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

Application of Southern California Edison
Company (U 338-E) for Authority to Increase
Rates for its Class C Catalina Water Utility and
Recover Costs from Water and Electric
Customers.

Application 20-10-018

LIMITED OPENING BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY
(U 338-E) ON ISSUES 2-B-I AND 2-C-I OF ASSIGNED COMMISSIONER'S
SCOPING MEMO AND RULING

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LIMITED OPENING BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY
(U 338-E) ON ISSUES 2-B-I AND 2-C-1 OF ASSIGNED COMMISSIONER'S
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Pursuant to the California Public Utilities Commission (CPUC or Commission) Rules of Practice and Procedure 13.11 and the Assigned Commissioner’s Scoping Memo and Ruling dated January 29, 2021 (Ruling), Southern California Edison Company (SCE) respectfully submits its Limited Opening Brief on Issues 2-B-i and 2-C-i.

I.

INTRODUCTION

In its Ruling, the Commission ordered concurrent limited opening briefs on two scoping issues: (1) “Does the Commission have the authority to charge SCE’s water utility service costs to SCE’s electric utility customers who do not receive said water service?” (i.e., cross-subsidy); and (2) “What cost recovery approaches should be considered other than SCE’s proposal to recover water utility costs from Catalina Island water utility customers and SCE’s electric utility customers?”¹

¹ Ruling, Scoping Issues 2-B-i, 2-C-i.

The answer to the first question is clear—the Commission has the authority to charge a portion of SCE’s water utility service costs to SCE’s electric customers. There is no law, statute, or other precedent that precludes the Commission from doing so, provided it is just and reasonable under the circumstances.

The proposed cross-subsidy is lawful under Public Utilities Code Section 451 because the subsidy would be just and reasonable. Reasonable cross-subsidies that serve the public interest have been consistently authorized by the Commission in the past, and the costs SCE electric customers would incur match the benefits they receive. Because Catalina is unique and has a compelling need for rate relief, Commission may approve a cross-subsidy that acts in the public interest and is narrowly tailored to the facts in this proceeding. The cross-subsidy is also lawful under Public Utilities Code Section 453 because it would not be unreasonably discriminatory. For these reasons, the Commission approved a similar cross-subsidy in SCE’s previous Catalina water general rate case.² Like it did before, the Commission has the authority to approve a reasonable cross-subsidy that serves the public interest.

With respect to the second scoping issue, the Commission should be open to considering other cost recovery approaches, such as a consolidation of Catalina rate base and costs with SCE’s electric rate base for ratemaking purposes. Catalina presents a long history of challenging rate-affordability issues. It will be important for the Commission to remain flexible and be open to cost recovery proposals that serve the public good and promote a pathway to safe, clean, and affordable water service for Catalina residents.

² Decision (D.) 14-10-048 (approving an all-party settlement containing a similar cross-subsidy as lawful).

II.

THE COMMISSION HAS THE AUTHORITY TO CHARGE SCE'S WATER UTILITY SERVICE COSTS TO SCE'S ELECTRIC CUSTOMERS TO ACHIEVE JUST AND REASONABLE OUTCOMES FOR CUSTOMERS

The Commission has broad regulatory authority to set rates and allocate costs in a manner that serves the public good.³ As set forth more fully below, the Commission should recognize that it has the authority to approve recovery of a portion of Catalina water charges from SCE's electric customers to achieve just and reasonable outcomes for customers.

A. The Cross-Subsidy Is Just and Reasonable Under Section 451

Section 451 of the Public Utilities Code provides that the costs incurred by customers must be "just and reasonable."⁴ SCE's proposed cross-subsidy is just and reasonable under Section 451 for the reasons discussed below.

