

Docket	:	<u>A.12-05-006</u>
Exhibit Number	:	<u>DRA-01</u>
Commissioner	:	<u>Florio</u>
ALJ	:	<u>Barnett</u>
Witness	:	<u>Morse</u>



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

**Report on the Results of Operations  
for  
West Coast Gas Company  
General Rate Case  
Test Year 2013**

**Results of Operations, Sales & Revenues,  
Plant Additions, Depreciation Expense & Reserve,  
Rate Base, Tax Expenses, and Rate Design**

San Francisco, California  
October 23, 2012

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1           **Results of Operations, Sales & Revenues, Plant Additions,**  
2           **Depreciation Expense & Reserve, Rate Base, Tax Expenses,**  
3           **and Rate Design**

4   **I.       INTRODUCTION / SUMMARY**

5           The Division of Ratepayer Advocates (DRA) recommends a \$61,628 base  
6   rate revenue requirement increase for Test Year (TY) 2013 representing a 3.27%  
7   increase to currently authorized rates, or a 6.66% increase to base rates. This  
8   compares to West Coast Gas (WCG) Company's request for a \$146,806 increase in  
9   base revenue requirement, which represents an increase of 7.81% over the overall  
10   rates currently authorized by the Commission,<sup>1</sup> or a 15.93% increase to base rates.  
11   The average monthly residential bill would be increased by \$3.43 under WCG's  
12   proposal.<sup>2</sup>

13           This exhibit presents DRA's analyses and recommendations regarding  
14   WCG's Results of Operations, and forecasts of Sales & Revenues, Plant & Rate  
15   Base, Depreciation Expense & Reserve, and Tax Expenses for TY2013, as well as  
16   the associated Rate Design. DRA's analyses and recommendations regarding  
17   operating expenses, uncollectibles, cost of capital and attrition are presented in a  
18   separate exhibit.

19   **II.       BACKGROUND**

20           On May 4, 2012, WCG filed a TY2013 General Rate Case (GRC) application  
21   which seeks a \$146,806 increase over base rates currently authorized by the  
22   California Public Utilities Commission (CPUC or Commission), to be effective no  
23   later than January 1, 2013.<sup>3</sup> WCG also seeks Commission authority to file attrition  
24   year adjustments via advice letter filings for post-test years 2014, 2015, and 2016.

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<sup>1</sup> A. 12-05-006, p. 1.

<sup>2</sup> A. 12-05-006, Exhibit C, Prepared Direct Testimony of Raymond J. Czahar, p. 12.

<sup>3</sup> A. 12-05-006, p. 1.

1 A Prehearing Conference was held on September 10, 2012. The Assigned  
2 Commissioner's Scoping Memo and Ruling was issued on September 20, 2012, and  
3 sets forth the procedural schedule which directs DRA to serve its testimony by  
4 October 24, 2012.

### 5 **III. SUMMARY OF RECOMMENDATIONS**

6 Based on DRA's inputs into the Results of Operations model generated by  
7 WCG, DRA recommends a \$61,628 GRC base rate revenue requirement increase  
8 for TY2013, representing a 3.27% increase to overall rates currently authorized by  
9 the Commission.

10 For Sales & Revenues, DRA recommends:

- 11 • Using a five-year average of sales (in therms) to forecast TY2013 sales.  
12 WCG's proposed four-year average understates forecasted TY2013 sales  
13 by placing greater weight on drastically low sales in 2010.

14 For Plant Additions, DRA recommends:

- 15 • Using three-year and five-year averages to forecast plant additions for  
16 2012 and 2013. WCG's proposed 2012 and 2013 plant additions are  
17 450% higher than 2011 recorded and are excessive compared to historical  
18 figures.
- 19 • Removing plant additions to Transportation Equipment for 2012 and 2013.  
20 In response to data request DRA-WCG-03-PM1 Q. 4, WCG stated, "There  
21 are no forecasted plant additions for this account (Transportation  
22 Equipment) in 2012 or 2013."

23 For Depreciation Expense & Reserve, DRA recommends:

- 24 • Accepting for purposes of this preceding only, the methodology that WCG  
25 used to calculate Depreciation Expense and Reserve. WCG has proposed  
26 no change to currently authorized depreciation rates.

