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

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

Application 20-10-018

JOINT PREHEARING CONFERENCE STATEMENT OF
SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E), CITY OF AVALON, CATALINA
ISLAND CHAMBER OF COMMERCE, SANTA CATALINA ISLAND COMPANY, SANTA
CATALINA ISLAND CONSERVANCY, GUIDED DISCOVERIES, HAMILTON COVE
HOMEOWNERS ASSOCIATION, THE UTILITY REFORM NETWORK AND THE PUBLIC
ADVOCATES OFFICE

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Company (U 338-E) for Authority to Increase
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ADVOCATES OFFICE

Pursuant to the *Administrative Law Judge’s Email Ruling Ordering Parties to Meet and Confer and Setting Prehearing Conference Date* dated December 17, 2020 (“Ruling”), Southern California Edison Company (“SCE”), the City of Avalon, Catalina Island Chamber of Commerce, Santa Catalina Island Company, Santa Catalina Island Conservancy, Guided Discoveries, Hamilton Cove Homeowners Association (jointly, “Catalina Parties”), The Utility Reform Network (“TURN”) and Public Advocates Office at the California Public Utilities Commission (“Cal Advocates”) (altogether, “Parties”) hereby submit this Joint Prehearing Conference Statement.¹

¹ Pursuant to Rule 1.8(d) of the Commission’s Rules of Practice and Procedure, the Catalina Parties, TURN, and Cal Advocates have authorized SCE to file this Joint Prehearing Conference Statement on their behalf.

I.

EVIDENTIARY HEARINGS AND PUBLIC WORKSHOP

Pursuant to the Ruling, the Parties met and conferred on December 23, 2020 and January 4, 2021. Having met and conferred, the Parties jointly agree on the need for evidentiary hearings. The Parties also agree that there is no need for a public workshop because the public participation hearing and Water Division technical conference should provide sufficient opportunity for the public to obtain information and to raise questions or provide input regarding the proceeding.

II.

SCOPING ISSUES

The Parties generally agree that the following list should constitute the scoping issues to be determined in this proceeding. The issues listed below largely rely on the list of “general” and “special” issues included in Cal Advocates’ Protest, with some modifications. To the extent Parties propose further modifications to the following list, the Parties’ respective position is provided further below.

1. Whether SCE’s requested revenue requirement for Catalina Water is reasonable;
 - a. Whether SCE’s forecast for its operation and maintenance and administration and general expenses is reasonable;
 - b. Whether SCE’s proposed additions to plant are necessary, accurate, reasonable, and justified;
 - c. Whether SCE’s forecast of rate base is reasonable;
 - d. Whether SCE’s costs recorded in two drought-related memorandum accounts (the Catalina Water Rationing Memorandum Account, and the Catalina Water Lost Revenue Memorandum Account (CWLRMA)) are reasonable; and
 - e. Whether SCE has established the reasonableness of the historical water capital expenditures it seeks to recover.
2. Regarding SCE’s proposal to recover \$28.969 million water utility costs from its electric utility customers:

- a. Does the Commission have the authority to charge SCE's electric utility customers costs that do not have a sufficient nexus to SCE providing those customers with electric utility service;
 - b. If the Commission has the authority to charge costs associated with providing water utility service to its electric utility customers who do not obtain water utility service from SCE, should the Commission permit SCE to recover water utility service costs from SCE's electric utility service customers and, if so, how much;
 - c. What alternative approaches are there to recovering water utility costs from sources other than Catalina Island water utility customers and SCE's electric utility customers (such as surcharges on ferry tickets, other fees or charges collected from actual visitors to Catalina Island, or having SCE bear the costs);
 - d. Has SCE established that it adequately considered or pursued alternative approaches to recover water utility costs from sources other than its water utility or electric utility customers; and
 - e. Whether SCE's proposed "Deferred Revenue Requirement Tracking Account," a five-year phased-in recovery mechanism, is reasonable.
3. Whether SCE's proposed rates for the Test Year and Escalation Years are just and reasonable;
 - a. Whether SCE's forecast for water sales is reasonable;
 - b. Whether SCE's proposed rate design is reasonable;
 - c. Whether a proposed Tier-1 breakpoint to promote affordable rates is reasonable; and
 - d. Whether the proposed California Alternate Rates for Energy (CARE) increase from 20% to 32.5% is reasonable.
 4. Whether SCE's proposed transition from Water Revenue Adjustment Mechanism (WRAM) to a Monterey-style, Incremental Cost Balancing Account (ICBA) is reasonable.

