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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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

OPENING BRIEF OF THE PUBLIC ADVOCATES OFFICE

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I. INTRODUCTION

Pursuant to Rule 13.11 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure (Rules), and consistent with the schedule established in the January 29, 2021 Assigned Commissioner's Scoping Memo, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits its opening brief on Southern California Edison Company's (SCE) General Rate Case (GRC) application for Catalina, its class C water utility.

SCE Catalina Water's last GRC application was filed in 2010 and was resolved through an all-party settlement approved by the Commission in Decision (D.) 14-10-048. As part of that settlement, the Commission approved a "one-time transfer of $8.895 million of Catalina Water rate base to SCE's electric customers," along with a shareholder disallowance of $2.485 million.[1] In approving the settlement, the Commission specifically noted the unique and non-precedential nature of the settlement, stating that:

> SCE must not presume in any subsequent application that the Commission would deem the outcome adopted herein to be presumed reasonable and it must, therefore, fully justify every request and ratemaking proposal without reference to, or reliance on, the adoption of the settlement.[2]

Despite this proscriptive language, SCE cites D.14-10-048 to support its current cross-subsidy proposal, with a disclaimer that it cites D.14-10-048, and other decisions involving merging of SCE's Catalina electric rates with mainland rates, "not as binding precedent, but only to emphasize the long-history and persistence of rate-affordability issues on Catalina."[3]

SCE's preferred cost recovery approach would impose approximately $32 million of its water utility revenue requirement, including exceptional drought and emergent environmental

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[1] *See Decision* (D.)14-10-048 *Adopting the All-Party Settlement on Revenue Requirement and Rate Design Issues for Southern California Edison Company's Santa Catalina Island Water Operations* (October 16, 2014), p. 1

[2] D.14-10-048, p. 10; *see also* Rule 12.5 (limiting future applicability and establishing non-precedential nature of settlements).

[3] *See Exhibit (Ex.)*SCE-01, *Testimony Supporting Southern California Edison Company's Application for Authority to Increase Rates for its Class C Catalina Water Utility and Recover Costs from Water and Electric Customers – Policy* (SCE-01-Policy), pp. 28:10, 29:18-31 (including reference to D.82-03-059, in which the Commission authorized costs of service of SCEs' Catalina electric operations to be included in SCE's mainland retail base-rate cost of service, to avoid a proposed 130% increase of existing Catalina base electric rates).

costs, on SCE electric customers over a five-year period.[4] SCE has failed, however, to justify either its cross-subsidy proposal or its requested revenue requirement.

II. EVIDENTIARY STANDARDS AND BURDEN OF PROOF

The Commission is charged with ensuring that all rates demanded or received by a public utility are just and reasonable, and that "…no public utility shall change any rate... except upon a showing before the Commission, and a finding by the Commission that the new rate is justified."[5] In rate case applications, the burden of proof for showing reasonableness is on the applicant utility.[6] As the Commission noted in its decision in Phase 1 of SCE's most recent electrical rate case proceeding for Test Year 2021, SCE has the burden of affirmatively establishing the reasonableness of all aspects of its application.[7] The Commission has held that the standard of proof the applicant must meet in rate cases is that of a preponderance of the evidence, noting that preponderance of the evidence "usually is defined in terms of probability of truth, *e.g.*, 'such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[8]

In several key elements of the present application, SCE fails to establish by preponderance of the evidence that its proposed revenue requirements are just and reasonable.[9] SCE's most critical failure to carry its burden of evidence, however, is its cost recovery proposal. SCE's proposed recovery mechanism would impose over $32 million in water utility

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[4] Application, p. 10; SCE-01-Policy, p. 15:5-8; SCE-08, *Supplemental Testimony*, pp. 9-11.

[5] Public Utilities Code §§ 451, 454.

[6] *See, e.g,* Decision (D.) 00-02-046, p. 36, 2000 Cal. PUC LEXIS 239; D.00-02-046, p. 36, 2000 Cal. PUC LEXIS 239 (citing *Re Pacific Bell* (1987) 27 CPUC 2d 1, 21 [D.87-12-067]).

[7] Decision (D.)21-08-036 (August 19, 2021), p. 9.

[8] D.21-08-036, pp. 9-10.

[9] For example, SCE requests a 102% increase in allocated General Office/Administrative and General (GO A&G) expenses for Catalina Water over the previously authorized amount. This represents a 53% increase in SCE's total GO A&G for its combined water, electric, and gas operations. SCE has not shown whether or how an overall 53% increase to total GO A&G expenses will specifically Catalina Water customers, given that SCE's administrative offices are all on the mainland. Absent any evidence that the increase would benefit water customers, the increase to water customer rates cannot be considered just and reasonable. *See* [**chris r testimony]

costs on SCE electrical customers.[10] SCE has failed to demonstrate that its cost recovery proposal mechanism is just, reasonable, or consistent with basic ratemaking principles of cost causation. Throughout the present proceeding SCE has relied on untested assumptions, false analogies, and other logical errors in effort to justify the proposal, despite multiple opportunities afforded to SCE to provide additional support for its cross-subsidy proposal, including supplemental testimony based on a study prepared by a third-party consultant.[11]

Cal Advocates' testimony and cross-examination of SCE witnesses in the record raise a reasonable doubt as to the merit of SCE's requests.[12] Further, SCE's own evidence supports Cal Advocates' recommendations for SCE's revenue requirement and a determination that SCE has failed to carry out its obligation to serve and to manage the Catalina water system with reasonable prudence. Accordingly, Cal Advocates has met the requisite burden of going forward to support its positions in this proceeding.[13]

As this brief demonstrates, the cross-subsidy proposal lacks the legal, factual, and policy support necessary to justify a radical departure from the Commission's ratemaking principles. Further, SCE has failed to show by a preponderance of the evidence that the water utility revenue it proposes to collect from electric customers is just and reasonable.[14] The Commission's authority to approve rate increases is constrained by its statutory obligation to establish just and reasonable rates.

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[10] *See* Ex. SCE-10, *Rebuttal Testimony of Southern California Edison Company* (SCE-10-Rebuttal), p. 4:4-5 (presenting adjusted revenue requirement request of $9.430 million for water customers and $32.623 million for electric rate recovery).

[11] Ex. SCE-09, Supplemental Testimony, Appendix B, Raftelis Memo on Alternative Funding Mechanisms.

[12] D.21-08-036, p. 10.

[13] D.21-08-036, p. 10 (stating that while "the utility bears the ultimate burden to prove the reasonableness of the relief they seek…, the Commission has held that when other parties propose a different result, they too have a "burden of going forward" to produce evidence to support their position and raise a reasonable doubt as to the utility's request").

[14] D.21-08-036, p. 10.

III. REVENUE REQUIREMENT

A. Forecast for Operations and Maintenance, Administration and General Expenses

SCE relies on recorded 2019 data for its test year (TY) forecast of both operations and maintenance (O&M) and administration and general office (A&G) expenses. The result is that with limited exceptions, SCE's forecasts do not accurately reflect historical data trends. SCE's use of last recorded year data, especially considering that 2019 expenses were unusually high for several accounts, generally offers inadequate data for a reasonable estimate of typical recurring expenses.[15]

1. *Escalation Rates.* In rebuttal testimony, SCE agrees to "stipulate in this proceeding to using the [Rate Case Plan (RCP)] for Class A water utilities for guidance on escalation," rather than energy industry escalation rates.[16] Cal Advocates agrees that the most current available escalation rates information for water utilities provided by the Public Advocates Energy Cost of Service Branch should apply to calculate escalation.[17] O&M Expenses

SCE's O&M expenses increased by 5.18% in 2019—an unusually high increase compared to other historical years.[18] SCE's five-year average O&M increase, in contrast, is 2.21%. The five-year average provides more historical data points for estimating future O&M expenses and should be the basis for forecasting O&M, with limited exceptions.[19] Table 1,

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[15] *See* Ex.Cal Advocates-01, pp. 2-27:14-15, 3-3:2-6.

[16] Ex. SCE-10, p. 92:6-7. SCE suggests that had Cal Advocates ought to have included data from the September 2021 Energy Cost of Service Branch (ESRB) escalation memorandum into Cal Advocates' Report filed in October 2021. The process of preparing a document on the scale of Cal Advocates' Report could not accommodate revision at that point; however, as SCE notes, Cal Advocates provided SCE with the updated 2021 memorandum in response to SCE-DR-001-CC.

Further, Cal Advocates provided a supplemental and corrected data request response to SCE-DR-003-CC, concerning ESRB escalation calculation methodology, via email from Mehboob Aslam to Cooper Cameron on February 10, 2022. The supplemental response may have been inadvertently excluded from SCE's workpapers and supporting documents moved into the record of this proceeding.

[17] *See* Ex. SCE-10, p. 92:17-20 (noting the difference between 2020 and 2021 ESRB escalation factors.)

[18] *See* Ex.Cal Advocates-01, p. 2-2:8-9.

[19] *See* Ex.Cal Advocates-01, p. 2-3:1-3

below, compares SCE's proposed with Cal Advocates' recommended O&M forecasts for each Unified Statement of Accounts (USOA) budget.

Table 1: Comparison of Test Year O&M USOA Budgets[20]

USOA Account	SCE Proposed	Cal Advocates Recommended	SCE > Cal Advocates	Cal Advocates as % of SCE
615 – Power for Pumping	$267,000	$256,108	$10,892	96%
618 – Other Volume Related Expenses	$143,962	$106,839	$37,123	74%
630 – Employee Labor	$1,800,941	$1,445,521	$355,420	80%
640 - Materials	$208,000	$ 158,366	$49,634	76%
650 – Contract Work	$1,650,000	$785,000	$865,000	47%
660 – Transportation Expenses	$161,000	$ 76,437	$84,563	47%
TOTAL	**$4,230,903**	**$2,828,271[21]**	**$1,402,632**	**67%**

a) The Commission should adopt a forecast of $256,108 for Account 615 – Power for Pumping despite SCE's failure to provide timely supporting invoices.

SCE failed to provide invoices to verify its claim for one-time Volume Related Expenses in responding to a data request specifically requesting the invoices. Per data request instructions and Commission practice, missing or incorrect information subsequently found or corrected that is responsive to a data request should be provided to the requestor as soon as possible. SCE provided the missing invoices for the first time in rebuttal testimony, preventing Cal Advocates from incorporating them into its analysis. However, the Commission should approve a TY

[20] Ex.Cal Advocates-01, p. 2-2,

[21] This recommended O&M amount does not reflect the 32% reduction in revenue requirement due to SCE's excessive water loss rate, discussed in part Part III.F of this brief.

forecast of $**, reflecting the five-year average forecast with addition of the expense items under "Volume Related Expenses," supported by the invoices SCE provided in rebuttal testimony.[22]

b) The Commission should require a five-year average approach to the forecast of Account 618 – Other Volume Related Expenses and remove labor costs.

SCE's forecast for Account 618 consists of the 2019 recorded expenses for this account, plus $50,000 for labor and materials for replacement of filtering and treatment equipment.[23] This forecast is problematic for two reasons: first, due to unusually high recorded 2019 expenses, a five-year average of Account 618 expenses would provide more historical data points for estimating future expenses.[24] SCE's O&M expenses increased by 5.18% in 2019, compared to the five-year average O&M expense increase of 2.21%.[25]

Second, SCE incorrectly assigned $23,000 in labor expenses to Account 618. In itemizing the $50,000 adjustment, SCE identified labor expenses for maintenance, adding chemicals, and replacing filters.[26] In accordance with Standard Practice (SP) U-39-W and per USOA requirements, labor expenses should be assigned to Account 630 – Employee Labor.[27] Accordingly, the Commission should remove the $23,000 labor expense from the $50,000 adjustment for Account 618. The remaining $27,000 adjustment for filter materials, plus the Account 618 five-year expense average of $79,839, brings the recommended TY forecast to $106,839. With escalation, the Commission should adopt a TY forecast of $114,581.[28]

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[22] *See* Ex.SCE-10, p. 27:8-9 (noting that previously missing 2019 Volume-Related O&M expense invoices were included in rebuttal).

[23] *See* Ex. Cal Advocates-01, p. 2-34:4-6; SCE-02, p. 10:

[24] *See* Ex. Cal Advocates-01, p. 2-28:8-11.

[25] Ex. SCE-02, p. 5.

[26] Ex.Cal Advocates-01, p. 2-34:8-10;

[27] *See* Standard Practice (SP) 39, p. B44. If contractors, rather than SCE employees, performed these functions, the labor costs should be assigned to Account 650 – Contract Work. SP 39, p. B45. In the previous SCE Catalina Water GRC decision, the Commission directed SCE to comply with USOA requirements *See* D.14-10-048, p. 7; Resolution No. 4665 (November 1, 2007)

[28] Ex.Cal Advocates-01, p. 2-34:15-19.

c) The Account 630 – Employee Labor forecast should reflect only typically occurring expenses.

