

Docket: : A.11-07-017
Exhibit Number : DRA-2 REVISED
Commissioner : Catherine Sandoval
Admin. Law Judge : Richard Smith
DRA Witness : Jose Cabrera



DRA
DIVISION OF RATEPAYER ADVOCATES



DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

DRA TESTIMONY ON

OPERATION AND MAINTENANCE
EXPENSES;
SPECIAL REQUESTS 1, 2, 3 and 5

GOLDEN STATE WATER COMPANY
Test Year 2013 and
Escalation Years 2014 and 2015
Application 11-07-017

For authority to increase water rates located in Region I: Arden Cordova, Bay Point, Clearlake, Los Osos, Ojai, Santa Maria and Simi Valley
Customer Service Areas

San Francisco, California
February 27, 2012 (REVISED)

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1 **CHAPTER 1: OPERATION AND MAINTENANCE EXPENSES-ARDEN CORDOVA**
2 **CSA**

3 **A. INTRODUCTION**

4 This report presents DRA’s investigation, analysis and recommendations
5 for Golden State Water Company’s (“GSWC”) request in A.11-07-017 for
6 Operation and Maintenance Expenses (“O&M”) for Test Year 2013 in GSWC’s
7 Region I, Arden Cordova Customer Service Area (“CSA”).

8 **B. SUMMARY OF RECOMMENDATIONS**

9 Table 3-1 at the end of the chapter presents the forecasted expenses of DRA
10 and GSWC for the Test Year 2013.

11 **C. DISCUSSION**

12 **1) Inflation Factors**

13 Both DRA and GSWC applied the same inflation factors taken from the
14 Energy Cost of Service Branch of DRA, April 2011 Memorandum. DRA
15 recommends that the latest available inflation factors be used for the preparation of
16 the final Comparison Exhibit.

17 **2) Uncollectible Expense Rate**

18 GSWC’s uncollectible factor is based on an analysis of accounts that were
19 subsequently sent to collections and written-off as uncollectible, less any dollars
20 recovered by the collection agency. Therefore, the uncollectible expenses
21 included in O&M are comprised of the uncollectible amount net of the recoveries
22 received from the collection agency utilized by GSWC. GSWC then uses a five-
23 year average (2010-2006) ratio of uncollectible accounts (based on its
24 methodology) to recorded revenues and multiplies it by forecasted revenues to
25 determine the projected test year Uncollectible Expense.¹ GSWC’s methodology
26 produces an uncollectible rate of .337% in the test year for this CSA.

¹ Orozco Testimony, page 26.

1 DRA's normal practice is to base Uncollectible Expense on a five-year
2 (2010-2006) average percentage of uncollectible amount divided by the operating
3 revenues. DRA's approach results, in most Customer Service Areas (CSA), in a
4 rate lower than GSWC's. Below are the uncollectible rates for the indicated CSA
5 using DRA's methodology:

6	<u>Customer Service Area</u>	<u>Average Uncollectible Rate</u>
7	Arden-Cordova	.143 %
8	Bay Point	.466
9	Santa Maria	.099
10	Simi Valley	.226

11
12 The uncollectible amounts used by GSWC are higher than the historical
13 amounts recorded in GSWC's Summary of Earnings and appear to include
14 amounts carried over from prior years by the collection agency. DRA
15 recommends that the Commission adopt DRA's recommended uncollectible
16 percentage factor of .143% which is more accurate because it is based on using the
17 actual recorded uncollectible amounts. Table 3-1 at the end of the chapter
18 summarizes the differences between DRA's and GSWC's estimates for 2013.

19 **3) Water Supply Expense**

20 Supply Expense is the summation of (1) purchased water (if applicable to
21 the CSA), (2) purchased power or energy costs associated with the transmission
22 and distribution of water (electricity for wells and booster pumps for ground
23 water, and gas costs), (3) chemical costs for treating water, and (4) pump taxes.²

24 Purchased power costs are based on the most current rates for each of the
25 energy providers to GSWC. Forecasted energy usage is estimated using historical
26 averages. The historical ratio of kilowatt hours, or gas therms to volume of water
27 (CCF) is calculated and applied to the estimated total CCF of water supply for the

² In Region 1, the Ojai district is the only CSA that has a pump tax.

1 test year. DRA notes that the purchased power forecast methodology used by
2 GSWC has been adopted by the Commission in prior general rate cases.³

3 Purchased water costs are based on the most current rates for each of the
4 purveyors to GSWC. A composite unit cost of purchased water is calculated by
5 determining the total cost and dividing it by the total forecasted sales volume. The
6 purchased water suppliers for Region 1 are: (1) Contra Costa Water District for
7 Bay Point, (2) Yolo County Flood Control for Clearlake, (3) Casita MWD for
8 Ojai, (4) City of Santa Maria and Central Coast Water Authority for Santa Maria,
9 and (5) Calleguas MWD for Simi Valley. DRA notes that the purchased water
10 forecast methodology used by GSWC has been adopted by the Commission in
11 prior general rate cases.⁴

12 DRA reviewed GSWC's testimony, workpapers including historical data
13 used to estimate energy and chemical costs (historical kilowatt usage and chemical
14 unit costs), and purchased water agreements with the various purveyors. DRA
15 found the estimates and supporting data sufficient in detail and a reasonable basis
16 to forecast Supply Expense for Test Year 2013.

17 Total Supply Expense is a function of forecasted sales of well water
18 (production), purchased water and surface water treated and distributed.
19 Forecasted water sales are discussed in a separate DRA report. DRA's estimate of
20 Supply Expense was based on its estimated supply volume. In the Arden Cordova
21 CSA, DRA's total Supply expense differed from that of GSWC's because of
22 different forecasts for well production. DRA's total Chemicals expense also
23 differed from that of GSWC's because of different forecasts for total water supply
24 (CCF). Total Supply Expense for the 2013 totaled \$1,150,490 and is based on

³ Rosendo Testimony, page 4. A number of Commission decisions are cited having adopted GSWC's methodology.

⁴ Rosendo Testimony, page 8. A number of Commission decisions are cited having adopted GSWC's methodology.

1 DRA’s total forecasted water supply of 6,587,300 CCF. Table 3-1 at the end of
2 the chapter summarizes the differences between DRA’s and GSWC’s estimates for
3 2013.

4 **4) Allocated General Office-Billing & Cash Processing**

5 DRA’s estimates for allocated general office billing and cash processing
6 expenses are contained in a separate Exhibit, DRA-16, witness Donna Ramas.

7 **5) Operation and Maintenance Labor**

8 DRA’s estimates for operations and maintenance labor are contained in a
9 separate Exhibit, DRA-6, DRA witness Richard Rauschmeier.

10 ~~**6) Costs Removed From Capital Budget**~~

11 ~~DRA removed capital costs associated with certain plant and well~~
12 ~~destruction/razing assets. The costs were converted to expenses to be recovered~~
13 ~~over three years (2013-2015). The total amount of capital costs to be recovered as~~
14 ~~annual expenses is \$22,300 or \$7,433 per year for this CSA. For a full discussion~~
15 ~~of this issue, please see Exhibit DRA-3, witness Patrick Hoglund.~~

16 **7) Other Operation Expenses**

17 Table 3-1 at the end of the chapter summarizes the differences between
18 DRA’s and GSWC’s estimates for 2013. DRA reviewed GSWC’s workpapers,
19 testimony, and responses to data requests including supporting documents and
20 accounting information provided. Conservation expenses are shown separately in
21 Table 3-1 below for both DRA and GSWC. The discussion below summarizes the
22 specific differences in methodology between DRA and GSWC as well as other
23 adjustments made resulting from related DRA recommendations contained in
24 other testimony.

25 (a) Averaging Convention

26 GSWC’s forecast for Other Operations Expenses is based on the most
27 recent two-year average (2010-2009, adjusted for inflation). GSWC’s testimony

1 contained no rationale for using a period of less than five years. DRA used a five
2 year (2010-2006) adjusted period to estimate expenses because there were no
3 observable major variances in the five year period (other than in 2008⁵) justifying
4 a shorter period. Overall, the five year period represented a reasonable time
5 period to project expenses into the test year.

6 (b) Customer Growth Factors

7 GSWC's forecast for Other Operations Expenses is based on the
8 aforementioned time-period, plus adjusted for customer growth. Each year within
9 the averaging period is escalated using a customer growth factor of 101.06%.
10 DRA applied this factor only to 2014 and 2015. It is inappropriate to apply
11 customer growth factors to the preceding estimate and test years. DRA inquired as
12 to why GSWC applied a growth factor to all years. In response to DRA Data
13 Request JRC-04, Q.3, GSWC actually agreed with DRA that the Rate Case Plan
14 (RCP) Decision (D.) 07-05-062 allows utilities to use the customer growth factor
15 for escalation year requests, citing, "escalation year expenses may also be
16 increased by the most recent five-year average customer growth or other growth
17 factor adopted by the Commission."⁶ GSWC, however, deviated from the RCP by
18 applying the customer growth factor to the test year. GSWC's rationale is that
19 revenue calculation is based on customer growth in the transition years and test
20 year, and since there is customer growth in the revenue requirement, it follows that
21 expenses will also increase due to customer growth.⁷ DRA finds this rationale
22 unpersuasive and unsupported. Further, DRA's position is that Operations and
23 Maintenance Expense are primarily driven by activity and management decisions
24 to provide safe and reliable water distribution. The RCP decision recognizes this
25 as there is no allowance for customer growth in the test year.

⁵ 2008 Historical expenses showed a significant reduction as compared to 2007 and 2009.

⁶ GSWC response to DRA Data Request JRC-04, Q.3.

⁷ Ibid.

1 (c) Automated Vehicle Locating System (AVLS) Fees

2 GSWC's forecast for Other Operation Expenses includes AVLS services
3 fees of \$6,700 in 2013. In short, the AVLS system is a proposed security system
4 which entails installation of a GPS device on company vehicles plus a panic alert
5 key fob carried by the field service worker. The expenses requested in Region I
6 are new O&M expenses for the annual subscription fees required for these security
7 devices to work. DRA disagrees with GSWC's proposed "AVLS" program and
8 has removed those estimated expenses. For a full discussion of this issue, please
9 see Exhibit DRA-~~13~~-12, witness Pat Esule.

10 **8) Conservation Expenses**

11 DRA's estimates of conservation expenses are discussed in a separate
12 Exhibit, DRA-8, witness Maria Worster.

13 **9) Other Maintenance Expenses**

14 Table 3-1 at the end of the chapter summarizes the differences between
15 DRA's and GSWC's estimates for 2013. DRA reviewed GSWC's workpapers,
16 testimony, and responses to data requests including supporting documents and
17 accounting information provided. The discussion below summarizes the specific
18 differences in methodology between DRA and GSWC as well as other
19 adjustments made resulting from related DRA recommendations contained in
20 other testimony.

21 (a) Averaging Convention

22 GSWC's forecast for Other Maintenance Expenses is based on a five-year
23 (2010-2006, adjusted for inflation) period. DRA's estimates are also based on this
24 five-year period.

25 (b) Customer Growth Factors

26 GSWC's forecast for Other Maintenance Expenses is based on the
27 aforementioned time-period, plus adjusted for customer growth. Each year within

1 the averaging period is escalated using a customer growth factor of 101.06%.
2 DRA applied this factor only to 2014 and 2015. Please see the previous
3 discussion (above) for DRA's position.

4 (c) Disallowed Plant

5 DRA removed \$10,159 from the historical five year average expenses in
6 order to reflect disallowed maintenance expenses associated with plant that was
7 identified as no longer used and useful. Please see GSWC's response to DRA
8 Data Request JAU-03. For purposes of simplicity, DRA made the total adjustment
9 only to Other Maintenance Expenses (and not Other Operations Expenses). The
10 \$10,159 amount is the average of the sum of \$6,301 and \$14,016 as indicated in
11 the response to DRA Data Request JAU-03.⁸

12 **D. CONCLUSION**

13 The following table summarizes DRA's test year estimates and compares
14 them with that of GSWC:

⁸ See GSWC's response to DRA Data Request JAU-03.

TABLE 3-1 REVISED

GOLDEN STATE WATER COMPANY
ARDEN CORDOVA

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	9,935.9	10,371.3	435.4	4.4%
Uncollectible rate	0.1430%	0.3370%	0.19	135.7%
Uncollectibles	14.2	35.0	20.7	146.0%
<u>Operation Expenses</u>				
Purchased Water	0.0	0.0	0.0	0.0%
Purchased Power	1,150.5	1,241.6	91.1	7.9%
Pump Taxes	0.0	0.0	0.0	0.0%
Chemicals	91.3	107.4	16.1	17.6%
Allctd GO - Billing & Cash Processing	343.0	355.1	12.1	3.5%
Allctd Cmmn Cust. Acct. (Region)	0.0	0.0	0.0	0.0%
Allctd Cmmn Cust. Acct. (District)	0.0	0.0	0.0	0.0%
Postage	0.0	0.0	0.0	0.0%
Uncollectibles	14.2	35.0	20.7	146.0%
Operation Labor	652.9	684.9	32.0	4.9%
Other Operation Expenses	262.6	311.6	49.0	18.7%
Conservation	72.7	140.4	67.7	93.2%
Total Operation Expenses	2,587.2	2,875.8	288.7	11.2%
<u>Maintenance Expenses</u>				
Maintenance Labor	133.0	139.5	6.5	4.9%
Other Maintenance Expense	260.8	280.7	19.9	7.6%
Total Maintenance Expenses	393.8	420.1	26.3	6.7%
Costs removed from capital budget	0.0	0.0	0.0	0.0%
Total O & M Expenses (incl uncoll)	2,981.0	3,295.9	315.0	10.6%
<u>At proposed rates</u>				
Operating Revenues	11,217.7	12,887.3	1,669.6	14.9%
Uncollectible rate	0.1430%	0.3370%	0.19	135.7%
Uncollectibles	16.0	43.5	27.5	171.4%
Total O & M Expenses (incl uncoll)	2,982.8	3,304.5	321.7	10.8%

1

1 **CHAPTER 2: OPERATION AND MAINTENANCE EXPENSES-ARDEN CORDOVA**
2 **CSA**

3
4 **A. INTRODUCTION**

5 This report presents DRA’s investigation, analysis and recommendations
6 for Golden State Water Company’s (“GSWC”) request in A.11-07-017 for
7 Operation and Maintenance Expenses (“O&M”) for Test Year 2013 in GSWC’s
8 Region I, Bay Point Customer Service Area (“CSA”).