1. Cross-Subsidies that Act in the Public Interest Are Just and Reasonable

Cross-subsidies that serve the public good have been recognized as reasonable by the Commission and consistently authorized in the past. In D.04-05-061, the Commission recognized the inherent existence of cross-subsidies in its ratemaking, acknowledging that "there have been cross-subsidies inherent in the Commission's ratemaking policies."⁵ In this decision, the Commission also articulated its standard on whether to approve a cross-subsidy, providing that "in each of these cases the Commission weighed the benefits and the costs involved, and determined that rate averaging was in the public interest."⁶ After weighing the benefits and

³ See, e.g., Cal. Pub. Util. Code § 701 ("The commission may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction.").

⁴ Cal. Pub. Util. Code § 451.

⁵ D.04-05-061, p. 20.

⁶ *Id.*

costs, the Commission “acknowledge[d] that cross-subsidies exist, and in many instances, do serve the public good.”⁷

Acting in the public interest, and to promote affordability for all customers, the Commission has long used and approved cross-subsidies across several different contexts in support of Commission and State policy goals, including but not limited to:

- By geography – Customers in high-cost districts (e.g., rural customers) pay below-cost rates and are cross-subsidized by customers in low-cost districts (e.g., urban customers) who pay above-cost rates.⁸
- By product line – For many years, the Commission deliberately set telephone rates in a manner that was explicitly designed so that certain services (e.g., long-distance) would cross-subsidize other services (e.g., basic local exchange service).⁹
- By customer – Common costs are allocated between gas and electric customers in CPUC regulated utilities such as PG&E and SDG&E; longtime customers pay rates that exceed their actual costs to cross-subsidize new arriving customers; customers served by fully depreciated facilities cross-subsidize customers who are served by newly constructed facilities.¹⁰
- By income – Low-income customers and families may enroll in the California Alternate Rates for Energy (CARE) and Family Electric Rate Assistance (FERA) programs and receive discounts on bills.¹¹ The Commission has determined that it is in the public interest for these customers to be subsidized and pay below-cost rates.

⁷ *Id.* at p. 21.

⁸ *See, e.g., id.* at p. 20.

⁹ *See, e.g.,* D.07-09-020, p. 3 (recognizing that the Commission implemented “a system based on implicit cross-subsidies [which] kept basic rates affordable” and that “basic residential rates in High Cost areas were internally subsidized by revenues from more profitable exchanges, subsidies between product lines, and from other sources of revenues.”)

¹⁰ D.04-05-061, p. 20.

¹¹ *See, e.g.,* D.12-08-044.

- By public purpose – The Commission broadly allocates public purpose programs to all customers that benefit from such programs, including requiring customers of other load serving entities to fund a share of the investor-owned utility’s costs of public purpose programs.¹²

These numerous examples make clear that the Commission has the authority—and indeed has frequently exercised this authority—to approve a cross-subsidy under Section 451 where a subsidy is reasonable and serves the public good.

Here, recovering a portion of Catalina water costs from SCE’s electric customers is authorized under Section 451 because doing so would also be reasonable, support state policy of affordable water, and serve the public interest. On September 25, 2012, then Governor Jerry Brown signed Assembly Bill 685 into law, providing that “[i]t is hereby declared to be the established policy of the state that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.”¹³ In doing so, the human right to safe and affordable water was explicitly codified as state policy in California.¹⁴

Catalina is unique in that it operates as a Class C water utility on an island with very limited water resources, resulting in water service that is costly to maintain and operate. The challenging reality on Catalina is that the true costs of providing safe, clean, affordable, and accessible water service are greater than what its residents can afford to pay. It is undisputed that a compelling need for rate relief exists on Catalina. Without any subsidization from SCE’s broader customer base, Catalina customers could potentially incur rate increases in the magnitude of 400% or greater if all costs were to be recovered solely from Catalina water customers.¹⁵ The small number of Catalina water customers simply cannot pay the costs it takes

¹² See, e.g., Public Purpose Program (PPP) gas surcharge to support energy efficiency, low-income assistance, and public interest research and development.

