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.

THE PUBLIC ADVOCATES OFFICE
OPENING COMMENTS

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APPLICATION 16-07-002

THE PUBLIC ADVOCATES OFFICE
OPENING COMMENTS

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 opening comments on Administrative Law Judges (ALJs) Sophia Park and Elaine Lau’s proposed decision (PD).

The PD proposes to resolve California-American Water Company’s (Cal Am’s) General Rate Case (GRC) Application for Test Year 2018, authorizing a revenue requirement of $221,590,900² for Test Year 2018, and closing the proceeding.

The PD provides a thorough examination of the disputed and undisputed issues in Cal Am’s GRC Application for Test Year 2018, with a standard of review that is reasonable and consistent with Commission precedent. The PD generally includes accurate, succinct summaries of party positions, and provides reasonable resolutions for most of the disputed issues. In general, the PD is balanced and reasonable. However, a

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 As stated in the PD at p. 2, the revenue requirement approved by the PD is based on the results generated by Cal Am’s Results of Operations model.
few areas of the PD require refinement to accurately reflect party positions and ensure reasonable resolutions for all disputed items.

I. THE PD’S STANDARD OF REVIEW IS Reasonable and is CONSISTENT WITH COMMISSION PRECEDENT

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. The PD sets the appropriate standard of review and properly finds:

- Cal-Am bears the burden of proof to show that the regulatory relief it requests is just and reasonable and that Intervenors do not have the burden of proving the unreasonableness of Cal Am’s showing. ³

- Cal Am must provide sufficient information to justify its requests, and that in those instances where it has failed to do so, its requests should be denied. ⁴

- It 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. ⁵

- The partial settlement agreements in this proceeding should be rejected because contested settlements should be subject to more scrutiny. ⁶

II. THE PD REQUIRES REFINEMENT TO ACCURATELY REFLECT PARTY POSITIONS AND ENSURE REASONABLE RESOLUTIONS FOR ALL DISPUTED ITEMS.

The PD presents a thorough and detailed analysis of the numerous issues in this proceeding. However, there are a few areas where party positions are inaccurately stated, and/or the resolution of disputed items is not reasonable in light of the record. These areas are discussed below.

³ See, PD at p. 10.
⁴ See, PD at pp. 11, 136.
⁵ See, PD at pp. 11, 141.
⁶ See PD at p. 12.
A. Anticipated Savings Resulting from Consolidation Should Be Reflected in Authorized Rates

The PD rejects the Public Advocates Office’s recommendation for imputing a 1% productivity factor (adjustment) in instances where district consolidation is approved, stating “Cal-Am does not anticipate any regulatory or administrative savings from the consolidation of its Central or Northern Division during this GRC period.” The PD cites Cal Am’s Opening Brief to support this statement. However, the PD neglects to consider that Cal Am’s own testimony states that the “[b]enefits of a more consolidated system of rates include…lowered administrative and regulatory costs.” Cal Am further argues that “[r]ate consolidation helps lower costs by simplifying the number of tariffs and different rates which lowers the administrative cost to utilities,” and claims that consolidation “may also lower the costs of activities associated with billing.”

Indeed, one of Cal Am’s primary justifications for its consolidation request is that it lowers the administrative cost to utilities, however the PD neglects to pass any anticipated administrative cost savings on to Cal Am’s ratepayers. The cost savings that Cal Am itself anticipates from authorized district consolidations rightfully belong to the ratepayers of these districts, not to Cal Am’s shareholders. While Cal Am has not provided a specific dollar amount for the anticipated administrative cost savings, it has stated that savings are expected. The Public Advocates Office’s recommendation of a 1% adjustment in instances where district consolidation is approved provides a best estimate for cost savings. A 1% adjustment would also serve to incentivize Cal Am to achieve the additional efficiencies it claims as a benefit to district consolidations.