27 For Rate Base, DRA recommends:

- 28 • Removing \$43,570 from rate base for Measuring and Regulation  
29 Equipment, Meters, and House Regulators added in 2010, which were  
30 updated to provide service to CPUC non-jurisdictional customers.

31 For Tax Expenses, DRA recommends:

- 32 • Accepting the methodology that WCG used to calculate Tax Expenses as  
33 taxes appear to be calculated correctly.

- 1 For Rate Design, DRA recommends:
- 2 • Accepting WCG's proposal to increase rates to each customer and
  - 3 customer class on an equal percentage basis.

#### 4 **IV. DISCUSSION / ANALYSIS OF THE RESULTS OF OPERATIONS**

5 The Results of Operations essentially takes into consideration the forecasted  
6 operating costs and the rate of return on rate base, to develop a utility's revenue  
7 requirement; *i.e.*, it summarizes the results of financial activity attributed to a utility's  
8 operations during a specified period.

##### 9 **A. Overview of WCG's Request**

10 In its application, WCG requests a \$146,806 base rate revenue requirement  
11 increase for TY2013. This amount represents an increase of 7.81% above the  
12 overall rates currently authorized by the Commission.<sup>4</sup> Operating revenues and  
13 expenses exclude procurement costs, franchise fees, uncollectible accounts, and  
14 Public Purpose Programs.<sup>5</sup>

##### 15 **B. Summary of Earnings**

16 The Summary of Earnings tables for WCG's gas distribution operations are  
17 displayed in this section. The revenue requirements are calculated by a computer  
18 model developed by WCG and referred to as the Results of Operations (RO) model.  
19 The data inputs are provided by the DRA witnesses. These inputs are then used by  
20 the RO model to calculate the Results of Operation. Results are summarized in  
21 Tables 1-1 through 1-3.

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<sup>4</sup> A. 12-05-006, p. 1.

<sup>5</sup> A. 12-05-006. Exhibit C, Prepared Direct Testimony of Raymond J. Czahar, CPA, on Behalf of West Coast Company (dated May 1, 2012), p. 5.

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Table 1-1

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## DRA Present Rates TY2013 vs. DRA Proposed Rates TY2013

Line No.	Title	DRA TY2013 Present	DRA TY2013 Proposed	Amount Proposed >Present
		a	b	c=(b-a)
1	Base Rate Operating Revenue	\$ 934,566	\$ 996,180	\$ 61,614
2	Operations Expense	347,901	347,901	-
3	Maintenance Expense	46,876	46,876	-
4	Customer Accounting Expense	105,705	105,705	-
5	A & G Expense	260,888	260,888	-
6	Depreciation Expense	111,649	111,649	-
7	Income Tax Expense	0	41,131	41,131
8	Total Operating Expense	883,172	924,303	41,131
9	Net Operating Income	51,394	71,877	20,483
10	Average Rate Base	\$1,005,277	\$1,005,277	\$ -
11	Average Return on Rate Base	5.11%	7.15%	2.04%

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Table 1-2

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## DRA Present Rates TY2013 vs. WCG Present Rates TY2013

Line No.	Title	DRA Present Rates	WCG Present Rates <sup>6</sup>	Amount WCG>DRA
		a	b	c=(b-a)
1	Base Rate Operating Revenue	\$ 934,566	\$ 931,555	\$ (3,011)
2	Operations Expense	347,901	363,436	15,535
3	Maintenance Expense	46,876	76,380	29,504
4	Customer Accounting Expense	105,705	110,653	4,948
5	A & G Expense	260,888	264,587	3,699
6	Depreciation Expense	111,649	115,362	3,713
7	Income Tax Expense	0	0	0
8	Total Operating Expense	883,172	941,074	57,902
9	Net Operating Income	51,394	(9,519)	(60,913)
10	Average Rate Base	\$ 1,005,277	\$ 1,054,953	\$ 49,676
11	Average Return on Rate Base	5.11%	(0.90)%	(6.01)%

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<sup>6</sup> A. 12-05-006. Exhibit 1, Sheet 1, p. 1-2.

