

Docket	:	<u>A.25-07-003</u>
Exhibit Number	:	<u>Cal Adv - #</u>
Commissioner	:	<u>Matthew Baker</u>
Administrative Law	:	<u>Rafael L. Lirag</u>
Judge		
Public Advocates Office	:	<u>Lauren Cunningham</u>
Witness(es)		



PUBLIC ADVOCATES OFFICE
CALIFORNIA PUBLIC UTILITIES COMMISSION

PUBLIC

**REPORT ON THE SERVICE
COMPANY, GENERAL OFFICE,
NTP&S, AFFILIATED
TRANSACTIONS AND REVENUES.**

California American Water Company's
General Rate Case Application 25-07-003
Test Year 2027

San Francisco, California
January 23, 2026

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MEMORANDUM

1 The Public Advocates Office at the California Public Utilities Commission (“Cal
2 Advocates”) examined application material, data request responses, and other
3 information presented by California American Water Company (“Cal Am”) in
4 Application (“A.”) 25-07-003 to provide the California Public Utilities Commission
5 (“Commission” or “CPUC”) with recommendations in the interests of ratepayers for safe
6 and reliable service at the lowest cost. Mr. Brian Yu is Cal Advocates’ project lead for
7 this proceeding. This Report is prepared by Ms. Lauren Cunningham. Mr. Mukunda
8 Dawadi is the oversight supervisor. Mr. Niki Bawa and Ms. Ritta Merza are the legal
9 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 of any particular issue from Cal Advocates’ testimony
13 connotes neither agreement nor disagreement with the underlying request, methodology,
14 or policy position related to that issue.

Chapter #	Description	Witness
1	Service Company Expenses	Lauren Cunningham
2	General Office	Lauren Cunningham
3	Non-Tariffed Products and Services	Lauren Cunningham
4	Affiliated Transactions and Revenues	Lauren Cunningham

CHAPTER 1 SERVICE COMPANY COSTS

I. INTRODUCTION

The Service Company is a wholly owned subsidiary of Cal Am's parent company, American Water Works. The Service Company provides services to other American Water Works subsidiaries in other states. The requested \$18,155,177 budget is Cal Am's proposed California portion of the Service Company's estimated budget.

7 Cal Am based its forecast on 2024 Service Company costs which contain
8 numerous items that do not directly benefit ratepayers. Cal Am forecasted TY 2027
9 Service Company budget by adjusting recorded 2024 costs, then applying escalation
10 factors to determine the projected 2025 Service Company budget.¹, ² From there, Cal
11 Am made additional adjustments to 2025 before applying escalation factors to reach
12 2026. The same process was applied to 2026 to finally forecast the TY 2027 Service
13 Company budget.³

14 Cal Advocates reviewed Cal Am’s proposed Service Company budget estimate to
15 assess its completeness, accuracy, and reasonableness. Upon review, Cal Advocates
16 removed several excess budgets within the Service Company forecast as they do not
17 serve ratepayers. Thus, Cal Advocates recommends the budgets be removed (outlined
18 below) that favor stakeholder and investor interests rather than ratepayer interest.

II. SUMMARY OF RECOMMENDATIONS

20 The Commission should adopt a Service Company test year (TY) budget of
21 \$13,740,706. This amount removes proposed costs that prioritize Service Company and

¹ Attachment 1-1: CAW Response to Cal Adv DR LCN-01 Q001.

² Attachment 1-2: CAW Response Cal Adv DR LCN-04 Q007 Attachment 1 CONFIDENTIAL, Tab "Workpaper 1-Summary."

³ Direct Testimony of John Watkins at 5, Lines 24-26, 6, Lines 1-5. These processes were not applied to Pension and Other Post-Employment Benefits (OPEBs).

1 Cal Am investors over Cal Am customers should not be recovered through Cal Am's
2 ratepayers. Table 1-1 below includes a comparison of Cal Advocates' and Cal Am's
3 Service Company Forecast.

