BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

FILED
11/29/23
04:59 PM
A2010018

Application of Southern California Edison Company (U 338-E) for Authority to Increase Rates for its Class C Catalina Water Utility and Recover Costs from Water and Electric Customers.	A.20-10-018

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) OPENING COMMENTS ON PROPOSED DECISION ON ITS APPLICATION TO RECOVER COSTS AND INCREASE RATES FOR THE CATALINA WATER UTILITY

CLAIRE E. TORCHIA
PAUL I. SUNG

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-2985
E-mail: Paul.Sung@sce.com

Dated: **November 29, 2023**

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) OPENING COMMENTS ON PROPOSED DECISION ON ITS APPLICATION TO RECOVER COSTS AND INCREASE RATES FOR THE CATALINA WATER UTILITY

Table of Contents

Section	Page

TABLE OF CONTENTS (CONTINUED)

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) OPENING COMMENTS ON PROPOSED DECISION ON ITS APPLICATION TO RECOVER COSTS AND INCREASE RATES FOR THE CATALINA WATER UTILITY

Table of Authorities

SUBJECT INDEX OF RECOMMENDED CHANGES

Pursuant to Rule 14.3(b) of the California Public Utilities Commission's (CPUC or Commission) Rules of Practice and Procedure, Southern California Edison Company (SCE) provides the following Subject Index of Recommended Changes in support of its Comments on the *Proposed Decision on Southern California Edison Company Application to Recover Costs and Increase Rates for the Catalina Water Utility*, dated November 9, 2023 (PD).

- The PD errs in imposing protracted amortization periods of five, ten and fifteen years for prudently incurred costs. Such unprecedented, elongated recovery periods with interest set at the 90-day commercial paper (CP) rate are non-compensatory, effectively serve as a penalty on shareholders, and would ultimately be untenable to and inconsistent with utility financing structures. The PD should be revised to reflect normal, historical amortization periods or to allow SCE to recover appropriate financing-related compensation from customers at its Commission-authorized weighted-average cost of capital (WACC).
- If the PD proposed amortization is not revised, it is SCE's understanding that the PD's findings on this issue are limited to the uniquely challenging circumstances faced on Catalina. The Commission should make that understanding explicit in the Final Decision.
- The PD errs in not adopting SCE's straightforward, sensible proposal to have systemwide electric customers pay for a portion of the costs for Catalina Water that the PD appropriately deems just and reasonable. SCE has demonstrated a sufficient nexus between the two customer groups to support its proposal, and there is no other reasonable way to cost-effectively and sustainably pay for Catalina Water system. SCE's cross-subsidy proposal should be adopted.
- The PD should be revised to allow SCE full recovery of balances recorded in two memorandum accounts. These amounts were reasonably incurred and necessary to serve customers with reliable and safe drinking water, including through a historic, prolonged and punishing drought.
- The PD should be revised to order Catalina Water to remain a Class C water utility.

- The PD should be revised to remove the requirement for SCE to file a water loss application by December 31, 2024.
- SCE also recommends various revisions to the PD’s specific findings on certain capital disallowances and deferrals.
- The PD should authorize a five-year extension from the meter replacement requirements in General Order (GO) 103-A.

I.
INTRODUCTION

Pursuant to Rule 14.3 of the CPUC Rules of Practice and Procedure, SCE respectfully submits these comments on the PD. SCE appreciates the Commission's careful consideration of the issues presented in this proceeding. But SCE is deeply concerned about several of the PD's underlying conclusions, which, if not corrected, must—*at a minimum*—should be clarified to conform to SCE's understanding that they are strictly non-precedential and limited to the unique facts of Catalina Water.[1] At its core, the PD makes two foundational conclusions:

First, the PD correctly finds that SCE's operation of the Catalina water utility "has been generally prudent and reasonable"[2] and also authorizes "recovery of revenue requirement solely from Catalina Water ratepayers."[3] In doing so, the PD appropriately rejects The Utility Reform Network's (TURN) and the Public Advocates' Office (Cal Advocates) untenable calls for SCE shareholders to bear the costs prudently incurred in serving customers.[4]

Second, the PD declines to adopt SCE's proposed cross-subsidy from electric customers, where SCE mainland electric customers would shoulder a portion of Catalina water costs with minimal bill impacts.[5] The PD acknowledges that "[i]f [the water utility] costs are to be absorbed solely by Catalina Water ratepayers, this will lead to affordability issues that will greatly impact Catalina Island residents."[6] But the PD declines to adopt the proposed cross-subsidy, and would instead defer recovery of and amortize costs over unprecedented 10- and 15-year periods, at a non-compensatory *short-term* debt rate, the 90-day CP interest rate, as a means to reduce the rate shock to water customers.[7] Applying a 90-day CP rate to a *5,475*-day amortization period would impose significant costs on SCE's shareholders, despite the PD's correct conclusion that SCE operated the utility "prudent[ly] and reasonabl[y]" and acknowledging the unique "challenging

---

1 The unique facts of Catalina Water include, but are not limited to, isolation from mainland systems, remote location, tourist destination, heightened vulnerabilities (including to climate change and other emergencies), arid environment, challenging topography, lack of diversity in property ownership, lack of a concentrated supply and distribution infrastructure, and a small rate base.

2 PD at p. 72.

3 *Id*. at p. 74.

4 *Id*. at p. 73.

5 *Id*. at p. 72.

6 *Id*.

7 *Id*. at p. 74.

topographical challenges towards providing utility services"[8] on Catalina. And as discussed below, it would also result in SCE's water customers' rate increases "pancaking" over many years. On these issues, the PD should be corrected.

As discussed in detail below, the Commission should reject the PD's amortization and adopt SCE's proposed cross-subsidy as the most straightforward, sensible proposal in this proceeding. Alternatively, the PD should be revised to reflect a 12-month amortization period[9] or permit SCE to recover appropriate financing-related compensation from customers at its then-current weighted-average cost of capital. In the event the Commission proceeds with its proposed amortization, the final decision must—at a minimum—be strictly limited to Catalina Water to avoid the profound financial consequences that would ensue were this elongated amortization concept be extended more broadly. The Commission should also modify the PD to allow Catalina to remain a Class C water utility, not require a separate application on water loss, grant SCE's capital requests, and authorize full recovery of memorandum account balances sought for recovery in this proceeding.

II. THE PD'S CONCLUSIONS ON AMORTIZATION ISSUES MUST EXPLICITLY BE LIMITED IN A NON-PRECEDENTIAL MANNER TO THE UNIQUE CIRCUMSTANCES OF CATALINA ISLAND, IF THEY ARE NOT SIGNIFICANTLY REVISED

As discussed below, the PD's proposed adoption of unprecedented 10- and 15-year amortization periods for the memo account balances and the protracted revenue deferral at a 90-day CP rate is punitive, untenable and inconsistent with cost-of-service ratemaking principles. SCE demonstrates below why the PD's findings of this issue are factually in error and should be revised. If the Commission declines to make those revisions, however, it must make explicit what SCE believes is already implicit in the PD; specifically, that this anomalous and financially destabilizing ratemaking treatment is strictly limited to the specific, unique and challenging circumstances presented on Catalina.

---

8 *Id*. at Finding of Fact No. 1.

9 The Commission's traditional amortization period for memorandum account balances is 12 months. D.21-02-015 granted SCE's authority to issue a finite amount of short-term debt, which, per page 3 footnote 1, has a maturity of less than one year. *See also,* D.19-12-056, 2020 Cost of Capital Decision, p. 6, n. 2 (noting that "debt due within one year, short-term debt, is excluded.").

