2016. They then connected these data points with two different lines, one 11 for WRAM companies and one for M-WRAM companies. Cal Advocates stated that the 12 two lines on the graph demonstrated nearly identical trends in the sales fluctuations of 13 WRAM and M-WRAM companies and concluded that the companies with a WRAM were 14 not more successful in promoting conservation by their customers.

One fundamental problem with the Cal Advocates graph in that proceeding, which was repeated in Mr. Rauschmeir's updated version, is that it does not really provide the actual per capita consumption levels or the trend in per capita consumption over time, which should be the focus point of an analysis comparing the conservation results of the two mechanisms. By simply plotting year-over-year changes, both Cal Advocates' graphs fail to capture cumulative effects on usage due to compounding of annual changes on top of one another.

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By focusing on year-over-year changes, the Cal Advocates graphs obscure what is actually

happening to average per capita consumption over time for the two sets of utilities. In fact,
 it's virtually impossible to ascertain the amount of per capita consumption and how the
 consumption level has changed over the relevant time period from Cal Advocates graphs.

4 Q: Have you conducted an analysis that would address the deficiencies in the Cal 5 Advocates graphs?

6 A: Yes. I have conducted my own analysis using the same source of data cited by the Public 7 Advocates. I collected annual consumption data and annual data on the number of metered 8 customers from each utility's Annual Report filed with the Commission's Water Division. 9 These reports are available on the Commission's website. For my analysis, I used the same 10 starting point as Cal Advocates in their initial version of the graph, 2008, and included data 11 through 2021, which is the most currently available data and consistent with the ending point for Figure 1 in Mr. Rauschmeir's testimony. I calculated the per capita consumption 12 13 each year for the four WRAM companies and the four M-WRAM companies. The results 14 are presented on TABLE 1 below.

| Year | Cal Am | Cal Water | Golden State | Liberty | WRAM Consolidated | San Gabriel | San Jose | Suburban | Great Oaks | M-WRAM Colsolidated |
|----------------|--------|-----------|-----------------|---------|----------------------|-------------|----------|----------|------------|------------------------|
| 2008 | 294.8 | 359.9 | 300.4 | 248.9 | 324.5 | 413.2 | 284.1 | 311.7 | 279.4 | 317.8 |
| 2009 | 267.9 | 328.0 | 276.6 | 233.3 | 297.0 | 380.9 | 259.1 | 291.6 | 247.5 | 291.8 |
| 2010 | 236.3 | 300.5 | 259.8 | 212.1 | 272.5 | 351.1 | 246.0 | 269.7 | 224.4 | 272.9 |
| 2011 | 229.7 | 296.4 | 250.4 | 201.6 | 266.1 | 342.2 | 244.7 | 266.5 | 225.2 | 269.7 |
| 2012 | 239.6 | 313.0 | 263.4 | 207.7 | 279.4 | 360.3 | 258.9 | 282.5 | 242.9 | 285.2 |
| 2013 | 241.1 | 319.4 | 263.5 | 204.3 | 282.7 | 358.1 | 264.6 | 327.2 | 247.8 | 296.3 |
| 2014 | 223.7 | 297.1 | 254.4 | 200.4 | 266.2 | 356.7 | 238.9 | 281.8 | 221.6 | 272.4 |
| 2015 | 184.6 | 246.8 | 210.7 | 163.4 | 220.7 | 295.2 | 194.7 | 231.9 | 177.0 | 223.3 |
| 2016 | 184.8 | 238.4 | 211.8 | 158.1 | 216.7 | 293.1 | 187.1 | 231.4 | 171.3 | 218.4 |
| 2017 | 193.7 | 254.4 | 219.9 | 162.0 | 228.7 | 306.5 | 199.9 | 239.9 | 190.2 | 230.9 |
| 2018 | 197.8 | 265.2 | 224.5 | 165.3 | 236.2 | 314.1 | 210.0 | 250.3 | 198.4 | 240.4 |
| 2019 | 185.4 | 254.4 | 210.6 | 155.8 | 224.3 | 293.7 | 206.9 | 230.0 | 197.1 | 230.5 |
| 2020 | 194.7 | 264.1 | 220.8 | 167.1 | 234.1 | 312.7 | 228.6 | 244.6 | 212.2 | 250.0 |
| 2021 | 193.8 | 259.3 | 220.6 | 171.1 | 231.7 | 321.8 | 209.6 | 246.6 | 203.7 | 241.9 |
| Cumulative | | | | | | | | | | |
| Percent Change | -34% | -28% | -27% | -31% | -29% | -22% | -26% | -21% | -27% | -24% |

TABLE 1 Annual Usage per Metered Customer 2008 - 2021

Based on data reported in utility Annual Reports available on CPUC website. Source: Metered Customer Count data from Table D4. Metered Usage data from Table D7.

2 **O**: Please summarize the results of your analysis from TABLE 1.

3 A: My analysis shows that all eight of the Class A utilities have seen significant reductions in 4 per capita usage since the WRAM and the M-WRAM's were implemented. All eight of 5 the Class A companies have seen declines in per capita usage of at least 20% since 2008, and two companies have seen reductions of over 30%. 6 7 The results of my analysis also clearly show that the reductions in per capita usage for the

- 8 four WRAM companies have exceeded the reductions for the four M-WRAM companies.
- With respect to the WRAM companies, the cumulative reductions range from 27% to 34%, 9
- 10 with a consolidated total reduction of 29%. For the M-WRAM companies, the cumulative
- reductions range from 21% to 27%, with a consolidated total reduction of 24%. That's an 11

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overall difference of 20% more reduction by customers of the four WRAM companies.