4 **Table 1-1: Cal Am vs. Cal Advocates TY 2027 Service Company Forecast**

Cal Advocates Recommended	Cal Am ⁴ Proposed	Cal Am > Cal Advocates
\$13,740,706	\$18,155,177	\$4,414,471

5

6 **III. ANALYSIS**

7 **A. Budgets to Eliminate from Service Company Expense**

8 The Commission should remove the budgets listed in Table 1-2 below from
9 the TY 2027 Service Company forecast because Cal Am ratepayers should not pay
10 for any costs that Cal Am does not justify as contributing to providing safe and
11 reliable water service.⁵

⁴ Cal Am RO Model "ALL_CH04_O&M_RO_Service Co," tab: "OUT_Ser Co Data," cell K77.

⁵ Pub. Utils. Code Section 454(a).

1 **Table 1-2: Budgets to Exclude from TY 2027 Service Company Forecast**

2 **<<BEGIN CONFIDENTIAL>>**



<<END CONFIDENTIAL>>

3 **1. Annual Performance Plan**

4 The Commission should exclude \$1,075,337 in Annual Performance
5 Plan (APP) budget from the TY 2027 Service Company forecast because it

⁶ Attachment 1-3: CAW Response to Cal Adv DR LCN-04 Q007 Attachment 1 CONFIDENTIAL, tab
“Support-Raw Data-OPEX_Adj.”.

overwhelmingly serves stakeholders without providing ratepayers benefits. California American Water requests the APP budget to award additional cash payments to Service Company employees who contribute to achieving the goals of American Water, a parent company of California American Water, and the criterion of evaluation is a targeted focus on growth, among other things. For example, American Water's Annual Performance Plan for 2025⁷ weights Growth Strategy at <<**BEGIN CONFIDENTIAL**>> █ %, <<**END CONFIDENTIAL**>> with an EPS (Earnings Per Share) Target of <<**BEGIN CONFIDENTIAL**>> \$ █ to \$ █.⁸ <<**END CONFIDENTIAL**>> Since APP is overwhelmingly serving stakeholders without providing ratepayers benefits, the Annual Performance Plan budget should be excluded from the Service Company forecast.

2. Long Term Performance Plan – Restricted Stock Units (RSU) and Performance Stock Units (PSU)

The Commission should exclude \$1,617,385 in Stock Compensation budget from the TY 2027 Service Company budget forecast because ratepayers should not be held responsible for financing an employee reward system that will not directly benefit ratepayers.² Cal Am requests that the Service Company budget include two types of Long-Term Performance Plan (LTPP): Restricted Stock Units (RSU) and Performance Stock Units (PSU), which are awarded to employees based on American Water’s Total Shareholder Return, i.e., earnings per share growth and Return on Equity. American Water’s RSU System rewards <<BEGIN CONFIDENTIAL>>

⁷ The annual performance plans for 2025 for non-union and union-represented employees are the same.

⁸ Attachment 1-4: CAW Response to Cal Adv DR LCN-05 Q001 Attachment 2 CONFIDENTIAL.

9 Pub. Utils. Code Section 454(a).

■ [REDACTED].¹⁰<<END

2 **CONFIDENTIAL>>** Different from RSU, the PSU system rewards
3 **<<BEGIN CONFIDENTIAL>>** [REDACTED]
4 [REDACTED]
5 [REDACTED].¹¹ **<<END CONFIDENTIAL>>** These long-term
6 stock based compensation benefit shareholders, not ratepayers, and,
7 therefore, should not be included in customer bills. Cal Advocates does not
8 oppose the reward system; however, the ratepayers should not be held
9 responsible for a system that does not directly benefit them. Thus, the
10 Commission should exclude the stock-based compensation (RSU/PSU)
11 budget from the Service Company forecast.