A. SCE's Position

SCE proposes elimination of issues 2(c) and 2(d) as reflected in strikethrough below.

2. Regarding SCE's proposal to recover \$28.969 million water utility costs from its electric utility customers:

- a. Does the Commission have the authority to charge SCE's electric utility customers costs that do not have a sufficient nexus to SCE providing those customers with electric utility service;
- b. If the Commission has the authority to charge costs associated with providing water utility service to its electric utility customers who do not obtain water utility service from SCE, should the Commission permit SCE to recover water utility service costs from SCE's electric utility service customers and, if so, how much;
- ~~c. What alternative approaches are there to recovering water utility costs from sources other than Catalina Island water utility customers and SCE's electric utility customers (such as surcharges on ferry tickets, other fees or charges collected from actual visitors to Catalina Island, or having SCE bear the costs); and~~
- ~~d. Has SCE established that it adequately considered or pursued alternative approaches to recover water utility costs from sources other than its water utility or electric utility customers; and~~
- e. Whether SCE's proposed "Deferred Revenue Requirement Tracking Account," a five-year phased-in recovery mechanism, is reasonable.

The Commission should decline to adopt 2(c) and 2(d) as scoping issues in this proceeding. While SCE is open to considering alternative cost recovery approaches with the other parties, SCE does not have the burden of establishing it "adequately" considered alternative proposals. As the applicant of this GRC proceeding, SCE's burden is to support the cost recovery proposal that SCE set forth in its application, not consider and eliminate all other possible alternatives.

Furthermore, in its existing testimony, SCE has already adequately considered various alternative approaches to recovering these costs and, in addition, SCE will also be filing supplemental testimony which will include an alternative proposal for revenue allocation and rate design that does not rely on a subsidy by SCE electric customers, altogether making issues 2(c) and 2(d) unnecessary. The Commission should decline to adopt these issues in this proceeding.

Finally, as set forth more fully in its Reply, SCE submits that the costs related to: (1) the Two Harbors pipeline, in-service and decommissioned pipe, or other ongoing environmental projects; and (2) the COVID-19 pandemic are outside the scope of this proceeding. SCE is not

seeking authorization to recover any of these costs in its Application, and the Commission should exclude these costs from its scoping issues.

B. Cal Advocates' Position

Cal Advocates requests that the Commission include the following issue (as reflected in Cal Advocates' protest) after Issue 2.d. in the scoping issues listed above:

(Proposed 2.e.)

Whether SCE's supplemental testimony should include a proposal for revenue allocation and rate design that does not rely on a subsidy by SCE electric customers, in accord with the Commission's prior decision D.14-10-048 as cited in Cal Advocates' Protest.

C. Catalina Parties' Position

Catalina Parties object to the Proposed Scoping Issues. In its Application SCE indicated that it was seeking to recover \$28.969 million in costs recorded in two drought-related memorandum accounts (the Catalina Water Rationing Memorandum Account, the Catalina Water Lost Revenue Memorandum Account (CWLRLMA) and SCE's deferred revenue requirement phase-in proposal from its electric ratepayers not its water ratepayers:

Whether the Commission should adopt as just and reasonable SCE's request for a broader allocation of \$28.987 million in extraordinary drought and environmental costs, and deferred revenues resulting from SCE's revenue requirement phase-in proposal, for recovery from SCE's electric customers? SCE Application p 12.

There is nothing in the Application stating that SCE seeks to recover the \$28.969 million as part of its Revenue Requirement. Proposed Scoping Issue 1 d. should be Issue 2 a:

2. a. Whether SCE's costs recorded in two drought-related memorandum accounts (the Catalina Water Rationing Memorandum Account, and the Catalina Water Lost Revenue Memorandum Account (CWLRLMA)) are reasonable.

Before considering alternative sources to pay the costs sought, the reasonableness of the costs sought must be determined. The remaining issues in 2 should be renumbered.

The following Scoping Issues should be added:

5. Regarding costs SCE has indicated it will occur in the near future:

- a) Whether the \$900,000 in costs SCE proposes to expend to assess and map the entire Catalina water system, including in-service and decommissioned pipeline, and pipeline composition that SCE identified in A.20-04-010 are reasonable and whether such costs should be borne by water ratepayers;
- b) Whether the \$28 million in costs SCE proposes to expend to assess, remove and dispose of the decommissioned pipeline, both below and above-ground, that SCE identified in A-116-W are reasonable and whether such costs should be borne by water ratepayers;
- c) Whether SCE can recover costs it claims are related to the COVID-19 virus from water ratepayers, and
- d) Even if the Commission does not determine the reasonableness of the costs described in a-c, above, should these upcoming costs be considered in assessing cost recovery proposals in this GRC.

