

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of San Jose Water Company
(U168W) for Approval of Cost Recovery for
PFAS Remediation.

Application 26-04-010
(Filed April 10, 2026)

REBUTTAL TESTIMONY OF CARMELITHA BORDELON

September 28, 2026

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1 **I. INTRODUCTION**

2 **Q1. Please state your name, business address, and title.**

3 A1. My name is Carmelitha Bordelon, my business address is 110 W. Taylor St., San Jose,
4 CA, 95110, and my title is Vice President of Regulatory.

5 **Q2. Briefly describe your present employment.**

6 A2. I currently serve as the Vice President of Regulatory Affairs for San Jose Water
7 Company (“San Jose Water”). I am responsible for all filings with the Public Utilities
8 Commission (“Commission”). Prior to joining San Jose Water in June 2026, I was the
9 Vice President of Regulatory Affairs and Finance for Suburban Water Systems, a Class A
10 regulated utility primarily operating in Los Angeles County.

11 **Q3. Have you previously provided testimony in this proceeding?**

12 A3. No.

13 **II. PURPOSE**

14 **Q4. What is the purpose of your rebuttal testimony?**

15 A4. The purpose of my rebuttal is to address the recommendations of the Public Advocates
16 Office (“Cal Advocates”) in their Report on Per- and Polyfluoroalkyl Substances (PFAS)
17 Compliance Program: Part A – Rates. The Williams Station PFAS Treatment Plant
18 (“PFAS Plant”) is necessary for San Jose Water to comply with federal PFAS drinking
19 water standards by April 2029 and secure grant funding which will make the project more
20 affordable for customers. Included in this testimony as Appendix A are eleven letters of
21 support from diverse members of the community and regulatory bodies who share San
22 Jose Water’s commitment to providing clean, safe, and reliable water to the customers
23 and communities we serve.

1 **III. RESPONSE TO CAL ADVOCATES’ RECOMMENDATIONS**

2 **Q5. Cal Advocates recommends the Commission deny San Jose Water’s request to**
3 **pursue rate base offsets via the Tier 2 advice letter process and instead recover the**
4 **capital cost of the PFAS Plant in the 2030 GRC. Is their recommendation**
5 **appropriate?**

6 A5. No. Cal Advocates’ recommendation is ill-advised and will result in increased rates for
7 customers. San Jose Water is committed to obtaining grant funding to offset the cost of
8 constructing the PFAS Plant. San Jose Water’s shareholders do not receive any benefits
9 from grant funding. All grant funds benefit customers exclusively in the form of reduced
10 water rates. Currently, San Jose Water is in the process of submitting its application for a
11 \$25 million principal forgiveness loan available through a program with the Drinking
12 Water State Revolving Fund (DWSRF). Grant funding is addressed in detail in the
13 supplemental direct and rebuttal testimonies of Kristin Cooper Carter. My testimony is
14 intended to highlight the impact of delays on San Jose Water’s customers.

15 DWSRF’s 2026-2027 Intended Use Plan’s General Funding Process lists the closing
16 documents required to complete the grant funding agreement. Specifically, the
17 application states:

18 “CPUC-regulated entities must obtain applicable CPUC approvals as may be required
19 for any of the transactions contemplated in the funding agreement.”¹

20 The Intended Use Plan also addresses Pre-Funding Agreement Costs and states in bold
21 print:

¹ Appendix B. DWSRF 2026-2027 Intended Use Plan, General Fund Process Excerpt, III.5.2

1 **“Any costs incurred prior to the execution of the funding agreement are at**
2 **the applicant’s risk of not receiving funding.”²**

3 Table 1 below shows San Jose’s project costs by year before interest is applied. If San
4 Jose constructs the PFAS Plant and subsequently requests project approval in its 2030
5 GRC, as Cal Advocates recommends, it is possible that the maximum amount of grant
6 funding San Jose could receive is only \$10.6 million instead of \$25 million since all other
7 costs will have been incurred prior to CPUC approval and prior to execution of the
8 funding agreement.

	2026	2027	2028	2029	2030	Total
Capital spend -Contractors estimate	5.9M	19.4M	87.1M	52.8M	10.6M	175.8M

9 **Table 1**

10 Delaying CPUC approval of the project until the 2030 GRC will potentially decrease
11 available grant funding by \$14.4M. Customers will unnecessarily bear the burden of
12 higher capital costs.

