

Decision 16-12-042 December 15, 2016

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

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U60W), a California corporation, for an order (1) authorizing it to increase rates for water service by \$94,838,100 or 16.5% in test year 2017, (2) authorizing it to increase rates by \$22,959,600 or 3.4% on January 1, 2018, and \$22,588,200 or 3.3% on January 1, 2019, in accordance with the Rate Case Plan, and (3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

Application 15-07-015  
(Filed July 9, 2015)

**DECISION GRANTING JOINT MOTION TO ADOPT THE PROPOSED SETTLEMENT AGREEMENT AUTHORIZING CALIFORNIA WATER SERVICE COMPANY'S GENERAL RATE INCREASES FOR 2017, 2018 AND 2019, AND RESOLVING CONTESTED ISSUES AND RELATED SPECIAL REQUESTS**

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**DECISION GRANTING JOINT MOTION TO ADOPT THE PROPOSED SETTLEMENT AGREEMENT AUTHORIZING CALIFORNIA WATER SERVICE COMPANY'S GENERAL RATE INCREASES FOR 2017, 2018 AND 2019, AND RESOLVING CONTESTED ISSUES AND RELATED SPECIAL REQUESTS**

**Summary**

This decision grants the joint motion to adopt the proposed settlement agreement authorizing California Water Service Company's (Cal Water's) general rate case (GRC) increases for 2017, 2018 and 2019. The decision adopts an overall revenue requirement for test year 2017 of \$645,575,900. This represents an increase of \$44.97 million, in 2017 over 2016 revenues, a 7.5 percent increase.

The settlement agreement was signed by the following parties (jointly, referred to as the "Settling Parties"), with some parties providing conditional support as specified in Chapter 1 of the settlement agreement: California Water Service Company, the Office of Ratepayer Advocates, the California Water Utility Council (the Utility Workers Union of America, AFL-CIO), the City of Visalia, the County of Kern, the County of Lake, Timothy Groover-Merrick (customer in the Kern River Valley District), the Leona Valley Town Council (LVTC), Jeffrey Young (customer in the Coast Springs area of the Redwood Valley District).

The decision grants Cal Water's request to keep the currently approved drought Sales Reconciliation Mechanism in place as a pilot for this GRC period. It also resolves the contested issues relating to Cal Water's request for recovery of costs for the South Bakersfield Water Treatment Plant and implements escalation year formulas for the escalation and attrition years of this GRC.

This proceeding is closed.

## **1. Background**

### **1.1. California Water Service Company's Application**

On July 9, 2015, California Water Service Company (Cal Water) filed this general rate case (GRC) application for an order (1) authorizing it to increase rates for water service in 23 districts by \$94,838,100 or 16.5 percent in test year 2017; (2) authorizing it to increase rates on January 1, 2018 by \$22,858,600 or 3.4 percent and on January 1, 2019 by \$22,588,200 or 3.3 percent in accordance with the Rate Case Plan; and (3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

### **1.2. Protests by the Office of Ratepayer Advocates and the City of Visalia**

On August 13, 2015, protests to Cal Water's application were filed by the Office of Ratepayer Advocates (ORA) and the City of Visalia. ORA's protest primarily objected to the inclusion of several special requests which had not been included in Cal Water's proposed application reviewed and approved by ORA, and sought to have these special requests stricken as outside the scope of the application. The City of Visalia filed its protest to address the reasonableness of Cal Water's rate increases generally, and specifically in the Visalia District. On August 24, 2015, Cal Water filed a reply to the protests.

### **1.3. Motions for Party Status**

In addition to those who are parties as the result of filing an application or protest, motions for party status were granted for the Cities of Thousand Oaks, Marysville, Bakersfield, Selma and Chico; the Counties of Butte, Kern and Lake; Jeffrey Young, Lisa Carter, Timothy Wayne Groover (aka Timothy Groover-Merrick), the Kern County Taxpayers' Association, the Leona Valley Town Council and the California Water Utility Council (the Utility Workers Union of America, AFL-CIO) (CWUC). No motions for party status were denied.

#### **1.4. Prehearing Conference**

On September 21, 2015, a prehearing conference (PHC) was held. The assigned Administrative Law Judge (ALJ), Commissioner and parties discussed the scope and schedule for the proceeding, including how many public participation hearings (PPHs) should be held to ensure the availability of that process for the majority of Cal Water's customers throughout the state. The parties reiterated their willingness to have on-going settlement negotiations in the hope of settling most, if not all, of the issues relevant to the proceeding.

#### **1.5. Scoping Memo and Ruling**

On January 7, 2016, a scoping memo and ruling (Scoping Memo) was issued by the assigned Commissioner and ALJ which identified preliminary **issues** for resolution in this proceeding:

- Establish just and reasonable rates in each of Cal Water's 23 ratemaking areas (districts) for the period January 1, 2017 through December 31, 2019, and
- Make all other necessary orders for Cal Water to offer safe and reliable water service.

In addition, on January 20, 2016, Cal Water, ORA and eight intervenors filed a Joint Statement Identifying Cross-Cutting Issues, specifically:

- Affordability (including rate impacts, rate design, Low-Income Ratepayer Assistance (LIRA), Rate Support Fund (RSF), and district consolidation);
- Communications Technology (including Supervisory Control And Data Acquisition (SCADA), Advanced Metering Infrastructure (AMI), power meters, and flow meters);
- Infrastructure Safety (including water storage, main replacements, and emergency generators); and
- The sharing of customer water usage information for conservation purposes.



On April 25, 2016, the parties filed a joint motion to revise the Scoping Memo schedule to give the parties more time to try and reach a settlement. On April 26, 2016, the assigned ALJ issued an e-mail ruling cancelling a scheduled workshop, setting a telephonic status conference and postponing evidentiary hearings. On May 9, 2016, the ALJ issued another e-mail ruling setting the dates for a Joint Case Management Statement and Settlement Conference Report, a Pre-Evidentiary Hearing Telephonic Status Conference and Evidentiary Hearings and/or Workshops. On June 20, 2016, ALJ Dan H. Burcham was co-assigned to this proceeding.

#### **1.6. Joint Case Management Statement**

On July 1, 2016, a joint case management statement was filed on behalf of Cal Water, ORA, Jeffrey Young, the Leona Valley Town Council, the Cities of Bakersfield and Visalia, and Kern and Lake Counties. Those parties which did not participate in the joint case management statement are Butte County, the Cities of Thousand Oaks, Selma, Marysville and Chico, the Kern County Taxpayers' Association, Timothy Groover, Lisa Carter and CWUC. The participating parties reported the issues on which they reached settlement, and those that remained in dispute.

#### **1.7. Evidentiary Hearings**

A Pre-Evidentiary Hearing Status Conference was held on July 6, 2016, during which the parties reported significant progress in settlement negotiations, and requested that some of the days reserved for evidentiary hearings be allowed for continued settlement talks. It was later determined that one day of evidentiary hearings would be held, on July 18, 2016, on the issue of cost recovery for the South Bakersfield Water Treatment Plant. The remaining disputed issues would be addressed through briefing.

### **1.8. Public Participation Hearings**

Public Participation Hearings (PPHs) were held as follows:

- March 22, 2016 in Bakersfield (Kern County);
- March 23, 2016 in Lake Isabella (Kern County);
- March 24, 2016 in Palmdale (Los Angeles County);
- April 26, 2016 in Chico (Butte County);
- April 27, 2016 in Marysville (Yuba County);
- April 28, 2016 in Dixon (Solano County);
- August 23, 2016 in Guerneville (Sonoma County);
- August 25, 2016 (2 PPHs) in Lucerne (Lake County);
- September 6, 2016 in Montebello (Los Angeles County);
- September 7, 2016 in Westlake Village (Los Angeles County);
- September 8, 2016 in Visalia (Tulare County);
- September 14, 2016 in King City (Monterey County); and
- October 4, 2016 in San Carlos (San Mateo County).

Overall, the PPHs were well attended, and the consensus was that customers were opposed to the proposed rate increases. The major points raised by customers and local elected officials<sup>1</sup> were as follows:

- Cal Water's requested rate increases are higher than both the rate of inflation and what is charged by municipal water utilities who serve nearby residents;
- Customers feel as though they are penalized with higher rates when they conserve and use less water;

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<sup>1</sup> In addition to comments from municipalities which are parties, written comments were received from Lake County Supervisor Jim Steele and King City Councilmember Mike LeBarre.

- Water is a necessity of life, and low-income and fixed income customers have difficulty paying increasing water rates;
- The Low-Income Ratepayer Assistance (LIRA) program should be retained and expanded;
- Customers oppose the Water Revenue Adjustment Mechanism (WRAM) as a guaranteed rate of return despite conservation efforts; and
- Concerns that rate increases will be used for executive compensation rather than infrastructure improvements.

In analyzing the record in this proceeding, the Commission gave full consideration to these concerns and objections.

### **1.9. Safety Considerations**

We must ensure that Cal Water will provide a safe and reliable source of water at reasonable rates.

### **1.10. Joint Motion to Adopt Proposed Settlement Agreement**

The parties reached settlement on all but three issues which were briefed by the parties. These issues were cost recovery of expenses incurred by Cal Water for a possible South Bakersfield Water Treatment Plant, and the appropriate rate increases for escalation years 2018 and 2019.

On September 2, 2016, Cal Water, ORA, CWUC, the City of Visalia, the County of Kern, the County of Lake, Timothy Groover-Merrick, the Leona Valley Town Council and Jeffrey Young (Settling Parties, or Parties) filed a Joint Motion to Adopt the Proposed Settlement Agreement (Joint Motion). Opening briefs were filed by Cal Water, ORA and the City of Bakersfield on September 2, 2016. Reply briefs were filed by ORA on September 16, 2016 and by Cal Water on September 23, 2016. Comments in opposition to the proposed settlement agreement were filed by the City of Bakersfield.

The Proposed Settlement Agreement (Settlement or Agreement) resolved the following issues in this GRC:

- General issues pertaining to consolidated regions and revenue increases / decreases (Chapter 1);
- Affordability issues (Chapter 2);
- Rate design issues (Chapter 3);
- Conservation program (Chapter 4);
- Affiliate transactions and non-tariffed services (Chapter 5);
- Special requests (Chapter 6);
- Balancing and memorandum accounts (Chapter 7);
- Sales and services (Chapter 8);
- Customer support services and district expenses (Chapter 9);
- Taxes (Chapter 10);
- Rate base (Chapter 11);
- Global plant issues (Chapter 12);
- Customer support services plant (Chapter 13);
- Specific water district issues involving advance capital budget projects, carryover projects, Advice Letter (AL) projects, projects excluded from plant additions, and adjustment to recorded plant balances (Chapters 14-37).

Most Settling Parties were focused on negotiations in one or more of the following general areas: revenue requirement determination for a specific area; modification of LIRA and the RSF (collectively, “affordability” issues); and rate design (the shift in revenues recovered through the service charge versus the quantity charges). To the extent that an issue was specifically negotiated between a subset of the parties, the Settlement identifies those parties at the beginning of the relevant section or chapter.

The Settlement is attached as Exhibit A to this decision, and Corrections to the Settlement are attached as Exhibit B

Along with the Settlement, the Parties appended the following attachments:

- Attachment 1: Summary of Earnings Comparison Tables, by district;
- Attachment 2: Rate base comparison tables, by district;
- Attachment 3: List of Authorized Advice Letter Rate Base Offsets;
- Attachment 4: List of Carryovers;
- Attachment 5: Summary of Annual Depreciation Rates;
- Attachment 6: Selected draft tariffs;
- Attachment 7: Draft preliminary statements;
- Attachment 8: Main replacement program - 2016 sub-projects;
- Attachment 9: Selected tables for global plant issues;
- Attachment 10: List of subsequent offsets; and
- Attachment 11: List of vehicle projects.

These Attachments are contained in Exhibit C to this decision. Of note is the fact that the Settlement does not include specific rates or tariffs. Also, the Settlement does not resolve two issues addressed below, and some parties did not fully agree with all aspects of the Settlement and reserved the right to present alternative proposals.

The Parties were given the opportunity to serve and file opening and reply comments regarding the Settlement as well as briefs on the following issues that were not resolved by the Settlement:

- Cal Water's request to recover \$1.6 million of the costs incurred in the planning of the South Bakersfield Water Treatment Plant; and
- Appropriate escalation year increases for 2018 and 2019.

On October 3, 2016, the Settling Parties filed a Joint Motion to Correct Proposed Settlement Agreement. On the same date, Cal Water and ORA filed a Joint Motion to Accept Tariffs and Tables Associated with Proposed Settlement Agreement. These motions are granted.

Opening briefs were filed by the parties on September 2, 2016. ORA filed its Reply Brief on September 16, 2016, and Cal Water filed its Reply Brief on September 23, 2016.

#### **1.11. Cal Water's Motion for Interim Rates**

On September 23, 2016, Cal Water filed its Motion for Interim Rates which will allow Cal Water to maintain the existing water rates until such time as the Commission rules on this GRC. Cal Water's motion was unopposed.

On October 7, 2016, the assigned ALJ issued a ruling granting Cal Water's motion in part and denying it in part, and directing Cal Water to file a Tier 1 advice letter with the Commission implementing the interim rates, and establishing a Memorandum Account to track the authorized interim rates for a later true-up with the rates authorized in this decision in the event a final decision on this application is not effective in time for Cal Water's new rates to be effective on January 1, 2017. The ruling denied Cal Water's requests to implement sub-accounts and accounting mechanisms proposed in Cal Water's application, since they have not yet been approved by the Commission. Such a request would implement new rates and thus exceeds the jurisdiction of the ALJ to approve by ruling. We affirm the ALJ's ruling.

On October 20, 2016, Cal Water and ORA filed a joint motion for reconsideration of the ALJ's ruling, and proposed the Commission approve the parties' modified proposal for interim rate relief. On November 1, 2016, the ALJ issued a ruling granting the modified proposal for interim rates.

## 2. Overview of Settlement

In this portion of the decision, we detail, in chart form, the key revenue requirements, revenue increase, and typical ratepayer water bill increases for the 2017 test year to which the Settling Parties have agreed.