2 Q: Why is the result of your analysis different from the conclusion reached by Cal 3 Advocates?

A: As I stated above, Cal Advocates' graph plotting year-over-year changes obscures what is
actually happening in the underlying usage data. I used the same data source as Cal
Advocates for my analysis. The difference between our analyses is that Cal Advocates'
graph did not actually show the trend in customer usage as Cal Advocates asserts. Cal
Advocates' presentation actually made it very difficult to determine the level of per capita
usage and how usage had changed over time. TABLE 2 highlights the difference between
Cal Advocates' analysis and my analysis.

| | | TA | BLE 2 | | | | | |
|-------------|--|----------|------------|----------|---------------|--|--|--|
| CON | COMPARISON OF REDUCTIONS IN PER CAPITA USAGE | | | | | | | |
| | | 2008 | 3 - 2021 | | | | | |
| | | | | | | | | |
| | | | | | Difference In | | | |
| | | | | | Annual | | | |
| | WRAM | WRAM | M-WRAM | M-WRAM | Percent | | | |
| Year | per capita | % change | per capita | % change | Change | | | |
| | (1) | (2) | (3) | (4) | (5) | | | |
| 2008 | 324.50 | | 317.78 | | | | | |
| 2009 | 297.01 | -8.47% | 291.82 | -8.17% | -0.30% | | | |
| 2010 | 272.48 | -8.26% | 272.92 | -6.48% | -1.79% | | | |
| 2011 | 266.08 | -2.35% | 269.69 | -1.19% | -1.16% | | | |
| 2012 | 279.41 | 5.01% | 285.22 | 5.76% | -0.75% | | | |
| 2013 | 282.68 | 1.17% | 296.30 | 3.89% | -2.72% | | | |
| 2014 | 266.19 | -5.83% | 272.39 | -8.07% | 2.24% | | | |
| 2015 | 220.66 | -17.10% | 223.32 | -18.02% | 0.91% | | | |
| 2016 | 216.75 | -1.77% | 218.41 | -2.20% | 0.42% | | | |
| 2017 | 228.69 | 5.51% | 230.94 | 5.74% | -0.23% | | | |
| 2018 | 236.21 | 3.29% | 240.42 | 4.10% | -0.82% | | | |
| 2019 | 224.33 | -5.03% | 230.48 | -4.13% | -0.89% | | | |
| 2020 | 234.11 | 4.36% | 249.98 | 8.46% | -4.10% | | | |
| 2021 | 231.72 | -1.02% | 241.88 | -3.24% | 2.22% | | | |
| Average ann | ual different | ce | | | -0.54% | | | |
| | | | | | | | | |
| Cumulative | | | | | | | | |
| Reduction | -29% | | -24% | | | | | |
| • | | | | | | | | |

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2 Q: Please explain the entries on TABLE 2 and the results shown there.

A: There are five columns of data on TABLE 2. Columns (1) and (3) contain the annual average usage per capita number for the WRAM companies (column (1)) and the M-WRAM companies (column (3)). The entries in columns (2) and (4) represent the annual percentage change in the per capita usage for the WRAM companies (column (2)) and the M-WRAM companies (column (4)). Lastly, column (5) represents the difference between the annual percentage changes in columns (2) and (4).

9 As shown on TABLE 2, Per capita consumption for the WRAM companies has declined

10 from 324 centum cubic feet (ccf) in 2008 to 231 ccf in 2021, a reduction of 29%. For the

M-WRAM companies, per capita consumption has declined from 317 ccf to 241 ccf, or 24%. That is a difference of five percentage points overall. On an annual basis, the reduction in usage for the WRAM companies averaged 2.2% per year for the 13-year period from 2008 to 2021, and the reduction for the M-WRAM companies averaged 1.84% per year over the same period.

6 7 **O**:

Can you quantify the difference in per capita consumption in terms of how much water was saved?

8 Yes. For the WRAM companies as a group, the reduction in per capita consumption from A: 9 324 ccf in 2008 to 231 ccf in 2021 resulted in almost 90 million ccf of water savings in 10 2021 alone (compared to usage at 2008 levels). In comparison, if the WRAM companies had experienced a reduction in usage of 24% since 2008 like the M-WRAM companies, 11 12 then the water saving in 2021 would have been approximately 75 million ccf. The 13 difference between the two savings calculations is almost 15 million ccf. In other words, 14 the incremental savings for the WRAM companies in 2021 was 11 billion gallons of water 15 or 34,000 AF. It's worth repeating that those are the incremental savings realized by the 16 WRAM companies in one year.

17 I would also add that the results of my analysis should not be surprising.

18 The key point that I stated at the outset of this testimony is that the WRAM and the M-19 WRAM are two different ratemaking mechanisms that have different objectives, and 20 typically different rate designs. Given the differences between the two mechanisms, it 21 should not be surprising that the impacts on customer usage for companies with a WRAM 22 should differ from the experience of companies with an M-WRAM. 1

2

Q: Please elaborate on the second shortcoming of Figure 1 that you have identified: your concern about the time frame depicted in Figure 1.

3 A: Mr. Rauschmeir indicates that Figure 1 is an update of Cal Advocates' presentation from 4 the prior Low Income Proceeding. But that's not exactly true. In Cal Advocates' original 5 version of this graph (from the Low Income Proceeding), the starting point for the analysis 6 was 2008, which coincided with the implementation of the WRAMs and M-WRAMs. In 7 his current testimony Mr. Reischmeir changed the starting point of the analysis for Figure 8 1 from 2008 to 2010. There is no explanation as to why the starting point was changed. 9 Since most of the WRAMs and M-WRAM's were implemented in 2008 or early 2009, 10 2008 is a much more logical starting point. Because of the change from 2008 to 2010 for 11 the starting point of his analysis, Mr. Rauschmeir's results do not present a complete 12 picture of the conservation results of either the WRAM or the M-WRAM since their 13 implementation. This is an important change because of the reductions is usage in those 14 first two years.

