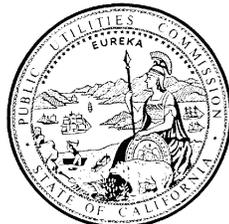


Docket: : A.11-07-017
Exhibit Number : DRA-3 REVISED
Commissioner : Catherine Sandoval
Admin. Law Judge : Richard Smith
DRA Witness : Patrick Hoglund, P.E.



DRA
DIVISION OF RATEPAYER ADVOCATES



DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

DRA TESTIMONY ON

**REGION I PLANT IN SERVICE,
DEPRECIATION, RATEBASE, AND SPECIAL
REQUEST 9**

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 Points, Clearlake, Los Osos, Ojai, Santa Maria and Simi Valley Customer Service Areas

San Francisco, California
February 27, 2012 (REVISED)

Table of Contents

CHAPTER 1: ARDEN CORDOVA	1-1
A. INTRODUCTION	1-1
B. SUMMARY OF RECOMMENDATIONS	1-1
C. DISCUSSION	1-2
1) Plant in Service	1-2
2) Depreciation	1-34
3) Rate Base	1-34
4) Water Quality	1-36
5) Net-to-Gross Multiplier	1-36
D. CONCLUSION	1-37
CHAPTER 2: BAY POINT	2-1
A. INTRODUCTION	2-1
B. SUMMARY OF RECOMMENDATIONS	2-1
C. DISCUSSION	2-2
1) Plant in Service	2-2
2) Depreciation	2-8
3) Rate Base	2-9
4) Water Quality	2-9
5) Net-to-Gross Multiplier	2-10
D. CONCLUSION	2-10
CHAPTER 3: CLEARLAKE	3-1
A. INTRODUCTION	3-1
B. SUMMARY OF RECOMMENDATIONS	3-1
C. DISCUSSION	3-2
1) Plant in Service	3-2
2) Depreciation	3-9
3) Rate Base	3-9
4) Water Quality	3-10
5) Net-to-Gross Multiplier	3-10
D. CONCLUSION	3-10
CHAPTER 4: LOS OSOS	4-1
A. INTRODUCTION	4-1
B. SUMMARY OF RECOMMENDATIONS	4-1
C. DISCUSSION	4-2
1) Plant in Service	4-2
2) Depreciation	4-12
3) Rate Base	4-12
4) Water Quality	4-12
5) Net-to-Gross Multiplier	4-13
D. CONCLUSION	4-13

CHAPTER 5: OJAI	5-1
A. INTRODUCTION	5-1
B. SUMMARY OF RECOMMENDATIONS	5-1
C. DISCUSSION	5-2
1) Plant in Service	5-2
2) Depreciation	5-10
3) Rate Base	5-10
4) Water Quality	5-11
5) Net-to-Gross Multiplier	5-11
D. CONCLUSION	5-11
CHAPTER 6: SANTA MARIA	6-1
A. INTRODUCTION	6-1
B. SUMMARY OF RECOMMENDATIONS	6-1
C. DISCUSSION	6-2
1) Plant in Service	6-2
2) Depreciation	6-11
3) Rate Base	6-11
4) Water Quality	6-12
5) Net-to-Gross Multiplier	6-12
D. CONCLUSION	6-12
CHAPTER 7: SIMI VALLEY	7-1
A. INTRODUCTION	7-1
B. SUMMARY OF RECOMMENDATIONS	7-1
C. DISCUSSION	7-2
1) Plant in Service	7-2
2) Depreciation	7-8
3) Rate Base	7-9
4) Water Quality	7-9
5) Net-to-Gross Multiplier	7-9
D. CONCLUSION	7-10
CHAPTER 8: NORTHERN DISTRICT OFFICE	8-18
A. INTRODUCTION	8-18
B. SUMMARY OF RECOMMENDATIONS	8-18
C. CONCLUSION	8-2
CHAPTER 9: COASTAL DISTRICT OFFICE	9-1
A. INTRODUCTION	9-1
B. SUMMARY OF RECOMMENDATIONS	9-1
C. CONCLUSION	9-2
CHAPTER 10: SPECIAL REQUEST 9	10-1
A. INTRODUCTION	10-1
B. SUMMARY OF RECOMMENDATIONS	10-1
C. CONCLUSION	10-1

1 **CHAPTER 1: ARDEN CORDOVA**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analyses and recommendations for Plant in
4 Service, Depreciation, and Rate Base for the Arden Cordova CSA with
5 approximately 16,191 customers. DRA’s recommendations are based on GSWC’s
6 application, testimonies, supporting work papers, construction budgets as well as
7 information and data obtained during the discovery phase of this proceeding.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 GSWC requests plant additions of \$807,390 for Year 2012, \$2,859,840
10 for Test Year 2013, and \$2,823,070 for Escalation Year 2014, whereas DRA
11 recommends plant additions of ~~\$494,900~~ \$498,900 for Year 2012, ~~\$1,401,300~~
12 \$1,423,500 for Test Year 2013, and ~~\$1,647,500~~ \$1,670,400 for Escalation Year
13 2014 as shown in Table 7-1 and Table 7-2 at the end of this chapter.

14 Differences in DRA and GSWC’s Depreciation estimates are due to
15 differences in GSWC’s requested plant additions and DRA recommended plant
16 additions for the Test Year. GSWC requests average accumulated depreciation of
17 \$39,289,000 in Test Year 2013 and \$42,545,200 for Escalation 2014, whereas
18 DRA recommends ~~\$38,970,400~~ \$38,982,500 and ~~\$42,175,100~~ \$42,224,600,
19 respectively as shown in Table 8-1 and Table 8-2 at the end of this chapter.

20 Differences in DRA and GSWC’s Rate Base estimates are due to
21 differences in Plant in Service estimates, differences in Working Cash, and the
22 Common Utility Allocation from General Office. The Common Utility Allocation
23 from the General Office is discussed in the testimony of Donna Ramas and Mark
24 Dady.

25 GSWC requests Rate Base of \$18,043,700 for Test Year 2013 and
26 \$19,611,800 for Escalation Year 2014. DRA recommends ~~\$13,397,200~~
27 \$14,602,800 for Test Year 2013 and ~~\$13,699,900~~ \$14,890,900 for Escalation Year
28 2014 as shown in Table 9-1 and Table 9-2.

1 **C. DISCUSSION**

2 **1) Plant in Service**

3 GSWC’s requested plant additions and DRA’s recommendations are shown
4 in Table 1-A. DRA has performed its own independent analysis of all proposed
5 projects and estimated funding GSWC requests. DRA made adjustments to the
6 contingency rate applied to projects. DRA accepted GSWC’s overhead and
7 escalation rates. Discussion of DRA’s specific project recommendations follows
8 the table.

9 **Water Master Plan**

10 GSWC based its request for all of its capital projects on analyses contained
11 in a Water Master Plan (Master Plan) that was prepared for each water system.
12 GSWC stated that the purpose of the Master Plan is to “assess a system’s ability to
13 meet current and future water needs, and identifies system upgrades needed to
14 meet current customer needs.”¹ DRA identified several issues that would directly
15 impact the results of the analyses and consequently the validity of the deficiencies
16 identified by those analyses. DRA will discuss these issues in the sections below.

17
18 **a. System Demand**

19
20 System demand is the amount of water needed to provide a sufficient
21 source of supply to customers in a system. A majority of the Master Plans were
22 prepared in June 2011 and estimated a system’s 2010 demand by multiplying
23 historical average demand per connection from 2000 to 2009 with the number of
24 active connections in that system. The system demand estimated in the 2011
25 Master Plan for each system is too high and does not reflect the significant drops
26 in actual customer usage. GSWC recently finalized its 2010 Urban Water
27 Management Plan updates. In many systems, the actual system demand is

¹ Norwalk System Water Master Plan, Page iii

1 approximately 20% lower than the amount of water estimated in the Master Plan.
2 Customer water usage has been decreasing since 2007 due to conservation efforts
3 and economic conditions. GSWC expects this trend to continue by estimating
4 lower water sales for 2013-2015 based on its recent water sales data. If GSWC
5 believes that its water sales will not increase from 2010 levels, the company
6 should not be planning for projects based on a higher level of water demand.

7

8 According to the California Urban Water Conservation Council (CUWCC),
9 when a utility implements a conservation rate structure, it should cause customers
10 to use less water. Customers' conservation efforts would lead to lower demand on
11 a water system, which would result in a lower or a delay in the need for
12 infrastructure improvements. The CUWCC provided the following explanation:

13

14 ***The key practical long-term benefit of water conservation is the***
15 ***postponement or deferral of additional treatment and source***
16 ***development capacity.*** For public utilities, including water suppliers, the
17 incentives to add capacity always have been stronger than the incentives to
18 control demand. Conservation pricing counteracts this tendency by
19 promoting more efficient use of existing facilities.² [Emphasis added]

20

21 The CUWCC also stated that investor-owned utilities' incentives to add
22 capacity involve "the desire for growth, the emphasis on achieving economies of
23 scale, and the appeal of expanding the capital investment base."³ Unfortunately for
24 GSWC customers, this statement cannot be any less striking. Although customers
25 are conserving water, which is evident in recent water sales data, GSWC continues
26 to plan for capital projects based on historically higher usage data rather than

² CUWCC Handbook titled "Designing, Evaluating, and Implementing Conservation Rate Structure", Page 1-9

³ Ibid, Page 1-9 Footnote 6

1 recent data. Using a higher system demand would result in an exaggeration of the
2 deficiencies used to request the projects. GSWC’s estimate of higher water
3 demand is inconsistent with the historical pattern of lower sales in its water
4 systems. Furthermore, Items 4c and 4d of the Scoping Memo questions whether
5 GSWC’s customers have reduced water consumption and whether cost savings
6 resulting from customers’ conservation efforts are passed on to ratepayers. Based
7 on the information available, DRA believes that although customers are
8 conserving water as evident in sales data, ratepayers may not realize any benefits
9 in savings if the company continues to plan for infrastructure without considering
10 customers’ conservation efforts.

11
12 **b. Maximum Day Demand (MDD) Peaking Factor**

13
14 The analyses contained in the Master Plan assessed the existing facilities to
15 determine if they can meet customer demands under different scenarios, including
16 the average day demand (ADD), maximum day demand (MDD), and peak hourly
17 demand (PHD). The ADD of each system is the total amount of water delivered to
18 customers in one year divided by 365 days. The MDD is the maximum amount of
19 water delivered in a single day in that year. The PHD is the highest hour delivery
20 during the MDD.

21
22 The MDD peaking factor is a ratio between the MDD and the ADD. In the
23 2011 Master Plan, the 2010 peaking factor that GSWC used to calculate the MDD
24 is the highest historical peaking factor between 2000 and 2009. GSWC justified
25 its use of the highest MDD peaking factor in its estimate by stating that the MDD
26 data collected between 2005 and 2009 were for highest three day average, rather
27 than the highest one day average. GSWC believed that the value of the single
28 highest day is “artificially inflated” and therefore would result in a higher peaking
29 factor. DRA requested the highest one-day of water production to verify this

1 claim.⁴ GSWC did not provide DRA with this data. Therefore, DRA could not
2 substantiate GSWC’s claim that the highest three-day average is less inflated,
3 justifying using the highest MDD peaking factor as “conservative.” In the 2007
4 Master Plan, the peaking factor used for the planning criteria is the average of
5 historical peaking factor, not the highest factor from the historical data. It appears
6 that the author of the 2011 Master Plan diverted from the 2007 Master Plan in
7 seeking the highest peaking factor possible for the MDD scenario to inflate the
8 MDD of the system. This is not consistent with past practice and there is no
9 discussion why this departure was made.

10
11 It is important to note that having a higher MDD peaking factor will have a
12 significant effect not only on a system’s MDD but also the PHD. The PHD is
13 estimated by multiplying the MDD by a factor. In most cases, the author of the
14 Master Plan used the same PHD peaking factor in 2011 that was used in 2007 and
15 DRA does not contest this.

16
17 **c. Firm Capacity**

18
19 In its Master Plan, GSWC analyzed the MDD and PHD scenario with its
20 largest source of supply offline. The company refers to this as its “firm capacity”
21 planning criteria. This is going beyond any requirements of GO-103A or the Title
22 22 of the California Code Regulations.

23 GO 103A, II.B.(1)(b) provides the following requirements for quantity of water:

24 Obtained from a source or sources reasonably adequate to provide a reliable
25 supply of water..

26 GO 103A, II.B.(3)(c) states the following:

⁴ DRA Data Request JAU-02

1 The system’s MDD and PHD shall be determined in accordance with
2 Waterworks Standards, CCR Title 22, Section 64554, or its successor.

3 Section 64554 of Title 22 offers the following requirement:

4 (a) Water sources shall have capacity to meet MDD.

5
6 (i) For systems with 1,000 or more service connections, the system shall meet 4 hours of
7 PHD with source capacity, storage capacity, and/or emergency connections.
8

9 It is important to note that Section 64554 neither requires nor makes any
10 mention of taking any source off line to assess the capacity of a system during the
11 MDD or PHD scenario. Contrary to GSWC’s planning criteria of applying “firm
12 capacity” to the PHD scenario, Title 22 considers emergency connections as a
13 source of supply during the PHD scenario.

14 Furthermore, in D.10-11-035, the Commission agreed with DRA that
15 "removing a source of supply to determine adequate water supply or water
16 pressure is not required under current GO 103-A or DPH requirements" and
17 denied GSWC’s request for projects based on its “firm capacity” criteria as “not
18 reasonable.”⁵ Therefore, any upgrades that GSWC requested based on its analyses
19 of a system deficiency during the MDD or PHD scenario may not be a true system
20 deficiency.

21 **d. Hydraulic Models**

22 The Master Plan also presented the results of a hydraulic model analysis to
23 support GSWC’s request for capital projects. GSWC requested many capital
24 projects such as pipeline upgrades and booster pumps due to a “hydraulic

⁵ D.10-11-035, Section 9.2.2 Discussion

1 deficiency” in the system. In these cases, GSWC requests a project to address the
2 low pressure, which is shown in its hydraulic model.

3 DRA questions the validity of the results of these hydraulic model analyses
4 as they were performed with certain sources off-line. As stated above, the
5 Commission found that there is no requirement for GSWC to take sources off-line
6 to determine adequate pressure. This does not reflect the actual system operating
7 conditions and should not be used as a basis for requesting capital projects.

8 **e. Conclusion**

9
10 GSWC based its capital budget request on analyses performed for each of
11 its water systems in the Water Master Plans. DRA identified many crucial
12 shortcomings contained in GSWC’s analyses of its water systems. The data that
13 GSWC used to formulate its analyses were inflated (system demand and peaking
14 factor). In addition, GSWC’s analyses were performed with the removal of a
15 source of supply from the analyses. This goes beyond any requirements for a
16 water system. When an analysis is not based on sound data, the results of that
17 analysis should not be considered dependable. Thus, any subsequent
18 recommendations based on the results of those analyses should not be considered
19 valid.

20 DRA will discuss the specific capital projects in each system and present
21 our finding regarding the need for these projects.

22

23

24 **New Water Supply**

25

26 GSWC is expected to have new sources of water supply in Region I by the Test
27 Year 2013. These supplies came from either new or replacement wells which will

1 increase GSWC's groundwater production capability and will reduce its reliance on
2 purchased water where applicable.

System	Source	Capacity
Edna Rd.	Lewis Lane #4	200 gpm
Edna Rd.	Rolling Hills	500 gpm
Ojai	Mutual Well #6	500 gpm
Lake Marie	Vineyard #6	400 gpm
Lake Marie	Lake Marie Well #4	400 gpm
Tanglewood	Tanglewood #3	600 gpm
Sisquoc	Foxencayon	200 gpm
Total		2,800 gpm or 4,517 AF

3
4 GSWC has repeatedly stated in its testimony that pumping water from its own
5 wells would be more economical for its ratepayers when compared with purchasing water
6 from local providers. DRA agrees. With these additional ground water supplies, GSWC
7 should be able to pump more water from its wells and purchase less water in the Test
8 Year 2013. To ensure ratepayers would realize the savings from the additional ground
9 water supplies, DRA imputes the reduced forecasted purchased water in Region I by
10 2,240 gpm or 3,614 AF or approximately 80% of 2,800 gpm. The imputed ground water
11 and purchased water mix has not been included in DRA's recommended adopted quantity
12 of water supply. DRA recommends that the Commission incorporates them before the
13 issuance of its final decision.

14

15

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
 Region I: Arden-Cordova CSA (AC)
Table 1-A DRA Adjusted - Errata

Budget Group	Description	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
Arden							
51-	Rushden Plant, Remove Propane Tank Pad and Bollards	-	-	22,300	-	-	-
51-	Shadowglen Plant, Upgrade Chlorine Facilities	-	-	2,600	2,500	18,700	17,800
51-	System-wide, Water Supply Improvements (Destroy Windsor Well, Install Trussell Well and Upgrade SSWD Interconnection) (Design)	-	-	-	-	328,700	313,700
Cordova							
51-	Agnes Circle Plant, Relocate Transducer and Replace Section of Main	-	-	24,100	23,000	-	-
51-	Oselot Plant, Install Sump in Altitude Valve Vault	-	-	68,400	65,300	-	-
51-	Park Plant, Install New MCC	-	-	19,600	18,700	140,800	134,400
TOTAL WATER SUPPLY		-	-	137,000	109,500	488,200	465,900
52-	Misc Street Improvements	32,500	-	32,500	-	32,500	-
TOTAL STREET IMPROVEMENTS		32,500	-	32,500	-	32,500	-
Cordova							
53-	Centerville Ct., eliminate dead-end main (install 6-inch fire hydrant) ¹	8,700	8,300	-	-	-	-
53-	Boulder Mine Way., eliminate dead-end main (install 6-inch fire hydrant) ¹	8,700	8,300	-	-	-	-
53-	Summit Mine Ct., eliminate dead-end main (install 6-inch fire hydrant) ¹	8,700	8,300	-	-	-	-
53-	Chassella Way, Dolecetto to Aramon, Approximately 2,300 LF of 8-inch DIP	89,600	-	476,300	-	-	-
53-	Dawes St., Dolecetto to Malaga, Approximately 1,800 LF of 8-inch DIP	109,300	-	581,200	-	-	-
53-	Brenda Way, Dawes to Chase, Approximately 2,500 LF of 8-inch DIP	-	-	178,900	-	966,800	-
TOTAL DISTRIBUTION IMPROVEMENTS		225,000	24,900	1,236,400	-	966,800	-
Coloma Treatment Plant, update to chlorine facilities Process Hazard Analysis ¹							
54-	Coloma Treatment Plant, Filter Re-pack (Well #20)	8,000	7,700	-	-	-	-
54-	Coloma Treatment Plant, Filter Media Replacement (North 4 and South 2)	-	-	73,000	69,700	-	-
54-	Coloma Treatment Plant, Filter Media Replacement (North 2 and 3)	-	-	145,800	139,200	-	-
54-	Coloma Treatment Plant, Filter Media Replacement (North 2 and 3)	-	-	-	-	166,700	159,200
TOTAL WATER QUALITY		8,000	7,700	218,800	208,900	166,700	159,200
55-	Meter Retrofit Program ^{1,2}	-	-	457,300	436,500	468,800	447,500
TOTAL MISCELLANEOUS		-	-	457,300	436,500	468,800	447,500
57-	Contingency	46,990	-	68,440	-	61,370	-
TOTAL CONTINGENCY		46,990	-	68,440	-	61,370	-
60-	New Business Funded by GSWC	25,000	-	25,000	-	25,000	-
TOTAL NEW BUSINESS		25,000	-	25,000	-	25,000	-
AC, B-01-Meters		\$103,500	\$103,500	\$135,000	\$135,000	\$99,500	\$99,500
AC, B-02-Services		\$229,400	\$229,400	\$361,700	\$349,700	\$372,600	\$360,300
AC, B-06-Minor Main Replacements		\$30,200	\$30,100	\$31,000	\$30,800	\$31,900	\$31,800
AC, B-07-Misc Bowls & Column Extensions		\$52,300	\$52,300	\$53,600	\$53,600	\$55,300	\$55,300
AC, B-08-Minor Purification Equipment		\$13,900	\$13,000	\$14,300	\$13,400	\$14,700	\$13,800
AC, B-09-Office Furniture and Equipment		\$18,900	\$18,200	\$8,900	\$8,200	\$9,100	\$8,500
AC, B-10-Vehicles		\$0	\$0	\$57,600	\$57,600	\$0	\$0
AC, B-11-Tools & Safety Equipment		\$21,700	\$19,800	\$22,300	\$20,300	\$30,600	\$28,600
TOTAL BLANKETS		469,900	466,300	684,400	668,600	613,700	597,800
TOTAL NET COST		807,390	498,900	2,859,840	1,423,500	2,823,070	1,670,400

¹ Approved in 2010 Region I GRC

² Approved as Advice Letter in 2010 Region I GRC

³ Originally scheduled for 2010 Design/Construction in 2010 Region I GRC

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(a) Contingency Rate

GSWC requested a contingency rate of 10% for both stand-alone major capital projects and blanket projects. Contingency is used to fund cost overruns on budgeted projects and to fund unexpected or emergency projects and/or repairs. In its work papers, GSWC specifically noted the contingency amount for its blanket projects and identified the contingency for blanket projects separately in the capital budget.

GSWC included a 10% contingency in its blanket/routine item budget. The company stated that the budget is needed “to account for miscellaneous needs that may come up during the course of the rate case that were unforeseen”.⁶ Blanket projects include routine items necessary to operate and maintain the water system, such as replacing non-functional meters, installing services, and purchasing office furniture and equipments and miscellaneous tools and equipments. GSWC stated that these costs generally occur on a regular basis and are fairly consistent in magnitude⁷ and based its budget for blanket/routine items on the previous 5-year expenditures. Since these items are foreseeable/identified items and its budget is based on historical expenditures, no contingency should be added to the blanket budget. Any unexpected/unforeseen expenditures in the past five years would have been captured in the historical data and taken into account in the forecasted blanket budget estimates for Test Year 2013. By adding a contingency budget to its blanket budget, GSWC is expanding its blanket budget beyond its 5-year expenditures. Therefore, DRA recommends that the Commission disallow the 10% contingency included in the budget for all blanket items in Regions I, II, and III.

⁶ Gisler Testimony, P. 32, Lines 11-12

⁷ Prepared Testimony Of Ernest Gisler,-Operating District Capital Additions.- Blanket items

1 For specific capital projects, GSWC also included a 10% contingency in its
2 capital budget. In support of this request, GSWC provided a report from the
3 Association for the Advancement of Cost Engineering (AACE), titled
4 “Contingency and Capital Cost Estimates,” which contains a general guidance for
5 a range of various types of Capital Cost Estimates and associated accuracy range.
6 The AACE defined contingency as:

7 *A cost element of an estimate to cover a statistical probability of the*
8 *occurrence of unforeseeable elements of cost within the defined project*
9 *scope due to a combination of uncertainties, intangibles, and*
10 *unforeseen/highly unlikely occurrences of future events, based on a*
11 *management decision to assume certain risks.*⁸

12 In its testimony, GSWC pointed to the relationship between contingency
13 and risk, whereby the higher the contingency afforded the company, the risk of a
14 cost overrun is less likely.⁹ The company also stated that its contingency budget is
15 not a “slush fund to cover costs associated with inadequate planning and poor
16 design.”¹⁰ However, it is meant to reduce the risk of “unforeseen occurrences.”
17 The AACE identified several issues that would have a direct bearing on the
18 contingency, which include inadequacies in scope, insufficient information, labor,
19 materials, and subcontractors.¹¹ It is important to determine which of these factors
20 will present a greater impact to the contingency in GSWC’s case.

21 GSWC developed its project cost estimates by “using both commercially
22 published cost data and historical (2010) cost records derived from actual GSWC
23 projects” and escalated the amount by 3.2% per year to arrive at 2012 dollars.¹²
24 The company provided the following explanation of its cost estimates:

⁸ Gisler Testimony, Attachment 6, Page 1

⁹ Gisler Testimony, Page 17, Lines 1 to 15

¹⁰ Gisler Testimony, Page 16, Lines 14 to 17

¹¹ Gisler Testimony, Attachment 6, Pages 4 to 5

¹² Gisler Testimony, Page 13, Lines 1 to 14

1 *For the pipeline projects, GSWC developed cost estimates by evaluating*
2 *historical pipeline and project bids and recorded costs for projects we have*
3 *recently completed of similar scope, location, size and complexity. GSWC*
4 *has historical data for pipeline construction projects that is utilized to*
5 *project estimated construction costs. Each pipeline project construction*
6 *estimate is the compilation of all cost items that represent the project scope*
7 *of work, including the estimated labor costs for GSWC engineering and*
8 *inspection services.*

9 *Cost estimates developed by GSWC Planning Department **utilized source***
10 ***data from developed project cost estimates.** GSWC used a **detailed cost***
11 ***estimation methodology** to derive the construction cost estimates.*

12 Based on GSWC’s testimony and the information provided in Attachment
13 5, it is clear that GSWC has extensive experience in projects of similar type. As
14 such, its own staff should have both the information and the ability in developing
15 sophisticated cost estimates that provide a fairly accurate budget for its proposed
16 projects and not require a 10% contingency rate.

17 In addition to the contingency rate, GSWC’s project cost estimates also
18 include other factors, such as construction cost escalation rate (3.2% per year),
19 company cost escalation rate (2.7%), company overhead (20%), and inflation rate
20 (4.8%). The combination of these factors totaling nearly 31% along with the fact
21 that most project estimates should be fairly accurate because of the use of
22 historical cost for similar projects, should be able to help GSWC to minimize the
23 "statistical probability of the occurrence of unforeseeable elements of cost within
24 the defined project scope" as defined by AACE. Any unforeseen events are more
25 likely a result of “inadequacies in scope” and “insufficient information.”
26 Inadequate planning and poor design typically lead to “inadequacies in scope” and
27 “insufficient information.” Under such circumstance, a separate fund is needed to
28 cover cost overruns.

1 Accordingly, DRA recommends a 5% contingency for specific capital
2 projects. This contingency rate has been adopted by the Commission in several of
3 its past decisions. In D.08-01-043, the Commission adopted a 5% contingency rate
4 for Region I, stating that:

5 *a critical management function includes accurately budgeting and*
6 *pursuing cost containment. Under Golden State's proposal, budget*
7 *overruns are indirectly sanctioned. We have supported a 5% contingency*
8 *rate for Golden State in decisions resolving prior Golden State GRCs. For*
9 *instance, in D.06-01-025, we adopted a contingency rate of 5% for Region*
10 *III. Accordingly, we adopt a 5% contingency rate in this proceeding.*

11 Also, in D.06-01-025, the Commission adopted a 5% capital project
12 contingency for the Region III “*to do away with the cushion for poor budgeting.*”

13 The AACE recommended several measures to control contingency,
14 including documenting the basis of it, controlling the changes, forecasting
15 contingency on a regular schedule, and eliminating the use of contingency to cover
16 design inadequacies and to treat it as a separate fund. The Contingency issue has
17 been a contested issue in at least two prior GSWC GRCs because GSWC has not
18 been able to justify why it would require a 10% rate. In this GRC, GSWC has not
19 provided any new information showing that it has taken proactive steps to control
20 its project costs and its need for a 10% contingency budget. Such lack of showing
21 demonstrates that GSWC has not provided enough evidence of cost controls on its
22 project costs to support a 10% contingency budget. Therefore, DRA recommends
23 that the Commission remain consistent with its prior decisions and adopt a 5%
24 contingency rate for capital projects and 0% contingency rate for the blanket
25 projects.

