

**IN THE SUPREME COURT OF THE STATE OF
CALIFORNIA**

GOLDEN STATE WATER COMPANY
Petitioner,

v.

**PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA**
Respondent.

Decisions Nos. 20-08-047 and 21-09-047
Of the Public Utilities Commission of the State of California

**AMENDED PETITION FOR WRIT OF REVIEW AND
MEMORANDUM OF POINTS AND AUTHORITIES
IN CASE S269099**

[Appendix of Exhibits (Vols. I-II) Filed Concurrently]

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TO THE HONORABLE CHIEF JUSTICE OF THE STATE OF
CALIFORNIA AND THE HONORABLE ASSOCIATE
JUSTICES OF THE SUPREME COURT OF CALIFORNIA:

Golden State Water Company ("GSWC") petitions this Court to review Decision 20-08-047 (August 27, 2020) ("Decision") and Decision 21-09-047 (September 27, 2021) ("Rehearing Denial") of the California Public Utilities Commission ("Commission"). Copies of the Decision and the Rehearing Denial are attached hereto.

CERTIFICATE OF INTERESTED ENTITIES OR PERSONS

Petitioner GSWC certifies that it is directly and wholly owned by American States Water Company, a publicly held company with over 2,000 shareholders. GSWC also certifies that it knows of no other entity or person who has a financial or other interest in the outcome of this proceeding that the justices should consider in determining whether to disqualify themselves, beyond noting that other utilities (Liberty Utilities (Park Water) Corp., Liberty Utilities (Apple Valley Ranchos Water) Corp., California-American Water Company, and California Water Service Company) participated in the California Public Utilities Commission proceeding to which the Decision relates, and the outcome of this proceeding could affect those utilities.

Dated: October 27, 2021

Respectfully submitted,
WINSTON & STRAWN LLP

By: /s/ Joseph M. Karp
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JURISDICTION

1. Under California Public Utilities Code Section 1756(f),¹ “review of decisions pertaining solely to water corporations shall be by petition for writ of review in the Supreme Court, except that review of complaint or enforcement proceedings may be in the court of appeal or the Supreme Court.” Jurisdiction over this Petition lies exclusively in this Court.
2. “Within 30 days after the [C]ommission issues its decision denying [an] application for rehearing . . . , any aggrieved party may petition for a writ of review in . . . the Supreme Court for the purpose of having the lawfulness of the original order or decision or of the order or decision on rehearing inquired into and determined.” Section 1756(a). GSWC sought rehearing of the Decision on October 5, 2020 and filed its Petition (“Original Petition”) with this Court on May 28, 2021, because the Commission neither granted rehearing within 60 days nor extended the effective date of the Decision. See Section 1738(b). On June 15, 2021, this Court approved the Commission’s request to hold this matter in abeyance pending resolution of several applications for rehearing, including GSWC’s. On September 27, 2021, the Commission denied all the applications for rehearing, making this Amended Petition timely.

¹ Unless otherwise stated, all statutory section references herein (“Section”) are to the California Public Utilities Code (“Code”).

3. A petition under Section 1756 is the “sole means provided by law for judicial review of a [C]ommission decision.” *Consumers Lobby Against Monopolies v. Pub. Util. Comm’n* (1979) 25 Cal.3d 891, 901. A court may not deny review of an apparently meritorious petition. *PG&E Corp. v. Pub. Util. Comm’n* (2004) 118 Cal.App.4th 1174, 1193.

PARTIES

4. Petitioner GSWC is a California “water corporation” under Section 241 and a “public utility” under Section 216.
5. Respondent Commission is the administrative agency charged with regulating public utilities under Section 6 of Article XII and related provisions of the California Constitution and under the Public Utilities Act.

RELATED CASES

6. No related cases are pending before any court.

IMPORTANCE OF THE ISSUES RAISED BY THIS PETITION

7. GSWC asks this Court to review Ordering Paragraph 3 of the Decision (“Revocation Order”), revoking the Commission’s prior authorization for water utilities to use certain regulatory mechanisms that are critical to promoting water conservation—the Water Revenue Adjustment Mechanism (“WRAM”) and the Modified Cost Balancing Account (“MCBA”). Neither the Commission’s order initiating Rulemaking proceeding 17-06-024

("Rulemaking") nor that proceeding's two Scoping Memos² contemplated modifying, let alone revoking, the WRAM/MCBA. The Rulemaking had been underway for two years before the Commission's Public Advocates Office ("PAO") first proposed changing the WRAM/MCBA. By embracing PAO's proposal at the eleventh hour, the Commission improperly expanded the scope of the Rulemaking and failed to give proper notice of the expanded scope, thereby preventing parties from presenting evidence on the out-of-scope issue and imposing the Revocation Order without an evidentiary record.

8. -- In issuing the Revocation Order as it did, the Commission not only violated the due process rights of utilities using the WRAM/MCBA ("WRAM Utilities"), it also denied GSWC its right (unique among the WRAM Utilities) to an evidentiary hearing before revocation, and abandoned important water conservation mechanisms without the requisite analysis at a time when conservation is more important than ever. This Petition enables the Court to direct the Commission (i) that the due process clauses of the United States and California Constitutions require that the Commission give timely notice to parties, with opportunity to be heard, before it may alter, rescind, or amend a prior Commission order, and (ii) regarding the record to be

² In every proceeding, the Commission must issue a scoping memo "that describes the issues to be considered ... and that, consistent with due process, public policy, and statutory requirements, determines whether the proceeding requires a hearing." Section 1701.1(b)-(c).

developed before the Commission abrogates rights and policies previously determined on a full evidentiary record.

9. The stated focus of the Rulemaking was providing rate assistance to low-income customers, but the Commission made no effort to determine how the Revocation Order might affect those customers. In ignoring the economic impact of its action, the Commission abused its discretion and failed to discharge its duty.

The Rehearing Denial attempts to obscure this failure by citing

statements in the Decision that "there is no evidence that

eliminating the WRAM will raise rates on low-income and low-use customers" and claiming that "the impact of the unanticipated WRAM surcharges on low-income and low-use customers is one component of the problems we have encountered with the WRAM." (Rehearing Denial at 27.) But there is "no evidence" on that front only because the Rulemaking *never considered* the matter. The Commission's rationalization that impacts on low-income customers led it, in part, to abandon the WRAM is unsupported by evidence; the Commission did not seek, and no party provided, such evidence.

