



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

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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.

A.20-10-018

REPLY BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

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SUMMARY OF RECOMMENDATIONS

Pursuant to Rule 13.12 of the Rules of Practice and Procedure of the California Public Utilities Commission, SCE adopts and incorporates the summary of recommendations SCE set forth in its Opening Brief and requests that the Commission's decision include findings and orders as follows:

1. SCE's operation and management of the Catalina water system is prudent and reasonable, given the unique and challenging conditions on the Santa Catalina Island;
2. SCE has upheld its obligation to serve as a Class C water utility and is entitled to recover its prudently incurred costs and a reasonable rate of return on its investments;
3. SCE's adjusted operating expense proposal of \$6.474 million for Test Year 2022 is reasonable;
4. SCE's rate of return of 7.68 percent is reasonable;
5. SCE's transition to a Monterey-style Water Rate Adjustment Mechanism (WRAM) and Incremental Cost Balancing Account (ICBA) is reasonable;
6. SCE is authorized to recover a Test Year 2022 revenue requirement of \$9.430 million from Catalina water customers, to be phased-in over a five-year period from 2022-2026, which represents the normal cost of service required to serve its water customers;
7. SCE is authorized to a recovery of \$32.623 million from its electric customers, which represents the extraordinary drought-related costs and deferred revenues resulting from the five-year phase-in proposal, consistent with prior Commission decision permitting this cost recovery structure:
 - a. The costs SCE incurred in responding to drought conditions tracked in the Catalina Water Rationing Memorandum Account and Catalina Water Lost Revenue Memorandum Account totaling \$11.604 million are reasonable;
 - b. Emergent drought and environmental capital additions and related expense of \$10.551 million are reasonable;
 - c. Deferred revenues of \$10.687 million arising from five-year phase-in of the revenue requirement are reasonable;

8. SCE's proposed recovery of \$32.623 million from its electric customers is just, reasonable, and in the public interest because:
- a. In California, it is the established policy of the state that every person has the right to clean and affordable water. Catalina water customers, however, cannot afford the costs it has taken to serve them, which include the costs that SCE had to incur to provide reliable water throughout severe drought conditions from 2013-2019.
 - b. SCE's proposal allows SCE to recover its reasonably incurred costs for exceptional drought response activities from the broader set of SCE electric customers who have benefitted from this water service and for whom the rate impact will be minimal.
 - c. SCE electric customers are the predominant visitors to the island and much of the water infrastructure has been built to support the needs of SCE mainland customers. Even SCE customers who do not visit the island receive societal benefits such as education, research, and conservation.
 - d. The cross-subsidy is in 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.
 - e. Specifically, the costs incurred by SCE's significantly larger electric customer base would be small (about \$0.28 per month for non-CARE residential customers by 2026) compared to the substantial benefits Catalina water customers would receive (about \$398 in savings per month for non-CARE residential customers by 2026);
9. SCE's ratemaking, rate design proposals, and cost-recovery requests made in its Application are reasonable, consistent with prior Commission decision and practice, and supported by the record evidence.

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REPLY BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

On May 13, 2022, Southern California Edison Company (SCE), Public Advocates Office at the California Public Utilities Commission (Cal Advocates), The Utility Reform Network (TURN), and the City of Avalon, Catalina Island Chamber of Commerce, Santa Catalina Island Company, Santa Catalina Island Conservancy, Guided Discoveries, and Hamilton Cove Homeowners Association (collectively, the Catalina Parties) filed concurrent Opening Briefs in the above-captioned proceeding. Pursuant to Rule 13.12 of the Commission's Rules of Practice and Procedure and the Amended Scoping Memo and Ruling dated April 8, 2022, SCE respectfully submits its *Reply Brief*.

I.

INTRODUCTION

The record demonstrates that SCE's Application, including its requested revenue requirement and cost-recovery approach, is fully supported, and the intervenor's Opening Briefs fail to demonstrate otherwise. The intervenors' briefs largely reiterate arguments already made in their direct testimonies, which have been fully addressed in SCE's Opening Brief. Although SCE disagrees with the arguments and accuracy of many portions of the parties' Opening Briefs, for the sake of brevity, SCE will not repeat its positions set forth in its Opening Brief. Instead, SCE's Reply Brief focuses on new or modified arguments and issues raised by the parties in their

respective Opening Briefs. For these already addressed issues, SCE provides citations to its Opening Brief and to the record, and respectfully asks that the Commission consider the arguments and evidence therein.

II.

EVIDENTIARY STANDARDS AND BURDEN OF PROOF

The parties agree that the applicable burden of proof is that of a “preponderance of evidence,” not a “clear and convincing” standard.¹

III.

THE COMMISSION SHOULD APPROVE SCE’S REQUESTED REVENUE REQUIREMENT

A. SCE’s Forecast O&M and A&G Expenses Are Reasonable

1. SCE’s O&M Forecast Should Be Approved

As detailed in SCE’s Opening Brief, SCE’s current O&M forecast of \$4.053 million incorporates multiple recommendations made in Cal Advocates’ prepared testimony.² The bulk of Cal Advocates’ Opening Brief regarding various accounts reiterates arguments from its prepared testimony. The Catalina Parties only supplement to its prepared testimony to expressly adopt Cal Advocates’ positions relative to SCE’s O&M forecast.³ Where Cal Advocates’ Opening Brief solely relies upon its prepared testimony and does not otherwise refute or reference SCE’s rebuttal testimony, SCE has sought to avoid repeating its contents here.

¹ The Catalina Parties briefly mention the “clear and convincing” standard, but this standard has been rejected by the Commission. *See, e.g.*, D.18-12-021, p. 10 (“Although prior Commission decisions have stated the standard of proof as one of clear and convincing evidence, the Commission has clarified in recent decisions that the standard of proof the applicant must meet in rate cases is that of a preponderance of evidence.”) (citing D.14-12-025, pp. 20-21).

² SCE Opening Brief, p. 5.

³ Catalina Parties Opening Brief, p. 9.

a) Account 615 – Power for Pumping

SCE's forecast of costs for electricity used to operate the water utility equipment is \$267,000,⁴ excluding escalation.⁵ While Cal Advocates revised its recommended reduction to this account to recognize SCE's submission of invoices with its rebuttal testimony, Cal Advocates continues to apply a five-year average to forecast costs for Account 615.⁶ As detailed in SCE's Opening Brief,⁷ SCE's forecast based on the last recorded year (2019) is more reasonable due to the high correlation between water demand and costs incurred in this account for water production, treatment, and distribution and Cal Advocates' five-year average includes multiple years impacted by mandatory water conservation measures.⁸ Accordingly, the Commission should approve SCE's forecast of \$267,000 in Account 615.

b) Account 618 – Other Volume Related Expenses

SCE's forecast for Account 618 covering other expenses related to treating and maintaining a safe water supply is \$121,000,⁹ excluding escalation.¹⁰ Although Cal Advocates' Opening Brief references SCE's earlier forecast which included a \$50,000 adjustment for labor and materials related to replacement of filtering and treatment equipment,¹¹ SCE updated its forecast in its rebuttal testimony reducing this adjustment to \$27,000.¹² The remaining variance arises from Cal Advocates' use of a five-year average as compared to SCE's use of last recorded year (2019) to generate the Test Year forecast. As detailed in SCE's

⁴ SCE-10, p. 28.

⁵ Though the RCP is not applicable because SCE is a Class C water utility, SCE agrees not to apply escalation to Account 615 during the attrition years consistent with the RCP guidance for Class A water utilities.

⁶ Cal Advocates Amended Opening Brief, pp. 5-6.

⁷ See SCE Opening Brief, p. 6.

⁸ SCE-02, p. 8.

⁹ SCE-10, p. 29.

¹⁰ Though the RCP is not applicable because SCE is a Class C water utility, SCE agrees not to apply escalation to Account 618 during the attrition years consistent with the RCP guidance for Class A water utilities.

¹¹ Cal Advocates Amended Opening Brief, p. 6.

¹² SCE-10, p. 28, lines 15-19 and p. 29, lines 7-11 (Consistent with Cal Advocates' recommendation, \$23,000 of the original \$50,000 adjustment was assigned to Account 630 – Employee Labor.)

Opening Brief and similar to Account 615 discussed above,¹³ SCE's last recorded year methodology more accurately reflects anticipated costs in Account 618 by excluding years with atypical conditions. SCE's forecast for Account 618 of \$121,000 should be approved.

c) Account 630 – Employee Labor

SCE's forecast for Account 630 encompassing the costs of all employees whose time supports the operation, maintenance, and repair of the water system is \$1,832,050.¹⁴ The forecast is comprised of the sum of \$1,677,000 (last recorded year of 2019),¹⁵ a \$124,000 adjustment to backfill two vacant positions and cover incremental water valve inspection costs,¹⁶ a \$23,000 adjustment from Account 618,¹⁷ and a \$8,050 adjustment from Account 650.¹⁸ Cal Advocates' Brief succinctly restates its recommendation to reduce SCE's forecast citing to its prepared testimony.¹⁹ SCE has fully addressed Cal Advocates' arguments in its rebuttal testimony²⁰ and Opening Brief²¹ and will not restate them here.

d) Account 640 – Materials

SCE's forecast for Account 640 (materials and supply costs used in the operations, maintenance, and repair of the water system) is \$128,000, which includes amortizing the \$100,000 cost of the reverse osmosis (RO) membrane over five years.²² The remaining variance arises from Cal Advocates' application of a five-year average to forecast Account

¹³ SCE Opening Brief, pp. 7-8.

¹⁴ SCE-10, p. 32.

¹⁵ Though the exact 2019 general ledger entry is \$1,677,407 as set forth below, SCE elects to use the rounded number of \$1,677,000 for its forecast.

¹⁶ SCE elects to use the rounded number of \$124,000 for its forecast.

¹⁷ See SCE Opening Brief, Section III.A.1.b (Account 618) (Consistent with Cal Advocates' recommendation, SCE agrees to remove \$23,000 from Account 618 and requests that the Commission approve a \$23,000 addition to Account 630).

¹⁸ See SCE Opening Brief, Section III.A.1.e (Account 650) (SCE requests approval to move \$8,050 in labor expense inadvertently presented in the adjustment for the Wildfire activities in Account 650 into Account 630).

¹⁹ Cal Advocates Amended Opening Brief, p. 7.

²⁰ SCE-10, pp. 29-32.

²¹ SCE Opening Brief, pp. 8-11.

²² SCE-10, p. 33.

640.²³ As detailed in SCE's rebuttal testimony²⁴ and Opening Brief,²⁵ SCE's use of the last record year methodology is more appropriate by excluding outlier costs in prior years and Cal Advocates' use of a five-year average results in a less accurate and higher forecast.

e) **Account 650 – Contract Work**

SCE's forecast for Account 650 includes the costs of all repair and maintenance work performed by non-SCE labor (i.e., contractors) and the materials and supplies necessary to complete the work (unless separately accounted for in Account 640.) SCE's current forecast for Account 650 is \$1,544,000, which is the sum of \$503,000 (last recorded year of 2019)²⁶ and an updated total adjustment of \$1,041,000. While Cal Advocates agrees with the application of the last recorded year methodology, Cal Advocates contends the total adjustment to Account 650 should be \$222,000.²⁷ Cal Advocates' Opening Brief discussing Account 650 comprises a short restatement of its recommendations along with citations to its prepared testimony.²⁸ SCE respectfully refers to its rebuttal testimony²⁹ and Opening Brief³⁰ discussing how SCE made certain downward adjustments to its forecast based on Cal Advocates' recommendations and why Cal Advocates' recommendations should be otherwise rejected. SCE's forecast of \$1,544,000 for Account 650, including adjustments totaling \$1,041,250, should be approved as requested.

²³ Cal Advocates Amended Opening Brief, p. 7.

²⁴ SCE-10, p. 33, lines 11-17.

²⁵ SCE Opening Brief, p. 12.

²⁶ Though the exact 2019 general ledger entry is \$1,677,407 as set forth below, SCE elects to use the rounded number of \$1,677,000 for its forecast.