9 **B. SUMMARY OF RECOMMENDATIONS**

10 Table 3-1 at the end of the chapter presents the forecasted expenses of DRA
11 and GSWC for Test Year 2013.

12 **C. DISCUSSION**

13 **1) Inflation Factors**

14 Both DRA and GSWC applied the same inflation factors taken from the
15 Energy Cost of Service Branch of DRA, April 2011 Memorandum. DRA
16 recommends that the latest available inflation factors be used for the preparation of
17 the final Comparison Exhibit.

18 **2) Uncollectible Expense Rate**

19 GSWC’s uncollectible factor is based on an analysis of accounts that were
20 subsequently sent to collections and written-off as uncollectible, less any dollars
21 recovered by the collection agency. Therefore, the uncollectible expenses
22 included in O&M are comprised of the uncollectible amount net of the recoveries
23 received from the collection agency utilized by GSWC. GSWC then uses a five-
24 year average (2010-2006) ratio of uncollectible accounts (based on its
25 methodology) to recorded revenues and multiplies it by forecasted revenues to
26 determine the projected test year Uncollectible Expense.² GSWC’s methodology
27 produces an uncollectible rate of .5580% in the test year for this CSA.

²Orozco Testimony, page 26.

1 DRA’s normal practice is to base Uncollectible Expense on a five-year
 2 (2010-2006) average percentage of uncollectible amount divided by the operating
 3 revenues. DRA’s approach results, in most Customer Service Areas, in a rate
 4 lower than GSWC’s. Below are the uncollectible rates for the indicated CSA
 5 using DRA’s methodology:

6	<u>Customer Service Area</u>	<u>Average Uncollectible Rate</u>
7	Arden-Cordova	.143 %
8	Bay Point	.466
9	Santa Maria	.099
10	Simi Valley	.226

11
 12 The uncollectible amounts used by GSWC are higher than the historical
 13 amounts recorded in GSWC’s Summary of Earnings and appear to include
 14 amounts carried over from prior years by the collection agency. DRA
 15 recommends that the Commission adopt DRA’s recommended uncollectible
 16 percentage factor of .466% which is more accurate because it is based on using the
 17 actual recorded uncollectible amounts. Table 3-1 at the end of the chapter
 18 summarizes the differences between DRA’s and GSWC’s estimates for 2013.

19 **3) Water Supply Expense**

20 Supply Expense is the summation of (1) purchased water (if applicable to
 21 the CSA), (2) purchased power or energy costs associated with the transmission
 22 and distribution of water (electricity for wells and booster pumps for ground
 23 water, and gas costs), (3) chemical costs for treating water, and (4) pump taxes.¹⁰

24 Purchased power costs are based on the most current rates for each of the
 25 energy providers to GSWC. Forecasted energy usage is estimated using historical
 26 averages. The historical ratio of kilowatt hours, or gas therms to volume of water
 27 (CCF) is calculated and applied to the estimated total CCF of water supply for the

¹⁰ In Region 1, the Ojai district is the only CSA that has a pump tax.

1 test year. DRA notes that the purchased power forecast methodology used by
2 GSWC has been adopted by the Commission in prior general rate cases.¹¹

3 Purchased water costs are based on the most current rates for each of the
4 purveyors to GSWC. A composite unit cost of purchased water is calculated by
5 determining the total cost and dividing it by the total forecasted sales volume. The
6 purchased water suppliers for Region 1 are: (1) Contra Costa Water District for
7 Bay Point, (2) Yolo County Flood Control for Clearlake, (3) Casita MWD for
8 Ojai, (4) City of Santa Maria and Central Coast Water Authority for Santa Maria,
9 and (5) Calleguas MWD for Simi Valley. DRA notes that the purchased water
10 forecast methodology used by GSWC has been adopted by the Commission in
11 prior general rate cases.¹²

12 DRA reviewed GSWC's testimony, workpapers, including historical data
13 used to estimate energy and chemical costs (historical kilowatt usage and chemical
14 unit costs), and purchased water agreements with the various purveyors. DRA
15 found the estimates and supporting data sufficient in detail and a reasonable basis
16 to forecast Supply Expense for Test Year 2013.

17 Total Supply Expense is a function of forecasted sales of well water
18 (production), purchased water and surface water treated and distributed.
19 Forecasted water sales are discussed in a separate exhibit, DRA-10, witness
20 Mehboob Aslam. DRA's estimate of Supply Expense was based on its forecast of
21 supply volume. There were no differences between DRA and GSWC in total
22 delivered CCF. Table 3-1 at the end of the chapter summarizes the differences
23 between DRA's and GSWC's estimates for 2013.

¹¹ Rosendo Testimony, page 4. A number of Commission decisions are cited having adopted GSWC's methodology.

¹² Rosendo Testimony, page 8. A number of Commission decisions are cited having adopted GSWC's methodology.

1 **4) Allocated General Office-Billing & Cash Processing**

2 DRA’s estimates for allocated general office billing and cash processing
3 expenses are contained in a separate Exhibit, DRA-16, witness Donna Ramas.

4 **5) Operation and Maintenance Labor**

5 DRA’s estimates for operations and maintenance labor are contained in a
6 separate Exhibit, DRA-6, DRA witness Richard Rauschmeier.

7 **6) Other Operation Expenses**

8 Table 3-1 at the end of the chapter summarizes the differences between
9 DRA’s and GSWC’s estimates for 2013. DRA reviewed GSWC’s workpapers,
10 testimony, and responses to data requests including supporting documents and
11 accounting information provided. Conservation expenses are shown separately in
12 Table 3-1 below for both DRA and GSWC. The discussion below summarizes the
13 specific differences in methodology between DRA and GSWC as well as other
14 adjustments made resulting from related DRA recommendations contained in
15 other DRA testimony.

16 (a) Averaging Convention

17 GSWC’s forecast for Other Operations Expenses is based on the latest
18 recorded year (2010, adjusted for inflation). GSWC’s reason for the one-year
19 period is that because of operational changes, the 2010 year saw a dramatic
20 decrease in expenses.¹³ The reduced level of expenses is expected to continue
21 into the test year and beyond. DRA also used the 2010 year for its forecast.

22 (b) Customer Growth Factors

23 GSWC’s forecast for Other Operations Expenses is based on the
24 aforementioned time-period, plus adjusted for customer growth. The one year is
25 escalated using a customer growth factor of 100.01%. DRA applied this factor
26 only to 2014 and 2015. It is inappropriate to apply customer growth factors to the

¹³ Orozco Testimony, page 30.

1 preceding estimate and test years. DRA inquired as to why GSWC applied a
2 growth factor to all years. In response to DRA Data Request JRC-04, Q.3, GSWC
3 actually agreed with DRA that the Rate Case Plan (RCP) Decision (D.) 07-05-062
4 allows utilities to use the customer growth factor for escalation year requests,
5 citing, “escalation year expenses may also be increased by the most recent five-
6 year average customer growth or other growth factor adopted by the
7 Commission.”¹⁴ GSWC however deviated from established Commission policy
8 when it further explained its own methodology of also applying the customer
9 growth factor to the test year. GSWC’s rationale is that revenue calculation is
10 based on customer growth in the transition years and test year, and since there is
11 customer growth in the revenue requirement, it follows that expenses will also
12 increase due to customer growth.¹⁵ DRA finds this rationale unpersuasive, and
13 unsupported. Further, DRA’s position is that Operations and Maintenance
14 Expense are for the most part driven by activity and management decisions to
15 provide safe and reliable water distribution and the RCP decision must recognize
16 this as there is not allowance for customer growth in the test year.

17 (c) Automated Vehicle Locating System (AVLS) Fees

18 GSWC’s forecast for Other Operation Expenses includes AVLS services
19 fees of \$2,900 in 2013. In short, the AVLS system is a proposed security system
20 which entails installation of a GPS device on company vehicles plus a panic alert
21 key fob carried by the field service worker. The expenses requested in Region I
22 are new O&M expenses for the annual subscription fees required for these security
23 devices to work. DRA disagrees with GSWC’s proposed “AVLS” program and
24 has removed those estimated expenses. For a full discussion of this issue, please
25 see Exhibit DRA-~~13~~ 12, witness Pat Esule.

¹⁴ GSWC response to DRA Data Request JRC-04, Q.3.

¹⁵ Ibid.

1 **7) Conservation Expenses**

2 DRA’s estimates of conservation expenses are discussed in a separate
3 Exhibit, DRA-8, witness Maria Worster.

4 **8) Other Maintenance Expenses**

5 Table 3-1 at the end of the chapter summarizes the differences between
6 DRA’s and GSWC’s estimates for 2013. DRA reviewed GSWC’s workpapers,
7 testimony, and responses to data requests including supporting documents and
8 accounting information provided. The discussion below summarizes the specific
9 differences in methodology between DRA and GSWC as well as other
10 adjustments made resulting from related DRA recommendations contained in
11 other testimony.

12 (a) Averaging Convention

13 GSWC’s forecast for Other Maintenance Expenses is based on the latest
14 recorded data (2010, adjusted for inflation). GSWC’s rationale for this short
15 period is that this time period provides a more accurate projection of future
16 expenditures. GSWC cited an increase in main and reservoir maintenance in 2010
17 as further justification for the one year period.¹⁶

18 DRA’s estimates are based on a five-year period (2010-2006). DRA used a
19 five year adjusted period to estimate expenses because there were no observable
20 major variances in the five year period justifying a shorter period. Overall, the
21 five year period represented a reasonable time period to project expenses into the
22 test year. Adjusted recorded expenses in this time frame are reasonably
23 comparable and appear to form a reasonable basis for the test year forecast.

24 (b) Customer Growth Factors

25 GSWC’s forecast for Other Maintenance Expenses is based on the
26 aforementioned time-period, plus adjusted for customer growth. The one year is

¹⁶ Orozco Testimony, page 40.

1 escalated using a customer growth factor of 100.01%. DRA applied this factor
2 only to 2014 and 2015. Please see the previous discussion (above) for DRA's
3 position.

4 **D. CONCLUSION**

5 The following table summarizes DRA's test year estimates and compares
6 them with that of GSWC:

TABLE 3-1 REVISED

GOLDEN STATE WATER COMPANY
BAY POINT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	5,851.7	5,851.6	(0.1)	0.0%
Uncollectible rate	0.4660%	0.5580%	0.09	19.7%
Uncollectibles	27.3	32.6	5.3	19.4%
<u>Operation Expenses</u>				
Purchased Water	1,965.6	1,965.6	0.0	0.0%
Purchased Power	112.5	112.5	(0.0)	0.0%
Pump Taxes	0.0	0.0	0.0	0.0%
Chemicals	2.0	2.0	(0.0)	-1.5%
Allctd GO - Billing & Cash Processing	75.0	77.4	2.4	3.2%
Allctd Cmmn Cust. Acct. (Region)	0.0	0.0	0.0	0.0%
Allctd Cmmn Cust. Acct. (District)	0.0	0.0	0.0	0.0%
Postage	0.0	0.0	0.0	0.0%
Uncollectibles	27.3	32.6	5.3	19.4%
Operation Labor	276.6	284.3	7.7	2.8%
Other Operation Expenses	84.5	87.0	2.5	3.0%
Conservation	6.4	19.0	12.6	197.1%
Total Operation Expenses	2,549.9	2,580.5	30.6	1.2%
<u>Maintenance Expenses</u>				
Maintenance Labor	39.5	40.6	1.1	2.8%
Other Maintenance Expense	110.6	122.5	11.9	10.8%
Total Maintenance Expenses	150.1	163.1	13.0	8.7%
Total O & M Expenses (incl uncoll)	2,700.0	2,743.6	43.7	1.6%
<u>At proposed rates</u>				
Operating Revenues	5,403.0	6,651.2	1,248.3	23.1%
Uncollectible rate	0.4660%	0.5580%	0.09	19.7%
Uncollectibles	25.2	37.1	11.9	47.4%
Total O & M Expenses (incl uncoll)	2,697.9	2,748.0	50.1	1.9%

1 DRA reviewed GSWC’s computation and concurs with the computed
2 uncollectible expense rate for this CSA. Table 3-1 at the end of the chapter
3 summarizes the differences between DRA’s and GSWC’s estimates for 2013.

4 **3) Water Supply Expense**

5 Supply Expense is the summation of (1) purchased water (if applicable to
6 the CSA), (2) purchased power or energy costs associated with the transmission
7 and distribution of water (electricity for wells and booster pumps for ground
8 water, and gas costs), (3) chemical costs for treating water, and (4) pump taxes.¹⁸

9 Purchased power costs are based on the most current rates for each of the
10 energy providers to GSWC. Forecasted energy usage is estimated using historical
11 averages. The historical ratio of kilowatt hours, or gas therms to volume of water
12 (CCF) is calculated and applied to the estimated total CCF of water supply for the
13 test year. DRA notes that the purchased power forecast methodology used by
14 GSWC has been adopted by the Commission in prior general rate cases.¹⁹

15 Purchased water costs are based on the most current rates for each of the
16 purveyors to GSWC. A composite unit cost of purchased water is calculated by
17 determining the total cost and dividing it by the total forecasted sales volume. The
18 purchased water suppliers for Region 1 are: (1) Contra Costa Water District for
19 Bay Point, (2) Yolo County Flood Control for Clearlake, (3) Casita MWD for
20 Ojai, (4) City of Santa Maria and Central Coast Water Authority for Santa Maria,
21 and (5) Calleguas MWD for Simi Valley. DRA notes that the purchased water
22 forecast methodology used by GSWC has been adopted by the Commission in
23 prior general rate cases.²⁰

¹⁸ In Region 1, the Ojai district is the only CSA that has a pump tax.

