

Docket : A.12-02-013
Exhibit Number : DRA-01
Commissioner : Sandoval
ALJ : Wilson
Witness : Wuehler/Fok



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations
for
Bear Valley Electric Service Division
General Rate Case
Test Year 2013**

**Executive Summary
and
Results of Examination**

San Francisco, California
July 27, 2012

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1 **BEAR VALLEY ELECTRIC COMPANY**
2 **EXECUTIVE SUMMARY and RESULTS OF EXAMINATION**

3 **I. INTRODUCTION / OVERVIEW**

4 The Division of Ratepayer Advocates (DRA) submits its exhibits in response
5 to Golden State Water Company's (GSW or GSWC) Application (A.) 12-02-013, filed
6 on February 16, 2012, for authority to increase rates for its Bear Valley Electric
7 Service (BVES) Division.

8 This exhibit presents DRA's (1) executive summary regarding BVES' Test
9 Year (TY) 2013 proposals and various policy matters, (2) recommendation regarding
10 BVES' compliance with the California Public Utilities Commission's (Commission)
11 Resolution L-411A, and (3) Results of Examination.

12 **A. BVES seeks a \$4.01 million Increase in Total Revenues**

13 In this application BVES seeks to increase its total revenues by \$4.01 million.
14 The three primary components of this increase are (1) \$1.64 million coming from the
15 2010 Commission authorized GSWC general office (GO) allocation to BVES in base
16 rates; (2) \$1.05 million due to actual sales being lower than the adopted sales
17 forecast; and (3) \$1.32 million from a proposed increase for inflation and other
18 factors. The result is an increase in total revenues of 9.85%, from \$40.69 million to
19 \$44.70 million. Of the total \$4.01 million requested increase, \$860,000 would come
20 from sources other than regular electric bills. The requested increase for regular
21 electric bills is 7.79%.¹

22 If the request is granted, the average residential bill would increase about
23 \$7.56 per month in 2013 to an average monthly residential bill of \$97.06.² The
24 2013 increase is from the estimated 2012 average monthly residential bill based on
25 the projected rates and usage in 2012.

¹ Ex. No. BVES-____, Volume 1, page 4

² Ex. No. BVES-____, Volume 1, page 5

1 The rate of return on rate base proposed by BVES in its application is 9.81%
2 for test year 2013 and is based on a 12.00% return on equity (ROE) and a capital
3 structure of 44.4% long-term debt and 55.6% common equity.

4 BVES does not propose an overall increase in supply rates for Test Year
5 2013. However, BVES does request changes to the supply rate components.
6 BVES plans to reduce average supply rates by 5.5% when an under-collection in its
7 Purchased Power Adjustment Clause (PPAC) balancing account reaches zero. That
8 is projected to occur in September, 2014.³

9 **B. DRA Recommends a \$2.95 Million Decrease in Base Rates**

10 The purpose of a general rate case is to first set an authorized level for base
11 revenues in the designated test year. After the Commission has determined the
12 authorized level for base revenues, then the appropriate cost allocation and rate
13 design must be established to enable BVES a reasonable opportunity to achieve the
14 authorized base revenue level.

15 In its application BVES refers to its request as an "...increase in revenues of
16 \$4.01 million."⁴ This increase is made up of 1) \$1.05 million for an adjustment in its
17 sales forecast,⁵ 2) \$1.64 million for an adjustment to convert a previously authorized
18 general office allocation into base rates,⁶ and 3) \$1.32 million⁷ for an increase to its
19 2012 authorized base rates. In reality, item 3) is the only request for which BVES
20 has not received previous authorization from the Commission.⁸ BVES states: "The
21 Application and supporting testimony make clear that the proposed increase of
22 \$4.01 million is for base rates..."⁹

³ Ex. No. BVES-____, Volume 1, pg. 5

⁴ Ex. No. BVES-____, Volume 2, pg. 10, Ins. 6-7

⁵ Ibid, pg. 10, Ins. 13-17

⁶ Ibid, pg. 10, Ins. 18-23

⁷ Ibid, pg. 10, Ins. 24-25

⁸ The first two merely involve adjustments to the rate design authorized for 2012

⁹ Reply of Golden State Water Company (BVES) to Protests of Division of Ratepayer

(continued on next page)

1 DRA uses the Commission's currently authorized revenues of \$21.09 million
 2 to show its proposed rate decrease. BVES is really requesting an increase in its
 3 authorized base revenue requirement of \$1.32 million¹⁰ as shown in Table 1-1.
 4 BVES has elected to express its request as a \$4.01 million increase in total
 5 revenues.