As the PD notes, "Catalina is an arid island that presents challenging topographical challenges towards providing utility services" and "[t]he Catalina Water utility water system covers multiple communities on the Island that are serviced by isolated water systems."[10] The PD also correctly finds that:

> SCE has operated the Catalina Water utility through difficult circumstances and undertaken a number of capital projects of its own volition without guarantee of recovery. It has operated the utility without significant disruption in the time period since the last GRC, despite sustaining losses (-5.84 percent rate of return in 2019) during difficult drought circumstances. Operation has been generally prudent and reasonable. We have also not been presented any evidence that SCE is declining to take advantage of any non-ratepayer funding sources available to Catalina Water.[11]

Despite this demonstrated prudency, the PD finds that if these otherwise reasonable "costs are to be absorbed solely by Catalina Water ratepayers, this will lead to affordability issues that will greatly impact Catalina Island residents."[12] At the same time, however, the PD declines to adopt SCE's straightforward proposed cross-subsidy from its 5 million electric customers that would obviate that affordability concern, holding that "SCE has also failed to sufficiently link Catalina Water costs to mainland ratepayers."[13]

Taken together, the PD's conclusions stand for the proposition that despite SCE's prudent operation of the water utility on the highest-cost water district in California and in extraordinarily challenging conditions, the PD is uncomfortable with both SCE's Catalina Water customers paying compensatory cost-of-service rates as well as with electric customers paying a portion of the costs. Its proposed solution for this affordability quandary is to defer the full recovery period of these prudently incurred costs from water customers to 10 and even 15 years. The PD finds it reasonable to implicitly penalize SCE shareholders with a non-compensatory 90-day CP rate, which effectively shifts some financing costs from customers to utility investors. If such an extreme and non-compensatory amortization framework were to be extended more broadly to SCE's electric business or to other California IOUs, it would be financially unsustainable for the investor-owned utility (IOU) business model. If applied broadly, SCE's ability to recognize significant earnings would be delayed, which would, in turn, shake credit rating agency and

---

[10] *Id*. at Findings of Fact Nos. 1 and 2.
[11] *Id*. at p. 72.
[12] *Id*.
[13] *Id*. at pp. 72-73.

investor confidence in SCE. This would negatively impact SCE's financial performance as a regulated utility, but also lead to increased financing costs for SCE and its customers. And, if such a regime were broadly adopted among the California IOUs, utilities would not be able to cost-effectively access the financing necessary to safely and reliably serve the more than 30 million Californians who depend on the Commission-regulated IOUs to provide these essential services. Finally, if the PD is adopted as-is, future Catalina Water customers who have not necessarily benefited from the expenses at issue here will pay for past and current costs of service, resulting in intergenerational inequity. These costs will be pancaked on top of future costs, creating increased pressure on rates in future years.[14]

If the Commission insists on retaining this problematic aspect of the PD, it should make clear that such elongated and punitive amortization periods are in no way the general policy of the Commission, but rather were applied here only because of the uniquely challenging circumstances of providing water service to a tiny customer base on a remote, isolated, expensive, and arid island. In Appendix A, SCE has proposed specific language changes to the PD on this issue that further clarify what SCE believes is already the PD's non-precedential intent.

III.
THE PD'S PROPOSED AMORTIZATION TREATMENT SHOULD BE REJECTED OR, AT A MINIMUM, SIGNIFICANTLY MODIFIED

A. A 90-Day Commercial Paper Short-Term Rate Must Not Be Used to Finance Long-Term Assets

The PD errs by setting financing costs for long-term financing at the 90-day CP rate. Under long-standing principles governing cost-of-service utility regulation, an IOU is entitled to recover all its reasonable costs and expenses. A key component of those costs is the cost of financing, i.e., the interest and costs incurred in raising capital to finance the asset. A 90-day CP rate for recovery of authorized costs over multiple years is simply non-compensatory. It is a

[14] Earlier this month, the Commission unanimously approved an Alternative Proposed Decision (APD) as opposed to the Proposed Decision in Pacific Gas and Electric Company's (PG&E) Test Year 2023 GRC. The APD amortized the approved revenue increase over 24 months, while the PD would have amortized the increase over 36 months. In endorsing the shorter amortization period, Commissioner Houck stated that "while this increases rates in the short term, a shorter amortization period results in some rate relief when the amortization period elapses…" November 16, 2023 CPUC Agenda #3536, Items 29 and 29A.

rudimentary financial principle that the duration of assets match liabilities; that is, short-term debt instruments, such as CP, are used to finance short-term assets and long-term debt instruments are used to finance long-term assets. With a multi-year amortization, the costs at issue here are long-term assets. The amortization of those costs therefore need to be matched with long term financing, which is subject to SCE's authorized capital structure. Moreover, the matching of the duration of assets and liabilities reduces financial risk to the company and our customers by reducing the risk of not being able to refinance the asset (i.e., liquidity risk) and reducing the risk of having to refinance the asset at a higher cost (i.e., refinancing risk). If the long-term financing contemplated in the PD were to be funded with 90-day CP, it would require refinancing commercial paper about 60 times during a 15-year period, substantially increasing both liquidity and refinancing risk.

The appropriate and compensatory costs for financing a longer-term asset is SCE's CPUC authorized WACC.[15] When the return on accrued financing costs is non-compensatory, as in the PD, this implicitly shifts costs from Catalina Water customers to SCE's shareholders, and ultimately this will result in higher costs to all of SCE's customers, including electric customers. The shift in cost to shareholders results in lower returns to those shareholders, and investors have other options nationwide for which they can provide capital and receive compensatory rates of return, which will continue the flight of capital to other states. Investors selecting alternative investment options to SCE translates to higher costs of financing to SCE. Further, to finance these assets with long-term capital, SCE must maintain its long-term capital structure at the balance authorized by the Commission, meaning SCE must finance these long-term accounts with a combination of debt and equity capital. It is therefore appropriate and compensatory to apply SCE's authorized capital structure and authorized rate of return to calculate the financing costs for Commission-adopted long-term financing of unamortized balances. The PD's use of CP is inconsistent with cost-of-service ratemaking and the cash flow delays further degrade credit

[15] *See SFPP, L.P. v. Pub. Utilities Comm'n*, 217 Cal.App.4th 784, 801 (2013) ("It is well settled that a utility is entitled to a reasonable return on its rate base, that is, 'the value of the property which it employs for the convenience of the public…'" (quoting *Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n*, 262 U.S. 679, 692 (1923)); *see also id.* ("[T]he return on equity should be sufficient to provide a margin of safety for payment of interest and preferred dividends, to pay a reasonable common dividend, and to allow for some money to be kept in the business as retained earnings, the PUC must set the ROE at the lowest level that meets the test of reasonableness.") (internal quotations omitted).

metrics, which ultimately increases customers' costs as debt investors demand higher interest rates. The higher cost of capital is not limited to just financing these Catalina Water assets (i.e., the authorized cost recovery subject to the long amortization period) but to all of SCE's assets, which results in higher costs to all of SCE customers, including electric customers. Therefore, the PD's objective of avoiding cross-subsidization of the Catalina Water customers by electric customers is not achieved.

SCE acknowledges that the PD only applies its amortization proposals to Catalina Water, which is relatively small in scale as compared with SCE's total revenues and cash flows. However, while the direct impacts from utilizing a non-compensatory financing rate for Catalina may be small, there is risk that investors and credit rating agencies may perceive the decision as negative and undermining of the regulatory compact, which could have broad and more substantial impacts for SCE's electric customers (and other California IOUs' customers). Thus, at a minimum, if the cost-recovery construct is implemented as presented in the PD, the final decision should affirm that such ratemaking treatment is non-precedential and limited to the unique and challenging conditions presented on Catalina.

