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1 **MEMORANDUM**

2 The Public Advocates Office at the California Public Utilities Commission (“Cal  
3 Advocates”) examined application material, data request responses, and other  
4 information presented by Suburban Water Systems (“Suburban”) in Application (“A.”)  
5 23-01-001 to provide the California Public Utilities Commission (“Commission” or  
6 “CPUC”) with recommendations in the interests of ratepayers for safe and reliable  
7 service at the lowest cost. Mr. Ibrahim is Cal Advocates project lead for this proceeding.  
8 Mr. Moussa is the oversight supervisor, and Ms. Foley is the legal counsel.

9 Although every effort was made to comprehensively review, analyze, and provide  
10 the Commission with recommendations on each ratemaking and policy aspect presented  
11 in the Application, the absence from Cal Advocates’ testimony of any particular issue  
12 connotes neither agreement nor disagreement with the underlying request, methodology,  
13 or policy position related to that issue.

Testimony Book	Description	Witness
1	Executive Summary, Report on 2022 Recorded Data, RO Model Changes, and Escalation Year Increases	Suliman Ibrahim
2	Report on Suburban’s General Office Expenses Excluding Payroll	Roy Keowen
3	Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation	Daphne Goldberg
4	Report on Sales & Operational Revenues, Rate Design and BAMA	Chris Ronco
5	Report on Plant Projects for Whittier-La Mirada System	Brian Yu
6	Report on Pipeline Replacement Depreciation Reserve & Expense, Rate Base & Early Retirements and Sativa Pipeline Projects	Zaved Sarkar
7	San Jose Hills Planned Projects and Water Quality	Anthony Andrade
8	Report and Recommendations on Customer Service, Environmental and Justice Action Plan, Special Requests, and Annual Projects	Katherine Nguyen

## CHAPTER 1 Executive Summary

### I. Overview

On January 3, 2023, Suburban Water Systems (“Suburban”) filed Application (“A.”) 23-01-001 requesting authority to increase rates by approximately \$19,763,961 or 19.79% in 2024, \$6,392,906 or 5.49% in 2025, and \$6,387,993 or 5.20% in 2026.<sup>1</sup> The requested rate increases are neither reasonable nor justified. The Commission should instead authorize a rate increase of \$3,632,722 or 3.52% in 2024, \$2,172,220 or 2.02% in 2025, and \$2,152,499 or 1.97% in 2026. This \$7,957,441 or 7.69%, three-year increase represents a just and reasonable revenue requirement that will allow Suburban a fair opportunity to earn its authorized rate of return while at the same time ensuring ratepayers pay just and reasonable rates. Table 1-1 shows the proposed rate increases.

**Table 1-1 Revenue Increase Comparison**

	Suburban		Cal Advocates	
Year	Revenue Increase	Percent Change	Revenue Increase	Percent Change
2024	\$19,763,961	19.79%	\$3,632,722	3.52%
2025	\$6,392,906	5.49%	\$2,172,220	2.02%
2026	\$6,387,993	5.20%	\$2,152,499	1.97%

In a General Rate Case (“GRC”), the utility must demonstrate the reasonableness of every dollar in its revenue requirement.<sup>2</sup> Suburban’s proposed revenue requirement fails to meet this burden. As discussed throughout Cal Advocates’ testimony, Suburban often fails to justify its proposed capital additions and forecasted expenses. Suburban’s proposed revenue requirement also fails to consider important factors that could have a

<sup>1</sup> Application Of Suburban Water Systems (U339W) for Authority to Increase Rates Charged for Water Service page 1.

<sup>2</sup> D.96-12-066 page 5.

1 significant impact on rates, such as a pending change with Suburban’s parent company.  
2 Suburban’s revenue requirement request is also not supported by its own RO model.  
3 Suburban proposes a \$6,392,906, or 5.49%, 2025 revenue requirement increase but the  
4 RO model Suburban provided with the application calculates an increase of \$5,829,297  
5 or 5.45% instead.<sup>3</sup>

6 The Commission should also consider a utility’s motivations when analyzing  
7 revenue requirement increase requests. For example, one of the ways utilities earn profits  
8 is through a return on rate base. In general, the higher the rate base the higher a utility’s  
9 return. Given the nature of regulated monopolies and how they earn a profit, Suburban  
10 has little incentive to minimize its capital expenditures. In fact, Suburban has a reason to  
11 over-invest in capital as a driver of shareholder return. This is known as the Averch-  
12 Johnson Effect<sup>4</sup> or more colloquially as “gold plating.” When using a future test year,  
13 utilities “have incentives to present biased forecasts that are not always easy for  
14 commission staff and interveners to uncover.”<sup>5</sup> Suburban’s attempts to add unnecessary  
15 and unreasonable expenses to its revenue requirement are summarized below.

## 16 **II. Expenses**

17 Suburban has several substantial issues in its forecasted rates that make its  
18 proposed revenue requirements unreliable. Suburban’s supply mix underestimates its  
19 Main San Gabriel Basin (“MSGB”) safe yield and instead replaces its owned water rights  
20 with significantly more costly replacement water. Due to its under-forecast of its allotted  
21 yield, Suburban’s 2024 forecasted water costs are \$2,666,140 higher than they should

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<sup>3</sup> Workpapers Vol I Confidential (Final Application) Cells “H6383-F6383, and H6490”.