12 **3. Dues and Membership**

13 The Commission should exclude \$259,198 in Dues and Membership
14 Fees (labeled by Cal Am as “Co Dues/Membership Deductible”) budget
15 from the TY 2027 Service Company forecast. Utility companies can be
16 members of various organizations, for example, National Association of
17 Water Companies (NAWC) which represents the private water industry.¹²
18 As outlined in the Cal Advocates’ Report on Administrative and General
19 Expenses,¹³ the Public Utility Code,¹⁴ Commission precedent,¹⁵ and

¹⁰ Attachment 1-5: CAW Response to Cal Adv DR LCN-05 Q002 Attachment 1 CONFIDENTIAL.

¹¹ Attachment 1-5: CAW Response to Cal Adv DR LCN-05 Q002 Attachment 1 CONFIDENTIAL.

¹² National Association of Water Companies, available at: <https://nawc.org/>

¹³ Testimony of Roy Keowen, Report on the General and Administrative Expenses, Chapter 1, Section III(F).

¹⁴ Pub. Utils. Code Section 451.

¹⁵ Decision (D.)84-05-036; D.12-06-016; D.19-05-044.

1 California Supreme Court¹⁶ decisions all support the exclusion of company
2 dues and memberships from rate recovery. Service Company and Cal
3 Am's membership dues to associations such as NAWC do not provide
4 direct and immediate benefit to ratepayers. In fact, recent years has seen
5 these organizations utilize membership dues to intervene in Commission
6 proceeding to advocate for utility positions that would be adverse to
7 customer interests.¹⁷ Thus, Cal Am's proposed dues and membership
8 budget should be excluded from the Service Company forecast.

9 **4. Employee Stock Purchase Plan Expense**

10 The Commission should exclude \$31,685.93 in Employee Stock
11 Purchase Plan Expense budget from the TY 2027 Service Company
12 forecast because ratepayers receive no direct benefit from funding
13 employee stock options. An Employee Stock Purchase Plan is a company-
14 run benefit that allows employees to buy shares of the company's stock at a
15 discounted price.¹⁸ Historically, the Commission has declined stock-based
16 compensation in rates.¹⁹ Therefore, Employee Stock Purchase Plan
17 Expense budget should be excluded from rates.

18 **5. Charitable Contribution Deductible and Non-**
19 **Deductible**

20 The Commission should exclude \$836 and \$10 in Charitable
21 Contribution Deductible and Nondeductible budgets, respectively, from the

¹⁶ *Southern California Edison Co. v. Public Utilities Commission* (1978) 85 Cal.App.3d 593.

¹⁷ A.22-07-001, R.22-04-003.

¹⁸ Will Kenton, Understanding Employee Stock Purchase Plans (ESPP): Benefits and How They Work, Investopedia, available at: <https://www.investopedia.com/terms/e/espp.asp> [accessed on December 28, 2025]

¹⁹ D.16-12-067 at 104.

1 TY 2027 Service Company forecast because positive charitable
2 contributions do not directly benefit ratepayers. A charitable contribution
3 deductible is an amount of money or property given to qualified
4 organizations that can reduce the giver's taxable income.²⁰ Whereas a
5 charitable contribution made to an organization that the Internal Revenue
6 Service does not recognize as qualified cannot reduce the giver's taxable
7 income.²¹ The financial burden of any charitable contribution made at
8 Service Company's and/or Cal Am's behest must not be held by Cal Am's
9 ratepayers. Additionally, the Commission has historically ruled to exclude
10 charitable costs from rates.²² Therefore, Charitable Contribution budgets
11 should be excluded from the Service Company forecast.