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2 PD at p. 37.
8 Ibid at fn. 94.
8 Exhibit CAW-2 at p. 42.
10 Ibid at p. 49.
11 Ibid at p. 50.
13 Ibid at p. 42-50.
13 For a more detailed discussion of the basis of the 1% estimate, see Exhibit ORA-8 at pp. 10-16.
B. Reallocation of Overhead for Eliminated Projects

Cal-Am proposes to calculate Engineering Overhead by determining an overall engineering overhead amount and then allocating a portion of this overhead to each of its capital projects.\textsuperscript{14} Regardless of the total number of Cal Am’s capital projects, or the total cost of Cal Am’s capital projects, the total engineering overhead amount unreasonably stays the same. The Public Advocates Office recommended the Commission proportionately reduce engineering overhead costs based on reductions made to project costs.\textsuperscript{15} The PD rejects the recommendation of the Public Advocates Office regarding engineering overhead, stating that Cal Am’s proposed methodology is reasonable, since the engineering overhead represents indirect costs, and “indirect costs are fixed costs, which would not be reduced or eliminated based on reduction or elimination of a project’s direct costs.”\textsuperscript{16}

However, the PD’s rationale is refuted by Cal Am’s own testimony. According to Cal Am, the “total engineering overhead costs for labor and benefits represented 86.59% of the total costs for 2018 – 2019. It is these costs that are deemed to be fixed[.].”\textsuperscript{17} The remaining 13.41% of the total engineering overhead costs are variable costs that \textit{would} be reduced or eliminated based on reduction or elimination of a project’s direct costs – contrary to the PD’s finding. The PD erroneously assumes that all costs requested by Cal Am as indirect costs are fixed costs, when Cal Am’s own testimony reveals that this is not the case. The PD notes this discrepancy, stating “it is unclear why Cal-Am then asserts that 86.59% of the total [engineering overhead] costs for 2018-2019 should be deemed fixed costs…Cal-Am distinguishes between engineering overhead, which includes indirect project costs, and direct overhead, which is charged to a specific project.”\textsuperscript{18} The PD’s citation to Cal Am’s testimony provides additional insight. Cal Am

\begin{itemize}
\item \textsuperscript{14} PD at p. 142.
\item \textsuperscript{15} “Opening Brief of the Office of Ratepayer Advocates” at p. 86.
\item \textsuperscript{16} PD at p. 144.
\item \textsuperscript{17} Exhibit CAW-26 at p. 5.
\item \textsuperscript{18} PD at fn. 373.
\end{itemize}
states: “Costs included in the engineering overhead are indirect Company labor, labor overhead including benefits, payroll taxes, workers compensation and transportation and other costs such as employee travel costs, communication costs, contractor costs, other transportation costs and Service Company.” Employee travel, communication, contractor costs, and other transportation costs are examples of the variable costs included in the remaining 13.41%.

Cal Am’s requested overhead amount is based on the assumption that all costs for all requested capital projects will be approved by the Commission. However, the PD does not approve all costs for all of Cal Am’s requested capital projects. Therefore, the PD authorizes a greater amount for engineering overhead that Cal Am’s own testimony deems necessary. For the authorized amount to correspond to Cal Am’s own estimate, the authorized engineering overhead amount should be reduced by 13.41% of the overhead associated with capital project costs requested by Cal Am but not authorized by the Commission.

The PD states “to the extent that there are any direct costs included [in engineering overhead], such costs shall not be reallocated if a project’s costs are reduced or eliminated.” Therefore, the authorized amounts for engineering overhead should be reduced to ensure that variable costs included in engineering overhead are not reallocated when project costs are reduced or eliminated. While there is no straightforward way to account for a reduction in engineering overhead in the RO model, where the overhead amount is not linked to capital project costs, this should not prevent the Commission from accounting for such a reduction. The reduction can be calculated, and the overall engineering overhead amount adjusted accordingly. Considering 1) Cal Am itself recognizes that not all of the engineering overhead costs are fixed, and 2) the Commission has not approved Cal Am’s full requested capital project budget, the