<sup>4</sup> Averch, H.A. (2008). Averch-Johnson effect. In: Durlauf, S.N., Blume, L.E. (eds) The New Palgrave Dictionary of Economics. Palgrave Macmillan, London. [Averch-Johnson effect | SpringerLink](#)

<sup>5</sup> National Regulatory Research Institute “Future Test Years: Challenges Posed for State Utility Commissions” by Ken Costello, July 2013. [FA86BF62-93FE-6709-21AB-3E836A9FDD28 \(naruc.org\)](#)

1 be.<sup>6</sup> Suburban also neglects to consider a significantly cheaper source of supply for its  
2 recently acquired Sativa system. Suburban’s forecast assumes its Sativa customers will  
3 be supplied purchased water from Liberty Utilities at a cost of \$3,600 per acre-foot. This  
4 is unreasonable as Suburban now uses water from the City of Compton, which can fully  
5 provide for the Sativa customer water needs at a cost of \$1,346 per acre-foot, or  
6 approximately 60% less than Liberty.<sup>7</sup> Suburban has been in communication with the  
7 City of Compton regarding this connection since at least June 2022<sup>8</sup> and yet did not  
8 include the City of Compton connection in its forecast, which results in an unnecessary  
9 \$1,158,556 increase in water supply costs in test year (“TY”) 2024.<sup>9</sup>

10 Suburban’s expense forecast includes substantial expenses that do not provide any  
11 ratepayer benefits. Suburban’s employee welfare account, for example, is a fund for  
12 purchasing expensive employee gifts such as a \$3,700 wristwatch and a \$4,500 luggage  
13 set.<sup>10</sup> Ratepayers should not be expected to fund such lavish gifts that provide no water  
14 service-related benefits. Between 2023 and 2025 Suburban projected a little under \$1  
15 million for its employee welfare costs.<sup>11</sup> Similarly Suburban used unreasonable expenses  
16 to forecast its parent company expenses including tickets to a Houston Astros game and

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<sup>6</sup> Cal Advocates Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation. “Main San Gabriel Water Basin 2024 Operating Safe Yield and Forecasted Replacement Water Cost”.

<sup>7</sup> Cal Advocates Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation. “Purchased Water for Sativa Customers”.

<sup>8</sup> Cal Advocates Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation. Attachment “June 21, 2022 Email from Suburban to the City of Compton”.

<sup>9</sup> Cal Advocates Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation. “Purchased Water for Sativa Customers”.

<sup>10</sup> Cal Advocates Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation. “Employee Pension and Benefits - Employee Welfare - Account 795, Subaccount 416”.

<sup>11</sup> Workpapers Vol I Confidential (Final Application) Cells “N2676, O2676, and P2676”.

1 board meeting trips to Hawaii.<sup>12</sup> Expenses that have no relation to providing safe,  
2 reliable, and affordable water service have no place in equitable ratemaking and should  
3 not be funded by ratepayers.

4 Suburban also includes performance-based compensation for both its employees  
5 as well as its parent company employees in its forecasts. This compensation is tied to  
6 specific performance targets that primarily benefit shareholders and not ratepayers.  
7 Ratepayers should not fund incentive programs that primarily benefit shareholders.  
8 Another significant issue with forecasting performance-based compensation is that it  
9 operates under the assumption that all employees will meet or exceed performance  
10 criteria.<sup>13</sup>

11 Suburban’s parent company (Southwest) related capital and expense requests fail  
12 to take into account the impact of its proposed merger with Corix Infrastructure. If the  
13 Commission approves the requested merger, the merged company will be approximately  
14 double the size of the current company which should lead to a commensurate reduction in  
15 Suburban ratepayers’ allocated costs. In fact, according to the company’s testimony,  
16 Suburban customers will contribute approximately 19% of the post-merger entity  
17 revenues. It is therefore unreasonable for Suburban customers to fund 40.5% of the  
18 parent company shared costs as currently proposed by Suburban. It is more reasonable to  
19 forecast a 20.2% allocation based on the combined company’s substantially increased  
20 size.<sup>14</sup>

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<sup>12</sup> Cal Advocates Report on Suburban’s General Office Expenses Excluding Payroll. “The Commission should only allow 96% of Suburban’s GO Expenses forecast”.

<sup>13</sup> Cal Advocates Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation. “Ratepayers Should Not Pay for Performance-Based Compensation That Primarily Benefits Shareholders”

<sup>14</sup> Cal Advocates Report on Suburban’s General Office Expenses Excluding Payroll. “SWWC’s Merger with Corix will reduce Suburban’s allocation percentage”.

1 **III. Capital**

2 Suburban’s proposed pipeline replacement program is unnecessarily aggressive  
3 and does not align with the condition of its system. Suburban’s Infrastructure Leakage  
4 Index scores show that the system has low leakage rates and is operating at exceptional  
5 levels.<sup>15</sup> Suburban has also proposed ratepayer funding to replace pipelines that cannot  
6 be feasibly completed in this rate case cycle because the proposed project areas are under  
7 digging and paving moratoriums.<sup>16</sup> It is troubling that Suburban requests ratepayer  
8 funding for projects that lack the most basic feasibility considerations and fail to  
9 incorporate readily available public information from cities that will be required to permit  
10 the projects. This same issue was also uncovered in Suburban’s previous GRC and  
11 points to a continuing lack of adequate capital planning.<sup>17</sup>

12 Suburban demonstrates this lack of adequate planning in many other areas of its  
13 capital planning process. For example, in the previous GRC, the Commission approved  
14 funding for several fixed emergency generators. Suburban stated that these generators  
15 were not completed because of delays caused by supply chain issues. Suburban states  
16 that the current lead time for generators “range from 70 to over 100 weeks.”<sup>18</sup> Suburban  
17 has requested funding for these generators again in this GRC but only recently began  
18 placing any orders for many of the generators making it unlikely these generators will go  
19 into service during the same time period that Suburban proposes ratepayers will be  
20 funding their cost.<sup>19</sup>

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<sup>15</sup> Cal Advocates Report on Pipeline Replacement Depreciation Reserve & Expense, Rate Base & Early Retirements and Sativa Pipeline Projects. “Suburban’s Water Transmission System Performance”.

