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05/13/22
04:59 PM
A2010018

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.	A.20-10-018

OPENING BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

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Dated: **May 13, 2022**

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SUMMARY OF RECOMMENDATIONS

Pursuant to Rule 13.12 of the Rules of Practice and Procedure of the California Public Utilities Commission, SCE provides the following summary of recommendations in this proceeding. Specifically, SCE requests that the Commission's decision include findings and orders as follows:

1. SCE's operation and management of the Catalina water system is prudent and reasonable, given the unique and challenging conditions on the Santa Catalina Island;
2. SCE has upheld its obligation to serve as a Class C water utility and is entitled to recover its prudently incurred costs and a reasonable rate of return on its investments;
3. SCE's adjusted operating expense proposal of $6.474 million for Test Year 2022 is reasonable;
4. SCE's rate of return of 7.68 percent is reasonable;
5. SCE's transition to a Monterey-style Water Rate Adjustment Mechanism (WRAM) and Incremental Cost Balancing Account (ICBA) is reasonable;
6. SCE is authorized to recover a Test Year 2022 revenue requirement of $9.430 million from Catalina water customers, to be phased-in over a five-year period from 2022-2026, which represents the normal cost of service required to serve its water customers;
7. SCE is authorized to a recovery of $32.623 million from its electric customers, which represents the extraordinary drought-related costs and deferred revenues resulting from the five-year phase-in proposal, consistent with prior Commission decision permitting this cost recovery structure:
    a. The costs SCE incurred in responding to drought conditions tracked in the Catalina Water Rationing Memorandum Account and Catalina Water Lost Revenue Memorandum Account totaling $11.604 million are reasonable;
    b. Emergent drought and environmental capital additions and related expense of $10.551 million are reasonable;
    c. Deferred revenues of $10.687 million arising from five-year phase-in of the revenue requirement are reasonable;

8. SCE's proposed recovery of $32.623 million from its electric customers is just, reasonable, and in the public interest because:
    a. In California, it is the established policy of the state that every person has the right to clean and affordable water. Catalina water customers, however, cannot afford the costs it has taken to serve them, which include the costs that SCE had to incur to provide reliable water throughout severe drought conditions from 2013-2019.
    b. SCE's proposal allows SCE to recover its reasonably incurred costs for exceptional drought response activities from the broader set of SCE electric customers who have benefitted from this water service and for whom the rate impact will be minimal.
    c. SCE electric customers are the predominant visitors to the island and much of the water infrastructure has been built to support the needs of SCE mainland customers. Even SCE customers who do not visit the island receive societal benefits such as education, research, and conservation.
    d. The cross-subsidy is in the public interest because it would prevent an unbearably high rate increase for Catalina water customers while resulting in only a small rate increase for SCE's electric customers.
    e. Specifically, the costs incurred by SCE's significantly larger electric customer base would be small (about $0.28 per month for non-CARE residential customers by 2026) compared to the substantial benefits Catalina water customers would receive (about $398 in savings per month for non-CARE residential customers by 2026);
9. SCE's ratemaking, rate design proposals, and cost-recovery requests made in its Application are reasonable, consistent with prior Commission decision and practice, and supported by the record evidence.

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OPENING BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

Pursuant to Rule 13.12 of the California Public Utilities Commission (Commission or CPUC) Rules of Practice and Procedure, and the *Amended Scoping Memo and Ruling* dated April 8, 2022, Southern California Edison Company (SCE) respectfully submits its Opening Brief.

I.

INTRODUCTION

SCE is proud of its sixty-year commitment to providing safe, clean, and affordable water to its Santa Catalina Island ("Catalina" or "Island") customers. That commitment continues in this General Rate Case (GRC) application, as the requests SCE has presented in this proceeding directly support the foundational work to operate, maintain, and prudently improve the Catalina water system. SCE has provided extensive evidentiary support for its requests and demonstrated that each of its requests is just and reasonable, prudent, and should be approved by the Commission.

There is no other water utility like Catalina Island in all of California. It is a small water utility with less than 2,000 customers, most of whom are in the City of Avalon. In addition, however, SCE is obligated to serve other customers across the wide expanse of the island and approximately one million annual visitors. Catalina is an arid island with limited water resources and contains large stretches of rugged, undeveloped terrain, which makes delivery of water challenging and costly. Ensuring clean, reliable, and affordable water for Catalina customers is difficult under normal operating conditions and especially challenging during drought conditions. Despite these challenging conditions, SCE is committed to meeting our mission and obligation to serve our customers and provide clean, reliable water service at just and reasonable rates.

However, from 2013-2019, it has been significantly more expensive to serve our customers. This is because Catalina Island experienced one of the most historically severe droughts during this time period. During these extreme weather conditions, SCE worked tirelessly to uphold its mission and ensure that our customers received clean, safe, and reliable water despite the incredible challenges that the drought presented. SCE acted promptly, prudently, and effectively throughout this period. The incremental and capital costs required to respond to this drought have been tracked, including in two drought-specific memorandum accounts, and SCE seeks recovery of these costs which were justly and reasonably incurred to serve our customers.[1]

Though SCE could, and is in fact entitled to, recover these costs from our Catalina water customers, doing so would result in rates that our water customers cannot afford. The reality in this proceeding is that the historic drought has introduced a magnitude of costs that our water customers are unable to bear on their own. Moreover, in California, it is the established policy of the state that every person has the right to clean and affordable water.[2] In sum, though our water customers are entitled to water as a matter of human right, they cannot afford the costs it has taken to serve them through historic drought conditions.

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1 *See*, *e.g*., Decision (D.) 20-01-002, p. 10 ("the general rate case proceeding is viewed as the embodiment of what is often described as the 'regulatory compact' … Under this agreement, the utility is provided the opportunity to recover its actual legitimate or prudent costs … plus a fair return on capital investment"); *see also* SCE-10, pp. 5-7 (discussing the regulatory compact)

2 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.")

SCE submits that the cost recovery issues in this proceeding present challenging public policy questions, but the record demonstrates that the best solution to these affordability challenges is for SCE's system-wide electric customers to pay a portion of these water costs relating to the historic drought and environmental related costs. This is fair because SCE electric customers are the predominant visitors to the island and much of the water infrastructure has been built to support the needs of our mainland customers. Cost-sharing is also fair because it will result in a very small rate increase for our electric customers (*i.e.*, $0.28 for non-CARE residential customers by 2026) while protecting our water customers from an enormous rate increase (*i.e.*, $398 for non-CARE residential customers by 2026) as shown in Table I-1 below.[3]

Table I-1
Water and Electric Bill Impact Comparison

Item	2022	2023	2024	2025	2026	Total
Revenue Requirement Collected in Water Rates (*Millions*)	$5.82	$8.20	$11.56	$16.29	$22.95	
Non-CARE Residential Monthly Increase	$44.10	$49.26	$69.42	$97.83	$137.87	$398.48
CARE Residential Monthly Increase	$27.33	$41.27	$58.15	$81.95	$115.49	$324.19
Costs For Electric Rate Recovery (*Millions*)	$25.78	$3.43	$2.28	$1.13	$0.00	
Non-CARE Residential Monthly Increase	$0.21	$0.03	$0.02	$0.01	$0.01	$0.28
CARE Residential Monthly Increase	$0.14	$0.02	$0.01	$0.01	$0.01	$0.19

In summary, SCE proposes a 2022 Test Year revenue requirement request of $9.430 million to be recovered from Catalina water customers, phased in over a five-year period from 2022-2026, which represents the normal cost of service required to serve our water customers. SCE also requests a recovery of $32.623 million from our electric customers representing the extraordinary drought-related costs and deferred revenues resulting from the five-year phase-in

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[3] Comparing how much Catalina water customers would pay if SCE's proposed cross-subsidy were denied and water customers were to bear the full cost of service, with how much SCE electric customers would pay if the cross-subsidy were approved and costs were shared with SCE's broader, system-wide electric customer base.

proposal. SCE respectfully requests that the Commission approve these requests for the reasons set forth below.

II.

EVIDENTIARY STANDARDS AND BURDEN OF PROOF

A utility seeking a rate increase has the burden of proving that its request is reasonable. The standard of proof the applicant must meet is that of a "preponderance of evidence.".[4] This is consistent with and conforms to the California Evidence Code, which provides: "except as otherwise provided by law, the burden of proof requires proof by a preponderance of the evidence."[5] Preponderance of the evidence usually is defined "in terms of probability of truth…when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[6]

The Commission has also held "when other parties propose a different result, they too have a 'burden of going forward' to produce evidence to support their position and raise a reasonable doubt as to the utility's request."[7] The Commission should reject recommendations where intervenors have failed to produce the evidence necessary to meet its burden of going forward.

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[4] This standard has sometimes been incorrectly referred to as a "clear and convincing" standard. It is not. *See* D.18-12-021, p. 10 (Cal-Am Water GRC) ("Although prior Commission decisions have stated the standard of proof as one of clear and convincing evidence, the Commission has clarified in recent decisions that the standard of proof the applicant must meet in rate cases is that of a preponderance of evidence.") (citing D.14-12-025, pp. 20-21).

[5] Cal. Evid. Code §115.

[6] D.18-12-021, p. 10.

[7] D.20-07-038, pp. 3-4.

III.

THE COMMISSION SHOULD APPROVE SCE'S REQUESTED REVENUE REQUIREMENT

A. SCE's Forecast O&M and A&G Expenses Are Reasonable

1. SCE's O&M Forecast Should Be Approved

At the time of filing its application, SCE's Test Year 2022 O&M forecast was $4.231 million.[8] After considering the recommendations of the Public Advocates Office (Cal Advocates) in its testimony, SCE has revised its Test Year 2022 O&M forecast to $4.053 million.[9] Other intervenors to this proceeding include The Utility Reform Network (TURN) and the Catalina Parties.[10] For the reasons set forth below, the Commission should approve SCE's O&M forecast of $4.053 million.

a) Account 615 – Power for Pumping

Account 615 includes the costs for electricity used to operate the water utility equipment including pumps and the desalination treatment system. SCE's forecast for Account 615 is $267,000,[11] excluding escalation.[12]

In its testimony, Cal Advocates recommends that $98,547 should be removed from the recorded 2019 total for a lack of invoice support.[13] In its Rebuttal Testimony, SCE supplied the missing invoices and provided additional detail for its 2019 recorded expenses supporting the inclusion of $98,547.[14] Because SCE has met its burden of proof by supplying all

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[8] SCE-02, p. 5.

[9] SCE-10, p. 26.

[10] The Catalina Parties include the City of Avalon, Catalina Island Chamber of Commerce, Santa Catalina Island Company, Santa Catalina Island Conservancy, Guided Discoveries, and Hamilton Cove Homeowners Association.

[11] SCE-10, p. 28.

[12] Though the RCP is not applicable because SCE is a Class C water utility, SCE agrees not to apply escalation to Account 615 during the attrition years consistent with the RCP guidance for Class A water utilities.

[13] Cal Advocates-01-C, p. 2-6.

[14] SCE-10, p. 27; SCE-10WP-C, pp. 43-50.

relevant invoices and related data, the Commission should not remove $98,547 from the 2019 recorded total.

Cal Advocates also recommends a five-year average to forecast the test year amount for Account 615.[15] The Commission should reject a five-year average approach and instead approve the last recorded year methodology that SCE proposes because using the last recorded year of 2019 would result in the most accurate forecast of expenses. SCE's costs in Account 615 are highly correlated to water demand; the higher the water demand, the more electricity used for water production, treatment, and distribution.[16] The water sold in 2019 closely matches the water expected to be sold in 2022. For 2022, SCE forecasts water sales of 83.384 million gallons.[17] From October 2018 to September 2019, SCE sold approximately 83.664 million gallons.[18] Therefore, the costs for electricity used to operate the water utility equipment during 2022 would be best forecast by using the 2019 recorded costs rather than a five-year average.

Furthermore, using the 2019 data would result in a more accurate forecast because 2015-2018 reflects costs incurred during atypical drought conditions which are not expected to be present during Test Year 2022. The data from 2019, by contrast, reflects costs that were primarily incurred during non-drought conditions, which are more representative of the conditions to be expected during 2022-2024. In sum, the Commission should approve SCE's forecast of $267,000 in Account 615 because SCE has met its burden of proof and using the last recorded year is the more accurate forecasting methodology than using a five-year average.

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[15] Cal Advocates-01-C, p. 2-6.
[16] SCE-02, p. 8.
[17] *Id.*
[18] *Id.*

b) Account 618 – Other Volume Related Expenses

Account 618 includes other expenses relating to treating and maintaining a safe water supply, such as water treatment chemicals, filters, and other consumables. SCE forecast for Account 618 is $121,000,[19] excluding escalation.[20]

SCE forecasts the expenses in Account 618 by using the last recorded year, and then adding a $50,000 adjustment to account for the installation and maintenance of a new granular activated carbon (GAC) treatment system at the Wrigley reservoir to reduce the concentration of disinfection byproducts and six filtration systems in the Two Harbors system designed to capture pieces of coal-tar enamel interior lining material.[21] Cal Advocates does not dispute the reasonableness or necessity of this adjustment, but instead recommends that $23,000 of the $50,000 adjustment should be assigned to Account 630 – Employee Labor, or Account 650 – Contract Work in accordance with Standard Practice 39.[22] SCE agrees to remove $23,000 from Account 618 and requests that the Commission approve a $23,000 addition to Account 630.

Cal Advocates also recommends a five-year average to forecast the test year amount for Account 618 but did not provide any justification for this treatment relating to Account 618.[23] Consistent with Account 615 (see section above), the Commission should reject a five-year average approach and instead approve the last recorded year methodology that SCE proposes because using the last recorded year of 2019 would result in the most accurate forecast of expenses. Similar to Account 615, SCE's costs in Account 618 are highly correlated to water demand; the higher the water demand, the more treatment chemicals, filters, and other consumables are required for production and treatment.[24] Because the water sold in 2019

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[19] SCE-10, p. 29.

[20] Though the RCP is not applicable because SCE is a Class C water utility, SCE agrees not to apply escalation to Account 618 during the attrition years consistent with the RCP guidance for Class A water utilities.

[21] SCE-02, p. 10.

[22] Cal Advocates-01-C, p. 2-8.

[23] Cal Advocates-01-C, p. 2-7.

[24] SCE-02, p. 10.

matches the water expected to be sold in 2022, and because the data from 2015-2018 would reflect atypical costs incurred during drought conditions that are not expected to be present during 2022,[25] the Commission should approve SCE's last recorded year methodology in its forecasting of Account 618. After removing $23,000 from Account 618 and maintaining the use of the last recorded year, SCE forecasts a total of $121,000 in Account 618.[26] The Commission should approve this amount for the reasons discussed above.

c) Account 630 – Employee Labor

Account 630 includes the costs of all employees whose time supports the operation, maintenance, and repair of the water system. SCE's forecast for Account 630 is $1,832,050,[27] which is the sum of $1,677,000 (last recorded year of 2019),[28] a $124,000 adjustment to backfill two vacant positions and cover incremental water valve inspection costs,[29] a $23,000 adjustment from Account 618,[30] and a $8,050 adjustment from Account 650.[31] In its testimony, Cal Advocates recommends that the Commission: (1) use a two-year average instead of the last recorded year; (2) find that the TY amount for Account 630 is $1,445,521; and (3) deny SCE's proposal to backfill two vacant positions altogether.[32] The Commission should reject these recommendations as discussed below.

First, using the last recorded year of 2019 would result in a more accurate forecast of Account 630 than a two-year average as proposed by Cal Advocates. In 2017, the

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25 See discussion of Account 615 in Section III.A.1.a above.
26 SCE-10, p. 29.
27 SCE-10, p. 32.
28 Though the exact 2019 general ledger entry is $1,677,407 as set forth below, SCE elects to use the rounded number of $1,677,000 for its forecast.
29 SCE elects to use the rounded number of $124,000 for its forecast.
30 *See* Section III.A.1.b (Account 618) (Consistent with Cal Advocates' recommendation, SCE agrees to remove $23,000 from Account 618 and requests that the Commission approve a $23,000 addition to Account 630).
31 *See* Section III.A.1.e (Account 650) (SCE requests approval to move $8,050 in labor expense inadvertently presented in the adjustment for the Wildfire activities in Account 650 into Account 630).
32 Cal Advocates-01-C, p. 2-9.

Catalina water utility was reorganized into SCE's Generation organization, which itself includes multiple departments including Regulatory Support, Asset Management and Generation Strategy, Major Projects and Engineering, all of which contribute to the effective operation and management of the Catalina Water utility.[33] In connection with this operational change, the respective salaries for the various organizations that support the Catalina water utility also underwent reorganization. Rather than relying on 2018 data from the year immediately following this significant organizational change, which would not be representative of expenses in this account moving forward, SCE submits that using data from 2019 is more representative of the on-going stable operations of the water utility today.[34] The Commission should therefore approve the last recorded year methodology for forecasting Account 630.

Next, Cal Advocates misunderstands and misuses a data request response from SCE,[35] when it contends that the TY amount for Account 630 should be $1,445,521 using a two-year average methodology, or $1,517,458 using a 2019 last recorded year methodology.[36] It is undisputed that SCE's 2019 recorded costs in its general ledger (GL) for Account 630 are $1,677,407.[37] Even after requesting and reviewing each of SCE's general ledger transaction details on a line-item basis for Account 630, Cal Advocates does not dispute that $1,677,407 is the correct recorded amount for 2019.

Rather than disputing the accuracy or reasonableness of any of the 2019 GL line item transactions totaling $1,677,407, Cal Advocates instead argues that the correct figure for 2019 is $1,517,458 based on a data request it received from SCE requesting annual salary information.[38] However, SCE's response and spreadsheet attachment made clear that the information being provided in response "contain[ed] 2018 and 2019 budgeted salaries for

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[33] SCE-10, p. 31.
[34] SCE-10, p. 31.
[35] Cal Advocates-01-C, Attachment 2-10.
[36] Cal Advocates-01-C, p. 2-9 – 2-11.
[37] Cal Advocates-01-C, p. 2-9, lines 7-9 (citing SCE Results of Operation Model, workbook: O1) O&M Dashboard, tab: O&M | In Use, cell: 47AB-47AC); 2-10, lines 2-4.
[38] Cal Advocates-01-C, p. 2-9 – 2-11 (citing Attachment 2-10).

positions supporting the Catalina water utility" and represented "[a]nnual salaries provided for budget preparation purposes."[39] This response was never intended to, nor should it have been interpreted as, support for a 2019 GL entry of $1,677,407. The transaction specific, line-item details supporting the GL amount was separately provided to Cal Advocates, and having performed a review of this data, Cal Advocates does not argue that the relevant GL entries at issue are inaccurate or unreasonable.

Further, Cal Advocates in Table 2-5 of its testimony, without explanation, improperly inserts its own set of numbers for the "Water 2018 Salary" and "Water 2019 Salary" columns regarding the ICE Foreman and three ICE Technician positions.[40] In its data request response, SCE marked "N/A" for these values,[41] but Cal Advocates inappropriately supplies its own numbers for these values when compiling Table 2-5, and further compounds the problem by relying on those self-supplied numbers to generate its own total of $1,517,458 for 2019. In compiling Table 2-5, Cal Advocates uses an erroneous and overly simplistic methodology using budget presentation numbers to improperly account for employee labor expense.[42] The Commission should decline to use Table 2-5 or the underlying data request response and should instead adopt the undisputed GL recorded amount of $1,677,407 for Account 630.