### 2.1. Proposed Revenue Requirements for Test Year 2017

**Proposed Revenue Requirements for Test Year 2017**  
**California Water Service Company**  
**2015 GRC**

**Table 1: Proposed Revenue Requirements for Test Year 2017**  
**(\$ in thousands)**

<b>District</b>	<b>Cal Water Proposal</b>	<b>ORA Proposal</b>	<b>Settlement Proposal</b>
Bay Area Region	\$ 87,675.2	\$ 80,551.7	\$ 85,353.5
Bakersfield	\$ 79,845.9	\$ 69,526.4	\$ 76,671.8
Bear Gulch	\$ 55,029.6	\$ 49,509.2	\$ 54,151.0
Chico	\$ 25,843.8	\$ 22,001.7	\$ 23,353.6
Dixon	\$ 3,857.0	\$ 3,227.3	\$ 3,427.0
Dominguez	\$ 73,901.5	\$ 69,238.1	\$ 70,456.4
East Los Angeles	\$ 37,818.4	\$ 32,062.9	\$ 34,359.2
Hermosa Redondo	\$ 30,815.3	\$ 27,764.0	\$ 29,712.0
Kern River Valley	\$ 6,876.3	\$ 5,990.5	\$ 6,717.6
Livermore	\$ 22,531.6	\$ 20,226.0	\$ 24,363.3
Los Altos	\$ 33,624.7	\$ 31,709.7	\$ 35,761.7
Los Angeles County Region	\$ 52,816.1	\$ 47,384.6	\$ 49,525.7
Marysville	\$ 4,229.7	\$ 3,787.3	\$ 3,953.8
Monterey Region	\$ 41,059.5	\$ 34,702.3	\$ 37,623.9
Oroville	\$ 5,383.0	\$ 4,718.9	\$ 5,222.6
Selma	\$ 6,293.9	\$ 5,262.2	\$ 5,631.4
Stockton	\$ 45,325.6	\$ 39,954.7	\$ 48,888.2
Visalia	\$ 34,083.7	\$ 27,270.5	\$ 29,554.7

Westlake	\$ 19,104.7	\$ 17,795.3	\$ 18,380.7
Willows	\$ 3,324.4	\$ 2,280.1	\$ 2,467.8
<b>Total</b>	<b>\$ 669,439.9</b>	<b>\$ 594,963.4</b>	<b>\$ 645,575.9</b>

## 2.2. Proposed Revenue Increases for Test Year 2017

### Proposed Revenue Increases for Test Year 2017

#### California Water Service Company

#### 2015 GRC

**Table 2: Proposed Revenue *Increases* for Test Year 2017**

(\$ in thousands)

District	Cal Water Proposal	ORA Proposal	Settlement Proposal
Bay Area Region	\$ 10,286.7	\$ 3,672.1	\$ 3,720.6
Bakersfield	\$ 6,424.2	\$ (3,487.8)	\$ 1,529.7
Bear Gulch	\$ 5,785.2	\$ 514.6	\$ 1,509.0
Chico	\$ 2,777.9	\$ (965.0)	\$ (1,411.8)
Dixon	\$ 826.7	\$ 237.7	\$ 170.8
Dominguez	\$ 11,792.4	\$ 1,361.0	\$ 5,336.3
East Los Angeles	\$ 3,925.4	\$ (1,549.6)	\$ (1,672.7)
Hermosa Redondo	\$ 2,866.4	\$ (271.6)	\$ 685.4
Kern River Valley	\$ 647.5	\$ (193.4)	\$ 348.2
Livermore	\$ 1,179.7	\$ (1,145.8)	\$ 1,031.0
Los Altos	\$ 2,639.5	\$ 895.6	\$ 968.1
Los Angeles County Region	\$ 7,521.8	\$ 2,118.1	\$ 1,930.5
Marysville	\$ 814.2	\$ 500.2	\$ 389.4
Monterey Region	\$ 9,602.9	\$ 3,582.5	\$ 4,738.3
Oroville	\$ 478.5	\$ (84.2)	\$ (322.2)
Selma	\$ 1,616.3	\$ 429.7	\$ 548.2
Stockton	\$ 7,188.1	\$ 2,042.9	\$ 4,029.4
Visalia	\$ 4,369.6	\$ (805.7)	\$ 19.1
Westlake	\$ 1,829.3	\$ 587.7	\$ 129.1
Willows	\$ 857.8	\$ 47.2	\$ 110.4
<b>Total</b>	<b>\$ 83,430.1</b>	<b>\$ 7,486.2</b>	<b>\$ 23,786.8</b>



### 2.3. Typical Residential Bill Comparison Showing Current Rates, Cal Water's Proposal, ORA's Proposal, and the Settlement Proposal

#### Typical Residential Bill Comparison Showing Current Rates, Cal Water's Proposal, ORA's Proposal, and the Settlement Proposal

**Table 3: Typical Residential Bill Comparison (2015 GRC)**

This table compares the bill amounts of a typical residential customer under current rates, as well as under the proposals of Cal Water, ORA, and the Settlement Agreement. Each bill amount reflects the total of (1) the monthly service charge, (2) the relevant quantity charges assuming consumption at the average residential usage in the given area, and, (3) in Rate Support Fund (RSF) areas, the offsetting RSF credit.

Estimated Typical Residential Monthly Bill					
District	Average Usage (CCF)	At Current Rates	Cal Water Proposal	ORA Proposal	Settlement Proposal
Bay Area Region					
Bayshore	10	\$ 72.96	\$ 81.72	\$ 76.61	\$ 79.11
Redwood - Coast Springs	2	\$ 86.90	\$ 92.46	\$ 90.38	\$ 38.77
Redwood - Lucerne	5	\$ 91.53	\$ 97.39	\$ 104.34	\$ 64.16
Redwood - Unified	6	\$ 94.09	\$ 100.11	\$ 88.44	\$ 52.99
Bakersfield	23	\$ 58.06	\$ 63.29	\$ 55.16	\$ 59.23
Bear Gulch	25	\$ 187.14	\$ 209.41	\$ 189.01	\$ 192.68
Chico	21	\$ 50.08	\$ 60.15	\$ 48.08	\$ 47.25
Dixon	13	\$ 72.96	\$ 92.81	\$ 78.80	\$ 76.78
Dominguez	12	\$ 51.23	\$ 60.81	\$ 52.25	\$ 55.36
East Los Angeles	13	\$ 67.51	\$ 75.27	\$ 64.13	\$ 64.12
Hermosa Redondo	11	\$ 56.35	\$ 61.99	\$ 55.79	\$ 57.68
Kern River Valley	6	\$ 91.46	\$ 97.31	\$ 88.72	\$ 84.44
Livermore	16	\$ 74.72	\$ 79.20	\$ 70.98	\$ 77.95
Los Altos	21	\$ 110.22	\$ 120.14	\$ 113.53	\$ 113.10
Los Angeles County Region					
Antelope Valley	23	\$ 195.22	\$ 207.71	\$ 222.55	\$ 120.90
Palos Verdes	23	\$ 114.28	\$ 121.59	\$ 118.85	\$ 120.90
Marysville	10	\$ 43.89	\$ 52.76	\$ 48.94	\$ 48.35
Monterey Region					
King City	13	\$ 58.74	\$ 62.50	\$ 66.38	\$ 58.83
Salinas	13	\$ 50.70	\$ 67.48	\$ 56.28	\$ 58.83
Oroville	13	\$ 66.51	\$ 70.77	\$ 65.18	\$ 66.36

Selma	22	\$ 52.89	\$ 71.40	\$ 57.65	\$ 58.59
Stockton	12	\$ 49.98	\$ 59.48	\$ 52.48	\$ 54.46
Visalia	19	\$ 37.41	\$ 43.02	\$ 36.29	\$ 37.38
Westlake	31	\$ 162.63	\$ 180.52	\$ 167.51	\$ 163.49
Willows	14	\$ 64.16	\$ 68.27	\$ 65.44	\$ 66.89

## **2.4. Parties Opposed to Portions of the Settlement**

### **2.4.1. City of Bakersfield (Bakersfield)**

The City of Bakersfield opposes the requested rate increases for 2017, 2018 and 2019, finding they are not just, reasonable and fair in light of the significant disparities between the rates charged by Cal Water to Bakersfield residents and the rates charged by the city to customers in its separate municipal water utility service area and the stringent water conservation requirements imposed during the drought. Further, the city opposes any recovery by Cal Water of costs incurred in planning for a possible South Bakersfield Water Treatment Plant on the grounds that Cal Water never applied for or received permission from the Commission to plan or construct this project, and therefore never had authority to incur such costs. Finally, the city never formally agreed to partner with Cal Water on this project, and its residents and ratepayers should not be required to pay for a project which is not necessary, practical or feasible, and which will not provide any benefit to ratepayers in Bakersfield.<sup>2</sup>

### **2.4.2. County of Lake (Lake)**

While approving of the Affordability, Rate Design, and Redwood Valley - Lucerne portions of the Proposed Settlement Agreement, the County of Lake, on behalf of its approximately 3,000 residents who reside in Lucerne in Cal Water's service territory, is concerned that these do not directly address the general

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<sup>2</sup> Opening Brief of the city of Bakersfield, at 2.

affordability concerns caused by successive water rate increases on Lucerne residents. Lucerne is an economically depressed area, and state regulators and water utility companies should share the responsibility for turning the downward economic cycle around for disadvantaged communities like Lucerne. At a minimum, a threshold criteria for certain charges such as the Water Revenue Adjustment Mechanism (WRAM) should be imposed so the most disadvantaged residents can save when not using water down to a lower level. Further changes to the current rate structure model are also needed to make any profit portion of rate increases contingent on the overall economic success of the local community served, the county argues.

### **2.4.3. ORA**

ORA, a party to the Joint Motion to Adopt the Settlement Agreement, expressed opinions on topics not agreed upon in the Settlement. ORA urges the Commission to adopt an ordering paragraph that would require Cal Water to file escalation year advice letters to revise revenue requirements and corresponding tariff schedules in each of its 23 districts, regardless of whether Cal Water is over- or under-earning.<sup>3</sup> ORA also recommends the Commission use the pro forma earnings test in lieu of adopting fixed amounts in escalation year filings.

## **2.5. Reply to the Oppositions**

### **2.5.1. Bakersfield**

Cal Water clarifies that, contrary to Bakersfield's repeated claims, Cal Water does not seek to recover all of the \$4.6 million invested in the South

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<sup>3</sup> Note that this is the same language ORA proposed to be adopted in its Report on Results of Operations, except that the reference to the Commission's Division of Water and Audits is replaced by a reference to the Water Division, presumably in recognition of the recent reorganization of these Commission divisions.

Bakersfield Water Treatment Plant. As stated in the Proposed Settlement Agreement, Cal Water agreed in settlement to request recovery of \$1.6 million of the total costs incurred.

Bakersfield contends that any cost recovery associated with the South Bakersfield Water Treatment Plant would constitute retroactive ratemaking. Cal Water disagrees, stating Commission-regulated utilities are not required to request advance authorization from the Commission in order to pursue capital projects. While a utility provides detail on specific projects in its GRC to justify its requested budget, it retains the discretion to implement any projects necessary to provide service to customers, even if they were not previously presented to the Commission. Further, the Revised Rate Case Plan for Class A Water Utilities provides that regulated utilities disclose in their GRC application plant improvements built in the last ten years but not authorized, which recognizes that some capital projects will be built without prior authorization from the Commission.

### **2.5.2. County of Lake**

The County of Lake's proposal to modify the ratemaking model to "any profit portion of rate increases contingent upon the overall economic success of the local community" is inconsistent with traditional rate regulation. However, in order to address the affordability challenge in areas like Lucerne (Lake County), the Settling Parties propose to use transitional rate consolidation between the Bayshore District and the Redwood Valley District (which includes Lucerne), effective January 1, 2017. This is in addition to the Rate Support Fund subsidy that Redwood Valley District customers will continue to receive, although the subsidy will be embedded in rates and will not appear as a credit

on customers' bills. Using this method, the average customer will see a decrease of approximately 29.9 percent in their monthly bill.

### **2.5.3. ORA**

While Cal Water believes it to be unnecessary, it would not oppose the filing of ALs for each of its 23 districts for each escalation year, provided they are Tier 1 rather than Tier 2 ALs. Cal Water opposes any interpretation of this filing which would require it to true-up its rates by decreasing rates in "over-performing" districts in the second and third years of the GRC cycle, or include a pro forma earnings test in any escalation year filings.

## **2.6. Issues Not Resolved by the Settlement**

### **2.6.1. Recovery of Costs for South Bakersfield Water Treatment Plant**

Cal Water spent approximately \$4.6 million in developing plans for a potential South Bakersfield Water Treatment Plant, a project which was ultimately abandoned after the City of Bakersfield declined to become a partner in the project. Cal Water contends that its actions in exploring this project were prudent and reasonable, and seeks to recover approximately one-third of the actual costs incurred, approximately \$1.6 million. The City of Bakersfield opposes any recovery of costs incurred on this project because it was not pre-approved by the Commission.

After having thoroughly examined the positions of the parties, we find that Cal Water's actions in exploring the possibility of developing a South Bakersfield Water Treatment Plant were reasonable infrastructure investments in light of the drought and the scarcity of available groundwater in and around the Bakersfield area. As Cal Water has pointed out, the Rate Case Plan does envision that utilities may explore some projects before obtaining Commission approval.

The project had the potential of benefiting both Cal Water's customers as well as Bakersfield's municipal water customers. We find the recovery of approximately \$1.6 million, as specified in the Proposed Settlement Agreement, to be reasonable and in the public interest.

### **2.6.2. Escalation Year Rate Increases**

The parties were unable to agree on an appropriate methodology to use for the escalation year filings for 2018 and 2019. Cal Water proposed the Commission abandon the requirement that Class A Water Utilities include a pro forma earnings test as part of the escalation and attrition advice letter procedure for the second and third years of the GRC cycle, and instead adopt fixed amounts for those years. ORA argued the pro forma earnings test is an integral part of the escalation and attrition advice letter procedure, and necessary for the Commission to fully understand how a utility is performing. We note that the Rate Case Plan contains the provision "The requested rate increase *shall* be subject to the pro forma earnings test, as specified in Decision (D.) 04-06-018"<sup>4</sup> (emphasis added). The use of the term "shall" is mandatory, not permissive. Further, while we recognize that requiring the filing of an advice letter in each of Cal Water's 23 districts is something of an administrative burden, Cal Water has recently filed advice letters to seek a rate increase in most of its districts. Requiring them to file in all of their districts will not pose a significant additional burden on them, and will aid in transparency both to the Commission and Cal Water's customers.