<sup>16</sup> Cal Advocates Report on Pipeline Replacement Depreciation Reserve & Expense, Rate Base & Early Retirements and Sativa Pipeline Projects. “Paving Moratoriums from City of Whittier.”

<sup>17</sup> Cal Advocates Report on the Results of Operations Suburban Water Systems Test Year 2021 General Rate Case A.20-03-001 pages 8-14 to 8-16.

<sup>18</sup> Direct Testimony of Jorge Lopez page 203.

<sup>19</sup> Cal Advocates Report on San Jose Hills Planned Projects and Water Quality. “Generator Purchases and Installation”.



1 In the previous GRC, the Commission also authorized Suburban ratepayer funding  
2 to complete the Plant 128 reservoir and pump station replacement for \$3,598,000.<sup>20</sup>  
3 Suburban did not complete the project and is once again requesting funding for it in this  
4 rate case. Suburban’s budget has ballooned to \$8,684,198 and once again Suburban  
5 proposes ratepayers fund a project twice without receiving benefits once. A continuing  
6 and repeated lack of adequate planning is evident as Suburban says it needed extra time  
7 to design a system to continue operations while it removed the existing reservoir from  
8 service. Suburban further stated in discovery that it “discovered this need during the  
9 detailed design phase of the project not completed in the previous rate case.”<sup>21</sup> It is  
10 unclear why Suburban requested funding for a project that lacked such basic planning as  
11 to identify a replacement source for the source proposed to be taken out of service. It is  
12 even less clear why ratepayers should pay for Suburban’s lack of adequate planning when  
13 they have not received any benefit from a project they have already been funding (and  
14 will continue to fund until 2024).

15 In the previous rate case, the Commission also authorized \$187,000 for Suburban  
16 to conduct an AMI Pilot Study. Cal Advocates requested the AMI Pilot Study in this  
17 proceeding. However, instead of providing a study report with findings and conclusions,  
18 Suburban provided nebulous and ambiguous pieces of information in testimony. In  
19 response to Cal Advocates request for the actual pilot study report, Suburban simply  
20 referenced sections of its previously provided testimony and workpapers. Suburban  
21 stated that the pilot project provided “positive outcomes” but did not provide any detailed  
22 analysis on the pilot study results.<sup>22</sup>

23 Suburban’s proposed plant projects often come with an excessive price tag. For  
24 example, Suburban is requesting \$42,343,703 for a PFAS treatment system at the Plant

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<sup>20</sup> Direct Testimony of Jorge Lopez pages 30 and 32.

<sup>21</sup> Cal Advocates Report on San Jose Hills Planned Projects and Water Quality. “Plant 128 Reservoir Replacement and Pump Station Projects”.

<sup>22</sup> Report on Plant Projects for Whittier-La Mirada System. “P-6: AMI Infrastructure (2025)”.

1 201 well field. The Plant 201 PFAS treatment system would treat four wells, three of  
2 which are active at any given time. Suburban’s request is substantially higher than  
3 treatment estimates established by the US Environmental Protection Agency and local  
4 water agencies. For example, in a recent earnings call with investors, California Water  
5 Service Group stated “based on those draft regulations, we think it’s incremental \$200  
6 million approximately of investment needed to treat approximately 75 wells in the five  
7 states that we operate.”<sup>23</sup> This breaks down to approximately \$2.67 million per well as  
8 opposed to Suburban’s proposed approximately \$14 million per well.<sup>24</sup> Suburban also  
9 proposed to construct Plant 201 PFAS treatment for a little under \$20 million in the  
10 previous GRC.<sup>25</sup> Suburban also failed to apply for any federal funding despite  
11 approximately \$9 billion in funding available to water system for PFAS treatment under  
12 President Biden’s Bipartisan Infrastructure law.<sup>26</sup>

13 More demonstrations of inadequate planning are found in Suburban’s proposals to  
14 acquire additional water rights and a solar generation project at Plant 224. Suburban’s  
15 cost benefit analysis for the water rights purchase puts the break-even point 11 years in  
16 the future but contains several flaws that are likely to push the break-even point out  
17 further.<sup>27</sup> In the case of the solar generation project, ratepayers will not break even until

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<sup>23</sup> California Water Service Group (CWT) Q2 2023 Earnings Call Transcript Seeking Alpha.  
<https://seekingalpha.com/article/4620672-california-water-service-group-cwt-q2-2023-earnings-call-transcript>

<sup>24</sup> Suburban proposes approximately \$42 million to treat four wells only three of which will be active at a time. \$42 Million / 3 = \$14 Million.

<sup>25</sup> Cal Advocates Report on the Results of Operations Suburban Water Systems Test Year 2021 General Rate Case A.20-03-001 pages 7-35.

<sup>26</sup> Cal Advocates Report on Plant Projects for Whittier-La Mirada System. “P-16: Plant 201 Treatment (2025)”.

<sup>27</sup> Cal Advocates Report on Plant Projects for Whittier-La Mirada System. “P-1, P-31, P-32: Water Rights Purchase (2023, 2024, 2025)”.

1 approximately 21 years after solar installation, which is four years shorter than the period  
2 Suburban estimates the system will last.<sup>28</sup>

3 Suburban’s proposal for contingency budgets is inappropriate in a ratemaking  
4 context and should be disallowed. Costs forecast for unknowns have no place in a rate  
5 case where the utility must justify every dollar in its proposed revenue requirement.<sup>29</sup>  
6 Similarly, Suburban’s method of forecasting Engineering Services and Inspection and  
7 mobilization/demobilization are based on unknowns and as such should be excluded from  
8 rates. Suburban’s one size-fits-all approach to capital budgeting is unreasonable and  
9 prevents the Commission from accurately assessing the validity of the proposed costs.<sup>30</sup>

10 Suburban also asserts benefits in testimony that do not stand up to scrutiny. For  
11 example, in its testimony on the benefits of its proposed solar panel installation at Plant  
12 224, Suburban states the installation would lead to high career paths and economic  
13 opportunities sourced from Environmental and Social Justice (“ESJ”) communities.  
14 However, when asked specifics on how this will occur, Suburban responded that its  
15 “testimony incorrectly notes that solar panels provide Suburban the opportunity to train  
16 and promote employees sourced from disadvantaged communities.”<sup>31</sup> Suburban further  
17 stated that it will hire a contractor that may or may not hire workers from ESJ  
18 communities.<sup>32</sup>

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<sup>28</sup> Cal Advocates Report on Plant Projects for Whittier-La Mirada System. “P-4: Plant 224 Solar Panels (2024)”.