²⁷ Cal Advocates-01-C, p. 2-13. In Table 2 of Cal Advocates Opening Brief, Cal Advocates' proposed adjustment appears to be \$282,000. However, this appears to be in error associated with the "Water facility preventative inspection and maintenance" category where the text shows Cal Advocates continues to recommend a reduction of \$60,000 which is not reflected in Table 2. See Cal Advocates Opening Brief at pp. 8-9.

²⁸ See Cal Advocates Amended Opening Brief at pp. 8-9.

²⁹ SCE-10, pp. 35-41.

³⁰ SCE Opening Brief, pp. 12-18.

f) Account 660 – Transportation Expenses

SCE's forecast for Account 660 covering vehicle and equipment costs used in support of water system operations is \$161,000.³¹ Cal Advocates' lower forecast arises from its application of a five-year average versus SCE's use of last recorded year.³² Contrary to Cal Advocates' restated arguments, SCE fully explained why 2019 recorded costs are most reflective of Test Year costs in both data request responses and its rebuttal testimony.³³ Cal Advocates does not refer or otherwise refute SCE's explanation and relies solely on its previously prepared testimony. For the reasons set forth herein and in SCE's Opening Brief,³⁴ SCE's forecast for Account 660 should be approved as requested.

2. SCE's A&G Forecast Should Be Approved

SCE's current Test Year 2022 A&G forecast is \$1.891 million.³⁵ This forecast incorporates revisions based on certain recommendations by Cal Advocates.³⁶ For the reasons set forth below and in SCE's Opening Brief, the Commission should approve SCE's current A&G forecast and reject Cal Advocates' remaining recommendations.

a) Account 670 – Office Salaries

SCE's forecast for Account 670 encompassing labor costs to provide general administration of the Catalina water utility is \$396,000.³⁷ Cal Advocates' lower forecast is based on its application of a two-year average (2018-2019).³⁸ However, as detailed in SCE's rebuttal testimony³⁹ (which Cal Advocates does not address) and Opening Brief,⁴⁰ it is

³¹ SCE-02, p. 22.

³² Cal Advocates Amended Opening Brief, p. 11.

³³ See Cal Advocates-01-C, Attachment 2-27 (SCE's Response to DR CR8-010, Q.3) and SCE-10, p. 42.

³⁴ SCE Opening Brief, p. 19.

³⁵ SCE-10, p. 43.

³⁶ SCE's A&G forecast was \$1.940 million at the time of the GRC application's submission.

³⁷ SCE-02, p. 25.

³⁸ Cal Advocates Amended Opening Brief, pp. 13-14.

³⁹ SCE-10, pp. 43-45.

⁴⁰ SCE Opening Brief, p. 20

undisputed that the 2018 expenses fail to account for workforce restructuring that added seven employees and SCE's application of last recorded year (2019) costs incorporating those addition is more accurate.⁴¹ Accordingly, SCE's forecast should be adopted as requested.

b) Account 671 – Management Salaries

SCE's forecast for Account 671 (salaries of managers and supervisors overseeing and coordinating daily operations, maintenance, and regulatory compliance) is \$154,000.⁴² Mirroring its prepared testimony, Cal Advocates' lower forecast arises from its application of a two-year average due to an allegedly "unexplained increase" between 2018 and 2019.⁴³ SCE's rebuttal testimony explained that an accounting issue resulted in 2018 costs not properly reflecting the correct labor expenses.⁴⁴ As Cal Advocates' Opening Brief never refutes this point or otherwise disputes that 2019 recorded costs reflect the labor costs of the current organizational structure, SCE's forecast for Account 671 should be approved.

c) Account 676 – Uncollectible Accounts Expense

SCE's forecast for Account 676 reflecting funds required to cover losses from uncollectible accounts receivable is \$21,525.⁴⁵ Cal Advocates' Opening Brief fails to account for SCE's update to its Account 676 forecast by referencing SCE's original forecast which utilized the uncollectible rate for its electric customers.⁴⁶ While Cal Advocates and SCE both utilize a five-year average, the variance arises from Cal Advocates' use of a five-year average of actual uncollectible expenses versus SCE's use of the five-year average uncollectibles rate specific to the Catalina water utility (0.2822%) multiplied by the proposed operating revenue.⁴⁷ As SCE's forecast methodology is more reasonable by accounting for differences

⁴¹ SCE-10, p. 43.

⁴² SCE-02, p. 25.

⁴³ Cal Advocates Amended Opening Brief, p. 14.

⁴⁴ SCE-10, p. 44.

⁴⁵ SCE-10, p. 47.

⁴⁶ Cal Advocates Amended Opening Brief, p. 15.

⁴⁷ See Cal Advocates Amended Opening Brief, p. 15; SCE-10, p. 47.

between operating revenue levels over the five-year period and incorporate operating revenues during the Test Year,⁴⁸ SCE's updated forecast for Account 676 should be approved as requested.

d) Account 678 – Office Services and Rentals

SCE's forecast for Account 678 (office services and equipment rentals) is \$45,054 and includes operating rents that will be paid from the water utility to the electric utility to supplant the use of common plant allocations to the water utility.⁴⁹ SCE updated its forecast by incorporating multiple elements of Cal Advocates' recommendations.⁵⁰ However, while Cal Advocates calculates its forecast utilizing a median square footage cost estimate of \$45.92, SCE's forecast applies an averaging of the rough order of magnitude costs estimates derived from similar commercial property sales to derive a \$125 per square foot valuation.⁵¹ Cal Advocates' Opening Brief refers to its prepared testimony and does not otherwise respond to SCE's rebuttal testimony.⁵² For the reasons set forth above and in its Opening Brief, SCE's revised Test Year forecast for Account 678 of \$45,054 should be approved.⁵³

e) Account 681 – Office Supplies and Expenses

SCE's forecast for Account 681 (office supplies and other office expenses) is \$74,000 and based on a two-year average of recorded expenses in this account (2018-2019).⁵⁴ In its Opening Brief, Cal Advocates restates its recommendation to apply a five-year average citing to alleged one-time expenses for equipment maintenance and repair.⁵⁵ Cal Advocates does not respond to or otherwise address SCE's rebuttal testimony noting that, due to the age of the facilities and resulting failures, it is reasonably foreseeable that SCE will continue to incur

⁴⁸ See SCE-10, p. 47 (Table IV-9).

⁴⁹ SCE-10, p. 45.

⁵⁰ See SCE Opening Brief, pp. 22-24.

⁵¹ SCE Opening Brief, pp. 23-24.

⁵² Cal Advocates Amended Opening Brief, pp. 14-15.

⁵³ SCE Opening Brief, pp. 22-24.

⁵⁴ SCE-10, p. 46.

⁵⁵ Cal Advocates Amended Opening Brief, p. 15.

unplanned miscellaneous purchases to address emergent O&M projects and activities. For the reasons set forth above and in its Opening Brief, SCE's revised Test Year forecast for Account 681 should be approved.⁵⁶

f) Account 682 – Professional Services

SCE's uncontested forecast for Account 682 covering expenses related to external professional services (e.g. consultants and engineers) of \$361,000 should be approved.⁵⁷

g) Account 689 – General Expenses

SCE's forecast for Account 689 including miscellaneous administrative and general expenses necessary for utility operations, but not identified in other operating expense accounts, is \$464,000 and is initially based on the last recorded year's (2019) costs and then modified to address a one-time accounting adjustment.⁵⁸ Outside of a brief reference in a table, Cal Advocates does not otherwise address SCE's forecast for this account.⁵⁹ For the reasons detailed in SCE's rebuttal testimony, SCE's forecast is more reasonable by removing the variability of accounting treatment of miscellaneous activities impacting this account should be approved as requested.

h) Account 800.1 – A&G Allocation

SCE uses the Commission-approved "four-factor method" allocation, consistent with Standard Practice U-06-W, for its companywide A&G expense to the water utility.⁶⁰ After applying the four-factor allocation method, SCE derived an A&G allocation rate of 0.064% resulting in an allocation of indirect A&G expenses to the Catalina water utility of \$1.081 million.⁶¹ In its Opening Brief, Cal Advocates urges the Commission to reject SCE's allocation and adopt the same amount allocated in the last Catalina water GRC (\$535,020) solely

⁵⁶ SCE Opening Brief, pp. 24-25.

⁵⁷ SCE Opening Brief, p. 25.

⁵⁸ SCE-10, pp. 46-47.

⁵⁹ Cal Advocates Amended Opening Brief, p. 12.

⁶⁰ SCE-10, pp. 48, 50-51; Standard Practice U-06-W (Allocation of Administrative and General Expenses and Common Plant and the Four-Factor Allocation Method).

⁶¹ SCE-06, p. 6; SCE-06WP, pp. 29-30.

because the application of the four-factor allocation method results in a higher amount in this GRC and even though Cal Advocates does not dispute the accuracy of SCE's calculation of the allocated expenses based thereupon.⁶²

Cal Advocates notes that SCE does not maintain administrative offices on Catalina and that administrative functions are performed at SCE's General Office in Rosemead in a misguided effort to argue that these A&G expenses do not benefit the Catalina water utility's customers.⁶³ As SCE detailed in its testimony, Catalina customers benefit significantly from the substantial resources afforded by SCE's administrative and operational support functions benefiting customers in areas including but not limited to: Regulatory Affairs, Finance, Law, Customer Service and Billing, Information Technology, and Human Resources.⁶⁴ Regardless of where those services are performed, it is reasonable for Catalina Water customers to pay their fair share of these benefits in accordance with the methodology established by the Commission standard practice and precedent (including in the Catalina water utility's last GRC.) For these reasons and those set forth in SCE's Opening Brief,⁶⁵ the Commission should approve the allocated \$1.081 million for indirect A&G expenses under Account 800.1.

i) Account 800.2 – Capitalized A&G Expense

As noted in SCE's Opening Brief, the methodology for calculating capitalized A&G expense is not in dispute and the variance between SCE's and Cal Advocates' respective forecasts in this account arises from the differing A&G amounts being utilized in each party's calculation.⁶⁶ For the reasons set forth herein and throughout SCE's Opening Brief, SCE's A&G forecast should be adopted resulting in capitalized A&G expense as -\$798,615.⁶⁷

⁶² Cal Advocates Amended Opening Brief, pp. 11-12.

⁶³ Cal Advocates Amended Opening Brief, p. 13.

⁶⁴ SCE-10, pp. 50-51.

⁶⁵ SCE Opening Brief, pp. 25-28.

⁶⁶ SCE Opening Brief, p. 28.

⁶⁷ SCE-10, p. 48.

j) Account 689.927 – Franchise Fees

As discussed in SCE's Opening Brief, the methodology for calculating franchise fees is not in dispute. The variance between SCE's and Cal Advocates' respective forecasts solely arises from each party's proposed revenue requirement for the Catalina water utility.⁶⁸ For the reasons set forth herein and throughout SCE's Opening Brief, SCE's proposed revenue requirement should be adopted resulting the franchise fees amount of \$94,305.⁶⁹

B. SCE's Proposed Additions to Plant are Necessary, Accurate, Reasonable, and Justified

1. Historical Capital Projects

As discussed in SCE's Opening Brief, SCE completed 24 capital projects since the last GRC addressing 1) water supply and drought resiliency, 2) regulatory and safety compliance, and 3) infrastructure replacement and operational improvement.⁷⁰ These capital projects are used and useful, benefitting water customers, and the requested amounts reflect recorded expenditures for the projects. Cal Advocates' and the Catalina Parties' respective Opening Briefs address and recommend disallowance of funding for three of the projects:

a) Howlands Landing Well 3 and Pipeline, b) Million Gallon Tank (MGT) Renovation and Rebuild and c) Water SCADA Upgrade.⁷¹

a) Howlands Landing Well 3 Well and Pipeline

In their Opening Briefs, Cal Advocates and the Catalina Parties assert that the recorded expenditures incurred by SCE to construct the Howlands Landing Well 3 (HL-3) should be denied based upon an unsupported claim that the failure of Howlands Landing Well 1

⁶⁸ SCE Opening Brief, p. 29.

⁶⁹ SCE-10, p. 48.

⁷⁰ SCE-03, p. 1.

⁷¹ Although Cal Advocates' prepared testimony recommended disallowance of funding related to SCE's construction of Desalination Plant 2, Cal Advocates Opening Brief does not appear to reference this capital project. SCE respectfully refers to the portions of its Opening Brief supporting approval of the rate base addition of \$643,932, representing the outstanding balance of costs to complete the Desalination Plant 2 project, net of grants and contributions. See SCE Opening Brief, pp. 30-32.

