

IN THE SUPREME COURT OF THE STATE OF CALIFORNIA

Golden State Water Company  
Petitioner,

v.

Public Utilities Commission of the  
State of California,  
Respondent,

California-American Water  
Company, California Water Service  
Company, California Water  
Association, and Liberty Utilities  
Corp,  
Petitioners,

v.

Public Utilities Commission of the  
State of California,  
Respondent.

Case No. S269099

Commission Decisions  
20-08-047 and 21-09-047

Case No. S271493

Commission Decisions  
20-08-047 and 21-09-047

**EXHIBITS TO ANSWER OF RESPONDENT  
TO PETITIONS FOR WRIT OF REVIEW**

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January 28, 2022

## INDEX LIST

<b>Exhibit No.</b>	<b>Description</b>	<b>Bates Number</b>
1	Comments of CWA on Phase I Issues, February 23, 2018	001-012
2	Reply Comments of Public Advocates Office on ALJ Ruling Inviting Comments, July 24, 2019	013-019
3	National Association of Water Companies Motion For Party Status, July 22, 2020	020-023
4	E-mail Ruling Granting Party Status to National Association of Water Companies, August 27, 2020	024-027
5	NAWC Website, Active Members	028-030
6	NAWC Website, State Chapters	031

# EXHIBIT 1

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



**FILED**  
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Order Instituting Rulemaking evaluating the )  
Commission's 2010 Water Action Plan Objective )  
Of Achieving Consistency between the Class A ) R.17-06-024  
Water Utilities' Low-Income Rate Assistance ) (Filed June 29, 2017)  
Programs, Providing Rate Assistance to All )  
Low-Income Customers of Investor-Owned )  
Water Utilities, and Affordability. )  
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### COMMENTS OF CALIFORNIA WATER ASSOCIATION ON PHASE I ISSUES

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February 23, 2018

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

Order Instituting Rulemaking evaluating the	)	
Commission’s 2010 Water Action Plan Objective	)	
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Low-Income Customers of Investor-Owned	)	
Water Utilities, and Affordability.	)	
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**COMMENTS OF CALIFORNIA WATER ASSOCIATION  
ON PHASE I ISSUES**

**I. INTRODUCTION**

In accordance with Article 1 of the Rules of Practice and Procedure (the “Rules”) of the California Public Utilities Commission (the “Commission”), California Water Association (“CWA”) hereby submits its comments on the Phase I issues identified in the January 9, 2018 *Scoping Memo and Ruling of Assigned Commissioner* (“Scoping Memo”).<sup>1</sup> CWA is a statewide association representing the interests of investor-owned Class A, B, C, and D water utilities subject to the Commission’s jurisdiction. CWA and its members have previously filed comments and participated in workshops held as part of this proceeding. CWA submits these comments on behalf of its water utility members, including the Class A and Class B water utilities named as respondents to this rulemaking proceeding, all of which support and join in CWA’s comments.

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<sup>1</sup> CWA submits these opening comments on behalf of its member Class A and Class B water utilities: Alisal Water Company (dba Alco Water Service), Bakman Water Company, California-American Water Company, California Water Service Company, Del Oro Water Company, East Pasadena Water Company, Golden State Water Company, Great Oaks Water Company, Liberty Utilities, San Gabriel Valley Water Company, San Jose Water Company, and Suburban Water Systems. One or more of these water utilities may submit additional comments individually.

The Scoping Memo identifies two phases for this proceeding. Phase I will address consolidation of at-risk water systems, sales forecasting, affordability, and health and safety issues. Phase II of the proceeding will address the existing water utility low-income support programs and jurisdictional issues.

It is important to note that water rates and the cost of water service are not driving poverty in California. In most cases, customers are receiving water at a cost of less than a penny per gallon. The impact of water service cost on household income, while a concern for low-income customers, is dwarfed by the other family needs that put pressure on incomes – other utilities, housing costs, food costs, transportation costs, health care costs, etc.

CWA and its member companies have spent decades in support of providing safe, clean, affordable, and accessible water and have long worked to provide assistance to low-income customers and disadvantaged communities. CWA considers the experience of its member companies to be a good opportunity for the Commission to gain constructive expertise in furthering the policy goals and directives of the “human right to water” law, codified as California Water Code Section 106.3.

As directed in the Scoping Memo, CWA provides comments on the Phase I issues identified below.

## **II. PHASE I ISSUES**

### **A. Consolidation of At Risk Water Systems by Regulated Water Utilities**

- 1. How could the Commission work with the SWRCB and Class A and B water utilities to identify opportunities for consolidating small non-regulated systems within or adjacent to their service territories that are not able to provide safe, reliable and affordable drinking water? Should the Commission address consolidation outside of each utility’s general rate case (GRC)?**
- 2. In what ways can the Commission assist Class A and B utilities that provide unregulated affiliate and franchise services to serve as administrators for small water systems that need operations & maintenance support as proscribed by Senate Bill (SB) 552 (2016)?**

With the proper incentives in place, CWA has long supported consolidation as a means to assist communities that are not able to provide safe, reliable and affordable drinking

water on their own. As noted in the *Report on Joint Agency Workshop*, December 15, 2017 (“Report”), included with the Scoping Memo as Appendix B, over the last decade there have been more than 30 acquisitions of small systems water systems by larger Commission-regulated water utilities.<sup>2</sup> For example, at the December 15, 2017 workshop, a representative from California Water Service Company discussed its 2014 consolidation of and physical connection to the West Goshen Mutual Water Company and the ratemaking consolidation of its Lucerne service territory.<sup>3</sup> Additional examples include the acquisition and consolidation of the Garrapata Water System, Dunnigan Water Works and the Oxbow Marina Mutual Water Company by California-American Water, all of which were out of compliance with various drinking water standards until California American Water assumed the risks and made the investments to bring them up to standard and into compliance.<sup>4</sup> Other acquisitions by Golden State Water Company (Rural Water Company)<sup>5</sup> and the former Apple Valley Ranchos Water Company, now Liberty Utilities (Yermo Water Company)<sup>6</sup> similarly resulted in substandard systems being brought into compliance. All of these examples provided relief to customers with respect to safe, reliable and affordable drinking water.

