Docket		A.23-08-010
Exhibit Number	:	Cal Adv -
Commissioner	:	Genevieve Shiroma
Admin. Law Judge	:	Amin Nojan
Public Advocates witness	:	Jawad Baki

PUBLIC ADVOCATES OFFICE
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON SPECIAL REQUEST #1 (BALANCING AND MEMORANDUM ACCOUNTS), SPECIAL REQUEST #8 (MODIFICATION OF PFAS MEMORANDUM ACCOUNT), TAXES OTHER THAN INCOME (AD VALOREM TAXES), INCOME TAXES, DEPRECIATION, AND WORKING CASH

Los Angeles, California
February 27, 2024

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MEMORANDUM

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) examined application material, data request responses, and other information presented by Golden State Water Company (GSWC) in Application A.23-08-010 to provide the California Public Utilities Commission (Commission or CPUC) with recommendations in the interests of ratepayers for safe and reliable service at the lowest cost. This report is prepared by Jawad Baki. Mehboob Aslam is Cal Advocates project lead for this proceeding. Vitor Chan is the oversight supervisor, and Crystal Yu and Brett Palmer are the legal counsels.

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

CHAPTER 1 Special Request #1 *(Balancing and Memorandum Accounts)*

I. INTRODUCTION

This chapter addresses GSWC's Special Request #1 regarding Balancing and Memorandum Accounts (BAMAs) related requests and any requests for action related to those accounts. As of May 31, 2023, GSWC has 31 BAMAs with a net undercollection of $17,064,251.[1] The Direct Testimony of Ronald Moore presents GSWC's proposed requests regarding these accounts.[2]

A memorandum account is an accounting device that, after approval by the Commission or upon statutory notice, may be used by an Investor Own Utility (IOU) to record various expenses it incurs.[3] The establishment of a memorandum account does not guarantee that the utility will recoup the tracked amount, but an IOU is precluded from recovering amounts not booked to a memorandum account.[4]

A balancing account is a regulatory accounting method used to ensure the recovery in rates of specified expenditures authorized by the Commission.[5] A balancing account can also be explained as a deferred debit account carried on an IOU's books.[6] The IOU can initiate a request to the Commission to amortize any recorded expenses and the Commission can order the IOU to transfer and amortize the approved balance. Public Utilities Code Section 792.5 requires the Commission to review the balancing accounts.

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[1] A.23-08-010, Direct testimony of Ronald Moore, p. 37

[2] A.23-08-010, Direct testimony of Ronald Moore, p. 3

[3] Standard Practice U-27-W, p. 3

[4] Standard Practice U-27-W, p. 3

[5] Standard Practice U-27-W, p. 8

[6] Standard Practice U-38-W, p. A7

Currently, the vast majority of GSWC's BAMAs result in surcharges,[7] with the exception of only a few.[8] The proliferation of Balancing and Memorandum accounts increase customer bills through surcharges, which are not reflected in the rate increases proposed in General Rate Cases (GRCs), and therefore called surcharge accounts. The proliferation of surcharge accounts complicates the Commission's review and increases ratepayers' likelihood of paying the same costs twice. In 1985, the then Executive Director of the Commission warned that "we can expect utilities to continually press for the comfort of more balancing accounts and the green light to file a variety of offset applications between general rate proceedings…it is the CPUC's task to recognize that desire and pressure and weigh it against the need to have management incentive working to minimize costs."[9] The Executive Director also stated that the process of reviewing surcharge accounts has essentially shifted the burden of proof to Cal Advocates staff and intervenors to show expenditures are not prudent.[10]

The surcharge accounts can mask the overall impact of IOU's proposals in GRCs and the severity of rate increases. For example, as of May 31, 2023, GSWC has a $17,064,251 undercollection in its Balancing and Memorandum accounts.[11] This surcharge amount is approximately 3.65% of its total proposed Revenue Requirement for Test Year 2025.[12] [13] This amount is not reflected in the proposed revenue requirement

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[7] 2023 GRC BAMA Workpaper - Summary- APP

[8] Four BAMA has an overcollection balance as of May 31, 2023. 1) American Recovery and Reinvestment Act BA, 2) General Ratemaking Area BA, 3) 2018 Cost of Capital Interim Rate True-up MA, and 4) Pension and Benefits BA

[9] Attachment 1-8: Balancing Accounts History, p. 6

[10] Attachment 1-8: Balancing Accounts History, p. 4

[11] 2023 GRC BAMA Workpaper - Summary- APP

[12] GSWC's Proposed Revenue Requirement for the Test Year 2025 is $466,466,785. GSWC requested recovery in surcharge accounts totals: $17,064,251, which is around 2.83% of the proposed revenue requirement in Test Year 2025. ($17,064,251/ $466,466,785 = 3.65%).

[13] GSWC's RO Model Workpaper titled 'W_Reports_All', Tab: SOE Summary, Cell AO26.

increase of $87,060,700 million (22.95% increase) for Test Year 2025.[14] Therefore, the full impact of GSWC's requests on ratepayers' bills is not transparent. A list of the 31 BAMAs is available in Attachment 1-2.

II. SUMMARY OF RECOMMENDATIONS

1. The Commission should allow GSWC to recover the requested $1,245,729 undercollection of nonarrearage-related expenses for the CEMA-COVID 19 Memorandum Account, as of May 31, 2023. The Commission should require GSWC to close this account by June 2026, after the amortization of the requested $1,245,729. The remaining $2,343,966 recorded in this account is Account receivable (AR) reserve, which should be treated the same as CEMA-COVID-19 arrearages balance separately tracked outside of this account and should both be offset by incoming state and federal funding, as the balances are similar in nature.

2. The Commission should require GSWC to refund $1,236,744 overcollection for the Pension and Benefits Balancing Account (PBBA), as of May 31, 2023, and continue the account.

3. The Commission should allow GSWC to amortize the Public Safety Power Shut-Off Memorandum Account (PSPSMA) balance as of May 31, 2023, but close the account by June 2026, and remove its reference from the preliminary statement. The Commission should require GSWC to forecast the Public Safety Power Shut-Off expenses in the next GRC.

4. The Commission should require GSWC to close the Aerojet Water Litigation Memorandum Account (AEROJET) by June 2026, once the ongoing authorized amortization is completed, then remove its reference from the preliminary statement. GSWC's request to keep the account open to track possible Water Availability Fees should be denied.

5. The Commission should allow GSWC to amortize $161,302 undercollection in the Polyfluoroalkyl Substances Memorandum Account (PFASMA) balance as requested and continue the account. GSWC's proposed modification of this account should be denied.

[14] GSWC GRC A.23-08-010

6. The Commission should require GSWC to remove the unsubstantiated $9,537 amount recorded on May 12, 2023, from the CEMA - Emergency Disaster Relief Customer Outreach Memorandum Account (CEMA-EDRCO) workpaper. The Commission should require GSWC to amortize the remaining balance and close this account. GSWC's request to continue this account should be denied.

7. The Commission should require GSWC to amortize the Clearlake Supply Expense Balancing Account (CSEBA) balance as of May 31, 2023, and close the account by June 30, 2026, regardless of the outcome of GSWC's request to include Clearlake supply expenses in the proposed Water Conservation Advancement Plan (WCAP).

8. The Commission should allow GSWC to refund the requested overcollection balance to ratepayers as of May 31, 2023, and continue the General Ratemaking Area Balancing Account (GRABA). The Commission should require GSWC to refund an additional $345,683 overcollection authorized in D.23-06-024 as a residual transfer to GRABA.

9. The Commission should require GSWC to close four BAMAs: Tangible Property Regulations Collateral Consequences MA, CEMA - Emergency Consumer Protection, School Lead Testing MA, and 2018 Cost of Capital Interim Rate True-up MA and remove their respective references from its preliminary statement when the amortization is completed as authorized in D.23-06-024.

10. The Commission should require GSWC to use consistent naming for its BAMAs in its workpapers and testimonies in future GRC proceedings to avoid confusion.[15]

11. The Commission should require GSWC to report the previous GRC audited balance and corresponding ratemaking areas of every listed BAMA in future GRC applications.

12. The Commission should order GSWC not to make workpaper entries before or after the authorized period of a certain cost.[16]

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[15] GSWC's Response to Cal Advocates DR JBQ-002 Q.5

[16] 2023 GRC BAMA Workpaper - Summary- APP, Tab 23, Cell F23

13. The Commission should direct GSWC to reduce the total number of surcharge accounts, close unnecessary accounts and remove their references from the related preliminary statements.

Cal Advocates' recommendations reduce regulatory burden, increase transparency, and ensure ratepayers pay only for prudently incurred costs.

III. ANALYSIS

GSWC requests to review BAMA balances as of May 31, 2023. Out of 31 listed accounts, GSWC's request on 23 accounts is reasonable. These requests include no action, continuing the account, amortization of the balance, and closing the account as instructed in D.23-06-024. For the remaining eight BAMAs, modifications to GSWC's request are necessary, as follows:

1. <u>Catastrophic Event - COVID-19 Memorandum Account (CEMA-COVID-19) for all Ratemaking Areas</u>

Account Name	GSWC's Request (as of May 31, 2023)	Cal Adv's Recommendation (as of May 31, 2023)
CEMA-COVID-19	Amortize nonarrearage-related undercollection expenses of $1,245,729	Amortize nonarrearage-related undercollection expenses of $1,245,729, close this account by June 2026. Treat remaining $2,472,227 AR reserve same as CEMA-COVID-19 arrearages balance tracked outside of this account

GSWC's CEMA-COVID-19 activated on March 4, 2020, and tracks unanticipated expenses related to COVID-19.[17] As of May 31, 2023, the balance of this account is $3,717,956 undercollection. This balance has two major portions, one is expenses which

[17] A.23-08-010, Direct testimony of Ronald Moore, p. 19

accounts for $1,245,729 and the remaining difference is the AR reserve (bad debt) which is $2,472,227.[18]

In this application, GSWC requests to amortize the expense portion of balance worth of $1,245,729 as of May 31, 2023. This expense portion has two components, Courtesy Adjustment and Personal Protection Equipment (PPE) cost.[19] After a review of GSWC's workpaper entries, Prepared Testimony and Preliminary Statements, and response to Cal Advocates' Data Request, GSWC's request to recover $1,245,729 undercollection recorded in the account as of May 31, 2023, is reasonable.

However, the remaining $2,472,227 of the balance recorded as AR reserve should not be permitted recovery at this time. In response to one of Cal Advocates' Data Requests, GSWC confirmed that this arrearage amount represents unpaid bills by its customers due to COVID-19.[20] GSWC plans to recover this balance any time after December 2024.[21] However, GSWC's account entries indicate that the company is occasionally able to recover these amounts through collection agencies.[22] Therefore, the AR amount recorded by GSWC is contingent upon GSWC's effort to collect from its customers through the collection agencies. The Commission should not allow GSWC to recover this AR reserve balance until its collection efforts are exhausted.

The AR reserve in this memorandum account is not the only arrearage balance GSWS tracks. The company also tracks arrearage balances outside of this memorandum account. GSWC calls it COVID-19 arrearages (aging balances) and it accounts for $8,338,735 as of March 2023.[23] This balance represents customer balances (aged 30

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[18] 2023 GRC BAMA Workpaper - Summary- APP, Tab 24

[19] 2023 GRC BAMA Workpaper - Summary- APP, Tab 24

[20] GSWC's Response to Cal Advocates DR JBQ-002 Q.3b

[21] GSWC's Response to Cal Advocates DR JBQ-002 Q.3g

[22] Attachment 1-4

[23] A.23-08-010, Direct testimony of Ronald Moore, p. 19

days and greater) and GSWC monitors the balance via its customer 30-day Aging List.[24] GSWC plans to continue monitoring the collections to determine if these bills are ultimately collected.[25]

In Ronald Moore's testimony, GSWC acknowledges that "recovery of CEMA COVID 19-related unpaid bills shall not occur until state and federal funding appropriated has been disbursed and applied to customer accounts and customer payment plans have been established."[26]

Both the $2,472,227 AR reserve arrearage in the memorandum account, and $8,338,735 COVID-19 arrearages (in the 30-day Aging List) are similar even though GSWC claims otherwise. So, any federal or state grant received should be applied to both of these balances before requesting recovery.