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10 Exhibit CAW-4 at p. 9, emphasis added.
20 PD at fn. 373.
21 “Opening Brief of the Office of Ratepayer Advocates” at p. 86.
Commission should not award Cal Am its entire requested overhead amount. If the Commission does not find it reasonable to reduce engineering overhead proportionally based on reductions made to project costs, the Commission should choose a reasonable amount to reduce engineering overhead based on the reduced amount authorized for capital projects (minimally, 13.41% of the overhead associated with amounts not authorized, which corresponds to a reduction of $83,455 for 2018 and $227,163 for 2019).

The Commission should also clarify its preferred method for Cal Am to account for variable amounts included in Cal Am’s engineering overhead estimates. Additionally, for clarity, the PD should utilize the terms “variable” and “fixed” to distinguish the different types of costs included in Cal Am’s engineering overhead request, in lieu of “direct” and “indirect.”

C. Group Insurance Balancing Account

The PD authorizes Special Request #2, Cal Am’s request to establish a two-way balancing account to track the difference between the total requested net group insurance costs on a per-employee basis and the actual level of new group insurance costs incurred on a per employee basis. However, this determination is not supported by the record, and serves to remove incentives for choosing a group insurance provider with reasonable rates.

The PD states that there is significant variability in Cal Am’s group insurance expenses, citing recorded insurance costs that varied from -0.3% to 13.3% over five years. However, the record is replete with other expenses that vary by more than 14%

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22 The PD states in fn. 373: “[T]o the extent that there are any direct costs included [in engineering overhead], such costs shall not be reallocated if a project’s costs are reduced or eliminated.” The PD states at Ordering Paragraph 89: “No direct overhead costs for a project should be included in the engineering overhead.” It is unclear if Cal Am should remove the variable portion of engineering overhead costs for all projects, or if the variable portion of engineering overhead costs should simply not be reallocated if a project’s costs are reduced or eliminated.

23 These terms are necessary because Cal Am includes variable costs in the engineering overhead amounts that are applied indirectly (i.e. not applied on a per-project basis).

24 PD at pp. 225-228.

25 PD at pp. 226-227.
over five years, and do not have associated balancing accounts. Cal Am argued in testimony in 2017 that the request for a balancing account was justified due to volatility and uncertainty surrounding the potential impact of the Affordable Care Act (“ACA”) repeal. The PD provides similar justification despite the significant change in the uncertainty surrounding the ACA repeal since testimony was served.

The PD further justifies the establishment of a new balancing account by stating “since American Water [Cal Am’s parent company] negotiates the insurance for Cal-Am…Cal-Am does not have much control of the negotiations of its insurance costs.” However, regardless of whether it is Cal Am or its parent company that negotiates the insurance for Cal Am’s employees, establishing a balancing account completely removes the company’s incentive to negotiate lower insurance rates, as any amount paid will be a pass-through to Cal Am’s ratepayers. American Water could choose the most expensive provider available, or pursue the most expensive available coverage, and ratepayers would pay the full amount of the associated cost increases. Instead of adopting greater cost-sharing for health coverage amongst employees, consistent with the general trends in private sector health coverage, American Water could pursue the opposite, with little to no financial repercussion to Cal Am, but potentially large repercussions to ratepayers.

The PD should be modified to reject Cal Am’s request to establish a new group insurance balancing account, as 1) the cost uncertainty associated with the potential ACA repeal is no longer a significant concern, and 2) authorizing this request removes the company’s incentive to negotiate for and/or select reasonably priced group insurance, with potentially significant repercussions to Cal Am ratepayers.

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26 Exhibit CAW-25 at pp. 23-29.
27 PD at p. 227.
28 PD at p. 226
29 Opening Brief of the Office of Ratepayer Advocates at p. 146.
30 Exhibit ORA-3 at p. 16
31 Ibid.
If the Commission decides to grant Cal Am’s request and authorize a new group insurance balancing account, the PD should make clear that, when costs are reviewed for reasonableness and prudence prior to recovery, the utility has the burden to prove that it acted as a reasonable manager in its decisions regarding group insurance.