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**Table 1-3**

**DRA at Proposed Rates vs. WCG at Proposed Rates**

Line No.	Title	DRA TY2013 Proposed	WCG TY2013 Proposed <sup>7</sup>	Amount WCG>DRA
		a	b	c=(b-a)
1	Base Rate Operating Revenue	\$ 996,180	\$ 1,078,361	\$ 82,181
2	Operations Expense	347,901	363,436	15,535
3	Maintenance Expense	46,876	76,380	29,504
4	Customer Accounting Expense	105,705	110,653	4,948
5	A & G Expense	260,888	264,587	3,699
6	Depreciation Expense	111,649	115,362	3,713
7	Income Tax Expense	41,131	50,781	9,950
8	Total Operating Expense	924,303	991,855	67,552
9	Net Operating Income	71,877	86,506	14,629
10	Average Rate Base	\$ 1,005,277	\$ 1,054,953	\$ 49,676
11	Average Return on Rate Base	7.15%	8.20%	1.05%

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**C. Jurisdictional Allocation**

4  
5 WCG provides service to one customer outside of CPUC jurisdiction, the  
6 Federal Prison at Herlong, which is regulated by the Federal Energy Regulatory  
7 Commission (FERC). WCG has allocated expenses to the prison as shown on Table  
8 1-4. In response to data request DRA-WCG-02-PM1 Q. 3, where DRA asked if the  
9 allocation methods for Non-Jurisdictional Operations have changed since last GRC  
10 filing, WCG responded “The allocation method is the same as last general rate  
11 case.” The previously adopted allocation method appears to be reasonable and DRA  
12 recommends the Commission continue the current allocation method for TY2013.

<sup>7</sup> A. 12-05-006. Exhibit 1, Sheet 1, p. 1-2.

1 Table 1-4 summarizes the factors used by WCG to allocate expenses to non-  
 2 CPUC jurisdictional operations.

3 **Table 1-4**  
 4 **Factors Used to Allocate Expense Accounts for WCG Lines of Business**  
 5 **TY2013**

FERC Account(s)	Account	Mather %	Castle %	Non-CPUC Jurisdictional Operations %	Total %
760	Total O&M Supervision Expense	69.0	22.4	8.6	100
761-765	Total Operations Expense (Excl. Acct. 760 & 766)	74.3	23.5	2.1	100
766	Total Rents	69.0	22.4	8.6	100
767, 768, 887	Total Maintenance Expense	74.3	23.5	2.1	100
901-904	Total Customer Accounting Expense	95.8	4.1	0.1	100
920-934	A & G Expenses (Excl. Acct. 924)	82.4	13.4	4.3	100
924	Property & Liability & Work Comp Insurance	73.1	16.6	10.3	100

6 Source: A 12-05-006. Exhibit 1, Sheet 14, Pages 1 to 3.

7 **V. DISCUSSION / ANALYSIS OF SALES AND REVENUES**

8 Revenues are the amounts of monies a company generates to cover  
 9 expenses, service debt and retain as equity. Sales are in therms and are calculated  
 10 by the amount of therms, multiplied by the per therm rate, which is dependent on the  
 11 customer class and seasonality. Also included are fixed monthly customer charges  
 12 based on customer classes. Finally, sales from other gas revenues are included to

1 reach total revenue. Revenue requirements are based on the distribution component  
2 of WCG's overall gas rates.<sup>8</sup>

### 3 **A. Overview of WCG's Request**

4 WCG's sales forecast is based on a four-year average of annual recorded  
5 therms sales for years 2008 through 2011.<sup>9</sup> The four-year average is then applied  
6 to proposed rates to determine TY2013 forecasted sales which are calculated  
7 through the RO model. WCG also uses a four-year average to forecast other gas  
8 revenue resulting in total revenue (base rate and other gas revenues, excludes  
9 procurement revenue) of \$1,078,361, representing an overall base rate increase of  
10 \$146,806.<sup>10</sup>

### 11 **B. DRA's Analysis**

12 DRA recommends the Commission adopt a five-year historical average to  
13 forecast TY2013 sales. There are several reasons for using a five-year average  
14 rather than WCG's proposed four-year average to forecast sales for TY2013.

