

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF CALIFORNIA

ADMINISTRATIVE LAW JUDGES GARY WEATHERFORD and  
ROBERT HAGA, and DARCIE HOUCK, co-presiding

Application of California-American  
Water Company (U210W) for Approval  
of the Monterey Peninsula Water  
Supply Project and Authorization to  
Recover All Present and Future Costs  
in Rates.

) EVIDENTIARY  
) HEARING  
)  
)  
) Application  
) 12-04-019  
)  
)  
)

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Reported by: Nina Shori, CSR No. 8856  
Thomas Brenneman, CSR No. 9554  
Carol A. Mendez, CSR No. 4330  
Karly Powers, CSR No. 13991

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1 ALJ HAGA: If the ruling did say, but  
2 now I'm in it, too.

3 Are there any other questions at  
4 this time?

5 Mr. House, thank you for your  
6 patience. Please stand, raise your right  
7 hand.

8 LON HOUSE, called as a witness by  
9 City of Marina, having been sworn,  
testified as follows:

10 THE WITNESS: Yes, I do.

11 ALJ HAGA: Thank you. Please be  
12 seated. State and spell your last name for  
13 the record.

14 THE WITNESS: My name is Lon House.  
15 And the last name is H-o-u-s-e. ]

16 DIRECT EXAMINATION

17 BY MS. MYERS:

18 Q Good afternoon, Dr. House, do you  
19 have a copy of exhibit MNA-2?

20 A That's my direct testimony, yes.

21 Q Are your qualifications stated in  
22 Appendix A of exhibit MNA-2?

23 A Yes.

24 Q Was exhibit MNA-2 prepared by you  
25 or under your supervision?

26 A Yes.

27 Q As to statements of fact contained  
28 in Exhibit MNA-02, are they true and correct

1 to the best of your knowledge and belief?

2 A Yes.

3 Q To the extent that exhibit MMA-02  
4 contains expressions of opinion, do they  
5 represent your best professional judgment?

6 A Yes.

7 Q Do you adopt exhibit MNA-2 as your  
8 sworn testimony in this proceeding?

9 A Yes.

10 Q Thank you.

11 MS. MYERS: Your Honor, Dr. House is  
12 available for cross-examination.

13 ALJ HAGA: Thank you, Counsel.

14 California American Water, you have  
15 about a half-hour.

16 MR. SUBIAS: Thank you, your Honor.

17 CROSS-EXAMINATION

18 BY MR. SUBIAS:

19 Q Good afternoon, Mr. House. My name  
20 the Nick Subias, and I'm going to ask you  
21 some questions on behalf of California  
22 American Water.

23 Mr. House, the City of Marina hired  
24 you to provide testimony on water supply and  
25 demand in connection with the Monterey  
26 Peninsula Water Supply project application;  
27 is that correct?

28 A Water demand, for sure. I don't

1 testify on water supply.

2 Q Okay. So the only aspect you're  
3 testifying on is demand; is that correct?

4 A Well, let me clarify that. I  
5 testify on demand and supply. But I don't  
6 opine on what are appropriate new supplies.  
7 So I will correct that I testify on supply  
8 and demand.

9 Q Right. That was my original  
10 question.

11 A Okay. Sorry.

12 Q Cal-Am proposes the Monterey  
13 Peninsula Water Supply Project to provide a  
14 new source of water supply to its Monterey  
15 customers.

16 Is that your understanding?

17 A Yes.

18 Q And Cal-Am is obligated to provide  
19 water supply service to its customers in  
20 Monterey; isn't it?

21 A Yes.

22 Q The City of Marina, for whom you  
23 are testifying, is not obligated to provide  
24 water supply or service to Cal-Am's Monterey  
25 customers is it?

26 A No.

27 Q And, if for some reason, Cal-Am was  
28 not able to provide services because it

1 didn't have enough supply for its Monterey  
2 customers, there's no guarantee that the City  
3 of Marina would step in and provide water  
4 supply?

5 MS. MYERS: Your Honor, I object. I  
6 have no idea what part of Dr. House's  
7 testimony this question goes to.

8 ALJ WEATHERFORD: Counsel?

9 MR. SUBIAS: Sure, your Honor.

10 This is just background information  
11 that's intended to show the fact that neither  
12 the witness nor his client would suffer any  
13 adverse consequences if their numbers are  
14 incorrect. However, if Cal-Am's numbers are  
15 -- if their numbers are incorrect and are  
16 adopted by the Commission. But, Cal-Am, if  
17 its numbers are not correct and it cannot  
18 supply enough water, it's the one that's on  
19 the hook.

20 MS. MYERS: Your Honor, I definitely  
21 continue my objection. There was no  
22 limitation placed on the ruling that went out  
23 regarding the scope of this proceeding in  
24 terms of parties who could bring experts  
25 forward on any of the issues that were  
26 listed, including who they were representing.

27 So this is going into an area -- if  
28 they want -- if Cal-Am wishes to make an

1 argument like this in briefing, fine. But  
2 this is inappropriate for the  
3 cross-examination of this witness.

4 ALJ WEATHERFORD: Sustained.

5 MR. SUBIAS: Q If the numbers -- and  
6 this is just a hypothetical.

7 If the numbers or the demand numbers  
8 that you're relying upon in your testimony  
9 are incorrect and not enough supply -- or not  
10 enough supply is provided to Cal-Am or its  
11 Monterey customers as a result, could there  
12 be economic harm to the Peninsula.

13 A The --

14 MS. MYERS: Again, your Honor, I  
15 object. I do not know where the witness  
16 testified as to economic harm to the  
17 Peninsula.