¹⁹ Rosendo Testimony, page 4. A number of Commission decisions are cited having adopted GSWC’s methodology.

²⁰ Rosendo Testimony, page 8. A number of Commission decisions are cited having adopted GSWC’s methodology.

1 DRA reviewed GSWC's testimony, workpapers including historical data
2 used to estimate energy and chemical costs (historical kilowatt usage and chemical
3 unit costs), and purchased water agreements with the various purveyors. DRA
4 found the estimates and supporting data sufficient in detail and a reasonable basis
5 to forecast Supply Expense for Test Year 2013.

6 Total Supply Expense is a function of forecasted sales of well water
7 (production), purchased water and surface water treated and distributed.
8 Forecasted water sales are discussed in a separate DRA report. DRA's estimate of
9 Supply Expense was based on its forecasted supply volume. There were no
10 differences between DRA and GSWC in total delivered CCF. Table 3-1 at the end
11 of the chapter summarizes the differences between DRA's and GSWC's estimates
12 for 2013.

13 **4) Allocated General Office-Billing & Cash Processing**

14 DRA's estimates for allocated general office billing and cash processing
15 expenses are contained in a separate Exhibit, DRA-16, witness Donna Ramas.

16 **5) Operation and Maintenance Labor**

17 DRA's estimates for operation and maintenance labor are contained in a
18 separate Exhibit, DRA-6, DRA witness Richard Rauschmeier.

19 **6) Other Operation Expenses**

20 Table 3-1 at the end of the chapter summarizes the differences between
21 DRA's and GSWC's estimates for 2013. DRA reviewed GSWC's workpapers,
22 testimony, and responses to data requests including supporting documents and
23 accounting information provided. Conservation expenses are shown separately in
24 Table 3-1 below for both DRA and GSWC. The discussion below summarizes the
25 specific differences in methodology between DRA and GSWC as well as other
26 adjustments made resulting from related DRA recommendations contained in
27 other testimony.

1 (a) Averaging Convention

2 GSWC's forecast for Other Operation Expenses is based on a five-year
3 (2010-2006, adjusted for inflation) period. GSWC's testimony contained no
4 rationale for using this period despite an observable decrease in the level of
5 expenses for the three year period 2008 through 2010. DRA used a three year
6 period (2010-2008) to estimate expenses because of the larger expense level in the
7 2005 through 2007 period as compared to the lower expenses in the 2008 through
8 2010 time frame. Overall, the three-year period used by DRA represents a
9 reasonable time period to project expenses into the test year because of the
10 consistently lower level of expenses in this time frame. Adjusted recorded
11 expenses in this time frame are reasonably comparable and appear to form a
12 reasonable basis for the test year forecast.

13 (b) Customer Growth Factors

14 GSWC's forecast for Other Operation Expenses is based on the
15 aforementioned time-period, plus adjusted for customer growth. Each year within
16 the averaging period is escalated using a customer growth factor of 100.37%.
17 DRA applied this factor only to 2014 and 2015. It is inappropriate to apply
18 customer growth factors to the preceding estimate and test years. DRA inquired as
19 to why GSWC applied a growth factor to all years. In response to DRA Data
20 Request JRC-04, Q.3, GSWC actually agreed with DRA that the Rate Case Plan
21 (RCP) Decision (D.) 07-05-062 allows utilities to use the customer growth factor
22 for escalation year requests, citing, "escalation year expenses may also be
23 increased by the most recent five-year average customer growth or other growth
24 factor adopted by the Commission."²¹ GSWC however deviated from established
25 Commission policy when it further explained its own methodology of also
26 applying the customer growth factor to the test year. GSWC's rationale is that

²¹ GSWC response to DRA Data Request JRC-04, Q.3.

1 revenue calculation is based on customer growth in the transition years and test
2 year, and since there is customer growth in the revenue requirement, it follows that
3 expenses will also increase due to customer growth.²² DRA finds this rationale
4 unpersuasive, and unsupported. Further, DRA's position is that Operation and
5 Maintenance Expense are for the most part driven by activity and management
6 decisions to provide safe and reliable water distribution and the RCP decision
7 must recognize this as there is not allowance for customer growth in the test year.

8 (c) Automated Vehicle Locating System (AVLS) Fees

9 GSWC's forecast for Other Operation Expenses includes AVLS services
10 fees of \$1,900 in 2013. In short, the AVLS system is a proposed security system
11 which entails installation of a GPS device on company vehicles plus a panic alert
12 key fob carried by the field service worker. The expenses requested in Region I
13 are new O&M expenses for the annual subscription fees required for these security
14 devices to work. DRA disagrees with GSWC's proposed "AVLS" program and
15 has removed those estimated expenses. For a full discussion of this issue, please
16 see Exhibit DRA-~~13~~ 12, witness Pat Esule.

17 **7) Conservation Expenses**

18 DRA's estimates of conservation expenses are discussed in a separate
19 Exhibit, DRA-8, witness Maria Worster.

20 **8) Other Maintenance Expenses**

21 Table 3-1 at the end of the chapter summarizes the differences between
22 DRA's and GSWC's estimates for 2013. DRA reviewed GSWC's workpapers,
23 testimony, and responses to data requests including supporting documents and
24 accounting information provided. The discussion below summarizes the specific
25 differences in methodology between DRA and GSWC as well as other

²² Ibid.

1 adjustments made resulting from related DRA recommendations contained in
2 other testimony.

3 **9) Averaging Convention**

4 GSWC's forecast for Other Maintenance Expenses is based on a five-year
5 (2010-2006, adjusted for inflation) period. GSWC asserted that it used a five year
6 period because of anticipated fluctuations in expenses expected in the test years.²³
7 GSWC used a five-year averaging period in the Clearlake CSA yet expenses do
8 not indicate "fluctuations" or significant variances. Other Maintenance Expenses
9 in the Clearlake CSA indicate a decrease in the 2009 and 2010 years, while the
10 previous years' expenses are reasonably comparable.

11 DRA's estimates are based on a two year period (2010-2009) because of
12 the larger expense level in the 2006 through 2008 period as compared to the lower
13 expenses in the 2009 through 2010 time frame. Overall, the two-year period used
14 by DRA represents a reasonable time period to project expenses into the test year
15 and is consistent with GSWC's use of two year averaging conventions when
16 expenses appear to be trending lower.

17 (a) Customer Growth Factors

18 GSWC's forecast for Other Maintenance Expenses is based on the
19 aforementioned time-period, plus adjusted for customer growth. Each year within
20 the averaging period is escalated using a customer growth factor of 100.37%.
21 DRA applied this factor only to 2014 and 2015. Please see the previous
22 discussion (above) for DRA's position.

23 **D. CONCLUSION**

24 The following table summarizes DRA's test year estimates and compares
25 them with that of GSWC:

²³ GSWC's response to DRA Data Request JRC-06, Q.2.

TABLE 3-1 REVISED

GOLDEN STATE WATER COMPANY
CLEARLAKE

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	2,058.9	2,059.0	0.1	0.0%
Uncollectible rate	0.6300%	0.6300%	0.00	0.0%
Uncollectibles	13.0	13.0	0.0	0.0%
<u>Operation Expenses</u>				
Purchased Water	21.5	21.5	0.0	0.0%
Purchased Power	72.6	72.6	0.0	0.0%
Pump Taxes	0.0	0.0	0.0	0.0%
Chemicals	39.0	39.0	0.0	0.0%
Allctd GO - Billing & Cash Processing	25.0	26.0	1.0	4.0%
Allctd Cmmn Cust. Acct. (Region)	0.0	0.0	0.0	0.0%
Allctd Cmmn Cust. Acct. (District)	0.0	0.0	0.0	0.0%
Postage	0.0	0.0	0.0	0.0%
Uncollectibles	13.0	13.0	0.0	0.0%
Operation Labor	285.0	301.2	16.2	5.7%
Other Operation Expenses	81.5	102.0	20.5	25.1%
Conservation	1.4	5.1	3.7	257.9%
Total Operation Expenses	539.0	580.2	41.2	7.7%
<u>Maintenance Expenses</u>				
Maintenance Labor	54.2	57.3	3.1	5.7%
Other Maintenance Expense	49.6	63.7	14.1	28.4%
Total Maintenance Expenses	103.8	121.0	17.2	16.6%
Total O & M Expenses (incl uncoll)	642.8	701.2	58.4	9.1%
<u>At proposed rates</u>				
Operating Revenues	2,074.0	2,216.1	142.1	6.8%
Uncollectible rate	0.6300%	0.6300%	0.00	0.0%
Uncollectibles	13.1	14.0	0.9	6.8%
Total O & M Expenses (incl uncoll)	642.9	702.2	59.3	9.2%

1 **CHAPTER 4: OPERATION AND MAINTENANCE EXPENSES-LOS OSOS-**
2 **CSA**

3 **A. INTRODUCTION**

4 This report presents DRA’s investigation, analysis and recommendations
5 for Golden State Water Company’s (“GSWC”) request in A.11-07-017 for
6 Operation and Maintenance Expenses (“O&M”) for Test Year 2013 in GSWC’s
7 Region I, Los Osos Customer Service Area (“CSA”).

8 **B. SUMMARY OF RECOMMENDATIONS**

9 Table 3-1 at the end of the chapter presents the forecasted expenses of DRA
10 and GSWC for Test Year 2013.

11 **C. DISCUSSION**

12 **1) Inflation Factors**

13 Both DRA and GSWC applied the same inflation factors taken from the
14 Energy Cost of Service Branch of DRA, April 2011 Memorandum. DRA
15 recommends that the latest available inflation factors be used for the preparation of
16 the final Comparison Exhibit.

17 **2) Uncollectible Expense Rate**

18 GSWC’s uncollectible factor is based on an analysis of accounts that were
19 subsequently sent to collections and written-off as uncollectible, less any dollars
20 recovered by the collection agency. Therefore, the uncollectible expenses
21 included in O&M are comprised of the uncollectible amount net of the recoveries
22 received from the collection agency utilized by GSWC. GSWC then uses a five-
23 year average (2010-2006) ratio of uncollectible accounts (based on its
24 methodology) to recorded revenues and multiplies it by forecasted revenues to
25 determine the projected test year Uncollectible Expense.²⁴ GSWC’s methodology
26 produces an uncollectible rate of .1110% in the test year for this CSA.

²⁴ Orozco Testimony, page 26.

1 DRA reviewed GSWC’s computation and concurs with the computed
2 uncollectible expense rate for this CSA. Table 3-1 at the end of the chapter
3 summarizes the differences between DRA’s and GSWC’s estimates for 2013.

4 **3) Water Supply Expense**

5 Supply Expense is the summation of (1) purchased water (if applicable to
6 the CSA), (2) purchased power or energy costs associated with the transmission
7 and distribution of water (electricity for wells and booster pumps for ground
8 water, and gas costs), (3) chemical costs for treating water, and (4) pump taxes.²⁵

9 Purchased power costs are based on the most current rates for each of the
10 energy providers to GSWC. Forecasted energy usage is estimated using historical
11 averages. The historical ratio of kilowatt hours, or gas therms to volume of water
12 (CCF) is calculated and applied to the estimated total CCF of water supply for the
13 test year. DRA notes that the purchased power forecast methodology used by
14 GSWC has been adopted by the Commission in prior general rate cases.²⁶

15 Purchased water costs are based on the most current rates for each of the
16 purveyors to GSWC. A composite unit cost of purchased water is calculated by
17 determining the total cost and dividing it by the total forecasted sales volume. The
18 purchased water suppliers for Region 1 are: (1) Contra Costa Water District for
19 Bay Point, (2) Yolo County Flood Control for Clearlake, (3) Casita MWD for
20 Ojai, (4) City of Santa Maria and Central Coast Water Authority for Santa Maria,
21 and (5) Calleguas MWD for Simi Valley. DRA notes that the purchased water
22 forecast methodology used by GSWC has been adopted by the Commission in
23 prior general rate cases.²⁷

²⁵ In Region 1, the Ojai district is the only CSA that has a pump tax.

²⁶ Rosendo Testimony, page 4. A number of Commission decisions are cited having adopted GSWC’s methodology.

²⁷ Rosendo Testimony, page 8. A number of Commission decisions are cited having adopted GSWC’s methodology.

1 DRA reviewed GSWC's testimony, workpapers, including historical data
2 used to estimate energy and chemical costs (historical kilowatt usage and chemical
3 unit costs), and purchased water agreements with the various purveyors. DRA
4 found the estimates and supporting data sufficient in detail and a reasonable basis
5 to forecast Supply Expense for Test Year 2013.

6 Total Supply Expense is a function of forecasted sales of well water
7 (production), purchased water and surface water treated and distributed.
8 Forecasted water sales are discussed in a separate DRA report. DRA's estimate of
9 Supply Expense was based on its forecast of supply volume. There were no
10 differences between DRA and GSWC in total delivered CCF. Table 3-1 at the end
11 of the chapter summarizes the differences between DRA's and GSWC's estimates
12 for 2013.

13 **4) Allocated General Office-Billing & Cash Processing**

14 DRA's estimates for allocated general office billing and cash processing
15 expenses are contained in a separate Exhibit, DRA-16, witness Donna Ramas.

16 **5) Operation and Maintenance Labor**

17 DRA's estimates for operations and maintenance labor are contained in a
18 separate Exhibit DRA-6, DRA witness Richard Rauschmeier.

19 **6) Costs Removed From Capital Budget**

20 DRA removed capital costs associated with certain plant and well
21 destruction/razing assets. These costs were converted to expenses to be recovered
22 over three years (2014-2016). The total amount of capital costs to be recovered as
23 annual expenses is \$159,200 or \$53,067 per year for this CSA. For a full
24 discussion of this issue, please see Exhibit DRA-3, witness Patrick Hoglund

25 **7) Other Operation Expenses**

26 Table 3-1 at the end of the chapter summarizes the differences between
27 DRA's and GSWC's estimates for 2013. DRA reviewed GSWC's workpapers,
28 testimony, and responses to data requests including supporting documents and

1 accounting information provided. Conservation expenses are shown separately in
2 Table 3-1 below for both DRA and GSWC. The discussion below summarizes the
3 specific differences in methodology between DRA and GSWC as well as other
4 adjustments made resulting from related DRA recommendations contained in
5 other DRA testimony.