B. The PD's Protracted Amortization Contravenes Basic Premises of Regulatory Accounting and Ratemaking Principles

SCE, consistent with most utilities, maintains two sets of financial statements: (1) for regulatory purposes, financial statements are based on the requirements and guidelines in the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USoA); and (2) the Securities and Exchange Commission (SEC) requires registrants, such as SCE, to prepare financial statements based on accounting standards issued by the Financial Accounting Standards Board (FASB) referred to as United States Generally Accepted Accounting Principles (US GAAP). Financial statements filed with the SEC are available to investors and are used by them to perform analysis and make investments decisions. The FASB provides unique industry-specific accounting and financial reporting standards within Accounting Standards Codification (ASC) 980 that specify how and when a utility may incorporate ratemaking actions of the regulator into its US GAAP financial statements.

The design of the protracted amortization rate structure in the PD does not meet the accounting standards requirements in ASC 980 to qualify for deferral as a regulatory asset for US GAAP financial statements. Therefore, SCE would be unable to recognize revenues in the period they are captured in the DRRTMA for ratemaking purposes; for US GAAP financial statements, SCE would recognize the base revenues for Catalina Water when rates are billed to customers. The application of the US GAAP accounting rules will result in the recognition of expenses on the income statement that are not offset by revenues in the same period, creating earnings volatility between periods and severely depressing Catalina Water's earnings and returns in the periods of deferred rates immediately following the rate case.

The PD only applies its amortization proposal to Catalina Water, which is a relatively small proportion of SCE's total business, and accordingly reduces the magnitude and consequences that this proposal has on SCE as a whole. Given its unprecedented nature and the unique circumstances present only in Catalina, it is evident that the PD could not be implemented more broadly to SCE as a whole. But if the Commission were to in the future apply this protracted amortization more broadly, it could fundamentally impair the usefulness of SCE's US GAAP financial statements and eliminate the connection between its revenue requirement and actual costs of service in its US GAAP financial statements. Additionally, and more importantly, a severe and persistent elongation of rate recovery through amortized rates could go so far as to challenge whether the regulator has set rates that allow the utility to recover its costs and earn a reasonable return in a timely manner, which is a core requirement for the utility to qualify for the regulatory accounting privileges outlined in ASC 980 altogether. The discontinuation of ASC 980 with US GAAP financial statements would prohibit a utility from recording any regulatory assets and regulatory liabilities, among other implications, and would substantially diminish SCE's ability to provide meaningful financial statements to investors on a comparable basis with its peers.

Discontinuing ASC 980 would not merely result in an accounting consequence. Regulated utility investors typically seek stability and predictability from their investments, and the presence of significant earnings volatility, created by the lack of regulatory assets and liabilities and the resulting mismatch in timing of recognition of revenues and expenses, diminishes the usefulness of the utility's financial statements. The earnings volatility created by the accounting change would reduce the attractiveness of the utility to investors, driving a demand for higher returns to offset the additional financial risks introduced by the utility's inability to timely recover its costs, or potentially eliminating the investor's appetite to invest in the utility altogether. This, in turn, would ultimately drive a significant increase in costs for customers.

IV.
THE COMMISSION SHOULD ADOPT SCE'S PROPOSED CROSS-SUBSIDY OVER THE PD'S PROPOSED AMORTIZATION

As discussed above, the PD's proposed amortization—while well-intended to address affordability—could instead result in significant negative consequences to the utility, and in turn, for Catalina water customers as well. The Commission need not adopt a novel, untested, and potentially dangerous amortization to make water rates affordable. When comparing the PD's proposed amortization, which is fraught with issues, to SCE's proposed cross-subsidy, it is clear that the affordability challenges in this proceeding would be best met by adopting SCE's cost recovery proposal.

A. The PD's Proposed Amortization Fails to Get to the Root of the Problem of Affordability and Inequity on Catalina

In addition to problems that the PD's amortization poses, the PD would also require Catalina water customers to bear the costs alone, albeit over a longer duration. Though costs can be stretched over lengthy periods to reduce short-term rate shock, the costs themselves do not disappear, would contribute to intergenerational inequity, and cause rate pancaking when future rate increases are requested. Ultimately, Catalina water customers would still bear the entire cost, and consequently, the PD's proposal fails to address the root of the problem of affordability on Catalina Island. The challenges of operating a water utility on an arid, remote island continue to exist today and will persist in the future. When additional costs incurred prudently in the service of Catalina water customers need to be recovered in the future and affordability becomes a significant issue again, it would be untenable to implement another incremental 15-year amortization of costs on top of the currently proposed 15-year amortization, which itself is untenable already. By contrast, SCE's proposed cross-subsidy is a fair, lawful, and reasonable means of actually alleviating the cost burdens faced by Catalina water customers.

SCE acknowledges that adopting a cross-subsidy where one set of utility customer subsidizes the costs of another set of utility customers is atypical and disfavored under normal circumstances. But these are not normal circumstances. The record unequivocally demonstrates that the conditions on Catalina Island are extremely challenging and unique with no other parallel in California. Despite challenging conditions, a very small number of Catalina water customers (less than 2000) must bear the costs of water and the related infrastructure necessary to support over ***one million*** visitors a year, seventy percent of whom come from Southern California.[16] Affordability has always been a significant challenge on Catalina, and the record demonstrates that cost-sharing has been necessary to meet the needs of the island as far back as 1982.[17] Most recently in SCE's previous Catalina Water GRC, the Commission approved a settlement where SCE electric customers cross-subsidized costs on behalf of SCE water customers. Though approval of a settlement agreement has no precedential effect, the record is clear that the small customer base at Catalina Island has—for decades—required help from SCE's mainland customers to defray the costs it takes to serve them.

The PD concludes that "SCE's proposed arrangement is more accurately viewed as only possible because SCE is in the unique position of owning utilities in multiple industries, over varying regions. The existence of such an arrangement does not serve as sufficient reasoning for the proposed cross-subsidy."[18] The PD is correct that SCE's proposed cross-subsidy is possible because SCE provides both water and electric service to the same customer base. The record demonstrates there is no other service area throughout California other than Catalina in which a single utility provides water and electric service to the same geographic area.[19] However, the PD errs by failing to recognize that this unique arrangement disadvantages Catalina water customers compared to those residing in other rural water service areas that are also costly to serve.

Specifically, it would be unfair to prevent Catalina water customers from accessing much needed subsidized water rates because its parent utility happens to be SCE, instead of a Class A water utility. Every large utility has regions in its service area that are less costly to serve and other regions that are more costly to serve. It is undisputed that it is challenging to operate a water utility on Catalina Island.[20] Catalina is a rural area in a utility's service area that is several times more costly to serve than other areas on the mainland. If SCE were a Class A water utility, the Commission would have long ago consolidated and enabled cost-sharing between SCE's

---

[16] *See* SCE Opening Brief at pp. 59-61.

[17] *See id*. at pp. 63-64 (outlining the long-standing affordability challenges on the island spanning back to 1982 and the various cost-sharing solutions the Commission has adopted to meet those challenges).

[18] PD at p. 73.

[19] *See* Catalina Parties Limited Opening Brief, p. 8, Appendix A.

[20] *See* PD at Finding of Fact No. 1.

Catalina water customers and its mainland customers (as it has done for decades for Catalina's electric rates).

On the other hand, residents who live in other rural, high cost-of-service areas in California get to enjoy a consolidated water rate subsidized by a vastly larger customer base because their water operations happen to be owned by Class A water utilities. This is true even when there is ***no nexus*** between the rural customer base and the rest of the service area population other than common corporate ownership, whereas it is undisputed that Catalina water customers bear the costs of water and the related infrastructure necessary to support many visitors from Southern California.[21] Despite this obvious connection between the Catalina water and electric mainland customers, the unfortunate reality is that the PD would deny Catalina residents—who live in one of the most challenging areas to operate a water utility and desperately need relief—a subsidized rate like the Commission routinely affords their peers in other rural areas. The PD errs by failing to correct or otherwise even address this inequity. The Commission can and should end this imbalance by authorizing SCE's cross-subsidy request.