18 ALJ WEATHERFORD: Counsel?

19 MR. SUBIAS: I'm sorry, your Honor,  
20 what was that?

21 ALJ WEATHERFORD: Is there any  
22 reference in this witness's prepared  
23 testimony to the subject that you just raised  
24 in your question?

25 MR. SUBIAS: Certainly, your Honor.

26 My question actually was to confirm  
27 that there's nothing in his testimony that  
28 addresses the potential economic harm to the

1 community in Cal-Am's district if his numbers  
2 are off and adopted by the Commission.

3 MS. MYERS: So the first part of his  
4 question was perhaps appropriate, but the  
5 second part is not.

6 ALJ WEATHERFORD: Do --

7 MR. SUBIAS: I can --

8 (Crosstalk.)

9 ALJ WEATHERFORD: Do you want to  
10 reframe your question?

11 MR. SUBIAS: Sure.

12 Q Is there any portion of your  
13 testimony that discusses economic harm?

14 A Yes.

15 Q And is that the portion at the end  
16 where you allege that if the -- if there's  
17 insufficient demand for such an expensive  
18 project, in your words, that it could cause a  
19 death spiral for the utility?

20 ALJ WEATHERFORD: Could you give both  
21 the page and line, please?

22 MR. SUBIAS: Certainly, your Honor.  
23 It's page 13, beginning around line 9.

24 THE WITNESS: Yes. And I further  
25 elaborate on the bottom of page 15, it says,  
26 "In my opinion Cal-Am is advocating a desal  
27 facility as customers' wallets cannot  
28 afford."



1 MR. SUBIAS: Q So you did provide  
2 testimony on economic impact; is that right?

3 A Yes, of the desal facility.

4 Q So if I ask you of the economic  
5 impact -- well, strike that.

6 If the customers in Monterey do not  
7 have enough water, might there also be an  
8 economic impact?

9 A Yes, but they have enough water  
10 now.

11 Q We're not talking about right now.  
12 We're talking about the water supply project  
13 which you're providing testimony on.

14 Isn't that correct?

15 A Yes.

16 Q And that project hasn't been built  
17 yet, has it?

18 A No.

19 Q Directing your attention to page 1,  
20 lines 19 through 20, your testimony states.  
21 "Price is a critical variable in determining  
22 demand"; is that right?

23 A Correct.

24 Q Now, directing your attention to  
25 page 3, lines 6 through 16, your testimony  
26 is, "There are thousands of studies relating  
27 to price elasticity of water"; is that  
28 correct?

1           A    Correct.

2           Q    And your testimony then cites to  
3 certain of those thousands of studies  
4 concerning price elasticity; is that also  
5 correct?

6           A    Yes.

7           Q    Now, despite noting that there are  
8 thousands of studies out there on price  
9 elasticity, nothing in your testimony  
10 indicated that any of the studies you cite  
11 specifically involve water providers where a  
12 moratorium on new water connections has been  
13 in place for more than six years, does it?

14          A    Yes. There is information in this  
15 proceeding on that.

16          Q    Sir, again, I'm asking you about  
17 your testimony.

18                Would you like to --

19          A    My testimony does not provide that.

20          Q    Thank you.

21                And the same is the case here --  
22 I'm sorry. And, here, a moratorium on new  
23 connections has been in place for many years,  
24 has it not?

25          A    Yes.

26          Q    And once a new supply source is in  
27 place, that moratorium will be lifted, will  
28 it not?

1           A    I don't know.

2           Q    So you have no understanding if the  
3 Monterey Peninsula Water Supply project is  
4 approved by this Commission and built and  
5 provides a new source of supply, that the  
6 moratorium will be lifted?

7           A    It is in Cal-Am testimony, but I  
8 don't know that that will occur.

9           Q    So you didn't consider the  
10 potential impact in assessing future demand  
11 of a lifting of the moratorium, did you?

12          A    Yes.

13          Q    Wait.  Yes, you did consider the  
14 impact of a lifting of a moratorium?

15          A    I assume that the lifting of the  
16 moratorium is the same as what you guys call  
17 the "lots of record."

18          Q    So then you did know that the  
19 moratorium would be lifted?

20          A    I --

21          MS. MYERS:  That mischaracterizes his  
22 testimony.  Objection.

23          ALJ WEATHERFORD:  Sustained.

24          MR. SUBIAS:  Q    So you considered the  
25 lifting of the moratorium then; is that  
26 correct?

27          A    I considered the lifting of the  
28 moratorium for lots of records in my demand

1 numbers, yes.

2 Q Okay. So as with the moratorium,  
3 nothing in your testimony indicated the  
4 studies you cite involved in rate design with  
5 five steep inclining tiers specifically put  
6 in place to reduce consumption, does it?

7 A No. I looked at the testimony in  
8 this proceeding that -- that deals with price  
9 elasticity of Cal-Am. But I did not use it  
10 or reference in it in this testimony.

11 Q Mr. House, I'm going to ask that  
12 you answer the question that I ask you. Now,  
13 I'm going to repeat the question.

14 As with the moratorium, nothing in  
15 your testimony indicates that the studies you  
16 cite in your testimony involve the rate  
17 design with five steep inclining tiers  
18 specifically put in place to reduce  
19 consumption, does it?

20 A Correct.

21 Q And have you reviewed Cal-Am's rate  
22 design that's currently in place?

23 A Yes.

24 Q And it has five steep inclining  
25 tiers, does it not?

26 A Yes.

27 Q Likewise, nothing in your testimony  
28 indicates that any of the studies you cited

1 involve significant conservation efforts of  
2 the type that have been described in this  
3 proceeding; isn't that correct?

