

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



FILED

06/10/22

04:59 PM

A2010018

Application of Southern California Edison
Company (U338E) for Authority to
Increase Rates for its Class C Catalina
Water Utility and Recover Costs from
Water and Electric Customers.

Application 20-10-018

**REPLY BRIEF
OF THE PUBLIC ADVOCATES OFFICE**

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June 10, 2022

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SUMMARY OF RECOMMENDATIONS

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) here incorporates by reference all recommendations listed in the Summary of Recommendations in Cal Advocates' Amended Opening Brief, with the following additional recommendations:

1. Catalina water customers, as such, are not a vulnerable population justifying a public interest-based rate subsidy; nor is SCE's ownership of the Catalina Water Utility an "inequity" proper for Commission intervention.
2. The Commission's approval of SCE's proposed cross-subsidy would create precedent for the idea that utilities' entitlement to cost recovery trumps the recognized human right to clean and affordable water.
3. General Order 96-B is controlling for purposes of class size determination and includes all connections, without exception.
4. The Commission should direct SCE to return to ratepayers a Purchase Power Expenses Memorandum Account overcollection balance of \$563,871.
5. The Commission should require SCE to apply a five-year average to account for drought conditions in the Operations and Maintenance expense forecast.
6. A two-year average of wage and salary data provided by SCE is reasonable for purposes of forecasting Account 630-Employee Labor expense.
7. Expenses for contract work in support of special environmental projects is not appropriate for inclusion as a regular, recurring Account 650-Contract Work expense and should be tracked SCE's existing Catalina Water Pipeline Assessment Memorandum Account.
8. SCE has adequately supported only \$50,000 of its revised asset management program forecast under Account 650-Contract Work.
9. The Commission should determine that a lead-lag study for SCE's next Catalina GRC is reasonable and appropriate for estimating working cash.
10. Public Utilities Code § 792.5 requires SCE to account for expense savings due to reduced sales in seeking memorandum account balance recovery.
11. Terms of SCE's California Department of Water Resources grant award for the Desalination Plant 2 project state that the award covers the full budgeted costs of the project.
12. The Commission should require SCE to recover desalination building upgrade costs on an historical basis when costs are known.
13. SCE has failed to consider the excessive burdens that its current rate design imposes on full-time Catalina residents.

I. INTRODUCTION

Pursuant to Rule 13.12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure (Rules) and the schedule provided in the April 8, 2022, *Amended Scoping Memo*, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits its reply to the opening brief of Southern California Edison Company (SCE) in SCE's General Rate Case (GRC) application for Catalina Water Utility (Catalina), its class C water utility.

II. SCE HAS NOT MET ITS EVIDENTIARY BURDEN

SCE fails to establish by preponderance of the evidence that its proposed revenue requirements are just and reasonable.¹ In particular, SCE's justification for its cross-subsidy proposal to recover water utility costs from electric customers consists of conjecture, logical error, and misconstruction of state policy goals. SCE's opening brief is self-contradictory in characterizing the impact of tourism on the Catalina Water system, making a novel claim that "much of the [Catalina] water infrastructure has been built to support the needs of SCE mainland customers" to promote a fictional cost-causation nexus in one instance, but asserting elsewhere that visitors have no impact on system usage for purposes of Catalina functioning as a larger water utility than its number of service connections would indicate.² Neither of these conflicting statements is supported by evidence.

The Commission's authority to approve rate increases is constrained by its statutory obligation to establish just and reasonable rates. SCE has failed to show by a preponderance of the evidence that the amount of revenue it proposes to collect either from water or electric customers is just and reasonable.³

¹ See Application (A.)20-10-018, *Amended Opening Brief of the Public Advocates Office* (May 17, 2022) (Cal Advocates Amended Opening Brief), p. 3.

² See A.20-10-018, *Opening Brief of Southern California Edison Company* (May 13, 2022) (SCE Opening Brief), p. 63.

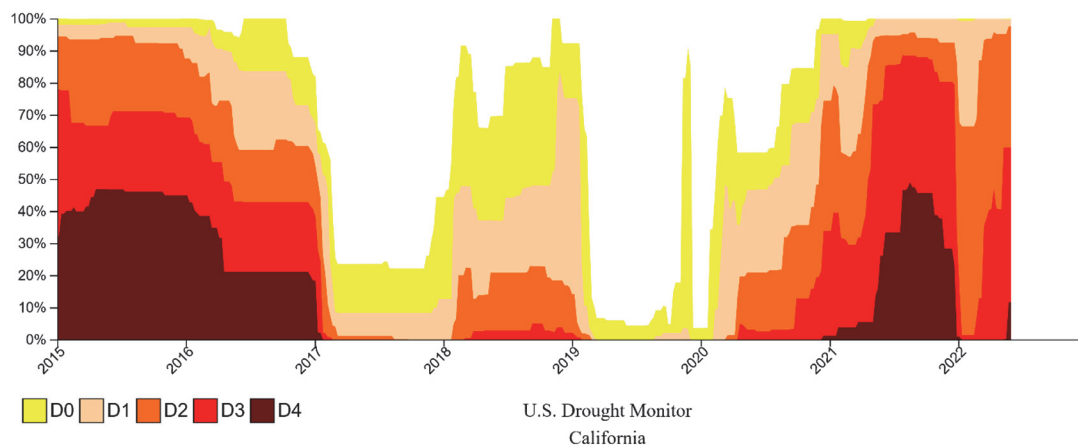
³ D.21-08-036, p. 10.

III. REVENUE REQUIREMENT

A. The Commission should require SCE to Apply a Five-Year Average to Include Drought Conditions in the Operations and Maintenance Expense Forecast.

SCE claims that using 2019 as the base year to forecast expenses is more accurate than Cal Advocates' proposed five-year average, "because 2015-2018 reflects costs incurred during atypical drought conditions which are not expected to be present during Test Year 2022."⁴ Current drought conditions do not match this expectation, however. As shown in the U.S. Drought Monitor⁵ graph below, 2019 was an outlier among years of otherwise abnormally dry and drought conditions throughout the state.