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<sup>2</sup> Report, p. 3.

<sup>3</sup> *Id.*, p. 5.

<sup>4</sup> D.13-01-033, *Application of California-American Water Company (U210W) and Garrapata Water Company (U212W) for an Order Authorizing Garrapata Water Company to Sell and California-American Water Company to Purchase the Assets of Garrapata Water Company*, Decision Approving the Application of California-American Water Company's Acquisition of Garrapata Water Company's Assets; D.15-11-012, *Application of California-American Water Company (U210W) and Grant Park Development, Inc. (dba Dunnigan Water Works) (U437W) for an Order Authorizing Dunnigan Water Works to Sell and California-American Water Company to Purchase the Public Utility Assets of Dunnigan Water Works*, Decision Authorizing California-American Water Company to Purchase the Public Utility Assets of Dunnigan Water Works; Resolution W-5042, June 11, 2015.

<sup>5</sup> D.15-06-049, *Application of Rural Water Company (U 311 W) and Golden State Water Company (U 133 W) for an Order Authorizing Rural Water Company to Sell and Golden State to Purchase the Assets of Rural Water Company*, Decision Approving the Request of Rural Water Company and Golden State Water Company for an Order Authorizing Rural Water Company to Sell and Golden State Water Company to Purchase the Public Utility Assets of Rural Water Company.

<sup>6</sup> Resolution W-4998, August 28, 2014.

The State Water Resources Control Board (“SWRCB”) has the authority to order mandatory consolidation,<sup>7</sup> as well as programs to encourage voluntary consolidation.<sup>8</sup> These programs, as well as monitoring and reporting by the SWRCB, can help Commission-regulated water utilities identify troubled systems within or adjacent to their service territories that may benefit from consolidation. Additionally, through their provision of service and community activities, Commission-regulated water utilities may also become aware of such systems independently. Finally, in D.14-10-047, the Commission directed water utilities to, as part of the general rate case process, conduct a review to determine whether high-cost and affordability problems exist in any of their districts.<sup>9</sup>

The Commission should focus its efforts in this area on working to streamline processes for physical and ratemaking consolidation and ensure that it is providing the proper incentives for its regulated water utilities to undertake such efforts. Currently, an enormous disincentive is the pending Proposed Decision in the applications of the four publicly traded Class A companies for authority to adjust their cost of capital, and especially their cost of equity.<sup>10</sup> The extraordinary reduction in their proposed returns on equity (“ROEs”) to a level more than 120 basis points lower than the national average for regulated water utilities would make their ROEs the lowest in the country, and will eliminate any incentive to acquire a struggling water system whose customers are being subjected to substandard service.

There are substantial risks involved for healthy utilities that acquire troubled utility systems, and the unreasonably low equity returns being considered by the Commission will not allow the larger Class A or B utilities to accept or absorb those risks. Clearly, this loss of

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<sup>7</sup> Health & Safety Code §116682.

<sup>8</sup> See [www.waterboards.ca.gov/drinking\\_water/certlic/drinkingwater/waterpartnership.shtml](http://www.waterboards.ca.gov/drinking_water/certlic/drinkingwater/waterpartnership.shtml)

<sup>9</sup> D.14-10-047, *Order Instituting Rulemaking on the Commission’s Own Motion into Addressing the Commission’s Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for the Multi-District Water Utilities of: California-American Water Company (U210W), California Water Service Company (U60W), Del Oro Water Company, Inc. (U61W), Golden State Water Company (U133W), and San Gabriel Valley Water Company (U337W)*, Decision Providing Further Guidance Following Release of Staff Report.

<sup>10</sup> See Application 17-04-001, and related matters, *Proposed Decision of ALJ Bemserfer*.

incentive is directly at odds with the Commission's objective in this rulemaking and the state's policy on consolidation, which is to create incentives that will promote voluntary consolidations between healthy, well-managed utilities and troubled utilities that lack the technical, managerial, and financial means to provide safe, reliable water service.

The Commission also should review the existing requirements and administration of consolidation efforts with an eye towards efficiency and timeliness, so that disadvantaged customers are provided with relief as soon as possible. The Commission should also consider various ratemaking methods and mechanisms that remove roadblocks to acquisition and consolidations, so that interested parties are incentivized to make choices that will provide the most benefits in the long-term.

Beyond removing the cost of capital roadblock, this necessarily means addressing consolidation outside of general rate case proceedings as necessary. The Class A water utilities are required to file general rate case applications every three years and the Commission rate case proceedings are often long and complex. In order to best address the needs of communities that are not able to provide safe, reliable and affordable drinking water, both the Commission and regulated water utilities require the flexibility to make and evaluate consolidation proposals outside of the general rate case process.