10. The Revocation Order directly harms CSWC and other WRAM Utilities, but it also matters broadly to the State of California. The Revocation Order eliminates the utilities' ability to rely on the WRAM/MCBA to align their interests in providing water service with the public interest in conserving water in a region increasingly subject to drought, and removes, without

analysis, a progressive solution benefiting low-income customers and disadvantaged communities.

ALLEGATION OF LEGAL ERRORS PRESENTED FOR REVIEW

11. The Commission violated GSWC's due process rights under the United States and California Constitutions by failing to provide adequate notice and a meaningful opportunity for GSWC to be heard (including an evidentiary hearing) on the Revocation Order, and thereby failed to regularly pursue its authority.

12. The Commission abused its discretion by failing to develop an evidentiary record sufficient to support the Revocation Order and failing to consider the impacts of the Revocation Order on the low-income customers who were the subject of the proceeding, and thereby failed to regularly pursue its authority.

PRAYER FOR RELIEF

13. CSWC requests that this Court:
- A. Issue a writ of review to Respondent Commission;
 - B. Direct the Commission to certify its record in the proceeding to this Court;
 - C. Inquire into and determine the lawfulness of the Revocation Order;
 - D. Enter judgment setting aside the Decision insofar as it prohibits the WRAM Utilities from proposing continuation of the WRAM/MCBA in future general rate cases; and
 - E. ~~Grant any other relief this Court finds proper.~~

Dated: October 27, 2021

Respectfully submitted,

WINSTON & STRAWN LLP

By: /s/ Joseph M. Karp

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Attorneys for Golden

State Water Company

MEMORANDUM OF POINTS AND AUTHORITIES

I. STATEMENT OF THE ISSUES

- A. Whether the Commission's failure to provide adequate notice and an opportunity to be heard, including an evidentiary hearing, before issuing the Revocation Order violated GSWC's due process rights under the United States and California Constitutions (a failure of the Commission to regularly pursue its authority).
- B. Whether the Commission abused its discretion by adopting the Revocation Order without developing an adequate evidentiary record, providing an opportunity for parties to present contrary evidence, or considering the impacts of that order on low-income customers (the subject of the proceeding), and thereby failed to regularly pursue its authority.

II. STANDARD OF REVIEW

14. This Court reviews Commission decisions under Section 1756(f). For "decisions pertaining solely to water corporations, the review shall not be extended further than to determine whether the commission has regularly pursued its authority" Section 1757.1(b). The Commission fails to "regularly pursue its authority" if its decision "violates any right of the petitioner under the Constitution of the United States or of this State." *Id.* This Court makes its determination based on the entire record certified by the Commission. *Toward Util. Rate Normalization v. Pub. Util. Comm'n* (1988) 44 Cal.3d 870, 880.

15. This Court “exercise[s] independent judgment on the law and the facts” when determining whether the Commission regularly pursued its authority and whether the Commission’s decision violated a party’s constitutional rights. Section 1760.

III. FACTUAL BACKGROUND

A. The Purpose of the WRAM/MCBA

16. Since 2008, with recurring drought conditions across California, GSWC and other water utilities have employed two regulatory mechanisms that encourage water conservation by decoupling utility revenues from the amount of water sold—the WRAM and the MCBA. These mechanisms address a conflict that can arise between two important objectives: (a) protecting a utility against falling short of the revenue required to provide adequate service to customers and a fair return for shareholders if sales are lower than anticipated and (b) promoting conservation (i.e., reducing water sales) as a public policy.

17. The WRAM tracks under- or over-collections in Commission-authorized revenues due to fluctuations in actual water sales as compared with the forecasted sales used in setting rates. The MCBA tracks savings or increases in water supply operating costs against forecasted amounts. The WRAM and MCBA amounts are netted against each other, so reduced revenues may be offset by cost savings. The balance is recovered through a surcharge on customer bills for an under-collection or returned to customers via a surcredit for an over-collection.

18. By rendering the WRAM Utilities largely indifferent to the amount of water sold, the WRAM/MCBA allow the WRAM Utilities to encourage conservation by their customers. Revenue decoupling mechanisms of this sort have long been used successfully by other utilities in California, including gas and electric utilities.³

B. Origin and Evaluation of GSWC's WRAM

19. On January 16, 2007, the Commission commenced Investigation 07-01-022 "to address policies to achieve the Commission's conservation objectives for Class A water utilities" and sought proposals to encourage conservation. In 2008, the Commission issued Decision 08-08-030 authorizing certain water utilities, including GSWC, to pilot the WRAM/MCBA and evaluate its use in later proceedings. (Ex. G at 41-43.)⁴

20. GSWC implemented the WRAM/MCBA soon thereafter.

21. On April 30, 2012, the Commission issued Decision 12-04-048, adopting a schedule and process for the WRAM Utilities, including GSWC, to recover from or refund to customers the annual net balance in their WRAM/MCBAs and ordering a

³ See, e.g., *Matter of Cal. Energy Efficiency Strategic Plan* (Cal. P.U.C., Sept. 18, 2008, No. R 08-07-011) [2008 Cal. PUC LEXIS 417, *37-38] ("Over the years, successive CPUC decisions have created a policy framework to motivate [investor-owned utilities] to develop and continuously expand energy efficiency...including...decoupling of sales from revenues for electric and gas utilities...").

⁴ Exhibit references are to the concurrently filed Appendix of Exhibits.

"more vigorous review" of the WRAM/MCBA as part of each WRAM Utility's then-pending or next General Rate Case ("GRC").⁵ That order directed the WRAM Utilities to provide testimony addressing five "WRAM Options," including whether the Commission should adopt a Monterey-style WRAM ("M-WRAM")⁶ rather than the full WRAM. (Ex. H (Ordering ¶4).)

22. GSWC provided the required information as supplemental testimony in its then-pending GRC, Application 11-07-017 ("2012 GRC"). Although most other issues in the 2012 GRC were resolved by settlement, the WRAM-related issues were not; evidentiary hearings were held on the WRAM Options and the parties submitted supplemental briefs on the WRAM Options. Decision 13-05-011, resolving the 2012 GRC, dedicated over sixteen pages to whether the WRAM/MCBA was achieving its stated purposes and to the WRAM Options, and concluded:

The WRAMs/MCBAs established for [GSWC] are functioning as intended because the WRAMs/MCBAs have severed the relationship between sales and revenues and, as a result, have removed most disincentives for [GSWC] to

⁵ A GRC is a regularly scheduled proceeding in which the Commission reviews the rates and terms of service offered by a utility and adopts new rates for implementation until the next GRC.