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<sup>4</sup> D.07-05-062, Appendix A at 19.

### **3. Application of the Standard of Review to the Settlement**

#### **3.1. The Settlement is Reasonable in Light of the Whole Record**

The Settlement commands the full support of the vast majority of the parties. This gives the Commission sufficient information to resolve the contested issues before us, approve the Settlement as reasonable, implement its provisions, terms and conditions, and discharge our future regulatory obligations with respect to Cal Water. Given the length and complexity of the Settlement and the supporting documents, we will not repeat each provision of the settlement here, but instead attach the same as Exhibits A (Settlement) and B (Corrections to Settlement) to this decision, respectively, and incorporate the terms herein by reference. We do, however, discuss some of the Settlement terms to explain how they are consistent with Rule 12.1(d).

##### **3.1.1. Promotion of Affordability through Regional Consolidation, and the RSF and LIRA Programs**

We must determine whether the rate increases proposed in this Settlement are reasonable in light of the economic concerns expressed by ratepayers and parties in this proceeding. Many participants at the PPHs argued that Cal Water should not be allowed any rate increases due to the state of the economy. Residents in Cal Water's districts who are unemployed or on fixed incomes may be severely impacted by rate increases. These are legitimate concerns as it is the Commission's duty to establish just and reasonable rates pursuant to Pub. Util. Code § 451. The proposed Settlement takes these economic issues into account, and has proposed mechanisms to offset the potentially negative impacts that the rate increase may have on ratepayers with fixed or limited incomes.

### **3.1.1.1. Regional Consolidation**

In its application, Cal Water proposed to consolidate the following existing districts into regional districts for ratemaking purposes:

- Northern Region
  - Chico, Oroville, Marysville and Willows
- Bay Area Region
  - Bayshore District and Redwood Valley District (consisting of three ratemaking areas – Coast Springs, Lucerne and Unified)
- Kern County Region
  - Bakersfield and Kern River Valley
- Los Angeles County Region
  - Palos Verdes and Antelope Valley District (consisting of three tariff areas – Fremont Valley / Lake Hughes, Lancaster, and Leona Valley)
- Monterey Region
  - Salinas and King City

Cal Water proposed that the rate base and summary of earnings for the districts within each region be combined for ratemaking purposes upon Commission approval. Cal Water also proposed that, instead of establishing a single set of tariffs for each of the consolidated regions, tariff base rates (service charges and quantity charges) for the smaller service areas within a region increase in the Test Year (from the base rates in effect immediately prior to implementation of the new GRC rates) by a Consumer Price Index (CPI) factor. The balance of the revenue increase needed in the Test Year would be applied to the larger service area. After that point, rate base offsets, purchased water offsets, escalation, SRM adjustments, WRAM/ modified cost balancing account (MCBA) surcharges and surcredits, and other charges and credits that would



have previously affected a part of the consolidated region would instead be applied across the consolidated region equally. ORA initially opposed Cal Water's consolidation requests, believing they are not in the public interest, and instead wanted modifications to the RSF.

In Settlement, the parties propose the following:

- Cal Water and ORA agreed not to consolidate the Northern Region or the Kern County Region.
- Cal Water and ORA agreed to full consolidation of the Salinas and King City Districts into the Monterey Region. Tariffs and rates will be the same for similar customer classes in each region. Rate Design in all areas will be based on the Salinas District's rate design.
- Cal Water and ORA agreed to full consolidation of the Palos Verdes and Antelope Valley Districts into the Los Angeles County Region. Rate design for all areas will be based on the Palos Verdes District's rate design. RSF program subsidies will no longer be applied to any areas of the Antelope Valley District.
- Cal Water and ORA agree to transitional consolidation of the Bay Area Region (Bayshore and Redwood Valley Districts). Tariffs and rates will be the same for similar customer classes in each region. Rate Design in all areas will be based on the Bayshore District's rate design. This transitional consolidation will remain in effect only during the three years of this GRC cycle. The parties and Commission may revisit the approach established in this GRC in the next GRC cycle.

### **3.1.1.2. Rate Support Fund (RSF) Program**

Cal Water and ORA agree that the Kern River Valley (KRV) District will continue to be identified as an "RSF District" and that KRV customers will continue to receive the RSF Credit specified in Cal Water's RSF Tariff. The mechanism for giving the RSF credit and collecting RSF surcharges to fund the

program will remain the same. The RSF program will continue to be subject to the RSF Balancing Account discussed in Chapter 7 of the Settlement.

### **3.1.1.3. Low Income Ratepayer Assistance (LIRA) Program**

As part of the Settlement of the affordability issues, the Settling Parties agree to a modification of the LIRA program, as summarized below and described more fully in Attachment 6 (Schedule No. LIRA tariff):

- LIRA program eligibility will continue unchanged from current standards, and will continued to be offered in all districts.
- The LIRA benefit (credit) is equal to 50 percent of the monthly service charge; however, the current benefit caps of \$18 for non-RSF Districts and \$30 for RSF Districts is increased to \$48. This resolves Special Request 3 as discussed in Chapter 6 of the Settlement.
- The LIRA program will be funded by an estimated surcharge of 1.542 percent applied only to a customer's monthly service charge and quantity charges. This surcharge applies to all customers in all districts except LIRA customers, raw water delivery customers along the Powers Canal in the Oroville District, and fire protection services.

These settlement provisions relating to affordability, and others, are designed to address ratepayers' economic concerns.

### **3.1.2. Rate Design**

Once the revenue requirement for a rate case has been finalized, a determination is made about apportioning the revenue requirement among different customer classes: residential, non-residential, flat-rate, fire service, etc. Once that apportionment is made, another determination is made within a customer class as to what portion of the revenue requirement is to be derived

from fixed monthly charges and what portion is derived from variable usage charges.

In all Cal Water districts except Stockton and Visalia, the tariff for non-residential customers has a single consumption-based rate. The Settling Parties agree there should be no change of the allocation of revenue requirement within a customer class between fixed and variable charges, except as follows:

- In the Stockton District, the Tier 1 and Tier 2 quantity rates should be merged into a single quantity rate for all non-residential usage, such that the total revenue attributed to the non-residential customer class remains unchanged from what it would be if the rates were not merged.
- In the Visalia District, where the non-residential tariff has one quantity rate for meters up to 6 inches, and a lower quantity rate for meters that are 8 inches and higher, with a 13 cent difference between the two rates, Cal Water and ORA agree to begin to merge the non-residential quantity rates into a single quantity rate for all non-residential meter sizes. This step should not result in a change in the total revenue attributed to the non-residential customer class from what it would be if the rates were not adjusted closer together.
- In the Kern River Valley District, in order to increase the incentive to conserve, the rate design should be modified such that approximately 40 percent of the revenue requirement is obtained from the service charge, and approximately 60 percent of the revenue requirement is obtained from the quantity rates.

### **3.1.3. Conservation**

Ratepayers argue that conservation measures have not lead to a lessening of their bills and that their bills continue to rise even when they use little or no water during a monthly billing cycle as a result of a presence of the WRAM and

the MCBA. Ratepayers find it counterintuitive that conservation efforts should lead to higher monthly water bills.

Cal Water and ORA used a targeted approach to conservation funding for each district in this GRC. With multiple regulatory and legal requirements to reduce consumption, the parties agree that it is prudent for Cal Water to have a program in this GRC cycle to reduce water use that will comply with Senate Bill X7-7.<sup>5</sup>

The parties developed a three-year conservation program that establishes overall district budgets, criteria for the flexible use of conservation funding, a one-way balancing account to ensure any unspent balance is refunded to the ratepayers, and annual reporting requirements. The parties also agree to fund two additional conservation staff out of the administrative / research budget to help implement and measure the success of conservation programs. Cal Water and ORA agree to an average annual conservation budget of \$7,307,766 for Test Year 2017, Escalation Year 2018 and Escalation Year 2019, for a total three-year budget not to exceed \$21,923,298. These budgets are excluded from escalation and instead use the average annual budget in calculating the allowed revenue requirement for each year in this GRC cycle. Budgets may be used in a district at any time during the three-year rate case cycle as long as the total amount spent over the three years does not exceed the total three-year budget. Funds are not transferable across districts. Any unspent monies left from the total three-year budget for each district will be refunded to the ratepayers at the end of this GRC cycle.

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<sup>5</sup> The Water Conservation Act of 2009, Chapter 4, 2009 Cal. Stat. 93.

Cal Water may implement programs as it deems beneficial and that are consistent with the California Urban Water Conservation Council (CUWCC) Memorandum of Understanding (MOU) and industry best practices following the parameters set forth in condition #1 listed in Section 2 – Settlement Budget (above), except Turf Buy-Back. Turf Buy-Back spending is excluded from the conservation budget.

### **3.1.4. Affiliate Transactions**

Cal Water has six affiliates, of which three are unregulated affiliates and three are regulated affiliates. After reviewing the transactions between Cal Water and its affiliates, ORA concluded that Cal Water appears to be in compliance with the accounting procedures for segregating transactions between Cal Water and its affiliated entities. We agree with ORA's conclusion.

## **4. Special Requests**

The proposed Settlement resolves all of the Special Requests (SR) in Cal Water's application, as follows:

- SR 1 **Request for consolidation of certain districts into regional areas** (*see* Section 3.1.1.1 above).
- SR 2 **Request for phasing out the Rate Support Fund (RSF)** (*see* Section 3.1.1.2. above).
- SR 3 **Request for cap on Low-Income Ratepayer Assistance (LIRA) credits.** The LIRA benefit provided to customers is a 50 percent discount off of the service charge for a residential customer with a 5/8 inch meter (regardless of the actual size of a customer's meter). This benefit is currently capped at \$30 in RSF Districts, and \$18 in all other districts. Cal Water and ORA agree the Commission should retain the overall benefit methodology outlined above, and increase the cap on the monthly benefit to \$48 for all districts in this GRC cycle (*see* Attachment 6 – Schedule No. LIRA tariff).

- SR 4 Request for additional process for tariff development.** Cal Water requested additional scheduling steps in this proceeding to ensure the rates, tariffs and tables that support and accompany a final decision in this proceeding are accurate and consistent with the Commission's policies. The Settling Parties propose to file draft tariff sheets for the Commission's review within 30 days of filing the Settlement.
- SR 5 Request for monthly cross-connection fee.** Cal Water requests applying a monthly fee of \$1.50 to residential and commercial customers with an installed cross-connection assembly to fund a Cross-Connection Control Manager's salary of \$125,000. The settling parties propose to fund the salary in CSS payroll, rather than through monthly cross-connection fees.
- SR 6 Recycled Water Tariff in the East Los Angeles District.** Cal Water proposed creation of a new recycled water tariff to serve customers in its East Los Angeles District, to purchase recycled water from the local wholesaler, the Central Basin Municipal Water District, and resell it to irrigation and industrial customers who are currently using potable water. Cal Water and ORA agree on this recommendation and a water rate calculation methodology.
- SR 7 Construction Work in Progress (CWIP) in Rate Base.** This issue is addressed in Chapter 12 of the Settlement - Global Plant Issues.
- SR 8 WRAM Amortization Cap of 10percent of Revenues.** Cal Water withdraws its request to eliminate the existing annual cap on the Water Revenue Adjustment Mechanism / Modified Cost Balancing Account (WRAM / MCBA) amortization.
- SR 9 Sales Reconciliation Mechanism (SRM).** Cal Water requests 2 changes to the SRM approved by the Commission in its last GRC. In response, ORA made five proposals regarding the SRM. Cal Water and ORA agree to retain the drought SRM for this GRC period,

and eliminate the SRM Balancing Account (Preliminary Statement AR) from Cal Water's tariff.

**SR 10 Continued Balanced Payment Plan Authority.**

Cal Water requests to extend the authorization received in D.14-08-011 to implement a Balanced Payment Plan (BPP) for customers to sign up for the plan and receive bills equal to their 12-month average bill, or a representative neighborhood bill if their consumption history is less than 12 months. Cal Water was unable to implement the BPP during the 2014-2016 rate case cycle. Cal Water seeks continued authorization with the flexibility to roll out the BPP to a subset of its customers, if necessary. ORA concurs, and both parties agree that Cal Water must re-justify in the next GRC any request for authority to implement a BPP.

**SR 11 Increase in Water Supply Fees.** Cal Water requested to update its water supply fees in Tariff Rule 15 by Tier 1 advice letter. ORA agrees with Cal Water's proposal, provided the agreed upon language is incorporated into Rule 15.

**SR 12 Future Building-Related Applications.** In its application, Cal Water identified four building construction or improvement projects that are not being proposed as capital projects in this rate case, but that Cal Water believes may be appropriate as separate applications filed outside of its GRC cycle. ORA acknowledges these projects, and advises Cal Water to file its application when it considers appropriate to pursue this request or in the next GRC.

**SR 13 Waiver of Additional Customer Notice.** Cal Water withdraws its request for an order from the Commission waiving the notice requirement under Rule 3.2(c-d) or General Order (G.O.) 96B if the actual escalation year increase in a given district exceeds the rates reflected in the notices given to customers about this GRC application.