6 (a) Averaging Convention

7 GSWC's forecast for Other Operations Expenses is based on a two year
8 period (2010-2009, adjusted for inflation). GSWC's reason for the two-year
9 period is that it experienced an increase in fees for hazardous waste removal due to
10 a change in the treatment process for such waste. This resulted in higher expenses
11 in 2009 and 2010.²⁸ DRA also used the same two year time frame to estimate
12 Other Operations Expense.

13 (b) Customer Growth Factors

14 GSWC's forecast for Other Operations Expenses is based on the
15 aforementioned time-period, plus adjusted for customer growth. Each year within
16 the averaging period is escalated using a customer growth factor of 100.08%.
17 DRA applied this factor only to 2014 and 2015. It is inappropriate to apply
18 customer growth factors to the preceding estimate and test years. DRA inquired as
19 to why GSWC applied a growth factor to all years. In response to DRA Data
20 Request JRC-04, Q.3, GSWC actually agreed with DRA that the Rate Case Plan
21 (RCP) Decision (D.) 07-05-062 allows utilities to use the customer growth factor
22 for escalation year requests, citing, "escalation year expenses may also be
23 increased by the most recent five-year average customer growth or other growth
24 factor adopted by the Commission."²⁹ GSWC however deviated from established
25 Commission policy when it further explained its own methodology of also

²⁸ GSWC's response to DRA Data Request JRC-06, Q.3. Also see Orozco Testimony, page 31.

²⁹ GSWC response to DRA Data Request JRC-04, Q.3.

1 applying the customer growth factor to the test year. GSWC's rationale is that
2 revenue calculation is based on customer growth in the transition years and test
3 year, and since there is customer growth in the revenue requirement, it follows that
4 expenses will also increase due to customer growth.³⁰ DRA finds this rationale
5 unpersuasive, and unsupported. Further, DRA's position is that Operations and
6 Maintenance Expense are for the most part driven by activity and management
7 decisions to provide safe and reliable water distribution and the RCP decision
8 must recognize this as there is not allowance for customer growth in the test year.

9 (c) Automated Vehicle Locating System (AVLS) Fees

10 GSWC's forecast for Other Operation Expenses includes AVLS services
11 fees of \$2,900 in 2013. In short, the AVLS system is a proposed security system
12 which entails installation of a GPS device on company vehicles plus a panic alert
13 key fob carried by the field service worker. The expenses requested in Region I
14 are new O&M expenses for the annual subscription fees required for these security
15 devices to work. DRA disagrees with GSWC's proposed "AVLS" program and
16 has removed those estimated expenses. For a full discussion of this issue, please
17 see Exhibit DRA-~~43~~12, witness Pat Esule.

18 **8) Conservation Expenses**

19 DRA's estimates of conservation expenses are discussed in a separate
20 Exhibit, DRA-8, witness Maria Worster.

21 **9) Other Maintenance Expenses**

22 Table 3-1 at the end of the chapter summarizes the differences between
23 DRA's and GSWC's estimates for 2013. DRA reviewed GSWC's workpapers,
24 testimony, and responses to data requests including supporting documents and
25 accounting information provided. The discussion below summarizes the specific
26 differences in methodology between DRA and GSWC as well as other

³⁰ Ibid.

1 adjustments made resulting from related DRA recommendations contained in
2 other testimony.

3 (a) Averaging Convention

4 GSWC's forecast for Other Maintenance Expenses is based on a trended
5 forecast of the most recent three years of historical data (2010-2008, adjusted for
6 inflation). GSWC's rationale for this short period and the trending methodology is
7 that expenses for well, pump and main maintenance have been trending upward
8 over this three-year period.³¹ DRA's estimates are also based on this three year
9 (trended) period.

10 (b) Customer Growth Factors

11 GSWC's forecast for Other Maintenance Expenses is based on the
12 aforementioned time-period, plus adjusted for customer growth. Each year within
13 the averaging period is escalated using a customer growth factor of 100.08%.
14 DRA applied this factor only to 2014 and 2015. Please see the previous
15 discussion (above) for DRA's position.

16 **D. CONCLUSION**

17 The following table summarizes DRA's test year estimates and compares
18 them with that of GSWC:

³¹ Orozco Testimony, page 40.

TABLE 3-1 REVISED

GOLDEN STATE WATER COMPANY
LOS OSOS

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	3,040.5	3,040.5	0.0	0.0%
Uncollectible rate	0.1110%	0.1110%	0.00	0.0%
Uncollectibles	3.4	3.4	0.0	0.0%
<u>Operation Expenses</u>				
Purchased Water	0.0	0.0	0.0	0.0%
Purchased Power	181.2	181.2	0.0	0.0%
Pump Taxes	0.0	0.0	0.0	0.0%
Chemicals	268.7	268.7	0.0	0.0%
Allctd GO - Billing & Cash Processing	45.0	46.8	1.8	4.0%
Allctd Cmmn Cust. Acct. (Region)	0.0	0.0	0.0	0.0%
Allctd Cmmn Cust. Acct. (District)	0.0	0.0	0.0	0.0%
Postage	0.0	0.0	0.0	0.0%
Uncollectibles	3.4	3.4	0.0	0.0%
Operation Labor	272.7	320.9	48.2	17.7%
Other Operation Expenses	174.0	177.1	3.1	1.8%
Conservation	6.3	12.4	6.0	95.6%
Total Operation Expenses	951.3	1,010.3	59.1	6.2%
<u>Maintenance Expenses</u>				
Maintenance Labor	49.2	57.9	8.7	17.7%
Other Maintenance Expense	362.3	362.3	0.0	0.0%
Total Maintenance Expenses	411.5	420.2	8.7	2.1%
Total O & M Expenses (incl uncoll)	1,362.8	1,430.5	67.8	5.0%
<u>At proposed rates</u>				
Operating Revenues	3,757.0	4,519.2	762.2	20.3%
Uncollectible rate	0.1110%	0.1110%	0.00	0.0%
Uncollectibles	4.2	5.0	0.8	20.3%
Total O & M Expenses (incl uncoll)	1,363.6	1,432.2	68.6	5.0%

1

1 **CHAPTER 5: OPERATION AND MAINTENANCE EXPENSES-OJAI-CSA**

2 **A. INTRODUCTION**

3 This report presents DRA’s investigation, analysis and recommendations
4 for Golden State Water Company’s (“GSWC”) request in A.11-07-017 for
5 Operation and Maintenance Expenses (“O&M”) for Test Year 2013 in GSWC’s
6 Region I, Ojai Customer Service Area (“CSA”).

7 **B. SUMMARY OF RECOMMENDATIONS**

8 Table 3-1 at the end of the chapter presents the forecasted expenses of DRA
9 and GSWC for Test Year 2013.

10 **C. DISCUSSION**

11 **1) Inflation Factors**

12 Both DRA and GSWC applied the same inflation factors taken from the
13 Energy Cost of Service Branch of DRA, April 2011 Memorandum. DRA
14 recommends that the latest available inflation factors be used for the preparation of
15 the final Comparison Exhibit.

16 **2) Uncollectible Expense Rate**

17 GSWC’s uncollectible factor is based on an analysis of accounts that were
18 subsequently sent to collections and written-off as uncollectible, less any dollars
19 recovered by the collection agency. Therefore, the uncollectible expenses
20 included in O&M are comprised of the uncollectible amount net of the recoveries
21 received from the collection agency utilized by GSWC. GSWC then uses a five-
22 year average (2010-2006) ratio of uncollectible accounts (based on its
23 methodology) to recorded revenues and multiplies it by forecasted revenues to
24 determine the projected test year Uncollectible Expense.³² GSWC’s methodology
25 produces an uncollectible rate of .1480% in the test year for this CSA.

³² Orozco Testimony, page 26.

1 DRA reviewed GSWC’s computation and concurs with the computed
2 uncollectible expense rate for this CSA. Table 3-1 at the end of the chapter
3 summarizes the differences between DRA’s and GSWC’s estimates for 2013.

4 **3) Water Supply Expense**

5 Supply Expense is the summation of (1) purchased water (if applicable to
6 the CSA), (2) purchased power or energy costs associated with the transmission
7 and distribution of water (electricity for wells and booster pumps for ground
8 water, and gas costs), (3) chemical costs for treating water, and (4) pump taxes.³³

9 Purchased power costs are based on the most current rates for each of the
10 energy providers to GSWC. Forecasted energy usage is estimated using historical
11 averages. The historical ratio of kilowatt hours, or gas therms to volume of water
12 (CCF) is calculated and applied to the estimated total CCF of water supply for the
13 test year. DRA notes that the purchased power forecast methodology used by
14 GSWC has been adopted by the Commission in prior general rate cases.³⁴

15 Purchased water costs are based on the most current rates for each of the
16 purveyors to GSWC. A composite unit cost of purchased water is calculated by
17 determining the total cost and dividing it by the total forecasted sales volume. The
18 purchased water suppliers for Region 1 are: (1) Contra Costa Water District for
19 Bay Point, (2) Yolo County Flood Control for Clearlake, (3) Casita MWD for
20 Ojai, (4) City of Santa Maria and Central Coast Water Authority for Santa Maria,
21 and (5) Calleguas MWD for Simi Valley. DRA notes that the purchased water
22 forecast methodology used by GSWC has been adopted by the Commission in
23 prior general rate cases.³⁵

³³ In Region 1, the Ojai district is the only CSA that has a pump tax.

³⁴ Rosendo Testimony, page 4. A number of Commission decisions are cited having adopted GSWC’s methodology.

³⁵ Rosendo Testimony, page 8. A number of Commission decisions are cited having adopted GSWC’s methodology.

1 DRA reviewed GSWC's testimony, workpapers, including historical data
2 used to estimate energy and chemical costs (historical kilowatt usage and chemical
3 unit costs), and purchased water agreements with the various purveyors. DRA
4 found the estimates and supporting data sufficient in detail and a reasonable basis
5 to forecast Supply Expense for Test Year 2013.

6 Total Supply Expense is a function of forecasted sales of well water
7 (production), purchased water and surface water treated and distributed.
8 Forecasted water sales are discussed in a separate DRA report. DRA's estimate of
9 Supply Expense was based on its forecast of supply volume. There were no
10 differences between DRA and GSWC in total delivered CCF. Table 3-1 at the end
11 of the chapter summarizes the differences between DRA's and GSWC's estimates
12 for 2013.

13 **4) Allocated General Office-Billing & Cash Processing**

14 DRA's estimates for allocated general office billing and cash processing
15 expenses are contained in a separate Exhibit, DRA-16, witness Donna Ramas.

16 **5) Operation and Maintenance Labor**

17 DRA's estimates for operations and maintenance labor are contained in a
18 separate Exhibit, DRA-6, DRA witness Richard Rauschmeier.

19 **6) Other Operation Expenses**

20 Table 3-1 at the end of the chapter summarizes the differences between
21 DRA's and GSWC's estimates for 2013. DRA reviewed GSWC's workpapers,
22 testimony, and responses to data requests including supporting documents and
23 accounting information provided. Conservation expenses are shown separately in
24 Table 3-1 below for both DRA and GSWC. The discussion below summarizes the
25 specific differences in methodology between DRA and GSWC as well as other
26 adjustments made resulting from related DRA recommendations contained in
27 other DRA testimony.

1 (a) Averaging Convention

2 GSWC's forecast for Other Operations Expenses is based on a five-year
3 period (2010-2006, adjusted for inflation). DRA also used the same five-year time
4 frame to estimate Other Operations Expense. Adjusted recorded expenses are
5 reasonably comparable and appear to reasonably form a basis for the test year
6 forecast.

7 (b) Customer Growth Factors

8 GSWC's forecast for Other Operations Expenses is based on the
9 aforementioned time-period, plus adjusted for customer growth. Each year within
10 the averaging period is escalated using a customer growth factor of 100.36%.
11 DRA applied this factor only to 2014 and 2015. It is inappropriate to apply
12 customer growth factors to the preceding estimate and test years. DRA inquired as
13 to why GSWC applied a growth factor to all years. In response to DRA Data
14 Request JRC-04, Q.3, GSWC actually agreed with DRA that the Rate Case Plan
15 (RCP) Decision (D.) 07-05-062 allows utilities to use the customer growth factor
16 for escalation year requests, citing, "escalation year expenses may also be
17 increased by the most recent five-year average customer growth or other growth
18 factor adopted by the Commission."³⁶ GSWC however deviated from established
19 Commission policy when it further explained its own methodology of also
20 applying the customer growth factor to the test year. GSWC's rationale is that
21 revenue calculation is based on customer growth in the transition years and test
22 year, and since there is customer growth in the revenue requirement, it follows that
23 expenses will also increase due to customer growth.³⁷ DRA finds this rationale
24 unpersuasive, and unsupported. Further, DRA's position is that Operations and
25 Maintenance Expense are for the most part driven by activity and management

³⁶ GSWC response to DRA Data Request JRC-04, Q.3.

³⁷ Ibid.

1 decisions to provide safe and reliable water distribution and the RCP decision
2 must recognize this as there is not allowance for customer growth in the test year.

3 (c) Automated Vehicle Locating System (AVLS) Fees

4 GSWC's forecast for Other Operation Expenses includes AVLS services
5 fees of \$2,400 in 2013. In short, the AVLS system is a proposed security system
6 which entails installation of a GPS device on company vehicles plus a panic alert
7 key fob carried by the field service worker. The expenses requested in Region I
8 are new O&M expenses for the annual subscription fees required for these security
9 devices to work. DRA disagrees with GSWC's proposed "AVLS" program and
10 has removed those estimated expenses. For a full discussion of this issue, please
11 see Exhibit DRA-~~43~~12, witness Pat Esule.