15 First, the four-year average used by WCG places greater weight on the  
16 extremely low sales in 2010 of 1,586,145 therms (see Table 1-5). By using a five-  
17 year average, the forecast is smoothed over to better predict TY2013 sales. The  
18 effect of the lower sales numbers in 2010 greatly skews the four-year average of  
19 WCG. The five-year average used by DRA also compares favorably to the  
20 calculation of the three-year average after removing the highest and lowest recorded  
21 sales, from 2008 and 2010, respectively. Doing so would result in a TY2013 forecast  
22 of 1,644,181 therms, an increase of 13,319 therms over WCG's proposal. Instead,  
23 DRA is recommending a less than 6,000 therm increase in TY2013 over WCG's  
24 forecasted sales by taking a five-year average (see Table 1-6).

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<sup>8</sup> A. 12-05-006, p.1.

<sup>9</sup> A. 12-05-006, p. 2.

<sup>10</sup> A. 12-05-006, Exhibit 1, Sheet 1, p. 1-2.

1 Second, if sales continue to increase as they have from 2010 to 2011 and  
 2 reach 2008 levels, WCG will drastically over collect its revenue requirement, placing  
 3 an unnecessary burden on ratepayers. DRA's recommendation will help mitigate  
 4 possible over collections from WCG's proposal.

5 WCG has used a method based on evaluating WCG's historical data which  
 6 understates forecasted sales in TY2013. Therefore, the Commission should adopt  
 7 DRA's forecast of 1,636,646 therms for TY2013 sales. Below Tables 1-5 and 1-6  
 8 show WCG's recorded sales (in therms), DRA recommended vs. WCG proposed  
 9 TY2013 gas sales and Table 1-7 shows revenues (in \$).

10 For other gas revenues, DRA accepts WCG's estimate.

11 **Table 1-5**  
 12 **WCG's 2007-2011 Recorded**  
 13 **(in Therms)**

Description	2007	2008	2009	2010	2011
WCG Sales	1,659,783	1,664,538	1,655,170	1,586,145	1,617,596

14 Source: 2008-2011 data from Exhibit 1, Sheet 3, Pages 1 to 10, 2007 data from response to data  
 15 request DRA-WCG-03-PM1 Q. 5, dated June 22, 2012.

16 **Table 1-6**  
 17 **DRA Recommended vs. WCG TY2013 Forecast**  
 18 **(in therms)**

Line No.	Title	DRA 2013 Recommended	WCG 2013 Forecast <sup>11</sup>	Amount DRA>WCG	Percentage DRA>WCG
		a	b	c=(a-b)	d=(c/a)
1	Total Sales	1,636,646	1,630,862	5,774	0.35%

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 11 A. 12-05-006. Exhibit 1, Sheet 3, Page 10 of 10.

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**Table 1-7**  
**DRA Recommended vs. WCG TY2013 Forecast Revenues**  
**(in therms)**

Line No.	Title	DRA 2013 Recommended	WCG 2013 Forecasted <b>12</b>	Amount WCG>DRA	Percentage WCG>DRA
		a	b	c=(b-a)	d=(c/a)
1	Base Rate Revenue	\$ 986,297	\$1,068,477	\$ 81,180	8.33%
2	Procurement Revenue	960,531	957,136	(3,395)	(0.35)%
3	Other Gas Revenue	9,883	9,883	-	0.00%
4	Total Revenue	\$ 1,956,711	\$2,035,497	\$ 78,786	4.03%

4 **VI. DISCUSSION / ANALYSIS OF PLANT ADDITIONS**

5 Plant additions are the amount of used-and-useful capital added to plant-in-  
6 service during a specified period. Plant additions are cumulative in nature; additions  
7 made during one year are added to additions that were made in previous years.  
8 DRA has analyzed all of the proposed plant additions from the end of the last  
9 recorded year (2011) through the end of the test year (2013). Table 1-8 compares  
10 DRA's and WCG's 2012 and 2013 forecasts of plant additions.

11 **A. Overview of WCG's Request**

12 WCG uses a three-year average of recorded plant additions (years 2009-  
13 2011) to forecast 2012 and 2013 plant additions. WCG's proposal results in  
14 forecasted plant additions for 2012 of \$62,875 and 2013 of \$62,875.<sup>13</sup>

15 **B. DRA's Analysis**

16 After analyzing WCG's historical and forecasted plant additions, DRA  
17 recommends the Commission adopt a method of using both three-year and five-year  
18 historical averages to estimate 2012 and 2013 plant additions. DRA's

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<sup>12</sup> A. 12-05-006, Exhibit 1, Sheet 20 page 1 of 1.