15 Q: Please elaborate on the third shortcoming of Figure 3 you have identified—how the

16 **data was interpreted.**

17 A: On page 7 of his testimony, Mr. Rauschmeir makes the following comment with regards

- 18 to Figure 1:
- 19As indicated in Figure 1, annual changes in consumption varied20considerably from 2010 to 2021. However, the overall pattern of change21was not significantly different between those water utilities with and22without a WRAM. In fact, there are an equal number of years in which23utilities with a WRAM had a greater reduction in consumption as there are24years in which WRAM utilities had a smaller reduction in consumption.
- 25 Putting aside any question about the validity of his observation on the relative number of

1 occurrences in which the WRAM companies had a greater reduction in per capita usage, it 2 is simply incorrect to conclude that the relative effectiveness of the two different 3 mechanisms can be assessed simply by counting the number of years that the utilities 4 employing a given mechanism realized a greater year-over-year reduction in consumption. 5 Mr. Rauschmeir fails to consider the magnitude of the annual reductions, the compounding 6 effect of the rates of annual changes over time, and the timing of when the differences 7 occur. There is nothing to be learned simply by counting the number of times where the nominal rate of change for one mechanism was higher than the nominal rate of change for 8 9 the other mechanism.

Q: You indicated that there were also some shortcomings in Figure 2 in Mr. Rauschmeir's testimony. Please describe the problem you have identified with Mr. Rauschmeir's Figure 2.

13 Figure 2 is a bar chart showing the cumulative reductions in per capita usage from 2010 to A: 14 2021. The testimony indicates that Figure 2 was created using the same data as Figure 1. 15 Although there are no numbers shown on the chart for each company, the height of the 16 individual bars gives an indication of the cumulative reduction for each company. Based on the height of those bars, it would appear that the reductions for the WRAM companies 17 18 are approximately 14% for Cal Am, 11% for Cal Water, 16% for Golden State, 18-19% for 19 Park, and 34% for Apple Valley Ranchos. In comparison, the reductions for the four M-20 WRAM companies appear to be 14% for San Gabriel Valley Water, 17% for Suburban,

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1 22% for San Jose, and 17-18% for Great Oaks.² On page 8 of his testimony, Mr. 2 Rauschmeir states: "Specific to Cal Am, the cumulative reduction in consumption per 3 connection (14%) was less than each of the four utilities operating without a WRAM (16% 4 to 22%)." The problem with Figure 2 is that the data that I have collected from the annual 5 reports does not support the results shown on Figure 2.

6 Mr Rauschmeir indicates that the underlying data for Figure 2 is the same data as Figure 7 1, which is the data from the utility annual reports. That is the same data I used to prepare 8 TABLE 1 in this testimony. I used that data to confirm Mr. Rauschmeir's results. My 9 results are shown on TABLE 1 - REVISED.

 $^{^2}$ The text of Mr. Rauschmeir's testimony provides several confirmations of these estimates. The testimony states the largest reduction in per capita consumption of 34% was a WRAM company; the smallest reduction of 11% was a WRAM company; the second largest reduction was an M-WRAM company; the reduction for Cal-Am was 14%; and the range for the four M-WRAM companies was 16%-22%.

TABLE 1 - REVISED

Annual Usage per Metered Customer

| | | | | | _ | |
|---|----|----------|---|---|---|---|
| - | 01 | <u> </u> | - | 2 | - | |
| | | | | | | |
| - | ~ | • | - | • | - | - |

| | | | Golden | | WRAM | | | | | M-WRAM |
|----------------|--------|-----------|--------|---------|--------------|-------------|----------|----------|------------|--------------|
| Year | Cal Am | Cal Water | State | Liberty | Consolidated | San Gabriel | San Jose | Suburban | Great Oaks | Colsolidated |
| 2010 | 236.3 | 300.5 | 259.8 | 212.1 | 272.5 | 351.1 | 246.0 | 269.7 | 224.4 | 272.9 |
| 2011 | 229.7 | 296.4 | 250.4 | 201.6 | 266.1 | 342.2 | 244.7 | 266.5 | 225.2 | 269.7 |
| 2012 | 239.6 | 313.0 | 263.4 | 207.7 | 279.4 | 360.3 | 258.9 | 282.5 | 242.9 | 285.2 |
| 2013 | 241.1 | 319.4 | 263.5 | 204.3 | 282.7 | 358.1 | 264.6 | 327.2 | 247.8 | 296.3 |
| 2014 | 223.7 | 297.1 | 254.4 | 200.4 | 266.2 | 356.7 | 238.9 | 281.8 | 221.6 | 272.4 |
| 2015 | 184.6 | 246.8 | 210.7 | 163.4 | 220.7 | 295.2 | 194.7 | 231.9 | 177.0 | 223.3 |
| 2016 | 184.8 | 238.4 | 211.8 | 158.1 | 216.7 | 293.1 | 187.1 | 231.4 | 171.3 | 218.4 |
| 2017 | 193.7 | 254.4 | 219.9 | 162.0 | 228.7 | 306.5 | 199.9 | 239.9 | 190.2 | 230.9 |
| 2018 | 197.8 | 265.2 | 224.5 | 165.3 | 236.2 | 314.1 | 210.0 | 250.3 | 198.4 | 240.4 |
| 2019 | 185.4 | 254.4 | 210.6 | 155.8 | 224.3 | 293.7 | 206.9 | 230.0 | 197.1 | 230.5 |
| 2020 | 194.7 | 264.1 | 220.8 | 167.1 | 234.1 | 312.7 | 228.6 | 244.6 | 212.2 | 250.0 |
| 2021 | 193.8 | 259.3 | 220.6 | 171.1 | 231.7 | 321.8 | 209.6 | 246.6 | 203.7 | 241.9 |
| Cumulative | | | | | | | | | | |
| Percent Change | -18% | -14% | -15% | -19% | -15% | -8% | -15% | -9% | -9% | -11% |