D. Fish Passage Project – Invoice Categorization

Cal Am requested cost recovery in the instant proceeding for $5,051,932 associated with the Los Padres Dam Fish Passage Project (FPP). The Public Advocates Office identified $477,778 worth of invoices that were previously authorized for recovery and had already been transferred from Construction Work in Progress (CWIP) to the CEBA account for recovery in rates. Cal-Am agreed that these amounts were previously approved and stated that additional internal costs, overhead, and permitting costs totaling $40,664 related to the those costs were also previously approved for recovery. Cal Am agreed and the PD appropriately finds that $518,442 of the requested FPP costs were previously authorized for recovery, and should be removed from Cal-Am’s FPP request.

The Public Advocates Office was, in this instance, able to recognize that $477,778 worth of invoices for the FPP were previously authorized for recovery. However, because it is not always possible to recognize that specific invoices were previously presented and authorized for recovery, the Public Advocates Office recommended that, in order to mitigate the possibility of Cal-Am making duplicative recovery requests in the future, Cal-Am should be required to establish a system that assigns unique identifiers to purchase orders and invoices in order to distinguish between costs that are tracked in memorandum accounts, assigned to advice letter projects, or accounted for in Cal-Am’s general revenue requirement in its GRC. While the PD acknowledges this

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32 As is typically the case for recovery of costs from balancing accounts.
33 PD at p. 177.
34 PD at pp. 179-180.
35 PD at p. 180.
36 PD at p. 178.
recommendation, it does not discuss the recommendation any further, and neither adopts nor reasonably denies it. As demonstrated by this instance in the FPP recovery request, it is possible for Cal Am to submit invoices for recovery more than once. The PD does not provide for any safeguard against future duplicative recovery requests. The Commission cannot and should not rely on the memory of an individual staff member who saw the exact same invoices three years prior, as happened in this instance. Nor will it always be the same individual reviewing a duplicative recovery request. The Commission must require Cal Am to adopt a system for distinguishing between invoices in its submittals. As such, the PD should be revised to require Cal Am to assign unique identifiers to purchase orders and invoices.

E. Construction Work in Progress in Ratebase

The Public Advocates Office recommended that the Commission forecast TY 2018 and 2019 Construction Work in Progress (CWIP) amounts by removing any CWIP amount aged longer than one year from the total 2015 CWIP ending balance used for ratemaking purposes. Including amounts in CWIP that are more than a year old overstates TY CWIP estimates, thereby placing undue burden on ratepayers to fund a full rate of return without the infrastructure being used and useful for a long period of time.\footnote{PD at p. 192.}

The PD acknowledges that the Public Advocates Office “raises valid concerns regarding costs in CWIP that are aged several years,”\footnote{PD at p. 194.} but then finds that the Public Advocates Office “does not provide adequate justification as to why all costs aged over one year should be deemed unreasonable.”\footnote{Ibid.} The PD further states: “If 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.”

The PD does appropriately remove a few select uncompleted projects from rate base due to insufficient evidence that work will proceed on these projects or that they will be
completed during this GRC cycle.\textsuperscript{40} However, many other projects lasting up to nine years remain in CWIP, earning a return in rates without providing any used and useful infrastructure to ratepayers, who continue to fund a full rate of return for these projects.\textsuperscript{41}

Even if the Commission is not convinced that all costs aged over one year should be removed from CWIP, the Commission should not default to allowing all projects to remain in CWIP, with the exception of the select few the Public Advocates Office disputed in relation to Cal Am’s capital project requests. If the Commission does not agree that the amounts in CWIP should be limited to those aged one year or less, 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.