12 **7) Conservation Expenses**

13 DRA's estimates of conservation expenses are discussed in a separate
14 Exhibit, DRA-8, witness Maria Worster.

15 **8) Other Maintenance Expenses**

16 Table 3-1 at the end of the chapter summarizes the differences between
17 DRA's and GSWC's estimates for 2013. DRA reviewed GSWC's workpapers,
18 testimony, and responses to data requests including supporting documents and
19 accounting information provided. The discussion below summarizes the specific
20 differences in methodology between DRA and GSWC as well as other
21 adjustments made resulting from related DRA recommendations contained in
22 other testimony.

23 (a) Averaging Convention

24 GSWC's forecast for Other Maintenance Expenses is based on the most
25 recent three years of historical data (2010-2008, adjusted for inflation). GSWC's
26 rationale for this short period is that expenses have varied significantly over the

1 five year historical period, and if used, the five-year time frame would result in a
2 test year estimate lower than two of the last three recorded years.³⁸

3 GSWC asserted a similar rationale with respect to Other Maintenance
4 Expenses in the Clearlake CSA. In response to DRA Data Request JRC-06,
5 Q.2(a), GSWC stated “GSWC used a five year average because we anticipate that
6 the fluctuations in expenses will continue in the test years.”³⁹ GSWC uses similar
7 reasoning to corroborate two different averaging time periods. GSWC used a five-
8 year averaging period in the Clearlake CSA yet expenses do not indicate
9 “fluctuations” or significant variances. Other Maintenance Expenses in the
10 Clearlake CSA indicate a decrease in the 2009 and 2010 years, while the previous
11 years’ expenses are reasonably comparable.

12 DRA’s estimates in the Ojai CSA are based on a five year period (2010-
13 2006) because this time period represents a reasonable time period to project
14 expenses into the test year because of the comparable fluctuations in recorded
15 expenses. In response to DRA Data Request JRC-06, Q.6, GSWC asserted that
16 the issues faced by management vary from year to year,⁴⁰ this statement
17 corroborates a five-year average as this time period will capture the year-to-year
18 variance in maintenance issues faced by GSWC. In short, adjusted recorded
19 expenses for the five-period are reasonably comparable and appear to reasonably
20 form a basis for the test year forecast.

21 (b) Customer Growth Factors

22 GSWC’s forecast for Other Maintenance Expenses is based on the
23 aforementioned time-period, plus adjusted for customer growth. Each year within
24 the averaging period is escalated using a customer growth factor of 100.36%.

³⁸ Orozco Testimony, page 41.

³⁹ GSWC’s response to DRA Data Request JRC-06, Q.2.

⁴⁰ GSWC’s response to DRA Data Request JRC-06, Q.6.

1 DRA applied this factor only to 2014 and 2015. Please see the previous
2 discussion (above) for DRA's position.

3 **D. CONCLUSION**

4 The following table summarizes DRA's test year estimates and compares
5 them with that of GSWC:

TABLE 3-1 REVISED

GOLDEN STATE WATER COMPANY
OJAI

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	5,382.3	5,382.2	(0.1)	0.0%
Uncollectible rate	0.1480%	0.1480%	0.00	0.0%
Uncollectibles	8.0	8.0	(0.0)	0.0%
<u>Operation Expenses</u>				
Purchased Water	504.5	504.5	0.0	0.0%
Purchased Power	230.1	230.1	0.0	0.0%
Pump Taxes	35.8	35.8	0.0	0.0%
Chemicals	36.2	36.2	0.0	0.0%
Allctd GO - Billing & Cash Processing	57.0	58.9	1.9	3.3%
Allctd Cmmn Cust. Acct. (Region)	0.0	0.0	0.0	0.0%
Allctd Cmmn Cust. Acct. (District)	0.0	0.0	0.0	0.0%
Postage	0.0	0.0	0.0	0.0%
Uncollectibles	8.0	8.0	(0.0)	0.0%
Operation Labor	321.3	341.0	19.7	6.1%
Other Operation Expenses	104.8	108.2	3.4	3.2%
Conservation	7.3	14.1	6.8	92.6%
Total Operation Expenses	1,305.0	1,336.7	31.7	2.4%
<u>Maintenance Expenses</u>				
Maintenance Labor	102.1	108.3	6.2	6.1%
Other Maintenance Expense	353.7	371.6	17.9	5.1%
Total Maintenance Expenses	455.8	480.0	24.2	5.3%
Total O & M Expenses (incl uncoll)	1,760.8	1,816.7	55.9	3.2%
<u>At proposed rates</u>				
Operating Revenues	5,637.8	6,171.9	534.2	9.5%
Uncollectible rate	0.1480%	0.1480%	0.00	0.0%
Uncollectibles	8.3	9.1	0.8	9.5%
Total O & M Expenses (incl uncoll)	1,761.1	1,818.0	56.8	3.2%

1

1 DRA’s normal practice is to base Uncollectible Expense on an (five-year,
 2 2010-2006)) average percentage of uncollectible amount divided by the operating
 3 revenues. DRA’s approach results, in most Customer Service Areas, in a rate
 4 lower than GSWC’s. Below are the uncollectible rates for the indicated CSA
 5 using DRA’s methodology:

6	<u>Customer Service Area</u>	<u>Average Uncollectible Rate</u>
7	Arden-Cordova	.143 %
8	Bay Point	.466
9	Santa Maria	.099
10	Simi Valley	.226

11
 12 The uncollectible amounts used by GSWC are higher than the historical
 13 amounts recorded in GSWC’s Summary of Earnings and appear to include
 14 amounts carried over from prior years by the collection agency. DRA
 15 recommends that the Commission adopt DRA’s recommended uncollectible
 16 percentage factor of .099% which is more accurate because it is based on using the
 17 actual recorded uncollectible amounts. Table 3-1 at the end of the chapter
 18 summarizes the differences between DRA’s and GSWC’s estimates for 2013.

19 **3) Water Supply Expense**

20 Supply Expense is the summation of (1) purchased water (if applicable to
 21 the CSA), (2) purchased power or energy costs associated with the transmission
 22 and distribution of water (electricity for wells and booster pumps for ground
 23 water, and gas costs), (3) chemical costs for treating water, and (4) pump taxes.⁴²

24 Purchased power costs are based on the most current rates for each of the
 25 energy providers to GSWC. Forecasted energy usage is estimated using historical
 26 averages. The historical ratio of kilowatt hours, or gas therms to volume of water
 27 (CCF) is calculated and applied to the estimated total CCF of water supply for the

⁴² In Region 1, the Ojai district is the only CSA that has a pump tax.

1 test year. DRA notes that the purchased power forecast methodology used by
2 GSWC has been adopted by the Commission in prior general rate cases.⁴³

3 Purchased water costs are based on the most current rates for each of the
4 purveyors to GSWC. A composite unit cost of purchased water is calculated by
5 determining the total cost and dividing it by the total forecasted sales volume. The
6 purchased water suppliers for Region 1 are: (1) Contra Costa Water District for
7 Bay Point, (2) Yolo County Flood Control for Clearlake, (3) Casita MWD for
8 Ojai, (4) City of Santa Maria and Central Coast Water Authority for Santa Maria,
9 and (5) Calleguas MWD for Simi Valley. DRA notes that the purchased water
10 forecast methodology used by GSWC has been adopted by the Commission in
11 prior general rate cases.⁴⁴

12 DRA reviewed GSWC's testimony, workpapers, including historical data
13 used to estimate energy and chemical costs (historical kilowatt usage and chemical
14 unit costs), and purchased water agreements with the various purveyors. DRA
15 found the estimates and supporting data sufficient in detail and a reasonable basis
16 to forecast Supply Expense for Test Year 2013.

17 Total Supply Expense is a function of forecasted sales of well water
18 (production), purchased water and surface water treated and distributed.
19 Forecasted water sales are discussed in a separate DRA report. DRA's estimate of
20 Supply Expense was based on its forecast of supply volume. There were no
21 differences between DRA and GSWC in total delivered CCF. Table 3-1 at the end
22 of the chapter summarizes the differences between DRA's and GSWC's estimates
23 for 2013.

⁴³ Rosendo Testimony, page 4. A number of Commission decisions are cited having adopted GSWC's methodology.

⁴⁴ Rosendo Testimony, page 8. A number of Commission decisions are cited having adopted GSWC's methodology.

1 **4) Allocated General Office-Billing & Cash Processing**

2 DRA’s estimates for allocated general office billing and cash processing
3 expenses are contained in a separate Exhibit, DRA-16, witness Donna Ramas.

4 **5) Operation and Maintenance Labor**

5 DRA’s estimates for operations and maintenance labor are contained in a
6 separate Exhibit, DRA-6, DRA witness Richard Rauschmeier.

7 ~~**6) Costs Removed From Capital Budget**~~

8 ~~DRA removed capital costs associated with certain plant and well
9 destruction/razing assets. These costs were converted to expenses to be recovered
10 over three years (2013-2015). The total amount of capital costs to be recovered as
11 annual expenses is \$282,900 or \$94,300 per year for this CSA. For a full
12 discussion of this issue, please see Exhibit DRA 3, witness Patrick Hoglund~~

13 **7) Other Operation Expenses**

14 Table 3-1 at the end of the chapter summarizes the differences between
15 DRA’s and GSWC’s estimates for 2013. DRA reviewed GSWC’s workpapers,
16 testimony, and responses to data requests including supporting documents and
17 accounting information provided. Conservation expenses are shown separately in
18 Table 3-1 below for both DRA and GSWC. The discussion below summarizes the
19 specific differences in methodology between DRA and GSWC as well as other
20 adjustments made resulting from related DRA recommendations contained in
21 other DRA testimony.

22 (a) Averaging Convention

23 GSWC’s forecast for Other Operations Expenses is based on a five-year
24 recorded time period (2010-2006, adjusted for inflation). DRA also used this five
25 year period for its estimates because it represents a reasonable time period to
26 project expenses into the test year. Further, adjusted recorded expenses are
27 reasonably comparable and appear to reasonably form a basis for the test year
28 forecast.

1 (b) Customer Growth Factors

2 GSWC's forecast for Other Operations Expenses is based on the
3 aforementioned time-period, plus adjusted for customer growth. Each year within
4 the averaging period is escalated using a customer growth factor of 100.63%.
5 DRA applied this factor only to 2014 and 2015. It is inappropriate to apply
6 customer growth factors to the preceding estimate and test years. DRA inquired as
7 to why GSWC applied a growth factor to all years. In response to DRA Data
8 Request JRC-04, Q.3, GSWC actually agreed with DRA that the Rate Case Plan
9 (RCP) Decision (D.) 07-05-062 allows utilities to use the customer growth factor
10 for escalation year requests, citing, "escalation year expenses may also be
11 increased by the most recent five-year average customer growth or other growth
12 factor adopted by the Commission."⁴⁵ GSWC however deviated from established
13 Commission policy when it further explained its own methodology of also
14 applying the customer growth factor to the test year. GSWC's rationale is that
15 revenue calculation is based on customer growth in the transition years and test
16 year, and since there is customer growth in the revenue requirement, it follows that
17 expenses will also increase due to customer growth.⁴⁶ DRA finds this rationale
18 unpersuasive, and unsupported. Further, DRA's position is that Operations and
19 Maintenance Expense are for the most part driven by activity and management
20 decisions to provide safe and reliable water distribution and the RCP decision
21 must recognize this as there is not allowance for customer growth in the test year.

22 (c) Automated Vehicle Locating System (AVLS) Fees

23 GSWC's forecast for Other Operation Expenses includes AVLS services
24 fees of \$7,700 in 2013. In short, the AVLS system is a proposed security system
25 which entails installation of a GPS device on company vehicles plus a panic alert

⁴⁵ GSWC response to DRA Data Request JRC-04, Q.3.

⁴⁶ Ibid.

1 key fob carried by the field service worker. The expenses requested in Region I
2 are new O&M expenses for the annual subscription fees required for these security
3 devices to work. DRA disagrees with GSWC's proposed "AVLS" program and
4 has removed those estimated expenses. For a full discussion of this issue, please
5 see Exhibit DRA-~~13~~12, witness Pat Esule.

6 **8) Conservation Expenses**

7 DRA's estimates of conservation expenses are discussed in a separate
8 Exhibit, DRA-8, witness Maria Worster.

9 **9) Other Maintenance Expenses**

10 Table 3-1 at the end of the chapter summarizes the differences between
11 DRA's and GSWC's estimates for 2013. DRA reviewed GSWC's workpapers,
12 testimony, and responses to data requests including supporting documents and
13 accounting information provided. The discussion below summarizes the specific
14 differences in methodology between DRA and GSWC as well as other
15 adjustments made resulting from related DRA recommendations contained in
16 other testimony.

17 (a) Averaging Convention

18 GSWC's forecast for Other Maintenance Expenses is based on the latest
19 recorded data (2010, adjusted for inflation). GSWC's rationale for this short
20 period is that it performed additional well treatments in 2010, and is planning on
21 continuing the treatments into the test year. GSWC asserts that the 2010 recorded
22 year provides a more accurate projection of future expenditures.⁴⁷ DRA concurs
23 with GSWC and also used the 2010 year for the test year estimate.

24 (b) Customer Growth Factors

25 GSWC's forecast for Other Maintenance Expenses is based on the
26 aforementioned time-period, plus adjusted for customer growth. The one year is

⁴⁷ Orozco Testimony, page 41.

1 escalated using a customer growth factor of 100.63%. DRA applied this factor
2 only to 2014 and 2015. Please see the previous discussion (above) for DRA's
3 position.