B. The PD Errs by Failing to Recognize that the Cross-Subsidy Falls Squarely Within the Commission's Own Recognized Exception to Cost-Causation Principles

The PD correctly notes that although there is a bias against cross-subsidies, an exception exists where a subsidy "explicitly support[s] state policy goal."[22] Though the PD correctly finds that affordable water is a state policy goal, it errs immediately thereafter when it rejects SCE's proposed subsidy on the grounds that "approving such a subsidy would also violate an additional rate design principle, that rates should be based on cost-causation principles."[23]

Cross-subsidies, by their very nature, are in tension with cost-causation principles; but that does not strip the Commission of its ratemaking authority to approve a cross-subsidy that

---

[21] SCE, Fox, Tr. Vol. 5 at pp. 508:26 – 509:22 ("with a Class A utility, which has two very disconnected and dissimilar services areas and different geographic regions … there's almost no nexus whatsoever between the cost sharing there."; "we know that at least some of the visitors to Catalina Island on an annual basis are SCE electric customers…there's at least a nexus there between visitors coming to the island, who are SCE electric customers, who are placing a demand on the water system by visiting the island.").

[22] PD at p. 73.

[23] *Id*.

explicitly supports state policy goals.[24] In any cross-subsidy, one set of customers pays more than their cost of service to subsidize another set of customers who pay less than the costs it takes to serve them. Every time the Commission approves a cross-subsidy—which the Commission has done many times in the past[25]—it acknowledges that ***despite the obvious tension with cost-causation principles***, it is better for the cross-subsidy to be implemented because doing so serves the public interest. This is why the Commission has carved out a clear exception for approving cross-subsidies that explicitly support state policy goals. It is inconsistent and erroneous, on the one hand, for the PD to find that SCE's proposed subsidy meets the exception, but then on the other hand, reject the subsidy as if the exception simply did not apply.

By rejecting the proposed subsidy, the PD fails to appropriately conform and defer to the California legislature on this issue. The legislature has expressly codified that "every human being has the right to safe, clean, ***affordable***, and accessible water."[26] Our state has declared that it is the "established policy" of the state of California that every human being has the right to safe and affordable water.[27] It is undisputed that Catalina water customers require relief from the high costs at issue. The PD's proposed amortization, among its many problems, would defer some of the costs, but fails to provide ultimate relief for Catalina customers who must still bear the entire cost burden. The Commission should approve the cross-subsidy because it would directly advance affordability of water as mandated by California state law and falls squarely within the Commission's own recognized exception.

C. Lack of Precedent Should Not Dissuade the Commission from Providing Real Relief that Catalina Customers Need

Lack of precedent should not deter the Commission from adopting the most reasonable and sensible cost-recovery proposal presented in this proceeding. It is true, as the PD notes, that

---

[24] D.15-07-001 at p. 28 ("Rates should generally avoid cross-subsidies, ***unless the cross-subsidies appropriately support explicit state policy goals***") (emphasis added).

[25] *See* SCE Limited Opening Brief at pp. 3-5 (outlining how the Commission has approved various cross-subsidies across many different industries and contexts when the subsidy acts in the public interest, including by geography, product lines, customers, and income).

[26] Cal. Water Code § 106.3(a) ("It is hereby declared to be the established policy of the state that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.") (emphasis added).

[27] *Id*.

apart from the settlement approval in SCE's previous Catalina Water GRC, the Commission appears to have never explicitly approved a cross-subsidy across different utility industries.[28] However, it is also equally true that the Commission appears to have never approved an amortization of this magnitude, over an unprecedented period of ***15 years*** using a 90-day CP rate. Taken together, it becomes clear that both SCE's proposed cross-subsidy and the PD's proposed amortization both lack direct precedent,[29] but the Commission has the authority to adopt the proposed cross-subsidy. Moreover, this exact kind of subsidy for Catalina Water has been successfully implemented before without issue,[30] and could easily be done again. An amortization of this length, on the other hand, appears to have never been imposed before, and in reality would just inevitably be pushing the buck to the next Catalina Water GRC filing. Viewed in this light, the PD's proposed amortization is far more unproven and lacking in precedent than SCE's cost recovery proposal, and at best would merely function as a stop-gap measure.

To be clear, lack of precedent does not diminish the Commission's authority to act as a leader and issue a final decision that would truly serve the public interest. Specifically, SCE's proposed cross-subsidy would substantially lower Catalina water rates and significantly reduce intergenerational inequity and rate pancaking, while resulting in only a very small rate increase for SCE electric customers who benefit from Catalina. Indeed, it is undisputed that the Commission has the authority to interpret Section 451 and find that SCE's proposed cross-subsidy is just and reasonable.[31] The California Supreme Court has long afforded strong deference to the Commission's interpretation of the Public Utilities Code, and courts would not disturb the Commission's decision to approve the proposed cross-subsidy pursuant to its

---

[28] PD at p. 73.

[29] Though it is true amortization itself has been utilized by the Commission before, it was for periods far shorter than the 15 years proposed here by the PD. The length of the amortization period is a key consideration and is often contested in any proposed amortization. To argue that there is precedent for the PD's 15-year proposal because the Commission has authorized much shorter amortizations in the past is wholly unpersuasive.

[30] In SCE's previous Catalina Water GRC, the Commission approved a cross-subsidy in the all-party settlement and authorized a transfer of $8.895 million of Catalina water rate base to SCE's electric customers.

[31] All parties fundamentally agree in their respective Limited Opening Briefs that the Commission has the authority to approve SCE's proposed cross-subsidy if it is "just and reasonable" under Section 451. *See* SCE Limited Opening Brief at p. 3; Catalina Parties Limited Opening Brief at p. 5; TURN Limited Opening Brief at p. 3; Cal Advocates Limited Opening Brief at p. 3.

interpretation of Section 451.[32] This is particularly true here where the cross-subsidy would have no precedential effect outside of Catalina and could only be implemented for Catalina given its unique circumstances.

V. THE COMMISSION SHOULD AUTHORIZE FULL COST RECOVERY OF SCE'S MEMORANDUM ACCOUNT BALANCES

From 2013-2019, Catalina Island experienced one of the most historically severe droughts in California history. During these extreme conditions, SCE worked tirelessly to ensure that our customers received clean, safe, and reliable water despite the incredible challenges presented – including the use of *mandatory* water rationing up to and beyond 50%. SCE acted promptly, prudently, and effectively in its response to the drought, and the costs SCE incurred in doing so were appropriately tracked in either the Catalina Water Lost Revenue Memorandum Account (Lost Revenue Memo Account) or the Catalina Water Rationing Memorandum Account (Drought Memo Account). As further explained below, the PD errs in denying SCE full recovery of the amounts appropriately tracked in these two memorandum accounts and should be revised to authorize full recovery.

A. Lost Revenue Memo Account

The PD denies SCE recovery of the amounts appropriately tracked in the Lost Revenue Memo Account from August 11, 2014 through February 15, 2016, totaling $2.645 million. The PD's rationale for the disallowance is that SCE should have submitted its request for cost recovery earlier, especially once it became clear by 2016 that the drought was not abating, and balances were accruing at a high rate relative to the authorized revenue requirement.[33] The PD further finds that it would have been a more reasonable approach to begin recovering costs as soon as possible as this reduces rate shock and inter-generational inequity.[34]

---

[32] *See, e.g.*, *Greyhound Lines, Inc. v. Pub. Util. Comm'n*. (1968) 68 Cal.2d 406, 410-11, 67 Cal.Rptr. 97. *See also* SCE Limited Reply Brief at pp. 1-3; fn. 7-8.

[33] PD at p. 52.

[34] *Id*.