(HL-1), was foreseeable.⁷² As detailed in SCE's prepared and evidentiary hearing testimony and Opening Brief, HL-3 is a used and useful resource that has and continues to benefit customers on the island's West End. Moreover, HL-1's failure was precipitated by substantial levels of seawater intrusion experienced during the early stages of severe drought conditions.⁷³ Cal Advocates and the Catalina Parties essentially seek to penalize SCE for failing to predict the failure of HL-1, even though neither party appears to contend SCE should have foreseen those drought conditions, and for not preemptively acting to construct a new replacement well while simultaneously asserting that SCE should not recover for the recorded expenditures incurred to construct that replacement well. The imposition of such a penalty for a used and useful asset is unsupported and directly contravene the regulatory compact and should be rejected outright.⁷⁴

In their Opening Briefs, both parties continue to point to additional costs arising from HL-1's failure, including emergency-related water supply costs during the construction of HL-3 and treatment system and well casing repairs for HL-3, as justification for disallowing SCE recovery of the actual costs of constructing HL-3. As detailed in SCE's Opening Brief, the cost of actually *constructing* HL-3 is entirely separate from the cost required to supply water during construction, to treat the water, or to repair the casing of the well and those distinct costs do not warrant disallowance of the actual costs of construction. Based upon the record in this proceeding, the Commission should find that that the actual costs of constructing HL-3 are reasonable and thereby approve the \$1,653,457 addition to SCE's rate base.

⁷² Cal Advocates Amended Opening Brief, pp. 26-27 and Catalina Parties Opening Brief, pp. 27-29. In the case of the Catalina Parties, they posit that a backup well should have been constructed in the past. Catalina Parties Opening Brief, pp. 27-28.

⁷³ See SCE-03, pp. 8-11; SCE-10, pp. 60-61; SCE, Hite, Tr. Vol. 4, p. 441:13 – 443:7.

⁷⁴ See, e.g. D.10-10-017, p. 38-39, 2010 WL 4128323 (Oct. 14, 2010), (Sierra Pac. Power Co.) (“under the decades old regulatory compact, rate recovery can be expected for all reasonable expenditures made in the provision of safe and reliable utility service”); D.09-03-025, p. 324, 2009 WL 801553 *128 (Mar. 12, 2009) (Southern California Edison) (“The ‘regulatory compact,’ is that in exchange for a reasonable opportunity of earning a fair return, ratepayers pay the adopted rates and the utility does what is necessary to provide safe and reliable service.”).

b) Million Gallon Tank (MGT) Renovation and Rebuild

In its Opening Brief, Cal Advocates succinctly summarizes its prepared testimony arguing that USC should have paid a greater share of the costs for the MGT Renovation and Rebuild project and SCE should only be permitted to recover an amount net of what Cal Advocates contends that USC should have paid.⁷⁵ However, as detailed in SCE's rebuttal testimony and Opening Brief, Cal Advocates' recommendation is based upon a misreading of the relevant contract between SCE and USC.⁷⁶ The allocation of costs is not based on the MGT's storage volume, rather it is based on the incremental costs of the MGT's construction arising from the fire protection services resulting in USC bearing 51.2% of the costs (i.e. the "Fire Protection Cost") and SCE bearing the remaining 48.8% of the costs for the MGT.⁷⁷ Cal Advocates does not otherwise dispute the reasonableness of expenditures incurred for the MGT Renovation and Rebuild project.

In its Opening Brief, the Catalina Parties includes wholesale reproductions of its prepared testimony with the lone addition of a claim that SCE has never denied the Catalina Parties' recounting of alleged events.⁷⁸ However, as detailed in SCE's rebuttal and evidentiary hearing testimony and Opening Brief, SCE directly addresses why the Catalina Parties' narrative concerning SCE's discovery of PCBs in the MGT in late 2005 has no bearing on the reasonableness and prudence of the MGT Renovation and Rebuild project completed in June 2016.⁷⁹ Beyond SCE's timely response to the PCB-related issues at the MGT in consultation with the State's Division of Drinking Water and the United States Environmental Protection Agency, the MGT, originally constructed in 1967, had a lead-based exterior coating

⁷⁵ Cal Advocates Amended Opening Brief, pp. 27-28.

⁷⁶ SCE-10, pp. 62-63; SCE Opening Brief, pp. 35-36.

⁷⁷ See SCE-10, pp. 62-63 (including Table V-13 showing Original MGT Reimbursement Ratio Calculation) and Cal Advocates-01, Attachment 6-2, p. 4 (Ratio of Fire Protection Cost to Completed Cost).

⁷⁸ Catalina Parties Opening Brief, pp. 29-33. See also CP-01, pp. 20-24.

⁷⁹ SCE-10, pp. 63-64; SCE-10WP, pp. 94-98; SCE, Hite, Tr. Vol. 4, pp. 429:4-432:11; SCE Opening Brief, p. 36.

that required remediation prior to initiation of the projects to address issues with the MGT's interior, including the complete replacement of the tank floor.⁸⁰ The Catalina Parties' attempt to utilize unsupported and irrelevant allegations from a former SCE employee who is concurrently represented by the Catalina Parties' counsel should be rejected. As nothing in the record properly challenges SCE's showing of both the prudence of SCE's MGT Renovation and Rebuild project and the reasonableness of the costs incurred, the Commission should approve SCE's request for its share of the recorded capital expenditures totaling \$2,272,462.

c) Water SCADA Upgrade

Cal Advocates' and the Catalina Parties' Opening Briefs mirror their respective prepared testimonies recommending complete disallowance of SCE's Water SCADA Upgrade projects and primarily relying upon a proposed, but unadopted, decision by the Administrative Law Judge assigned to SCE's last GRC.⁸¹ SCE has addressed both parties' corresponding arguments in SCE's rebuttal and evidentiary hearing testimony⁸² and Opening Brief⁸³ and will not repeat them here.

2. Forecasted Capital Projects

a) Desalination Enhancements Phase 1

Cal Advocates' Opening Brief mirrors its prepared testimony with respect to SCE's Desalination Enhancements Phase 1 project arguing its costs should be confined to the amount of the Department of Water Resources grant budget.⁸⁴ SCE has addressed Cal

⁸⁰ See SCE-10, p. 63; SCE-10WP, pp. 94-98; SCE, Hite, Tr. Vol. 4, pp. 429:4-432:11

⁸¹ Cal Advocates Amended Opening Brief, pp. 28-29; Catalina Parties Opening Brief, p. 33-34.

⁸² SCE-10, pp. 65-66; SCE, Hite, Tr. Vol. 4, pp. 424:3-15, 425:28-426:15, 438:12-19.

⁸³ SCE Opening Brief, pp. 36-37.

⁸⁴ Cal Advocates-01, p. 6-16 – 6-17; Cal Advocates Amended Opening Brief, p. 15. In its Opening Brief, the Catalina Parties indicate that they “seek a commitment from SCE as to how it will use desalination in nondrought periods”, but otherwise adopt Cal Advocates' recommendation. Catalina Parties Opening Brief, pp. 15-17.

Advocates' arguments in SCE's rebuttal testimony⁸⁵ and Opening Brief⁸⁶ and will not repeat them here.

b) Desalination Building Upgrade

Cal Advocates' Opening Brief briefly references its prepared testimony with respect to SCE's Desalination Building Upgrade recommending no cost recovery based on insufficient justification.⁸⁷ SCE has addressed Cal Advocates' arguments in SCE's rebuttal testimony⁸⁸ and Opening Brief⁸⁹ and will not repeat them here.

c) Water Meter Replacement Program

Although it is undisputed that over 1,300 of SCE's water meters currently exceed or will soon exceed the maximum service periods prescribed by General Order (GO) 103-A, Cal Advocates' Opening Brief mirrors its prepared testimony with respect to SCE's Water Meter Replacement Program arguing that SCE seek an extension to comply with GO 103-A's mandates rather than proceeding with replacement of the aged meters.⁹⁰ As detailed in SCE's rebuttal testimony and Opening Brief, SCE's Water Meter Replacement Program is necessary both to comply with GO 103-A and to support meter accuracy helping ensure customers only pay for the water service they receive and do not subsidize those whose meters do not accurately reflect their actual usage.⁹¹ SCE's Water Meter Replacement Program should be approved as requested.

⁸⁵ SCE-10, pp. 67-70.

⁸⁶ SCE Opening Brief, pp. 37-39.

⁸⁷ Cal Advocates-01, p. 6-18; Cal Advocates Amended Opening Brief, p. 16. In its Opening Brief, the Catalina Parties restate portions of their testimony and otherwise appear to adopt Cal Advocates' recommendation. Catalina Parties Opening Brief, pp. 15-17.

⁸⁸ SCE-10, pp. 70-71; SCE-10WP, pp. 85-88.

⁸⁹ SCE Opening Brief, pp. 39-40.

⁹⁰ Cal Advocates-01, p. 6-19; Cal Advocates Amended Opening Brief, p. 17. In its Opening Brief, the Catalina Parties restate portions of their testimony and otherwise adopt Cal Advocates' recommendation. Catalina Parties Opening Brief, p. 18.

⁹¹ SCE-03, p. 63; SCE-10, p. 72; SCE Opening Brief, pp. 40-41.

d) Water Valve Replacement Program

Cal Advocates' Opening Brief briefly references its prepared testimony with respect to SCE's Water Valve Replacement Program recommending no cost recovery based on insufficient justification.⁹² SCE has addressed Cal Advocates' arguments in SCE's rebuttal testimony⁹³ and Opening Brief⁹⁴ and will not repeat them here.

e) Water System Control Valve Replacements

Cal Advocates' Opening Brief briefly references its prepared testimony with respect to SCE's Water System Control Valve Replacements recommending no cost recovery based on insufficient justification.⁹⁵ SCE has addressed Cal Advocates' arguments in SCE's rebuttal testimony⁹⁶ and Opening Brief⁹⁷ and will not repeat them here.

f) Wildfire Mitigation

Cal Advocates' Opening Brief briefly references its prepared testimony with respect to SCE's Wildfire Mitigation recommending a reduction of \$220,000 from SCE's \$303,600 request related to PSPS and system hardening work due to insufficient justification.⁹⁸ SCE has addressed Cal Advocates' arguments in SCE's rebuttal testimony⁹⁹ and Opening Brief¹⁰⁰ and will not repeat them here.

⁹² Cal Advocates-01, p. 6-21 – 6-22; Cal Advocates Amended Opening Brief, p. 17. In its Opening Brief, the Catalina Parties restate portions of their testimony and otherwise adopt Cal Advocates' recommendation. Catalina Parties Opening Brief, p. 18.

⁹³ SCE-10, pp. 73-74.

⁹⁴ SCE Opening Brief, p. 41.

⁹⁵ Cal Advocates-01, p. 6-23; Cal Advocates Amended Opening Brief, p. 17. In its Opening Brief, the Catalina Parties restate portions of their testimony and otherwise adopt Cal Advocates' recommendation. Catalina Parties Opening Brief, pp. 18.

⁹⁶ SCE-10, pp. 74-75.

⁹⁷ SCE Opening Brief, p. 42.

⁹⁸ Cal Advocates-01, p. 6-23 – 6-24; Cal Advocates Amended Opening Brief, p. 17-18. In its Opening Brief, the Catalina Parties restate portions of their testimony and otherwise adopt Cal Advocates' recommendation. Catalina Parties Opening Brief, pp. 18-19.

⁹⁹ SCE-10, pp. 75-76.

¹⁰⁰ SCE Opening Brief, pp. 42-43.