The Commission should adopt a TY forecast of $1,445,521 for Account 630, based on a two-year average of employees' wages with non-typically occurring expenses removed. The general ledger indicates that SCE included expenses other than employees' standard wages in the forecast, such as premium wages expenses.[29] Only routinely occurring expenses should be used for purposes of forecasting account totals.[30]

d) The Commission should require amortization of the reverse osmosis membrane expense in Account 640 – Materials

The Commission should approve a TY forecast of $158,366 for Account 640. This reflects the five-year average expenses with a $20,000 adjustment for the $100,000 reverse osmosis membrane amortized over a five-year period.[31] This amortization period appropriately reflects the five-year lifespan of the membrane.[32]

e) The Commission should adjust SCE's Account 650 – Contract Work forecast from $1.147 million to $925,000 to reflect amounts adequately supported by evidence.

SCE appropriately bases the Account 650 – Contract Work forecast on 2019 recorded expenses, but several of its proposed adjustment amounts are not supported by the record. Accordingly, the Commission should adopt a TY forecast of $725,000 for Account 650, based on the 2019 recorded amount with the adjustments described below:

Table 2, below, provides an itemization of SCE's proposed Account 650 adjustment and Cal Advocates' recommended reductions.

Table 2: Proposed vs. Recommended Account 650 Adjustment Components[33]

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[29] *See* Ex.Cal Advocates-01, pp. 2-9 to 2-11

[30] *See* Cal Advocates-01, pp. 2-9 to 2-11]

[31] *See* Ex.Cal Advocates-01, p. 2-12.

[32] *See* Ex.Cal Advocates-01, p. 2-12.

[33] Ex. Cal Advocates-01, p. 2-40, Table 2-6.

Account 650 Adjustment Component	**SCE Proposed**	**Cal Advocates Recommended**
Incremental sampling in support of Catalina Special Projects	$519,000	$0
GWUDI and LCR compliance	$40,000	$12,000
New NPDES permit requirement	$20,000	$20,000
Annual well maintenance support	$100,000	$0
Wildfire mitigation	$43,000	$0
Water facility preventative inspection and maintenance	$200,000	$200,000
Support of SCE's asset management program	$150,000	$50,000
Tank and water infrastructure coating maintenance	$75,000	$0
TOTAL	**$1,147,000**	**$282,000**

- *Incremental sampling.* The Commission should either disallow $519,000 for incremental sampling expenses, or direct SCE to track these expenses in its Catalina Water Pipeline Assessment Memorandum account which has already been established to track these project costs.
- *Groundwater Under the Direct Influence of Surface Water (GWUDI) and Lead and Copper Rule (LCR) compliance.* The Commission should approve $22,000 of SCE's $40,000 adjustment for GWUDI and LCR compliance, reflecting the actual contract labor expense. The remaining $28,000 of the adjustment is for analysis and reporting related to these water quality compliance requirements. SCE previously used contractors for the analysis and reporting requirements, so analysis and reporting should already be included in the 2019 recorded amount for Account 650. SCE provided no evidence of the need to increase reporting and analysis expenses in this category.
- *New National Pollutant Discharge Elimination System (NPDES) permit requirement*. The Commission should adopt SCE's requested forecast of $20,000 for the NPDES requirement.[34]

[34] *See* Ex. Cal Advocates-01, p. 2-13..

- *Annual well maintenance support*. SCE indicates that it intends to shift this category entirely to contract work but has indicated no equivalent decrease to in-house labor expenses.[35] Therefore, the Commission should reject SCE's requested $100,000 adjustment entirely.
- *Wildfire mitigation.* The Commission should disallow SCE's requested $43,000 adjustment. SCE has failed to indicate how and whether wildfire mitigation is distinguishable from energy-related wildfire mitigation that is recoverable via energy rates.[36] Further, SCE provided no invoices or documentation supporting the requested wildfire mitigation expenses.
- *Water facility preventative inspection and maintenance.* The Commission should approve $140,000 of the $200,000 adjustment. $60,000 of the adjustment is for aerator cleaning, for which SCE failed to provide documentation.[37]
- *Support for SCE's asset management program.* The Commission should approve $50,000 of SCE's requested $150,000 for contract work related to the asset management program. Only supported costs should be included in the forecast, and SCE was unable to provide invoices supporting $100,000 of the requested amount.[38]
- *Tank and water infrastructure coating maintenance*. The Commission should disallow the requested adjustment of $75,000 because SCE provided no supporting documentation for this expense.[39]

f) The Commission should apply a five-year average to forecast Account 660 – Transportation at $81,976.

SCE changed its allocation method to assign 40% of its total Catalina utility transportation expenses to water operations, resulting in an increase of more than 100% to Account 660 from 2018 to 2019.[40] SCE did not adequately explain how it determined that the

[35] *See* Ex. Cal Advocates-01, p. 2-13.

[36] *See* Ex. Cal Advocates-01, p. 2-16.

[37] *See* Cal Advocates-01, p. 2-16.

[38] *See* Cal Advocates-01, p. 2-17:6-13.

[39] *See* Cal Advocates-01, p. 2-17:15-18. Because these expenses would extend the life of capital assets, as actual costs are incurred SCE should include them in the general ledger for future recovery.

[40] Cal Advocates-01, pp. 2-18:17-24 – 2-19:1-8.

new 40% allocation was appropriate. In the absence of tracked actual Account 660 expenses for the water utility, a five-year average provides a clearer picture of historical trends and budgets for the Account 660 forecast than does 2019 alone.[41] Accordingly, the Commission should adopt an Account 660 five-year average forecast amount (with escalation) of $81,976.

2. Administration and General Expenses

The Commission should authorize approximately 62%, or roughly $1.2 million, of SCE's total proposed Administration and General (A&G) forecast.[42] Table 3 compares SCE's and Cal Advocates' proposed budgets.

Table 3: Comparison of Test Year A&G USOA Budgets[43]

USOA Account	SCE	Cal Advocates	SCE > Cal Advocates	Cal Advocates as % of SCE
670 – Office Salaries	$395,992	$221,398	$174,594	55%
671 – Management Salaries	$154,000	$154,000	$0	100%
678 – Office Services and Rentals	$48,000	$19,574	$28,426	41%
681 – Office Supplies and Expenses	$97,000	$44,952	$52,048	46%
682 – Professional Services	$361,000	$361,000	$0	100%
689 – General Expenses	$463,671	$327,555	$136,116	71%
676 – Uncollectible Accounts Expense	$16,746	$7,267	$9,479	43%
689.927 – Franchise Fees	$93,032	$36,878	$56,154	40%

41 Ex. Cal Advocates-01, pp. 2-18:17-24 – 2-19:1-8.

42 Ex. Cal Advocates-01, p. 3-

43 Ex.Cal Advocates-01, p. 3-2.

800.1 – GO A&G Allocation	$1,080,612	$535,020	$545,592	50%
800.2 – Capitalized A&G Expenses	-$769,959	-$491,801	-$278,158	64%

The differences between SCE's forecasts and Cal Advocates' recommendations are primarily due to SCE's use of 2019 recorded expenses in instances where a five-year expense average would provide better data, and failure to remove one-time expenses that unduly impact the forecasted amount.[44] Specifically for the Account 800.1 – General Office (GO) A&G allocation, however, SCE's use of the standard four-factor allocation method resulted in an increase to Catalina's GO allocation that has no demonstrable connection to Catalina water operations.[45]

a) The four-factor approach improperly inflates SCE's forecast General Office allocation.

The Commission should reject SCE's proposed 102% increase to Catalina's General Office (GO) Administration and General (A&G) expense allocation. SCE's use of the four-factor approach alone does not provide adequate justification for the increase, absent any indication that the increase in SCE's overall GO A&G expenses is related in any way to Catalina water operations.

The four-factor approach is the standard method for forecasting GO A&G expenses among different operations of a multi-operation utility.[46] SCE allocates GO A&G between its three utility service operations (primarily electric, with water and gas on Catalina). Since the last Catalina GRC filed in 2010, SCE's combined GO A&G expenses have increased by 53% ($600 million).[47] SCE applied the four-factor approach to calculate Catalina's share of this

[44] Cal Advocates-01, p. 3-1:15-24.

[45] Cal Advocates-01, p. 4-1:19-21.

[46] *See Allocation of Administrative and General Expenses and Common Utility Plant and the Four-Factor Method,* Standard Practice (SP) U-6-W (Rev. 2003), p. 2.

[47] SCE's GO A&G expense for the company's total combined operations (electric, water, and gas) increased from $1,107,822,015 in 2010 to $1,701,071,190 in 2019. *See* Cal Advocates-01, p. 4-3:3-5.

increase.[48] SCE requests an allocation of $1,080,612 (or 0.064%) of its total GO A&G expenses to its water operation. This is a 102% increase from the previous authorized Catalina allocation of $535,020.[49]

SCE's general offices are located on the mainland. The utility maintains no administrative offices or staff on Catalina Island.[50] SCE offers no evidence that the increase in GO expenses since its previous authorized allocation amount benefits Catalina water customers or reflects any increase in Catalina's actual GO expenditures. Therefore, the Commission should reject any increase above the previously authorized $535,020 to prevent Catalina ratepayers from bearing an excessive, unjustified share of SCE's total GO A&G expenses.

b) The Commission should adopt an Account 670 – Office Salaries forecast of $221,398.

As of late 2017, SCE's salary system changed to include water operations in its "Generation organization."[51] Employees included in Account 670 who shared time between utilities were at that time supposed to have their time and salaries properly allocated to water operations. However, SCE failed to make the necessary salary allocations in 2018 and 2019.[52] To correct this error, the Commission should add the employees' salary allocation amount of $306,000 to recorded Account 670 expenses for 2019, to accurately reflect when the expenses occurred.[53] Accordingly, the forecast should be based on an average of 2018-2019 (the years

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[48] In multi-operation utility companies, the Four-Factor method is typically followed to calculate each operation's A&G allocation by looking at number of employees, customers, gross plant, and direct operating expenses to determine the portion of total A&G expenses to allocate to each operation. *See* Cal Advocates-01, p. 4-1:9-14; SP-U-6-W, p. 2.

[49] Ex. Cal Advocates-01, p. 4-1:7-8.

[50] *See* Hearing Transcript, Cross Examination of SCE witness Rosalie Barcinas, pp. 236-237 (affirming that SCE has no offices on Catalina and all administrative and customer service operations occur at the general offices in Rosemead).

[51] Ex. SCE-02, pp. 3:28-4:1-4 (stating that "a portion of the salaries of certain Generation personnel engaged on Catalina matters are allocated to the water utility").

[52] Ex. Cal Advocates-01, p. 3-3:15-20.

[53] Ex. Cal Advocates-01, p. 3-4:3-5.

since reorganization of the salary system), after the $306,000 adjustment to 2019, for the total of $221,398.[54]

c) The Commission should adopt the recorded 2018 amount of $134,599 as the forecast for Account 671 – Management Salaries.

As with Account 670, the forecast for Account 671 should be based on the period since SCE moved water operations salaries to the General organization. However, 2019 is not appropriate for inclusion in the forecast due to an unexplained increase in Account 671 from 2018 to 2019.[55] To mitigate the risk that the $16,000 increase was due to unique, non-recurring expenses, the Commission should base the Account 671 forecast on 2018 recorded expenses.

d) The Commission should apply a five-year average and revised rent calculation to forecast Account 678 – Office Services and Rentals at $19,574.

SCE proposes to discontinue the allocation of Catalina common plant expenses across all utility operations on the island, and instead have its electric operations incur the direct costs of the Pebbly Beach Generating Station (PBGS). The water utility will then pay rent to electric operations for use of office and other operating space.[56]

The Commission should revise SCE's proposal to have SCE's electric operations incur the direct costs of PBGS, by adopting Cal Advocates' recommended method for calculating the rent that SCE's water operations pay to SCE's electricity operations for use of the PBGS office space, including, among other elements detailed in Cal Advocates' testimony correction of the property valuation for an outlier in the sample, and application of SCE's authorized rate of return (7.68%) rather than SCE's proposed 8%.[57]

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[54] Ex. Cal Advocates-01, p. 3-4:2-10.

[55] Ex. Cal Advocates-01, p. 3-4:18-19.

[56] Ex. Cal Advocates-01, p. 3-5:8-12.

[57] SCE's estimate of the PBGS property's commercial value was skewed by inclusion of an outlier sale price-per-square-foot nearly four times higher than any of the other seven properties included in the data. *See* Cal Advocates-01, pp. 3-5:20-3-6.

e) **The Account 676 – Uncollectibles forecast should be based on Catalina water ratepayer and not electric customer data.**

The Commission should approve a TY forecast of $7,267 for Account 676 based on the five-year average of the Catalina water ratepayers' uncollectible expenses, rather than SCE's proposed forecast based on electric customers.[58] Additionally, pandemic arrearage funding may prevent some account balances from reaching uncollectable status.

f) **The Account 681-Office Supplies and Expenses forecast should exclude one-time expenses.**

Certain non-recurring equipment maintenance and repair expenses caused SCE's Account 681 expenses to nearly double from 2018 to 2019.[59] Accordingly, the Commission should adopt a TY forecast of $44,952 for Account 681, based on a five-year average with removal of one-time expenses for equipment maintenance and repair in 2019.[60]

B. Proposed Additions to Plant

SCE has not met the necessary evidentiary burden to show that its capital budget forecasts are just and reasonable.[61] The Commission should therefore reject SCE's forecasted budgets for desalination enhancements in excess of awarded grant funds, desalination building upgrade, 2021-2024 water meter replacement program, 2020-2024 water valve replacement, and water system control valve replacements.[62] The Commission should approve a reduced wildfire mitigation budget.