<sup>29</sup> Cal Advocates Report on San Jose Hills Planned Projects and Water Quality. “Contingency”.

<sup>30</sup> Cal Advocates Report on Plant Projects for Whittier-La Mirada System. “Engineering Services and Inspection (ES&I)” and “Mobilization/Demobilization”.

<sup>31</sup> Response to Cal Advocates data request BYU-08 (Plant 224 Solar). Q.3.b.

<sup>32</sup> Cal Advocates Report and Recommendations on Customer Service, Environmental and Justice Action Plan, Special Requests, and Annual Projects. “Alternative Proposal to Suburban’s Water Rate Increase”.

1 **IV. Sales**

2 Suburban’s proposed sales forecast calculated using the New Committee Method,  
3 under forecasts customer sales which in turn leads to higher rates. A 5-year average has  
4 proved to be a more accurate and a more appropriate forecast method for residential and  
5 business sales as evidenced by recent Commission decisions, statistical flaws in the New  
6 Committee Method, and historical sales data.<sup>33</sup> The Commission should also shift  
7 Suburban from its current two-block rate structure to a three-block structure that better  
8 promotes conservation.<sup>34</sup>

9 **V. Conclusion**

10 For the reasons summarized above and detailed in the rest of testimony, the  
11 Commission should reject Suburban’s unreasonable requested increase in customer rates.  
12 The Commission should adopt the revenue requirement increases presented in this report  
13 because they represent a just and reasonable revenue requirement that will allow  
14 Suburban a fair opportunity to earn its authorized rate of return while at the same time  
15 ensuring ratepayers pay just and reasonable rates.

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<sup>33</sup> Cal Advocates Report on Sales & Operational Revenues, Rate Design and BAMA

<sup>34</sup> Report on Sales & Operational Revenues, Rate Design and BAMA

1 **CHAPTER 2 2022 Recorded Data**

2 **I. INTRODUCTION**

3 This chapter presents Cal Advocates’ analyses and recommendations on the need  
4 for Suburban to provide recorded prior year data in its GRC application.

5 **II. SUMMARY OF RECOMMENDATIONS**

6 The Commission should require Suburban to provide previous year recorded data  
7 in its GRC filing. Previous year data is essential for accurate test year forecasting.

8 The Commission’s decision in this proceeding should include an ordering  
9 paragraph requiring Suburban to file an update to its current application and future  
10 applications with prior year recorded data.

11 **III. ANALYSIS**

12 Unlike every other Class-A water utility regulated by the Commission, Suburban  
13 does not include recorded prior year data in its GRC Application. In this case, Suburban  
14 did not include any recorded data for the year 2022.

15 For January filers like Suburban, providing prior year data is more challenging  
16 given that GRC applications are filed shortly after the prior year has ended.<sup>35</sup> However,  
17 every other January GRC filer has resolved this issue by including partial recorded prior  
18 year data in its GRC application, along with an estimate for the remainder of the year.  
19 Other January filers provide complete recorded prior year data as part of an update to the  
20 GRC application.<sup>36</sup> In sum, Cal Advocates receives complete, recorded prior year data

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<sup>35</sup> D.04-06-018, *Interim Order Adopting Rate Case Plan*, p. 9 (referring to a “data availability problem” for January GRC filers).

<sup>36</sup> San Gabriel Valley Water Company’s (San Gabriel’s) most recent 2022 GRC application presented approximately six-months of data for prior year 2021, as well as an estimate for the remainder of the year. San Gabriel then updated its GRC application in April of 2022 with the remaining recorded 2021 data. Other recent January filers – San Jose Water Company and Liberty Utilities – rely on these same practices.

1 for all other water utilities in a timeframe that allows Cal Advocates to evaluate this  
2 information and incorporate it into testimony. Suburban is the lone exception.

3 **A. Prior Year Data is Needed to Accurately Forecast the Test**  
4 **Year**

5 Test year rates are set using a forecast based on the prior five years of recorded  
6 data. In a typical water-utility rate case, prior year data is provided and used to inform  
7 that test year forecast. Incorporating prior year data into the test year forecast is  
8 important as the most recent year of financial data will best reflect current conditions and  
9 better inform on the reasonableness of rates being proposed in the test year. Test year  
10 forecasts that rely on stale data will be a poor reflection of real-world conditions in the  
11 test year, thereby making test year rates less reflective of the utility’s actual expenses.  
12 Under the standard GRC schedule,<sup>37</sup> Suburban’s refusal to provide any prior year data in  
13 its application places Cal Advocates in the position of developing rate forecasts using  
14 financial data no more recent than twenty-four months old.

15 The Commission should require Suburban to provide prior year recorded data no  
16 later than April of the year in which it files its application.

17 **B. 2022 Recorded Data in Cal Advocates’ Model**

18 Suburban objected to providing any 2022 recorded data. However, recent  
19 recorded data is essential for forecasting just and reasonable rates and ratepayers can be  
20 significantly harmed if test year forecasts are based on data that is too old. For example,  
21 as discussed in greater detail below, Suburban’s projected 2022 company funded  
22 additions were \$2.4 million dollars less than its recorded additions. Suburban takes the  
23 position that the Rate Case Plan does not require it to provide 2022 recorded data.<sup>38</sup> In

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<sup>37</sup> See D.07-05-062

<sup>38</sup> Suburban’s Response to JR6-002 Hardcoded data Q.1.a.