12 **6. Lobbying Expenses**

13 The Commission should exclude \$25,176 in Lobbying Expenses
14 budget from the TY 2027 Service Company forecast because lobbying
15 satisfies Service Company, Cal Am and its stakeholders' interests, not the
16 ratepayers' interests. Lobbying Expenses are paid to influence legislation
17 or public policy in directions favorable to the financiers, such as, Service
18 Company, Cal Am, and its stakeholders.²³ Cal Advocates' Report on
19 Administrative and General Expenses discusses how the Commission

²⁰ Charitable contribution deductions, Internal Revenue Service, available at: <https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions> [accessed on December 28, 2025]

²¹ Beverly Bird, Charitable Contribution Deduction: What You Need to Know About Tax Years 2025 and 2026, December 13, 2025, available at: <https://www.investopedia.com/articles/personal-finance/041315/tips-charitable-contributions-limits-and-taxes.asp> [accessed December 28, 2025]

²² See, Testimony of Roy Keowen, Cal Advocates Report on the General and Administrative Expenses, Chapter 1, Section III.(F).

²³ Lobbying, Britannica, available at: <https://www.britannica.com/topic/lobbying> [accessed December 28, 2025]

1 historically rules to exclude lobbying costs from rates.²⁴ As such, the
2 Lobby Expenses budget should be excluded from the Service Company
3 forecast.

4 **7. Penalties Nondeductible**

5 The Commission should exclude \$32 in Penalties Nondeductible
6 budget from the TY 2027 Service Company forecast because penalties are
7 the fault of Service Company and Cal Am. Nondeductible Penalties are
8 fines paid to governmental agencies due to a violation of law, and the
9 Internal Revenue Service does not consider them necessary business
10 deductions.²⁵ Ratepayers should not bear the burden of fines and penalties
11 related to law violations committed by Service Company and Cal Am. In
12 addition, the purpose of penalties is to create an incentive for the company
13 to comply with the law. Allowing such costs in rates unfairly shifts the
14 burden to ratepayers and undermines the very purpose of the penalties in
15 changing the companies' policies and practices. As such, Penalties
16 Nondeductible budget should be excluded from the Service Company
17 forecast.

18 **8. Business Development**

19 The Commission should exclude the remaining (after removal of Co
20 Dues/Membership Deductible, Annual Performance Plan, and Long Term
21 Performance – RSU/PSU) \$315,730 in Business Development budget, from
22 the TY 2027 Service Company forecast because Business Development
23 serves stakeholder interests. Business Development expenses include

²⁴ Testimony of Roy Keowen, Cal Advocates Report on the General and Administrative Expenses, Chapter 1, Section III.(F).

²⁵ 26 CFR Section 1.162-21.

1 expenses related to ensuring future growth opportunities.²⁶ Cal Am's
2 overarching Business Development category includes expenses such as
3 **<<BEGIN CONFIDENTIAL>>** [REDACTED]

4 [REDACTED]
5 [REDACTED] **<<END**
6 **CONFIDENTIAL>>**²⁷ Notably, the Commission previously excludes
7 Business Development costs in the revenue requirement due to an absence
8 of quantifiable ratepayer benefits.²⁸ Likewise, in this application, Cal Am
9 has failed to provide evidence that the Service Company Business
10 Development budget would provide any ratepayer benefits. Therefore, the
11 remaining Business Development budget should be excluded from Service
12 Company forecast.

13 **9. External Affairs and Public Policy**

14 The Commission should exclude the remaining **<<BEGIN**
15 **CONFIDENTIAL>>** [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 **<<END CONFIDENTIAL>>** from the TY 2027 Service Company
19 forecast because it does not benefit ratepayers.²⁹ Cal Am's External Affairs
20 and Public Policy budget includes subaccounts, such as, the undefined
21 Employee Expenses and Contract Services and Employee Awards

²⁶ Shobhit Seth, Business Development: Strategies, Steps, and Essential Skills, August 28, 2025, available at: <https://www.investopedia.com/articles/personal-finance/090815/basics-business-development.asp> [accessed on December 28, 2025]

²⁷ Attachment 1-3: CAW Response to Cal Adv DR LCN-04 Q007 Attachment 1, tab "Support-Raw Data-OPEX_Adj."