1. Desalination Enhancement costs are covered by a $10 million grant award from the Department of Water Resources.

The Commission should deny SCE's request to add $2,710,000 into rate base associated

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[58] *See Ex.*Cal Advocates-01, p. 3-11:3-5. Further, SCE received funds for distribution to water customers through the state's pandemic arrearage funding program, which may have some preventive impact on uncollectible expenses. CAL ADVOCATES-X-10 (HITE) PubAdv-SCE-060-CR Arrearages.

[59] Ex. Cal Advocates-01, p. 3-8:14-15.

[60] Ex. Cal Advocates-01, p. 3-8:6-10.

[61] *See* Ex. Cal Advocates-01, pp. 6-1:17-18, 6-4, and 6-5 (Table 6-2, SCE's Forecast Budget vs Cal Advocates Recommended).

[62] Ex. Cal Advocates-01, pp. 6-4, 6-5 (Table 6-2).

with desalination enhancement projects. The California Department of Water Resources (DWR) awarded a $10 million grant to SCE for desalination enhancements.[63] SCE has not demonstrated that an increase in production of desalinated water is practical, feasible, or even necessary to provide adequate supply to meet system demand.[64] As discussed in Part III.F. and elsewhere in this brief, SCE has a serious unresolved water loss problem. In 2019, the Catalina system lost nearly 157 acre-feet (a/f) of the 421 a/f of potable water the system produced or supplied.[65] SCE has not yet identified the locations or causes of the water loss.[66] Given the overall cost of producing desalinated water and complications/limitations related to SCE's Coastal Development Permit, the Commission should not authorize further desalination plant-related additions to rate base until SCE has effectively managed the water loss rate.[67] In the meantime, the scope of desalination enhancement projects should be tailored to fit within the DWR grant budget.[68]

2. SCE has not adequately supported the proposed desalination building upgrade.

The Commission should deny SCE's request for a total of $250,000 related to its proposed desalination building upgrade. SCE has not provided reasonable supporting evidence or a description of the project scope and costs, stating only that the budget is based on "a rough order of magnitude estimate based on operator experience."[69]

3. The Commission should direct SCE to file an advice letter requesting an extension for water meter replacement as permitted by General Order 103-A.

SCE states that the proposed water meter replacement schedule and costs are necessary to comply with General Order (GO) 103-A and reduce apparent water losses due to meter

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[63] Ex. Cal Advocates-01, p. 6-16:17-20.

[64] Ex. Cal Advocates-01, p. 6-18:1-13.

[65] Ex. Cal Advocates-01, p. 6-18:8-13.

[66] *See* Ex. Cal Advocates-01, p. 11-4:9-12.

[67] Ex. Cal Advocates-01, p. 6-18:14-16.

[68] Ex. Cal Advocates-01, p. 6-18:12-13.

[69] Ex. Cal Advocates-01, p. 6-20:11-12.

inaccuracies.[70] However, unlike its extraordinarily high *real* loss of water, SCE's *apparent* water loss rate is very small and the record does not indicate that the system has water meter accuracy problems. GO 103-A establishes a schedule for replacement or retesting of meters depending on meter size, but it also allows utilities to file for an extension via advice letter based on relevant economic factors and meter accuracy.[71]

Catalina water ratepayers already pay some of the highest water rates in California, and SCE has the highest revenue per connection of all Class-C and Class- B water utilities.[72] In the interest of reducing ratepayer burdens to the greatest extent possible, SCE may have compelling economic factors upon which to base its request for an extension of time to comply with the GO 103-A requirements.[73]

4. The Commission should deny SCE's requested budget for water valve and system control valve replacements.

Without a reasonable condition-based assessment of the water valves, SCE fails to justify the cost of their age-based programmatic replacement.[74] Nor was SCE able to provide a complete list of the valves to be replaced. Further, SCE performed extensive maintenance on its water system control valves between 2013 and 2019, extending their useful lives[75]. SCE has not indicated that the refurbished system control valves have deteriorated. Absent an asset management plan to support the valve replacement schedule and expenses, the Commission should deny SCE's requested valve replacement budgets.The Commission should deny $220,000 of SCE's $303,600 request for Wildfire Mitigation.

Even though it projected a third of the proposed wildfire mitigation budget for use in 2020, suggesting that more cost data should be available, SCE was unable to provide an itemization or breakdown of the budget beyond the designation of $120,000 for possible Public

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[70] Ex. Cal Advocates-01, p. 6-21 and Table 6-4, FN 271 (citing SCE's AWWA 2015-2019 Water Audit.

[71] *See* General Order 103-A, IV.6.A(2).

[72]. Ex. Cal Advocates-01, p. 6-21:13-17.

[73] Ex. Cal Advocates-01, p. 6-21:13-17.

[74] Ex. Cal Advocates-01, p. 6-24:3-13.

Safety Power Shutoff (PSPS)-related expenses and $100,000 for undetermined system hardening activities.[76]

SCE is the electric utility on Catalina and provides all the power for its water utility. Employees who work in the water utility are shared and work directly with the electric utility. SCE's 2019 Water System Sanitary Survey (Sanitary Survey) indicated that the island's seawater wells and desalination plants already have backup power in the event of emergency.[77] The Sanitary Survey also stated that "defensible space of 100 feet (California Public Resources Code 4291) is maintained around all sources and structures managed by the Company."[78] Accordingly, SCE has not reasonably demonstrated the need for and intended use of the full requested budget amount.

C. Forecast of Rate Base

Rate base is the total monetary worth of the assets on which the utility is authorized to earn a specified rate of return.[79] For the years 2022, 2023, and 2024, the Commission should authorize total rate base amounts of $8.745, $12.106, and $12.630 million respectively.[80]

Table 4 provides a comparison of SCE's proposed and Cal Advocates' recommended rate base amounts.

Table 4: SCE Catalina Proposed Rate Base vs. Cal Advocates Recommended[81]

Item	2022		2023		2024	
	SCE	Cal Advocates	SCE	Cal Advocates	SCE	Cal Advocates
Gross Plant	41,844	33,896	48,942	37,555	50,534	38,858
Accumulated Depreciation	-25,941	-25,316	-26,903	-25,750	-28,002	-26,233

[76] Ex. Cal Advocates-01, p. 6-25, 6-24.

[77] Ex. Cal Advocates-01, Attachment 6-10, 2019 Sanitary Survey Memorandum, p. 20.

[78] Attachment 6-10, 2019 Sanitary Survey Memorandum, p. 20.

[79] Ex. Cal Advocates-01, p. 7-1:5-6.

[80] *See* Ex. Cal-Advocates-01, p. 7-1.

[81] Ex. Cal Advocates-01, p. 7-3 (Table 7-1).

Total Net Plant	15,903	8,581	22,039	12,005	22,532	12,625
Working Cash	799	574	821	584	842	596
Accumulated Deferred Income Taxes	-627	-410	-971	-484	-1,332	-592
Total Rate Base	16,075	8,745	21,889	12,106	22,043	12,630
Depreciation	964	416	1,158	512	1,193	518

1. *Gross Plant.* The Commission should authorize Cal Advocates' recommended gross plant amounts for 2022, 2023, and 2024 as shown in Table 4. The basis for these recommendations is discussed in parts III.B. Proposed Additions to Plant and III.E. Historical Capital Expenditures.[82]
2. *Accumulated Depreciation and Net Salvage.* Similarly due to plant adjustments, the Commission should authorize Cal Advocates' recommended accumulated depreciation as shown in Table 4.[83]

Further, the Commission should adjust SCE's net salvage rate proposal for Account 342 – Reservoirs and Tanks.[84]

a) SCE should apply a consistent forecast approach for Account 342 – Reservoirs and Tanks.

For each asset category except Account 342, SCE applied an industry average of four Class A water utilities to forecast net salvage value.[85] For Account 342, however, rather than the industry average, SCE used recorded retirement cost data for a tank removed near the Catalina Airport in 2017.[86] SCE claims that data from the tank removal is the "best available

[82] Ex. Cal Advocates-01, p. 7-4:5-8.

[83] Ex. Cal Advocates-01, p. 7**.

[84] *See* Ex. Cal Advocates-01, p. 7-4. Net salvage is the value of an asset at the end of its useful lifespan, less the cost to physically remove the asset A negative net salvage value occurs when the cost of removal exceeds the salvage value.

[85] Ex. Cal Advocates-01, p. 7-4:10-13.

[86] *See* Ex. SCE-10, pp. 78-79 (asserting that data extrapolated from single tank removal is best available information by virtue of being company-specific).

information" for purposes of an accurate forecast, but the resulting forecast does not support that premise.[87] To extrapolate the single tank removal cost into a net salvage forecast for SCE's entire Account 342 portfolio, SCE converted the recorded cost of removal to a cost per gallon…[that] was scaled to account for SCE's current volume (gallons) of tanks to arrive at a future net salvage forecast for [Account 342]. This forecast yielded a -229 percent [net salvage rate], but SCE capped the request at -120 percent…to keep overall depreciation rates flat with currently authorized rates.[88]

The company-specific tank removal data resulted in a forecast amount so far outside the range of typical rates that SCE arbitrarily reduced it by nearly half. SCE offers no evidence to support its argument that the quality of one company-specific data point is superior to the quantity of data reflected by the industry average. This is especially true considering that the average is California-based, and that SCE's use of a single company specific data point produced a forecast amount that required an arbitrary reduction. Accordingly, the Commission should adopt Cal Advocates' proposed Account 342 net salvage rate of -15% based on industry average, and consistent with the rest of SCE's net salvage forecasting methodology.[89]

3. *Working Cash*. The Commission should direct SCE to perform either a detailed or simplified a lead-lag study to estimate working cash before its next GRC, pursuant to Standard Practice U-16-W.[90] While the lead-lag study requirement does not normally apply to Class C water utilities, SCE should be reclassified (or at minimum, comply with requirements applicable to) Class B.[91] Because of the seasonal tourist population, SCE provides comparatively much more water than water utilities with similar numbers of service connections, and a corrected customer forecast puts SCE above the 2,000 customer threshold.[92] Accordingly, it operates as a Class C utility only in a normative sense.[93]

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[87] Ex. SCE-10, p. 79:6-10.

[88] Ex. SCE-10, p. 79:1-5.

[89] Ex. Cal Advocates-01, pp. 7-5:20-24, 7-6.

[90] Ex. Cal Advocates-01, p. 7-7:3-6.

[91] *See* Ex. Cal Advocates-01, p. 7-7:5-13. The issue of appropriate classification is addressed in more detail in Part VI.A., Forecast for Water Sales.

[92] Ex. Cal Advocates-01, p. 7-7:5-13. See further discussion of the customer forecast in Part VI.A. of this brief.

[93] Ex. Cal Advocates-01, p. 7-7:3-13.

4. *Accumulated Deferred Income Taxes.* The Commission should authorize Cal Advocates' recommended accumulated deferred income tax allowance for 2022-2024 as shown in Table 4.[94]

D. Drought-Related Memorandum Accounts

SCE's proposed recovery of the balances in two Catalina drought-related memorandum accounts in this proceeding accounts for over a third of the $32.623 million proposed transfer for recovery from electric customers.[95] Therefore, the Commission should apply careful scrutiny in considering whether SCE's request for recovery of the memorandum account balances is supported by evidence that would justify recovery either from Catalina ratepayers, or from electric customers with no verifiable connection to the costs tracked in these drought-related memorandum accounts.

1. The Catalina Water Rationing Memorandum Account

The Commission should amortize the balances tracked in the Catalina Water Rationing Memorandum Account (CWRMA) with an adjustment for costs that SCE did not incur reasonably because they were not within the authorized scope of the memorandum account, and/or should have been foreseeable and avoidable in the first place.[96] These adjustments include $3.2 million for emergency water supply due to Howland's Landing well failure, plus $204,000 interest on that balance. Table 5 shows SCE's total annual CWRMA entries from 2014 through 2019. The "unforeseen expense" category was not category proposed in the original advice letter that established the CWRMA.[97]

Table 5: Total Annual CWRMA Entries[98]

CWRMA Entry	2014	2015	2016	2017	2018	2019	FINAL
Incremental Expense	$320,057	$498,628	$762,501	$811,426	$820,230	$820,230	$820,230

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94 Ex. Cal Advocates-01, pp. 7-7:20-22, 7-8:1-2.