Third, Cal Advocates argues that the Commission deny SCE's request for the $124,000 adjustment because SCE has provided "no evidence" to support the need for these positions.[43] This is incorrect. SCE has provided extensive testimony establishing that due to two retirements in 2018, vacancies were created in the Utilityman and Instrumentation, Control, and Electric (ICE) Technician roles.[44] SCE has established that these two positions are

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[39] Cal Advocates-01-C; Attachment 2-10 (found in SCE's response to Q.2.a and footnote no. 1 of the attached spreadsheet, both of which were not included or cut off, respectively, in Cal Advocates' incomplete reproduction of SCE's complete response to this data request).

[40] Cal Advocates-01-C, p. 2-9 – 2-10, Table 2-5.

[41] Cal Advocates-01-C; Attachment 2-10.

[42] SCE-10, p. 31.

[43] Cal Advocates-01-C, p. 2-11.

[44] SCE-02, pp. 12-13; SCE-10, pp. 29-30.

necessary to the operation and maintenance of the water utility. Specifically, SCE has shown that the Utilityman performs necessary routine and corrective maintenance tasks, and the ICE Technician maintains, repairs, and installs hardware, software, control, and other mechanical components throughout the water systems.[45] It is undisputed that these two positions perform these necessary roles, and it is also undisputed that these two positions have been vacant. The cost to backfill these two positions is $102,000.[46] In response to a data request, SCE inadvertently labeled $21,000 of the $124,000 adjustment as relating to a Plant Engineer.[47] In its Rebuttal Testimony, SCE agreed that the $21,000 cost associated with the Plant Engineer should be included in Account 670, but also clarified that the $21,000 line-item adjustment was intended to cover the incremental labor expense to perform the water valve inspection, operation, and maintenance program, which is appropriate and reasonable to include Account 630.[48] Contrary to Cal Advocates' contention, SCE has met its burden of showing the need for the $124,000 adjustment to backfill two vacant positions and to cover the incremental water valve inspection costs. In sum, the Commission should approve SCE's forecast of $1,832,050 for Account 630.

d) Account 640 – Materials

Account 640 includes the materials and supply costs used in the operations, maintenance, and repair of the water system by SCE employees. SCE's forecast for Account 640 is $128,000.[49] Cal Advocates recommends that the Commission apply a five-year average to forecast Account 640 and amortize the $100,000 cost of the reverse osmosis (RO) membrane over five years.[50] SCE does not oppose Cal Advocates' recommendation to amortize the cost of the RO membrane and agrees to a $20,000 adjustment to the test year forecast.

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45 SCE-02, p. 13.
46 SCE-10, p. 30.
47 Cal Advocates-01-C, Attachment 2-11.
48 SCE-10, p. 30; fn. 83 (assuming 200 valves at five-year average cost of $106.67 per valve, estimated using actual costs for gas valve inspection, operation, and maintenance program).
49 SCE-10, p. 33.
50 Cal Advocates-01-C, p. 2-12.

The Commission should decline to apply a five-year average forecast because doing so would include outlier costs like a one-time journal entry in 2018 moving $181,000 from capital to an expense account, as well as $87,000 for the purchase of critical spare pump and motor assemblies for seawater wells.[51] Using a five-year average methodology would result in a forecast of $158,366, which is significantly higher than the last recorded year of $108,000 that SCE proposes.[52] Even though using a five-year average would result in a higher forecast for Account 640, SCE maintains that using the last recorded year methodology is the most accurate means of forecasting costs in this account. Accordingly, the Commission should approve use of the last recorded year for Account 640, or $108,000 in 2019. After accounting for a $20,000 adjustment from the RO membrane amortization, the Commission should approve SCE's forecast of $128,000 for Account 640

e) Account 650 – Contract Work

Account 650 includes the costs of all repair and maintenance work not performed by SCE labor (i.e., contractors). This includes the materials and supplies necessary to complete the work, unless separately accounted for in Account 640. After considering Cal Advocates' recommendations, SCE's updated forecast for Account 650 is $1,544,000, which is the sum of $503,000 (last recorded year of 2019)[53] and an updated total adjustment of $1,041,000. Cal Advocates agrees with SCE that the last recorded year of 2019 should be used as the baseline for forecasting costs in Account 650 but contends that the total adjustment to Account 650 should be $222,000.[54] Each of the component adjustments are discussed in further detail below.

Incremental Sampling for Catalina Special Projects. Starting in 2020, SCE expects to spend $519,000 per year in contractor costs to support supplemental water

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51 SCE-10, p. 33; SCE-02, pp. 15-16.

52 SCE-10, p. 33.

53 Though the exact 2019 general ledger entry is $1,677,407 as set forth below, SCE elects to use the rounded number of $1,677,000 for its forecast.

54 Cal Advocates-01-C, p. 2-13.

sampling and analysis to monitor water quality during an ongoing environmental assessment of water distribution facilities.[55] These activities include island-wide drinking water sampling, evaluation and tabulation of water quality data, report preparation and environmental consulting services.[56] Cal Advocates does not dispute the reasonableness of the costs, but recommends that SCE include these water sampling costs in the Catalina Water Pipeline Assessment Memorandum Account ("CWPAMA") established in D.21-02-009.[57] Though the water quality sampling supports safe drinking water standards in the Two Harbors pipeline system, water sampling is a routine operating expense that appropriately falls within the normal scope of O&M expenses in this GRC proceeding. The CWPAMA was established to track the costs of a system-wide assessment of the pipelines and their infrastructure at Catalina.[58] The purpose of the assessment was to overcome "the lack of a single set of record fully mapping and characterizing the entire Catalina Water system" and "allow SCE to properly catalogue the Catalina Water's infrastructure."[59] Water quality sampling falls outside of the scope of the CWPAMA, and the Commission should be consider and approve the $519,000 forecast in this proceeding.

GWUDI And LCR Compliance. SCE originally forecast $40,000 per year for sampling, analyzing, and preparing reports in compliance with the Lead and Copper Rule ("LCR") and the Groundwater Under the Direct Influence of Surface Water ("GWUDI") water quality regulations.[60] Having considered Cal Advocates' testimony, SCE agrees that $28,000 of the $40,000 adjustment should be removed given that the analysis and reporting for the GWUDI and LCR are accounted for in SCE's historical balance.[61] The parties agree that the remaining

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[55] SCE-02, p. 19.
[56] *Id.*
[57] Cal Advocates-01-C, p. 2-14.
[58] D.21-02-009, p. 1.
[59] D.21-02-009, p. 12.
[60] SCE-02, p. 19.
[61] SCE-10, p. 36.

contract labor adjustment for $12,000 is appropriate.[62] The Commission should therefore approve a $12,000 adjustment for GWUDI and LCR compliance related work.

New NPDES Permit Requirement. SCE forecasts $20,000 per year in incremental sampling, laboratory fees, and report preparation to support SCE's revised National Pollutant Discharge Elimination System (NPDES) permit for the desalination plants, which went into effect in 2020.[63] These are regulatory requirements included in SCE's drinking water and NPDES permits. Cal Advocates agrees with SCE's requested $20,000 adjustment to perform this incremental work.[64] The Commission should therefore approve the $20,000 adjustment relating to the NPDES permit requirements.

Annual Well Maintenance. SCE forecasts an increase of $100,000 per year in specialized contractor support for planned and unplanned well maintenance across 13 water supply and 28 monitoring wells across the island.[65] Cal Advocates believes that SCE proposes to transition "exclusively" to contract work for all well maintenance due to the need for specialized equipment and expertise.[66] On that basis, Cal Advocates reasons that exclusive use of contract labor for well maintenance should result in a reduction of SCE's in-house labor costs, and thereby recommends that the Commission either deny SCE's $100,000 adjustment or require SCE to offset the adjustment with a proportionate reduction to Account 630.[67]

As set forth in SCE's Rebuttal Testimony, SCE does not propose to transition all well maintenance exclusively to contract work.[68] SCE is instead requesting an adjustment to account for specialized contract work that would be performed on a complementary basis alongside SCE well maintenance operations.[69] Given the small size of

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[62] Cal Advocates-01-C, p. 2-13, Table 2-6.
[63] SCE-02, p. 19.
[64] Cal Advocates-01-C, p. 2-13, Table 2-6.
[65] SCE-02, p. 20.
[66] Cal Advocates-01-C, p. 2-15.
[67] Cal Advocates-01-C, p. 2-15.
[68] SCE-10, p. 36.
[69] SCE-10, p. 36.

SCE's water utility operations, the $100,000 adjustment represents an increased need for highly specialized contractor work required to maintain adequate and reliable water production from groundwater supply sources.[70] The Commission should approve the $100,000 adjustment necessary for well maintenance on the island.

Wildfire Mitigation. SCE forecasted $43,000 per year for wildfire mitigation expenses for water facilities located across the island.[71] Upon further review, SCE determined that $8,050 of the $43,000 of planned wildfire mitigation activities were to be performed by incremental SCE labor.[72] SCE therefore proposes to reduce its forecast in this Account 650 by $8,050 and increase the adjustment to Account 630 by that same amount.[73] As a result, SCE requests a $35,250 adjustment to this account relating to wildfire mitigation activities on the island. Cal Advocates recommends that the Commission deny the adjustment for lack of documentation for the proposed costs.[74]

In response, SCE provided extensive Rebuttal Testimony supporting the proposed wildfire mitigation adjustment, including details regarding the scope of work to be performed such as inspections, remediations, fencing, and expanded clearances, requested amount for each activity, basis for the cost estimate, and alignment with the company-wide Wildfire Mitigation Plan (WMP).[75] SCE's Rebuttal Testimony established the need for inspection and remedial activities (similar to WMP IN-5 Generation High Fire Risk Informed Inspections) specific to the Catalina water utility which would enable SCE to inspect and remediate risks its electrified water assets using the same priority methodology as the WMP IN-5

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[70] SCE-02, p. 20.

[71] The actual amount for the wildfire mitigation expense is $43,300 as presented in response to Cal Advocates data request DR CR8-009, Q.2.e; Cal Advocates-01-C, Attachment 2-20, p. 1.

[72] SCE-10, p. 37.

[73] *See* Section III.A.1.c (Account 630) (SCE requests approval to move $8,050 in labor expense inadvertently presented in the adjustment for the Wildfire activities in Account 650 into Account 630).

[74] Cal Advocates-01-C, p. 2-16.

[75] SCE-10, pp. 37-39; SCE-10WP, p. 81.

activity.[76] The requested adjustment would enable SCE to inspect not only its main distribution lines on the island, but also the secondary lines that feed water assets and the assets themselves.[77] SCE's Rebuttal Testimony also establishes the need for fencing repair funding to reduce wildfire risk, improve public safety, reduce animal interference, and provide fighters with a more defined defensible space for structure protection and in furtherance of keeping the water utility in operation during a wildfire.[78] SCE also provided Rebuttal Testimony establishing the need for expanded clearance activity similar to the VM-3 Expanded Clearances for Legacy Facilities in the WMP, which would benefit the 21 water assets on the island by resulting in less intense burning and risk in the event of a wildfire event.[79] Because SCE has met its burden of proof, the Commission should approve SCE's forecast of $35,250 toward implementation of these important wildfire mitigation measures.

Water Facility Preventative Inspection and Maintenance. SCE forecasts $200,000 per year for contract labor to perform water facility preventative inspections and maintenance.[80] Cal Advocates agrees that SCE has provided adequate support for $140,000 of the $200,000 adjustment but argues SCE has failed to provide any supporting evidence to justify the remaining $60,000 relating to aerator cleaning.[81] In its Rebuttal Testimony, SCE provided extensive support for the proposed aerator cleaning, including supporting invoices in its workpapers.[82] SCE established that the aerator at Pumphouse 2 serves an important function in Lead & Copper Rule compliance by reducing the corrosiveness of the groundwater, and that the aerator's trays must be cleaned of mineral deposits after extensive usage to prevent extended outages and poor water quality.[83] In its Rebuttal Testimony, SCE also clarified that aerator

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[76] SCE-10, p. 37
[77] SCE-10, p. 37.
[78] SCE-10, p. 38.
[79] SCE-10, p. 38.
[80] SCE-02, p. 20.
[81] Cal Advocates-01-C, pp. 2-16 – 2-17.
[82] SCE-10, pp. 39-40; SCE-10WP-C, pp. 52-77.
[83] SCE-10, pp. 39-40

cleaning (i.e., a repair of equipment degradation), though not separately listed, was within the scope of "inspect and repair" of the air stripper discussed in SCE's direct testimony.[84] Because SCE has met its burden of proof, the Commission should approve SCE's full forecast of $200,000 relating to preventative inspections and maintenance on the island.

Support for SCE's Asset Management Program. SCE originally forecast $150,000 per year for contractor support of SCE's asset management program, which was established to perform baseline condition assessments, evaluate the effectiveness and efficiency of operations and maintenance practices, perform root cause analyses on equipment failures, and provide repair and replacements.[85] Cal Advocates agrees that SCE has provided adequate support for $50,000 of the $150,000 adjustment but argues SCE has failed to provide sufficient justification for remaining $100,000.[86] In its Rebuttal Testimony, SCE adjusted its test year forecast from $150,000 to $80,000 after completing a prioritization of the high risk/high priority assets as reflected in a prioritization matrix resulting from an audit completed in 2020.[87] The remaining $30,000 (the difference between SCE's revised request and Cal Advocates' recommendation) will enable SCE to engage third party vendors that possess the resources, tools, and expertise not available internally to conduct the requisite assessments, test and analyze the water utility assets, system and subsystems and provide recommendations for improvements.[88] The program will also, on an ongoing basis, address assessment of the remaining water utility assets in subsequent years to ensure all water utility assets are appropriately evaluated.[89] The Commission should approve SCE's full forecast of $80,000 relating to its asset management program.

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84 SCE-10, p. 39; SCE-02, p. 20.
85 SCE-02, p. 20.
86 Cal Advocates-01-C, p. 2-17.
87 SCE-10, p. 40; SCE-10WP, p. 80.
88 SCE-10, p. 40.
89 SCE-10, p. 40.

Tank and Water Infrastructure Coating and Maintenance. SCE requests a $75,000 adjustment to complete a one tank coating maintenance with an estimated cost of $75,000.[90] Cal Advocates argues that this adjustment lacks explanation of the activity and recommends exclusion.[91] In its Rebuttal Testimony, SCE established that this tank maintenance was outside of the skills and expertise of internal employees and instead required specialized vendors support to prevent corrosion on assets including above ground water lines, pressure reducing stations, tanks and tank gauges, ladders, and railings.[92] Further, these vendors are equipped to handle high volatile organic compounds (VOCs) and have the capability to exfoliate, treat, prime, and recoat bare metal that may contain hazardous material like lead or cadmium, while meeting safety and regulatory compliance standards from National Association of Corrosion Engineers (NACE) and National Sanitation Foundation (NSF/ANSI-61) requirements.[93] SCE requests the $75,000 to perform this specialized maintenance work in order to prevent deterioration and avoid the much more expensive costs of replacing the asset altogether.[94] SCE has met its burden in establishing the need for this work and requests that the Commission approve the $75,000 adjustment.

For the reasons discussed above, SCE requests that the Commission approve a total forecast of $1,544,000 for Account 650, including adjustments totaling $1,041,250.

f) Account 660 – Transportation Expenses

Account 660 includes all vehicle and equipment costs used in support of water system operations. SCE's forecast for Account 660 is $161,000.[95] Cal Advocates

[90] SCE-10, p. 40; Cal Advocates-01-C, Attachment 2-26.
[91] Cal Advocates-01-C, pp. 2-17 – 2-18.
[92] SCE-10, p. 41.
[93] SCE-10, p. 41.
[94] SCE-10, p. 41.
[95] SCE-02, p. 22.

recommends that the Commission apply a five-year average to forecast Account 660.[96] Using the last recorded year of 2019 would result in a more accurate forecasting of costs because the 2019 recorded amount represents a typical year for transportation expenses such as vehicle and road permit fees and routine fleet maintenance.[97] Further, using data from 2018 and preceding years would not be representative because an adjustment was made in 2019 not captured in the preceding years to account for the additional time spent servicing water fleet vehicles relative to the generation and gas facilities on the island.[98] In addition, the Catalina water utility underwent reorganization from the company's Transmission and Distribution organizational unit to the Generation organization in in 2017, with certain transition activities continuing into 2018.[99] As a result, the accounting for Catalina vehicles was also updated such that 40% of the total vehicle costs from the Transportation Services Department (TSD) were allocated to the water utility, another change that would not be captured by the data from 2018 or preceding years.[100] The 40% allocation is reasonable as the allocation takes into account both past trends and future expectations, and as Cal Advocates notes, the 40% allocation very closely tracked the actual allocation of O&M costs incurred in 2019, further corroborating the reasonableness of the 40% allocation.[101] Because 2019 represents the best forecast of future transportation costs, the Commission should adopt the last recorded year methodology to forecast expenses in Account 660 and approve SCE's forecast of $161,000.

2. SCE's A&G Forecast Should Be Approved

At the time of filing its application, SCE's Test Year 2022 A&G forecast was $1.940 million.[102] After considering the recommendations of Cal Advocates in its testimony,

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[96] Cal Advocates-01-C, p. 2-18.
[97] SCE-02, p. 23.
[98] SCE-02, pp. 22-23.
[99] SCE-10, p. 42; Cal Advocates-01-C, Attachment 2-28.
[100] SCE-10, p. 42.
[101] Cal Advocates-01-C, pp. 2-18 – 2-19; Attachment 2-29.
[102] SCE-10, p. 43.

SCE has revised its Test Year 2022 A&G forecast to $1.891 million.[103] For the reasons set forth below, the Commission should approve SCE's A&G forecast of $1.891 million.

a) Account 670 – Office Salaries

Account 670 includes the labor costs to provide general administration of the Catalina water utility. SCE's forecast for Account 670 is $396,000.[104] Cal Advocates argues that the Commission should adopt a two-year average rather than the last recorded year for forecasting expenses.[105] The Commission should reject this recommendation because using the last recorded year of 2019 would result in a more accurate forecasting because data from 2018 would not be representative of expenses in TY 2022. This is because the water utility was reorganized into the Generation organization in 2017, and effective 2018, seven employees from the Utility Regulatory Services, Major Projects and Engineering and Asset Management and Generation Strategy that dedicate a portion of their time to the water utility did not allocate their related time to the water utility, requiring a $306,000 adjustment to the 2019.[106] Cal Advocates agrees with the $306,000 adjustment to 2019,[107] but argues that the Commission should also use data from 2018. Data from 2018 is unrepresentative because these expenses were incurred immediately following a major reorganization of the water utility and fails to account for the $306,000 adjustment which represents the level of support provided by the seven employees at issue.[108] Therefore, the last recorded year methodology should be adopted because recorded salary data from 2019 most closely tracks the expenses to be expected in TY 2022. The Commission should thereby approve SCE's forecast of $396,000 for Account 670.