F. Tier Breakpoints Not Addressed in PD

Cal Am’s testimony provides recommended Tier Breakpoints for its requested District Consolidations.\textsuperscript{42} The Public Advocates Office also provides commentary and general recommendations in regards to Tier Breakpoints.\textsuperscript{43} However, the PD does not adopt any amounts for Tier Breakpoints. In order to provide accurate tariff sheets and customer rates, the PD should adopt Tier Breakpoints for each ratemaking area.

G. Results of Operations Model Issues and Authorized Revenue Requirement

Ordering Paragraph 1 of the PD states: “Application 16-07-002 is granted to the extent set forth in this Decision. California-American Water Company is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the 2018 test year base revenue requirement set forth in Appendix A, effective January 1, 2018.”\textsuperscript{44} The adopted amounts in Appendix A were presumably generated by the Results

\textsuperscript{40} Ibid.
\textsuperscript{41} See Table 1-A at p.1-4 of Exhibit ORA-7 which details CWIP amounts by age.
\textsuperscript{42} Exhibit CAW-2 at pp. 29-65.
\textsuperscript{43} Exhibit ORA-4 at pp. 32-42
\textsuperscript{44} PD at p. 315.
of Operation (RO) Model that Cal Am developed for use in the instant proceeding. However, as noted by the November 15, 2018 ALJ Ruling Setting an All-Party Meeting to Review the Results of Operations Model, there are still questions remaining regarding whether Cal Am’s RO Model accurately performs the necessary calculations to generate the revenue requirement.

The November 15, 2018 ALJ Ruling lists six questions for Cal Am to address in the All-Party Meeting regarding discrepancies in the RO Model. The Ruling states “It is necessary to ensure that the results of the RO model align with the expenses that the Proposed Decision recommends be adopted.” The Commission and ALJs have put forth great effort to ensure that each disputed item is carefully considered in the PD’s adopted amounts. However, the final revenue requirements adopted for each ratemaking area will be the output of the RO Model, which may or may not accurately reflect the Commission’s intent, depending on whether the RO Model is able to reliably calculate the revenue requirements. As suggested by the November 15th ALJ Ruling, it is critical to ensure that the RO Model accurately represents the PD’s adopted amounts before the Commission authorizes the revenue requirement provided by the RO Model.

The November 27, 2018 all-party discussion brought to light some shortcomings of the existing RO Model regarding its ability to provide for scenarios adopted in the PD that differ from Cal Am’s requests. For example, Cal Am requested that the regulatory expenses authorized in this GRC cycle be amortized over 27 months, with only three months of expenses allocated to test year 2018 (i.e. one-ninth of the total in 2018). The PD adopts a schedule that amortizes the total amount equally over three years (i.e. one-third of the total in 2018). However, the amortization method for the regulatory expenses in the existing RO Model is currently programmed to correspond with Cal Am’s request. Therefore, the RO Model must be modified to accurately calculate the revenue requirement associated with the PD’s adopted method of amortization.

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45 PD at p. 90.
If the RO Model continues to produce discrepancies, questionable results, and/or is unable to accurately represent the adopted amounts from this Commission Decision, the RO Model should not be utilized to calculate the revenue requirement, and an alternative method that provides an accurate revenue requirement should be utilized instead.

H. **Results of Operations Model Issues, 2019 Escalation Filing, and Rate Setting**

The concerns detailed above regarding whether the RO Model can produce an accurate revenue requirement also apply to the RO Model’s ability to accurately calculate the appropriate adopted rates. The PD authorizes revenue requirements for Cal Am’s ratemaking districts, but does not authorize the corresponding rates. According to Ordering Paragraph 41:

> “California-American Water Company is authorized to revise tariff schedules, and to concurrently cancel its present schedules for such service upon the effective date of its 2019 escalation filing. The revision of tariff schedules for authorized rates in 2018 shall be included and subsumed in California-American Water Company’s escalation filing for attrition year 2019.”

Cal Am’s escalation filing for attrition year 2019 is also authorized by this PD, as a Tier 1 Advice Letter. The PD states: “any escalation filing for attrition year 2019 shall instead be filed within 30 days from the effective date of this decision and shall be effective 45 days from the date of filing.”