GSWC plans to apply for the extended Arrearage Program to recover qualified arrearages for services rendered from June 16, 2021, to December 31, 2022.[27] Again, President Joe Biden lifted the COVID-19 emergency on April 10, 2023, therefore this memorandum account should be closed. A reasonable time to close this account is June 30, 2026, when GSWC will file its next GRC application. The June 2026 timeline will provide enough time for GSWC to net out the arrearage balance based on grants received, and bills recovered through collection agencies.

GSWC should recover the $1,245,729 expense of this account as of May 31, 2023, and should close this account by June 30, 2026. The company should treat its AR reserve balance (tracked in this account) and Aging balance (tracked outside of this account) as similar in terms of federal/state grant treatment. GSWC's outstanding AR reserve

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[24] GSWC's Response to Cal Advocates DR JBQ-002 Q.3a

[25] A.23-08-010, Direct testimony of Ronald Moore, p. 19

[26] A.23-08-010, Direct testimony of Ronald Moore, p. 19-20

[27] GSWC's Response to Cal Advocates DR JBQ-005 Q.1b

balance recorded in this account should not be used as a reason to continue the account beyond June 2026.

2. Pension and Benefits Balancing Account (PBBA) for all Ratemaking Areas

Account Name	GSWC's Request (as of May 31, 2023)	Cal Adv's Recommendation (as of May 31, 2023)
PBBA	Continue account	Refund the overcollection, continue

GSWC's PBBA tracks the monthly expenses difference between authorized and actual pension Costs based on Accounting Standard Codification 715-10 ("ASC 715-10"), Compensation - Retirement Benefits (formerly known as FAS 87).[28]

In this application GSWC requests to continue this account without amortization. As of May 31, 2023, the net cumulative balance of this account is a $1,236,744 overcollection.[29]

GSWC is not requesting to amortize the overcollection because the company predicts the actuarial pension expense for the remainder of 2023 could be higher than what is included in rates for 2023 and it could decrease the overcollection in the PBBA balance.[30]

Although the balance could go down, it is also possible that the overcollection balance could increase over time. GSWC's witness Gladys Farrows echoes the same, stating "*…if it (overcollection balance) continues will be refunded to customers in the future*."[31] PBBA is a two-way balancing account, and GSWC should ensure that refunds

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[28] GSWC's Preliminary Statement, OO

[29] A.23-08-010, Direct testimony of Ronald Moore, p. 27

[30] GSWC's Response to Cal Advocates DR JBQ-001 Q.5

[31] A.23-08-010, Direct testimony of Gladys Farrow, p. 6, line 2

are given to ratepayers in the event of an overcollection. Therefore, GSWC should not hold the PBBA overcollection balance for future amortization based on speculation, and instead the company should refund the balance when reviewed during a GRC consistent with standard practice and general orders, so that current ratepayers can see its benefits.[32]

GSWC should refund the PBBA overcollection balance of $1,236,744 as of May 31, 2023, and continue this account in this GRC period.

3. Public Safety Power Shut-Off Memorandum Account (PSPSMA) for Los Osos, Santa Maria, Simi Valley, and Region III Ratemaking Areas

Account Name	**GSWC's Request (as of May 31, 2023)**	**Cal Adv's Recommendation (as of May 31, 2023)**
PSPSMA	Amortize costs incurred after September 30, 2020, and continue account to track ongoing expenses only	Amortize the balance as requested and close the account by June 2026, and remove its reference from the preliminary statement. Forecast the expense in the next GRC

GSWC's PSPSMA tracks incremental Operation and Maintenance (O&M) expenses and capital expenditures related to addressing public safety needs during Public Safety Power Shutoffs that are not otherwise accounted for in GSWC's revenue requirement.

As of May 31, 2023, the balance of this account is a $1,546,802 undercollection.[33]

[34] D.23-06-024 authorizes GSWC to amortize the September 2020 balance of $555,294 which is included in the May 2023 balance of $1,546,802 reported in this application.

[32] General Order 96-B, Section 8.5 - Balancing Account Amortization

[33] A.23-08-010, Direct testimony of Ronald Moore, p. 36. This balance includes generator costs, generator maintenance, purchased fuel, etc

[34] D.23-06-024 authorizes GSWC to amortize the September 2020 balance of $555,294 which is included in the May 2023 balance of $1,546,802 reported in this application

GSWC requests to recover $961,139 in costs incurred after September 2020, and continue the account. After a review of GSWC's workpaper entries, Prepared Testimony, Preliminary Statements, and response to Cal Advocates' Data Request, GSWC's request to recover the undercollection recorded in the account is reasonable.

While I do not oppose GSWC's request to amortize the undercollection, I recommend GSWC close this account by June 2026. This account was established in 2019 to track costs associated with Public Safety Power Shut-off events. With the experience gathered from GSWC's previous GRC, A.20-07-012, GSWC has a better understanding of High Fire Threat (HFT) districts, and associated expenses it may incur. Therefore, GSWC does not need a memorandum account anymore to address Public Safety Power Shut-off events.

CPUC's Standard Practice states that one of the requirements for memorandum account treatment is that "costs must be due to events of an exceptional nature that could not have been reasonably foreseen in the utility's last general rate case."[35] GSWC's request to continue the account goes against the memorandum account qualification criteria outlined in Standard Practice as it can now reasonably forecast these expenses.

GSWC should amortize the balance as requested as of May 31, 2023, close this account by June 2026, and forecast the PSPS expenses in the next GRC.

4. Aerojet Water Litigation Memorandum Account (AEROJET) in the Arden Cordova Ratemaking area

Account Name	**GSWC's Request (as of May 31, 2023)**	**Cal Adv's Recommendation (as of May 31, 2023)**
AEROJET	Recalculate surcharges, as ordered in D.05-07- 045, Continue account.	Continue authorized amortization but close the account by June 2026, and remove its reference from the preliminary statement

[35] Standard Practice U-27-W, p. 6

GSWC's AEROJET MA was authorized in D.05-07-045 to track the 20-year amortization of legal expenses incurred from two lawsuits filed by GSWC against Aerojet involving the contamination of the water supply used to serve its Arden Cordova customer service area. Starting in 2005, over a 20-year period, GSWC is supposed to amortize a $21,298,491 undercollection balance recorded in this account.[36]

As of May 31, 2023, the net cumulative balance of this account is a $3,614,317 undercollection.[37]

Per D.23-06-024, a recalibrated temporary surcharge for the 2022-2024 rate case cycle is currently in effect. In its testimony GSWC's states "the AEROJET surcharge will continue through August 2025."[38] Since the authorized amortization of the 20-year period was started in 2005, I agree that the surcharge should be ended by 2025.

In this application, GSWC requests to keep the account open beyond August 2025 to record possible Water Availability Fees (WAF) collected from developers in the future.[39] In response to a Cal Advocates' Data Request, GSWC was unable to provide a timeline when the money could be received from the developers, if any.[40] GSWC was also unable to answer whether the company will keep receiving money from the developers for the foreseeable future.[41]

With such uncertainties, GSWC should not keep the account open based on speculation without a reasonable sunset date. GSWC states the company will seek disposition of any balance in this account in its next GRC application.[42] Based on

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[36] GSWC's Preliminary Statement, RRR

[37] A.23-08-010, Direct testimony of Ronald Moore, p. 27

[38] A.23-08-010, Direct testimony of Ronald Moore, p. 27

[39] A.23-08-010, Direct testimony of Ronald Moore, p. 27

[40] GSWC's Response to Cal Advocates DR JBQ-003 Q.5a

[41] GSWC's Response to Cal Advocates DR JBQ-003 Q.5b

[42] A.23-08-010, Direct testimony of Ronald Moore, p. 27

today's timeline, GSWC should file its next GRC application by mid-2026. Considering all those factors I recommend GSWC to close this account by June 2026.

GSWC's preliminary statement part IIII states, GRABA allows to track "other authorized" amounts for subsequent amortization. Thus, any WAF received should be tracked in GRABA and that will ensure the WAF payments are passed on to ratepayers in the form of a credit, as expected in Settlement Agreement in D.10-12-059. In the event GSWC keeps receiving money from the developers, the company should forecast such revenue in the GRCs.

GSWC should continue the 20-year authorized surcharge, close the account by June 2026, and remove its reference from the preliminary statement. GSWC should track WAF payments (if any) to GRABA.

5. Polyfluoroalkyl Substances Memorandum Account (PFAS) for all Ratemaking Areas

Account Name	GSWC's Request (as of May 31, 2023)	Cal Adv's Recommendation (as of May 31, 2023)
PFASMA	Amortize, Continue, and Modify the scope of the account	Amortize and continue without any modification of the account.

GSWC's PFASMA tracks the incremental expenses to comply with regulatory standards regarding per-and polyfluoroalkyl substances (PFAS) in drinking water that are not otherwise covered in GSWC's revenue requirement.[43] This account was established after the filing of A.20-07-012.

As of May 31, 2023, the net cumulative balance of this account is $161,302.[44] After a review of GSWC's workpaper entries, Prepared Testimony, Preliminary Statements, and response to Cal Advocates' Data Request, GSWC's request to recover

[43] GSWC's Preliminary Statement, LLLL

[44] A.23-08-010, Direct testimony of Ronald Moore, p. 37

$161,302 undercollection recorded in the account is reasonable. However, GSWC's request to modify the scope of the account to record additional cost should be denied for the reason explained in Chapter 2 regarding GSWC's Special Request #8 (Modification to PFAS Memo Account).

GSWC should recover the undercollection as a surcharge as of May 31, 2023, and continue the account without modification.

6. Catastrophic Event Memorandum Account - Emergency Disaster Relief Customer Outreach (CEMA-EDRCO) for all Ratemaking Areas

Account Name	GSWC's Request (as of May 31, 2023)	Cal Adv's Recommendation (as of May 31, 2023)
CEMA-EDRCO	Continue account	Disallow $9,537 recorded on May 2023, amortize the remaining balance, close this account by June 2026, and remove its reference from the preliminary statement

GSWC's CEMA-EDRCO was activated on September 9, 2019, as an extension of CEMA to include costs for implementing customer protections for declared state of emergencies.[45] GSWC informed its customers of the protections afforded to them in the event of a catastrophic event.[46]

As of May 31, 2023, the net cumulative balance of this account is a $41,545 undercollection.[47] After reviewing GSWC's workpaper entries, GSWC should remove the recorded cost of $9,537, recorded on May 12, 2023.

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[45] D.19-07-015, p. 45, Advice Letter 1790

[46] GSWC's Preliminary Statement, HHH

[47] A.23-08-010, Direct testimony of Ronald Moore, p. 18

In response to a Cal Advocates' Data Request, GSWC states this $9,537 expense "was for the contracted services with ENCO Utility Services to handle increased customer calls to GSWC's 24-hours Customer Service Center to inquire and make payment arrangements at the conclusion of the COVID-19 account disconnection protection."[48] President Joe Biden lifted the COVID-19 national emergency on April 10, 2023.[49] GSWC claims that recorded cost of $9,537 was incurred before April 10, which can be traced from the same ENCO invoice.[50]

I reviewed the invoice and found no evidence that the recorded cost of $9,537 on May 12, 2023, was made during the COVID-19 emergency period.[51] Therefore, the Commission should not allow GSWC to recover the balance of $9,537 tracked in this account.