95 *See* Ex. SCE-10, p. 4:5 (providing summary of updated proposed cost recovery amounts).

96 Ex. Cal Advocates-01, p. 10-1:25-27.

97 Ex. Cal Advocates-01, p. 100.

98 Ex. Cal Advocates-01, p. 10-15:13-15.

Unforeseen Expense	$3,218,935	$3,617,801	$4,011,588	$4,182,376	$3,915,185	$3,915,185	$3,915,185
Penalties and Fines	$0	-$5,625	-$77,225	-$172,775	-$172,775	-$172,775	-$172,775
Interest	$675	$6,637	$29,884	$82,749	$180,400	$284,513	$284,513
TOTAL	**$3,539,667**	**$4,117,441**	**$4,726,748**	**$4,903,776**	**$4,743,040**	**$4,847,153**	**$4,847,153**

The CWRMA was authorized specifically for the purpose of allowing SCE to track the costs of implementing a water rationing plan, not to track costs of supplying emergency water due to the highly foreseeable failure of the Howlands Landing Well due to seawater intrusion in 2014.[99] Therefore, the Commission should limit recovery of CWRMA balances to $1,409,844.

2. The Catalina Water Lost Revenue Memorandum Account

The Commission authorized the Catalina Water Lost Revenue Memorandum Account (CWLRMA) in August 2014 to track lost revenues associated with reduced sales due to conservation and rationing measures.[100] SCE currently requests recovery of revenue under collections due to the conservation restrictions recorded from 2014 – 2019.[101]

a) The Commission should deny recovery of CWLRMA balances over three years old.

SP U-27-W requires that all charges booked to memo accounts must be less than three years old unless the costs are fully justified for being older.[102] SCE's delay in seeking recovery of drought-related memorandum account balances allowed them to accrue excessive interest,

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[99] The Howlands Landing Well failure is discussed more detail in Part III. E.

[100] Ex. Cal Advocates-01, p. 10-2.

[101] Ex. Cal Advocates-01, p. 10-2.

[102] SP U-27-W, *Standard Practice for Processing Rate Offsets and Establishing and Amortizing Memorandum Accounts* (Rev. April 26, 2014), p. 70.

which the SP U-27-W requirement serves to prevent.[103] Table 6 illustrates the ballooning effect of interest as the balances age.

Table 6: CWLRMA Annual Summary 2014-2019[104]

Line No.	Description	2014	2015	2016	2017	2018	2019
1	Beginning Balance	-	-973,039	-2,472,515	-3,844,104	-4,973,676	-6,021,135
2	Adjusted Authorized Revenue Requirement	1,882,963	4,126,185	4,126,185	4,126,185	4,126,185	341,172
3	Recorded Revenue	910,148	2,629,341	2,771,144	3,044,680	3,194,223	264,310
4	(Under)/Over-Collection (Line 3 - Line 2)	-972,815	-1,496,844	-1,355,041	-1,081,505	-931,962	-76,862
5	Interest	-224	-2,632	-16,548	-48,067	-115,497	-133,680
6	Ending Balance (Line 1 + Line 4 + Line 5)	-973,039	-2,472,515	-3,844,104	-4,973,676	-6,021,135	-6,231,677

SCE has not fully justified allowing the CWLRMA balances beyond the three-year period established in SP U-27-W requirements.[105] SCE asserts that waiting for drought rationing conditions to end before seeking recovery was a reasonable approach, but almost all Class A water utilities filed advice letters or GRC applications within three years to amortize similar drought-related under collections accounts.[106] Without knowing when a drought will end, the latter approach makes better sense and complies with SP U-27-W requirements. At minimum, the Commission should deny recovery on the interest accrued on CWLRMA balances before 2017. Given the financial consequences to ratepayers as a direct result of SCE's decision to delay amortization of CWLRMA balances, however, the Commission should exercise its authority to deny recovery of the expired balances consistent with SP U-27-W.

b) SCE's request for CWLRMA cost recovery does not account for expense savings realized during the period of reduced sales.

SCE's request for recovery of the CWLRMA includes only the lost revenue calculation and fails to account for a correlated reduction in expenses. Activation of drought restrictions

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[103] Ex. Cal Advocates-01, p. 10-5:10-15 (estimating that accrued interest on the CWLRMA could accrue to over $700,000 by the conclusion of the current GRC).

[104] Ex. Cal Advocates-01, p. 10-3.

[105] Ex. Cal Advocates-01, p. 10-5:10-15.

[106] Ex. Cal Advocates-01, p. 10-5:16-18.

has the potential to not only to reduce sales volumes, but volume-related expenses as well.[107] Such reduced expenses should be included in the calculation of the CWLRMA as an offset to lost revenue.[108]

In addition to disallowance of outdated balances and adjustments to offset reduced expenses from lost revenue, the Commission should proportionately reduce the CWLRMA balances by the annual amount of excessive non-revenue water SCE realized during the period that the CWLRMA was active.[109]

c) The Commission should reduce CWLRMA balances in proportion to SCE's unreasonable water loss during years in which CWLRMA was active.

Part III.F. will address the impact of SCE's excessive water loss on the overall revenue requirement, arguing that the Commission should apply a 32% reduction to the revenue requirement to properly communicate that the water loss is an emergency for both conservation and affordability purposes. Similarly, the CWLRMA should be adjusted for annual water loss. The otherwise recoverable tracked balances for each year of CWLRMA activity should be reduced by the amount of non-revenue water for that year, less the Commission's standard seven percent baseline amount.[110]

Accordingly, the Commission should adopt the adjustments to CWLRMA recovery indicated in Table 7, below, which incorporates the reduced expense offset adjustment to CWLRMA, adjustments for outdated or expired balances, and a further adjustment for excessive annual water loss occurring during the period that the CWLRMA was active.

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[107] When a utility sells less water, it is reasonable to anticipate reduced expenses for chemicals, power for pumping, and other volume-related expenses. Ex. Cal Advocates-01, p. 10-6:6-9.

[108] Ex. Cal Advocates-01, p. 10-6:5-10; *see* Pub. Util. Code § 792.5 (providing that the Commission should ensure that the memorandum account properly reflects "the balance, whether positive or negative, between the related costs and revenues, and…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."

[109] Ex. Cal Advocates-01, p. 10-10:5-20.

[110] Ex. Cal Advocates-01, p. 10-10:14-18.

Table 7: Eligible CWLRMA Recovery Calculation[111]

Line No.	Description	2014	2015	2016**	2017	2018	2019
1	Beginning Balance		~~(961,841)~~	-	(914,616)	(1,665,833)	(2,274,557)
2	Adjusted Authorized Revenue Requirement	~~1,882,963~~	~~4,126,185~~	3,617,477	4,126,185	4,126,185	341,172
3	Recorded Revenue	~~910,148~~	~~2,629,341~~	2,429,496	3,044,680	3,194,223	264,310
4	Expense Savings Offset	~~10,974~~	~~162,493~~	109,423	109,661	93,044	10,525
5	Water Loss % Offset		~~214,049~~	163,941	220,627	230,195	24,673
6	(Under)/Over-Collection	~~(961,841)~~	~~(1,120,302)~~	(914,616)	(751,217)	(608,723)	(41,664)
7	Interest			-	-	-	-
8	Ending Balance (Line 1 + Line 4 + Line 5)	~~(961,841)~~	~~(2,082,143)~~	(914,616)	(1,665,833)	(2,274,557)	(2,316,221)

**2016 balances are prorated 320/365 to reflect the 3 years of eligible amounts from the end of drought restrictions; February 14, 2019

E. Historical Water Capital Expenditures

SCE has owned and operated the Catalina Water utility system since 1962, and is responsible for installation of most of the system infrastructure.[112] Despite 60 years as the entity solely responsible for providing all utility services on Catalina Island, SCE's water utility still lacks basic planning and operational documents that a reasonable water utility operator would have long since put in place, such as a master plan, an asset management plan, and a water system operation and maintenance manual. SCE's claim that Catalina presents some unique operational challenges may have merit, but SCE has failed to reasonably respond to and/or anticipate problems that are readily foreseeable.[113]

SCE's inadequate planning is particularly evident in its requests to recover historical capital expenditures, such as those related to the Howlands Landing Well failure.

1. The Commission should deny recovery of Howlands Landing Well 3 costs.

SCE could reasonably have avoided incurring up to $1,653,457 in costs associated with the emergency construction of the Howlands Landing Well 3 (HL-3) and pipeline, with adequate planning and reasonable management of its facilities.[114]

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[111] Ex. Cal Advocates-01, p. 10-11.

[112] [**Cite to SCE testimony/app]

[113] *See* Ex. Cal Advocates-01, p. [SARI**]

[114] Ex. Cal Advocates-01, p. 6-**. Cal Advocates does not dispute SCE's request for recovery of Howlands Landing Well-3 treatment system costs incurred in 2017 (Cal Advocates-01, p. 6-2).

The original Howlands Landing Well (Well 1) was constructed in the 1930s. Well 1 failed in 2014 due to seawater intrusion, a known and foreseeable issue.[115] SCE was aware of seawater intrusion issues with Well 1 at least as early as 1976.[116] Modeling rates of seawater intrusion is an essential practice for sustainable groundwater resources management in coastal areas.[117] Prior to the 2014 Well 1 failure, SCE had performed its most recently updated ground water modeling based on a study completed in 2004.[118]

Reasonable, routine monitoring and adequate planning for a known issue may or may not have prevented the Well 1 failure but would have certainly prevented SCE's costly emergency response to the well failure and subsequent problems with HL-3 due to its construction on an emergency basis.[119] SCE states that the Well 1 "seawater intrusion event" occurred in June 2014, "with the new well [HL-3] being drilled in September 2014 and completed in October 2014."[120] The new well and pipeline were placed into service in June 2015, one year after the Well 1 failure.[121] SCE lauds its accomplishment of completing and bringing the project online in a short timeframe "for a cost of $1.653 million" in the wake of the Well 1 failure, but the total costs of the HL-3 project, including a treatment system and a replacement well (HL-3R) drilled when the well casing in HL-1 failed in 2017, along with in emergency-related water supplies, were nearly $7 million for a well that produces just 43 gallons per minute.[122]

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[115] Ex. Cal Advocates-01, p. 6-**. Seawater intrusion occurs when groundwater wells withdraw more water than can be naturally replenished, which lowers the groundwater water level leading to seawater entering the aquifer.

[116] *See* Ex. Cal Advocates-01, Attachment 6-2, 1979 USC Water Facilities Agreement, p. 2 (in correspondence regarding water facilities agreement between USC and SCE, stating that "in 1976, because of a saltwater intrusion problem at Howland's Well, SCE installed a 6" line from the million-gallon tank to the Isthmus to meet public utility water demands for that area").

[117] Ex. Cal Advocates-01, p. 6-9:15-16.

[118] Ex. Cal Advocates-01, pp. 6-9:18-20 - 6-10:1

[119] Ex. Cal Advocates-01, p. 6-10:13-15.

[120] Ex. SCE-10, pp.60:26-27, 61:1-2.

[121] Ex. SCE-10, p. 61:1-2.

[122] Ex. SCE-10, p. 61:37; *but see* Cal Advocates-01, pp. 6-9:4-19, 6-10:9-12 (explaining that a replacement well HL-3R was re-drilled in 2017 at a cost of $368,635, after inspection found that the well casing had failed and surrounding well packing collapsed into the well column). As a point of reference,

(continued on next page)

Accordingly, the Commission should deny SCE's request to include $1,653,457 in utility plant for HL-3 costs

2. The Commission should reject SCE's request for Million Gallon Tank rebuild and repair costs that are USC's obligation under SCE's Tariff Rule 15.

The Million Gallon Tank (MGT) was originally constructed to provide capacity of 900,000 gallons fire suppression water for the University of Southern California Wrigley Marine Science Center (USC), and 100,000 for public utility water supply to USC facilities, pursuant to a 1967 Water Facilities Agreement (1967 Agreement) between USC and SCE.[123]

The 1967 Agreement specifically addresses how O&M expenses would be allocated between the parties.[124] It does not, however, specify how the parties would allocate future capital expenditures related to the MGT, such as the renovation and rebuild project in 2015.[125]

SCE's Tariff Rule no. 15 – Main Extensions, part D.3. states:

> The cost of facilities other than hydrants and distribution mains required to provide supply, pressure, or storage primarily for fire protection purposes, or portions of such facilities allocated in proportion to the capacity designed for fire protection purposes, shall be paid to the Company as a contribution in aid of construction.[126]

In the case of the MGT, at least 90 percent of the facility is used for USC's fire suppression needs. Rule 15 D.3 further states that the cost of facilities other than hydrants and distribution mains required to provide supply, pressure, or storage primarily for fire protection purposes, or portions of such facilities allocated in proportion to the capacity designed for fire protection purposes, shall be paid to the utility as a contribution in aid of construction.[127]

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a recommended flow rate for a private well supporting a single-family residence is approximately five gallons per minute.