¹³ Cal. Water Code § 106.3(a).

¹⁴ See Cal. Water Code §§ 106.3 et seq.

¹⁵ SCE Supplemental Testimony (SCE-08), pp. 21-22.

to serve them. Approving a cross-subsidy is beneficial to the public interest because doing so would provide the rate relief necessary for safe, clean, and accessible water on Catalina. The subsidy would advance the explicit state policy of providing affordable water while also permitting a utility to recover its prudent costs to operate the water system.¹⁶

SCE's proposed cross-subsidy also serves the public interest because it would prevent an unbearably high rate increase for Catalina water customers while resulting in only a small rate increase for SCE's electric customers. Specifically, the costs incurred by SCE's significantly larger electric customer base would be small (about \$0.26 per month for non-CARE residential customers)¹⁷ compared to the substantial benefits Catalina water customers would receive (about \$379 in savings per month for same class of customers).¹⁸ The cross subsidy is just and reasonable because it would substantially alleviate a severe burden on Catalina water customers by placing a small burden on SCE's much broader electric customer base.

While the Commission has broad authority to set rates and allocate costs, SCE is requesting that the Commission only recognize its authority to approve a narrowly tailored cross-subsidy that would only apply to the facts specific to this proceeding. In the past, the Commission addressed similarly challenging rate-affordability issues in connection with Catalina's electric rates. Under the circumstances unique to Catalina, the Commission chose to depart from traditional ratemaking principles and ultimately decided to consolidate Catalina and mainland electric rates in order to maintain affordable rates for Catalina customers.¹⁹ The Commission did not create any binding precedent in doing so.

¹⁶ See, e.g., D.20-01-002, p. 10 (confirming long-standing regulatory policy that "the utility is provided the opportunity to recover its actual legitimate or prudent costs - determined by a public examination of the utility's outlays - plus a fair return on capital investment as measured by the cost of obtaining capital in a competitive capital market").

¹⁷ SCE Supplemental Testimony (SCE-08), pp. 19-20 (regarding Attrition Year 2025).

¹⁸ See SCE Supplemental Testimony (SCE-08), pp. 21-22 (regarding Attrition Year 2025).

¹⁹ See D.93129 (consolidating Catalina and mainland Energy Cost Adjustment Clause (ECAC) rates); D.82-03-059 (consolidating Catalina and mainland electric rates).

Like before, there is a compelling and equitable need for rate relief on Catalina that justifies cost-sharing between Catalina and mainland customers. The Commission has the authority to approve a narrowly tailored cross-subsidy that would serve the public interest and only apply to the facts in this proceeding. Finding that the Commission does not have the authority to order a narrowly tailored cross-subsidy would be inconsistent with and detract from the Commission's broad regulatory authority to set rates in a just and reasonable manner that serve the public interest.

2. A Strong Nexus Exists Between Catalina Water Costs and SCE's Electric Customers

It is also just and reasonable to approve a cross-subsidy under Section 451 because SCE's electric customers benefit from Catalina water service. A strong nexus exists between the costs of Catalina water service and the benefits received by SCE's electric customers. Every year, hundreds of thousands of SCE electric customers directly benefit from the water service provided in Catalina. Even SCE electric customers that do not visit the island benefit from the water service in Catalina in the areas of education, research, and conservation – benefits that are akin to public policy benefits that inure to the public at large. Under the cross-subsidy, the costs that SCE's electric customers would incur is small (about \$0.26 per month).²⁰ The cross-subsidy is just and reasonable because the benefits that SCE's electric customers receive is larger than—or, at a minimum, commensurate with—the small increase in rates that electric customers would incur.

a) Tourists

Catalina water infrastructure was built not only to serve the water needs of Catalina residents, but also to support the needs of people who visit and tour the island in significant

²⁰ SCE Supplemental Testimony (SCE-08), pp. 19-20 (regarding non-CARE residential customers in Attrition Year 2025).

numbers every year. The current population of the City of Avalon, where the vast majority of the Catalina population reside, is 4,090.²¹ The number of Catalina water customers is 1,887.²² In stark contrast, the average annual number of visitors to Catalina each year from 2014-2019 was approximately 1.05 million.²³ A comprehensive economic study commissioned by the Catalina Island Chamber of Commerce in 2016 found that 70% of Catalina annual visitors reside in Southern California.²⁴ It is therefore clear that visitors to the island have been predominantly SCE electric customers who visit the island in the hundreds of thousands every year.