²⁸ (D.)09-07-021 (page 103).

²⁹ Pub. Utils. Code Section 454(a).

1 accounts.³⁰ External affairs refer to communications to policymakers and
2 legislative bodies. Public affairs target the media and general public. As a
3 means of burnishing the corporate image, neither category belongs in the
4 revenue requirement of a regulated monopoly. Therefore, the Commission
5 should exclude the remaining External Affairs and Public Policy budget
6 from Service Company forecast.

7 **10. Operational Excellence**

8 The Commission should exclude the remaining \$665,860 in
9 Operational Excellence budget, after removal of Annual Performance,
10 Compensation Expense – RSU/PSU, Co Dues/Membership Deductible,
11 from the TY 2027 Service Company forecast because it centers on
12 stakeholder interests. Operational Excellence is generally defined as
13 business management approaches to add value to a company.³¹ Adding
14 value to a company is a shareholder interest that is not directly related to
15 ratepayer needs. Therefore, the remaining Operational Excellence budget
16 should be excluded from Service Company forecast methodology.

17 **B. Cal Advocates’ Service Company TY 2027 Forecast**

18 Cal Advocates forecasts TY 2027 Service Company budget by first
19 adjusting Recorded 2024 Service Company costs as indicated below in Table 1-
20 3.³²

³⁰ Attachment 1-3: CAW Response to Cal Adv DR LCN-04 Q007 Attachment 1, tab “Support-Raw Data-OPEX_Adj.”

³¹ What is operational excellence?, IBM, available at: <https://www.ibm.com/think/topics/operational-excellence> [accessed on December 28, 2025]

³² Cal Am RO Model file “ALL_CH04_O&M_RO_Service Co,” tab: “Summary of Cots – DC WS10,” cell N77.

1 **Table 1-3: Cal Advocates vs. Cal Am Recorded 2024 Service Company Costs**

Recorded 2024	Cal Advocates	Cal Am	Difference
Service Company	\$12,690,166.01 ³³	\$16,948,479 ³⁴	\$(4,258,312.99) ³⁵

2 Next, Cal Advocates escalated the recorded 2024 Service Company costs
 3 by 1.027³⁶ to forecast 2025 Service Company Costs. Cal Advocates escalated
 4 using the same appropriate Escalation Memorandum figures twice more, by
 5 1.0278³⁷ and 1.0258,³⁸ to calculate the 2026 projection and then the TY 2027
 6 Service Company forecast. Table 1-4 below illustrates Cal Advocates' and Cal
 7 Am's respective Service Company costs starting with recorded 2024 figures.

8 **Table 1-4: Cal Advocates' vs. Cal Am 2024-2027 Service Company Costs**

	Recorded 2024	2025	2026	TY 2027
Cal Advocates	\$12,690,166.01 ³⁹	\$13,032,801	\$13,395,113	\$13,740,706
Cal Am	\$16,948,479 ⁴⁰	\$16,915,028	\$17,225,262	\$18,155,177
Difference	\$(4,258,312.99) ⁴¹	\$(3,882,227)	\$(3,830,149)	\$(4,414,471)

³³ CAW 2024 Recorded \$16,948,479 subtract Cal Adv total adjustment \$4,258,312.99.

³⁴ Cal Am RO Model file “ALL_CH04_O&M_RO_Service Co,” tab: “Y_Ser Co Data Rec WS1,” cell N104.

³⁵ Total Cal Advocates Recorded 2024 Service Company costs adjustment.

³⁶ Cal Am RO Model file “ALL_CH04_O&M_RO_Service Co”, tab: “IN_Escalation Factors,” cell G6.

³⁷ Cal Am RO Model file “ALL_CH04_O&M_RO_Service Co,” tab: “IN_Escalation Factors,” cell H6.

³⁸ Cal Am RO Model file “ALL_CH04_O&M_RO_Service Co,” tab: “IN_Escalation Factors,” cell I6.