Figure A: California Drought Conditions, 2015-Present, U.S. Drought Monitor⁶



Key

D0: Abnormally Dry
D1: Moderate
D2: Severe
D3: Extreme
D4: Exceptional

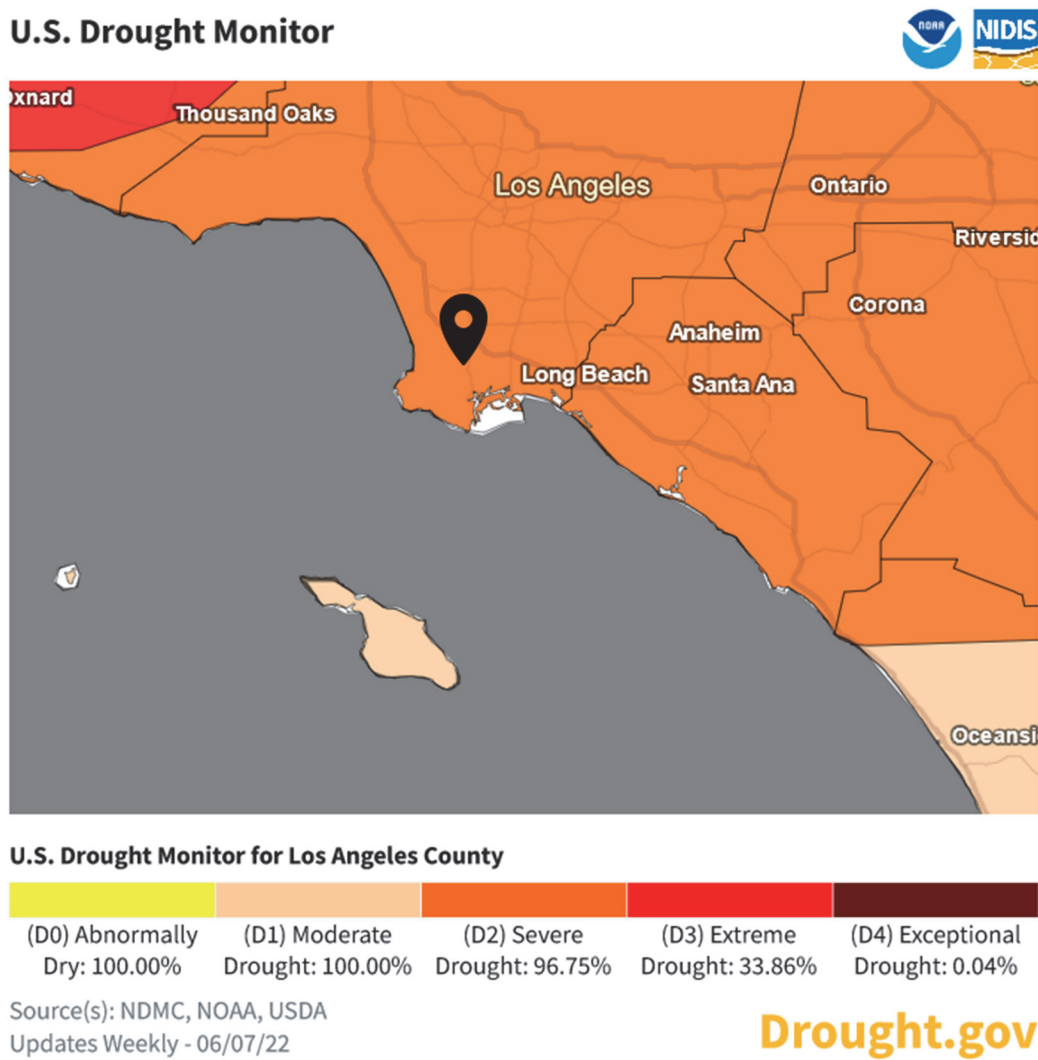
⁴ SCE Opening Brief, p. 6.

⁵ Cal Advocates will file a motion for official notice of the U.S. Drought Monitor (USDM) data referenced in this reply brief. USDM data is publicly available and not reasonably subject to dispute; is produced under direction of Federal executive agencies; and has been referenced elsewhere in the record of this proceeding (Ex. SCE-10, p. 56, Fig. V-2).

⁶ Proposed Ex. Cal Advocates-04, USDM California Drought Conditions, 2015-Present, *available at* <https://www.drought.gov/states/California#historical-conditions> (accessed on June 2, 2022).

Current drought data for Los Angeles County indicates that Catalina Island is in moderate drought conditions, indicated by the pink color shown in Figure 2.

Figure B: Drought Monitor for Los Angeles County as of June 7, 2022.¹



SCE provides no support for its claim that 2019 is “more representative of the conditions to be expected during 2022-2024.”⁸ Further, SCE’s claim is contradicted by public information indicating that a non-drought year like 2019 is likely more exceptional

¹ Proposed Ex. Cal Advocates-05, Drought Monitor for Los Angeles County as of June 7, 2022, *available at* <https://www.drought.gov/states/california/county/los%20angeles> (last accessed on June 10, 2022).

⁸ SCE Opening Brief, p. 6.

than the drought conditions. Accordingly, an O&M forecast based on a five-year average that includes both drought and non-drought conditions is likely to be more accurate than one that excludes drought conditions completely.

B. Cal Advocates' Reliance on a Two-Year Average of SCE-Provided Wage and Salary Information to Forecast Account 630-Employee Labor is Reasonable.

SCE uses its 2019 General Ledger (GL) recorded amount of \$1,677,000 (rounded to the nearest 1,000) as the basis for its Account 630-Employee Labor forecast and takes exception to Cal Advocates' recommended two-year average forecast.² SCE claims that 2018 and 2019 salary information provided in response to Cal Advocates' data request for payroll information is inappropriate for forecasting, because it was intended only for "budget preparation purposes" rather than to verify SCE's 2019 General Ledger (GL) entry for Account 630.¹⁰ Salary information that is accurate for budget preparation purposes should also be reasonably accurate and relevant for purposes of forecasting future expenses; potentially more accurate than the percentage allocation amount recorded in the GL.¹¹

SCE also accuses Cal Advocates of having provided its own values under "Water 2018 Salary" and "Water 2019 Salary" for Instrumentation, Control, and Electric (ICE) Foreman and three ICE Technician positions to generate the Account 630 forecast.¹² Cal Advocates, however, reasonably determined values for these positions by applying SCE's water allocation percentage to the numbers provided by SCE as non-allocated 2018 and

² See SCE Opening Brief, p. 8 (stating that SCE's total forecast for Account 630 is \$1,832,050: the sum of \$1,677,000 for last recorded year of 2019, a \$124,000 adjustment to backfill two vacant positions and cover incremental water valve inspection costs, a \$23,000 adjustment from Account 618,3 and a \$8,050 adjustment from Account 650).