C. SCE's Rate Base Forecast Is Reasonable

1. SCE's Proposed Net Salvage Rates Are Reasonable

In its Opening Brief, Cal Advocates only addresses its recommendation related to SCE's proposed Net Salvage Rate (NSR) for Account 342 (Reservoir and Tanks) contending that SCE's use of recent retirement data (specifically, the removal of a tank at the Catalina airport in 2017) in lieu of an industry average for that account is improper.¹⁰¹ SCE's rebuttal and evidentiary hearing testimony and Opening Brief detail why specific recorded data from a recent retirement of an asset located on Catalina island is superior to an industry average.¹⁰² Cal Advocates asserts that SCE's decision to cap the NSR at -120, even though the recorded retirement data supports a -229 percent NSR, is somehow "arbitrary."¹⁰³ As explained in testimony, SCE capped this account's proposed NSR at -120 percent to keep overall depreciation rates flat with currently authorized rates.¹⁰⁴ As further explained in testimony, SCE's proposed NSR represents the most reasonable estimate of the future costs of removal and seeks to balance the risks associated with setting the NSR significantly below that forecast and passing on those costs to future customers who did not benefit from the removed asset.¹⁰⁵ Accordingly, SCE's NSR for Account 342 should be adopted as requested.

2. Cal Advocates' Recommendation that SCE Be Required to Present a Detailed Lead Lag Study Should Be Rejected.

Cal Advocates' Opening Brief mirrors its prepared testimony with respect to recommendations that SCE be required to present a detailed lead lag study in its next GRC.¹⁰⁶

¹⁰¹ Cal Advocates Amended Opening Brief, pp. 19-20.

¹⁰² SCE-10, pp. 78-79; SCE, Varvis, Tr. Vol. 3, pp. 294:9-25, 296:18-297:3; SCE Opening Brief, pp. 44-45.

¹⁰³ Cal Advocates Amended Opening Brief, p. 20.

¹⁰⁴ SCE-10, p. 79; *see also* SCE, Varvis, Tr. Vol. 3, pp. 298:20-300:28.

¹⁰⁵ SCE-10, p. 79; SCE, Varvis, Tr. Vol. 3, pp. 301:28-303:22.

¹⁰⁶ Cal Advocates Amended Opening Brief, p. 21.

SCE has addressed Cal Advocates' arguments in SCE's rebuttal testimony¹⁰⁷ and Opening Brief¹⁰⁸ and will not repeat them here.

D. SCE's Costs in Its Two Drought-Related Memorandum Accounts Are Reasonable

1. Recovery of Costs in the Catalina Water Rationing Memorandum Account Should Be Approved

Cal Advocates recommends the amortization of the balances tracked in the Catalina Water Rationing Memorandum Account (Drought Memo Account), albeit with significant recommended reductions.¹⁰⁹ Cal Advocates' recommended balance for recovery is \$1.410 million, 3.667 million or 72-percent less than SCE's requested amount of \$5.077 million.¹¹⁰ The Catalina Parties recommend the Commission deny any recovery of the Drought Memo Account balances.¹¹¹

The Drought Memo Account was established in 2010 and SCE began recording costs to the Drought Memo Accounting in 2014.¹¹² The expenses and offsets recorded in the Drought Memo Account from 2014 through 2017 include: (1) incremental operating expenses incurred associated with the drought and implementation of the Water Rationing Plan; (2) revenues from penalties and fines paid by customers for violations of Schedule 14.1 water use restrictions; and (3) unforeseen expenses caused by the exceptional drought conditions.¹¹³

Cal Advocates recommends the Drought Memo Account be reduced by \$3.4 million dollars for costs Cal Advocates claims were not within the scope of the Drought Memo Account and/or were reasonably foreseeable. SCE's recording of unforeseen expenses caused by the exceptional drought conditions to the Drought Memo Account are reasonable and consistent

¹⁰⁷ SCE-10, p. 81.

¹⁰⁸ SCE Opening Brief, pp. 46-47.

¹⁰⁹ Cal Advocates Amended Opening Brief, p. 22.

¹¹⁰ Cal Advocates Amended Opening Brief, p. 22.

¹¹¹ Catalina Parties Opening Brief, p. 25.

¹¹² SCE-05, p. 11.

¹¹³ SCE-05, p. 11.

with Commission authority.¹¹⁴ As discussed in SCE’s Opening Brief, SCE did not have a Catastrophic Event Memorandum Account (CEMA) established for the Catalina water utility during the recent historic drought to separately recorded related costs.¹¹⁵ Notwithstanding, there is no reasonable dispute that the incremental expenses recorded in the Drought Memo Account would not have been incurred by SCE “but for” the historic drought conditions. The CEMA and drought memorandum accounts reflect the Commission’s long-held understanding that, during states of emergencies, such as the Drought State of Emergency declared by then Governor Jerry Brown in January 2014, utilities must timely respond to unforeseen (and unforeseeable) events. Accordingly, SCE’s use of the Drought Memo Account to record incremental costs that would not have been incurred but for the drought State of Emergency is reasonable and Cal Advocates’ and Catalina Parties’ recommendations to significantly reduce or deny recovery of these undisputed, drought-related costs should be rejected.

2. Recovery of Costs in the Catalina Water Lost Revenue Memorandum Account Should Be Approved

Cal Advocates recommends multiple reductions to SCE’s Catalina Water Lost Revenue Memorandum Account (Lost Revenue Memo Account), including denying recovery of balances over three years old, offsetting lost revenue by expense savings during the period of reduced sales, and reducing Lost Revenue Memo Account balances in proportion to SCE’s “unreasonable” water loss rate during the years in which the Lost Revenue Memo Account was active.¹¹⁶ The Catalina Parties recommend the Commission deny any recovery of the Drought

¹¹⁴ See, e.g., D.92-09-084 (Re Measures to Mitigate the Effects of Drought on Regulated Water Utilities, Their Customers and the General Public), pp. 9-10, 45 CPUC 2d 630 (Sept. 16, 1992) (“Our decisions have made it clear that water companies should be permitted to recover in rates reasonable lost revenue and reasonable costs caused by drought. ... So long as expenses are directly drought-related, are not otherwise recoverable, and are subject to review by staff to be certain that they are reasonable, we agree that they may properly be booked to the memorandum account.”)

¹¹⁵ SCE-10, p. 85 (SCE has since established a Catalina Water CEMA via Advice 119-W-A on May 5, 2020 with an effective date of March 4, 2020).

¹¹⁶ Cal Advocates Amended Opening Brief, pp. 23-25.

Memo Account balances.¹¹⁷ Despite Cal Advocates' and the Catalina Parties' contentions, SCE's implementation and operation of the Lost Revenue Memo Account is correct, in accordance with Standard Practice U-40-W, and SCE should be allowed to recover costs recorded to the account.

First, SCE is fully justified in seeking recovery of Lost Revenue Memo Account balances dating back to 2014. SCE did not exit mandatory conservation and rationing on Catalina until February 2019 and seeking recovery sooner would have resulted in a piecemeal review of SCE's drought costs. Cal Advocates specifically argued against this in SCE Application (A.) 21-06-007 seeking establishment of a Catalina Water Decommissioned Pipe Memorandum Account.¹¹⁸ Spreading recovery of costs related to a single continuous exceptional event over multiple proceedings is counterproductive and an inefficient use of SCE, Commission, and intervenor resources. SCE's request to seek recovery of the Lost Revenue Memo Account as part of a comprehensive GRC, among all of SCE's other drought-related costs, is reasonable.

Second, SCE's operation of the Lost Revenue Memo Account is accurate and correct. There is no requirement, in either the Commission-approved governing tariff or Standard Practice that requires an offset for expense savings as Cal Advocates recommends. The Commission's own drought procedures only require a 20-basis point reduction in Return on Equity and an earnings test prior to recovery.¹¹⁹ SCE appropriately and accurately applied the required 20-basis point ROE adjustment in the Lost Revenue Memo Account. Cal Advocates' recommendation incorrectly imposes additional requirements on recovery of the lost revenue balance and should be rejected.

¹¹⁷ Catalina Parties Opening Brief, p. 27.

¹¹⁸ Cal Advocates' Testimony in A.21-06-007, pp. 1-2 to 1-5.

¹¹⁹ Standard Practice U-40-W, No. 36.

Third, reducing SCE's Lost Revenue Memo Account Balance by an associated water loss rate is unreasonable and should be rejected. See Section III.F(1) below for a discussion of Cal Advocates' proposal relating to water loss.

E. Historical Water Capital Expenditures

Please see Section III.B.1 above for a discussion of SCE's historical capital expenditures.

F. Other Costs and Issues

1. Water Loss

In its Opening Brief, Cal Advocates largely mirrors the same arguments made in its direct testimony and continues to recommend an unjustified 32.1% disallowance of SCE's entire GRC revenue requirement.¹²⁰ SCE has fully addressed these arguments in SCE's rebuttal testimony¹²¹ and Opening Brief¹²² and will not repeat them here.

In addition, Cal Advocates' arguments concerning Clearlake service area in Golden State Water Company's (Golden State) are unclear and unavailing. Cal Advocates attempts to distinguish Catalina from Clearlake by arguing it is more expensive to supply water to Catalina than Clearlake. However, as Cal Advocates readily acknowledges, this is because it is cheaper to provide water in systems "with abundant ground and surface water sources" such as Clearlake, compared to systems with very limited groundwater supplies and where desalination is necessary, such as Catalina.¹²³ Upon this premise, however, Cal Advocates speculates that, "[i]n a system where water is less costly, excessive water loss may have a less significant financial impact on the utility, and by extension on ratepayers."¹²⁴ This conjecture lacks evidentiary support. The fact that it costs more to service an arid island like Catalina does not demonstrate whether water loss has a greater (or lesser) impact on a water utility or its customers, and Cal Advocate fails to furnish any actual evidence in support.

¹²⁰ Cal Advocates Amended Opening Brief, pp. 29-31.

¹²¹ SCE-10, pp. 8-13.

¹²² SCE Opening Brief, pp. 52-57.

¹²³ Cal Advocates Amended Opening Brief, pp. 31-32.

¹²⁴ Cal Advocates Amended Opening Brief, pp. 33-34.

Further, it is important to note that SCE cited Clearlake as an example of where the Commission did not, even with water loss figures *as high as 40%* (which is undisputed) in a service area where it is *easier and cheaper to provide water than Catalina*, impose a disallowance of an applicant's entire GRC revenue requirement request as Cal Advocates recommends here. To SCE's knowledge, the Commission has never imposed such an overbroad and sweeping disallowance like the one developed by Cal Advocates in this proceeding. Notably, Cal Advocates fails to proffer any legal authority to support such an incredible proposition. The Commission should reject this unprecedented and unjustified disallowance recommendation because the record demonstrates that SCE's water loss is reasonable when compared to similarly sized utilities, and SCE is diligently implementing programs and controls to improve its water loss¹²⁵

The Catalina Parties, on the other hand, allege that certain SCE's water loss figures are inaccurate, but does not dispute that SCE has, consistent with industry standards, utilized the American Water Works Association (AWWA) Free Water Audit Software and Manual of Practice M36 *Water Audits and Loss Control Programs* to perform its annual water loss audits.¹²⁶ The Catalina Parties fail to demonstrate, either in their briefing or anywhere in the record, how SCE's adherence to the AWWA audit standards results in inaccurate water loss figures. Though they allege inaccuracy, the Catalina Parties also fail to produce any water loss figures of their own that they allege is actually correct for the Commission to even consider as an alternative. The record demonstrates that SCE followed and complied with AWWA audit standards in deriving its water loss figures,¹²⁷ and the Catalina Parties accusations of inaccuracy despite adherence to AWWA standards are conclusory and devoid of evidentiary support. The Commission should reject these unfounded allegations.

¹²⁵ SCE-01, pp. B-6 – B-9; SCE-10, pp. 9-13; SCE Opening Brief, p. 54-56.

¹²⁶ Catalina Parties Opening Brief, p. 23 (acknowledging that SCE conducts its audits using AWWA technology); SCE-01, p. B-6; *see also* SCE-01WP, pp. 352-361 (providing SCE's 2015-2019 AWWA audit results).

¹²⁷ SCE-01, p. B-6; SCE-01WP, pp. 352-61.

Furthermore, the Catalina Parties do not dispute the water loss figures of the other comparably sized utilities that SCE derived from the AWWA Water Audit for 2013-2017 and the California State Water Resources Control Board from 2016-2018.¹²⁸ The Catalina Parties fail to rebut the fact that SCE water loss rates and key performance indicators (KPIs) fall well within the range of reasonable water loss when compared to similarly sized, non-class A water utilities.¹²⁹ Because SCE's water loss is reasonable when compared to other similar utilities and SCE is further implementing programs and controls to improve its water loss,¹³⁰ a disallowance is inappropriate and should be rejected.

