

Docket:	:	A.16-07-002
Exhibit Number	:	ORA - _____
Commissioner	:	M. Picker
Administrative Law Judge	:	S. Park
ORA Witness	:	S. Rose



ORA
OFFICE OF RATEPAYER ADVOCATES



**EXECUTIVE SUMMARY
OF
ORA'S ANALYSIS AND RECOMMENDATIONS**

Application 16-07-002

**San Francisco, California
February 13, 2017**

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1 **I. INTRODUCTION**

2 Application (“A.”) 16-07-002 was filed by California American Water Company
3 (“Cal Am”) on July 1, 2016. In its application, Cal Am requests authorization to increase
4 revenues for water and/or wastewater services by \$34,559,200 or 16.29% in the year
5 2018, by \$8,478,500 or 3.43% in the year 2019, and by \$7,742,600 or 3.03% in the year
6 2020. In addition to the requested revenue increases, Cal Am’s application contained
7 nineteen separate special requests.¹

8 A team of engineers, auditors, and regulatory analysts from the California Public
9 Utilities Commission’s Office of Ratepayer Advocates (“ORA”) examined the requests
10 and data contained in A.16-07-002 in order to provide the Commission with
11 recommendations that represent the interests of ratepayers for safe, reliable, and
12 affordable service. Suzie Rose is ORA’s project lead for the proceeding. Richard
13 Rauschmeier is ORA’s oversight supervisor. Paul Angelopulo and Kerriann Sheppard
14 are ORA’s legal counsels.

15 As a result of its examination, ORA recommends a companywide increase in rates
16 of \$3,546,340 or 1.65% in 2018, and of \$7,535,860 or 3.42% in 2019. Since the year
17 2020 falls outside of the two test years of this rate case,² ORA did not forecast plant
18 additions or expenses for 2020.³

19 Although ORA made every effort to comprehensively review, analyze and provide
20 the Commission with recommendations on each ratemaking and policy aspect presented
21 in the application, the absence from ORA’s testimony of any particular issue does not
22 necessarily constitute its endorsement or acceptance of the underlying request,
23 methodology, or policy position related to that issue.

¹ On October 17, 2016, the Assigned Commissioner’s Scoping Memo and Ruling excluded five of Cal Am’s Special Requests (#1, #6, #8, #9, and #19) to be outside of the scope of the proceeding. On January 13, 2017, the Assigned Commissioner’s Amended Scoping Memo and Ruling granted Cal Am’s request to modify the scope of this proceeding to include Special Request #8.

² The Rate Case Plan and Revised Rate Case Plan (D.04-06-018 and D.07-05-062, respectively) provide for two test years and one attrition year.

³ Discussed in further detail in the Testimony of Justin Menda.

1 **II. ORA REPORTS and WITNESSES**

2 The following table identifies the various ORA reports and witnesses that provide
3 analysis and recommendations relevant to the requests made by Cal Am in the current
4 proceeding.

5 Table 2-1. ORA Reports and Witnesses.

Report Name / Description	Witness(es)
Income Taxes, Taxes Other Than Income, General Office Rate Base, Service Company Allocation, and Special Request #3	Michael Conklin
Payroll and Benefits, Regulatory Expenses, and Special Requests #2 & #15	Julia Ende
Proposed Utility Plant in Service	Justin Menda
Operations and Maintenance Expenses, Recorded Plant, and Special Request #16	Daphne Goldberg
Rate Base and Special Request #12	Mukunda Dawadi
Balancing and Memorandum Accounts, Special Requests #5, #8, #11, and #18	Roy Keowen
Operating Revenues, Rate Design and Special Request #7	Wenli Wei
Rents, Insurance, and Citizens Acquisition Premium	Kelsey Choing
Special Requests #4, #10, and Step Increase Filings	Suzie Rose
Rate Consolidation; General Aspects of Safety, Reliability, and Customer Service; Special Requests #13, #14, and #17	Richard Rauschmeier
Results of Operations Tables	Mukunda Dawadi and Suzie Rose

1 **III. REVENUE INCREASES AND DECREASES**

2 In Cal Am’s original submittal of A.16-07-002 on July 1, 2016, Cal Am requested
3 authorization to increase revenues for water and/or wastewater services by \$34,559,200
4 or 16.29% in 2018, and by \$8,478,500 or 3.43% in 2019.⁴ In Cal Am’s 100 day update
5 to its application, filed October 10, 2016, the updated Results of Operations (“RO”)
6 Model that Cal Am provided to ORA, which reflects the updated information filed in Cal
7 Am’s 100 day update, shows requested increases for water and/or wastewater services of
8 \$31,567,200 or 14.77% in 2018, and \$8,508,390 or 3.48% in 2019.