[123] Ex. Cal Advocates-1, Attachment 6-2, p. 3 (1967 Water Facilities Agreement between USC and SCE).

[124] Ex. Cal Advocates-1, Attachment 6-2, p. 4 (stating that USC would be responsible for a share of ongoing maintenance expenses).

[125] *See* Ex. Cal Advocates-1, Attachment 6-2, SCE-USC 1979 contract, p. 2:22-25 (stating that the university USC will reimburse SCE equal to the ratio of fire protection costs to the total costs of the project.).

[126] SCE Rule no. 15, Sheet 11, part D.3.

[127] Rule 15, Section D.3 Revised Cal. P.U.C. Sheet No.393-W.

Accordingly, the Commission should not include in rate base any amount USC should have paid as an contribution in aid of construction under Rule 15.

3. SCE failed to adequately justify expenses for Water Supervisory Control and Data Acquisition upgrades.

The Commission should deny SCE's request to add $1,413,362 into plant for the Supervisor Control and Data Acquisition (SCADA) Refurbishment/Upgrade Project. SCE has not provided adequate evidence showing that the project was reasonably necessary; therefore, the addition to rate base is not justified.[128]

SCADA systems should allow for cost-effective remote data acquisition and monitoring. The costs associated with the installation of the original SCADA system were reviewed in the last Catalina water GRC proceeding (A.10-11-009). Administrative Law Judge (ALJ) Barnett's proposed decision, though not adopted, addressed costs of the original SCADA system at length. The reasoning in ALJ Barnett's proposed decision is useful for the present discussion, particularly concerning the importance of cost-benefit analysis for determining whether particular system upgrades are appropriate.[129]

ALJ Barnett's proposed decision reasoned that SCE's costs of installing the original SCADA system were excessive for a water utility system of SCE Catalina's size.[130] The proposed decision stated that the only consideration that would justify an expenditure of that size would be "tremendous cost savings,"[131] and quoted SCE's Catalina Island, Utilities District Manager, Mr. Ronald Hite, as stating that "[one] of the tenets of a professional engineering assessment is that the recommendation must be cost-effective."[132] In the present proceeding, however, SCE has not performed a cost-benefit analysis that supports the costs of upgrading the

[128] Ex. Cal Advocates-01, p. #**; Pub. Util. Code sec. 745** (requiring utility to justify any proposed rate increase).

[129] Ex. Cal Advocates-01Attachment 6-3, A.10-11-009, Proposed Decision of ALJ Barnett, pp. 30-36. The Proposed Decision was issued before the parties reached an all-party settlement in the proceeding.

[130] The original SCADA installation costs totaled $2,327,000 and represented 60% of Catalina Water's operating revenue.

[131] Attachment 6-3 Proposed Decision of ALJ Barnett, p. 31.

[132] *See* Ex. Cal Advocates-01, Attachment 6-3 Proposed Decision of ALJ Barnett, p. 31.

SCADA system.[133] SCE deemed the upgrades necessary even though several of the elements were simply not permitted or completed from the previous GRC and SCADA installation. The original system was also installed without fully covering the remote parts of the Island's water system. SCE has failed to adequately demonstrate that its expenditures on upgrades to the SCADA system were justified or reasonable. Therefore, the Commission should deny SCE's request to include $1,413,362 in plant for upgrades to the SCADA system.

F. Other Costs and Issues to be Addressed

1. To function as an effective substitute for competition, the Commission should adjust SCE's revenue requirement by a factor of unreasonable water loss.

In a monopoly market, a business' unreasonable inventory losses are corrected by competition. Without the intervention of a functional substitute for competition, captive customers of a monopoly utility are forced to bear the cost of the inventory loss, resulting in higher prices for essential services. In this case, ratepayers' burden would include SCE's return on its capital investments that produced—but failed to deliver—an essential commodity.[134]

Table 8 below details SCE's non-revenue water increases from 2015-2019, as compiled from American Water Works Association (AWWA) audits.

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[133] *See* Ex. Cal Advocates-01, Attachment 6-15 (SCE Response to Public Advocates DR SIH-08 (Pub Adv-SCE-022-SI), Q.03. In response to Cal Advocates' request for any analysis indicating proposed savings resulting from the SCADA upgrades, SCE stated that no cost-benefit analysis was performed because SCE viewed the SCADA Upgrade project as "necessary to effectively and efficiently operate and monitor the water system").

[134] *See* Ex. Cal Advocates-01, p. 11-5:8-17.

Table 8: SCE Non-Revenue Water Acre-Feet Year (AFY), Compiled from AWWA Water Audits 2015-2019[135]

Category	2015	2016	2017	2018	2019
Unbilled Authorized Consumption	3.914	3.980	6.224	5.391	11.282
Apparent Losses	3.525	1.260	1.681	1.203	1.696
Real Losses	51.926	52.890	83.367	116.026	151.732
Non-Revenue Water (Sub-Total)	59.365	58.130	91.272	122.620	164.710
Supplied Water	278.240	279.370	333.100	386.440	421.580
% Water Lost (Non-Revenue Water)	21.3%	20.8%	27.4%	31.7%	39.1%

As indicated in Table 8, SCE reported non-revenue water at 39.1% in 2019, the highest amount in a five-year period of increasing water loss largely attributable to real losses.[136] SCE has recorded significant increases in water loss between 2015 and 2019, from 21.3% to 39.1%.[137] SCE's use of a 2015-2019 average non-revenue water rate of 28% to compare with average losses for other small water systems hides SCE's upward trend and the present operational deficiency in the Catalina water system; in short, the 2019 water loss percentage is the most accurate available picture of the problem.[138]

Per Commission guidelines, a reasonable non-revenue water percentage is seven percent or less.[139] Accordingly, the Commission should reduce SCE's revenue requirement to relieve

[135] Ex. Cal Advocates-01, p. 11-4.

[136] Ex. Cal Advocates-01, p. 11-1:5-6. Non-revenue water is the combined total of real losses, apparent losses, and unbilled consumption. Produced water that does not reach the service connections are the *real losses* in the system, typically from system leakage or storage tank overflows. *See* SCE-10, p. 72:8-10 (stating that "apparent losses due to meter inaccuracy and other administrative errors are estimated to account for roughly two percent of SCE's losses on average").

[137] *See* Ex. Cal Advocates-01, p. 11-4, Table 11-2.

[138] *See* Ex.SCE-10, p. 9:13-14; Hearing Transcript, pp. 341-344, Cross Examination of SCE Witness Ronald Hite (affirming that water loss numbers have increased between 2015-2019).

[139] *See* Ex. Cal Advocates-01, p. 11-1:12-13; D.07-05-062

customers from the cost of unreasonable production losses that exceed industry standards for California as reflected in Commission guidelines. In functioning as a substitute for competition,[140] the Commission should exercise its regulatory authority to exclude expenses and capital in SCE's revenue requirement that would otherwise not be recoverable in a competitive market.[141] To determine an imputed water loss percentage to adjust SCE's recoverable costs, the Commission's 7% standard can be used as a baseline to represent a prudently operated water system. Thus, it is reasonable for the Commission to offset Catalina's 39.1% water loss by 7%. The remaining 32.1% represents the unreasonable and excessive water loss SCE experienced in 2019.[142]

2. SCE's comparison of Catalina water loss with Golden State Water Company's Clearlake service area is inapposite.

SCE claims that its five-year average water loss of 28% is not unreasonable by comparison to water loss in other small water systems.[143] The comparison, however, does not account for the relative cost of water in the other utilities' systems, a critical factor in evaluating the reasonableness of a given rate of water loss.[144] In a system with abundant ground and surface water sources, for example, the cost of providing potable water to customers is significantly lower than in an environment that relies on desalination and very limited groundwater supplies.[145] The economic impact of water loss on a utility is less severe where water is cheaper; therefore the impact on customers is less severe as well.

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[140] *See* D.96-04-050, *Re Southern California Edison Company*, 65 CPUC 2d 362 (April 10, 1996) (stating that the Commission's "objective through regulation is to act as a substitute for competition")

[141] Ex. Cal Advocates-01, p. 11-**

[142] Cal Advocates relies on the 2019 water loss percentage rather a five-year average because the five-year average does not adequately capture the significant upward trend in real water losses, especially given that SCE has not yet determined where the water loss is occurring or taken measurably effective steps to mitigate the loss. *See* Ex.Cal Advocates-01, p. 11-4:7-12.

[143] *See* Ex.SCE-10, pp. 9-10.

[144] *See* Hearing Transcript, p.** (acknowledging that SCE did not factor in the cost of water in the other similarly-sized jurisdictions with high rates of water loss to determine whether the other examples are actually comparable). Noting that water conservation is a key policy goal in water utility ratemaking under Pub. Util. Code sec. **701.10, regardless of the price and available supply.

[145] *See* Cal Advocates-01, p. 11-**

By SCE's own assertion, the Catalina Water service area is unlike anywhere else in the state, given that Catalina is

> …an island with very limited water resources where residents must rely on limited remote groundwater wells and desalination of ocean water—which involve substantial transmission, treatment, and distribution infrastructure—resulting in water service that is costly to operate.[146]

Table 9 below provides a water cost comparison per unit for the Catalina Water utility and the Golden State Water Company (Golden State) Clearlake customer service area (CSA). SCE presents Golden State's Clearlake CSA as an example of the Commission's approach to addressing high water loss issues, but the comparison is almost completely inapposite, not only in terms of the cost and availability of water, but the factual background, context of Clearlake CSA within Golden State's entire operation, and how the Golden State GRCs were resolved.[147]

Table 9: Cost Comparison Per Unit of Water Between SCE Catalina and Golden State Clearlake CSA[148]

Description	SCE Catalina	Golden State Clearlake
Water Supplied (CCF)	184,477	284,442
Water Supplied (Gallons)	137,998,090	212,777,407
2019 Revenue Requirement	$4,130,000	$2,365,300
Revenue Req per 1,000 Gallons	$29.93	$11.12
Revenue Req per CCF	$22.39	$8.32

SCE asserts that the Commission did not impose a disallowance or other revenue-related consequences on Golden State in 2008 when its non-revenue water was forecast at 47.48

[146] SCE-10, p. 23:13-17.

[147] *See* SCE-10, pp. 11:3-4, 7-9 (citing the Commission's 2008 and 2011 Golden State GRC decisions indicating water loss forecasts of 47.48 percent in 2008 and nd in 2011,), p. 11:7-9 (

[148] Cal Advocates-03, **

percent.[149] Instead, SCE states that the Commission "responded to the water loss by 'expect[ing] Golden State to make progress.'"[150] In its next Golden State GRC decision in 2013, the Commission observed that Golden State had made significant progress in reducing unaccounted for water to "less than 10 percent in most Golden State systems," with the exception of three of its CSA—including Clearlake, where "water loss exceeded 20 percent each year since 2003."[151] The Commission also noted that "Golden State has been working to replace and repair pipes that have a history of leaking, and has been successful in reducing leaks each year since 2008."[152] Considering Golden State's overall significant progress reducing water loss since its previous GRC, the Commission determined that it was "not necessary at this time to consider removing unaccounted for water expenses from the [modified cost balancing account] or to establish a penalty/reward mechanism in connection with unaccounted for water." [153] The Commission further stated that "parties may raise this issue [of water loss] in the next GRC and, if appropriate, the Commission may include the issue of potential mechanisms to reduce unaccounted for water."[154]

The present proceeding and SCE's record of increasing water loss are a completely different situation, for numerous reasons. First, as shown in Table 9, water in the Catalina system is between two and three times as costly to produce as Clearlake water. In 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.

Second, Golden State seems to have had some understanding of where significant water losses were occurring in most of its CSAs. Repair efforts had produced measurable results, perhaps with the exception of Clearlake.[155] In contrast, SCE has been unable to explain where

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[149] *See* SCE-10, p. 11:3-6.

[150] *See* SCE-10, p. 11:5-6.

[151] D.13-05-011, *Decision on the 2011 General Rate Case for Golden State Water Company* (May 9, 2013) (Golden State 2013 GRC), p. 78.

[152] Golden State 2013 GRC, p. 77.

[153] Golden State 2013 GRC, p. 78.

[154] Golden State 2013 GRC, p. 78.

[155] Golden State 2013 GRC, p. **78.

or how its water loss is occurring.[156] The Catalina water utility is comprised of five separate systems, for which SCE has not maintained water loss data at an individual level.[157] Although SCE discusses in general terms the activities it has undertaken to reduce water loss, it has operated the Catalina water utility for 60 years and water loss is not a recent problem. Increasingly high losses indicate that SCE's actions have been inadequate or ineffective thus far.[158]

Third, the Commission's language in D.13-05-011, contrary to SCE's assertion that the Commission is averse to using "such extreme measures," indicates that under different circumstances the Commission would find cost disallowances or "penalty/reward" mechanisms an appropriate response to a utility's excessive unaccounted-for water.[159] The circumstances shown in the record of this proceeding support a much more purposeful response by the Commission than encouragement to keep up the good work.