4 A None of the studies I cite  
5 reference that. Correct.

6 Q Now, studies that you -- you cited  
7 did conclude that global warming increases  
8 residential water use in California -- at  
9 least one of the studies you cited reached  
10 that conclusion, did it not?

11 A Can you point me to a portion of my  
12 testimony that I say that.

13 Q Certainly. I'm not referring to --  
14 do you want me to point you to the portion of  
15 your testimony that cites to the study.

16 So what I'm talking about is  
17 information taken from a study that you  
18 relied upon. So what I can do is point you  
19 to -- on page 3, I think it's footnote 10,  
20 you cite to certain California studies, do  
21 you not?

22 A Oh --

23 Q I think it's page 3 line 7.

24 A Yes, I do.

25 Q And you reviewed those studies;  
26 correct?

27 A Yes.

28 MS. MYERS: Your Honor, this is vague.

1 If he has a specific study in mind that says  
2 what he thinks it says, he needs to tell the  
3 witness what study he's referring to  
4 specifically.

5 ALJ WEATHERFORD: I think he referred  
6 to the 30 studies that were related to  
7 California. So that's specific enough for  
8 purposes of the witness.

9 MS. MYERS: All right. Fine.

10 MR. SUBIAS: Q So one of the -- at  
11 least one of the studies that you cited  
12 concludes that global warming will increase  
13 residential water use in California; is that  
14 correct?

15 A The -- I believe the Energy  
16 Commission study addresses that issue. I'm  
17 not -- I can't say for sure that it says that  
18 residential use will increase. But it does  
19 mention global warming and its impact.

20 MR. SUBIAS: So, your Honor, I have  
21 what's been marked for identification as  
22 CA-58. I've distributed it to Counsel and  
23 provided it to your Honors.

24 Q Did you receive a copy of this from  
25 your counsel?

26 A No, I have not.

27 MS. MYERS: I was only given a copy,  
28 so --

1 ALJ WEATHERFORD: Please.

2 ALJ HAGA: Please provide him with one.

3 MS. MYERS: And I'll say that I was not  
4 told what its significance was or that it  
5 would be used in the cross-examination of Dr.  
6 House.

7 ALJ WEATHERFORD: Do you want more time  
8 to review it?

9 MS. MYERS: That's up to my witness.  
10 Dr. House, do you need a minute to review  
11 that?

12 THE WITNESS: I'm okay.

13 MS. MYERS: Thank you.

14 Thank you, your Honor.

15 MR. SUBIAS: Q So, Mr. House, have you  
16 had an opportunity to review Exhibit CA-58?

17 A Yes.

18 Q And does it appear to you to be an  
19 excerpt from the Price Impact on the Demand  
20 for Water and Energy in California  
21 Residences?

22 A Yes.

23 Q And that you cited in your  
24 testimony?

25 A Yes.

26 Q And if you turn to the final page,  
27 which, I guess, I believe is page 11. Does  
28 that refresh your recollection as to whether

1 one of the studies you cited conclude that  
2 global warming will increase residential  
3 water use in California?

4 A Yes. But that same paragraph also  
5 said, "Coupled with low-price elasticity for  
6 demand for water suggests," and it goes on.  
7 And Cal-Am has a fairly high price elasticity  
8 for water.

9 Q Sir, we'll get there. I'm just  
10 asking you about -- just to answer the  
11 question I ask you, which was does that  
12 refresh your recollection --

13 MS. MYERS: Your Honor, I object. In  
14 fact, he was answering the question that was  
15 asked and giving a full and complete answer.

16 THE REPORTER: I didn't get the end of  
17 your question.

18 MR. SUBIAS: Sure.

19 Nothing in my question had to do  
20 with price elasticity.

21 ALJ WEATHERFORD: Overruled.

22 ALJ HAGA: Counsel is reminded not to  
23 direct the witness to categorize his answers.

24 MR. SUBIAS: I'll try to improve upon  
25 that, your Honor.

26 Q So once again, Mr. House, directing  
27 your attention to CA-58. Does that refresh  
28 your recollection that at least one of the



1 studies that you cited concluded that global  
2 warming will increase residential water use  
3 in California?

4 A To the extent it increases  
5 temperature.

6 Q Would you expect global warming to  
7 not increase temperature?

8 A The current trend is to call it  
9 climate change and not global warming. And  
10 global warming -- it infers that there's a  
11 temperature change. But my understanding is  
12 that that name has been changed.

13 Q I appreciate the name has been  
14 changed. But, again, my question is -- and  
15 the name that's used in this document that  
16 you cited is global warming; is that correct?

17 A Correct.

18 Q And it indicates that with global  
19 warming, it's expected there will be  
20 increases in California in residential water  
21 use. Is that also --

22 MS. MYERS: Asked and answered.

23 MR. SUBIAS: -- correct?

24 ALJ HAGA: Overruled.

25 THE WITNESS: Yes.

26 MR. SUBIAS: And just a final part.

27 By global warming do you understand  
28 it to be the temperatures are increasing?

1           A    By definition, yes.

2           Q    Thank you.

3                    Now, directing your attention to  
4 page 3 of your testimony, the lines 14 to 16,  
5 at lines 14 to 16, you cite to a 2003 study  
6 that you state found in sum that the  
7 residential water demand is relatively price  
8 elasticity; is that right?

9           A    That's a quote from that article,  
10 yes.

11           Q    And then it found for a 1-percent  
12 increase in price, there was about a  
13 1-percent decrease in consumption?

14           A    The parenthesis is my explanation  
15 as to what price elastic is.

16           Q    Okay. So your understanding of  
17 price elastic is that if there's a 1-percent  
18 increase in price, there would be a  
19 corresponding 1-percent decrease in  
20 consumption.