6 Table 1-1 compares DRA's recommended Test Year 2013 Revenue
 7 Requirement to BVES' request, as set forth in its Application.
 8

Table 1-1 Comparison of BVES' Requested to DRA's Recommended Base Revenue Requirement (Millions)		
	BVES Requested ¹¹	DRA Recommended ¹²
Currently Authorized	\$ 21.09	\$ 21.09
Requested Increase	1.32	(2.95)
Proposed Base Revenue for TY 2013	\$ 22.41	\$ 18.15

9
 10 DRA recommends a decrease in the average electric rate of 0.90%¹³ while
 11 BVES is requesting an increase in the average electric rate of 7.79%.

12 The difference between BVES' request and DRA's recommendation is \$4.2
 13 million. There are many differences between DRA's recommendation and BVES'
 14 request as explained in more detail in DRA's Exhibits. The primary difference of
 15 \$2.175 million¹⁴ is due to differences in the forecasts of plant investment¹⁵ and the

(continued from previous page)
 Advocates and Snow Summit, Inc., dated April 2, 2012, pg. 3, last paragraph

¹⁰ Ex. No. BVES-____, Volume 2, pg. 22, Ins. 7-9

¹¹ Ibid.

¹² Exhibit DRA-02, pg. 2, Table 2A

¹³ Exhibit DRA-02, pg. 3, Table 2B, In. 10

¹⁴ Exhibit DRA-02, pg. 3, Table 2C, In. 6

¹⁵ See Exhibits DRA-06, DRA-08, and DRA-09

1 rate of return. BVES requests a rate of return on rate base (ROR) of 9.81%¹⁶ while
2 DRA recommends a ROR of 8.27%, as discussed in Exhibit DRA-12. DRA
3 recommends a rate base of \$35.579 million¹⁷ which is \$7.726 million lower than the
4 \$43.305 million requested by BVES.¹⁸

5 **II. PROCEDURAL BACKGROUND**

6 The Commission issued Decision (D.) 09-10-028 in BVES' last TY 2009 GRC
7 on October 15, 2009. For BVES' 2009 GRC, the Commission granted a revenue
8 increase of \$6.392 million in base rates over four years. BVES had requested a total
9 increase of \$8.384 million in base rates over the four years.¹⁹ In this GRC, DRA is
10 proposing one Test Year, 2013. The authorized base revenue for the three years
11 following TY 2013 should be determined by a formula that provides for annual
12 increases.

13 BVES is requesting base revenue increases of \$1.88 million for 2014, \$1.29
14 million for 2015, and \$1.23 million for 2016. DRA is recommending revenue
15 increases of \$341,000 for 2014, \$357,000 for 2015 and \$364,000 for 2016.

16 **III. ORGANIZATION OF DRA's EXHIBITS**

17 This section lists how DRA's exhibits are organized and briefly summarizes
18 the contents of each exhibit.

19 **1. Exhibit DRA-01, Executive Summary and Results of** 20 **Examination**

21 This exhibit provides a brief overview of BVES' request; presents the overall
22 organization of DRA's exhibits; summarizes the differences between DRA's and

¹⁶ Ex. No. BVES-____, Volume 2, pg 13, ln. 23

¹⁷ Exhibit DRA-02, pg. 4, Table 2D, ln. 24

¹⁸ Ex. No. BVES-____, Volume 2, pg. 25, ln. 26

¹⁹ A. 08-06-034, filed June 27, 2008

1 BVES' test year (TY) 2013-2016 estimates; addresses the BVES Cost of Supply;
2 and summarizes DRA's examination.

3

4 **2. Exhibit DRA-02, Summary of Earnings**

5 This exhibit compares DRA's and BVES' summary of earnings for test year
6 2013.

7

8 **3. Exhibit DRA-03, Sales, Customers and Revenues**

9 This exhibit presents DRA's analyses and recommendations regarding BVES'
10 Sales, Customers, and Revenues forecast(s) for the test year(s).