The Commission should take similar steps to encourage Class A and B utilities to act under the Commission's non-tariffed products and services rules to serve as administrators for small water systems that need operations and maintenance support or to arrange for their unregulated affiliates to do so consistent with the Commission's affiliate transaction rules. This means evaluating existing Commission rules and requirements to determine whether they make it unreasonably difficult for Commission-regulated water utilities or their affiliates to provide such services. Does the Commission want its rules to prevent a healthy regulated water utility from providing assistance to a troubled system? For example, the Commission should consider whether an exemption from its affiliate transaction rules or from its rules for the provision of



non-tariffed products and services for water utilities<sup>11</sup> would provide a helpful incentive for water utilities or their affiliates to serve as administrators for small systems in need of assistance. Additionally, as with consolidation, the Commission must provide the flexibility to address such arrangements outside of the general rate case process as necessary.

**B. Forecasting Water Sales**

1. **How should the Commission address forecasts of sales in a manner that avoids regressive rates that adversely impact particularly low-income or moderate income customers?**
2. **In Decision (D.) 16-12-026, adopted in Rulemaking 11-11-008, the Commission addressed the importance of forecasting sales and therefore revenues. The Commission, in D.16-12-026, directed Class A and B water utilities to propose improved forecast methodologies in their GRC application. However, given the significant length of time between Class A water utility GRC filings, and the potential for different forecasting methodologies proposals in individual GRCs, the Commission will examine how to improve water sales forecasting as part of this phase of the proceeding. What guidelines or mechanisms can the Commission put in place to improve or standardize water sales forecasting for Class A water utilities?**

With respect to the first question above, it should be noted that sales forecasting and regressive rates are not connected issues and that sales forecasting methodology cannot be “tweaked” in a manner that will avoid regressive rates. Regressive or progressive rates are a product of rate design decisions, not sales forecasting methodologies. Question B.1. should be removed from the Scoping Memo, and the sole emphasis should be on Question B.2.

The Commission in 2004 established a standard method of developing water sales forecasts. As part of the Commission’s general rate case plan, water utilities were required to forecast customer usage using the “New Committee Method.”<sup>12</sup> Because the experience in the

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<sup>11</sup> D.10-10-019, *Order Instituting Rulemaking on the Commission’s Own Motion to Develop Standard Rules and Procedures for Regulated Water and Sewer Utilities Governing Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (formerly called Excess Capacity)*, Decision Adopting Standard Rules and Procedures for Class A and B Water and Sewer Utilities Governing Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services, Appendix A.

<sup>12</sup> D.04-06-018, *Order Instituting Rulemaking on the Commission’s Own Motion to Evaluate Existing Practices and Policies for Processing General Rate Cases and to Revise the General Rate Case Plan for Class A Water Companies*, Interim Order Adopting Rate Case Plan, Appendix, pp. 6-7; see D.07-05-062, *Order Instituting Rulemaking to Consider Revisions to the*

2007-2010 and 2011-2016 droughts rendered the New Committee Method impractical and even damaging to utilities and their customers, water utilities, pursuant to Ordering Paragraph 2 of D.16-12-026 now have the flexibility to provide alternate forecasts as necessary.<sup>13</sup> This flexibility is crucial to allow forecasts to be tailored to address extreme events, such as the most recent drought, or particular characteristics of the water utility or its service territory. In recent years, water utilities, the Office of Ratepayer Advocates (“ORA”) and the Commission have increasingly relied on alternative forecasting methodologies to take into account the impact of drought, conservation, government mandated reductions and economic developments. Standardization does not ensure accuracy – in fact, the opposite is true. The flexibility allowed has proven essential for achieving more accurate sales forecasts.

The Commission must preserve this flexibility to help ensure the most accurate forecasts upon which to base rates. No forecast is perfect, but the Commission should encourage implementation of mechanisms that minimize the effect of inaccurate sales forecasts adopted in a given general rate case. Rather than seeking to standardize forecasting the methodologies, the Commission should look to allow more frequent updates to forecasts that reflect the most recent actual sales data. This is a practice from which the energy utilities and their customers have benefitted for decades; such common-sense regulation should extend to the water utilities and their customers, as well.

In D.14-08-011, the Commission approved a sales reconciliation mechanism (“SRM”) that allows one water utility, if it experiences more than a five percent difference between sales for the past year as compared to adopted test year sales, to adjust the estimated

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*General Rate Case Plan for Class A Water Utilities, Opinion Adopting Rate Case Plan for Class A Water Utilities, A-26.*

<sup>13</sup> “Class A and B water Investor-Owned Utilities shall propose improved forecast methodologies in their General Rate Case application, or in standalone separate applications, following the effective date of this decision to more accurately determine how authorized revenue determined in a General Rate Case will be collected through water rates ...” D.16-12-026, *Order Instituting Rulemaking on the Commission’s Own Motion into Addressing the Commission’s Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for Class A and Class B Water Utilities*, Decision Providing Guidance on Water Rate Structure and Tiered Rates, Ordering Paragraph 2.

annual sales forecast during the remainder of the rate case cycle by 50 percent of the difference between the adopted forecast and actual water sales.<sup>14</sup> D.16-12-026, the Commission encouraged water utilities to include SRM proposals in their next general rate case applications and authorized an advice letter process as an alternative means to initiate an SRM based on reduced sales during a drought year.<sup>15</sup> More recently, the Commission recognized the merit of a program that adjusts rates to reflect more current sales data and recognized the customer benefits of a SRM.<sup>16</sup>

However, the Commission then rejected the merits of an SRM in a recent resolution based on an expansive reading of an ill-advised condition in D.16-12-026.<sup>17</sup> As part of this proceeding, CWA recommends that the Commission remove restrictions on SRM implementation that tie it to a drought period and allow utilities to implement a modified SRM that would capture more of the revenue differences between earlier forecasts and actual sales.