SCE acknowledges that it did not submit its cost recovery request within the three-year limit included in SP U-27-W. However, SCE disagrees with the PD that SCE failed to meet the exception also included in SP U-27-W that allows a utility to exceed the three-year period when appropriate justification for the delay is provided. The PD is basically finding that SCE should have submitted advice letters for recovery in or around the 2016 timeframe, when SCE was implementing mandatory up to, and in some cases greater than, 50 percent water rationing.[35] Given the hardship such dramatic mandatory rationing provisions place on customers, it would have been overly punitive (and unreasonable) to at that same time seek to increase customers' rates. The outcry from customers on Catalina associated with the mandatory water rationing was real and resonated with SCE. SCE stands by its decision as acting in the best interest of its customers based on the environment that existed in 2016. SCE should not be penalized for acting compassionately and trying to minimize the number of hardships faced by its customers during a very difficult period.

Further, the PD's determination that SCE's delayed cost recovery filing (by a few years) results in inter-generational inequity concerns stands in stark contradiction to the PD's simultaneous imposition of the longest amortization period for the recovery of memorandum account balances that SCE has ever been directed to implement (by an order of magnitude). SCE will not fully recover these costs until *2037*, if the amortization periods ordered in the PD are adopted. That dwarfs any concern about inter-generational inequity that SCE's 3-4-year purported delay in filing for recovery of a portion of these costs may have caused.

The PD should be revised to authorize full recovery of the amounts recorded in the Lost Revenue Memo Account and sought for recovery in this proceeding, given that SCE's actions to limit the hardships faced by its customers during the most extreme periods of mandatory water rationing meet the justification provisions of Standard Practice U-27-W. SCE's approach to cost recovery was and remains reasonable (and compassionate). The PD's imposition of a 10-year amortization period for this account beginning in 2026 also undercuts any concerns about rate shock and intergenerational inequity.

---

[35] SCE-10 at pp. 83-85.

If the Commission feels SCE should be in some way held accountable for not seeking recovery of the earliest amounts recorded in the Lost Revenue Memo Account within the three-year time period set forth in SP U-27-W (which SCE disagrees with), the most reasonable proxy for implementing a disallowance is to disallow recovery of the interest expense associated with the August 11, 2014 to February 16, 2016 recorded amounts. Such a proxy disallowance addresses Cal Advocates' concern that SCE would be receiving an "unreasonable interest accrual" that customers would not have had to bear if SCE has sought cost recovery within the three-year period.[36] This would result in a $0.161 million disallowance.[37]

B. Drought Memo Account

The PD denies SCE recovery of almost all of the $5.077 million of costs sought for recovery in the Drought Memo Account,[38] except for $0.695 million related to the costs of water conservation devices and water rationing plan incremental expenses (less fees charged).[39] The PD's rationale for the large disallowance is that the language in the advice letter establishing the Drought Memo Account and the Drought Memo Account itself do not discuss anything regarding how SCE is directed to address supply shortfalls due to drought.[40] The PD errs in its narrow interpretation of the applicability of the Drought Memo Account, contradicts Commission precedent, and would result in a non-compensatory outcome in which SCE has no opportunity to recover the costs it reasonably incurred to respond to emergency conditions. The PD should be revised to authorize full recovery of the amounts appropriately sought for recovery in the Drought Memo Account.

---

36 PD at pp. 51-52.

37 This is the 2014-2019 interest expense calculated on the amounts recorded in the Lost Revenues Memo Account from August 11, 2014 through February 2016. It is a subset of the $0.316 million interest expense shown in Table II-2 of SCE-05.

38 This amount includes interest and FF&U at the time SCE submitted its Application. SCE recorded $4.847 million in costs in the Drought Memo Account, excluding interest and FF&U.

39 PD at p. 56; fn. 136.

40 *Id*. at p. 56. The PD also cites Standard Practice U-40-W, which SCE submitted Advice 74-W in response to, as only discussing the rationing and service connection procedures when drought occurs and does not dictate how a utility responds to a well failure or other production issues during the drought.

First, Preliminary Statement Part O does not include a list of the specific costs that are eligible to be tracked in the Drought Memo Account. Instead, it broadly allows for the recording of "incremental operating expenses incurred associated with the implementation of mandatory conservation and water rationing."[41] But the costs the PD would disallow are reasonably construed as "associated with" and inextricably linked with the mandatory conservation and water rationing SCE was forced to implement. For example, these included costs for remediation projects that were caused by drought conditions to help ensure a safe water supply and providing a temporary water supply and delivery system when conditions caused by drought necessitated such actions.[42] "But for" the historically extreme drought conditions that required the implementation of unprecedented water rationing on Catalina, SCE would not have incurred those "incremental costs." And neither does any party nor the PD itself contend they were unreasonably incurred. In fact, SCE had no other choice: the unprecedented drought required SCE to take unprecedented necessary actions and incur significant additional costs, in order to be able to continue to safely and reliably serve customers with potable drinking water. In light of that, it is error for the PD to punitively disallow these necessary, prudent and reasonable incremental costs.[43]

Additionally, SP U-40-W, which SCE submitted Advice 74-W in response to (as cited in the PD), includes a lengthy discussion about the impacts of drought on water utilities that is not so narrowly limited to water conservation and rationing. For example, pp. 4-5 states that "[i]n June 2008, the Governor issued an Executive Order (S-06-08) that proclaimed a condition of statewide drought and ordered state agencies to take action to address the serious drought conditions and water delivery limitations facing the state. Specifically, the Executive Order directed the Department of Water Resources to coordinate with the Commission to identify investor-owned water utility systems ***at risk of experiencing health and safety impacts due to drought conditions and water delivery limitations, and to mitigate such impacts***" (emphasis added). Page 5 further states "[i]n January 2014, the Governor proclaimed a drought emergency

---

41 *See* SCE's Catalina Water Preliminary Statement Part O, Section 2a.

42 *See* SCE-05 at pp. 24-43.

43 *See* PD at pp. 73-74 (footnotes omitted): "Under cost of service ratemaking principles, utilities are generally entitled to their reasonable costs and expenses, as well as the opportunity, but not guarantee, to earn a rate of return on the utility's rate base. Only costs that are necessary for safe and reliable service shall be recovered from ratepayers."

due to the driest year in California in 100 years. Governor Brown directed state officials to assist farmers and communities that are economically impacted by dry conditions ***and to ensure the state can respond if Californians face drinking water shortages"*** (emphasis added). Therefore, it is not unreasonable that SCE interpreted the language in the regulatory documents establishing the Drought Memo Account to allow SCE to record reasonable and incremental costs that would not have been incurred "but for" the extreme drought conditions.

Second, the disallowances directed in the PD are at odds with Commission precedent allowing utilities to recover unforeseen expenses caused by exceptional drought conditions. For example, in D.92-09-084, pages 9-10, the Commission found that "[o]ur decisions have made it clear that water companies should be permitted to recover in rates reasonable lost revenue and reasonable costs caused by drought. … So long as expenses are directly drought-related, are not otherwise recoverable, and are subject to review by staff to be certain that they are reasonable, we agree that they may properly be booked to the memorandum account." Similarly, here, SCE has sought recovery of expenses that are *directly* drought-related, are not otherwise recoverable and are subject to review by staff through this GRC to be certain they are reasonable.

Finally, the PD's directed disallowances would result in a non-compensatory outcome for SCE. The costs SCE incurred to ensure a safe water supply and to provide a temporary water supply and delivery system to the western end of Catalina resulting from extreme drought/emergency conditions are squarely within SCE's cost-of-service. These costs were appropriately recorded in SCE's Drought Memo Account and SCE should not be disallowed cost-of-service recovery for actions that directly supported the health and safety of its customers during emergency conditions.

VI.
THE PD ERRS IN CLASSIFYING CATALINA AS A CLASS B UTILITY

The PD finds it reasonable to read GO 96-B as counting all service connections, including fire service connections, to determine the Class of a water utility. Based on this reasoning, plus adding 38 customer service connections (without support), the PD orders SCE to become a Class B water utility.[44] For the reasons discussed below, Catalina Water should be ordered to remain a Class C water utility.