- SR 14 Coordination with Open Commission Proceedings & and Recognizing Subsequent Offsets.** Cal Water requested
- SR 16** that the final decision in this proceeding reflect the outcomes of certain open proceedings to the extent that they are resolved in a timely manner. ORA expressed concerns about the cumulative impact of reflecting the outcome of those proceedings in final rates. Specifically, ORA was concerned that the inclusion of other proceedings and offsettable expenses could potentially lead to the perception of higher revenue changes than what Cal Water has requested in its filing. The parties agree that revenue requirement changes that the Commission approved after the July, 2015, filing of Cal Water's GRC application should be incorporated into the calculation of new rates.
- SR 15 Permanent "Conservation" Rate Design.** Cal Water requested adoption of the Conservation Rate Design Pilot as a permanent component of Cal Water's rate structure. Cal Water and ORA agree that the pilot conservation rate design that has been in effect for Cal Water since 2008 should be considered permanent going forward, with the possibility for future modifications and improvements.
- SR 17 Permanent Credit Card Program.** Cal Water requested approval to make its current credit card / debit card pilot program permanent. ORA agrees with this proposal, provided the \$74,307 remaining in the Credit Card Pilot Program Memorandum Account be returned to customers via a Tier 2 advice letter, and the Memorandum Account be eliminated.
- SR 18 Temporary Metered Service Tariff.** Cal Water requested to include a new tariff for metered water service for customers engaged in temporary activities such as construction. The new tariff would permit Cal Water to collect a \$2,400 deposit for a hydrant



meter with backflow assembly. ORA agrees with Cal Water's request.

**SR 19 Deadline for Intervention.** The parties agree this issue is moot.

**SR 20 Public and Private Fire Protection Tariffs.** Cal Water requested authority to eliminate legacy tariffs for public fire hydrant charges which are obsolete, and to change its existing tariffs for privately owned fire protection systems to standardize the rates and add clarifying language. ORA supports Cal Water's request.

**SR 21 Rule 15 (Main Extensions) Clarifications.** Cal Water requests modifications to the language of Rule 15 to clarify confusing and contradictory language. ORA supports this request. The parties acknowledge that modifications to Rule 15 in this GRC do not preclude the issue from being addressed in an industry-wide proceeding.

**SR 22 Water Quality Funding.** Cal Water requests a finding from the Commission that all of its operating districts provide water service that meets or exceeds state and federal drinking water standards. The parties agree that the Commission should grant Cal Water's request.

**SR 23 Memorandum Accounts** (addressed in next section).

## **5. Balancing and Memorandum Accounts**

Cal Water provided a report on its existing balancing and memorandum accounts in its General Report submitted with its application. ORA conducted a review of Cal Water's balancing and memorandum accounts and their balances, and provided recommendations on whether they should continue, and whether any modifications are needed. ORA also analyzed Cal Water's requests for authority to take specific actions relating to the accounts.

The parties have reached agreement on the status and appropriate disposition of Cal Water's balancing and memo accounts, including modification

or elimination as appropriate. In cases where the parties agree that no Commission action is needed at this time, the accounts are not discussed further in the Settlement. The balancing and memo accounts that do require Commission action are identified below.

**5.1. Preliminary Statement F: Methyl Tertiary Butyl Ether Memo Account**

**Issue**

In 2000, California established a binding Maximum Contaminant Level (MCL) for Methyl Tertiary Butyl Ether (MTBE). Cal Water was significantly impacted by MTBE contamination due to its large number of wells and extensive use of groundwater, causing Cal Water to take legal action against potentially responsible parties. In 2008, Cal Water and other plaintiffs entered into a two-part settlement with twelve defendants (MTBE Settlement), with litigation still pending against three other defendants. Under the first part of the Settlement, Cal Water received \$49,716,872 for damages. Under the second part of the settlement, Cal Water may receive future payments for damages for MTBE contamination occurring in other wells over a 20-year period. In 2009, Cal Water and other plaintiffs settled with Lyondell Chemical Worldwide, and received its proportionate share of approximately \$53,000, resulting in total settlement proceeds of \$49,769,872.

In 2009, Cal Water filed A.09-07-011 requesting that the Commission determine the allocation of net MTBE proceeds in accordance with prior Commission decisions D.07-04-046 and D.06-05-041. The Commission adopted a settlement reached between Cal Water and ORA's predecessor, the Division of Ratepayer Advocates (DRA), which Cal Water believed directed Cal Water to amend its MTBEMA to track the use of funds to construct treatment and replacement facilities (D.10-04-037). Cal Water believed that, under that decision,

all funds available for investment or other purposes, were to be used for the construction or purchase of MTBE treatment and replacement facilities. On May 2, 2012, Cal Water dismissed its civil case against the two remaining MTBE defendants for the waiver of costs.

### **Cal Water's Position**

Of the total MTBE proceeds, Cal Water has applied \$28,545,976 as Contribution in Aid of Construction (CIAC) for completed remediation projects, and has earmarked an additional \$1,410,000 for an outstanding MTBE-designated project, a proposed treatment plant in South San Francisco. In this GRC, Cal Water proposes that the MTBE MA be terminated, with the remaining MTBE proceeds allocated 75 percent to shareholders and 25 percent to ratepayers, consistent with the Commission's criteria for the treatment of contamination proceeds.<sup>6</sup>

Cal Water believes this is appropriate at this time. When the Commission approved the MTBE MA, the risk of litigation was still Cal Water's legal responsibility. While the Commission approved a memorandum account, Cal Water was never certain of cost recovery. In addition, Cal Water took an aggressive tax position that was beneficial to ratepayers, permanently deferring state and federal income taxes on the recovered proceeds from the MTBE litigation. As a result, approximately \$10,917,246 in federal income taxes and \$3,024,774 in state income taxes were avoided, and Cal Water was able to increase the amount of CIAC available to offset MTBE-related infrastructure investment. The proposed 75 percent / 25 percent allocation of the remaining

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<sup>6</sup> In D.10-10-018, Appendix D, the Commission set forth factors to inform the allocation of net proceeds.

MTBE proceeds to shareholders and ratepayers, respectively, appropriately reflects that risk.

### **ORA's Position**

ORA recommended postponing the disposition of MTBE proceeds until Cal Water completed construction of all MTBE treatment and replacement facilities. Cal Water also needed to consider MTBE operational costs in its calculation of net litigation proceeds. ORA recommended that Cal Water calculate the discounted net present value of MTBE treatment costs for a long period of time (i.e., over a 30-year period) and deduct that amount from litigation proceeds available to be split between ratepayers and shareholders.

### **Resolution**

The parties agree that, after MTBE remediation projects have been offset 100 percent by MTBE proceeds in the amount of \$28,558,431 (as CIAC), and the removal of MTBE litigation expenses, the remaining balance in the MTBE BMA is \$2,947,630. The parties also agree that the proposed South San Francisco water treatment facilities are subject to a \$5,813,200 cap, based on Cal Water's revised estimated project costs as presented in its rebuttal testimony.<sup>7</sup>

After review and discussion of Cal Water's aggressive litigation and tax approaches, and the significant benefits ratepayers are receiving from the bulk of the net proceeds, the parties agree that the remaining proceeds should be allocated 75 percent to shareholders and 25 percent to ratepayers, subject to the following conditions:

- 1) Cal Water agrees to apply an additional \$1,010,348 of the net MTBE proceeds as CIAC to reflect the increased

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<sup>7</sup> Exhibit CWS-111, pages 65-66.

- amount of costs of the authorized South San Francisco MTBE project that is still under construction.
- 2) To address ORA's concerns that cost overruns for the project could be put into rate base in the future, thereby diluting the net proceeds allocated to ratepayers in this proceeding, Cal Water agrees to write off the amount of any cost overruns as a charge to below-the-line earnings.
  - 3) In the case of a cost under-run, Cal Water will nevertheless record the currently estimated increase in costs of \$1,010,348 as an additional credit to CIAC, funded by an additional transfer of MTBE litigation proceeds to CIAC applicable to the South San Francisco MTBE project.
  - 4) With the removal of \$1,010,348 from the original net proceeds amount of \$2,947,630, the agreed-upon net proceeds available for allocation are \$1,937,282 under the Settlement. Using a 75/25 split, the result is an allocation of \$1,452,961 to shareholders, and \$484,320 to ratepayers.
  - 5) The \$484,320 allocation to ratepayers shall be credited as CIAC to impacted districts in the same proportions as previously-allocated MTBE funds, resulting in the following CIAC credits:
    - a. \$144,979 for the Bakersfield District;
    - b. \$236,344 for the Salinas District;
    - c. \$62,251 for the Marysville District; and
    - d. \$40,746 for the South San Francisco (Bayshore) District.
  - 6) The proceeds allocated to shareholders are not restricted and may be used for an equity infrastructure investment in any Cal Water district.
  - 7) Cal Water should be authorized to file a Tier 1 advice letter to eliminate Preliminary Statement F from its tariff when the conditions in this section have been met.

We agree with the parties' proposed resolution of this issue.

**5.2. Preliminary Statement H: Low-Income Ratepayer Assistance (LIRA) Memo Account**

**Issue**

Whether Cal Water may amortize \$198,478 in incremental administrative costs tracked in the LIRA Memo Account through a Tier 1 advice letter, and keep the Memo Account open.

**Cal Water's Position**

Cal Water requested authority to amortize the incremental administrative costs tracked in the LIRA Memo Account, initially identified as \$267,281, and later revised to \$198,478 for the period January 1, 2012 through June 30, 2015, through a Tier 1 advice letter, and to keep the memo account open.

**ORA's Position**

ORA does not oppose the amortization of these tracked costs through a Tier 1 advice letter, but believes there is no continuing need for the Memo Account and it should be closed.

**Resolution**

The parties agree that Cal Water may file a Tier 1 advice letter to replace LIRA MA Preliminary Statement H in its tariff with a preliminary statement that is substantially similar to the draft for the LIRA MA included in Attachment 7 to the Settlement.

We agree with the parties' proposed resolution of this issue.

**5.3. Preliminary Statement X: Operational Energy Efficiency Program Memo Account**

**Issue**

Whether Cal Water may recover the carrying costs tracked in the Operational Energy Efficiency Program Memo Account (OEEP MA, Preliminary Statement X), to track the cost of capital pilot programs to improve energy

efficiency for well pumps and booster pumps installed in the Bakersfield, Chico and Visalia Districts.

**Cal Water’s Position**

Cal Water requests inclusion of these projects in rate base and recovery of the carrying costs tracked in the OEEP MA. Cal Water’s failure to file the advice letter previously authorized by the Commission in Cal Water’s last GRC due to inadvertent oversight did not harm ratepayers or result in gain by the company.

**ORA’s Position**

ORA objected to full recovery of the OEEP projects and associated carrying costs on the basis that the Commission previously authorized Cal Water to recover the costs for these projects in the last GRC (D.14-08-011) via a Tier 3 advice letter to be filed within 120 days of that decision. Cal Water’s failure to file the Tier 3 advice letter pursuant to D.14-08-011 should preclude Cal Water from amortizing the OEEP MA, and only the partially depreciated balance of the OEEP projects as of January 1, 2017, should be allowed into rate base.

**Resolution**

The parties agree that Cal Water may recover the carrying costs of the OEEP projects through the end of 2014, rather than the end of 2016, and may include the depreciated plant balances in rate base beginning January 1, 2017. Cal Water agrees to corrections to the carrying costs calculations made by ORA. Cal Water should be authorized to recover the “Settlement” carrying costs identified below via a Tier 1 advice letter:

OEEP MA Projects	OEEP MA Projects Carrying Costs (through end of 2014)	
	CWS's Request	Settlement
BK PID 36947	\$ 42,993.4	\$ 23,805.8
Chico PID 10950	\$ 98,082.1	\$ 60,731.1

Visalia PID 28649	\$ 55,722.4	28,315.6
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We agree with the parties’ proposed resolution of this issue.

**5.4. Preliminary Statement W: TCP Memo Account**

**Issue**

Cal Water’s TCP<sup>8</sup> Litigation Memo Account (TCP MA, Preliminary Statement W), was authorized via Advice Letter No. 1971, effective December 29, 2009. This account tracks TCP litigation costs associated with pursuing parties potentially responsible for TCP contamination, any settlement proceeds and/or litigation awards, and the costs of TCP remediation.

The State Water Resources Control Board is scheduled to adopt a new MCL for TCP. Cal Water provided information in its application about capital projects that would likely be needed to comply with the MCL, but did not include those project costs in the revenue requirement requested in this GRC.

**Cal Water’s Position**

In anticipation that numerous TCP projects will need to be completed quickly, Cal Water requests modification of the TCP MA to specifically allow project costs to be recovered through the memo account as they are completed. Cal Water also requests modifications to allow the TCP MA to apply to TCP contamination found in any of its regulated districts, not only those identified in Preliminary Statement W.

**ORA’s Position**

ORA does not oppose modifying Preliminary Statement W to allow for cost recovery as individual projects are completed, but is concerned that recovery

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<sup>8</sup> TCP is 1,2,3-trichloropropane.



be coordinated so that there is a fair allocation of any litigation proceeds among affected districts. ORA notes that the TCP MA originally adopted only applied to six of Cal Water's districts. The need for TCP remediation will fluctuate over time, and TCP contamination has since been found in districts other than those specifically identified in Preliminary Statement W.

### **Resolution**

The parties agree that Cal Water should be authorized to file for recovery of TCP costs via a Tier 3 advice letter for those projects that become operational and go into service, but such filing may not occur more than once every 12 months. Subject to these conditions, amortization of costs traced in the TCP MA may occur prior to formal establishment of an MCL for TCP. Cal Water agrees to track all remediation costs (as debits) and litigation proceeds (as credits) in the TCP MA by district, and will file for approval of a comprehensive allocation (or re-allocation, if necessary) of all costs and proceeds upon completion of all litigation and remediation work. Cal Water should be authorized to file a Tier 1 advice letter to add to its tariff a preliminary statement similar to the draft for the modified TCP MA in Attachment 7 to the Settlement.

We agree with the parties' proposed resolution of this issue.

### **5.5. Preliminary Statement Z2: Conservation Expense Balancing Account 2 (CEBA2)**

#### **Issue**

In the 2012 GRC, the Commission adopted a conservation budget and Conservation Expense Balancing Account (CEBA 2, Preliminary Statement Z2) for the period 2014 - 2016. Cal Water reported on this account in its application without requesting any Commission action, but applied for various water conservation related grants to offset authorized conservation program costs.

### **Cal Water's Position**

Reimbursements received from water conservation related grants should be tracked in the currently active CEBA 2.

### **ORA's Position**

Cal Water's CEBA 2 should track water conservation related grant reimbursements.

### **Resolution**

The parties agree that Preliminary Statement Z2 should be modified to explicitly allow grant reimbursements to be tracked in the CEBA 2 to offset conservation expenses. Cal Water should be authorized to add a preliminary statement that is substantially similar to the draft for the CEBA 2 in Attachment 7 to the Settlement via a Tier 1 advice letter.