11

12 **4. Exhibit DRA-04, Operation and Maintenance Expenses**

13 This exhibit presents DRA's analyses and recommendations regarding BVES'
14 Production, Transmission, Distribution, Customer Accounting and Operation and
15 Maintenance (O&M) expenses for test year 2013.

16

17 **5. Exhibit DRA-05, Administrative and General Expenses**

18 This exhibit presents DRA's analyses and recommendations regarding BVES'
19 direct Administrative and General (A&G) expenses for the test year.

20

21 **6. Exhibit DRA-06, Depreciation Expense and Reserves**

22 This exhibit presents DRA's analyses and recommendations regarding BVES'
23 Depreciation Expense and Reserves for test year 2013 as well as the following three
24 years. The depreciation reserve balances for the test years are calculated in the
25 Results of Operations (RO) model which incorporates the estimated depreciation
26 expenses based on net plant addition forecasts and automatically calculates the
27 reserve requirement for the four years.

28

1 **7. Exhibit DRA-07, Taxes**

2 This exhibit presents DRA’s analyses and recommendations regarding BVES’
3 tax expenses for the test year.

4 Regulated tax expense is comprised of the following items: (1) Federal
5 Income Taxes (FIT); (2) State Income Taxes or California Corporate Franchise
6 Taxes (CCFT); (3) payroll taxes; (4) property or ad valorem taxes; (5) franchise
7 taxes; and (6) deferred taxes.

8

9 **8. Exhibit DRA-08, Plant**

10 This exhibit presents DRA’s analyses and recommendations regarding BVES’
11 production, transmission, distribution and general plant for 2011 through 2016.

12

13 **9. Exhibit DRA-09, Rate Base**

14 This exhibit presents DRA’s analyses and recommendations regarding BVES’
15 Rate Base for the test year.

16

17 **10. Exhibit DRA-10, Escalation and Other Factors**

18 This exhibit presents DRA’s analyses and recommendations regarding BVES’
19 proposed non-union labor, non-labor O&M, and Outside Services escalation factors
20 for the years 2012-2016 and proposed cost inflators used for the pre-Base Year
21 period (2006-2009) to convert the non-union labor, non-labor O&M and Outside
22 Services expenses of those years to Base Year 2010 dollars (constant \$2010).

23

24 **11. Exhibit DRA-11, Special Requests and Supply Costs**

25 This exhibit presents DRA’s analyses and recommendations regarding BVES’
26 Special Requests and Supply Costs. BVES is requesting approval for eight special
27 requests which are described in Volume 3 of BVES’ Prepared Testimony. DRA
28 does not oppose BVES’ request relating to Supply Costs as found in Volume 4 of
29 BVES’ Prepared Testimony.

30

1 **12. Exhibit DRA-12, Cost of Capital**

2 This exhibit discusses DRA’s and BVES’ recommended rate of return (ROR)
3 on rate base for the test year. The ROR or weighted cost of capital is defined as the
4 cost of common equity, preferred equity and long-term debt in the capital structure.
5

6 **13. Exhibit DRA-13, Revenue Allocation and Rate Design**

7 This exhibit presents DRA’s analyses and recommendations regarding BVES’
8 marginal-cost-based cost-of-service study, and its request **to for** the Test year.
9

10 **14. Exhibit DRA-14, Witness Qualifications**

11 This exhibit presents the qualifications of DRA’s witnesses who prepared
12 exhibits 1 through 13.

13 **IV. COMMISSION RESOLUTION L-411A**

14 Commission Resolution L-411 A was issued on June 23, 2011. Ordering
15 Paragraph Number 6 of the Resolution states that, “In each Covered Utility’s next
16 General Rate Case, or at such other time as ordered in that GRC decision, the
17 Commission shall address the disposition of amounts (a) recorded in the
18 memorandum account and (b) forecast for the remainder of the Memo Account
19 Period and may reflect any revenue requirement decrease in prospective rates.”