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(b) SCADA

SCADA is the acronym for Supervisory Control and Data Collection. Its main function is to remotely collect data from a water utility’s facilities, as well as, to remotely operate certain functions of facilities. To operate SCADA, a SCADA Center needs to be created at a central location which generally is at the regional headquarters. The SCADA headquarters collects data from each facility equipped with SCADA and controls the facility if necessary. The subject facilities need to be equipped with SCADA modules for data transmission, and sensors or input/output interface at the facility to collect data or control the operation of the facility. Specialized SCADA operator(s) is needed at the central location to monitor the SCADA operation. Specialized SCADA technician(s) is needed to repair or troubleshoot the SCADA operation. Once a SCADA is implemented in the system, periodic equipment maintenance/replacement, software updates and license renewal is needed which incurs annual maintenance cost.

GSWC has requested SCADA implementation for its CSAs in its past GRCs. Generally, their justification for this project was for the operational efficiency. According to GSWC’s testimony, it lists the following issues if the facilities are not equipped with “centralized control and monitoring system.”¹³

- GSWC employees must make frequent trips to all plants to check their condition;
- System failures may not be discovered until a customer reports it; and
- There is no control system in place to optimize system efficiency.

DRA has learned that each of GSWC’s plant sites has telemetry, which is capable of remotely collecting data from sites. The data collected from each plant sites would not be different regardless of the collection methods, i.e. Telemetry, SCADA, or in person. Neither Telemetry nor SCADA is capable of assessing the physical condition of the plant sites. To do so would still require GSWC

¹³ GSWC Direct Testimony – Region III Plants, pg 438

1 employees to make trips to plant sites. Data collected from SCADA is processed
2 at the control center and analyzed according to various set points that GSWC
3 designate. The existing telemetry data can also be processed and analyzed even
4 though they may not be as sophisticated as SCADA would do. The same is true
5 for hand collected data. The issue of whether SCADA should be implemented or
6 not comes down to the cost benefit analysis. In short, GSWC must be able to
7 show that the benefit of installing a SCADA system exceeds the cost to install the
8 system.

9 GSWC also claims that a SCADA system is required in order to evaluate
10 the operating efficiency of the system.¹⁴ DRA believes GSWC can optimize
11 system efficiency with the existing data collection methods, i.e. hand collect or via
12 telemetry. While SCADA can provide real-time control capability based on the
13 data collected at a given moment, it is not a critical function for operating a water
14 system. The purpose of optimizing the system efficiency is to reduce costs and to
15 save money. DRA argues that for the purpose of evaluating the operating
16 efficiency, the SCADA is another means of data collection. Based on the
17 collected data, GSWC still has to adjust the set-points in the SCADA or other
18 operational equipment, analyze the trends of collected data, and make a decision to
19 change its operations, in order for GSWC to achieve system efficiency.

20 In its testimony, GSWC lists the following as benefits of optimizing the
21 system:

- 22 Reduced energy costs;
- 23 Reduced water supply costs;
- 24 Reduced capital costs;
- 25 Improved water quality;
- 26 Reduced frequency of pump starts; and
- 27 Improved Data management.

¹⁴ GSWC direct testimony, pg 483-484

1 DRA found four out of six benefits listed are related to cost savings. GSWC even
2 refers to the San Diego Water Department's case as an example:

3 Seven months after implementing operations optimization, the San
4 Diego Water Department was able to save \$1.1 million.¹⁵

5 The testimony provided by GSCW fails to show such benefits of its own or even
6 identifying any cost savings built into the test year regarding its SCADA system.

7 DRA data request BYU-02 requested GSWC provide information regarding
8 dollars saved resulting from SCADA implementation.¹⁶ GSWC's responses were:

9 SCADA technology does not directly reduce the cost of operating the
10 system.

11 Regardless of the multitude of benefits that SCADA provides, the benefits
12 are difficult to quantify in "dollars saved," in that extent of savings is
13 indeterminable.

14 ... the projected cost savings by installing SCADA in this GRC is difficult
15 to put an accurate number...

16 When requesting SCADA projects, GSWC promises benefits that are mostly cost
17 savings and it even gives an example of other water utility's "dollars saved" by a
18 water municipality. When DRA requests GSWC to verify the "promised" savings,
19 it was unable to do so. If the referenced San Diego Water Department example,
20 the utility was able to quantify the savings in just after seven months, GSWC
21 should be able to identify and provide such "dollars saved" after over 15 years of
22 experience in implementing operations optimization through SCADA.

23 One of the other benefits cited by GSWC in its testimony was that a
24 SCADA would provide early detection of a system failure before customer
25 reports.¹⁷ This is an example that the installation of SCADA is unnecessary and
26 duplicative to its existing operation. For facilities without SCADA, GSWC's

¹⁵ GSWC direct testimony, pg 484

¹⁶ DRA data request BYU-02, questions 9, 10-b, 10-c

¹⁷ GSWC direct testimony, pg 483

1 current practice is to collect data and obtain the condition of the plant sites with
 2 its employees or its telemetry equipment. This practice has allowed GSWC to
 3 satisfactorily operate its water system over the past years. GSWC has not shown
 4 that its current practice is inadequate and that it would need a SCADA to address
 5 an issue dealing with the timing of system failure detection.

6 In its data requests, DRA requested GSWC to provide information about
 7 the current status of the existing SCADA in its systems. In its response to DRA
 8 data request BYU-02, GSWC indicated that SCADA has been installed at about
 9 46% of all of its plant sites companywide. Specifically, GSWC has installed
 10 SCADA for 77%, 0%, and 52% of the sites in Regions I, II and III, respectively.
 11 Of it 38 water systems, which consist about 500 plant sites, 12 of these water
 12 systems or about 235 plant sites, are fully equipped with SCADA. In Region I, six
 13 of the 13 systems are fully equipped with SCADA while another six systems are
 14 equipped over 50%. In Region III, six of the 18 systems are fully equipped with
 15 SCADA systems. The first implementation of SCADA started in 1995. As of
 16 today, GSWC has spent \$ 5,525,026 on SCADA implementation excluding
 17 retirements.

18 In addition to the installation cost, the SCADA systems incur on-going
 19 O&M expenses as shown in the following tables:

20

21 **Table 1-B Northern District Annual SCADA Costs**

22

SCADA Technician Labor	
Arden-Cordova	\$60,000
Clearlake	\$10,000
Bay Point	\$20,000
License, update and comprehensive SCADA	
Wonderware	\$11,301.00
Concept PLC software	\$500.00
Proworx PLC software	\$500.00
RSLogic PLC software	\$500.00

23

1 The most recent historical SCADA expenses for Region III are shown in the table
 2 below:

3
 4
 5

Table 1-C GSWC Region III Historical SCADA Expenses

	2007	2008	2009	2010	YTD 12/2/2011	Total
Outside Services	\$220,983.28	\$313,935.67	\$341,944.78	\$362,465.73	\$316,191.98	\$1,555,521.44
Operator Labor	\$24,969.77	\$38,825.46	\$55,885.21	\$61,103.74	\$47,838.51	\$228,622.69
Total	\$245,953.05	\$352,761.13	\$397,829.99	\$423,569.47	\$364,030.49	\$1,784,144.13

6 The data above demonstrates that operating SCADA systems incur
 7 significant amount of expenses annually. In Region III with 52% SCADA
 8 implementation, the annual O&M expenditures is close to \$400,000 annually.
 9 Considering the millions of dollars needed to install SCADA and more than
 10 \$500,000 in annual operating expenses, one would expect some savings from such
 11 a large investment. However, GSWC fails to identify and provide such cost
 12 savings.

13 As in prior rate cases, GSWC continue to state that the implementation of
 14 SCADA would bring system efficiency and cost savings. However, it provides no
 15 such support in terms of real dollars saved in the areas of O&M expenses. In fact,
 16 upon reviewing the recorded O&M expenses over the past five years in which
 17 SCADA are being installed and used, the expenses show an increasing trend.

18 **Table 1-D Historical O&M Expenses for Region I and III¹⁸**

	Historical O&M Expenses for Region I and III (in thousand dollars)				
Region	2006	2007	2008	2009	2010
Region I	\$14,196	\$17,370	\$18,565	\$17,274	\$20,583
Region III	\$36,454	\$35,810	\$39,050	\$47,290	\$49,676

19

¹⁸ Data from Summary of Earnings workpaper

1 In its response to BYU-02, the company was able to quantify the benefit
2 from San Diego Water Dept. and other utilities' SCADA systems, but offers none
3 of its own. DRA believes that it is time that the Commission prevent GSWC from
4 further SCADA implementation until it can provide a cost benefit analysis that can
5 identify savings in the area of O&M and A&G expenses. The Commission should
6 require GSWC to provide a detailed non-affiliated third-party study showing how
7 much savings that it has been able to achieve since its first SCADA
8 implementation in 1995 and present it in its next GRC. DRA recommends the
9 Commission disallowing all of GSWC's SCADA requests in the current GRC, and
10 that a formal study is submitted with its SCADA request for the next GRC.

11 (c) Agnes Circle Plant – relocate transducer and replace
12 section of plant piping

13 GSWC proposes relocating the transducer, located on discharge piping, out
14 of the elements and into the existing Motor Control Center (MCC). This will
15 prevent freezing of the sensing line. The need for this project was noted in the
16 2009 Cordova System Water Master Plan. The portion of pipe to be replaced has
17 had numerous leaks in recent years.

18 DRA recommends this project at the adjusted project cost in Table 1-A.
19 The project will improve operation of the transducer and will replace a leaking
20 section of pipe.

21 (d) Oselot Plant – install pump in altitude valve vault

22 GSWC proposes installing a sump pump in the altitude valve vault on the
23 inlet line to the reservoir to prevent the valve from rusting.

24 DRA recommends this project at the adjusted project cost in Table 1-A.

1 (e) Park Plant (Well #17) – install MCC

2 GSWC proposes installing a new MCC to replace the older electrical
3 facilities mounted on a backboard panel. These facilities are exposed to the
4 elements and replacement parts are no longer available.

5 DRA recommends this project at the adjusted project cost in Table 1-A.

6 (f) Miscellaneous Street Improvements

7 Miscellaneous Street Improvements is similar to a Blanket Item. This
8 budget is to cover the cost of relocating its facilities for street improvement
9 projects, which involve such work as extending services and hydrants, installing
10 inverts under storm drains, and replacing undersized or deteriorated mains. As
11 discussed previously, Blanket Items are typically forecasted using the 5-year
12 average methodology based on the historical amount because they are routine and
13 tend to repeat year after year.

14 In its testimony, GSWC states the Misc. Street Improvement is based on an
15 extrapolation of the average historical expenditures from the 2006 through 2010
16 budget years, but provided no recorded historical expenditure. Upon DRA’s
17 inquiry, GSWC then stated that the proposed budget is actually based on the past
18 “budgeted” amount and not historical expenditures.¹⁹

19 The lack of recorded expenditures makes it difficult if not impossible for
20 DRA to determine a basis for an appropriate budget for this item. Although
21 GSWC budgeted for these activities in past GRCs, there are no indications that the
22 company actually spent the money allotted for this purpose. If it did, the company
23 should have tracked the expenditures and should not have any difficulties in
24 presenting the information in its workpapers or upon DRA’s request. The amount
25 that GSWC requested in each Region is substantial (\$495,000 in Region II) and
26 should not be approved without proper documentation of need or expenditures.

¹⁹ Email from GSWC’s Jenny Darney Lane, dated January 4, 2012

1 Otherwise, the budget may serve as another separate fund that can be utilized
2 inappropriately. Since GSWC did not provide the historical expenditures in its
3 workpapers or any reasonable basis for the requested amount, DRA recommends
4 that the Commission disallow GSWC's request for the Miscellaneous Street
5 Improvement.

6 DRA's recommendation is reflected in Table 1-A.

7 (g) Coloma Treatment Plant – filter re-pack (Well #20)

8 GSWC proposes replacing the manganese filter media that has been in
9 service since 1992. The filter media should be replaced to maintain filter
10 efficiency.

11 DRA recommends this project at the adjusted project cost in Table 1-A.

12 (h) Coloma Treatment Plant – filter media replacement
13 (North 4 and South 2)

14 GSWC proposes replacing the anthracite and garnet media in the filter beds
15 in 2013. The recommended replacement cycle for the filter media is between
16 seven and ten years. The filters will be thirteen and eleven years old in 2013.

17 DRA recommends this project at the adjusted project cost in Table 1-A.

18 (i) Coloma Treatment Plant – filter media replacement
19 (North 2 and 3)

20 GSWC proposes replacing the filter media in North 2 and 3 in 2014 and to
21 modify the filter underdrains. The filter media will be eleven years old in 2014.

22 DRA recommends this project at the adjusted project cost in Table 1-A.

23 (j) Meter Retrofits

24 GSWC proposes installing meters on 270 non-metered services annually to
25 comply with Assembly Bill No. 2572.

1 DRA recommends this project at the adjusted project cost in Table 1-A.

2 (k) Blanket Work Orders

3 (i) Contingency

4 The Blanket budget includes routine items that are necessary to operate and
5 maintain the water system, such as replacement of meters due to age or operational
6 deficiencies, services, minor main replacement, miscellaneous tools and
7 equipment, and replacement of service vehicles. Most of the items under Blanket
8 are considered routine in nature and their replacements tend to repeat year after
9 year. The use of a 5-year average based on historical numbers is typical for the
10 standard forecasting methodology for most Class A Water companies.

11 GSWC indicated that its budget estimate for each blanket item is an
12 extrapolation of the average historical expenditures from the 2006 through 2010
13 budget. DRA's examination of GSWC's workpaper reveals that the company
14 used a 5-year inflated average instead of a straight average. The company inflated
15 its 2006 through 2010 recorded expenditures with an inflation factor derived from
16 the Engineering News Records (ENR) Average Cost Index. Then, it escalated the
17 5-year average number once again for the test years with the ENR inflation rate.
18 In addition, GSWC added another 18% to 20% to account for overhead and 10%
19 for contingency.

20 DRA disagrees with GSWC's practice of inflating the historical
21 expenditures from 2006 through 2010 with the ENR factors. Section VII,
22 Appendix A of D.07-05-062 of the Revised Rate Case Plan states, "*All rate base*
23 *items, including capital additions and depreciation, shall not be escalated but*
24 *rather shall be subjected to two test years and an attrition year, consistent with*
25 *D.04-06-018.*"

26 In D.04-06-018, Interim Order Adopting Rate Case Plan, the Commission
27 stated the following regarding rate base additions, "*Subsequent GRC applications*

1 *shall be based on actual plant in service, and shall include a report comparing*
2 *actual capital additions to the authorized amounts included in each of the three*
3 *years of the previous GRC cycle.”*

4 It is clear from above statements that the Rate Case Plan does not allow the
5 rate base items to be escalated, but rather be based on actual plant in service.
6 GSWC’s forecasting of blanket plant items based on the escalated historical
7 numbers deviate from the Rate Case Plan and should not be allowed.

8
9 **(ii) New Business – Funded by GSWC**

10 In its testimony, GSWC stated that this budget is to pay for the capital costs
11 associated with “New Business” projects such as the upsizing of a water main or
12 water services to a lot under development and the budget amounts are “an
13 extrapolation of the historical expenditures for capital costs associated with New
14 Business projects from the 2006 through 2010 budget years.”²⁰

15 Similar to its Miscellaneous Street Improvement request, GSWC based its
16 current request on a “budgeted” amount and not historical expenditures. The lack
17 of historical expenditures is indicative of a nonexistent need to budget for this
18 amount. Therefore, DRA recommends that the Commission disallow this item
19 from rate base.

20
21 DRA’s recommendation is reflected in Table 1-A.

22
23 **(iii) Meters**

24 This budget item is for the installation of new meters associated with new
25 service requests and for the replacement of inoperable meters. It also incorporates
26 the Meter Replacement Program pursuant to Section IV.6.B of Commission Order
27 103A. GSWC proposes this budget be based on historic spending.

²⁰ Gisler Testimony, Page 47, Lines 14 to 25

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DRA recommends this project at the ~~adjusted~~ requested project cost in Table 1-A.

(iv) Services

This budget item is for new and replacement domestic services. The budgeted amount proposed is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 1-A.

(v) Minor Main Replacements

This budget item is for the replacement of small sections of distribution main. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 1-A.

(vi) Minor Pumping Plant Equipment

This budget item is for replacement of minor pumping plant equipment. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 1-A.

(vii) Miscellaneous Bowl Replacements and Column Extensions

This budget item is for the emergency replacement of pumps, motors, and column extensions. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 1-A.

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(viii) Minor Purification Equipment

This budget item is for the emergency replacement of minor purification equipment. Obsolete turbidimeters are proposed for replacement in 2012, 2013, and 2014. A new streaming current controller is proposed in 2013 at the Coloma treatment Plant. The budgeted amount is based on historic spending and the planned projects noted.

DRA recommends this project at the adjusted project cost in Table 1-A.

(ix) Office Furniture and Equipment

This budget item is for the routine purchase of new and replacement office equipment. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 1-A.

(x) Meter Reading Equipment

This budget item is for the replacement of handheld meter reading equipment. The current meter reading devices will not be supported by the manufacturer after 2012. The budgeted amount is based on historic spending taking into account the new handheld meter reading equipment selected.

DRA recommends this project at the adjusted project cost in Table 1-A.

(xi) Vehicles

This budget item is for the replacement of the Water Distribution Operator Vehicle #1121 in 2013. GSWC estimates that the vehicle will exceed the mileage requirements for replacement in 2013. The budgeted amount is based on a recent estimate for this vehicle type.

1

DRA recommends this project at the adjusted project cost in Table 1-A.

3

4

(xii) Tools and Safety Equipment

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This budget item is for the purchase of new and replacement tools and safety equipment. The budgeted amount is based on historic spending and the acquisition of the Mobile Service Order Dispatch (MSOD) handheld field devices as GSWC implements a new customer service information system.

9

DRA recommends this project at the adjusted project cost in Table 1-A.

10

11

(l) Pipeline Management Program Projects

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GSWC seeks a budget of approximately \$37.5 to \$40 million each year to replace pipelines for all the three regions as shown in the table below. In Region II, GSWC’s budget for pipeline replacement is almost 70% of GSWC’s capital budget each year.

	2012 Proposed Budget (million)	2013 Proposed Budget (million)	2014 Proposed Budget (million)
Region 1	\$2.1	\$4.0	\$6.0
Region 2	\$19.8	\$24.4	\$22.5
Region 3	\$15.6	\$12.1	\$10.5
Total	\$37.5	\$40.5	\$39.0

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GSWC’s pipeline replacement program consists of a risk assessment for existing pipelines, a pipeline lifecycle analysis (KANEW), and a prioritization

1 process.²¹ It is important to note that GSWC refers to its pipeline replacement
2 program as a “proactive approach” to address its infrastructure replacement.
3 GSWC used KANEW to identify a pipeline replacement rate and proposes a
4 replacement program to attain that rate. Results from the KANEW analysis
5 yielded a replacement rate of 0.6 to 2.24 percent per year.²² Based on this rate,
6 KANEW provides an estimate of the amount of pipelines and which pipe materials
7 to target its replacement program.

8
9 Although DRA agrees that GSWC should have a pipeline replacement
10 program, DRA finds GSWC’s pipeline program to be too aggressive leading the
11 company to replace lines prematurely that will result in a rate of replacement that
12 is above the national average. In order to determine if GSWC’s request for
13 pipeline replacement is reasonable, DRA examined the age and condition of the
14 pipeline that GSWC proposed replacing. Also, DRA reviewed the findings and
15 recommendations on asset management from the USEPA and American Water
16 Works Association Research Foundation (AWWARF). Below, DRA will present
17 its findings to support its recommendation for a lower pipeline replacement budget
18 for the estimated year 2012, and two plant Test Years 2013-2014.

19
20 **Does GSWC Have an “Aging” Pipeline System?**

21
22 Since GSWC referred to its pipelines as “aging” and targeted its
23 replacement based on the age of pipelines, DRA wanted to verify this statement.
24 The age of the pipe in Region 1 is 36 years with a maximum age of 80 years. The
25 median age for pipes in Region 2 is 53 years while the pipes in Region 3 have a

²¹ Ernie Gisler Testimony, p. 18, Lines 9 to 10
²² GSWC’s Pipeline Management Program, Page 6-1

1 median age of 43 years.²³ The relative age of GSWC’s system is included in the
2 following excerpt from GSWC’s report:

3
4 *The historical pattern of pipeline installation in the United States*
5 *mirrors the overall population growth and demographic changes*
6 *that have occurred (i.e., pipelines were installed during the*
7 *population booms in the 1890s, the 1920s, and after World Wars I*
8 *and II). In GSWC, the pipeline installation boom corresponds to*
9 *the boom after World wars II (40 to 50 years ago) as well as the*
10 *population growth in California in the 1980s.*²⁴

11
12 Compared to the pipelines that were installed in other water utilities in the
13 US, GSWC’s pipelines do not appear to be “aging.” On the contrary, GSWC
14 seems to have a relatively young pipeline system relatively to other U.S. water
15 systems. According to the US EPA, there are still many mains in the U.S., which
16 were installed in the 1800’s and continue to “provide adequate and reliable
17 service”.²⁵

18 19 **Is GSWC’s Aggressive Rate of Replacement Justified?**

20 GSWC proposes a pipeline replacement program at a rate of 0.6 to 2.24
21 percent. The national average pipe replacement rate for water utilities is
22 approximately 0.5%.²⁶ Considering the young age of GSWC’s system, one would
23 expect GSWC to replace pipelines at a rate lower than the national average. The
24 average age of the pipelines in GSWC’s systems are between 36 to 53 years²⁷

²³ Ibid, Page 4-15

²⁴ Ibid, Page 1-1

²⁵ US EPA’s Deteriorating Infrastructure Management and Challenges and Strategies, P. 29

²⁶ Distribution Infrastructure Management (DIM) by Dan Ellison, p. 78

²⁷ GSWC Pipeline Replacement Program page 6-1

1 while there are pipelines in other water systems that are over 100 years old. In
2 addition, GSWC's system water loss is 7%, which is much lower compared to the
3 national average of 10%.²⁸ As a matter of fact, a fact sheet produced by the
4 National Drinking Water Clearinghouse at West Virginia University stated that a
5 system loss of 10 to 20% is normal.²⁹ Furthermore, the weather and soil
6 conditions in the West Coast, especially Southern California, are considered to
7 provide a more ideal environment for pipelines compared to those of the East
8 Coast, which has more extreme weather and typically more acidic and wetter soil
9 conditions. Therefore, pipelines in the East Coast do not last as long as they do in
10 the West Coast. The age of GSWC's pipelines is relatively young compared to the
11 national average. Its water loss rate is below the national average. Yet GSWC,
12 which has a younger system and is located in a geographical area considered to
13 have more ideal weather and soil conditions, is proposing a replacement rate 4.5
14 times that of the national average. This data simply does not support GSWC's
15 request for such an aggressive pipeline replacement program.

16 **When Is It Appropriate to Replace A Pipeline?**

17
18 The challenge that many utilities face is determining when a pipeline
19 should be replaced. GSWC proposes replacing pipelines that have reached the end
20 of their life expectancy. GSWC used KANEW to estimate the length of pipelines
21 that the company needs to replace each year, but not the specific pipelines that
22 should be replaced.³⁰ "The pipelines that reach their useful life span are considered
23 candidates for replacement/installation."³¹ According to an EPA report, KANEW

²⁸ GSWC's system water loss (Attachment 1). National average - US EPA's Distribution System Inventory, Integrity, and Water Quality, January 2007, Table 2, Statistics of US Distribution Systems.

²⁹ Technical Brief, Leak Detection and Water Loss Control, Page 1

³⁰ GSWC's Pipeline Management Program, Pages 3-1 to 3-2

³¹ Ibid, Page 3-2

1 is a broad-based model that is not sufficient to manage buried infrastructure as
2 illustrated in the following excerpt:

3
4 *With just a limited amount of data that should be readily available for most*
5 *utilities, broad-based infrastructure assessment methods can provide a*
6 *reasonable estimate of the amount of pipe that should be replaced each*
7 *year in the system, thus providing a benchmark with which to compare*
8 *current levels of spending. However, **life expectancies of mains are simply***
9 ***estimates provided by utility personnel. There is no engineering or***
10 ***economic determination that supports these estimates; consequently,***
11 ***results are very subjective. Such models do not identify or prioritize***
12 *individual mains to be replaced.* ³²[Emphasis added]

13
14
15 EPA instead recommended a performance based management method for
16 buried assets. This allows the utility to make decisions on the need for
17 maintenance or replacement of a pipe to be based solely on how the pipe performs.
18 According to the EPA:

19
20 *Similar types of pipes in different operating conditions will perform*
21 *differently. For example, a thin walled spun cast pipe operating under low*
22 *pressure and installed in non-corrosive soil may provide considerably*
23 *longer service than one operating at a higher pressure in corrosive soils.*
24 ***Pipes should remain in service, regardless of their physical attributes,***
25 ***until they stop providing the level of service that is expected of them, or***

³² USEPA's Deteriorating Buried Infrastructure Management Challenges and Strategies, Page 26

1 *until it can be proactively predicted that they will soon stop providing this*
2 *level of service.*³³ [Emphasis added]

3

4 Finally, the EPA report recommended that “**the appropriate time to**
5 **replace or rehabilitate a main is when it stops providing the level of service**
6 **that is expected of it.**”³⁴ A pipeline’s level of service is defined by the complaint
7 frequency, break frequency, service/hydraulic adequacy, and fire flow adequacy.

8

9 **Is GSWC’s Pipeline Replacement Program Prudent?**

10

11 In order to attain its pipeline replacement rate, GSWC proposes replacing
12 lines, which appear to be in good condition with no history of leaks. For example,
13 in Region II, approximately 50% of the lines that GSWC proposes replacing do
14 not have any leaks. GSWC simply wants to replace them because they are
15 “aging.” Age should not be the sole factor in determining if a pipeline needs to be
16 replaced especially when that pipeline does not have any history of leaks. In a
17 recent article published in the January 2011 AWWA Journal, Mr. Scott Rubin
18 stated the following:

19

20 *After numerous studies spanning 30 years or more, we understand that age*
21 *alone is not sufficient to identify assets that pose an eminent risk of failure.*
22 *Age, pipe material, manufacturing processes, installation practices, soil*
23 *conditions, earth disturbances, and numerous other factors can affect a*
24 *pipe’s useful life.*³⁵

25

³³ USEPA’s Deteriorating Buried Infrastructure Management Challenges and Strategies, Page 28

³⁴ Ibid, Page 31 Conclusion c

³⁵ A Call for Reliability Standards, Scott Rubin, January 2011 Journal AWWA (Attachment A)

1 As a matter of fact, there is no indication that the lines that GSWC
2 proposed to replaced have stopped “providing the level of service that is expected
3 of them,” which EPA recommended as the appropriate time to replace them. Even
4 the AWWA does not recommend that utilities should replace lines that do not
5 have leaks. AWWA’s research warns that this practice is not “cost-efficient” in
6 the following excerpt:

7
8 *As pipe assets age, they tend to break more frequently. But it is not*
9 *cost-effective to replace most pipes before, or even after, the first*
10 *break. Like the old family car, it is cost-efficient for utilities to*
11 *endure some number of breaks before funding complete replacement*
12 *of their pipes.*³⁶

13
14 GSWC’s proposal to replace pipelines that are still in good condition
15 is neither prudent nor warranted. This is not in the best interest of
16 ratepayers during an economic downturn and which may unnecessarily
17 impact the affordability of water service. GSWC’s data shows that there is
18 no strong justification to start accelerating the replacement of aging
19 pipelines. The Commission must also be cognizant of the fact that the
20 economic crisis has impacted the growth in new service connections and
21 water demand, thus investor owned utilities will be inclined to accelerate
22 non-revenue producing projects such as replacing pipelines to increase
23 profits for its shareholders.