IV.

THE COMMISSION MAY AND SHOULD ALLOW RECOVERY FROM ELECTRIC CUSTOMERS

A. The Commission Has the Authority to Charge SCE's Water Utility Service Costs to SCE's Electric Utility Customers

Pursuant to its broad regulatory authority, the Commission is empowered to approve a cross-subsidy that is reasonable, acts in the public interest, and advances explicit state policy. The Opening Briefs of Cal Advocates and TURN fail to demonstrate otherwise, and their interpretations of Section 451 of the Public Utilities Code should be rejected because they impermissibly strip the Commission of its ratemaking authority. Cal Advocates and TURN continue to incorrectly assert that the Commission lacks authority to approve SCE's proposed cross-subsidy because of a purported lack of nexus.

Specifically, Cal Advocates contends that that SCE has failed to establish a cost-causation nexus because, "SCE conjectures, but fails to provide any evidence demonstrating, that the cross-subsidy offers electric customers even a plausible intangible benefit," and that a

¹²⁸ Catalina Parties Opening Brief, pp. 21-25; SCE Opening Brief, p. 54; SCE-10, pp. 9-10.

¹²⁹ SCE-10, pp. 9-11; SCE Opening Brief, pp. 54-55.

¹³⁰ SCE-01, pp. B-6 – B-9; SCE-10, pp. 11-13; SCE Opening Brief, p. 54-56.

“charge demanded with no corresponding exchange of benefit or service is unjust and unreasonable.”¹³¹ Cal Advocates’ argument is flawed because the record demonstrates the opposite: SCE electric customers have received benefits from Catalina. For example, the record establishes that SCE electric customers are the predominant visitors to the island, and much of the water infrastructure has been built to support the needs of SCE mainland customers who rely upon and benefit from the use of Catalina water during their visits.¹³² The record also demonstrates that SCE electric customers who do not visit the island still receive societal benefits from the education, research, and conservation efforts on the island.¹³³ Though Cal Advocates may ultimately disagree with SCE on the *sufficiency* of the benefits conferred, it is wholly inaccurate to contend that SCE has failed to demonstrate “even a plausible intangible benefit” in this proceeding.¹³⁴ The record establishes that SCE electric customers have benefitted from the water service at Catalina, and it is lawful for the Commission to implement a small rate increase to account for these benefits conferred within the unique context present at Catalina.

TURN contends that the Commission “directly and unequivocally stated it lacks authority to assign electric utility customer costs that are not associated with electric utility service.”¹³⁵ This contention is untrue. The Commission has never made a “direct” or “unequivocal” statement on its own lack of authority as TURN claims. The only legal authority TURN offers in support of this claim is D.97-05-088, a Commission decision from 25 years ago with entirely different facts. In D.97-05-088, the County of San Luis Obispo was attempting to impose a property tax on ratepayers that PG&E never incurred, which the Commission correctly rejected for being “entirely unrelated” to the production of electricity.¹³⁶ SCE agrees that a utility cannot

¹³¹ Cal Advocates Amended Opening Brief, p. 37.

¹³² SCE-01, pp. 18-19, 23; SCE Opening Brief, pp. 61-62.

¹³³ SCE Opening Brief, pp. 62-63; SCE Limited Opening Brief, pp. 8-10.

¹³⁴ Cal Advocates Amended Opening Brief, p. 37.

¹³⁵ TURN Opening Brief, p. 5.

¹³⁶ D.97-05-088, p. 69.

charge ratepayers costs that are *entirely unrelated* to the provision of a product or service. However, D.97-05-088 is inapposite because the costs at issue here in this proceeding are not “entirely unrelated.” SCE mainland customers are the predominant visitors of Catalina Island who rely upon and place a great demand on the water infrastructure during their visits. The water costs at issue here are related to the SCE electric customers who use that very water.

In fact, when faced with the unique affordability challenges present only at Catalina, the Commission’s approval of a similar cross-subsidy in SCE’s previous GRC demonstrates the opposite. In SCE’s previous GRC, the Commission approved the all-party settlement and authorized a transfer of \$8.895 million of Catalina water base to SCE’s electric customers.¹³⁷ The Commission approved the settlement containing a subsidization of SCE water costs from SCE electric customers, and found that the subsidy was “consistent with law” and “does not contravene or compromise any statutory provisions or Commission decision.”¹³⁸ Though adoption of a settlement is not precedential, it is important to note that there have been no material changes in facts or developments in the law that would transform a previously lawful subsidy into an unlawful one here in this current GRC. The Commission had the authority then, as it does now, to approve a cross-subsidy within the unique and challenging context of Catalina, and the Commission should exercise that authority here in this proceeding.

When viewed as a whole, it is clear that there is a sufficient record before the Commission to find that SCE’s proposed cross-subsidy is just and reasonable under Section 451. The Commission is empowered with the authority to do so and should exercise that authority here in this proceeding. The Commission’s broad authority to interpret the Public Utilities Code, including Section 451, has been codified by statute¹³⁹ and strongly affirmed at all levels of California courts. In the seminal case *Greyhound*, the California Supreme Court held:

¹³⁷ D.14-10-048, p. 1.

¹³⁸ D.14-10-048, Conclusion of Law 5.

¹³⁹ See CAL. CONST., Art. XII (conferring broad regulatory authority to the Commission); Pub. Util. Code § 701 (authorizing the Commission to “do all things” that are “necessary and convenient” in the exercise of its powers).

There is a *strong presumption of validity* of the commission's decisions and the *commission's interpretation of the Public Utilities Code should not be disturbed* unless it fails to bear a reasonable relation to statutory purposes and language.¹⁴⁰

For decades following *Greyhound*, California courts have long afforded this “strong presumption of validity” to the Commission’s interpretation of the Public Utilities Code, acknowledging the Commission’s “special familiarity and expertise” with the regulatory issues that inform its interpretations.¹⁴¹ Furthermore, courts have narrowly interpreted the “reasonable relation” exception in *Greyhound*.¹⁴² As long as the Commission’s interpretation of the Public Utilities Code effectuates the statute’s “broad statutory purposes,” the courts will not interfere.¹⁴³

Examined under *Greyhound* and its progeny of cases, it is clear that the Commission has the legal authority to interpret Section 451 to find that SCE’s proposed cross subsidy is just and reasonable. Reasonable cross-subsidies that serve the public interest have been consistently authorized by the Commission in the past, and courts would afford the Commission strong deference in its interpretation of Section 451 in this proceeding as well. Though rates should generally be based on cost-causation principles, an exception exists for cross-subsidies that “appropriately support explicit state policy goals,”¹⁴⁴ and an exception is warranted here given that the established policy of California is that every human being has the right to clean and affordable water.¹⁴⁵ The record demonstrates that the small costs that SCE electric customers

¹⁴⁰ *Greyhound Lines, Inc. v. Pub. Util. Comm’n.* (1968) 68 Cal.2d 406, 410-11, 67 Cal.Rptr. 97.

¹⁴¹ See, e.g., *Southern Cal. Edison Co. v. Pub. Util. Comm’n* (2004) 117 Cal.App.4th 1039, 1050-51, 12 Cal.Rptr.3d 441 (concluding that courts “must [] afford considerable deference to the PUC’s interpretation of the statute”); *San Pablo Bay Pipeline Co. v. Pub. Util. Comm’n* (2015) 243 Cal.App.4th 295, 309-310, 196 Cal.Rptr.3d 609.

¹⁴² See, e.g., *Pac. Gas & Elec. Util. v. Pub. Util. Comm’n.* (2015) 237 Cal.App. 4th 812, 854.

¹⁴³ Netterville, *Administrative “Questions of Law” and the Scope of Judicial Review in California* (1956) 29 SO.CAL. L.REV. 434, 451-53. (“As long as the agency’s choice has evidentiary support in the record and the legal inferences and conclusions drawn therefrom show *a reasonable relation to its task of effectuating the broad statutory purposes, the court will not interfere.* The commission, in such a case is in as good, if not better position than the court, to make the choice from among the possible and reasonable choices available.”) (emphasis added).

¹⁴⁴ D.15-07-001, p. 28

¹⁴⁵ Cal. Water Code § 106.3(a).

would incur (about \$0.28 per month for non-CARE residential customers) are fair and appropriately support state policy goals given that SCE electric customers are the predominant visitors to the island who use the water during their visits, and a compelling need for rate relief exists on Catalina Island (the subsidy would result in about \$398 in savings per month for the same class of Catalina water customers).¹⁴⁶ Approving a subsidy would clearly bear a “reasonable relation” to Section 451’s purpose and language because the subsidy would act in the public interest and thereby effectuate a just and reasonable charge.

In sum, cost-causation principles and a purported lack of nexus do not strip the Commission of its ratemaking authority to approve a cross-subsidy that acts in the public interest and represents the most reasonable means of overcoming the unique affordability challenges present at Catalina. When the record is examined as a whole, it is evident that the Commission may properly interpret Section 451 to find that the cross-subsidy is just and reasonable.

B. The Commission Should Allow SCE to Charge Its Electric Customers Catalina Water Utility Service Costs

As discussed above and in SCE’s Opening Brief, the Commission has the authority to approve SCE’s proposed cross-subsidy based on the record established in this proceeding. The Commission should exercise that authority and approve the proposed subsidy for the reasons discussed below.

1. The Commission Must Uphold the Regulatory Compact Within the Unique Context of Catalina

The general rate case proceeding is viewed as the embodiment of the “regulatory compact.”¹⁴⁷ This compact is viewed as a contract between the utility’s investors and its

¹⁴⁶ See SCE Opening Brief, p. 3, Table I-1.

¹⁴⁷ D.20-01-002, p. 10.

customers, establishing rights, obligations, and benefits for both sides of the bargain.¹⁴⁸ Under the regulatory compact, utilities are granted:

- An exclusive retail franchise to serve a specific geographic region;
- An opportunity to recover prudently incurred expenses;
- An opportunity to earn a reasonable return on investment; and
- Powers of eminent domain.¹⁴⁹

In exchange for these benefits, utilities are:

- Subject to regulation by the Commission; and
- Required to provide safe and reliable service to all customers in its service area on nondiscriminatory basis (i.e., obligation to serve).¹⁵⁰

It is the role of the Commission to ensure that both sides fulfill their respective obligations under this bargain.¹⁵¹ The Commission has clearly held that “the *benefits* to each side of the regulatory compact come with corresponding *obligations* for each side.”¹⁵² If a utility fulfills its obligations pursuant to the compact and upholds its end of the bargain, then the utility is entitled to the corresponding benefits guaranteed by that same compact, which is the opportunity to recover its prudently incurred costs and earn a reasonable return on its investment.¹⁵³

Here, the Commission must uphold the regulatory compact within the unique context and challenges present at Catalina. SCE fulfilled its obligation of providing safe and reliable service to its Catalina water customers on a nondiscriminatory basis, even through historically severe drought conditions. SCE is therefore entitled to the corresponding benefit of the compact, which is the opportunity to recover its prudently incurred costs and reasonable return on its investment. Cost recovery of prudently incurred expenses is a core tenet of utility

¹⁴⁸ *Id.*

¹⁴⁹ SCE-01, p. 6

¹⁵⁰ *Id.*

¹⁵¹ D.20-01-002, p. 11.

¹⁵² *Id.* at p. 12 (emphasis in original).

¹⁵³ *Id.* at p. 10 (providing that pursuant to the regulatory compact, “the utility is provided the opportunity to recover its actual legitimate or prudent costs ... plus a fair return on capital investment”);.

regulatory law. A shareholder disallowance would be appropriate if the Commission were to find that costs of service were incurred imprudently. However, it would be impermissible and constitute reversible legal error for the Commission to impose a disallowance to simply “absorb” the shortfall of costs as the intervenors recommend here.

Specifically, TURN claims that, “[i]f there is a shortfall in cost recovery to be borne here, as between SCE’s electric utility customers and its shareholders, the shortfall should solely be borne by SCE’s shareholders.”¹⁵⁴ *Even for prudently incurred costs* to serve customers, TURN would have the Commission directly contravene the regulatory compact and abandon its obligation to fairly enforce the benefits and obligations underlying the compact. The Commission must reject any such recommendation.

