Exhibit H

Cost of Capital

Direct Testimony of Tim Treloar

Vice President of Operations

California Water Service Company

March 2017

Table of Contents

I. INTRODUCTION

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to outline the water quality risks that Cal Water faces apart from the financial risks.

Q. What are the water quality risks unique to Cal Water?

A. The water quality risks unique to Cal Water are primarily related to Cal Water's reliance on groundwater supply.

II. QUALIFICATIONS

Q. What are your qualifications for this testimony?

A. I've held numerous positions with California Water Service Company beginning in January 1994. I spent nearly 20 years in Bakersfield as General Superintendent, Assistant District Manager, and became District Manager in 2002. I became Director of Water Quality in 2013, then Vice President of Operations in August 2013, and as of January 1, 2017 am Vice President Water Quality and Chief Utilities Operations Officer. I have spent nearly 30 years working in a regulated utility setting.

III. RISKS ASSOCIATED WITH GROUNDWATER EXTRACTION

Q. Does Cal Water rely upon groundwater to serve its customers?

A. Yes. Cal Water obtains approximately half of its water supply from groundwater wells. Statewide, Cal Water owns more than 650 wells. Cal Water employs approximately 150 active treatment processes. Some wells may require multiple treatment processes for contaminants.

Q. Does Cal Water's use of groundwater provide a rate saving to Cal Water customers?

A. Using local groundwater supplies has been, and in most case continues to be, a benefit to the ratepayers because Cal Water is typically able to keep retail water rates lower by utilizing groundwater supply sources. Cal Water's 2015 total groundwater pumping approximated 136,000 acre feet. Cost benefits range by district. Taking an average cost savings of $250 per acre foot, water costs savings to Cal Water customers therefore amounts to approximately $34 million. In 2015 Cal Water purchased approximately half of its water supply requirements for $164.85 million.[1]

[1] Admittedly, there are other costs associated with groundwater pumping, such as additional testing, which are not captured in these accounts.

Q. Are risks associated with groundwater extraction proportionately shared between ratepayers and the utility?

A. No. Ratepayers significantly benefit from lower costs due to Cal Water's use of groundwater, but Cal Water faces additional risks associated with uncertainty and operation of groundwater facilities. Not all costs associated with these risks are timely or fully recovered by the Commission's modified costs balancing accounts ("MCBA"). Unless Cal Water's rate of return is adjusted to reflect these additional risks, Cal Water will bear those risks alone.

Q. What are the specific risks associated with groundwater extraction?

A. A reliance on groundwater well supply adds to Cal Water's risk because there are issues with groundwater that are not generally found in imported surface water. These issues include: potential contamination problems, transient levels of contamination, a lack of responsible parties for many contaminants, complicated and expensive treatment, potentially declining water levels, well rehabilitation, a large number of decentralized supply sources to manage, changing laws and regulations and lastly Cal Water's rights to extract groundwater to meet customer demand.

Q. Can you give examples of Cal Water costs that have not been fully recognized in rates?

A. Yes. Cal Water has been involved in litigation in several districts to protect its rights to continue pumping groundwater to the benefit of ratepayers. Since the timing of litigation cannot be predicted, these costs are not always anticipated in GRCs. Even though the MCBA captures the additional costs associated with switching between groundwater and purchased imported surface water, Cal Water's legal efforts to continue its use of lower-cost groundwater are not always captured in GRCs.

Q. Focusing on water quality, what is Cal Water's most commonly occurring groundwater contaminant, and what health risks are associated with this contaminant?

A. One of the more widespread contaminants found in groundwater sources in California is nitrate. The current maximum contaminant level ("MCL") for nitrate has been set at 45 parts per million ("ppm").[2] Nitrate over this level is considered an acute health risk because it can cause methemoglobinemia or blue baby syndrome. Cal Water has an internal action level of 40 ppm, where it will normally take a well off-line if possible.

[2] Levels established in the US Environmental Protection Agency safe drinking water act of 1974 and became effective in 1992.

Q. What does Cal Water do to remediate nitrate contamination?

A. Cal Water has several methods to mitigate nitrate contamination. One option is to blend water containing higher levels of nitrate with water containing lower nitrate levels. This requires dedicated pipelines and specialized facilities, such as on-line nitrate monitoring equipment, reliable flow control and measuring devices, and mixing manifolds. Blending is not always feasible, especially if a low-nitrate source is not readily available for blending purposes. In addition, blending is not always a desirable treatment option because of the dependence on multiple sources of lower nitrate water and other operational constraints. In addition, blending still delivers nitrate in the final product, albeit at lower concentrations.

Another approach that Cal Water utilizes is ion-exchange systems installed at the Company's wells. These systems use a resin technology that allows for nitrogen ions to be extracted from the source water and collected on resin beds, resulting in lower nitrate levels in the finished water. While this technology works well, it also generates large quantities of wastewater, and the energy and equipment costs are high, as well as the high cost of disposal of waste brine.

Q. Who is responsible for nitrate contamination and can Cal Water pursue legal action to recover the expensive treatment costs for nitrate mitigation?

A. Nitrate contamination of groundwater occurs from a variety of sources. Usually it is the result of fertilizer application from past agricultural uses. Nitrate contamination can also be caused by improper disposal of animal wastes, such as often found at dairies. Because there is often a long time between when the surface activity (fertilizer application or disposal of animal wastes) occurs and when nitrate contamination is detected in the groundwater, it can be difficult and expensive to pursue potentially responsible parties ("PRPs"). Unlike other organic chemicals, there may not be a chemical signature of nitrate contamination that can be linked to specific manufacturers. Pursuit of manufacturers or PRPs is complicated by balancing the best available science and legal considerations.