Specifically, CWA recommends that the Commission remove the existing five percent trigger, so that the SRM would be applied for any variation from forecasted sales above a minimal amount. Additionally, the Commission should eliminate the 50 percent adjustment limitation in the SRM referenced in D.16-12-024 and allow the mechanism to adjust rates for the entire change in sales. California-American Water, ORA and other parties recently entered into a settlement agreement for an SRM with these characteristics.<sup>18</sup> Last, the Commission should

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<sup>14</sup> D.14-08-011, *Application of California Water Service Company (U60W), a California corporation, for an order 1) authorizing it to increase rates for water service by \$92,765,000 or 19.4% in test year 2014, 2) authorizing it to increase rates on January 1, 2015 by \$17,240,000 or 3.0%, and on January 1, 2016 by \$16,950,000 or 2.9% in accordance with the Rate Case Plan, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies*, Decision Adopting Settlement Agreement, pp. 18-20.

<sup>15</sup> D.16-12-026, Ordering Paragraphs 3-4.

<sup>16</sup> D.16-12-003, *Application of California-American Water Company (U210W) for Authorization to Modify Conservation and Rationing Rules, Rate Design, and Other Related Issues for the Monterey District*, Decision Addressing WRAM Balances, Rate Design, Conservation and Rationing Rules, and Other Issues for the Monterey District, pp. 65-69.

<sup>17</sup> See Resolution W-5153, adopted January 11, 2018.

<sup>18</sup> A.15-07-019, *Application of California-American Water Company (U210W) for Authorization to Modify Conservation and Rationing Rules, Rate Design, and Other Related Issues for the Monterey District*, Settlement Agreement Between California-American Water Company, the

also consider folding the Water Revenue Adjustment Mechanism /Modified Cost Balancing Account (“WRAM/MCBA”) recovery into base rates instead of surcharges. This would be in keeping with the opinions expressed by the Commissioners at the meeting when this rulemaking was initiated. By making these proposed changes, the Commission will at least place the water utilities in a position similar to that of the energy utilities with respect to reconciling actual and adopted sales.

These changes will help address the issue articulated in the Scoping Memo, because more of the revenue differences between the earlier sales forecast and the actual sales will flow into base rates. This will send more accurate pricing conservation signals to customers, ameliorate intergenerational risk, help utilities avoid large WRAM/MCBA surcharges, and begin the process of reducing customer hostility toward and confusion about the Commission’s implementation of cost-of-service ratemaking. Approving mechanisms to update forecasts between general rate cases is the best way to minimize the need for surcharges that alienate all customers, including low-income or moderate-income customers.<sup>19</sup>

**C. What regulatory changes should the Commission consider to lower rates and improve access to safe quality drinking water for disadvantaged communities?**

As discussed previously, Commission-regulated water utilities already provide exceptional value to their customers through the provision of safe quality drinking water at reasonable rates. To the extent that the Commission is considering regulatory changes to provide similar benefits to troubled water utilities not regulated by the Commission, then acquisition, consolidation (whether physical or ratemaking), and operational contracts all can provide opportunities to minimize or lower rates and improve access to safe, high-quality drinking water for disadvantaged communities. As noted above, however, the proposed decision in the cost-of-capital proceeding, if adopted, may eliminate the potential for these good results to occur. In

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Office of Ratepayer Advocates, Monterey Peninsula Water Management District, and the Coalition of Peninsula Businesses on Phase 3A Issues, March 8, 2017.

<sup>19</sup> CWA notes that “moderate income customers” have not been defined. If necessary, this may be addressed in the upcoming workshops.

addition to removing this disincentive in the proposed decision, the Commission should look for ways to streamline the process for obtaining approval of such arrangements, both to provide an incentive to water utilities and to ensure timely relief for disadvantaged communities. It should also explore ratemaking mechanisms and other methodologies to remove any roadblocks or disincentives to explore such arrangements. Working in conjunction with the SWRCB and other agencies, the Commission may help address the lengthy and complex process of applying and receiving approval and funding for such projects.

**D. What if any regulatory changes should the Commission consider that would ensure and/or improve the health and safety of regulated water systems?**

CWA is not sure how to interpret this question because the vast majority of Commission-regulated water systems are leaders in ensuring the technical, financial, and managerial capabilities of their systems, which in turn protect the health and safety of their customers (with respect to water service). It seems that this question is more applicable for non-regulated systems and that is where the attention should be directed. Commission-regulated water utilities diligently work with state and federal officials to maintain compliance with water quality standards, and to ensure that drinking water is clean and safe. Indeed, investor-owned water utilities consistently lead the entire water industry in drinking water compliance.<sup>20</sup>

While the Commission's current processes (*e.g.*, cost-of-service regulation, compliance with General Order 103-A, affirmation in general rate cases of utility compliance with all applicable drinking water standards) generally ensure the health and safety of regulated water systems, it may be worthwhile for the Commission, as with the consolidation proposals discussed above, to examine its policies to determine whether any are creating disincentives for taking extra steps to improve water quality. For example, hindrances to improving water quality sometimes occur during the general rate case process, when utilities may encounter opposition to taking any steps beyond the bare minimum required by law. It may be helpful for the

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<sup>20</sup> "Investor-Owned Water Firms Boast Sterling SDWA Record," *Global Water Intelligence*, October 2011.