⁶ The M-WRAM is *not* a revenue decoupling mechanism like the WRAM. It is a revenue adjustment mechanism permitting a water utility to true-up revenue recovered under tiered conservation rates with revenue that the utility would have collected under an equivalent uniform rate design. (Ex. I at 75, n.97.)

implement conservation rates and conservation programs. (Ex. I Conclusion of Law 72.)

Because the WRAMs/MCBAs established for [GSWC] are functioning as intended, none of the WRAM Options set forth in D.12-04-048 should be adopted at this time. (*Id.* Conclusion of Law 88.)

23. On April 26, 2015, as part of Rulemaking 11-11-008 ("Balanced Rates Proceeding"), the Commission solicited detailed input concerning the WRAM/MCBA, establishing a comprehensive record on whether the WRAM/MCBA should continue. (Ex. F.) Nine of sixteen questions posed in the Scoping Memo related directly to that question. (*Id.*) On December 9, 2016, the Commission determined that the WRAM/MCBA should continue. (Ex. J at 41.)

24. The Commission's focus on the WRAM/MCBA in the 2012 GRC and in the scoping of the Balanced Rates Proceeding contrasts starkly with the scoping here. The Rehearing Denial asserts (at 8) that "the parties had notice that, as a pilot program, the continuation of the WRAM and MCBA was regularly under consideration." The Rehearing Denial never mentions, however, that in each of the multiple proceedings in which the Commission considered the fate of the WRAM/MCBA, it explicitly identified the topic as an issue under consideration, and the Commission required the parties to submit, and thereafter examined, comprehensive evidence regarding their efficacy. Not so here.

C. Scoping of the Rulemaking and Adoption of the Decision

25. On July 10, 2017, an Order Instituting Rulemaking ("OIR") commenced the Rulemaking, with the "objective of achieving consistency between the class A water utilities' low-income rate assistance programs, providing rate assistance to all low-income customers of investor-owned water utilities, affordability, and sales forecasting." (Ex. U. at 1.) The issues to be considered in Phase 1 of the Rulemaking were established in the January 9, 2018 Scoping Memo:

- (1) Consolidation of at-risk water systems by regulated water utilities, with associated sub-issues.
- (2) Forecasting water sales, including questions regarding two sub-issues: (a) how to forecast sales to avoid regressive rates, and (b) guidelines or mechanisms the Commission can implement to improve or standardize water sales forecasting for Class A water utilities.
- (3) Regulatory changes the Commission should consider to lower rates and improve access to safe-quality drinking water for disadvantaged communities.
- (4) What, if any, regulatory changes should the Commission consider that would ensure and/or improve the health and safety of regulated water systems?

(Ex. AA at 2-3.)

26. On July 9, 2018, an amended Scoping Memo added two issues to Phase 1:

- (1) How best to consider potential changes in rate design such that there is a basic amount of water that customers receive at a low quantity rate.
- (2) Whether the Commission should adopt criteria to allow for sharing of low-income customer data by regulated investor-owned energy utilities with municipal water utilities.

(Ex. D at 3.)

27. On July 3, 2020, the Commission issued its Proposed Decision ("PD"). Ex. V. Only then—*three years* after the OIR—did the Commission first disclose that the WRAM/MCBA could be abandoned during the instant phase of the Rulemaking.

28. On July 27 and August 3, 2020, the WRAM Utilities filed comments showing that (i) none of the OIR, the Original, or the Amended Scoping Memos identified conservation or modifications to or abandonment of the WRAM/MCBA as issues to be considered in the Rulemaking, (ii) before issuance of the PD, the WRAM Utilities had no notice that abandoning the WRAM/MCBA was under consideration, and (iii) the consequences of abandonment, including on low-income customers, were never addressed in the record of the proceeding.

29. On August 26, 2020, the Commission revised the PD, adding language purporting to include the Revocation Order under the “Forecasting Water Sales” item in the Original Scoping Memo. Ex. W at 48-50.

30. The next day, August 27, 2020, the Commission issued the Decision.

31. The Revocation Order prohibits the WRAM Utilities from proposing to continue their existing WRAM/MCBAs in future GRCs.

D. How Did Abandonment of the WRAM Get Injected into the Rulemaking at the Last Minute?

32. On June 21, 2019, the assigned Administrative Law Judge (“ALJ”) requested comments on a report summarizing a May 2019 workshop, “Water Rate Design for a Basic Amount of Water at a Low Quantity Rate.” (Ex. A.) While the WRAM/MCBA was not discussed at the workshop or in the report, the ALJ’s ruling asked whether there should be a mechanism to adjust rates semi-annually or annually, especially in drought years. (Ex. A at 4 (Question C).) PAO responded that, rather than consider such mechanisms, the Commission should assess whether the WRAM/MCBA remain necessary; PAO recommended that WRAM Utilities convert to M-WRAM/ICBA. (Ex. N at 12-13.) Replying to PAO, the California Water Association (“CWA”) stated that this recommendation fell well outside the Rulemaking’s scope. (Ex. O at 2.)

33. On September 4, 2019, the ALJ issued a ruling asking eighteen additional questions. Question #6 was: "For utilities with a full [WRAM/MCBA], should the Commission consider converting to Monterey-style WRAM with an incremental cost balancing account? Should this consideration occur in the context of each utility's GRC?" (Ex. B at 3.) This question did *not* ask about revoking the WRAM/MCBA or converting them to the M-WRAM/ICBA, but whether the Commission should "consider" doing so and, if so, whether consideration should occur in the context of each utility's GRC (or, presumably, in some other future proceeding). Thus, none of the WRAM Utilities understood the question to mean that the Commission was considering revoking the WRAM/MCBA in *this* Rulemaking.

34. CWA submitted a two-page response explaining why the M-WRAM/ICBA do not fulfill the same purpose as the full WRAM/MCBA and reiterating that these mechanisms have nothing to do with providing assistance to low-income customers and fall outside the scope of the Rulemaking. (Ex. P. at 13-15.) PAO's six-sentence response to this question asserted the superiority of M-WRAMs over WRAMs, but included no data or other evidence supporting its position. (Ex. Q at 5.)