13 Additionally, Cal Advocates’ recommendation does not address the significant pre- and
14 post-startup O&M costs, which will be incurred by San Jose Water as the project is
15 constructed. Longstanding commission practice prohibits rate increases to account for
16 previously incurred expenses unless the utility has Commission authorization to track
17 those costs in a memorandum or balancing account. This prohibition on retroactive
18 ratemaking means San Jose Water will be unable to recover its reasonable and prudent
19 operating expenses if CPUC approval is delayed until the 2030 GRC.

² Appendix B. DWSRF 2026-2027 Intended Use Plan, General Fund Process Excerpt, III.6, III.9

1 Like Cal Advocates, San Jose Water's preference is to include all capital projects in its
2 triennial GRC filings and avoid project-specific applications. However, at times it is not
3 possible to fit a project into the GRC schedule and still meet specific compliance
4 deadlines, as is the case with the PFAS Plant. The EPA has established a deadline of
5 April 2029, for compliance with PFAS maximum contaminant levels. While the EPA has
6 proposed a process for utilities to request an extension, they have not approved an
7 extension program and no process has been established by the state of California, so San
8 Jose Water's compliance is not optional.

9 The project must be bid in 2026, and construction must begin in early 2027 to meet
10 compliance deadlines. The timing of the project does not align with the 2027 or 2030
11 GRCs so an independent application is required to support timely construction while
12 maintaining Commission oversight.

13 **Q6. Does evaluation of utility investments outside of a GRC limit the Commission's**
14 **ability to evaluate overall reasonableness of San Jose Water's revenue requirement?**

15 A6. No. Evaluation of a discrete utility investment outside of a GRC does not limit the
16 Commission's ability to evaluate the overall reasonableness of San Jose Water's revenue
17 requirement. San Jose Water's application is a formal Commission proceeding supported
18 by testimony, workpapers, cost estimates, evidentiary hearings, affordability information,
19 and public disclosure. Through this proceeding, the Commission can evaluate the need
20 for the project, the reasonableness of the proposed costs, the timing of recovery, and the
21 customer impacts associated with the investment.

22 If the Commission authorizes recovery through annual Tier 2 rate base offset advice
23 letters, cost recovery would be subject to Commission staff approval before amounts are
24 included in rates. Recovery would be limited to actual recorded costs, rather than

1 forecasted amounts, and San Jose Water would be required to demonstrate those costs are
2 reasonable, within scope of the application, and consistent with the Commission's
3 authorization. This process preserves Commission oversight while allowing San Jose
4 Water to proceed on a timeline necessary to meet PFAS compliance obligations and
5 preserve customer benefits associated with grant funding.

6 Furthermore, review of this project outside the GRC does not prevent the Commission
7 from evaluating San Jose Water's broader revenue requirement in a future GRC. The
8 Commission may still consider San Jose Water's overall costs, rate base, expenses,
9 affordability, and resulting rates in that proceeding. The requested application and advice
10 letter process therefore supplements, rather than limits, the Commission's review.

11
12 **Q7. Cal Advocates opposes interest during construction at the utility's authorized rate**
13 **of return and instead recommends capitalized interest at the short-term borrowing**
14 **rate. Is this consistent with San Jose Water's financing practices and Commission**
15 **precedent for approving AFUDC at the utility's authorized rate of return?**

16 A7. No. In its most recently published 10-K report, H2O America, San Jose Water's parent
17 company, explained how capital projects are funded:

18 "Funds collected from Water Utility Services' customers are used to pay for water
19 production expenses, in addition to costs associated with general operations. Funds
20 were also generated from borrowings. In 2025, H2O America and its subsidiaries
21 obtained \$185,167 in funds from new long-term debt and \$122,808 in funds from
22 equity issuances. From these amounts, H2O America funded its 2025 capital

1 expenditure programs, refinanced certain short and long-term borrowings, and funded
2 working capital.”³

3 San Jose Water uses a combination of long-term debt and equity to finance its capital
4 program, not short-term debt. The PFAS Plant’s construction will span several years so it
5 is a long-term project which will result in long-term capital assets. Any interest rates
6 related to short-term borrowings are not relevant to this project since they do not
7 represent the actual carrying costs the company will incur. Instead, the Commission
8 should approve San Jose Water’s request to capitalize interest at the company’s
9 authorized rate of return. This is consistent with the Commission’s long-established
10 process of allowing construction work in progress (“CWIP”) in rate base or allowance for
11 funds used during construction (“AFUDC”) (which is what San Jose Water’s requests for
12 this project) to reflect the actual cost of financing capital projects. Cal Advocates
13 recommendation directly contradicts this longstanding Commission practice.