These SCE electric customers directly benefit from the water in Catalina when they use and depend on the Catalina water infrastructure during their visits. The cost of providing safe, clean, affordable, and accessible water service to Catalina are greater than what its 1,887 customers can afford to pay because so much water is used to support the hundreds of thousands of SCE electric customers who visit annually. It is just and reasonable to recover a portion of Catalina water costs from SCE electric customers who directly benefit from this water service, and a cross-subsidy in SCE's electric rates in a reasonable means of doing so.

b) Education

Water on the island directly supports K-12 education and scouting trips for over 60,000 youth annually who visit campgrounds such as the Catalina Environmental Leadership Program and Camp Cherry Valley to observe nature and learn about the island's important conservation efforts.²⁵ By serving as a contained and conserved area where K-12 students in Southern

²¹ Catalina Parties Protest, p. 4.

²² Catalina Parties Protest, p. 24 (excluding the 112 fire protection ratepayers).

²³ Catalina Island Chamber of Commerce, *Catalina Island Visitor Counts*, available at https://assets.simpleviewinc.com/simpleview/image/upload/v1/clients/catalinaislandccvb/10_Year_Visitor_Count_1_21_63e5e90d-6e70-48eb-8f0b-46aec9e44ac2.pdf.

²⁴ Catalina Island Chamber of Commerce and Lauren Schlau Consulting, *Economic & Fiscal Impacts and Profile of 2016 Catalina Island Visitors, Final Report*, June 2017, available at https://assets.simpleviewinc.com/simpleview/image/upload/v1/clients/catalinaislandccvb/CI_Visitors_2016_Final_5b96b461-3a66-4e7f-bc3b-4e5693b1eb53.pdf

²⁵ Catalina Island Conservancy, *About the Catalina Island Conservancy*, available at https://www.catalinaconservancy.org/index.php?s=about&p=about_cic

California can explore and interact with local rangers, conservationists, and researchers, Catalina Island offers a facility unlike any other in SCE's service area that directly benefits Southern Californian youth. SCE electric customers who do not visit the island themselves also benefit because SCE electric customers are parents of students who visit the island, and furthermore, because education promotes societal benefits such as economic growth and reduced poverty that SCE communities and its customers benefit from.

c) Research

An additional benefit SCE's electric customers receive from the water system is the support of a sophisticated research facility operated by the University of Southern California (USC) Wrigley Institute for Environmental Studies on Catalina Island, which conducts specialized research in environmental microbiology, ocean biogeochemistry, and more. At the USC Wrigley Institute, dozens of researcher scientists and students conduct research on climate change adaptation, interactions between human and natural systems, and other projects such as kelp biofuels and aquaponics. The institute advances California's climate mitigation and adaptation state goals by researching kelp as both a carbon removal and biofuel source.²⁶ The institute also serves as a research and data collection hub for oceanic conditions in Southern California, specifically in the area between Catalina Island and the mainland, through the Ocean Time series and keeping "one of the most influential public datasets worldwide."²⁷ These facilities provide oceanic, weather, and algae data that serves California's southern coast. SCE electric customers benefit from the important research being conducted on the island, and in turn, benefit from the water necessary to support this facility.