4 **D. CONCLUSION**

5 The following table summarizes DRA's test year estimates and compares
6 them with that of GSWC:

TABLE 3-1 REVISED

GOLDEN STATE WATER COMPANY
SANTA MARIA

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	9,505.7	9,505.7	0.0	0.0%
Uncollectible rate	0.0990%	0.1380%	0.04	39.4%
Uncollectibles	9.4	13.1	3.7	39.4%
<u>Operation Expenses</u>				
Purchased Water	67.7	67.7	(0.0)	0.0%
Purchased Power	1,245.3	1,245.3	0.0	0.0%
Pump Taxes	0.0	0.0	0.0	0.0%
Chemicals	60.9	60.9	(0.0)	-0.1%
Allctd GO - Billing & Cash Processing	196.0	203.2	7.2	3.7%
Allctd Cmmn Cust. Acct. (Region)	0.0	0.0	0.0	0.0%
Allctd Cmmn Cust. Acct. (District)	0.0	0.0	0.0	0.0%
Postage	0.0	0.0	0.0	0.0%
Uncollectibles	9.4	13.1	3.7	39.4%
Operation Labor	562.8	622.3	59.5	10.6%
Other Operation Expenses	542.8	558.4	15.6	2.9%
Conservation	32.7	77.5	44.8	136.8%
Total Operation Expenses	2,717.7	2,848.4	130.7	4.8%
<u>Maintenance Expenses</u>				
Maintenance Labor	156.1	172.6	16.5	10.6%
Other Maintenance Expense	396.5	404.0	7.5	1.9%
Total Maintenance Expenses	552.6	576.6	24.0	4.3%
Costs removed from capital budgets	0.0	0.0	0.0	0.0%
Total O & M Expenses (incl uncoll)	3,270.3	3,425.0	154.7	4.7%
<u>At proposed rates</u>				
Operating Revenues	9,822.8	10,886.3	1,063.5	10.8%
Uncollectible rate	0.0990%	0.1380%	0.04	39.4%
Uncollectibles	9.7	15.0	5.3	54.5%
Total O & M Expenses (incl uncoll)	3,270.6	3,426.9	156.3	4.8%

1

1 DRA’s normal practice is to base Uncollectible Expense on an (five-year,
 2 2010-2006) average percentage of uncollectible amount divided by the operating
 3 revenues. DRA’s approach results, in most Customer Service Areas, in a rate
 4 lower than GSWC’s. Below are the uncollectible rates for the indicated CSA
 5 using DRA’s methodology:

6	<u>Customer Service Area</u>	<u>Average Uncollectible Rate</u>
7	Arden-Cordova	.143 %
8	Bay Point	.466
9	Santa Maria	.099
10	Simi Valley	.226

11
 12 The uncollectible amounts used by GSWC are higher than the historical
 13 amounts recorded in GSWC’s Summary of Earnings and appear to include
 14 amounts carried over from prior years by the collection agency. DRA
 15 recommends that the Commission adopt DRA’s recommended uncollectible
 16 percentage factor of .226% which is more accurate because it is based on using the
 17 actual recorded uncollectible amounts. Table 3-1 at the end of the chapter
 18 summarizes the differences between DRA’s and GSWC’s estimates for 2013.

19 **3) Water Supply Expense**

20 Supply Expense is the summation of (1) purchased water (if applicable to
 21 the CSA), (2) purchased power or energy costs associated with the transmission
 22 and distribution of water (electricity for wells and booster pumps for ground
 23 water, and gas costs), (3) chemical costs for treating water, and (4) pump taxes.⁴⁹

24 Purchased power costs are based on the most current rates for each of the
 25 energy providers to GSWC. Forecasted energy usage is estimated using historical
 26 averages. The historical ratio of kilowatt hours, or gas therms to volume of water
 27 (CCF) is calculated and applied to the estimated total CCF of water supply for the

⁴⁹ In Region 1, the Ojai district is the only CSA that has a pump tax.

1 test year. DRA notes that the purchased power forecast methodology used by
2 GSWC has been adopted by the Commission in prior general rate cases.⁵⁰

3 Purchased water costs are based on the most current rates for each of the
4 purveyors to GSWC. A composite unit cost of purchased water is calculated by
5 determining the total cost and dividing it by the total forecasted sales volume. The
6 purchased water suppliers for Region 1 are: (1) Contra Costa Water District for
7 Bay Point, (2) Yolo County Flood Control for Clearlake, (3) Casita MWD for
8 Ojai, (4) City of Santa Maria and Central Coast Water Authority for Santa Maria,
9 and (5) Calleguas MWD for Simi Valley. DRA notes that the purchased water
10 forecast methodology used by GSWC has been adopted by the Commission in
11 prior general rate cases.⁵¹

12 DRA reviewed GSWC's testimony, workpapers including historical data
13 used to estimate energy and chemical costs (historical kilowatt usage and chemical
14 unit costs), and purchased water agreements with the various purveyors. DRA
15 found the estimates and supporting data sufficient in detail and a reasonable basis
16 to forecast Supply Expense for Test Year 2013.

17 Total Supply Expense is a function of forecasted sales of well water
18 (production), purchased water and surface water treated and distributed.
19 Forecasted water sales are discussed in a separate DRA report. DRA's estimate of
20 Supply Expense was based on its forecasted supply volume. There were no
21 differences between DRA and GSWC in total delivered CCF. Table 3-1 at the end
22 of the chapter summarizes the differences between DRA's and GSWC's estimates
23 for 2013.

⁵⁰ Rosendo Testimony, page 4. A number of Commission decisions are cited having adopted GSWC's methodology.

⁵¹ Rosendo Testimony, page 8. A number of Commission decisions are cited having adopted GSWC's methodology.

1 **4) Allocated General Office-Billing & Cash Processing**

2 DRA’s estimates for allocated general office billing and cash processing
3 expenses are contained in a separate Exhibit, DRA-16, witness Donna Ramas.

4 **5) Operation and Maintenance Labor**

5 DRA’s estimates for operations and maintenance labor are contained in a
6 separate Exhibit, DRA-6, DRA witness Richard Rauschmeier.

7 **6) Other Operation Expenses**

8 Table 3-1 at the end of the chapter summarizes the differences between
9 DRA’s and GSWC’s estimates for 2013. DRA reviewed GSWC’s workpapers,
10 testimony, and responses to data requests including supporting documents and
11 accounting information provided. Conservation expenses are shown separately in
12 Table 3-1 below for both DRA and GSWC. The discussion below summarizes the
13 specific differences in methodology between DRA and GSWC as well as other
14 adjustments made resulting from related DRA recommendations contained in
15 other testimony.

16 (a) Averaging Convention

17 GSWC’s forecast for Other Operations Expenses is based on a five-year
18 (2010-2006, adjusted for inflation) period. DRA also used this five-year period to
19 estimate expenses in the test year because it represents a reasonable time period to
20 project expenses into the test year. Further, adjusted recorded expenses are
21 reasonably comparable and appear to reasonably form a basis for the test year
22 forecast.

23 (b) Customer Growth Factors

24 GSWC’s forecast for Other Operations Expenses is based on the
25 aforementioned time-period, plus adjusted for customer growth. Each year within
26 the averaging period is escalated using a customer growth factor of 99.98%. DRA
27 applied this factor only to 2014 and 2015. It is inappropriate to apply customer

1 growth factors to the preceding estimate and test years even if they are less than
2 100%. DRA inquired as to why GSWC applied a growth factor to all years. In
3 response to DRA Data Request JRC-04, Q.3, GSWC actually agreed with DRA
4 that the Rate Case Plan (RCP) Decision (D.) 07-05-062 allows utilities to use the
5 customer growth factor for escalation year requests, citing, “escalation year
6 expenses may also be increased by the most recent five-year average customer
7 growth or other growth factor adopted by the Commission.”⁵² GSWC however
8 deviated from established Commission policy when it further explained its own
9 methodology of also applying the customer growth factor to the test year.
10 GSWC’s rationale is that revenue calculation is based on customer growth in the
11 transition years and test year, and since there is customer growth in the revenue
12 requirement, it follows that expenses will also increase (or decrease in the case of
13 a factor less than 100%) due to customer growth.⁵³ DRA finds this rationale
14 unpersuasive, and unsupported. Further, DRA’s position is that Operations and
15 Maintenance Expense are for the most part driven by activity and management
16 decisions to provide safe and reliable water distribution and the RCP decision
17 must recognize this as there is not allowance for customer growth in the test year.

18 (c) Automated Vehicle Locating System (AVLS) Fees

19 GSWC’s forecast for Other Operation Expenses includes AVLS services
20 fees of \$3,400 in 2013. In short, the AVLS system is a proposed security system
21 which entails installation of a GPS device on company vehicles plus a panic alert
22 key fob carried by the field service worker. The expenses requested in Region I
23 are new O&M expenses for the annual subscription fees required for these security
24 devices to work. DRA disagrees with GSWC’s proposed “AVLS” program and
25 has removed those estimated expenses. For a full discussion of this issue, please
26 see Exhibit DRA-~~13~~12, witness Pat Esule.

⁵² GSWC response to DRA Data Request JRC-04, Q.3.

⁵³ Ibid.

1 **7) Conservation Expenses**

2 DRA’s estimates of conservation expenses are discussed in a separate
3 Exhibit, DRA-8, witness Maria Worster.

4 **8) Other Maintenance Expenses**

5 Table 3-1 at the end of the chapter summarizes the differences between
6 DRA’s and GSWC’s estimates for 2013. DRA reviewed GSWC’s workpapers,
7 testimony, and responses to data requests including supporting documents and
8 accounting information provided. The discussion below summarizes the specific
9 differences in methodology between DRA and GSWC as well as other
10 adjustments made resulting from related DRA recommendations contained in
11 other testimony.

12 (a) Averaging Convention

13 GSWC’s forecast for Other Maintenance Expenses is based on the latest
14 recorded year (2010, adjusted for inflation). GSWC’s rationale is that the most
15 current recorded data reflects the level of expenditures it anticipates in the current
16 rate cycle.⁵⁴ DRA found this explanation to be too general and unsupported and
17 used the five year recorded time period (2010-2006) to estimate test year
18 expenses. Overall, the five-year period used by DRA represents a reasonable time
19 period to project expenses into the test year. Further, adjusted recorded expenses
20 are reasonably comparable and appear to reasonably form a basis for the test year
21 forecast.

22 (b) Customer Growth Factors

23 GSWC’s forecast for Other Maintenance Expenses is based on the
24 aforementioned time-period, plus adjusted for customer growth. The one year is
25 escalated using a customer growth factor of 99.98%. DRA applied this factor only
26 to 2014 and 2015. Please see the previous discussion (above) for DRA’s position.

⁵⁴ Orozco Testimony, page 41.

1 **D. CONCLUSION**

2 The following table summarizes DRA's test year estimates and compares
3 them with that of GSWC:

TABLE 3-1 REVISED

GOLDEN STATE WATER COMPANY
SIMI VALLEY

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	11,819.1	11,819.0	(0.1)	0.0%
Uncollectible rate	0.2260%	0.2570%	0.03	13.7%
Uncollectibles	26.7	30.4	3.7	13.7%
<u>Operation Expenses</u>				
Purchased Water	7,764.5	7,764.5	0.0	0.0%
Purchased Power	133.4	133.4	0.0	0.0%
Pump Taxes	0.0	0.0	0.0	0.0%
Chemicals	2.7	2.7	0.0	0.0%
Allctd GO - Billing & Cash Processing	213.0	221.1	8.1	3.8%
Allctd Cmmn Cust. Acct. (Region)	0.0	0.0	0.0	0.0%
Allctd Cmmn Cust. Acct. (District)	0.0	0.0	0.0	0.0%
Postage	0.0	0.0	0.0	0.0%
Uncollectibles	26.7	30.3	3.6	13.3%
Operation Labor	305.5	319.0	13.5	4.4%
Other Operation Expenses	94.4	96.2	1.8	1.9%
Conservation	22.5	79.2	56.7	251.8%
Total Operation Expenses	8,562.7	8,646.5	83.7	1.0%
<u>Maintenance Expenses</u>				
Maintenance Labor	88.0	91.9	3.9	4.4%
Other Maintenance Expense	68.5	68.5	0.0	0.0%
Total Maintenance Expenses	156.5	160.4	3.9	2.5%
Total O & M Expenses (incl uncoll)	8,719.2	8,806.9	87.6	1.0%
<u>At proposed rates</u>				
Operating Revenues	13,144.0	14,174.5	1,030.5	7.8%
Uncollectible rate	0.2260%	0.2570%	0.03	13.7%
Uncollectibles	29.7	36.4	6.7	22.6%
1 Total O & M Expenses (incl uncoll)	8,722.2	8,812.9	90.7	1.0%

CHAPTER 8: SPECIAL REQUEST 1
SANTA MARIA ADJUDICATION SETTLEMENT APPROVAL

A. INTRODUCTION

In Special Request 1, GSWC requests that the Commission approve GSWC’s entry into a stipulation resolving the Santa Maria Groundwater Adjudication and Litigation (Stipulation). The Superior Court in the adjudication proceeding issued a judgment adopting the Stipulation in 2008. GSWC seeks Commission approval of its participation with the Stipulation. GSWC’s request in this rate case does not include any cost recovery adjustments (except legal⁵⁵ and water management fees) because the events underlying the Stipulation and giving rise to the various costs, have not yet taken place. Further, there are a number of contingencies which may lower or eliminate certain costs. However, GSWC’s application states that it is seeking Commission approval of “rate adjustments” necessary to participate in implementing certain water management programs required under the Stipulation.⁵⁶ GSWC asserts that it has been implementing the terms of the Stipulation despite the lack of (prior) Commission approval of the Stipulation.⁵⁷

The Stipulation requires GSWC to participate in the development of a Supplemental Water Project (new pipeline) to deliver water to the Nipomo Mesa area. The Stipulation also requires GSWC to purchase water from the City of Santa Maria to be delivered through the newly constructed pipeline. Special Request 1 is not a request for recovery of State Water Project (SWP) costs in any

⁵⁵ Legal Costs included in the Santa Maria Stipulation Memorandum account are discussed in the testimony prepared by DRA’s Consultant Donna Ramas.

⁵⁶ A.11-07-017, page 23.

⁵⁷ Testimony of Switzer, page 10, line 23.