Given the timing of the issuance of this decision, revising the tariff schedules to account for the revenue requirements authorized in this PD for test year 2018 in conjunction with the revised tariffs for Cal Am’s 2019 escalation filing will minimize the need for multiple rate adjustments within a short period of time. However, combining

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46 PD at pp. 324-325.
47 Ordering Paragraph 40 of PD at p. 324.
48 Ibid.
49 PD at p. 263.
the two tariff schedule revisions, while also relying on the RO Model to calculate the appropriate adopted rates, all within the confines of a Tier 1 Advice Letter, is problematic. As discussed in testimony, there have been issues with the RO Model accurately determining the appropriate rates to correspond with a given revenue requirement. For example, in the Central Division, the Public Advocates Office’s RO Model outputs at the time it served its testimony showed an approximate $1.2 million difference between the revenue requirement and the revenues collected. Additionally, at that time, the RO Model also lacked the ability to automatically adjust rates for changes in rate design. While Cal Am stated at the November 27, 2018 all-party meeting that these issues have been resolved, those resolutions have yet to be demonstrated to the parties. If the tariff schedule revisions related to this PD are combined with tariff schedule revisions for Cal Am’s 2019 escalation filing, it will be even more challenging to determine the rates that appropriately correspond to the adopted revenue requirement.

Therefore, the Public Advocates Office recommends that the PD be revised to include the following:

1) To increase transparency in the rate setting process, the Commission should schedule an all-party meeting to review the RO Model outputs and corresponding tariff revisions that appropriately correspond to the adopted revenue requirement in the Cal Am GRC’s Final Decision. The all-party meeting should isolate tariff revisions exclusive to the Final Decision – that is, the tariff revisions that would occur not withstanding Cal Am’s 2019 escalation filing.

2) If the RO Model continues to produce discrepancies, questionable results, and/or is unable to accurately determine the appropriate rates that correspond to the adopted revenue requirement from this Commission Decision, the RO Model should not be utilized to calculate

50 Exhibit ORA-13 at pp. 3-4.
51 Ibid.
52 Ibid.
the tariff revisions, and an alternative method that
provides accurate tariff revisions should be utilized
instead.

I. Typographic Error in Appendix A regarding the Federal
Income Tax Rate Utilized by the Public Advocates Office.

Appendix A of the PD provides a comparison of Cal Am’s requested amounts, the
Public Advocates Office’s recommended amounts, and the PD’s adopted amounts.
Footnote 1 notes that the columns for the Public Advocates Office utilize a Federal
Income Tax (FIT) Rate of 35%. However, the amounts provided in the table correspond
to the Public Advocates Office’s initial recommendation for a 15% FIT Rate. Footnote
1 of Appendix A of the PD should be revised to state “The Public Advocates Office
calculations use a Federal Income Tax rate of 15% and a rate of return of 8.41%.”

J. Typographic Error regarding Acquisitions
The PD states “ORA argues that Cal-Am’s number of customers relative to the total
number of American Water customers has decreased due to American Water’s recent
acquisitions of Pennsylvania American Water and New Jersey American Water.” This
sentence should read “…due to American Water’s recent acquisitions by Pennsylvania
American Water and New Jersey American Water.”

Footnotes:

53 The Public Advocates Office originally recommended utilizing a 15% FIT rate. However, after the Tax Cuts and
Jobs Act (TCJA) was signed into law, the Public Advocates Office and Cal Am agreed that Cal-Am should utilize a
21% FIT rate to calculate its federal tax expenses for test year 2018 and test year 2019. The PD adopts a 21% FIT
rate.

54 PD at p. 111.
III. CONCLUSION

For the reasons stated herein, the PD should be revised to provide a more accurate representation of the record and a more reasonable outcome of the disputed issues.