Commission to declare its support for recovery of costs related to taking early action with respect to water quality, or to addressing non-regulated contaminants.<sup>21</sup>

The Commission, working in conjunction with the SWRCB and the Legislature, may also want to consider an effort similar to the recently enacted New Jersey Water Quality Accountability Act, which requires all purveyors of public water, regardless of ownership, to meet the same standards to improve the safety, reliability, and administrative oversight of water infrastructure. Efforts such as this will help ensure and/or improve the health and safety of all water systems throughout the State.

### III. CONCLUSION

CWA and its Class A and Class B water company members appreciate the opportunity to provide the above comments on the Phase I issues identified in the Scoping Memo. CWA looks forward to participating in the upcoming workshops to help refine the issues and develop proposals to advance the Commission's policies with respect to low-income customers and disadvantaged communities.

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<sup>21</sup> On a related note, the Report misidentifies MCL as "Minimum Contaminant Level" when it should be "Maximum Contaminant Level." Report, p. 2.

## EXHIBIT 2



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

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Order Instituting Rulemaking Evaluating the Commission's 2010 Water Action Plan Objective of Achieving Consistency between Class A Water Utilities' Low-Income Rate Assistance Programs, Providing Rate Assistance to All Low – Income Customers of Investor-Owned Water Utilities, and Affordability.

Rulemaking 17-06-024

### REPLY COMMENTS OF THE PUBLIC ADVOCATES OFFICE ON ADMINISTRATIVE LAW JUDGE'S RULING INVITING COMMENTS ON WATER DIVISION STAFF REPORT AND MODIFYING PROCEEDING SCHEDULE

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July 24, 2019

## **I. INTRODUCTION**

Pursuant to Administrative Law Judge Darcie Houck's (ALJ) June 21, 2019 Ruling Inviting Comments on Water Division's Staff Report and Modifying Procedural Schedule (Ruling), the Public Advocates Office at the California Public Utilities Commission (Public Advocates Office) submits these reply comments. The Public Advocates Office will be commenting on comments the California Water Association, Southern California Edison, and the Center for Accessible Technology and Pacific Institute filed on Wednesday, July 10, 2019.

## **II. DISCUSSION**

### **A. California Water Association Comments**

The California Water Association (CWA) in its July 10, 2019 Comments states:

CWA objects to the characterization by the Public Advocates Office ("PAO") in the Workshop that 'water bills are increasing at a rate faster than inflation, which correlates to the amount of revenue utility companies want to make as opposed to affordable rates.' PAO's assertion that water bills are simply based on how much utilities "want to make" is foolish, biased and patently false.<sup>1</sup>

The section of the workshop report CWA quoted does not fully capture the Public Advocates Office's position and remarks at the workshop. The Public Advocates Office's comments at the workshop focused on the importance of ensuring that the Water Investor-Owned Utilities' (IOUs') authorized revenue requirements are just and reasonable and do not include excessive and unnecessary spending. This is one simple and effective way to enhance affordability of rates for all customers.

In arguing that the Commission should approve Sales Reconciliation Mechanisms (SRMs), CWA mischaracterizes the Public Advocates Office's position. CWA states "... 'better forecasting' often means, *ceteris paribus*, the adoption of lower adopted sales

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<sup>1</sup> At pp. 4-5.



quantities and higher unit rates in the test year, an outcome that PAO has actively resisted over many years.”<sup>2</sup>

Contrary to CWA’s generalization, the Public Advocates Office strongly supports the development of forecasts that are as accurate as possible for both revenues and expenses. When revenue variances are tracked in decoupling mechanisms (i.e. Water Revenue Adjustment Mechanisms (WRAMs)), and/or expenses are tracked in balancing and memorandum accounts, it reduces the financial repercussions to the utility of inaccurate forecasts. This, in turn, reduces the utility’s incentive to develop accurate forecasts. This can result in misguided attempts by Water IOUs to lower rate increases in General Rate Cases (GRCs) with artificial forecasts that are deliberately inaccurate (e.g. higher adopted sales quantities or lower proposed expenses), with the resulting variances recovered through different mechanisms between GRC cycles that provide for rate increases via a less transparent process.

In fact, the Public Advocates Office has recently recommended budget forecasts **larger** than those proposed by water utilities in GRCs in order to account for known and measurable cost increases that, in the utilities proposal, would have resulted in rate increases via existing mechanisms that operate outside of GRCs.<sup>3</sup> To increase transparency of rate impacts, the Commission should reduce the number of alternative ratemaking mechanisms like WRAM rather than creating new ones like SRM.

CWA goes on to state “Given that all parties want to limit rate increases in the first test year, the logical policy is to ensure that the difference between adopted sales and actual sales is minimized over time with a tool that trues up at least annually and that staggers the impact on customers into smaller increments (temporary surcharges or surcredits) over the three-year rate cycle.”<sup>4</sup> Here again, CWA confuses the cause with

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<sup>2</sup> CWA Opening Comments at p. 6.

<sup>3</sup> For example, the Public Advocates Office Report in A.18-01-004, San Jose Water Company’s most recent GRC, recommended a 14% increase in the utility’s forecasts for purchased water and purchased power.

<sup>4</sup> CWA Opening Comments at p. 6.

the cure. Utilities should not propose and the Commission should not adopt sales forecasts with any particular rate outcome in mind. Instead of lowering noticed rate impacts with lower than reasonable sales forecasts and allowing new mechanisms to “stagger the impact on customers into smaller increments” as suggested by CWA, the water utilities should propose accurate forecasts openly and transparently in GRCs. Customers should not be required to face the continued uncertainty of stealth rate increases that accompany the operation of existing—much less new—alternative rate mechanisms.

