

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.

Application 16-07-002
(Filed July 1, 2016)

REPLY COMMENTS OF THE PUBLIC ADVOCATES OFFICE

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December 10, 2018

Pursuant to Rule 14.3 of the California Public Utilities Commission’s (Commission) Rules of Practice and Procedure, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), formerly the Office of Ratepayer Advocates,¹ hereby submits these reply comments on the proposed decision (PD). These reply comments identify misrepresentations of fact presented in the opening comments of California American Water Company’s (Cal Am) opening comments (Cal Am’s Comments).

I. CAL AM’S COMMENTS ARE UNSUPPORTED

In its opening comments, Cal Am reiterates numerous statements from its opening brief that are unsupported and wholly, speculative.² Among other things, Cal Am contends:

- “[U]nion employees *may* have opportunities for certification pay or overtime, which are not available to non-union employees.”³
- “While the salary escalation for union employees may be lower, these employees *may* have the opportunities to earn more in other ways.”⁴
- “The PD inappropriately and unjustifiably narrows the applicability of a reasonable compromise in a way that *could* discourage settlements.”⁵
- “[T]he PD’s prospective reallocation of such costs [IT-related plant costs] *may* result in a normalization violation.”⁶
- “[I]mplementation of the TCJA *may* require significant changes to the PowerPlant fixed asset system.”⁷

By relying on conjecture and speculation instead of facts presented in the record of this proceeding, Cal Am further demonstrates that it has not met its burden of proof.

The PD appropriately finds that “as the applicant, Cal-Am bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair. The utility ‘has the burden of affirmatively establishing the reasonableness

¹ The Office of Ratepayer Advocates was renamed the Public Advocates Office of the Public Utilities Commission pursuant to Senate Bill No. 854, which was signed by the Governor on June 27, 2018 (Chapter 51, Statutes of 2018).

² These statements are fully addressed in the Reply Brief of the Office of Ratepayer Advocates to California-American Water Company’s Opening Brief in Application 16-07-002, filed June 20, 2017.

³ Cal Am’s Comments at p. 3, emphasis added.

⁴ Ibid, emphasis added.

⁵ Ibid, emphasis added.

⁶ Ibid at p. 17, emphasis added.

⁷ Ibid at p. 19, emphasis added.

of all aspects of its application. Intervenors do not have the burden of proving the unreasonableness of [the utility's] showing.⁸ After acknowledging this as the appropriate standard of review, the PD presents a thorough and detailed analysis of all of the issues in this proceeding, consistently relying on the record to justify its findings, and appropriately denies requests for which Cal Am does not adequately meet this review standard.

II. CAL AM FAILS TO PROVIDE SUFFICIENT JUSTIFICATION FOR ITS ADVANCED METERING INFRASTRUCTURE PROPOSAL.

Cal Am argues that the PD incorrectly rejects its requests for Advanced Metering Infrastructure (AMI),⁹ claiming that rejecting its request will “hinder CAW’s [Cal Am’s] ability to further the State goals of wiser water use and eliminating water waste.”¹⁰ However, Cal Am fails to provide any justification for this claim.. Though Cal Am has existing pilot programs for AMI,¹¹ it provided no evidence regarding the extent to which AMI implementation encourages wiser water use and/or eliminates water waste.¹² In an attempt to excuse its lack of evidence, Cal Am recommends that, if the PD does not allow for AMI, “the PD should eliminate the requirement to provide a detailed cost-benefit analysis in future AMI requests.”¹³

The PD appropriately finds that “it is incumbent upon Cal-Am to provide the information necessary for the Commission to evaluate the reasonableness of its requests.”¹⁴ The PD correctly states that Cal Am has “the burden of affirmatively establishing that its proposed project is just and reasonable, which would include consideration of the cost effectiveness of the project and whether it provides a benefit to ratepayers.”¹⁵ The PD refers to the Rate Case Plan for guidance, and finds that it “requires all significant capital additions to be identified and justified, including need analysis, cost comparison and evaluation, conceptual designs, and overall budget.”¹⁶ The PD accurately finds that Cal-Am failed to demonstrate that its AMI proposal is cost-effective and

⁸ PD at p. 10.

⁹ Cal Am Comments at p. 20.

¹⁰ Ibid.

¹¹ PD at p. 134.

¹² The Public Advocates Office’s Opening Brief at pp. 69-72 and Reply Brief at pp. 36-37.

¹³ Cal Am’s Comments at p. 21.

¹⁴ PD at p. 11.

¹⁵ PD at p. 136.

¹⁶ Ibid.

that the potential benefits justify the requested costs, because CalAm did not provide any cost-benefit analysis, did not provide any quantification of benefits, and did not fully account for all costs.¹⁷

III. CAL AM INCORRECTLY CLAIMS IT CAN NOT MOVE FORWARD ON PROJECTS WITHOUT PRIOR FUNDING

In regards to AMI pilot programs and planning for recycled water projects, Cal Am incorrectly claims that it is unable to move forward on projects without the authorization of its funding requests.¹⁸ Nothing in the PD precludes or discourages Cal Am from moving forward with recycled water projects or continuing its AMI pilot programs.

In regards to the recycled water projects, Cal Am itself admits that “preliminary steps... can take an estimated 2 to 3 years.”¹⁹ By requesting funding for these projects, Cal Am suggests a “pay as you go” process for these projects, whereby projects remain in ratebase for years before becoming used and useful to ratepayers. Cal Am will be able to collect all just and reasonable expenditures incurred both in planning these recycled water projects and with its AMI pilot programs when costs are capitalized and placed in ratebase as used and useful infrastructure.