We agree with the parties' proposed resolution of this issue.

### **5.6. Preliminary Statement Z3: Conservation Expense Balancing Account 3 (CEBA3)**

#### **Issue**

The parties agreed (Chapter 4 of the Settlement Agreement) on a conservation budget for 2017-2019, and creation of an associated one-way Conservation Expense Balancing Account (CEBA 3).

#### **Cal Water's Position**

Cal Water requests authorization to modify its tariff to provide for a Conservation Expense Balancing Account (CEBA 3).

#### **ORA's Position**

ORA agrees with Cal Water's request.

## **Resolution**

The parties agree Cal Water should be authorized to add to its tariff via a Tier 1 advice letter a preliminary statement that is substantially similar to the draft for the CEBA 3 in Attachment 7 to the Settlement.

We agree with the parties' proposed resolution of this issue.

### **5.7. Preliminary Statement AA2: Pension Cost Balancing Account 2 (PCBA2)**

#### **Issue**

The Commission authorized the Pension Cost Balancing Account 2 (PCBA 2, Preliminary Statement AA2) in Cal Water's 2012 GRC, as a two-way balancing account to track the difference between authorized and actual pension expenses for 2014-2016. Cal Water reported on the PCBA 2 in its application, but did not request any Commission action. After reviewing the balance in the PCBA 2, ORA disagreed with Cal Water's application of escalation factors to pension expenses in districts that had escalation year increases for 2015 and/or 2016 rates.

#### **Cal Water's Position**

Cal Water agrees with ORA's recommendations.

#### **ORA's Position**

Balancing accounts are not subject to escalation, and Cal Water should correct this error when it files to amortize the balance in the PCBA 2 account at the end of the 2014-2016 rate case period. ORA also objects to the capitalization ratios that Cal Water applies for the actual pension costs being tracked in the PCBA 2. Regardless of the capitalization ratios Cal Water uses for accounting purposes, the final balance calculated for the PCBA 2 should use the capitalization ratios applied in the Test Year 2014 adopted pension expenses.

## **Resolution**

The parties agree that Cal Water's filing to amortize the PCBA 2 will incorporate the following adjustments:

- 1) To the extent that Cal Water increased pension costs in an escalation year filing, that increase should also be applied to the "adopted" pension costs for the purposes of calculating the difference between adopted and actual pension costs; and
- 2) In calculating "actual" pension costs, Cal Water should apply the capitalization ratios that were used for the adopted pension costs for Test Year 2014.

We agree with the parties' proposed resolution of this issue.

### **5.8. Preliminary Statement AA3: Pension Cost Balancing Account 3 (PCBA3)**

#### **Issue**

Cal Water requested continuation of the Pension Cost Balancing Account 3 (Preliminary Statement AA3) that the Commission approved in D.14-08-011 because there will likely be continued volatility in pension funding requirements on a year-to-year basis. This volatility is outside Cal Water's control in that discount rates and investment returns are largely the result of outside factors.

#### **Cal Water's Position**

Cal Water opposes ORA's recommendations with the exception of the recommended clarification for capitalized pension costs.

#### **ORA's Position**

ORA supports substantial revisions to the terms of the Pension Cost Balancing Account for this GRC, including a cost sharing provision if actual expenses differ from adopted expenses. ORA also supports the exclusion of the Supplemental Executive Retirement Plan (SERP) from the account, and

clarification that the capitalized portion of pension costs at the adopted capitalization ratio is to be excluded.

### **Resolution**

The parties agree to exclude the SERP costs from the PCBA 3 adopted for 2017-2019. For the same reasons discussed in the Settlement regarding PCBA 2, the preliminary statement for the PCBA 3 will also be modified to ensure the use of the 2017 adopted capitalization ratio in the account. Pension costs will not be subject to escalation. Cal Water should be authorized to use a Tier 1 advice letter to add a Preliminary Statement AA3 to its tariff that is substantially similar to the draft for the PCBA 3 provided in Attachment 7 to the Settlement.

We agree with the parties' proposed resolution of this issue.

### **5.9. Preliminary Statement AB2: Health Cost Balancing Account 2 (HCBA2)**

#### **Issue**

The Commission authorized the Health Cost Balancing Account 2 (HCBA 2, Preliminary Statement AB2) in Cal Water's 2012 GRC as a two-way balancing account to track the difference between authorized and actual health care expenses for 2014-2016, with 85 percent of that difference trued up as a surcharge or credit to ratepayers after the rate case period ends. Cal Water reported on HCBA 2 in its application, but did not request any Commission action.

#### **Cal Water's Position**

Cal Water agrees with ORA's recommendations.

#### **ORA's Position**

ORA expressed the same concerns about the HCBA 2 as it did about the PCBA 2 - the inappropriate use of escalation to balancing account expenses and

the use of a capitalization ratio that is different from that adopted for the test year.

### **Resolution**

The parties agree that Cal Water's filing to amortize the HCBA 2 will incorporate the following adjustments:

1. To the extent that Cal Water increased health care costs in an escalation year filing, that increase should also be applied to the "adopted" health care costs for the purposes of calculating the difference between adopted and actual health care costs; and
2. In calculating "actual" health care costs, Cal Water should apply capitalization ratios that were used for the adopted health care costs for Test Year 2014.

We agree with the parties' proposed resolution of this issue.

### **5.10. Preliminary Statement AB3: Health Cost Balancing Account 3 (HCBA3)**

#### **Issue**

Cal Water requested continuation of the Health Cost Balancing Account that the Commission approved in D.14-08-11, which allows for a true-up for 85 percent of the difference between actual and adopted health care costs.

#### **Cal Water's Position**

Cal Water agrees that health care costs are not subject to capitalization.

#### **ORA's Position**

ORA did not object to continuation of the HCBA 3 for this GRC period but recommended clarification that the capitalized portion of health costs at the adopted capitalization ratio is to be excluded from the account.

### **Resolution**

For the reasons discussed in the Settlement regarding HCBA 2, the preliminary statement for the HCBA 3 will be modified to ensure use of the 2017

adopted capitalization ratio in the account. Health care costs will not be subject to escalation. Cal Water should be authorized to file a Tier 1 advice letter to add a Preliminary Statement AB3 to its tariff that is substantially similar to the draft for the HCBA 3 provided in Attachment 7 to the Settlement.

We agree with the parties' proposed resolution of this issue.

### **5.11. Preliminary Statement AE: Bonus Tax Depreciation Memo Account (L-411 MA)**

#### **Issue**

The Bonus Tax Depreciation Memo Account (Preliminary Statement AE) was created to track the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. All cost-of-service utilities which are rate-regulated by the Commission that did not address this legislation in a 2011 or 2012 test year GRC were required to open this one-way memorandum account pursuant to Resolution L-411A. The impact of 2014 bonus depreciation is reflected in Cal Water's beginning balance of its GRC application. Cal Water discovered an error in some of its tax calculations for 2011-2013, and proposed returning \$1.8 million to ratepayers and closure of the Bonus Depreciation Memorandum Account.

#### **Cal Water's Position**

Subsequent review of its calculations revealed that the impact of some of Cal Water's tax deductions had not been properly reflected, and the correct balance in the Bonus Tax Depreciation Memo Account was \$676,375 rather than \$1.8 million. Cal Water provided the workpapers supporting the corrected recalculation to ORA.

#### **ORA's Position**

ORA supports Cal Water's request.

## **Resolution**

The parties agree that Cal Water should be ordered to file a Tier 1 advice letter to return \$676,375 to ratepayers as surcredits.

We agree with the parties' proposed resolution of this issue.

### **5.12. Preliminary Statement AI: Chromium 6 Memo Account (Chromium-6 MA)**

#### **Issue**

Cal Water's Chromium-6 Memo Account, approved in Advice Letter No. 2128, effective May 30, 2014, tracks the incremental costs for complying with the state's Maximum Contaminant Level (MCL) for chromium-6 (or hexavalent chromium). Preliminary Statement AI provides that the account will close on December 31, 2016, and, to the extent Cal Water seeks recovery through the advice letter process, only one Tier 3 advice letter is allowed per district. Cal Water reported on the status of this account in its application, and did not include any chromium-6 projects in its requested revenue requirement.

#### **Cal Water's Position**

Cal Water provided an update on chromium-6 projects in rebuttal, and states that some of the projects will not be completed before December 31, 2016. In addition, cost reimbursements from Proposition 50 grant money that had been awarded to the company for the Willows District would still be coming in after that date. Cal Water requests an extension of the Chromium-6 MA to accommodate these changes.

#### **ORA's Position**

Cost recovery eventually sought through the chromium-6 MA must be reduced by the amount of project costs or operational expenses already included in revenue requirements, and offset by grant money received for chromium-6 treatment.



## **Resolution**

The parties agree to extend the Chromium-6 MA and to allow Cal Water to file two Tier 3 advice letters in the Willows District so that all grant money reimbursements are reflected in the disposition of the account. Cal Water should be authorized to file a Tier 1 advice letter to add to its tariff a preliminary statement that is substantially similar to the draft for the modified Chromium-6 MA in Attachment 7 to the Settlement.

We agree with the parties' proposed resolution of this issue.

### **5.13. Preliminary Statement AL: Drought Memo Account (DRMA)**

#### **Issue**

In Resolution W-4976, the Commission authorized water companies to file for a memo account to track incremental costs incurred to implement drought procedures. Cal Water's Drought Memo Account (DRMA, Preliminary Statement AL) was approved via Advice Letter No. 2124.

#### **Cal Water's Position**

Cal Water requests authority to amortize certain DRMA costs via Tier 1 and Tier 2 advice letters.

#### **ORA's Position**

Expenses recovered through the DRMA should not duplicate normal operating expenses included in rates. ORA opposes amortization via anything other than a Tier 3 advice letter.

#### **Resolution**

On July 15, 2016, Cal Water filed Tier 3 Advice Letter No. 2226 seeking authority to amortize incremental DRMA costs incurred in 2014 and 2015, largely rendering Cal Water's requests moot. Cal Water requested recovery in the amount of \$4,243,266 through a surcharge of \$0.0315 per CCF on all customer

classes for a 12-month period. The parties agree that ORA and Cal Water will work together to facilitate ORA's analysis of the incremental costs requested through AL No. 2226, as compared to Customer Service Expense forecasts in this and future GRC's to prevent double recovery. In AL No. 2226, Cal Water stated that if amortization of these non-payroll costs is granted, Cal Water will remove them from the averages used to calculate rates in its GRC's. Given that AL 2226 is still pending, Cal Water and ORA agree not to remove the non-payroll costs in the Settlement workpapers.

We agree with the parties' proposed resolution of this issue.

**5.14. Preliminary Statement AM: Rate Support Fund Balancing Account (RSF BA)**

**Issue**

The Rate Support Fund Balancing Account (RSF BA, Preliminary Statement AM) tracks all of the credits given to customers in RSF areas, and all of the surcharges to fund the program, which are applied to the bills of all customers except for LIRA customers in RSF areas. The RSF surcharge is currently 0.502 percent of a customer's basic water charges (the monthly and flat rate service charges plus the usage-based quantity rate charges). An RSF surcharge recalculated based on the rates and revenues adopted in this case will become effective at the same time as the new GRC rates.

### **Cal Water's Position**

Cal Water proposed a gradual consolidation of certain districts into five regional ratemaking areas, and a corresponding phase out of the Rate Support Fund. In order to prevent significant over- and under-collections in the RSF BA, Cal Water requests authority to recalculate the RSF surcharge on an annual basis using the same true-up mechanism adopted for Cal Water's LIRA Balancing Account.

### **ORA's Position**

ORA opposes Cal Water's proposal to partially consolidate the revenue requirements of certain larger districts with smaller, high-cost districts and proposed modifications to the RSF program in response to Cal Water's "affordability" Special Requests 1 and 2. ORA recommends that any balance in the RSF BA as of December 31, 2016, be amortized via a Tier 2 advice letter, and supports an annual filing to update the RSF surcharge.

### **Resolution**

*See* Chapter 2 of the Settlement Agreement for the discussion of modifications to the existing RSF program that the parties agree should be undertaken to address broader issues relating to affordability. In addition, the parties agree to modify Preliminary Statement AM to allow for an annual recalculation of the RSF surcharge funding the program, if necessary. Cal Water should be authorized to file a Tier 1 advice letter to add to its tariff a preliminary statement that is substantially similar to the draft for the RSF BA in Attachment 7 to the Settlement Agreement.

We agree with the parties' proposed resolution of this issue.

**5.15. Preliminary Statement AQ: East  
Los Angeles Memo Account (ELA MA)**

**Issue**

The East Los Angeles Memo Account (ELA MA, Preliminary Statement AQ) was authorized in the 2012 settlement agreement adopted in D.14-08-011. In Cal Water's 2012 GRC, ORA disagreed with Cal Water's property purchase in its East Los Angeles District in the amount of \$6.8M to construct two new groundwater wells, and to move its customer and operations centers to that location. ORA also opposed \$1.235M in "Phase 1" building improvements that Cal Water made to an existing warehouse on the property to allow one of Cal Water's customer service centers to be relocated to the property.

As part of the Cal Water's 2012 GRC settlement the parties agreed that 50 percent of the property purchase could be included in rate base to account for the total land cost for the wells at the site. The remaining 50 percent, in the amount of \$3,411,313, to account for the warehouse building, and the full amount of the Phase I building improvements (\$1,235,313) would be tracked in the ELA MA, along with the related carrying costs (consisting of return on investment, ad valorem taxes, and depreciation). Cal Water also agreed to defer Phase 2 of the building improvement project (for relocation of the operations center) to a later GRC. Recovery of any amounts in the ELA MA in the future would require a full justification.

**Cal Water's Position**

Cal Water requests inclusion of the depreciated amount (\$2,757,571) of the \$4,646,626 in capital costs tracked in the ELA MA in rate base for January 1, 2017 rates, and amortization of carrying costs in the amount of \$1,627,008 for the 2014 GRC cycle. In its Advance Capital Budget (ACB), Cal Water also proposed a

Phase 2 building improvement project to allow the transfer of the Operations Center to the property.