1 this proceeding, the Commission set Cal Advocates’ testimony due date six weeks after  
2 Suburban’s mid-year audit in order to enable Suburban to provide 2022 recorded data.<sup>39</sup>

3 In anticipation of receiving the data, Cal Advocates issued a data request asking  
4 Suburban to provide an updated RO model that includes recorded 2022 data instead of  
5 estimated. Suburban refused the request and stated:

6 “Regarding Public Advocates’ request that Suburban update  
7 the RO Model, Public Advocates’ Protest requested only  
8 “2022 recorded data.” This is far different from an update to  
9 the RO Model which would effectively mean an update to  
10 Suburban’s entire application, requiring calculations and  
11 assumptions which would result in a totally different revenue  
12 requirement from Suburban’s request. Suburban objects to  
13 this request as overbroad and unduly burdensome.”<sup>40</sup>

14 Ironically, Suburban’s response, above, illustrates the importance to the  
15 ratemaking process of receiving recent and verifiable financial data. Rather than  
16 updating its ratemaking as requested, Suburban provided an accounting ledger as shown  
17 in the figure below. This data is more difficult to integrate into the RO model because it  
18 uses different labeling and categories. For example, instead of labeling capital spending  
19 by project as in the RO model, Suburban provided general asset classes and listed charges  
20 with no useful description of the project completed, as shown below. Cal Advocates  
21 updated its own RO model with the most recent 2022 recorded plant additions as  
22 accurately as possible.

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<sup>39</sup> A.23-01-001 scoping memo page 4.

<sup>40</sup> Suburban’s Response to SIB-003 Recorded 2022 data Q.1.

1 Figure 2-1. Suburban Provided Recorded 2022 Data.

Main number DocumentNo	SNo. FY	Capit. date PostngDate	Name TTY AstValDate Text	Acquis Partial acquis:	Origin
9001000005	0	01/01/1911	SWS PUMP STRUCTURE IMPROV LM	54,369.83	
100566768	2022	05/31/2022	346 05/31/2022 22-4105	1,430.35	AnC 90001002-0
100566768	2022	05/31/2022	346 05/31/2022 22-4105	3,199.19	AnC 90001002-0
100591227	2022	10/31/2022	346 10/31/2022 22-4105	13,164.39	AnC 90001002-0
100595435	2022	11/30/2022	346 11/30/2022 22-4105 321	8,798.64	AnC 90001002-0
100595435	2022	11/30/2022	346 11/30/2022 22-4105 321	8,525.11	AnC 90001002-0
100595435	2022	11/30/2022	346 11/30/2022 22-4105 321	8,023.63	AnC 90001002-0
100595435	2022	11/30/2022	346 11/30/2022 22-4105 321	10,166.30	AnC 90001002-0
100600842	2022	12/31/2022	346 12/31/2022 22-4105 371	1,062.22	AnC 90001002-0
9001000006	0	01/01/1911	SWS PUMP STRUCTURE IMPROV SJ	38,204.95	
100584261	2022	09/30/2022	346 09/30/2022 22-1105	7,235.84	AnC 90001022-0
100584261	2022	09/30/2022	346 09/30/2022 22-1105	5,951.16	AnC 90001022-0
100584261	2022	09/30/2022	346 09/30/2022 22-1105	7,772.04	AnC 90001022-0

2  
3 To further illustrate the importance of actual, verifiable, recorded data to the  
4 ratemaking process, Suburban’s application estimated 2022 capital additions in its filing  
5 at \$36,897,574.<sup>41</sup> In contrast Suburban’s recorded additions for 2022 were  
6 \$34,512,311.<sup>42</sup> In other words, Suburban recorded nearly 7% less in actual capital  
7 additions than it estimated in its application. This \$2.4 million discrepancy clearly  
8 illustrates the importance of using the most up to date information in forecasts.  
9 Ratepayers should not be expected to pay for the cost, much less a shareholder profit on  
10 \$2.4 million of projects that do not exist.

11 Because Suburban provided the recorded 2022 data by asset class and not project  
12 as in the RO model, Cal Advocates had to modify the estimated 2022 data in the RO  
13 model using an asset class factor. This factor was applied across all projects in the same  
14 asset class in the RO model table 6-1 to align the estimated 2022 data with the recorded  
15 data.<sup>43</sup> Cal Advocates also based its Suburban expense forecasts on the more recent and  
16 recorded 2018-2022 data as opposed to 2017-2021 recorded data provided by Suburban  
17 in its application.

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<sup>41</sup> Workpapers Vol I Confidential (Final Application) Cell “M4500”.  
<sup>42</sup> Suburban’s Response to DR SIB-003 Attachment DR SIB-003 2022 Utility Plant Addition\_Detail Cell “N1241”.  
<sup>43</sup> For example, for a hypothetical asset class PUC account number 1 if Suburban had estimated \$1000 in spending but recorded on \$900 a factor of 0.9 would be applied across all projects in that class. Conversely if for the same hypothetical asset class the recorded were \$1100, a factor of 1.1 would have been applied.



1           **C.     Suburban’s Insistence on Not Providing Updated Data**  
2                   **and Discovery Issues**

3           The accuracy of future test year forecasts is predicated on the quality of the data  
4 used. Suburban’s insistence on using stale data can unfairly burden ratepayers. For  
5 example, Suburban estimated it would have to purchase 514 acre-feet of water from  
6 Liberty Utilities to supply its newly acquired Sativa customers.<sup>44</sup> This water was to be  
7 purchased at \$3,600 per acre foot<sup>45</sup> for a total cost of \$1,850,400 in test year 2024.