TURN further alleges that SCE reflects “an inappropriate sense of utility entitlement to cost recovery, rather than an approach consistent with the ‘regulatory compact’ or any other principle of cost-of-service ratemaking.”¹⁵⁵ SCE submits that it is TURN’s position that is misaligned with the regulatory compact, not SCE’s. Contrary to TURN’s assertion, SCE does not exhibit any “inappropriate sense of entitlement” on these issues. It is a matter of plain regulatory law that a utility’s cost recovery is, and has been, governed by the regulatory compact. Under basic principles of contract law, a party that has fulfilled its obligations is entitled to the corresponding benefits outlined in that contract (*i.e.*, consideration). Because SCE has upheld its end of the bargain and fulfilled its obligations, a straightforward and neutral application of the regulatory compact entitles SCE to recover its prudently incurred costs. However, since Catalina customers cannot fully bear the costs SCE incurred in serving them, SCE has proposed a fair and reasonable cross-subsidy to alleviate the affordability challenges present in this proceeding.

With respect to this cross-subsidy, Cal Advocates asserts that SCE has posed a “false dilemma to the Commission by implying that Catalina residents could be deprived of their

¹⁵⁴ TURN Opening Brief, p. 9.

¹⁵⁵ TURN Opening Brief, p. 8.

‘fundamental right to safe, clean, and affordable water’ if the Commission does not authorize the cross-subsidy to maintain some level of affordability.”¹⁵⁶ This is inaccurate because no such false dilemma exists. There are two independent legal frameworks that the Commission is tasked with upholding and ultimately reconciling in this proceeding: (1) the regulatory compact, requiring that SCE recover its prudently incurred cost of service; and (2) California state policy, requiring that every human has access to clean and affordable water. Because Catalina water customers cannot afford to pay the full cost of service but are entitled to clean and affordable water as a matter of human right, SCE submits that the most reasonable and lawful means of satisfying both legal frameworks is to adopt a cross-subsidy which fairly assigns a small cost to SCE’s electric customers who rely upon and benefit from the water at Catalina during their visits. Cal Advocates misunderstands this central point, alleging that SCE implies its “right to rate recovery is more fundamental than the human right to water.”¹⁵⁷ SCE has never made such a claim. Rather, SCE has maintained throughout this proceeding that the cross-subsidy upholds both SCE’s right to recovery and its customers’ right to clean and affordable water.

In sum, it is incumbent upon the Commission to uphold the regulatory compact, which for decades has served as the core regulatory framework governing utility operations and ratemaking. Enforcing the regulatory compact means that the Commission must reject any inappropriate calls for shareholder “absorption” of prudently incurred costs relating to cost of service, which would constitute clear, reversible legal error. Rather, the Commission should approve SCE’s proposed cross-subsidy because it represents the most reasonable means of upholding SCE’s right to recover its costs (pursuant to the regulatory compact) while also ensuring access to clean and affordable water for Catalina customers (pursuant to California state policy).

¹⁵⁶ Cal Advocates Amended Opening Brief, p. 38.

¹⁵⁷ Cal Advocates Amended Opening Brief, p. 38.

2. **Cost Sharing with SCE Electric Customers Is Fair and Reasonable**

The Commission should allow a cross-subsidy because it is fair for SCE electric customers to pay a very small cost for the benefits received from Catalina. When evaluating the reasonableness of SCE's proposed cross-subsidy, the Commission should consider the following undisputed facts in this proceeding:

- There are 1,887 water customers on Catalina Island.¹⁵⁸
- There were approximately 1.05 million visitors annually to Catalina Island from 2014-2019.¹⁵⁹
 - During this time period, 1,887 Catalina water customers supported the water needs of 1.05 million visitors annually.
 - On average, therefore, a single Catalina water customer supported the water needs of about 556 visitors each year.
- Seventy percent of all visitors to Catalina Island are from Southern California (excluding San Diego).¹⁶⁰
- The vast majority of Southern California residents are SCE electric customers.¹⁶¹

As a whole, the record clearly demonstrates a very small number of Catalina water customers are supporting the water needs of an extremely large visitor base, most of whom are SCE electric customers.

This asymmetry between small number of customers and large number of visitors (in conjunction with arid climate, vast stretches of rugged terrain, and high operating costs) is the

¹⁵⁸ SCE-10, p. 16.

¹⁵⁹ SCE-01, p. 23, fn. 47; SCE Opening Brief, p. 59, fn. 295.

¹⁶⁰ SCE-01, p. 23.

¹⁶¹ See SCE Opening Brief, p. 59, fn. 307 (comparing SCE's five million customer count to the much smaller customer counts of [Los Angeles Department of Water and Power](https://www.ladwp.com/ladwp/faces/ladwp/aboutus/a-whoweare?_adf.ctrl-state=l4g7held2_42&_afzLoop=565406386072984) (https://www.ladwp.com/ladwp/faces/ladwp/aboutus/a-whoweare?_adf.ctrl-state=l4g7held2_42&_afzLoop=565406386072984); [City of Anaheim Public Utilities](https://www.anaheim.net/970/Electric-History) (<https://www.anaheim.net/970/Electric-History>), [Burbank Water & Power](https://www.burbankwaterandpower.com/images/administrative/downloads/BWP_AnnualReport_FY20-21_O.pdf) (https://www.burbankwaterandpower.com/images/administrative/downloads/BWP_AnnualReport_FY20-21_O.pdf), and [Bear Valley Electric](https://www.bvesinc.com/about-us/) (<https://www.bvesinc.com/about-us/>) according to each entity's public websites).

reason that affordability has posed a significant, recurring challenge at Catalina, even under normal operating conditions. From 2013-2019, Catalina experienced a historically severe drought conditions, resulting in increased incremental costs and even greater affordability challenges in this proceeding. It is reasonable to implement cost-sharing with SCE electric customers because they are the predominant visitors Catalina Island and visit in large numbers annually. Because electric mainland customers benefit from the island's water and related infrastructure during their visits, it is fair for the Commission to assign a small cost to these class of customers (\$0.28 per month) who benefit from the use of this water in order to alleviate an overbearing rate increase for Catalina customers (\$398 per month).¹⁶²

Cal Advocates opposes cost sharing by speculating that "visitors to Catalina already pay for their use of the Catalina water system" in the prices visitors pay at businesses, offering only conjecture in support.¹⁶³ For instance, Cal Advocates speculates that prices accounting for the cost of water "does not seem reasonable or likely from a business perspective," but offers no evidence in support of whether and to what extent, if any, Catalina businesses pass through the cost of water to their customers.¹⁶⁴ Cal Advocates also unavailingly cites to the testimony of SCE witness Mr. Behlihomji in support, but Mr. Behlihomji is not qualified to offer this type of expert opinion given that he is SCE's witness on rate design, not an expert on the particulars of business pricing on Catalina Island. Furthermore, Cal Advocates omits the portion of Mr. Behlihomji's testimony where he specifically testified that while pass through costs are a possibility, he does not know the specifics of how Catalina business models are set up or whether those costs are actually passed through.¹⁶⁵

¹⁶² See SCE Opening Brief, p. 3, Table I-1.

¹⁶³ Cal Advocates Amended Opening Brief, p. 39.

¹⁶⁴ Cal Advocates Amended Opening Brief, p. 40.

¹⁶⁵ SCE, Behlihomji, Tr. Vol. 5, p. 466:8-13 ("I don't know the specifics of how their business models are set up. But in so much as they experience those costs, and then so choose, as part of their business models, to flow through those costs to the visitors, then, yes, that is accurate.").

In addition, the record actually reveals that the opposite is likely true. The Catalina Parties, which is comprised of the City of Avalon and various business entities on the island, are far better suited than Cal Advocates to weigh in on these factual issues and testified that an increase in the cost of taking a boat to the island would be “detrimental to tourism” because “Catalina Island is not a luxury resort,” and that “the relatively small cost of [visiting] is one of the Island’s attractions.”¹⁶⁶ It is evident that Catalina businesses are extremely sensitive to the prices that visitors to the island must pay because it could discourage tourism and jeopardize the island’s primary source of revenue.¹⁶⁷

TURN, on the other hand, repeats the same argument from its testimony, specifically that because the number of SCE customers who visit the island is a small percentage of the total number of SCE customers, it is therefore unfair that all SCE electric customers should pay for the customers who have actually visited the island.¹⁶⁸ As discussed in SCE’s Opening Brief, this line of argument is misleading because it implies that since 100% of SCE electric customers did not visit the island, 0% of SCE electric customers should pay. According to TURN’s logic, though hundreds of thousands of SCE electric customers visit the island and haven’t driven up the costs of water, those costs should nonetheless be fully borne by the 1,887 Catalina water customers. Furthermore, under this same line of logic, even an extremely small amount of cost sharing is impermissible unless every single SCE electric customer actually visit the island. TURN also fails to consider the fact that SCE electric customers who did *not* visit the island still receive societal benefits from Catalina water in education, research, and conservation as set forth in SCE’s Opening Brief.¹⁶⁹ The fact that 100% of SCE electric customers have not visited the island is a red herring that the Commission should afford little weight. The record demonstrates that SCE electric customers, as a class, have benefitted from the water at Catalina,

¹⁶⁶ CP-01, p. 27.

¹⁶⁷ CP-01, p. 27.

¹⁶⁸ TURN Opening Brief, pp. 11-12.

¹⁶⁹ SCE Opening Brief, p. 62; *see also* SCE Limited Opening Brief, pp. 8-10.

and it is fair that this class of customers pay a small amount to reflect those benefits received to help address the affordability problems at Catalina.

C. The Deferred Revenue Requirement Tracking Account Is Reasonable and Should Be Approved

The Deferred Revenue Requirement Tracking Account (DRRTA) was originally authorized by the Commission in 2007 in connection with SCE's Test Year 2006 Catalina Water GRC.¹⁷⁰ In this GRC, SCE proposes to phase-in the revenue requirement increase over a five-year period (2022-2026), including attrition year increases, such that SCE will recover the full revenue requirement for the Catalina water utility by the beginning of 2026.¹⁷¹ Neither Cal Advocates nor Catalina Parties directly oppose SCE's use of the DRRTA. Rather, both Cal Advocates and Catalina Parties believe the DRRTA is unnecessary, anticipating a substantially reduced revenue requirement.¹⁷² As discussed throughout SCE's Opening Brief and this Reply Brief, SCE's revenue request and five-year phase-in proposal are reasonable. The DRRTA helps minimize rate shock and should be authorized consistent with SCE's five-year phase-in proposal.

V.

COST RECOVERY

A. Alternative Cost Recovery Approaches

The parties' Opening Briefs make clear that there are other no viable cost recovery alternatives to SCE's proposed cross-subsidy (or related rate base consolidation). It bears repeating that shareholder "absorption" of costs runs directly contrary to the regulatory compact and cannot be considered a viable alternative.

As discussed in SCE's Opening Brief, there are significant procedural, substantive, and jurisdictional challenges to implementing a visitor boat fee.¹⁷³ These barriers to the boat fee

¹⁷⁰ Resolution W-4665, Ordering Paragraphs 6 and 8.

¹⁷¹ SCE-08, pp. 15-17.

¹⁷² Cal Advocates Opening Brief, p. 41; Catalina Parties Opening Brief, p. 45.

¹⁷³ SCE Opening Brief, pp. 70-72.

have been corroborated by Cal Advocates.¹⁷⁴ In response to due process concerns, TURN cites that at least one of the Catalina ferry companies was included in the stakeholder discussions SCE conducted prior to preparing its GRC application.¹⁷⁵ A discussion prior to the submission of an application with only one of three Catalina cross-channel carriers falls woefully short of providing sufficient due process, especially here where a rate increase is at stake. TURN's position also neglects to consider the other business and commercial entities that would also need to be afforded a fair opportunity to participate, given that visitor boat fee would affect the entire island's primary business activity of tourism.