---

[44] *Id*. at pp. 66-67.

A. Neither GO 96-B nor the Current Uniform System of Accounts for Water Utilities Are Instructional on How to Determine the Class of a Water Utility

The demarcation of Class A, B, C, and D water utilities was first introduced in the Uniform System of Accounts (USOA) adopted in D.50185, effective January 1, 1955. The thresholds for Class distinction were based on an average of a water utility's annual operating revenues for the preceding three years.[45] In 1985, the Commission changed the USOA classification for Class B, C and D water utilities from annual operating revenues to number of service connections.[46] Unlike the original USOA, the revised USOA was not instructional on how to count the number of service connections in determining the Class of a water utility.[47] GO 96-B repeats these Class thresholds without providing any instruction on how to count the number of service connections.[48] GO 96-B "does not mention exclusion of fire protection connections from this count"[49] in its Class B determination, but where the GO elects to remain silent, the PD errs by adding an additional requirement without any support or rationale. This is further inappropriate given that GO 96-B only governs advice letters, information-only submittals, applications for rehearing, and petitions for modification of a resolution to the Commission by public utilities and is not intended to be instructional on the Class determination of a water utility.[50] The only Commission documents that SCE is aware of and *are instructional* on how to calculate the number of service connections for determining the Class of a water utility are the 1955 USOA, Water Division Standard Practice (SP)[51] U-25-W[52] and the annual

---

[45] *See* USOA for Water Utilities, effective January 1, 1995, Instructions-General, Section 1.B. at p. 8.

[46] *See* D.85-04-076.

[47] D.85-04-076 just states that water utilities having more than 10,000 service connections are Class A, between 2,000 and 10,000 service connections are Class B, between 500 and 2,000 service connections are Class C, and having less than 500 service connections are Class D.

[48] *See* GO 96-B, Water Industry Rule 1.2 at p. 1 (referencing D.85-04-076 regarding the Class of water utility).

[49] PD at p. 66.

[50] *See* GO 96-B, General Rules at p. 1.

[51] *See* Water Division SP U-1-W that describes a Water Division SP as a document that provides procedural guidelines to the public and utilities for preparing and filing with the Water Division or the Commission, various documents, including formal applications and advice letters, and to Staff for reviewing such documents and creating Water Division work products.

[52] Water Division SP U-25-W states in Chapter 3, Customers and Growth, that the number of customers of a water utility is usually tallied as the total number of service connections, *excluding* fire protection services.

report template for Class B and C water utilities.[53] The Commission has relied on SPs for over 65 years to provide utilities instructions on various Commission requirements.[54] The PD errs and contravenes multiple Commission authorities by determining the number of service connections based on what the PD subjectively feels is "reasonable to read" into GO 96-B. The Commission should instead determine classification based on a clear, specified counting methodology taking into account past and current guidelines and water utility annual reporting requirements.[55] The record shows that SCE has consistently had under 2,000 active service connections, excluding fire protection accounts, and should remain a Class C water utility.

B. <u>Class B Requirements Would Further Burden Catalina Water Customers with Additional Costs</u>

Pursuant to GO 103-A, other GOs and Commission decisions and resolutions, there are numerous additional regulatory requirements a water utility must comply with as a Class B water utility compared to a Class C water utility.[56] These additional requirements will cause incremental costs beyond what is authorized in this PD. SCE has not fully assessed all of these new Class B requirements, but they will undoubtedly require incremental costs. It would be legal error for the PD to require a water utility to meet new requirements without providing a corresponding increase in its costs to complete the new ordered work. Should the Commission's final decision require SCE to be a Class B water utility, at a minimum, the Commission must provide SCE ample time and funding for the incremental requirements to be met. To understand the incremental requirements (including costs), SCE estimates needing 12 months and $100,000

---

[53] *See* Annual Report for Class B and C Water Utilities template, Section on Income, Expenses, and Other Data that requires reporting on Active Service Connections, calculates an annual average number of active service connections by averaging the beginning of the year count with the end of the year count, and *excluding* fire protection accounts from that calculation.

[54] Water Division SP U-1-W at p. 2.

[55] Given the instructional information in the 1955 USOA, SP U-25-W and the annual report template, SCE recommends the number of service connections for determining the Class of a water utility be based on a three-year average of recorded active service connections excluding fire protection accounts (averaging monthly or end-of-year counts).

[56] *See, e.g.*, GO 103-A that includes additional Class B requirements such as telephone performance standards, billing performance standards, bill accuracy performance measures, payment posting error performance, meter reading performance standards, performance of scheduled appointments, final read and final bill requirements, work completion performance standards, determining percentage of customer requested work not completed on or before the scheduled date, customer and regulatory complaint performance measures, service interruption requirements, and website requirements.

(above and beyond what has been requested to date) to complete a Class B implementation plan. The purpose of this plan would be to review Class B utility requirements compared to Catalina water's current Class C requirements, develop the associated action plan for all new and/or additive requirements, and identify the budget needed to implement and routinely meet the Class B requirements. As such, the PD must, at a minimum, authorize the incremental expense to implement and routinely perform the work identified by the Class B designation and reflect this with a corresponding increase in the O&M forecast.

VII.
THE COMMISSION SHOULD NOT REQUIRE SCE TO SUBMIT A SEPARATE APPLICATION SOLELY FOCUSED ON WATER LOSS

SCE agrees with the PD that "it would be unreasonable to reduce SCE's revenue requirement by 32 percent due to a one- or two-year string of high water losses, when SCE already has proposed actions attempting to remediate these concerns."[57] However, the PD errs in stating that SCE has not applied a sufficient focus to this issue.[58] This is factually incorrect.[59] And based on this error, the PD orders SCE to submit an application by December 31, 2024, stating a plan to reduce water supply losses from the current 39.1 percent to the 7 percent standard used for Class-A water utilities by 2030.[60] For the reasons described below, SCE should not be required to submit a separate application nor put forward a water loss plan based on a Class A water utility unrealistic standard.

SCE is not aware of any water utility under the Commission's jurisdiction that has been ordered to file a water loss application, and the outlier, small Catalina Water utility should not be the Commission's first test subject. Instead, the Commission should direct SCE to include a description of SCE's efforts to lower water loss, along with its key water loss figures for all relevant years, as part of its next Catalina Water GRC. The PD has not provided sufficient justification for requiring a separate application on this single issue. It is also unclear what benefit such an application would even afford, or what a final decision would entail following such an application. SCE has already provided extensive testimony in this current proceeding

---

57 PD at p. 65.
58 *Id*.
59 *See*, *e.g*., SCE Opening Brief at pp. 53-56.
60 PD at p. 65.

regarding its ongoing and future efforts to lower water loss.[61] SCE understands that high sustained water loss rates should be investigated and remediated, but this process should be part of SCE's next GRC application. Requiring a separate application on this lone issue outside of the GRC cycle is unprecedented, impracticable, and would constitute an inefficient use of party and Commission resources.

The Commission must also reject the PD's proposal that Catalina Water lower its water loss rates to the Class A water utility target of seven percent.[62] It is patently unreasonable to subject Catalina Water, a Class C water utility, to the water loss standards of a Class A water utility. Even assuming Catalina were classified as a Class B water utility following this proceeding, the number of customers at Catalina would be around 2,000 compared to a Class A water utility that has greater than 10,000 customers. The PD would impose requirements on SCE's small Catalina Water utility that are above and beyond those imposed on urban retail water suppliers. It is undisputed that it is very challenging to provide water service on Catalina, and yet the PD would require this small, remote water operation with large stretches of rugged terrain to meet the standards of a Class A water utility, which have vastly more resources and service areas that are far easier to serve. Furthermore, a separate water loss application is entirely unwarranted because SCE's water loss rates are reasonable when compared to other similarly sized utilities. The record amply demonstrates that when compared to such water systems, SCE's water loss rates and key performance indicators fell well within the range of reasonable water loss experienced elsewhere.[63] The Commission should reject the PD's proposal on this issue.