Here, the Commission's response must effectively communicate to SCE that Catalina's 39% water loss is an emergency: a huge volume of a scarce and expensive resource is disappearing even as the state experiences another drought cycle.[160] SCE states that its "current response to improve water loss control include[s] prioritizing improvement of data quality, completeness, and timeliness."[161] But once again, SCE has acknowledged that it does not know where or how water loss is occurring so it remains uncertain whether its efforts in this area are even prioritized correctly.

Fourth, the Golden State GRC decisions SCE cites adopted settlement agreements substantially resolving all but a few of the issues raised in the underlying GRC. Parties'

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[156] *See* Cal Advocates-01, p. 11-4:7-12.

[157] Hearing Transcript, p. # [cross of Ron Hite] (confirming that SCE did not maintain individual system-level data for any of the five Catalina water systems for the recorded years 2015-2019).

[158] *See* SCE-01, p. **; SCE-10, p. **

[159] SCE-10, p. 11:1; *see* Golden State 2013 GRC, p. 105, Conclusion of Law 95 (stating that "it is not necessary *at this time* to consider removing unaccounted for water expenses from the MCBA or to establish a penalty/reward mechanism in connection with unaccounted for water" (emphasis added) because Golden state had made progress reducing water loss).

[160] Information about regional and county-level drought conditions for California (and the rest of the U.S.) is available at Drought.gov. Los Angeles County-specific maps and data are available at https://www.drought.gov/states/california/county/Los%20Angeles.

[161] SCE-10, p. 11:18-19.

agreement on or stipulation to forecasted water loss rates was a part of the settlement agreement.[162] Pursuant to Rule 12.5, the Commission's adoption of a settlement "does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding." Accordingly, SCE's reliance on these decisions are misplaced.

Finally, it is important to note that in Golden State's 2019 settlement agreement resolving its most recent GRC, parties agreed to an estimated 40.96% water loss rate for Clearlake CSA, though it was a significant outlier (by 30% or more) among Golden State's service areas.[163] Catalina customers and the Catalina water supply, in contrast, cannot sustain another decade of 39% water loss. By reducing SCE's revenue requirement proportionately to its excessive water loss, the Commission will effectively communicate to SCE that water loss is an emergency issue SCE must address with appropriate urgency.

IV. Recovery from Electric Customers

A. Commission Authority

1. The Commission's ratesetting authority hinges on the determination that proposed rates are just and reasonable.

The Commission's constitutional authority to set rates, while broad, is subject to statutory constraints.[164] For rates to be lawful, the Commission must determine that the rates are just and reasonable.[165] Section 451 of the Public Utilities Code[166] implies a nexus between just and reasonable rates charged to rate payers and the services or commodities provided rate payers. The link between rates and services is reinforced by section 454(a), which requires utilities to show that a proposed rate change is justified.[167]

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[162] [**Cite Golden State GRCs/settlement adoption language & water loss agreement]

[163] *See* D.19-05-044, *Decision Addressing the General Rate Case Application of Golden State Water Company and the Proposed Settlement* (May 30, 2019), Attachment A, p. 75.

[164] *See* A.20-10-018, *Opening Brief of the Public Advocates Office on Cost Recovery Issues* (March 5, 2021) (Cal Advocates Brief on Cost Recovery), p. 3; CA Constitution, Article XII, Sec. 6.

[165] Pub. Util. Code § 451 (requiring that "all charges demanded for services or commodities furnished shall be just and reasonable").

[166] All references to statute hereafter refer to sections of the Public Utilities Code, unless otherwise specified.

[167] *See* § 454(a).

Because the "just and reasonable" determination is essential to ratesetting authority, the Commission has established rate design principles to guide its determination of whether a proposed rate is just and reasonable.[168] As discussed in Cal Advocates' *Opening Brief on Cost Recovery Issues,* key among the Commission's rate design principles is that of cost-causation.[169] The cost-causation principle requires that a reasonable nexus exist between costs that the utility incurs in providing service to customers, and the customers from whom it recovers the costs.[170] SCE has failed to establish a cost-causation nexus between Catalina Water expenses and SCE electric customers in claiming that because a significant percentage of Catalina visitors are from the Southern California area generally, SCE electric customers specifically benefit from Catalina Water utility services to an extent that would justify recovery of water utility costs.[171]

The implications of SCE's proposal are far greater than water service on Catalina and SCE's related cost recovery problem. The basic rationale for SCE's proposed cross subsidy is the "core regulatory principle" of allowing a utility to recover "justly and reasonably incurred costs of services."[172] Even supposing for hypothetical purposes that the costs are reasonably incurred, SCE is asking the Commission to prioritize the principle of 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*."[173] Creating such a precedent would undermine the Commission's reason for existing in the first place: serving as a substitute for competition.[174] Section 451 provides that "every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful." SCE conjectures, but fails to provide any evidence demonstrating, that the cross-subsidy offers electric customers even a plausible

[168] *See* Cal Advocates Brief on Cost Recovery, p. #.; D.15-07-001, p. ## (describe).

[169] [cite to opening brief on cost recovery]; *see* D.15-07-001 (emphasizing the historical importance of cost-causation to the determination of whether rates are 'just and reasonable.')

[170] [cite to opening brief on cost recovery]; *see* D.15-07-001 (emphasizing the historical importance of cost-causation to the determination of whether rates are 'just and reasonable.')

[171] [Cite SCE testimony]

[172] *Se*e Ex. SCE-10, p. 6:1-14.

[173] Pub. Util. Code § 451 (emphasis added).

[174] *See* D.96-04-050, *Re Southern California Edison Company*, 65 CPUC 2d 362 (April 10, 1996) (stating that the Commission's "objective through regulation is to act as a substitute for competition").

intangible benefit.[175] A charge demanded with no corresponding exchange of benefit or service is unjust and unreasonable. Therefore, charging electric customers for a service they do not receive from SCE is unlawful and not within the Commission's statutory ratemaking authority.

2. SCE's proposed cross subsidy does not appropriately support state policy goals.

Related to cost-causation is the principle that rates should generally avoid cross-subsidies, "unless the cross-subsidies appropriately support explicit state policy goals."[176] SCE asserts that the cross-subsidy appropriately supports the policy that "everyone in California has the right to clean and affordable water," pursuant to Water Code §106.3(a).[177] SCE presents the cross-subsidy as its only alternative to recovering its proposed revenue requirement solely from Catalina customers; which "could deprive Catalina residents of their fundamental right to safe, clean, and affordable water."[178] Here, not only does SCE imply that its right to rate recovery is more fundamental than the human right to water, but SCE has misinterpreted the policy objective of Water Code §106.3.

B. Should the Commission Allow Recovery from Electric Customers?

The Commission should conclusively deny SCE's request to recover water utility costs from its electric customers. SCE's request presents the Commission with some critical opportunities, however. In this proceeding the Commission has the opportunity not only to preserve the integrity of established ratemaking principles and standards, but to enforce the minimum evidentiary standard required for utilities to demonstrate the reasonableness of a proposed rate increase.

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[175] *See* Cal Advocates Brief on Cost Recovery [**cite]

[176] *See* D.15-07-001, p. 2. [cite cost recovery brief]; *see also* James Bonbright et al., *Principles of Public Utility Rates*, Second Edition, Public Utilities Reports, Inc. Arlington, Virginia (1988), p. 384 (stating that the cost-causation principle has also been characterized as "[avoidance] of undue discrimination in rate relationships so as to be, if possible, compensatory (i.e., subsidy free with no intercustomer [*sic*] burdens….").

[177] Ex.SCE-10, p. 22:9-10.

[178] Ex.SCE-10, p. 22:12-16.

1. The cross-subsidy proposal lacks sound evidentiary support.

SCE has failed to provide adequate evidence that the cross-subsidy is reasonable.[179] Instead, it has attempted to support the proposal with a cost-causation nexus argument based on a single 2017 Catalina Visitors Bureau report and logical error, and dismissed reasonable assumptions about Catalina visitors' existing contribution to water system costs given that Catalina Water commercial customers serving tourists pass through their utility and other overhead expenses in the cost to visitors of dining and lodging.[180] Further, in claiming that the cross-subsidy supports state policy goals, SCE poses a false dilemma to the Commission by implying that Catalina residents could be deprived of their "fundamental right to safe, clean, and affordable water" if the Commission does not authorize the cross-subsidy to maintain some level of affordability.[181]

In the last Catalina Water utility GRC, the Commission unequivocally stated that a transfer of approximately $8 million to electric customers pursuant to the parties' settlement agreement was an undesirable, one-time-only solution.[182] Rather than identify and develop other appropriate solutions in the intervening years, SCE made the cross subsidy a focal point of its present Catalina GRC application.

Given SCE's singular focus on the cross-subsidy proposal, the utility has offered a surprising lack of evidence to support it. In the Commission-requested supplemental testimony evaluating alternative cost recovery approaches, SCE's third-party consultant concluded that none of the alternatives included in the feasibility study evaluated were feasible except for recovery from electric ratepayers.[183] The consultant did not conduct any analysis of the cross-subsidy proposal, citing only SCE's original testimony and the unsupported assumption that

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[179] Due to the nature of SCE's cross-subsidy proposal—that it would impose on ratepayers costs for services they do not receive, merely because SCE has access to them as electric customers—a more rigorous evidentiary standard should apply than the preponderance standard that normally applies to requests for cost recovery in a GRC.

[180] *See* Cal Advocates Opening Brief on Cost Recovery, p. #; [**cite to Hearing Transcript; Cal Advocates-01, p. # (allocation for commercial customers)].

[181] *See* Ex.SCE-10, pp. 12-16.

[182] *See* Cal Advocates Opening Brief on Cost Recovery, p.

[183] *See* Ex.SCE-09, p. Raftelis study

most Catalina visitors are SCE electric customers.[184] Nothing in the record supports the claim that most SCE electric customers are Catalina visitors. SCE's cost-causation argument supporting the cross subsidy is meritless without evidence that more than a tiny fraction of electric customers who would share the Catalina Water cost burden have ever benefited from or will ever use Catalina water.[185]

2. Visitors to Catalina already pay for their use of the Catalina water system.

SCE asserts that a cost-causation nexus exists because visitors to the island, approximately 70% of whom come from southern California (according to the *Economic & Fiscal Impacts and Profile of 2016 Catalina Island Visitors Final Report*), use or benefit from Catalina Water utility services without paying for the usage.[186] The assertion that visitors do not pay for their use of the Catalina Water system is flawed because it assumes that tourist-oriented businesses, such as restaurants and lodging establishments, do not factor utility expenses into in the price of their services and goods.[187] This scenario does not seem reasonable or likely from a business perspective, and SCE's rate design for non-residential or commercial customers specifically facilitates "flow-through" of commercial customers' water utility costs to visitors.[188] Thus, under SCE's rationale for the cross-subsidy, the small percentage of SCE's electric customers who statistically *might* visit Catalina Island would pay an extra premium for their use of the system.[189]

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[184] *See* Ex.SCE-09, p. ; Hearing Transcript, Cross Examination of SCE Witness David Fox, p. #

[185] *See* Cal Advocates Opening Brief on Cost Recovery, p. # (noting that based on SCE's evidence and electric customer data, the 700,000 visitors to Catalina who *might* be SCE electric customers represent *less than five percent* of SCE's electric customer population).

[186] *See* Ex.SCE-01, p. 23:17-20; SCE-09, p. ##; Hearing Transcript, p. ##:##Cross of SCE Witness Barcinas (affirming SCE's position that visitors do not pay for their use of the Catalina Water system).

[187] *See* SCE-01, p. 23, FN 47 (link to June 2017 *Economic & Fiscal Impacts and Profile of 2016 Catalina Island Visitors Final Report*, p. 8, stating that in 2016, visitors to Catalina spent an aggregated $49 million on lodging and $39 million on restaurant dining).

[188] *See* Ex.SCE-07, p. 1:26-27**[check pg]; .Hearing Transcript, Cross Examination of Reuben Behlihomji, pp. 464:18-28 – 465:1-22 (stating, in response to question on rate design allocation facilitating pass-through of commercial customers' rates to tourists, that "in so much as…the commercial class [is] exposed to a tourist-based economy with visitors coming to the island, then, yes, there is the propensity of that passthrough mechanism of what we experience in rates to visitors visiting the island").

