

**BEFORE THE PUBLIC UTILITIES COMMISSION**

**OF THE STATE OF CALIFORNIA**

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by \$34,559,200 or 16.29% in the year 2018, by \$8,478,500 or 3.43% in the year 2019, and by \$7,742,600 or 3.03% in the year 2020.

A.16-07-002  
(Filed July 1, 2016)

**CALIFORNIA-AMERICAN WATER COMPANY'S  
REPLY COMMENTS ON PROPOSED DECISION**

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**TABLE OF CONTENTS**

	<u>Page</u>
I. INTRODUCTION .....	1
II. PUBLIC ADVOCATES OFFICE COMMENTS.....	1
A. Cal PA’s comment on the application of the relevant standard of review is unsupported.....	1
B. Cal PA’s proposed 1% productivity factor was properly denied in the PD .....	1
C. Cal PA’s arguments regarding engineering overhead are unsupported .....	2
D. Cal PA’s arguments against CAW’s Special Request #2 for a Group Insurance Balancing Account should be rejected.....	3
E. Cal PA’s request for onerous requirements on invoices is unnecessary and unwarranted.....	3
F. Cal PA’s recommendations on Construction Work in Progress balances was properly denied in the PD .....	4
G. Cal PA’s request for the Commission to address tiered breakpoints for each ratemaking area should be resolved with the adoption of CAW’s proposed tiered breakpoints.....	4
H. Cal PA’s recommendations with respect to the Results of Operation Model are unnecessary and unwarranted .....	4
III. CITY OF THOUSAND OAKS COMMENTS.....	5
A. CTO’s request to extend the protest period and delay the effective date for advice letters in Ordering Paragraphs 40 and 41 of the PD is unwarranted and would harm prejudice CAW’s future GRC filing.....	5
B. CTO’s request for the CPUC to revise the PD to add two new ordering paragraphs regarding CAW’s proposals for consolidation of its Southern Division is unnecessary .....	5
IV. CONCLUSION.....	5

**TABLE OF AUTHORITIES**

**Page(s)**

**CALIFORNIA PUBLIC UTILITIES COMMISSION DECISIONS**

D.04-06-018, Order Instituting Rulemaking on the Commission’s Own Motion to Evaluate Existing Practices and Policies for Processing General Rate Cases and to Revise the General Rate Case Plan for Class A Water Companies, INTERIM ORDER ADOPTING RATE CASE PLAN ..... 1

D.07-05-062, Order Instituting Rulemaking to Consider Revisions to the General Rate Case Plan For Class A Water Companies, OPINION ADOPTING REVISED RATE CASE PLAN FOR CLASS A WATER UTILITIES ..... 2, 5

D.08-01-043, In the matter of the Application of the GOLDEN STATE WATER COMPANY (U133W) for an order authorizing it to increase rates for water service by \$2,812,100 or 32.61% in 2008; by -\$178,700 or -1.51% in 2009; and by \$109,900 or 0.92% in 2010 in its Arden Cordova Customer Service Area, ORDER MODIFYING DECISION (D.) 08-01-043, OPINION GRANTING RATE INCREASES FOR SEVEN DISTRICTS IN THE REGION I SERVICE AREA OF GOLDEN STATE WATER COMPANY 2

D.08-08-031, In the matter of the Application of the GOLDEN STATE WATER COMPANY (U133W) for an order authorizing it to increase rates for water service by \$2,812,100 or 32.61% in 2008; by -\$178,700 or -1.51% in 2009; and by \$109,900 or 0.92% in 2010 in its Arden Cordova Customer Service Area, ORDER MODIFYING DECISION (D.) 08-01-043, GRANTING LIMITED HEARING ON THE RATE BASE ISSUE INVOLVING THE LA SERENA PLANT IMPROVEMENT PROJECT, AND DENYING REHEARING OF THE DECISION, AS MODIFIED, IN ALL OTHER RESPECTS..... 2

**CALIFORNIA PUBLIC UTILITIES COMMISSION GENERAL ORDERS**

General Order 96-B (January 12, 2012) ..... 5

**CALIFORNIA PUBLIC UTILITIES COMMISSION STANDARD PRACTICES**

Standard Practice U-27-W, Standard Practice for Processing Rate Offsets and Establishing and Amortizing Memorandum Accounts (April 16, 2014)..... 3