---

[61] *See* SCE-10 at pp. 11-13; SCE, Barcinas, Tr. Vol. 2 at pp. 198:12-20, 245:24 – 256:2.

[62] The Class A 7% water loss standard is also misrepresented in the PD. D.07-05-062, Appendix A at p. A.28 states, "If unaccounted water is more than approximately 7% for each district or service area, submit a plan to reduce unaccounted water to a specific amount." Class A utilities are not required to develop a plan to get to a 7% water loss. Instead, if they are above 7%, they are required to develop a plan to reduce "unaccounted water" to a "specific amount."

[63] SCE-10 at pp. 9-10 (providing comparisons to similarly sized utilities obtained from American Water Works Association Water Audits from 2013-2017 and the California State Water Resources Control Board from 2016-2018).

VIII.
THE COMMISSION SHOULD APPROVE SCE'S CAPITAL REQUESTS

The PD orders $1.125 million of historical capital projects disallowances and $1.431 million of forecast capital projects denials.[64] SCE fully supported the reasonableness of its capital expenditures for both its historical and forecasted projects.[65] SCE disagrees with the PD's conclusions to disallow and defer reasonable incurred costs for assets that are and will be serving customers. The PD should be revised to approve SCE's capital requests. Below, SCE addresses changes the PD should make to certain historical and forecast capital projects.

A. SCADA

The PD correctly determines that the SCADA upgrades will aid and improve the statutorily required collection of operational data.[66] The PD also asserts that it would expect the system to reduce labor and transportation costs relating the collection of data.[67] However, the PD then reduces SCE's capital cost by 30% arguing that SCE did not provide any information on the potential cost savings.[68] The PD errs in this regard. SCE has acknowledged that SCADA should provide efficiencies such as reduced transportation trips where operators no longer have to travel to capture data.[69] The SCADA enhancements, though, will also increase work and require additional transportation as SCADA will provide better monitoring and alarms for issues like detecting water losses, so we expect to find more problems and will need to send crews to correct those problems.[70] It is legal error to reduce prudently incurred cost of the capital SCADA project that the PD agrees with, based on potential labor and transportation savings that are the subject of O&M expenses in Accounts 630 and 660. SCE estimates that transportation costs could be reduced by approximately $10,000 based on SCADA but that there would not be labor savings.[71] As such, to correct this error, the PD should authorize the full capital cost of this used and useful

---

[64] PD at pp. 48-49.
[65] *See* SCE-03; SCE-10 at pp. 52-77.
[66] PD at p. 87.
[67] PD at p. 35.
[68] *Id.*
[69] SCE-10, p. 65.
[70] *Id.*
[71] Given Catalina Water's small number of staff, SCADA will not eliminate any full-time employees. Arguably, there is more labor work because of SCADA due to the additional data, analyses, and field work to, for example, reduce water loss.

capital project and reduce Account 660 by $10,000 to reflect the potential O&M-related efficiencies of the SCADA.

B. Water Meter Replacement Program

SCE's water meter replacement program is an essential element in water system efficiency, data quality, revenue protection, and reducing water loss. The PD states it is not reasonable to consider water meter replacement given the high cost burden to be shouldered by Catalina Water customers.[72] The PD then denies this program in its entirety ($368.3 thousand reduction) and directs SCE to seek an extension from the Commission for GO 103-A meter replacement requirements.[73] As explained in testimony, SCE has an aged meter population that exceeds the Commission's requirements.[74] Meter replacement will not only make SCE compliant with GO 103-A but will also improve revenue collection, data quality such as usage consumption, and reduce water loss. The PD thus errs in denying costs for meter replacements. The PD also authorizes SCE to seek a 5-year extension to GO 103-A requirements from the Commission.[75] SCE initiated its water meter replacement program as a result of the Commission's GO 103-A requirements. The PD defers these costs due to its belief that SCE, in hindsight, should have sought a 5-year extension to the Commission's requirements. This is erroneous, and SCE's forecast should be approved. At a minimum and given the fact that this proceeding has been extended almost two years beyond the test year, the PD should be revised to authorize SCE's recorded meter replacement costs. As described in our September 2023 Comments of SCE on Updates on Forecasted Projects, through July 2023, SCE spent $127.5 thousand on meter replacements and forecast an additional $113.0 thousand through 2024. SCE is not against a 5-year extension; however, the Commission, at a minimum, needs to authorize the meter costs that are used and useful and should modify the PD in two respects: First, instead of adding administrative burden by making SCE file a request for an extension, the PD should authorize the 5-year extension. Second, at a minimum, the PD should authorize the $127.5

---

72 PD at p. 44.
73 *Id.*
74 SCE-03 at pp. 62-63.
75 PD at p. 44.

thousand recorded spend as these assets are used and useful and SCE followed the Commission's GO 103-A in replacing them.

IX.
CONCLUSION

SCE appreciates the opportunity to provide comments on the PD and recommends that the Commission make the necessary revisions and clarifications discussed here and as reflected in Appendix A.

Respectfully submitted,

CLAIRE E. TORCHIA
PAUL I. SUNG

/s/ Paul I. Sung
By: Paul I. Sung

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-2985
E-mail: Paul.Sung@sce.com

Dated: November 29, 2023

Appendix A

SCE's Proposed Modifications to Findings of Fact, Conclusions of Law, and Ordering Paragraphs

SCE's Proposed Modifications to Findings of Fact (FOF), Conclusions of Law (COL), and Ordering Paragraphs (OP)

Proposed text deletions are in bold and strikethrough (**~~abcd~~**)

Proposed text additions are in bold and underlined (**<u>abcd</u>**)

Reference	Proposed Modification
FOF 80	Commission Standard Practice U-27-W states that utilities should seek recovery for memorandum account costs within three years of booking**<u>, unless appropriate justification for the delay is provided.</u>**
FOF 83	SCE Advice 74-W **~~only~~** discusses the recording of costs for implementation of water conservation and rationing activities in the Drought Memo Account, and **~~not all~~** **<u>contemplates</u>** costs related to drought conditions on the Island.
FOF 97	**~~No~~** **<u>SCE has presented a</u>** viable alternative**~~s~~** to recovery of costs other than from Catalina Water ratepayers **~~have been presented~~**.
FOF 98	SCE mainland electric ratepayers do not, as a group, receive service from Catalina Water. **<u>However, SCE electric ratepayers, as a group, do receive benefits from Catalina Water.</u>**
FOF 110	It is reasonable to amortize costs **~~over ten or fifteen years~~** to reduce rate shock **<u>if a utility is allowed to recover appropriate financing-related compensation</u>**.
COL 29	It is reasonable to reduce SCE's **~~recovery of SCADA upgrades, where the upgrade should provide~~** **<u>O&M Account 660 by $10,000 to reflect</u>** operational benefits **<u>resulting from SCADA upgrades</u>** **~~that SCE has not accounted for~~**.
COL 30	SCE should be authorized to add to rate base **~~$989,353~~** **<u>$1,413,362</u>** for SCADA upgrades.
COL 47	Given the high cost increases in this GRC, SCE **<u>is granted a 5-year</u>** **~~should seek an~~** extension for the replacement of its water meters.
COL 48	SCE should be **<u>authorized to add $127.5 thousand to its rate base</u>** **~~denied recovery~~** at this time for water meter replacement **<u>performed pursuant to GO 103-A</u>**.
COL 55	**<u>It was reasonable for SCE to seek recovery of Lost Revenue Memo Account costs in 2020 after the drought had ended to mitigate the hardships suffered by Catalina water customers during extreme drought conditions</u>**. **~~SCE should~~**