24
25 **Is GSWC’s Request for Pipeline Replacement Reasonable?**

26
27 The availability and emerging market of pipeline rehabilitation

³⁶ Dawn of the Replacement Era, p. 13

1 technologies provide GSWC with an excellent opportunity to implement a
2 “proactive approach” for its pipeline management program. However,
3 GSWC’s approach is to simply replace pipelines that are “aging” without
4 consideration for comparative repair, replacement, and rehabilitation costs.
5 When a water main is failing, it is prudent for a utility to consider methods
6 of replacement or renewal. The majority of the pipelines GSWC identified
7 for replacement are not failing to meet their service requirements. Yet,
8 GSWC proposes replacing them anyway. This is not a prudent practice for
9 a regulated utility. GSWC has the burden to show that its request is
10 prudent and in the best interest of ratepayers.

11

12 GSWC’s Report on its Pipeline Management Program makes no
13 mention of the company’s plans to rehabilitate pipelines or what preventive
14 measures it has pursued to extend the life of pipelines. The operating
15 conditions and/or environment surrounding a pipeline have a direct effect
16 on the rate of deterioration of a pipeline, more than that of the material
17 age.³⁷ These conditions include internal and external corrosion, change in
18 temperature, and hydraulic transients. GSWC currently has no program to
19 assess or even consider the failures associated with these operating
20 conditions or plan to reduce or eliminate pipeline failures associated with
21 them. The advantage of having a pipeline rehabilitation program is to
22 extend the service life of a pipeline and prevent pipeline failure.

23

24 During an economic downturn, such as the one that ratepayers are currently
25 experiencing, DRA urges the Commission to consider the hardship that ratepayers
26 are suffering and require GSWC to scale back its aggressive pipeline replacement

³⁷ USEPA’s Deteriorating Buried Infrastructure Management Challenges and Strategies, Page 1

1 program. DRA has shown that conditions of GSWC's pipeline system such as
2 age, water loss rate, and a lack of deterioration do not warrant a replacement rate
3 that is above the national average. Therefore, DRA recommends that the
4 Commission adopt DRA's recommendations for pipeline replacement in each
5 water system as presented in the following sections.

6 For the Arden Cordova CSA, DRA recommends adopting the Centerville
7 Ct., Boulder Mine Way, and Summit Mine Ct. projects which will install new fire
8 hydrants eliminating dead-end mains and providing for manual flushing which
9 will improve water quality.

10 DRA recommends that the following three pipeline projects, to replace
11 backyard mains *without* a history of leaks, not be adopted in this GRC for the
12 reasons discussed above: Chasella Way, Dolcetto to Aramon; Dawes St., Dolcetto
13 to Malaga; and Brenda Way, Dawes to Chase. These mains currently meet
14 requirements for fire flow. DRA's plant recommendations and adjustments are
15 reflected in Table 1-A.

16 **2) Depreciation**

17 DRA has reviewed the company's analyses and agrees with GSWC's
18 methodology in arriving at the accumulated depreciation and amortization accrual
19 for the Arden Cordova CSA. DRA agrees with GSWC's proposed composite
20 accrual rate of 3.14% for 2013 and 2014. DRA's estimate is different from
21 GSWC's due to differences in recommended plant additions.

22 **3) Rate Base**

23 (a) Common Utility Allocation

24 Common Utility Allocation is the allocation of the weighted average rate
25 base from the Company's General Office and Centralized Operations Support
26 (COPs) to each of the Customer Service Areas in Region I. The amount also
27 includes the rate base allocations from the Northern District Office.

1 (b) Working Cash

2 GSWC has included in its Working Cash calculation a Water Revenue
3 Adjustment Mechanism (WRAM) Lag Days adjustment to account for the time
4 required for collection of WRAM surcharges established on 4/1/2011. The
5 surcharges ending dates in 2013 and 2014 vary by CSA.

6 GSWC is also one of the Applicants in A.10-09-017, which seeks to modify
7 several WRAM decisions with respect to the Amortization of WRAM-related
8 accounts.

9 Because amortization of WRAM-related accounts is being addressed in the
10 above proceeding, and since no adjustments are made to the Lag Days for other
11 surcharges, DRA recommends that at this time, pending resolution of A.10-09-
12 017, no adjustment be made to working cash for the WRAM Lag Days associated
13 with WRAM surcharges.

14

15 (c) Utility Plant – Out of Service

16 In this GRC, GSWC has provided DRA with a list of idling facilities and
17 vacant land in its responses to JAU-03 and JAU-05. These facilities and lands
18 have been out of service for more than 9 months, but remain in the rate base which
19 has allowed the company to earn a rate of return over the years. DRA believes
20 this is wrong because the California Public Utilities Code requires any plant that is
21 out of service for more than 9 months be removed from the rate base and the
22 associated expenses should also be disallowed.

23 Section 455.5 (a) of the California Public Utilities Code states:

24 *In establishing rates for any electrical, gas, heat, or water corporation, the*
25 *Commission may eliminate consideration of the value of any portion of any*
26 *electric, gas, heat, or water generation or production facility which, after*
27 *having been placed in service, remains out of service for nine or more*

1 *consecutive months, and may disallow any expenses related to that*
2 *facility.....*

3 Furthermore, in a recent decision, D.07-09-021, regarding an Order
4 Instituting Rulemaking on the allocation of gains from sales of utility’s assets, the
5 Commission made it clear that facilities that fall under such category should not be
6 allowed to earn a return. The Commission stated that:

7 *The purpose of the statute is to ensure that utilities not earn a*
8 *rate of return on utility assets (portion thereof) that are out of*
9 *service for at least nine months. Allowing a rate of return on*
10 *such property would overcompensate the utilities at*
11 *ratepayers’ expense.*

12 As directed by Section 455.4 of the Public Utilities Code, DRA has removed
13 the facilities and vacant lands that have been out of service for more than 9 months
14 from Table 4-M Utility Plant, of each region in calculating the final rate base.
15 Additionally, DRA also removed 1/5 of the total 5-year recorded expenses
16 associated with maintaining the facilities from the final O&M expense
17 calculations.

18 **4) Water Quality**

19 Based upon the information the company provided and the California
20 Department of Public Health (CDPH), the Arden Cordova CSA is in compliance
21 with all applicable water quality standards and requirements. CDPH is the
22 primary agency for ensuring that the water provided to the public by GSWC is
23 safe for consumption.

24 **5) Net-to-Gross Multiplier**

25 DRA’s Net-to-Gross Multiplier calculation differs from GSWC’s Net-to-
26 Gross Multiplier calculation. The DRA and GSWC calculations are included in
27 Table 9-3 at the end of this chapter. The difference is that DRA accounts for the
28 tax effects of the Domestic Production Activity Deduction (DPAD) adjustment.

1 DRA recommends a Net-to-Gross Multiplier of 1.67480947, whereas, GSWC
2 proposed 1.79804740.

3

4 **D. CONCLUSION**

5

6 DRA recommends that the Commission adopt DRA's recommendations
7 since they are consistent with ensuring that GSWC is able to provide safe, high
8 quality water, reliable water supplies, and efficient use of water at reasonable
9 rates.

10

TABLE 7-1 REVISED
 GOLDEN STATE WATER COMPANY
 ARDEN CORDOVA
 PLANT IN SERVICE
 TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	107,896.0	109,279.8	1,383.8	1.3%
2 <u>Additions</u>				
3 Gross Additions	1,423.5	2,859.8	1,436.3	100.9%
4 Retirements	<u>(34.9)</u>	<u>(86.8)</u>	<u>(51.9)</u>	148.7%
5 Net Additions	1,388.6	2,773.0	1,384.4	99.7%
6 Plant in Service - EOY	109,284.6	112,052.8	2,768.2	2.5%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	1,284.3	1,284.3	0.0	0.0%
9 CWIP - EOY	<u>1,284.3</u>	<u>1,284.3</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	109,874.6	111,950.6	2,076.0	1.9%

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TABLE 7-2 REVISED
GOLDEN STATE WATER COMPANY
ARDEN CORDOVA
PLANT IN SERVICE
ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	109,284.6	112,052.8	2,768.2	2.5%
2 <u>Additions</u>				
3 Gross Additions	1,670.4	2,823.1	1,152.7	69.0%
4 Retirements	<u>(43.4)</u>	<u>(85.1)</u>	<u>(41.7)</u>	<u>96.1%</u>
5 Net Additions	1,627.0	2,738.0	1,111.0	68.3%
6 Plant in Service - EOY	110,911.6	114,790.8	3,879.2	3.5%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	1,284.3	1,284.3	0.0	0.0%
9 CWIP - EOY	<u>1,284.3</u>	<u>1,284.3</u>	<u>0.0</u>	<u>0.0%</u>
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	111,382.4	114,706.1	3,323.7	3.0%

1
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TABLE 8-1 REVISED
GOLDEN STATE WATER COMPANY
ARDEN CORDOVA
DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	37,370.2	37,683.1	312.9	0.8%
2 <u>Accruals</u>				
3 Clearing Accounts	67.2	68.0	0.8	1.2%
4 Contributions	1,298.3	1,298.3	0.0	0.0%
5 Depreciation Expenses	1,977.2	2,015.6	38.4	1.9%
6 Total Accruals	<u>3,342.7</u>	<u>3,381.9</u>	<u>39.2</u>	<u>1.2%</u>
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(34.9)	(86.8)	(51.9)	148.7%
9 Adjustments	(83.2)	(83.2)	0.0	0.0%
10 Total Retirmt & Adjmnts	<u>(118.1)</u>	<u>(170.0)</u>	<u>(51.9)</u>	<u>43.9%</u>
11 Net Additions	3,224.6	3,211.8	(12.8)	-0.4%
12 Depreciation Reserve - EOY	40,594.8	40,894.9	300.1	0.7%
13 Deprec. Weighting Factor	50.00%	50.00%	0.00	0.0%
14 Wtd. Avg. Depr. Reserve	38,982.5	39,289.0	306.5	0.8%

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2

TABLE 8-2 REVISED
 GOLDEN STATE WATER COMPANY
 ARDEN CORDOVA
 DEPRECIATION RESERVE & EXPENSE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	40,594.8	40,894.9	300.1	0.7%
2 <u>Accruals</u>				
3 Clearing Accounts	68.0	69.7	1.7	2.5%
4 Contributions	1,298.3	1,298.3	0.0	0.0%
5 Depreciation Expenses	2,019.9	2,100.9	81.0	4.0%
6 Total Accruals	3,386.2	3,468.9	82.7	2.4%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(43.4)	(85.1)	(41.7)	96.1%
9 Adjustments	(83.2)	(83.2)	0.0	0.0%
10 Total Retimnt & Adjmnts	(126.6)	(168.3)	(41.7)	32.9%
11 Net Additions	3,259.6	3,300.6	41.0	1.3%
12 Depreciation Reserve - EOY	43,854.4	44,195.6	341.2	0.8%
13 Deprec. Weighting Factor	50.00%	50.00%	0.0	0.0%
14 Wtd. Avg. Depr. Reserve	42,224.6	42,545.2	320.6	0.8%

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TABLE 9-1 REVISED

GOLDEN STATE WATER COMPANY
ARDEN CORDOVA

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd. Avg. Plant in Service	109,874.6	111,950.6	2,076.0	1.9%
2 Wtd. Avg. Depreciation Reserve	(38,982.5)	(39,289.0)	(306.5)	0.8%
3 Materials & Supplies	83.1	83.1	0.0	0.0%
4 Advances in Construction	(23,104.9)	(23,104.9)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(29,218.5)	(29,218.5)	0.0	0.0%
6 Deferred Federal Income Tax	(7,812.9)	(7,812.9)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(221.1)	(221.1)	0.0	0.0%
9 Capitalized Ad Valorem Tax	999.8	1,018.9	19.1	1.9%
10 Connections	481.2	481.2	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	389.2	389.2	0.0	0.0%
13 Deferred Revenues	(387.7)	(387.7)	0.0	0.0%
14 Working Cash	(389.1)	1,086.8	1,475.9	-379.3%
15 Common Utility Allocation	2,891.6	3,068.0	176.4	6.1%
16 Average Rate Base	14,602.8	18,043.7	3,440.9	23.6%
17 Interest Calculation:				
18 Avg Rate Base	14,602.8	18,043.7	3,440.9	23.6%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	540.3	667.6	127.3	23.6%

1
2

TABLE 9-2 REVISED

GOLDEN STATE WATER COMPANY
ARDEN CORDOVA

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd.Avg. Plant in Service	111,382.4	114,706.1	3,323.7	3.0%
2 Wtd. Avg. Depreciation Reserve	(42,224.6)	(42,545.2)	(320.6)	0.8%
3 Materials & Supplies	83.1	83.1	0.0	0.0%
4 Advances in Construction	(22,283.0)	(22,283.0)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(27,920.3)	(27,920.3)	0.0	0.0%
6 Deferred Federal Income Tax	(7,806.6)	(7,806.6)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(215.5)	(215.5)	0.0	0.0%
9 Capitalized Ad Valorem Tax	1,013.7	1,044.3	30.6	3.0%
10 Connections	463.0	463.0	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	366.6	366.6	0.0	0.0%
13 Deferred Revenues	(387.7)	(387.7)	0.0	0.0%
14 Working Cash	(389.4)	1,086.8	1,476.2	-379.1%
15 Common Utility Allocation	2,809.2	3,020.2	211.0	7.5%
16 Average Rate Base	14,890.9	19,611.8	4,720.9	31.7%
17 Interest Calculation:				
18 Avg Rate Base	14,890.9	19,611.8	4,720.9	31.7%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	551.0	725.6	174.7	31.7%

TABLE 9-3

GOLDEN STATE WATER COMPANY
ARDEN CORDOVA

NET-TO-GROSS MULTIPLIER

TEST YEAR 2013

Debt Net to Gross Multiplier		DRA	GSWC
Line			
1	Uncollectible Rate	0.33700%	0.33700%
2	1 - Uncollectibles (100% - Line 1)	99.66300%	99.66300%
3	Franchise Rate	0.63400%	0.63400%
3a	Local Franchise (Line 2 x Line 3)	0.63186%	0.63186%
4	Business License Rate	0.00000%	0.00000%
4a	Business Licence (Line 2 x Line 4)	0.00000%	0.00000%
5	Subtotal (Line 1 + Line 3a + 4a)	0.96886%	0.96886%
6	1 - Subtotal (100% - Line 5)	99.03114%	99.03114%
7	NTG 1 / Line 6	1.0097834	1.0097834
	Debt NTG Multiplier	1.0097834	1.0097834
Equity Net to Gross Multiplier			
8	1 - Subtotal (Line 6)	99.03114%	99.03114%
9	CCFT (Line 8 x CCFT Rate)	8.75435%	8.75435%
10	Ratio of Applicable DPAD deduction (Well production / Total Production)	36.16302%	0.00000%
10a	DPAD((Line 8 - Line 9) * Line 10 * DPAD Rate)	2.93821%	0.00000%
11	FIT ((Line 8 - Line 9 - Line 10a) * FIT Rate)	30.56850%	34.66090%
12	Total Taxes Paid (Line 5 + 9 + 11)	40.29172%	44.38411%
13	Net After Taxes (100% - Line 12)	59.70828%	55.61589%
14	Net To Gross Multiplier (100% / Line 13)	1.67480947	1.79804740
	Equity NTG Multiplier	1.67480947	1.79804740
Composite Net to Gross Multiplier			
	Capital Structure	Cost	Weighted Cost
Debt	49.00%	7.55%	3.70%
Common Equity	51.00%	10.20%	5.20%
Total	100.00%		8.90%
Debt NTG			0.03736
Equity NTG			0.08712
Composite NTG			0.12448

1

Note: GSWC does not deduct CCFT in determining FIT NTG Multiplier

1 **CHAPTER 2: BAY POINT**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analyses and recommendations of for Plant
4 in Service, Depreciation, and Rate Base for the Bay Point CSA with
5 approximately 4,875 customers. DRA’s recommendations are based on GSWC’s
6 application, testimonies, supporting work papers, construction budgets as well as
7 information and data obtained during the discovery phase of this proceeding.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 GSWC requests plant additions of \$779,800 for Year 2012, \$1,008,900
10 for Test Year 2013, and \$1,372,510 for Escalation Year 2014, whereas DRA
11 recommends plant additions of ~~\$499,200~~ \$482,000 for Year 2012, ~~\$687,200~~
12 \$609,900 for Test Year 2013, and ~~\$1,239,900~~ \$832,000 for Escalation Year 2014
13 as shown in Table 7-1 and Table 7-2 at the end of the chapter.

14 Differences in DRA and GSWC’s Depreciation estimates are due to
15 differences in GSWC’s requested plant additions and DRA recommended plant
16 additions for the Test Years. GSWC requests average accumulated depreciation of
17 \$785,200 in Test Year 2013 and \$810,700 for Escalation Year 2014, whereas
18 DRA recommends ~~\$705,400~~ \$704,900 and ~~\$722,700~~ \$720,300, respectively as
19 shown in Table 8-1 and Table 8-2 at the end of the chapter.

20 Differences in DRA and GSWC’s Rate Base estimates are due to
21 differences in Plant in Service estimates, differences in Working Cash, and the
22 Common Utility Allocation from General Office. The Common Utility Allocation
23 from the General Office is discussed in the testimony of Donna Ramas and Mark
24 Dady.

25 GSWC requests Rate Base of \$14,136,200 for Test Year 2013 and
26 \$14,657,400 for Escalation Year 2014. DRA recommends ~~\$8,946,000~~ \$8,890,400
27 for Test Year 2013 and ~~\$9,296,600~~ \$8,999,800 for Escalation Year 2014,
28 respectively as shown in Table 9-1 and Table 9-2 at the end of the chapter.

1 **C. DISCUSSION**

2 **1) Plant in Service**

3 GSWC’s requested plant additions and DRA’s recommendations are shown
4 in Table 2-A. DRA has performed its own independent analysis of all proposed
5 projects and estimated funding GSWC requests. DRA made adjustments to the
6 contingency rate applied to projects. DRA accepted GSWC’s overhead and
7 escalation rates. Discussion of DRA’s specific project recommendations follows
8 the table.

9 (a) Contingency Rate

10 DRA’s position on contingencies is discussed in detail in Chapter 1,
11 Section C.1 Plant in Service. For the reasons therein DRA recommends that the
12 Commission remain consistent with its prior decisions and adopt a 5%
13 contingency rate for capital projects and a 0% contingency rate for the blanket
14 projects. DRA’s budget recommendations incorporate these contingency rates.

15 (b) Evora Plant – recoat interior and exterior of Reservoir #1

16 GSWC proposes recoating the interior and exterior of the reservoir. The
17 recent tank inspection reports indicate the coatings are in poor condition and need
18 to be replaced.

19 DRA recommends this project be adopted at the amount included in Table
20 2-A. The project will extend the useful life of the reservoir.

21 (c) Evora Plant – recoat interior and exterior of Reservoir #2

22 GSWC proposes recoating the interior and exterior of the reservoir. The
23 recent tank inspection reports indicate the coatings are in poor condition and need
24 to be replaced.

25 DRA recommends this project be adopted at the amount included in Table
26 2-A. The project will extend the useful life of the reservoir. The project will be
27 completed in the year following the recoating of Evora Reservoir #1.

1 (d) Chadwick Plant – replace discharge piping from Well #3,
2 install vault lid and meter

3 GSWC proposes replacing this segment of piping due to a history of leaks
4 and to add a meter to measure production from the well.

5 DRA recommends this project be adopted at the amount included in Table
6 2-A.

7 (e) Contra Costa Water District (CCWD) Capital
8 Improvement Program (CIP) (GSWC share-of-cost) – Randall-Bold Water
9 Treatment Plant

10 As part of its agreement for the purchase of treated water from CCWD,
11 GSWC is responsible for its share of costs associated with the CCWD CIP.

12 DRA recommends this project be adopted at the amount included in Table
13 2-A.

14 (f) Miscellaneous Street Improvements

15 Please see the discussion in Chapter 1, Section C, 1(f) for a complete
16 discussion of DRA’s position on Miscellaneous Street Improvements.

17 DRA recommends that the Commission disallow GSWC’s request for the
18 Miscellaneous Street Improvements budget as reflected in Table 2-A.

19

20 (g) Blanket Work Orders

21 (i) Contingency

22 GSWC proposes a contingency rate of 10% of the total amount of Blanket
23 Work Orders.

24

25 As discussed in Chapter 1, DRA recommends a contingency rate of 0% for
26 blanket items. Blanket work orders are recurring, routine projects. The estimated

1 expenses are typically an escalated average of historical expenses. The average
2 captures variations in project expenses for the blanket items and therefore a
3 contingency factor is not needed blanket items. This is reflected in Table 2-A.

4
5 **(ii) New Business – Funded by GSWC**

6 In its testimony, GSWC stated that this budget is to pay for the capital costs
7 associated with “New Business” projects such as the upsizing of a water main or
8 water services to a lot under development and the budget amounts are “an
9 extrapolation of the historical expenditures for capital costs associated with New
10 Business projects from the 2006 through 2010 budget years.”³⁸

11
12 Similar to its Miscellaneous Street Improvement request, GSWC based its
13 current request on a “budgeted” amount and not historical expenditures. The lack
14 of historical expenditures is indicative of a nonexistent need to budget for this
15 amount. Therefore, DRA recommends that the Commission disallow this item
16 from rate base.

17
18 ~~DRA recommends this project at the adjusted project cost~~ DRA’s
19 recommendation is reflected in Table 2-A.

20
21 **(iii) Meters**

22 This budget item is for the installation of new meters associated with new
23 service requests and for the replacement of inoperable meters. It also incorporates
24 the Meter Replacement Program pursuant to Section IV.6.B of Commission Order
25 103A. GSWC proposes this budget at a level based on historic spending.

26
27 DRA recommends this project at the ~~adjusted~~ requested project cost in
28 Table 2-A.

³⁸ Gisler Testimony, Page 47, Lines 14 to 25

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(iv) Services

This budget item is for new and replacement domestic services. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 2-A.

(v) Minor Main Replacements

This budget item is for replacement of small sections of distribution main that have failed. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 2-A.

(vi) Miscellaneous Bowl Replacements and Column Extensions

This budget item is for the emergency replacement of pumps, motors, and column extensions. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 2-A.

(vii) Minor Purification Equipment

This budget item is for the emergency replacement of minor purification equipment. The budgeted amount is based on historic spending and the planned projects noted.

DRA recommends this project at the adjusted project cost in Table 2-A.

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2 DRA recommends this project at the adjusted project cost in Table 2-A.

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(h) Pipeline Management Program Projects

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7 For the Bay Point CSA, DRA recommends adopting the Alley between

8 Pacifica Ave. and Port Chicago Hwy. project. The Alley project will replace a

9 number of long distance customer service connections with a history of leaks.

10 The main will be 60 years old when it is replaced. It will also improve system hydraulics.

11 DRA recommends that the following projects, with few or no leaks at this

12 time, not be adopted in this GRC for the reasons discussed in more detail in

13 Chapter 1, section (k): Ambrose Ave, Manor Drive, and Mary Ann Lane. DRA's

14 plant recommendations and adjustments are reflected in Table 2-A.

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
Region I: Bay Point CSA (BP)
Table 2-ADRA Adjusted - Revised

Budget Group	Description	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
51-	Hill Street Plant, recoat exterior of Reservoir #3 ¹	48,700	46,600	-	-	-	-
51-	Evora Plant, Recoat Interior and Exterior of Reservoir #1	-	-	202,600	193,400	-	-
51-	Evora Plant, Recoat Interior and Exterior of Reservoir #2	-	-	-	-	239,000	228,100
51-	Chadwick Plant, Replace Discharge Piping from Well #3, Install Vault Lid and Meter	-	-	5,400	5,200	38,700	37,000
51-	CCWD CIP (GSWC share-of-cost), Randall-Bold Water Treatment Plant	45,600	43,500	52,400	50,100	57,000	54,400
TOTAL WATER SUPPLY		94,300	90,100	260,400	248,700	334,700	319,500
52-	Misc Street Improvements	21,500	-	21,500	-	21,500	-
TOTAL STREET IMPROVEMENTS		21,500	-	21,500	-	21,500	-
53-	Manor Dr., Willow Pass to Beverly, Approximately 750 LF of 8-inch DIP ^{1,2} (Construction)	181,400	-	-	-	-	-
53-	Mary Ann Ln., Clearland to Clearland, Approximately 800 LF of 8-inch DIP	42,000	-	223,000	-	-	-
53-	Ambrose Ave., Willow Pass to Hill, Approximately 1,500 LF of 12-inch DIP	-	-	78,800	-	426,000	-
53-	Alley Between Pacifica Ave. & Port Chicago Hwy., Approximately 1,000 LF of 6-inch DIP (Design)	-	-	-	-	39,600	37,800
TOTAL DISTRIBUTION IMPROVEMENTS		223,400	-	301,800	-	465,600	37,800
57-	Contingency	39,600	-	38,200	-	49,610	-
TOTAL CONTINGENCY		39,600	-	38,200	-	49,610	-
60-	New Business Funded by GSWC	5,000	-	5,000	-	5,000	-
TOTAL NEW BUSINESS		5,000	-	5,000	-	5,000	-
3P, B-01-Meters		17,300	17,300	23,700	23,700	29,800	29,800
3P, B-02-Services		288,300	288,300	275,700	259,300	284,100	267,200
3P, B-06-Minor Main Replacements		69,800	66,400	71,500	68,100	73,700	70,200
3P, B-07-Misc Bowls & Column Extensions		4,400	4,100	4,500	4,200	4,700	4,300
3P, B-08-Minor Purification Equipment		2,500	2,300	2,600	2,300	2,700	2,400
3P, B-09-Office Furniture and Equipment		12,200	12,200	2,500	2,300	2,600	2,400
3P, B-10-Vehicles		-	-	-	-	92,700	92,700
3P, B-11-Tools & Safety Equipment		1,500	1,300	1,500	1,300	5,800	5,700
TOTAL BLANKETS		396,000	391,900	382,000	361,200	496,100	474,700
TOTAL NET COST		779,800	482,000	1,008,900	609,900	1,372,510	832,000

¹ Approved in 2010 Region I GRC

² Originally scheduled for 2011 Design/Construction in 2010 Region I GRC

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2) Depreciation

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DRA has reviewed the company's analyses and agrees with GSWC's methodology in arriving at the accumulated depreciation and amortization accrual for the Bay Point CSA. DRA agrees with GSWC's proposed composite accrual rate of 2.72% for 2013 and 2014. DRA's estimate is different from GSWC's due to differences in recommended plant additions.

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3) Rate Base

(a) Common Utility Allocation

Common Utility Allocation is the allocation of the weighted average rate base from the Company’s General Office and Centralized Operations Support (COPs) to each of the Customer Service Areas in Region I. The amount also includes the rate base allocations from the Northern District Office.

(b) Working Cash

GSWC has included in its Working Cash calculation a WRAM Lag Days adjustment to account for the collection of WRAM surcharges established on 4/1/2011. The surcharges ending dates in 2013 and 2014 vary by CSA.

GSWC is also one of the Applicants in A.10-09-017 which seeks to modify several WRAM decisions with respect to the Amortization of WRAM-related accounts.

Because amortization of WRAM-related accounts is being addressed in the above proceeding DRA recommends that at this time, pending resolution of A.10-09-017, no adjustment be made to working cash be made for the WRAM Lag Days.