GSWC seeks to continue the account without a request for amortization.[52] I recommend GSWC amortize the balance and close the account, as the company does not need it for ratepayers' notification. In response to a Data Request, GSWC confirmed that, previously, in absence of this account, GSWC would inform customers of protections via its website and by its 24-hour Customer Service Center.[53] GSWC should continue this practice without increasing additional surcharge burdens to ratepayers.

GSWC should remove the recorded cost of $9,537 on May 12, 2023, amortize the remaining undercollection as surcharge as of May 31, 2023, and close the account to remove its reference from the preliminary statement.

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[48] GSWC's Response to Cal Advocates DR JBQ-002 Q.2c

[49] https://www.cnn.com/2023/04/10/politics/covid-19-national-emergency-end-biden/index.html

[50] GSWC's Response to Cal Advocates DR JBQ-002 Q.2a

[51] Attachment 1-3

[52] A.23-08-010, Direct testimony of Ronald Moore, p. 18

[53] GSWC's Response to Cal Advocates DR JBQ-002 Q.2b

7. Clearlake Supply Expense Balancing Account (CSEBA) for Clearlake Ratemaking Area

Account Name	GSWC's Request (as of May 31, 2023)	Cal Adv's Recommendation (as of May 31, 2023)
CSEBA	Amortize & close if allowed to include expenses in proposed WCAP mechanism	Amortize & close regardless the outcome of WCAP

GSWC's CSEBA tracks the incremental rate difference in the Clearlake Customer Service Area (CSA) between actual and adopted purchased water rates per ccf and purchased electricity rates per kwh. Since the Clearlake CSA does not have an Incremental Cost Balancing Account (ICBA), this balancing account tracks rate fluctuations in the Clearlake CSA.[54]

As of May 31, 2023, the net cumulative balance of this account is a $36,906 undercollection.[55] In response to a Cal Advocates' Data Request, GSWC clarified that CSEBA is an Incremental Cost Balancing Account (ICBA).[56]

In this application, GSWC requests to amortize and close the account if the company is allowed to include Clearlake supply expenses in the proposed Water Conservation Advancement Plan (WCAP). As explained in Cal Advocates witness Sam Lam's testimony, regarding GSWC's Special Request #2, Cal Advocates recommends not to authorize GSWC to implement the proposed WCAP, so including Clearlake supply expense in that program is irrelevant. Given this position of Cal Advocates, GSWC's alternative request for CSEBA becomes to keep it open as is.

[54] GSWC's Preliminary Statement, TTT

[55] A.23-08-010, Direct testimony of Ronald Moore, p. 28

[56] GSWC's Response to Cal Advocates DR JBQ-01 Q.1c

However, I recommend to amortize and closing this account regardless of the outcome of proposed WCAP. For details, please read Sam Lam's testimony regarding GSWC's Special Request #2.

GSWC should recover the CSEBA balance as of May 31, 2023, close the account, and remove its reference from the preliminary statement by June 30, 2026.

8. <u>General Ratemaking Area Balancing Account (GRABA) for all Ratemaking Areas</u>

Account Name	**GSWC's Request (as of May 31, 2023)**	**Cal Adv's Recommendation (as of May 31, 2023)**
GRABA	Amortize costs incurred after September 30, 2020, Continue account	Amortize as requested, continue account, also refund D.23-06-024 authorized overcollection of $345,683 to GRABA as residual transfer

GSWC's General Ratemaking Area Balancing Account ("GRABA") tracks aggregate small residual dollar amounts from expired authorized amortizations and other authorized dollar amounts for subsequent amortization at the ratemaking area level.[57]

As of May 31, 2023, this account has an overcollection balance of $307,495.[58] Out of this balance, $294,976 was authorized to amortize in D.23-06-024. In this application, GSWC requests to amortize the net remaining balance in this account as of May 2023, which equals $12,519 in overcollection.[59] After a review of GSWC's workpaper entries, GSWC's request to refund the overcollection is reasonable.

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[57] GSWC's Preliminary Statement, Part IIII

[58] 2023 GRC BAMA Workpaper - Summary- APP, Tab 'GRC Summary', Cell B40

[59] A.23-08-010, Direct testimony of Ronald Moore, p. 32

In addition, the settlement agreement adopted in D.23-06-024 authorizes GSWC to transfer the residual balances of $345,683 overcollection from four accounts.[60] GSWC should refund the balance to the ratepayers as well.[61]

GSWC should refund its requested overcollection balance to ratepayers as of May 31, 2023, and continue the account. GSWC should also refund an additional $345,683 overcollection authorized in D.23-06-024 as a residual transfer to GRABA.

IV. CONCLUSION

Out of 31 listed Balancing and Memorandum accounts, I do not oppose GSWC's request on 23 of its BAMAs. For the remaining eight BAMAs I have a different position than GSWC's request as listed below:

1. The Commission should allow GSWC to recover the requested $1,245,729 undercollection of nonarrearage-related expenses for the CEMA- COVID 19, as of May 31, 2023. The Commission should require GSWC to close this account by June 2026, after the amortization of the requested $1,245,729. The remaining $2,343,966 of this account is AR reserve and that should be treated as the same as CEMA-COVID-19 arrearages balance tracked outside of this account which could both be offset by incoming state and federal funding, as the balances are similar in nature.

2. The Commission should require GSWC to refund $1,236,744 overcollection for the PBBA, as of May 31, 2023, and continue the account.

3. The Commission should allow GSWC to amortize the PSPSMA balance as requested, but close the account by June 2026, and remove its reference from the preliminary statement. The Commission should require GSWC to forecast the Public Safety Power Shut-Off expenses in the next GRC.

4. The Commission should require GSWC to close the AEROJET Memorandum Account by June 2026, once the ongoing authorized amortization is completed, and remove its reference from the preliminary

[60] Randall-Bold BA, 2016 Interim Rates MA, Bay Point Hill Street Water Treatment Plant, and 2019 Interim Rates MA

[61] A.23-08-010, Direct testimony of Ronald Moore, p. 33

statement. GSWC's request to keep the account open to track possible Water Availability Fees should be denied.

5. The Commission should allow GSWC to amortize the PFASMA balance as requested and continue the account, but GSWC's proposed modification of this account should be denied.

6. The Commission should require GSWC to remove the unsubstantiated $9,537 recorded on May 2023 from the CEMA - EDRCO Memorandum Account workpaper. The Commission should require GSWC to amortize the remaining balance and close this account. GSWC's request to continue this account should be denied.

7. The Commission should require GSWC to amortize the CSEBA balance as of May 31, 2023, and close the account by June 30, 2026, regardless the outcome of GSWC's request to include Clearlake supply expenses in the proposed WCAP.

8. The Commission should allow GSWC to refund requested overcollection balance to ratepayers as of May 31, 2023, and continue the GRABA. The Commission should require GSWC to refund an additional $345,683 overcollection authorized in D.23-06-024 as a residual transfer to GRABA.

The Commission should require GSWC to use consistent naming for its BAMAs in its workpapers and testimonies in future GRC proceedings to avoid confusion.[62] GSWC should not make workpaper entries before or after the authorized period of a certain cost.[63]

GSWC should close the four[64] BAMAs as directed in D.23-06-024. Moreover, GSWC should try to close the unnecessary BAMAs to minimize the overall number of accounts, and therefore increase the transparency of the Commission's rate-setting process as well as reducing the regulatory burden on the Commission.

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[62] GSWC's Response to Cal Advocates DR JBQ-002 Q.5

[63] 2023 GRC BAMA Workpaper - Summary- APP, Tab 23, Cell F23

[64] Tangible Property Regulations Collateral Consequences MA, CEMA - Emergency Consumer Protection, School Lead Testing MA, and 2018 Cost of Capital Interim Rate True-up MA

CHAPTER 2 Special Request #8 *(Modification to PFAS Memorandum Account)*

I. INTRODUCTION

This chapter presents analysis and recommendations on GSWC's Special Request #8 - Modification to PFAS Memorandum Account. Currently the PFAS memo account tracks the operational expenses only. GSWC requests to modify it to include capital cost and to apply the full rate of return on that capital.

II. SUMMARY OF RECOMMENDATIONS

The Commission should deny GSWC's proposal to modify the PFAS memorandum account because the company does not need a memorandum account to build capital projects as GSWC can add completed projects to rate base in subsequent general rate cases. Furthermore, GSWC's proposed expenditure is sizable and should be reviewed within the context of GSWC's overall capital planning process and not separately through a surcharge account. Moreover, the Commission should not allow a full rate of return on memorandum accounts because in any competitive business environment a company does not earn a profit during the construction.

III. ANALYSIS

PFAS (Per- and polyfluoroalkyl substances) are a group of man-made chemicals that are resistant to water.[65] The federal government has not yet set MCLs for PFAS

[65] https://www.hsph.harvard.edu/news/hsph-in-the-news/protecting-against-forever-chemicals/#:~:text=Known%20as%20%E2%80%9Cforever%20chemicals%E2%80%9D%20because,%2C%20cosmetics%2C%20and%20toilet%20paper

compounds. When there is an established MCL set by USEPA or SWRCB, water systems will be required to comply with the MCLs.[66] [67] [68]

The EPA has proposed an MCL that will be established in the near future. It is possible that the company could incur significant capital costs to meet the new MCL standards.[69] The company predicts the costs would be substantial and could exceed over a million dollars per treatment site, and it wants to record these expenses in its existing PFAS memo account.[70] Since the existing PFAS memo account was established only for tracking incremental operating costs, GSWC is requesting a modification of the memo account so the company can also record incremental capital costs on which the company can receive a full rate of return.[71]

The Commission should not grant GSWC's request to modify the PFAS memo account for several reasons.

First, GSWC has the operational flexibility to build urgent projects when needed. Attachment 2-1 presents many GSWC projects that were not approved in a prior GRC but currently are in Construction Work in Progress (CWIP).[72] GSWC can exercise its operational flexibility and can request to include any completed projects that are used and useful in rates in a subsequent GRC.

Secondly, GSWC asserts that PFAS project costs could exceed over a million dollars per treatment site.[73] This sizable capital expenditure should be reviewed within

[66] USEPA refers to United States Environmental Protection Agency

[67] SWRCB refers to California State Water Resources Control Board

[68] A.23-08-010, Direct testimony of Sunil Pillai, p. 6-7

[69] A.23-08-010, Direct testimony of Sunil Pillai, p. 11

[70] A.23-08-010, Direct testimony of Sunil Pillai, p. 10

[71] A.23-08-010, Direct testimony of Sunil Pillai, p. 11

[72] Attachment 2-1

[73] A.23-08-010, Direct testimony of Sunil Pillai, p. 10

the context of GSWC overall capital planning process. GSWC should not be able to evade the discipline of establishing and being held accountable to a capital budget—which is what tracking costs in a memorandum account would provide. Although GSWC has also indicated that it can file a separate application for PFAS related projects,[74] it should include these potentially sizeable capital investments within its overall capital planning process to allow for prioritization of capital spending and transparency as to the impacts.

For these reasons, the Commission should deny GSWC's proposal to modify the PFAS memo account. Importantly, in its request to modify the memorandum account, GSWC requests to include carrying costs at GSWC's adopted rate of return (ROR) on all incremental plant investments.[75] The Commission should not approve GSWC's request to record a full rate of return on the capital project it seeks to track in the PFAS Memorandum Account. By requesting the full rate of return, GSWC is requesting to record profits during construction phases and before the project is used & useful. A business operating in a competitive environment project would never be able to record profit on a project prior to its completion. As a substitute for competition, the Commission should not approve GSWC's request to record profit on this memorandum account.