³⁹ CAW 2024 Recorded \$16,948,479 subtract Cal Adv total adjustment \$4,258,312.99 .

⁴⁰ Cal Am RO Model file “ALL_CH04_O&M_RO_Service Co,” tab: “Y_Ser Co Data Rec WS1,” cell N104.

⁴¹ Total Cal Advocates Recorded 2024 Service Company costs adjustment.

1 **IV. CONCLUSION**

2 The Commission should adopt \$13,740,706 for Service Company budget for TY
3 2027 forecast, which establishes the most recent Recorded 2024 Service Company costs
4 as a baseline, and excludes extraneous budgets that do not directly benefit ratepayers.

5 The Commission should exclude the budgets as outlined above from the Service
6 Company forecast because they do not directly benefit ratepayers and, therefore, should
7 not be recovered through Cal Am's ratepayers. These budgets prioritize Service
8 Company and Cal Am investors over Cal Am customers and can be paid with shareholder
9 dollars not ratepayers.

CHAPTER 2 GENERAL OFFICE

I. INTRODUCTION

General Office costs are allocated amongst Cal Am's Districts via Tier One and Tier Two allocation factors.⁴² Cal Advocates does not oppose Cal Am's allocation percentages.

II. SUMMARY OF RECOMMENDATIONS

Table 2-1: General Office Allocation Factors⁴³

District #	District Name	Tier 1	Tier 1	Tier 1	Recorded	Projected
		Pensionable Income	# Eligible Employees - OPEB	# Employees	Tier 2	Tier 2
1501	CAW Corporate	25.04%	16.67%	25.84%	-100.00%	-100.00%
1530	San Diego County District	12.61%	13.33%	7.72%	11.29%	11.21%
1540	Monterey County District	27.50%	30.00%	23.83%	21.10%	21.02%
1541	Monterey - Chualar	0.00%	0.00%	0.00%	0.00%	0.00%
1542	Monterey Wastewater	1.70%	1.67%	3.02%	1.33%	0.60%
1548	Monterey - Toro	0.00%	0.00%	0.00%	0.00%	0.00%
1549	Monterey - Garrapata	0.00%	0.00%	0.00%	0.00%	0.00%
1550	Los Angeles County District	7.88%	10.00%	11.07%	17.71%	17.81%
1551	Ventura County District	6.87%	8.33%	5.70%	10.96%	10.85%
1552	LA-Baldwin Hills	0.00%	0.00%	0.00%	0.00%	0.00%
1553	LA-Duarte	0.00%	0.00%	0.00%	0.00%	0.00%
1554	LA-San Marino	0.00%	0.00%	0.00%	0.00%	0.00%
1555	Monterey - Ambler	0.00%	0.00%	0.00%	0.00%	0.00%
1560	Sacramento District	16.87%	18.33%	17.45%	36.37%	37.26%
1561	Larkfield District	1.51%	1.67%	2.01%	1.24%	1.26%
1565	Meadowbrook	0.00%	0.00%	1.01%	0.00%	0.00%
1567	Hillview	0.00%	0.00%	2.35%	0.00%	0.00%

⁴² Direct Testimony of John Watkins at 5, Lines 7-19.

⁴³ Cal Am RO Model file "X_GBL_GO Allocations," tab: "REF_Allocations."

1 General Office costs are allocated amongst Cal Am's Districts via Tier One and
2 Tier Two allocation factors.⁴⁴ Tier One allocation factors include: pensionable income,
3 number of eligible employees, number of employees, and reserved (0% for all districts,
4 so not listed in the table above). Tier Two allocation factors include recorded and
5 projected percentages based on the average number of customers as a percentage of Cal
6 Am's total number of customers. Cal Advocates reviewed the allocation factor
7 methodologies and applied areas and found them reasonable.

8 **III. CONCLUSION**

9 Cal Advocates made no adjustments to Cal Am's General Office allocation factor
10 methodologies.

⁴⁴ Direct Testimony of John Watkins at 5, Lines 7-19.