(c) Adjustment for the Abandoned Hill Street Treatment Plant

In D.11-09-017 the Commission adopted the ratemaking treatment for the abandoned Hill Street Treatment facility. GSWC’s Updated workpapers reflect this adjustment. DRA incorporates the updated Utility Plant in Service balances in its estimates. The 2011 balance is reduced by \$3,073,500.

4) Water Quality

Based upon the information the company provided and the California Department of Public Health (CDPH) the Bay Point CSA is in compliance with all applicable water quality standards and requirements. CDPH is the primary agency

1 for ensuring that the water provided to the public by GSWC is safe for
2 consumption.

3 **5) Net-to-Gross Multiplier**

4 DRA's Net-to-Gross calculation differs from GSWC's Net-to-Gross
5 Multiplier calculation. The DRA and GSWC calculations are shown in Table 9-3
6 at the end of this chapter. The difference is that DRA accounts for the tax effects
7 of the Domestic Production Activity Deduction (DPAD) adjustment. DRA
8 recommends a Net-to-Gross Multiplier of 1.70986034, whereas, GSWC proposed
9 1.81315596.

10

11 **D. CONCLUSION**

12

13 DRA recommends that the Commission adopt DRA's recommendations
14 since they are consistent with ensuring that GSWC is able to provide safe, high
15 quality water, reliable water supplies, and efficient use of water at reasonable
16 rates.

17

18

TABLE 7-1 REVISED
GOLDEN STATE WATER COMPANY
BAYPOINT

PLANT IN SERVICE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	25,248.9	28,201.5	2,952.6	11.7%
2 <u>Additions</u>				
3 Gross Additions	609.9	1,008.9	399.0	65.4%
4 Retirements	<u>(42.5)</u>	<u>(70.3)</u>	<u>(27.8)</u>	65.4%
5 Net Additions	567.4	938.6	371.2	65.4%
6 Plant in Service - EOY	25,816.3	29,140.1	3,323.8	12.9%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	641.9	641.9	0.0	0.0%
9 CWIP - EOY	<u>641.9</u>	<u>641.9</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	747.0	747.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	26,921.5	30,059.7	3,138.2	11.7%

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TABLE 7-2 REVISED
GOLDEN STATE WATER COMPANY
BAY POINT
PLANT IN SERVICE
ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
	(Thousands of \$)			
1 Plant in Service - BOY	25,816.3	29,140.1	3,323.8	12.9%
2 <u>Additions</u>				
3 Gross Additions	832.0	1,372.5	540.5	65.0%
4 Retirements	<u>(58.0)</u>	<u>(95.7)</u>	<u>(37.7)</u>	65.0%
5 Net Additions	774.0	1,276.8	502.8	65.0%
6 Plant in Service - EOY	26,590.3	30,416.9	3,826.6	14.4%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	641.9	641.9	0.0	0.0%
9 CWIP - EOY	<u>641.9</u>	<u>641.9</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	747.0	747.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	27,592.2	31,167.4	3,575.2	13.0%

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TABLE 8-1 REVISED
 GOLDEN STATE WATER COMPANY
 BAY POINT
 DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	11,199.5	12,072.2	872.7	7.8%
2 <u>Accruals</u>				
3 Clearing Accounts	6.5	7.2	0.7	10.8%
4 Contributions	72.1	72.1	0.0	0.0%
5 Depreciation Expenses	626.3	705.9	79.6	12.7%
6 Total Accruals	704.9	785.2	80.3	11.4%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(42.5)	(70.3)	(27.8)	65.4%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retimnt & Adjmnts	(42.5)	(70.3)	(27.8)	65.4%
11 Net Additions	662.4	714.9	52.5	7.9%
12 Depreciation Reserve - EOY	11,861.9	12,787.1	925.2	7.8%
13 Deprec. Weighting Factor	50.00%	50.00%	0.00	0.0%
14 Wtd. Avg. Depr. Reserve	11,530.7	12,429.6	898.9	7.8%

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TABLE 8-2 REVISED
 GOLDEN STATE WATER COMPANY
 BAY POINT
 DEPRECIATION RESERVE & EXPENSE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	11,861.9	12,787.1	925.2	7.8%
2 <u>Accruals</u>				
3 Clearing Accounts	6.6	7.4	0.8	12.1%
4 Contributions	72.1	72.1	0.0	0.0%
5 Depreciation Expenses	641.6	731.2	89.6	14.0%
6 Total Accruals	720.3	810.7	90.4	12.6%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(58.0)	(95.7)	(37.7)	65.0%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retimnt & Adjmnts	(58.0)	(95.7)	(37.7)	65.0%
11 Net Additions	662.3	715.0	52.7	8.0%
12 Depreciation Reserve - EOY	12,524.2	13,502.1	977.9	7.8%
13 Deprec. Weighting Factor	50.00%	50.00%	0.0	0.0%
14 Wtd. Avg. Depr. Reserve	12,193.1	13,144.6	951.6	7.8%

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TABLE 9-1 REVISED

GOLDEN STATE WATER COMPANY
BAY POINT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd. Avg. Plant in Service	26,921.5	30,059.7	3,138.2	11.7%
2 Wtd. Avg. Depreciation Reserve	(11,530.7)	(12,429.6)	(898.9)	7.8%
3 Materials & Supplies	1.1	1.1	0.0	0.0%
4 Advances in Construction	(2,797.7)	(2,797.7)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(1,804.7)	(1,804.7)	0.0	0.0%
6 Deferred Federal Income Tax	(2,738.8)	(2,738.8)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(49.1)	(49.1)	0.0	0.0%
9 Capitalized Ad Valorem Tax	227.3	255.2	27.9	12.3%
10 Connections	47.4	47.4	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	167.9	167.9	0.0	0.0%
13 Deferred Revenues	(63.4)	(63.4)	0.0	0.0%
14 Working Cash	(121.5)	2,818.8	2,940.3	-2419.7%
15 Common Utility Allocation	631.1	669.4	38.3	6.1%
16 Average Rate Base	8,890.4	14,136.2	5,245.8	59.0%
17 Interest Calculation:				
18 Avg Rate Base	8,890.4	14,136.2	5,245.8	59.0%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	328.9	523.0	194.1	59.0%

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TABLE 9-2 REVISED

GOLDEN STATE WATER COMPANY
BAY POINT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd.Avg. Plant in Service	27,592.2	31,167.4	3,575.2	13.0%
2 Wtd. Avg. Depreciation Reserve	(12,193.1)	(13,144.6)	(951.6)	7.8%
3 Materials & Supplies	1.1	1.1	0.0	0.0%
4 Advances in Construction	(2,723.2)	(2,723.2)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(1,732.6)	(1,732.6)	0.0	0.0%
6 Deferred Federal Income Tax	(2,736.4)	(2,736.4)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(47.8)	(47.8)	0.0	0.0%
9 Capitalized Ad Valorem Tax	233.2	255.2	22.0	9.4%
10 Connections	45.9	45.9	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	158.0	158.0	0.0	0.0%
13 Deferred Revenues	(63.4)	(63.4)	0.0	0.0%
14 Working Cash	(147.1)	2,818.8	2,965.9	-2016.4%
15 Common Utility Allocation	612.9	659.1	46.2	7.5%
16 Average Rate Base	8,999.8	14,657.4	5,657.7	62.9%
17 Interest Calculation:				
18 Avg Rate Base	8,999.8	14,657.4	5,657.7	62.9%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	333.0	542.3	209.3	62.9%

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TABLE 9-3

GOLDEN STATE WATER COMPANY
BAY POINT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2013

Debt Net to Gross Multiplier		DRA	GSWC
Line			
1	Uncollectible Rate	0.55800%	0.55800%
2	1 - Uncollectibles (100% - Line 1)	99.44200%	99.44200%
3	Franchise Rate	1.24300%	1.24300%
3a	Local Franchise (Line 2 x Line 3)	1.23606%	1.23606%
4	Business License Rate	0.00000%	0.00000%
4a	Business Licence (Line 2 x Line 4)	0.00000%	0.00000%
5	Subtotal (Line 1 + Line 3a + 4a)	1.79406%	1.79406%
6	1 - Subtotal (100% - Line 5)	98.20594%	98.20594%
7	NTG 1 / Line 6	1.0182684	1.0182684
	Debt NTG Multiplier	1.0182684	1.0182684
Equity Net to Gross Multiplier			
8	1 - Subtotal (Line 6)	98.20594%	98.20594%
9	CCFT (Line 8 x CCFT Rate)	8.68140%	8.68140%
10	Ratio of Applicable DPAD deduction (Well production / Total Production)	10.40288%	0.00000%
10a	DPAD((Line 8 - Line 9) * Line 10 * DPAD Rate)	0.83818%	0.00000%
11	FIT ((Line 8 - Line 9 - Line 10a) * FIT Rate)	31.04022%	34.37208%
12	Total Taxes Paid (Line 5 + 9 + 11)	41.51569%	44.84755%
13	Net After Taxes (100% - Line 12)	58.48431%	55.15245%
14	Net To Gross Multiplier (100% / Line 13)	1.70986034	1.81315596
	Equity NTG Multiplier	1.70986034	1.81315596
Composite Net to Gross Multiplier			
	Capital Structure	Cost	Weighted Cost
Debt	49.00%	7.55%	3.70%
Common Equity	51.00%	10.20%	5.20%
Total	100.00%		8.90%
Debt NTG			0.03767
Equity NTG			0.08895
Composite NTG			0.12662

1 Note: GSWC does not deduct CCFT in determining FIT NTG Multiplier

1 **CHAPTER 3: CLEARLAKE**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analyses and recommendations of DRA for
4 Plant in Service, Depreciation, and Rate Base for the Clearlake CSA with
5 approximately 2,162 customers. DRA’s recommendations are based on GSWC’s
6 application, testimonies, supporting work papers, construction budgets as well as
7 information and data obtained during the discovery phase of this proceeding.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 GSWC requests plant additions of \$450,605 for Year 2012, \$433,730
10 for Test Year 2013, and \$773,130 for Escalation Year 2014, whereas DRA
11 recommends plant additions of ~~\$397,450~~ \$404,650 for Year 2012, ~~\$338,800~~
12 \$226,700 for Test Year 2013, and ~~\$700,600~~ \$491,200 for Escalation Year 2014 as
13 shown in Table 7-1 and Table 7-2 at the end of this chapter.

14 Differences in DRA and GSWC’s Depreciation estimates are due to
15 differences in GSWC’s requested plant additions and DRA recommended plant
16 additions for the Test Years. GSWC requests average accumulated depreciation of
17 \$283,700 in Test Year 2013 and \$294,800 for Escalation Year 2014, whereas
18 DRA recommends ~~\$282,300~~ \$282,500 and ~~\$291,000~~ \$288,300, respectively as
19 shown in Table 8-1 and Table 8-2 at the end of this chapter.

20 Differences in DRA and GSWC’s Rate Base estimates are due to
21 differences in Plant in Service estimates, differences in Working Cash, and the
22 Common Utility Allocation from General Office. The Common Utility Allocation
23 from the General Office is discussed in the testimony of Donna Ramas and Mark
24 Dady.

25 GSWC requests Rate Base of \$5,211,500 for Test Year 2013 and
26 \$5,534,300 for Escalation Year 2014. DRA recommends ~~\$5,099,800~~ \$5,050,700

1 for Test Year 2013 and ~~\$5,338,600~~ \$5,129,700 for Escalation Year 2014,
2 respectively as shown in Table 9-1 and Table 9-2 at the end of this chapter.

3 **C. DISCUSSION**

4 **1) Plant in Service**

5 GSWC's requested plant additions and DRA's recommendations are shown
6 in Table 3-A. DRA has performed its own independent analysis of all proposed
7 projects and estimated funding GSWC requests. DRA made adjustments to the
8 contingency rate applied to projects. DRA accepted GSWC's overhead and
9 escalation rates. Discussion of DRA's specific project recommendations follows
10 the table.

11 (a) Contingency Rate

12 DRA's position on contingencies is discussed in detail in Chapter 1,
13 Section C.1 Plant in Service. For the reasons therein DRA recommends that the
14 Commission remain consistent with its prior decisions and adopt a 5%
15 contingency rate for capital projects and a 0% contingency rate for the blanket
16 projects. DRA's budget recommendations incorporate these contingency rates.

17 (b) Sonoma Plant – install sludge drying bed

18 GSWC proposes to install a sludge drying bed at the Sonoma Treatment
19 Plant in order to bring discharge from the plant into compliance with GSWC's
20 Discharge Agreement with the Lake County Sanitation District for Total
21 Suspended Solids. GSWC currently owns the property where the drying bed will
22 be built.

23 DRA recommends this project be adopted at the amount included in Table
24 3-A.

25 (c) Oakcrest and San Joaquin Plants – install SCADA

26 GSWC proposes to install SCADA controls at the Oakcrest Reservoir and
27 San Joaquin plant sites to allow for remote operation of these facilities which will

1 improve operational control. The facilities will be installed consistent with GSWC
2 SCADA standards

3 Consistent with our recommendation regarding SCADA in the Arden
4 Cordova CSA, DRA recommends this project not be adopted.

5 (d) Sonoma Plant – install rinse-to-waste assembly for
6 carbon contact backwash

7 GSWC proposes to add rinse to waste capability to the second carbon
8 contactor at the Sonoma Plant to improve water quality in the clearwell at the
9 plant.

10 DRA recommends this project be adopted at the amount included in Table
11 3-A.

12 (e) Miscellaneous Street Improvements

13 Please see the discussion in Chapter 1, C,1(f) for a complete discussion of
14 DRA’s position on Miscellaneous Street Improvements.

15 DRA recommends that the Commission disallow GSWC’s request for the
16 Miscellaneous Street Improvements budget as reflected in Table 3-A.

17

18 (f) Sonoma Plant – GAC change out

19 GSWC proposes to replace the media in its Granular Activated Carbon
20 (GAC) contactors in 2014. The GAC media was last changed out in 2006 and
21 2010. The GAC media has an expected useful life of three to five years at the
22 Sonoma Treatment Plant.

23 DRA recommends this project at the adjusted project cost in Table 3-A.

1 (g) Sonoma Treatment Plant – filter media replacement

2 GSWC propose to replace the garnet and anthracite media from the two
3 filters at the Sonoma Treatment Plant in 2014. The expected useful life of the
4 filter media is seven to ten years at the Sonoma Treatment Plant. The current filter
5 media was put into service in 2002.

6 DRA recommends this project at the adjusted project cost in Table 3-A.

7 (h) Blanket Work Orders

8 (i) Contingency

9 GSWC proposes a contingency rate of 10% of the total amount of Blanket
10 Work Orders.

11

12 As discussed in Chapter 1, DRA recommends a contingency rate of 0% for
13 blanket items. Blanket work orders are recurring, routine projects. The estimated
14 expenses are typically an escalated average of historical expenses. The average
15 captures variations in project expenses for the blanket items and therefore a
16 contingency factor is not needed blanket items. This is reflected in Table 3-A.

17

18 (ii) New Business – Funded by GSWC

19 In its testimony, GSWC stated that this budget is to pay for the capital costs
20 associated with “New Business” projects such as the upsizing of a water main or
21 water services to a lot under development and the budget amounts are “an
22 extrapolation of the historical expenditures for capital costs associated with New
23 Business projects from the 2006 through 2010 budget years.”³⁹

24 Similar to its Miscellaneous Street Improvement request, GSWC based its current
25 request on a “budgeted” amount and not historical expenditures. The lack of
26 historical expenditures is indicative of a nonexistent need to budget for this

³⁹ Gisler Testimony, Page 47, Lines 14 to 25

1 amount. Therefore, DRA recommends that the Commission disallow this item
2 from rate base.

3
4 ~~DRA recommends this project at the adjusted project cost~~ DRA's
5 recommendation is reflected in Table 3-A.

6
7 **(iii) Meters**

8 This budget item is for the installation of new meters associated with new
9 service requests and for the replacement of inoperable meters. It also incorporates
10 the Meter Replacement Program pursuant to Section IV.6.B of Commission Order
11 103A. GSWC proposes this budget based on historic spending.

12
13 DRA recommends this project at the ~~adjusted~~ requested project cost in
14 Table 3-A.

15
16 **(iv) Services**

17 This budget item is for new and replacement domestic services. The
18 budgeted amount is based on historic spending.

19
20 DRA recommends this project at the adjusted project cost in Table 3-A.

21
22 **(v) Minor Main Replacements**

23 This budget item is for replacement of small sections of distribution main.
24 The budgeted amount is based on historic spending.

25
26 DRA recommends this project at the adjusted project cost in Table 3-A.

27
28
29 **(vi) Miscellaneous Bowl Replacements and Column**
30 **Extensions**

1 This budget item is for the emergency replacement of pumps, motors, and
2 column extensions. The budgeted amount is based on recent historic spending.

3

4 DRA recommends this project at the adjusted project cost in Table 3-A.

5

6 **(vii) Minor Purification Equipment**

7 This budget item is for the emergency replacement of minor purification
8 equipment. The budgeted amount is based on historic spending and the planned
9 projects noted.

10

11 DRA recommends this project at the adjusted project cost in Table 3-A.

12

13 **(viii) Office Furniture and Equipment**

14 This budget item is for the routine purchase of new and replacement office
15 equipment. The budgeted amount is based on historic spending.

16

17 DRA recommends this project at the adjusted project cost in Table 3-A.

18

19 **(ix) Meter Reading Equipment**

20 This budget item is for the replacement of handheld meter reading
21 equipment. The current meter reading devices will not be supported by the
22 manufacturer after 2012. The budgeted amount is based on historic spending
23 taking into account the new handheld meter reading equipment selected.

24

25 DRA recommends this project at the adjusted project cost in Table 3-A.

26

27 **(x) Vehicles**

1 This budget item is for the replacement of the Water Distribution Operator
2 Vehicle #1080 in 2014 and the Superintendent Vehicle #1205 in 2013. GSWC
3 estimates that the vehicles will exceed the mileage requirements for replacement
4 in 2013 and 2014. The budgeted amount is based on a recent estimate for these
5 vehicle types.

6
7 DRA recommends this project at the adjusted project cost in Table 3-A.

8
9 **(xi) Tools and Safety Equipment**

10 This budget item is for the purchase of new and replacement tools and
11 safety equipment. The budgeted amount proposed is based on recent historical
12 spending and the acquisition of Mobile Service Order Dispatch handheld field
13 devices as GSWC implements a new customer service information system.

14
15 DRA recommends this project at the adjusted project cost in Table 3-A.

16
17
18 **(i) Pipeline Management Program Projects**

19 For the Clearlake CSA, DRA recommends adopting the design portion of
20 the Park Terrace e/o Parkview project. The steel main to be replaced is undersized
21 and has had several leaks in the last five years and will be replaced with a larger
22 PVC main improving service to customers.

23 DRA recommends that the following projects not be adopted in this GRC
24 for the general reasons discussed in Chapter 1: the Manakee Ave., and the Park
25 Terrace w/o Parkview. DRA's plant recommendations and adjustments are
26 reflected in Table 3-A.

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
 Region I: Clearlake CSA (CL)

Table 3-A DRA Adjusted - Revised

Budget Group	Description	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
51-	Oakcrest Plant, Install Additional Booster ¹	21,900	20,900	-	-	-	-
51-	Sonoma Plant, Install Sludge Drying Bed	205,000	195,700	-	-	-	-
51-	Oakcrest Plant, Install Fence ^{1,3}	-	-	30,000	28,700	-	-
51-	Oakcrest and San Joaquin Plants, Install SCADA	-	-	41,200	-	-	-
51-	Sonoma Plant, Install Rinse-to-Waste Assembly for Carbon Contactor Backwash	-	-	4,600	4,400	33,000	31,500
TOTAL WATER SUPPLY		226,900	216,600	75,800	33,100	33,000	31,500
52-	Misc Street Improvements	2,300	-	2,300	-	2,300	-
TOTAL STREET IMPROVEMENTS		2,300	-	2,300	-	2,300	-
53-	Manatee Ave., Pomo to Scenic, Approximately 300 LF of 8-inch PVC ^{1,3}	-	-	104,800	-	-	-
53-	Park Terrace, w/o Parkview, Approximately 1,000 LF	-	-	21,100	-	228,000	-
53-	Park Terrace, e/o Parkview, Approximately 1,100 LF of 8-inch PVC (Design)	-	-	-	-	23,700	22,700
TOTAL DISTRIBUTION IMPROVEMENTS		-	-	125,900	-	251,700	22,700
54-	Update to watershed sanitary survey ¹	20,000	19,100	-	-	-	-
54-	Sonoma Plant, change-out GAC	-	-	-	-	71,200	67,900
54-	Sonoma Plant, filter media replacement (2 filters)	-	-	-	-	150,000	143,300
TOTAL WATER QUALITY		20,000	19,100	-	-	221,200	211,200
57-	Contingency	17,855	-	20,430	-	23,630	-
TOTAL CONTINGENCY		17,855	-	20,430	-	23,630	-
60-	New Business Funded by GSWC	5,000	-	5,000	-	5,000	-
TOTAL NEW BUSINESS		5,000	-	5,000	-	5,000	-
CL, B-01-	Meters	9,700	9,700	10,100	10,100	11,700	11,700
CL, B-02-	Services	109,900	101,300	112,700	103,900	116,100	107,000
CL, B-06-	Minor Main Replacements	21,350	21,350	13,200	12,800	13,600	13,200
CL, B-07-	Misc Bowls & Column Extensions	11,200	11,100	11,500	11,300	11,800	11,700
CL, B-08-	Minor Purification Equipment	11,600	11,000	11,900	11,200	12,200	11,600
CL, B-09-	Office Furniture and Equipment	9,100	8,800	3,300	2,900	6,100	6,000
CL, B-10-	Vehicles	-	-	38,600	38,600	57,500	57,500
CL, B-11-	Tools & Safety Equipment	5,700	5,700	3,000	2,800	7,300	7,100
TOTAL BLANKETS		178,550	168,950	204,300	193,600	236,300	225,800
TOTAL NET COST		450,605	404,650	433,730	226,700	773,130	491,200

¹ Approved in 2010 Region I GRC

² Approved as Advice Letter in 2010 Region I GRC

³ Originally scheduled for 2012 Design/Construction in 2010 Region I GRC

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2) Depreciation

DRA has reviewed the company’s analyses and agrees with GSWC’s methodology in arriving at the accumulated depreciation and amortization accrual for the Clearlake CSA. DRA agrees with GSWC’s proposed composite accrual rate of 2.77% for 2013 and 2014. DRA’s estimate is different from GSWC’s due to differences in recommended plant additions.

3) Rate Base

(a) Common Utility Allocation

Common Utility Allocation is the allocation of the weighted average rate base from the Company’s General Office and Centralized Operations Support (COPs) to each of the Customer Service Areas in Region I. The amount also includes the rate base allocations from the Northern District Office.

(b) Working Cash

GSWC has included in its Working Cash calculation a WRAM Lag Days adjustment to account for the collection of WRAM surcharges established on 4/1/2011. The surcharges ending dates in 2013 and 2014 vary by CSA.

GSWC is also one of the Applicants in A.10-09-017 which seeks to modify several WRAM decisions with respect to the Amortization of WRAM-related accounts.

Because amortization of WRAM-related accounts is being addressed in the above proceeding DRA recommends that at this time, pending resolution of A.10-09-017, no adjustment be made to working cash be made for the WRAM Lag Days.

1 **4) Water Quality**

2 Based upon the information the company provided and the California
3 Department of Public Health (CDPH) the Clearlake CSA is in compliance with all
4 applicable water quality standards and requirements. CDPH is the primary agency
5 for ensuring that the water provided to the public by GSWC is safe for
6 consumption.

7 **5) Net-to-Gross Multiplier**

8 DRA’s Net-to-Gross calculation differs from GSWC’s Net-to-Gross
9 Multiplier calculation. The DRA and GSWC calculations are shown in Table 9-3
10 at the end of this chapter. The difference is that DRA accounts for the tax effects
11 of the Domestic Production Activity Deduction (DPAD) adjustment. DRA
12 recommends a Net-to-Gross Multiplier of 1.69843429, whereas, GSWC proposed
13 1.79200545.

14

15 **D. CONCLUSION**

16 DRA recommends that the Commission adopt DRA’s recommendations
17 since they are consistent with ensuring that GSWC is able to provide safe, high
18 quality water, reliable water supplies, and efficient use of water at reasonable
19 rates.