35. On September 23, 2019, CWA submitted reply comments that it "vehemently disagrees with PAO's recommendation" to convert WRAMs to M-WRAMs, calling the proposal "a step backwards that eliminates the benefits that full WRAMs offer in contrast to [M-WRAMs]." (Ex. X at 2.)

36. The same day, PAO submitted reply comments, including a graph that PAO claimed showed that the M-WRAM was as effective in promoting conservation as the WRAM (Ex. Z at 7.) Upon review, the WRAM Utilities concluded that PAO's submission was deeply flawed and misleading. But because PAO submitted its graph in the final set of reply comments before issuance of the PD, there was no opportunity to respond to PAO's graph or asserted conclusion.

37. Besides PAO's graph, there is no information in the record of the Rulemaking on this issue. Neither PAO's graph, nor the ten-year-old data from an earlier proceeding on which the Decision also purports to rely (Decision at 61, 67-68), support the Revocation Order.

E. Comments on the Proposed Decision Highlight Procedural and Substantive Flaws

38. The WRAM Utilities' comments on the PD expressed shock at the Revocation Order, emphasizing that revocation of the WRAM/MCBA was outside the Rulemaking's scope, that the Commission had not developed a record supporting it, and that the Commission made no inquiry into the impacts of the Revocation Order on low-income customers—the central focus of the Rulemaking. GSWC also identified factually erroneous statements in the PD, including that continuation of GSWC's WRAM/MCBA had never been adjudicated.⁷

⁷ The PD and Decision state incorrectly that GSWC's WRAM/MCBA were adopted by settlement in the 2012 GRC (Ex.

39. The WRAM Utilities' comments pressed the need for the Commission to collect evidence. GSWC explained that the data relied on by PAO does not support PAO's conclusions, while readily available data refutes these propositions; that it would have introduced this data had it been aware that the issue was in the scope; and that any change to the WRAM required a separate proceeding. (Ex. M at 3-4, 8-14; Ex. Y at 1-4.)

40. The WRAM Utilities' comments showed the impacts that abandonment of the WRAM/MCBA could have on low-income customers. (See, e.g., Ex. M at 7-8; Ex. Y at 5.) Also, former Commissioner Catherine Sandoval submitted a letter highlighting the Commission's failure to meaningfully litigate the impacts of its WRAM/MCBA orders, including on low-income customers. (Ex. T at 5-6.)

41. In reply comments, PAO doubled down, claiming that through their comments on the PD and PAO's graph, the WRAM Utilities were trying to "unlawfully include new evidence in their Opening Comments" and the Commission "should strike any new evidence, references to new evidence, and conclusions drawn from new evidence from the record." (Ex. DD at 5.)

42. Ultimately, the Decision relies on PAO's graph and conclusions (provided by PAO in written comments) and ignores

V at 49); "the policy to continue the use of WRAM/MCBA has not been adjudicated" (*id.* at 51); and "[t]his is the first time the Commission has taken input to consider the foundational issue of whether WRAM/MCBA should continue, and if so, in what form" (*id.* at 52). The Rehearing Denial fails to correct these errors.

contradictory information from the WRAM Utilities' comments. The Commission states that comments on the PD came after the evidentiary record closed. (Rehearing Denial at 15.)

43. Commissioner Liane Randolph's dissent to the Decision summarized the problem the Revocation Order created for low-income customers:

While this Decision does not make changes to any company's rate design, there will be an increasing need for the water companies to limit sales risk due to the removal of the WRAM. They are very likely to propose higher service charges as well as having flatter tiers or else face a very real risk of not meeting their revenue requirement. Such an outcome would lead to increasing the bills of low-usage customers which correlates with low-income customers. This outcome is exactly opposite of this proceeding's intent by harming low-income customers. (Decision Dissent at 1.)

F. GSWC's Application for Rehearing

44. GSWC's Application for Rehearing discussed how the Commission (1) violated GSWC's due process rights by failing to provide adequate notice and a meaningful opportunity to be heard concerning the Revocation Order (Ex. CC at 14-17), and (2) abused its discretion by issuing the Revocation Order without adequate evidentiary support, failing to allow an opportunity for parties to present contrary evidence, and failing to consider the potential effects on low-income customers. (*Id.* at 17-28.)

G. The Rehearing Denial Fails to Address the Flaws in the Decision

45. The Commission denied rehearing, reiterating that “[t]he issue of the decoupling WRAM was included in the Original Scoping Memo as part of the water sales forecasting issue” and asserting that the WRAM “is inextricably tied to water sales forecasting.” (Rehearing Denial at 4, 5.) As this Petition shows, neither claim is true.

46. The fundamental premise of the Decision is that the WRAM/MCBA “had proven to be ineffective in achieving its primary goal of conservation” (Rehearing Denial at 1)—based on a single graph in PAO’s last set of reply comments.

47. The Rehearing Denial asserts (at 13) that the WRAM Utilities had an opportunity to provide evidence by refuting PAO’s graph—even though the WRAM Utilities were not on notice of any need to present evidence on the WRAM’s effectiveness for promoting conservation until the Commission included the Revocation Order in its PD, which closed the record.

IV. ARGUMENT: THE COMMISSION FAILED TO REGULARLY PURSUE ITS AUTHORITY IN ISSUING THE REVOCATION ORDER

In abolishing the WRAM/MCBA, the Commission disregarded its own rules and procedures, denied the WRAM Utilities due process, and violated California law. By implementing this policy shift without the necessary evidentiary record, the Commission created a substantial risk that its new policy will frustrate the Rulemaking’s stated purposes—providing

rate assistance to low-income customers and affordability. Under Section 1760, this Court must determine, without deference to the Commission's findings or conclusions, whether the Revocation Order must be set aside.

A. By Exceeding the Scope of the Rulemaking, the Commission Violated the WRAM Utilities' Due Process Rights

Although the Commission "may establish its own procedures," they must follow due process. Cal. Const., Art. XII, § 2. "Due process as to the commission's initial action is provided by the requirement of adequate notice to a party affected and an opportunity to be heard before a valid order can be made." *People v. Western Air Lines, Inc.* (1954) 42 Cal.2d 621, 632.