²⁶ See, e.g., National Geographic, *California's critical kelp forests are disappearing in a warming world. Can they be saved?*, available at: <https://www.nationalgeographic.com/science/article/california-critical-kelp-forests-disappearing-warming-world-can-they-be-saved>; "USC scientists may have unlocked kelp's potential as a major biofuel source" available at: <https://news.usc.edu/182840/kelp-as-biofuel-ocean-seaweed-energy-usc-scientists/>

²⁷ <https://dornsife.usc.edu/spot/datasets-summary/>; <https://dornsife.usc.edu/wrigley/dataportals/>.

d) Conservation

Water service in Catalina also supports important conservation efforts on the island that benefit SCE electric customers. Promoting conservation advances state goals of addressing climate change.²⁸ The Catalina Island Conservancy protects 88 percent of Catalina Island, including more than 62 miles of beaches and secluded coves—the longest publicly accessible stretch of undeveloped coastline left in Southern California.²⁹ Catalina Island is an incredibly unique biosphere and home to more than 60 plant, animal and insect species found nowhere else in the world.³⁰ Conservation is beneficial to SCE electric customers because it preserves the land and wildlife so that future generations can enjoy the island, promotes resilience, and protects plant and animal biodiversity from which future medicines may be derived.

In sum, it is just and reasonable to recover a portion of Catalina water costs from SCE electric customers who benefit from this water service, and a cross-subsidy in SCE’s electric rates in a reasonable means of doing so.

B. The Cross-Subsidy Is Not Unreasonably Discriminatory Under Section 453

Section 453 of the Public Utilities Code provides that a utility may not set rates that “make or grant any preference or advantage to any corporation or person or subject any corporation or person to any prejudice or disadvantage.”³¹ However, both the California Supreme Court and the Commission have long and repeatedly recognized that Section 453 only prohibits *unreasonable* discrimination. For instance, the California Supreme Court has held:

Although couched in general terms of “any” prejudice or disadvantage, the section, from the outset, has been interpreted,

²⁸ See, e.g., Executive Order N-28-20, available at <https://www.gov.ca.gov/wp-content/uploads/2020/10/10.07.2020-EO-N-82-20-.pdf>.

²⁹ https://www.catalinaconservancy.org/index.php?s=about&p=about_cic

³⁰ *Id.*

³¹ Cal. Pub. Util. Code § 453(a).

consistent with traditional common law principles, to prohibit only ***unjust or unreasonable*** differential treatment.³²

The California Supreme Court has rejected a broad interpretation of Section 453 and has expressly held that only “unjust and unreasonable” discrimination is prohibited. When interpreting Section 453, the Commission has similarly concluded:

In determining whether the action of a utility is discriminatory, the Commission has held it is not sufficient to merely show that rates, charges, or services, etc. differ. To constitute unlawful discrimination, the treatment must “***draw an unfair line or strike an unfair balance***” between similarly situated entities, and there must be ***no rational basis for the different treatment*** for those similarly situated.³³

Therefore, even if a cross-subsidy treats separate classes of customers differently, it is within the longstanding powers of the Commission to do so, as long as the differentiation is reasonable and the Commission has a rational basis for the different treatment.³⁴

Here, a cross-subsidy is not prohibited under Section 453 because the difference in treatment between Catalina water customers and SCE electric customers is reasonable and in the public interest.³⁵ Catalina customers are not similarly situated to SCE electric customers. Catalina customers live on an island with very limited water resources. Unlike mainland customers, Catalina residents cannot simply import and pipe in water from other territories to

³² *Gay Law Students Ass'n v. Pac. Tel. & Tel. Co.* (1979) 24 Cal.3d 458, 477 (emphasis added); *see also Hansen v. City of San Buenaventura* (1986) 42 Cal.3d 1172, 1180 (to be objectionable, discrimination must “draw an unfair line or strike an unfair balance between those in like circumstances having equal rights and privileges”); *U.S. Steel Corp. v. Pub. Util. Com.* (1981) 29 Cal.3d 603, 612 (classifications must “be found to rest upon some reasonable differentiation fairly related to the object of regulation.”); *Live Oak Water Users' Ass'n v. Railroad Com.* (1923) 192 Cal. 132, 143 (“Not every discrimination or recognition of a ground of difference may be classified as unlawful. A discrimination based upon reason and justice can properly exist.”).