9 Cal Am’s states that its proposed increases are, on an aggregate basis, the result
10 declining sales of \$13.7 million, necessary capital-related items of \$10.1 million, labor
11 and benefits costs of \$4.3 million, costs to treat Chromium 6 of \$2.1 million, and the
12 Advanced Metering Infrastructure (“AMI”) capital project in the Central and Southern
13 Divisions of \$1.6 million.⁵

14 ORA analyzed Cal Am’s recorded, forecasted, and previously adopted⁶
15 consumption and revenue requirements to determine its recommendation for the actual
16 revenues necessary for providing safe and reliable service. ORA’s analysis results in a
17 recommendation for an increase⁷ of \$3,546,340 or 1.65% in 2018, and of \$7,535,860 or
18 3.42% in 2019.⁸ Table 3-1 compares the individual increase or decrease for each of Cal

⁴ A.16-07-002 at p.2. The stated revenue increases are for all service areas combined, for both water and wastewater services.

⁵ A.16-07-002 at p.8.

⁶ Adopted amounts are those previously used by the Commission in authorizing past and present rates.

⁷ Increase over estimated revenues at current rates.

⁸ In accordance with the Rate Case Plan, 2018 is the test year for expenses in this GRC. It is therefore not appropriate to determine expenses for 2019 in this GRC. However, Cal Am’s RO Model utilizes an expense forecast to calculate 2019 expenses and the resulting revenue requirements. ORA did not adjust this erroneous methodology in the RO model. Therefore, the RO Model outputs, and the 2019 amounts listed herein, do not accurately reflect ORA’s recommendations for 2019 expenses.

1 Am's proposed consolidated divisions in 2018 and 2019 as recommended by ORA and
 2 Cal Am.

3 **Table 3-1. Recommended Increase/Decrease in Revenues by Cal Am and**
 4 **ORA.⁹**

Cal Am			ORA		
Year	\$ Change (000's)	% Change	Year	\$ Change (000's)	% Change
Northern Division					
2018	\$13,995	27.29%	2018	\$5,296	10.31%
2019	\$1,311	1.99%	2019	\$1,824	3.18%
Central Division					
2018	\$5,065	8.24%	2018	-\$3,751	-6.04%
2019	\$2,505	3.76%	2019	\$1,314	2.20%
Southern Division					
2018	\$12,180	12.47%	2018	\$2,024	2.07%
2019	\$4,641	4.22%	2019	\$4,196	4.21%
Monterey Wastewater					
2018	\$327	9.85%	2018	-\$23	-0.68%
2019	\$103	2.81%	2019	\$202	5.99%
Total Across All Districts					
2018	\$31,567	14.77%	2018	\$3,546	1.65%
2019	\$8,560	3.48%	2019	\$7,536	3.42%

5

6 Revenue requirements are the estimated costs of providing service to customers.
 7 However, revenue requirements impact only a portion of customers' bills. Cal Am's
 8 requests for new or expanded memorandum and balancing accounts to track amounts for
 9 recovery in future surcharges are separately addressed by ORA.¹⁰

⁹ 2019 numbers are for illustrative purposes only.

¹⁰ Cal Am's requests related to Balancing and Memorandum accounts are addressed in the Testimony of Roy Keowen.

1 **IV. SUMMARY OF SIGNIFICANT RECOMMENDATIONS AND**
2 **ADJUSTMENTS**

3 A detailed comparison of Cal Am and ORA’s forecasts of revenues and revenue
4 requirements by year for each of Cal Am’s proposed consolidated divisions can be found
5 in ORA’s Results of Operations Tables. The following is a summary of ORA’s most
6 significant recommendations and adjustments.

7 **1. AMI Implementation**

8 Cal Am requests full implementation of AMI in its Los Angeles, Ventura, San
9 Diego, and Monterey districts,¹¹ with a total budget request of \$17,963,279 for the 2018-
10 2019 period with an additional \$1,367,222 per year in increased operations and
11 maintenance (O&M) expenses related to AMI implementation.¹² If AMI implementation
12 is adopted as Cal Am proposes, it would result in a rate increase of approximately
13 \$17/customer/month in those districts.¹³

14 Cal Am is currently operating two ongoing AMI pilot programs, and has not yet
15 provided the Commission with an evaluation of the results of either of these pilots. The
16 pilot programs have the potential to provide significant useful information regarding AMI
17 implementation, including the benefits and cost-effectiveness of AMI. In order to ensure
18 that Cal Am’s AMI implementation plan is prudent, well-developed, and provides
19 maximum benefit to Cal Am’s ratepayers for their significant investment in AMI
20 infrastructure, the results of the pilot programs should be evaluated, submitted to the
21 Commission for review, and incorporated into Cal Am’s AMI proposal before the
22 Commission considers funding full deployment of AMI.