Source: Based on data reported in utility Annual Reports available on CPUC website. Metered Customer Count data from Table D4. Metered Usage data from Table D7.

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2 Q: What do the results on TABLE 1 – REVISED indicate?

3 A: TABLE 1 – REVISED contains per capita usage by year for each of the Class A companies. 4 The only difference between TABLE 1 and TABLE 1 – REVISED is that I changed the starting point to the year 2010 on TABLE 1 – REVISED in order to be consistent with Mr. 5 6 Rauschmeir's Figure 2. As shown on the TABLE, my results indicate that the reduction in 7 per capita usage for the WRAM companies for the period 2010 to 2021 ranges from 14% to 19%, and the range for the M-WRAM companies is 8% to 15%. As to the results for 8 9 Cal-Am, my results indicate that Cal-Am had a reduction of 18%, which is more than all 10 of the M-WRAM companies, in contrast to Mr. Reischmeir's results indicating that Cal-Am had less of a reduction than all of the M-WRAM companies. 11

12 Q: Do you have a recommendation regarding Figures 1 and 2 from Mr. Rauschmeir's

| 1 | | testimony? |
|----------------------------------|----|---|
| 2 | A: | Yes. I believe that the Commission should disregard his results and his conclusions and |
| 3 | | recommendations based on those results. |
| 4 | Q: | Do you have any other comments regarding Mr. Rauschmeir's testimony? |
| 5 | A: | Yes. There is an assertion in Mr. Rauschmeir's testimony that the WRAM somehow |
| 6 | | generates additional revenues and/or profits for the companies with a WRAM. CWA |
| 7 | | disputes Mr. Raushmeir's assertion as an accurate depiction of the WRAM. |
| 8 | | On page 3 of his testimony, Mr. Raushmeir states that the WRAM has produced hundreds |
| 9 | | of millions of dollars in additional revenue and profit for utilities since its inception. Page |
| 10 | | 10, the testimony states: |
| 11 12 13 14 15 16 | | The operation of the WRAM allows utilities to collect the unearned revenue that was once assumed to be needed rather than the revenues actually needed to provide water service. This allows the utilities to not only exceed authorized profits without Commission consideration of reasonableness, but also to receive additional profit at times when the utility is exceeding its authorized profit. |
| 17 | | Neither of these statements are true. Mr. Rauschmeir portrays the WRAM as some sort of |
| 18 | | uncontrollable ATM machine with zero oversight or accountability. This discussion of the |
| 19 | | WRAM is extremely misleading and does not accurately portray the WRAM or the purpose |
| 20 | | of the WRAM. |
| 21 | Q: | Do you agree with Mr. Rauschmeir's statement that the WRAM serves only to |
| 22 | | generate excessive revenue and/or profit for the utility? |
| 23 | A: | No I do not. And Mr. Rauschmeir's contention that the WRAM generates excessive |

24 revenue and/or profits is unsupported by any analysis of actual data. The only support

1

provided in the testimony is a hypothetical numerical example.

| 2 | Q: | Does the WRAM generate revenues or profits? |
|----|----|--|
| 3 | A: | No. Cal Advocates' description is based on a mischaracterization of the WRAM. In order |
| 4 | | to assess the WRAM, it is important to remember what the WRAM is, and what the WRAM |
| 5 | | is not. |
| 6 | | The WRAM is a ratemaking mechanism. It is a Regulatory Account authorized by the |
| 7 | | Commission to track deviations between recorded revenues and revenues authorized by |
| 8 | | the Commission in the GRC and to recover that deviation by surcharge or sur-credit in |
| 9 | | future rates. |
| 10 | | The WRAM mechanism does not affect the authorized revenue requirement in any way. |
| 11 | | The WRAM neither increases nor decreases the adopted annual revenue requirement. |
| 12 | | The WRAM is revenue neutral in terms of the adopted revenue requirement. |
| 13 | | The WRAM is simply a mechanism to fully decouple sales and revenues. It ensures that |
| 14 | | the annual revenues realized by the utility is the same as the revenue requirement adopted |
| 15 | | by the Commission in the GRC (excluding revenue from Non-WRAM tariffs). |
| 16 | | Most importantly, the WRAM is not a policy goal in and of itself. The WRAM is a |
| 17 | | means to achieve a policy goal. As described in the Commission's 2005 Water Action |
| 18 | | Plan, decoupling sales and revenues is an "action" intended to help achieve one of the six |
| 19 | | Policy Objectives for guiding the Commission's regulatory policy, namely the Objective |
| 20 | | to Strengthen Water Conservation Programs to a Level Comparable to those of Energy |
| 21 | | Utilities. By decoupling sales and revenues, it facilitates the implementation of |

conservation rates and spending on conservation programs by the investor-owned water
 utilities. Those rates and the programs are designed to promote conservation by Cal Am's customers.

4

Q: How do balances accrue in the WRAM?