³³ *See, e.g.,* D.10-04-054, p. 7 (emphasis added).

³⁴ Resolution E-5076 (Jan. 14, 2021), p. 29 (“But Section 453 does not prohibit *all* discrimination. As the California Supreme Court has long and repeatedly held, Section 453 prohibits only unreasonable discrimination ... Thus, while the [policy] does treat different classes of customers differently, it is within the longstanding powers of the CPUC to do so, as long as the differentiation is reasonable.”).

³⁵ *See* D.06-03-013, pp. 52-53 (“this modification brings the non-discrimination right more in line with P.U. Code § 453, which recognizes a modicum of discrimination may be an appropriate way to account for differences in consumers’ circumstances. Here, like P.U. Code § 453, we recognize that ***the public interest may be served by reasonable discrimination.***”) (emphasis added).

meet their water needs. Instead, Catalina residents must rely on limited remote groundwater wells and desalination of ocean water—including substantial transmission, treatment, and distribution infrastructure—resulting in water service that is costly to operate. There is a rational basis for different treatment of the two customer classes because Catalina water customers must overcome unique resource constraints that SCE electric customers do not face.

Even with limited water resources, 1,887 Catalina customers contract for water service to support tourism, education, research, and conservation efforts that provide benefits to SCE’s electric customers. It is reasonable for electric customers to pay for a portion of the water costs that they benefit from, and a cross-subsidy in SCE’s electric rates is a reasonable means of accomplishing this. In fact, it would be unreasonable for the 1,887 Catalina customers to pay a 400% increase in rates for services that also benefit SCE electric customers. The cross-subsidy is reasonable and in the public interest because it would constitute a small rate increase for electric customers but represent a large, necessary rate relief for Catalina residents and visitors to access to safe, clean, and affordable water. Section 453 only prohibits *unreasonable* discrimination, and the Commission has broad discretion to allocate costs between customer classes if there is a reasonable basis for the different treatment. SCE’s proposed cross-subsidy is not prohibited under Section 453 because there is a reasonable basis for the different treatment.

C. The Commission Lawfully Approved a Similar Cross-Subsidy in the Previous General Rate Case and Is Authorized to Do So Again

In SCE’s previous general rate case for the Catalina water utility, the Commission considered a similar cross-subsidy and approved it as lawful and in the public interest.³⁶ The Commission had the authority then, and still has the authority now, to approve the cross-subsidy in the present application.

³⁶ D.14-10-048.

On November 15, 2010, SCE filed its Application (A.) 10-11-009 in its previous Catalina water general rate case. On April 23, 2013, after the conclusion of testimony, discovery, and briefing, the Administrative Law Judge (ALJ) Barnett issued a Proposed Decision (PD). Among other issues, ALJ Barnett found that the cross-subsidy was “just and reasonable” and that there was a sufficient nexus between the costs of Catalina water service and SCE’s electric customers for many of the reasons SCE discussed above.³⁷

On August 16, 2013, the parties reached a settlement and filed a joint motion for adoption of settlement (Joint Motion), featuring a cross-subsidy very similar to the subsidy being considered in this proceeding (i.e., recovery of a portion of Catalina water costs from SCE electric customers). The signatories to this joint motion included SCE, The Utility Reform Network (TURN), the Catalina Parties,³⁸ and the Division of Ratepayer Advocates (now the Public Advocates Office) (collectively, Joint Parties). All of these signatories are once again parties in the present proceeding.