At a proceeding's commencement, the assigned Commissioner "shall prepare and issue by order or ruling a scoping memo that describes the issues to be considered and . . . that, consistent with due process, public policy, and statutory requirements, determines whether the proceeding requires a hearing." Section 1701.1(c); see also Commission's Rules of Practice and Procedure Rule 7.3.

Here, neither the OIR, nor the Original or Amended Scoping Memos, suggested that this proceeding would address modifying the WRAM/MCBA, much less revocation. More than two years after the proceeding began, the September 4, 2019 Ruling included a single question (among eighteen) asking if the Commission should **consider** converting (i.e., in the future) the WRAM/MCBA to the M-WRAM/ICBA. (Ex. B.)

Had the relationship between the WRAM/MCBA and forecasting been within the scope of the Rulemaking, the Commission would have examined, among other things, whether WRAM Utilities generate forecasts that are more or less accurate than utilities that do not use the WRAM/MCHA. This was not done. The Rehearing Denial cites isolated references to the WRAM in comments discussing forecasting and statements made by the PAO during an August 2, 2019, workshop. (Rehearing Denial at 6-7.) But these statements merely suggest that inaccurate forecasting may ultimately lead to WRAM-related surcharges or surcredits, *not* that the WRAM leads to inaccurate forecasting.

The WRAM/MCBA is not a component of *any* water sales forecasting methodology. The Commission's attempt to link the Revocation Order to the scoping item addressing "how to improve water sales forecasting" is as dubious as hypothetically including an anti-malarial drug ban in a proceeding about methods of reducing mosquito populations. While anti-malarial drugs might not be as necessary if there were fewer mosquitoes, no reasonable person would expect that a proceeding considering how to reduce mosquito populations would result in a ban on a medicine for a mosquito-borne illness.

Because sales forecasts occur in adversarial rate proceedings, without the WRAM/MCBA, parties have incentives to skew forecasts to gain a financial advantage, rather than to strive for forecast accuracy. Thus, while eliminating anti-malarial drugs might create greater incentives to reduce

mosquito populations, the same cannot be said for eliminating the WRAM/MCBA and the accuracy of sales forecasts. The Commission states that “[f]or non-WRAM utilities, if the water sales forecast is higher than actual sales, there is no mechanism to true-up the difference, therefore the risk is borne by the utility.” (Rehearing Denial at 5.) The Rehearing Denial omits that if a non-WRAM utility’s water sales forecast is lower than actual sales, the absence of a true-up mechanism means the risk passes to customers. Without the WRAM/MCBA, utilities are incentivized to forecast low water sales because costs will be spread over a smaller volume, resulting in higher rates and an over-collection. Conversely, PAO is encouraged to forecast high water sales, spreading the utility’s costs over a larger volume, resulting in lower rates and an under-collection. Because no evidence was requested or considered about the relative accuracy of forecasts by WRAM versus non-WRAM utilities, nothing in the record shows that eliminating the WRAM/MCBA will result in more accurate forecasting. Implementation of the WRAM/MCBA did not automatically make water sales forecasts less accurate than before; eliminating it will not automatically make forecasts more accurate. By failing to ask the parties to address the topic, which it certainly would have done if the issue were in the scope, the Commission betrays that it did not believe eliminating the WRAM/MCBA was linked with improving sales forecast accuracy.

Nor is it reasonable to understand a reference to “improving sales forecasting” to include consideration of conservation-focused rate design mechanisms like the

WRAM/MCBA: none of the WRAM Utilities (repeat players in this arena) perceived that possibility. As a result, the parties were wrongly denied an opportunity to be heard or establish a meaningful evidentiary record on which the Commission could fairly base its determination. If the Commission wanted to consider the effectiveness of the WRAM vs. the M-WRAM for conservation, the purported rationale for the Revocation Order, it certainly would have asked the parties to comment on this issue during the proceeding; it did not.

Both the Original and Amended Scoping Memos stated that no hearings were required. GSWC's application for rehearing shows unambiguously that, had there been proper notice of WRAM/MCBA consideration, GSWC would have advocated for hearings. (Ex. CC at 15.)

Southern Cal. Edison Co. v. Pub. Util. Comm'n (2006) 140 Cal.App.4th 1085 ("*Edison*"), highlights the significance of these failures. There, the Commission initiated a proceeding to consider rules governing utility contracting. The scoping memo addressed issues related to "bid shopping" and "reverse auctions" and sought comments on specific proposals. Thirteen months into the proceeding, the Southern California District Council of Laborers filed comments offering new proposals tangential to the scoping memo proposals and 400 pages of supporting materials. *Id.* at 1105-06. Although some parties argued that the preliminary scoping memo was "sufficiently broad to encompass the...[new] proposal," and the ALJ "apparently amended the scope of issues to include the new proposals" and provided

another opportunity for the parties to address the associated issues, the Court of Appeal concluded that the Commission erred in adopting the new proposals. The Commission's decision exceeded the scope of issues identified in the scoping memo, and the Commission violated its own rules by considering the new issue and providing insufficient time for the parties to respond. Citing Section 1757.1, the court annulled portions of the decision, holding that the Commission had "failed to proceed in the manner required by law and that the failure was prejudicial," *Id.* at 1106.

There are obvious parallels here. As in *Edison*, the WRAM/MCBA issue arose as a new proposal in response to an issue inserted late in the proceeding (even later than in *Edison*)—over two years after the OIR. In *Edison*, the party making the new proposal submitted 400 pages of evidence and other parties at least had three business days to respond; here, the only evidence in the record supporting revocation of the WRAM/MCBA is a single graph submitted by PAO that the WRAM Utilities had *no* opportunity to refute. (See, e.g., Decision at 67.) The Commission tries to distinguish *Edison* by claiming that the WRAM/MCBA were part of the Original Scoping Memo as part of the "water sales forecasting" issue. As has been shown, however, that is false.

The Commission attempts to invoke *BullsEye Telecom, Inc. v. Public Utilities Comm'n* (2021) 66 Cal.App.5th 301 to support the Decision. (Rehearing Denial at 12.) *BullsEye* involved a very different scenario. There, the real party in interest alleged that

local carriers (petitioners) impermissibly charged it higher rates for certain services than competing long-distance carriers. The scoping memo delineated the underlying issue as whether “there was a rational basis for different treatment.” 66 Cal.App.5th at 306. Petitioners sought rehearing claiming the Commission improperly limited the “rational basis” analysis to a single factor—a difference in the cost-of-service. Denying rehearing, the Commission concluded (and the Court of Appeal agreed) that the scoping memo allowed the Commission to limit its “rational basis” analysis to a single factor because the scoping memo “did not specify any particular factors that would be considered...[therefore] that certain factors were not relevant was not contrary.” *Id.* at 317-18, 325.