14
15 The Commission has noted its commitment to allowing water utilities to either include
16 CWIP in rate base or AFUDC at the rate of return for construction cost recovery. In
17 D.26-07-032, the Commission stated, “We note that recent Commission GRC decisions
18 have varied between granting CWIP or AFUDC for water utilities.”⁴ The Commission
19 previously explained, “Generally, the Commission has allowed utilities to recover the
20 carrying costs for plant under construction either through CWIP in rate base or through
21 allowance for funds used during construction (AFUDC).”⁵ The Commission similarly
22 noted, “A utility has a choice to record CWIP, including the financing costs, in either rate
23 base on an annual basis, or record the costs in an account labelled Allowance for Funds

³ H2O America Annual 10-K available at <https://www.h2o-america.com/financial-information/sec-filings>

⁴ D.26-07-032, p. 50.

⁵ D.18-12-021, pp. 194-95

1 Used During Construction (AFUDC) and then capitalize all costs as soon as the plant
2 goes into service.”⁶ Notably, Cal Advocates’ recommendation, capitalized interest at the
3 short-term borrowing rate, is not mentioned as an option in these decisions.

4
5 Just a few months ago, in a California Water Service GRC, the Commission the
6 Commission determined that “AFUDC shall be applied to eligible construction work in
7 progress at a rate equal to Cal Water’s authorized rate of return, consistent with
8 Commission precedent.”⁷ There, the Commission further found that “AFUDC, rather
9 than IDC, [was] the appropriate mechanism to reflect the cost of capital during
10 construction,” was “consistent with commission precedent,” and “ensure[d] consistence
11 with established ratemaking principles.”⁸

12
13 Like the Cal Water GRC, Cal Advocates’ recommendation in this proceeding for interest
14 during construction at the short-term borrowing rate is not consistent with Commission
15 precedent or established ratemaking principles. Commission precedent is clear and
16 supportive of San Jose Water’s request for AFUDC at the authorized rate of return, not
17 the short-term borrowing rate. Cal Advocates’ recommendation should be rejected.

18
19 **Q8. Cal Advocates claims that there is a lack of clarity on how recorded costs will be**
20 **tracked against the budget cap because San Jose Water cited \$156 million, \$176**
21 **million, and 185 million in its application and support. They recommend settlement**
22 **and grant funds be applied to all capital costs, thereby reducing the budget cap**
23 **along with a deadline of 2032 for rate base offsets. Can you address their concerns**
24 **and recommendations?**

⁶ D.20-12-007, p. 30, n.51.

⁷ D.26-04-045, pp. 69-70.

⁸ D.26-04-045, Ordering Paragraph No. 15.

1 A8. Yes. Although San Jose Water provided three amounts, all are related.

2 **\$176 million (\$156 million in 2026 dollars)**

3 The difference between the two numbers demonstrates the effects of time on the price of
4 goods and services. If San Jose Water were to pay for the PFAS Plant in full in 2026, it
5 would cost \$156 million to construct. If the project is spread over several years, as is the
6 case for the PFAS Plant, the exact same facility will cost \$176 million to construct.

7 This is cost escalation. Escalation is a persistent rise in the price of specific commodities,
8 goods, or services due to a combination of inflation, supply/demand, and other effects
9 such as environmental and engineering changes. It should not be confused with
10 contingency, which is an amount set aside to cover any unexpected costs that can arise
11 throughout a construction project. Both are necessary when preparing long-term capital
12 project budgets, but they are distinctly different and inherently non-duplicative.