IV. CONCLUSION

The Commission should deny GSWC's proposal to modify the PFAS memorandum account because a memo account is not necessary to build capital projects as the company can always exercise its operational flexibility. Besides, GSWC's proposed expenditure is significant in nature which should occur as part of a comprehensive capital planning process and not through a piece-meal process using

[74] A.23-08-010, Direct testimony of Sunil Pillai, p. 12

surcharge accounts. GSWC's request to record profit on capital projects during construction phases is unreasonable, as no company operating in a competitive business environment would be able to do so.

CHAPTER 3 Taxes Other Than Income *(Property / Ad Valorem Taxes)*

I. INTRODUCTION

This chapter presents analysis and recommendations related to Taxes Other Than Income (Property/Ad Valorem Taxes). Payroll and local taxes are addressed by Cal Advocates' witness Lauren Cunningham.

II. SUMMARY OF RECOMMENDATIONS

GSWC methodologies employed to forecast Property/Ad Valorem Taxes appear reasonable. The differences in total estimated taxes between GSWC and Cal Advocates estimates are due to differences in forecasts for plant additions. The Commission should adopt Cal Advocates' Test Year estimates of Taxes Other Than Income.

III. ANALYSIS

The historic-cost-less-depreciation (HCLD) model is mainly used by assessors in California to assess the value of utility systems for Ad valorem tax purposes. In the previous GSWC's GRC,[76] the five-year historical period served as the reference point for GSWC's property tax calculation.[77] In this application, GSWC modified the historical

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[76] A.20-07-012

[77] A.23-08-010, Direct testimony of Wayne R. McDonald, p. 17-18

"the ratio was developed by reference to taxes associated with the lien dates January 1, 2021 and January 1, 2022. The tax expense associated with a lien date applies to the state's fiscal and property tax year of July 1 through June 30. Calendar-year property tax expense was then derived from the lien-date property tax expense to align with the forecasted years being on a calendar-year basis. The ratio of calendar-year property tax expense to simple average rate base as used pursuant to the Rate Case Plan was computed as the average of the two lien dates referenced above. The rate base was adjusted to remove the working-cash and G.O.-allocation adjustments to improve comparability to the HCLD measure used by appraisers."

reference period to account for the changes happened due to GSWC's transfer of its electric utility division to a separate legal entity on July 1, 2020.[78]

After a review of GSWC's workpaper entries, Prepared Testimony and evaluating the Data Request responses, GSWC's method to forecast property tax expense is reasonable.[79]

IV. CONCLUSION

GSWC's proposed methodology for forecasting Property Taxes for Test Year 2025 is reasonable. The differences in total estimated taxes are due to differences in forecasts for plant additions. The Commission should adopt Cal Advocates' Test Year estimates of Property/Ad Valorem Taxes.

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[78] A.23-08-010, Direct testimony of Wayne R. McDonald, p. 17-19

[79] GSWC's Response to Cal Advocates DR JBQ-009 Q.2 and Q.3

CHAPTER 4 Income Taxes

I. INTRODUCTION

This chapter presents analysis and recommendations relating to regulated income tax expenses. Regulated income tax expense is comprised of federal income taxes ("FIT") and California Corporate Franchise Taxes ("CCFT").

My recommendations are based on analysis of GSWC's application testimony, workpapers, and responses to data requests.[80] The recommendations also rely on Commission decisions, information contained within the Internal Revenue Service's ("IRS") Internal Revenue Code ("IRC"), and information from the California Franchise Tax Board ("FTB") when appropriate.

II. SUMMARY OF RECOMMENDATIONS

The Commission should require GSWC to use adopted 2024 CCFT amounts (instead of adopted 2023 CCFT amounts) for calculating the forecasted Test Year 2025 federal-income-tax (FIT) deductions. Additional differences in total estimated income taxes are due to differences in forecasted operating revenues, expenses, and plant additions.

The Commission should incorporate any changes in federal and state tax laws made before the close of the record in this proceeding into the tax estimates for the Test Year 2025 by allowing Cal Advocates and GSWC to review the new law(s) and submit revised estimates if there are significant changes before the close of the proceeding record.

III. ANALYSIS

The following section provides a brief background of regulated income tax expenses and discusses certain specific tax deductions, credits and other tax policy issues

[80] GSWC's Response to Cal Advocates DR JBQ-009 Q.1 and Q.2

used to determine taxable income for ratemaking purposes. Unless otherwise noted, all discussions apply equally to both federal and state tax expenses.

Income tax expense is unique in that estimating this expense is not merely a matter of reviewing historical payments and then applying objective projection criteria to estimate Test Year tax expense, instead income tax expense is the composite of projected taxable income streams, booked expenses, special tax deductions, tax credits, calculated within the combined contexts of "real world" tax law, and "regulatory world" tax policy.

Most of the Commission's existing tax policy was established in D.84-05-036. Numerous subsequent decisions adopted a variety of changes in ratemaking tax policy to comply with changes in federal and state tax laws. Examples of pertinent Commission decisions affecting tax policy are:

1. D.84-05-036: adopted ratemaking policy for a variety of tax issues.[81]

2. D.87-09-026: authorized various ratemaking methods that utilities may adopt to recover the federal tax imposed upon Contributions in Aid of Construction ("CIAC") pursuant to the Tax Reform Act of 1986.[82]

3. D.88-01-061: adopted ratemaking policies for a variety of tax issues.[83]

4. D.89-11-058: methodology for calculating the prior year's CCFT deduction.[84]

Moreover, on December 22, 2017, the TCJA was signed into law. The TCJA represents the most significant overhaul of the IRC in more than 30 years. For regulated water utilities the pertinent changes are:[85]

1. A reduction in the Corporate FIT rate from 35% to 21%.

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[81] D.84-05-036, May 2, 1984

[82] D.87-09-026, November 14, 1986

[83] D.88-01-061 January 28, 1988

[84] D.89-11-058, December 22, 1989

[85] The Tax Cuts and Jobs Act (Public Law No. 115-97 (Nov. 2, 2017) 131 Stat. 2054)

2. The repeal of the IRC Section 199 deduction for Qualified Production Activities.

3. The repeal of Bonus Depreciation.

4. The recognition of EDFIT.

Cal Advocates' recommendations incorporate these considerations to minimize regulated tax expenses to the greatest extent possible, which in turn minimizes revenue requirements for taxes.

A. FIT Deduction for Prior Year's CCFT

D.89-11-058, the Commission's decision regarding the methodology for calculating the prior year's CCFT deduction, requires that the prior-year last Commission adopted CCFT amount be used as the deduction for CCFT in estimating FIT taxable income in the Test Year for ratemaking purposes.[86]

In response to Cal Advocates' email and phone call GSWC states that the company intended to use the adopted 2024 CCFT amounts as the state tax deductions for calculating the forecasted test-year 2025 federal-income-tax (FIT) deductions. However, due to the delayed decision, D.23-06-024, the Adopted 2024 CCFT was not available to GSWC at the filing of A.23-08-010, so GSWC used Adopted 2023 CCFT as a placeholder.[87]

Since D.23-06-024 is now available, GSWC has filed several Advice Letters, and the company will have the Adopted 2024 CCFT available in early 2024.[88]

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[86] D.89-11-058, Nov. 2, 1989, p. 9

[87] Phone call between Cal Advocates (Victor Chan and Mehboob Aslam) and GSWC (Jenny Darney-Lane)

[88] Phone call between Cal Advocates (Victor Chan and Mehboob Aslam) and GSWC (Jenny Darney-Lane)

Both GSWC and I agree that the 2024 Adopted CCFT should be used for FIT in TY 2025,[89] just as the parties agreed on using the adopted 2021 CCFT for TY 2022 in the last GRC's Settlement Agreement D.23-06-024.

B. Deviation from Rate Case Plan

GSWC has concerns about a possible inconsistency between the calculation of rate base in the third year of the GRC cycle and the calculation of depreciation and income-tax expenses for the same year. Per D.23-06-024, GSWC submitted a private letter ruling to the Internal Revenue Service requesting that they rule on the matter.[90] For details on this matter, please read Direct Testimony of Cal Advocates witness Kerrie Evans on 'Issues of Controversy.'

IV. CONCLUSION

The Commission should require GSWC to use adopted 2024 CCFT amounts as the state tax deductions for calculating the forecasted test-year 2025 federal-income-tax (FIT) deductions. Additional differences in tax estimates are due to different estimates for revenues, operating expenses, and plant additions. GSWC should continue to flow through all tax benefits to ratepayers to the extent possible under the IRS and Commission's tax policies.

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[89] Phone call between Cal Advocates (Victor Chan and Mehboob Aslam) and GSWC (Jenny Darney-Lane)

[90] A.23-08-010, Direct testimony of Wayne R. McDonald, p. 4, p. 2

CHAPTER 5 Depreciation

I. INTRODUCTION

This chapter presents analysis and recommendations for GSWC's depreciation expense. The differences are mainly due to differences in plant additions as discussed in Cal Advocates' testimony on plants in this proceeding.

II. SUMMARY OF RECOMMENDATIONS

The Commission should require GSWC to use consolidated depreciation rates for its different ratemaking areas in Region II and Region III. I recommend the following adjustments.

1. Region II - Maintain consolidated depreciation studies for the Central District headquarters and the Southwest District Headquarters consistent with past Commission Decisions.
2. Region III - Maintain consolidated depreciation studies for the Orange County District, Mountain Desert District Headquarters and Foothill District consistent with past Commission Decisions.

Other differences between GSWC's and Cal Advocates' estimates are due to Cal Advocates' recommended plant additions and balances.

III. ANALYSIS

The Commission should adopt Cal Advocates' depreciation rates for this GRC. I agree with most of GSWC's depreciation rates but disagrees with GSWC's proposal to use unconsolidated depreciation rate in Region II and Region III, as detailed below.

Table 5-1: GSWC's Composite Depreciation Accrual Rates for TY 2025[91]

Service Area/District Office	GSWC	Cal Advocates
Arden Cordova	2.04%	Does not oppose
Bay Point	1.76%	Does not oppose
Clearlake	2.10%	Does not oppose
Los Osos	2.43%	Does not oppose
Santa Maria	2.24%	Does not oppose
Simi Valley	1.95%	Does not oppose
Northern District	8.92%	Does not oppose
Coastal District	6.98%	Does not oppose
Region 2	1.77%	Does not oppose
Central District	6.78%	1.77%
Southwest District	13.04%	1.77%
Region 3	1.91%	Does not oppose
Orange County District	12.54%	1.91%
Foothill District	8.64%	1.91%
Mountain District	10.25%	1.91%
GO - Corporate Support	6.32%	Does not oppose
GO - Utility Support	8.11%	Does not oppose
GO -General Operation	13.57%	Does not oppose

GSWC created separate studies for the Central and Southwest District Offices in the Region II study and the Orange County, Foothill, and Mountain Desert District Offices in the Region III study.[92] In Response to Cal Advocates' Data Request, GSWC states that this was done to reflect the depreciation activity more accurately in these

[91] GSWC workpaper SEC-50_RB_Depr Reserve, Tab 'IN_Depreciation Rate'

[92] A.23-08-010, Direct testimony of Matt Winslow, p. 3

offices and be consistent with the separate studies already being performed for the district offices in the Region I.[93]

Region II and Region III are consolidated ratemaking areas; thus, all their costs should remain combined. The Commission in Rulemaking 11-11-18 noted the objective of setting rates that balance investment, conservation, and affordability for multi-district water utilities. The consolidation of Region II and Region III met these objectives. Moreover, GSWC's proposed individual depreciation accrual rates are much greater than the consolidated application accrual rates for each region.

The Commission should deny GSWC's proposal since the service areas are consolidated and its proposal to use unconsolidated depreciation rates in Region II and Region III results in much greater depreciation accruals that will hurt ratepayers.