Our facts align with *Edison*, not *BullsEye*. Here, a new issue was inserted at the end of the Rulemaking, denying the WRAM Utilities an opportunity to adequately respond. In *BullsEye*, petitioners knew about the potential issue (“a,” i.e., any, “rational basis”) for many years, the real party in interest having argued in its opening brief that “only a difference in the cost of providing the service could justify different rates.” *Id.* at 320. That record showed “extensive discovery,” including testimony and hundreds of exhibits. *Id.* at 306. Because that scoping memo “does not specify what can constitute a rational basis...it does not limit the range of factors regarding which the parties could present evidence.” *Id.* at 320 (emphasis in original). Given the breadth of the scoping memo, the denial “did not resolve issues not encompassed by the Scoping Memo,” and there

was “adequate opportunity to provide evidence on the issues addressed in the rehearing decision.” *Id.* at 327 (emphasis in original).

Here, eliminating the WRAM/MCBA was outside the Scoping Memos, so the WRAM Utilities had no reason to suspect it might be considered in the Proceeding. And when the PAO did raise eliminating the WRAM/MCBA, unlike petitioners in *BullsEye*, the WRAM Utilities were unable to present record evidence.

Given *Edison*’s holding, the same conclusion follows *a fortiori* here under section 1757.1. The Commission violated its own Rules and the due process rights of the WRAM Utilities, and thus failed to regularly pursue its authority.

B. GSWC Had a Right Not Just to an Opportunity to Be Heard, but to an Actual Evidentiary Hearing Before WRAM Revocation

The “notice and hearing” requirement in Commission procedures is grounded in due process. *See Pacific Gas & Electric Co. v. Pub. Util. Comm’n* (2015) 237 Cal.App.4th 812, 860 (“An elementary and fundamental requirement of due process in any proceeding which is to be accorded finality is notice reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action and afford them an opportunity to present their objections.”) (quoting *Mullane v. Central Hanover Tr. Co.* (1950) 339 U.S. 306, 314). Two levels of analysis are implicated here.

1. The First level of analysis applies to all the WRAM Utilities: For the Commission to “rescind, alter, or amend any

order or decision made by it," it *must* give notice to interested parties and, if an interested party requests a hearing, the Commission *must* also provide that party with an adequate opportunity to be heard "as provided in the case of complaints." Section 1708.⁸ The Rehearing Denial asserts (at 9-10) that "the Decision does not rescind, alter or amend any prior decision" because discontinuance of the WRAM "would be implemented in the utilities' next GRCs." But the Revocation Order prohibits WRAM Utilities from proposing to use the WRAM/MCBA they are currently using in their next GRCs and, as such, strips them of existing rights.

The Rehearing Denial contends (at 8, 10) that there was no violation of due process because no party requested an evidentiary hearing. Accepting that contention would require this Court to find that the WRAM Utilities were provided adequate notice that revocation of the WRAM/MCBA was under consideration in the Rulemaking. The WRAM Utilities cannot be faulted for not having requested an evidentiary hearing on an issue that they could not know was under consideration until the PD proposing the Revocation Order was issued—and the evidentiary record simultaneously closed.

The Rehearing Denial asserts (at 12) that "Applicants had the opportunity to provide substantive comments in response to" the questions posed in the ALJ's September 4, 2019 Ruling, and that "the parties had adequate time to file a motion requesting

⁸ At a complaint hearing, the parties "shall be entitled to be heard and to introduce evidence." Section 1705.

hearings” (at 8). This presupposes, however, that the parties could reasonably have understood that the Commission was contemplating revoking the WRAM/MCBA. To the contrary, because (i) this topic was not in the Original or Amended Scoping Memos, (ii) the question suggested that this was something that might be “considered” in a future proceeding, and (iii) no evidence on the efficacy of the WRAM/MCBA or the effects of its elimination had been collected in the Rulemaking (unlike prior proceedings in which extensive evidentiary records were developed), the WRAM Utilities had no reason to imagine that the Commission would eliminate the WRAM/MCBA in the Rulemaking.

The Commission could have scoped and conducted a meaningful evidentiary inquiry here, as required by Section 1708, but did not do so. “A statute calling for the adoption of administrative orders upon public notice and hearing implies that the evidence supporting the order be disclosed and made part of a hearing record with opportunity for refutation.” *Cal. Ass’n of Nursing Homes, etc. v. Williams* (1970) 4 Cal.App.3d 800, 810-11. The Rehearing Denial argues (at 11) that *Nursing Homes* is not relevant because the agency’s failure in that case was basing its decision on off-the-record private negotiations rather than public hearings as required by statute. But a fundamental principle in *Nursing Homes*—that evidence must be made available for rebuttal by affected parties (*Nursing Homes* at 811)—applies equally here. The only evidence in the record to support the Revocation Order is the single graph submitted by

PAO that no other party had any record opportunity to rebut. Section 1708 requires far more.

2. The second level of analysis regarding the Commission's failure to allow a hearing is unique to GSWC. As explained above, GSWC's authorization to use the WRAM was adjudicated in its 2012 GRC: after an evidentiary hearing analyzing whether the WRAM/MCBA was achieving its stated purposes, the Commission approved continued use by GSWC.⁹ (See above at 17-19.) The fact that GSWC's right to use the WRAM/MCBA was resolved *following an evidentiary hearing* made Section 1708.5(f) applicable here: it provides a party a right to an evidentiary hearing, where evidence is taken and parties may cross-examine other parties' witnesses, in "any proceeding to adopt, amend, or repeal a regulation...with respect to a regulation being amended or repealed that was adopted after an evidentiary hearing." GSWC thus had the right not just to an opportunity to be heard, but to an actual evidentiary hearing, before its right to use the WRAM/MCBA was revoked. The failure to accord GSWC an evidentiary hearing is an independent basis for annulling the Revocation Order.