5 A: The purpose of the WRAM is to track deviations between recorded revenues and revenues 6 authorized by the Commission in the GRC. The reason those deviations occur is because 7 of inaccurate sales forecast adopted and used in the GRC to calculate volumetric rates. When that happens, rates will either be too low (for sales forecasts that over-estimate actual 8 9 sales) or too high (for sales forecasts that under-estimate actual sales). And, as a result, the 10 utility will either under- or over- collect its authorized revenue requirement that was adopted by the Commission as a just and reasonable amount to provide safe and reliable 11 water service. Those under/over collections will accrue in the WRAM for disposition 12 (typically in the following year). 13

As described, the WRAM does not create new revenues. The WRAM is a regulatory mechanism to keep track of revenue under-collections or over-collections so that the impact of rates that were mis-calculated in the GRC due to an inaccurate sales forecast can be remedied.

18 **O**:

Q: Can you describe how the WRAM is intended to work?

A: Yes. I have created a simple example to illustrate the mechanics of the WRAM. This
example is based on the Cal Advocates hypothetical example in Mr. Rauschmeir's
testimony.

1 The utility in my example has an adopted authorized revenue requirement of \$100 and 2 realized/actual revenues of \$95. (These amounts match Mr. Rauschmeir's hypothetical 3 example). The example in Table 3 below illustrates how the WRAM works given these 4 parameters as laid out by Cal Advocates.

| Cal PA's Hy (1) (2) | /pothetical Example Authorized Revenue Requirement Realized Revenues | \$ | 100.00 | |
|---------------------------|---|--------|--------|-------------------------------------|
| (1) (2) | Authorized Revenue Requirement Realized Revenues | \$ | 100.00 | |
| (2) | Realized Revenues | Ŷ | | Cal PA Hypothetical Example |
| (4) | | Ś | 95.00 | Cal PA Hypothetical Example |
| (3) | Revenue Shortfall | ې د | 5.00 | Bow (1) - Bow (2) |
| (3) | Shortfall as % of Authorized Revenue | Ŷ | 5% | Row (3)/Row (1) |
| Calculation | n of Hypothetical GRC Rate | | 570 | |
| (5) | Adopted Sales from GRC (ccf) | | 1000 | Assumed level |
| (6) | Adopted Rate per ccf in GRC | \$ | 0.1000 | Row (1)/Row (5) |
| (7) | Revenues at adopted rate & adopted sales | \$ | 100.00 | Row (5) x Row (6) |
| Calculation | n of WRAM Surcharge for Hypothetical Example | - | | |
| (8) | Actual Sales | | 950 | Calculated amt based on shortfall % |
| (9) | Sales shortfall (ccf) | | 50 | Row (5) - Row (8) |
| (10) | Percent Difference from adopted sales | | 5% | Row (9)/Row (5) |
| (11) | GRC Adopted rate per ccf | \$ | 0.1000 | Row (6) + Row (14) |
| (12) | Revenues at adopted rate & actual sales | \$ | 95.00 | Row (11) x Row (8) |
| (13) | Revenue Shortfall-WRAM Balance | \$ | 5.00 | Row (1) - Row (12) |
| (14) | WRAM Surcharge per ccf | \$ | 0.0050 | Row (13)/Row (5) |
| (15) | Adopted rate Plus WRAM surcharge | \$ | 0.1050 | Row (6) + Row (14) |
| (16) | Revenues at Rate including surcharge and adopted sales | \$ | 99.75 | Row (8) x Row (15) |
| (17) | Authorized Revenue Requirement | \$ | 100.00 | Row (1) - Row (12) |
| (18) | Residual Shortfall | \$ | 0.25 | Row (17) - Row (16) |
| Revised Ca | lculation of Hypothetical GRC Rate | | | |
| (19) | Authorized Revenue Requirement | \$ | 100.00 | Row (1) |
| (20) | Revised Adopted Sales | | 950 | Row (8) |
| (21) | Revised Adopted Rate per ccf | \$ | 0.1053 | Row (19)/Row (20) |
| (22) | Revenues at revised adopted rate & revised adopted sales | \$ | 100.00 | Row (20) x Row (21) |

5

The entries on Lines (1) – (5) summarize the Cal Advocates hypothetical. The entries on
Lines (5) – (7) convert the overall revenue requirement in the example to a rate per ccf
based on an assumed adopted sales level of 1,000 ccf.³ As shown on Line (5), the adopted

³ For simplicity, this example assumes a single volumetric rate. The calculations for tiered rates is similar, but more involved.

1 rate per ccf is 0.1000 in this example. The calculations on Lines (8) - (18) illustrate how 2 the WRAM is calculated and how the WRAM is intended to work. The assumption is that 3 actual sales were 5% less than the authorized level (shown on Line (8)), which is 4 proportional to the revenue shortfall percentage from Line (4). (Again, assuming the sales 5 shortfall is proportional to the revenue shortfall is for ease of computation.) The revenue 6 shortfall of \$5.00 shown on Line (13) is tracked in the WRAM. Line (14) is the calculation 7 of the WRAM surcharge, which is based on the shortfall amount of \$5.00 divided by the 8 adopted sales forecast amount of 1,000 ccf. That surcharge in this example is \$0.0050 per 9 ccf. Line (15) is the revised volumetric rate which now includes the WRAM surcharge plus the adopted volumetric rate. Lines (16) - (18) show the calculation of revenues at the 10 11 revised volumetric rate (inclusive of the WRAM surcharge). As shown on Line (18), even 12 with the WRAM surcharge there is a small residual revenue shortfall. This happens 13 because the WRAM surcharge calculation uses the adopted sales level rather than the actual sales level. 14

The last section of the table, Lines (19) - (22), illustrate the GRC rates that would have resulted if the adopted sales in the GRC were equal to the actual sales level of 950 ccf. In that scenario, the volumetric rate would have been \$0.1053/ccf in the GRC rather than the \$0.1000/ccf that was adopted because of the inaccurate sales forecast. As can be seen, the volumetric rate that would have resulted had the sales forecast been more accurate is essentially the same rate as the adopted volumetric rate plus the WRAM surcharge.