21           A    The economic definition from price  
22 elastic being price elastic is a  
23 corresponding increase relative to price. So  
24 what you'll see is economic studies, most of  
25 the water studies, that say water demand is  
26 relatively price inelastic. Which means for  
27 a 1-percent change in price, you get less  
28 than 1-percent change in water consumption.

1 But they all are negative. There's always a  
2 reduction in water use with a price increase.

3 Q And that's excluding other --  
4 that's not including any other factors that  
5 could effect water use; correct? So there's  
6 not always? There could be other factors  
7 that effect water use that would make that  
8 statement inaccurate; correct?

9 A The only instance that I am aware  
10 of in which you end up with a positive price  
11 elasticity for water occurred in a central  
12 valley irrigation district that has very low  
13 prices for water, and increased the price of  
14 water at a time when it was very warm. So  
15 there are other factors there.

16 But every equation -- once you  
17 factor things like that out, climate and  
18 things like that, I don't know of a single  
19 study which says -- for water, that the price  
20 elasticity is not negative.

21 Q Okay. I just want to go back to  
22 the portion that you have from page 3 in the  
23 parenthesis that for a 1-percent increase in  
24 price, there is about a 1-percent decrease in  
25 consumption?

26 A That's the definition of being  
27 price elastic.

28 Q Now, you recognize that there are

1 going to be circumstances where there's not  
2 going to be a 1-percent increase if there's a  
3 corresponding 1-percent decrease; correct?

4 A Yes.

5 Q And that's because, for example, at  
6 footnote 15 on page 5 of your testimony, you  
7 state that, "It should be noted that there  
8 are" -- "there is some minimum level water  
9 consumption beyond which consumers are  
10 relatively priced inelastic; is that right?

11 A Correct.

12 Q Now, based on Figure 1 to your  
13 testimony, you then state that residents in  
14 the Monterey Peninsula have not yet reached  
15 that minimum water consumption threshold; is  
16 that correct?

17 A Correct.

18 Q Now, looking at Figure 1 from your  
19 testimony, despite more than an \$800  
20 per-acre-foot increase reflected between 2015  
21 and 16, the reduction in consumption is less  
22 than any other year with such a large price  
23 change; isn't that right?

24 A I don't know. I can -- I'll accept  
25 it, subject to check. I did a regression on  
26 the series. I didn't do it on any individual  
27 year.

28 Q Okay.

1           A    And the price -- and the  
2 consumption still dropped. That's what my  
3 point is. The consumption is still dropping.

4           Q    I understand that. But what I'm  
5 getting at is if it's dropping quickly or  
6 looks like it's much more slowly than it did  
7 before?

8           A    I don't know that.

9           Q    Now, if the dollars value, in terms  
10 of acres-per-foot, the cost is increasing but  
11 the level -- the reduction in demand is  
12 decreasing, wouldn't that indicate that your  
13 approached -- you're moving from more elastic  
14 the less elastic?

15          A    Yes.

16          Q    Now, earlier in this proceeding  
17 MCD-59 was made available to the parties.

18                    Have you seen that?

19          A    I don't track them by exhibit  
20 numbers. So you'll have to give me a --

21          Q    I have an extra copy for you.

22           ALJ WEATHERFORD: What's the title of  
23 that, Counsel?

24           MR. SUBIAS: It's exhibit MCD-59, and  
25 it's a -- it's a chart with the system  
26 delivery.

27           ALJ WEATHERFORD: Thank you.

28           MS. MYERS: Can I ask that Dr. House

1 have a minute the look at this document?

2 ALJ WEATHERFORD: Certainly.

3 THE WITNESS: Okay.

4 MR. SUBIAS: Q Now, Mr. House, does  
5 this chart show system delivery for 2013 all  
6 the way through part of 2017?

7 A Yes.

8 Q And in terms of weather, do you  
9 understand rainfall to be -- to typically  
10 increase or decrease demand for water?

11 A It depends upon how much outdoor  
12 water is being used. Rainfall doesn't really  
13 make much of an impact on indoor water use.

14 Q Well, how about for residential or  
15 commercial just in general? If there's more  
16 rain, would people be more likely to still  
17 use more water? Or if there's more rain,  
18 would they be likely to use less water?

19 A If they have outdoor water use,  
20 they will use less.

21 Q And 2016 in California and  
22 specifically in Monterey was a drought year;  
23 correct?

24 A The water year, not the calendar  
25 year. The water year goes from October to  
26 October.

27 Q Okay. Now, 2017 was not a drought  
28 year, was it?

1           A    No.

2           Q    In fact, in parts of California, at  
3 least, there was above-average rainfall?

4           A    Yes.

5           Q    If you could look at the years 2016  
6 in the column -- I'm sorry -- the column for  
7 years 2016 and the column for years 2017.

8                   Does it look like usage at least  
9 for the portion of 2017 that is represented  
10 is fairly consistent with 2016?

11          A    Yes.

12          Q    Are you aware that in Cal-Am's  
13 Monterey District there was a rate increase  
14 in 2017?

15          A    Are you talking about the  
16 undercollection -- I believe it's called the  
17 undercollection surcharge?

18          Q    I believe so.

19          A    Yes.

20          Q    And do you know when that took  
21 place -- when that surcharge was put in  
22 place?

23          A    No.

24          Q    Looking at the column for 2017,  
25 would there be any portions that would stand  
26 out to you that might help you identify that?