IV. CONCLUSION

The Commission should adopt Cal Advocates depreciation rates reflecting my recommendations described above, since the costs of consolidated ratemaking should remain combined. Any other differences between GSWC's depreciation estimates and Cal Advocates' depreciation estimates are due to the differences in recommended plant projects described in Cal Advocates' testimony on plant in this proceeding.

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[93] GSWC's Response to Cal Advocates DR JBQ-006 Q.2a

CHAPTER 6 Working Cash

I. INTRODUCTION

This chapter presents analysis and recommendations on GSWC's lead-lag days and allowance for working cash. Recommendations provided in this chapter are based on an analysis of GSWC's application, testimony, workpapers, and GSWC's responses to Cal Advocates' data requests.

II. SUMMARY OF RECOMMENDATIONS

The Commission should deny GSWC's proposed WRAM/MCBA adjustments in calculating the revenue lag days because it will compensate the company twice by allowing it to earn both a return and interest on its WRAM/MCBA balances.

III. ANALYSIS

The working cash allowance is a component of the rate base. It can be positive or negative.[94] Positive working cash increases rate base and negative working cash decreases rate base. The purpose is to compensate investors for funds provided by them that are permanently committed to the business for the purpose of paying operating

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[94] The Pacific Telephone and Telegraph Company Decision No. 67369 62 Cal. PUC 775, 821 (1964) upheld by the California Supreme Court in S.F. 21788, April 28, 1965 shere the Commission disallowed $6,800,000 (which Pacific termed "negative working cash") from Pacific's claimed rate base for the test year. The Commission found that where the funds supplied to Pacific by others than investors are greater than the amount required for working cash, the excess amount should be deducted from rate base. The Court commented "This view appears sound and fair, the decision sets forth detailed findings on the subject, and no error is shown." Cited in Subj. Ref. H-9, June 9, 1966. see also:

The Pacific Lighting Gas Supply Company Decision No. 63706 59 Cal. PUC 610, 625 (1962)

D.84-02-052, February 16, 1984, In the Matter of the Application of SAN GABRIEL VALLEY WATER COMPANY, a California corporation, for authorization to issue and sell not exceeding $4,737, 500 aggregate principal amount of its First Mortgage Series M, 12-1/2% Bonds Due February 1, 1999, to execute and deliver an Eighteenth Supplemental Trust Indenture and to purchase and retire all of its outstanding Preferred Stock at 23 expenses in advance of receipt of offsetting revenues from its customers and to maintain minimum bank balances.[95]

For ratemaking purposes, a working cash allowance is usually calculated through a lead-lag study. A "lead" signifies that the receipt or payment of cash preceded the services to be rendered while a "lag" denotes that receipt or payment of cash followed the rendered services. GSWC's Prepared Testimony by Brad Powell presents GSWC's methods of calculating lead-lag and working cash allowance.

In calculation of revenue lag days, GSWC includes estimated net WRAM/MCBA balances, in addition to estimated revenue data. GSWC's request is not reasonable because it will compensate the company twice on its WRAM/MCBA balances as GSWC's request would allow the company to earn both a return and interest on its WRAM/MCBA balances. In GSWC's past GRCs, Cal Advocates explained:

> GSWC is allowed to earn interest on WRAM balances at a 90-day commercial paper rate. If WRAM balances are also allowed in calculating revenue lead lag days, the forecasted WRAM balance will flow into the rate base through working cash and ratepayers will pay an additional return. Under GSWC's proposal, WRAM balances will earn a return twice from ratepayers – once from working cash in rate base, equaling the authorized rate of return, and then from the recovery of interest in WRAM surcharges. Hence, to correct this situation, ORA removes WRAM balances from GSWC's calculation of revenue lead lag days.[96]

Thus, GSWC's proposal is not reasonable because it would allow the company to collect accrued interest from ratepayers as well as a rate of return on WRAM balances.[97] The table below presents the impact of including GSWC's WRAM/MCBA adjustment to the revenue lag day estimates.[98]

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[95] CPUC Standard Practice U-16-W, p. 1-2

[96] A.14-07-006, ORA Company-Wide Report on the Results of Operations, page 47

[97] GSWC's Response to Cal Advocates DR JBQ-009 Q.4

[98] Clearlake CSA do not have WRAM/MCBA

Table 6-1: WRAM/MCBA Impact on GSWC's estimated revenue lag days[99]

Ratemaking Area	Without WRAM/MCBA	With WRAM/MCBA	WRAM/MCBA Adjustment
Arden Cordova	46.5	66.8	20.3
Bay Point	33.2	18.3	-14.9
Clearlake	32.9	32.9	0
Los Osos	47.9	48.7	0.8
Santa Maria	33.6	74.0	40.4
Simi Valley	44.1	36.3	-7.8
Region 2	34.2	64.2	30.0
Region 3	41.9	46.6	4.7

IV. CONCLUSION

The Commission should deny GSWC's proposed WRAM/MCBA adjustments in the revenue lag day calculations as it would allow the company to collect from ratepayers accrued interest as well as a rate of return on WRAM balances. More importantly, ratemaking is performed specifically so that there is no under or overcollection in the test year. Including an estimate for WRAM means forecasting an undercollection in 2025 and 2026, which is nonsensical as it might occur, but it is unreasonable to predict that it will.

[99] GSWC workpaper SEC-50_RB_Working Cash, Tab 'Revenue Data WS-2'

depreciation estimates are due to the differences in recommended plant projects described in Cal Advocates' testimony on plant in this proceeding.

ATTACHMENTS

1

Attachment 1-1: BALANCING ACCOUNTS HISTORY

State of California

OFFSETS, ETC.

RECEIVED
SEP 26 1985
HYDRAULIC BRANCH

Memorandum

Date : September 23, 1985

To : Commissioners

From : Public Utilities Commission—San Francisco - JOSEPH E. BODOVITZ
Executive Director

File No.:

Subject :

As you may have seen in the notes of the Friday Committee senior staff discussion, we thought it might be useful for you to have some background information as you review ALJ Patrick's draft decision on second-year attrition for energy utilities. That draft will soon be circulating, and will contain discussion of, for example, the interaction of ERAM and attrition. We therefore thought it would be useful for you and your advisors to have a brief history of balancing accounts, attrition allowances, and other regulatory mechanisms now in place.

Attached, therefore, is a summary that was prepared in mid-1982 as an introduction to what was then planned as a larger policy document on various regulatory strategies. Much of the strategy discussion found its way into other documents, and the introduction is still surprisingly current and clear.

There is, however, one significant change: The attached summary refers to the GEDA and EEDA programs, which were still in place in 1982. EEDA has now been concluded in accordance with a Commission order, with the proposed sale of EEDA properties discussed in a consultant's report. GEDA is the subject of a draft decision by ALJ Johnson which is soon to be circulated for review. The draft recommends, among other things, project-by-project review of the current GEDA projects of utilities, to determine which should be kept and which should be sold.

The Advisory Branch of the Evaluation and Compliance Division (headed by Ida Goalwin) will be glad to try to answer any questions you or your advisors may have with regard to the various regulatory mechanisms described in the attached paper.

Attachment

cc: Commissioners' Advisors
Agenda Distribution List
All ALJs
All Attorneys

BACKGROUND ON MAJOR ELEMENTS OF CPUC REVENUE REQUIREMENT REGULATION - THE CONDITIONS LEADING TO THEIR ADOPTION AND WHETHER CONDITIONS HAVE CHANGED

This paper is an overview of conditions and assumptions to objectively describe the major elements of CPUC's revenue requirement regulations. It describes the dynamics and forces behind where we are today and whether they have changed; it does not reach ultimate conclusions on whether or how the components of CPUC's revenue requirement should be changed.

The major elements of CPUC's program for energy utility revenue requirement regulation are:

1. Fuel/energy cost offsets coupled with balancing accounts.
2. A prospective estimated normal test year results of operations in general rate proceedings.
3. Sales-supply adjustment mechanisms.
4. Attrition allowances annually between general rate decisions.
5. Ratemaking repercussions from having utilities promote conservation.
6. The use of balancing accounts to cover utility costs for new programs to fianance conservation measures, solar deomonstration programs, and RCS audits.
7. Gas Exploration and Development Adjustment (GEDA) and Electric Energy Development Adjustment (EEDA).

These programs are addressed in that order:

I

Fuel/Energy Cost Offsets Coupled With Balancing Accounts

Prior to the 1970s utilities' fuel/energy costs were relatively stable - and compared to today, cheap. During the 1960s CPUC allowed advice letter "PGA trackers" to process direct pass-through of FPC tracking pipeline company rate increases; CPUC set up this mechanism shortly after the FPC established its corresponding cost tracking procedure.

When the interstate pipeline suppliers received a general rate increase from the FPC, CPUC required gas cost applications to be filed, as contrasted to the PGA trackers. CPUC did not have balancing accounts.

On the electric side, prior to 1974 fuel-energy costs were reviewed in general rate proceedings (which were relatively infrequent). In 1974, after the oil embargo and costs started their dramatic rise, a fuel clause adjustment (FCA) procedure was set up. AT first these adjustments were done by advice letter. About 1975 they were done through formal applications as hearings were required. The FCA procedure involved using the recorded-current fuel-energy cost and a projected fuel burn and/or energy mix; at first a 12-month forecast test period was used, but by the end of the FCA a 6-month test period was used. There was no balancing account.

In 1976 the standard Energy Cost Adjustment Clause* (ECAC) was adopted. CPUC started removing more and more direct energy-fuel cost components from base rates, moving toward what was termed "zero fuel costs base rates." A separate billing factor, called "ECAC billing factor" or ECACBF, is used. This was necessary because a balancing account was used, where billing factor revenues were credited and energy-fuel costs were debited. Electric utilities filed ECAC applications twice each year. CPUC's activity on ECAC involved reviewing reasonableness of recorded ECAC expenses and adopting a forecast energy mix and sales. In the eventual decision the ECACBF was changed to: amortize any over- or undercollection in the balancing account (a 12-month amortization period was generally used) and to prospectively recover current expense for the projected energy mix. In December 1980 current ECAC procedures were adopted:

1. Three ECAC filings annually, with one selected to review the reasonableness of the previous 12 months of recorded expense (called the record period).

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* Called "clause" because the procedure and details were placed in the utilities' tariffs as part of their Preliminary Statement.

2. Over- or undercollections would bear interest at the commercial rate.
3. Gains and losses from oil sales and 2% of estimated ECAC expense was, in essence, made part of the base rate by removing these costs from the balancing account.

Conditions and Assumptions That Led
<u>CPUC to Present ECAC/GAC Ratemaking</u>

1. Changes in gas and energy costs do not coincide with general rate proceedings and, in fact, occur far more frequently.
2. Energy cost offset matters must be processed very expeditiously since utilities may unavoidably be paying higher prices and, absent a balancing account, will never recover the shortfall.
3. CPUC is inadequately staffed to thoroughly analyze, hold and conclude public hearings, and issue a decision within a few weeks when utilities file fuel-energy cost offset applications.
4. Gas-energy prices started rising so frequently that forecasting these expenses was virtually impossible.
5. The rise in fuel-energy prices, coupled with any deviation from an average-year energy mix, meant the economic repercussions to either the utility or ratepayers could be gigantic.
6. Use of balancing accounts and periodic review of recorded expenditures for prudency would allow CPUC and its staff time to completely review utility operating decisions and conditions.
7. Reduced risk to utilities (from balancing account protection from revenue shortfall) could be reflected in setting rate of return.

CPUC's Experience With ECAC/GAC
<u>Balancing Account Ratemaking</u>

Retrospective balancing account review to determine if utilities pursued lowest cost courses is difficult but CPUC has no choice; its statutory function is to serve as juror deciding whether an increase in rates is justified and reasonable (P.U. Code Sections 451 and 454). Thus, balancing account ratemaking is not premised on the ability to move retrospective decisions on prudency and reasonableness; CPUC always has the obligation to judge prudency and reasonableness before any rate changes irrespective of the ratemaking procedures.