1 **CHAPTER 3 AFFILIATED TRANSACTIONS AND REVENUES**

2 **I. INTRODUCTION**

3 Cal Am proposes allocating \$333,166⁴⁵ in estimated charges to Hawaii American
4 Water in TY 2027.⁴⁶

5 Affiliated transactions refer to transactions between Cal Am and corporate
6 affiliates, including American Water Works Service Company (Service Company),
7 Hawaii American Water Company (HAW), and American Water Capital Corp. These
8 are recorded as General Office costs. The exception is temporary or intermittent services
9 provided by Cal Am to Service Company, which are recorded as Other Revenue.⁴⁷
10 Service Company costs are addressed in Chapter 1 of this testimony.

11 American Water Capital Corporation has costs related to short term and long-term
12 financing. However, there are no American Water Capital Corporation costs in the RO
13 Model because Cost of Capital is determined in a separate application.⁴⁸

14 Cal Am provides management oversight and support to Hawaii American Water.⁴⁹
15 This oversight and support is provided for the functional areas of Administration,
16 Operations, Government Affairs, External Affairs, Engineering, Finance, Health and
17 Safety, Information Technology, Legal, Rates and Regulatory, and Human Resources.⁵⁰

⁴⁵ Cal Am RO Model file “ALL_CH04_O&M_WP_HI,” tab: “OUT_Total HI Cost WS-B.”

⁴⁶ Cal Am requests a \$333,166 budget for Hawaii American Water.

⁴⁷ *Application of California-American Water Company (U210W) to Increase Revenues in Each of its Districts Statewide*, July 1, 2025, Exhibit B Vol. 3 of 3, Sections H-K, at PDF 18.

⁴⁸ Attachment 1-6: CAW Response to Cal Adv DR LCN-04 Q004.

⁴⁹ *Application of California-American Water Company (U210W) to Increase Revenues in Each of its Districts Statewide*, Direct Testimony of Joey Chen at 26, Lines 1-5.

⁵⁰ Direct Testimony of Joey Chen at 26, Lines 1-5.

1 Cal Am bills Hawaii American Water quarterly based on the actual number of hours
2 devoted to the management oversight and support.⁵¹

3 **II. SUMMARY OF RECOMMENDATIONS**

4 The Commission should adopt Cal Am's proposed \$333,166⁵² budget, which
5 charges Hawaii American Water for labor performed by Cal Am employees. Cal
6 Advocates does not oppose the methodologies used to reach this forecast.

7 **III. ANALYSIS**

8 **A. Cal Advocates' Review of Cal Am's Methodology**

9 Cal Am estimated the total \$333,166 of labor, labor-related, and general
10 overhead costs to Hawaii American Water for TY 2027⁵³ by taking the three-year
11 average (2022-2024) of actual hours worked on Hawaii American Water by Cal
12 Am employees.⁵⁴ Cal Am then multiplied the average number of hours by
13 employee position by a projected hourly wage rate to determine the amount of
14 labor cost to allocate to Hawaii American Water.⁵⁵ Cal Advocates does not
15 oppose the three-year average and projected hourly wage rate methodologies.

16 Furthermore, Cal Am added the applicable labor overhead costs for group
17 insurance, pension, APP, ESPP, DCP, retiree medical, 401k, and payroll tax costs
18 to this amount. Cal Advocates does not oppose including these labor-related costs,
19 along with their respective escalation methodologies.

⁵¹ Direct Testimony of Joey Chen at 26, Lines 9-10.

⁵² Cal Am RO Model file "ALL_CH04_O&M_WP_HI," tab: "OUT_Total HI Cost WS-B."

⁵³ Direct Testimony of Joey Chen at 26, Lines 14-15.

⁵⁴ Direct Testimony of Joey Chen at 26, Lines 18-19.