Additionally, it is important to note that Cal Am’s request for recycled water planning dollars was improperly presented in rebuttal testimony rather than in its application.²⁰ The PD appropriately finds that “it is prejudicial and improper for Cal-Am to make new requests in its rebuttal testimony,”²¹ as consideration of the new information would be prejudicial to parties,²² and does not provide customers notice of the rate impacts associated with the request.²³

IV. CAL AM PROVIDES MISLEADING STATEMENTS

Cal Am provides numerous misleading and inaccurate statements in its discussion of the PD’s authorized expensed labor. Cal Am claims that “[t]he PD would take away funding for

¹⁷ PD at pp. 136-140.

¹⁸ Cal Am Comments at p. 20 and 22.

¹⁹ Ibid at p. 22.

²⁰ PD at p. 141.

²¹ PD at p. 11.

²² Ibid.

²³ PD at p. 141, citing D.04-03-039.

multiple existing employees, including long-standing union positions,”²⁴ “effectively reducing the workforce headcount significantly.”²⁵ Contrary to Cal Am’s claims, the PD does not “take away” any funding, but instead authorizes a labor expense budget for TY 2018 that is 7.7% higher than Cal Am’s 2015 recorded labor expenses (the most recent in the record).²⁶ The PD does not restrict or determine how Cal Am allocates this labor expense budget. The calculation of the labor expenses utilizes 2015 recorded data and escalates it 2.5% per year to arrive at a 2018 Test Year amount.²⁷ The PD utilizes the highest union negotiated wage increase for all payroll (2.5%) despite the fact that some unions have a lower negotiated wage increase.²⁸

Cal Am also claims that it “presented substantial evidence” for its claimed new and transferred positions.²⁹ However, Cal Am’s citations for each of these claims produce little to no evidence beyond general statements regarding new and transferred employees.³⁰ For example, Cal-Am did not provide any details regarding the costs of each of these positions, which are necessary for the Commission to examine.”³¹ The PD accurately determines that “there is inadequate record evidence regarding these new and transferred positions, and therefore, the Commission cannot determine the reasonableness of these changes.

Cal Am also provides additional misleading statements regarding the PD’s treatment of incentive compensation initiatives. For example, Cal Am states “the PD orders unwarranted reductions to CAW’s annual performance plan, long-term incentive plan and employee stock purchase plan benefits by 50%, 85% and 100%, respectively.”³² However, the PD does not reduce any of these benefits. The PD requires that Cal Am shareholders fund a portion of these

²⁴ Cal Am Comments at p. 1.

²⁵ Ibid.

²⁶ Escalating the recorded amounts by 2.5% a year for 3 years, as authorized by the PD, results in a 7.7% increase from recorded year 2015 to TY 2018.

²⁷ PD at p. 74.

²⁸ Existing union contracts specify payroll increases of 2.25% - 2.5% (PD at p. 72).

²⁹ Cal Am Comments at p. 2.

³⁰ Two footnotes cite to Exhibit CAW-29 at p. 4, which states “ORA’s analysis omits transfers of former American Water Works Service Company, Inc. personnel to California American Water, new employees hired in existing districts, employee additions from acquisitions, and changes to overtime” with no further detail, costs, or references. One footnote cites to Exhibit CAW-11 at p. 19-21, which provides a description of new positions and their claimed necessity, with no further justification, costs, or references.

³¹ PD at pp. 73-74.

³² Cal Am Comments at p. 2.

initiatives, after finding that Cal Am's performance goals benefit both shareholders and ratepayers.³³ Notably, the PD cites to three recent Commission decisions that treated these expenses in a similar fashion.³⁴ Thus the PD appropriately reduces the amount ratepayers contribute to these items, finds shareholders should fund the remaining portion and keeps total Employee Compensation the same.

V. THE PD'S AUTHORIZED LABOR EXPENSES FOR TY 2018 NEEDS CLARIFICATION IN ORDER TO ALLOW FOR A MEANINGFUL COMPARISON WITH CAL AM'S REQUEST.

The PD's authorized labor expenses and Cal Am's requested labor expenses for TY 2018 need clarification in order to allow for a meaningful comparison between the two amounts. Specifically, it is unclear if the \$20, 570, 668 discussed in the PD's dicta for authorized labor expense and the \$24.35 million stated for Cal Am's requested labor expense include capitalized credits and overtime. In the RO Model, the PD's authorized total for Labor, Capitalized Credits, and Overtime is \$20,596,885,³⁵ while the corresponding total for Cal Am's request is \$22,603,533.³⁶ These amounts provide the appropriate comparison of authorized to requested labor expenses, and notably show a smaller differential of authorized to requested labor expenses than that discussed in the dicta.³⁷

VI. CONCLUSION

For the reasons stated herein, Cal Am's unsupported, misleading, and inaccurate statements misrepresent the facts and should therefore be given no weight. The PD should also clarify the comparison of authorized labor expenses for TY 2018 to remove any ambiguity.

³³ PD at p. 74.

³⁴ PD at p. 71.

³⁵ Utilizing the methodology authorized by the PD for calculating Labor Expense, and the corresponding Water Division inputs (with inputs checked for accuracy by the Public Advocates Office).

³⁶ Utilizing Cal Am's requested amounts for Labor Expense in the RO Model (in both its 100 day update, as well as in its RO Model that incorporates tax law changes).

³⁷ No changes are necessary to the Findings of Fact, Conclusions of Law, or Ordering Paragraphs in regards to this authorized amount, as the authorized revenue requirement provided in Appendix A accurately reflects this total.

Respectfully submitted,

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