8           Through Public Records Requests, Cal Advocates discovered Suburban had  
9 actually secured a significantly cheaper source of supply from the City of Compton. The  
10 City of Compton can supply water to the Sativa system at only \$1,346 per acre foot. This  
11 translates into a ratepayer savings of \$1,158,556 in 2024.<sup>46</sup> Suburban was in contact with  
12 the City of Compton regarding the connection since at least June 2022 (i.e. six months  
13 prior to filing its application). Moreover, Suburban had ample opportunity to share this  
14 information with the Commission and chose not to do so. In response to discovery on the  
15 matter Suburban stated that it “is not required to update the RO model for changes in  
16 forecasted purchased water costs.”<sup>47</sup>

17           Similarly, Suburban refused to update its RO model with the recorded 2022 data  
18 despite the fact its estimated 2022 company funded capital additions were over \$2.4  
19 million higher than recorded. Suburban objected because such an update would “result in  
20 a totally different revenue requirement from Suburban’s request.”<sup>48</sup> Just and reasonable

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<sup>44</sup> Workpapers Vol I Confidential (Final Application) Cell “O2814”.

<sup>45</sup> Workpapers Vol I Confidential (Final Application) Cell “O3264”.

<sup>46</sup> Cal Advocates Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation. “Purchased Water for Sativa Customers”.

<sup>47</sup> Cal Advocates Report and Recommendations on Operations and Maintenance Expenses, Administrative and General Expenses, Payroll, and Conservation. “Suburban Did Not Inform the Commission About Its Purchased Water Agreement with The City of Compton”.

<sup>48</sup> Suburban’s Response to SIB-003 Recorded 2022 data Q.1.

1 rates should be based on the most recent applicable data regardless of how that data  
2 affects revenue requirements.

3 Suburban also provided multiple data responses that contained inaccurate  
4 information. This resulted in wasted resources spent on attempting to analyze faulty data  
5 and obtain corrected information and delayed discovery responses.<sup>49,50,51</sup> In the case of  
6 the integration road map for its proposed merger with Corix, Suburban did not provide  
7 the requested plan until July 26, several months after it was initially requested.<sup>52</sup> These  
8 errors and delays are particularly problematic given Suburban’s two-week data request  
9 response time. Suburban also failed to provide information on the benefits of several  
10 proposed projects despite the significant costs associated with them. For example, in  
11 response to questions regarding the potential benefits to IT infrastructure and Suburban’s  
12 IT plans for the merger Suburban stated “this is not known yet at this time.”<sup>53</sup>

#### 13 **IV. CONCLUSION**

14 Accurate up to date information is necessary for forecasting fair and equitable  
15 rates. The Commission should require Suburban to provide prior year recorded data to  
16 the extent possible with its application and a complete prior year of recorded data no later  
17 than April 30<sup>th</sup> of the year in which it files its application. This date coincides with the  
18 due date established by Commission’s Water Division for all water utilities to submit

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<sup>49</sup> Suburban’s response to DR DG-20 was at first partially delayed and then included incorrect information on the number of employees. The original data request was sent on 5/26/2023. The final response explaining the error was not received until 7/3/2023.

<sup>50</sup> Suburban’s response to DR KN3-11 contained calculation errors. Cal Advocates requested Suburban double-check the data and make sure it is accurate on 7/7/2023 and again on 7/11/2023. Suburban finally provided a corrected response on 7/13/2023.

<sup>51</sup> Suburban’s response to DR DG-05 contained an error. The original data request was sent on 1/27/2023. The final corrected response was provided on 2/22/2023.

<sup>52</sup> The Public Advocates Office initially requested the integration roadmap in KN3-04 on 3/23/2023 in A.22-11-010.

<sup>53</sup> Suburban’s response to SN1-01 Q.32 a., b., and c. attached in the Report on Suburban’s General Office Expenses Excluding Payroll.

- 1 annual reports with verified recorded data for year prior. The \$2.4 million discrepancy
- 2 between Suburban's proposed and recorded 2022 company funded additions clearly
- 3 illustrates the need for such data in determining just and reasonable rates.

1 **CHAPTER 3 RO Model Changes**

2 **I. Introduction**

3 This Chapter presents the analysis for modifying Suburban’s RO model method  
4 for forecasting escalation year 2025 operating expenses for pumped water assessments,  
5 purchased water, and purchased power.

6 **II. SUMMARY OF RECOMMENDATIONS**

7 The Commission should require Suburban to follow the Class A Water Rate Case  
8 Plan and forecast its 2025 escalation year expenses for pumped water assessments,  
9 purchased water, and purchased power using the Commission required escalation factor.  
10 In the case of these expenses, utilizing 2025 escalation factors will produce a more  
11 accurate forecast as compared to Suburban’s proposed method of forecasting utilizing  
12 supply mix assumptions.

13 The Commission should also update the escalation factors in the RO model to the  
14 most up to date factors available at the time of the decision. Cal Advocates updated its  
15 model with escalation factors based on the June 30, 2023 Escalation Memorandum.

16 **III. Analysis**

17 Suburban bases its forecast for 2025 pumped water assessments in the Main and  
18 Central Basins, Purchased Water, and Purchased Power on its proposed water supply  
19 mix. In contrast, the Rate Case Plan states that attrition year expenses are calculated by  
20 escalating test-year expenses.<sup>54</sup> Moreover, Suburban’s supply mix assumptions are  
21 flawed as discussed in detail in the Report on Plant Projects for Whittier-La Mirada  
22 System and the Report and Recommendations on Operations and Maintenance Expenses,  
23 Administrative and General Expenses, Payroll, and Conservation.

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<sup>54</sup> D.04-06-018 “Interim Order Adopting Rate Case Plan” and D.07-05-062 “Opinion Adopting Revised Rate Case Plan for Class A Water Utilities.”