20

21

TABLE 7-1 REVISED
GOLDEN STATE WATER COMPANY
CLEARLAKE

PLANT IN SERVICE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	10,374.6	10,417.2	42.6	0.4%
2 <u>Additions</u>				
3 Gross Additions	226.7	433.7	207.0	91.3%
4 Retirements	<u>(16.6)</u>	<u>(31.8)</u>	<u>(15.2)</u>	91.6%
5 Net Additions	210.1	401.9	191.8	91.3%
6 Plant in Service - EOY	10,584.7	10,819.1	234.4	2.2%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	70.6	70.6	0.0	0.0%
9 CWIP - EOY	<u>70.6</u>	<u>70.6</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	10,550.3	10,688.8	138.5	1.3%

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TABLE 7-2 REVISED
 GOLDEN STATE WATER COMPANY
 CLEARLAKE
 PLANT IN SERVICE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
	(Thousands of \$)			
1 Plant in Service - BOY	10,584.7	10,819.1	234.4	2.2%
2 <u>Additions</u>				
3 Gross Additions	491.2	773.1	281.9	57.4%
4 Retirements	<u>(36.1)</u>	<u>(56.8)</u>	<u>(20.7)</u>	57.3%
5 Net Additions	455.1	716.4	261.3	57.4%
6 Plant in Service - EOY	11,039.8	11,535.5	495.7	4.5%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	70.6	70.6	0.0	0.0%
9 CWIP - EOY	<u>70.6</u>	<u>70.6</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	10,882.9	11,247.9	365.1	3.4%

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TABLE 8-1 REVISED
GOLDEN STATE WATER COMPANY
CLEARLAKE
DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	4,358.7	4,355.3	(3.4)	-0.1%
2 <u>Accruals</u>				
3 Clearing Accounts	39.8	40.0	0.2	0.5%
4 Contributions	4.5	4.5	0.0	0.0%
5 Depreciation Expenses	238.2	239.2	1.0	0.4%
6 Total Accruals	282.5	283.7	1.2	0.4%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(16.6)	(31.8)	(15.2)	91.6%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retirmnt & Adjmnts	(16.6)	(31.8)	(15.2)	91.6%
11 Net Additions	265.9	251.9	(14.0)	-5.3%
12 Depreciation Reserve - EOY	4,624.6	4,607.2	(17.4)	-0.4%
13 Deprec. Weighting Factor	50.00%	50.00%	0.00	0.0%
14 Wtd. Avg. Depr. Reserve	4,491.7	4,481.2	(10.5)	-0.2%

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TABLE 8-2 REVISED
 GOLDEN STATE WATER COMPANY
 CLEARLAKE
 DEPRECIATION RESERVE & EXPENSE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	4,624.6	4,607.2	(17.4)	-0.4%
2 <u>Accruals</u>				
3 Clearing Accounts	40.6	41.5	0.9	2.2%
4 Contributions	4.5	4.5	0.0	0.0%
5 Depreciation Expenses	243.2	248.8	5.6	2.3%
6 Total Accruals	288.3	294.8	6.5	2.3%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(36.1)	(56.8)	(20.7)	57.3%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retimnt & Adjmnts	(36.1)	(56.8)	(20.7)	57.3%
11 Net Additions	252.2	238.1	(14.1)	-5.6%
12 Depreciation Reserve - EOY	4,876.8	4,845.2	(31.6)	-0.6%
13 Deprec. Weighting Factor	50.00%	50.00%	0.0	0.0%
14 Wtd. Avg. Depr. Reserve	4,750.7	4,726.2	(24.6)	-0.5%

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TABLE 9-1 REVISED

GOLDEN STATE WATER COMPANY
CLEARLAKE

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd. Avg. Plant in Service	10,550.3	10,688.8	138.5	1.3%
2 Wtd. Avg. Depreciation Reserve	(4,491.7)	(4,481.2)	10.5	-0.2%
3 Materials & Supplies	34.1	34.1	0.0	0.0%
4 Advances in Construction	(45.3)	(45.3)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(104.5)	(104.5)	0.0	0.0%
6 Deferred Federal Income Tax	(1,195.3)	(1,195.3)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(39.7)	(39.7)	0.0	0.0%
9 Capitalized Ad Valorem Tax	80.0	81.1	1.1	1.4%
10 Connections	14.9	14.9	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	5.4	5.4	0.0	0.0%
13 Deferred Revenues	(0.3)	(0.3)	0.0	0.0%
14 Working Cash	30.8	28.8	(2.0)	-6.6%
15 Common Utility Allocation	212.0	224.8	12.8	6.0%
16 Average Rate Base	5,050.7	5,211.5	160.8	3.2%
17 Interest Calculation:				
18 Avg Rate Base	5,050.7	5,211.5	160.8	3.2%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	186.9	192.8	5.9	3.2%

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TABLE 9-2 REVISED

GOLDEN STATE WATER COMPANY
CLEARLAKE

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd.Avg. Plant in Service	10,882.9	11,247.9	365.1	3.4%
2 Wtd. Avg. Depreciation Reserve	(4,750.7)	(4,726.2)	24.6	-0.5%
3 Materials & Supplies	34.1	34.1	0.0	0.0%
4 Advances in Construction	(43.9)	(43.9)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(100.0)	(100.0)	0.0	0.0%
6 Deferred Federal Income Tax	(1,194.4)	(1,194.4)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(39.3)	(39.3)	0.0	0.0%
9 Capitalized Ad Valorem Tax	82.6	85.4	2.8	3.4%
10 Connections	14.9	14.9	0.0	0.0%
11 Sliver	1.0	1.0	0.0	0.0%
12 Advances (Gross-up)	5.1	5.1	0.0	0.0%
13 Deferred Revenues	(0.3)	(0.3)	0.0	0.0%
14 Working Cash	32.2	28.8	(3.4)	-10.7%
15 Common Utility Allocation	205.6	221.4	15.8	7.7%
16 Average Rate Base	5,129.7	5,534.3	404.6	7.9%
17 Interest Calculation:				
18 Avg Rate Base	5,129.7	5,534.3	404.6	7.9%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	189.8	204.8	15.0	7.9%

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TABLE 9-3
GOLDEN STATE WATER COMPANY
CLEARLAKE

NET-TO-GROSS MULTIPLIER

TEST YEAR 2013

Debt Net to Gross Multiplier		DRA	GSWC
Line			
1	Uncollectible Rate	0.63000%	0.63000%
2	1 - Uncollectibles (100% - Line 1)	99.37000%	99.37000%
3	Franchise Rate	0.00500%	0.00500%
3a	Local Franchise (Line 2 x Line 3)	0.00497%	0.00497%
4	Business License Rate	0.00000%	0.00000%
4a		0.00000%	0.00000%
5	Subtotal (Line 1 + Line 3a + 4a)	0.63497%	0.63497%
6	1 - Subtotal (100% - Line 5)	99.36503%	99.36503%
7	NTG 1 / Line 6	1.0063903	1.0063903
	Debt NTG Multiplier	1.0063903	1.0063903
Equity Net to Gross Multiplier			
8	1 - Subtotal (Line 6)	99.36503%	99.36503%
9	CCFT (Line 8 x CCFT Rate)	8.78387%	8.78387%
10	Ratio of Applicable DPAD deduction (Well production / Total Production)	0.00002%	0.00000%
10a	DPAD((Line 8 - Line 9) * Line 10 * DPAD Rate)	0.00000%	0.00000%
11	FIT ((Line 8 - Line 9 - Line 10a) * FIT Rate)	31.70341%	34.77776%
12	Total Taxes Paid (Line 5 + 9 + 11)	41.12224%	44.19660%
13	Net After Taxes (100% - Line 12)	58.87776%	55.80340%
14	Net To Gross Multiplier (100% / Line 13)	1.69843429	1.79200545
	Equity NTG Multiplier	1.69843429	1.79200545
Composite Net to Gross Multiplier			
	Capital Structure	Cost	Weighted Cost
Debt	49.00%	7.55%	3.70%
Common Equity	51.00%	10.20%	5.20%
Total	100.00%		8.90%
Debt NTG			0.03723
Equity NTG			0.08835
Composite NTG			0.12558

1 Note: GSWC does not deduct CCFT in determining FIT NTG Multiplier

1 **CHAPTER 4: LOS OSOS**

2 **A. INTRODUCTION**

3 This chapter sets DRA's the analyses and recommendations of DRA for
4 Plant in Service, Depreciation, and Rate Base for the Los Osos CSA with
5 approximately 3,274 customers. DRA's recommendations are based on GSWC's
6 application, testimonies, supporting workpapers, construction budgets as well as
7 information and data obtained during the discovery phase of this proceeding.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 GSWC requests plant additions of \$1,590,736 for Year 2012,
10 \$2,601,660 for Test Year 2013, and \$1,082,290 for Escalation Year 2014, whereas
11 DRA recommends plant additions of \$491,942 for Year 2012, ~~\$539,000~~ \$509,400
12 for Test Year 2013, and ~~\$763,400~~ \$362,400 for Escalation Year 2014 as shown in
13 Table 7-1 and Table 7-2 at the end of this chapter.

14 Differences in DRA and GSWC's Depreciation estimates are due to
15 differences in GSWC's requested plant additions and DRA recommended plant
16 additions for the Test Years. GSWC requests average accumulated depreciation of
17 \$627,200 in Test Year 2013 and \$713,600 for Escalation Year 2014, whereas
18 DRA recommends ~~\$581,000~~ \$580,700 and ~~\$598,900~~ \$597,600, respectively as
19 shown in Table 8-1 and Table 8-2 at the end of this chapter.

20 Differences in DRA and GSWC's Rate Base estimates are due to
21 differences in Plant in Service estimates, differences in Working Cash, and the
22 Common Utility Allocation from General Office. The Common Utility Allocation
23 from the General Office is discussed in the testimony of Donna Ramas and Mark
24 Dady.

25 GSWC requests Rate Base of \$11,979,300 for Test Year 2013 and
26 \$13,235,000 for Escalation Year 2014. DRA recommends ~~\$8,514,100~~ \$8,499,400

1 for Test Year 2013 and ~~\$8,643,700~~ \$8,414,200 for Escalation Year 2014,
2 respectively as shown in Table 9-1 and Table 9-2 at the end of this chapter.

3 **C. DISCUSSION**

4 **1) Plant in Service**

5 GSWC's requested plant additions and DRA's recommendations are shown
6 in Table 4-A. DRA has performed its own independent analysis of all proposed
7 projects and estimated funding GSWC requests. DRA made adjustments to the
8 contingency rate applied to projects. DRA accepted GSWC's overhead and
9 escalation rates. Discussion of DRA's specific project recommendations follows
10 the table.

11 (a) Contingency Rate

12 DRA's position on contingencies is discussed in detail in Chapter 1,
13 Section C.1 Plant in Service. For the reasons therein DRA recommends that the
14 Commission remain consistent with its prior decisions and adopt a 5%
15 contingency rate for capital projects and a 0% contingency rate for the blanket
16 projects. DRA's budget recommendations incorporate these contingency rates.

17 (b) Edna – Land Acquisition

18 GSWC proposes to purchase a minimum quarter acre of land for a new well
19 site. Desirable locations were recommended in the Edna Valley Groundwater
20 Study prepared in May of 2010 by Cleath-Harris Geologists, Inc..

21 DRA recommends this project be deferred at this time. As described
22 below, DRA recommends the planned well project be deferred at this time,
23 therefore the land purchase is not needed at this time. This is reflected in Table 4-
24 A.

25 (c) Edna – Drill and Equip Well

26 GSWC proposes to drill a new well to meet maximum day demands
27 (MDD) in the Rolling Hills/Edna Road system. The Edna Road system is supplied

1 by two wells, Lewis Lane 3 (LL3) and Lewis Lane 4 (LL4), which are located at
2 the Lewis Lane Plant site within 100 feet of each other. LL3 and LL4 were
3 originally designed to produce 500 gpm when operating individually. Because
4 they are located so close together production at each well declines if they are run
5 at the same time. Also, declining groundwater levels have affected production.
6 For example, production data from September 2010 show LL3 production at 394
7 gpm and LL4 production of 102 gpm. With LL3 offline LL4 cannot meet the
8 MDD of 457 gpm. CDPH requires MDD to be met with the highest-capacity
9 source offline.

10 DRA recommends this project for a new well be deferred at this time.
11 Supply calculations in the Water System Master Plan indicate there is adequate
12 system supply for anticipated demands in 2015. Additionally, demand has
13 declined in this CSA in recent years and forecasted demand in this GRC is below
14 that forecasted in the Water System Master Plan. GSWC has been able to meet
15 system demands with the current supply available. DRA's adjusted project cost is
16 reflected in Table 4-A.

17 (d) Edna – Destroy Abandoned Wells

18 GSWC proposes to destroy the abandoned Rolling Hills Well No. 2 and the
19 Country Club Well. The Rolling Hills Well No. 2 has been out of service since
20 1996 when it was determined to be under the influence of surface water. The
21 Country Club Well, originally constructed in 1958, was taken out of service in
22 2008. Production at the well had decreased to 20 gpm. The original design
23 capacity was 150 gpm. Abandoned wells are required to be destroyed by
24 *California Code of Regulations, Title 22, Division 4, Chapter 16, Article 3,*
25 *Section 64560.5 Well Destruction.*

26 DRA recommends the costs to destroy these wells be treated as an expense
27 amortized over the GRC period. These costs should not be added to plant in

1 service. DRA recommends these costs be expensed over the three-year GRC
2 cycle, 2012 – 2014.

3 (e) Los Olivos – Replace Los Olivos Tank

4 GSWC proposes to replace the Los Olivos Tank. The CPUC approved a
5 project to recoat the interior and exterior of the tank in the 2010 GRC. A
6 subsequent inspection in January of 2011 recommended replacement of the tanks
7 due to its poor condition. Many areas of severe corrosion were identified. The
8 horizontal shell flanges, tank walls, and the interior roof all showed advanced
9 corrosion. The new tank, a .6MG tank, would replace the existing .5MG tank and
10 address the storage deficiency identified in the last Master Plan.

11 DRA recommends that the tank be replaced at the adjusted amount shown
12 in Table 4-A. While repair of the tank is possible, the extensive work required
13 would possibly be at a greater cost than that of a new tank. A new tank also would
14 have a greater expected useful life than if the tank were repaired.

15 (f) SCADA – Cabrillo Plant

16 GSWC proposes to install a SCADA system at the Cabrillo Plant to allow
17 for centralized control and monitoring.

18 As discussed in Chapter 1, DRA recommends this SCADA project budget
19 be removed. This adjustment is shown in Table 4-A.

20 (g) Highland – Destroy Abandoned Wells

21 GSWC proposes to destroy the abandoned Highland Well No. 1 and the
22 Highland Well No. 2. Both of the wells have developed significant holes in the
23 casings which resulted in sanding and loss of production. . Abandoned wells are
24 required to be destroyed by *California Code of Regulations, Title 22, Division 4,*
25 *Chapter 16, Article 3, Section 64560.5 Well Destruction.*

1 DRA recommends the costs to destroy these wells be treated as an expense
2 amortized over the GRC period. These costs should not be added to plant in
3 service. DRA recommends these costs be expensed over the three-year GRC
4 cycle, 2012 – 2014.

5 (h) Miscellaneous Street Improvements

6 Please see the discussion in Chapter 1, C,1(f) for a complete discussion of
7 DRA’s position on Miscellaneous Street Improvements.

8 DRA recommends that the Commission disallow GSWC’s request for the
9 Miscellaneous Street Improvements budget as reflected in Table 4-A.

10 (i) Los Osos System – install fire hydrant isolation valves

11 (10)

12 GSWC proposes to install ten isolation valves at fire hydrants that currently
13 do not have isolation valves. A similar project was authorized in the 2010 GRC.

14 DRA recommends this project at the adjusted project cost in Table 4-A.

15 (j) Pecho – Pecho Transmission Main

16 GSWC proposes to install a 650 foot 8-inch PVC main from the Pecho
17 Plant to the Skyline-Rosina transmission main on Rosina Avenue. This will allow
18 GSWC to blend the output from the Pecho, Rosina, and Skyline wells to manage
19 Total Dissolved Solids (TDS) and nitrate levels at acceptable levels. In 2010 the
20 CPUC authorized a project to blend the Rosina and Skyline wells effluent.

21 DRA recommends this project at the adjusted project cost shown in Table
22 4-A. Blending at this location will minimize costs to provide water that meets
23 TDS and nitrate requirements.

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(k) Los Osos CSA – Office Improvements

GSWC proposes to expand the Los Osos CSA office and install a ballistic barrier (“bullet proof windows”) at the customer service counter. The ballistic barrier has been installed in other CSA offices to increase employee safety.

DRA recommends this project at the adjusted project cost shown in Table 4-A.

(l) Blanket Work Orders

(i) Contingency

GSWC proposes a contingency rate of 10% of the total amount of Blanket Work Orders.

As discussed in Chapter 1, DRA recommends a contingency rate of 0% for blanket items. Blanket work orders are recurring, routine projects. The estimated expenses are typically an escalated average of historical expenses. The average captures variations in project expenses for the blanket items and therefore a contingency factor is not needed blanket items. This is reflected in Table 4-A.

(ii) New Business – Funded by GSWC

In its testimony, GSWC stated that this budget is to pay for the capital costs associated with “New Business” projects such as the upsizing of a water main or water services to a lot under development and the budget amounts are “an extrapolation of the historical expenditures for capital costs associated with New Business projects from the 2006 through 2010 budget years.”⁴⁰ Similar to its Miscellaneous Street Improvement request, GSWC based its current request on a “budgeted” amount and not historical expenditures. The lack of

⁴⁰ Gisler Testimony, Page 47, Lines 14 to 25

1 historical expenditures is indicative of a nonexistent need to budget for this
2 amount. Therefore, DRA recommends that the Commission disallow this item
3 from rate base.

4
5 ~~DRA recommends this project at the adjusted project cost~~ DRA's
6 recommendation is reflected in Table 4-A.

7

8 **(iii) Meters**

9 This budget item is for the installation of new meters associated with new
10 service requests and for the replacement of inoperable meters. It also incorporates
11 the Meter Replacement Program pursuant to Section IV.6.B of Commission Order
12 103A. GSWC proposes this budget based on historic spending.

13

14 DRA recommends this project at the adjusted project cost in Table 4-A.

15

16 **(iv) Services**

17 This budget item is for new and replacement domestic services. The
18 budgeted amount is based on historic spending.

19

20 DRA recommends this project at the adjusted project cost in Table 4-A.

21

22 **(v) Minor Main Replacements**

23 This budget item is for replacement of small sections of distribution main.
24 The budgeted amount is based on historic spending.

25

26 DRA recommends this project at the adjusted project cost in Table 4-A.

27

28 **(vi) Minor Pumping Plant Equipment**

1 This budget item is for replacement of minor pumping plant equipment
2 including SCADA system upgrades. The budgeted amount is based on historic
3 spending.

4 As discussed in Chapter 1, DRA recommends the SCADA portion of the
5 project budget be removed. DRA recommends this budget at the adjusted project
6 cost in Table 4-A.

7
8 **(vii) Miscellaneous Bowl Replacements and Column**
9 **Extensions**

10 This budget item is for the emergency replacement of pumps, motors, and
11 column extensions. The budgeted amount is based on historic spending.

12
13 DRA recommends this project at the adjusted project cost in Table 4-A.
14

15 **(viii) Minor Purification Equipment**

16 This budget item is for the emergency replacement of minor purification
17 equipment. The budgeted amount is based on historic spending and the planned
18 projects noted.

19
20 DRA recommends this project at the adjusted project cost in Table 4-A.
21

22 **(ix) Office Furniture and Equipment**

23 This budget item is for the routine purchase of new and replacement office
24 equipment. The budgeted amount is based on historic spending.

25
26 DRA recommends this project at the adjusted project cost in Table 4-A.
27

28 **(x) Meter Reading Equipment**

29 This budget item is for the replacement of handheld meter reading
30 equipment. The current meter reading devices will not be supported by the

1 manufacturer after 2012. The budgeted amount is based on historic spending
2 taking into account the new handheld meter reading equipment selected.

3
4 DRA recommends this project at the adjusted project cost in Table 4-A.

5
6 **(xi) Vehicles**

7 This budget item is for the replacement of the Water Supply Operator
8 Vehicle #1231 in 2014. GSWC estimates that the vehicle will exceed the mileage
9 requirements for replacement in 2014. The budgeted amount is based on a recent
10 estimate for this vehicle type.

11
12 DRA recommends this project at the adjusted project cost in Table 4-A.

13
14 **(xii) Tools and Safety Equipment**

15 This budget item is for the purchase of new and replacement tools and
16 safety equipment. The budgeted amount proposed is based on recent historical
17 spending and the acquisition of Mobile Service Order Dispatch handheld field
18 devices as GSWC implements a new customer service information system.

19
20 DRA recommends this project at the adjusted project cost in Table 4-A.

21
22
23 **(m) Pipeline Management Program Projects**

24 For the Los Osos CSA, DRA recommends adopting the Los Osos System
25 project (fire hydrant isolation valves), and the Pecho Raw Water Transmission
26 Main projects. The isolation valves are necessary to allow the hydrants to be shut
27 down and still provide service to customers located on that main. The Pecho Raw
28 Water Transmission Main project will allow for the blending of the Pecho supply
29 with the Skyline and Rosina wells increasing system reliability and providing an
30 effective method of complying with TDS and nitrate standards.

1 DRA recommends that the following projects, Broderson Ave., Rosina
2 Ave., and Hacienda Ave. not be adopted in this GRC for the general reasons
3 discussed in Chapter 1. DRA's plant recommendations and adjustments are
4 reflected in Table 4-A.

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
Region I: Los Osos CSA (LO)
Table 4 - A DRA Adjusted - Errata

Budget Group	Description	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
Edna Road System							
50-	Purchase Land for Edna Well	553,000	-	-	-	-	-
TOTAL LAND		553,000	-	-	-	-	-
Edna Road System							
51-	Country Club Plant, install lighting ¹	80,300	76,700	-	-	-	-
51-	Drill and Equip Well	485,700	-	1,721,300	-	-	-
51-	Destroy Wells - Country Club, Rolling Hills #2	-	-	-	-	79,600	-
Los Osos System							
51-	Bayview Plant, recoat reservoir interior/exterior and install cathodic protection ¹	135,000	128,900	-	-	-	-
51-	Los Olivos Plant, Construct Reservoir ³	80,000	76,400	366,100	340,300	-	-
51-	SCADA Upgrades	-	-	40,500	-	-	-
51-	Destroy Highland Wells (2 wells)	-	-	-	-	79,600	-
TOTAL WATER SUPPLY		781,000	282,000	2,127,900	340,300	159,200	-
52-	Miscellaneous Street Improvements	10,000	-	10,000	-	10,000	-
TOTAL STREET IMPROVEMENTS		10,000	-	10,000	-	10,000	-
Edna Road System							
53-	Hacienda Ave., Crestmont to Machado, Approximately 1,300 LF of 8-inch DIP	-	-	25,400	-	274,000	-
Los Osos System							
53-	Los Osos System, install fire hydrant isolation valves ^{1, 2}	48,100	46,000	-	-	43,400	41,300
53-	Broderson Ave., Loma to Skyline, Approximately 800 LF of 8-inch DIP	13,300	-	141,200	-	-	-
53-	Rosina Ave., Rosina Plant to Doris, Approximately 500 LF of 12-inch DIP	-	-	14,300	-	154,700	-
53-	Pecho Raw Water Transmission Main, Pecho Plant to Rosina	-	-	9,900	9,400	105,900	101,100
TOTAL DISTRIBUTION IMPROVEMENTS		61,400	46,000	190,800	9,400	578,000	142,400
55-	Los Osos CSA Office Improvements	-	-	-	-	16,700	15,900
TOTAL MISCELLANEOUS		-	-	-	-	16,700	15,900
57-	Contingency	16,394	-	24,360	-	28,490	-
TOTAL CONTINGENCY		16,394	-	24,360	-	28,490	-
60-	New Business Funded by GSWC	5,000	-	5,000	-	5,000	-
TOTAL NEW BUSINESS		5,000	-	5,000	-	5,000	-
LO, B-01-	Meters	\$44,792	\$44,792	\$19,200	\$17,900	\$19,700	\$18,400
LO, B-02-	Services	\$32,300	\$32,300	\$32,500	\$30,600	\$33,500	\$31,500
LO, B-06-	Minor Main Replacements	\$14,500	\$14,500	\$17,600	\$17,600	\$18,200	\$18,100
LO, B-07-	Misc Bowls & Column Extensions	\$67,250	\$67,250	\$146,200	\$66,700	\$144,800	\$68,700
LO, B-08-	Minor Purification Equipment	\$2,900	\$2,900	\$10,500	\$9,700	\$10,800	\$9,900
LO, B-09-	Office Furniture and Equipment	\$2,200	\$2,200	\$15,100	\$14,800	\$3,600	\$3,300
LO, B-10-	Vehicles	\$0	\$0	\$0	\$0	\$47,700	\$47,700
LO, B-11-	Tools & Safety Equipment	\$0	\$0	\$2,500	\$2,400	\$6,600	\$6,500
TOTAL BLANKETS		163,942	163,942	243,600	159,700	284,900	204,100
TOTAL NET COST		1,590,736	491,942	2,601,660	509,400	1,082,290	362,400

¹ Approved in 2010 Region I GRC

² Installation of 10 additional valves for 2014

³ Project approved in 2010 GRC to recoat reservoir. Funds to be applied towards tank replacement

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1 **2) Depreciation**

2 DRA has reviewed the company’s analyses and agrees with GSWC’s
3 methodology in arriving at the accumulated depreciation and amortization accrual
4 for the Los Osos CSA. DRA agrees with GSWC’s proposed composite accrual
5 rate of 3.67% for 2013 and 2014. DRA’s estimate is different from GSWC’s due
6 to differences in recommended plant additions.

7 **3) Rate Base**

8 (a) Common Utility Allocation

9 Common Utility Allocation is the allocation of the weighted average rate
10 base from the Company’s General Office and Centralized Operations Support
11 (COPs) to each of the Customer Service Areas in Region I. The amount also
12 includes the rate base allocations from the Northern District Office.

13 (b) Working Cash

14 GSWC has included in its Working Cash calculation a WRAM Lag Days
15 adjustment to account for the collection of WRAM surcharges established on
16 4/1/2011. The surcharges ending dates in 2013 and 2014 vary by CSA.

17 GSWC is also one of the Applicants in A.10-09-017 which seeks to modify
18 several WRAM decisions with respect to the Amortization of WRAM-related
19 accounts.

20 Because amortization of WRAM-related accounts is being addressed in the
21 above proceeding DRA recommends that at this time, pending resolution of A.10-
22 09-017, no adjustment be made to working cash be made for the WRAM Lag
23 Days.

24 **4) Water Quality**

25 Based upon the information the company provided and the California
26 Department of Public Health (CDPH) the Los Osos CSA is in compliance with all
27 applicable water quality standards and requirements. CDPH is the primary agency

1 for ensuring that the water provided to the public by GSWC is safe for
2 consumption.

3 **5) Net-to-Gross Multiplier**

4 DRA's Net-to-Gross calculation differs from GSWC's Net-to-Gross
5 Multiplier calculation. The DRA and GSWC calculations are shown in Table 9-3
6 at the end of this chapter. The difference is that DRA accounts for the tax effects
7 of the Domestic Production Activity Deduction (DPAD) adjustment. DRA
8 recommends a Net-to-Gross Multiplier of 1.61143265, whereas, GSWC proposed
9 1.78260547.

10

11 **D. CONCLUSION**

12

13 DRA recommends that the Commission adopt DRA's recommendations
14 since they are consistent with ensuring that GSWC is able to provide safe, high
15 quality water, reliable water supplies, and efficient use of water at reasonable
16 rates.