21 What this last section demonstrates is that the WRAM balance occurred because of the 22 inaccurate forecast, and, importantly, the WRAM surcharge did not generate new revenues.

23 Rather, the WRAM balance represents a portion of the authorized costs approved in the

1 GRC, and that the WRAM surcharge when combined with the authorized rate from the 2 GRC aligned the volumetric rate (including the surcharge) up to the rate level that would 3 have been adopted in the GRC had the sales forecast been more accurate.

- Q: In the Cal Advocates hypothetical example in Mr. Rauschmeir's testimony, Cal
 Advocates assumed that the actual costs incurred by the utility in his example is only
 \$90, which, according to Cal Advocates, includes the full amount of return to
 shareholders authorized in the GRC. Given those circumstances, Cal Advocates
 asserts that the utility will be authorized to recover the \$5.00 shortfall in the WRAM
 and that amount becomes additional profit to the utility shareholders. Do you have
 any comment regarding that scenario?
- 11 A: Yes. I should point out at the outset of this answer that Cal Advocates' example is lacking 12 in specifics about the costs that were not incurred by the utility in their example. In other 13 words, there is no attempt to identify which costs authorized by the Commission in the 14 GRC as just and reasonable failed to materialize, resulting in the savings. That's important 15 for a couple of reasons.

First, in Cal Advocates' example, the utility experiences a revenue shortfall of \$5.00. Presumably, that shortfall occurred because sales were less than the adopted level. In that situation, it would be reasonable to assume that a portion of the cost reduction below the authorized level is due to supply-related costs that were avoided due to the lower than anticipated sales volume. As Cal Advocates knows, supply-related costs for companies with a WRAM are tracked in a related balancing account: the MCBA. Any cost savings tracked in the MCBA would be credited against the WRAM balance and would not be
 collected by the utility.

Second, assuming that none of the \$10 cost savings in Cal Advocates' example were supply-related costs (and therefore the entire amount would be eligible for recovery), then the basic assumptions of Cal Advocates' example create a questionable scenario. I can explain why that is the case.

Typically, a significant portion of a water utility's overall revenue requirement is for 7 supply-related costs such as the cost of purchased water, purchased power, and 8 9 groundwater assessment fees (sometimes referred to as pump taxes). As noted above, the 10 cost for these supply-related items is tracked in a separate balancing account, the MCBA, 11 which is netted against the WRAM balance when the company seeks recovery of the 12 WRAM balance. Assuming all of the costs savings in Cal Advocates' hypothetical 13 example are eligible to be recovered from customers (meaning none of the cost savings 14 were from the supply-related items), it is difficult to perceive of a situation where the savings in actual non-supply related costs of a utility could amount to 10% of the overall 15 16 authorized revenue requirement given Cal Advocates' other important assumption: that 17 shareholders received their full adopted return in the reduced level of revenue.

Take Cal Am as an example. The cost of supply-related items constitutes approximately
25% of Cal Am's overall revenue requirement. That means that in order to realize the \$10
(10%) cost savings in overall revenue envisioned in Cal Advocates' example, Cal Am
would need to cut its non-supply related costs by 13.3% (10%/75%). The question

becomes: Where does that level of cost savings come from? What components that make
 up the Cal Am revenue requirement could produce those savings?

Looking at the non-supply related components of Cal Am's revenue requirement illustrates 3 4 the implausibility of Cal Advocates' hypothetical example. Recall, Cal Advocates stated 5 that the authorized amount of return to shareholders was fully recovered within the \$90 of revenue. For Cal Am, the Return component is approximately 19.5% of overall revenue 6 7 requirement, or 26% of the revenue requirement net of supply-related costs. That means 8 that all of the realized savings in Cal Advocates' example had to originate from remaining 9 (less than 56%) components of the overall revenue requirement. However, within those 10 remaining revenue requirement dollars is the funding for property taxes, state and federal 11 income taxes, and depreciation on long-lived assets. These costs do not go away. For Cal 12 Am, removing those components from the pool of available sources for the cost savings 13 leaves less than 37% of the overall revenue requirement available to provide the cost 14 savings.

This 37% of costs includes things such as labor costs, system maintenance, uncollectible costs, insurance, employee benefits, and health care insurance. The cost of these items would have to be 27% less than the amounts authorized in the GRC in order to achieve the results in Cal Advocates' hypothetical. While that may be mathematically possible, it's difficult to perceive of that outcome as a practically feasible one.

20 **Q:**

Is it your position that the WRAM never contributes to the earnings of the utility?

A: No. My position is that the mechanics of the WRAM are designed to mitigate the effects
on revenue recovery that result from sales variability. When recorded sales deviate from

22

PREPARED DIRECT TESTIMONY OF KEITH SWITZER

the level adopted in the rate-making process, revenue recovery will be affected. The impact
 on revenue recovery from sales deviations is amplified by increasing block rates
 implemented by the WRAM companies. The WRAM tracks that effect on revenue
 recovery, and facilitates recovery of the difference.