Lastly, CWA recommends that for applications for authorization of an acquisition, the Commission require that the acquiring utility obtain State Water Resources Control Board (SWRCB) authorization to operate the water system, rather requiring an operating permit from the SWRCB (as is current practice).<sup>5</sup> However, Health and Safety Code § 116525(a) states: “No person shall operate a public water system unless he or she first submits an application to the department and **receives a permit** as provided in this chapter. A change in ownership of a public water system shall require the submission of a new application.” (Emphasis added.) The Commission may not ignore the law.

#### **B. Southern California Edison Company Comments**

Southern California Edison Company (SCE) in its July 10, 2019 opening comments states: “These mechanisms [WRAMs and SRMs] seek to provide the utility an opportunity to collect the revenue requirement deemed just and reasonable by the Commission to safely and reliably serve water to customers. No more, and no less.”<sup>6</sup> Here, SCE confirms that the WRAM and SRM mechanisms can provide utilities with the exact revenue requirement to operate their business. By doing so, these mechanisms significantly reduce a utility’s risk and uncertainty in achieving its revenue requirements. This illustrates the fundamental inappropriateness of these mechanisms in a rate-of-return

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<sup>5</sup> Ibid at p. 10.

<sup>6</sup> SCE Opening Comments at p. 4.

regulatory framework, where a shareholder return is provided specifically for the risk and uncertainty of a utility achieving its revenue requirements.

To achieve the goal of greater affordability that forms the foundation of this rulemaking, the Commission should focus on reducing the number of alternative ratemaking mechanisms currently operating and not entertain the creation of yet more. As discussed in the Public Advocates Office Opening Comments,<sup>7</sup> if the Commission decides to allow utilities to continue these existing programs, this diminished risk should be recognized by a corresponding reduction in utilities' rates of return.

### **C. Center for Accessible Technology and Pacific Institute Joint Comments**

The Center for Accessible Technology (CforAT) and Pacific Institute ("Joint Comments") suggest that the Commission "[i]nclude a high-usage surcharge as part of each water district's rate design in order to promote conservation (ideally) or else to generate revenue from customers who do not conserve."<sup>8</sup> Furthermore, CforAT and Pacific Institute recommend that the Commission "implement a high usage charge in this proceeding because it would promote a variety of policy benefits, including conservation incentives to customers who use the most water and a new revenue element for utilities (in conjunction with lower rates for a baseline water quantity)."<sup>9</sup> The Public Advocates Office agrees that rate designs specifically formulated for individual service areas can play an important role in achieving necessary conservation and affordability of water service. Specifically, as detailed in the workshop report "[a] possible solution is creating a separate tier for excessive usage."<sup>10</sup>

The Joint Comments state: "EIU [Essential Indoor Use] for a water district should be based in part on the average number of people in a household within that water

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<sup>7</sup> Public Advocates Office Opening Comments at p. 13.

<sup>8</sup> Joint Comments at p. 2.

<sup>9</sup> Ibid at p. 13.

<sup>10</sup> Workshop Report at p. 3, attributed to the Public Advocates Office.

district's territory, with an increased allocation available for households that provide an attestation that there are more residents than the average within the household."<sup>11</sup> While this is, in theory, a worthy concept, allowing for increased allocations via attestations relies on utilities closely monitoring the attestation process. Historically, alternative ratemaking mechanisms like WRAM remove the incentive for a water utility to closely monitor this process since any reduced revenue is tracked and recovered from all ratepayers.<sup>12</sup> Therefore, there is a significant potential for abuse under this system as long as WRAM remains in effect.

Furthermore, the Joint Comments state: "The baseline to be identified should be based on an Essential Indoor Use (EIU) index that can be updated regularly. EIU should be evaluated as a function of average indoor water use and household size, and the average amount of water used should be updated frequently."<sup>13</sup> The Public Advocates Office agrees.

Lastly, the Joint Comments state: "With regards to long-term demand forecasting, there has been a historic tendency to overestimate future demand because of a failure to incorporate the effect of water efficiency standards and codes. To account for efficiency improvements, forecasters should consider the various end uses of water by examining the stock and efficiency of appliances as well as behavioral aspects of water use, such as shower duration and frequency." This is an accurate statement not just for long-term demand forecasting, but also for short-term forecasting. The Commission should require Water IOUs to model sales forecasts in their GRCs.<sup>14</sup> The Commission should require sales forecast modeling to include the dates at which various codes and standards related to water efficiency were initiated, and assume a reasonable penetration rate over time to account for updated codes and standards in sales forecasting. Similarly, the Commission

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<sup>11</sup> Ibid at p. 7.

<sup>12</sup> In A.15-07-019, the Public Advocates Office estimated that nearly half of the reported WRAM balance was the result of inadequate utility management of the allocation process.

<sup>13</sup> At pp. 3-4.

<sup>14</sup> As detailed in the Public Advocates Office Opening Comments at pp. 9-10.

when modeling should incorporate the efficiency improvements the Joint Comments discussed.

### **III. CONCLUSION**

The Commission should adopt the Public Advocates Office's recommendations made in its comments filed on July 10, 2019.

Respectfully submitted,

/s/ SELINA SHEK

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July 24, 2019

# EXHIBIT 3

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



**FILED**  
07/22/20  
10:59 AM

Order Instituting Rulemaking Evaluating the Commission's 2010 Water Action Plan Objective of Achieving Consistency between Class A Water Utilities' Low-Income Rate Assistance Programs, Providing Rate Assistance to All Low-Income Customers of Investor-Owned Water Utilities, and Affordability.