**CALIFORNIA PUBLIC UTILITIES COMMISSION RULES**

Rule 14.3 ..... 1

## I. INTRODUCTION

Pursuant to Rule 14.3(d) of the California Public Utilities Commission's ("CPUC") Rules of Practice and Procedures, Applicant California-American Water Company ("CAW"), submits reply comments responding to comments by the Public Advocates Office ("Cal PA") and the City of Thousand Oaks ("CTO") on the Proposed Decision of Administrative Law Judges ("ALJs") Park and Lau, issued November 13, 2018 ("PD"), in CAW's General Rate Case ("GRC"). As explained below, many arguments raised by Cal PA and CTO in their respective comments are unpersuasive and should be rejected by the CPUC. Additionally, CAW affirms its concurrence with the arguments presented in the comments filed by the Monterey Peninsula Water Management District and Las Palmas Wastewater Committee, particularly those urging the CPUC to adopt the Monterey Settlement. CAW respectfully urges the CPUC to revise the PD as explained in CAW's opening comments on the PD filed on December 3, 2018.

## II. PUBLIC ADVOCATES OFFICE COMMENTS

### A. Cal PA's comment on the application of the relevant standard of review is unsupported

Cal PA states that the PD "provides a standard of review that is consistent with the Rate Case Plan for Class A Water Utilities (Decision (D.) 04-06-018), is consistent with other Commission precedent, and is generally reasonable and prudent."<sup>1</sup> While some of the general standards of review are properly described in Cal PA's comments, its description of certain standards are misleading or wrong. Cal PA states that "[i]t is improper for Cal-Am to make new requests in its rebuttal testimony as it is prejudicial and does not provide customers with notice of the rate impacts associated with the request."<sup>2</sup> Cal PA cites the PD's improper denial of CAW's request for preliminary planning costs for proposed recycled water projects. As CAW explained in its opening comments, its request is a modification of an earlier request for the greater funding of those projects and therefore was adequately noticed and not prejudicial to other parties.<sup>3</sup> Cal PA also states that "[t]he partial settlement agreements in this proceeding should be rejected because contested settlements should be subject to more scrutiny."<sup>4</sup> However, as discussed in CAW's opening comments, both the Monterey and San Diego settlements should be approved.<sup>5</sup>

### B. Cal PA's proposed 1% productivity factor was properly denied in the PD

Cal PA argues that the CPUC should apply a 1% productivity factor to reduce CAW's expenses in districts where consolidation is approved in this GRC.<sup>6</sup> As CAW has previously explained in its briefs and as the PD notes,<sup>7</sup> Cal PA's across-the-board, general productivity adjustment is neither necessary nor appropriate because CAW **already** accounts for productivity improvements and CAW's estimating methodologies are consistent with the Rate Case Plan, which requires the use of "traditional estimating methodologies (historical averages, trends, and specific

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<sup>1</sup> The Public Advocates Office Opening Comments (December 3, 2018) ("Cal PA Opening Comments"), p. 2.

<sup>2</sup> *Id.*

<sup>3</sup> *California-American Water Company's Opening Comments on Proposed Decision* (December 3, 2018) ("CAW Opening Comments"), pp. 21-22.

<sup>4</sup> Cal PA Opening Comments, p. 2.

<sup>5</sup> CAW Opening Comments, pp. 4-5.

<sup>6</sup> Cal PA Opening Comments, p. 3.

<sup>7</sup> See *Opening Brief of California-American Water Company* (June 6, 2017) ("CAW Opening Brief"), pp. 24-36; PD, p. 36.

test year estimates).”<sup>8</sup> With respect to the consolidation proposals in this GRC specifically, Cal PA asserts that its unsupported 1% figure is the “best estimate for cost savings.”<sup>9</sup> However, CAW has made clear that while the customer benefits justify consolidation, it is taking a gradual and reasonable approach towards that effort to avoid rate shock issues.<sup>10</sup> Thus, the consolidation proposals in this GRC are modest steps that will, for now, only result in minimal to no net regulatory or administrative cost savings.<sup>11</sup> Even if Cal PA’s productivity factor were warranted (which it isn’t), the universal 1% figure it recommends is well in excess of any net savings, if any, likely from the actual consolidation proposals in this GRC.<sup>12</sup> The PD already properly rejected these same arguments that Cal PA now raises again in its comments – the CPUC should affirm the PD’s rejection of Cal PA’s productivity factor.