17

18

19

TABLE 7-1 REVISED
GOLDEN STATE WATER COMPANY
LOS OSOS

PLANT IN SERVICE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	16,658.7	17,927.6	1,268.9	7.6%
2 <u>Additions</u>				
3 Gross Additions	509.4	2,601.7	2,092.3	410.7%
4 Retirements	<u>(48.5)</u>	<u>(247.8)</u>	<u>(199.3)</u>	410.9%
5 Net Additions	460.9	2,353.8	1,892.9	410.7%
6 Plant in Service - EOY	17,119.6	20,281.5	3,161.9	18.5%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	209.1	209.1	0.0	0.0%
9 CWIP - EOY	<u>209.1</u>	<u>209.1</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	17,098.3	19,313.6	2,215.4	13.0%

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TABLE 7-2 REVISED
 GOLDEN STATE WATER COMPANY
 LOS OSOS
 PLANT IN SERVICE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	17,119.6	20,281.5	3,161.9	18.5%
2 <u>Additions</u>				
3 Gross Additions	362.4	1,082.3	719.9	198.6%
4 Retirements	<u>(32.9)</u>	<u>(101.5)</u>	<u>(68.6)</u>	<u>208.5%</u>
5 Net Additions	329.5	980.8	651.3	197.7%
6 Plant in Service - EOY	17,449.1	21,262.2	3,813.1	21.9%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	209.1	209.1	0.0	0.0%
9 CWIP - EOY	<u>209.1</u>	<u>209.1</u>	<u>0.0</u>	<u>0.0%</u>
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	17,493.5	20,980.9	3,487.5	19.9%

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TABLE 8-1 REVISED
GOLDEN STATE WATER COMPANY
LOS OSOS
DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	6,061.0	6,139.8	78.8	1.3%
2 <u>Accruals</u>				
3 Clearing Accounts	10.1	10.9	0.8	7.9%
4 Contributions	44.1	44.1	0.0	0.0%
5 Depreciation Expenses	526.5	572.2	45.7	8.7%
6 Total Accruals	580.7	627.2	46.5	8.0%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(48.5)	(247.8)	(199.3)	410.9%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retirmt & Adjmnts	(48.5)	(247.8)	(199.3)	410.9%
11 Net Additions	532.2	379.4	(152.8)	-28.7%
12 Depreciation Reserve - EOY	6,593.2	6,519.3	(73.9)	-1.1%
13 Deprec. Weighting Factor	50.00%	50.00%	0.00	0.0%
14 Wtd. Avg. Depr. Reserve	6,327.1	6,329.6	2.5	0.0%

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TABLE 8-2 REVISED
 GOLDEN STATE WATER COMPANY
 LOS OSOS
 DEPRECIATION RESERVE & EXPENSE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	6,593.2	6,519.3	(73.9)	-1.1%
2 <u>Accruals</u>				
3 Clearing Accounts	10.4	12.4	2.0	19.2%
4 Contributions	44.1	44.1	0.0	0.0%
5 Depreciation Expenses	543.1	657.1	114.0	21.0%
6 Total Accruals	597.6	713.6	116.0	19.4%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(32.9)	(101.5)	(68.6)	208.5%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retimnt & Adjmnts	(32.9)	(101.5)	(68.6)	208.5%
11 Net Additions	564.7	612.1	47.4	8.4%
12 Depreciation Reserve - EOY	7,157.9	7,131.4	(26.5)	-0.4%
13 Deprec. Weighting Factor	50.00%	50.00%	0.0	0.0%
14 Wtd. Avg. Depr. Reserve	6,875.6	6,825.3	(50.3)	-0.7%

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TABLE 9-1 REVISED

GOLDEN STATE WATER COMPANY
LOS OSOS

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd. Avg. Plant in Service	17,098.3	19,313.6	2,215.4	13.0%
2 Wtd. Avg. Depreciation Reserve	(6,327.1)	(6,329.6)	(2.5)	0.0%
3 Materials & Supplies	15.0	15.0	0.0	0.0%
4 Advances in Construction	(641.1)	(641.1)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(838.4)	(838.4)	0.0	0.0%
6 Deferred Federal Income Tax	(1,407.9)	(1,407.9)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(5.3)	(5.3)	0.0	0.0%
9 Capitalized Ad Valorem Tax	149.4	169.0	19.6	13.1%
10 Connections	28.6	28.6	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	62.9	62.9	0.0	0.0%
13 Deferred Revenues	0.0	0.0	0.0	0.0%
14 Working Cash	(32.2)	1,192.0	1,224.2	-3803.0%
15 Common Utility Allocation	397.2	420.5	23.3	5.9%
16 Average Rate Base	8,499.4	11,979.3	3,479.9	40.9%
17 Interest Calculation:				
18 Avg Rate Base	8,499.4	11,979.3	3,479.9	40.9%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	314.5	443.2	128.8	40.9%

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TABLE 9-2 REVISED

GOLDEN STATE WATER COMPANY
LOS OSOS

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd.Avg. Plant in Service	17,493.5	20,980.9	3,487.5	19.9%
2 Wtd. Avg. Depreciation Reserve	(6,875.6)	(6,825.3)	50.3	-0.7%
3 Materials & Supplies	15.0	15.0	0.0	0.0%
4 Advances in Construction	(607.3)	(607.3)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(794.3)	(794.3)	0.0	0.0%
6 Deferred Federal Income Tax	(1,406.1)	(1,406.1)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(4.6)	(4.6)	0.0	0.0%
9 Capitalized Ad Valorem Tax	152.9	183.7	30.8	20.1%
10 Connections	29.0	29.0	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	58.4	58.4	0.0	0.0%
13 Deferred Revenues	0.0	0.0	0.0	0.0%
14 Working Cash	(31.3)	1,192.0	1,223.3	-3905.8%
15 Common Utility Allocation	384.6	413.7	29.1	7.6%
16 Average Rate Base	8,414.2	13,235.0	4,820.8	57.3%
17 Interest Calculation:				
18 Avg Rate Base	8,414.2	13,235.0	4,820.8	57.3%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	311.3	489.7	178.4	57.3%

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TABLE 9-3

GOLDEN STATE WATER COMPANY
LOS OSOS

NET-TO-GROSS MULTIPLIER

TEST YEAR 2013

Debt Net to Gross Multiplier		DRA	GSWC
Line			
1	Uncollectible Rate	0.11100%	0.11100%
2	1 - Uncollectibles (100% - Line 1)	99.88900%	99.88900%
3	Franchise Rate	0.00000%	0.00000%
3a	Local Franchise (Line 2 x Line 3)	0.00000%	0.00000%
4	Business License Rate	0.00000%	0.00000%
4a	Business Licence (Line 2 x Line 4)	0.00000%	0.00000%
5	Subtotal (Line 1 + Line 3a + 4a)	0.11100%	0.11100%
6	1 - Subtotal (100% - Line 5)	99.88900%	99.88900%
7	NTG 1 / Line 6	1.0011112	1.0011112
	Debt NTG Multiplier	1.0011112	1.0011112
Equity Net to Gross Multiplier			
8	1 - Subtotal (Line 6)	99.88900%	99.88900%
9	CCFT (Line 8 x CCFT Rate)	8.83019%	8.83019%
10	Ratio of Applicable DPAD deduction (Well production / Total Production)	100.00000%	0.00000%
10a	DPAD((Line 8 - Line 9) * Line 10 * DPAD Rate)	8.19529%	0.00000%
11	FIT ((Line 8 - Line 9 - Line 10a) * FIT Rate)	29.00223%	34.96115%
12	Total Taxes Paid (Line 5 + 9 + 11)	37.94342%	43.90234%
13	Net After Taxes (100% - Line 12)	62.05658%	56.09766%
14	Net To Gross Multiplier (100% / Line 13)	1.61143265	1.78260547
	Equity NTG Multiplier	1.61143265	1.78260547
Composite Net to Gross Multiplier			
	Capital Structure	Cost	Weighted Cost
Debt	49.00%	7.55%	3.70%
Common Equity	51.00%	10.20%	5.20%
Total	100.00%		8.90%
Debt NTG			0.03704
Equity NTG			0.08383
Composite NTG			0.12086

1 Note: GSWC does not deduct CCFT in determining FIT NTG Multiplier

1 **CHAPTER 5: OJAI**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analyses and recommendations of DRA for
4 Plant in Service, Depreciation, and Rate Base for the Ojai CSA with
5 approximately 2,892 customers. DRA’s recommendations are based on GSWC’s
6 application, testimonies, supporting work papers, construction budgets as well as
7 information and data obtained during the discovery phase of this proceeding.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 GSWC requests plant additions of \$1,665,953 for Year 2012,
10 \$1,597,490 for Test Year 2013, and \$3,455,320 for Escalation Year 2014, whereas
11 DRA recommends plant additions of ~~\$1,529,739~~ \$1,260,339 for Year 2012,
12 ~~\$852,900~~ \$595,200 for Test Year 2013, and ~~\$2,718,800~~ \$1,061,600 for Escalation
13 Year 2014 as shown in Table 7-1 and Table 7-2 at the end of this chapter.

14 Differences in DRA and GSWC’s Depreciation estimates are due to
15 differences in GSWC’s requested plant additions and DRA recommended plant
16 additions for the Test Years. GSWC requests average accumulated depreciation of
17 \$844,200 in Test Year 2013 and \$886,600 for Escalation Year 2014, whereas
18 DRA recommends ~~\$839,900~~ \$831,500 and ~~\$859,000~~ \$842,500, respectively as
19 shown in Table 8-1 and Table 8-2 at the end of this chapter.

20 Differences in DRA and GSWC’s Rate Base estimates are due to
21 differences in Plant in Service estimates, differences in Working Cash, and the
22 Common Utility Allocation from General Office. The Common Utility Allocation
23 from the General Office is discussed in the testimony of Donna Ramas and Mark
24 Dady.

25 GSWC requests Rate Base of \$18,146,900 for Test Year 2013 and
26 \$19,859,400 for Escalation Year 2014. DRA recommends ~~\$16,527,300~~

1 ~~\$16,132,300~~ for Test Year 2013 and ~~\$17,495,700~~ \$16,154,200 for Escalation Year
2 2014, respectively as shown in Table 9-1 and Table 9-2 at the end of this chapter.

3 **C. DISCUSSION**

4 **1) Plant in Service**

5 GSWC's requested plant additions and DRA's recommendations are shown
6 in Table 5-A. DRA has performed its own independent analysis of all proposed
7 projects and estimated funding GSWC requests. DRA made adjustments to the
8 contingency rate applied to projects. DRA accepted GSWC's overhead and
9 escalation rates. Discussion of DRA's specific project recommendations follows
10 the table.

11 (a) Contingency Rate

12 DRA's position on contingencies is discussed in detail in Chapter 1,
13 Section C.1 Plant in Service. For the reasons therein DRA recommends that the
14 Commission remain consistent with its prior decisions and adopt a 5%
15 contingency rate for capital projects and a 0% contingency rate for the blanket
16 projects. DRA's budget recommendations incorporate these contingency rates.

17 (b) Valley View Plant – Relocate and Upgrade

18 GSWC proposes to relocate the Valley View booster station to an above
19 ground site, add a booster pump, a pressure regulating valve and a stand-by
20 generator. These changes are needed to facilitate the abandonment of the Running
21 Ridge Tanks and manage operations and pressure deficiencies. The Running
22 Ridge Tanks are being abandoned due to the deteriorating condition of the bolted
23 steel tank and the fact that the plant site is now virtually inaccessible to vehicles
24 due to development that occurred after the tanks were installed. Additionally, the
25 tanks would need to be moved to a different elevation to resolve customer service
26 pressure problems. Relocating the facilities will resolve the high pressure issues.

1 Three options were evaluated to resolve the issues. The first option would
2 be to lower the elevation of the Heidelberger Tank. This is not possible due to the
3 need for the tank to serve customers at the higher elevations in the pressure zone.
4 The second option would be to create a new separate pressure zone; however, this
5 would result in duplicate pipelines within the zone and result in increased
6 operational complexities. The third option considered, and selected, is to raise the
7 elevation of the booster station and expand its capacity.

8 The need for this project is driven in large part by the lack of adequate
9 access to the Running Ridge Tanks to repair or replace the tanks. The water
10 company facilities were in place prior to development of neighboring properties,
11 as such, GSWC has an obligation to preserve access to its facilities to ensure
12 continued use for its customers as development was proposed. The costs
13 associated with relocating and replacing these facilities should be the
14 responsibility of GSWC and its shareholders. Therefore, DRA recommends this
15 project not be included in the budget as reflected in the adjusted project cost in
16 Table 5-A.

17 (c) San Antonio and Mutual Plants – Security Fencing

18 GSWC proposes to install security fences as identified in the Ojai
19 Vulnerability Assessment. The sites currently do not have perimeter fencing.

20 Fencing is needed at a minimum to control access to operational facilities.
21 DRA believes that a lower estimate for the installed per foot cost for a chain link
22 fence is appropriate. DRA used a \$25 per foot cost instead of GSWC’s \$80 per
23 foot cost to arrive at its estimate. DRA recommends this project at the adjusted
24 project cost in Table 5-A.

1 (d) San Antonio Plant – Install permanent generator and auto
2 transfer switch

3 GSWC proposes to install a permanent generator at the San Antonio Plant
4 due to its importance in meeting customer demands. All of the Ojai wells and one
5 purchased water connection flow through the San Antonio Plant before entering
6 the distribution system. The generator and auto transfer switch will allow the
7 plant to continue running in the event of a power outage. The other active supply
8 source is unable to meet average system demands on its own.

9 Due to the importance of the San Antonio Plant in meeting customer
10 demands, DRA recommends this project at the adjusted project cost in Table 5-A.

11 (e) Fairview Plant – Site Improvements

12 GSWC proposes improvements to the Fairview Plant that are necessitated
13 by the abandonment of the Running Ridge Tanks. A new booster pump will be
14 added and a permanent generator will be installed. These changes will facilitate
15 realignment of the pressure zones and help eliminate deficiencies.

16 DRA recommends this project at the adjusted project cost in Table 5-A.

17 (f) Miscellaneous Street Improvements

18 Please see the discussion in Chapter 1, C,1(f) for a complete discussion of
19 DRA’s position on Miscellaneous Street Improvements.

20 DRA recommends that the Commission disallow GSWC’s request for the
21 Miscellaneous Street Improvements budget as reflected in Table 5-A.

22

23 (g) Blanket Work Orders

24 (i) Contingency

25 GSWC proposes a contingency rate of 10% of the total amount of Blanket
26 Work Orders.

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As discussed in Chapter 1, DRA recommends a contingency rate of 0% for blanket items. Blanket work orders are recurring, routine projects. The estimated expenses are typically an escalated average of historical expenses. The average captures variations in project expenses for the blanket items and therefore a contingency factor is not needed blanket items. This is reflected in Table 5-A.

(ii) New Business – Funded by GSWC

In its testimony, GSWC stated that this budget is to pay for the capital costs associated with “New Business” projects such as the upsizing of a water main or water services to a lot under development and the budget amounts are “an extrapolation of the historical expenditures for capital costs associated with New Business projects from the 2006 through 2010 budget years.”⁴¹

Similar to its Miscellaneous Street Improvement request, GSWC based its current request on a “budgeted” amount and not historical expenditures. The lack of historical expenditures is indicative of a nonexistent need to budget for this amount. Therefore, DRA recommends that the Commission disallow this item from rate base.

~~DRA recommends this project at the adjusted project cost~~ DRA’s recommendation is reflected in Table 5-A.

(iii) Meters

This budget item is for the installation of new meters associated with new service requests and for the replacement of inoperable meters. It also incorporates the Meter Replacement Program pursuant to Section IV.6.B of Commission Order 103A. GSWC proposes this budget based on historic spending.

⁴¹ Gisler Testimony, Page 47, Lines 14 to 25

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DRA recommends this project at the adjusted project cost in Table 5-A.

(iv) Services

This budget item is for new and replacement domestic services. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 5-A.

(v) Minor Main Replacements

This budget item is for replacement of small sections of distribution main. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 5-A.

(vi) Minor Pumping Plant Equipment

This budget item is for replacement of minor pumping plant equipment. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 5-A.

(vii) Miscellaneous Bowl Replacements and Column Extensions

This budget item is for the emergency replacement of pumps, motors, and column extensions. The budgeted amount is based on historic spending.

DRA recommends this project at the adjusted project cost in Table 5-A.

(viii) Minor Purification Equipment

1 This budget item is for the replacement of minor purification equipment.
2 The budgeted amount is based on historic spending and the planned projects
3 noted.

4
5 DRA recommends this project at the adjusted project cost in Table 5-A.
6

7 **(ix) Office Furniture and Equipment**

8 This budget item is for the routine purchase of new and replacement office
9 equipment. The budgeted amount is based on historic spending.

10
11 DRA recommends this project at the adjusted project cost in Table 5-A.
12

13 **(x) Meter Reading Equipment**

14 This budget item is for the replacement of handheld meter reading
15 equipment. The current meter reading devices will not be supported by the
16 manufacturer after 2012. The budgeted amount is based on historic spending
17 taking into account the new handheld meter reading equipment selected.

18
19 DRA recommends this project at the adjusted project cost in Table 5-A.
20

21 **(xi) Vehicles**

22 This budget item is for the replacement of the Water Distribution Operator
23 Vehicle #430 in 2013. GSWC estimates that the vehicle will exceed the mileage
24 requirements for replacement in 2013. The budgeted amount is based on a recent
25 estimate for this vehicle type.

26
27 DRA recommends this project at the adjusted project cost in Table 5-A.
28

29 **(xii) Tools and Safety Equipment**

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
 Region I: Ojai CSA (OJ)

Table 5 - A DRA Adjusted - Revised

Budget Group	DESCRIPTION	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
50-	Valley View Plant - Acquire Land to Relocate Booster Station	-	-	244,700	-	-	-
	TOTAL LAND ACQUISITION	-	-	244,700	-	-	-
51-	San Antonio and Mutual Plants - Install Fencing	-	-	149,000	80,300	-	-
	San Antonio Plant - Install Permanent Generator and Auto Transfer Switch	-	-	80,900	77,200	583,400	556,900
51-	Fairview Plant - Site Improvements (Design)	-	-	-	-	116,200	110,900
51-	Valley View Plant - Relocate and Upgrade (Design)	-	-	-	-	436,700	-
	TOTAL WATER SUPPLY	-	-	229,900	157,500	1,136,300	667,800
52-	Miscellaneous Street Improvements	10,000	-	10,000	-	10,000	-
	TOTAL STREET IMPROVEMENTS	10,000	-	10,000	-	10,000	-
53-	Fox Street & Bald Ave, s/o Ojai Ave., Approximately 2,300 LF of 8-inch DIP (Construction)	518,100	494,600	-	-	-	-
53-	Palomar Road, El Toro to El Camino, Approximately 1,400 LF of 8-inch DIP (Construction)	280,300	267,600	-	-	-	-
53-	El Toro Road, Del Norte to Tico, Approximately 1,300 LF of 8-inch DIP	282,200	-	-	-	-	-
53-	Verano Dr., n/o Cuyama, Approximately 700 LF of 6-inch DIP	12,000	-	127,400	-	-	-
53-	Libbey Ave., Del Oro to Raymond, Approximately 400 LF of 8-inch DIP	10,400	-	110,600	-	-	-
53-	Grand Ave., Ellison to San Antonio Plant, Approximately 3,800 LF of 16-inch DIP	-	-	291,400	-	1,049,500	-
53-	Ojai Ave., Bristol to Gridley, Approximately 7,200 LF of 12-inch DIP (Design)	-	-	-	-	708,700	-
	TOTAL DISTRIBUTION IMPROVEMENTS	1,103,000	762,200	529,400	-	1,758,200	-
57-	Contingency	49,814	-	52,590	-	49,620	-
	TOTAL CONTINGENCY	49,814	-	52,590	-	49,620	-
60-	New Business Funded by GSWC	5,000	-	5,000	-	5,000	-
	TOTAL NEW BUSINESS	5,000	-	5,000	-	5,000	-
	OJ, B-01-Meters	32,884	32,884	19,600	19,000	20,200	19,500
	OJ, B-02-Services	138,000	138,000	115,600	108,600	119,100	111,900
	OJ, B-06-Minor Main Replacements	140,200	140,200	56,100	52,800	57,800	54,400
	OJ, B-07-Misc Bowls & Column Extensions	131,200	131,200	215,000	140,100	233,200	144,400
	OJ, B-08-Minor Purification Equipment	1,350	1,350	45,600	43,900	46,900	45,300
	OJ, B-09-Office Furniture and Equipment	2,000	2,000	17,100	16,600	5,700	5,100
	OJ, B-10-Vehicles	52,055	52,055	47,800	47,800	-	-
	OJ, B-11-Tools & Safety Equipment	450	450	9,100	8,900	13,300	13,200
	TOTAL BLANKETS	498,139	498,139	525,900	437,700	496,200	393,800
	TOTAL NET COST	1,665,953	1,260,339	1,597,490	595,200	3,455,320	1,061,600

¹ Approved in 2010 Region I GRC

² Originally scheduled for 2010 Design/Construction in 2010 Region I GRC

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2) Depreciation

DRA has reviewed the company’s analyses and agrees with GSWC’s methodology in arriving at the accumulated depreciation and amortization accrual for the Ojai CSA. DRA agrees with GSWC’s proposed composite accrual rate of 3.59% for 2013 and 2014. DRA’s estimate is different from GSWC’s due to differences in recommended plant additions.

3) Rate Base

(a) Common Utility Allocation

Common Utility Allocation is the allocation of the weighted average rate base from the Company’s General Office and Centralized Operations Support (COPs) to each of the Customer Service Areas in Region I. The amount also includes the rate base allocations from the Northern District Office.

(b) Working Cash

GSWC has included in its Working Cash calculation a WRAM Lag Days adjustment to account for the collection of WRAM surcharges established on 4/1/2011. The surcharges ending dates in 2013 and 2014 vary by CSA.

GSWC is also one of the Applicants in A.10-09-017 which seeks to modify several WRAM decisions with respect to the Amortization of WRAM-related accounts.

Because amortization of WRAM-related accounts is being addressed in the above proceeding DRA recommends that at this time, pending resolution of A.10-09-017, no adjustment be made to working cash be made for the WRAM Lag Days.

1 **4) Water Quality**

2 Based upon the information the company provided and the California
3 Department of Public Health (CDPH) the Ojai CSA is in compliance with all
4 applicable water quality standards and requirements. CDPH is the primary agency
5 for ensuring that the water provided to the public by GSWC is safe for
6 consumption.

7 **5) Net-to-Gross Multiplier**

8 DRA’s Net-to-Gross calculation differs from GSWC’s Net-to-Gross
9 Multiplier calculation. The DRA and GSWC calculations are shown in Table 9-3
10 at the end of this chapter. The difference is that DRA accounts for the tax effects
11 of the Domestic Production Activity Deduction (DPAD) adjustment. DRA
12 recommends a Net-to-Gross Multiplier of 1.64543545, whereas, GSWC proposed
13 1.80249868.

14

15 **D. CONCLUSION**

16

17 DRA recommends that the Commission adopt DRA’s recommendations
18 since they are consistent with ensuring that GSWC is able to provide safe, high
19 quality water, reliable water supplies, and efficient use of water at reasonable
20 rates.

21

22

23

TABLE 7-1 REVISED
GOLDEN STATE WATER COMPANY
OJAI

PLANT IN SERVICE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	23,581.7	23,935.9	354.2	1.5%
2 <u>Additions</u>				
3 Gross Additions	595.2	1,597.5	1,002.3	168.4%
4 Retirements	<u>(44.5)</u>	<u>(171.6)</u>	<u>(127.1)</u>	<u>285.6%</u>
5 Net Additions	550.7	1,425.9	875.2	158.9%
6 Plant in Service - EOY	24,132.4	25,361.8	1,229.4	5.1%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	191.7	191.7	0.0	0.0%
9 CWIP - EOY	<u>191.7</u>	<u>191.7</u>	<u>0.0</u>	<u>0.0%</u>
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	24,048.8	24,840.6	791.8	3.3%

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TABLE 7-2 REVISED
GOLDEN STATE WATER COMPANY
OJAI
PLANT IN SERVICE
ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	24,132.4	25,361.8	1,229.4	5.1%
2 <u>Additions</u>				
3 Gross Additions	1,061.6	3,455.3	2,393.7	225.5%
4 Retirements	<u>(134.7)</u>	<u>(438.3)</u>	<u>(303.6)</u>	225.4%
5 Net Additions	926.9	3,017.0	2,090.1	225.5%
6 Plant in Service - EOY	25,059.3	28,378.8	3,319.5	13.2%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	191.7	191.7	0.0	0.0%
9 CWIP - EOY	<u>191.7</u>	<u>191.7</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	24,787.6	27,062.1	2,274.6	9.2%

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TABLE 8-1 REVISED
GOLDEN STATE WATER COMPANY
OJAI
DEPRECIATION RESERVE & EXPENSE
TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	5,563.8	5,512.4	(51.4)	-0.9%
2 <u>Accruals</u>				
3 Clearing Accounts	3.7	3.8	0.1	2.7%
4 Contributions	19.3	19.3	0.0	0.0%
5 Depreciation Expenses	808.5	821.1	12.6	1.6%
6 Total Accruals	<u>831.5</u>	<u>844.2</u>	<u>12.7</u>	<u>1.5%</u>
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(44.5)	(171.6)	(127.1)	285.6%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retirmt & Adjmnts	<u>(44.5)</u>	<u>(171.6)</u>	<u>(127.1)</u>	<u>285.6%</u>
11 Net Additions	787.0	672.6	(114.4)	-14.5%
12 Depreciation Reserve - EOY	6,350.8	6,185.0	(165.8)	-2.6%
13 Deprec. Weighting Factor	50.00%	50.00%	0.00	0.0%
14 Wtd. Avg. Depr. Reserve	5,957.3	5,848.7	(108.6)	-1.8%

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TABLE 8-2 REVISED
GOLDEN STATE WATER COMPANY
OJAI
DEPRECIATION RESERVE & EXPENSE
ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	6,350.8	6,185.0	(165.8)	-2.6%
2 <u>Accruals</u>				
3 Clearing Accounts	3.8	4.0	0.2	5.3%
4 Contributions	19.3	19.3	0.0	0.0%
5 Depreciation Expenses	819.4	863.4	44.0	5.4%
6 Total Accruals	842.5	886.6	44.1	5.2%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(134.7)	(438.3)	(303.6)	225.4%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retirment & Adjmnts	(134.7)	(438.3)	(303.6)	225.4%
11 Net Additions	707.8	448.3	(259.5)	-36.7%
12 Depreciation Reserve - EOY	7,058.6	6,633.3	(425.3)	-6.0%
13 Deprec. Weighting Factor	50.00%	50.00%	0.0	0.0%
14 Wtd. Avg. Depr. Reserve	6,704.7	6,409.1	(295.7)	-4.4%

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TABLE 9-1 REVISED

GOLDEN STATE WATER COMPANY
OJAI

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd. Avg. Plant in Service	24,048.8	24,840.6	791.8	3.3%
2 Wtd. Avg. Depreciation Reserve	(5,957.3)	(5,848.7)	108.6	-1.8%
3 Materials & Supplies	9.7	9.7	0.0	0.0%
4 Advances in Construction	(482.9)	(482.9)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(368.5)	(368.5)	0.0	0.0%
6 Deferred Federal Income Tax	(1,722.9)	(1,722.9)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(26.5)	(26.5)	0.0	0.0%
9 Capitalized Ad Valorem Tax	224.8	232.3	7.5	3.3%
10 Connections	23.9	23.9	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	7.0	7.0	0.0	0.0%
13 Deferred Revenues	(9.9)	(9.9)	0.0	0.0%
14 Working Cash	(112.4)	963.6	1,076.0	-957.1%
15 Common Utility Allocation	498.6	529.2	30.6	6.1%
16 Average Rate Base	16,132.3	18,146.9	2,014.5	12.5%
17 Interest Calculation:				
18 Avg Rate Base	16,132.3	18,146.9	2,014.5	12.5%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
1 20 Interest Expense	596.9	671.4	74.5	12.5%

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TABLE 9-2 REVISED

GOLDEN STATE WATER COMPANY
OJAI

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd.Avg. Plant in Service	24,787.6	27,062.1	2,274.6	9.2%
2 Wtd. Avg. Depreciation Reserve	(6,704.7)	(6,409.1)	295.7	-4.4%
3 Materials & Supplies	9.7	9.7	0.0	0.0%
4 Advances in Construction	(462.0)	(462.0)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(349.2)	(349.2)	0.0	0.0%
6 Deferred Federal Income Tax	(1,720.6)	(1,720.6)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(25.5)	(25.5)	0.0	0.0%
9 Capitalized Ad Valorem Tax	231.8	253.2	21.4	9.2%
10 Connections	20.1	20.1	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	6.5	6.5	0.0	0.0%
13 Deferred Revenues	(9.9)	(9.9)	0.0	0.0%
14 Working Cash	(113.6)	963.6	1,077.2	-947.9%
15 Common Utility Allocation	484.1	520.6	36.5	7.5%
16 Average Rate Base	16,154.2	19,859.4	3,705.1	22.9%
17 Interest Calculation:				
18 Avg Rate Base	16,154.2	19,859.4	3,705.1	22.9%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	597.7	734.8	137.1	22.9%

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TABLE 9-3
GOLDEN STATE WATER COMPANY
OJAI

NET-TO-GROSS MULTIPLIER

TEST YEAR 2013

Debt Net to Gross Multiplier		DRA	GSWC
Line			
1	Uncollectible Rate	0.14800%	0.14800%
2	1 - Uncollectibles (100% - Line 1)	99.85200%	99.85200%
3	Franchise Rate	1.06700%	1.06700%
3a	Local Franchise (Line 2 x Line 3)	1.06542%	1.06542%
4	Business License Rate	0.00000%	0.00000%
4a	Business Licence (Line 2 x Line 4)	0.00000%	0.00000%
5	Subtotal (Line 1 + Line 3a + 4a)	1.21342%	1.21342%
6	1 - Subtotal (100% - Line 5)	98.78658%	98.78658%
7	NTG 1 / Line 6	1.0122833	1.0122833
	Debt NTG Multiplier	1.0122833	1.0122833
Equity Net to Gross Multiplier			
8	1 - Subtotal (Line 6)	98.78658%	98.78658%
9	CCFT (Line 8 x CCFT Rate)	8.73273%	8.73273%
10	Ratio of Applicable DPAD deduction (Well production / Total Production)	78.93642%	0.00000%
10a	DPAD((Line 8 - Line 9) * Line 10 * DPAD Rate)	6.39768%	0.00000%
11	FIT ((Line 8 - Line 9 - Line 10a) * FIT Rate)	29.27966%	34.57530%
12	Total Taxes Paid (Line 5 + 9 + 11)	39.22581%	44.52146%
13	Net After Taxes (100% - Line 12)	60.77419%	55.47854%
14	Net To Gross Multiplier (100% / Line 13)	1.64543545	1.80249868
	Equity NTG Multiplier	1.64543545	1.80249868
Composite Net to Gross Multiplier			
	Capital Structure	Cost	Weighted Cost
Debt	49.00%	7.55%	3.70%
Common Equity	51.00%	10.20%	5.20%
Total	100.00%		8.90%
Debt NTG			0.03745
Equity NTG			0.08560
Composite NTG			0.12304

1 Note: GSWC does not deduct CCFT in determining FIT NTG Multiplier

1 **CHAPTER 6: SANTA MARIA**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analyses and recommendations of DRA for
4 Plant in Service, Depreciation, and Rate Base for the Santa Maria CSA with
5 approximately 13,335 customers. DRA’s recommendations are based on GSWC’s
6 application, testimonies, supporting work papers, construction budgets as well as
7 information and data obtained during the discovery phase of this proceeding.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 GSWC requests plant additions of \$1,231,849 for Year 2012,
10 \$3,340,831 for Test Year 2013, and \$4,782,015 for Escalation Year 2014, whereas
11 DRA recommends plant additions of ~~\$1,090,181~~ \$1,037,881 for Year 2012,
12 ~~\$2,659,120~~ \$2,127,820 for Test Year 2013, and ~~\$4,349,400~~ \$3,913,800 for
13 Escalation Year 2014 as shown in Table 7-1 and Table 7-2.