20 BVES’ current GRC filing does not address the memorandum accounts
21 described in Resolution L-411A. The current memorandum accounts would
22 continue through the period that a Commission decision adopts the new GRC base
23 revenue in this proceeding. The adopted revenue requirement for 2013 will include
24 the impacts of bonus depreciation in the adopted GRC revenue requirement. As
25 provided by Resolution L-411A, DRA recommends that the Commission’s GRC
26 decision in this proceeding order BVES to address the disposition of amounts
27 described in Ordering Paragraph 6 of Commission Resolution L-411A by separate
28 application, or, at the latest, within BVES’ next GRC application.

1 **V. RESULTS OF EXAMINATION**

2 DRA performed a limited financial examination (examination) of the books
3 and records of Bear Valley Electric Service (the Applicant), a division of Golden
4 State Water Company, in conjunction with the General Rate Case Applications they
5 filed for a test year 2013.

6 DRA’s examination was conducted in accordance with the authority and
7 mandates set forth in the Public Utilities Code Sections 314, 314.5 and 309.5.
8 Requested revenue requirements in general rate cases are based on test year
9 forecasts which stem from recorded financial statement data (referred to as the 2011
10 base year in these filings). The general objective of the DRA examination was to
11 ensure that the interests of ratepayers are reasonably protected and that the books
12 and records of the Applicants on which the GRC is built were reasonable and proper
13 for ratemaking purposes under established Commission rules and regulations.
14 Although the Examiner exercised due care in the conduct of the examination, there
15 is no guarantee that all potential adjustments were identified in the examination.
16 This examination was conducted through onsite discovery and examination of the
17 Applicants’ books and records.

18 **A. Scope and Approach**

19 The scope of DRA’s examination of Bear Valley Electric Service covered the
20 calendar year 2011. The examination approach for this review included an overview
21 of the general ledger integrity. The examination selected costs in the base year of
22 2011 for in-depth review, and analyzed various other selected expense categories.

23 DRA Examiner (Examiner) also interviewed directors and witnesses of Bear
24 Valley Electric Service to obtain an overview of the selected categories, budget
25 control, and their recorded expenses. In addition, the following procedures were
26 applied:

- 27 • Review of the Application and Workpapers.
- 28 • Review of prior rate case reports for relevant issues;

- 1 • Review of relevant California Public Utilities Commission (Commission)
2 Decisions.
- 3 • Review of Applicants' independent auditor's reports and annual
4 reports.
- 5 • Review of Applicants' internal audit reports.
- 6 • Review of the corporate minutes of the Board of Directors' meetings.
- 7 • Selective testing of accounting system integrity.
- 8 • Substantive testing of selected expense categories.

9 The Commission has long used the Federal Energy Regulatory Commission's
10 (FERC) Uniform System of Accounts (USOA) for Electric and Gas companies as the
11 required general accounting framework for gas and electric companies in California.
12 The last GRC examination found no problems in the Applicants' system of
13 accounting, tracing the recorded FERC general ledger to the base year numbers
14 used by Bear Valley Electric Service witnesses in the applications. The Examiner
15 ran tests selecting some general ledger accounts and successfully traced them
16 through to the GRC witness' testimonies. The Examiner did not find any variance in
17 the tests.

18 **B. Results of the Examination**

19 The Examiner found no exceptions in the review.

20 DRA's tests confirmed that the Applicant's accounting system integrity has
21 continued since the last GRC.

22 DRA's examination did find a sharp increase in regulatory expenses in
23 Account 928 for the test year. This issue is addressed by the DRA expert witness in
24 Exhibit DRA-05. DRA's Examiner has no recommended adjustments to BVES'
25 recorded balances which are used in calculating BVES' electric generation,
26 transmission, and distribution test year 2013 revenue requirements.