**C. Cal PA’s arguments regarding engineering overhead are unsupported**

Cal PA reiterates its arguments that CAW’s engineering overhead expense should be reduced for any capital projects that the CPUC disallows.<sup>13</sup> However, Cal PA relies upon the unsupported assumption that these costs would be eliminated if there were a reduction in capital projects. As CAW has explained, the vast majority of the engineering overhead (86.59% of the total costs for 2018-2019) are for labor and benefits and should be treated as fixed costs. Thus, a major decrease in engineering overhead would require CAW to either lay off currently employed engineers and construction staff (whose positions were approved in prior GRCs) or charge engineering time to operations and maintenance expense (which would require over \$2 million increase in labor and benefits expense to be recovered in rates immediately in 2018 and 2019, which the PD does not provide for).<sup>14</sup> Cal PA’s recommendation would further exacerbate the significant underfunding of CAW’s workforce caused by the PD’s flawed labor expense forecast analysis, which forces an estimated 6.72% decrease to CAW’s existing 2016 base salaries along with other disallowances in order to achieve the stated total payroll expense.<sup>15</sup> Additionally, Cal PA’s recommended proportional reduction, which assumes a linear relationship between engineering overhead and work that could be completed, fails to take into account any benefit from economies of scale.<sup>16</sup> The PD has already rejected Cal PA’s same arguments on engineering overhead, finding instead that CAW’s methodology for engineering overhead is reasonable, provides for automatic adjustments in the results of operation (“RO”) model, and was previously authorized for Golden State Water Company.<sup>17</sup> The CPUC should affirm the PD’s rejection of Cal PA’s recommended reductions to engineering overhead.

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<sup>8</sup> D.07-05-062, Attachment A, p. A-24 fn.7.

<sup>9</sup> Cal PA Opening Comments, p. 3.

<sup>10</sup> Exh. CAW-2, Chew Direct, p. 27.

<sup>11</sup> CAW Opening Brief, pp. 32-33 (explaining the minimal extent of cost savings from consolidation proposals in this GRC).

<sup>12</sup> *Id.*

<sup>13</sup> Cal PA Opening Comments, pp. 4-6.

<sup>14</sup> CAW Opening Brief, pp. 115-116.

<sup>15</sup> See e-mail from Demetrio Marquez (CAW) to Commissioner Guzman-Aceves & Advisor Adenike Adeyeye (December 7, 2018, 3:02 PM) (providing comparison of labor positions in workpapers demonstrating a 6.72% salary reduction caused by the PD). This e-mail was served to the entire service list in this proceeding.

<sup>16</sup> CAW Opening Brief, p. 116.

<sup>17</sup> PD, pp. 142-144, *citing* D.08-01-043, p. 33; D.08-08-031, p. 5

**D. Cal PA's arguments against CAW's Special Request #2 for a Group Insurance Balancing Account should be rejected**

Cal PA argues that “[t]he PD should be modified to reject Cal Am’s request to establish a new group insurance balancing account.”<sup>18</sup> Its recommendation rests on three points, all of which are unsupported. First, Cal PA asserts that while insurance costs have varied greatly, there are other expenses that have varied by a greater percentage over five years that do not have balancing accounts.<sup>19</sup> This argument fails to acknowledge the possibility that those other expenses may not meet one of the required bases for balancing account treatment beyond variability or may also warrant a balancing account as well.<sup>20</sup> Second, Cal PA argues that balancing account treatment is no longer warranted because “the significant change in the uncertainty surrounding the [Affordable Care Act (“ACA”)] repeal since testimony was served.”<sup>21</sup> The potential repeal of the ACA is not the only source of uncertainty and volatility in insurance costs that CAW or the PD rely upon to find balancing account treatment appropriate.<sup>22</sup> Moreover, Cal PA provides no evidence in support of its assertion beyond the simple allegation in its comments. Lastly, Cal PA argues that “authorizing this request removes the company’s incentive to negotiate for and/or select reasonably priced group insurance.”<sup>23</sup> This also is false. CAW may only record costs in balancing accounts if they were reasonably and prudently incurred. Therefore, CAW has great incentive to negotiate for and select reasonable price group insurance or risk having such costs disallowed. For these reasons, the CPUC should ignore Cal PA’s arguments against the Group Insurance Balancing Account granted in the PD.