[189] *See* Cal Advocates Opening Brief on Cost Recovery, p. #[part about what percent of SCE customers could possibly be Cat visitors according to visitor report numbers]

3. SCE's cross-subsidy proposal does not adequately incentivize conservation at the utility level.

SCE's cross-subsidy proposal not only conflicts with Commission ratemaking principles, but also violates the Commission's requirement that any adopted rate design in water utility regulation "must provide continued incentives for conservation of water supplies."[190] Public Utilities Code §701.10(c) requires that Commission regulation of water IOUs provides "appropriate incentives *to water utilities* and customers for conservation of water resources" (emphasis added). As SCE has repeated throughout the proceeding, providing water service on Catalina Island is an "extremely challenging and costly" proposition due to limited fresh water supply and rugged terrain.[191] Under such circumstances conservation is critical, but Catalina customers' rightly lauded conservation efforts cannot compensate for SCE's 39% loss rate.[192]

Requiring Catalina customers to cover the expense of producing so much non-revenue water is already unjustified.[193] Allowing SCE to shift any water utility costs to electric customers while it cannot account for 39% of Catalina's high-cost fresh water, however, is patently unjust and unreasonable.[194] Neither SCE nor Catalina Water customers can afford the cost of that much non-revenue water.

4. SCE seeks Class A advantages for Catalina that other small Class C water utilities do not enjoy.

SCE erroneously suggests that Catalina is the only place in the state where rural water customers do not have the benefit of "a more affordable blended rate" as consolidated with a

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[190] *See* D.16-12-026, *Order Instituting Rulemaking on the Commission's Own Motion into Addressing the Commission's Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for Class A and Class B Water Utilities* (December 1, 2016) 2016 WL 7243721, at *27.

[191] *See, e.g.,* Ex.SCE-01, pp. 1:22-24, 21:21-22; SCE-10, p. 23:15-18 (noting that Catalina has "very limited water resources where residents must rely on limited remote groundwater wells and desalination of ocean water—which involve substantial transmission, treatment, and distribution infrastructure—resulting in water service that is costly to operate.")

[192] The loss rate generally considered reasonable by the Commission for a similarly-sized water utility is seven percent. Ex. Cal Advocates-01, p. 10-10:11-13.

[193] *See* Ex. Cal Advocates-01, p. 6-17:19-21 (stating that before imposing costs of increased production on ratepayers, SCE needs to address its potable water loss rate). See discussion of the cost of water loss in Part III.F. of this brief.

[194] See discussion of the cost of water loss in Part III.F. of this brief.

Class A water utility and argues that "the Commission should end this inequity now."[195] 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.[196]

From SCE's perspective, electric customers represent potentially the largest and most convenient source of revenue available to subsidize Catalina water operations.[197] Access to this pool of revenue might enable SCE to persist in its operational status quo, and the cross-subsidy, if authorized, would likely become a standard feature in future SCE Catalina water utility ratemaking.[198] History shows that as long as the cross-subsidy remains a potential cost recovery option, SCE has no reason to aggressively pursue just and reasonable solutions that are less convenient, regardless of how the Commission tries to circumscribe or narrowly restrict the cross-subsidy.[199] Therefore, the Commission should conclusively deny SCE's request for recovery of any Catalina Water utility costs from electric customers.

C. Deferred Revenue Requirement Tracking Account

The Commission's adoption of a reasonable revenue requirement and application of an imputed water loss factor makes tracking of deferred revenue unnecessary. Reducing the revenue requirement and amounts in the various memorandum and balancing accounts gives the Commission more options to consider when determining the most appropriate cost recovery strategy. A revenue requirement resulting in decreased average system rates obviates the need for any phase-in period and eliminates the need for the $10.3 million Deferred Revenue Requirement Tracking Account (DRRTA) that SCE proposes to recover from electric customers.[200]

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[195] Ex.SCE-10, p. #:7-8.

[196] As of December 2020, the Commission estimated nearly 51,000 total Class B, C, and D water utility connections combined. A list of all Commission-regulated water utilities by class is available at https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/water-division/reports/wd-landing-page/water-utilities--total-connections.pdf?sc_lang=en&hash=F115B2E4BD55CFB5CFCDFB24749F6A58.

[197] *See* SCE-09, Raftelis study

[198] [**find DR response stating this]

[199] *See* D.14-[**past GRC decision]; A.20-10-018 p. # (SCE justifying cross sub proposal); DR response.

[200] Ex. Cal Advocates-01, p. 11-7:15-22

Water Code § 106.3 is primarily a water use and supply adequacy policy, not a utility rate making provision. It prioritizes household uses of water above other potentially competing uses given the state's limited water resources. Section 106.3(b) requires relevant agencies to prioritize household use and supply in any decisions pertinent to water use.[201] SCE has not indicated how or whether the cross-subsidy would prioritize domestic water uses on Catalina Island; nor has SCE claimed that the cross-subsidy promotes conservation to ensure ongoing adequacy of household water supplies.

Accordingly, SCE has not demonstrated that the cross-subsidy appropriately supports an explicit state policy goal. As addressed in other sections of this brief, neither has SCE 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. Instead, SCE asks the Commission to take unprecedented, extraordinary measures—contradictory to basic rate design principles—because the Catalina customer base cannot reasonably support SCE's proposed revenue requirement.[202]

V. COST RECOVERY

A. Alternative Cost Recovery Approaches

The Commission should authorize a reasonable, evidence-based revenue requirement that eliminates SCE's alleged need for the cross-subsidy. SCE has not been able to demonstrate a reasonable nexus between visitors to island and system costs. Nor has SCE supported its contention that mainland electric customers are a reasonable proxy for visitors to the island. Most importantly, however, no alternative cost recovery methods are necessary, given the volume of expenses SCE has not adequately justified for recovery in rates.[203]

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[201] *See* Cal. Water Code § 106.3(b) (directing agencies to consider the policy stated in part (a) when "revising, adopting, or establishing policies, regulations, and grant criteria *when those policies, regulations, and criteria are pertinent to the uses of water described in this section*"). The Commission has referenced section 106.3 in setting minimum baseline amounts for household needs. *See, e.g.,* D.16-12-026, *Order Instituting Rulemaking on the Commission's Own Motion into Addressing the Commission's Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for Class A and Class B Water Utilities* (December 1, 2016), p. # [find page w/ "Cal-Am also supports the concept of a minimum amount of water in baseline amounts for human needs. These statements are further supported by statute as reflected in Water Code, Section 106.3."]

[202] SCE-10, p. 22:9-10; Water Code § 106.3(a).[fix this FN to be more on point]

[203] Ex. Cal Advocates-01, p. 12-13:15-20.

B. What Cost Recovery Approach Should the Commission Adopt?

Until the Catalina Water system can be acquired by a Class A water utility or even an appropriate municipal entity, SCE must rely on the justifiable, reasonable revenue it can collect from Catalina Water customers. If there is a shortfall, the Commission should impose a shareholder disallowance.[204]

VI. Proposed Rates for Test Year and Escalation Years

A. Forecast for Water Sales

1. SCE's practice of denying applications for service is a breach of its obligation to serve.

SCE has initially denied all applications submitted for a new water allocation in Catalina since 2014.[205] The Commission's Certificate of Public Convenience and Necessity or franchise granted to a utility obligates the utility to provide service to any customer requesting service within the utility's service area.[206] By consistently denying new connection and allocation requests, SCE has not fulfilled its legal obligation to serve.

a) The Commission should require SCE to grant outstanding applications and modify its tariff language to remove any allowance for arbitrary denial of service.

Absent a valid basis for denial of new connection applications, the Commission should require SCE to grant reasonable applications for new water service and increased allocations. SCE's tariff rules permit the company to deny new connection and allocation requests "[when]

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[204] Ex. Cal Advocates-01, p. 12-2:17-19.

[205] *See* Ex.Cal Advocates Cross-Exhibit X# [chart of permits denied or granted since last GRC]; Cal Advocates-01, p. 1-1.

[206] *See* D.96-10-066, *In Re Rulemaking on Commission's Own Motion into Universal Serv., to Comply with Mandates of Assembly Bill 3643* (October 25, 1996), 68 CPUC 2d 524 (noting that "by accepting the franchise obligation from the state to serve a particular area, the public utility is obligated to serve all the customers in the service area who request service").

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*."[207]

The tariff language is problematic for two reasons. First, the safe annual yield calculation is over thirty years old and does not reflect SCE's desalination production.[208] Second, the language "for any other reason" is ambiguous and can be read as giving SCE the discretion to arbitrarily deny new connection requests, contrary to its obligation to serve. SCE disputes the idea that its tariff language affords it such discretion.[209] Nevertheless, SCE's explanation for denial of the applications, especially after drought restrictions were lifted in February 2019, is inadequate considering the impact of being unable to obtain new or additional service on current and potential customers.[210]

The premise that SCE's tariff language provides SCE arbitrary discretion is further supported by its decision to issue a new connection permit to a museum in Avalon, after a customer filed a protest with the Commission and Water Division informally directed SCE to approve the museum's application.[211] The Catalina Island Museum filed an informal complaint with the Commission to obtain a freshwater allocation during Stage 2 of mandatory conservation. Commission staff—not the governing body of the Commission itself—recommended to SCE that it grant the application. Without a Commission order or ruling, SCE exercised discretion and acted on staff's recommendation.[212]

SCE's rationale for denying or withholding new connections and allocations was plausible while drought restrictions were in effect. SCE indicates that under its tariff rules, it is unable to assign/honor freshwater allocations during mandatory conservation Stages 1 through 4. Catalina Island entered Stage 1 Conservation in June of 2013 and did not exit rationing or conservation until February 2019.[213] Contrary to expectation, however, SCE denied more

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[207] SCE Tariff Rule 3: Application for Service, sheet 5 D.3.b. (emphasis added).

[208] Cal Advocates-01, p. 1-3.

[209] *See* Hearing Transcript, p. #** (discussing tariff language)

[210] Cal Advocates-01, p. 1-3:

[211] *See* Hearing Transcript, p. **, [cross re:discretion – Barcinas?; Cal Advocates-01, p. 1-5.

[212] *See* Hearing Transcript, p. **, [cross re:discretion – Barcinas?].

[213] Ex.Cal Advocates-01, p. 1-2:2-25.

permits in the 14 months after drought restrictions were lifted than during the five years when restrictions were in effect.[214] Table 10 indicates application denials during drought restrictions between June 1, 2013 – February 15, 2019, and post-restrictions after February 15, 2019:

Table 10: Permits Denied During Drought Restrictions[215]

Permits Denied Between June 1, 2013 - Feb 15, 2019	Permits Denied After Feb 15, 2019
12	15

b) SCE's practice of denying applications conflicts with the Commission's Environmental Justice Plan by harming Catalina's economy and preventing housing development for local workers.

SCE has denied permits for home remodels, construction of new housing, a hospital, a community center/pool, and a new ice cream shop.[216] As noted by Catalina Parties in their protest to SCE's GRC application,

> There has been no growth on Catalina Island since the [previous] GRC. There cannot be growth if the water provider cannot or does not issue permits for additional connections which has largely been the case since the [previous] GRC.[217]

Of particular concern is the denial of a permit for a new apartment complex in the City of Avalon, depriving the city of a much-needed additional housing supply.[218] The Catalina Parties' protest confirms this, stating that "[The Catalina Island Company], the principal employer on the Island for its tourist related businesses, is particularly frustrated as it has been

[214] Ex.Cal Advocates-01, p, 1-4:13-15.

[215] Ex.Cal Advocates-01, p, 1-4 (Table 1-1).

[216] Exhibit Cal Advocates-# **[List of denied applications – or better to use Catalina Parties' version?]

[217] *See* A.20-10-018, Protest of City of Avalon et al. (December 2, 2020) ("Protest of City of Avalon et al."), p.9.

[218] Ex.Cal Advocates-01, p. 1-2:

unable to build the housing it needs for its employees."[219] Lack of available housing has as a disproportionate impact on low-income families and workers.[220]

Because SCE's decision to deny connection permits detrimentally affects low-income households and workers, it conflicts with the Commission's Environmental and Social Justice Action Plan (ESJ Action Plan), specifically goal number seven: to promote economic and workforce development opportunities in ESJ communities.[221]

Accordingly, the Commission should direct SCE to grant outstanding applications for new connections, and require SCE to file, within 30 days of a final decision in this proceeding, a Tier 2 advice letter to modify its tariff language to remove language that allows for arbitrary denial of applications for new or additional service.

2. The Commission should adjust SCE's customer forecast to reflect valid applications for new water service and a minimal growth rate.

SCE's ongoing practice of denying applications for new connections has likely resulted in under-counting and under-forecasting test year customer counts.[222] At least 27 customers who were denied service in the period since SCE's previous GRC should be included in the customer forecast once the Commission ensures that SCE issues new permits appropriately and consistently with its duty to provide water utility services on Catalina Island.[223]

Accounting for growth based on customers who should be included pending approval of their applications, as well correction of an error including two commercial customers with volumetric usage who were incorrectly added to the W-4 Fire Protection tariff, the test year customer forecast results in a total of 2,026 customers. Table 11 provides a breakdown of Cal Advocates' revised forecast by customer class:

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[219] *See* A.20-10-018, *Protest of City of Avalon et al.* (DATE), p. 9.

[220] Ex.Cal Advocates-01, p, 1-11:1-8.

[221] Cal Advocates-01, p. 1-7.

[222] Cal Advocates-01, p. 1-2.

[223] Cal Advocates-01, p. 1-2:1-6.