23 Additionally, D.16-12-026 from Rulemaking (R.) 11-11-008 provides guidance
24 for utilities in proposing AMI deployment. For Class A Water Investor Owned Utilities

¹¹ Testimony of Richard Svindland at p. 41.

¹² Proposed capital projects costs from the ALL_CH07_PLT_RO_Forecast Workpaper, Total CAPEX by Project WS-9 tab; estimated O&M budget from p. 27 of the Testimony of Todd Pray and ALL_CH_O&M_WP_Other O&M Exp Adj Workpaper, OUT_CAW Specific Adj tab.

¹³ See the Testimony of Justin Menda for the assumptions related to and calculation of this estimated impact on customer bills.

1 (“IOUs”), the Decision orders a gradual approach to AMI deployment, to be conducted
2 through two rate case cycles, and encourages IOUs to address leak, theft, and backflow
3 protection in AMI proposals.¹⁴ Cal Am’s proposal fails to address any of these issues in
4 significant detail.

5 ORA recommends that the Commission not authorize Cal Am’s request for AMI
6 deployment in this GRC. Cal Am can submit its AMI proposal, which incorporates the
7 results of the pilot programs, provides a cost-benefit analysis, and provides additional
8 specificity regarding the issues discussed in D.16-12-026, in its next GRC application. If
9 Cal Am is able to provide a well-developed proposal before its next GRC cycle, it may
10 submit a separate application specifically targeting AMI deployment. In the absence of
11 pre-approval of AMI deployment in this GRC, Cal Am also has the option of deploying
12 AMI through a well-developed plan, then submitting to the Commission a request for
13 recovery in rates (including capitalized interest) once the project is complete.

14 This issue is discussed in detail in the Testimony of Justin Menda.

15 **2. Pre-Approval of Conceptual Recycled Water** 16 **Projects**

17 Cal Am requests that the Commission pre-approve, as Tier 2 Advice Letter (AL)
18 capital projects, the development and deployment of three recycled water projects that are
19 currently in the “conceptual” phase.¹⁵ ORA supports facilitating the production,
20 distribution, and use of recycled water, where cost-effective and compatible with the
21 protection of public health. However, the Commission has existing criteria in place for
22 the review and approval of recycled water projects, and Cal Am’s request for pre-
23 approval of these conceptual projects seeks to bypass this adopted Commission process.
24 Additionally, Cal Am has not provided enough information for the Commission to
25 determine whether the projects are prudent, cost-effective, and compatible with the

¹⁴ At pp. 64-65.

¹⁵ Testimony of Jeffrey T. Linam at p.35

1 protection of public health. Therefore, ORA recommends that the Commission not pre-
2 approve these projects as Tier 2 AL capital projects.

3 Construction for each of these proposed recycled water projects would not occur,
4 even in the best case scenario, until Cal Am's next rate case cycle. Therefore, denying
5 Cal Am's request for pre-approval will not hinder progress on Cal Am's conceptual
6 recycled water projects. Cal Am should first develop a well-formed plan for these
7 projects, including exploring the possibility of joining regional efforts for recycled water
8 projects. Cal Am should then provide the Commission with the information required by
9 D.14-08-058 for recycled water projects so that the projects can receive the appropriate
10 vetting.

11 In accordance with the Commission's own policy set forth in D.14-08-058, before
12 approving any of Cal Am's three proposed capital-intensive recycled water projects, the
13 Commission should first review the full scope of each project, including cost-
14 effectiveness and potential impacts on potable water rates.

15 This recommendation is discussed in detail in the Testimony of Suzie Rose (in
16 regards to Special Request #10) and the Testimony of Justin Menda (in regards to the
17 details of the proposed recycled water projects).