¹⁰ See SCE Opening Brief, pp. 9-10. Cal Advocates does not dispute that SCE's data request response included a statement that 2018-2019 salaries were determined for budget preparation purposes.

¹¹ See Ex. Cal Advocates-01-(CONFIDENTIAL), p. 2-10:6-8 (noting that due to the discrepancy between the GL recorded amounts and wage data, the breakdown of employee wages could provide a more accurate estimate of SCE's future labor costs than the 2018-2019 GL recorded amounts for Account 630).

¹² See SCE Opening Brief, p. 10.

2019 salaries for the positions.¹³ SCE’s water allocation percentage applied to the non-allocated salary figures reflects the best available estimate for these positions, given the unexplained discrepancy between GL recorded amounts and SCE’s wage data.¹⁴

Further, SCE claims that it provided “extensive testimony” supporting the need for a \$124,000 adjustment for the Utilityman and ICE Technician positions.¹⁵ However, SCE’s testimony here consists of job descriptions for these positions, which have been vacant since 2018, not evidence such as a time study supporting a need to fill the positions.¹⁶ Without a time study or similar evidence demonstrating that the positions are actually necessary, SCE has failed to adequately justify its requested adjustment for the positions.

Accordingly, the Commission should adopt the adjustments to Account 630 of \$1,445,521 as discussed in Cal Advocates’ testimony and amended opening brief.¹⁷

C. Account 650 – Contract Work

1. Contract work in support of special environmental projects should receive memorandum account treatment.

The costs SCE proposes for incremental water sampling “to support supplemental water sampling and analysis to monitor water quality during an ongoing environmental assessment of water distribution facilities” for “special projects” rather than routine, recurring expenses appropriate for an O&M expense forecast.¹⁸ Accordingly, these expenses would be more appropriate for SCE’s existing memorandum account associated

¹³ See Ex. Cal Advocates-01-(CONFIDENTIAL), Attachment 2-10 (Confidential).

¹⁴ See Ex. Cal Advocates-01 (PUBLIC), p. 2-10:6-8. All future references to Ex. Cal Advocates-01 shall refer to the public version of the exhibit unless otherwise specified.

¹⁵ SCE Opening Brief, p. 10.

¹⁶ See SCE Opening Brief, pp. 10-11.

¹⁷ Cal Advocates Amended Opening Brief, p. 7.

¹⁸ SCE Opening Brief, pp. 12-13.

with environmental assessment of pipelines.¹⁹ The Commission should exclude \$519,000 from SCE's Account 650 forecast.²⁰

2. SCE has adequately supported only \$50,000 of its revised asset management program forecast.

SCE reduced its original \$150,000 asset management program forecast to \$80,000 “after completing a prioritization of the high risk/high priority assets....”²¹ However, SCE provided adequate support for only \$50,000 of the requested amount. The reduced estimate in SCE's rebuttal testimony fails to include new or additional support for the remaining \$30,000.²² Therefore, the Commission should approve \$50,000 for third-party contractor support of SCE's asset management program.²³

D. The Commission Should Determine that a Lead-Lag Study for SCE's next Catalina GRC is Reasonable and Appropriate for Estimating Working Cash.

SCE asserts that the 1/8 rule approach²⁴ is adequate for estimating working cash because this approach was approved by the Commission in the last Catalina GRC, has been adopted by the FERC, and is “commonly used for estimates of working cash in lieu of detailed lead-lag studies.”²⁵ As SCE has repeated throughout the record, however, Catalina is not typical of other similarly-sized water utilities.²⁶ Even though Catalina's volumetric

¹⁹ See Cal Advocates' Amended Opening Brief, p. 9 (noting that existing Catalina Water Pipeline Assessment Memorandum Account (CWPAMA) is an option for recording these special environmental project-related expenses).

²⁰ See Cal Advocates' Amended Opening Brief, p. 9 (noting that existing Catalina Water Pipeline Assessment Memorandum Account (CWPAMA) is a, option for recording these special environmental project-related expenses).

²¹ SCE Opening Brief, p. 17

²² See Ex. SCE-10, p. 40:16-22.

²³ Cal Advocates Amended Opening Brief, p. 2-17:8-11.

²⁴ Under the 1/8 rule, working cash is calculated as one eighth of the utility's annual operations and maintenance costs. See Ex. Cal Advocates-01, p. 7-7:1-2.

²⁵ SCE Opening Brief, p. 46.

²⁶ See, e.g., SCE Opening Brief, pp. 37-38 (discussing “unique conditions of providing water service on Catalina Island, including the island's physical isolation and geography and seasonal demands due to the

(continued on next page)

use is disproportionately high relative to the number of service connections because of the impact of tourism on the island, SCE disputes the premise that volume of water usage on Catalina is impacted by approximately one million annual visitors annually.²⁷ Elsewhere in SCE’s opening brief it asserts that “much of the Catalina water infrastructure has been built to support the needs of SCE mainland customers.”²⁸ As previously noted, the claim that SCE intentionally built Catalina’s water infrastructure to benefit its mainland electric customers is novel and unsupported in the record. It does suggest, however, that the system was constructed to deliver a much higher volume of water than would normally be required to accommodate fewer than 2000 service connections.

Accordingly, regardless of whether the Commission reclassifies SCE as a Class B utility, the record shows that the Catalina is functionally larger than most utilities with a similar number of service connections.²⁹ The Commission should direct SCE to conduct a lead-lag study for the next Catalina GRC to ensure that this unique and proportionately high-volume water utility, whether Class C or Class B, relies on a working cash estimate based on concrete, utility-specific data rather than a generic formula.

E. Drought-Related Memorandum Accounts

1. SCE’s unjustified delay in recovery of the Catalina Water Lost Revenue Memorandum Account imposes an unreasonable burden of accrued interest on ratepayers.

SCE claims that compliance with Standard Practice (SP) U-27-W requirements in seeking recovery of the Catalina Water Lost Revenue Memorandum Account (CWLRMA)

tourism economy....”), p. 67 (stating that “it is undisputed that there is no other service area like Catalina anywhere in the state....”); Ex. SCE-10, p. 13:22-24 (stating that “water operations on Catalina are unique given the very limited water resources and extensive infrastructure spanning rugged rural terrain, resulting in a water system that is costly to maintain and operate for a Class C water utility with a small customer base”).