ECAC meant CPUC staff needed to continuously monitor and review utility operations (e.g. mix, contracts, and operating choices). This was a new role, and a real change from regulation in the 1960s and early 1970s. Staff is still trying to get organized; given the nature of such review; it's an activity where the battle to get "really organized" will always be present. Also, it's been difficult for CPUC to make prudency disallowances because "the money has been spent"; it takes a compelling showing to make a disallowance.*/ The result is balancing account review has essentially shifted the burden of proof to staff and intervenors to show expenditures were not prudent.

Conditions and Assumptions Which have Changed

None of the underlying conditions have changed. Some claim utility risk and incentive has been drastically reduced through balancing account offset ratemaking. It is debatable whether this is due to the ratemaking procedures themselves or how they are administered, applied, and viewed. The key for present procedures to be effective is to have ongoing and aggressive staff review to stay abreast of what options the utility had to minimize cost and to evaluate whether the lowest cost options were pursued; balancing cost with supply considerations is part of the ongoing analysis. There can never be any clear formulistic approach to evaluating prudency and reasonableness; otherwise the expertise of CPUC and its professional staff would not be needed. Prudency issues are always challenging, but as long as CPUC regulates monopoly utilities under the existing statutory scheme these issues must be grappled with and resolved.

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* The showing expected of utilities should be a detailed explanation of options, the choices selected and why. Staff should analyze the known or reasonably foreseeable options with a skeptical professional eye toward determining if the utility's management made the most economical choice.

This means a big commitment of personnel/positions. Given that general rate proceeding work has intensified, it is impossible for staff to do "hindsight" ECAC and GAC review thoroughly. Remember, balancing account ratemaking is a new and demanding ratemaking activity that is continuous, and which is undertaken in addition to general rate proceedings.

II

Prospective Estimated Test Year Results
Of Operations in General Rate Proceedings

CPUC may only set or change rates to cover prospective conditions. The exception is where a balancing account is established, and even then the balancing account cannot start retroactively. The test year constitutes a normal or typical period of operation, representative of conditions over the future period for which rates are set. The most difficult variables have been isolated out for balancing account treatment (e.g. sales-revenues and fuel-energy costs). Use of a future test year has significantly helped lend credibility to utility regulation in California. It means no rate can be raised without a showing future conditions reasonably justify an increase. This contrasts with states where rates are periodically adjusted simply on recorded or historical costs. Adopting a prospective test year results of operations, and CPUC's evidentiary and burden of proof process that goes with it, has been a rebuff to those that allege regulation simply fosters cost plus utilities and rates (this assumes staff does more than accept utility data and simply trend it).

It is recognized that actual costs may vary either way from those adopted when rates are set, but this gives utility management an incentive to keep costs as low as possible to maximize profits. In turn, efficient operations that maximize profits can be a benefit that ultimately accrues to ratepayers because the presumably efficient operations are the base everyone estimates from the next time rates are set.

Conditions and assumptions that affect the extent to which test year ratemaking is used, instead of to balancing account-offset ratemaking are:

1. Volatility of inflation and utility costs that are beyond the control of utility management.
2. The degree to which CPUC wishes to impose ratemaking constraints in the interest of providing incentive to utility management to maximize productivity and cut costs.

We can expect utilities to continually press for the comfort of more balancing account ratemaking and the green light to file a variety of offset applications between general rate proceedings. Utility management wants the best of all worlds; high earnings and a high rate of return but as little risk as possible; it's CPUC's task to recognize that desire and pressure, and weigh it against the need to have management incentive working to minimize costs. The degree with which test year ratemaking is used depends largely on the policy orientation of CPUC.

III

Sales-Supply Adjustment Mechanisms

In 1978 CPUC adopted a Supply Adjustment Mechanism (SAM) for gas utilities. The purpose was to ensure gas utilities neither lost money nor made excess profits when supplies-sales went under or over estimated sales adopted when general rates are set. The condition leading to SAM was supply uncertainty; this was in the era of gas supply gloom and doom preceding enactment of NGPA (when interstate pipelines were curtailing supplies). The consensus was that given the bleak uncertain supply picture, it was impossible to forecast sales (which are a function of supply to serve lower priority customers). A result could, for example, be if no low priority sales were assumed when adopting sales in general rate cases and supply became available to serve P-4- and P-5-customers, the utility had a windfall profit.

About the same time CPUC started its efforts to get utilities to encourage and achieve customer conservation as a means of prolonging gas supply. SAM fit well as a means of ensuring significant conservation results would not penalize utilities by eroding earnings. Critics of SAM argued it was a "guaranteed rate of return," which is not true. It works with a balancing account as follows: From the base sales estimate adopted in the most recent general rate decision the utility is made whole for the margin it would have had on sales if recorded sales are less than the base; if it sells more than the base amount, the margin on those incremental sales goes to the ratepayer as a credit to the SAM balancing account. As SAM evolved it was procedurally rolled into gas offset proceedings.

On the electric side, CPUC had an OII into an Electric Sales Adjustment Mechanism. Given outlandish proposals by utilities and staff resistance, nothing was adopted; that was in 1979. However, in 1980 the issue of forecasting sales in SoCal Edison's general rate case became acute. Reduced customer use, either from rising rates or conservation programs-awareness, started being noticeable. Edison was nervous. Hearings were reopened shortly before CPUC's decision was due to update sales forecasts. Likewise PG&E shortly afterward filed an offset application based on, among other things, a changed sales picture. Interest in the SAM concept for electric utilities was rekindled. In December 1981 CPUC adopted an Electric Rate Adjustment Mechanism (ERAM) for PG&E and SDG&E; ERAM for Edison is probably on the way.

Now, both ERAM and SAM are premised on the assumptions and conditions that:

1. It is too difficult to project and estimate sales 1-2 years ahead.
2. Sales-supply fluctuations are largely ratemaking elements beyond the control of utility management.
3. The mechanisms ensure utilities cannot resist promoting conservation because their successful conservation efforts would erode shareholder earnings; a potential disincentive is removed.

Have Conditions Changed Since SAM and ERAM Were Set Up?

Supply for gas utilities is not the fearful problem it once was--at least for now. But forecasting customer use is getting more difficult. Both mechanisms bring some comfort to regulators and utilities. However, they reduce both risk and opportunity. Utilities won't lose their shirts if sales drop, but they won't make it big if they increase. Utilities and the investment community seem to like certainty. Having the mechanisms ensures no financial loss to utilities for pursuing "vigorous and innovative" conservation programs as mandated by CPUC. So, SAM and ERAM suit needs of utilities and regulators. They are criticized by some as meaning the ratepayer will never see economic benefits from conservation; however, at most, they give the utility recovery of fixed costs (or the margin) when sales decline (albeit the fixed costs are spread through a smaller quantity of sales). Over the long term ratepayers realize their savings from conserving because variable costs are avoided. SAM and ERAM have never been really well-explained.

IV

Attrition Allowance on Step Rates Between General Rate Decisions

For many years there was steady growth in customers and sales which largely offset rising utility costs. Thus, general rate cases were much more infrequent than today. With inflation, rising cost of capital, and less customer growth and consumption came more frequent rate proceedings, culminating in the present rat-race cycle of general rate decisions every two years for energy utilities.

The assumptions and conditions leading to step rates through attrition adjustments were:

1. In an inflationary period it is too difficult, if not impossible, to set rates for a prospective adopted test year which will reasonably allow utilities the opportunity to realize CPUC's authorized return.
2. Swings in earnings (e.g. higher the year following a rate decision and lower the second year) unavoidably

caused by inflation would alarm the financial community,*/ lead to downrating, and ultimately increase utility debt costs.

3. There is not room for utility management to further spur productivity gains on savings to offset rising costs during the second year after a rate decision. This assumption is premised on the belief utility management is continually and highly motivated to maximize profits.

Have conditions changed? There are still fairly dramatic swings in the cost of capital. Inflation may be on the decline. Whether attrition allowances will survive, given the pressure for the regulator to ensure utility management has maximum incentive to minimize costs, is a big question at this juncture. The answer will probably depend on what course inflation takes and the degree to which CPUC can evaluate whether utility management is taking all reasonable steps to maximize profits through productivity gains and cost-cutting despite attrition allowances.

V

Ratemaking Repercussions from Having Utilities Promote Conservation

CPUC has, since the 1973-74 Arab oil embargo, increasingly stressed the importance of conservation. Consumer conservation means high variable costs associated with incremental new demand can be avoided. Avoiding highest cost peaking generation saves all ratepayers. Likewise, long-term fixed costs that result when new generation facilities are built can be reduced by conservation as the need for new facilities can be slowed. Conservation by gas customers prolongs gas supply and may eventually tend to create economic supply-demand pressures to keep gas supplier prices down.

Traditionally utilities promoted more consumer use of energy; gas and electric utilities competed in promoting their respective energy product. There were economies of scale; and if customer use went up between

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* These people thrive on predictability.

relatively infrequent rate cases earnings went up and the stockholders could benefit. Having utilities actively promote conservation seemed by many to be inconsistent with the utilities' interests; it was said funding their conservation programs through ratemaking expense could only result in halfhearted inefficient use of ratepayer funding. However, it was for want of any other in-place organization or entity to start statewide conservation programs that CPUC chose to direct utilities to have "vigorous and imaginative" conservation programs funded from operating expense. A hindsight test was to be applied, with potential return penalties, to ensure adequate efforts were taken.

Revenue or sales protection ratemaking mechanisms (SAM and ERAM) ensure utilities have no disincentive or penalty if conservation occurs. Issues surrounding the level of conservation program funding, effectiveness of proposed programs and of past efforts became bigger and bigger issues in general rate proceedings.

The asumptions leading to CPUC's current program and approach having utilities promote conservation with ratepayer funding are:

1. Conservation can reduce the need for expensive new generating capacity and incremental variable costs; it can prolong gas supply.
2. No other means of getting programs in place and developing statewide awareness of the need and benefits of conservation existed; utilities were the only in-place entities with resources to carry out programs.
3. Particularly early in CPUC's efforts, utility rates had not reached the painful economic level that would lead to consumer conservation efforts due to price alone.
4. CPUC had the staff to analyze proposed programs, funding levels, economic benefits, and past utility efforts.

Have these underlying conditions or assumptions changed? Much of the effort spent analyzing proposed programs and their funding have centered around cost-effectiveness. From the regulator's standpoint there is no comfort in funding programs that are not clearly cost-effective; direct utility involvement in promoting conservation remains controversial and, of course, it is CPUC's obligation to ensure this nontraditional ratepayer-funded activity is in the economic interest of all ratepayers. In reaction to concern that utility management might not apply the utmost in management acumen to devise and carry out the most effective programs possible, there were efforts to devise incentives. But devising an incentive-penalty program depends on being able to set reasonable goals and to objectively measure results; this, of course, is almost full circle and leads back to a task as difficult as evaluating cost-effectiveness of individual programs. Regulatory complexity and ratesetting nightmares continue with either approach. The changed assumptions and conditions are:

1. If CPUC allocates from limited staff resources to analyze, devise, and monitor utility conservation programs (either program by program or an overall reward and penalty program), tremendous staff resources are diverted from the traditional never-ending revenue requirement ratesetting issues of greater dollar magnitude.
2. Utility rates have reached a level where consumers are aware of the benefits of conservation and are starting to scramble in search of ways to conserve; given NGPA and gas deregulation this will, over the long run, intensify.