Rulemaking 17-06-024  
(Filed June 29, 2017)

### NATIONAL ASSOCIATION OF WATER COMPANIES MOTION FOR PARTY STATUS

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July 22, 2020

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

Order Instituting Rulemaking Evaluating the Commission's 2010 Water Action Plan Objective of Achieving Consistency between Class A Water Utilities' Low-Income Rate Assistance Programs, Providing Rate Assistance to All Low-Income Customers of Investor-Owned Water Utilities, and Affordability.

Rulemaking 17-06-024  
(Filed June 29, 2017)

**NATIONAL ASSOCIATION OF WATER COMPANIES MOTION FOR PARTY STATUS**

Pursuant to Rule 1.4 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the National Association of Water Companies ("NAWC") respectfully moves for party status in Rulemaking 17-06-024.

**I. NATIONAL ASSOCIATION OF WATER COMPANIES**

NAWC represents regulated water and wastewater companies, as well as ones engaging in partnerships with municipal utilities. NAWC members provide 73 million Americans with safe and reliable water service every day and have an exceptional record of compliance with federal and state health and environmental regulations.

Founded in 1895 by a handful of small water companies, today NAWC has members located throughout the nation, ranging in size from large companies owning, operating or partnering with hundreds of utilities in multiple states to individual utilities serving a few hundred customers. Our members' businesses include ownership of state-regulated drinking water and wastewater utilities and many forms of public-private partnerships. Through NAWC, our members collaborate, share best practices and leverage their strengths to benefit the communities they serve.

## **II. NAWC'S INTEREST IN AND EXPECTED PARTICIPATION IN THIS PROCEEDING**

NAWC's member companies share a deep understanding of the importance of uninterrupted delivery of quality water and wastewater services. Water plays an essential role in any thriving community and our nation's economy. Our water infrastructure systems are the backbone upon which communities survive and prosper. NAWC shares the Commission's interest in issues concerning affordability of clean, safe drinking water for low-income customers and disadvantaged communities.

Now more than ever, access to quality water and wastewater services is critical for the containment of COVID-19 and the preservation of public health and sanitation. Our member companies are working to combat the spread of COVID-19 by ensuring the communities they serve have unimpeded access to clean water in order to promote personal hygiene and overall public health. As the COVID-19 pandemic continues to evolve, NAWC is committed to the health of our nation's water systems by offering the information and resources we have at our disposal to communities in need. NAWC can draw upon the experience of member companies nationwide and provide insight as to industry best practices.

NAWC expects to file comments when given the opportunity and participate in workshops to the extent possible. NAWC's participation will not raise new issues in this proceeding, will not prolong or delay this proceeding, and will not adversely affect the interests of existing parties.

## **III. SERVICE**

NAWC requests that the following individual be added to the service list as a party:

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#### IV. CONCLUSION

Based on the foregoing, NAWC respectfully requests that the Commission grant it party status and allow it to participate in this proceeding.

Respectfully submitted,

By: /S/ April A. Ballou

April A. Ballou

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July 22, 2020

# EXHIBIT 4



**FILED**  
08/27/20  
10:16 AM

ALJ/KWZ/kz1 8/27/2020

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

Order Instituting Rulemaking Evaluating the Commission's 2010 Water Action Plan Objective of Achieving Consistency between Class A Water Utilities' Low-Income Rate Assistance Programs, Providing Rate Assistance to All Low - Income Customers of Investor-Owned Water Utilities, and Affordability.

Rulemaking 17-06-024

### **E-MAIL RULING GRANTING PARTY STATUS TO NATIONAL ASSOCIATION OF WATER COMPANIES**

Dated August 27, 2020, at San Francisco, California.

/s/ CAMILLE WATTS-ZAGHA

Camille Watts-Zagha  
Administrative Law Judge

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Cc: ALJ\_Support ID <[alj\\_supportid@cpuc.ca.gov](mailto:alj_supportid@cpuc.ca.gov)>; ALJ Docket Office <[ALJ\\_Docket\\_Office@cpuc.ca.gov](mailto:ALJ_Docket_Office@cpuc.ca.gov)>; ALJ Process <[alj\\_process@cpuc.ca.gov](mailto:alj_process@cpuc.ca.gov)>  
Subject: R.17-06-024: Email Ruling Granting Party Status to National Association of Water Companies

**To the service list of Rulemaking (R.) 17-06-024:**

This ruling grants party status to the National Association of Water Companies.

A second amended Scoping Memo was issued on June 2, 2020, initiating Phase II of this proceeding to consider the Commission's response to the COVID-19 pandemic.

On July 22, 2020, the National Association of Water Companies filed a Motion for Party Status describing how its expertise would enhance consideration of Phase II issues and highlighted its "interest in issues concerning the affordability of clean, safe drinking water for low-income customers and disadvantaged communities."

Ruling 1.4 of our Rules of Practice and Procedure states the requirements for becoming a party to a proceeding. Specifically, under Rule 1.4(b):

A person seeking party status by motion....shall:

- (1) Fully disclose the persons or entities in whose behalf the filing, appearance or motion is made, and the interest of such persons or entities in the proceeding; and
- (2) State the factual and legal contentions that the person intends to make and show that the contentions will be reasonably pertinent to the issues already presented.

I find that the National Association of Water Companies has complied with our rules with respect to Phase II of this proceeding and therefore grant them party status to participate in Phase II of this proceeding. This ruling does not extend the time for any filing in this proceeding.