²⁷ SCE Opening Brief, p. 46.

²⁸ SCE Opening Brief, p. 62 (making the unsupported claim not simply that SCE customers are the predominant visitors to Catalina, but that the water system was built specifically *for* SCE electric customers).

²⁹ See Ex. Cal Advocates-01, p. 7-7:7-10.

within the prescribed three-year time limit would have resulted in a “piecemeal approach to cost recovery” over multiple proceedings.³⁰ This argument conflates the timely filing of applications to amortize balances in a single memorandum account—when it is unknown how long the drought conditions may persist—with filing an undetermined number of separate memorandum accounts tracking costs that are all segments of the same project. Only the latter represents the “piecemeal approach” that Cal Advocates opposed in A.21-06-007, SCE’s application for the second of an undetermined number of memorandum accounts related to removal and remediation of pipeline containing toxic material.³¹

The SP U-27-W provision requiring amortization of memorandum account balances within three years prevents excessive interest accrual.³² Any “efficiency” SCE claims as a result of delaying recovery of the CWLRMA is outweighed by ratepayers’ interest in timely, reasonable amortization of memorandum account balances, which SP U-27-W is intended to protect.³³ The end date of a drought is impossible to predict. Therefore, SCE’s disregard of the standard practice for memorandum account amortization was unreasonable. Further, other water utilities with similar drought-related lost revenue memorandum accounts sought timely recovery.³⁴ SCE offers no adequate justification for why the Commission should overlook SP U-27-W’s clear guidance and authorize SCE to

³⁰ SCE Opening Brief, pp. 49, 51

³¹ In A.21-06-007, SCE sought authorization for the Catalina Water Decommissioned Pipe Memorandum Account, the second memorandum account request related to SCE’s removal and remediation of pipeline containing polychlorinated biphenyls (PCBs). A Proposed Decision is still pending in that proceeding as of the date of this reply brief.

³² Standard Practice U-27-W, p. 17, paragraph 70 (stating that “[all] charges booked to memo accounts must be less than three years old unless the costs are fully justified for being older”).

³³ See SCE Opening Brief, p. 51 (claiming that it is “inefficient and counterproductive to spread recovery of costs associated with a single, continuous exceptional event...over multiple cost recovery proceedings spanning several years,” even though costs in question are tracked in one account, interest accrues on the balance, and the duration of the “continuous exceptional event” is unknown in advance).

³⁴ See Cal Advocates Amended Opening Brief, p. 24.

recover the expired balances and interest accrued in CWLRMA due to SCE' self-imposed delays.³⁵

2. In requesting lost revenue memorandum account recovery, SCE must account for expense savings due to reduced sales under Public Utilities Code § 792.5.

Section 792.5 of the Public Utilities Code requires consideration of expense savings when requesting memorandum account recovery.³⁶ Here, the “balance...between related costs and revenues” that must be tracked per Section 792.5 is the net of lost revenue recorded in the CWLRMA and expenses SCE avoided due to decreased sales during the recording period. Despite the absence of such a requirement in the CWLRMA preliminary statement, the statutory requirement still applies. Therefore, SCE's CWLRMA recovery must reasonably account for any expense savings during the drought period.³⁷

F. Historical Water Capital Expenditures

As noted in Cal Advocates' opening brief, SCE has been responsible for operation and maintenance of the Catalina Water system for 60 years.³⁸ During this time, SCE has failed to reasonably respond to and/or anticipate problems that were, or should have been, reasonably foreseeable with adequate planning and asset management.³⁹ SCE's characterization of the Howlands Landing Well 1 failure as due to “historically severe

³⁵ See Cal Advocates Amended Opening Brief, p. 23.

³⁶ Pub. Util. Code § 792.5 provides:

Whenever the commission authorizes any change in rates reflecting and passing through to customers specific changes in costs...the commission shall require as a condition of the order that the public utility establish and maintain a balancing account *reflecting the balance, whether positive or negative, between the related costs and revenues*, and the commission shall take into account by appropriate adjustment or other action any positive or negative balance remaining in the balancing account at the time of any subsequent rate adjustment (emphasis added).

³⁷ See Cal Advocates Amended Opening Brief, p. 24.

³⁸ See Cal Advocates' Amended Opening Brief, pp. 25-26; Ex. Cal Advocates-01, pp. 6-8 to 6-9.

³⁹ See Cal Advocates' Amended Opening Brief, pp. 25-26; Ex. Cal Advocates-01, pp. 6-8 to 6-9.

drought conditions” disregards the scope and timeline of the problem, and the fact that SCE had decades to anticipate and plan for the well failure.⁴⁰

1. SCE failed to reasonably plan for an eventual Howlands Landing well failure.

SCE characterizes seawater intrusion at the Howlands Landing Well as an unforeseeable event or “remote possibility” due to severe drought conditions that SCE could not have anticipated.⁴¹ The record does not support such a claim, given evidence that seawater intrusion in the area was a known concern at least as early as 1976—not 2014, when emergency conditions finally forced SCE to take immediate action.⁴² SCE touts the “tremendous accomplishment” of placing the replacement well into service a year after the old well failed, despite the additional, avoidable expenses SCE incurred due to rushing to construct a replacement well on an emergency basis.⁴³

2. Desalination Plant 2 project costs are fully covered by the California Department of Water Resources grant under terms of the funding agreement.

SCE asserts that it has “provided a clear breakdown of the outstanding [Desalination Plant 2 project] balance that remains after grants and contributions, resolving any purported discrepancy.”⁴⁴ SCE has not adequately explained the reason for downward adjustment of the grant award from the original 2020 amount of \$3,610,575, to \$2,319,370.00, the

⁴⁰ SCE Opening Brief, p. 33 (stating that June 2014 “severe drought conditions” rendered Howlands Landing-1 unsuitable for drinking water due to increased salinity from seawater intrusion); *but see* Cal Advocates’ Amended Opening Brief, p. 26 (citing evidence that SCE was aware of seawater intrusion issues at Howlands Landing at least as early as 1976).

⁴¹ See SCE Opening Brief, p. 33 (asserting that “SCE should not be penalized for failing to predict that Catalina would suffer from a historical drought”).