1 manner, and as such, is not an attempt to circumvent D.99-04-060. GSWC has
2 and will continue to recover the costs of its SWP contract through shareholders.⁵⁸

3 GSWC asserts that Commission approval is one of the conditions of the
4 Stipulation.⁵⁹ GSWC also asserts that if the Commission fails to approve
5 GSWC's participation in the Stipulation, GSWC will be unable to comply with the
6 Stipulation and the underlying trial court judgment. GSWC further asserts that if
7 the Commission fails to approve GSWC's entry into the Stipulation, as well as the
8 rate recovery requested in this general rate case, the litigation will continue for
9 GSWC.⁶⁰

10 **B. SUMMARY OF RECOMMENDATIONS**

11 DRA recommends:

12 (1) If the Nipomo Mesa Special Assessment tax is not approved by voters
13 in 2012, and GSWC is in fact required to fund its share of the capital costs of the
14 Nipomo Supplemental Water Project (NSWP), GSWC should be required to file
15 an application with the Commission seeking (a) approval of its share of the NSWP
16 capital costs, and (b) its share of the additional operating and maintenance costs
17 associated with the operation of the NSWP, before any costs are incurred and
18 funded by ratepayers. These additional costs are: (i) the incremental costs to
19 purchase supplemental water supply to the Nipomo Mesa area, and (ii) operating
20 and maintenance costs for the NSWP. GSWC should include the results of the
21 parcel tax election of the Nipomo Mesa area with the application.

22 (2) GSWC should continue negotiations with the City of Santa Maria for
23 exploring methods of exchanging GSWC's small SWP water contract for a

⁵⁸ GSWC response to DRA Data Request JRC-05, Q.4.

⁵⁹ Testimony of Switzer, page 10, line 25, page 11, line 2.

⁶⁰ Ibid., page 11.

1 reduction in the cost of the Nipomo Mesa area supplemental water purchased from
2 the City of Santa Maria.⁶¹

3 (3) If the NSWP project participants and the City of Santa Maria are
4 successful in including a portion of GSWC's annual NSWP water supply costs in
5 the property tax assessments of the affected owners, the tax revenues from the
6 assessment district should offset the cost of the purchased water.

7 (4) If the Nipomo Mesa Special Assessment tax is approved by voters in
8 2012, and GSWC is in fact not required to fund its share of the capital costs of the
9 Nipomo Supplemental Water Project (NSWP), and the capital costs are approved
10 by the Commission, GSWC should file an Advice Letter with the Commission's
11 Division of Water and Audits (DWA), or request in a general rate case, whichever
12 comes first, seeking Commission approval of each of the additional operating and
13 maintenance costs associated with the operation of the NSWP, before any costs
14 are incurred and funded by ratepayers. These additional costs are: (i) the
15 incremental costs to purchase supplemental water supply to the Nipomo Mesa
16 area, and (ii) operating and maintenance costs for the NSWP. GSWC should
17 include the results of the parcel tax election of the Nipomo Mesa area with the
18 Advice Letter or general rate case filing.

19 (5) DRA recommends Commission approval of the water management
20 program costs required to be paid by GSWC pursuant to the Stipulation.

21 **C. DISCUSSION**

22 GSWC requests rate recovery or may request future rate recovery for the
23 following activities which will occur under the Stipulation:

⁶¹ As a shareholder asset, GSWC holds a contract for 550 acre-feet of SWP water. GSWC's customers do not pay for this SWP water in accordance with D.99-04-060. Further, GSWC is not required to purchase any additional SWP entitlement to meet its obligation under the Stipulation. See GSWC response to DRA Data Request JRC-05, Q.1, 2 and 4.

1 (1) GSWC will share in the cost of constructing supplemental water supply
2 facilities and a pipeline, or the NSWP, one of the pivotal settled issues underlying
3 the Stipulation.⁶² The Stipulation requires four parties, (including GSWC) to
4 share in the construction costs of the NSWP. GSWC's share under the Stipulation
5 is 8.33% of the costs of the NSWP. The current estimate of the NSWP is \$23.6
6 million of which \$1.97 million (8.33%) is GSWC's share under the Stipulation.
7 This cost represents capital expenditures and would be incorporated into GSWC's
8 ratebase for Santa Maria. GSWC does not request any additions to ratebase
9 related to the Stipulation NSWP in this general rate case.⁶³ This is because
10 Nipomo Community Services District (CSD) has proposed to finance the
11 construction costs of the NSWP through the imposition of a supplemental
12 assessment on the property tax bills for all parcels in the Nipomo Mesa area. This
13 would require voter approval in an election expected to take place in early to mid-
14 year 2012. If approved by the voters, the entire capital costs of the NSWP would
15 be incorporated into the special assessment and GSWC's customers would not
16 have to pay any of the capital costs.⁶⁴ The costs of the pipeline construction
17 would be incorporated into the property taxes of the affected owners. However, if
18 the special assessment (tax) is not approved by the voters in 2012, then GSWC
19 will need to fund its portion (\$1.97 million) of the NSWP costs. If GSWC is
20 required to fund its portion of the NSWP costs, DRA recommends that the
21 Commission order GSWC to file an application for approval before any costs are
22 incurred and funded by ratepayers. The application should also seek Commission

⁶² The parties to the Stipulation considered several other alternatives, but found none more cost effective or practical to implement than the Nipomo Supplemental Water Project. These alternatives included: ocean desalination, further development of recycled water resources, direct acquisition of SWP water, and treatment and reuse of agricultural drainage water. According to GSWC, each of the alternatives was flawed because of a combination of costs, potential yields, physical feasibility, and water quality considerations. See GSWC's responses to DRA Data Requests JRC-03, Q.8, and JRC-05, Q3.

⁶³ Switzer Testimony, page 13, line 5.

⁶⁴ Ibid., line 10.

1 approval of all additional operating and maintenance expenses associated with the
2 NSWP and required to be paid by GSWC pursuant to the Stipulation (see item 2
3 below).

4 (2) In addition to the capital costs for the NSWP, GSWC is obligated to pay
5 certain operating and maintenance expenses as a provision of the Stipulation.⁶⁵
6 The costs for (a), (b), and (d) below have been included in the 2013 Test Year
7 estimates for operating and maintenance expenses. These expenses are as follow:

8 (a) The costs to participate in the Nipomo Mesa Management Area
9 (NMMA) committee at an annual amount of \$18,750. The Stipulation obligates
10 GSWC to participate in the NMMA and pay a proportionate share of its annual
11 budget. GSWC's share of the annual budget is \$18,750. These costs have been
12 included with GSWC's other O&M expenses for the 2013 Test Year.

13 (b) The costs incurred to participate in the Santa Maria Valley Management
14 Area/Twitchell Management Authority at an annual cost of \$203,125. The
15 Stipulation obligates GSWC to participate in the Santa Maria Valley Management
16 Area/Twitchell Management Authority (SMVMA/TMA) and pay a proportionate
17 share of its annual budget. GSWC's share of the annual budget is \$203,125.

18 (c) The incremental costs to purchase supplemental water supply from the
19 City of Santa Maria (and transport it to the Nipomo Mesa area in the newly
20 constructed NSWP pipeline) in the amount of 209 AF/year at an estimated
21 \$1,323/AF, for an annual estimate of \$300,000. This cost has not been included in
22 the test year revenue requirement in this general rate case because of the
23 uncertainty with what and when costs will actually be incurred by GSWC.⁶⁶ Two
24 contingencies may work to mitigate the costs of purchasing this supplemental
25 water supply. First, GSWC has ongoing discussions with the City of Santa Maria

⁶⁵ Ibid., page 14.

⁶⁶ GSWC's obligation to purchase this supplemental water supply begins with the completion of the NSWP.

1 regarding methods of exchanging GSWC's small SWP water contract for a
2 reduction in the cost of the Nipomo Mesa area supplemental water. Second, the
3 NSWP project participants and the City of Santa Maria are discussing the possible
4 inclusion of a portion of the annual water supply costs in the assessment district to
5 be formed and financed through a property tax assessment.⁶⁷

6 (d) Amortized litigation costs recorded in GSWC's Santa Maria Water
7 Rights Memorandum Account (balance as of March 31, 2011) allowed by D.07-
8 05-041.⁶⁸

9 (e) Operating and maintenance costs for the NSWP. Under the Stipulation,
10 GSWC's share will be 8.33% of the annual O& M expenses. These costs are not
11 known at this time, and so have not been included in the test year revenue
12 requirement in this general rate case because of the uncertainty as to when the
13 costs will actually be incurred by GSWC.⁶⁹

14 GSWC asserts that if the Commission does not authorize it to participate in
15 the Stipulation, then GSWC will revert to being a non-settling party in the
16 adjudication proceeding. As a result, GSWC would no longer be subject to the
17 obligations of the Stipulation. These obligations include restrictions on pumping
18 groundwater, and participation in the various water management authorities. As a
19 non-settling party, the stipulating parties in the adjudication would seek further
20 litigation and a court order forcing GSWC to limit its groundwater use as well as
21 provide financial contribution to maintain adequate water supplies.⁷⁰

⁶⁷ Saperstein Testimony, page 32, line 17, page 33, line 1.

⁶⁸ See Exhibit DRA-17, Prepared Testimony of Donna Ramas and Tina Miller for a discussion of amortization of Balancing and Memorandum Accounts.

⁶⁹ GSWC's obligation to pay these O & M expenses begins with the completion of the NSWP.

⁷⁰ Response to DRA Data Request JRC-03, Q. 6.

1 **D. CONCLUSION**

2 While DRA acknowledges that the Stipulation appears to provide customer
3 benefits by securing a water supply to GSWC’s customers, it can not place the
4 Commission into the position of denying or approving a court-ordered Stipulation
5 made between third parties. An adjudication is an independent court action the
6 CPUC has no authority over.

7 However, investing in ratebase, water supplies and attendant operating and
8 maintenance expenses requires CPUC approval. Therefore, DRA recommends
9 that GSWC be required to file an application for CPUC approval for investing in
10 the NSWP, or any other capital costs related to the Stipulation, water supply costs
11 and ongoing operating and maintenance expenses if the Nipomo Mesa Special
12 Assessment tax is not approved by voters in 2012. If the Nipomo Mesa Special
13 Assessment tax is approved by voters in 2012, GSWC should file an Advice Letter
14 with the Commission’s DWA for approval of each of the additional operating and
15 maintenance costs associated with the operation of the NSWP, before any costs
16 are incurred and funded by ratepayers.

1 **CHAPTER 9: SPECIAL REQUEST 2**
2 **ADDITIONAL FIRE SPRINKLER COMBINATIONS**

3
4 **A. INTRODUCTION**

5 In Special Request 2, GSWC proposes adding additional meter sizes to its
6 current tariffs in order to accommodate all known meter combinations. In D.10-
7 11-035 and D.10-12-059, the Commission authorized service charge rates for
8 residential customers with fire sprinklers. Under the new rate structure, a
9 customer is to be billed a monthly service charge in accordance with the
10 customer’s required meter size without a sprinkler system, and then pay an
11 additional service charge for a sprinkler system in accordance with the incremental
12 meter size used by the customer (because there is a fire protection sprinkler
13 system). The service charge would be in the form of a surcharge to cover the cost
14 of a larger meter.

15 **B. SUMMARY OF RECOMMENDATIONS**

16 DRA recommends approval of this special request. DRA further
17 recommends that if GSWC’s adopted rate of return or any other factors change
18 resulting in a lower service charge, that the surcharge or surcharge percentage be
19 lowered accordingly.

20 **C. DISCUSSION**

21 The need to differentiate fees for meter size and installed sprinkler systems
22 arose out of numerous customer complaints about having to pay for a larger meter
23 solely because of a sprinkler system, and not because of daily water
24 consumption.⁷¹ As a result, in January 2006, the CPUC’s Water Division issued
25 guidelines and a calculation methodology for providing a special rate for
26 customers who need a larger meter only because they have in-house fire sprinkler

⁷¹Tran Testimony, page 15.

1 systems. The guidelines provide for a service charge commensurate to the
2 customer's meter size, as well as an installed fire sprinkler system.

3 The service charge is based on a number of factors such as GSWC's
4 adopted rate of return, labor and material costs, and expected useful life of the
5 indicated meters. In general, the service charge increases as the meter size
6 increases. This is due to higher carrying and installation costs for a larger meter
7 required to provide fire protection. The incremental increase in costs (as the meter
8 sizes increases) is added to the service charge for the meter size that would be
9 required to provide domestic water service only to arrive at the fire sprinkler rate.
10 DRA did not have any issues with the Water Division guidelines and the surcharge
11 is calculated in the same manner as adopted in D.10-11-035 and D.10-12-059.

12 An example of the proposed surcharge and how it is calculated is illustrated
13 in the following table (Schedule 3) reproduced from the Tran testimony.⁷²
14 Schedule 3 (below) shows that the additional monthly surcharge for changing
15 from a 5/8-inch to a 1-inch meter is \$0.81 or 9% of the 5/8-inch rate (9% =
16 \$0.81/\$8.60 where \$8.60 is the 5/8-inch rate).

⁷² The example is taken from Schedule 3, Arden Cordova CSA, Tran Testimony on Special Request 2, starting at page 15.

ARDEN CORDOVA

	5/8-inch		1-inch	
Price of Materials	\$	40.59	\$	84.79
Sales Tax	\$	3.35	\$	7.00
Cost of Installation				
Labor	\$	\$ 23.47 per person hour	\$	\$ 23.47 per person hour
		1 hours		1 hours
Labor Cost	\$	23.47	\$	23.47
Benefits	\$	12.24	\$	12.24
Subtotal	\$	79.66	\$	127.50
Overhead	\$	7.60	\$	15.87
Total Cost	\$	87.25	\$	143.38
Product Life		20 years		15 years
Depreciation Expense	\$	4.36	\$	9.56
Average Return on Investment				
		8.90% Adopted ROR		
		1.79812 Net-to-gross		
		0.160033 Revenue Requirement		
	\$	6.98	\$	11.47
Annual Cost	\$	11.34	\$	21.03
Difference in Cost			\$	9.69
Per Month			\$	0.81
5/8 inch rate			\$	8.60
Percent Surcharge				0.094
Rounded				9%

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D. CONCLUSION

This special request is without controversy and DRA recommends the Commission approve it for Region 1. The addition of meter sizes to the service charge calculation does not have an effect on the overall revenue requirement of the affected Customer Service Areas. Further, if GSWC’s adopted rate of return or any other factors change resulting in a lower service charge, the surcharge or surcharge percentage should be lowered accordingly.

