

**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.

Application 20-10-018

(Filed October 30, 2020)

PROTEST OF THE UTILITY REFORM NETWORK

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PROTEST OF THE UTILITY REFORM NETWORK

On October 30, 2020, Southern California Edison Company (SCE) filed an application seeking to recover past, present and future costs associated with providing water utility service to customers on Catalina Island. A central element of SCE's proposed cost recovery is that the very substantial portion of the increased water utility service costs the utility seeks to collect would be paid by SCE's electric utility customers. Under the utility's approach, the authorized revenue requirement for its Catalina water utility operations would increase from the current \$4.13 million to \$9.303 million for test year 2022, but with a five-year phase-in, such that the \$9.303 million figure would not be reached until 2026. The resulting revenue shortfall for the phase-in period (\$10.346 million) would be collected from SCE's electric utility customers. In addition, the electric customers would pay \$11.6 million to permit SCE to recover in full the amount recorded in the water utility's drought-related memorandum accounts, and \$7.024 million for past capital expenditures for the water utility, for an SCE-calculated total of \$28.969 million.

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN) submits this protest to SCE's application. Rule 2.6 requires that protests be filed within 30 days of the date the application first appeared on the Commission's Daily Calendar. Notice of the instant application first appeared on November 2, 2020. TURN's protest is thus timely filed.

I. Grounds of the Protest And Issues To Be Considered

SCE's application proposes two broad categories of issues to be considered in this proceeding: whether the proposed revenue requirement of \$9.303 million for Catalina water utility customers in the 2022 test year is just and reasonable; and whether SCE should be permitted to recover from its electric utility customers nearly \$30 million of costs incurred in

providing water utility service, consisting of costs incurred prior to 2022, as well as the revenue shortfall that will occur because SCE does not propose to collect the full revenue requirement from water utility customers until 2026.¹

TURN's focus in this proceeding will be on the proposal to recover from SCE's electric utility customers costs associated solely with providing water utility service. TURN will urge the Commission to reject any such proposal for several reasons.

First, it is not clear that the Commission has the authority to charge SCE's electric utility customers costs that do not have a sufficient nexus to providing electric utility service. Under Section 451 of the Public Utilities Code, all charges by SCE to its electric customers must be "just and reasonable." From the perspective of an electric customer, including costs associated with providing water utility service on Santa Catalina Island would not result in a "just and reasonable" charge for electric service. Furthermore, Section 453 prohibits a utility from making or granting "any preference or advantage" as to rates or charges. An explicit subsidy of SCE's water utility customers by the utility's electric customers would seem to be a clear "preference or advantage" that is not permitted under the statute.

Second, the utility's argument in support of assigning nearly \$30 million of water utility costs to electric utility customers is based on fundamentally flawed logic. SCE notes that it provides electric service to approximately 15 million people in its service territory (through 5 million customer accounts), and contends "a large percentage of the visitors to the island who contribute to the need for additional water system capacity and facilities are SCE electric customers [who would] benefit from SCE's prudent operation and management of the water

¹ SCE Application, pp. 11-12. SCE also lists a third category of principal issues that generally refers to ratemaking and rate design proposals consistent with the cost-recovery proposals in the first two categories.

utility during any visits to Catalina.”² But even if all of the “roughly one-million” annual visitors to the island were among the 15 million individuals provided electric service by SCE, that would mean approximately 93% of the individuals receiving electric service from SCE do not fall within this category.³ For those individuals, there is no direct or indirect benefit achieved from including Catalina water utility service costs in their electric rates.

Third, SCE has failed to demonstrate that it fully considered and analyzed alternative approaches. For example, SCE briefly describes the possibility of collecting a “visitor boat fee” that, even if set at only \$1.00 on each one-way fare, might generate \$1.4 million per year.⁴ As the utility describes it, such a fee would ensure “the burden is shared among all those who use the water commodity on the island.”⁵ Yet SCE chose not to propose a boat fee alternative, based on the assumption that the increased cost to ferry ticket prices might dissuade potential visitors from visiting, and because if one accepts that the majority of visitors to the island are SCE electric customers, it is much simpler “from a ratemaking perspective” to collect the revenues through electric rates.⁶

² SCE-1, p. 23.