### **ORA's Position**

In its Report, ORA opposed any recovery of the capital and carrying costs tracked in the ELA MA because Cal Water failed to justify the remaining 50 percent of the property purchase or the Phase 1 building improvements in this GRC application. ORA also concluded the Phase 2 building improvements requested as ACB would not be cost-effective.

### **Resolution**

As part of a comprehensive settlement, the parties agree to:

1. Include the depreciated capital amounts (\$2,757,571) associated with the property purchase and Phase 1 building improvements in rate base;
2. Amortize the carrying costs recorded in the ELA MA;
3. Exclude the Phase 2 building improvement project proposed as ACB from this GRC (see discussion in Chapter 21 of the Settlement Agreement); and
4. Close the ELA MA after amortization is completed.

We agree with the parties' proposed resolution of this issue. Within 60 days of the adoption of this decision, Cal Water is authorized to file a Tier 2 Advice Letter to amortize the \$1,627,008 balance in ELA MA for the Tubeway Property carrying costs.

### **5.16. Preliminary Statement AR: Sales Reconciliation Mechanism Balancing Account (SRM BA)**

#### **Issue**

Whether Cal Water should be authorized to remove Preliminary Statement AR (Sales Reconciliation Memorandum Balancing Account) from its tariff.

#### **Cal Water's Position**

Cal Water requests authorization to remove Preliminary Statement AR from its tariff.

#### **ORA's Position**

ORA agrees with Cal Water's request.

#### **Resolution**

Cal Water should be authorized to remove Preliminary Statement AR (Sales Reconciliation Memorandum Balancing Account) from its tariff.

We agree with the parties' proposed resolution of this issue.

### **5.17. Old Interim Rate Residuals**

#### **Issue**

In its application, Cal Water reported on residual balances for 18 of its ratemaking areas due to "interim rate GRC surcharges" that were implemented when Cal Water transitioned from have one rate case per year for a subset of Cal Water's districts, to one consolidated rate case every three years for all of Cal Water's districts. In some districts, the residual is an amount to be returned to ratepayers; in others, the residual must be collected from ratepayers. While not part of a formal memo or balancing account, the residual balances must be disposed of.

### Cal Water's Position

Cal Water proposed these residual balances be rolled over into the District-Specific Balancing Accounts authorized in the 2012 GRC, and subsequently amortized with other balances in those accounts.

### ORA's Position

ORA recommends that Cal Water promptly amortize the balances. In rebuttal, Cal Water proposed that residual balances that were large (as compared to a district's revenue requirement) undergo another round of amortization immediately, with smaller balances instead transferred to their respective District-Specific Balancing Account.

### Resolution

The parties agree that Cal Water should be authorized to re-amortize the large residual balances through a Tier 1 advice letter, and transfer the smaller balances to the respective District-Specific Balancing Account, as follows:

<b>Residuals from Old Interim Rate True-Ups</b>				
<b>Dept</b>	<b>District</b>	<b>Balance as of 05/31/2015</b>	<b>Re-Amortize?</b>	<b>Balance as % of Revenue Requirement</b>
101	Bakersfield	\$ 10,293		0.0%
134	Kern River Valley	\$ 36,867		0.6%
113	Oroville	\$ 36,029		0.8%
<b>148</b>	<b>Redwood - UNI</b>	<b>\$ (15,643)</b>	<b>Yes</b>	<b>-2.0%</b>
118	Bayshore	\$ 8,782		0.0%
123	Westlake	\$ 42,035		0.2%
<b>128</b>	<b>Dominguez</b>	<b>\$ (1,096,820)</b>	<b>Yes</b>	<b>-1.8%</b>
108	Hermosa Redondo	\$ (21,093)		-0.1%
<b>122</b>	<b>Palos Verdes</b>	<b>\$ (321,374)</b>	<b>Yes</b>	<b>-0.7%</b>

117	Selma	\$ 38,167		0.8%
121	Willows	\$ 34,926		1.2%
<b>129</b>	<b>Antelope Valley</b>	<b>\$ 63,609</b>	<b>Yes</b>	<b>2.6%</b>
<b>102</b>	<b>Bear Gulch</b>	<b>\$ 342,132</b>	<b>Yes</b>	<b>-0.7%</b>
105	Dixon	\$ 47,801		1.6%
109	King City	\$ 38,023		1.2%
<b>112</b>	<b>Marysville</b>	<b>\$ 90,396</b>	<b>Yes</b>	<b>2.5%</b>
<b>149</b>	<b>Redwood - COS</b>	<b>\$ 28,718</b>	<b>Yes</b>	<b>5.5%</b>
<b>147</b>	<b>Redwood - LUC</b>	<b>\$ 159,824</b>	<b>Yes</b>	<b>7.2%</b>
	Grand Total	\$ (1,161,591)		

We agree with the parties' proposed resolution of this issue.

### **5.18. International Financial Reporting Standards Memo Account (IFRS MA)**

#### **Issue**

In D.14-08-011, the Commission approved continuation of a memo account to track costs required to comply with International Financial Reporting Standards (IFRS) if and when they are adopted. The account can only be opened if the Securities and Exchange Commission provides clear guidance on the timelines and actions necessary to comply with the IFRS. Thus far, the IFRS has not been triggered.

#### **Cal Water's Position**

Cal Water did not request reauthorization of the IFRS MA.

#### **ORA's Position**

ORA agrees the Commission should authorize Cal Water to eliminate this account.

#### **Resolution**

Cal Water should be authorized to eliminate the IFRS MA. We agree with the parties' proposed resolution of this issue.



## **6. Sales and Services**

Cal Water has both metered and flat rate services. Metered services are grouped into eight classes: residential, business, multi-family, industrial, public authority, recycled, irrigation and other. Generally, Cal Water estimates the number of customers for the years leading to the test year using a five-year historical average of the change in number of customers in the class.

In its application, Cal Water used a regression analysis based on the provisions of the Rate Case Plan, excluding 2014 data due to the water use restrictions in place due to the drought. ORA recommended using a four-year average (2010-2013) use per service for all categories. The parties agree to use ORA's sales estimates per customer for residential, business, and multi-family for 2017, and to generally use a four-year average total consumption by class for classes other than residential, business and multi-family.

## **7. Customer Support Services and District Expenses**

In its application, Cal Water proposed expenses for Customer Support Services (formerly known as General Office expenses) and anticipated expenses in each of its districts. ORA reviewed the application and issued its Report on Operations. Many of these items were not in dispute. For those in which the parties disagreed, the parties negotiated and came to agreement on the following:

- Payroll
  - Customer Support Services (General Office)
  - District Payroll
- Transportation
- Purchased Water
- Purchased Power

- Pump Tax
- Chemicals
- Postage
- Uncollectibles
- Source of Supply
- Pumping
- Water Treatment
- Transmission and Distribution
- Customer Accounting
- Conservation
- Maintenance - Stores
- Contracted Maintenance
- Rent
- Administrative Charges
- Amortization of Limited Term Investment
- Adjustment for Unallowable Dues and Donations
- Purchased Services

We agree with the parties proposed resolution of these issues.

## **8. Taxes**

There are no methodological differences between Cal Water and ORA in calculating estimates for regulated income taxes. The parties agree to incorporate the effects of the new corporate income tax regulations in the calculation of forecasted income taxes and deferred items. Forecasted taxes other than income are comprised of the following: payroll taxes, ad valorem or property taxes, business license taxes and local franchise taxes. There are no

contested issues in this category; the parties applied the same forecasting methodology in forecasting taxes other than income.

## **9. Rate Base**

### **9.1. Depreciation**

Cal Water hired an outside consultant to perform a detailed depreciation study for this GRC. As part of the application, Cal Water provided three depreciation studies categorizing Cal Water's districts into three geographic areas:

- METRO – Bayshore, Bear Gulch, East Los Angeles, Hermosa Redondo, Livermore, Los Altos, Palos Verdes, Rancho Dominguez, Westlake Districts and Customer Support Services;
- VALLEY – Bakersfield, Chico, Dixon, King City, Marysville, Oroville, Salinas, Selma, Stockton, Visalia and Willows; and
- DOMINGUEZ – Dominguez South Bay, Antelope Valley, Kern River Valley and Redwood Valley.

Cal Water proposed to use the depreciation rates recommended in the depreciation studies. ORA did not oppose Cal Water's methodology, but recommended adjustments to some of the depreciation accrual rates. Cal Water agreed with ORA's recommendations. The depreciation rates by plant accounts for all districts are included in Attachment 5 of the Settlement.

### **9.2. Deferred Income Taxes**

Federal tax laws<sup>9</sup> require that tax reductions in the early years of plant life be deferred to offset the additional tax liability anticipated in the later years of an

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<sup>9</sup> The Economic Recovery Act of 1981 (ERTA), as modified by the 1982 Tax Equity and Fiscal Recovery Act (TEFRA) and the Tax Reform Act of 1984.

asset's life. This means that the difference between actual book federal tax expense and ratemaking federal tax expense is recorded in the deferred income taxes account which is a reduction from rate base. In its application, Cal Water included the impact of the repair deductions from its main replacement program. Due to the passage of the "Protecting Americans from Tax Hikes Act of 2015" (the "PATH Act"), Cal Water provided revised estimates to ORA to incorporate the impact of bonus depreciation until 2019 in its deferred income tax estimates. ORA and Cal Water agree to incorporate the impact of the PATH Act (Section 179 of Bonus Depreciation deduction) in estimating deferred income tax. The rate base for the individual districts and consolidated regions are included in Attachment 2 of the Settlement.

#### **10. Global Plant Issues**

The parties actively negotiated and reached settlement on the following Global Plant Issues which had been in dispute. Special attention is drawn to selected items below, particularly as they relate to safety.

- Non-specific Capital Budget
  - The parties recognize that non-specific spending has been increasing and has exceeded past forecasts. As part of the global capital settlement, the parties agree to reduce annual non-specific budgets for 2016-2018 by 20-25 percent depending on the operational district. Cal Water will make additional efforts to control non-specific budget spending, and consider ways to increase transparency of its non-specific budget spending.
- Pipeline Replacement Program
  - To address safety concerns and system priorities, the parties agree to include in this GRC an increase in the pipeline replacement rate from Cal Water's historic

levels, and to implement a Water Loss Control Program in districts with a high leak rate or high water loss rate.

- Flat to Metered (FTM) Program and Advanced Meter Infrastructure (AMI) / Automated Meter Reading (AMR) Projects
  - Cal Water has an ongoing program to convert all remaining flat rate services to metered services as required by Cal. Water Code § 527. Cal Water's Bakersfield, Marysville and Selma Districts are still to be converted. The parties agreed on a conversion schedule consistent with Cal. Water Code § 527.
- AMI / AMR Projects
  - Cal Water's proposed capital budget includes replacing existing manual read water meters with AMR water meters in four districts, and AMI water meters in Bakersfield when converting flat rate services to metered services. ORA opposed the AMR projects and AMI deployment generally. The parties agreed to exclude from this GRC all AMI projects and associated costs, and to continue the Dominguez 2012 GRC AMR pilot program, with certain restrictions.
- Electrical Panelboards Replacement
- Supervisory Control and Data Acquisition (SCADA)
- Meter Replacement Program
- Flow Meter Replacement
- Vehicle Replacement Program
- Generator Replacement Program
- Pump Replacement Program
- Tank Painting Projects
- Hydro-Pneumatic Tank Replacement
  - Cal Water proposed to replace high-risk hydro-pneumatic tanks (pressure vessels) to address

safety concerns in various districts. Pressure vessels installed prior to the 1980s are vulnerable to failure due to a combination of undocumented design, fabrication, inspection, testing or certification issues. Cal Water developed its replacement and prioritization criteria in 2011 after experiencing two catastrophic failures, and began prioritizing replacement projects in its 2012 GRC. To address safety concerns and system priorities, the parties agree to include 11 pressure vessel replacement projects in this GRC based on Cal Water's priority ranking. Individual projects and associated costs are presented in the respective district plant chapters and in Attachment 9 of the Settlement.

- Control Valve Replacement
  - Cal Water proposed the replacement and restoration / overhaul for a number of automatic control valves in multiple districts. These valves regulate the water flow and water pressure in the distribution system. As critical infrastructure, the failure of these control valves could result in main breaks, property damage from tank overflows, or low pressure concerns. ORA agreed with the need for these projects but disagreed with the proposed costs. The parties agreed to a lower cost program than originally proposed in the application, as shown in Attachment 9 of the Settlement.
- Construction Work in Progress (CWIP)
- Capital Budget Carryforward Adjustment
  - In recognition of the large carry-over totals proposed in this application, Cal Water agrees to a rate base carry-forward of \$89.6 million in 2016 for ratemaking purposes. This adjustment amount is a line item adjustment to be made in Cal Water's plant addition workpapers (WP 8A4) that will serve to reduce Cal Water's revenue requirement for the years 2017 through 2019.
- Acquired Systems

- Confidentiality of Application Information
  - In its GRC application, Cal Water identified information in its capital project justification that Cal Water believed should be treated as confidential in order to maintain the safety and security of its infrastructure. ORA challenged Cal Water's approach because a majority of the claimed confidential information was available elsewhere and did not pose a safety or security concern. In the next GRC, Cal Water and ORA agree that, rather than marking entire pages of a document confidential, Cal Water will instead identify the specific confidential information and submit these confidential documents with its GRC application. The parties are reminded that the Commission recently adopted D.16-08-024<sup>10</sup> to Rulemaking (R.) 14-11-001, updating the Commission's processes relating to potentially confidential information.

We agree with the parties' proposed resolution of these issues.

## **11. Customer Support Services and District-Specific Issues**

Cal Water and ORA engaged in extensive negotiations regarding both Customer Support Services (General Office) expenses, global issues and expenses (those impacting multiple districts) and district-specific issues and expenses.

### **11.1. Advance Capital Budget**

The parties also reached agreement on the Advance Capital Budget (ACB), which consists of projects in three categories:

- Non-specific capital budgets (also discussed in Section 10, above);
- Specific projects; and

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<sup>10</sup> D.16-08-024 is an interim decision, and the proceeding remains open for further refinement and improvement of the Commission's processes.

- Advice Letter projects.