Catalina Parties propose that SCE be required to amend its Application in order to seek the \$900,000 in costs it has identified as necessary to assess and map the entire Catalina waster system, including in-service and decommissioned pipeline, and pipeline composition that SCE identified in A.20-04-010. In addition, the Catalina Parties propose that SCE be required to amend its Application in order to seek the \$28 million in costs it has estimated to assess, remove and dispose of the decommissioned pipeline, both below and above-ground, that SCE identified in A-116-W. The proposed \$28.900 million in costs are not discretionary. SCE must clean up the environmental problems it identified. As pointed out by Cal Advocates, SCE must also comply with General Order 103-A, Section VII, 4.A and have on file at its principal or local office plans, maps drawings, or other records of all system facilities, something SCE has never done. In its Reply, SCE contends that the \$28.900 million is “outside the scope of this proceeding.” How can a decision be made on what the 1,887 water ratepayers must pay in the ensuing years without resolving who is going to pay this \$28.900 million or whatever portion the Commission

determines is reasonable? At as minimum the Commission should take into consideration during this proceeding these costs which SCE **must** occur in the near term.

Catalina Parties further propose that SCE be required to amend its Application in order to seek costs it intends to claim related to the COVID-19 virus. Previously, SCE indicated that it intends to seek those costs at some time in the future. In its Reply, SCE contends that such costs are “outside the scope” of this proceeding. This proceeding will determine what water ratepayers will have to pay for many years in the future. SCE should be able to identify these costs during the course of this proceeding and the Commission should be able to determine the reasonableness of the claimed costs.

D. TURN’s Position

TURN urges the Commission to include issues 2.c. and 2.d. in the scope of this proceeding, contrary to SCE’s position set forth above. Alternative cost recovery mechanisms will be a central contested issue here. Given the magnitude of SCE’s total revenue requirement request, both for past recorded costs and forecasted costs for the upcoming GRC period, the Commission will likely wish to consider a range of permissible cost recovery options that would mitigate the rate impact that SCE’s total water utility revenue requirement request would have on Catalina Island water utility customers. SCE’s application and testimony propose adoption of a single alternative cost recovery mechanism – recovering \$29 million of Catalina water utility costs from SCE’s electric utility ratepayers. However, the utility’s testimony briefly describes other alternatives SCE chose not to pursue, some of which may have at least reduced and perhaps eliminated the need to recover water utility costs from electric utility customers. Therefore, consideration of alternatives (Issue 2.c.) is squarely within the scope of this proceeding. Furthermore, the adequacy and reasonableness of SCE’s consideration and pursuit of such alternative approaches (Issue 2.d.) should also be identified as being within the scope of the proceeding. If SCE’s position is that the only acceptable alternative approach is to collect \$29 million of water utility costs from electric utility ratepayers, the utility needs to establish the

reasonableness of that position, and said reasonableness will rely at least in part on SCE's consideration of other alternatives.

III.

PHASED PROCEEDING

The Parties differ in their positions with respect to the need for a phased proceeding. The Parties' respective position on this issue is set forth below.

A. SCE's Position

As set forth more fully in its Reply, SCE submits that the proceeding should be conducted in a single phase. Compared to the complexity and sheer size of the electric general rate cases which warrant multiple phases, the issues of reasonableness and cost recovery presented here in SCE's water application are limited in scope and would be best addressed under a single phase. In this proceeding, there is no need for the Commission to coordinate or undertake the additional burden, time, and complexity of proceeding under separate phases.

However, if the Commission were to consider a phased proceeding, SCE reiterates its strong recommendation that the Commission adhere to its practice in the electric general rate cases. Specifically, SCE recommends that the Commission consider the reasonableness of SCE's costs in the first phase before addressing SCE's cost recovery proposal in a subsequent phase. Cost recovery proposals cannot be properly evaluated until the costs themselves are first finalized. Furthermore, determining SCE's cost recovery prior to the reasonableness of its costs could unduly and unintentionally prejudice an assessment of SCE's costs. Finally, the Commission would have ample time to determine the most appropriate method of cost recovery even if this issue were considered in the second phase.