27          A    No.

28          Q    It's your testimony that when

1 Cal-Am increases the price for water -- and  
2 I'm referring to page 5, lines 1 to 2?

3 A What's the question?

4 Q Sure.

5 Is it your testimony that when  
6 Cal-Am increases the price for water, the  
7 demand for it falls in proportion to the  
8 price increase?

9 A Yes, that's based upon the historic  
10 record that I have.

11 Q Now, are you aware that it was in  
12 March of 2017 that the rate increase took  
13 effect? Do you know how much -- I'm sorry.

14 In March of 2017, Cal-Am's average  
15 residential bill increased by 60 --

16 MS. MYERS: Excuse me. Is this  
17 testimony by the attorney, or --

18 ALJ WEATHERFORD: Is that a --

19 MS. MYERS: I'm not sure where this  
20 information the coming from.

21 MR. SUBIAS: Q Are you aware of how  
22 much the bill increase was for Cal-Am for its  
23 Monterey District for the average residential  
24 customer in 2017?

25 A I have information from Cal-Am that  
26 in 2016, the average residential bill was  
27 \$60. If you like at Linam's testimony and  
28 the average residential bill in 2017 is \$80.



1 I think it was \$64 and \$80. So I'm assuming  
2 that that's the price increase that's  
3 associated with this undercollection  
4 adjustment.

5 Q Okay. Well, avoid any assumptions,  
6 I'm going to ask this as a hypothetical.

7 Assuming hypothetically that the  
8 average customer in California American  
9 Water's Monterey District, there is a --  
10 their total bill increased by 60 percent  
11 starting in March of 2017.

12 So you do you have those facts for  
13 the hypothetical?

14 A Okay.

15 Q Okay. Assuming that, based upon  
16 your testimony of page 5, wouldn't we see a  
17 -- the demand decline in direct proportion to  
18 the price increase?

19 A Well --

20 MS. MYERS: I object to this  
21 assumption, also, because it assumes a fact I  
22 haven't seen established that that was the  
23 increase in rates.

24 MR. SUBIAS: That's why I asked it as a  
25 hypothetical.

26 ALJ WEATHERFORD: It's a hypothetical.

27 THE REPORTER: Can you let him finish  
28 his questions, please? I'm having trouble.

1 MS. MYERS: Yes. Sorry.

2 THE WITNESS: The answer is no. If you  
3 look at my Footnote 13, that's why I have the  
4 explanation there. That little equation  
5 there is fairly typical of a water agency  
6 price elasticity analysis. And basically it  
7 says this K-0 is what we've been talking  
8 about, that there's some minimum level of  
9 usage -- there's relatively insensitive to  
10 price.

11 And then all these other little  
12 values out hear say as the -- and there for,  
13 like, increasing block rates or something  
14 like that. So there is some level of, sort  
15 of, a minimum sustainability level that  
16 customers are -- use -- and they are going to  
17 use. And that's relatively insensitive to  
18 price.

19 MR. SUBIAS: And that's what you attest  
20 to in the footnote right where -- and let me  
21 get back to that. That's where it's your  
22 footnote 15; right?

23 A Yes.

24 Q Okay. But that's not my question.  
25 My question to you is, given this  
26 hypothetical where in 2017 there was a -- the  
27 customers' bill increased by 60 percent and  
28 you're not seeing any reduction; right?

1 A Yes. ]

2 Q Are you saying that we reached that  
3 core?

4 A That would indicate to me  
5 empirically that you've reached the minimum  
6 percent levels, yes.

7 Q And that's despite the other  
8 portion of the footnote where you say we  
9 haven't reached those consumption levels?

10 A I didn't have the 2017 numbers, and  
11 I was still seeing demand dropping in 2016.  
12 So that's why I said -- that's why I made  
13 that statement.

14 Q And 2017 again was different than  
15 2016 because in 2017 there was more rainfall,  
16 wasn't there?

17 A Yes.

18 Q And that could affect demand, could  
19 it not?

20 A Yes.

21 ALJ HAGA: Counsel, about how much  
22 longer do you have?

23 MR. SUBIAS: About ten minutes.

24 ALJ HAGA: Going over your -- a lot of  
25 time already. So please.

26 MR. SUBIAS: I will try to speed it up.

27 Q Mr. House, did you review the  
28 testimony of Ian Crooks?

1 A Yes.

2 Q Do you recall seeing a Figure 1  
3 from Ian Crooks' testimony?

4 MS. DOLQUEIST: On page?

5 MR. SUBIAS: Q On page 12.

6 A Let me look it up here. And this  
7 is his direct errata.

8 Q This is his direct errata.

9 A Okay.

10 Q Which is identified as CA-51.

11 A Page?

12 Q Page 12.

13 A 12. The graph?

14 Q Yes.

15 A Yes.

16 Q Now, directing your attention to  
17 Figure 1 on page 12 of Mr. Crooks' testimony,  
18 when you look at the diamonds, do those  
19 indicate water use?

20 A Yes.

21 Q Do those diamonds for the years  
22 2006 to 2015 follow roughly a similar  
23 pattern, i.e., declining consumption to the  
24 pattern reflected in Figure 1 of your  
25 testimony?

26 A Yes.

27 Q Now, taking a look at Figure 1 to  
28 Mr. Crooks' testimony again for the years

1 1998 to 2008, some years consumption goes up  
2 a little and in some years it goes down, but  
3 over that decade there is no clear pattern of  
4 consumption declining or rising, is there?

5 A It doesn't look like it.

6 Q Do you know whether prices during  
7 that period were increasing for water?

8 A No.

9 Q Hypothetically, if over that period  
10 prices were increasing, wouldn't you have  
11 expected the demand to decrease by that  
12 proportion?