Q. Is groundwater contamination predictable and something you can plan for?

A. No. In rural agricultural-based communities, there is a greater likelihood of contamination from nitrate and other agricultural chemicals. However, it is very difficult to determine what will happen to the concentration levels in the groundwater at specific locations. In some cases, the levels remain elevated and

constant for a long time, while in other cases, the contaminant levels spike without a predictable pattern. Cal Water trends the contaminants it has detected at each well, and certain levels require more frequent monitoring. Unfortunately, contamination does not always follow its trend lines. In addition, health effects of contaminates are constantly reevaluated, and new maximum contaminate levels are set. With a three-year general rate case cycle, contamination costs cannot always be estimated. This variability in levels of constituents makes utilizing groundwater sources more difficult due to uncertainty over long-term use.

Q. Is Chromium 6 a concern to Cal Water's groundwater supplies?

A. Yes. Chromium 6 is of significant concern to Cal Water. Chromium 6 is a good example of unanticipated costs. Even though Chromium 6 has been a known contaminate, recent legislation and setting of a maximum contaminate level caused Cal Water to design and install treatment in Salinas, Willows and Dixon on a very short time schedule.

Chromium 6 is similar to nitrate contamination in that identifying and pursuing PRPs for the recovery of treatment costs can be difficult, expensive, and time-consuming. In most cases, Chromium is a naturally occurring metal that is commonly found in the earth's crust. Most detection of low levels is due to this

fact. Chromium 6 may also result from industrial pollution, however. The likelihood of success of undertaking litigation for the low levels present in Cal Water wells is therefore questionable. Identifying PRPs is complicated again by the best available science and legal considerations.

Q. Is Cal Water at risk of being named a responsible party in groundwater contamination litigation?

A. Yes. In its Chico District, Cal Water was named partially responsible for a contaminated groundwater plume. The purported rationale for this was that, by using its groundwater wells, Cal Water potentially altered the plume of contamination through subsurface flows in the aquifer. Accordingly, Cal Water's general reliance on groundwater as a lower-cost source of supply also exposes it to greater risk, as compared to using surface water supplies, in that it may be held responsible for contamination.

Q. What other variables are there to consider when utilizing groundwater sources?

A. When utilizing groundwater sources, there are often many variables that are out of the control of the water company. Recently, due to the extended drought, attention has been called to declining groundwater levels in many cities

Cal Water serves, particularly in the Central Valley and the San Joaquin Valley. Declining groundwater levels require more electricity to pump water from deeper levels. While the increased electrical costs are recorded in the Company's MCBA, there are also factors that are not recovered, such as maintenance expenses and other costs associated with lowering pumps and columns. In addition, lowered groundwater levels may cause a well to pump from groundwater of different quality or may cause water-surface contaminants to be drawn toward the well. There are many groundwater pumpers in the basins we draw from, and declines in water levels are not usually attributable only to urban use.

Wells also become less efficient over time. Wells require rehabilitation to maintain their pumping capacity, which may include expensive electrical service and panel board upgrade to deliver increased horsepower demand for water lift. Unfortunately, a well's behavior is not predictable. Well rehabilitation is more of an art than a science. Again, these costs cannot be predicted in GRCs.

Q. Doesn't Cal Water include treatment facilities in rate base after approval in a GRC?

A. Cal Water proposes water treatment equipment in its GRCs. However, in many cases, since the appropriate treatment method for a contaminated source

is unclear, or the costs associated with a treatment project are uncertain at the time of the GRC, these projects are often given advice letter treatment subject to a cap. Unfortunately, Cal Water outlays the capital costs for these projects first, and then files for inclusion into rates after the projects are in service. Since the water treatment projects are dependent on a number of items, including DDW permitting, there is often a significant lag between when the projects are constructed, and when Cal Water can include them in rates. For the projects whose ultimate costs exceed the advice letter "cap", there is a much longer delay for full recovery as these projects need to be examined in the course of the next GRC. Therefore, this significant lag in recovering the costs for water treatment projects leads to a long-term under-recovery of equity returns. This is among the factors discussed in Mr. Townsley's testimony.

Q. Should Cal Water be rewarded in this proceeding for pursuing litigation against polluters?

A. In many Commission proceedings, it has determined that the proceeds of contamination litigation that are used to remediate or replace contaminated plant, less transactional expenses, are to be considered Contribution in Aid of Construction ("CIAC"). When proceeds are treated as CIAC, there is only a

benefit to the ratepayer and no corresponding benefit to the Company for the risks it undertook in pursuing litigation.

In the Commission's contamination proceeds proceeding, the Commission stated, "[w]here a utility can show that it is assuming an above normal risk related to contamination litigation, the Commission shall, where appropriate, take that risk into account in setting the company's rate of return in the cost of capital proceeding for class A water utilities and in the general rate case for the Class B, C and D water utilities."[3]

Cal Water was very aggressive in pursuing MtBE polluters and was able to achieve a settlement with some of the MtBE manufacturers to be used for replacement facilities for the benefit of the ratepayers. More recently Cal Water filed a lawsuit and has been aggressively pursuing responsible parties of 1,2,3-trichloropropane ("1,2,3-TCP") contamination. This demonstrated stance should be factored into Cal Water's overall return on equity equation. In the case of MtBE, Cal Water recovered a net of approximately $34 million from PRPs, of which $28.5 million was used to reduce rate base. In setting Cal Water's equity return, the Commission should consider the increased likelihood of water contamination due to Cal Water's large number of distributed groundwater wells.

[3] Rulemaking 09-03-014 at 65, Ordering Paragraph 9.

It should also consider Cal Water's substantial efforts to pursue potentially responsible parties.

Q. Does this conclude your testimony?

A. Yes