B. Cal Advocates' Position

Cal Advocates does not take a position on whether the proceeding should be conducted in two phases or a single phase, except to request that if the Commission divides the proceeding into two phases, Phase 1 should address the issue of appropriate rate design/cost recovery methodology, and Phase 2 should address issues of cost and rate reasonableness.

C. TURN's Position

TURN recommends that the Commission establish an initial phase of this proceeding that would address whether there are viable alternatives for SCE to recover or absorb costs of providing water utility service. SCE's Catalina Water GRC application proposes a \$9.3 million annual revenue requirement to be collected from the utility's water service customers on Catalina Island (through a series of annual rate increases ranging from 12-25% phased in over a five-year period, resulting in a 125% increase over the current authorized revenue requirement of \$4.13 million). In addition, SCE seeks to recover \$29 million of recorded and forecasted water utility service costs from its electric utility customers. SCE's application and testimony briefly describe alternatives the utility considered, but present no alternative other than recovering costs from either Catalina Island water utility customers or from SCE's electric utility customers.

TURN's protest challenged SCE's ability to recover from its electric utility customers the \$29 million of water utility costs, arguing that SCE's approach may exceed the Commission's authority and is based on flawed logic. TURN further asserted that SCE failed to demonstrate that it fully considered and analyzed alternative approaches. TURN proposed creating an initial phase of this proceeding that would be devoted to addressing the cost recovery alternatives, in particular, the available options for recovering water utility service costs from sources other than Catalina Island water customers.

A separate initial phase of the proceeding makes sense under the circumstances, as the outcome on cost recovery issues will have a strong and direct influence on the other issues of this proceeding. For example, if the Commission were to determine that it lacks the statutory

authority to require SCE's electric utility customers to bear costs of providing water utility service, there would be a \$29 million shortfall in SCE's cost recovery proposal. Making such a determination earlier rather than later in the proceeding will maximize the time available to SCE, as the applicant, to explore and present alternatives other than relying on electric utility customers to subsidize costs of providing water utility service on Catalina Island.

SCE indicates it intends to provide supplemental testimony which will include a proposal for revenue allocation and rate design that does not rely on a subsidy by SCE electric customers. TURN submits that such testimony is necessary, but must address a broader scope of options beyond SCE simply seeking to recover the costs from its Catalina Island water utility customers. In this GRC, SCE proposes a 2022 revenue requirement that would represent a 125% increase over the current authorized revenue requirement, a level that may not be consistent with achieving affordable rates for Catalina Island's water utility customers. The utility will need to meaningfully investigate alternatives that either recover costs from sources other than the bills paid by water utility customers, or have the utility forgo recovery of some portion of the costs it claims to be just and reasonable, in order to present the Commission with a full range of options for achieving a just and reasonable outcome.²

TURN does not agree that addressing cost recovery issues in a later phase, as SCE suggested in its reply to protests, would serve the interests of the Commission and the parties under the circumstances here. The cost recovery issues here are not similar in any material way to the issues typically addressed in the "Phase 2" of the GRC for an electric utility, which is devoted to assessing revenue allocation and rate design among customer classes who will receive service from the electric utility. Here, SCE's application raises questions regarding assigning to all electric utility customers a portion of its authorized revenue requirement for water utility service, making it a substantially different request.

² In its 2019 Annual Report from early 2020, SCE reports "core earnings" of \$1.702 billion. The \$29 million that it seeks to recover from its electric utility service customers here represents approximately 1.7% of the core earnings figure for 2019.

D. Catalina Parties' Position

Catalina Parties oppose the two phase approach proposed by TURN. While SCE enumerates various alternative approaches for recovering its water utility costs, including from SCE's electric utility service customers, it is necessary first to determine the reasonableness of the \$28.969 million in costs SCE seeks to recover from its electric utility service customers. Various alternative sources cannot be evaluated without knowing the reasonable amount to be collected from a potential alternative source. Additionally, Catalina Parties do not believe the two phase approach will contribute to efficiency or shorten the proceeding. If anything, it will lengthen the proceeding. If the Commission were to approve a two phase approach, the first phase should be the reasonableness of the costs to be paid by an alternative source.

IV.