The question for CPUC is now whether utility conservation efforts should start scaling back as rates increase. Should efforts concentrate on load management vis-a-vis conservation generally? Either way the greatest problem remains: CPUC took on a huge complex program area with essentially the same overall staff recources that existed for periodic revenue requirement proceedings. CPUC has not been able to regulate conservation efforts with an eye toward cost-effectiveness and positive payoffs to the degree and confidence it would like, given the fiscal and resource limitations it faces as an agency.

The Use of Balancing Accounts to Cover New Utility Programs

Balancing account ratemaking was extended from ECAC and GAC as a means of covering utility costs for certain load management programs (which arose between general rate proceedings), the demonstration solar financing program, and, most recently, weatherization financing. For the latter, it has evolved into a "full cost of service tariff" to guarantee recovery and satify project financing lenders.

The conditions and assumptions leading to this were:

1. The programs were relatively novel and specific annual expenditures were hard to estimate.
2. The most rapid way to promote the programs and not peg their pace to annualized cost recovery was to establish a balancing account.
3. Implementing the programs could not, in CPUC's view, wait for inclusion in a general rate proceeding.
4. Actual costs could be adequately reviewed for reasonableness later during balancing account adjustment proceedings.

It was largely convenience and expediency which led to these balancing accounts. As with ECAC, for the staff they mean catchup ratemaking, or auditing and reviewing to see if unreasonable costs are recorded in the balancing account.

The use of balancing account-offsets to start up and fund new high priority programs will probably continue; they reduce utility resistance since the guarantee of recovering reasonable dollar-for-dollar expenditures is extended. It's fair to say that new balancing accounts are fostered by the perceived need for expediency to meet novel circumstances. To a great degree balancing account or hindsight ratemaking is the antithesis of prospective test year ratemaking. This is pretty widely recognized. The distinctions and ramifications should be kept firmly in mind by CPUC when weighing whether to launch new balancing accounts.

VII

Gas Exploration and Development Adjustment (GEDA)
And Electric Energy Development Adjustment (EEDA)

These are ratepayer-funded cost-plus programs that were originally undertaken when it appeared California could be without energy sources to meet its needs. The largest program is GEDA. The keynote is that GEDA moves gas utilities (PG&E and SoCal) into ratepayer-funded gas supply activity. This is a departure from the traditional distribution role. Utility affiliates do the actual investment, exploration, and development activity under CPUC authorization that sets the geographic scope and funding levels. The affiliate, when it's all said and done, gets all costs recovered from the utility's ratepayers and an after-tax rate of return (that is granted to the utility) on its capitalized GEDA rate base. Needless to say, GEDA can be a little gold mine for utilities.

In 1981 CPUC reviewed GEDA and continued it under some new ratemaking groundrules. It was continued because of the prospect of cheap gas and economic benefit to ratepayers, not because it's essential to secure supply. Under CPUC's latest groundrules shareholders bear 20% of the risk-investment (50% in Cook Inlet). SoCal Gas is winding down its GEDA program. PG&E may pursue new GEDA projects with its Rocky Mountain leasehold options and in California.

GEDA and EEDA are reversals of the traditional shareholder-ratepayer roles. GEDA was last modified to instill some shareholder risk. These programs are aberrations in the broad view of CPUC's regulation and in time will probably be phased out. These mechanisms illustrate how the specter of serious supply problems can lead regulators to reverse the traditional shareholder-ratepayer role and relationship.

Conclusion

CPUC's procedures and approach to energy utility ratemaking have significantly evolved over the past 15 years. We now have essentially two types and almost parallel tracks for ratemaking:

1. General rate proceedings always underway (with a decision every 2 years for the large utilities).

2. Balancing account ratemaking which is continuous.

Has this changed utility risk and incentive? Does it necessarily lead to less efficient operations and equate to higher rates? The answers are clouded. In the sense that balancing account ratemaking has more potential for abuse and, almost by nature, the burden of proof to show reasonableness is essentially shifted to staff and intervenors. CPUC was and is not staffed to vigorously cover all the ratemaking bases; we have continuous ratemaking and we are still staffed to do periodic general rate cases. Balancing account or hindsight ratemaking is the toughest and most demanding ratemaking if it's vigorously pursued. If CPUC staffing and resources continues at present levels, it is impossible to do a thorough and vigorous job on all fronts. The degree to which CPUC resources are inadequate to stay abreast of balancing account ratemaking directly equates into reduced risk for utility management (e.g. less risk of vigorous regulatory oversight). Does this mean the large balancing accounts should be phased out? Again the staff resource question haunts us. Most of the conditions and forces (including inadequate staffing) that led to balancing account ratemaking still exist. Whichever course CPUC takes, until it is equipped to aggressively engage in balancing account ratemaking, or to do a credible job the economic forces would demand in the absence of balancing accounts, it's going to continue to be a far less than perfect or satisfying regulatory process.

Different ratemaking approaches can all be made credible in theory; it's the logistics of putting them into practice which plague us. The lesson, then, is before things are changed further, the ramifications and realities for staffing must be carefully thought through; otherwise progress, done with the best of intentions, will be illusory.

Attachment 1-2: Complete list of GSWC's Balancing and Memorandum Accounts

	Balancing And Memorandum Accounts	Share Of Total BAMA Balance	5/31/2023 Balance
1	Customer Assistance Program BA	25%	$4,180,841
2	CEMA - COVID 19	22%	$3,717,956
3	Aerojet Water Litigation MA	21%	$3,614,317
4	Basin Pumping Rights Litigation MA	12%	$2,024,414
5	Public Safety Power Shut-Off MA	9%	$1,546,802
6	2021 Water Conservation MA	5%	$891,471
7	Tangible Property Regulations Collateral Consequences MA	5%	$842,952
8	Drinking Water Fees MA	4%	$734,170
9	Santa Maria Steelhead Recovery Plan MA	3%	$511,676
10	Los Osos Basin Management Committee MA	3%	$466,559
11	Los Osos Groundwater Adjudication MA	3%	$431,642
12	Santa Maria Water Rights MA	2%	$281,939
13	Polyfluoroalkyl Substances MA	1%	$161,302
14	San Luis Obispo Valley Groundwater Basin MA	0%	$67,202
15	CEMA - Emergency Consumer Protection	0%	$42,357
16	CEMA - Emergency Disaster Relief Customer Outreach	0%	$41,545
17	Clearlake Supply Expense BA	0%	$36,906
18	CEMA - Extreme Heat Event	0%	$27,113
19	School Lead Testing MA	0%	$20,148
20	Sutter Pointe GRC MA	0%	$10,350
21	Omega Chemical Corporation Superfund Site MA	0%	$10,059
22	American Recovery and Reinvestment Act BA	0%	($24,275)
23	General Ratemaking Area BA	-2%	($307,495)
24	2018 Cost of Capital Interim Rate True-up MA	-6%	($1,028,956)
25	Pension and Benefits BA	-7%	($1,236,744)
26	Catastrophic Event MA		
27	2022 Interim Rates MA		
28	Lead and Copper Rule MA		
29	Low-Income Customer Data Sharing MA		
30	Contaminant Remediation MA		
31	WRAM and Modified Cost BA		
	Total	**100%**	**$17,064,251**

Attachment 1-3: Attachment Provided in Response to Cal Advocates Data Request JBQ-002, Q.2a

Invoice

#INV59660

4/30/2023

ENCO Utility Services, LLC
8141 E. Kaiser Blvd, Suite 212
Anaheim CA 92808-2241

Bill To
Golden State Water Company
160 E. Via Verde
San Dimas CA 91773
United States

Ship To
Golden State Water Company
160 E. Via Verde
San Dimas CA 91773
United States

Terms	Due Date	PO #	Account
Net 30	6/9/2023		

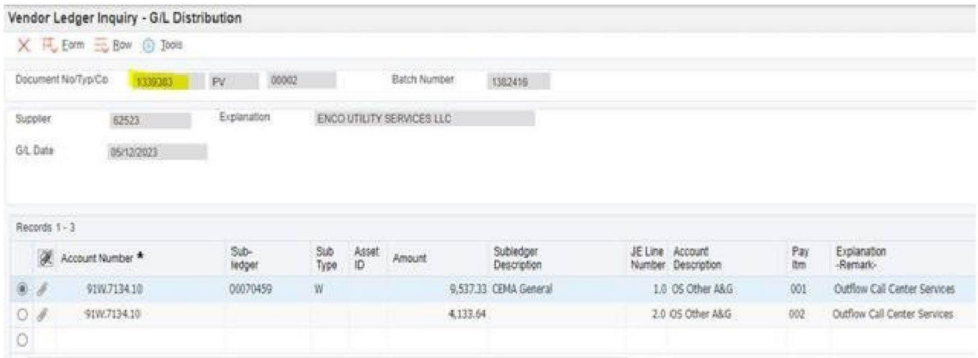
Item	Unit Price	Qty	Amount
Call Center Services Call Center Services	$1.68	8,137.48	$13,670.97

Subtotal	$13,670.97
Tax Total	$0.00
Total	$13,670.97

To ensure your ACH payments are applied correctly, send confirmation of electronic payment to us at: ar@encous.com.

Thank you for you business. We do expect payment within 30 days or above indicated terms; please process this invoice within the given timeframe. There will be a 1.5% interest charge per month on late invoices.

Invoice Allocation of $13670.97



Vendor Ledger Inquiry - G/L Distribution

Form Row Tools

Document No/Typ/Co 1339383 PV 00002 Batch Number 1382416

Supplier 62523 Explanation ENCO UTILITY SERVICES LLC

G/L Date 05/12/2023

Records 1 - 3

Account Number *	Sub-ledger	Sub Type	Asset ID	Amount	Subledger Description	JE Line Number	Account Description	Pay Itm	Explanation -Remark-
91W.7134.10	00070459	W		9,537.33	CEMA General	1.0	OS Other A&G	001	Outflow Call Center Services
91W.7134.10				4,133.64		2.0	OS Other A&G	002	Outflow Call Center Services

Attachment 1-4: GSWC Collects the Unpaid Bills Through Collection Agencies

Golden State Water Company
A Subsidiary of American States Water Company

October 26, 2020

K M Jawadul Baki, Public Advocates Office Analyst
CALIFORNIA PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue
San Francisco, CA 94102

Subject: Data Request JBQ-007 (A.20-07-012) BAMA VII Response
Due Date: October 26, 2020

Dear K M Jawadul Baki,

In response to the above referenced data request number, we are pleased to submit the following responses:

Question 1:
Public Safety Power Shut-Off Memorandum Account ("PSPSMA"):
As of May 31, 2020, the net cumulative balance of PSPSMA is listed as $406,637. In response to JBQ-003, question B.5 GSWC responded "the $2,969.72 recorded in the PSPS Memo Account prior to the effective date of August 22, 2019 should be removed". In response to JBQ-006, question B.2 GSWC responded "In addition, there is $2,550.15 of expenses that are not for regular time labor, that were incurred prior to the effective date of the memorandum account. Removing these amounts from the $57,878.50 results in a balance of $41,867.90 that should be included in the memorandum account." Please combine and clarify the responses to confirm the net cumulative balance of PSPSMA after the agreed removal of the amounts as of May 31, 2020.

Response:
On 10/23/2020, in its 100-day update, GSWC submitted balances through September 2020 for all Balancing and Memorandum Accounts.

Please see the 100-day update workpaper for the corrected balance of the PSPSMA through September 2020.

Question 2:
CEMA COVID 19 Memorandum Account:

In response to JBQ-005 (BAMAV) Questions B.2 and B.3, GSWC stated that it had written off $264,650 of Accounts Receivable (refer to "JBQ-005 Question 2 and Question 3" tab "Question 3", cells A6, B6 and F6). Listed below are a subset of the accounts listed as written-off. Please provide documentary support to demonstrate that the particular accounts enumerated below have been written off (refer to spreadsheet "JBQ-005 Question 2 and Question 3" tab "actual write off, net recovery.")