In addition to the ACB, districts may also have projects that were approved in an earlier GRC but which have not yet been completed. These are known as “carry-over projects”. The ACB for specific projects identifies the projects and forecasted costs that the parties have agreed should be reflected in the adopted revenue requirement. The non-specific capital budget is for projects that are anticipated to be completed during the indicated year to resolve issues that were not known in detail when the ACB for that time period was adopted. These projects tend to be for emergency, unforeseen or programmatic projects that need to be completed between GRC’s.

### **11.2. District-Specific Budgets**

In addition to district-specific programs and projects discussed elsewhere in this decision, the following highlighted programs and projects will be undertaken or continued in an on-going effort to improve the safety and reliability of Cal Water’s system and service:

- **Bakersfield:** The parties agree that Cal Water should add arsenic treatment to Well Station 202 in South Bakersfield, a relatively new well which has been offline because the water’s arsenic level exceeds the MCL.
- **Bear Gulch (Station 45):** While the parties agree that the Water Master Plan for the Skyline and Woodside Mutual (Station 45) should be completed to provide recommendations for Cal Water to address the systems’ supply and reliability goals, the conditions and vulnerabilities of this station necessitate the rebuild of Station 45 concurrent with the Master Plan to ensure customer safety and reliable station operations.
- **Bear Gulch (Station 46):** The Dept. of Public Health inspected the Orchard Hills (Station 46) redwood tanks and facilities and required that Cal Water replace the tanks



as soon as possible. Cal Water installed temporary polyethylene tanks to replace the redwood tanks. The conditions and vulnerabilities of this station necessitate the need to replace the temporary polyethylene tanks with permanent bolted steel tanks.

- **Dominguez:** Approximately 384 fire hydrants in the Dominguez District do not have isolation valves and many hydrant risers are deteriorated. Cal Water proposed a program to replace approximately 40 of these hydrants per year, and to replace all 384 hydrants over a 10-year period to allow for continued water delivery during regular hydrant maintenance and emergency scenarios.
- **East Los Angeles:** Cal Water proposed to construct a groundwater treatment plant for wells 62-01 and 62-02, to allow the utilization of groundwater to offset water purchased from the Central Basin Municipal Water District, the local wholesale supplier. While ORA was initially concerned this project was not cost-effective, the wells have already been drilled and the parties agree treatment is needed.
- **Hermosa Redondo:** Cal Water proposed to rebuild Station 24 because the station's facilities were deteriorated and in need of replacement. Two of four redwood reservoirs are leaking, and all four redwood reservoirs did not meet the Division of Drinking Water's (DDW) requirements for overflow pipe air gap and seismic requirements. While the parties ultimately agreed Station 24 should be rebuilt, they disagreed on the scope of the project. In settlement, the parties agreed only to include the design cost of the station rebuild (\$300,000) in this GRC. Cal Water will be permitted to provide additional design and cost details in a future rate case.
- **Kern River Valley:** Cal Water's intake structure for the Kernville Surface Water Treatment Plant requires extensive maintenance to remove clogging, and operators to manually clean it by air purging on a daily basis. Due to low water levels, the pump is operating at half of its design

capacity. Cal Water will undertake a feasibility study to explore intake solutions that are less impacted by low water levels, and would allow the plant to provide a more consistent and reliable raw water source.

- **King City:** Cal Water proposed installing a series of large diameter pipelines to bring low-nitrate water from the west side of King City to a Zone 555 feed point on the east side of the city. The project was divided into six phases, three of which have been completed. The final three phases will be included in this GRC.
- **Palos Verdes (Reservoir 7, Station 43):** Cal Water identified a storage deficiency and water quality issue in the Palos Verdes P-Cascade system, and proposed system modifications that would allow adequate cycling, reduce the potential of nitrification and return Reservoir 7 to operational status. Addressing these issues will provide operational, emergency and fire flow storage, which increases system reliability.
- **Palos Verdes (Station 37):** The 9.5 million gallon concrete reservoir at Station 37 is leaking at an average rate of 30,000 gallons per day. Cal Water and its consultant drained and inspected the tank. It was determined that past repair attempts have failed. Necessary repairs will be undertaken, minus the planned replacement of roof support columns which showed cracks, but did not yet demonstrate any structural weakness.
- **Palos Verdes (Crenshaw Ridge Supply & D-500 Project):** The Palos Verdes water system is comprised of 100 percent purchased water which is distributed via two major pipelines. 90 percent of the supply is pumped to tanks located at the top of the mountain via a single transmission system (Ridge) then distributed to customers downgradient. The lower elevation areas (D-500) are served from a single pipeline and pump stations. The pipe in both transmission pipeline systems is over 60 years old, and located in cross-country alignments that have become inaccessible due to development that has occurred since

the system was installed. In the event either of these pipelines were to leak or fail due to age or other emergency, residents of the peninsula could face lengthy water outages. Cal Water will install a redundant system parallel to the Ridge System, and replace portions of the D-500 pipeline. These projects will provide redundancy to the Ridge system and provide additional reliability to Palos Verdes customers.

- **Salinas (155 Hydraulic Zone and Station 47):** This zone has experienced several wells failing because of contamination. Cal Water initially proposed drilling a new well to increase supply reliability in the zone. After negotiation the parties propose lower cost options of taking higher nitrate water from well 21-01 and blending it to safe levels using water from well 47-01, along with additional capacity improvements to Station 47.
- **Westlake (Thousand Oaks Zone III Emergency Interconnect):** Cal Water proposes an emergency interconnection with the City of Thousand Oaks because all 3 purchased water connections serving Zone III are supplied from the Calleguas Municipal Water District's Lindero feeder, a single feed, dead-end pipeline with no redundancy within the Cal Water service area. Thousand Oaks' service area bordering Zone III is supplied by a different feeder, so this interconnection will provide backup supply to Zone III if the Lindero feeder fails.

### **Standard of Review for Settlement**

As the applicant, Cal Water bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair. In order for the Commission to consider whether the proposed settlement is in the public interest, the Commission must be convinced the parties had a thorough understanding of the application and all of the underlying assumptions and data included in the record. The requirements for

adopting a settlement are set forth in Rule 12.1(a) of the Commission's Rules of Practice and Procedure,<sup>11</sup> which states:

Parties may, by written motion any time after the first prehearing conference and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant ....

...

When a settlement pertains to a proceeding under a Rate Case Plan or other proceeding in which a comparison exhibit would ordinarily be filed, the motion must be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application and, if the participating staff supports the settlement, in relation to the issues staff contested, or would have contested, in a hearing.

Rule 12.1(d) provides:

The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

Rule 12.5 limits the future applicability of a settlement:

Commission adoption of a settlement is binding on all parties to the proceeding in which the settlement is proposed. Unless the Commission expressly provides otherwise, such adoption does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding.

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<sup>11</sup> All referenced Rules are the Commission's Rules of Practice and Procedure. <http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&DocID=154622266>.

We must find whether the settlement complies with Rule 12.1(d), which requires a settlement be “reasonable in light of the whole record, consistent with the law, and in the public interest.”

The record consists of all filed documents, served and filed testimony, the proposed Settlement and the motion for its adoption, as well as the briefs of the parties on those issues not included in the proposed Settlement. The Settlement resolves nearly all of the issues in this GRC and in the ORA Report of Operations.

### **Reasonable in Light of the Whole Record**

Cal Water represents the utility and its shareholders. ORA represents the interests of ratepayers in general, and the intervenors represent the interests of specific groups of ratepayers. The Settlement is the result of extensive and vigorous negotiations. The parties to the Settlement have a thorough understanding of the issues and all of the underlying assumptions and data, and could therefore make informed decisions in the settlement process.

The Settling Parties’ evaluation of the issues leading to the Settlement is based on the Application, the prepared testimony, briefs, comments and supporting evidence of the parties. The Settlement commands the broad and nearly unanimous support of the parties:

- Cal Water fully supports the Settlement in its entirety.
- ORA fully supports the Settlement in its entirety.
- CWUC, representing approximately 665 operations, construction, maintenance, and clerical employees of Cal Water supports the portions of the Settlement relating to employee wages, the pension plan, 401(k), and employee “on-call” premiums.
- The City of Visalia (located in the Visalia District) is considering a recommendation from city staff that Visalia

- should generally support the agreement, but not the rate increase for the Visalia District. The Commission has not yet been informed of any formal action on the part of the city to staff's recommendation.
- The County of Kern (for ratepayers in the Bakersfield and Kern River Valley Districts) is considering a recommendation from county staff that the county should generally support the agreement, but not the rate increase for the Bakersfield and Kern River Valley Districts. The Commission has not yet been informed of any formal action on the part of the county to staff's recommendation.
  - Timothy Groover-Merrick (customer in the Kern River Valley District) generally supports the Settlement but not the rate increase proposed for the Kern River Valley District.
  - The Leona Valley Town Council (for customers in the separately-tariffed Leona Valley area of the Antelope Valley District) supports the portions of the Settlement relating to affordability, consolidation, main replacement, and issues specific to Leona Valley.
  - Jeffrey Young (customer in the Coast Springs area of the Redwood Valley District) supports the portions of the Settlement relating to affordability, consolidation, main replacement and issues specific to the Coast Springs District.
  - The County of Lake (for ratepayers in the Lucerne ratemaking area of the Redwood Valley District) supports the Affordability, Rate Design and Redwood Valley - Lucerne portions of the Settlement, but expresses concern that settlement on these issues does not directly address the general affordability concerns caused by the successive water rate increases on Lucerne residents.
  - The City of Bakersfield opposes the Settlement, primarily as it pertains to rate increases in the Bakersfield and Kern River Valley Districts and the cost recovery issue pertaining to the South Bakersfield Water Treatment Plant.

The Commission could have resolved the disputed issues in favor of any of the parties. Accordingly, the Settling Parties have balanced a variety of issues of importance to them and have agreed to the Settlement as a reasonable means by which to resolve the issues. For the reasons discussed above, the Settlement is reasonable in light of the record as a whole.

### **Consistent with the Law**

There are no terms within the Settlement that would bind the Commission in the future or violate existing law. Therefore, we find the Settlement consistent with the law.

### **In the Public Interest**

There is a public policy favoring settlement of litigated disputes to avoid costly and protracted litigation.<sup>12</sup> The Settlement satisfies this public policy preference for the following reasons:

- a. The sponsors of the Settlement represent the interests of Cal Water and its shareholders as well as Cal Water's customers, the ratepayers.
- b. The Settlement serves the public interest by resolving the competing concerns in a collaborative and cooperative manner.
- c. By reaching agreement, the parties avoid the costs and uncertainties of further litigation in this proceeding, and eliminate the possible litigation costs for rehearing and appeal. Approval of the Settlement provides speedy and complete resolution of the issues.
- d. The Settlement meets the applicable settlement standards of Rule 12.1(d), should be accorded the same deference the Commission accords settlements generally, and should be adopted.

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<sup>12</sup> D.88-12-083, 30 CPUC 2d 189, 221.

Adoption of the Settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the Settlement does not bind or otherwise impose a precedent in this or any other proceeding.

The Settling Parties address and resolved the issues identified in the proceeding. The Settlement terms ensure customers have access to a safe and reliable water supply at a reasonable cost, and Cal Water and its shareholders will receive a reasonable rate of return on their investments. We therefore conclude that the Settlement is in the public interest.

### **Litigated Issues**

The Settlement between Cal Water, ORA and the intervenors did not resolve three issues, which we resolve in this decision. On the litigated issues, we adopt Cal Water's modified request for cost recovery relating to the South Bakersfield Water Treatment Plant, and we require Cal Water to use the methodology adopted in the Rate Case Plan for Class A Water Utilities in filing their advice letters for the escalation / attrition years of 2018 and 2019. We reject Cal Water's request not to use the pro forma earnings test in making these filings, and reject ORA's request to require Cal Water to file Tier 2 advice letters in making these filings.

#### **a. South Bakersfield Water Treatment Plant**

The issue is whether Cal Water should be allowed to recover a portion of the \$4,676,312 in costs incurred between 2008 and 2011 in planning for a possible South Bakersfield Water Treatment Plant (SBWTP) which was never built or put into service. These costs arose as the result of expenses incurred in planning for what Cal Water believed would be a joint project with the City of Bakersfield to build a water treatment plant in south Bakersfield, with both the costs and benefits to be



shared between Cal Water and the City of Bakersfield. After expenditure of these funds, the city notified Cal Water it was no longer interested in the project.

A utility can recover costs incurred in planning for projects which are ultimately abandoned, provided the expenses were reasonable and prudent. Here, California was on the eve of what became a historic drought, and in the Bakersfield area, water is a scarce commodity. Cal Water stopped spending money on this project after it was notified by the City of Bakersfield that they were no longer interested in participating financially in the project, and it was determined to be unfeasible for Cal Water to proceed with the project on its own.

### **Cal Water's Position**

Although Cal Water incurred costs of \$4,676,312.46 in planning for the possible SBWTP, it sought to recover \$3,297,187 amortized over a 10-year period. Cal Water deducted \$1,397,125 earned as return on investment of plant held for future use since 2014 from the total costs to arrive at the \$3.2M figure. After settlement negotiations, Cal Water and ORA agreed Cal Water should request recovery of \$1.6 million, approximately one-half of what Cal Water requested in its application, and approximately one-third of the amount Cal Water spent on the project.

### **ORA's Position**

ORA initially opposed the recovery of the costs Cal Water incurred to plan and design the South Bakersfield WTP project as an extraordinary loss, but settled the issue as part of the comprehensive Settlement Agreement.

### **Intervenors' Positions**

The City of Bakersfield did not formally commit to any form of financial or other partnership with Cal Water regarding the planning of a South Bakersfield Water Treatment Plant. The city considers this to be a project that is not

necessary, practical or feasible, and will not provide any benefit to ratepayers in Bakersfield. The city opposes any cost recovery.

### **Resolution**

We agree with the Cal Water's and ORA's settlement positions. Given the length of time it takes to plan, build and bring a water treatment plant into service, Cal Water's expenditures were reasonable under the circumstances. Cal Water should be allowed to amortize \$1.6 million of costs over a 10-year period, with the unamortized balance earning Cal Water's cost of debt.