PROPOSED SCHEDULE

If the Commission proceeds under a single phase, the Parties jointly propose the procedural schedule set forth below. If the Commission proceeds under phases, the Parties agree that modifications to the proposed schedule will be necessary to accommodate the multiple phases. TURN has proposed a modified schedule consistent with its phasing proposal, in the second table below. In addition, the SCE and the Catalina Parties present their positions on the proposed modified schedule further below.

PARTIES' JOINT SCHEDULE WITHOUT PHASING

No.	Event	Date
1	Pre-Hearing Conference	January 7, 2021
2	SCE Serves Supplemental Testimony	February 2021
3	Public Participation Hearings	March 2021
4	Intervenor Testimony	Early July 2021
5	Rebuttal Testimony	Early August 2021
6	Settlement Discussions Begin	Early August 2021
7	Evidentiary Hearings	6 Weeks after Rebuttal Testimony

8	Deadline to Request Oral Argument	Date Opening Briefs Are Due
9	Opening Briefs	30 Days after Evidentiary Hearings
10	Reply Briefs	15 Days after Opening Briefs
11	Water Division Technical Conference	October 2021
12	Proposed Decision	TBD
13	Comments on Proposed Decision	20 Days after Proposed Decision
14	Reply Comments on Proposed Decision	5 Days after Opening Comments
15	Final Decision	TBD

TURN'S PROPOSED MODIFIED SCHEDULE WITH PHASING

No.	Event	Date
1	Pre-Hearing Conference	January 7, 2021
2	Scoping Memo Issued, Adopts Phasing	January 29, 2021
3	Opening Briefs on Limits to Cost Recovery Alternatives	4 Weeks after Scoping Memo
4	Reply Briefs on Limits to Cost Recovery Alternatives	2 Weeks after Opening Briefs
5	Assigned Commissioner or ALJ Ruling on Limits to Cost Recovery Alternatives	TBD
6	SCE Serves Supplemental Testimony on Cost Recovery Alternatives	6 Weeks after Ruling on Limits to Cost Recovery Alternatives
7	Public Participation Hearings	March 2021
8	Intervenor Testimony	Early July 2021 or 6 Weeks after SCE Supplemental Testimony, whichever is later
9	Rebuttal Testimony	Early August 2021 or 4 Weeks after Intervenor Testimony, whichever is later
10	Settlement Discussions Begin	Early August 2021 or 4 Weeks after Intervenor Testimony, whichever is later
11	Evidentiary Hearings	6 Weeks after Rebuttal Testimony
12	Deadline to Request Oral Argument	Date Opening Briefs Are Due
13	Opening Briefs	30 Days after Evidentiary Hearings
14	Reply Briefs	15 Days after Opening Briefs
15	Water Division Technical Conference	October 2021
16	Proposed Decision	TBD
17	Comments on Proposed Decision	20 Days after Proposed Decision
18	Reply Comments on Proposed Decision	5 Days after Opening Comments
19	Final Decision	TBD

A. SCE's Position

In the event the Commission were to consider accepting briefing on SCE's cost recovery alternatives as proposed by TURN in items 3 and 4 of its modified schedule above, SCE submits this issue would need to be resolved by the Commission following a full Commission vote rather than by a ruling from the Assigned Commissioner or Assigned ALJ as set forth in item 5 above.

B. Catalina Parties' Position

If the Commission adopts a two phased approach, the Proposed Schedule will have to be amended to allow for such an approach.

V.

EX PARTE COMMUNICATIONS

Though not expressly requested in the Ruling, the Parties provide their different positions on ex parte communications for the Commission's consideration.

A. SCE's Position

SCE maintains its position from its Reply that there is no need for the Commission to depart from its established ex parte requirements. The Commission's rules on individual ex parte communications already provide for clear transparency through the required advance and ex-post notices. Requiring only all-party meetings would work against efficiency, and the Commission's requirement to base its decision on the record remains the same whether ex parte communications are individual or only all-party.

B. Cal Advocates' Position

Cal Advocates reiterates the request in its protest that the Commission prohibit individual ex parte communications in this proceeding, to promote efficiency and transparency and to

support the requirement that the Commission's decisions be based solely on the evidentiary record.

C. TURN's Position

TURN supports prohibition of individual ex parte communications.

D. Catalina Parties' Position

The Catalina Parties support prohibition of individual ex parte communications.

VI.

CONCLUSION

The Parties appreciate the Commission's consideration of this matter and look forward to discussing these issues at the prehearing conference scheduled for January 7, 2021.

Respectfully submitted on behalf of the Parties,

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