**E. Cal PA's request for onerous requirements on invoices is unnecessary and unwarranted**

Cal PA asserts that “[t]he Commission must require Cal Am to adopt a system for distinguishing between invoices in its submittals” and concludes that “the PD should be revised to require Cal Am to assign unique identifiers to purchase orders and invoices.”<sup>24</sup> In reality, what Cal PA is recommending is a substantial and expensive change to Cal-Am’s accounting system – all while Cal PA simultaneously recommends major reductions to service company allocation, service company labor expenses, CAW’s payroll expenses, and regulatory expenses, all of which are related directly or in part to CAW’s information systems necessary to complete such a task.<sup>25</sup> Cal PA does not provide an estimate of the costs necessary to make such an upgrade, and certainly does not provide recovery for such changes, therefore the CPUC should reject Cal PA’s argument.<sup>26</sup>

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<sup>18</sup> Cal PA Opening Comments, p. 7.

<sup>19</sup> *Id.*, pp. 6-7.

<sup>20</sup> See Standard Practice U-27-W (“In order to qualify for memo account treatment, the costs must be due to events of an exceptional nature that: a. are not under the utility’s control, b. could not have been reasonably foreseen in the utility’s last general rate case, c. and that will occur before the utility’s next scheduled rate case, d. are of a substantial nature such that the amount of money involved is worth the effort of processing a memo account and e. have ratepayer benefits.”) (footnotes omitted).

<sup>21</sup> Cal PA Opening Comments, p. 7.

<sup>22</sup> See, e.g., Exh. CAW-5, Linam Direct, pp. 23-29 (discussing a number of different factors causing variability in insurance costs including, but not limited to, variability in medical costs, inflationary expectations, and changes in the economy).

<sup>23</sup> Cal PA Opening Comments, p. 7.

<sup>24</sup> *Id.*, p. 8.

<sup>25</sup> *California-American Water Company’s Response to the Office of Ratepayer Advocates’ Report on the Los Padres Dam Fish Passage Project* (November 20, 2017), pp. 9-10.

<sup>26</sup> *Id.*, p. 10.

**F. Cal PA's recommendations on Construction Work in Progress balances was properly denied in the PD**

The PD properly found Cal PA's recommendation on Construction Work in Progress ("CWIP") balances to be unprecedented and insufficiently justified.<sup>27</sup> In its comments, Cal PA now argues that "[i]f the Commission does not agree that the amounts in CWIP should be limited to those aged one year or less [as recommended by Cal PA], the Commission should choose a reasonable timeframe for costs to remain in CWIP, and disallow projects from earning a return that remain unfinished for longer than that timeframe."<sup>28</sup> The PD has actually already done so. However, rather than set a single arbitrary number of years for all projects as recommended by Cal PA, the PD instead looks at the actual circumstances of each project and found "that a reasonable approach to addressing [Cal PA's] concerns regarding costs in CWIP that are aged several years is to examine the status of the projects that remain in CWIP and to remove projects as warranted."<sup>29</sup> While CAW disagrees with the PD's removal of particular projects from CWIP, the PD's general approach on CWIP is consistent with the Commission principle that "[i]f work on a project continues to proceed at a reasonable pace and money is regularly being booked to the project, it may be reasonable for costs associated with the project to remain in CWIP."<sup>30</sup>

**G. Cal PA's request for the Commission to address tiered breakpoints for each ratemaking area should be resolved with the adoption of CAW's proposed tiered breakpoints.**

Cal PA states that "[i]n order to provide accurate tariff sheets and customer rates, the PD should adopt Tier Breakpoints for each ratemaking area."<sup>31</sup> CAW recommends that the CPUC adopt its recommended tiered breakpoints for its Northern and Central Divisions from its testimony.<sup>32</sup> The CPUC should also adopt the tiered breakpoints in the San Diego Settlement in approving CAW's proposal to consolidate its Southern Division.<sup>33</sup>