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[103] SCE-10, p. 43.
[104] SCE-02, p. 25.
[105] Cal Advocates-01-C, p. 3-3.
[106] SCE-10, p. 43.
[107] Cal Advocates-01-C, p. 3-3.
[108] SCE-10, p. 43.

b) Account 671 – Management Salaries

Account 671 includes the salaries of managers and supervisors who oversee and coordinate the daily operations, maintenance, and regulatory compliance of the Catalina utilities. SCE's forecast for Account 671 is $154,000. Cal Advocates recommends that the Commission adopt the recorded 2018 amount as the forecast for this account because SCE could not explain a $16,000 increase from 2018 to 2019, and further contends that SCE's direct testimony and Results of Operations model provide conflicting data.[109]

At the time of SCE's response to Cal Advocates' data request, SCE was unable to isolate the specific cause of the $16,000 within the timeframe to respond but has since performed an analysis to better understand the cause of the increase.[110] In its Rebuttal Testimony, SCE establishes that following the reorganization of the water utility into the Generation organizational unit, a change in accounting for management salaries occurred in 2018.[111] An understatement of the 2018 expenses occurred because charges for management salaries were made into a Transmission and Distribution cost center through mid-2018, and were transitioned to recording into the Generation distributed cost center thereafter.[112] In the first full year following this change in accounting, the $16,000 difference was properly accounted for in 2019. Because SCE has met its burden in establishing the $16,000 differential in 2019, the Commission should approve use of 2019 as the baseline for forecasting expenses in this account.

Cal Advocates also contends that the 2018 recorded amount should be $134,000 as reflected in SCE's Results of Operation model rather $138,000 as presented in SCE's direct testimony.[113] However, as SCE explains in its Rebuttal Testimony, the difference is due to an adjustment to reflect 2019 constant dollars, and also adjusted to move labor related

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[109] Cal Advocates-01-C, pp. 3-4 – 3-5.
[110] SCE-10, p. 44.
[111] SCE-10, p. 44.
[112] SCE-10, p. 44; SCE-10WP, pp. 78-79.
[113] Cal Advocates-01-C, pp. 3-4 – 3-5.

allocations previously reported in Account 900.1 across all labor categories.[114] In sum, the Commission should approve SCE's forecast of $154,000 for Account 671.

c) Account 676 – Uncollectible Accounts Expense

Account 676 includes the amount of money required to cover the losses from uncollectible accounts receivable. Cal Advocates recommends using a five-year average of actual uncollectible expense amounts. After considering Cal Advocates' testimony,[115] SCE agrees that a five-year average is appropriate, however, SCE believes the use of actual uncollectible expense rates is most appropriate and reasonable. As such, SCE has updated its proposal to apply a five-year average of uncollectible rate for water utility operations.

SCE's proposal is reasonable as it relies on actual observed uncollectibles for the Catalina water utility. Additionally, a percentage-of-sales approach is common practice when estimating uncollectible accounts expense. SCE revises its forecast to apply a five-year average uncollectibles rate of 0.2822%, resulting in an uncollectible accounts expense of $21,525.[116]

d) Account 678 – Office Services and Rentals

Account 678 includes costs for office services and equipment rentals. For TY 2022, this includes operating rents that will be paid from the water utility to the electric utility to supplant the use of common plant allocations to the water utility. After considering Cal Advocates' testimony, SCE's revised TY forecast for Account 678 is $45,054.

SCE proposes to discontinue the allocation of Catalina common plant across the electric, water, and gas utilities on Catalina, and instead establish a monthly operating rent structure where the water utility will rent office and other operating space from the electric utility.[117] Under this new structure, all Catalina Common costs will be charged directly to the

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[114] SCE-10, p. 44.
[115] Cal Advocates-01-C, pp. 3-10 – 3-11.
[116] SCE-10, p. 47.
[117] SCE-02, p. 41.

electric utility with no subsequent allocation to the water and gas utilities.[118] This proposed change will reduce the rate base impacts of electric plant improvements and operating costs on the water and gas utilities, lessening the financial impact on the small water customer base and supporting annual budget processes.[119] Cal Advocates agrees with the transition to the monthly rent structure, but contends that SCE's calculation of the rent should be corrected.[120] SCE agrees with Cal Advocates' recommendation that that the assumed rate of return should be 7.68% to align with the rate of return currently authorized for SCE's electric utility, and also agrees with a proposed allocation of 83% to water operations.[121] However, SCE does not agree with Cal Advocates' recommendation that the Commission adopt a square footage cost estimate of $45.92 on a median basis as opposed to an average basis resulting in a $125 per square foot valuation.

The monthly operating rent was calculated using estimated land values, square footages of common plant space occupied by the water utility, and an estimated rental rate of return.[122] SCE's Real Properties Title and Valuation group assessed land values in LA County for similar commercial properties, and having conducted an analysis of eight separate sales of such properties, SCE estimated a rough order of magnitude cost estimate of $50 to $200 per square foot.[123] When calculating the monthly operating rent, SCE used an average of the low and high range of the rough order of magnitude cost estimates to obtain a land value of $125 per square foot.[124]

Cal Advocates contends that a median of the eight property sales should be used because "Sale 6" is an outlier that skews the average value high.[125] The Commission

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[118] SCE-02, p. 41.
[119] SCE-02, p. 41.
[120] Cal Advocates-01-C, pp. 3-5 – 3-8.
[121] SCE-10, p. 45.
[122] SCE-02, p. 42.
[123] SCE-02, p. 42.
[124] SCE-02, p. 42.
[125] Cal Advocates-01-C, p. 3-7.

should reject the use of a simple median as erroneous and overly simplistic. Though Sale 6 is the highest in dollar per square foot, Cal Advocates does not dispute that SCE's valuation methodology considered similar commercial property sales across LA County, which included Sale 6. Cal Advocates fails to establish or show why Sale 6 should be singularly excluded from an averaging, except for the fact that the price is higher. This justification alone is insufficient, particularly given that SCE is not simply taking the average of all eight sales but instead is averaging the high and low ranges of its rough order of magnitude cost estimates of $50 to $200 per square foot.[126] Cal Advocates likewise fails to show how or why an averaging of the rough order of magnitude costs estimates derived from similar commercial property sales does not constitute a reasonable basis for deriving a cost per square footage. SCE has met its burden in establishing a reasonable valuation methodology, and the Commission should approve SCE's valuation of the land at $125 per square foot. After adopting the other recommendations of Cal Advocates regarding a 7.68% rate of return and 83% water allocation, SCE requests that the Commission approve a forecast of $45,054 for Account 678.

e) Account 681 – Office Supplies and Expenses

Account 681 includes the costs of office supplies and expenses, including printing, stationery, general accounting supplies, repair, maintenance and telephone, and other office expenses. SCE's original forecast for Account 681 was $97,000.[127] Cal Advocates recommends that the Commission apply a five-year average to forecast costs in this account.[128] After considering Cal Advocates' recommendations, SCE proposes a compromise forecast using a two-year average of $74,000. Though $12,450 of the $39,700 in expenses recorded in 2019 were correctly categorized as "one-time" costs as reflected in SCE's response to Cal Advocates' data request on this issue, SCE clarified in its Rebuttal Testimony that due to the age of the facilities and resulting failures, it is likely that SCE will continue to incur unplanned

[126] SCE-02, p. 42; Cal Advocates-01-C, Attachment 3-3.
[127] SCE-02, p. 31.
[128] Cal Advocates-01-C, p. 3-8.

miscellaneous purchases to support various emergent O&M projects and activities.[129] While it is not certain that the exact same expenses would re-occur, SCE anticipates that similar expenses will continue to be incurred albeit for other unplanned system needs.[130] SCE therefore proposes to use a two-year average of 2018 and 2019 recorded costs to account for the potential re-occurrence of incremental costs recorded in 2019. SCE requests that the Commission approve a $74,000 forecast of Account 681 utilizing a two-year averaging forecast for the reasons discussed above.

f) Account 682 – Professional Services

Account 682 includes expenses related to external professional services contracted by SCE including consultants and engineers. SCE's forecast for Account 682 is $361,000 using a base year of 2019 as the most representative of a typical non-drought year.[131] Cal Advocates agrees with SCE's forecast of $361,000.[132] The Commission should approve $361,000 as the TY forecast for Account 682.

g) Account 689 – General Expenses

Account 689 includes the miscellaneous administrative and general expenses not identified in other operating expense accounts, but which are necessary for Catalina water utility operations. SCE's forecast for Account 689 is $464,000 based on a last recorded year of 2019 plus adjustments, but Cal Advocates recommends that the Commission use a five-year average to forecast expenses in this account.[133] The adjustment was necessary to remap non-labor topside adjustments from Account 630 to Account 689.

h) Account 800.1 – A&G Allocation

For expenses relating to Account 674 (Pensions and Benefits (P&B)) and Account 684 (Insurance), SCE uses the Commission-approved "four-factor method" allocation,

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[129] SCE-10, p. 46.
[130] SCE-10, p. 46.
[131] SCE-02, pp. 33-34.
[132] Cal Advocates-01-C, p. 3-2; Table 3-1.
[133] Cal Advocates-01-C, p. 3-9.

consistent with Standard Practice U-6-W, for its companywide A&G expense to the water utility.[134] After applying the four-factor allocation method, SCE's allocated indirect A&G expenses is $1.081 million.[135] The guidelines for allocating A&G expense using the four-factor method are provided in Standard Practice U-6-W.[136] In accordance with Standard Practice U-6-W, SCE utilizes the following four factors to allocate indirect A&G expenses to the Catalina water utility: 1) direct operating expenses, excluding uncollectibles, general expenses, depreciation and taxes; 2) gross plant; 3) number of employees; and 4) number of customers. Standard Practice U-6-W provides that "the arithmetical average of the percentages derived from the use of four factors listed below produces results within the range of reasonableness in most instances."[137] Consistent with this Standard Practice, SCE derived the average of the percentages derived from the four factors (detailed in SCE's workpapers), resulting in an A&G allocation rate of 0.064%.[138] Applying the allocation rate 0.064% to the companywide A&G expenses results in a Catalina water specific A&G allocation of $1.081 million.

The Catalina Parties contend that SCE has not complied with the Uniform System Of Accounts (USOA) in its request.[139] Cal Advocates contends that the Commission should maintain SCE's currently authorized A&G allocation of $535,020 because SCE did not comply with USOA standards for Account 674 and 684.[140] Cal Advocates also argues that the increased A&G expenses do not benefit water customers.[141] The Commission should reject this recommendation because SCE has complied with the USOA and has shown the benefits that the water utility derives from these expenses.

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134 SCE-02, p. 35.
135 SCE-06, p. 6.
136 Standard Practice U-6-W (Allocation of Administrative and General Expenses and Common Plant and the Four-Factor Allocation Method).
137 Standard Practice U-6-W, p. 2.
138 SCE-06WP, pp. 29-30.
139 CP-01, p. 12.
140 Cal Advocates-01-C, p. 4-1.
141 Cal Advocates-01-C, p. 4-2.

SCE complies with the USOA for Class B, C, and D water utilities, and its request in this proceeding is consistent with the A&G allocation methodology approved in the previous GRC. Catalina water-related P&B amounts have historically been embedded in SCE system-wide electric rates, but these expenses were approved as an allocated A&G amount in SCE's prior GRC.[142] The Catalina water utility does not purchase insurance separately from SCE or otherwise incur insurance costs as an ongoing expense. Like P&B expenses, insurance expenses were properly accounted for as an allocated A&G amount in the previous GRC.[143] SCE's inclusion of its P&B and insurance expenses was consistent with the previously approved GRC and is appropriate here in the instant GRC proceeding.

Cal Advocates contends that "[a]ll parties to the previous Catalina GRC, including SCE, agreed that in future GRCs it will comply with USOA guidelines."[144] SCE's allocation of these expenses is in compliance with USOA because it is consistent with Standard Practice U-6-W. In fact, the Standard Practice expressly provides that "pension expense" are properly considered an "indirect general expense" that is appropriate for A&G allocation.[145] As SCE witness Mr. Hite explained during evidentiary hearings, it is very difficult for SCE to use Account 674 to track pensions and benefits for employees because the water utility is not a standalone corporation, but rather a department within a large complex utility.[146] SCE employees all work for this large complex utility, and though 13 employees are assigned to the water utility, their time is split because they also work on the gas and electric utility as well.[147] Given these complexities, SCE uses the Commission approved four factor A&G allocation method to properly track pensions and benefits relating to these employees. No parties dispute that SCE performed the A&G allocation appropriately, nor do any parties dispute the accuracy of

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[142] SCE-10, p. 49; D.14-10-048, Appendix A.
[143] D.14-10-048, Appendix A.
[144] Cal Advocates-01-C, p. 3-12.
[145] Standard Practice U-6-W, p. 2.
[146] SCE, Hite, Tr. Vol. 4, p. 445:10-18.
[147] SCE, Hite, Tr. Vol. 4, p. 446:10-20

SCE's calculations. The Commission should find that SCE's adherence to the Commission's own Standard Practice U-6-W is reasonable and should approve SCE's request as compliant with Commission decision.

Further, it is incorrect to claim that Catalina water customers do not benefit from the increase in A&G expense. Catalina customers benefit significantly from the substantial resources afforded through SCE's ownership and operation of the water utility.[148] The A&G allocation costs are used to support many administrative and operational support functions which benefit customers in areas including but not limited to: Regulatory Affairs, Finance, Law, Customer Service and Billing, Information Technology, and Human Resources. [149] It cannot be reasonably disputed that Catalina water customers benefit from this support covered in the A&G allocation. It is reasonable for Catalina Water customers to pay their fair share of these benefits, which are properly allocated to them through the four-factor A&G allocation method in accordance with Commission standard practice and precedent. The Commission should thereby approve the allocated $1.081 million for indirect A&G expenses under Account 800.1.

i) Account 800.2 – Capitalized A&G Expense

SCE and Cal Advocates agree on the methodology for calculating capitalized A&G expense, which is total A&G costs multiplied by the capitalized expense ratio.[150] The difference in SCE's and Cal Advocates' capitalized A&G expenses results from the different total A&G amount being used in each party's calculation.[151] Using this undisputed methodology, SCE calculates the amount of A&G to be capitalized as -$798,615.[152] The Commission should approve -$798,615 as the capitalized A&G expense in Account 800.2.

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[148] SCE-10, p. 50.
[149] SCE-10, pp 50-51.
[150] SCE-10, p. 48; Cal Advocates-01-C, p. 3-2, fn. 123.
[151] SCE-10, p. 48; Cal Advocates-01-C, p. 3-2, fn. 123.
[152] SCE-10, p. 48.

j) Account 689.927 – Franchise Fees

SCE and Cal Advocates agree on the methodology for calculating the franchise fee amount, which is the revenue requirement multiplied by the franchise fee rate.[153] The difference in SCE's and Cal Advocates' franchise fee amount results from the different revenue requirement being used in each party's calculation.[154] Using this undisputed methodology, SCE calculates the franchise fee as $94,305.[155] The Commission should approve the amount of $94,305 as franchise fees in Account 689.927.

B. SCE's Proposed Addition to Plant are Necessary, Accurate, Reasonable, and Justified

1. Historical Capital Projects

Since SCE's last GRC for the Catalina water utility, SCE completed 24 capital projects. The capital projects fall into three categories: 1) water supply and drought resiliency, 2) regulatory and safety compliance, and 3) infrastructure replacement and operational improvement.[156] These capital projects are used and useful, benefitting water customers, and the dollar amounts for each individual project are the exact amounts that SCE has actually spent on the projects. SCE investors are entitled to return of, and a return on, this invested capital. SCE requests that the Commission approve an addition of $10,104,768 in capital expenditures to SCE's rate base for the benefits conferred by these projects.

Cal Advocates agrees that 18 of 24 historical projects at issue are reasonable and recommends an addition of $4,121,555 to SCE's rate base.[157] The Commission should, at a minimum, approve this addition for these 18 capital projects. With respect to the four remaining projects, Cal Advocates recommends that the Commission completely deny SCE's requested

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[153] SCE-10, p. 48; Cal Advocates-01-C, p. 3-2, fn. 122.
[154] SCE-10, p. 48; Cal Advocates-01-C, p. 3-2, fn. 122.
[155] SCE-10, p. 48
[156] SCE-03, p. 1.
[157] Cal Advocates-01-C, pp. 6-2 – 6-4; Table 6-1.

additions.[158] The Commission should approve the amount SCE requests for each of these four projects for the reasons discussed below.

a) Desalination Plant 2

The Commission should approve the addition of $643,932, representing the outstanding balance of costs to complete the Desalination Plant 2 project net of grants and contributions.[159] SCE successfully completed the Desalination Plant 2 project to provide safe and uninterrupted drinking water to the customers on Catalina through the desalination of seawater, a drought-resilient water supply unaffected by below-average rainfall.[160] Decreased groundwater availability resulting from prolonged drought conditions on Catalina necessitated the development of Desalination Plant 2 as a drought mitigation project to serve the community of Avalon.[161]

No parties dispute the necessity or reasonableness of the project, but Cal Advocates contends that ratepayers should not bear any of the costs associated with this project because "the entire cost of the project is covered by contributions."[162] Cal Advocates argues that the California Department of Water Resources (DWR) awarded a grant of $3,610,575 and that SCE failed to adequately explain why the entire grant amount would not be available to cover the costs of the project.[163] "Absent an adequate explanation of the discrepancy," Cal Advocates recommends that the Commission deny SCE's request in its entirety.[164] The Commission should reject this recommendation because the cost of the project was not entirely covered by DWR contributions as Cal Advocates contends. Through its discovery responses and Rebuttal

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[158] Cal Advocates-01-C, pp. 6-2 – 6-4; Table 6-1.
[159] SCE-10, p. 54; Table V-10.
[160] SCE-03, p. 7.
[161] SCE-03, p. 7.
[162] Cal Advocates-01, pp. 6-5 – 6-6.
[163] Cal Advocates-01, p. 6-6.
[164] Cal Advocates-01, p. 6-8.

Testimony, SCE has provided a clear breakdown of the outstanding balance that remains after grants and contributions, resolving any purported discrepancy.[165]

Throughout the discovery period, SCE was working with DWR to update the funding agreement for the Desalination Plant 2 project.[166] Though the DWR grant was initially $3,610,575, SCE revised its anticipated grant amount from $3,610,575 to $2,100,000 to better reflect the potential level of grant funding after excluding costs of construction labor, special services, SCE overhead, and SCE labor.[167] Based on the DWR grant award, the City of Avalon requested return of their $500,000 capital contribution to the project.[168] SCE responded to the City's contribution refund request, stating that when SCE is in receipt of the grant funds from the DWR, SCE will follow the terms of the City's contribution agreement and return the pro rata amount based on the percentage of the final project cost funded by the DWR grant award.[169] As a result of these discussions, SCE adjusted its DWR grant funding estimate from $2.1 million to $2.319 million, which represents 64% of the total project cost of $3.624 million. After accounting for external contributions, there remains an outstanding balance of $643,932 as broken down in the following table provided in SCE's Rebuttal Testimony:[170]

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[165] SCE-10, pp. 53-55; Table V-10.
[166] SCE-10, p. 53.
[167] Cal Advocates-01-C, pp. 6-6 – 6-7; Attachment 6-14.
[168] SCE-10, p. 53.
[169] SCE-10, p. 53.
[170] SCE-10, p. 54, Table V-10.