1 **CHAPTER 10: SPECIAL REQUEST 3**

2 **MEMORANDUM ACCOUNT FOR URANIUM CONTAMINATION AT**
3 **THE ORANGETHORPE PLANT**

4
5 **A. INTRODUCTION**

6 In Special Request 3, GSWC requests the Commission authorize it to
7 establish a memorandum account to track operating and maintenance expenses
8 relating to the investigation and treatment of high uranium levels at its
9 Orangethorpe Plant in Placentia, Region 3. GSWC also proposes that the
10 requested memorandum account also track, for future recovery, carrying costs
11 equal to GSWC’s adopted rate of return.⁷³ GSWC provided detailed information
12 on various tests performed at the well in 2011 showing levels of uranium higher
13 than the allowable maximum contaminant level (MCL). Tests were performed by
14 the Orange County Water District (District) as well as by an independent water
15 quality testing laboratory. Historically, samples taken from the well in 2005,
16 2006, and 2009 showed test results well below the MCL. Given the apparent
17 rising uranium levels, GSWC removed the well from service on February 22,
18 2011.⁷⁴

19 **B. SUMMARY OF RECOMMENDATIONS**

20 DRA recommends approval of the proposed memorandum account.
21 However, DRA does not recommend that the carrying cost of the memorandum
22 account be set at GSWC’s adopted rate of return. The carrying costs should be set
23 at the customary 90-day commercial paper rate which is lower than GSWC’s
24 adopted rate of return.

25

⁷³ A.11-07-017, page 24. GSWC’s current adopted ROR is 13.06% (D.09-05-019).

⁷⁴ Testimony of Chang, pages 4 and 5.

1 **C. DISCUSSION**

2 **1) The Need for a Memorandum Account**

3 GSWC must determine the extent and location of the aquifer or other
4 source of the contamination. Solutions to the naturally occurring uranium depend
5 on whether it is located in a specific depth of the aquifer, or if it is wide-spread in
6 the aquifer.⁷⁵

7 In addition to the investigation and ensuing solutions (described above),
8 GSWC asserts that it faces an additional uncertainty relating to how it implements
9 discharge from the contaminated well. Because the uranium level exceeded
10 drinking water MCL, any discharge during an extended pump to waste period
11 requires meeting the discharge permit requirements of the Santa Ana Regional
12 Water Quality Control Board (Board). Given this regulatory requirement, a
13 mobile treatment unit may be required to treat the water before discharging it.
14 According to GSWC, this later process can be expensive.⁷⁶ Until the discharge
15 issue is resolved, the extent and concentration of uranium levels at the well,
16 beyond that of the established MCL, can not be ascertained.

17 DRA concurs with GSWC's request for a memorandum account for the
18 anticipated costs to mitigate the uranium problem at the well. The proposed
19 memorandum account appears to meet the criteria set forth in the Commission's
20 Division of Water and Audits, Standard Practice U-27W.⁷⁷

21 **2) Carrying Costs Should Not Be Set at the Adopted Rate**
22 **of Return**

23 In addition to Commission approval of the proposed memorandum account,
24 GSWC proposes earning an interest rate equal to its adopted rate of return. This is
25 in contrast to the lower, and generally applied rule of applying the 90-day

⁷⁵ Ibid., page 5.

⁷⁶ Ibid.

⁷⁷ U-27-W, revised October, 2007, page 4.

1 commercial paper rate to such deferred balances. DRA questioned GSWC as to
2 the justification for such a high carrying cost in Data Request JRC-02. In
3 response, GSWC cited various instances where the Commission deviated from the
4 90-day commercial paper rate. GSWC cited its own A.10-01-009 where the
5 proposed decision authorized it to apply its most recent embedded incremental
6 cost of debt of 8.30% to the unamortized balance of prepayments on a water
7 purchase agreement with Contra Costa Water District. GSWC also cited D.07-05-
8 041 wherein GSWC was allowed to amortize deferred litigation costs into rates
9 using an “agreed upon” interest rate equal to the ten-year Treasury note rate plus
10 1.5%.⁷⁸ DRA contends that the uranium contamination mitigation measures are
11 distinguishable from the exceptions cited by GSWC because: (1) the costs have
12 not yet been incurred, and GSWC has no current estimate of these costs, (2) the
13 proposed memorandum account is not for purchased water contracts or an item of
14 plant to be constructed in the future. In the examples cited by GSWC, the costs
15 were already known. Earning the rate of return when the extent of contamination
16 is not yet known is not reasonable.

17 There have been numerous Commission decisions that have established the
18 general practice of applying the 90-day commercial paper rate to the deferred
19 balances in memorandum and balancing accounts.⁷⁹ More explicitly, the
20 Commission’s Division of Water and Audits established Standard Practice (U-
21 27W) which expressly states “memo account balances earn at the 90-day
22 commercial paper rate” and “balances in the balancing account [also] earn at the
23 90-day commercial paper rate.” As Standard Practice U-27W provides,
24 “memorandum accounts allow the Commission to consider recovery of utility
25 expenses that have occurred in the past without incurring retroactive

⁷⁸ Response to DRA Data Request JRC-002, Question 1.

⁷⁹ See D.91269, D.88-09-030, D.03-09-022, D.08-05-036, D.10-04-052

1 ratemaking.”⁸⁰ Allowing memorandum account balances to accrue interest at the
2 90-day commercial paper rate as a general practice is an appropriate compromise
3 that balances the interests of both utility and ratepayer.⁸¹

4 While the Commission has recognized both a general and Standard Practice
5 relating to interest rate treatment of deferred balances in memorandum and
6 balancing accounts, the Commission has also exercised its broad “flexibility in
7 reviewing the facts of a particular situation”⁸² when determining the applicable
8 interest rate appropriate for potential recovery. In both the Commission’s
9 decisions for Golden State Water’s Calipatria Treatment Plant⁸³ and the
10 Commission’s later proposed decision on California American’s San Clemente
11 Dam memorandum account,⁸⁴ deviations from the general and Standard Practices
12 were made to accommodate the particular circumstances of an individual account
13 and request. To be sure, another example of the Commission’s ability to
14 selectively modify interest rate treatment comes from the energy industry. In
15 D.04-01-048, the Commission permitted a modification to one of Southern
16 California Edison’s deferred balance accounts but carefully noted that the
17 “temporary” change “shall not be precedent setting.”⁸⁵

18 In the aforementioned decisions, it is of utmost importance to recognize
19 that the Commission identified and established *exceptions to the rule*.
20 Furthermore, these decisions demonstrate the inveterate flexibility of the
21 Commission to authorize modifications of interest rate treatment on *specific*
22 accounts on a case by case basis. GSWC’s request to apply its adopted rate of

⁸⁰ Standard Practice U-27-W, page 4. See also footnote 13.

⁸¹ Ibid., page 6.

⁸² D.95-03-021

⁸³ D.00-06-074 and D.04-03-039

⁸⁴ D.08-05-036

⁸⁵ Ordering Paragraph 4 of D.04-01-048

1 return to the proposed memorandum account and the tone of its rationale
2 contained in the response to Data Request JRC-02 appear to be an attempt to
3 establishing these exceptions as the rule.

4 **D. CONCLUSION**

5 The requested memorandum account should be granted as GSWC has
6 satisfactorily corroborated the need for it, and it fits into the criteria set forth in the
7 Standard Practice U-27-4. However, GSWC's assertion that if approved, the
8 memorandum account should earn a carrying cost equal to its adopted rate of
9 return is misguided. The risk, either real or perceived, of diminishing the
10 Commission's flexibility to review the facts and circumstances of a specific
11 account or project when determining interest rate treatment coupled with the
12 guidance provided in past decisions and Standard Practices support DRA's
13 conclusion that the Commission should deny this request. The memorandum
14 account should be subject to the general rule, that is, the 90-day commercial paper
15 rate.

1 **CHAPTER 11: SPECIAL REQUEST 5**
2 **BALANCING ACCOUNT FOR GROUP MEDICAL INSURANCE**

3
4 **A. INTRODUCTION**

5 In Special Request 5, GSWC requests that the Commission approve a
6 balancing account mechanism to track the difference between the forecasted health
7 care costs included in rates and the actual health care costs GSWC incurs. The
8 requested balancing account is intended to allow GSWC to recover the expected
9 health care costs resulting from The Patient Protection and Affordable Care Act
10 (Act) enacted in March of 2010, as well as “market trends” related to health care
11 costs.⁸⁶ According to GSWC, the Act, as amended by the Health Care and
12 Education Affordability Reconciliation Act of 2010, expanded coverage and
13 increased benefits for all insured. Some changes include the extension of
14 coverage for all children until age 26 and prohibiting lifetime limits on the value
15 of benefits. GSWC asserts that the exact long term impact on insurance premiums
16 is undeterminable at this time.⁸⁷

17 GSWC’s health insurance rates are driven by its experience and by the
18 absolute increase in health care costs, or “medical inflation.”⁸⁸ GSWC asserts that
19 The Rate Case Plan (Plan) only allows for one test year and two attrition years for
20 expenses. In accordance with the Plan, health care costs in attrition years are
21 escalated using the inflation factors from the most recent DRA memorandum of
22 escalation rates. GSWC further asserts that these escalation factors are not
23 sufficient enough to allow it to recover the increases in costs GSWC expects under
24 the new federal regulations and other market trends.

⁸⁶ A.11-07-017, page 25.

⁸⁷ Response to DRA Data Request JRC-01, Question 8.

⁸⁸ Response to DRA Data Request JRC-01, Question 3.

1 **B. SUMMARY OF RECOMMENDATIONS**

2 The Commission should reject GSWC’s proposal for a Group Medical
3 Insurance Balancing Account. As addressed in detail in DRA’s General Office
4 report,⁸⁹ DRA has recommended a reasonable level of inflation for health care
5 insurance premiums mitigating any need for a Balancing Account.

6 **C. DISCUSSION**

7 GSWC stated that after reducing the benefits payable under its plans, and
8 increasing the annual deductibles, the premiums increased by 4.3% for GSWC’s
9 PPO Plan, and 7% for the HMO plan in 2010.⁹⁰ GSWC’s insurance brokers,
10 however, estimated insurance cost to increase by 11.6% in 2013, 19.5% in 2014,
11 and 15.5% in 2015. GSWC agrees that insurance costs can be “reasonably”
12 forecasted (as its brokers have done so).⁹¹

13 GSWC provided a forecast of insurance premium costs, thus demonstrating
14 that GSWC is able to reasonably forecast medical costs in the test year. Therefore,
15 a balancing account is not necessary. In addition, GSWC is just isolating one cost
16 category while its analysis fails to capture costs that may have been lower, thus
17 allowing the company shareholders to keep the difference between what was
18 adopted in rates and actual costs.

19 **D. CONCLUSION**

20 Special Request 5 is contrary to traditional cost of service, test year
21 ratemaking. GSWC’s request is a bold attempt to change the landscape of rate
22 setting in California as it attempts to completely eliminate forward looking (test
23 year) forecasts, and the attendant responsibility for management to control costs.
24 GSWC’s rates are not set using moving indices, caps, floors or other moving
25 economic indices normally associated with quasi unregulated utility operations.

⁸⁹ Exhibit DRA-16, witnesses Donna Ramas and Mark Dady.

⁹⁰ Garon Testimony, page 98, and response to DRA Data Request JRC-01, Question 6.

⁹¹ Response to DRA Data Request, JRC-01, Question 5.

1 GSWC's proposed balancing account would track all costs that would normally be
2 expensed in the ordinary course of business. GSWC's own testimony shows that
3 it is able to forecast health care costs in the test year. Any additional protection it
4 seeks from forecast errors in the escalation years is the equivalent to requesting a
5 modification to the Rate Case Plan.

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**APPENDIX A: QUALIFICATIONS AND PREPARED
TESTIMONY**

**QUALIFICATIONS AND PREPARED TESTIMONY OF
Jose R. Cabrera**

Q.1 Please state your name and address.

A.1 My name is Jose R. Cabrera. My business address is 505 Van Ness Avenue, 3rd floor, San Francisco, California.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission as a Public Utilities Regulatory Analyst V in the Division of Ratepayer Advocates' Water Branch.

Q.3 Please briefly describe your educational background and work experience.

A.3 I am a graduate of California State University, Sacramento, with a Bachelor of Science Degree in Accounting. I also hold a Master of Science Degree in Taxation from Golden Gate University, San Francisco. Prior to the Commission, I worked for the Department of the Treasury, Internal Revenue Service, for 5-1/2 years as an Internal Revenue Agent, and in public accounting with a certified public accountancy firm.

I joined the Commission in 1985, and participated in financial and compliance examinations as well as performed a variety of financial analysis and advisory work in the former Commission Advisory and Compliance Division for three years. From 1988 to 1992 I was a part-time Lecturer of Accounting in the Department of Accounting, School of Business, at California State University, San Francisco. I joined DRA in 1988 and since then have worked on a variety of water, telecommunication and energy matters in general rate cases and other formal proceedings. I have advocated DRA positions on issues such as energy deregulation, service quality, performance based ratemaking, emergency response standards, electric system reliability, and public purpose programs as well as lead projects on a number of energy related proceedings. I have served as the sole lead regulatory tax witness responsible for federal & state income forecasts, and tax policy in general rate cases, advocated regulatory tax policy in other proceedings, as well as provided a variety of advisory work for other divisions within the Commission on matters related to Commission regulatory tax policy. I have been in the Water Branch since 2006, and participate in the analysis of test year forecasts and a variety of policy issues in general rate cases and other proceedings of Class A Water Companies.

Q.4 What is your area of responsibility in this proceeding?

A.4 I am responsible for the preparation of Exhibit DRA-2, Region I O&M Expenses, Special Requests 1, 2, 3 and 5 for Golden State Water Company's general rate case test year 2013.

Q.5 Does that complete your prepared testimony?

A.5 Yes, it does.