Although GSWC raised this violation of Section 1708.5(f) both in its Application for Rehearing and in the Original Petition filed with this Court, the Rehearing Denial simply ignores the issue. In failing to correct the Decision's repeated factual misrepresentations about how GSWC obtained its right to use

⁹ The Decision incorrectly asserts otherwise at 60, n.40.

the WRAM/MCBA, the Rehearing Denial tacitly concedes that the Commission violated the law.

C. Failure to Establish an Evidentiary Record Supporting the Revocation Order Was an Abuse of Discretion

An agency action lacking evidentiary support will not stand. *California Hotel and Motel Ass'n v. Indus. Welfare Comm'n* (1979) 25 Cal.3d 200, 212. The Court "must ensure that an agency has adequately considered all relevant factors, and has demonstrated a rational connection between those factors, the choice made, and the purposes of the enabling statute." *Id.*

Revocation of the WRAM/MCBA has significant implications for the WRAM Utilities, as the Decision acknowledges (at 72). Because of the late stage at which this topic was introduced, the Revocation Order relies on an unvetted graph that supports neither PAO's claims nor the Commission's conclusions and on outdated data from an unrelated 2012 decision, as discussed below. By revoking authority to use the WRAM/MCBA without establishing a record supporting such a policy reversal, the Commission abused its discretion. *See* Section 1757.1(a)(1); *see also* Code of Civ. Proc. § 1094.5(b) (for purposes of administrative mandamus, "[a]buse of discretion is established if the respondent has not proceeded in the manner required by law, the order or decision is not supported by the findings, or the findings are not supported by the evidence").

1. The WRAM Utilities Were Improperly Denied the Opportunity to Refute PAO's Last-Minute Data

The Commission must proceed based on findings of fact. See Section 1706 (decisions must “contain, separately stated, findings of fact . . . on all issues material to the order or decision”), Section 1757.1(a)(4) (requiring decisions to be “supported by the findings”). *Utility Reform Network v. Pub. Util. Comm’n* (2014) 223 Cal.App.4th 945 (“*TURN*”) holds that the Commission cannot base its finding of fact solely on hearsay evidence where the truth asserted in those statements was disputed. While hearsay evidence is generally admissible in administrative proceedings, an agency’s decision must be supported by substantial evidence consisting of “at least ‘a residuum of legally admissible evidence[.]’” *Id.* at 959 (evidence not subject to cross-examination cannot be the sole support for a finding of fact). The Commission’s claim that *TURN* is inapposite misconstrues the court’s statement therein on the issue before it being a “narrow one.” (Rehearing Denial at 16.) The court’s point was that the question was not whether hearsay evidence was admissible in Commission proceedings, but whether the Commission may rely only on disputed evidence that has not been subject to cross-examination. The answer to that question was no. Yet that is precisely what the Commission did here.

As discussed above, the Revocation Order depends on the finding that the WRAM/MCBA and M-WRAM/IOBA are equally effective in promoting conservation. (Decision at 67, Finding of Fact 13.) The only support for this determination is the unvetted

PAO graph (*id.* at 67) that the Rehearing Denial asserts “is based on data provided to the Commission by the utilities in their annual reports.” (Rehearing Denial at 16.) The graph was never subject to challenge, and in their comments on the PD, the WRAM Utilities disputed how the graph purported to use their data. GSWC’s comments explained that PAO’s graph contained three fatal flaws¹⁰ and did not support PAO’s (and the Commission’s) conclusions. (Ex. M at 10-13.)

The last-minute injection of PAO’s graph into the record meant that the flaws in the graph were not exposed before issuance of the PD, and the Commission disregarded the WRAM Utilities’ subsequent comments as untimely. The issue is not that GSWC “simply disagree[s] with the way the Commission weighed the evidence” (Rehearing Denial at 17), but that due process violations resulted in the WRAM Utilities being prevented from presenting evidence and the Commission acting on unvetted,

¹⁰ First, it compares the annual rate of change without considering cumulative effects over time. During the most indicative six-year period covered by the graph, the reduction in usage per customer for WRAM utilities was almost 30% greater than for M-WRAM utilities. (See Ex. M at 10-11.) Second, for the two years where M-WRAM customers significantly reduced consumption, they were subject to mandatory conservation orders; conservation outcomes of M-WRAM utilities were materially worse than those of the WRAM Utilities once those orders were lifted. (*Id.* at 11-12.) PAO’s graph, at best, shows only that mandatory conservation orders reduce water usage. Third, during the two years when M-WRAM customers curtailed consumption, three of the four M-WRAM utilities used revenue decoupling mechanisms that effectively turned their M-WRAMs into full WRAMs, undercutting any claim for the effectiveness of M-WRAMs in promoting conservation. (*Id.* at 12-13.)

unreliable evidence. Because PAO's graph does not support a finding that use of the M-WRAM/MCBA is as effective as the WRAM/MCBA in promoting conservation, *no* valid evidentiary record was established on this point, leaving the Revocation Order unsupported. Cf. Section 1757.1(a)(4) (decision must be "supported by the findings").

The Rehearing Denial asserts that the parties "could have filed a motion to strike the graph or a motion requesting the opportunity to respond to the graph." (Rehearing Denial at 13.) But because the WRAM Utilities had no notice that changes to the WRAM were within the Rulemaking's scope, they were not made aware of the need to establish a record regarding efficacy of the WRAM/MCBA at promoting conservation before PAO's graph was sprung on them at the last second. This is exactly why the Commission must lay out a proceeding's scope in the Scoping Memo, so parties can protect their interests. That the WRAM Utilities, all active participants in Commission proceedings for many years, failed to seek leave to challenge the PAO graph does not reflect poorly on the WRAM Utilities, as the Commission implies. Rather, it underscores that the Commission's post hoc attempt to bootstrap WRAM/MCBA issues into the scope of the Rulemaking is indefensible.