13 Escalation is not a foreign concept in ratemaking. Each month, the Commission issues
14 approved escalation memos⁹ for water utilities to use when preparing forecasts. While
15 these specific memos cannot be used for capital projects, they highlight the fact that the
16 Commission's own practices recognize the vital role cost escalation plays in multi-year
17 forecasting.

18
19 Applying escalation factors allows us to clearly understand and review the cost of a
20 project in today's dollars and in future dollars at the same time. Since San Jose Water is
21 unable to complete construction of the PFAS Plant in one year, the \$156 million amount
22 in 2026 dollars is a helpful datapoint but it does not reflect the true cost of the project
23 over the entire construction period. The cost for the PFAS Plant over its construction
24 period is \$176 million.

⁹ Appendix C. CPUC Escalation Memo – August 2026

1 **\$185 million**

2 \$185 million is the total of \$176 million in project costs plus \$9 million in accrued
3 interest during construction at San Jose Water’s currently authorized rate of return which
4 is 7.86%. Accruing interest at the rate of return is consistent with California’s Uniform
5 System of Accounts where interest during construction is clearly defined. To wit:

6 “Interest during construction” includes the net cost of borrowed funds used for
7 construction purposes and a reasonable rate upon the utility’s own funds when so
8 used [...]. The period for which interest may be capitalized shall be limited to the
9 period of construction.¹⁰

10 Because the advice letters will be filed annually, interest during construction will not
11 compound.

12 **Proposed Budget Cap & 2032 Deadline**

13 San Jose Water requests the Commission adopt \$185 million as the budget cap for its
14 Tier 2 rate base offset advice letters because it is the full cost of constructing the project
15 and is consistent with Commission rules and precedents. We do not oppose Cal
16 Advocates’ recommendation to reduce the budget cap by settlement amounts and grant
17 funds as they are received. To date, San Jose Water has received \$17 million in
18 settlement proceeds and we are amenable to immediately reducing the budget cap by this
19 amount. We also generally support Cal Advocates’ recommendation of a 2032 deadline
20 for Tier 2 advice letter filings; however, we respectfully ask the Commission to offer a
21 pathway for San Jose Water to request an extension of the 2032 deadline if necessary.
22 Similarly, we generally support Cal Advocates’ recommendation that O&M expenses be
23 forecasted in the 2030 GRC but ask the Commission to offer a pathway for San Jose
24 Water to request the O&M memorandum account remain in place if an extension
25 becomes necessary.

¹⁰ SP U-38-W Uniform System of Accounts for Class A Water Utilities, pg. A53, paragraph 17.

1 **Q9. Are annual Tier 2 rate base offset advice letters for projects under construction in**
2 **violation of Standard Practice (SP) U-27-W?**

3 A9. No. SP U-27-W states “Rate base offsets are available for used-and-useful utility plant
4 only (unless specifically exempted by the Commission)...” The exemption in SP U-27-W
5 cites to D.96-02-032. In this decision, Fulton Water Company intends to undertake a
6 construction project to bring their water system in compliance with the Federal Safe
7 Drinking Water Act. The company had been ordered in D.95-10-15 to request a single
8 rate base offset upon completion of the project but sought a modification to the decision
9 that would allow them to file semiannual advice letters instead of waiting three years to
10 file a single advice letter at the completion of the project. The Commission granted
11 Fulton’s request and allowed an exception to the used and useful rule. Then the
12 Commission, in its wisdom, included this exception for long-term construction projects
13 required to comply with drinking water standards as part of its standard practices. Fulton
14 Water Company’s situation in 1996 is strikingly similar to San Jose Water’s in 2026.
15 Like Fulton, San Jose Water is undertaking a multi-year capital project to comply with
16 federal and state drinking water standards and therefore requests an exception to the used
17 and useful requirement.