13 A Depends upon how rapidly they are  
14 increasing, what the magnitude of the  
15 increase. A very small magnitude of  
16 increase, most customers -- if you use a  
17 price elasticity of minus .25, that says for  
18 a 1 percent change in price you're going to  
19 get a quarter of a percent change in  
20 consumption. So if you don't have a big  
21 change in price, you're not going to get a  
22 big change in consumption.

23 Q Now, did you at all look at the  
24 consumption pattern or the prices for that  
25 period?

26 A I didn't think anything over ten  
27 years ago was relevant.

28 Q On footnote 15 you state:

1 Water demand is influenced by  
2 several factors in addition to water  
3 price including location, rainfall,  
4 temperature, and evaporation rates,  
5 population growth, population  
6 density and socioeconomic measures  
7 such as lot size and income.

8 Is there anything in your report  
9 that looks at those factors for Monterey?

10 A No.

11 Q Is there anything in your report  
12 that assesses the impacts of a change in  
13 California American Water's steep five-tier  
14 rate design for Monterey?

15 A No.

16 Q On page 6, line 18 to -- or lines  
17 16 to 18 you mention water conservation now  
18 constitutes a new normal in California; is  
19 that correct?

20 A That I believe is a quote from the  
21 Governor's orders.

22 Q I'm just asking you if it's correct  
23 that that's what you say in your testimony?

24 A Yes.

25 MS. MYERS: Excuse me. What page are  
26 you on?

27 MR. SUBIAS: That was page 6, line 16  
28 to 18.

1 MS. MYERS: Thank you.

2 MR. SUBIAS: Q And based on that new  
3 normal, is it your opinion that water used in  
4 Monterey will not go up again?

5 A No. My -- but my position is it  
6 won't go up to the magnitude that Cal-Am is  
7 expecting it.

8 Q Now, and you don't say what  
9 magnitude it will go up to, do you?

10 A No.

11 Q And you're aware that since the  
12 drought ended in California there are areas  
13 in the state including on the central coast  
14 where water consumption has gone up?

15 MS. MYERS: Assumes facts not in  
16 evidence.

17 ALJ WEATHERFORD: Want to ask a  
18 hypothetical? If.

19 MR. SUBIAS: Q Well, you reviewed Mr.  
20 Crooks' testimony, did you not?

21 A Yes.

22 Q And in Mr. Crooks's testimony there  
23 is a reference to water, on the central coast  
24 of California, demand increasing, is there  
25 not?

26 A The central coast is a very large  
27 area in California, and the answer is yes.

28 Q And on that very large area of the

1 central coast in California since the drought  
2 ended water consumption has gone up, has it  
3 not?

4 A Yes.

5 Q And that's despite the fact that  
6 we're in a new era?

7 A But relevant to this case, those  
8 areas don't have the prices of Cal-Am.

9 MR. SUBIAS: No further questions at  
10 this time.

11 ALJ HAGA: Thank you.

12 Mr. Minton.

13 MR. MINTON: We will waive  
14 cross-examination.

15 ALJ HAGA: Thank you, Mr. Minton.

16 Mr. McGlothlin.

17 MR. MCGLOTHLIN: Thank you, your Honor.

18 CROSS-EXAMINATION

19 BY MCGLOTHLIN:

20 Q Good afternoon, Mr. House. Ross  
21 McGlothlin on behalf of the Monterey  
22 Peninsula Regional Water Authority. Mr.  
23 House, I'd like to ask you a couple questions  
24 about your Table 2 on page 12 of your  
25 testimony. Should we understand that this --

26 ALJ WEATHERFORD: Excuse me just a  
27 minute. Give him a chance to find it.

28 MR. MCGLOTHLIN: Absolutely. Thank



1 you, your Honor.

2 MS. MYERS: Thank you.

3 MR. MCGLOTHLIN: Q Should we  
4 understand the figures that you have adjusted  
5 here to reach 10,599 as the water supply  
6 target that should be used for planning a new  
7 project for the peninsula in this proceeding?

8 A In the near term, yes.

9 Q What do you mean by the near term?

10 A Next ten years.

11 Q And do you make any projections for  
12 the years following the next ten years?

13 A No.

14 Q Do you have an understanding of the  
15 time period for which a new project at issue  
16 in this proceeding is to supply water for the  
17 peninsula?

18 A Supposed to supply water to the  
19 peninsula in I believe 2021.

20 Q And to clarify my question, how  
21 many years after 2021 is the project  
22 anticipated to supply water to the peninsula?

23 A I don't know.

24 Q And you are not making any --  
25 any -- none of your testimony is directed at  
26 periods beyond, say, 2031 using -- is that  
27 correct?

28 A Yes.

1           Q    Okay.  And so I understand, for the  
2 next ten years you are projecting demand in  
3 2021 at 9,300 acre-feet.  Is that number  
4 effectively very close to the 2016 usage by  
5 existing customers?

6           A    Yes.  And let me clarify.  That  
7 number is based upon absent a significant  
8 price reduction in the Cal-Am price of water.  
9 If there's a significant price reduction in  
10 the Cal-Am price of water, that number will,  
11 in my opinion, will go up.

12          Q    Thank you.  And the next line, lots  
13 of record, is 974.  Am I correct to  
14 understand from your testimony on page 10  
15 that that is based upon adjusting the  
16 Monterey Peninsula Water Management District  
17 2001 analysis of lots of record to 82 gallons  
18 per capita per day from the 99.4 gallons per  
19 capita per day in effect in 2001, a 17  
20 percent reduction?  Is that how you get to  
21 that number?