1 It is unclear if Suburban’s proposed wells will be viable water sources or if  
 2 Suburban will be able to complete them during the proposed time frames. Similarly,  
 3 Suburban’s proposed Main San Gabriel Basin safe yield is significantly lower than  
 4 historical evidence would suggest. Based on the quality of Suburban’s 2025 supply mix  
 5 assumptions, it is more reasonable to follow the Rate Case Plan and escalate costs  
 6 instead. Calculating the costs through escalation increases rates slightly. Cal Advocates  
 7 proposed three-year increase is at 7.69%. Using Suburban’s proposed calculation  
 8 method, the three-year increase would be 6.3%. The expenses were escalated using the  
 9 appropriate Non-Labor 60%/Compensation per hour 40% rate as shown in the Rate Case  
 10 Plan.<sup>55</sup> The table below shows the differences between the two methods.

11 **Table 3-1 Suburban's Forecasting Method vs Escalation**

Operating Expense	Suburban’s Method	Escalation Method	Difference
Pumped Water Assessments Main Basin	\$10,056,850	\$9,959,347	\$97,503
Pumped Water Assessments Central Basin	\$1,430,821	\$1,419,293	\$11,528
Purchased Water	\$20,724,096	\$21,613,272	(\$889,176)
Purchased Power	\$3,882,887	\$3,803,714	\$79,173

12  
 13 Cal Advocate’s RO model also incorporates the latest escalation factors available  
 14 based on the June 30, 2023 Escalation Memorandum and the latest Consumer Price Index  
 15 For all Urban Consumers percent change from 12 months for June 2022 to June 2023.<sup>56</sup>

16 **IV. CONCLUSION**

17 The Commission should require Suburban to follow the Class A Water Rate Case  
 18 Plan and forecast its 2025 escalation year expenses for pumped water assessments,  
 19 purchased water, and purchased power using the Commission required escalation factor.

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<sup>55</sup> D 04-06-018 p.14.

<sup>56</sup> [Consumer Price Index Historical Tables for U.S. City Average : Mid-Atlantic Information Office : U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov/publications/macrotables/)

- 1 Suburban's current forecasts are unreliable because they are based on flawed supply mix
- 2 assumptions. The Commission should also update the escalation factors in the RO model
- 3 to the most up to date factors available at the time of the decision.

1 **CHAPTER 4 Escalation Year Increases**

2 **I. Introduction**

3 This Chapter presents the analysis for forecasting Suburban’s 2025 escalation year  
4 expenses related to pumped and purchased water. This Chapter also includes Cal  
5 Advocates’ recommendation for Suburban’s post-test year revenue requirement  
6 mechanism. For escalation and attrition filings, in conformance with General Order 96-  
7 B, Class A Water Utilities should file Advice Letters proposing new revenue  
8 requirements. Advice Letters should follow the escalation procedures set forth in the  
9 Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 and must  
10 include supporting workpapers. The Commission should also require Suburban to  
11 implement a post-test year revenue requirement mechanism to adjust the escalation years  
12 2025 and 2026 revenue requirement whether Suburban is over or under earning.

13 **II. SUMMARY OF RECOMMENDATIONS**

14 For Suburban’s 2025 and 2026 escalation/attrition year filings, the Commission  
15 should require Suburban to file a Tier 2 Advice Letter proposing new revenue  
16 requirements and corresponding revised tariff schedules whether the filing results in an  
17 increase or decrease in tariff rates.

18 The Commission should include in the final decision an ordering paragraph  
19 containing the following language:

20 For escalation years 2025 and 2026, Suburban must file Tier  
21 2 advice letters in conformance with General Order 96-B  
22 proposing a new revenue requirement and corresponding  
23 revised tariff schedule. Suburban’s filings must include rate  
24 procedures set forth in the Commission’s Revised Rate Case  
25 Plan<sup>57</sup> for Class A Water Utilities and must include  
26 appropriate supporting workpapers. The revised tariff  
27 schedule must take effect no earlier than January 1, 2025 and  
28 January 1, 2026 respectively, and shall apply to service

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<sup>57</sup> D.07-05-062, Appendix A.

1 rendered on and after their effective dates. The proposed  
2 revisions to revenue requirements and rates shall be reviewed  
3 by the Commission’s Division of Water and Audits  
4 (“DWA”). DWA shall inform the Commission if it finds that  
5 the revised rates do not conform to the Rate Case Plan, this  
6 order, or other Commission decisions, and if so, reject the  
7 filing.

8 **III. Analysis**

9 Neither the Rate Case Plan nor the revised Rate Case Plan require Class A Water  
10 Utilities to file escalation advice letters to revise revenue requirements and tariff  
11 schedules in between the Test Years of a GRC. However, if the decision for this GRC  
12 does not require Suburban to file escalation/attrition year revisions, Suburban may choose  
13 to file escalation advice letters only during the years it is under earning. Suburban could  
14 choose not to file attrition advice letters during years it is over-earning, thereby avoiding  
15 any rate decrease regardless of how much, or how often it is over-earning.