Table III-2
Desalination Plant 2
Updated Funding Request
(Nominal$)

Description	Amount
Direct Project Cost	$ 3,623,932
City of Avalon Contribution	$ (500,000)
LA County Contribution	$ (500,000)
Adjusted Estimated DWR Grant Amount	$ (2,300,000)
Original Water GRC Request	$ 323,932
Pro-rata Return of City of Avalon Contribution	$ 320,000
Updated Water GRC Request	**$ 643,932**

SCE requests that the Commission find that the outstanding balance relating to the Desalination Plant 2 project is $643,932 and approve addition of this same amount to SCE's rate base.

b) Howlands Landing Well 3 Well and Pipeline

The Commission should approve the $1,653,457 in costs that SCE incurred in the construction of the Howlands Landing Well 3 ("HL-3"). Cal Advocates takes the unreasonable position that the Commission deny all costs relating to the construction of HL-3, arguing that the failure of its replacement, Howlands Landing Well 1 (HL-1), was foreseeable and should have been addressed before HL-1 failed.[171] Even assuming the costs of constructing HL-3 were unreasonably high (which they are not), it is undisputed that HL-3 is a used and useful resource that has and will continue to benefit customers by providing clean, safe, and reliable water to the island's West End.[172] Cal Advocates' recommendation to deny all costs of

[171] Cal Advocates-01, pp. 6-8 – 6-9.
[172] *See* SCE-03, pp. 8-11; SCE-10, pp. 60-61.

a used and useful resource is a direct contravention of the regulatory compact and should be strongly rejected by Commission.[173]

Cal Advocates' argument that the failure of HL-1 was foreseeable and should have been addressed beforehand is belied by the record in this proceeding. First, the record makes clear that the historically severe drought conditions during 2014 was the cause of the failure at HL-1. HL-1 is an alluvial groundwater well that is more prone to salt-water intrusion in drought years where groundwater supplies recede, and the saltwater/freshwater interface moves further inland.[174] In June 2014, severe drought conditions ultimately rendered HL-1 unsuitable for drinking water due to increased salinity resulting from seawater intrusion.[175] SCE should not be penalized for failing to predict that Catalina would suffer from a historical drought, or for not preemptively acting upon this remote possibility through the construction a new replacement drill. Contrary to Cal Advocates' assertions, it would not have been justifiable or cost effective to construct a new drill to protect against the chance of a historically severe drought. In addition, as SCE witness Mr. Hite explained during evidentiary hearings, a new well would not have been a prudent or justifiable expenditure because the West End of the island is virtually unpopulated through the majority of the year besides seasonal Boy Scouts usage during the summer.[176]

Furthermore, the record demonstrates that when the water quality concern was identified at HL-1 due to exceptional drought conditions, SCE immediately responded and took remedial actions in an expeditious manner.[177] The seawater intrusion event occurred in

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[173] *See*, *e.g*. D.10-10-017, p. 39, 2010 WL 4128323 (Oct. 14, 2010), (Sierra Pac. Power Co.) ("under the decades old regulatory compact, rate recovery can be expected for all reasonable expenditures made in the provision of safe and reliable utility service"); D.09-03-025, p. 324, 2009 WL 801553 *128 (Mar. 12, 2009) (Southern California Edison) ("The 'regulatory compact,' is that in exchange for a reasonable opportunity of earning a fair return, ratepayers pay the adopted rates and the utility does what is necessary to provide safe and reliable service.").

[174] SCE-10, p. 60.

[175] SCE-03, p. 8.

[176] SCE, Hite, Tr. Vol. 4, p. 442:4-21.

[177] SCE-10, p. 60.

June 2014, with the new well being drilled in September 2014, completed by October 2014, and placed into service in June 2015.[178] Given the uncertainty of groundwater development, particularly in bedrock aquifers, the completion of the new resource within 12 months of the HL-1 failure was a tremendous accomplishment.[179] Completing the project for a cost of $1,653,457 in such a short timeframe demonstrates the efficiency, cost-effectiveness, and reasonableness of the project.[180]

Finally, Cal Advocates also argues that SCE: (1) spent $3,232,988 in emergency-related water supply costs during the construction of HL-3; (2) constructed a treatment system adding $1,574,450 to the cost of the HL-3 project; and (3) spent $368,635 relating to a repair of the well casing, or HL-3R.[181] By adding these costs to SCE's *actual* construction costs of $1,653,457, Cal Advocates argues SCE's total cost of "nearly $7 million" were unreasonably high.[182] On that premise, Cal Advocates recommends that the Commission reject the HL-3 construction costs.[183]

The Commission should decline to conflate these categories of costs as Cal Advocates suggests. The cost of actually *constructing* HL-3 is entirely separate from the cost required to supply water during construction, to treat the water, or to repair the casing of the well. None of these costs cited by Cal Advocates are relevant to the prudency of the actual costs of construction. Not only are these costs distinct, it should be noted that Cal Advocates actually agrees with 100% of the cost SCE incurred for treating the water and for repairing the casing of the well.[184] With respect to the water supply costs, SCE demonstrates further below in its

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178 SCE-10, pp. 60-61.
179 SCE-10, p. 61.
180 SCE-10, p. 61.
181 Cal Advocates-01-C, pp. 6-9 – 6-10.
182 Cal Advocates-01-C, p. 6-10.
183 Cal Advocates-01-C, p. 6-10.
184 Cal Advocates-01-C, pp. 6-2 – 6-3, Table 6-1, Item no. 3 (recommending 100% recovery of "Howlands Landing Well 3 Treatment System"); Item no. 13 (recommending 100% recovery of "HL3 Well Replacement and Pump Modification").

Opening Brief that these water supply costs were reasonable given the extreme drought conditions.[185] The Commission should find that that the actual costs of constructing HL-3 (as opposed to costs merely associated with its construction) are reasonable and thereby approve the $1,653,457 addition to SCE's rate base.

c) Million Gallon Tank (MGT) Renovation and Rebuild

Constructed in 1967, the MGT provides up to 100,000 gallons of drinking water storage to the Two Harbors community and the occupants of USC's Wrigley Marine Science Center (USC Marine Lab) on the West End of Catalina and 900,000 gallons of dedicated fire suppression water for the USC Marine Lab.[186] Inspections conducted in 2013 and 2014 revealed significant corrosion on the tank floor necessitating timely replacement to mitigate the risk of a failure to a primary source of drinking water and fire suppression supply for the service area.[187] Beyond replacement of the tank floor, additional repairs and improvements were made to address operational performance and regulatory compliance and extend the service life of the asset.[188]

While Cal Advocates does not dispute the reasonableness of the project or its costs, Cal Advocates contends that USC should have paid a greater share of those costs based upon a misreading of the contract between USC and SCE. The contract allocates costs based on the amount of construction costs incurred for original enlargement of the MGT (and appurtenant facilities) between domestic water service and fire protection service.[189] This resulting ratio results in USC bearing 51.2% of the costs (i.e. the "Fire Protection Cost") and SCE bearing the remaining 48.8% of the costs for the MGT.[190] Contrary to Cal Advocates' argument, this allocation is not based on the MGT's storage volume dedicated to fire protection versus domestic

[185] SCE Opening Brief, Section III.D.1.
[186] SCE-03, p. 28.
[187] SCE-03, pp. 28-29.
[188] SCE-03, pp. 29-30.
[189] *See* Cal Advocates-01, Attachment 6-2, p. 4 (Ratio of Fire Protection Cost to Completed Cost).
[190] *See* SCE-10, pp. 62-63 (including Table V-13 showing Original MGT Reimbursement Ratio Calculation).

service, but rather the incremental costs of construction associated with the fire protection services. SCE is only requesting its properly allocated share of the costs for the MGT Renovation and Rebuild project.

The Catalina Parties seek disallowance of the costs of the project in reliance on unsupported allegations that SCE did not properly address PCB issues associated with the tank. SCE timely and reasonably responded to the PCB-related issues at the MGT in accordance with applicable regulations and in collaboration with the State's Division of Drinking Water and the United States Environmental Protection Agency (EPA).[191] Moreover, the Catalina Parties conflate the MGT Renovation and Rebuild Project with other ongoing environmental projects for which SCE is not seeking recovery in this proceeding and are the subject of other pending proceedings.

As the renovation and rebuild of the MGT was essential to support safe and reliable water service for the customers on the West End of Catalina and SCE has properly charged USC for its allocated share of the associated costs, the Commission should approve SCE's request for its share of the recorded capital expenditures totaling $2,272,462.

d) Water SCADA Upgrade

The Commission should approve SCE's request to add $1,413,362 into plant for the Supervisory Control and Data Acquisition (SCADA) Refurbishment/Upgrade Project. The Catalina water system includes multiple isolated systems comprised of tanks, wells, pump stations and pipelines which are located miles apart across rugged terrain.[192] In 2008, SCE installed a SCADA system to retrieve real-time data (including alarm notifications due to water loss, equipment malfunctions, security breaches, etc.) from isolated, remote sites allowing for centralized monitoring and making operational changes.[193] A condition assessment

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[191] *See* SCE-10, p. 63; SCE-10-WP, pp. 94-98; SCE, Hite, Tr. Vol 4, pp. 429:4-432:11
[192] SCE-03, p. 32.
[193] *Id*.

completed in 2016 identified the need to rehabilitate and update the SCADA system.[194] The project consisted of reconfiguring and/or refurbishing the existing SCADA system at 11 different water facilities along with software and hardware upgrades and was initiated in 2017 and completed in 2019.[195]

Both Cal Advocates and the Catalina Parties recommend complete disallowance of the costs of the Water SCADA Upgrade project. Both rely on a Proposed Decision that was never adopted by the Commission from the last GRC concerning the original SCADA installation. Neither party submits any competent evidence to dispute SCE's articulated justifications for the Water SCADA Upgrade project and the benefits obtained therefrom. Rather, they focus on the perceived absence of an analysis to somehow quantify those benefits to justify the project. However, capital projects frequently do not result in specific cost savings to offset the costs of those projects (e.g., office facilities, water tanks and pumps, etc.) and neither party cites any precedent requiring such a showing. The undisputed benefits of the project, such as enhancements to water quality and pressure monitoring, pumping and distribution storage management, and automated control systems, alongside the upgrade of obsolete elements and the continued support for the collection of statutorily required data establish the reasonableness of the project and its costs.[196]

The Commission should conclude that the recorded expenditures for the Water SCADA Upgrade are reasonable and approve their addition to SCE's rate base.

2. Forecasted Capital Projects

a) Desalination Enhancements Phase 1

The unique conditions of providing water service on Catalina Island, including the island's physical isolation and geography and seasonal demands due to the tourism

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194 *Id.*; *see also* SCE, Hite, Tr. Vol 4, pp. 425:28-426:15.
195 SCE-03, pp. 32-33.
196 SCE-03, p. 32; SCE-10, pp. 65-66; SCE, Hite, Tr. Vol 4, pp. 424:3-15, 425:28-426:15, 438:12-19.

economy, render it susceptible to prolonged drought conditions.[197] Since heavy reliance on groundwater sources risks water supply shortages under such conditions, SCE has actively sought to expand desal production capacity. Beyond mitigating water supply risks associated with prolonged drought conditions, desal production enhances water quality for customers as the desalination process also removes other impurities from the source water.[198] Following the completion of Desalination Plan 2 in April 2016, SCE retained a consultant to perform a study of the feasibility of further expanding desal production.[199] The resulting study serves as the basis for Desalination Enhancements Phase 1 to strategically increase SCE's desal capacity and provide distribution storage enhancements to maximize the production potential from existing infrastructure.[200] In December 2019, DWR announced their intent to grant up to $10.0 million of eligible scope for the project, subject to project completion within three years.[201]

Cal Advocates opposes the project solely to the extent its costs exceed the DWR grant amount and contends that SCE has sufficient production capacity since, among other things, the island has minimal growth.[202] As detailed in SCE's rebuttal testimony, Cal Advocates' analysis of SCE's production capacity is flawed as it incorporates multiple years where staged water rationing was in place and does not include additional water demand from waitlisted allocations and does not properly account for resilience needed to address prolonged drought conditions.[203] The increase in desal production capacity is warranted by the more frequent and severe droughts (including the current one) experienced by the island.[204] SCE diligently secured the maximum amount of grant funding available from DWR based upon the

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[197] SCE-03, p. 54.
[198] *Id*.
[199] SCE-03, p. 55.
[200] SCE-03, pp. 55-58.
[201] SCE-03, p. 59.
[202] Cal Advocates-01, p. 6-16 – 6-17. The Catalina Parties' testimony is unclear as to whether they oppose funding, but they frequently acknowledge the benefits of expanded desalination. *See, e.g*. CP-01, p. 32 ("desalination is the long-term salvation of the Island.")
[203] SCE-10, pp. 69-70.
[204] SCE-03, pp. 54-55.

fully scoped iteration of the project which leverages existing infrastructure and includes a seawater well system, desal facility enhancements and distribution storage enhancements.[205] Reducing the scope of the project by $2.71 million endangers reimbursement of certain costs via the DWR grant and the benefits to customers from the improvements to water source capacity and storage, treatment process efficiency, and drought resiliency.[206]

As Cal Advocates does not challenge the reasonableness of SCE's forecast for the project and does not contest the prudence of each of component improvements, SCE's forecast of $2.71 million for Desalination Enhancements Phase 1 should be approved as requested.

b) Desalination Building Upgrade

Constructed in 1989, Desalination Plant 1 is housed in a metal building with a structural steel support structure which requires refurbishment due to severe degradation related to the highly corrosive desalination process and harsh marine conditions.[207] The metal walls and roof of the building have become partially disconnected the steel support structure creating safety hazards for its occupants, jeopardizing an adjoining electric facility and travelers on a nearby road and endangering water quality due to the risk of wildlife incursions.[208] Rather than replace the building, SCE chose to less costly alternative of refurbishing the steel structure.[209]

Cal Advocates opposes SCE's request for funding of the project due to the absence of an itemized budget or a condition assessment.[210] At the time of filing the application in 2020, SCE provided its forecast based on a rough order of magnitude assessment for the

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[205] SCE-03, pp. 55-58.
[206] SCE-10, pp. 67-68.
[207] SCE-03, pp. 64-65.
[208] *Id.*; SCE-10, pp. 70-71.
[209] SCE-03, p. 65.
[210] Cal Advocates-01, p. 6-18.

project which was not scheduled to commence until 2022.[211] As detailed testimony and in workpapers showing the state of the building, the severe corrosion and metal loss experienced by the building is readily apparent.[212] To mitigate the undisputed safety and water quality hazards presented by the building's conditions, SCE's forecast of $250,000 for the Desalination Building Upgrade should be approved as requested.

c) Water Meter Replacement Program

SCE has 2,033 meters in the Catalina freshwater system, including 104 flow detection devices on dedicated fire protection services.[213] Commission General Order (GO) 103-A specifies the maximum period that meters of various sizes may remain in service without being either retested or replaced.[214] As of December 31, 2019, 1,173 of SCE's water meters exceed the maximum service periods prescribed by GO 103-A with an additional 163 water meters slated to exceed the maximum service periods within the next five years.[215] SCE's Water Meter Replacement Program targets the oldest meters in the system for replacement for all size ranges of meters over a four-year period (2021-2024).[216]

Cal Advocates opposes SCE's request arguing that, rather than comply with GO 103-A, SCE can request an extension to comply with its mandates.[217] Beyond compliance, SCE's Water Meter Replacement Program is necessary to support meter accuracy helping ensure customers only pay for the water service they receive and do not subsidize those whose meters do not accurately reflect their actual usage.[218] Meter accuracy also supports reductions of apparent water losses, water system efficiency and water usage data quality.[219]

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[211] SCE-03, p. 65.
[212] SCE-10, pp. 70-71; SCE-10WP, pp. 85-88.
[213] SCE-03, p. 62.
[214] General Order 103-A, IV.6.A.
[215] SCE-03, pp. 62-63.
[216] SCE-03, p. 63.
[217] Cal Advocates-01, p. 6-21.
[218] SCE-03, p. 63; SCE-10, p. 72.
[219] SCE-03, pp. 62-63; SCE-10, p. 72.

Filing an extension to GO 103-A's mandates will only delay meter replacements for meters who have exceed or will soon exceed maximum service periods per GO 103-A. Accordingly, SCE's forecast of $0.368 million in capital expenditures over four years for the Water Meter Replacement Program should be approved.

d) Water Valve Replacement Program

There are approximately 200 isolation valves throughout SCE's Catalina freshwater distribution system establishing pressure zones and controlling the flow of water.[220] As many of the valves were installed in the 1960s and 1970s, SCE initiated the Water Valve Replacement Program in 2018 as valve failures can result in increased water loss, decreased service reliability, and degraded water quality in the distribution system.[221] The Program prioritizes the replacement of broken, frozen, or otherwise inoperable valves and factors in valve age and criticality of location/function in the water distribution system.[222]

Cal Advocates opposes SCE's request for $1.3 million over a five year period (2020-2024) for the Program on the grounds that SCE failed to perform a detailed condition assessment of the valves targeted for replacement under the Program.[223] This argument ignores the essential role placed by these isolation valves for routine and emergency maintenance in avoiding service interruptions for customers to the maximum extent possible and minimizing water losses due to leaks and repairs.[224] The Program's selection of isolation valves targeted for replacement is consistent with SCE's historic practice and the forecast is based on programmatic deployments in 2020, 2022 and 2024 to minimize costs.[225] The Commission should approve SCE's forecast of $1.3 million for the Program.