22          A    Yes.

23          Q    And lastly, with respect to Table 2  
24 on page 12, you do not perceive any need for  
25 a accommodation of what's referred to in your  
26 chart as tourism rebound; is that correct?

27          A    No.  You look at Figure 2, with the  
28 exception of my Figure 2, the session of 2008

1 and 2010, that's pretty much a straight line  
2 going up. The tourism, they may want  
3 logarithmic growth, but in my opinion this is  
4 pretty good growth rate.

5 Q So because tourism has increased in  
6 recent years, you assume that there should  
7 not be additional water demand from the  
8 tourism hospitality industry. Is that your  
9 testimony?

10 A There is no rebound because it's  
11 already rebounded.

12 Q Okay. Is it fair to say looking at  
13 your Table 2 that you don't provide any form  
14 of contingency buffer or additional water  
15 that might accommodate uncertainties in  
16 future water demand in the ten years that  
17 you're projecting?

18 A This -- this is my Table 2.

19 Q That's correct.

20 A That is just demand values. It's  
21 not supply.

22 Q I understand. In projecting demand  
23 for which the next ten years you -- your  
24 testimony is that the Commission should use  
25 these numbers as projections to plan the  
26 project from, is it accurate to say that you  
27 do not accommodate for any contingency buffer  
28 to accommodate for uncertainties in water

1 demands; is that correct?

2 MS. MYERS: Your Honor, I object as  
3 vague. The term contingency buffer hasn't  
4 been defined or -- yes.

5 MR. MCGLOTHLIN: If --

6 ALJ WEATHERFORD: You want to ask him  
7 about what is meant by buffer?

8 MR. MCGLOTHLIN: Sure.

9 Q Do you have an understanding of  
10 what I am referring to as contingency buffer?  
11 Is that ambiguous in your mind?

12 A I think I understand what you're  
13 saying. What these numbers are are the  
14 system in Monterey has worked. People have  
15 gotten water. It may not have been what  
16 everybody wants. It may need lots of record.  
17 You may need to do these other kinds of  
18 things. But my whole point is that absent a  
19 substantial price drop I don't see demand  
20 recovering.

21 And you may end up with a -- and I  
22 don't under -- if you could give me a  
23 hypothetical like a heat wave, would that  
24 increase. Monterey area is somewhat  
25 insulated from the massive heat waves that  
26 we're seeing in the Central Valley because of  
27 the coastal. So I don't know. But it is --  
28 Cal-Am has been very successful and in

1 reducing demand. And absent a price in -- a  
2 significant price decrease, I don't see  
3 demand increasing.

4 Q Mr. House, is it your  
5 recommendation to the Commission based on  
6 your testimony that the project should be  
7 sized to meet a demand profile of 10,599  
8 acre-feet?

9 A No. Because I don't talk about the  
10 project. I say this is the demand level that  
11 you should look at. There's a shortfall.  
12 Something needs to be done. But I make no  
13 recommendation of what needs to be done.

14 ALJ WEATHERFORD: May I ask for  
15 clarification, does your figure with respect  
16 to demand include any reserve for unexpected  
17 events?

18 THE WITNESS: To clarify, this is an  
19 unexpected event that increases the demand  
20 for water. Does not decrease the demand for  
21 water.

22 ALJ WEATHERFORD: But your -- your  
23 figure is assuming an increase, but does it  
24 cover unexpected events?

25 THE WITNESS: It does not cover any  
26 unexpected events that would result in an  
27 increase in water demand.

28 ALJ WEATHERFORD: Thank you.

1 MR. MCGLOTHLIN: Thank you, your Honor.

2 Q Mr. House, were you were here  
3 yesterday for Mr. Narigi's testimony? To  
4 clarify, he was the gentleman from the  
5 Coalition of Peninsula Businesses.

6 A Yes.

7 Q Do you recall his testimony  
8 concerning the types of conservation that the  
9 Hospitality Association has done?

10 MS. MYERS: Your Honor, I'm not sure  
11 the witness was here for that testimony. I  
12 want to make sure that he is the gentleman  
13 again for the Coalition of Peninsula  
14 Businesses.

15 ALJ WEATHERFORD: You want to ask that  
16 question?

17 MS. MYERS: I think he did, but I'm not  
18 sure.

19 MR. MCGLOTHLIN: Q Excuse me. I have  
20 clarification that it was on Monday.

21 A On Monday I didn't get here until  
22 about 3.

23 Q Okay.

24 A So the answer is no.

25 Q Thank you. Thank you for the  
26 clarification.

27 As a hypothetical, if Mr. Narigi  
28 did testify on behalf of Hospitality

1 Association, that one of their conservation  
2 measures in place presently is, for many of  
3 their hotels is shipping their linens out of  
4 the area for washing and cleaning, do you  
5 think that a return to bringing those back in  
6 to the community could increase the use of  
7 water in the community?

8 A The hospitality industry would only  
9 bring it back to the community in my opinion  
10 if it was cost-effective to do. If the price  
11 of water is so high that it's still  
12 cost-effective for them to send their linen  
13 to Paso Robles, I suspect they will continue  
14 to do that.

15 Q Thank you. And are you aware that  
16 the current price charged in the tier rate on  
17 the peninsula was specifically designed to  
18 intentionally control water use during the  
19 pendency of the current cease and desist  
20 order?

21 A It is an -- I'm not sure why it was  
22 put in, but it has -- it is a conservation  
23 rate with increasing volumetric charges. Why  
24 it was put in, I was not aware of it.

25 Q And if the present tiers were  
26 flattened -- let me pause and say, do you  
27 understand what I mean by flattening of the  
28 tiers?