16 The Commission should require Suburban to submit an earnings test before  
17 authorizing Escalation or Attrition Year increases. If Suburban is over-earning, the  
18 Commission should require Suburban to file for the appropriate rate decrease. The  
19 Commission has the authority to require downward adjustments if the utility is over-  
20 earning. The Commission’s decision for California-American Water Company’s 2012  
21 GRC included this requirement, stating in Ordering Paragraph No. 7:

22 For escalation years 2013 and 2014, California American  
23 Water Company shall file Tier 2 advice letters in  
24 conformance with General Order 96-B proposing a new  
25 revenue requirement and corresponding revised tariff  
26 schedules for each district. The filings shall include rate  
27 procedures set forth in the Commission’s Revised Rate Case  
28 Plan (D.07-05-062) for Class A Water Utilities and shall  
29 include appropriate supporting workpapers. The revised tariff  
30 schedules shall take effect no earlier than January 1, 2013 and  
31 January 1, 2014, respectively, and shall apply to service  
32 rendered on and after their effective dates. The proposed  
33 revisions to revenue requirements and rates shall be reviewed  
34 by the Commission’s Division of Water and Audits



1 (“DWA”). DWA shall inform the Commission if it finds that  
2 the revised rates do not conform to the Revised Rate Case  
3 Plan, this order, or other Commission decisions, and if so,  
4 reject the filing.<sup>58</sup>

5 **IV. CONCLUSION**

6 For Suburban’s 2025 and 2026 escalation/attrition year filings, the Commission  
7 should require Suburban to file a Tier 2 Advice Letter proposing new revenue  
8 requirements and corresponding revised tariff schedules whether the filing results in an  
9 increase or decrease in tariff rates.

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<sup>58</sup> D.12-06-016, Ordering Paragraph 7.

# **Attachment A: Qualifications of Witness**



# **Attachment B: Summary of Earnings at Present Rates**

### Summary of Earning at Present Rates

OPERATING REVENUES	Cal Advocates	Suburban	Suburban Exceeded Cal Adv.
Water Service Revenues, Less P.U.C. Reimb. Fee	\$ 103,483,186	\$ 99,873,237	\$ (3,609,949)
P.U.C. Reimbursement Fee	\$ 827,865	\$ 798,986	\$ (28,879)
Other Water Revenues	\$ 264,986	\$ 233,098	\$ (31,889)
Amortization Of Deferred Revenues	\$ 35,564	\$ 35,564	\$ -
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 104,611,601</b>	<b>\$ 100,940,885</b>	<b>\$ (3,670,717)</b>
OPERATION EXPENSES			
Payroll Expense	\$ 12,564,572	\$ 13,860,071	\$ 1,295,499
Volume Related Expenses	\$ 36,515,654	\$ 37,247,618	\$ 731,965
CR Reimbursement & Benefit to Ratepayers	\$ (270,947)	\$ (245,135)	\$ 25,812
Franchise Expense	\$ 1,177,030	\$ 1,138,555	\$ (38,475)
Uncollectibles	\$ 142,483	\$ 449,430	\$ 306,947
P.U.C. Reimbursement Fee	\$ 825,986	\$ 798,986	\$ (27,000)
Other Operating Expenses	\$ 12,506,742	\$ 16,145,696	\$ 3,638,953
Subtotal O&M and A&G Operating Expenses	\$ 63,461,520	\$ 69,395,221	\$ 5,933,701
Depreciation Expense	\$ 15,036,119	\$ 16,033,089	\$ 996,970
Payroll Taxes	\$ 1,021,807	\$ 1,121,799	\$ 99,992
Ad Valorem Taxes	\$ 2,407,515	\$ 2,515,847	\$ 108,332
Current Income Taxes	\$ 4,592,940	\$ 1,098,279	\$ (3,494,661)
<b>TOTAL OPERATION EXPENSES</b>	<b>\$ 86,519,901</b>	<b>\$ 90,164,235</b>	<b>\$ 3,644,334</b>
Net Operating Income	\$ 17,853,605	\$ 10,776,650	\$ (7,076,955)
Rate Base	\$ 259,157,674	\$ 310,728,365	\$ 51,570,691
Rate of Return, Percent	6.89%	3.47%	-3.42%

# **Attachment C: Summary of Earnings at Proposed Rates**

### Summary of Earning at Proposed Rates

OPERATING REVENUES	Cal Advocates	Suburban	Suburban Exceeded Cal Adv.
Water Service Revenues, Less P.U.C. Reimb. Fee	\$ 106,880,998	\$ 119,637,198	\$ 12,756,200
P.U.C. Reimbursement Fee	\$ 855,048	\$ 957,098	\$ 102,050
Other Water Revenues	\$ 263,679	\$ 233,098	\$ (30,582)
Amortization Of Deferred Revenues	\$ 35,564	\$ 35,564	\$ -
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 108,035,290</b>	<b>\$ 120,862,957</b>	<b>\$ 12,827,667</b>
OPERATION EXPENSES			
Payroll Expense	\$ 12,564,572	\$ 13,860,071	\$ 1,295,499
Volume Related Expenses	\$ 36,515,654	\$ 37,247,618	\$ 731,965
CR Reimbursement & Benefit to Ratepayers	\$ (270,947)	\$ (245,135)	\$ 25,812
Franchise Expense	\$ 1,216,762	\$ 1,357,727	\$ 140,965
Uncollectibles	\$ 147,496	\$ 538,367	\$ 390,872
P.U.C. Reimbursement Fee	\$ 855,048	\$ 957,098	\$ 102,050
Other Operating Expenses	\$ 12,506,742	\$ 16,145,696	\$ 3,638,953
Subtotal O&M and A&G Operating Expenses	\$ 63,535,327	\$ 69,861,441	\$ 6,326,115
Depreciation Expense	\$ 15,036,119	\$ 16,033,089	\$ 996,970
Payroll Taxes	\$ 1,021,807	\$ 1,121,799	\$ 99,992
Ad Valorem Taxes	\$ 2,407,515	\$ 2,515,847	\$ 108,332
Current Income Taxes	\$ 5,663,592	\$ 6,903,906	\$ 1,240,314
<b>TOTAL OPERATION EXPENSES</b>	<b>\$ 87,664,359</b>	<b>\$ 96,436,082</b>	<b>\$ 8,771,723</b>
Net Operating Income	\$ 20,370,930	\$ 24,426,875	\$ 4,055,945
Rate Base	\$ 259,157,674	\$ 310,728,365	\$ 51,570,691
Rate of Return, Percent	7.86%	7.86%	0.00%