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220 SCE-03, p. 60.
221 *Id*.
222 *Id*.
223 Cal Advocates-01, pp. 6-21 – 6-22.
224 SCE-03, pp. 60-61; SCE-10, pp. 73-74.
225 SCE-10, pp. 73-74.

e) Water System Control Valve Replacements

The Catalina water system employs automatic control valves to improve system operations and efficiency by optimizing pressure and flow to control the internal hydraulics.[226] During routine operations and maintenance, multiple automatic controls valves were found to be operating improperly due to the deterioration of the internal bodies and components of the control valves, including rotting of internal materials and other components unfit for challenging water conditions, such as seawater.[227] Multiple control valve models had been discontinued by the manufacturer and required complete replacement.[228] SCE plans to replace 10 automatic control valves to proactively address and mitigate risks associated with this observed deterioration of components.[229]

Cal Advocates opposes SCE's forecast of $100,000 for the Water System Control Valve Replacements citing to SCE's recorded costs from 2013-2019 of $60,000 on control valve maintenance work.[230] However, SCE's experiences with those failing control valves prompted the need to address control valve replacement in a more proactive manner to avoid their inoperability due to deteriorated components.[231] Given the critical role played by these control valves and Cal Advocates' unsupported claim that recent maintenance will extend their service lives, SCE's request for the Water System Control Valve Replacement should be approved.

f) Wildfire Mitigation

As the vast majority of Catalina (apart from certain developed areas around Avalon) are considered High Fire Risk Areas (HFRAs) and mapped as Tier 3, SCE is performing multiple improvements to mitigate wildfire risks associated with Catalina water system

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[226] SCE-03, p. 70.
[227] *Id*.
[228] *Id*.
[229] SCE-03, p. 71.
[230] Cal Advocates-01, p. 6-23.
[231] SCE-03, p. 70; SCE-10, p. 75.

infrastructure, including High Fire Risk Inspections (HFRI) and remediations, vegetation management, system hardening efforts, and Public Safety Power Shutoff (PSPS) preparedness.[232] SCE's forecast for these improvements is $303,600 over the period from 2020-2022.[233] Cal Advocates recommends a reduction of $220,000 to SCE's forecast associated with system hardening efforts and PSPS preparedness due to the absence of detailed cost and activity breakdowns.[234] The planned scope of activities are discussed in SCE's direct testimony and SCE's previously submitted Wildfire Mitigation Plan referenced therein.[235] The specific nature of the activities could not be established as the time of the submission of the application in this GRC due to pending High Fire Risk Inspections (HFRI) and/or assessments of equipment.[236] SCE's rebuttal testimony further elucidates on subsequently identified system hardening activities.[237] As Cal Advocates' testimony does not appear to dispute that SCE's Wildfire Mitigation expenditures will mitigate the risk of wildfires caused by utility facilities and support the wildfire resilience of water utilities, Cal Advocates' recommended reduction should be rejected.

C. <u>SCE's Rate Base Forecast Is Reasonable</u>

The only matters in dispute regarding SCE's Rate Base forecast relate to: (1) SCE's proposed Net Salvage Rates in three accounts; and (2) Cal Advocates' recommendation that SCE be required to present a detailed lead lag study in its next GRC Application. The remaining variances between Cal Advocates' forecasts and SCE's forecasts of Rate Base, Plant in Service, Accumulated Depreciation, Working Cash, Deferred Income Taxes and Depreciation are due to differences in estimated expenses or recommended plant additions.[238]

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232 SCE-03, pp. 72-74.
233 SCE-03, p. 74.
234 Cal Advocates-01, pp. 6-23 – 6-24.
235 SCE-03, pp. 72-73.
236 SCE-03, pp. 73-74.
237 SCE-10, pp. 75-76.
238 *See* Cal Advocates-01, pp. 7-3 – 7-8.

1. SCE's Proposed Net Salvage Rates Are Reasonable

SCE proposes to begin accruing for future cost of removal (Net Salvage Rates or NSRs) primarily based on industry averages, except for Account 342 – Reservoirs and Tanks, which uses a recently recorded tank retirement to project its future cost of removal. Cal Advocates contends that the NSR for Account 342 should be based on industry average and objects to the negative NSRs that SCE assigned two other accounts, Accounts 343 – Transmission and distribution mains and Account 345 – Services.[239]

Relative to Account 342 – Reservoir and Tanks, SCE proposes a NSR consistent with the recent retirement data, specific the removal of a water tank at the Catalina Airport in 2017.[240] While industry averages were appropriate for other accounts due to lack of such retirement data, specific recorded data from a recent retirement of assets is superior to an industry average.[241] This holds particularly true given the unique features and conditions associated with a tank removal within the Island's service territory.[242] Moreover, even though the recorded retirement data supports a -229 percent NSR, SCE capped this account's proposed NSR at -120 percent to keep overall depreciation rates flat with currently authorized rates.[243] Cal Advocates' characterizes SCE's proposed NSR as "problematic".[244] However, SCE's proposed NSR forecasts future costs of removal using the best available information and setting the NSR significantly below that forecast risks deferring recovery from current customers and passing on those costs to future customers who did not benefit from the removed asset.[245] While the same holds true in the alternative if the NSR is set higher than the future costs of removal, SCE's proposed NSR of -120 percent, which is considerably lower than the figure supported by the

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[239] *See* Cal Advocates-01, p. 7-4 – 7-5.
[240] SCE-10, p. 78-79.
[241] *Id*.
[242] SCE, Varvis, Tr. Vol 3, pp. 294:9-25, 296:18-297:3.
[243] SCE-10, p. 79; *see also* SCE, Varvis, Tr. Vol 3, pp. 298:20-300:28.
[244] Cal Advocates-01, p. 7-4.
[245] SCE-10, p. 79; SCE, Varvis, Tr. Vol 3, pp. 301:28-303:22.

recent retirement data, sets the appropriate balance to mitigate the intergenerational inequity for current and future customers and should be approved as requested.

With respect to the NSRs for Accounts 343 – Transmission and distribution mains and Account 345 – Services which are both based on industry averages, Cal Advocates contends that the NSRs are inappropriate because of two other proceedings pending before the Commission (A.20-04-010 and A-21-06-007) creating "the risk and possibility of rate payers being overcharged as the same costs are being tracked in multiple locations for recovery."[246] However, neither proceedings has any impact on the need to begin recovering future net salvage costs. A.20-04-010 involves a memorandum account to track costs related to performing a system-wide assessment of Catalina Water's distribution pipelines. SCE filed A.21-06-007 to establish a memorandum account to track costs associated with planning and project development activities necessary for remediation of already decommissioned assets.[247] Cal Advocates' objections are misplaced as amounts collected through net salvage will be recorded in accumulated depreciation and are available for offsetting future costs of removal and eliminating any risk of duplication or over-charging of customers.[248] In an abundance of caution and to allay Cal Advocates' perceived concerns of duplicative recovery, SCE updated its forecast NSRs for both accounts to remove pre-1980 from the Gross Plant base, including the Two Harbors Pipeline, from -35 percent to -28 percent for Account 343 and from -60 percent to -58 percent for Account 345.[249] As such, SCE's proposed NSRs for each of these accounts should be approved as updated by SCE in its rebuttal testimony.

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[246] Cal Advocates-01, p. 7-5.
[247] SCE-10, pp. 78-79.
[248] SCE-10, p. 80.
[249] SCE-10, p. 80.

2. **<u>Cal Advocates' Recommendation that SCE Be Required to Present a Detailed Lead Lag Study Should Be Rejected.</u>**

Working cash is the capital provided by SCE investors to meet day-to-day utility operational requirements by bridging the gap between the time costs are incurred for services and the time revenues are collected for those services. SCE estimates its working cash requirement based on the 1/8th rule approach.[250] This approach approximates the forecast working cash as 1/8th of the estimated O&M expenses representing the costs incurred by SCE that are funded by investors during the time lag until revenues are received (approximately 45 days or 1/8th of the calendar year). This methodology was authorized in SCE's 2011 Water GRC Decision, has been adopted by FERC and is commonly used for estimates of working cash in lieu of detailed lead-lag studies.[251]

Cal Advocates recommends that SCE be required to submit a detailed lead-lag study as part of its next GRC (which Cal Advocates contends is a requirement for Class B water utilities) to support its Working Cash estimates. Cal Advocates bases its recommendation on two unsupported premises: (1) the volume of water usage on Catalina is impacted by approximately one million visitors annually and (2) Cal Advocates' forecast of customers would potentially result in SCE being reclassified as a Class B water utility.[252] However, the number of visitors to its service territory has no bearing on the number of water service connections and is irrelevant to SCE's water utility classification. As reflected by Cal. Health & Safety Code § 116275(z) defining small community water systems, the determination is based on either the number of service connections or "yearlong population." As discussed in Sections VI.A and VIII.1, SCE remains a Class C water utility based on its forecast customer count. Moreover, SCE's working cash proposal using the 1/8th rule is comparable yet more conservative than the simplified method described in Standard Practice U-16-W rendering the completion of a detailed lead lad

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[250] SCE-04, p. 6.
[251] *Id*.
[252] Cal Advocates-1, p. 7-7.

study an unnecessary burden and expense.[253] Accordingly, Cal Advocates' recommendation should be rejected.

D. SCE's Costs in Its Two Drought-Related Memorandum Accounts Are Reasonable

From 2013-2019, Catalina Island experienced one of the most historically severe droughts. During these extreme conditions, SCE worked tirelessly to ensure that our customers received clean, safe, and reliable water despite the incredible challenges presented. SCE acted promptly, prudently, and effectively in its response to the drought, and the costs SCE incurred in doing so have been tracked in the Catalina Water Rationing Memorandum Account (CWRMA or Drought Memo Account) and the Catalina Water Lost Revenue Memorandum Account (CWLRMA or Lost Revenue Memo Account). In this GRC, SCE requests recovery of these costs which were justly and reasonably incurred to serve our customers.

By 2014, the Catalina water system experienced its third consecutive year of below average rainfall for the third year in a row.[254] After Governor Brown declared a drought state of emergency on January 17, 2014, SCE began accumulating considerable drought-related costs and lost revenues in both memorandum accounts. Catalina was classified by the United States Drought Monitor as experiencing Exceptional Drought conditions from July 1, 2014 through January 3, 2017.[255] Costs were recorded into both accounts until February 2019 when SCE lifted all stages of mandatory water conservation. In total, SCE requests recovery of drought-related revenue requirements of $5.077 million for the Drought Memo Account and $6.527 million for the Lost Revenue Memo Account.[256] SCE does not request recovery of any other memorandum account balance in this GRC.

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[253] See SCE-10WP, pp. 24-25.
[254] SCE-05, pp. 3-7.
[255] See SCE-05WP, Part 02, pp. 33-36 for U.S. Drought Monitor Maps. Available at: https://droughtmonitor.unl.edu/Maps/MapArchive.aspx (current as of May 5, 2022).
[256] SCE-10, p. 90.

1. **Recovery of Costs in the Catalina Water Rationing Memorandum Account Should Be Approved**

The Drought Memo Account was established on February 25, 2010 to track and record incremental costs associated with the implementation of staged mandatory water conservation and rationing under Schedule 14.1.[257] SCE begin recording costs to the Drought Memo Accounting starting in 2014.[258] The expenses and offsets recorded in the Drought Memo Account from 2014 through 2017 include: (1) incremental operating expenses incurred associated with the drought and implementation of the Water Rationing Plan; (2) revenues from penalties and fines paid by customers for violations of Schedule 14.1 water use restrictions; and (3) unforeseen expenses caused by the exceptional drought conditions.[259] In addition to confirming the expenses recorded of Drought Memo Account are incremental or exceptional, SCE took multiple steps to help ensure that the costs incurred were reasonable by: (1) using a competitive-bid procurement process when appropriate/feasible; (2) obtaining materials and supplies through its normal supply chain; and (3) utilizing new service providers to meet specialized needs of implementing the Water Rationing Plan.[260]

Cal Advocates seeks to reduce SCE's recovery from the Drought Memo Account by $3,437,219 arguing that the recording of unforeseen drought expenses was not authorized by the Commission and that SCE should have requested recovery of Drought Memo Account balances sooner to avoid interest accruals.[261] Cal Advocates' interpretation of "incremental expenses" associated with this Account is unreasonably narrow. During the recent historic drought, SCE did not have a Catastrophic Event Memorandum Account (CEMA) established for the Catalina water utility.[262] There is no reasonable dispute that the incremental expenses

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[257] SCE-05, p. 11.
[258] *Id.*
[259] SCE-05, p. 11.
[260] SCE-05, p. 12.
[261] Cal Advocates-01, pp. 10-16 – 10-17.
[262] SCE-10, p. 85 (SCE has since established a Catalina Water CEMA via Advice 119-W-A on May 5, 2020 with an effective date of March 4, 2020).

recorded in the Drought Memo Account would not have been incurred by SCE "but for" the historic drought conditions. No parties contend that, in its last GRC, SCE should have somehow foreseen those conditions and, consequently, these incremental costs were clearly not part of the Catalina water utility's normal operations and, therefore, not funded through existing rates.[263] As such, it is reasonable that SCE record its unforeseen costs to respond to the exceptional drought conditions in its Drought Memorandum Account.

Cal Advocates and the Catalina Parties specifically object to the inclusion of costs in the Drought Memo Account associated with the failure of the HL-1 in 2014 arguing SCE should have reasonably foreseen its failure. As detailed above in Section III.B.1(b), these arguments are meritless and colored by hindsight. Moreover, there is no dispute that the failure was triggered by seawater intrusion associated with the historic drought conditions and that SCE's timely and effective responsive actions helped ensure that the customers served by HL-1 continued to receive drinking water. SCE should be afforded an opportunity to recover the incremental costs associated therewith.

As detailed in greater detail below in relation to SCE's Lost Revenue Memo Account, Cal Advocates' contention that SCE should have sought recovery of balances in the Drought Memo Account earlier ignores the protracted duration of the historic drought during which costs were actively being recorded and would have resulted in disjointed, piecemeal review of costs through multiple cost recovery proceedings. Accordingly, Cal Advocates and the Catalina Parties' recommendations should be rejected, and SCE should be afforded the opportunity to recover the costs recorded to the Drought Memo Account.

2. <u>Recovery of Costs in the Catalina Water Lost Revenue Memorandum Account Should Be Approved</u>

The Lost Revenue Memo Account was authorized on August 11, 2014, coinciding with the implementation of Stage 2 of SCE's Water Rationing Plan on Catalina. The

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[263] *Id*.

Commission's Standard Practice U-40-W Drought Procedures allow utilities without a full decoupling Water Revenue Adjustment Mechanism (WRAM) to track lost revenues associated with reduced sales as a result enacting a water conservation and/or rationing plan.[264] Costs recorded in the Lost Revenue Memo Account are a result of SCE implementing its Commission-approved Water Rationing Plan, resulting in reduced water sales compared to forecast.

Entries to the Lost Revenue Memo Account were made at the end of each month for the period from August 11, 2014 through February 15, 2019 when SCE lifted all stages of conservation and rationing on the island. Prior to calculating the revenue under-collection (i.e., lost revenue), the authorized revenue requirement was adjusted by a 20-basis point reduction in the most recently adopted return on equity (ROE).[265] The 20-basis point reduction decreases SCE's ROE from 10.45% to 10.25% for the Catalina water utility. The lost revenue for each month is then calculated by subtracting the adjusted authorized revenue requirement from recorded billed revenues. Amounts recorded in the Lost Revenue Memo Account accrue interest at the 90-day commercial paper, non-financial rate as published in Federal Reserve Statistical Release H.15. The monthly ending balance of the Lost Revenue Memo Account is the sum of (1) the beginning balance, (2) monthly under- or over-collection, and (3) interest expense.

Cal Advocates recommends that three adjustments be applied to the Lost Revenue Memo Account prior to amortization: (1) balances older than three years be disallowed, (2) balances be reduced to reflect volume-related expense savings, and (3) balances be reduced by the percentage of water loss in each corresponding year.[266]

First, SCE is fully justified in seeking recovery of Lost Revenue Memo Account balances dating back to 2014. In its testimony in SCE Application (A.) 21-06-007 seeking

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[264] Standard Practice U-40-W, No. 36.

[265] The All-Party Settlement adopted in D.14-10-048 authorized a Return on Equity of 10.45% per D.12-12-034, Ordering Paragraph No. 1. The 20-basis point reduction requirement was established in D.91-10-042, Ordering Paragraph No. 5. See also Preliminary Statement P Catalina Water Lost Revenue Memorandum Account, Section 4.

[266] Cal Advocates-01, p. 10-1.

establishment of a Catalina Water Decommissioned Pipe Memorandum Account, Cal Advocates argued against a "piecemeal" approach to cost recovery. Had SCE sought recovery of the Lost Revenue Memo account sooner, it would have resulted in such a piecemeal approach by spreading recovery of drought-related lost revenues over multiple proceedings. Cal Advocates would recommend seeking recovery of memorandum account balances in the midst of the drought, while costs and lost revenues were actively being recorded into the Drought and Lost Revenue memorandum accounts. SCE submits that it is inefficient and counterproductive to spread recovery of costs associated with a single, continuous exceptional event (recent historic drought) over multiple cost recovery proceedings spanning several years. The recent historic drought did not end on Catalina until SCE lifted Stage 1 of its Commission-approved Schedule 14.1 Staged Water Conservation and Rationing Plan (Water Rationing Plan) until February 2019. SCE's request to seek recovery of the Lost Revenue Memo Account as part of a comprehensive GRC, among all of SCE's other drought-related costs, is reasonable.

Second, SCE's operation of the Lost Revenue Memo Account is accurate and correct. The Commission-approved tariff governing the operation of the Lost Revenue Memo Account does not require an adjustment for expense savings due to reduced water production as Cal Advocates recommends. As previously discussed, SCE applies a 20-basis point reduction in ROE to the lost revenue balance prior to seeking recovery. The ROE adjustment is a long-established and validated Commission policy.[267] The Commission's drought procedures do not require that expense savings be offset against lost revenue memo account balances prior to recovery.[268] The drought procedures only require the 20-basis point reduction and an earnings test to ensure the utility does not exceed its authorized rate of return.[269] As such, Cal Advocates'

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[267] The methodology was originally adopted in D.90-08-055 and D.91-10-042 and validated in Resolution W-4571.

[268] Standard Practice U-40-W, No. 36.

[269] *Id*.

recommendation to read additional requirements into the operation of the Lost Revenue Memo Account by applying expense savings against the balance is unreasonable and should be rejected.

Third, reducing SCE's Lost Revenue Memo Account Balance by an associated water loss rate is unreasonable and should be rejected. See Section III.F(a) below for a discussion of Cal Advocates' proposal relating to water loss.

E. Historical Water Capital Expenditures

See Section III.B.1 above for a discussion of SCE's historical capital expenditures.

F. Other Costs and Issues

1. Water Loss

Cal Advocates argues that SCE's water loss warrants a disallowance reduction of 32.1% to SCE's revenue requirement request.[270] To be clear, this is not a disallowance of a particular O&M account, memorandum account, or capital project. Rather, Cal Advocates recommends an unjustifiably high 32.1% disallowance of SCE's *entire* revenue requirement request supported by its overall GRC application. The Commission should reject this unwarranted recommendation for the following reasons.

First, Cal Advocates provides no legal support or authority for the sweeping proposition that the Commission should impose a disallowance of a Class C water utility's entire revenue requirement request due to water loss performance. All Cal Advocates provides in support is a minimum data requirement (MDR) adopted in the Commission's Rate Case Plan that requires Class A water utilities to include certain categories of data as part of its GRC testimony.[271] The MDR generally directs Class A utilities to provide data regarding its unaccounted water, and MDR E.4 that Cal Advocates specifically cites provides that "[i]f the unaccounted water is more than approximately 7 percent for each district or service area, submit a plan to reduce unaccounted water."[272] Cal Advocates takes the delta between this 7% figure in

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[270] Cal Advocates-01-C, p. 11-1.
[271] Cal Advocates-01-C, p. 11-1 (citing D.07-05-062); see D.07-05-062, pp. A-21 – A-32.
[272] D.07-05-062, p. A-27.

the MDR and SCE's 2019 water loss figure of 39.1%, and recommends a 32.1% disallowance.[273]

A *minimum data requirement* detailing the type of information to be included in an applicant's GRC testimony is not a proper basis for a sweeping disallowance. At the outset, it should be noted that this MDR requirement is for Class A water utilities and does not even apply to SCE, which is a Class C water utility. Cal Advocates' legal basis for its disallowance is not even applicable to Catalina, especially given that comparing SCE's Catalina water system with extended rugged, undeveloped rural areas to those of the large Class A water utilities is an unreasonable comparison.[274] Further, the MDR also makes clear that the consequence for exceeding a 7 percent water loss figure is to "submit a plan to reduce unaccounted water."[275] It is clear from the MDR that the "punishment" for exceeding a 7 percent water loss is not an overly broad disallowance as Cal Advocates contends; it is to submit a plan as part of the applicant's testimony. As discussed more fully below, SCE has extensively demonstrated through its testimony and evidentiary hearings about its plan to reduce water loss and how it is diligently implementing this plan to date.