2. The Decision Relies on Obsolete Data and Makes Findings With No Factual Basis in the Record

The problems with the information underpinning the Revocation Order go beyond the PAO graph. In what was apparently a misguided effort to satisfy the requirement for

findings of fact, the Decision relies on stale data from 2010-2012 from a different proceeding (D.12-04-048 at Appendices B and C) and findings of fact with no factual basis in the Rulemaking's record. The Decision purports to justify the Revocation Order in part on "substantial under-collections" associated with the WRAM/MCBA and related "intergenerational transfers." (Decision at 70, 102.) But, as GSWC explained in its comments on the PD, the underlying data is a decade old. Had a record been established using current data, it would have been apparent that GSWC's WRAM under-collections have generally declined over the past several years and that GSWC refunded many over-collections in recent years.¹¹ The Rehearing Denial tries to disguise the use of obsolete data by arguing that the Decision "also cites to two later decisions, D.13-05-011 and D.16-12-026." (Rehearing Denial at 14.) But those citations are to general statements about public perceptions and confusion about how the WRAM works, *not* to data about WRAM balances and under-collections. Moreover, the Commission never explains how evidence that supported **upholding** the WRAM in the prior proceeding somehow supports revoking it now.¹²

¹¹ See Ex. M at 14 (citing AL 1813-W (March 18, 2020), AL 1766-W (March 21, 2019) and AL 1741-W (March 23, 2018)).

¹² The Commission cites the 2016 decision from the Balanced Rates Proceeding for the statement that "[t]he record of substantial WRAM balances or surcharges imposed over months or years on Class A and B water IOUs customers due to mismatches between authorized revenue and sales demands action now to better align forecasted rates to recorded sales." (Rehearing Denial at 5, citing D.16-12-026 at 37.) Yet in Decision

The Rehearing Denial does not cite a single document in the Rulemaking's record to counter GSWC's observation that there is no evidence to support findings regarding "substantial under-collections" and "intergenerational transfers of costs." Instead, the Rehearing Denial cites other Commission decisions between 2012 and 2018 (at 19) and claims such evidence in the record is "discussed above" (*id.*). In fact, there is no citation anywhere in the Rehearing Denial to such evidence. This is obfuscation.

Findings without supporting evidence in the record are a further abuse of discretion under Section 1757.1(a)(1).

3. The Commission Established No Record on the Consequences for Low-Income Customers of WRAM/MCBA Revocation

The Commission must assess the consequences of its decisions, including economic effects, as part of each proceeding. Section 321.1(a). Given the Rulemaking's stated objectives—consistency among low-income rate assistance programs, rate assistance to low-income customers, and affordability—one would expect policy changes to be considered in light of their effects on low-income customers, but nothing in the record addresses the Revocation Order's impacts on those customers. Adopting this policy change without establishing and considering such a record was legal error. See *U.S. Steel Corp. v. Pub. Util. Comm'n* (1981) 29 Cal.3d 603, 615 (annulling decision where Commission failed to assess the economic impact of its action, under its duty to

16-12-026 the Commission concluded, after examining extensive evidence, that the WRAM/MCBA *should continue to be used*.

consider all facts that might bear on the exercise of its discretion).

Before the Decision was issued, multiple parties identified risks to low-income customers from this change (see above at 24-26) and urged the Commission to develop an evidentiary record.¹⁸ Stakeholders raised this concern because of the relationship between the WRAM's revenue decoupling and progressive rate designs that benefit low-income customers.

Former Commissioner Sandoval decried the Commission's failure to litigate the impacts of the Revocation Order: with no opportunity to investigate the impacts on all affected customers, the PD "lacks the record foundation to support its order to switch from a WRAM to a Monterey-Style WRAM and fails to investigate the affordability impacts of this proposal." (Ex. T at 5-6.) Commissioner Randolph's dissent warned that the Revocation Order's likely "outcome is exactly opposite of this proceeding's intent by harming low-income customers." (Decision Dissent at 1.)

Despite these concerns, the Commission chose not to develop a record on potential impacts on low-income customers, summarily asserting that "water utilities can and will propose rate structures in their next GRC applications where the Commission will ensure low-income and low-use customers are

¹⁸ See, e.g., Ex. L at 4 ("If provided the opportunity, Cal Water can present data demonstrating that the rate designs of companies *without* decoupling currently collect a higher percentage of revenues from service charges, as compared to companies *with* decoupling.").

not adversely impacted.” (Decision at 68.) Comments on the PD filed by the WRAM Utilities and others reflect that, without the revenue decoupling afforded by the WRAM, rate design changes are unavoidable, and likely to be detrimental to low-income customers. (See above at 26.) Water utilities that do not use WRAM/MCBA (including water utilities using M-WRAM/ICBA) necessarily put more costs into the fixed, monthly service charge that every customer pays, which harms low-income customers. Without the WRAM’s revenue decoupling, WRAM Utilities must propose the same or risk not recovering their revenue requirements—requests the Commission cannot reject arbitrarily. The point is not that the Commission must reach any particular conclusion on use of the WRAM/MCBA, but that a proper record must be developed before a determination is reached, as with GSWC’s 2012 GRC and the Balanced Rates Proceeding. No such record exists here.

The Rehearing Denial asserts (at 27) that there is no evidence in the record that eliminating the WRAM will raise low-income customers’ rates. This is Orwellian: the Commission is claiming that it considered the impact on low-income customers because there is no evidence in the record that low-income customers will be harmed, when it denied parties any opportunity to introduce evidence regarding the effect on low-income customers of abandoning the WRAM/MCBA.

V. CONCLUSION

In adopting the Revocation Order, the Commission departed from the defined scope of the proceeding and failed to

accord the affected utilities due process. The Commission allowed one party to introduce flawed evidence on a new issue outside the scope of the proceeding without permitting other parties to address that evidence, failed to give GSWC the evidentiary hearing to which it was entitled, and failed to develop the necessary record. After the problems were drawn to its attention, the Commission's Rehearing Denial papered over them, despite the risks that conservation will be impaired and that low-income Californians will ultimately bear the negative effects of this unsupported Decision. This Court's intervention is needed. The Revocation Order must be set aside.

Dated: October 27, 2021.

Respectfully submitted,
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CERTIFICATE OF WORD COUNT

(Cal. Rules of Court, Rules 8.204, 8.504, 8.486)

The text of the Amended Petition for Writ of Review and supporting Memorandum of Points and Authorities consists of 8,398 words (including footnotes), as counted by the Microsoft Word word-processing program used to generate the document.

Dated: October 27, 2021

Respectfully submitted,
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I am the Vice President, Regulatory Affairs of Golden State Water Company ("GSWC"), the petitioner in the foregoing Amended Petition, and I make this verification on its behalf. I have read the foregoing Amended Petition for Writ of Review and Memorandum of Points and Authorities and know the contents thereof. The facts stated in the Amended Petition and Memorandum are true to the best of my knowledge, information, and belief.

Executed on October 26, 2021 at San Dimas, California.

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