⁴² See Ex. Cal Advocates-01, Attachment 6-2, p. 2 (May 1979 letter pertaining to USC agreement, noting that “in 1976, because of a salt water intrusion problem at Howland’s Landing well, SCE installed a 6” line from the million gallon tank to the Isthmus to meet public utility water demands for that area”); *cf.* SCE’s Opening Brief, p. 33 (stating that “when water quality concern was identified at HL-1 due to exceptional drought conditions, SCE immediately responded and took remedial actions in an expeditious manner”).

⁴³ See SCE’s Opening Brief, p. 33 (attempting to distinguish the actual construction costs from all other costs arising from and related to the project).

⁴⁴ SCE Opening Brief, pp. 31-32 (including table showing an “Adjusted Estimated DWR Grant Amount”).

amount identified in the Funding Agreement SCE executed with the Department of Water Resources (DWR) in July 2021 (DWR Funding Agreement).⁴⁵ Regardless of the reasons for the adjustment, however, the adjusted award amount in the DWR Funding Agreement is expressly intended to cover the full cost of the project.⁴⁶ Under the terms of the DWR Funding Agreement, SCE has no cost share or other sources of contributions toward costs of the project in excess of the grant award, as shown in the “Cost Share for Funded Project” table from the DWR Funding Agreement in Figure 3, below:

Figure 3: DWR Funding Agreement, Cost Share for Desalination Funding Program Project No. C-2018-02 – Table A1.⁴⁷

Table A1. Cost Share for Funded Project			
Cost Share Contributor	Funding Type (In-Kind, Cash, Grant, Other)	Estimated Value of Contribution, \$	Brief Description of Contribution
None	Not Applicable	\$0	Cost-share waived for project benefitting a disadvantaged community (DAC), as described in Proposal Solicitation Package (PSP) Section 4.6 Funding Match. This project will benefit the City of Avalon, which is a DAC.

An itemized budget, showing that the grant award total of \$2,319,370 covers all project costs, is also included in Exhibit B to the DWR Funding Agreement.⁴⁸ Accordingly, the Commission should deny SCE’s request for any ratepayer funding for the Desalination Plant 2 project, given that SCE’s agreement with DWR indicates that the full costs of the project are covered by the grant.⁴⁹

⁴⁵ Ex. WPSCE-10, p. 99 (DWR Funding Agreement, paragraph 4).

⁴⁶ See Ex. WPSCE-10, p. 112. DWR Funding Agreement Exhibit A – Project Description, part A.1.c. states that the “eligible project” for grant funding purposes is, in this case, the entire project. Part A.1.d. further states that the “funded project” is the eligible—or total—project. DWR waived the otherwise applicable cost contribution requirement for the project based on the City of Avalon’s status as a Disadvantaged Community.

⁴⁷ Ex. WPSCE-10, p. 113 (reproduction of Table A1 in DWR Funding Agreement Exhibit A).

⁴⁸ Ex. WPSCE-10, p. 119.

⁴⁹ Ex. Cal Advocates-01, p. 6-8:9-15.

G. The Commission Should Require SCE to Recover Desalination Building Upgrade Costs on an Historical Basis.

SCE indicates that it does not have a detailed cost estimate for its planned desalination building upgrade, even though the project is scheduled to begin in 2022.⁵⁰ Given the lack of available detail about project costs, the Commission should deny SCE's forecasted costs for this project and direct SCE to seek desalination building upgrade cost recovery when the project is actually used and useful.⁵¹

H. The Commission Should Require SCE to Address Water Loss as an Emergency by Proportionately Reducing SCE's Revenue Requirement.

SCE argues at length that an annual loss of 39% of Catalina's potable water is not unreasonable and/or should not warrant any revenue requirement impact or other remedial action by the Commission.⁵² As discussed in Cal Advocates' amended opening brief, SCE's comparison to other similarly-sized water utilities fails to account for the relative cost of water and omits key details about the Golden State Water Company (Golden State) general rate cases addressing high water loss in Golden State's Clearlake service area, including the progress Golden State made to reduce its net water loss in nearly all of its other service areas.⁵³

SCE asserts that it has taken "considerable steps to improving its water loss." Unfortunately, the steps taken have yet to produce results, even as water loss has increased year to year. SCE's comparison of Catalina to Golden State Water Company's Clearlake service area, though flawed by SCE's failure to account for the critical factor of water cost in assessing the reasonableness of water loss,⁵⁴ is illustrative of how the Commission's treatment of Clearlake (i.e., declining to remove unaccounted for water expenses or to

⁵⁰ See SCE Opening Brief, pp. 39-40.

⁵¹ See Ex. Cal Advocates-01, p. 6-18:16-20.

⁵² See SCE Opening Brief, pp. 53-54.

⁵³ See Cal Advocates Amended Opening Brief, pp. 32-33.

⁵⁴ Cal Advocates Opening Brief, pp. 31-34.

apply a penalty/reward mechanism to Clearlake) has resulted in essentially unchanged water loss rates in the Clearlake service area.⁵⁵ Golden State Water, unlike SCE, was able to identify and repair leaks to reduce water loss in most of its other service area.⁵⁶ SCE has operated the Catalina system for 60 years but to-date still does not know where or how a loss of 39% of its potable water is occurring.⁵⁷

SCE acknowledges that Catalina water is costly.⁵⁸ In this proceeding, SCE seeks recovery from water customers not only of the costs of running the Catalina water system with water production at existing levels, but also for recovery of investments in increased desalination production.⁵⁹ At the same time, SCE wants its electric customers to subsidize over \$32.6 million in water utility costs related to drought and environmental expenses. Reducing SCE's revenue requirement proportionately to its water loss, with an allowance for the minimum amount of water loss the Commission has determined is reasonable, would encourage SCE to modify its unsustainable status quo. The Commission must not allow SCE to tap into electric customers as a funding source that enables it to ignore the hole in its proverbial bucket.

IV. RECOVERY FROM ELECTRIC CUSTOMERS

Cal Advocates has addressed SCE's cross-subsidy proposal and the reasons why the Commission should reject it at length in earlier briefs. However, a few points warrant further discussion in response to SCE's erroneous claims that 1) it is suffering under an unfairness or inequity that the Commission can or should correct; 2) Catalina water customers as such are a "vulnerable" class akin to other categories of vulnerable

⁵⁵ Cal Advocates Opening Brief, pp. 34-35 (noting that Golden State was able to identify and reduce sources of water loss in most of its other service areas, resulting in a significant net decrease in water loss for the utility despite the continuing high rate in Clearlake).