When addressing water loss issues with other utilities, the Commission has indeed required utilities to submit a plan to address unaccounted water. For example, Golden State Water Company (Golden State) faced similar challenges with drought for portions of their system providing water to Clearlake, California.[276] In 2008, Golden State forecasted water loss to be 47.48 percent. While the Commission stated that the "figures were significantly above the

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273 Cal Advocates-01-C, p. 11-7.

274 *See* SCE-10, p. 12 (establishing that Class A systems are often located in developed areas with more sophisticated SCADA systems and monitoring schemes, whereas the Catalina water system has roughly half of its pipeline infrastructure traversing undeveloped rural areas with limited access. These larger systems are also often laid out in such a way that smaller portion of the distribution network can be isolated during a leak, reducing real losses which cannot be accomplished at Catalina.)

275 D.07-05-062, p. A-28.

276 *See* D.08-01-043, p. 46. Clearlake, California is a customer service area of Golden State in Northern California. At the time of the water loss discussion, it served about 2,180 customers and much of the water came from within the service area.

7 percent target we adopted in D.07-05-062," it responded to the water loss figures by "expect[ing] Golden State to make progress" and directing the company to seek any approvals in order to reduce water loss. Later, in Golden State's 2011 GRC, water loss issues persisted even after Golden State worked to replace and repair pipes. However, Clearlake's water losses still "exceeded 20 percent each year since 2003 (except in 2007 when it was 19.75 percent)."[277] Despite water losses rates between 20 percent and 50 percent for a Class A utility, the Commission stated that "because Golden State has made progress in reducing water losses, it [was] not necessary...to consider removing unaccounted for water expenses from the MCBA or to establish a penalty/reward mechanism in connection with unaccounted for water." Thus, over a long period of time with water loss figures above 20 percent (and some years nearing 50 percent), the Commission found that the plan and restorative measures Golden State took in the face of challenging conditions were appropriate. Tellingly, what the Commission did not do was take the delta of Golden State's water loss and 7 percent, and then apply that difference as a disallowance to Golden State's entire GRC revenue requirement request. Cal Advocates' recommended disallowance does not follow Commission practice in addressing water loss issues and should be rejected.

In addition, SCE has amply demonstrated in its Rebuttal Testimony that when compared to similarly sized, non-Class A water systems, SCE's water loss rates and key performance indicators (KPIs) fell well within the range of reasonable water loss experienced elsewhere.[278] Tables II-1 and II-2 from SCE's Rebuttal Testimony (reproduced below)[279] summarizes the data obtained from the American Water Works Association (AWWA) Water Audit for 2013-2017 and the California State Water Resources Control Board from 2016-2018, respectively, and clearly illustrates that SCE's water loss are comparable to those of utilities in similar size and do not merit a sweeping disallowance like Cal Advocates recommends.

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[277] D.13-05-011, pp. 77-78.
[278] SCE-10, pp. 9-10.
[279] SCE-10, p. 10.

Table III-3
(Reproduced from SCE-10)

Table II-1
Water Loss KPIs
2013 – 2017 AWWA Water Audit Data Initiative, SCE Comparison[21]

Utility Size Limit	Entries	Average Accounts	NRW (%)	Water Loss			RL per account per day (Gallons)	Data Validity
				RL (%)	AL (%)	Total		
2,000	4	759	39.9%	29.2%	4.8%	34.1%	72.10	63.4
5,000	6	2,071	34.2%	25.2%	3.8%	29.0%	60.70	63.8
10,000	20	5,525	23.0%	20.9%	2.1%	23.0%	61.62	75.6
15,000	27	7,254	28.9%	24.1%	1.8%	25.9%	72.98	75.8
SCE average (2015-2019)	*5*	*1,962*	*28.1%*	*25.7%*	*0.6%*	*26.3%*	*41.60*	*60.2*

Table III-4
(Reproduced from SCE-10)

Table II-2
2016 – 2018 State Water Board Water Loss Control SCE Comparison[22]

Utility Size Limit	Entries	Average Accounts	RL per account per day (Gallons)
2,000	3	1,384	116.80
3,000	6	2,040	88.86
4,000	44	3,406	61.16
5,000	77	3,887	50.88
10,000	183	5,860	43.05
15,000	244	7,471	40.47
SCE average (2015-2019)	*5*	*1,962*	*41.60*

SCE has also provided extensive testimony on its plan to address and reduce water loss in Catalina. For example, SCE has demonstrated that it is prioritizing the improvement of data quality, completeness, and timeliness, and endeavors to achieve a Level IV data validity score consistent with on AWWA control measures to improve confidence in the KPIs as well as better identify and refine loss reduction strategies.[280] SCE also plans to upgrade its existing SCADA system to facilitate better operation, management, and monitoring of the Catalina water system, which would include more timely identification of water leaks and reduced real losses.[281] In addition, SCE plans a water meter replacement program to replace aging meters and improve data quality for use in water auditing and annual reporting processes.[282] Finally, SCE continues to invest in programs and infrastructure to support a water loss control program, including recently installing additional pressure recorders throughout the distribution system to better monitor and optimize pressure fluctuations and help mitigate leaks.[283] During evidentiary hearings, SCE witness Ms. Barcinas testified to these improvements discussed above, and also provided that water loss controls have been included as part of SCE's asset management program, which have been prioritized last year and continues to be a priority this year as well.[284] The record clearly demonstrates that SCE has taken considerable steps to improving its water loss, and the Commission should reject Cal Advocates' recommended disallowance accordingly.

Finally, Cal Advocates cites the general proposition that the Commission's ratemaking authority functions as a substitute for competition.[285] Cal Advocates then analogizes SCE's water loss to a retail business losing its inventory.[286] On this premise, Cal Advocates

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[280] SCE-10, p. 11.
[281] SCE-10, p. 12.
[282] SCE-10, p. 12.
[283] SCE-10, p. 12.
[284] SCE, Barcinas, Tr. Vol. 2, pp. 198:12-20, 245:24 – 256:2.
[285] Cal Advocates-01-C, p. 11-5.
[286] Cal Advocates-01-C, p. 11-5.

argues that the Commission must fulfill its role as a substitute for competition and order the recommended disallowance.[287] This argument fails because Cal Advocates' underlying analogy is flawed. A water utility cannot be reasonably compared to a retail business. Unlike a retail business which makes profit by selling inventory, a water utility earns a profit *(i.e.*, a rate of return) on its capital investments, not on its sale of its water.[288] For this reason, water could not be properly analogized as a water utility's "inventory." The regulatory compact governing water utilities reveals that the comparisons Cal Advocates attempts to draw between the Catalina water utility to a typical retail business do not hold. In addition, retail industries experience inventory loss (or shrinkage) primarily due causes such as shoplifting, employee theft, or administrative errors. This is entirely different in nature and extent than the causes of water loss in a water utility like Catalina where the vast majority of water infrastructure is located below-ground, out of view from operations personnel, resulting in "background" leakage common to underground pipelines which exists in essentially all systems.[289] The Commission should reject Cal Advocates' recommendation because the analogy between water utilities and retail businesses Cal Advocates attempts to make is flawed.

IV.

THE COMMISSION MAY AND SHOULD ALLOW RECOVERY FROM ELECTRIC CUSTOMERS

A. The Commission Has the Authority to Charge SCE's Water Utility Service Costs to SCE's Electric Utility Customers

As set forth in SCE's Limited Opening and Reply Brief, the Commission has the authority to charge SCE's water utility service costs to SCE's electric utility customers.[290]

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[287] Cal Advocates-01-C, p. 11-6.

[288] D.20-01-002, p. 10 (providing that pursuant to the regulatory compact "the utility is provided the opportunity to recover its actual legitimate or prudent costs … plus a fair return on capital investment").

[289] SCE-10, p. 13.

[290] SCE Limited Opening Brief; SCE Limited Reply Brief.

Rather than repeat all arguments made earlier in this proceeding, SCE elects to incorporate its Limited Opening and Reply Briefs herein by reference.

1. SCE's Proposed Cross-Subsidy is Just and Reasonable

All parties fundamentally agree that the Commission has the authority to approve SCE's proposed cross-subsidy if it is "just and reasonable" under Public Utilities Code Section 451.[291] It is undisputed that the Commission has broad authority to interpret the Public Utilities Code, including Section 451.[292] Therefore, whether the Commission has the authority to allow recovery from SCE's electric customer depends on whether the Commission itself finds that the proposed cross-subsidy is just and reasonable. In other words, pursuant to its broad regulatory authority, the Commission's own determination that a cross-subsidy is just and reasonable confers the authority necessary for approval. This is why the Commission has approved an array of cross-subsidies across various contexts, including by geography, product line, customer class, income, and public purpose—because the Commission found that the cross-subsidy in each instance was just, reasonable, and served the public interest.[293]

In the same manner, it is clear that SCE's proposed cross-subsidy also serves the public interest and is "just and reasonable" under Section 451. When adjudicating the cost recovery issue in this proceeding, the Commission must carefully consider that it is the explicit state policy of California that "every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes."[294] The full force and effect of this law applies to the water customers of Catalina. SCE's proposed cross-

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[291] *See* SCE Limited Reply Brief, p. 1, fn. 1.

[292] *See* CAL. CONST., Art. XII (conferring broad regulatory authority to the Commission); Cal. Pub. Util. Code § 701 ("The commission may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction"); *Greyhound Lines, Inc. v. Pub. Util. Comm'n.* (1968) 68 Cal.2d 406, 410-11, 67 Cal.Rptr. 97 ("There is a strong presumption of validity of the commission's decisions and the commission's interpretation of the Public Utilities Code should not be disturbed unless it fails to bear a reasonable relation to statutory purposes and language.).

[293] *See* SCE Limited Opening Brief, pp. 3-5.

[294] Cal. Water Code § 106.3(a).

subsidy is just and reasonable because it directly supports and advances this explicit state policy within the unique and challenging context of Catalina.

Specifically, Catalina operates as a small Class C water utility on an island with very limited water resources. Despite these challenges, 1,887 Catalina customers bear the costs of water and the related infrastructure necessary to support over one million visitors a year.[295] The reality on Catalina is that the small number of Catalina water customers simply cannot pay the costs it takes to serve them and the island visitors. Ensuring affordability of water rates is already difficult under typical operating conditions, but the historically severe drought conditions from 2013-2019 have further exacerbated the affordability challenges present in this proceeding. No parties dispute that a compelling need for rate relief exists on Catalina.

SCE's proposed cross-subsidy is just, reasonable, and in the public interest. The cross-subsidy would prevent an unbearably high rate increase for Catalina water customers while resulting in only a small rate increase for SCE's electric customers. Specifically, the costs incurred by SCE's significantly larger electric customer base would be small (about \$0.28 per month for non-CARE residential customers) compared to the substantial benefits Catalina water customers would receive (about \$398 in savings per month for same class of customers).[296] SCE's proposal is reasonable and acts in the public interest because it allows SCE to recover its reasonably incurred costs for exceptional drought response activities from the broader set of SCE electric customers who have benefitted from this water service and for whom the rate impact will be minimal. The Commission has the authority—and has regularly exercised that authority—to approve cross-subsidies that act in the public interest. The Commission should do the same in this proceeding.

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[295] The average annual number of visitors to Catalina from 2014-2019 was approximately 1.05 million. Catalina Island Chamber of Commerce, *Catalina Island Visitor Counts*, available at https://assets.simpleviewinc.com/simpleview/image/upload/v1/clients/catalinaislandccvb/10_Year_Visitor_Count_1_21_63e5e90d-6e70-48eb-8f0b-46aec9e44ac2.pdf.

[296] *See* SCE Opening Brief, Table I-1.

2. SCE's Proposed Cross-Subsidy Does Not Violate Cost-Causation Principles

The Catalina Parties agree with SCE that the Commission has the authority to approve a proposed cross-subsidy.[297] Cal Advocates and TURN argue, however, that the proposed cross-subsidy is not "just and reasonable" pursuant to Section 451 on cost-causation grounds, sometimes referred to as a lack of "nexus."[298]

It should be noted at the outset that a cross-subsidy, by its very nature and definition, is inconsistent with cost-causation principles. In a cross-subsidy, one set of customers pays more than the costs to actually service them, and these extra funds are used to subsidize a different set of customers who pay less than the costs it takes to service them. Despite clearly being in tension with cost-causation principles, the Commission has nonetheless regularly authorized cross-subsidies that act in the public interest.[299] The Commission acknowledged that cross-subsidies have been "inherent in the Commission's ratemaking policies," and has consistently authorized their use where the cross-subsidy acts in the public interest and serve the public good.[300]

In fact, the Commission stated that though it has "to the extent possible … sought to ensure that each customer pays for electric service in proportion to their use," the Commission nonetheless acknowledged that it "allow[ed] for certain subsidies to promote certain *societal programs*" even despite the obvious tension with (or arguably direct contravention of) cost-causation principles.[301] In addition to using cross subsidies to promote societal programs, the Commission also acknowledged that although, historically, "the determination of just and reasonable has emphasized cost-causation," in recent years the "protection of vulnerable

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297 *See, e.g.,* Catalina Parties Reply Briefs, p. 11 (concluding that mainland electric payers will have to pay some of the costs and that "[s]ometimes a *de minimis* charge borne by many is the only solution.")

298 *See, e.g.,* Cal Advocates-01-C, p. 12-13 (arguing that SCE has not been able to demonstrate a reasonable nexus between visitors and costs); TURN-01-E, pp. 6-8 (arguing against a tourism nexus).

299 *See* SCE Limited Opening Brief, pp. 3-5.

300 D.04-05-061, p. 20.

301 D.15-07-001, p. 8 (emphasis added).

customers" has become of particular importance in any rate design.[302] Furthermore, the Commission has made expressly clear that though rates should generally be based on cost-causation principles, an exception exists for cross-subsidies that "appropriately support explicit state policy goals."[303] It is evident that the Commission may approve a reasonable cross-subsidy that may be in tension with cost-causation principles so long as the subsidy does not outright *violate* cost-causation principles and acts in the public interest, such as promoting societal programs, protecting vulnerable customers, or supporting explicit state policy goals.

Here, the Commission has the authority to authorize SCE's proposed cross-subsidy because the subsidy acts in the public interest and does not violate cost-causation principles. In California, it is an explicit state policy goal that every human being has the right to clean, safe, and affordable water.[304] SCE's proposed cross-subsidy directly supports this state policy goal by alleviating the significant affordability challenges that threaten the Catalina residents' right to clean and affordable water. The cross-subsidy "appropriately" supports this state policy goal because SCE electric customers benefit from the water service at Catalina (see below). It would therefore be fair for SCE electric customers to pay a small amount (*i.e.*, $0.28 per month) for these benefits received in order to protect the human right of the Catalina customers to clean and affordable water (*i.e.*, protecting customers from an additional increase of $398 per month).[305]

The record establishes that SCE electric customers have received benefits from the Catalina water system. Seventy percent of visitors to Catalina Island come from Southern California.[306] These visitors benefit from the water in Catalina when they use and depend on the

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302 D.15-07-001, pp. 2-3 (emphasis added).

303 D.15-07-001, p. 28 (providing in RDP 7 that "Rates should generally avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals")

304 Cal. Water Code § 106.3(a).

305 *See* SCE Opening Brief, Table I-1.

306 Catalina Island Chamber of Commerce and Lauren Schlau Consulting, *Economic & Fiscal Impacts and Profile of 2016 Catalina Island Visitors, Final Report*, June 2017, available at https://assets.simpleviewinc.com/simpleview/image/upload/v1/clients/catalinaislandccvb/CI_Visitors_2016_Final_5b96b461-3a66-4e7f-bc3b-4e5693b1eb53.pdf).

Catalina water infrastructure during their visits.[307] SCE electric customers are the predominant visitors to the island and much of the water infrastructure has been built to support the needs of SCE mainland customers. In addition, even the SCE electric customers who do not visit the island still receive societal benefits from the education, research, and conservation benefits that the island provides to all SCE customers.[308] For example, the environmental microbiology research being conducted on the island helps support state climate adaption goals and acts a hub of oceanic, weather, and algae data.[309] In addition, Catalina Island is an incredibly unique biosphere and home to more than 60 plant, animal and insect species found nowhere else in the world.[310] The conservation efforts on the island preserves the land and wildlife so that future generations can enjoy the island, promotes resilience, and protects plant and animal biodiversity from which future medicines may be derived.[311] These are real benefits that SCE electric customers receive, and it is reasonable for the Commission to implement a small rate increase to account for these benefits conferred.[312]

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[307] Though SCE has not conducted a formal study to analyze what precise percentage of Southern California visitors are SCE electric customers, it is reasonable to infer that visitors to Catalina Island are predominantly SCE electric customers because SCE is undisputedly the primary electricity utility serving Southern California. SCE serves about 5 million customers, whereas the other utilities cited by Cal Advocates that service other areas of Southern California serve far fewer customers according to each organization's public websites: Los Angeles Department of Water and Power (about 1.4 million), City of Anaheim Public Utilities Department (about 358,000 residents, not customer accounts which would be fewer), Burbank Water & Power (about 55,000), and Bear Valley Electric (about 23,000). SDG&E is not included because San Diego was not included in the Southern California geographic area in the Catalina economic study.

[308] *See* SCE Limited Opening Brief, pp. 8-10.

[309] SCE Limited Opening Brief, p. 9.

[310] SCE Limited Opening Brief, p. 10.

[311] SCE Limited Opening Brief, p. 10.

[312] TURN and Cal Advocates argue the number of SCE customers who visit the island is a small percentage of the total number of SCE customers, and that it is therefore unfair that all SCE electric customers should pay for the customers who have actually visited the island. This line of argument is misleading because it implies that since 100% of SCE electric customers did not visit the island, 0% of SCE electric customers should pay for the costs of water necessary to support them. In addition, SCE electric customers who did not visit the island still receive societal benefits from Catalina water in education, research, and conservation as discussed above. SCE electric customers, as a class, have benefitted, and it is fair given these unprecedented circumstances that this class pay a small amount to reflect those benefits received.