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ATTACHMENT
Attachment 1
Modifications to Findings of Fact, Conclusions of Law, and Ordering Paragraphs

The Public Advocates Office’s proposed deletions are shown in strikethrough and the proposed additions are shown in underline. Furthermore, the authorized Revenue Requirements detailed in Appendix A to the PD should be updated to reflect the changes detailed herein, including the savings for district consolidations, the reduced overhead amounts, and the reduced CWIP amounts.

Findings of Fact
36. There is inadequate justification for adopting an across the board 1% productivity factor. Consolidated rate systems lower administrative and regulatory costs. 1% savings is a reasonable estimate for savings associated with these benefits.
103. The actual per-employee group insurance costs that American Water incurred varied significantly, from -0.3% to 13.3% over a short span of five years.
104. American Water’s recorded group insurance costs from 2011 to 2016 show significant variability not only in the insurance costs that American Water incurred but also the rate of these cost changes.
105. Cal-Am’s requested two-way balancing account for group insurance costs eliminate incentives to negotiate for and/or select reasonably priced group insurance, with potentially significant repercussions to Cal Am ratepayers. will protect both ratepayers and Cal-Am.
188. Cal-Am’s proposed methodology for calculating and allocating engineering overhead assumes all overhead costs are fixed, which is not a reasonable assumption.
189. Cal-Am’s proposed methodology for calculating engineering overhead will result in a more accurate overall number since the overall number will be automatically adjusted as certain costs within the RO model are adjusted.
190. Engineering overhead should reflects only indirect costs that are fixed costs and that would not be reduced or eliminated based on reduction or elimination of a project’s direct costs.
238. Cal-Am's methodology for estimating CWIP includes projects lasting up to nine years, which earn a return in rates without providing any used and useful infrastructure to ratepayers is consistent with how these costs have been estimated for Cal-Am in the past and it is reasonable to approve Cal-Am's continued use of this methodology for estimating CWIP in TY 2018 and 2019.
239. There is inadequate justification for ratepayers to continue to fund a full rate of return on projects that remain in CWIP for over 1 year. adopting ORA's proposal to remove all costs aged over one year from the 2015 CWIP ending balance to forecast CWIP amounts for TY 2018 and 2019.
240. There may be legitimate reasons why a project may take longer than one year to complete and it may be reasonable for costs associated with the project to remain in CWIP.
XX. The Public Advocates Office identified $477,778 of invoices submitted by Cal-Am for recovery in the Los Padres Dam Fish Passage Project that were previously authorized for recovery.
Conclusions of Law

28. Within 30 days of the issuance of this decision, California American Water Company (Cal-Am) shall establish a two-way Group Insurance Balancing Account by filing a Tier 2 advice letter with Water Division. In the advice letter filing,...

28. A 1% savings associated with lowered administrative and regulatory costs for district consolidations should be passed on to ratepayers in consolidated districts.

48. Cal-Am’s request for a two-way group insurance balancing account should be denied. Approved subject to the terms and conditions specified in this decision.

88. Cal-Am’s proposed methodology for calculating engineering overhead should be adopted.

889. No direct variable overhead costs for a project should be included in the engineering overhead.

89. Cal-Am’s requested overhead amount should be reduced to ensure that variable overhead costs are not included in the engineering overhead. To the extent that there are any variable costs included, such costs should be removed for requested project costs that were reduced or eliminated, and should not be reallocated to authorized projects.

122. Cal-Am methodology of using its 2015 year-end CWIP balance to forecast CWIP amounts for TY 2018 and 2019 should be approved. Amounts in CWIP should be limited to those aged one year or less.

XX. Cal-Am should adopt a system for identifying purchase orders and invoices to prevent duplicative recovery requests.

Ordering Paragraphs

XX. Cal-Am shall establish a system that assigns unique identifiers to purchase orders and invoices in order to distinguish between costs that are tracked in memorandum accounts, assigned to advice letter projects, or accounted for in Cal-Am’s general revenue requirement in its GRC.