⁵⁶ Cal Advocates Opening Brief, p. 34.

⁵⁷ See Hearing Transcript, Cross Examination of SCE Witness Hite, p. 345:13-26 (confirming that SCE has so far been unable identify where or why real water losses are occurring).

⁵⁸ SCE Opening Brief, p. 65 (describing multiple factors that contribute to the costliness of water on Catalina Island, such as limited groundwater resources, reliance on desalination, and substantial transmission infrastructure).

⁵⁹ See SCE Opening Brief, p. 38 (discussing Desalination Plant 1 proposal to increase production).

populations recognized in state law and policy; and 3) the cross-subsidy would be too narrowly applicable to pose any precedential concerns.⁶⁰

A. SCE’s Ownership of the Catalina Water Utility is Not an “Inequity” Appropriate for Commission Intervention.

SCE’s Class A water utility analogy erroneously suggests that some legal or moral inequity exists because Class A utilities are able to consolidate rates in “costly rural areas” with “lower-cost rates from...other [service] areas,” providing the Class A utility’s rural customers with “a uniform, blended rate...shared across the entire service territory.”⁶¹ SCE asserts that in comparison, its inability to subsidize its costs of running the Catalina water utility with electric customers’ rates is an “inequity” requiring Commission intervention.⁶² SCE portrays Catalina residents as victims of fate in which the utility had no apparent role, lamenting that

[because] SCE—as opposed to a large Class A water utility—acquired the Catalina water utility 60 years ago, Catalina residents today face a costly, unsubsidized rate while other rural water customers served by a Class A water utility are able to enjoy an affordable blended rate, despite living in a high cost-of-service area.⁶³

No evidence in the record suggests that SCE was directed or required to become the water utility provider on Catalina Island. Despite its resources as one of the largest electric utilities in the state, SCE has failed in over half a century either to manage the Catalina water utility in a cost-effective, economically sustainable manner, or sell it. These alternatives, in addition to operating at a loss, are the options historically available to every

⁶⁰ Further, SCE would assert its right to recovery from customers of a separate utility service with no added evidentiary burden to ensure that the imposition of costs outside of accepted ratemaking principles is truly just and reasonable. The heightened risk/potential imposition on electric ratepayers in this situation warrants a higher evidentiary standard.

⁶¹ SCE Opening Brief, p. 66.

⁶² SCE Opening Brief, p. 53.

⁶³ SCE Opening Brief, p. 67.

other small water utility in the state. Rather than cure an inequity, SCE is asking the Commission to create one.⁶⁴

B. Catalina Customers as a Class are Not a Vulnerable Population Justifying a Rate Subsidy.

SCE asserts that explicit state policy goals offer a potential exception to the cost-causation principles, noting that “protection of vulnerable customers” has become important in rate design in recent years.⁶⁵ However, as SCE itself notes, its customers’ vulnerability or disadvantage in this case is due to SCE’s ownership of the Catalina water system.⁶⁶ If Catalina customers’ fundamental right to clean and affordable water is in jeopardy, it is because SCE failed to carry out its duties as their water service provider and now prioritizes its cost recovery over their right to water. The Commission should not extend the public interest rationale applicable to rate subsidies for vulnerable populations to justify SCE’s proposed cross-subsidy.

C. Approval of the Cross-Subsidy Would Set a Precedent that Utilities’ Entitlement to Cost Recovery Trumps the Recognized Human Right to Clean and Affordable Water.

SCE states that though its water customers “are entitled to water as a matter of human right, they cannot afford the costs it has taken to serve them through historic drought conditions.”⁶⁷ Thus, SCE declares that “pursuant to explicit California state policy, [the Commission] is...morally and legally compelled to protect Catalina residents’ right to clean and affordable water.”⁶⁸

The state’s policy declaring a human right to adequate supply of affordable water is not contingent on the utility’s ability to earn a reasonable rate of return or even to recover

⁶⁴ Cal Advocates Amended Opening Brief, p. 41 (noting that small rural water utilities still exist in California, operating under a variety of conditions and challenges without the resources available to SCE in operating the Catalina Water utility).

⁶⁵ SCE Opening Brief, p. 60.

⁶⁶ See SCE Opening Brief, p. 67.

⁶⁷ See SCE Opening Brief, p. 2.

⁶⁸ See SCE Opening Brief, p. 67.

its costs, despite SCE's implication otherwise.⁶⁹ SCE states that, while it does not want to do so, it "is in fact entitled to recover" costs that would result in rates its Catalina customers could not afford.⁷⁰ This statement is simply false. SCE is only entitled to recover its reasonable and prudent costs incurred in operating the Catalina system.⁷¹ SCE's cross-subsidy proposal asks the Commission to determine that the utility's cost recovery rights are primary and should be protected by extraordinary means, while customers' right to essential utility service (particularly water) is secondary.⁷²

Further, as explained in Cal Advocates opening brief, SCE is asking the Commission to prioritize the utility's right to recovery over the public's right to pay just and reasonable rates "*for any product or commodity furnished...or any service rendered.*"⁷³ Section 451 provides that "every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful."⁷⁴ The Utility Reform Network (TURN) notes in its opening brief that approval of SCE's cross-subsidy proposal would conflict with significant Commission precedent expressly prohibiting electric utilities from recovery of affiliate expenses from ratepayers.⁷⁵ Therefore, charging electric customers for the cost of services not provided to the electric customers is unlawful and inconsistent with Commission precedent.

⁶⁹ See SCE Opening Brief, p. 2.

⁷⁰ See SCE Opening Brief, p. 2 (asserting that SCE's entitlement to cost recovery is legally superior to water customers' right to affordable water).

⁷¹ Pub. Util. Code sec. 451.

⁷² See SCE Opening Brief, p. 61 (stating that "the Catalina residents' right to clean and affordable water" is threatened by "significant affordability challenges"—implying that SCE does not consider itself ultimately the owner of Catalina's affordability problem).

⁷³ Pub Util. Code § 451 (emphasis added).

⁷⁴ Cal Advocates Amended Opening Brief, p. 37.