Though it is difficult to precisely quantify how much SCE electric customers have benefitted from the Catalina water system, no party contends that SCE electric customers have received no benefits at all. Therefore, the issue is not whether there *is* a nexus (it is undisputed that a nexus exists), but rather whether there is a *sufficient* nexus for Commission approval. When considering this same issue in SCE's previous GRC, ALJ Barnett found in his Proposed Decision that the cross-subsidy was "just and reasonable" and that there was a sufficient nexus, concluding that the "Catalina water capital infrastructure…benefits a much broader group than the limited water ratepayer base" and that "SCE's water utility exists not only to serve the permanent residents on Catalina, but also the many tourists that come to Catalina from the mainland, the majority from areas where SCE provides electric service."[313] When TURN asserted then (as it does now) that "there is no common nexus, other than corporate ownership, between Catalina ratepayers and SCE electric service customers," ALJ Barnett disagreed and found that TURN ignored the fact that "a significant proportion of the visitors come from the class consisting of SCE's electrical ratepayers."[314] Though this PD was not adopted by the Commission because the parties ultimately settled the case, it is compelling that the assigned ALJ to SCE's previous GRC expressly found that the cross-subsidy was just, reasonable, and supported by a sufficient nexus.

In sum, it is unavailing to contend that SCE's proposed cross-subsidy violates cost-causation principles. When considering cross-subsidies that act in the public interest, the Commission has consistently and regularly elected *not* to apply cost-causation principles in an overly strict manner. Likewise, here, the Commission should find that a sufficient nexus exists to support SCE's proposed cross-subsidy because the record establishes that the cross-subsidy protects vulnerable Catalina customers and appropriately supports the explicit state policy of protecting the human right to clean and affordable water. SCE customers as a class of ratepayers

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313 *See* A.10-11-009, Proposed Decision of ALJ Barnett (April 23, 2012), pp. 51-55.
314 *Id*., p. 54.

benefits from the island, and a small rate increase to reflect these benefits conferred is reasonable within the unique circumstances of Catalina. Because SCE's proposed cross-subsidy is reasonable and serves the public interest, the Commission has the authority to approve the cross-subsidy pursuant to Section 451 and should exercise that authority as discussed below.

B. The Commission Should Allow SCE to Charge Its Electric Customers Catalina Water Utility Service Costs

The Commission should permit recovery from SCE's electric customers because doing so is a lawful, reasonable, and equitable means to overcoming the affordability challenges that Catalina customers face present in this proceeding.

The Commission should recognize that the exceptional circumstances present in this proceeding will require a non-traditional solution. Given the history of long-standing affordability challenges on Catalina, Commission approval of non-traditional solutions implementing cost-sharing between SCE's Catalina and mainland customers have been necessary for decades. For instance, Commission has addressed cost-sharing issues in connection with electric service to Catalina, and ultimately concluded that cost-sharing between and among SCE's Catalina and California mainland electric customers was justified in order to maintain just and reasonable electrical rates on Catalina.[315] There has been a long-history and persistence of rate-affordability issues on Catalina, and cost-sharing with SCE's electric customers has been applied in the past to mitigate against large Catalina rate increases to recover the high costs of service on the island.

In fact, in SCE's previous GRC, cost-sharing was again implemented by the Commission when it approved the all-party settlement and authorized a transfer of $8.895 million of Catalina water base to SCE's electric customers.[316] This marked the first time that the Commission authorized a cross-subsidization of SCE water costs from SCE electric customers, and the

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[315] D.93129 (consolidating Catalina and mainland Energy Cost Adjustment Clause (ECAC) rates); D.82-03-059 (consolidating Catalina and mainland electric rates).

[316] D.14-10-048, p. 1.

Commission approved the settlement as "consistent with law and does not contravene or compromise any statutory provisions or Commission decision."[317] The Commission clarified that the "one-time transfer is part of the adopted all-party Settlement, and therefore not precedential in other proceedings."[318] Of course, adoption of a settlement is neither binding nor precedential, but SCE cites the previous GRC to help illustrate that affordability challenges have persisted on Catalina Island for decades, and that cost-sharing with SCE mainland electric customers was approved by the Commission across multiple proceedings to help overcome these challenges.

The Commission should permit SCE to recover a portion of its water costs from its electric customers because doing so is just and reasonable, not only legally pursuant to Section 451 as discussed above, but also holistically when evaluating a cost recovery approach. SCE proposes to recover the normal costs of operating the water utility from the Catalina water customers, and recover its reasonably incurred costs responding to exceptional drought and environmental conditions from the much larger set of SCE electric customers who have benefitted from Catalina water service and for whom the rate impact will be minimal. SCE also proposes to recover the revenue requirements resulting from SCE's five-year phase-in proposal to help mitigate the rate shock impact for Catalina customers. Recovery from SCE's electric customer for these exceptional categories of costs is reasonable and necessary because otherwise, Catalina customers will not be able to pay for their water bills.

Catalina is an island with very limited water resources where residents must rely on limited remote groundwater wells and desalination of ocean water—all of which involve substantial transmission, treatment, and distribution infrastructure—resulting in water service that is costly to operate.[319] Therefore, Catalina should be properly evaluated as a high-cost,

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[317] D.14-10-048, Conclusion of Law 5.
[318] D.14-10-048, p. 2.
[319] SCE-10, p. 23.

largely undeveloped rural area within SCE's overall service territory, outside and away from urban areas.

As SCE demonstrates in its Rebuttal Testimony, the Commission regularly permits water utilities to consolidate its high-cost rates from servicing costly rural areas with its lower-cost rates from its other services areas.[320] Rather than recovering the true costs of water service from its rural customers who cannot afford it, the water utility is instead able to provide a uniform, blended rate to these rural customers that is subsidized by all other customers through Commission approval, a rate that is shared across the entire service territory. This equitable solution is available for water utilities that service rural, high-cost areas within its service territory.

In fact, the nexus underlying SCE's proposed cross-subsidy, in certain instances, is even stronger than the nexus between two completely distinct and separate areas served by the same Class A water utility. As SCE witness Mr. Fox from Raftelis Financial Consulting testified, in those cases, "there is no nexus between the service populations, other than that corporate entity that owns them."[321] Mr. Fox further testified that "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" but "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."[322]

Because SCE is a primarily an electric utility rather than a water utility, SCE is currently unable to provide a blended, subsidized rate to its Catalina water customers as other Class A water utilities regularly do, even where there is no nexus between two distinct service areas beyond common corporate ownership. Catalina customers, therefore, uniquely face a

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[320] SCE-10, p. 23.
[321] SCE, Fox, Tr. Vol. 5, pp. 505:14 – 506:9.
[322] SCE, Fox, Tr. Vol. 5, pp. 508:26 – 509:22.

deprivation of their right to an affordable, subsidized rate because its utility provider happens to provide electricity as its main commodity as opposed to water. Because SCE—as opposed to a large Class A water utility—acquired the Catalina water utility 60 years ago, Catalina residents today face a costly, unsubsidized rate while other rural water customers served by a Class A water utility are able to enjoy an affordable blended rate, despite living in a high cost-of-service area. The Commission should end this inequity now. The Commission not only has the authority to do so, but pursuant to explicit California state policy, it is also morally and legally compelled to protect Catalina residents' right to clean and affordable water.

Though a cross-subsidy between two different services (*i.e,* water and electric) may be non-traditional, it is lawful, reasonable, and non-precedential. It is lawful because the Commission has the authority to approve this cross-subsidy as discussed above, and in SCE's previous GRC, the Commission indeed exercised that authority when approving a settlement containing a very similar cross-subsidy as "consistent with law and does not contravene or compromise any statutory provisions or Commission decision."[323] Permitting SCE to recover from its electric customers here would also have no precedential effect outside of the unique circumstances present at Catalina because there is no other parallel to Catalina in all of California. It is undisputed that there is no other service area like Catalina anywhere in the state. As Dr. Brady testified in support of the Catalina Parties Limited Opening Brief, "SCE's water utility is an anomaly" as no other utility in California, except SCE on Catalina, provides both energy and water service in the same geographic area.[324] SCE witness Mr. Fox from Raftelis Financial Consultants—having personally completed over a 100 different rate studies for water utilities ranging from utilities with less than 50 customers to a million customers—also testified that Catalina is "very unique in and of itself," and that he has "never seen an operation like Catalina" and "would be hard pressed to find another example like it."[325]

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323 D.14-10-048, Conclusion of Law 5.
324 Catalina Parties Limited Opening Brief, p. 8, Appendix A.
325 SCE, Fox, Tr. Vol. 5, pp. 510:19 – 520:16.

There simply is no other water utility: (1) located on an island with challenging terrain, climate, and very limited water resources; (2) owned by an electric utility; and (3) which annually serves approximately a million visitors who are predominantly that parent utility's electric customers. The circumstances present in this proceeding are so unique that no parallel exists in all of California. These exceptional facts warrant (and require) that the Commission permit a cross-subsidization that may be non-traditional but is fully lawful and reasonable based on the record. The Commission has the authority to approve SCE's proposed cross-subsidy, and it should exercise that authority here in this proceeding.

C. <u>The Deferred Revenue Requirement Tracking Account Is Reasonable and Should Be Approved</u>

The Deferred Revenue Requirement Tracking Account (DRRTA) was originally authorized by the Commission in 2007 to implement its adoption of a four-year rate increase and revenue phase-in plan for the Catalina water utility in connection with SCE's Test Year 2006 Catalina Water GRC.[326] The DRRTA served as a mechanism to track deferred revenues arising from the phase-in of authorized rate increases and mitigated the year one rate impact of the revenue requirement increase for Catalina water customers.[327] In this GRC, SCE proposes to phase-in the revenue requirement increase over a five-year period (2022-2026), including attrition year increases, such that SCE will recover the full revenue requirement for the Catalina water utility by the beginning of 2026.[328] Consistent with the Commission's resolution from the earlier GRC, SCE requests authorization to track the revenue deferrals (*i.e.*, revenue requirement not reflected in water rate levels) and subsequent years recovery of the test year 2022 and attrition years 2023-2026 in the DRRTA.

Cal Advocates' testimony does not reflect a specific objection to SCE's request for the DRRTA. Rather, Cal Advocates contends that the adoption of its recommended reductions to

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[326] Resolution W-4665, Ordering Paragraphs 6 and 8.
[327] *Id*., pp. 8-9.
[328] SCE-08, pp. 15-17.

SCE's revenue requirement request would obviate the need for a phase-in and, in turn, the DRRTA since no deferred revenues would accumulate.[329] As discussed throughout this Opening Brief, SCE's revenue requirement request is reasonable and the five-year phase-in supports the Commission's ratemaking principle of minimizing rate shock.[330] Accordingly, the DRRTA should be authorized consistent with SCE's five-year phase in proposal.

V.

COST RECOVERY

A. Alternative Cost Recovery Approaches

In its Direct and Supplemental Testimony, SCE provided a comprehensive analysis, including strengths and weaknesses, of all possible cost recovery alternatives to SCE's proposed cross-subsidy.[331] To help assess the various cost recovery alternatives, SCE retained Raftelis Financial Consultations, Inc. (Raftelis), nationwide consulting firm specializing in water rates and financial planning matters, to provide an expert, independent analysis of these issues. Raftelis' expertise is on the rate, pricing, and financial management consulting services for the water industry which has provided services to over 100 different agencies within California and over a thousand different studies for 600 agencies within the last year alone.[332]

Raftelis generated its own list of cost recovery options and provided a comprehensive analysis of possible alternatives, including water user fees, loans, bonds, grants, securitization, special fees and charges including the visitor boat fee, selective sales taxes, high-cost funds, third-party contributions, ratemaking consolidation, public-private partnerships, ratemaking adjustments, and co-funding.[333] In its analysis, Raftelis also provided a tabular matrix summary of each alternative funding mechanism.[334] Informed by this analysis, SCE also performed an

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[329] See Cal Advocates-1, pp. 11-17 and 12-17.
[330] Resolution W-4665, p. 9.
[331] *See* SCE-01, pp. 23-30; SCE-09.
[332] SCE, Fox, Tr. Vol. 5, p. 510:5-18.
[333] *See generally* SCE-09.
[334] SCE-09, pp. B-11 – B-13

assessment of each alternative and an overall feasibility assessment to help identify the cost recovery methods with the greatest potential for success in this proceeding.[335]

B. What Cost Recovery Approach Should the Commission Adopt?

The Commission should adopt SCE's proposed cross-subsidy because doing so is the most reasonable, practicable, and equitable means to resolving the affordability challenges present in this proceeding. Having completed its assessment of all cost recovery alternatives, Raftelis concluded "[g]iven the well-known challenges of its service area, there are no good options" but opined that in the immediate term, "the alternative that appears to be the most feasible with the greatest impact would be cross-subsidization by SCE electric customers."[336] Raftelis further concluded that given "its minimal impact on individual customers, its feasibility, the short time horizon necessary for enactment, and its nexus to customers that derive advantage from the availability of SCE Water, cross subsidization by SCE Electric customers presents itself as the best option among those considered."[337] While SCE submits that its proposed cross-subsidy should be adopted by the Commission, rate base consolidation with the overall electric utility would also be a viable alternative solution.[338] The Catalina Parties agree that rate base consolidation "has particular merit."[339]

TURN argues that a visitor boat fee is a preferable cost recovery option.[340] However, every party other than TURN has demonstrated the considerable challenges to implementing a visitor boat fee. For instance, Cal Advocates correctly notes that, "the Commission would be limited in what fees or charges it would be able to implement due to the logistical and jurisdictional issues involved."[341] Cal Advocates further notes that though the Commission has

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[335] SCE-09, pp. 1-30.
[336] SCE-09, p. B-14.
[337] SCE-09, p. B-14.
[338] SCE-01, pp. 26-27.
[339] CP-01, p. 29.
[340] TURN-01-E, p. 8.
[341] Cal Advocates-01-C, p. 12-9.

jurisdiction over the rates of cross-channel carriers (Vessel Common Carriers, or VCCs), it is unlikely the Commission could modify these rates without notice and due process afforded to them.[342] This is correct, and as SCE demonstrates in its Supplemental Testimony, the due process concerns extend beyond only the VCCs. Because the visitor boat fee could significantly discourage and reduce the number of visitors to the island, other Catalina business and local organizations that heavily depend on tourism revenue could and would likely wish to intervene if a visitor boat fee were seriously being considered as a means of cost recovery by the Commission.[343] These Catalina businesses and organizations would also need to be afforded due process prior to Commission implementation of a visitor boat fee. In addition, Cal Advocates correctly notes that the Commission would lack the jurisdiction over the other means of transportation that visitors use to reach the island, including by private plane, helicopter, private boat, or cruise ship.[344] In contrast to the logistical and jurisdictional obstacles presented by the visitor boat fee, allocating the high costs of service among SCE electric customers through the proposed cross-subsidy is much simpler from a ratemaking perspective and readily achievable within this proceeding.

Cal Advocates also notes another challenge in that special boat or travel fees could only be implemented by the City of Avalon with voter approval.[345] The Catalina Parties demonstrate that this is not a viable solution given that "the City of Avalon faces its own financial problems that have been greatly exacerbated by the current pandemic, which has decimated the Island's principal busines activity – tourism." The Catalina Parties have also demonstrated that an increase in the boat fee would be detrimental to tourism.[346] After conducting a series of Catalina Island stakeholder engagement meetings in 2018, SCE received strong feedback and concern over the imposition of a visitor boat fee given that the Catalina economy is heavily dependent on

[342] Cal Advocates-01-C, p. 12-9.
[343] SCE-09, p. 19.
[344] Cal Advocates-01-C, p. 12-9.
[345] Cal Advocates-01-C, p. 12-10.
[346] CP-01, p. 27.

tourism revenues and an increase in fee could dissuade potential visitors from selecting Catalina in favor of other regional tourism destinations.[347] Given these various challenges presented by the visitor boat fee, the record demonstrates that SCE's proposed cross-subsidy is the superior cost recovery mechanism in this proceeding.

Even assuming a visitor boat fee was achievable and equitable in this proceeding, such a fee would still fail to address the serious affordability challenges that will likely persist at Catalina. Not only would it be logistically and jurisdictionally impracticable to repeatedly implement a new visitor boat fee, doing so would also be unsustainable because ticket prices would increase to unacceptably high levels that would dissuade tourism to the island altogether. For these reasons, SCE agrees with Raftelis that from a long-term perspective, "the most stable option may be the transference of SCE Water to a public utility or to a Class A water utility, assuming that an entity could be found willing to take on the Catalina service area."[348] While acquisition by a Class A water utility appears to be the best long-term solution to these affordability challenges, for the purposes of this present proceeding, the proposed cross-subsidy (or rate base consolidation alternative) is the best near-term solution. SCE's proposed cross-subsidy falls squarely within the Commission's broad regulatory authority, acts in the public interest, and should be adopted here in this proceeding because it is the most reasonable, practicable, and equitable cost-recovery approach in this proceeding.

Though a number of other cost recovery alternatives technically exist, the parties generally agree that none are actually viable or implementable. Other than SCE's proposed cross-subsidy (or rate base consolidation), and to a much lesser degree, the visitor boat fee, no other alternative should be considered for adoption by the Commission. Finally, TURN and Cal Advocates take the untenable position that losses could or should be borne by SCE shareholders

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[347] SCE-01, p. 24.
[348] SCE-09, p. B-14.

as a cost recovery alternative.[349] It bears repeating that shareholder "absorption" of costs is not a viable or appropriate cost recovery mechanism. This would directly contravene and entirely upend the regulatory compact which California investor-owned utilities have and continue to operate under.[350] Using SCE shareholders as a cost recovery means in this proceeding would constitute clear legal error, and the Commission should summarily reject any such recommendation.

VI.

THE COMMISSION SHOULD APPROVE SCE'S PROPOSED RATES FOR THE TEST YEAR AND ATTRITION YEARS

A. SCE's Forecast for Water Sales Is Reasonable

SCE forecasts water sales of 83.384 million gallons for test year 2022. SCE developed the water sales forecast using an econometric model using water conservation and monthly dummy variables to capture drought impacts and seasonal variability.[351] The water usage restrictions have strong explanatory power in forecasting water usage on Catalina.

Decision D.20-08-047 in Commission Rulemaking R.17-06-024 ordered water utilities to consider specific factors when forecasting water sales in their respective GRC applications.[352] The factors to consider include: 1) revenue collection and rate design, 2) conservation programs,

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[349] TURN-01-E, pp. 4-5 ("If there is a loss to be born here, whether as a negative rate of return or an inability to recover the full amount of investment, that loss should be solely be borne by SCE's shareholders, and not at all by its electric utility customers."); Cal Advocates-01-C, p. 12-2 ("As an alternative to SCE's cost recovery proposals if the Commission ultimately determines that water system costs are too great for Catalina's water customers to bear on their own, a reasonable option would be full or partial absorption of the excess costs by SCE shareholders.").

[350] *See*, *e.g.*, D.20-01-002, p. 10.

[351] SCE also calculated test year sales of 83.512 million-gallons using the methodology SP U-25-W methodology. SCE calculated separate per customer usage quantities for residential and non-residential customers (61 gallons per day and 337 gallons per day, respectively) based on 2019 recorded sales and adjusted customer counts. These quantities were multiplied by the forecast customer counts from Table I-3 and then multiplied by 365 to determine the annual combined forecast amount. Due to the small difference in test year forecast amounts, SCE's standard econometric forecast methodology is reasonable as described in testimony.