Table 11: Cal Advocates Test Year Customer Forecast

Customer Counts		
Tariff Schedule	**Description**	**Count**
W-1-GS	Commercial	352
W-1-R	Residential	1167
W-1-R-CARE	Residential CARE	143
W-1-RDS	Residential Dual	66
W-1-RDS-CARE	Residential Dual CARE	1
W-1-RDS-10	Residential Dual Employee Discount	1
W-1-RM	Residential Multi Family	61
W-10	Residential Employee Discount	59
W-3	Irrigation	66
W-4	Fire Protection	110
	Total	2,026

Based on the updated customer forecast exceeding 2000 customers, as well as the disproportionately high volume of water SCE provides compared to similarly sized water utilities, Catalina should be reclassified as a Class B water utility.

a) Rate Design

Well-designed rate structures recover authorized revenues and achieve state policy, including the promotion of conservation and the affordability and equity of water rates for all customers.[224] SCE asserts that the rate design adopted in the previous Catalina GRC should be maintained largely as-is; however, many of the rate design elements have become outdated in the decade since their adoption. SCE's rate design requires modification in six key areas to

[224] Ex.Cal Advocates-01, p. 13-1:3-5.

accurately reflect full-time residents' minimum water needs, improve rate equity between smaller and larger-metered customers as well as between full- and part-time Catalina residents, and to continue to promote conservation. These key areas are: 1) fixed-charge ratios, 2) fixed-to-volumetric ratios, 3) seasonal rates, 4) fire protection, 5) SCE employee discount, and 6) Tier 1 breakpoint adjustment.[225]

3. The Commission should require SCE's fixed charge ratios to adhere to Commission Standard Practice U-7-W.

SCE's current fixed-charge ratios unnecessarily benefit larger institutional users to the detriment of residential customers. As Table 12 below indicates, SCE's existing/proposed fixed monthly service charge for the largest metered customers is more than three times less than the industry standard as reflected in Standard Practice (SP) U-7.

Table 12: SCE's Current vs. Industry Standard Fixed Charge Ratios[226]

Meter Size (inches)	Current/Proposed SCE Ratio	Industry Standard/ SP U 7-W Ratio	SCE's Discount from Standard
5/8	1.00	1.00	**0**
0.75	1.40	1.50	**6%**
1	1.80	2.50	**28%**
1.5	2.41	5.00	**52%**
2	3.21	8.00	**60%**
3	6.71	15.00	**55%**
4	8.04	25.00	**68%**
6	13.35	50.00	**73%**
8	22.55	80.00	**72%**

[225] Tier 1 breakpoint modification is addressed in Part VI.C.

[226] Ex.Cal Advocates-01, p. 13-3, Table 13-1.

A Catalina customer with a two-inch meter will pay a fixed service charge of $32.10 per month, based on the ratio of 3.21 as shown in the table (multiplied by $10 for the lowest priced service).[227] Due to increased capacity, potential demand, and the cost of this larger-sized service, a fixed charge ratio of 8.0 normally applies to two-inch meters. Per industry standards, customers with two-inch meters in this case should be paying a monthly fixed charge of $80 ($10 multiplied by the ratio of 8.0). Because the design is revenue neutral, the 60% discount on fixed charges provided to customers with two-inch meters is subsidized by customers with smaller meters, who pay a proportionately higher fixed service charge.[228] As Table 12 indicates, the larger the service connection size, the more discounted the fixed charge ratio.

SCE asserts that it should not be subject to industry standard meter charge ratios under SP U 7-W because it is not a Class A water utility, but SP U 7-W expressly states that the industry standards should apply to all classes of water utility service.[229] The meter ratios established in SP U-7-W are the same as those established by the American Water Works Association (AWWA) for use across the United States.[230] Further, state water policy explicitly prioritizes household and domestic use of water, directing agencies to prioritize household water use in making allocation decisions.[231] Accordingly, the Commission should require SCE to adjust its fixed charge ratios to reflect SP U-7-W and industry standards, so that high-volume customers' rates are not deeply discounted at the expense of Catalina residents and small businesses.

4. The Commission should require SCE to adjust fixed-to-volumetric ratios to 50/50.

SCE's fixed-to-volumetric ratio of service charges should be set at 50/50 instead of the current 30/70 to mitigate the burden on full-time residents who are more than twice as likely to be enrolled in CARE programs.[232]

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[227] Ex.Cal Advocates-01, p. 13-3.

[228] Ex.Cal Advocates-01, p. 13-3

[229] Ex.Cal Advocates-01, pp. 13-3:13-14 to 13-4; *see* SP U-7-W, section C. 11.

[230] Ex.Cal Advocates-01, pp. 13-4:1-4.

[231] *See* Cal. Water Code sec. 106.3; [**cite Comm decision applying 106.3 in rate design context]

[232] Ex.Cal Advocates-01, p. 13-1:12-14.

5. The Commission should require SCE to eliminate seasonal rates should

SCE's seasonal rates, though intended to promote conservation during peak summer months, have had the unintended effect of needlessly increasing full-time residents' bills for essential basic services during the summer.[233] Therefore, seasonal rates should be eliminated in favor of an adjusted Tier 1 breakpoint, as discussed below in part C.

6. The Commission should require Fire Protection tariffs to reflect standard fixed charge ratios and rates comparable to other providers.

SCE's fire protection tariffs should be updated to reflect fixed charge standard practice ratios and the rates charged by other water purveyors for similar service.[234]

7. Employee Discount

SCE currently provides a 25% water service discount to SCE employees who are Catalina water customers. If SCE wishes to continue this practice, it should not be at ratepayers' expense.[235]

Lastly, as discussed below, the Commission should update SCE's Tier 1 breakpoint and pricing for a more equitable rate design reflecting full-time residents' actual water requirements, rather than the amount simply based on average consumption per residential customer.[236]

a) Tier-1 Breakpoint

As with SCE's seasonal rates, the existing and proposed tier breakpoints unduly benefit part-time residents while disadvantaging full-time and low-income residents.[237] SCE proposes to continue its conservation rate design with a Tier-1 breakpoint set at 0-2000 gallons, Tier-2 at 2,000-6,500 gallons, and Tier-3 at 6,500+ gallons.[238]

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[233] Cal Advocates-01, p. 13-1:14-16.

[234] Cal Advocates-01, p. 13-1:19-20.

[235] Cal Advocates-01, p. 13-1:21-22

[236] Cal Advocates-01, p. 13-1:16-19.

[237] *See* Ex.Cal Advocates-01, p. 13-**

[238] Ex.Cal Advocates-01, p. 13-17:8-11.

SCE asserts that its Tier 1 usage breakpoint of 2000 gallons is "representative of essential indoor usage."[239] This claim is likely based on an average usage of all residential customers, regardless of whether the residence is occupied full-time or on a limited basis as a second home.[240] However, inclusion of residences that have little to no water usage for one or more months out of the year results in an artificially low Tier 1 breakpoint. SCE acknowledges that "customers with vacation homes on Catalina have very little usage across non-summer months and thereby do not pay a proportional share of water system costs."[241]

When part-time residences (those with no usage for one or more months) are removed from the calculation, average residential consumption for full-time residents increases by 35% to 2,695 gallons per month.[242]

Accordingly, the Commission should authorize an increase in the Tier 1 breakpoint to 3000 gallons per month (approximately four centum cubic feet (ccf)).[243] The chart below compares average monthly usage of full-time residents, part-time residents, and CARE full-time residents to the total residential average from March 2019 to February 2020. Despite Catalina residents' rigorous conservation practices, average usage for non-CARE full-time residents exceeded SCE's current and proposed 2000 gallon/2.67ccf Tier 1 breakpoint in every month of the year, suggesting that the current Tier 1 breakpoint is unreasonably low.[244]

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[239] Ex.SCE-07, p. 8:10-14.

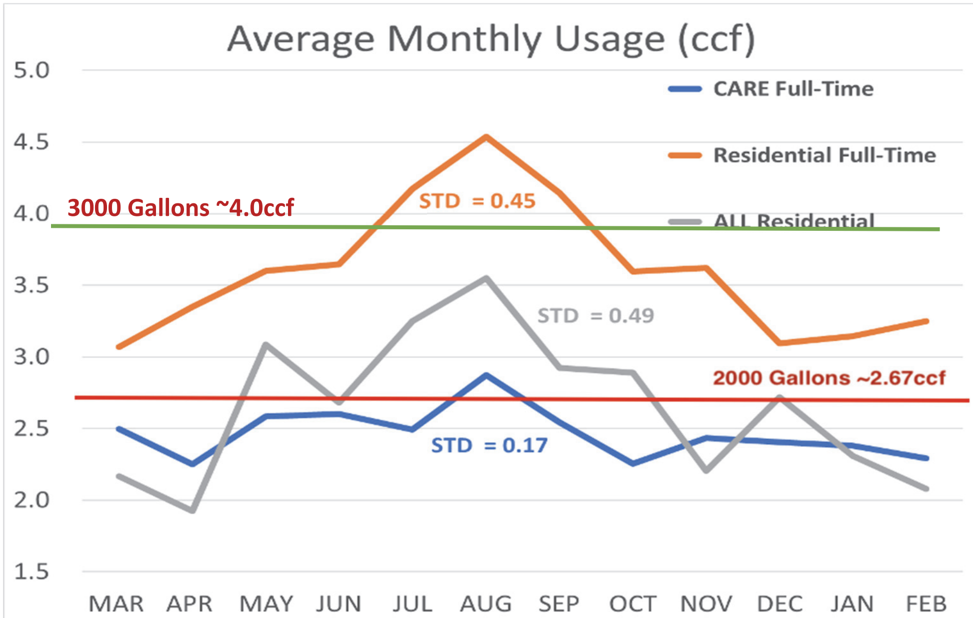
[240] Ex.Cal Advocates-01, p. 13-**

[241] Ex.SCE-10, p. 23:2-4.

[242] Ex.Cal Advocates-01, p. 13-**

[243] Ex.SCE-08, p. 8:15-16. Initially, 4ccf appears to be less than the 6ccf per month that the Commission has established as the necessary quantity for basic service. *See* D.20-07-032, p.22 (determining that "the definition of essential water service be set at 600 cubic feet per household per month"). The reason for the lower baseline is that most Catalina residents have separate ocean-water service for toilets. Because toilet usage typically accounts for 30% of all residential usage, a Tier 1 breakpoint of 3000 gallons adjusted to account for toilet usage would equate to approximately 5.7ccf per month.

[244] In August 2019, even CARE customers exceeded the Tier 1 breakpoint.



Increasing the Tier 1 breakpoint to 3000 gallons will still promote conservation and function as a substitute for seasonal rates, without unfairly burdening full-time and low-income Catalina residents. Therefore, the Commission should adopt a Tier 1 breakpoint of 3000 gallons.

b) California Alternate Rate for Energy (CARE) Discount Increase

Implementing Cal Advocates' proposed rate design modifications, particularly the Tier 1 breakpoint increase to 3,000 gallons, would result in significant rate relief for CARE customers as well as non-CARE full-time residents.[245] Accordingly, an additional CARE customer discount would not be necessary to improve affordability. The same affordability goal could be achieved by ensuring that the rate design does not favor part-time residents, whose average bills typically stay below the current Tier 1 baseline during winter months, while full-time residents are in Tier 2 pricing year-round.[246]

[245] Ex. Cal Advocates-01, pp. 13-7 to 13-12.

[246] Ex. Cal Advocates-01, pp. 13-7 to 13-12.

B. Transition from Water Revenue Adjustment Mechanism (WRAM) to Monterey-Style, Incremental Cost Balancing Account (ICBA)

Cal Advocates does not oppose SCE's request to transition from the WRAM to a Monterey-style ICBA, while reserving the opportunity to reply or comment on this issue in the future as appropriate.[247]

C. Any Other Issues Relevant to Commission's Review and Disposition

Cal Advocates has addressed all significant issues of concern within the other topical sections of this brief, but reiterates its request that the Commission consider the broad implications of SCE's cross-subsidy request in this proceeding—and decline to establish any precedent supporting the notion that the utility's right to recovery of expenses outweighs the public's interest in not forcing utility customers to bear expenses to which they have no discernable, verifiable causal relationship that would justify the utility's recovery.

VII. CONCLUSION

Based on the foregoing, Cal Advocates respectfully requests that the Commission deny SCE's proposal to recover water utility costs of any nature or amount from its electric customers. Careful review of the requests for cost recovery and forecasts in SCE's Application reveals ample opportunities to reduce expenses to reasonable and adequately supported amounts, rendering a cross-subsidy unnecessary. Further, the Commission should ensure that SCE addresses excessive, unreasonable water loss as an emergency for both the company and its Catalina customers. The Commission considers monetary or financial remedies appropriate methods to ensure water loss reduction under the right circumstances. Catalina's water affordability crisis, driven by SCE's management of the utility, presents such a circumstance.

Respectfully submitted,

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[247] *See* Ex.SCE-05, pp. 48-49.

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