18 **3. Regional Rate Consolidation**

19 Cal Am requests that the Commission authorize regional rate consolidation.¹⁶
20 This proposal would create three regional rate divisions comprised of multiple water
21 systems. Cal Am also proposes the spreading of costs between water systems and
22 wastewater systems via a new high cost fund or in the alternative to combine investments
23 in the Monterey Wastewater District with investments in Monterey Water Systems for
24 ratemaking purposes.¹⁷

25 If the Commission approves increased consolidation of costs and rates, Cal Am's
26 proposed implementation process should be modified to achieve more uniform and

¹⁶ Details of Cal Am's proposal are found on pages 41-75 of the Direct Testimony of Sherrene P. Chew

¹⁷ *Id.* at 8, lines 19-21

1 objective results. Specifically, a conceptual framework should be used to guide the
2 implementation process to avoid significant and disparate impacts upon any particular
3 group of ratepayers.

4 Additionally, anticipated cost savings resulting from improvements in productivity
5 and the economies of scale associated with increased consolidation should be reflected in
6 the expense budgets and customer rates that the Commission authorizes in the instant
7 proceeding. Compared with Cal Am's proposed revenue requirements, these forecasted
8 cost savings should result in lowering rates approximately \$1.3 million per year from
9 2018 to 2020.

10 Lastly, since the majority of the benefits of rate consolidation do not transfer
11 across different utility services, prior to the Commission authorizing consolidation of
12 costs between wastewater and water services, Cal Am should more fully explore
13 consolidation within its wastewater services.

14 The Testimony of Richard Rauschmeier provides a detailed discussion of this
15 issue.

16 **4. Income Taxes**

17 Cal Am forecasts its TY 2018 Federal Income Tax expense using the 2016 tax rate
18 35%. ORA recommends forecasting Cal Am's TY 2018 Federal Income Tax expense
19 using a 15% income tax rate because that is the most likely income tax rate to be in effect
20 for TY 2018. ORA bases its recommendation on the long-standing and plainly stated
21 goal of the Trump administration to cut the corporate income tax rate to 15%. In
22 addition, the Trump administration has provided guidance that it intends to address the
23 tax cut issue during the first 100 days of the administration.¹⁸ As a result, the
24 Commission should reject Cal Am's 35% tax rate and adopt a 15% income tax rate for
25 Cal Am because it is the most likely estimate for TY 2018.

26 This issue is discussed in detail in the Testimony of Michael Conklin.

¹⁸ Web. Retrieved 2/13/17. <https://www.theatlantic.com/business/archive/2017/01/trump-corporate-tax-cut/514148/>

1 **5. Service Company Allocation Factors**

2 Cal Am’s parent company (“Service Company”) provides corporate services to
3 Cal Am from twenty Business Functions that are shared with many other corporate
4 affiliates. Cal Am forecasts its TY 2018 allocation of Service Company costs by
5 allocating to Cal Am the same percentages for each Business Function that Cal Am
6 recorded as allocated in 2015. Because the twenty Business Function percentages
7 allocated to Cal Am and other affiliates vary from year-to-year, ORA recommends that
8 the Commission adopt a three-year average of Cal Am’s recorded allocation percentages
9 to forecast the overall TY 2018 Service Company allocation.

10 This issue is discussed in detail in the Testimony of Michael Conklin.

11 **6. Employee Compensation**

12 To estimate payroll expenses, ORA used 2015 as the recorded base year and
13 escalated the recorded amount by the highest union-negotiated wage increase. This
14 method provides a verifiable costs basis from which to escalate expenses that represents
15 an actual period of time when Cal Am had a strong incentive to control costs. ORA’s
16 recommended payroll expense is \$19,413,281, compared to Cal Am’s request of
17 \$22,610,458. Regarding Incentive Compensation, the level of executive incentive award
18 expenses included in revenue requirement should be reduced from Cal Am’s forecasted
19 amount because the focus of the incentives is stockholder interests, not ratepayers.
20 Regarding employee benefits, ORA recommends the Commission fund pension and
21 health insurance expenses at a level consistent with actual recorded costs.

22 This issue is discussed in detail in the Testimony of Julia Ende.

23 **7. Regulatory Expenses**

24 Cal Am requests a regulatory expense amount of \$3,559,073 to be recovered from
25 ratepayers over the course of the 2018-2020 GRC cycle. ORA reviewed Cal Am’s
26 recorded expenses for appropriateness and recommends a total of \$1,274,323. The
27 difference between Cal Am’s request and ORA’s recommendation is attributable to: 1)
28 consideration of the appropriateness of Cal Am’s rate consultants and legal expenses; and

1 2) removal of expenses for: witness training, cost of capital proceeding, and a
2 compensation study.

