CALIFORNIA
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RE: Docket AR 673 Comments Post-Workshop Informal Phase

On March 26, 2026, Staff of the Public Utility Commission of Oregon ("Staff") held a workshop and opportunity to discuss comments on Staff's proposal in Docket AR 673. California Water Service Group, Inc. ("Cal Water") appreciated the opportunity to attend and participate in the workshop. Staff has asked for stakeholder comments and proposed edits on their initial rulemaking proposal. In response to that request, Cal Water submits this memo and comments.

As stated in the Overview of the March 26, 2026, workshop:

> Enacted during the 2025 legislative session, SB 845 primarily authorizes the Oregon Public Utility Commission (PUC) to order the sale of a water utility that is unable to provide safe and adequate service. The PUC must establish Oregon Administrative Rules (OARs) to implement the provisions of SB 845, and has opened Docket No. AR 673 to address this issue.

The workshop held on March 26, 2026, which provided a forum for robust discussion and to hear different perspectives regarding Staff's proposal and stakeholder concerns. Cal Water is the Parent Company of California Water Service, Hawaii Water Service, New Mexico Water Service, Texas Water Service, and Washington Water Service, serving over 550,000 connections. Cal Water does not presently own assets in Oregon and is not regulated by the Public Utility Commission of Oregon ("Commission"). However, Cal Water recently filed an application seeking approval to acquire regulated water assets in Oregon, docketed as UP 444. If that application is approved and Cal Water were to begin operating those water assets, Cal Water would begin being regulated in Oregon. Accordingly, Cal Water is interested in the outcome of this Docket AR 673 and shares its perspective regarding the proposals discussed in AR 673.

In particular, Cal Water understands that Staff is concerned about ensuring that the rules that the Commission will adopt to implement Oregon Senate Bill ("SB") 845 provide guidelines such that when a sale of small, potentially troubled systems is ordered, the acquiring entity has certain safeguards in place.

In the March 26, 2026, workshop, four issues were raised:

- Should the Commission adopt minimum time frames to permit an incumbent water utility to take an alternative action as defined by the statute?
- Should the Commission establish a standard process for sale of the incumbent water utility if a sale is ordered?
- How should the Commission address a utility operator who refuses to participate in a contested case or utility sale?
- How should the Commission address instances where no buyer for a utility can be found?

While the following list should be prioritized, ensuring financially stable utilities should always be the ultimate goal of any state regulatory commission. Utilities that struggle to earn their authorized returns will also struggle to raise capital for needed investments—which may delay needed investments, which is not in the best interest of customers.

To address what Cal Water understands to be the Commission's most immediate concerns, Cal Water provides the following top seven priorities for policy direction from the Commission:

1. Post-Acquisition Capital – In order to provide the proper incentive for a regulated utility to become a buyer of a troubled system, the Commission will need to allow certain recovery of investments to "fix" the acquired system. Below we discuss the recovery of rate base and acquisition adjustments, but equally important is the timely recovery of investments to repair the system and bring it up to standards of quality and reliable water service. If a utility must spend that capital but wait for years until it can be included in a general rate case for rate recovery, that utility will be put in a position to have to make capital decisions that may reallocate spend from current operations. Instead, allowing for an application filing to recover capital in between rate cases may be a resolution. This will reduce the lag time for recovery and provide the utility with funds to continue its normal capital operations.

2. Approve Rate Base Amount at Time of Acquisition – Cal Water appreciates the Workshop 1 Discussion Material section that reads "When the Commission orders the sale of a water utility, the utility's rate base will be established based on the net book value of the utility unless the Commission determines an acquisition adjustment is merited based on the benefit to the customers being acquired and the public interest on a case-by-case basis." Cal Water believes that additional language should be inserted that also directs that the established rate base will be the rate base assumed to be recovered in the following general rate case. If that investment is approved but then later scrutinized and reduced in a subsequent general rate case, the uncertainty that would emerge would significantly impact a buyer's willingness to participate. Paying for an asset today and not knowing its approved value tomorrow would be harmful to the purchasing utility and could chill future engagement in such transactions.

3. Allow Consolidation of Rates – If one of the troubled systems being purchased has a small customer base and needs substantial investment, it will be inevitable that rates for that system will spike. One solution is to be able to combine their rates with rates of another system or systems of the buying utility. Costs can be spread over a wider base and have a reduced impact on the smaller acquired system. Rates will naturally increase on the other existing systems and this should be acknowledged. However, for the greater good of all customers, this allowance is necessary.

4. Dismiss Prior Infractions – According to Workshop 1 Discussion Material, "SB 845 authorizes the Oregon Public Utility Commission (PUC) to order the sale of an existing (incumbent) water utility when the utility cannot provide safe and adequate water service or has failed to correct serious problems." By assumption, the utility acquiring such a company would be "inheriting" the unsafe, inadequate, and failed system. Leeway would need to be granted for the acquiring company such that they are not subject to fines and penalties. Most utilities pride themselves on following water quality standards and strive to have no violations. Buying into a system with known violations will be problematic. However, if given time to fix a system before being called out of compliance with standards or by eliminating the historical reputational harm associated with being out of compliance, a Company will be able to improve the utility without penalty.

5. Acquisition Adjustment - According to Workshop 1 Discussion Material, "When the Commission orders the sale of a water utility, the utility's rate base will be

established based on the net book value of the utility unless the Commission determines an acquisition adjustment is merited based on the benefit to the customers being acquired and the public interest on a case-by-case basis." This will become a very important part of not only rate recovery but of a buyer's desire to be involved. If a dollar value is assigned to a purchase and the net book value of the assets is lower and does not support that dollar value, the buying company will be forced to either write-off that difference (take a loss on their income statement) or carry "goodwill" on their books. Both are undesirable. A purchasing utility will not be able to recover in rates the money they have expended to purchase this system. An acquisition adjustment in this scenario needs to be approved and allow a recovery of and on the asset. The trade-off of a customer having slightly higher rates should be viewed as justifiable in exchange for having a well-run water system.

6. Appraisals – According to Workshop 1 Discussion Material, "Once a buyer is selected, the sale price for the water utility will be determined by negotiation between the buyer and seller." While this will work in many instances, there will be times when the seller values their assets very differently than a buyer might. For example, a seller being forced to sell may try to hold on and present an inflated purchase price. Additionally, a system that may be in distress could have a book value of assets that is drastically higher than the value of the assets at work. One way around this would be to employ outside appraisers to determine the value of the assets/system for sale. If the buyer selects an appraiser, the seller selects an appraiser, and the Commission selects an appraiser, an average could determine the value of the sale. Alternatively, the Commission could approve a list of qualified and approved appraisers to be used, eliminating the variability around which appraiser was hired by whom.

7. Allow State Revolving Funds ("SRF") or Grants – In addition to the use of up to $100,000 per biennium to make emergency repairs, the Commission should approve and encourage the use of SRF or Grant funding. Oftentimes, an investor-owned utility is precluded from applying for SRF and Grants as they are considered private companies, when in reality they are providing a public service and should be treated as such. SRF and Grants are low-interest, sometimes zero interest, forms of financing that can reduce customer rates and allow utilities to make acquisitions or investments.

Cal Water understands that as part of the process in this docket, there will be future workshops and opportunities to comment. Cal Water appreciates being included in these

future discussions. Should the Commission, Staff, or stakeholders have any questions on these comments or would like any further follow-up, please contact Greg Shimansky via email at GShimansky@calwater.com.

Sincerely,

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