The Commission's Docket Office shall formally file this ruling.

**Camille Watts-Zagha**  
Administrative Law Judge  
California Public Utilities Commission  
[camille.wattszagha@cpuc.ca.gov](mailto:camille.wattszagha@cpuc.ca.gov)  
(415) 703-2599

## Active Members

### Our Active Member Water Companies

#### American Water

- California American Water
- Illinois American Water
- Indiana American Water
- Iowa American Water
- Kentucky American Water
- Maryland American Water
- Michigan American Water
- Missouri American Water
- New Jersey American Water
- New York American Water
- Pennsylvania American Water
- Tennessee American Water
- Virginia American Water
- West Virginia American Water

#### Aqua America

- Aqua Illinois, Inc.
- Aqua Indiana, Inc.
- Aqua New Jersey, Inc.
- Aqua North Carolina, Inc.
- Aqua Ohio, Inc.
- Aqua Pennsylvania, Inc.
- Aqua Texas, Inc.
- Aqua Virginia, Inc.

#### Aquarion Water Company

- Aquarion Water Company of Connecticut
- Aquarion Water Company of Massachusetts
- Aquarion Water Company of New Hampshire

#### Arizona Water

##### Artesian Water Company

- Artesian Water Maryland
- Artesian Water Pennsylvania
- Artesian Water Company

##### Baton Rouge Water Company

##### Beckley Water Company

##### California Water Service Group

##### Central States Water Resources

##### Chaparral City Water Company

##### Columbia Water Company

##### East Pasadena Water Company

##### EPCOR Water Arizona

##### EPCOR Water New Mexico

##### Golden State Water Company

##### Gordon's Corner Water Company

##### GW Resources

##### Hazardville Water Company

## INFRAMARK

Jacobs

Jewett City Water

Liberty Utilities

Middlesex Water Company

- Tidewater Utilities, Inc.

Milford Water Company

Newtown Artesian Water Company

Northwest Natural

Parkland Utilities

Peoples Water Service Company

Pluris Holdings, LLC.

Rainbow Water Company

San Gabriel Valley Water Company

SJW Group

- Connecticut Water
- Maine Water
- San Jose Water
- SJWTX

SouthWest Water Company

- Kiawah Island
- Southwest Water Utilities
- Suburban Water Systems
- Monarch Utilities
- Ni America Texas
- Oregon Water Utilities

## SUEZ

- SUEZ Water Bethel
- SUEZ Water Delaware
- SUEZ Water Idaho
- SUEZ Water New Jersey
- SUEZ Owego/Nichols
- SUEZ Water New York
- SUEZ Water Pennsylvania
- SUEZ Water Rhode Island
- SUEZ Water Toms River
- SUEZ Water Westchester

Sussex Shores Water Company

Torrington Water Company

Twin Lakes Water Works Corporation

Utilities, Inc.

- Bermuda Water Company
- Blue Granite Water Company
- Carolina Water Service of North Carolina
- Carolina Water Service of South Carolina
- College Utilities Corporation
- Community Utilities of Florida
- Community Utilities of Georgia
- Community Utilities of Indiana
- Community Utilities of Louisiana
- Community Utilities of Maryland
- Community Utilities of Pennsylvania
- Corix Utilities
- Golden Heart Utilities
- Great Basin Water Company
- Massanutten Public Service Corporation
- Montague Water Company
- Tennessee Water Service
- Utilities Services of Illinois
- Water Service Corporation of Kentucky

Valley Water Systems  
Veolia North America  
Whitinsville Water Company  
York Water Company

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## California

The California Water Association (CWA) is an independent organization that also serves as a chapter of the NAWC. CWA represents the interests of approximately 125 investor-owned water utilities that are regulated by the California Public Utilities Commission, and that strive to provide high-quality water utility services to customers throughout California. CWA provides a forum for sharing best management practices; a means of promoting sound water policy by legislators and regulatory agencies; and opportunities for educating the public on the protection and efficient use of water resources. For more information on CWA, contact Jennifer Capitulo at [jcapitulo@calwaterassn.com](mailto:jcapitulo@calwaterassn.com).



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**STATE OF CALIFORNIA**  
Supreme Court of California

**PROOF OF SERVICE**

**STATE OF CALIFORNIA**  
Supreme Court of California

Case Name: **CALIFORNIA-AMERICAN WATER COMPANY v. PUBLIC UTILITIES COMMISSION**

Case Number: **S271493**

Lower Court Case Number:

1. At the time of service I was at least 18 years of age and not a party to this legal action.
2. My email address used to e-serve: **Darlene.clark@cpuc.ca.gov**
3. I served by email a copy of the following document(s) indicated below:

Title(s) of papers e-served:

<b>Filing Type</b>	<b>Document Title</b>
ANSWER TO PETITION FOR REVIEW (FEE PREVIOUSLY PAID)	Case Nos. S269099 and S271493 (GSWC v PUC) CPUC Answer to Petitions for Writ of Review
ADDITIONAL DOCUMENTS	Case Nos S269099 and S271493 (GSWC v CPUC) Exhibits to Answer to Petitions for Writ of Review

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PM

This proof of service was automatically created, submitted and signed on my behalf through my agreements with TrueFiling and its contents are true to the best of my information, knowledge, and belief.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

1/28/2022

Date

/s/Roscella Gonzalez

Signature

Clark, Darlene (172812 )

Last Name, First Name (PNum)

California Public Utilities Commission

Law Firm