#### **b. Escalation Year Adjustments for 2018 and 2019**

The parties did not settle upon specific escalation/attrition year adjustments and procedures for the second and third years of the GRC period.

### **Cal Water's Position**

Cal Water does not oppose ORA's recommendation that Cal Water file advice letters in each of its 23 districts for 2018 and 2019, even if the filing contemplates a "zero" rate change. Cal Water argues these should be Tier 1 rather than Tier 2 advice letters, as has been the practice. In escalation filings, Tier 1 advice letters are effective 45 days after filing.

Cal Water disagrees with ORA's contention that in districts that "fail" the pro forma earnings test, revenue requirements and rates would have to be adjusted downward, rather than simply deferring an escalation adjustment. The Commission's Rate Case Plan does not require a company to implement rate reductions in the event a utility's pro forma rate of return exceeds its authorized rate of return for the subject 12-month period. Rather, the RCP limits Commission-approved escalation year increases to those districts that are not already over-earning.

### **ORA's Position**

ORA contends that Cal Water should be required to file escalation / attrition advice letters for each of its 23 districts, regardless of whether the filing results in an increase or decrease in tariff rates. Cal Water's proposal to exclude the pro forma earnings test and adopt fixed amounts in its escalation/attrition filings should be rejected.

### **Intervenors' Positions**

The City of Bakersfield did not offer an alternative ratemaking proposal for the South Bakersfield WTP in its testimony, but generally opposed any increase in water rates affecting Cal Water's Bakersfield and Kern River Valley customers.

### **Resolution**

Because we have not been presented with a compelling reason to do otherwise, we will follow the procedures we set forth in the Rate Case Plan for Class A Water Utilities<sup>13</sup> for the filing of escalation and attrition year advice letters for 2018 and 2019. Escalation Years 1 and 2 rate increases shall be sought by filing a Tier 1 advice letter no later than 45 days prior to the first day of the escalation year. The advice letter filing shall include all calculations and documentation necessary to support the requested rate change. The requested rate change shall be subject to the pro forma earnings test, as specified in D.04-06-018.

### **Evidentiary Hearings**

As discussed above, on July 18, 2016, evidentiary hearings were held in the Commission's San Francisco courtroom on the issue of whether Cal Water

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<sup>13</sup> D.07-05-062.

should be permitted to recover all or part of the planning costs for a Bakersfield Water Treatment Plant which was not previously authorized by the Commission, and which Cal Water no longer plans to pursue.

### **Outstanding Motions for Commission Consideration**

On October 3, 2016, Cal Water, ORA, CWUC, the City of Visalia, the Leona Valley Town Council and Jeffrey Young filed a joint motion to correct the proposed Settlement. This motion is granted.

On October 3, 2016, Cal Water and ORA filed a joint motion to accept tariffs and tables associated with the proposed Settlement. This motion is granted.

### **12. Categorization and Need for Hearing**

On July 23, 2015, Resolution ALJ 176-3360 preliminarily determined this application would be categorized as ratesetting and preliminarily determined that hearings would be necessary. We confirm these preliminary determinations.

### **13. Comments on Proposed Decision**

The proposed decision in this matter was mailed to the parties in accordance with § 311 of the Public Utilities Code and comments are allowed pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. Opening comments were submitted by Cal Water and ORA jointly, and by ORA individually. Cal Water submitted reply comments. All comments were reviewed and considered, and minor changes were made to the Proposed Decision.

### **14. Assignment of Proceeding**

Catherine J.K. Sandoval is the assigned Commissioner and Dan H. Burcham is the assigned Administrative Law Judge in this proceeding.

### **Findings of Fact**

1. On July 9, 2015, California Water Service Company filed an application for an order: 1) authorizing it to increase rates for water service by \$94,838,100 or 16.5percent in test year 2017; 2) authorizing it to increase rates on January 1, 2018 by \$22,959,600 or 3.4 percent and on January 1, 2019 by \$22,588,200 or 3.3 percent in accordance with the Commission's Rate Case Plan; and 4) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

2. On September 2, 2016, California Water Service Company, the Office of Ratepayer Advocates, the City of Visalia, the County of Kern, the County of Lake, the Leona Valley Town Council, Timothy Groover-Merrick and Jeffrey Young served and filed a motion to adopt the settlement agreement, resolving many of the issues in the application. The Settlement and supporting documents were served and filed concurrently therewith.

3. The record for the proposed Settlement consists of the application and supporting documents, opening comments, reply comments, testimony of the parties, the exhibit list, the Settlement and corrections to the Settlement, and the attachments to the proposed Settlement.

4. For ratemaking purposes, Cal Water will fully consolidate the Salinas and King City Districts into a new Monterey Region.

5. For ratemaking purposes, Cal Water will fully consolidate the Palos Verdes and Antelope Valley Districts into a new Los Angeles County Region.

6. For ratemaking purposes, Cal Water will effectuate a transitional consolidation of the Redwood Valley (consisting of the Coast Springs, Lucerne and Unified ratemaking areas) and Bayshore Districts into a new Bay Area Region.

7. By way of its application and settlement, California Water Service Company seeks general rate increase in each of its following operating districts and consolidated regions:

- Bay Area Region;
- Bakersfield;
- Bear Gulch;
- Chico;
- Dixon;
- Dominguez;
- East Los Angeles;
- Hermosa Redondo;
- Kern River Valley;
- Livermore;
- Los Altos;
- Los Angeles County Region;
- Marysville;
- Monterey Region;
- Oroville;
- Selma;
- Stockton;
- Visalia;
- Westlake; and
- Willows.

8. The parties to the Settlement adopted by this decision have a sound and thorough understanding of the issues and all of the underlying assumptions and data and could, therefore, make informed decisions in the settlement process.

9. The Settlement is a balance between the original positions of the parties and the positions agreed upon in settlement.

10. Cal Water meets all applicable water quality requirements.

11. The Settlement will enable Cal Water to continue to provide a safe, reliable source of water at reasonable prices.

12. Cal Water's pilot Sales Reconciliation Mechanism (SRM), previously authorized by the Commission, will remain in place as a pilot program for this GRC cycle, subject to review in Cal Water's next GRC.

13. Cal Water's current Water Revenue Adjustment Mechanism (WRAM) will remain in place through this GRC cycle.

### **Conclusions of Law**

1. The applicant alone bears the burden of proof to show that its requests are reasonable.

2. Rule 12.1(d) provides that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law and in the public interest.

3. The proposed Settlement fairly balances the interests of the utility and the ratepayers.

4. The Settlement is reasonable in light of the whole record because it fairly represents the interests of the utility, its shareholders and ratepayers.

5. The Settlement is reasonable in light of the whole record because the parties to the Settlement have a thorough understanding of the issues and could make informed decisions during the settlement process.

6. The Settlement is consistent with the law because its terms and conditions do not violate existing law.

7. The Settlement is consistent with the law because it does not bind the Commission in any future proceeding.

8. The Settlement is in the public interest because it satisfies the public interest of settling litigated disputes.

9. The Settlement is in the public interest because it resolves the competing concerns of the parties in a collaborative and cooperative manner.

10. Adoption of the Settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the Settlement does not bind or otherwise impose a precedent in this or any future proceeding. Cal Water must not presume in any subsequent application that the Commission would deem the outcome adopted herein to be presumed reasonable and it must, therefore, fully justify every request and ratemaking proposal without reference to, or reliance on, the adoption of the Settlement.

11. The proceeding should be closed.

## **O R D E R**

### **IT IS ORDERED** that:

1. The motion to adopt the settlement agreement between California Water Service Company, the Office of Ratepayer Advocates, the California Water Utility Council (the Utility Workers Union of America, AFL-CIO), the City of Visalia, the County of Kern, the County of Lake, Mr. Timothy Groover-Merrick, the Leona Valley Town Council and Mr. Jeffrey Young, filed on September 2, 2016, is granted. The Settlement agreement and attachments to the motion, are attached as Exhibit A to this decision, and adopted.

2. The motion to correct the settlement agreement between California Water Service Company, the Office of Ratepayer Advocates, the California Water



Utility Council (the Utility Workers Union of America, AFL-CIO), the City of Visalia, the County of Kern, the County of Lake, Mr. Timothy Groover-Merrick, the Leona Valley Town Council and Mr. Jeffrey Young, filed on October 3, 2016, is granted.

3. The joint motion of California of California Water Service Company and the Office of Ratepayer Advocates to Accept Tariffs and Tables Associated with the settlement agreement attached to this decision as Exhibit A, filed on October 3, 2016, is granted.

4. Within 60 days of the effective date of this decision, California Water Service Company is authorized to file Tier 1 advice letters with revised tariff schedules in compliance with this decision for each district and rate area in this proceeding. The adopted rates for test year 2017 are included as Exhibit D to this decision. This filing shall be subject to approval by the Commission's Division of Water and Audits.

5. Cal Water shall continue its Low Income Ratepayer Assistance (LIRA) program, which provides a discount of 50 percent of the 5/8 inch residential charge. The cap on the monthly LIRA benefit shall increase to \$48 for all districts for this general rate case cycle.

6. The Rate Support Fund (RSF) shall continue as currently implemented, except that it shall be discontinued in the Antelope Valley District, modified in the Kern River Valley District, and temporarily continued in the Redwood Valley District during transitional consolidation, as detailed in the settlement agreement attached to this decision as Exhibit A. All customers will be assessed an RSF surcharge, except for Low Income Ratepayer Assistance customers in an RSF area and fire protection service customers, which are the same exclusions as exist currently. The RSF calculation remains the same as currently approved by the

Commission, with the exception that the Discontinued RSF Quantity Rate is updated to \$5.28 per one hundred cubic feet to correspond to the updated system-wide average rate.

7. The pilot conservation rate design that has been in effect for California Water Service Company since 2008 shall be permanent, without limiting the possibility of future modifications and improvements.

8. California Water Service Company is authorized to hire a Cross-Connection Control Manager, with a salary of up to \$125,000, which shall be treated as a Customer Support Services payroll expense because all customers will benefit from an enhanced cross-connection control program.

9. California Water Service Company is authorized to add a new recycled water tariff for the East Los Angeles District via a Tier 1 advice letter, with the recycled water rate calculated using the non-residential service charge rate in effect at the time the Commission adopts the settlement agreement, attached to this decision as Exhibit A.

10. California Water Service Company shall include capitalized financing costs of its projects in project totals consistent with California utility industry practices approved by the Commission and the Commission's Uniform System of Accounts.

11. California Water Service Company shall keep the currently approved drought Sales Reconciliation Mechanism in place as a pilot for this general rate case (GRC) cycle, to be reviewed in the next GRC cycle.

12. California Water Service Company's Sales Reconciliation Mechanism Balancing Account (Preliminary Statement AR) is removed from the utility's tariff.

13. California Water Service Company is authorized to implement a Balanced Payment Plan with the same conditions specified in its 2012 General Rate Case settlement (Decision 14-08-011, Exhibit A (Settlement Agreement) at 26-27).

14. California Water Service Company is authorized to modify its Tariff Rule 15 as it pertains to Water Supply Fees, via a Tier 1 advice letter consistent with the terms and conditions of the settlement agreement, attached to this decision as Exhibit A.

15. To the extent that other matters before the Commission impact the rates or tariffs adopted in this decision, California Water Service Company is authorized to incorporate those outcomes into the tariffs implemented for this General Rate Case, consistent with the terms and conditions of the settlement agreement, attached to this decision as Exhibit A.

16. California Water Service Company is authorized to incorporate into the calculation of new rates any revenue requirement changes approved by the Commission after the July 9, 2015, filing of this General Rate Case application, and to notify customers of such changes via a bill insert utilizing language similar to that specified in the settlement agreement, attached to this decision as Exhibit A.

17. California Water Service Company is authorized to modify or eliminate its memorandum and balancing accounts consistent with the terms and conditions of the settlement agreement, attached to this decision as Exhibit A.

18. California Water Service Company is authorized to refund \$74,307 from the Credit Card Pilot Program Memorandum Account to customers as a credit via the filing of a Tier 2 advice letter. When the amortization is complete, and the remaining amounts are rolled into the District-Specific Balancing Accounts,

California Water Service Company may file a Tier 1 advice letter to eliminate Preliminary Statement J2.

19. California Water Service Company is authorized to add a tariff for temporary metered service via a Tier 1 advice letter that is substantially similar to Attachment 6 of the settlement agreement, attached to this decision as Exhibit A.

20. California Water Service Company is authorized, through its tariff for temporary metered service, to collect a \$2,400 deposit for a hydrant meter with a backflow assembly for preventing cross-connections.

21. California Water Service Company is authorized to implement a new tariff, applicable to all areas, that applies to all fire protection services, for governmentally and privately owned properties receiving service for on-site fire sprinklers, stand pipes, fire hydrants, or any other fire protection system that is not owned and maintained by the utility, but are connected to the water system for fire protection purposes only, which eliminates the Public Fire Hydrant Tariffs and consolidates all other fire protection tariffs under a single Schedule.

22. California Water Service Company is authorized to add a modified Rule 15 regarding main extensions via a Tier 1 advice letter that is substantially similar to the draft provided in Attachment 6 of the settlement agreement, attached to this decision as Exhibit A.

23. California Water Service Company is authorized to recover \$1,600,000 of the costs incurred in planning for the South Bakersfield Water Treatment Plant, these costs to be amortized over a 10-year period.

24. Within 60 days of the adoption of this decision, Cal Water is authorized to file a Tier 2 Advice Letter to amortize the \$1,627,008 balance in the East Los Angeles Memorandum Account (Preliminary Statement AQ) for the

Tubeway Property carrying costs. The Balance shall be amortized in accordance with Commission Standard Practice U-27-W.

25. For rate increases for the escalation years 2018 and 2019, California Water Service Company is authorized to file a Tier 1 advice letter pursuant to the terms and conditions of the Rate Case Plan for Class A Water Utilities, found in Decision 07-05-062, including the use of the pro forma earnings test specified in that decision.

26. Application 15-07-015 is closed

This order is effective today.

Dated December 15, 2016, at San Francisco, California.

MICHAEL PICKER

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

CARLA J. PETERMAN

LIANE M. RANDOLPH

Commissioners