5 Under-collection balances in the WRAM are not separated into specific cost categories. 6 The under-collections, when they occur, are under-collections of the adopted revenue 7 requirement which includes the authorized shareholder return along with all the other non-8 supply related costs. It's not possible to isolate what costs were under-collected and what 9 costs were fully recovered.

10Q:In the Cal Advocates hypothetical example, they postulate that the actual costs were11significantly less than the adopted level, hence there is no need to recover the revenue12shortfall; that doing so simply provides more return to shareholders. Is that really13possible with the WRAM?

14 It's possible that recorded non supply-related costs can vary from the amount adopted in A: 15 the GRC. When that happens, the recorded rate of return can deviate from the 16 adopted/authorized level. That's a well-known, natural outcome of future test year ratemaking. The WRAM did not create that situation. Moreover, the situation can go 17 18 either way, up or down. Recorded costs can exceed the authorized amounts, potentially 19 resulting in a recorded rate of return less than the authorized level. The purpose of the 20 WRAM is to facilitate recovery of the adopted revenue requirement, not to modulate the 21 rate of return.

23

1 2 A: No. CWA does not have a preference for one over the other. CWA has consistently 3 advocated that the Commission should retain both mechanisms as options available to the 4 utility at the utility's discretion. 5 Some CWA member companies have full-decoupling mechanism (WRAMs), and other CWA member companies have pricing adjustment mechanism (M-WRAMs). CWA is 6 7 supportive of allowing each individual company to make a choice as to which mechanism 8 they prefer. CWA believes that the Commission should not eliminate the companies' 9 ability to choose between the two mechanisms. 10 What was the procedural process that resulted in these two different mechanisms? **O**: 11 A: Discussions regarding some sort of revenue decoupling had been on-going in the water 12 industry for some time. Those discussions began to get traction in 2005. 13 In December 2005, the Commission adopted a "Water Action Plan" (WAP). The WAP 14 was a policy statement intended to identify overarching objectives that would guide 15 Commission policy with regard to regulating investor owned water utilities. 16 There were three tiers to the WAP: Principles, Objectives, and Actions. 17 Principles: The WAP identified four Key Principles that are foundational and underlie all 18 of the Objectives of the Commission's regulatory policy. Those Principles are: 19 Safe, high quality water; Highly reliable water supplies; Efficient use of water; and 20 Reasonable rates and viable utilities. 21 Objectives: Building upon these Principles, the WAP then identified six Objectives to Those Objectives address a wide variety of issues 22 guide regulatory policy.

O: Does CWA have a preference for either the WRAM or the M-WRAM?

24

| 1 | including water quality, low income assistance, infrastructure investment, |
|----------------------------|--|
| 2 | conservation, and affordability. |
| 3 | Actions: Lastly, the WAP identifies a number of Actions associated with each of the six |
| 4 | Objectives. The Actions represent steps the Commission would consider |
| 5 | implementing on a going forward basis in order to advance the WAP Objectives. |
| 6 | The Commission identified decoupling of sales volumes and revenues in the WAP. |
| 7 | Specifically, WAP Objective 2: "Strengthen Water Conservation Programs to a Level |
| 8 | Comparable to those of Energy Utilities" is where the Commission explicitly addressed the |
| 9 | revenue decoupling issue. Action Item 5 for this Objective states: |
| 10 11 12 13 14 | Because water utilities recover their costs through sales, there is a disincentive associated with demand side management: a successful campaign to reduce water use leads to less revenue and less profit. The Commission will consider de-coupling water utility sales from earnings in order to eliminate current disincentives associated with conservation. |
| 15 | This was a significant development for the investor-owned water utility industry in |
| 16 | California. Prior to this point, the Commission had not adopted revenue decoupling for |
| 17 | the water industry. Commission regulated water utilities did not have sales and/or revenue |
| 18 | balancing accounts. As a result, there were financial dis-incentives for the water utilities |
| 19 | to promote conservation rate designs with increasing block rates. The WAP recognized |
| 20 | that fact and put the Commission on record as being open to consider de-coupling of sales |
| 21 | and revenues. |
| 22 | Although the WAP indicated that the Commission would consider decoupling of sales and |
| 23 | revenues, it didn't provide any guidance as to the format for the decoupling mechanism. |
| 24 | That decision was left to the individual utilities. |

PREPARED DIRECT TESTIMONY OF KEITH SWITZER

| 1 | After the Commission issued the WAP in December 2005, several Class A water utilities |
|---|---|
| 2 | filed applications requesting authority to implement various programs intended to address |
| 3 | objectives in the WAP, including decoupling mechanisms. (See A.06-09-006 for GSWC, |
| 4 | A.06-10-026 for California Water Service, A.06-11-009 for Park Water Company, A.06- |
| 5 | 11-010 for Suburban Water Systems, and A.07-03-019). Some of the companies requested |
| 6 | full decoupling WRAMs, and others requested pricing adjustment mechanisms similar to |
| 7 | the mechanism previously implemented in Cal Am's Monterey District, and commonly |
| 8 | referred to as the Monterey-Style WRAM despite the fact that it was not an actual revenue |
| 9 | decoupling mechanism. |

In January 2007, the Commission issued an OII (I.07-01-022) with the purpose to consider 10 11 policies toward achieving the Commission's conservation objectives (the Conservation Investigation). The Commission's Scoping Memo for the proceeding cited increasing 12 13 block rates, revenue adjustment mechanisms, rationing programs, rebates and customer 14 education and conservation memo accounts as topics to be considered. The four pending applications of GSWC, Cal Water, Park, and Suburban were consolidated into the 15 Conservation Investigation, as was the application of San Jose Water that was filed shortly 16 after the OII was issued. 17