It is easy for TURN to suggest that a \$5 increase to the visitor boat fee is acceptably "modest" because neither TURN nor its stakeholders face exposure to the potential loss of revenue and livelihood that could result from such an increase. While TURN may view an additional \$5 as an acceptable increase, TURN does not represent the views of the Catalina residents who reside and must make a living on the island. TURN consistently refuses to consider how an increase in the boat fee could be detrimental to the Catalina economy. The Catalina Parties better represent the interests of Catalina residents and understand the potential impacts of a boat fee on the Catalina economy far better than TURN. These Catalina entities have made it eminently clear that any increase to visitor boat fee "would be detrimental to tourism" particularly during the COVID-19 pandemic which has already "decimated" the island's tourism business.¹⁷⁶ SCE urges the Commission to carefully weigh the interests of all affected stakeholders, including vulnerable Catalina residents who depend on tourism to the island for their livelihood, and find that SCE's proposed cross-subsidy represents the most equitable means of cost recovery in this proceeding.

¹⁷⁴ See SCE Opening Brief, pp. 70-72 (citing Cal Advocates-01-C).

¹⁷⁵ TURN Opening Brief, p. 21.

¹⁷⁶ CP-01, p. 27.

Finally, though TURN agrees that no viable cost recovery alternatives exist, it places the blame “largely if not entirely with SCE” for the lack of alternatives.¹⁷⁷ Specifically, TURN alleges that SCE intentionally chose *not* to develop workable alternatives in its supplemental testimony “hoping” that the Commission would adopt SCE’s proposal as the least unreasonable option.¹⁷⁸ These allegations are unfounded and untrue. In order to fully consider and address all possible cost recovery alternatives in this proceeding, the record demonstrates that SCE specifically retained Raftelis Financial Consultations, Inc. (Raftelis), a respected water utility consulting firm specializing in water rates and financial planning matters, to provide an expert, independent analysis of these issues.¹⁷⁹

SCE reiterates that that Raftelis performed an independent analysis of the cost recovery options in this proceeding. For instance, though TURN accuses SCE of “creating its own grading curve,”¹⁸⁰ SCE’s analysis was informed by Raftelis’ own assessment of the strengths, weaknesses, and feasibility of each alternative.¹⁸¹ In fact, when Administrative Law Judge (ALJ) Toy directly questioned SCE witness Mr. Fox of Raftelis about this very issue during evidentiary hearings, Mr. Fox made clear that the Raftelis independently generated its own list of all cost recovery alternatives:

ALJ Toy: Going back to the list [of alternatives] from pages B-2 to B-3, SCE-09, was that list generated by Raftelis? Or was it a list generated by SCE for Raftelis to analyze?

Mr. Fox: Raftelis generated this list.

ALJ Toy: Okay. Thank you.¹⁸²

Contrary to TURN’s allegations, the lack of viable cost recovery alternatives did not result from SCE’s intentional choice not to pursue other alternatives. Rather, even after

¹⁷⁷ TURN Opening Brief, p. 18.

¹⁷⁸ TURN Opening Brief, p. 19.

¹⁷⁹ SCE-09, p.1; Appendix B.

¹⁸⁰ TURN Opening Brief, p. 18.

¹⁸¹ SCE-09, p. 1; Appendix B.

¹⁸² SCE, Fox, Tr. Vol. 5, p. 517:18-24.

extensive development of each option, the lack of alternatives present in this proceeding reflects the reality that affordability and cost recovery are, and have always been, extremely challenging issues on Catalina Island. There are no perfect options, and traditional ratemaking solutions have fallen short at Catalina because the island is a true outlier with no parallel throughout California. This is the reason that cost sharing with SCE mainland customers has been implemented for decades on Catalina Island, including even a water/electric cross-subsidy in SCE's previous GRC application.¹⁸³ Through multiple volumes of testimony, the expert assessment of a water utility consultant, and extensive evidentiary hearings, SCE has established a robust record for the Commission to carefully evaluate every potential option. Amongst all options, the record demonstrates that the best solution to the affordability challenges in this proceeding is to adopt SCE's proposed cross-subsidy.

B. What Cost Recovery Approach Should the Commission Adopt?

For the reasons set forth in SCE's Opening and Reply Briefs, SCE respectfully submits that the Commission should adopt SCE's proposed cross-subsidy as the cost recovery mechanism in this proceeding.

VI.

THE COMMISSION SHOULD APPROVE SCE'S PROPOSED RATES FOR THE TEST YEAR AND ATTRITION YEARS

A. SCE's Forecast for Water Sales Is Reasonable

SCE forecast for water sales is accurate and representative of the water usage expected to occur in test year 2022. While Cal Advocates does not directly dispute the accuracy of SCE's water sales forecast, methodology, or calculations, Cal Advocates does dispute SCE's customer forecast.

¹⁸³ D.93129 (consolidating Catalina and mainland Energy Cost Adjustment Clause (ECAC) rates); D.82-03-059 (consolidating Catalina and mainland electric rates); D.14-10-048 (approving a cross-subsidy transfer of \$8.895 million of Catalina water base to SCE's electric customers).

SCE forecasts test year water sales of 83.384 million gallons.¹⁸⁴ SCE developed the water sales forecast by using a Stage 3 water conservation dummy as an explanatory variable in addition to monthly dummies to capture monthly seasonal variability. While previous econometric models considered additional economic variables, drought stage levels performed the best in backcast tests carried out by SCE. Additionally, SCE calculated test year sales of 83.512 million-gallons using the methodology described in Standard Practice U-25-W and the Revised Rate Case Plan (RCP) for Class A water utilities.¹⁸⁵ SCE calculated separate per customer usage quantities for residential and non-residential customers (61 gallons per day and 337 gallons per day, respectively) based on 2019 recorded sales and adjusted customer counts. These quantities were multiplied by the forecast customer counts and then multiplied by 365 to determine the annual combined forecast amount. The small difference in forecast between the two methodologies confirms the reasonableness and accuracy of SCE's test year forecast.

SCE forecasts a test year customer count of 1,887 customers, excluding dedicated fire service connections.¹⁸⁶ SCE's forecast conforms to Commission practice and procedures. Both SP U-25-W and the annual report template for Class B and C water utilities indicates the exclusion of fire protection connections when determining customer counts. SP U-25-W clearly states: "The number of customers of a water utility is usually tallied as the total number of active service connections, *excluding fire protection service*."¹⁸⁷ (Emphasis added)

Cal Advocates recommends the Commission adjust SCE's customer forecast to reflect additional applications for service managed under the Rule 3 freshwater allocation process.¹⁸⁸ Cal Advocates asserts that at least 27 additional customers should be included in SCE's forecast.¹⁸⁹ Not only is Cal Advocates' recommendation misplaced as SCE was following its

¹⁸⁴ SCE-10WP, p. 15.

¹⁸⁵ Standard Practice U-25-W, Chapter 3.A.1; D.07-05-062, Appendix A-23, Footnote 4.

¹⁸⁶ SCE-10, pp. 16-17.

¹⁸⁷ Standard Practice U-25-W, Chapter 3.A.1.

¹⁸⁸ Cal Advocates Amended Opening Brief, pp. 47.

¹⁸⁹ Cal Advocates Amended Opening Brief, p. 47.

Commission-approved water tariff Rule 3 in implementing the water allocation process, Cal Advocates' estimation of the number of additional customers is substantially overstated. Of the 27 outstanding allocation requests, only 14 would result in additional service connections, thereby increasing SCE's customer count. However, these water allocation requests for new construction are not currently connected to SCE's water distribution system and are unlikely to be connected by the test year. Accordingly, including them in the test year customer forecast for ratemaking purposes is inappropriate.

B. SCE's Proposed Rate Design Is Reasonable

Cal Advocates' Opening Brief briefly summarizes and references its prepared testimony with respect to rate design.¹⁹⁰ The Catalina Parties' Opening Brief merely adopts Cal Advocates' rate design recommendations as their own.¹⁹¹ SCE has addressed Cal Advocates' arguments in SCE's rebuttal testimony¹⁹² and Opening Brief¹⁹³ and will not repeat them here, except to clarify a few key points as set forth below.

Cal Advocates' rate design recommendations should be rejected because they continue to rely on the mistaken assumption that the test year revenue requirement will be \$3.688 million, which is even *lower* than even SCE's currently authorized revenue requirement of \$4.130 million.¹⁹⁴ In other words, Cal Advocates' rate design recommendations only work in the extremely unlikely scenario that the Commission accepted all of Cal Advocates' overbroad disallowance recommendations in this proceeding. Cal Advocates' rate design recommendations fail to be sensible when evaluated against a reasonable revenue requirement likely to be adopted in this proceeding. During evidentiary hearings, Cal Advocates confirmed that its rate design

¹⁹⁰ Cal Advocates Amended Opening Brief, pp. 48-51.

¹⁹¹ Catalina Parties Opening Brief, pp. 52-55.

¹⁹² SCE-10, pp. 95-100.

¹⁹³ SCE Opening Brief, pp. 74-79.

¹⁹⁴ SCE-10, p. 95.

elements should be evaluated *assuming its own lower revenue requirement*, and SCE Witness

Mr. Behlihomji very clearly cautioned against this practice:

Cal Advocates: Mr. Behlihomji, isn't it true that -- ***given Cal Advocates' recommended revenue requirements***, wouldn't the increase to all customers, taking into consideration Cal Advocates' rate design, still be less of a percentage increase than what SCE has proposed at the time rates are fully implemented?

Mr. Behlihomji: I think the key -- the key to that particular determination, Ms. Fisher, is that ***starting point of what Cal Advocates' revenue requirement is***, and I think when you -- when you're looking at rate design, you should be careful to not put the cart before the horse, and I think, from my perspective, you're looking at how do revenue requirements baked into the [] design of your rates actually get you to prudent cost recovery? I think noting that, ***given a substantially or materially lower revenue requirement from where we are today***, and then viewing that in concert with the designs that Cal Advocates proposed, I would -- I would lend some caution to viewing it in that manner.

Cal Advocates: Okay. But, it was essentially a -- a yes or no question, is it -- whether ***Cal Advocates' recommended revenue requirements*** wouldn't -- ***given those requirements***, wouldn't the increase to all customers, taking into -- Cal Advocates' rate design, still be less of a percentage increase than what SCE has proposed at the time that rates are fully implemented. Would you say yes or no to that?

Mr. Behlihomji: Yes, ***because Cal Advocates' revenue requirement is a lot lower***, yes.¹⁹⁵

When considering rate design, the Commission should evaluate each design element in the context of a revenue requirement likely to be adopted in this proceeding. It is extremely improbable that the Commission would accept all of Cal Advocates' sweeping disallowance recommendations, and Cal Advocates' rate design—which depends on this flawed assumption to be sensible—should be rejected.

1. Fixed Charge Ratios

Cal Advocates recommends realigning SCE's fixed charge ratios to reflect the Standard Practice U-07-W Section C.7 guidance. In Resolution W-4665, the Commission

¹⁹⁵ SCE, Behlihomji, Tr. Vol. 5, pp. 481:2 – 482:10 (emphasis added).

recognized the unique characteristics of SCE's rate proposal in adopting a deviation from guidance for the Catalina water system.¹⁹⁶ The same challenges indicating deviation from guidance in Resolution W-4665 are also true here. Completely conforming to the SP U-07-W meter ratios, as Cal Advocates recommends, will result in other rate imbalances and exceed tolerances for rate increases for certain customer classes relative to the system average. Accordingly, Cal Advocates' proposal is too abrupt to be considered reasonable and should be rejected.¹⁹⁷

2. Fixed-Volumetric Ratio

Cal Advocates recommends increasing the fixed-volumetric ratio from 30 percent fixed and 70 percent volumetric to 50 percent fixed and 50 percent volumetric. Cal Advocates suggests this change will mitigate the burden on full-time residents.¹⁹⁸ Lower fixed charges result in more revenue recovery through volumetric rates. This provides an incentive to conserve and gives customers more control over their monthly bill. SCE is not opposed *per se* to higher fixed charges, but SCE strongly believes in the importance of promoting conservation on the island, and each rate parameter must be viewed on a continuum with all other parameters to develop an equitable rate design.¹⁹⁹ SCE's comprehensive rate design proposal achieves that objective.

3. Seasonal Rates

Cal Advocates recommends seasonal rates be eliminated for Catalina water customers.²⁰⁰ In the prior water GRC, parties agreed that setting higher summer prices is an equitable pricing approach given the seasonal tourism economy. Cal Advocates' proposal to eliminate seasonal rates does not comport with actual residential usage patterns on the island. It is undisputed that the island experiences more visitors during the summer season. Seasonal rates

¹⁹⁶ Resolution W-4665, pp. 9-10.