[352] D.20-08-047, Ordering Paragraph No. 1.

3) customer counts, 4) water use efficiency codes and standards, 5) trends in consumption, demographics, climate, population density, and historic trends, and 6) past sales trends. SCE addressed each of these factors in detail in accordance with D.20-08-047.[353]

SCE forecasts a customer count of 1,999 service connections in test year 2022, including 112 dedicated fire service connections. In its testimony, Cal Advocates recommends SCE's customer count be adjusted for customers currently on the freshwater allocation wait list.[354] This recommendation fails to conform to Commission standard practice and is unreasonable. SCE's customer forecast was developed using the methodology as described in Standard Practice U-25-W and D.07-05-062.[355] The average rate of change was calculated for the years of 2016-2019. SCE is using a four-year average due to implementation of multiple new service plans in 2015 in accordance with SCE's prior GRC Decision, leading to abnormal changes among customer classes. Adjustment to the number of years for averaging is indicated when an unusual event occurs, such as the customer reclassification following SCE's prior GRC.

SCE's customer and sales forecasts conform to Commission policy, are reasonable, and should be approved.

B. SCE's Proposed Rate Design Is Reasonable

The Commission should approve SCE's proposed rate design as reasonable because it is consistent with the rate design adopted in SCE's previous GRC and given the uniqueness of SCE's proposed revenue requirement and cost recovery request in this proceeding. Cal Advocates recommends numerous adjustments to SCE's proposed rate design, including (1) fixed charge ratios, (2) fixed-volumetric ratios, (3) seasonal rates, and (4) volumetric tier breakpoints.[356] However, Cal Advocates' rate design recommendations rely on the assumption that SCE's revenue requirement is reduced to an unreasonably low amount proposed by Cal

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[353] SCE-07, pp. 14-18.
[354] Cal Advocates-01, p. 1-2.
[355] Standard Practice U-25-W, Chapter 3, and D.07-05-062, Appendix A-23, Footnote 4.
[356] Cal Advocates-01, p. 13-1.

Advocates.[357] This assumption places Cal Advocates' entire rate design recommendation on an unreasonable basis.

SCE's rate design proposal conforms with the rate design principles originally established in Resolution W-4665 and updated in D.14-10-048 adopting the all-party settlement in the prior GRC. SCE notes that Cal Advocates endorsed the all-party settlement and was an active and participating party throughout the proceeding. The primary objectives of the rate design settlement include mitigating the impacts of anticipated revenue requirement increases and more equitably distributing cost recovery across residents and visitors to the island. The rate design settlement satisfied these objectives through: (1) fixed and volumetric charges, (2) residential and non-residential revenue allocation, (3) baseline allowances and tier distributions, and (4) seasonal rates.[358] This list of previously resolved rate design issues is largely consistent with those raised by Cal Advocates in the immediate proceeding. If Cal Advocates' recommendations are applied to SCE's proposed test year revenue requirement of $9.430 million, it will result in unreasonable subsidization across customer classes, undermine cost recovery proportional to usage distribution across customer classes, and neutralize conservation pricing signals. Furthermore, Cal Advocates' proposal would increase revenue allocation and eliminate seasonal recovery, detrimentally impacting the permanent residents of the island.

SCE maintains that its rate design proposal is representative of the unique water usage characteristics in the Catalina water utility, reasonable, and strikes an equitable balance of rate design objectives. The current rate structures and levels are based on the principles articulated in Standard Practice U-7-W (Rate Design for Water and Sewer System Utilities Including Master Metered Facilities), American Water Works Association Manual of Practice M1 (Manual M1), and the all-party settlement.

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[357] SCE, Behlihomji, Tr. Vol. 5, pp. 481:3 – 482:10.

[358] 2011 Water GRC All-Party Settlement, Exhibit A.

1. **Fixed Charge Ratios**

Cal Advocates asserts that SCE's fixed charges are out of compliance with industry standards and recommends realignment of SCE's fixed charge ratios to reflect the Commission's Standard Practice U-7-W Section C.7 guidance for meter ratios to mitigate the burden of larger institutional users to the detriment of smaller residential customers.[359]

In Resolution W-4665, the Commission acknowledged that Catalina's fixed charges should not be forced to adhere with the progressive ratios recommended by Standard Practice U-7-W as doing so would lead to violation of the principal that no customer would receive more than twice the average increase for the whole system.[360] The Commission therefore adopted the deviation from guidance given the unique circumstances in Catalina.[361] The same concept holds true here. Completely conforming to the fixed charge ratios in Standard Practice U-7-W would create other rate design imbalances and exceed tolerances for relative rate increases for certain customer classes compared to the system average. SCE does not dispute the language in Resolution regarding subsequent increases in fixed charge ratios.[362] However, when designing rates, the Commission must balance the customer impacts among other compelling principles.[363] In this instance, increasing the fixed charge ratios as Cal Advocates proposes would be too abrupt to be reasonable for certain customers.[364]

2. **Fixed-Volumetric Ratio**

Cal Advocates argues that SCE's existing rate design that recovers 30 percent of all revenues from fixed charges, and the remaining 70 percent from volumetric rates places a larger burden on full-time residents at the expense of part-time residents (*i.e.*, customers with second homes who periodically inhabit a residence on Catalina). Cal Advocates recommends a 50

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[359] Cal Advocates-01, pp. 13-2 – 13-4.
[360] *See* Resolution W-4665, pp. 9-10.
[361] *Id*.
[362] SCE, Behlihomji, Tr. Vol. 5, p. 473:4-10.
[363] SCE, Behlihomji, Tr. Vol. 5, pp. 477:22 – 478:10.
[364] SCE, Behlihomji, Tr. Vol. 5, pp. 478:3-24.

percent fixed and 50 percent volumetric rate design to comport with Commission guidance in D.16-12-026 on the percentage of all revenue that is reasonable to collect via fixed charges for Class A and B water utilities.[365]

The issue of the fixed-volumetric ratio was thoroughly examined in the previous GRC settlement. Settling parties agreed on adjustments to properly proportion the revenue recovered from the fixed versus volumetric charge and to the allocation between classes. SCE upheld that principle in the current rate design proposal. By keeping fixed charges low, more revenue is recovered through volumetric charges, providing an incentive to conserve water and giving customers more control over their monthly bill. In preparing its application, SCE considered an increase to the fixed-volumetric ratio but elected not to, given the nature of SCE's cost recovery and rate design proposal. As with fixed charge ratios, each rate design parameter must be viewed on a continuum with all other parameters with the objective of developing an equitable rate design.[366] SCE's rate design proposal achieves that objective.

3. Seasonal Rates

Cal Advocates proposes to eliminate seasonal rates for residential customers and argues that this type of a conservation rate design disadvantage full-time and low-income Catalina water customers by only increasing their average bills during the summer months when there is little variability in consumption patterns throughout the year. Cal Advocates recommends promoting conservation and achieving equity with adjustments to rate tiers and fixed and volumetric allocations in lieu of seasonal rates.[367]

Catalina's economy relies heavily on summer tourism, which coincides with school vacations and the peak tourist season. In reviewing average seasonal water usage and occupancy patterns, parties in the all-party settlement recognized the seasonal economy on Catalina. Parties agreed that setting higher summer prices during the tourism season is an equitable pricing

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[365] Cal Advocates-01, pp. 13-5 – 13-6.
[366] SCE, Behlihomji, Tr. Vol. 5, pp. 483:5 – 484:4.
[367] Cal Advocates-01, pp. 13-6 – 13-7.

approach that works in favor of the island's year-round permanent residents since some costs could be passed through to island visitors while providing lower winter prices for a greater portion of the year. Furthermore, Cal Advocates' proposal to eliminate seasonal rates does not comport with actual residential usage patterns on Catalina. Not only do seasonal rates pass help equitably balance revenue allocation among users, it also sends a conservation price signal during summer months for all customer classes.

4. Tier Breakpoints

Cal Advocates proposes SCE update its tier breakpoints for residential volumetric rates to allow for a more equitable rate design. Cal Advocates recommends the Tier 1 breakpoint be expanded to 3,000 gallons per month with Tier 2 set at 3,000-6,000 gallons and Tier 3 set at 6,000+ gallons by excluding all part-time residences who do not have usage for one or more months of the year from SCE's calculation. Cal Advocates further argues that its proposed tiered design may serve as a substitute for seasonal rates without burdening full-time and low-income customers with fluctuating rates throughout the year.[368]

Parties in the 2011 Water GRC all-party settlement agreed that setting the Tier 1 breakpoint at approximately 50-60 percent of average residential usage is appropriate and consistent with Commission and Cal. Pub. Util. Code § 739.1 guidance for electricity rates.[369] Capturing 50-60 percent of usage in tier 1 provides an essential quantity of water for basic human needs while shifting more recoverable revenues into the higher usage tiers for Residential customers. SCE's current tier breakpoints are 2,000 gallons for tier 1, 2000-6,500 gallons for tier 2, and above 6,500 gallons for tier 3. The current distribution of usage across SCE's residential tiers is approximately 59 percent in tier 1, 25 percent in tier 2, and 16 percent in tier 3. Therefore, SCE's rate design is operating as expected consistent with the all-party settlement.

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[368] Cal Advocates-01, pp. 13-7 – 13-12.
[369] *See* A.10-11-009, Exhibit SCE-01, p. 103.

The state passed the Human Right to Water Act in 2012, requiring that "every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes."[370] SCE's proposed baseline allowances satisfy the policy objectives of the Commission and the state based on the unique characteristics of the Catalina water system. SCE's proposed tier 1 breakpoint of 2,000 gallons is representative of essential indoor usage for residential customers on the island. As noted in testimony, most Avalon customers are on a saltwater system for toilet flushing, the number one indoor use based on the Water Research Foundation's Residential End Uses of Water study.[371]

Cal Advocates' recommendation to effectively flatten SCE's Residential rate structure is regressive, mutes the valuable conservation price signal, is unreasonable and should be rejected.

C. SCE's Proposed Tier-1 Breakpoint Is Reasonable and Promotes Affordable Rates

See Section VI.B.4 of the Opening Brief immediately preceding this section.

D. The CARE Discount Increase Should Be Approved

The Commission should approve SCE's request to increase the CARE discount percentage from 20 percent to 32.5 percent. SCE's California Alternative Rates for Energy (CARE) program was adopted in the Catalina water utility in SCE's test year 2006 Water GRC.[372] SCE proposes to continue incorporating CARE surcharges as a component of volumetric rates applicable to non-CARE water customers. The proposed CARE discount increase provides incremental rate assistance to enrolled customers and aligns with the discount currently offered to SCE's electric customers.

Cal Advocates does not directly dispute the proposed increase in CARE discount. Rather, Cal Advocates addresses the rate impacts for CARE customers through a broader set of rate design recommendations.

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[370] Cal. Water Code § 106.3(a).
[371] SCE-07, p. 8.
[372] Resolution W-4665, Ordering Paragraph 12.

VII.

THE COMMISSION SHOULD APPROVE SCE'S PROPOSED TRANSITION TO A MONTEREY-STYLE WRAM AND ICBA

Pursuant to D.20-08-047, SCE proposes to transition from the Water Rate Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) to a Monterey-Style WRAM and Incremental Cost Balancing Account (ICBA) relating to pilot decoupling program authorized by Resolution W-5192.[373] Cal Advocates agrees that the Commission should approve this transition.[374]

SCE did not originally include a request to amortize Purchase Power Expenses Memorandum Account (PPEMA) balances. Having reviewed Cal Advocates' testimony, SCE does not dispute that it failed to resubmit Advice Letter 93-W or present any subsequent request to amortize the PPEMA balance. However, Cal Advocates grossly overestimates the PPEMA balance to be returned to SCE customers.[375] To clarify the final PPEMA balance at issue, SCE submitted workpapers relating to the PPEMA providing the beginning balances, monthly entries, average outstanding balances, interest rates, and ending balances for every month from 2014 to 2021.[376] SCE's Rebuttal Testimony and supporting workpapers establish that the final PPEMA balance to be returned is $0.220 million.[377] Additionally, Part M of SCE's Preliminary Statement does not indicate any basis point reduction to SCE's authorized amounts. SCE agrees to amortize the final PPEMA balance of $0.220 million and terminate the memorandum account at the conclusion of this proceeding.

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[373] D.20-08-047, Ordering Paragraph No. 3; SCE-05, pp. 48-49.
[374] Cal Advocates-01-C, p. 10-12.
[375] Cal Advocates-01-C, pp. 10-13 – 10-14.
[376] SCE-10WP, pp. 82-84.
[377] SCE-10WP, pp. 82-84. If authorized, SCE proposes to apply the PPEMA balance of -$0.220 million against the combined drought memo account balance $11.604 million, reducing the amount for electric rate recovery to $11.384 million.

VIII.

OTHER ISSUES

1. SCE Is Properly Classified as a Class C Water Utility

Throughout its testimony, Cal Advocates recommends that SCE be reclassified as a Class B Water Utility and continually asserts that SCE is not properly classified as a Class C Water Utility in support of various recommendations to impose requirements on SCE's Catalina water utility that do not apply to Class C Water Utilities.[378] Cal Advocates' assertion is based on two incorrect premises: (a) SCE's customer count should include dedicated fire protection service connections and (b) SCE has improperly denied new freshwater allocations.[379] As an initial matter, there is no competent evidence that SCE is somehow trying to evade being reclassified as a Class C Water Utility. SCE's exclusion of fire protection service connections is based on Standard Practice U-25-W and the annual report template for Class B and C water utilities, both of which exclude fire protection connections when determining customer counts.[380] Standard Practice U-25-W expressly provides that "[t]he number of customers of a water utility is usually tallied as the total number of active service connections, excluding fire protection service."

As discussed in greater detail in the next section, Cal Advocates' claim that SCE has improperly denied new freshwater allocation is baseless. Moreover, Cal Advocates overstates the service connections that would be added once allocation requests are granted and honored. Cal Advocates claims that 27 different customers were denied freshwater allocations since the prior water GRC, and those customers should be included in SCE's customer counts.[381] However, out of the 27 allocation requests, only 14 would result in additional service

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[378] *See* Cal Advocates-01-C, pp. 7-7 (SCE should be required to present a detailed lead lag study as required for Class A and B water utilities), 9-3 (SCE should be reclassified as a Class B water utility and required to meet GO 103-A reporting requirements for Class B water utilities.)

[379] *See* Cal Advocates-01-C, pp. 1-2 – 1-10.

[380] Water allocations assigned prior to the implementation of the Water Rationing Plan may still be honored while Stage 1 of the Water Rationing Plan is in effect.

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

connections and thereby increase SCE's customer count.[382] Notably, these allocation requests for new construction are not currently connected to SCE's water distribution system and are unlikely to be connected by Test Year, even if authorized by the Commission.[383] Accordingly, they should not be included in the current customer forecast for ratemaking purposes and SCE remains a Class C Water Utility.

2. <u>SCE Prudently Applied the Water Allocation Process in Accordance with the Commission Approved Water Tariffs</u>

Cal Advocates and the Catalina Parties both take issue with SCE's water allocation process for new service connections or changes to existing service connections with Cal Advocates recommending that the Commission make modifications to SCE's existing water tariff.[384] SCE's water allocation process was approved by the Commission in 1979 and is described in water tariff Rule 3 and Schedule FWY. Water tariff Rule 3 and Schedule FWY do not permit SCE to issue new allocations when water is not available in the safe annual yield or if SCE has implemented its Water Rationing Plan. These tariffs allow SCE to employ a fair, consistent methodology for demand planning without putting its water resources at risk of overproduction.[385] SCE's water allocation process must also consider compliance with other regulatory and permitting requirements. For example, SCE's existing Coastal Development Permit (CDP) only allows for 147.8 acre-feet per year of desalination plant production to be considered for allocable purposes.[386] California water works standards and GO 103-A include mandates around SCE's ability to allocate water in excess of source and storage capacity.[387] In Advice 123-W, SCE proposed modifications to its tariffs to present an updated methodology for

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382 SCE-10, p 17.
383 *Id*.
384 Cal Advocates-01, p. 1-1 to 1-9, CP-01, p. 8.
385 *See also* SCE, Barcinas, Tr. Vol. 2, pp. 169:17-171:20.
386 In Advice 123-W-B, submitted on September 21, 2021, SCE proposed increasing the capacity of the Pebbly Beach Desalination Facility recognized in Schedule FWY to 147.8 acre-feet per year to align with the existing CDP permit.
387 *See* California Code of Regulations, Title 22 §64554.a-b and General Order 103-A, Section II.B(3).

determining water availability, consistent with permit conditions and other industry standards. Moreover, SCE's capital forecast includes the Desalination Enhancements Phase 1 project which shall further increase the water supply available to meet outstanding and future allocation requests and improve drought resiliency on the Island.[388] Nothing in the record properly refutes SCE's prudent management of limited water resources and demand conditions in the period following extended historic drought conditions in accordance with its Commission approved water tariff. Cal Advocates' proposed modification to the water tariff is unwarranted and should be rejected.

3. Naming Convention for Low-Income Ratepayer Assistance Program

In its Phase I decision in the Water Low-Income OIR (R.17-06-024), the Commission, among other things, ordered all water utilities to adopt a consistent name for their respective low-income water assistance programs, requiring utilities to rename the programs as Customer Assistance Programs (CAP).[389] SCE proposes to maintain the existing CARE name for its water utility low-income ratepayer assistance program. The CARE name is synonymous with ratepayer assistance in California, including for SCE's Catalina water customers.

Beyond the fundamental name recognition factor, the costs to implement the program name change for Catalina water customers will far outweigh any benefit achieved by creating consistency across water utilities. SCE's Catalina utility operations are unique and water customers benefit from the economies of scale created by maintaining a consistent low-income program name with its electric utility operations. SCE's water customers on Catalina currently have a streamlined, all-inclusive low-income enrollment process. Customers apply once and, if eligible, will receive rate discounts for electricity, water, and gas service (as applicable). Adopting a new program name just for Catalina water customers will require additional funding to develop marketing and communication materials and implement IT system changes to accommodate the new standalone Customer Assistance Program (CAP). The

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[388] *See* SCE Opening Brief, Section III.B.2.A.
[389] D.20-08-047, Ordering Paragraph No. 4.

segregation of the water low-income program from the current all-inclusive low-income process will likely create customer confusion over the differences between CARE and the CAP, complicate customers' experiences, and potentially deter customers from enrolling in the program. Unlike other systems across the state, customers receive summary billing from SCE for their water, gas, and electric service. Catalina customers only know of the CARE program name and there is no value by changing to the generic CAP name. Maintaining the current CARE program name would mitigate the risk of customer confusion and enrollment deterrence.

Given the unique circumstances of SCE's utility service on Catalina and the existing streamlined process, the adoption of the CAP name for its Catalina water utility operation is neither cost effective nor beneficial to customers. SCE respectfully requests that the Commission allow SCE to continue promoting its water low-income ratepayer assistance program as part of the established and effective CARE program.

IX.

CONCLUSION

For the foregoing reasons, SCE respectfully requests that the Commission approve SCE's requests as set forth in its summary of recommendations.

Respectfully submitted,

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May 13, 2022