18 In support of its recommendation of a single Tier 2 rate base offset advice letter once the
19 project is used and useful, Cal Advocates provided a table showing monthly and annual
20 bills from 2027-2031 (Table 2). It correctly points out that over the first four years
21 customers will pay more with annual rate base offsets. However, beginning in 2031, and
22 every year thereafter for as long as the project is in service, customers will pay less
23 monthly and annually if the company files annual rate base offsets instead of a single rate
24 base offset.
25

Year	Annual Tier 2 Rate base Offsets		Single Tier 2 Rate Base Offset	
	Monthly Bill	Annual Paid	Monthly Bill	Annual Paid
2027	143.59	1,723.13	143.59	1,723.13
2028	144.43	1,733.16	143.59	1,723.13
2029	147.29	1,767.48	143.59	1,723.13
2030	149.01	1,788.12	143.59	1,723.13
2031	149.36	1,792.32	149.81	1,797.76

Table 2

Gradual rate increases reduce rate shock and lead to long-term affordability for customers. Cal Advocates' recommendation of a single Tier 2 rate base offset filed once the PFAS Plant is used and useful should be rejected. The Commission should adopt San Jose Water's request to file annual Tier 2 rate base offsets to support long-term affordability and minimize rate shock.

Q10. Should San Jose Water's affordability metrics consider rate consider hypothetical rate increases to improve transparency as Cal Advocates recommends?

A10. Cal Advocates claim that San Jose Water's application is unnecessary and lacks full cost transparency because it does not estimate rate increases for San Jose Water's next GRC filing in 2027 is not reasonable. Cal Advocates recommends reliance on historical rate increases to predict outcomes in the 2027 GRC which will set rates for 2028-2030. Ratemaking is an intensive process that involves complicated financial analysis and adheres to myriad rules and processes required by the Commission. Any attempt to use historical rate increases to predict future rate increases is speculative and should be rejected.

Affordability is top of mind for San Jose Water. So, although affordability metrics were not required by the CPUC for this application, San Jose Water opted to engage the

services of David Mitchell, founder of M-Cubed and an expert in the CPUC's affordability metrics, review the project and determine if the overall resulting rate increases meet the CPUC's definitions of affordability. Mr. Mitchell's report is included in this rebuttal testimony as Appendix D. It proves San Jose Water's rates remain affordable when the costs to construct the PFAS Plant are included.

AR20	2027	2028	2029	2030
Current	7.48%	7.41%	7.38%	7.57%
Proposed	7.48%	7.45%	7.53%	7.66%
% Difference	0.0%	0.6%	2.0%	1.2%

AR50	2027	2028	2029	2030
Current	1.54%	1.51%	1.49%	1.52%
Proposed	1.54%	1.52%	1.52%	1.54%
% Difference	0.0%	0.6%	2.0%	1.2%

Table 3: AR Affordability Metric Results for the Average Service Level (10 CCF)¹¹

AR20	2027	2028	2029	2030
Current	5.90%	5.85%	5.83%	5.97%
Proposed	5.90%	5.88%	5.94%	6.04%
% Difference	0.0%	0.6%	2.0%	1.2%

AR50	2027	2028	2029	2030
Current	1.22%	1.19%	1.17%	1.20%
Proposed	1.22%	1.20%	1.20%	1.21%
% Difference	0.0%	0.6%	2.0%	1.2%

Table 4: AR Affordability Metric Results for the Essential Service Level (6 CCF)¹²

San Jose Water will include updated affordability metrics with its next GRC filing as required.

Q11. Please summarize your requests.

A11. San Jose Water requests the Commission:

¹¹ Appendix D, Table 5.

¹² Appendix D, Table 6.

- 1 • Approve the Williams Station PFAS Treatment Plant because it is necessary to
2 meet the US EPA’s April 2029 compliance deadline and to preserve available
3 grant funding for the benefit of customers.
- 4 • Authorize San Jose Water to file annual Tier 2 rate base offsets based on actual
5 recorded costs.
- 6 • Allow AFUDC at San Jose Water’s authorized rate of return.
- 7 • Adopt a \$185 million budget cap, subject to reductions for settlement proceeds
8 and grant funds as received.
- 9 • Allow San Jose Water to track pre- and post-startup O&M activity in a
10 memorandum account.

11 The Williams Station PFAS Treatment Plant is necessary for San Jose Water to comply
12 with federal PFAS drinking water standards by April 2029 and continue providing safe
13 and reliable water service to its customers. Delaying Commission approval will
14 jeopardize available grant funding and unnecessarily increase costs for customers. The
15 project has broad community support because it protects public health, supports the long-
16 term reliability of the water supply, and allows San Jose Water to complete this required
17 investment in a timely and financially responsible manner.

18 **Q12. Does this conclude your testimony?**

19 A12. Yes.