Docum	Docum	GL Date	ActualAm	Post St	Busines	ObjectA	Subsidi	BatchN	Trans Originator	Description
618800	00300	2/21/2020	(9,886.88)	Posted	2	1500	11	1234276	SCHEDULER	Res for Uncoll Accts
624945	00300	5/28/2020	(8,999.99)	Posted	2	1500	11	1245790	SCHEDULER	Res for Uncoll Accts
617522	00200	1/30/2020	12,347.27	Posted	2	1500	11	1232446	SCHEDULER	Res for Uncoll Accts
1198465	00002	2/25/2020	11,669.57	Posted	2	1500	11	1234427	VACOSTA	Res for Uncoll Accts

Response:

The ($9,886.88) and ($8,999.99) represent written-off customer bad debt that were subsequently recovered from customers via collection agency efforts.
See files titled "Q. 2 ($9,886.88) Support" and "Q. 2 ($8,999.99) Support"

The $12,347.27 represents an amount of bad debt accounts that were sent to the collection agency for recovery assistance.
See file titled "Q. 2 $12,347.27 Support"

For the three items listed above, a SQL statement was used to retrieve the data directly from the CC&B customer billing system. On the CCB tab, Column E, SA_TYPE_CD identifies each account as WOALLGWS, which stands for Write Off Allocation. Note: The $12,347.27 is identified as "BANKRUPT" on the CCB tab, meaning these accounts are being sent to collections for recovery.

The $11,669.57 represents payment to our collection agency vendor for recovery services rendered.
See file titled "Q. 2 Fidelity Invoice $11,669.57"

If you have any questions, please do not hesitate to call me at (909) 394-3600, Extension 680.

Sincerely yours,

Jon Pierotti

Digitally signed by Jon Pierotti
DN: cn=Jon Pierotti, o=GSWC, ou=Regulatory Affairs, email=jon.pierotti@gswater.com, c=US
Date: 2020.10.26 13:18:39 -07'00'

For Keith Switzer
Vice President – Regulatory Affairs

Attachment 2-1: GSWC's Projects Not Approved in a Prior GRC but in CWIP, (Received in Response to Cal Advocates' Data Request CHA-006)

BGT Type	Com p	District	Cate g	PM /	C	Funding Project	Bgt G	Work Orde	WO Description	2025 Additio	2026 Additio	Total Additio	Year Project Added to CWIP	Estimated Project Completion Date as of 06/01/2023
Construction	Regi	Northern	5	Arde	Arde	1152151-98	51	11811876	Church Well No. 25	-	-	3,616,446	2021	7/1/2024
Construction	Regi	Northern	5	Arde	Arde	1152151-99	51	11811847	Mather Plant Generator	-	-	482,587	2021	11/1/2023
Construction	Regi	Northern	5	Clea	Clear	1282251-99	51	13111290	Clearlake Sonoma Well Number 1	-	-	1,571,422	2022	11/1/2024
Construction	Regi	Northern	5	Clea	Clear	1282254-99	54	13111323	Rpl Sonoma WTP Sludge Chain & Equip	-	-	290,961	2022	2/1/2024
Construction	Regi	Central	5	Regi	Centr	2172251-99	51	21911412	Tank Recoating Studies - SW	-	-	31,357	2022	8/1/2023
Construction	Regi	Central	5	Regi	Centr	2172251-99	51	21911413	Tank Recoating Studies Central	-	-	52,734	2022	7/1/2023
Construction	Regi	Central	5	Regi	Centr	2172254-99	54	22011344	Dace Benzene Treatment	-	-	5,183,997	2022	4/1/2024
Construction	Regi	Central	5	Regi	Centr	2242154-99	54	22911164	McKinley Well No. 3 - PFAS Treatmen	-	-	60,572	2021	4/1/2023
Construction	Regi	Central	5	Regi	Centr	2242251-98	51	22750377	Bell-Grdn CSA Office Relocation	-	-	1,591,172	2022	4/1/2025
Construction	Regi	Central	5	Regi	Centr	2242254-99	54	22750359	PFAS Treatment at Clara Plant	-	-	762,884	2022	11/1/2023
Construction	Regi	Central	5	Regi	Culve	2342153-99	53	23611847	Culver Park, Diller AMR	-	-	245,978	2021	8/1/2023
Construction	Regi	Southwest	5	Regi	South	2472255-98	55	25032706	Water Quality Area 4	-	-	3,242,877	2022	2/1/2024
Construction	Regi	Southwest	5	Regi	South	2472255-99	55	24700244	Southwest CSA Tenant Improvment	-	-	321,645	2022	12/23/2023
Construction	Regi	Orange County	5	Regi	Los A	2672153-99	53	26932056	West OC FH Replace Program	-	-	25,835	2021	3/1/2023
Construction	Regi	Orange County	5	Regi	Place	2722151-98	51	27431254	Country Hill & Hideaway PRVs	-	-	17,561	2021	2/1/2023
Construction	Regi	Orange County	5	Regi	Place	2722151-99	51	27431247	Fairhaven #2 - Destroy	-	-	34,546	2021	8/1/2023
Construction	Regi	Orange County	5	Regi	Place	2722153-97	53	27431259	CH FH Replace Program	-	-	25,987	2021	5/1/2023
Construction	Regi	Orange County	5	Regi	Place	2722153-99	53	27531406	SR-57 Pipeline Replacement	-	-	1,462,604	2021	11/1/2023
Construction	Regi	Orange County	5	Regi	Place	2722251-99	51	27531493	Bradford Plant SD Connection	-	-	351,533	2022	7/1/2023
Construction	Regi	Orange County	5	Regi	Place	2722253-99	53	27431269	Fairhaven Transmission Main	-	-	2,631,974	2022	12/1/2024
Blankets	GO -	Asset Management	5	Gen	Cons	302209-98	B-09	3010075	AMI project	-	-	313,500	2022	3/31/2024
Blankets	GO -	Asset Management	5	Gen	Cons	312210-98	B-10	3111027	Replace Vehicle 1317	-	-	41,000	2023	9/29/2023
Construction	Regi	Foothill	5	Regi	Clare	3152251-99	51	31731598	Mtn Dsrt 2022 Tank Evaluations	-	-	132,521	2022	8/31/2023
Construction	Regi	Foothill	5	Regi	Clare	3152251-99	51	31731599	Foothill 2022 Tank Evaluations	-	-	20,236	2022	8/31/2023
Construction	Regi	Foothill	5	Regi	Clare	3152251-99	51	31731600	Orange County 2022 Tank Evaluations	-	-	24,447	2022	6/30/2023
Construction	Regi	Foothill	5	Regi	Clare	3152252-99	52	31731593	Foothill, Indian Hill to Harvard	-	-	1,061,420	2022	12/31/2023
Construction	Regi	Foothill	5	Regi	San D	3212052-99	52	32631553	Gladstone Gold Line Rearrangements	-	-	17,175	2020	12/1/2023
Construction	Regi	Foothill	5	Regi	San D	3212152-98	52	32631634	San Dimas Canyon (East Side) GL	-	-	12,799	2021	12/1/2023
Construction	Regi	Foothill	5	Regi	San D	3212152-98	52	32631635	San Dimas Canyon (West Side) GL	-	-	97,153	2021	12/1/2023
Construction	Regi	Foothill	5	Regi	San D	3212152-98	52	32631636	San Dimas Avenue Gold Line	-	-	127,471	2021	12/1/2023
Blankets	GO -	Asset Management	5	Gen	Cons	322210-98	B-10	3200079	Chevy Colorado Replacement Vehicle	-	-	16,874	2022	12/31/2022
Construction	Regi	Foothill	5	Regi	San G	3302153-99	53	33210504	Jeffries Discharge Pipeline Upgrade	-	-	385,400	2021	10/1/2023
Construction	Regi	Foothill	5	Regi	San G	3302252-99	52	33210519	Fairgreen Ave Main Replacement	-	-	2,413,107	2022	12/1/2023
Blankets	GO -	Asset Management	5	Gen	Cons	342109-99	B-09	3400001	Develop Web Based Portal-NB Apps	-	-	100,576	2021	8/31/2023
Construction	Regi	Mountain/Desert	5	Regi	Barst	3452053-99	53	34731456	Rensselaer FH Replacement-Ph. 2	-	-	190,969	2021	9/1/2023
Construction	Regi	Mountain/Desert	5	Regi	Barst	3452251-99	51	34731477	Bradshaw Well Field Onsite Blending	-	-	511,808	2022	12/31/2023
Construction	Regi	Mountain/Desert	5	Regi	Barst	3452255-99	55	34731503	Renewable Energy Feasability Study	-	-	190,000	2023	4/1/2023
Blankets	GO -	Field Technology Services	5	Gen	Field	362009-98	B-09	3600007	Office 365 Migration	-	-	282,461	2020	8/31/2023
Blankets	GO -	Field Technology Services	5	Gen	Field	362209-99	B-09	3600025	SCADA Control Room	-	-	-	2022	12/31/2022

Attachment 4-1: Email Response from GSWC's Jenny Darney-Lane Regarding FIT Reduction

DA

Darney-Lane, Jenny A. <jadarneylane@gswater.com>

To: Baki, Jawadul; Pinedo, Yvonne <ypinedo@gswater.com>

Mon 11/20/2023 12:09 PM

Cc: Powell, Brad <Brad.Powell@gswater.com>; jkarp@sheppardmullin.com; **+6 others**

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hi Jawad, in A. 23-08-010 GSWC intended to use the adopted 2024 state income tax (SIT) amounts as the state tax deductions for calculating the forecasted tax-year 2025 federal-income-tax (FIT) deductions. However, GSWC inadvertently did not update the figures from the Proposed Application, which incorporated the adopted SIT at the time of submission. The deduction amounts are reflected in the **SEC-10_SOE** workbook on the **IN_TY SIT Ded. For FIT** tab (col. J). We did not use the estimated 2024 SIT under present rates as the deduction for forecasting 2025 FIT.

Jenny

Attachment 7-1: Qualifications of Witness

QUALIFICATIONS AND PREPARED TESTIMONY OF JAWAD BAKI

Q1. Please state your name and business address.

A1. My name is Jawad Baki, and my business address is 505 Van Ness Ave, California 94102.

Q2. By whom are you employed and in what capacity?

A2. I am a Public Utilities Regulatory Analyst III in the Water Branch of the Public Advocates Office at the California Public Utilities Commission.

Q2. Please summarize your educational background and professional experience.

A2. I have a Bachelor of Business Administration degree with a Major in Finance (2015). I have interned in the City of Temecula on Economic Development. I earned a master's degree in applied economics from San Diego State University in 2019.

I have been with the Public Advocates Office – Communication and Water Policy Branch, and then in Water Branch since January 2020. I have reviewed San Jose Water Company's AMI application (A.19-12-002) and submitted my written testimony. I have issued a testimony on balancing and memorandum account in Golden States Water Company's GRC application (A.20-07-012), San Gabriel Valley GRC application (A.22-01-003), Cost of Capital application (A.21-05-001 et al.) for four largest Class-A Water IOUs, and Cost of Capital application (A.23-05-001 et al.) for small Class-A Water IOUs. Additionally, I have reviewed twenty-plus Advice Letters about Class-A water IOUs, and a Financing Application of California-American Water Company. I am also reviewing balancing and memorandum accounts workpapers for San Jose Water Company GRC application (A.24-01-001).

Q3. What is your responsibility in this proceeding?

A3. I am responsible for reviewing the GSWC's Special Request # 1 (BAMAs) and Special request # 8 (Modification of PFAS Memo Account). I am also responsible for providing my recommendations on Income Taxes, Taxes other Than Income (Property Taxes), Depreciation, and Working Cash of GSWC.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.