3 This issue is discussed in detail in the Testimony of Julia Ende.

4 **8. Unused Recorded Plant**

5 Water utility customers should only be responsible for paying, through rates, for
6 capital investments that provide a service, and utilities should not earn a return on items
7 that are not used and useful, at the expense of ratepayers. Therefore, Cal Am's rate base
8 should only include capital infrastructure that is used and useful.

9 ORA reviewed Cal Am's previously built infrastructure to ensure that existing
10 infrastructure is only included in plant accounts for ratemaking purposes if that
11 infrastructure can be reasonably expected to become used and useful by the test year in
12 the current proceeding. As a result of this review, ORA discovered a number of unused
13 plant items that have been out of operation for two or more of the most recent years, for
14 which Cal Am was unable to provide existing plans to return the items to service. The
15 costs of all existing infrastructure and associated real property that is not "used and
16 useful" nor expected to become "used and useful" before the 2018 test year should be
17 removed from customer rates.

18 ORA recommends that the Commission remove a total of \$3,213,646 from Cal
19 Am's proposed Plant accounts and Rate Base in order to reflect unused and/or inoperable
20 infrastructure and land.

21 This recommendation is discussed in detail in the Testimony of Daphne Goldberg.

1 **V. SPECIAL REQUESTS**

2 The following list highlights ORA's recommendations pertaining to Cal Am's
3 Special Requests. ORA's individual reports provide a detailed description of each
4 request and the analysis supporting the following recommendations.

- **Special Request #1:** Determined to be outside the proceeding's scope.
- **Special Request #2:** The Commission should not allow creation of a new balancing account for group insurance expenses.
- **Special Request #3:** The Commission should allow franchise fees to be treated uniformly across all districts.
- **Special Request #4:** The Commission should allow Sand City purchased water expenses to be collected in base rates.
- **Special Request #5:** The Commission should not remove the existing 10% cap on WRAM balancing accounts.
- **Special Request #6:** Determined to be outside the proceeding's scope.
- **Special Request #7:** The Commission should allow implementation of pilot program of waiving fees for credit card payments under the terms of AB 1180.
- **Special Request #8:** The Commission should not allow creation of a new AMI/Leak Adjustment balancing account.
- **Special Request #9:** Determined to be outside the proceeding's scope.
- **Special Request #10:** The Commission should not authorize three conceptual recycled water projects as Advice Letter projects.
- **Special Request #11:** The Commission should not allow a recoverable amount of more than \$750,560/month for amortized costs associated with the San Clemente Dam removal project.
- **Special Request #12:** The Commission should not modify the Tax Act Memorandum Account to be a balancing account.
- **Special Request #13:** If the Commission approves increased consolidation, implementation should avoid significant impacts upon any particular group of

ratepayers, and anticipated cost savings should be reflected in expense budgets and customer rates.

- **Special Request #14:** The Commission should not authorize consolidation of costs between wastewater and water services.
- **Special Request #15:** The Commission should not allow a deviation from the Rate Case Plan for calculations of pension and other post-employment benefit expenses in Step Increase filings.
- **Special Request #16:** The Commission should require Cal Am to include the definitions of both “facilities fee” and “connection fee” in its revised operational tariffs.
- **Special Request #17:** The Commission should authorize a modification of the cross-connection control program, provided that Cal Am demonstrates competitive procurement of proposed testing services and recognizes processing fees in proposed revenues.
- **Special Request #18:** If the Commission establishes an SGMA memo account, it should require additional reporting requirements before recovery of balances occurs.
- **Special Request #19:** Determined to be outside the proceeding’s scope.

1 **VI. CONCLUSION**

2 Accordant with its statutory goal to obtain the lowest possible rates consistent with
3 reliable and safe service levels,¹⁹ ORA analyzed the requests and calculations made by
4 Cal Am in A.16-07-002 in order to provide the Commission with recommendations that
5 represent the interests of ratepayers. In addition to correcting errors and discrepancies in
6 Cal Am’s application, ORA’s recommendations more closely align with the data on
7 prudent levels of actual past investment and reasonable utility expenditure.

8 ORA’s positions on proposed rates, revenue requirements, and Special Requests in
9 A.16-07-002 reflect its best professional judgment in: 1) achieving both its statutory
10 goals and the mission of the Commission to protect consumers, and 2) ensuring the
11 provision of safe, reliable utility service and infrastructure at reasonable rates with a
12 commitment to environmental enhancement and a healthy California economy.

¹⁹ California Public Utilities Code §309.5.