18 The Commission bifurcated the Conservation Investigation into two phases. Phase 1 issues 19 included conservation rate design and the WRAM decoupling mechanism. All of the 20 companies negotiated individual settlements with the Office of Ratepayer Advocates (ORA 21 – now the California Public Advocates Office) on the Phase 1 issues. Those Settlements, 22 some of which included WRAMs and some of which included M-WRAMs, were adopted

| 2 | Q: | There are four Class A companies with a WRAM and four Class A companies with |
|----|----|--|
| 3 | | an M-WRAM. Did the Commission decide which companies would have a WRAM |
| 4 | | and which would have an M-WRAM? |
| 5 | A: | No. While the Commission ultimately authorized each company's request to implement |
| 6 | | either a WRAM or an M-WRAM, each company made their own decision as to which |
| 7 | | mechanism to request. |
| | | |
| 8 | | III. CONCLUSION |
| 9 | Q: | Does this conclude your testimony? |
| 10 | A: | Yes. |

by the Commission in D.08-02-036 and D.08-08-030.

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STATEMENT OF QUALIFICATIONS – KEITH SWITZER

| 2 | Q. | Please outline your educational background. |
|----|----|---|
| 3 | А. | I hold a Bachelor of Arts in Economics from California State University, Fullerton, a |
| 4 | | Master of Fine Arts in Economics from University of California, Los Angeles, and a Master |
| 5 | | of Public Administration from University of Southern California. |
| 6 | Q. | Please summarize your professional experience. |
| 7 | A. | I have approximately 40 years of experience working with regulated utilities. Most |
| 8 | | recently, I was employed by Golden State Water Company (Golden State) for more than |
| 9 | | two decades. I started as a Manager in the Regulatory Affairs Department at Golden State |
| 10 | | in October 2000 and was promoted to Vice President of Regulatory Affairs in September |
| 11 | | 2004. I held that position until my retirement in January of 2022. |
| 12 | | During my tenure at Golden State, I was an active member of the California Water |
| 13 | | Association (CWA). I was a member of the CWA Executive Board for 17 years, including |
| 14 | | a two-year term $(2019 - 2020)$ as the President of the Association. |
| 15 | | Prior to joining Golden State, I held a number of positions working with regulated utilities, |
| 16 | | including Southern California Edison, Southern California Gas Company, San Gabriel |
| 17 | | Valley Water Company, the California Power Exchange, and National Economic Research |
| 18 | | Associates. Additional information regarding my professional background is described in |
| 19 | | my resume, attached as Appendix I. |
| | | |

20

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Appendix I

Qualification Statement Bryan Keith Switzer

Professional Experience

Golden State Water Company (2000-2022)

| Vice President, Regulatory Affairs | 2004-2022 |
|------------------------------------|-----------|
| Manager Special Projects | 2000-2004 |

Senior officer in charge of regulatory issues involving the State of California Public Utilities Commission (CPUC). Responsible for all regulatory filings and proceedings involving eight separate water districts and one electric district. Testified in numerous litigation proceedings before CPUC Administrative Law Judges. Sponsored testimony on variety of subjects including Executive Compensation, Rate Design, Consolidation, Acquisition, and Corporate Re-Organization. Appeared at Public Hearings. Testified as Expert Witness in State Court in Eminent Domain litigation.

Responsible for GSWC Supplier Diversity Program. Direct oversight of SDP Manager. Represented Water Industry on two occasions at CPUC Annual Diversity En Banc Hearing.

California Water Association (2000-2021)

| President | 2019-2020 |
|------------------------|-----------|
| Vice President | 2013-2018 |
| Treasurer | 2011-2012 |
| Executive Board Member | 2005-2021 |

CWA is a statewide trade organization representing the interests of the Investor Owned Water Utility industry in California. The Association advances the interests of its members through the work of ten standing committees. I was a Director of the Association since 2000, and a member of the Regulatory and the Public Affairs/Legislative committees during that time. Appointed to the Executive Board in 2005 and served on the Board for 17 years, including a two-year term as President of the Association.

Willdan/MuniFinancial (1999-2000)

Division Manager/Consulting Manager

Managed staff providing financial consulting services, including special district formations and property assessments. Appeared before City and other public agency councils, and Public Meetings regarding Special District issues.

San Gabriel Valley Water Company (1998-1999)

Rate Department Manager

Managed utility rate department. Responsible for all filings with CPUC, development of revenue requirement and preparation of rate related filings.

Southern California Gas Company (1991-1998)

| Forecasting Analyst | 1991-1992 |
|----------------------|-----------|
| Senior Rates Analyst | 1992-1998 |

Started as an Analyst conducting forecasts of gas usage by various categories of industrial customers. Transferred to Rates group in corporate re-organization. Duties included conducting cost studies, rate design proposals, litigation support, and special assignments.

National Economic Research Associates

Senior Analyst

NERA is an economic consulting firm specializing in trade regulation, competitive behavior disputes, and utility regulation issues. My utility projects included cost of service studies, rate studies, and reasonableness studies for regulated utilities. In addition, I provided analytical level support on a number of litigation projects in the areas of anti-trust and competitive behavior disputes.

1987-1991

| Southern (| California | Edison |
|------------|------------|--------|
|------------|------------|--------|

Economist

1982-1986

Part-time position in the Economics Division within the Treasurers Department at SCE. Duties were primarily to provide analytical support to Senior Economists on variety of issues, including cost forecasting, productivity studies, conservation studies, and financing reasonableness.

Education

California State University, Fullerton, Bachelor of Arts in Economics University of California, Los Angeles, Master of Arts in Economics University of Southern California, Master of Public Administration