⁷⁵ See A.20-10-018, *Opening Brief of The Utility Reform Network* (May 13, 2022) (TURN Opening Brief), p. 6 (noting the Commission's conclusion that a regulated utility "has a responsibility to protect its own ratepayers by ensuring that its parent and affiliate organizations only pass costs onto the regulated utility that the utility should bear pursuant to cost causative principles," and that from SCE ratepayers' perspective, Catalina water utility operations are no different than the operations of any other SCE affiliate).

Contrary to SCE’s claim that the cross subsidy would have no precedential effect “outside of the unique circumstances present at Catalina,” authorization of SCE’s proposed cross-subsidy could have broad and dangerous precedential effect, undermining the Commission’s ability to protect ratepayers from recovery of utilities’ affiliate expenses, and prioritizing utility cost recovery ‘entitlement’ over the public right to an affordable water supply.⁷⁶ Therefore, charging electric customers for a service they do not receive from SCE is unlawful and not within the Commission’s statutory ratemaking authority.

D. Shareholder Disallowance is Lawful and Within Commission Authority.

SCE erroneously claims that a shareholder absorption of the difference between actual spending and the amount determined reasonable for recovery—i.e., a disallowance, “would constitute clear legal error” and would “directly contravene and entirely upend the regulatory compact....”⁷⁷ This assertion contradicts the Commission’s basic authority to ensure that “[all] charges demanded or received by any public utility...for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable.”⁷⁸ There is no prohibition on the Commission’s imposition of a shareholder disallowance for the difference between SCE’s actual spending and the amount determined reasonable for recovery from Catalina water customers.⁷⁹

⁷⁶ See SCE Opening Brief, p. 67 (incorrectly asserting that allowing SCE “to recover from its electric customers here would...have no precedential effect outside of the unique circumstances present at Catalina because there is no other parallel to Catalina in all of California”).

⁷⁷ SCE Opening Brief, p. 73.

⁷⁸ Cal. Pub. Util. Code sec. 451(b).

⁷⁹ Cal Advocates Amended Opening Brief, p. 43 (noting that SCE has not met its burden of showing that the costs it seeks to recover were or will be prudently incurred and therefore just and reasonable for recovery from Catalina customers); see D.14-10-048, p. 4 (approving a shareholder capital disallowance of \$2.485 million in the settlement of SCE’s previous Catalina rate case. Unlike the “transfer of rate base” to SCE’s electric customers that the Commission reluctantly approved on a one-time-only basis, the Commission did not similarly restrict the shareholder disallowance).

V. PROPOSED RATES FOR TEST YEAR AND ESCALATION YEARS

A. SCE Fails to Show that New Permit and Allocation Denials Were Based on Specific Tariff Restrictions or Limitations.

Provisions in SCE’s water allocation requirements under water tariff Rule 3 and Schedule FWY give SCE discretion to arbitrarily deny applications for new water connections and allocations.⁸⁰ SCE’s tariff rules permit the company to deny new connection and allocation requests “[when] fresh water is not available from the Company because demand for fresh water exceeds the limit of the safe annual yield, *or for any other reason*” (emphasis added).⁸¹ SCE asserts that its tariffs “allow SCE to employ a fair, consistent methodology for demand planning without putting...water resources at risk of overproduction.”⁸² With the exception of a period of water rationing, however, SCE neither claims nor provides evidence indicating that any other tariff or regulatory limits were the basis for the allocation denials.⁸³

Absent any other straightforward explanation for the permit denials, the tariff language giving SCE ultimate discretion to deny new allocations—in other words, discretion to deny service to new and existing water customers without justification—is the only basis for denial within the scope of SCE’s tariffs. Accordingly, to ensure that SCE fulfills its obligation to serve, the Commission should require SCE to grant outstanding applications and modify its tariff language to remove any allowance for arbitrary, discretionary denials of service.

⁸⁰ See Ex. Cal Advocates-01, p. 1-6:19-22.

⁸¹ Ex. Cal Advocates-01, p. 1-6:19-22.

⁸² SCE Opening Brief, p. 82. Rule 3 and Schedule FWY prohibit new allocations “when water is not available in the safe annual yield or if SCE has implemented its Water Rationing Plan.” SCE also cites regulatory and permitting requirements, such as the Coastal Development Permit (CDP), as factors limiting new allocations. The CDP “only allows for 147.8 acre-feet per year of desalination plant production to be considered for allocable purposes.”

⁸³ See Ex. Cal Advocates-01, p. 1-3:12-16 (noting, for example, that SCE has not demonstrated that the safe annual yield was the determining factor in SCE’s decision to deny any new permits).

B. Pursuant to General Order 96-B, SCE's Customer Count Must Include All Connections for Purposes of Determining Class Size.

SCE improperly relies on the customer count instructions in Standard Practice (SP) U-25-W for purposes of its class size determination.⁸⁴ SP U-25-W, as indicated by its title *Guide for Adjusting and Estimating Operating Revenues of Water Utilities*, addresses customer counts for purposes of estimating utility operating revenue.⁸⁵ When SP U-25-W was published in 1968, the Commission based water utility classification on average annual revenue.⁸⁶ In 1985, however, the Commission updated water utilities' Uniform System of Accounts and established *service connections* as the basis for utility classification.⁸⁷

The service connection basis for determining class size, as restated in General Order (GO) 96-B, Rule 1.2, does not exclude any categories of customers from the number of service connections. Despite acknowledging in hearings that GO 96-B defines class size by service connections without exclusion of fire protection or any other customer classes, discussion of GO 96-B is notably absent from SCE's brief.⁸⁸ Notwithstanding SCE's claim that the 1968 Standard Practice is authoritative for class determination purposes, GO 96-B, Rule 1.2 is the controlling legal authority on this issue. Accordingly, the Commission should count all of SCE's service connections, including any applications for new service

⁸⁴ See SCE Opening Brief, p. 81.

⁸⁵ See Standard Practice (SP) U-25-W, *Guide for Adjusting and Estimating Operating Revenues of Water Utilities* (April 30, 1968), \, available at <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M090/K727/90727176.pdf>.