³ SCE’s testimony cites a “Visitors Report” prepared by the Catalina Island Chamber of Commerce & Visitors Bureau as indicating that 70 percent of Catalina visitors reside in southern California. *Id.* It is not clear whether SCE has performed its own analysis on this point, or whether the “Visitors Report” would permit a clearer distinction of Catalina visitors who reside in SCE’s service territory, rather than in the service territory for LADWP or SDG&E, both of which also serve parts of southern California.

⁴ SCE-1, p. 24.

⁵ *Id.*

⁶ *Id.*, p. 25.

SCE claims that its cost recovery proposal will increase the average residential electric customer monthly bill by \$0.29,⁷ or approximately \$3.50 per year. Rather than charge this amount on average to SCE's electric residential customers, to be collected whether or not they travel to Catalina, SCE should be directed to more seriously explore options for recovering revenues for Catalina water utility service from actual visitors to Catalina. For example, if SCE were to include a surcharge of \$3.50 per round-trip ferry ticket, approximately \$2.5 million of revenues would be generated (assuming 700,000 passengers per year). A surcharge of \$5.00 per one-way ticket (that is, \$10.00 per round-trip ticket) would generate approximately \$7 million per year, and thus permit recovery of \$29 million in just over four years. If the Commission were to choose an amortization period of approximately ten years, a surcharge of \$5.00 per round-trip ticket would achieve full recovery of \$29 million.

TURN understands that from the perspective of SCE and the island stakeholders who provided feedback raising concerns about a potential visitor boat fee, it would be preferable for SCE to collect \$29 million in electric rates. However, if the Commission determines that it lacks authority to assign \$29 million of water utility costs to electric utility customers, or that it should not do so for other policy reasons, SCE will need to either forgo collection of that amount (to the detriment of its shareholders), or find a recovery source other than its electric utility customers. The potential visitor boat fee needs to be assessed in the context of an alternative made necessary (if not essential) because SCE's primary recommendation is not adopted. There is nothing in SCE's application or testimony suggesting the utility meaningfully performed such an assessment.

⁷ SCE-1, p. 6.

II. Proposed Categorization, Need for Evidentiary Hearings, and Proposed Schedule

SCE proposes that this application be categorized as ratesetting, and states its belief that hearings will be needed.⁸ TURN agrees that ratesetting is the appropriate category, and evidentiary hearings will be needed.

The adopted schedule should be structured so as to avoid the possibility that, at the end of the proceeding, the Commission may find itself in the position of lacking well-developed alternatives for achieving a reasonable degree of cost recovery for SCE's water utility service on Catalina Island. At this point, the only proposal the utility has put forward for recovery of \$29 million of water utility service costs is to collect that amount from its electric utility customers; SCE's testimony does not set forth a back-up plan or well-developed alternative should the Commission determine not to adopt that proposal. The Commission should direct SCE to supplement its showing with testimony setting forth such a back-up plan or alternative should the Commission decide not to adopt the cost recovery proposal set forth in its application. The Commission may also wish to consider conducting this proceeding in phases, with an initial phase that focuses on the issue of cost recovery from SCE's electric customers. In TURN's view, the evidentiary record necessary for the initial phase would be relatively limited and might be completed through discrete discovery and stipulations of fact, thus enabling an interim decision potentially issued within a few months.

Ensuring SCE's showing includes cost recovery alternatives other than its primary proposal, and potentially addressing the merits of that primary proposal relatively early in the proceeding, will help ensure that the Commission's final decision has a number of options to

⁸ SCE Application, p. 11.