14 Differences in DRA and GSWC’s Depreciation estimates are due to
15 differences in GSWC’s requested plant additions and DRA recommended plant
16 additions for the Test Years. GSWC requests average accumulated depreciation of
17 \$1,344,300 in Test Year 2013 and \$1,439,200 for Escalation Year 2014, whereas
18 DRA recommends ~~\$1,330,200~~ \$1,328,100 and ~~\$1,405,700~~ \$1,388,500,
19 respectively as shown in Table 8-1 and Table 8-2.

20 Differences in DRA and GSWC’s Rate Base estimates are due to
21 differences in Plant in Service estimates, differences in Working Cash, and the
22 Common Utility Allocation from General Office. The Common Utility Allocation
23 from the General Office is discussed in the testimony of Donna Ramas and Mark
24 Dady.

25 GSWC requests Rate Base of \$25,324,000 for Test Year 2013 and
26 \$28,366,300 for Escalation Year 2014. DRA recommends ~~\$22,676,200~~

1 \$22,338,100 for Test Year 2013 and ~~\$25,150,900~~ \$24,335,600 for Escalation Year
2 2014, respectively as shown in Table 9-1 and Table 9-2.

3 **C. DISCUSSION**

4 **1) Plant in Service**

5 GSWC's requested plant additions and DRA's recommendations are shown
6 in Table 6-A. DRA has performed its own independent analysis of all proposed
7 projects and estimated funding GSWC requests. DRA made adjustments to the
8 contingency rate applied to projects. DRA accepted GSWC's overhead and
9 escalation rates. Discussion of DRA's specific project recommendations follows
10 the table.

11 (a) Contingency Rate

12 DRA's position on contingencies is discussed in detail in Chapter 1,
13 Section C.1 Plant in Service. For the reasons therein DRA recommends that the
14 Commission remain consistent with its prior decisions and adopt a 5%
15 contingency rate for capital projects and a 0% contingency rate for the blanket
16 projects. DRA's budget recommendations incorporate these contingency rates.

17 (b) Lake Marie Plant – Electrical Improvements

18 GSWC proposes replacing the electrical system and install variable
19 frequency drives on the booster pumps. The operational efficiency of the plant
20 will be improved and electrical deficiencies will be remedied.

21 DRA recommends this project at the adjusted project cost in Table 6-A.

22 (c) Lake Marie Well #3 – Destroy Well

23 GSWC proposes destroying the abandoned Lake Marie Well #3. The well
24 was abandoned in late 2010. It was originally drilled in 1957. A large hole in the
25 casing developed resulting in large amounts of sand being produced. Production
26 dropped dramatically, to less than 50 gpm. A new pump was installed to no effect.

1 Abandoned wells are required to be destroyed by *California Code of Regulations,*
2 *Title 22, Division 4, Chapter 16, Article 3, Section 64560.5 Well Destruction.*

3 DRA recommends the costs to destroy this well be treated as an expense
4 amortized over the GRC period. These costs should not be added to plant in
5 service. DRA recommends these costs be expensed over the three-year GRC
6 cycle, 2012 – 2014. Repairing the well is not a cost effective option.

7 (d) Lake Marie Well #4 – Drill and Equip Replacement Well

8 GSWC proposes drilling and equipping a new well at the Lake Marie Plant
9 to replace Lake Marie Well #3 and meet system demands. The additional supply
10 is needed for system reliability as well.

11 DRA recommends this project at the adjusted project cost in Table 6-A.

12 (e) Tanglewood #2 Plant – Reservoir and Booster Station

13 GSWC proposes constructing a reservoir and booster station that are
14 needed as the Tanglewood system is returned to a groundwater only system. The
15 current purchased water supply from the Central Coast Water Authority (CCWA)
16 is being directed to the Orcutt system and its customers. The Orcutt customers
17 have contributed money towards capacity on the Central Coast Branch of the State
18 Water Project entitling them to the water supply from the CCWA connection.
19 This project will help meet maximum day demand and fire flow demands in the
20 system.

21 Local groundwater supply is typically the least cost supply option when
22 compared to purchased water. DRA recommends this project at the adjusted
23 project cost in Table 6-A.

1 (f) Tanglewood #1 Plant – Replace Electrical and Install
2 SCADA

3 GSWC proposes replacing the obsolete electrical equipment and return the
4 Tanglewood #1 Plant to full time use. GSWC also proposes to install SCADA to
5 provide remote monitoring, automation and control capabilities.

6 As discussed in Chapter 1, DRA recommends that SCADA projects be
7 removed from the proposed budgets. DRA recommends that the replacement of
8 the obsolete electrical equipment portion of the project be budgeted. DRA
9 recommends this project, at the adjusted project cost, with SCADA costs removed,
10 as included in Table 6-A.

11 (g) Evergreen Wells #1 and #2 – Destroy Wells

12 GSWC proposes destroying the abandoned Evergreen Wells #1 and #2.
13 Both wells are over 50 years old and have nitrate levels above the MCL. The
14 portable ion-exchange treatment that had been used on Well #1 has been moved to
15 the Tanglewood #1 site. Both wells have now been abandoned. Abandoned wells
16 are required to be destroyed by *California Code of Regulations, Title 22, Division*
17 *4, Chapter 16, Article 3, Section 64560.5 Well Destruction.*

18 DRA recommends the costs to destroy these wells be treated as an expense
19 amortized over the GRC period. These costs should not be added to plant in
20 service. DRA recommends these costs be expensed over the three-year GRC
21 cycle, 2012 – 2014.

22 (h) Vista Plant – Destroy tank, Filters and Well #3, #4, and
23 #5

24 GSWC proposes destroying the abandoned Vista Wells #3, #4 and #5. Well
25 #4 at the Alta Mesa Plant was abandoned because it was producing large amounts
26 of gravel that was damaging pumps and had reduced production to below 60 gpm.
27 Wells #3 and #5 at the Vista Plant were severely damaged by the San Simeon

1 earthquake in 2005. Prior to the quake Well #3 had been abandoned to intrusion
2 from surface water. Abandoned wells are required to be destroyed by *California*
3 *Code of Regulations, Title 22, Division 4, Chapter 16, Article 3, Section 64560.5*
4 *Well Destruction.*

5 DRA recommends the costs to destroy these wells be treated as an expense
6 amortized over the GRC period. These costs should not be added to plant in
7 service. DRA recommends these costs be expensed over the three-year GRC
8 cycle, 2012 – 2014.

9 (i) Union Valley Parkway, Morning Ridge to Boardwalk,
10 Approximately 900 LF of 8-inch DIP

11 GSWC proposes relocating water facilities due to a Caltrans project
12 consistent with the terms of the Franchise Agreement. The project will also
13 eliminate two dead end mains and improve water quality.

14 DRA recommends this project at the adjusted project cost in Table 6-A.

15 (j) Miscellaneous Street Improvements

16 Please see the discussion in Chapter 1, C,1(f) for a complete discussion of
17 DRA’s position on Miscellaneous Street Improvements.

18 DRA recommends that the Commission disallow GSWC’s request for the
19 Miscellaneous Street Improvements budget as reflected in Table 6-A.

20

21 (k) Blanket Work Orders

22 (i) Contingency

23 GSWC proposes a contingency rate of 10% of the total amount of Blanket
24 Work Orders.

25

1 As discussed in Chapter 1, DRA recommends a contingency rate of 0% for
2 blanket items. Blanket work orders are recurring, routine projects. The estimated
3 expenses are typically an escalated average of historical expenses. The average
4 captures variations in project expenses for the blanket items and therefore a
5 contingency factor is not needed blanket items. This is reflected in Table 6-A.

6
7
8 (ii) New Business – Funded by GSWC

9 In its testimony, GSWC stated that this budget is to pay for the capital costs
10 associated with “New Business” projects such as the upsizing of a water main or
11 water services to a lot under development and the budget amounts are “an
12 extrapolation of the historical expenditures for capital costs associated with New
13 Business projects from the 2006 through 2010 budget years.”⁴²

14 Similar to its Miscellaneous Street Improvement request, GSWC based its current
15 request on a “budgeted” amount and not historical expenditures. The lack of
16 historical expenditures is indicative of a nonexistent need to budget for this
17 amount. Therefore, DRA recommends that the Commission disallow this item
18 from rate base.

19
20 ~~DRA recommends this project at the adjusted project cost~~ DRA’s
21 recommendation is reflected in Table 6-A.

22
23 (iii) Meters

24 This budget item is for the installation of new meters associated with new
25 service requests and for the replacement of inoperable meters. It also incorporates
26 the Meter Replacement Program pursuant to Section IV.6.B of Commission Order
27 103A. GSWC proposes this budget based on historic spending.

28

⁴² Gisler Testimony, Page 47, Lines 14 to 25

1 DRA recommends this project at the adjusted project cost in Table 6-A.

2

3 **(iv) Services**

4 This budget item is for new and replacement domestic services. The
5 budgeted amount is based on historic spending.

6

7 DRA recommends this project at the adjusted project cost in Table 6-A.

8

9 **(v) Minor Main Replacements**

10 This budget item is for replacement of small sections of distribution main.
11 The budgeted amount is based on historic spending.

12

13 DRA recommends this project at the adjusted project cost in Table 6-A.

14

15 **(vi) Minor Pumping Plant Equipment**

16 This budget item is for replacement of minor pumping plant equipment.
17 The budgeted amount is based on historic spending.

18

19 DRA recommends this project at the adjusted project cost in Table 6-A.

20

21 **(vii) Miscellaneous Bowl Replacements and Column
22 Extensions**

23 This budget item is for the emergency replacement of pumps, motors, and
24 column extensions. The budgeted amount is based on historic spending.

25

26 DRA recommends this project at the adjusted project cost in Table 6-A.

27

28 **(viii) Minor Purification Equipment**

1 This budget item is for the emergency replacement of minor purification
2 equipment. The budgeted amount is based on historic spending and the planned
3 projects noted.

4
5 DRA recommends this project at the adjusted project cost in Table 6-A.

6
7 **(ix) Office Furniture and Equipment**

8 This budget item is for the routine purchase of new and replacement office
9 equipment. The budgeted amount is based on historic spending.

10
11 DRA recommends this project at the adjusted project cost in Table 6-A.

12
13 **(x) Meter Reading Equipment**

14 This budget item is for the replacement of handheld meter reading
15 equipment. The current meter reading devices will not be supported by the
16 manufacturer after 2012. The budgeted amount is based on historic spending
17 taking into account the new handheld meter reading equipment selected.

18
19 DRA recommends this project at the adjusted project cost in Table 6-A.

20
21 **(xi) Vehicles**

22 This budget item is for the replacement of the Water Distribution Operator
23 Vehicle #1229 and the Water Supply Operator Vehicle #1230 in 2013. GSWC
24 estimates that the vehicles will exceed the mileage requirements for replacement
25 in 2013. The budgeted amount proposed is based on a recent estimate for these
26 vehicle types.

27
28 DRA recommends this project at the adjusted project cost in Table 6-A.

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(xii) Tools and Safety Equipment

This budget item is for the purchase of new and replacement tools and safety equipment. The budgeted amount proposed is based on recent historical spending and the acquisition of Mobile Service Order Dispatch handheld field devices as GSWC implements a new customer service information system.

DRA recommends this project at the adjusted project cost in Table 6-A.

(l) Pipeline Management Program Projects

For the Santa Maria CSA, DRA recommends adopting the Sandalwood project. The Sandalwood Dr. project will provide needed transmission capacity at Plant 2 to remedy hydraulic deficiencies.

DRA recommends that the following projects not be adopted in this GRC for the general reasons discussed in Chapter 1: Marvin St. and Bradley Rd. DRA’s plant recommendations and adjustments are reflected in Table 6-A.

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
 Region I: Santa Maria CSA (SM)
Table 6 - ADRA Adjusted - Revised

Budget Group	Description	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
Lake Marie							
51-	Lake Marie Plant - Electrical Improvements	45,100	43,000	367,000	350,300	-	-
51-	Lake Marie Well #3 - Destroy	-	-	23,700	-	-	-
51-	Lake Marie Well #4 - Replace Lake Marie Well #3	-	-	420,200	401,100	1,514,200	1,445,400
Tanglewood							
51-	Tanglewood #2 Plant - Reservoir and Booster Station (Design)	-	-	-	-	461,600	440,600
51-	Tanglewood #1 Plant - Replace Electrical and Install SCADA	-	-	165,100	133,520	-	-
Orcutt							
51-	Evergreen Wells #1 and #2 - Destroy Wells	-	-	77,300	-	-	-
Nipomo							
51-	Vista Plant - Destroy Tank, Filters and Well #3, #4, and #5	-	-	181,900	-	-	-
TOTAL WATER SUPPLY		45,100	43,000	1,235,200	884,920	1,975,800	1,886,000
Orcutt							
52-	Union Valley Pkwy., Morning Ridge to Boardwalk, Approximately 900 LF of 8-inch DIP	149,000	142,200	-	-	-	-
52-	Miscellaneous Street Improvements	20,000	-	20,000	-	20,000	-
TOTAL STREET IMPROVEMENTS		169,000	142,200	20,000	-	20,000	-
Orcutt							
53-	Marvin St. and Flower St., Winter to Miles, Approximately 2,300 LF of 8-inch DIP	54,800	-	582,900	-	-	-
53-	Bradley Rd, Stubblefield to Oak Knoll, 5,400 LF of 16-inch DIP (Design)	-	-	-	-	483,900	-
Tanglewood							
53-	Sandalwood Dr., Pinewood to Black, Approximately 2,900 LF of 12-inch DIP	-	-	349,800	333,900	1,260,200	1,202,900
TOTAL DISTRIBUTION IMPROVEMENTS		54,800	-	932,700	333,900	1,744,100	1,202,900
57-	Contingency	85,268	-	102,539	-	92,465	-
TOTAL CONTINGENCY		85,268	-	102,539	-	92,465	-
60-	New Business Funded by GSWC	25,000	-	25,000	-	25,000	-
TOTAL NEW BUSINESS		25,000	-	25,000	-	25,000	-
SM, B-01-Meters		\$190,968	\$190,968	\$107,700	\$102,100	\$111,000	\$105,200
SM, B-02-Services		\$287,600	\$287,600	\$293,900	\$280,800	\$302,800	\$289,300
SM, B-06-Minor Main Replacements		\$55,600	\$55,600	\$68,400	\$64,700	\$70,500	\$66,700
SM, B-07-Misc Bowls & Column Extensions		\$243,658	\$243,658	\$397,492	\$306,800	\$389,250	\$316,100
SM, B-08-Minor Purification Equipment		\$13,200	\$13,200	\$27,700	\$25,200	\$28,500	\$26,000
SM, B-09-Office Furniture and Equipment		\$3,400	\$3,400	\$29,200	\$28,600	\$8,900	\$8,200
SM, B-10-Vehicles		\$52,055	\$52,055	\$95,600	\$95,600	\$0	\$0
SM, B-11-Tools & Safety Equipment		\$6,200	\$6,200	\$5,400	\$5,200	\$13,700	\$13,400
TOTAL BLANKETS		852,681	852,681	1,025,392	909,000	924,650	824,900
TOTAL NET COST		1,231,849	1,037,881	3,340,831	2,127,820	4,782,015	3,913,800

¹ Approved in 2010 Region I GRC

² Approved as Advice Letter in 2010 Region I GRC

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2) Depreciation

DRA has reviewed the company’s analyses and agrees with GSWC’s methodology in arriving at the accumulated depreciation and amortization accrual for the Santa Maria CSA. DRA agrees with GSWC’s proposed composite accrual rate of 3.25% for 2013 and 2014. DRA’s estimate is different from GSWC’s due to differences in recommended plant additions.

3) Rate Base

(a) Common Utility Allocation

Common Utility Allocation is the allocation of the weighted average rate base from the Company’s General Office and Centralized Operations Support (COPs) to each of the Customer Service Areas in Region I. The amount also includes the rate base allocations from the Northern District Office.

(b) Working Cash

GSWC has included in its Working Cash calculation a WRAM Lag Days adjustment to account for the collection of WRAM surcharges established on 4/1/2011. The surcharges ending dates in 2013 and 2014 vary by CSA.

GSWC is also one of the Applicants in A.10-09-017 which seeks to modify several WRAM decisions with respect to the Amortization of WRAM-related accounts.

Because amortization of WRAM-related accounts is being addressed in the above proceeding DRA recommends that at this time, pending resolution of A.10-09-017, no adjustment be made to working cash be made for the WRAM Lag Days.

1 **4) Water Quality**

2 Based upon the information the company provided and the California
3 Department of Public Health (CDPH) the Santa Maria CSA is in compliance with
4 all applicable water quality standards and requirements. CDPH is the primary
5 agency for ensuring that the water provided to the public by GSWC is safe for
6 consumption.

7 **5) Net-to-Gross Multiplier**

8 DRA’s Net-to-Gross calculation differs from GSWC’s Net-to-Gross
9 Multiplier calculation. The DRA and GSWC calculations are shown in Table 9-3
10 at the end of this chapter. The difference is that DRA accounts for the tax effects
11 of the Domestic Production Activity Deduction (DPAD) adjustment. DRA
12 recommends a Net-to-Gross Multiplier of 1.61402565, whereas, GSWC proposed
13 1.78308744.

14

15 **D. CONCLUSION**

16

17 DRA recommends that the Commission adopt DRA’s recommendations
18 since they are consistent with ensuring that GSWC is able to provide safe, high
19 quality water, reliable water supplies, and efficient use of water at reasonable
20 rates.

21

22

TABLE 7-1 REVISED
GOLDEN STATE WATER COMPANY
SANTA MARIA
PLANT IN SERVICE
TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
	(Thousands of \$)			
1 Plant in Service - BOY	48,162.0	48,663.4	501.4	1.0%
2 <u>Additions</u>				
3 Gross Additions	2,127.8	3,340.8	1,213.0	57.0%
4 Retirements	<u>(268.0)</u>	<u>(420.7)</u>	<u>(152.7)</u>	57.0%
5 Net Additions	1,859.8	2,920.1	1,060.3	57.0%
6 Plant in Service - EOY	50,021.8	51,583.5	1,561.7	3.1%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	1,473.2	1,473.2	0.0	0.0%
9 CWIP - EOY	<u>1,473.2</u>	<u>1,473.2</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	50,565.1	51,596.6	1,031.5	2.0%

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TABLE 7-2 REVISED
 GOLDEN STATE WATER COMPANY
 SANTA MARIA
 PLANT IN SERVICE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
	(Thousands of \$)			
1 Plant in Service - BOY	50,021.8	51,583.5	1,561.7	3.1%
2 <u>Additions</u>				
3 Gross Additions	3,913.8	4,782.0	868.2	22.2%
4 Retirements	<u>(492.9)</u>	<u>(602.2)</u>	<u>(109.3)</u>	22.2%
5 Net Additions	3,420.9	4,179.8	758.9	22.2%
6 Plant in Service - EOY	53,442.7	55,763.3	2,320.6	4.3%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	1,473.2	1,473.2	0.0	0.0%
9 CWIP - EOY	<u>1,473.2</u>	<u>1,473.2</u>	<u>0.0</u>	0.0%
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	53,205.5	55,146.6	1,941.2	3.6%

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TABLE 8-1 REVISED
 GOLDEN STATE WATER COMPANY
 SANTA MARIA
 DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	18,062.9	18,193.7	130.8	0.7%
2 <u>Accruals</u>				
3 Clearing Accounts	124.1	125.6	1.5	1.2%
4 Contributions	76.4	76.4	0.0	0.0%
5 Depreciation Expenses	1,127.6	1,142.3	14.7	1.3%
6 Total Accruals	1,328.1	1,344.3	16.2	1.2%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(268.0)	(420.7)	(152.7)	57.0%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retirmnt & Adjmnts	(268.0)	(420.7)	(152.7)	57.0%
11 Net Additions	1,060.1	923.6	(136.5)	-12.9%
12 Depreciation Reserve - EOY	19,123.0	19,117.3	(5.7)	0.0%
13 Deprec. Weighting Factor	50.00%	50.00%	0.00	0.0%
14 Wtd. Avg. Depr. Reserve	18,593.0	18,655.5	62.5	0.3%

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TABLE 8-2 REVISED
 GOLDEN STATE WATER COMPANY
 SANTA MARIA
 DEPRECIATION RESERVE & EXPENSE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	19,123.0	19,117.3	(5.7)	0.0%
<u>2 Accruals</u>				
3 Clearing Accounts	129.7	134.5	4.8	3.7%
4 Contributions	76.4	76.4	0.0	0.0%
5 Depreciation Expenses	1,182.4	1,228.3	45.9	3.9%
6 Total Accruals	1,388.5	1,439.2	50.7	3.7%
<u>7 Retirements and Adjustments</u>				
8 Net Retirements	(492.9)	(602.2)	(109.3)	22.2%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retirmt & Adjmnts	(492.9)	(602.2)	(109.3)	22.2%
11 Net Additions	895.6	837.0	(58.6)	-6.5%
12 Depreciation Reserve - EOY	20,018.6	19,954.3	(64.3)	-0.3%
13 Deprec. Weighting Factor	50.00%	50.00%	0.0	0.0%
14 Wtd. Avg. Depr. Reserve	19,570.8	19,535.8	(35.0)	-0.2%

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TABLE 9-1 REVISED

GOLDEN STATE WATER COMPANY
SANTA MARIA

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd. Avg. Plant in Service	50,565.1	51,596.6	1,031.5	2.0%
2 Wtd. Avg. Depreciation Reserve	(18,593.0)	(18,655.5)	(62.5)	0.3%
3 Materials & Supplies	96.4	96.4	0.0	0.0%
4 Advances in Construction	(6,334.1)	(6,334.1)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(1,359.6)	(1,359.6)	0.0	0.0%
6 Deferred Federal Income Tax	(4,477.6)	(4,477.6)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(188.9)	(188.9)	0.0	0.0%
9 Capitalized Ad Valorem Tax	564.3	576.2	11.9	2.1%
10 Connections	166.8	166.8	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	238.4	238.4	0.0	0.0%
13 Deferred Revenues	(35.9)	(35.9)	0.0	0.0%
14 Working Cash	(25.1)	1,877.7	1,902.9	-7570.5%
15 Common Utility Allocation	1,721.3	1,823.6	102.3	5.9%
16 Average Rate Base	22,338.1	25,324.0	2,985.9	13.4%
17 Interest Calculation:				
18 Avg Rate Base	22,338.1	25,324.0	2,985.9	13.4%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	826.5	937.0	110.5	13.4%

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TABLE 9-2 REVISED

GOLDEN STATE WATER COMPANY
SANTA MARIA

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd.Avg. Plant in Service	53,205.5	55,146.6	1,941.2	3.6%
2 Wtd. Avg. Depreciation Reserve	(19,570.8)	(19,535.8)	35.0	-0.2%
3 Materials & Supplies	96.4	96.4	0.0	0.0%
4 Advances in Construction	(6,059.8)	(6,059.8)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(1,283.2)	(1,283.2)	0.0	0.0%
6 Deferred Federal Income Tax	(4,473.0)	(4,473.0)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(185.7)	(185.7)	0.0	0.0%
9 Capitalized Ad Valorem Tax	594.7	617.0	22.3	3.7%
10 Connections	185.0	185.0	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	223.4	223.4	0.0	0.0%
13 Deferred Revenues	(35.9)	(35.9)	0.0	0.0%
14 Working Cash	(32.0)	1,877.7	1,909.7	-5976.0%
15 Common Utility Allocation	1,671.0	1,793.7	122.7	7.3%
16 Average Rate Base	24,335.6	28,366.3	4,030.7	16.6%
17 Interest Calculation:				
18 Avg Rate Base	24,335.6	28,366.3	4,030.7	16.6%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	900.4	1,049.6	149.1	16.6%

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TABLE 9-3

GOLDEN STATE WATER COMPANY
SANTA MARIA

NET-TO-GROSS MULTIPLIER

TEST YEAR 2013

Debt Net to Gross Multiplier		DRA	GSWC
Line			
1	Uncollectible Rate	0.13800%	0.13800%
2	1 - Uncollectibles (100% - Line 1)	99.86200%	99.86200%
3	Franchise Rate	0.00000%	0.00000%
3a	Local Franchise (Line 2 x Line 3)	0.00000%	0.00000%
4	Business License Rate	0.00000%	0.00000%
4a	Business Licence (Line 2 x Line 4)	0.00000%	0.00000%
5	Subtotal (Line 1 + Line 3a + 4a)	0.13800%	0.13800%
6	1 - Subtotal (100% - Line 5)	99.86200%	99.86200%
7	NTG 1 / Line 6	1.0013819	1.0013819
	Debt NTG Multiplier	1.0013819	1.0013819
Equity Net to Gross Multiplier			
8	1 - Subtotal (Line 6)	99.86200%	99.86200%
9	CCFT (Line 8 x CCFT Rate)	8.82780%	8.82780%
10	Ratio of Applicable DPAD deduction (Well production / Total Production)	97.10826%	0.00000%
10a	DPAD((Line 8 - Line 9) * Line 10 * DPAD Rate)	7.95616%	0.00000%
11	FIT ((Line 8 - Line 9 - Line 10a) * FIT Rate)	29.07732%	34.95170%
12	Total Taxes Paid (Line 5 + 9 + 11)	38.04312%	43.91750%
13	Net After Taxes (100% - Line 12)	61.95688%	56.08250%
14	Net To Gross Multiplier (100% / Line 13)	1.61402565	1.78308744
	Equity NTG Multiplier	1.61402565	1.78308744
Composite Net to Gross Multiplier			
	Capital Structure	Cost	Weighted Cost
Debt	49.00%	7.55%	3.70%
Common Equity	51.00%	10.20%	5.20%
Total	100.00%		8.90%
Debt NTG			0.03705
Equity NTG			0.08396
Composite NTG			0.12101

1 Note: GSWC does not deduct CCFT in determining FIT NTG Multiplier

1 **CHAPTER 7: SIMI VALLEY**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analyses and recommendations of DRA for
4 Plant in Service, Depreciation, and Rate Base for the Simi Valley CSA with
5 approximately 13,303 customers. DRA’s recommendations are based on GSWC’s
6 application, testimonies, supporting work papers, construction budgets as well as
7 information and data obtained during the discovery phase of this proceeding.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 GSWC requests plant additions of \$930,120 for Year 2012, \$1,193,715
10 for Test Year 2013, and \$492,650 for Escalation Year 2014, whereas DRA
11 recommends plant additions of ~~\$570,791~~ \$387,191 for Year 2012, ~~\$1,052,395~~
12 \$405,895 for Test Year 2013, and ~~\$341,900~~ \$164,600 for Escalation Year 2014 as
13 shown in Table 7-1 and Table 7-2.