In the Joint Motion, the Joint Parties submitted to the Commission that the settlement containing a cross-subsidy was “consistent with law” and “in the public interest.”³⁹ Specifically, the Joint Parties represented to the Commission that they were “experienced CPUC counsel” and that “the terms of the Settlement comply with all applicable statutes and prior Commission decisions, and reasonable interpretations thereof”⁴⁰ and “the Settlement is fully consistent with those statutes and prior Commission decisions.”⁴¹ The Joint Parties—who are parties to this proceeding—collectively and individually submitted to the Commission that the cross-subsidy, was “in the public interest” and “consistent with law” and “comply with all applicable statutes and prior Commission decisions.”

³⁷ See PD, pp. 51-55.

³⁸ The Catalina Parties include the City of Avalon, Catalina Island Chamber of Commerce, Santa Catalina Island Company, Santa Catalina Island Conservancy, Guided Discoveries, and Hamilton Cove Homeowners Association.

³⁹ Joint Motion, p. 4.

⁴⁰ Joint Motion, p. 5.

⁴¹ Joint Motion, p. 5.

In D.14-10-048, the Commission granted the Joint Motion containing the cross-subsidy, concluding in relevant part that “[t]he proposed settlement is consistent with law and does not contravene or compromise any statutory provisions or Commission decision.”⁴² In its decision, the Commission concluded that the cross-subsidy was “consistent with law” and “in the public interest” and did not contravene any statute or prior Commission decision.⁴³ The Commission had the authority to approve a lawful cross-subsidy in the previous general rate case, and still has the authority now in this proceeding to approve a lawful cross-subsidy that is just, reasonable, and serves the public interest.⁴⁴

D. Summary

In sum, the Commission has the authority to charge a portion of SCE’s water utility service costs to SCE’s electric customers. The Commission may lawfully do so under Public Utility Code Sections 451 and 453 because the cross-subsidy is reasonable, acts in the public interest, and would be narrowly tailored only to the facts in this proceeding. For these reasons, the Commission lawfully approved a similar cross-subsidy in the previous general rate case, and the Commission continues to have the authority now to approve a cross-subsidy in this proceeding.

⁴² D.14-10-048, Conclusion of Law 5.

⁴³ D.14-10-048, Conclusion of Law 5 and 6.

⁴⁴ SCE does not cite the previous settlement as precedent in this proceeding. Instead, SCE cites the previous general rate case for the limited purpose of demonstrating that the Commission had the authority to approve a lawful cross-subsidy. Pursuant to Commission’s instructions in D.14-10-048, SCE has justified its present request and ratemaking proposal without any reference to, or reliance on, the adoption of the previous settlement.

III.

THE COMMISSION SHOULD BE OPEN TO CONSIDERING OTHER COST RECOVERY PROPOSALS

Because Catalina is unique and has a history of rate-affordability issues, the Commission should remain flexible and open to considering cost recovery proposals that act in the public interest and promote a pathway to safe, clean, and affordable water service on Catalina.

SCE has carefully considered the various alternatives, including a discussion of the different proposals and why SCE advanced its current proposal in its prepared testimony.⁴⁵ Of the numerous proposals, a consolidation of Catalina rate base and costs with SCE's electric rate base for ratemaking purposes is a viable alternative. SCE submits that the proposed visitor boat fee, however, is not viable by itself but could potentially work as a partial solution. In its Protest, TURN has expressed support for a visitor boat fee,⁴⁶ while the Catalina Parties have stated in their Protest that a visitor boat fee is not feasible but that rate base consolidation "seems [] to have particular merit."⁴⁷

A. A Consolidation of Costs and Rate Bases Should Be Considered

In its prepared testimony, SCE discussed two related cost recovery alternatives for ratemaking purposes: (1) a cost consolidation that would consolidate Catalina water operating expenses with SCE's company-wide electric operating expenses, and (2) a rate base consolidation that would consolidate the Catalina water plant balances with SCE's electric plant balances.⁴⁸ The Commission should consider the consolidation of costs and rate bases because doing so would be in the public interest. Specifically, consolidation would share the costs and capital expenses of Catalina's water operations⁴⁹ with SCE's electric operations, resulting in a

⁴⁵ See SCE Prepared Testimony (SCE-01), Section III(E), pp. 18-29.