¹⁹⁷ SCE, Behlihomji, Tr. Vol. 5, pp. 478:3-24.

¹⁹⁸ Cal Advocates Amended Opening Brief, p. 50.

¹⁹⁹ SCE, Behlihomji, Tr. Vol. 5, pp. 483:5 – 484:4.

²⁰⁰ Cal Advocates Amended Opening Brief, pp. 50-51.

equitable balance revenue allocation among customers and send a conservation price signal during high demand months for all customer classes. Viewed in concert with SCE's overall rate design, SCE's proposal to maintain seasonal rates is reasonable.

4. Tier Breakpoints

SCE proposes to maintain the tier breakpoints adopted in the all-party settlement in the 2011 Water GRC. Cal Advocates recommends increasing the tier-1 breakpoint to 3,000 gallons, shrinking the tier-2 range to 3,000 – 6,000 gallons, and lowering the tier-3 threshold to anything over 6,000 gallons.²⁰¹ As discussed in SCE's Opening Brief, Cal Advocates' recommendation will effectively flatten SCE's water rate schedule and mute the vital conservation price signal to customers. SCE's tier breakpoints, particularly the tier-1 breakpoint of 2,000 gallons, is representative of essential indoor use for residential customers and consistent with policy objectives based on the unique characteristics of the Commission. Furthermore, the distribution of usage across SCE's tiers conform to Commission guidance (for electric rates) and are consistent with the principles agreed upon in the all-party settlement. Flattening rates as Cal Advocates suggests is regressive, unreasonable, and should be rejected.

5. SCE Employee Discounts

Consistent with the approved all-party settlement in SCE's previous GRC, SCE proposes to continue its 25% Domestic Employee (DE) discount to SCE employees. Cal Advocates and the Catalina Parties oppose this proposal.²⁰² The employee discount should be continued because it is a reasonable, long-standing, Commission-approved mechanism in the Catalina water utility which has a *de minimis* impact on rates.²⁰³ SCE operates in the labor market and competes with other companies to attract and retain capable employees. The employee discount benefits our customers by helping SCE retain talented employees who will

²⁰¹ Cal Advocates-01, p. 13-7.

²⁰² Cal Advocates Amended Opening Brief, p. 51; Catalina Parties Opening Brief, p. 54.

²⁰³ See SCE-07, p. 23.

provide safe and reliable water service for our customers. An employee discount with a *de minimis* impact on rates is reasonable and should be allowed to continue.²⁰⁴

C. SCE's Proposed Tier-1 Breakpoint Is Reasonable and Promotes Affordable Rates

Please see Section VI.B.4 above and respective section in SCE's Opening Brief immediately preceding this section.

D. The CARE Discount Increase Should Be Approved

SCE's California Alternative Rates for Energy (CARE) program was adopted for the Catalina water utility in SCE's test year 2006 Water GRC.²⁰⁵ In the 2022 Water GRC, SCE proposes continuing the CARE program and increasing the discount percentage from 20 percent to 32.5 percent. The updated discount percentage will align with the discounts currently provided to SCE's electric customers and provide additional assistance to income qualified customers.

Rather than increase the discount offered through the CARE program, Cal Advocates recommends rate design modifications to provide relief for CARE and non-CARE customers. As set forth in its testimony²⁰⁶ and Opening Brief,²⁰⁷ the Commission should approve the increase in CARE discount, in conjunction with SCE's other complementary rate design proposals.

VII.

THE COMMISSION SHOULD APPROVE SCE'S PROPOSED TRANSITION TO A MONTEREY-STYLE WRAM AND ICBA

Pursuant to D.20-08-047, SCE proposes to transition from the Water Rate Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) to a Monterey-Style

²⁰⁴ See D.83-10-045, p. 22 ("Edison's employee travel allowances are part of a total compensation package which was arrived at through collective bargaining It is reasonable to include these allowances for ratemaking purposes in this proceeding.")

²⁰⁵ Resolution W-4665, Ordering Paragraph 12.

²⁰⁶ SCE-07, pp. 21-22; 27-29.

²⁰⁷ SCE Opening Brief, p. 79.

WRAM (M-WRAM) and Incremental Cost Balancing Account (ICBA) relating to pilot decoupling program authorized by Resolution W-5192.²⁰⁸ Cal Advocates does not oppose SCE's request.²⁰⁹

The Catalina Parties recommend that transitioning to a M-WRAM and ICBA [be postponed] until “this GRC is decided and there is experience with the effects of the decision.”²¹⁰ The Catalina Parties' recommendation is vague and should be rejected. There is no basis, factual or otherwise, for the Commission to defer decision on SCE's requested transition to an M-WRAM and ICBA. The Commission in issuing D.20-08-047 considered the reasonableness of the M-WRAM and ICBA construct for water utilities with conservation rate structures, such as SCE's. So long as SCE implements a conservation rate structure for its Catalina water utility, SCE should be afforded the opportunity to utilize the M-WRAM and ICBA ratemaking mechanisms. SCE's request is in accordance with Commission guidance, reasonable, and should be approved.

VIII.

OTHER ISSUES

1. SCE Is Properly Classified as a Class C Water Utility

Cal Advocates and the Catalina Parties recommend SCE be reclassified from a Class C to a Class B water utility.^{211,212} Cal Advocates argues that based on a revised customer forecast (including dedicated fire service connections) of 2,026 customers, SCE should be classified as a Class B water utility.

As discussed in Section VI.A above, SCE's test year 2022 forecast of 1,887 customers (excluding dedicated fire service connections) is accurate and reasonable. Simply put, Cal Advocates errs in its inclusion of dedicated fire service connections in customer count for

²⁰⁸ D.20-08-047, Ordering Paragraph No. 3; SCE-05, pp. 48-49.

²⁰⁹ Cal Advocates-01-C, p. 10-12; Cal Advocates Amended Opening Brief, p. 54.

²¹⁰ Catalina Parties Opening Brief, p. 55.

²¹¹ Cal Advocates Amended Opening Brief, p. 48.

²¹² Catalina Parties Opening Brief, p. 49.

determining utility class. SP U-25-W clearly states “[t]he number of customers of a water utility is usually tallied as the total number of active service connections, excluding fire protection service.”²¹³ Additionally, the Commission’s annual report template for Class B and C water utilities indicates the exclusion of dedicated fire service connections when reporting customer counts.²¹⁴

Cal Advocates confuses the issues of utility class determination based on the number of service connections and how the number of service connections is calculated. Cal Advocates cites to an excerpt from GO 96-B which discusses the delineations between utility class size.²¹⁵ However, this reference provides no guidance as to how customer count (via service connections) should be determined. Therefore, Cal Advocates has provided no competent evidence that SCE’s use of SP U-25-W for determining customer count is incorrect. Furthermore, Cal Advocates’ argument that, had SCE issued additional freshwater allocations, it would exceed the 2,000-customer threshold is incorrect. Even if the overstated amount of 26 customers were added to SCE’s customer count, according to SP U-25-W, SCE would still only have 1,913 water customers, far below the 2,000-customer threshold. As such, SCE should remain classified as a Class C water utility

2. SCE Prudently Applied the Water Allocation Process in Accordance with the Commission Approved Water Tariffs

In their Opening Briefs, Cal Advocates and the Catalina Parties recommend that the Commission should modify the existing water tariff covering SCE’s water allocation process for new service connections or changes to existing service connections with Cal Advocates also arguing that the Commission should require SCE to grant applications for new water service and increased allocations.²¹⁶ SCE’s water allocation process was approved by the Commission in

²¹³ Standard Practice U-25-W, Chapter 3.A.1.

²¹⁴ Annual Report for Class B and C Water Utilities, Income, Expenses, and Other Data.

²¹⁵ SCE, Barcinas, Tr. Vol. 2, p. 177:1-22, citing to General Order 96-B, Water Industry Rule 1.2.

²¹⁶ Cal Advocates Amended Opening Brief, pp. 44-47; Catalina Parties Opening Brief, pp. 35-37.

1979 and described in water tariff Rule 3 and Schedule FWY.²¹⁷ The water allocation process does not permit the issuance of new allocations when water is not available in the safe annual yield or if SCE has implemented its Water Rationing Plan.²¹⁸

During evidentiary hearings, Cal Advocates and the Catalina Parties spent significant time focusing on a single freshwater allocation granted to the Catalina Island Museum (Museum) during Stage 2 water rationing and Cal Advocates argues in its Brief that this allocation is evidence of the arbitrariness of SCE's discretion.²¹⁹ However, contrary to Cal Advocates' argument, this allocation was only honored after the Museum filed an informal complaint to the Water Division and the Water Division staff advised SCE of its determination that a one-time exemption should be granted. Based on this explicit direction from the Water Division, SCE granted the freshwater allocation for the Museum.²²⁰

Additionally, SCE submitted multiple advice letters addressing the water allocation process subsequent to the filing of the GRC application. On January 29, 2021, SCE submitted Advice 123-W, proposing modification to SCE Water Tariff Rule 3 and Schedule FWY.²²¹ In Advice 123-W, SCE presented an updated methodology for determining water availability, consistent with permit conditions and other industry standards. Based on the updated methodology, SCE anticipated assigning freshwater allocations to those on the wait list. On May 12, 2021, SCE submitted 123-W-A, updating the production capacity for the Desalination Treatment Facility on Catalina at the request of the Water Division.²²² On September 21, 2021, SCE submitted Advice 123-W-B, further updating the production capacity

²¹⁷ D.90265, Ordering Paragraph 1.

²¹⁸ Water allocations assigned prior to the implementation of the Water Rationing Plan may still be honored while Stage 1 of the Water Rationing Plan is in effect.

²¹⁹ See, SCE, Barcinas, Tr. Vol. 2, pp. 168:24-169:12, 181:6-182:26; SCE, Hite, Tr. Vol. 4, p. 413:10 - 417:12; Cal Advocates Opening Brief, p. 43.

²²⁰ SCE, Barcinas, Tr. Vol. 2, pp. 168:24-169:12, 181:6-182:26.

²²¹ Advice Letter 123-W.

²²² Advice Letter 123-W-A.

for the Desalination Treatment Facility, also at the request of the Water Division.²²³ On December 3, 2021, the Commission approved Advice 123-W, as supplemented by Advice 123-W-A and 123-W-B.²²⁴ Since the approval of Advice 123-W by the Commission, SCE has processed dozens of freshwater allocation requests and informed customers of their freshwater allocations.

Accordingly, nothing in the record properly refutes SCE's prudent management of limited water resources and demand conditions in the period following extended historic drought conditions in accordance with its Commission approved water tariff. Cal Advocates' and Catalina Parties' recommendations relative to SCE's water allocation process are baseless and should be rejected.

3. Naming Convention for Low-Income Ratepayer Assistance Program

As discussed in SCE's Opening Brief,²²⁵ SCE's low-income ratepayer assistance program has been in place under the CARE name for the Catalina water utility since its inception in 2007²²⁶ and SCE proposes to maintain the existing CARE name for its water utility low-income ratepayer assistance program on Catalina notwithstanding the Commission's 2020 Low-Income OIR decision ordering utilities to rename their respective low-income water assistance programs as "Customer Assistance Programs" (CAP).²²⁷ As further detailed in SCE's Opening Brief, SCE's Catalina water customers also receive electric and gas utility service from SCE and, if eligible, receive CARE discounts for electric, gas, and water service as applicable and adoption of the CAP name would incur additional costs without commensurate benefit to customers. None of the other parties' Opening Briefs address or otherwise express opposition to SCE's proposal. Accordingly, SCE respectfully requests that the Commission allow SCE to

²²³ Advice Letter 123-W-B.

²²⁴ Advice Letter 123-W.

²²⁵ SCE Opening Brief, pp. 83-84

²²⁶ Resolution W-4665, Ordering Paragraph 12.

²²⁷ D.20-08-047, Ordering Paragraph 4.

continue promoting its water low-income ratepayer assistance program as part of the established CARE program.

IX.

CONCLUSION

For the foregoing reasons and as set forth in SCE's Opening Brief, SCE respectfully requests that the Commission approve SCE's requests as set forth in its summary of recommendations.

Respectfully submitted,

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