⁵⁵ Direct Testimony of Joey Chen at 26, Lines 19-21.

1 Finally, Cal Am also included an allocation of general overhead costs from
2 the General Office based on a ratio of a three-year average of general overhead
3 costs to labor costs.

4 Upon review, Cal Advocates does not oppose using the three-year average
5 (2022-2024) of actual hours worked on Hawaii American Water by Cal Am
6 employees to forecast TY 2027 labor hours.

7 **IV. CONCLUSION**

8 Cal Advocates does not oppose the methodology used to reach the Hawaii
9 American Water forecast. Any differences between Cal Advocates and Cal Am are due
10 to differences in wage rate forecasts, discussed in Labor SLM testimony.

Attachment 0-1: Qualifications of Witness

QUALIFICATIONS AND PREPARED TESTIMONY
OF
LAUREN CUNNINGHAM

Q.1 Please state your name and address.

A.1 My name is Lauren Cunningham, and my business address is 505 Van Ness Avenue, San Francisco, California, 94102.

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

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

Q.3 Please describe your educational and professional experience.

A.3 I received a Bachelor of Arts Degree in Economics, with minors in Spanish and Mandarin Chinese, from California State University, Sacramento in January 2020. I have been with the Public Advocates Office Water Branch since July 2020.

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

A.4 I am responsible for the preparation of the Report and Recommendations on Service Company, General Office, Non-Tariffed Products and Services, and Affiliated Transactions and Revenues.

Q.5 Does that complete your prepared testimony?

A.5 Yes.

Attachment 1-1: CAW Response Cal Adv LCN-01 Q001.

DATA REQUEST:

1. Did Cal Am utilize the American Water Works Service Company, Inc. Cost Accounting Manual when determining costs associated with Cal Am's General Rate Case (GRC) application and supporting documents that were submitted on July 1, 2025?
 - a. If so, please confirm Cal Am used the most recent American Water Works Service Company, Inc. Cost Accounting Manual and provide the document in PDF format.
 - b. In the event that any answers to the questions in this document refer to the provided cost accounting manual mentioned above, please cite the section and page number.

CAL-AM'S RESPONSE:

- a. The Company started with the 2024 actual operating expense, which were based on the Cost Accounting Manual, and then made known and measurable adjustments for 2024 and 2025. The Company also included adjustments for 2026, 2027 and 2028, examples include annual merit adjustments, adjustments for depreciation and interest changes and inflation. Please see CAW Response Cal Adv LCN-01 Q001 Attachment 1 CONFIDENTIAL for the 2024 Cost Accounting Manual.
- b. Not applicable.

**Attachment 1-2: CAW Response Cal Adv
LCN-04 Q007 Attachment 1
CONFIDENTIAL, Tab “Workpaper 1-
Summary.”**

Confidential Attachment

**Attachment 1-3: CAW Response to Cal
Adv LCN-04 Q007 Attachment 1
CONFIDENTIAL, tab “Support-Raw
Data-OPEX_Adj.”**

Confidential Attachment

**Attachment 1-4: CAW Response to Cal
Adv DR LCN-05 Q001 Attachment 2
CONFIDENTIAL.**

Confidential Attachment

**Attachment 1-5: CAW Response to Cal
Adv DR LCN-05 Q002 Attachment 1
CONFIDENTIAL.**

Confidential Attachment

Attachment 1-6: CAW Response to Cal Adv LCN-04 Q004.

DATA REQUEST:

American Water Capital Corporation (AWCC)

Please refer to PDF page 18 of Exhibit B Minimum Data Requirements Vol. 3 of 3 Sections H-K, that was provided with Cal Am's July 1, 2025 GRC application for questions 1-4 below:

4. List RO Model references to where American Water Capital Corporation costs are tracked.

CAL-AM'S RESPONSE:

AWCC has costs related to short term and long term financing. There are no AWCC costs in the RO Model because Cost of Capital is determined in a separate application.