14 Differences in DRA and GSWC’s Depreciation estimates are due to
15 differences in GSWC’s requested plant additions and DRA recommended plant
16 additions for the Test and Escalation Years. GSWC requests average accumulated
17 depreciation of \$737,600 in Test Year 2013 and \$767,000 for Escalation Year
18 2014, whereas DRA recommends ~~\$728,400~~ \$723,800 and ~~\$754,200~~ \$733,800,
19 respectively as shown in Table 8-1 and Table 8-2.

20 Differences in DRA and GSWC’s Rate Base estimates are due to
21 differences in Plant in Service estimates, differences in Working Cash, and the
22 Common Utility Allocation from General Office. The Common Utility Allocation
23 from the General Office is discussed in the testimony of Donna Ramas and Mark
24 Dady.

25 GSWC requests Rate Base of \$12,170,500 for Test Year 2013 and
26 \$12,426,000 for Escalation Year 2014. DRA recommends ~~\$9,370,000~~ \$8,859,000

1 for Test Year 2013 and ~~\$9,470,500~~ \$8,553,100 for Escalation Year 2014,
2 respectively, as shown in Table 9-1 and Table 9-2.

3

4 **C. DISCUSSION**

5 **1) Plant in Service**

6 GSWC's requested plant additions and DRA's recommendations are shown
7 in Table 7-A. DRA has performed its own independent analysis of all proposed
8 projects and estimated funding GSWC requests. DRA made adjustments to the
9 contingency rate applied to projects. DRA accepted GSWC's overhead and
10 escalation rates. Discussion of DRA's specific project recommendations follows
11 the table.

12 (a) Contingency Rate

13 DRA's position on contingencies is discussed in detail in Chapter 1,
14 Section C.1 Plant in Service. For the reasons therein DRA recommends that the
15 Commission remain consistent with its prior decisions and adopt a 5%
16 contingency rate for capital projects and a 0% contingency rate for the blanket
17 projects. DRA's budget recommendations incorporate these contingency rates.

18 (b) Pineview Reservoir – install cathodic protection

19 GSWC proposes installing cathodic protection at the Pineview Reservoir to
20 prolong the life of the reservoir. A 2009 inspection identified some corrosion and
21 recommended the installation of cathodic protection.

22 DRA recommends this project at the adjusted project cost in Table 7-A.

23 (c) Appleton Plant – Raze Site

24 GSWC proposes razing the Appleton Plant. The plant has not been in
25 service since 2000 when the Appleton Zone was combined with another pressure
26 zone.

1 DRA recommends this project at the adjusted project cost in Table 7-A.

2 (d) Miscellaneous Street Improvements

3 Please see the discussion in Chapter 1, C,1(f) for a complete discussion of
4 DRA’s position on Miscellaneous Street Improvements.

5 DRA recommends that the Commission disallow GSWC’s request for the
6 Miscellaneous Street Improvements budget as reflected in Table 7-A.

7

8 (e) Blanket Work Orders

9 (i) Contingency

10 GSWC proposes a contingency rate of 10% of the total amount of Blanket
11 Work Orders.

12

13 As discussed in Chapter 1, DRA recommends a contingency rate of 0% for
14 blanket items. Blanket work orders are recurring, routine projects. The estimated
15 expenses are typically an escalated average of historical expenses. The average
16 captures variations in project expenses for the blanket items and therefore a
17 contingency factor is not needed blanket items. This is reflected in Table 7-A.

18

19 (ii) New Business – Funded by GSWC

20 In its testimony, GSWC stated that this budget is to pay for the capital costs
21 associated with “New Business” projects such as the upsizing of a water main or
22 water services to a lot under development and the budget amounts are “an
23 extrapolation of the historical expenditures for capital costs associated with New
24 Business projects from the 2006 through 2010 budget years.”⁴³

⁴³ Gisler Testimony, Page 47, Lines 14 to 25

1 Similar to its Miscellaneous Street Improvement request, GSWC based its current
2 request on a “budgeted” amount and not historical expenditures. The lack of
3 historical expenditures is indicative of a nonexistent need to budget for this
4 amount. Therefore, DRA recommends that the Commission disallow this item
5 from rate base.

6
7 ~~DRA recommends this project at the adjusted project cost~~ DRA’s
8 recommendation is reflected in Table 7-A.
9

10 (iii) Meters

11 This budget item is for the installation of new meters associated with new
12 service requests and for the replacement of inoperable meters. It also incorporates
13 the Meter Replacement Program pursuant to Section IV.6.B of Commission Order
14 103A. GSWC proposes this budget based on historic spending.

15
16 DRA recommends this project at the adjusted project cost in Table 7-A.

17
18 (iv) Services

19 This budget item is for new and replacement domestic services. The
20 budgeted amount is based on historic spending.

21
22 DRA recommends this project at the adjusted project cost in Table 7-A.

23
24 (v) Minor Main Replacements

25 This budget item is for replacement of small sections of distribution main.
26 The budgeted amount is based on historic spending.

27
28 DRA recommends this project at the adjusted project cost in Table 7-A.
29

1 This budget item is for the replacement of handheld meter reading
2 equipment. The current meter reading devices will not be supported by the
3 manufacturer after 2012. The budgeted amount is based on historic spending
4 taking into account the new handheld meter reading equipment selected.

5
6 DRA recommends this project at the adjusted project cost in Table 7-A.

7
8 **(xi) Vehicles**

9 This budget item is for the replacement of the Water Distribution Operator
10 Vehicles #1171 and #67549 in 2013. GSWC estimates that the vehicle will
11 exceed the mileage requirements for replacement in 2013. The budgeted amount
12 is based on a recent estimate for this vehicle type.

13
14 DRA recommends this project at the adjusted project cost in Table 7-A.

15
16 **(xii) Tools and Safety Equipment**

17 This budget item is for the purchase of new and replacement tools and
18 safety equipment. The budgeted amount is based on historic spending and the
19 acquisition of Mobile Service Order Dispatch handheld field devices as GSWC
20 implements a new customer service information system.

21
22 DRA recommends this project at the adjusted project cost in Table 7-A.

23
24
25 **(f) Pipeline Management Program Projects**

26 For the Simi Valley CSA, DRA recommends not adopting the Alamo St.,
27 Cochran St., and East Los Angeles Ave. projects for the reasons discussed in
28 Chapter 1.

1 DRA's plant recommendations and adjustments are reflected in Table 7-A.

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
 Region I: Simi Valley CSA (SV)
Table 7 - ADRA Adjusted - Revised

Budget Group	Description	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
51-	Alamo Plant - upgrade retaining wall ¹	81,600	77,900	-	-	-	-
51-	Pineview Reservoir - Add Cathodic Protection	-	-	23,400	22,300	-	-
51-	Appleton Plant - Demo	-	-	-	-	20,000	-
TOTAL WATER SUPPLY		81,600	77,900	23,400	22,300	20,000	-
52-	Miscellaneous Street Improvements	10,000	-	10,000	-	10,000	-
TOTAL STREET IMPROVEMENTS		10,000	-	10,000	-	10,000	-
53-	Alamo St., Glencoe to Lemon, Approximately 900 LF of 12-inch DIP	280,900	-	-	-	-	-
53-	Cochran St., Jay to Sycamore, Approximately 1,700 LF of 12-inch DIP	192,400	-	681,900	-	-	-
53-	East Los Angeles Ave., Sycamore to Sequoia, Approximately 5,100 LF of 12-inch DIP (Design)	-	-	-	-	195,100	-
TOTAL DISTRIBUTION IMPROVEMENTS		473,300	-	681,900	-	195,100	-
57-	Contingency	30,929	-	41,220	-	22,050	-
TOTAL CONTINGENCY		30,929	-	41,220	-	22,050	-
60-	New Business Funded by GSWC	25,000	-	25,000	-	25,000	-
TOTAL NEW BUSINESS		25,000	-	25,000	-	25,000	-
SV, B-01-	Meters	151,348	151,348	183,922	183,922	80,600	75,800
SV, B-02-	Services	30,200	30,200	31,700	29,200	32,700	30,100
SV, B-06-	Minor Main Replacements	13,500	13,500	3,200	3,000	3,300	3,100
SV, B-07-	Misc Bowls & Column Extensions	15,400	15,400	36,800	14,000	59,600	14,400
SV, B-08-	Minor Purification Equipment	-	-	800	700	800	800
SV, B-09-	Office Furniture and Equipment	-	-	29,073	28,373	8,700	8,000
SV, B-10-	Vehicles	80,243	80,243	95,600	95,600	-	-
SV, B-11-	Tools & Safety Equipment	18,600	18,600	31,100	28,800	34,800	32,400
TOTAL BLANKETS		309,291	309,291	412,196	383,595	220,500	164,600
TOTAL NET COST		930,120	387,191	1,193,715	405,895	492,650	164,600

1 ¹ Approved in 2010 Region I GRC

2

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2) Depreciation

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8

DRA has reviewed the company's analyses and agrees with GSWC's methodology in arriving at the accumulated depreciation and amortization accrual for the Simi Valley CSA. DRA agrees with GSWC's proposed composite accrual rate of 2.73% for 2013 and 2014. DRA's estimate is different from GSWC's due to differences in recommended plant additions.

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3) Rate Base

(a) Common Utility Allocation

Common Utility Allocation is the allocation of the weighted average rate base from the Company’s General Office and Centralized Operations Support (COPs) to each of the Customer Service Areas in Region I. The amount also includes the rate base allocations from the Northern District Office.

(b) Working Cash

GSWC has included in its Working Cash calculation a WRAM Lag Days adjustment to account for the collection of WRAM surcharges established on 4/1/2011. The surcharges ending dates in 2013 and 2014 vary by CSA.

GSWC is also one of the Applicants in A.10-09-017 which seeks to modify several WRAM decisions with respect to the Amortization of WRAM-related accounts.

Because amortization of WRAM-related accounts is being addressed in the above proceeding DRA recommends that at this time, pending resolution of A.10-09-017, no adjustment be made to working cash be made for the WRAM Lag Days.

4) Water Quality

Based upon the information the company provided and the California Department of Public Health (CDPH) the Simi Valley CSA is in compliance with all applicable water quality standards and requirements. CDPH is the primary agency for ensuring that the water provided to the public by GSWC is safe for consumption.

5) Net-to-Gross Multiplier

DRA’s Net-to-Gross calculation differs from GSWC’s Net-to-Gross Multiplier calculation. The DRA and GSWC calculations are shown in Table 9-3 at the end of this chapter. The difference is that DRA accounts for the tax effects

1 of the Domestic Production Activity Deduction (DPAD) adjustment. DRA
2 recommends a Net-to-Gross Multiplier of 1.70490014, whereas, GSWC proposed
3 1.80881988.

4

5 **D. CONCLUSION**

6

7 DRA recommends that the Commission adopt DRA's recommendations
8 since they are consistent with ensuring that GSWC is able to provide safe, high
9 quality water, reliable water supplies, and efficient use of water at reasonable
10 rates.

TABLE 7-1 REVISED
 GOLDEN STATE WATER COMPANY
 SIMI VALLEY

PLANT IN SERVICE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	26,666.3	27,176.4	510.1	1.9%
2 <u>Additions</u>				
3 Gross Additions	405.9	1,193.7	787.8	194.1%
4 Retirements	<u>(40.1)</u>	<u>(117.8)</u>	<u>(77.7)</u>	<u>193.8%</u>
5 Net Additions	365.8	1,075.9	710.1	194.1%
6 Plant in Service - EOY	27,032.1	28,252.3	1,220.2	4.5%
7 <u>Construction Work in Progress</u>				
8 CWIP - BOY	361.0	361.0	0.0	0.0%
9 CWIP - EOY	<u>361.0</u>	<u>361.0</u>	<u>0.0</u>	<u>0.0%</u>
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	27,210.2	28,075.4	865.2	3.2%

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TABLE 7-2 REVISED
 GOLDEN STATE WATER COMPANY
 SIMI VALLEY
 PLANT IN SERVICE
 ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Plant in Service - BOY	27,032.1	28,252.3	1,220.2	4.5%
<u>2 Additions</u>				
3 Gross Additions	164.6	492.7	328.1	199.3%
4 Retirements	<u>(16.2)</u>	<u>(48.6)</u>	<u>(32.4)</u>	<u>200.0%</u>
5 Net Additions	148.4	444.0	295.6	199.2%
6 Plant in Service - EOY	27,180.5	28,696.4	1,515.9	5.6%
<u>7 Construction Work in Progress</u>				
8 CWIP - BOY	361.0	361.0	0.0	0.0%
9 CWIP - EOY	<u>361.0</u>	<u>361.0</u>	<u>0.0</u>	<u>0.0%</u>
10 Net Change - CWIP	0.0	0.0	0.0	0.0%
11 Acquisition Adjustment	0.0	0.0	0.0	0.0%
12 Plant Weighting Factor	50.00%	50.00%	0.0	0.0%
13 Wtd. Avg. Plant in Service	27,467.3	28,835.3	1,368.0	5.0%

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TABLE 8-1 REVISED
GOLDEN STATE WATER COMPANY
SIMI VALLEY
DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	12,197.6	12,158.1	(39.5)	-0.3%
2 <u>Accruals</u>				
3 Clearing Accounts	60.2	61.4	1.2	2.0%
4 Contributions	48.3	48.3	0.0	0.0%
5 Depreciation Expenses	615.3	628.0	12.7	2.1%
6 Total Accruals	723.8	737.6	13.8	1.9%
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(40.1)	(117.8)	(77.7)	193.8%
9 Adjustments	0.0	0.0	0.0	0.0%
10 Total Retirmt & Adjmnts	(40.1)	(117.8)	(77.7)	193.8%
11 Net Additions	683.7	619.8	(63.9)	-9.3%
12 Depreciation Reserve - EOY	12,881.3	12,777.9	(103.4)	-0.8%
13 Deprec. Weighting Factor	50.00%	50.00%	0.00	0.0%
14 Wtd. Avg. Depr. Reserve	12,539.5	12,468.0	(71.5)	-0.6%

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TABLE 8-2 REVISED

GOLDEN STATE WATER COMPANY
SIMI VALLEY

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA Amount	%
(Thousands of \$)				
1 Depreciation Reserve - BOY	12,881.3	12,777.9	(103.4)	-0.8%
2 <u>Accruals</u>				
3 Clearing Accounts	61.0	63.8	2.8	4.6%
4 Contributions	48.3	48.3	0.0	0.0%
5 Depreciation Expenses	624.5	654.9	30.4	4.9%
6 Total Accruals	<u>733.8</u>	<u>767.0</u>	<u>33.2</u>	<u>4.5%</u>
7 <u>Retirements and Adjustments</u>				
8 Net Retirements	(16.2)	(48.6)	(32.4)	200.0%
9 Adjustments	1.0	1.0	0.0	0.0%
10 Total Retimnt & Adjmnts	<u>(15.2)</u>	<u>(47.6)</u>	<u>(32.4)</u>	<u>213.2%</u>
11 Net Additions	718.6	719.4	0.8	0.1%
12 Depreciation Reserve - EOY	13,599.9	13,497.2	(102.7)	-0.8%
13 Deprec. Weighting Factor	50.00%	50.00%	0.0	0.0%
14 Wtd. Avg. Depr. Reserve	13,240.6	13,137.6	(103.0)	-0.8%

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TABLE 9-1 REVISED

GOLDEN STATE WATER COMPANY
SIMI VALLEY

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2013

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd. Avg. Plant in Service	27,210.2	28,075.4	865.2	3.2%
2 Wtd. Avg. Depreciation Reserve	(12,539.5)	(12,468.0)	71.5	-0.6%
3 Materials & Supplies	41.7	41.7	0.0	0.0%
4 Advances in Construction	(3,373.8)	(3,373.8)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(1,376.8)	(1,376.8)	0.0	0.0%
6 Deferred Federal Income Tax	(3,519.5)	(3,519.5)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(40.3)	(40.3)	0.0	0.0%
9 Capitalized Ad Valorem Tax	615.6	635.4	19.8	3.2%
10 Connections	165.9	165.9	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	105.0	105.0	0.0	0.0%
13 Deferred Revenues	0.0	0.0	0.0	0.0%
14 Working Cash	(302.7)	1,942.1	2,244.8	-741.5%
15 Common Utility Allocation	1,873.2	1,983.4	110.2	5.9%
16 Average Rate Base	8,859.0	12,170.5	3,311.5	37.4%
17 Interest Calculation:				
18 Avg Rate Base	8,859.0	12,170.5	3,311.5	37.4%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	327.8	450.3	122.5	37.4%

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TABLE 9-2 REVISED

GOLDEN STATE WATER COMPANY
SIMI VALLEY

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2014

Item	DRA	GSWC	GSWC exceeds DRA	
			Amount	%
(Thousands of \$)				
1 Wtd.Avg. Plant in Service	27,467.3	28,835.3	1,368.0	5.0%
2 Wtd. Avg. Depreciation Reserve	(13,240.6)	(13,137.6)	103.0	-0.8%
3 Materials & Supplies	41.7	41.7	0.0	0.0%
4 Advances in Construction	(3,241.4)	(3,241.4)	0.0	0.0%
5 Cntrbtn in Aid of Cnstrctn	(1,328.5)	(1,328.5)	0.0	0.0%
6 Deferred Federal Income Tax	(3,517.2)	(3,517.2)	0.0	0.0%
7 Deferred State Income Tax	0.0	0.0	0.0	0.0%
8 Investment Tax Credit	(36.8)	(36.8)	0.0	0.0%
9 Capitalized Ad Valorem Tax	621.5	652.8	31.3	5.0%
10 Connections	165.3	165.3	0.0	0.0%
11 Sliver	0.0	0.0	0.0	0.0%
12 Advances (Gross-up)	99.2	99.2	0.0	0.0%
13 Deferred Revenues	0.0	0.0	0.0	0.0%
14 Working Cash	(295.5)	1,942.1	2,237.6	-757.2%
15 Common Utility Allocation	1,818.1	1,950.9	132.8	7.3%
16 Average Rate Base	8,553.1	12,426.0	3,872.9	45.3%
17 Interest Calculation:				
18 Avg Rate Base	8,553.1	12,426.0	3,872.9	45.3%
19 x Weighted Cost of Debt	3.70%	3.70%	0.0	0.0%
20 Interest Expense	316.5	459.8	143.3	45.3%

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TABLE 9-3

GOLDEN STATE WATER COMPANY
SIMI VALLEY

NET-TO-GROSS MULTIPLIER

TEST YEAR 2013

Debt Net to Gross Multiplier		DRA	GSWC
Line			
1	Uncollectible Rate	0.25700%	0.25700%
2	1 - Uncollectibles (100% - Line 1)	99.74300%	99.74300%
3	Franchise Rate	1.30500%	1.30500%
3a	Local Franchise (Line 2 x Line 3)	1.30165%	1.30165%
4	Business License Rate	0.00000%	0.00000%
4a	Business Licence (Line 2 x Line 4)	0.00000%	0.00000%
5	Subtotal (Line 1 + Line 3a + 4a)	1.55865%	1.55865%
6	1 - Subtotal (100% - Line 5)	98.44135%	98.44135%
7	NTG 1 / Line 6	1.0158332	1.0158332
	Debt NTG Multiplier	1.0158332	1.0158332
Equity Net to Gross Multiplier			
8	1 - Subtotal (Line 6)	98.44135%	98.44135%
9	CCFT (Line 8 x CCFT Rate)	8.70222%	8.70222%
10	Ratio of Applicable DPAD deduction (Well production / Total Production)	11.46257%	0.00000%
10a	DPAD((Line 8 - Line 9) * Line 10 * DPAD Rate)	0.92578%	0.00000%
11	FIT ((Line 8 - Line 9 - Line 10a) * FIT Rate)	31.08468%	34.45447%
12	Total Taxes Paid (Line 5 + 9 + 11)	41.34554%	44.71534%
13	Net After Taxes (100% - Line 12)	58.65446%	55.28466%
14	Net To Gross Multiplier (100% / Line 13)	1.70490014	1.80881988
	Equity NTG Multiplier	1.70490014	1.80881988
Composite Net to Gross Multiplier			
	Capital Structure	Cost	Weighted Cost
Debt	49.00%	7.55%	3.70%
Common Equity	51.00%	10.20%	5.20%
Total	100.00%		8.90%
Debt NTG			0.03758
Equity NTG			0.08869
Composite NTG			0.12627

1 Note: GSWC does not deduct CCFT in determining FIT NTG Multiplier

1
2 **CHAPTER 8: NORTHERN DISTRICT OFFICE**
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4 **A. INTRODUCTION**

5 The Northern District office is located in Rancho Cordova next to the
6 Arden Cordova Customer Service Office.

7 **B. SUMMARY OF RECOMMENDATIONS**

8 GSWC proposes budgets for Office Furniture and Equipment, Tools and
9 Safety Equipment, and Contingency. DRA recommends that the Office Furniture
10 and Equipment and Tools and Safety Equipment budgets be approved. DRA
11 recommends that no Contingency budget be included for these blanket budget
12 items as discussed in Chapter 1. A summary of the recommendations is shown in
13 Table 8-A.

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
Region I: Northern District Office (NDO)

Table 8-A DRA Adjusted - Revised

Budget Group	Description	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
57-	Contingency	280	-	1,540	-	1,580	-
TOTAL CONTINGENCY		280	-	1,540	-	1,580	-
	<i>NDO, B-09- Office Furniture and Equip.</i>	\$0	\$0	\$9,400	\$8,600	\$9,700	\$8,800
	<i>NDO, B-11- Misc. Tools and Safety Equip.</i>	\$2,800	\$2,800	\$6,000	\$5,700	\$6,100	\$5,900
TOTAL BLANKETS		2,800	2,800	15,400	14,300	15,800	14,700
TOTAL NET COST		3,080	2,800	16,940	14,300	17,380	14,700

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4 **C. CONCLUSION**

5 DRA recommends that the Commission adopt DRA's recommendations
6 since they are consistent with ensuring that GSWC is able to provide safe, high
7 quality water, reliable water supplies, and efficient use of water at reasonable
8 rates. The following tables present the results of GSWC's request and DRA's
9 recommendations.

1 **CHAPTER 9: COASTAL DISTRICT OFFICE**
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4 **A. INTRODUCTION**

5 The Coastal District office is located in Rancho Cordova next to the Arden
6 Cordova Customer Service Office.

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8 **B. SUMMARY OF RECOMMENDATIONS**

9 GSWC proposes budgets for Office Furniture and Equipment, Tools and
10 Safety Equipment, a replacement Vehicle for the District Manager, and
11 Contingency. DRA recommends that the Office Furniture and Equipment, Tools
12 and Safety Equipment, and Vehicle budgets be approved. DRA recommends that
13 no Contingency budget be included for these blanket budget items as discussed in
14 Chapter 1. A summary of the recommendations is shown in Table 9-A.

Golden State Water Company
2012 - 2014 Companywide GRC Capital Budget
Region I: Coastal District Office (CoDO)

Table 9-A DRA Adjusted - Revised

Budget Group	Description	2012 GSWC	2012 DRA	2013 GSWC	2013 DRA	2014 GSWC	2014 DRA
57-	Contingency	910	-	4,730	-	2,040	-
	TOTAL	910	-	4,730	-	2,040	-
CoDO, B-09-	Miscellaneous Office Furniture	5,000	5,000	13,800	12,800	14,200	13,200
CoDO, B-10-	Vehicles	-	-	27,500	27,500	-	-
CoDO, B-11-	Tools & Safety Equipment	4,100	4,100	6,000	5,600	6,200	5,800
	TOTAL BLANKETS	9,100	9,100	47,300	45,900	20,400	19,000
1	TOTAL NET	10,010	9,100	52,030	45,900	22,440	19,000

2 **C. CONCLUSION**

3 DRA recommends that the Commission adopt DRA's recommendations
4 since they are consistent with ensuring that GSWC is able to provide safe, high
5 quality water, reliable water supplies, and efficient use of water at reasonable
6 rates. The following tables present the results of GSWC's request and DRA's
7 recommendations.

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CHAPTER 10: SPECIAL REQUEST 9

A. INTRODUCTION

On December 16, 2010, the Commission approved D.10-12-059 which authorized GSWC to recover via the advice letter process costs associated with 32 pipeline projects and four well projects in Region I. GSWC requests that if any of these projects are completed and advice letters submitted and approved between the time the GRC application, A.11-07-017, was filed and the implementation of new rates in the first test year, that the rate impact of those advice letters be incorporated into the final rates adopted in the GRC proceeding.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with GSWC’s proposal to incorporate the approved advice letters into rates adopted for the first test year in this GRC proceeding. Incorporating the rate effects of the approved advice letters into the rates adopted in this proceeding will reduce the number of potential rate increases associated with the advice letters. Specific language identifying the rate impacts of any adopted advice letters included in the rates adopted in the GRC decision should be added to clearly distinguish between GRC related rate increases and increases resulting from the advice letter projects adopted in the prior GRC.

C. CONCLUSION

DRA agrees with GSWC’s proposal to incorporate the approved advice letters into rates adopted for the first test year in this GRC proceeding.

1 QUALIFICATIONS AND PREPARED TESTIMONY OF
2 PATRICK E. HOGLUND
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6 Q.1. Please state your name and business address.

7 A.1. My name is Patrick E. Hogle. My business address is 505 Van
8 Ness Avenue, San Francisco, California.

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

10 A.2. I am employed by the California Public Utilities Commission - DRA
11 Water Branch - as a Senior Utilities Engineer.

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

14 A.3. I am a graduate of the University of California, Berkeley, with a
15 Bachelor of Science Degree in Industrial Engineering and
16 Operations Research. I am also a graduate of the University of
17 Rochester, William E. Simon School of Business with a Master of
18 Business Administration Degree with concentrations in Finance and
19 Corporate Accounting. I am a licensed professional Industrial
20 Engineer.

21 I have been employed by the California Public Utilities Commission
22 since 2005. My current assignment is within DRA – Water where I
23 work on Class A General Rate Cases. From July 1999 through
24 August 2004, I was a Senior Rates Analyst at Pacific Gas and
25 Electric Company, where I worked on a variety of revenue
26 requirements issues related to natural gas. From 1990 through 1997,
27 I was employed by the California Public Utilities Commission.
28 During this time I worked on small water utility rate cases, large
29 water utility rates cases, and also worked in the Telecommunications

1 and Energy Branches of the former Commission Advisory and
2 Compliance Division, as well as in the Division of Ratepayer
3 Advocates.

4 Q.4. What are your responsibilities in this proceeding?

5 A.4. I am responsible for DRA's Exhibit – 3, REGION I PLANT IN
6 SERVICE, DEPRECIATION, RATEBASE, AND SPECIAL
7 REQUEST 9.

8 Q.5. Does this conclude your prepared testimony?

9 A.5. Yes, it does.

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Attachment A

Included as a separate document