**H. Cal PA's recommendations with respect to the Results of Operation Model are unnecessary and unwarranted**

Cal PA asserts that there are issues regarding CAW's RO model and recommends the CPUC, in the event that the RO model fails to produce accurate results, use "an alternative method that provides an accurate revenue requirement" instead.<sup>34</sup> Cal PA also recommends that the PD be revised to order all-party meetings to review the RO model outputs when CAW implements new tariffs.<sup>35</sup> These measures are unnecessary and unwarranted. CAW has already addressed specific issues related to the results generated by its RO model in Appendix B to its opening comments on the PD.<sup>36</sup> The CPUC's Water Division also held a technical conference to review the rates generated by the RO model on December 10, 2018. Additionally, the advice letter process already provides for Water Division

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<sup>27</sup> PD, p. 194.

<sup>28</sup> Cal PA Opening Comments, p. 10.

<sup>29</sup> PD, p. 194.

<sup>30</sup> *Id.*

<sup>31</sup> Cal PA Opening Comments, p. 10.

<sup>32</sup> Exh. CAW-2, Chew Direct, pp. 30 (Northern Division breakpoints), 40 (Central Division breakpoints).

<sup>33</sup> *Joint Motion for adoption of a Partial Settlement Agreement between California-American Water Company and the City of Coronado on San Diego Issues in the General Rate Case* (August 18, 2018), Exhibit A ("San Diego Settlement"), p. 9.

<sup>34</sup> Cal PA Comments, p. 12.

<sup>35</sup> *Id.*, pp. 13-14.

<sup>36</sup> *Administrative Law Judges' Ruling Noticing Water Division Technical Conference* (November 28, 2018).

review and the opportunity to submit protests. Cal PA's vague recommendation to use an "alternative method" is ill-defined and not reasonable. The CPUC should therefore reject Cal PA's recommendations.

### III. CITY OF THOUSAND OAKS COMMENTS

#### A. CTO's request to extend the protest period and delay the effective date for advice letters in Ordering Paragraphs 40 and 41 of the PD is unwarranted and would harm prejudice CAW's future GRC filing

CTO requests that the Commission revise Ordering Paragraphs 40 and 41 of the PD to extend the protest period for the required advice letter to be filed from 20 to 40 days and delay the effective date from 45 to 65 days.<sup>37</sup> These measures are unnecessary. The PD, including detailed appendices regarding individual costs and the extensive testimony in this proceeding, has provided CTO adequate information regarding the basis of CAW's new rate. As described above, CAW provided clarifications regarding the RO model and the CPUC has held a technical conference to resolve issues. The CPUC's Water Division is already well equipped to review the calculations and documentation associated with CAW's anticipated advice letter within the time provided for under General Order 96-B. Moreover, CAW is already requesting that the time to file the advice letter described in these ordering paragraphs be extended from 30 days to 90 days on the basis that the 30-day deadline is not feasible due to the difficult calculations and the sequential processing required.<sup>38</sup> When combined with CTO's additional request for more time, this begins to push the effective date of new rates very close to CAW's next proposed GRC filing in July 2019 pursuant to the Rate Case Plan schedule,<sup>39</sup> thus depriving CAW and the CPUC of valuable data regarding the impact of rates developed in this GRC that CAW needs to support its request in the subsequent GRC. Therefore, the CPUC should revise Ordering Paragraphs 40 and 41 **only** to extend the time to file the advice letter to 90 days.

#### B. CTO's request for the CPUC to revise the PD to add two new ordering paragraphs regarding CAW's proposals for consolidation of its Southern Division is unnecessary

CTO recommends that the CPUC add two new ordering paragraphs to the PD "effectuating the language in the PD's text and the quoted conclusions of law" regarding CAW's proposals to consolidate its Southern Division.<sup>40</sup> The two additional ordering paragraphs proposed are unnecessary because the CAW would not alter the rate design for any district (including Ventura District) contrary to what is already clearly directed in the PD.

### IV. CONCLUSION

CAW respectfully asks that the CPUC revise the PD as explained in CAW's opening comments on the PD.

December 10, 2018

Respectfully submitted,

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<sup>37</sup> CTO Opening Comments, pp. 4-6.

<sup>38</sup> CAW Opening Comments, p. 25.

<sup>39</sup> D.07-05-062, Appendix A, p. A-2.

<sup>40</sup> CTO Opening Comments, p. 6.