	~~**have sought recovery for drought costs earlier, given the unknown duration of the drought and potential to impart significant rate shocks.**~~
COL 56	SCE's recovery of Lost Revenue Memo Account costs from August 2014 to February 15, 2016 should be **<u>approved</u>** ~~**denied**~~.
COL 57	SCE should be authorized to recover ~~**$3.586 million**~~ **<u>$6,231,667</u>** for costs tracked to the Lost Revenue Memo Account.
COL 58	**<u>It is reasonable to approve SCE's costs because they are</u>** ~~**Costs other than those**~~ related to implementation of water conservation and rationing activities tracked in the Drought Memo Account ~~**should be denied**~~.
COL 59	SCE should be authorized to recover ~~**$695,151**~~ **<u>$4,847,152</u>** for costs recorded in the Drought Memo Account.
COL 64	SCE should be authorized to establish a rate base of ~~**$21.644**~~ **<u>$22.196</u>** million in the Test Year 2024.
COL 73	Approved costs in the Drought Memo Account and Lost Revenue Memo Account should be **<u>recovered from SCE's electric customers</u>** ~~**amortized**~~. ***—In the alternative—*** Approved costs in the Drought Memo Account and Lost Revenue Memo Account should be amortized **<u>and recovered</u>** **<u>at the Commission-authorized weighted-average cost of capital</u>**.
COL 74	Deferred revenues due to the ramping up of rates should be **<u>recovered from SCE's electric customers</u>** ~~**amortized**~~. ***—In the alternative—*** Deferred revenues due to the ramping up of rates should be amortized **<u>and recovered at the Commission-authorized weighted-average cost of capital</u>**.
COL 77	**<u>In its next GRC,</u>** SCE should be required to submit a plan to reach Commission-accepted water loss levels **<u>for other similarly sized water utilities and based on Catalina's unique circumstances</u>**.
COL 78	SCE should utilize a customer count estimate of **<u>1,916</u>** ~~**2,026**~~ for the Test Year.
COL 80	G.O. 96-B does not **<u>address</u>** ~~**exclude**~~ the counting of fire protection connections from the number of service connections. **<u>Therefore, the Commission's Standard Practice U-25-W, which excludes the counting of fire protection connections, should be followed.</u>**
COL 81	Catalina Water should **<u>remain</u>** ~~**be re-classified as**~~ a Class **<u>C</u>** ~~**B**~~ water utility.

COL 82	SCE has **demonstrated** ~~not shown~~ that a sufficient nexus exists between Catalina Water ratepayers and SCE electric ratepayers at large.
COL 83	**Though** Commission precedent has highlighted the need to respect principles of cost causation**, the Commission also created an exception for rates that support established state policy and act in the public interest. It is the established policy of California that every human being has the right to safe, clean, affordable, and accessible water.**
COL 84	Authorizing SCE to recover costs from its mainland electric ratepayers, who **receive benefits** ~~do not receive service from~~ Catalina Water, **would be in tension with** ~~violate~~ cost causation principles **but falls within the Commission's own recognized exception to these principles**.
COL 85	SCE should ~~not~~ be authorized to recover **a small increase in** rates from SCE mainland electric ratepayers to pay for **a portion of** Catalina Water costs.
COL 86	It is reasonable to **authorize** ~~amortize~~ recovery of Drought Memo Account, Lost Revenue Memo Account, and deferred revenues **from SCE electric customers**, to avoid rate shocks. ***—In the alternative—*** COL 86. It is reasonable to amortize **and permit recovery at the Commission-authorized weighted-average cost of capital**~~recovery~~ of Drought Memo Account, Lost Revenue Memo Account, and deferred revenues, to avoid rate shocks.
COL 89	SCE should be authorized to **recover** ~~amortize~~ Drought Memo Account and Lost Revenue Memo Account costs ~~over a ten-year period~~, and costs tracked to the DRRTMA **from SCE's electric customers.** ~~over a fifteen-year period.~~ ***—In the alternative—*** SCE should be authorized to amortize **and recover at the Commission-authorized weighted-average cost of capital**-Drought Memo Account and Lost Revenue Memo Account costs over a ten-year period, and costs tracked to the DRRTMA over a fifteen-year period.
[*New*] COL 94	**The cost recovery framework adopted in this proceeding is non-precedential and limited to the unique circumstances present only at Catalina.**
OP 2	Southern California Edison Company (SCE) is authorized to establish the Deferred Revenue Requirement Tracking Memorandum Account (DRRTMA) to track deferred revenues~~, plus interest at the commercial paper rate,~~ resulting from the difference between authorized revenue requirements and revenue requirements collected in rates during this rate cycle, from 2024 to 2029. SCE

	may recover these costs **<u>from SCE's electric customers</u>** ~~**over a fifteen-year amortization period, starting in 2026**~~. SCE shall submit a Tier 1 advice letter establishing the DRRTMA within 60 days after the effective date of this decision. ***—In the alternative—*** Southern California Edison Company (SCE) is authorized to establish the Deferred Revenue Requirement Tracking Memorandum Account (DRRTMA) to track deferred revenues~~**, plus interest at the commercial paper rate,**~~ resulting from the difference between authorized revenue requirements and revenue requirements collected in rates during this rate cycle, from 2024 to 2029. SCE may recover these costs **<u>at the Commission-authorized weighted-average cost of capital</u>** over a fifteen-year amortization period, starting in 2026. SCE shall submit a Tier 1 advice letter establishing the DRRTMA within 60 days after the effective date of this decision.
OP 3	~~**Southern California Edison Company (SCE) is authorized to establish the Deferred Revenue Requirement Tracking Memorandum Account (DRRTMA) to track deferred revenues, plus interest at the 90-day non-financial commercial paper rate, resulting from the difference between authorized revenue requirements and revenue requirements collected in rates during this rate cycle, from 2024 to 2029. SCE may recover these costs over a fifteen-year amortization period, starting in 2026. SCE shall submit a Tier 1 advice letter establishing the DRRTMA within 60 days after the effective date of this decision.**~~
OP 4	Southern California Edison Company (SCE) is authorized to recover **<u>$6,231,667</u>** through rates ~~**$3.586 million, plus interest at the 90-day non-financial commercial paper rate,**~~ from costs tracked in the Catalina Water Lost Revenue Memorandum Account. SCE shall **<u>recover these amounts from its electric customers</u>** ~~**amortize the recovery over a ten-year period, starting in 2025**~~. ***—In the alternative—*** Southern California Edison Company (SCE) is authorized to recover **<u>$6,231,667</u>** through rates ~~**$3.586 million, plus interest at the 90-day non-financial commercial paper rate,**~~ from costs tracked in the Catalina Water Lost Revenue Memorandum Account. SCE shall amortize the recovery over a ten-year period, starting in 2025**<u>, at the Commission-authorized weighted-average cost of capital.</u>**
OP 5	Southern California Edison Company (SCE) is authorized to recover **<u>$4,847,152</u>** through rates ~~**$0.695 million, plus interest at the 90-day non-financial commercial paper rate,**~~ from costs tracked in the Catalina Water Rationing Memorandum Account. SCE shall **<u>recover these amounts from its electric customers</u>** ~~**amortize the recovery over a ten-year period, starting in 2025**~~.

	—In the alternative— Southern California Edison Company (SCE) is authorized to recover **$4,847,152** through rates ~~**$0.695 million, plus interest at the 90-day non-financial commercial paper rate,**~~ from costs tracked in the Catalina Water Rationing Memorandum Account. SCE shall amortize the recovery over a ten-year period, starting in 2025**, at the Commission-authorized weighted-average cost of capital.**
OP 11	~~**Southern California Edison Company (SCE) shall submit by December 31, 2024, an application providing a plan for reducing water loss rates for the Santa Catalina Water utility to seven percent by December 31, 2030. Failure to submit the application shall subject SCE to denial of both future escalation requests and Water Revenue Adjustment Mechanism recovery.**~~