⁴⁶ TURN Protest, pp. 3-4.

⁴⁷ Catalina Parties Protest, p. 26.

⁴⁸ SCE Prepared Testimony (SCE-01), pp. 26-27.

⁴⁹ Catalina gas operations should be considered for consolidation as well.

stabilization of rates and affordable water service for Catalina customers and maintaining the public benefits of water service on Catalina.

Because Catalina is unique in that SCE provides water, gas, and electric service for the island, the Commission could consider and authorize a single, consolidated rate case for these services. Specifically, SCE's next electric general rate case will be filed in 2023 for Test Year 2025 and Attrition Years 2026-2028, and then a subsequent application will likely be filed in 2027 for Test Year 2029 and Attrition Years 2030-2032. Upon Commission approval, SCE could include Catalina water and gas costs and rate bases in one of these upcoming applications for joint ratemaking purposes, just as Catalina's electric rates are included in SCE's general electric rate case today.

A consolidated rate base and rate case would be consistent with existing operational realities. SCE's Catalina services operate like a division or high-cost district within SCE's overall multi-district operations. Existing and future Catalina water customers would benefit from stabilized and more affordable rates while residing in a smaller, high-cost district. Given the unique challenges of providing affordable water service to Catalina customers, consolidating rate bases and rate cases for this high-cost district would be in the public interest and should be considered by the Commission in this proceeding.

B. A Visitor Boat Fee Is Not Viable by Itself but Could Potentially Work as a Partial Solution

A visitor boat fee could be used to help pay for a portion of the Catalina water costs from the tourists who directly visit the island. There is a close nexus between the costs of water service and the benefits received by tourists who use the water during their visits to Catalina. However, like SCE's proposed cross-subsidy, a visitor boat fee would still result in a socialization of costs passed onto SCE electric customers. The Commission has the authority to approve a cross-subsidization, whether in the form of a visitor boat fee or the proposed cross-subsidy, if doing so would be in the public interest.

The visitor boat fee, however, would fail to act in the public interest and should not be approved by the Commission as the sole means of cost recovery. Catalina residents and businesses heavily rely on revenue from tourism and have expressed concerns that a boat fee increase could dissuade potential visitors to the island and harm the island's economy.⁵⁰ SCE understands that boat fee increases have already been proposed and implemented in recent years.⁵¹ It is unclear how and to what extent further boat fee increases would negatively impact the island's economy. A boat fee is also an unreliable cost recovery mechanism because the number of tourists can vary year to year. For instance, during periods of recession or the current COVID-19 pandemic, tourism decreases and a visitor boat fee would likely fail to cover the costs for service.⁵² While the visitor boat fee could potentially work as a partial solution, the Commission should focus its attention on cost recovery approaches such as the cross-subsidy or consolidation of rate bases and cases that would work as a comprehensive and equitable solution.

IV.

CONCLUSION

For the reasons above, the Commission should find that it has the authority to charge a portion of SCE's water utility service costs to SCE's electric customers, and the Commission should be open to considering cost recovery proposals that are lawful and serve the public interest.

⁵⁰ This is based on discussion and feedback with various island stakeholders, including the Catalina Parties, during a series of engagement meetings in 2018.

⁵¹ SCE Prepared Testimony (SCE-01), p. 25.

⁵² See Catalina Island Chamber of Commerce, *Catalina Island Visitor Counts*, available at https://assets.simpleviewinc.com/simpleview/image/upload/v1/clients/catalinaislandccvb/10_Year_Visitor_Count_1_21_63e5e90d-6e70-48eb-8f0b-46aec9e44ac2.pdf.

Respectfully submitted,

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