⁸⁶ See D.16-11-006, *Order Instituting Rulemaking on the Commissions Own Motion to Update & Revise the Unif. Sys. of Accounts for the Class A Water Utilities & for the Class B, C & D Water Utilities* (November 10, 2016), FN 2 (explaining that under the Commission's 1954 revision to the Uniform System of Accounts [USOA], water utilities were classified in the Class A category if average annual revenues exceeded \$750,000, Class B if exceeding \$200,000 but less than \$750,000, Class C if exceeding \$50,000 but less than \$200,000, and Class D if \$50,000 or less).

⁸⁷ Under the service connection basis, operating revenue estimation is not relevant to utility class size. Classification is based solely on service connections (D.16-11-006, p. 1, FN 4). GO 96-B, Rule 1.2 uses the service connection basis to define class size.

⁸⁸ See Hearing Transcript, Cross Examination of SCE Witness Barcinas, p. 177:7-22 (acknowledging that Rule 1.2 of General Order 96-B specifically addresses how utility class size is determined, based solely on connections, with no exclusions of certain customer classes).

that have no legitimate basis for denial, for purposes of determining SCE's appropriate class size.

C. SCE Ignores the Excessive Burdens its Current Rate Design Imposes on Full-Time Catalina Residents.

SCE fails to account for the fact that its current Tier-1 breakpoint of 2,000 gallons is insufficient, as evidenced by the fact that non-CARE full-time residents exceeded the Tier-1 breakpoint every month from March 2019 to February 2020, despite saltwater systems for toilet flushing and other routine conservation practices.⁸⁹ Regardless of what parties agreed in settlement nearly a decade ago, SCE's currently proposed rate design demonstrably favors part-time residents and disadvantages full-time residents who are more than twice as likely to be enrolled in CARE programs.⁹⁰ Therefore, the Commission should adopt the rate design proposals discussed in detail in Cal Advocates' opening brief, in addition to increasing SCE's Tier-2 breakpoint to 6,000 gallons as discussed in Cal Advocates' testimony.⁹¹

VI. THE COMMISSION SHOULD DIRECT SCE TO RETURN A PURCHASE POWER EXPENSES MEMORANDUM ACCOUNT OVERCOLLECTION OF \$563,871 TO RATEPAYERS.

SCE agrees that the Purchase Power Expenses Memorandum Account (PPEMA) carries an overcollection balance.⁹² SCE's calculation of the PPEMA balance at -\$220,000 is incorrect, however.⁹³ SCE's calculation relies on an October 2014 last recorded PPEMA balance of \$210,000, at which time it "appears that SCE stopped tracking costs in the PPEMA...."⁹⁴ In SCE's last Catalina GRC, the Commission authorized SCE to request amortization of the PPEMA balance by Tier 2 advice letter within 30 days of the October

⁸⁹ See Cal Advocates Amended Opening Brief, pp. 52-53.

⁹⁰ Cal Advocates Amended Opening Brief, pp. 50-53.

⁹¹ Cal Advocates Amended Opening Brief, pp. 48-53; Ex. Cal Advocates-01, p. 13-7 to 13-8.

⁹² See SCE Opening Brief, p. 80.

⁹³ SCE Opening Brief, p. 80.

⁹⁴ Ex. SCE-10, p. 85:25-27.

16, 2014 decision (D.14-10-048).²⁵ SCE then submitted Advice Letter (AL) 93-W, which the Commission’s Water Division suspended.²⁶ SCE withdrew AL 93-W in April 2015.²⁷ As SCE acknowledges, it did not thereafter resubmit AL 93-W or present “any subsequent request to amortize the PPEMA balance.”²⁸ Thus, the Commission has never reviewed and approved a complete accounting of SCE’s PPEMA balance since its authorization in 2008.²⁹

SCE’s supporting workpapers in this proceeding cover January 2014 to December 2021 and indicate no new costs tracked to the account after October 2014.¹⁰⁰ SCE did not provide documentation for PPEMA accruals for the most significant period of PPEMA activity, from authorization of the PPEMA in January 2008 through December 2013. ¹⁰¹ ¹⁰² Accordingly, the initial balance for January 2014 in SCE’s workpapers, and each month’s subsequent balance, cannot be verified by the information SCE provided.

Cal Advocates used the straightforward calculation described in the PPEMA preliminary statement to determine the correct PPEMA balance: the net difference between *authorized* purchased power expense and *recorded* purchase power expense is tracked in the account for future disposition.¹⁰³ Cal Advocates compared the amounts originally authorized in SCE’s 2007 Catalina water rate case (W-4465) to the recorded amounts as

²⁵ D.14-10-048, p. 14, Ordering Paragraph (O.P.) 3 (authorizing SCE to file a Tier 2 advice letter within 30 days of the decision to amortize the PPEMA balance as accrued from inception through October 2014); Ex. Cal Advocates-01, p. 10-12:19-22.

²⁶ Ex. Cal Advocates-01, p. 10-13:1.

²⁷ Ex. Cal Advocates-01, p. 10-13:1-4.

²⁸ SCE Opening Brief, p. 80.

²⁹ The Water Division rejected SCE’s 2011 Advice Letter 70-W seeking recovery of the PPEMA balance. Advice Letter was 93-W was suspended by Water Division after review and later withdrawn by SCE. See Ex. Cal Advocates-01, p.10-12, 10-13.

¹⁰⁰ WPSCE-10 p.82-84. In 2019, the Commission authorized SCE’s request for a superseding WRAM/MCBA to track variable production costs, including purchased power and any offsets to purchased power expense.

¹⁰¹ Ex. Cal Advocates-01, p. 10-12:11-16.

¹⁰² See Ex. Cal Advocates-01, p. 10-13:15-17.

¹⁰³ See Ex. Cal Advocates-01, pp. 10-13 to 10-14 (describing process for calculating balance based on PPEMA preliminary statement).

filed in SCE's Annual Reports from 2008 to 2019, resulting in a total overpayment amount of \$563,871.¹⁰⁴ Accordingly, the Commission should authorize a PPMA refund to ratepayers of \$563,871 and direct SCE to close the account.

VII. CONCLUSION

Based on the foregoing and as argued in Cal Advocates Amended Opening Brief, Cal Advocates respectfully requests that the Commission reject SCE's cross-subsidy proposal, require the utility to address unreasonable water loss and reduce SCE's revenue requirement proportionately, and to adopt Cal Advocates' recommendations as discussed in briefs and testimony in this proceeding.

Respectfully submitted,

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June 10, 2022

¹⁰⁴ See Ex. Cal Advocates-01, Table 10-8.