1           A    Yes.

2           Q    If the current tier structure was  
3 flattened, would you anticipate the  
4 consumptive use of water based upon the  
5 elasticity of the demand to increase?

6           A    I'm going to say no because I'm  
7 assuming you're asking after the desal  
8 project hits. Just some numbers. The desal  
9 is about \$30 million a year, Year 1. This is  
10 Mr. Linam's. Their total revenue  
11 requirements right now is 55. So they're  
12 going to -- they have got to increase -- to  
13 pay for that desal project they have got to  
14 increase rates by 50 percent. You could  
15 flatten rates as much as you want. They  
16 still have to go up.

17          Q    Given what you just said, does that  
18 mean that the price charged for every tier of  
19 rate have to increase?

20          A    No. But if you've got one tier  
21 that doesn't increase by 50 percent, another  
22 tier has to increase by more than 50 percent  
23 to uncover -- to cover your revenue  
24 requirements.

25          Q    And are you certain that that will  
26 have -- that that reassignment of revenue  
27 requirement between tiers will not have an  
28 effect on the consumption of water?



1           A    The tiers will have to go up.  And  
2   that will have an impact, or an increase in  
3   the price of water will not result in an  
4   increase in the demand for water.  Did that  
5   answer the question?

6           Q    I think I'll move on to my next  
7   question.  Did I understand your testimony  
8   previously that the observation that you now  
9   see for consumption in 2017 that the  
10   community has reached its core water use  
11   where demand becomes effectively inelastic or  
12   more inelastic?

13           MS. MYERS:  I object.  I believe that  
14   those questions were pursuant to a  
15   hypothetical about the percentage increase  
16   from the 2017 rate increase.  So if this was  
17   a hypothetical.

18           MR. MCGLOTHLIN:  I will rephrase.

19           MS. MYERS:  Thank you.

20           MR. MCGLOTHLIN:  Q   Assuming that that  
21   hypothetical concerning the rate increase  
22   between 2016 and 2017 did occur and the water  
23   figure -- water consumption figures were as  
24   posed, is it your testimony that that would  
25   suggest a -- that the community has reduced  
26   their water supply, and I believe the term  
27   you used, to effectively their core water use  
28   demand where demand is relatively inelastic?

1           A    It's an empirical observation that  
2 they may have hit that point and that they --  
3 it will be very difficult to further decrease  
4 demand.

5           MR. MCGLOTHLIN: Thank you, your Honor.  
6 No further questions.

7           ALJ HAGA: Thank you, Mr. McGlothlin.

8                   Mr. Weitzman had reserved one minute  
9 of questions for Mr. House. Can you please  
10 come up and use the microphone.

11           MR. WEITZMAN: Yes. I'm Ron Weitzman  
12 for Water Plus. I had an accident coming  
13 here. I was in the hospital. So I asked my  
14 wife to call to tell you I'd be late. I'm  
15 ready to testify today. It's the only time I  
16 have. Thank you.

17           ALJ HAGA: Do you have any questions  
18 for Mr. House?

19           MR. WEITZMAN: Excuse me?

20           ALJ HAGA: Do you have any questions on  
21 Mr. House's testimony?

22           MR. WEITZMAN: I have no questions. I  
23 just want to say I'm here to testify. It's  
24 the only time I have. And I'm sorry I'm  
25 late, but I was in the hospital.

26           ALJ WEATHERFORD: Hope you get that.

27           ALJ HAGA: Redirect.

28           MS. MYERS: Thank you.

1 REDIRECT EXAMINATION

2 BY MS. MYERS:

3 Q Dr. House, you were asked questions  
4 about the impact I guess of a 2017 rate  
5 increase on core water use. Would changes in  
6 rate structure affect about whether demand  
7 has reached minimum levels?

8 A To -- to some extent, yes. But  
9 that minimum water use threshold is -- is  
10 pretty resilient to changes in demand.  
11 That's what you need in -- customer needs in  
12 order to survive if you want. And it is  
13 fairly -- it is inelastic, which means it is  
14 somewhat impermeable to changes in price.  
15 You can -- an increase in price, you can  
16 decide you're going to flush less often, but  
17 you're still going to flush. And so  
18 that's -- it becomes a very sticky point in  
19 the -- in that particular equation. That's a  
20 constant in that equation. There are no  
21 price impacts on -- in that particular  
22 equation that I referenced. And references,  
23 other studies have shown that that -- that is  
24 a fairly hard number.

25 Q What if fixed costs increase?

26 A If fixed costs increase, and  
27 there's this question about whether it's  
28 fixed or variable and what customers respond

1 to and these things. Customers respond to  
2 their total bill. If fixed costs increase  
3 and you're at that minimum level, that -- I  
4 would not expect consumption to continue to  
5 drop.

6 MS. MYERS: I have no further  
7 questions.

8 ALJ HAGA: Any recross?

9 MR. SUBIAS: No, your Honor.

10 ALJ HAGA: I'm not seeing any.

11 I thank you, Mr. House. I  
12 appreciate your patience.

13 THE WITNESS: Thank you.

14 ALJ HAGA: You're dismissed.

15 MS. MYERS: It is appropriate to move  
16 Exhibit MNA-2 into evidence at this time.

17 ALJ HAGA: Any objection?

18 So moved.

19 (Exhibit No. MNA-2 was received into  
20 evidence.)

21 MS. MYERS: Thank you, your Honor.

22 ALJ HAGA: We'll be off the record.

23 (Off the record.)

24 ALJ HAGA: And we'll be back on the  
25 record.

26 While we were off the record Mr.  
27 Weitzman came up distributed copies of what  
28 are identified as WP-9 and WP-10. And we