<sup>13</sup> A. 12-05-006, Exhibit 1, Sheet 9, pages 1-2.

1 recommendation properly considers and accounts for unusually high recorded plant  
2 additions in years 2007-2011, for certain FERC accounts, which do not reflect a  
3 normal year. Due to the small size of WCG's system, certain non-recurring plant  
4 additions drastically impact historical averages.

5 In recent years, WCG has invested in its distribution system in an effort to  
6 modernize the system. As stated in the direct testimony of Raymond J. Czahar on  
7 May 1, 2012, "WCG has installed new mains, services and meters to the industrial  
8 area of Mather and replaced major portions of the distribution mains, installed more  
9 than 20 main-line valves and replaced every service line, riser, regulator and meter  
10 in the housing area."<sup>14</sup> WCG has "constructed a new regulation station, metering  
11 station at the point on interconnection with PG&E in the housing area and installed a  
12 new modern cathodic protection in both the housing and commercial areas of  
13 Mather."<sup>15</sup>

14 WCG has made significant updates to the Castle distribution system.  
15 According to WCG, "At Castle, WCG has made similar investments in mains, meters  
16 and regulators and installed a new modern cathodic protection system."<sup>16</sup> WCG has  
17 "modernized and made safe and reliable"<sup>17</sup> its distribution system resulting in very  
18 little if any, need for more large scale plant additions for 2012 or 2013. In those 2012  
19 and 2013 plant additions will be FERC accounts where significant updates have  
20 previously been made, well below the three and five-year averages. DRA  
21 acknowledges WCG needs a base level of plant additions to keep its system safe  
22 and reliable with some provision for unanticipated plant additions.

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<sup>14</sup> A. 12-05-006, Exhibit C, pages 3-4.

<sup>15</sup> A. 12-05-006, Exhibit C, p. 4.

<sup>16</sup> A. 12-05-006, Exhibit C, p. 4.

<sup>17</sup> A. 12-05-006, Exhibit C, p. 4.

1 In 2011, WCG made plant additions totaling \$13,965,<sup>18</sup> which is a good  
2 estimate of base level plant additions. This is based on WCG's response to data  
3 request DRA-WCG-04-PM1, Q. 2, where WCG identified non-recurring capital  
4 additions for years 2009-2011, none of which were made in 2011.<sup>19</sup> For 2012 and  
5 2013 WCG is forecasting plant additions of \$62,875,<sup>20</sup> which is a 450% increase  
6 over 2011 plant additions. This forecast is unreasonably high given that WCG has  
7 modernized its system in recent years, as WCG has so stated in its testimony.  
8 DRA's recommended plant additions of \$29,258 for 2012 and 2013 represents a  
9 210% increase over 2011 recorded plant additions. This forecast provides WCG  
10 adequate funding for a base level of plant additions and unanticipated plant  
11 additions for 2012 and 2013.

12 DRA's and WCG's plant addition forecasts for 2012 and 2013, by FERC  
13 accounts, are summarized in Table 1-8 and further explained in sub-sections 1-6.  
14 Table 1-9 shows WCG's plant additions for the past five years by FERC account.  
15 For both DRA and WCG, forecasted 2012 plant additions are the same as 2013  
16 plant additions.  
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<sup>18</sup> A. 12-05-006 Exhibit 1, Sheet 9, p. 1 of 2.

<sup>19</sup> WCG's response to Data Request DRA-WCG-01-CKT, Q. 2, dated May 17, 2012.

<sup>20</sup> A. 12-05-006 Exhibit 1, Sheet 9, p. 2 of 2.

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**Table 1-8  
Plant Additions DRA vs. WCG  
Total Distribution Plant (2012 and 2013)  
(In Nominal Dollars)**

Line No.	FERC Account No.	Title	DRA Recommended	WCG Proposed <u>21</u>	Amount WCG>DRA	Percentage WCG>DRA
			a	b	c=(b-a)	d=(c/a)
1	301-303	Intangible Plant	\$ -	\$ -	\$ -	-
2	376	Mains	\$ 6,993	\$ 6,993	\$ 0	0%
3	377	Compressor Station Equipment	-	-	-	-
4	378	Measuring and Regulation Equip.	64	13,580	13,516	21119%
5	379	Measuring Equipment Station Gate	-	-	-	-
6	380	Services	-	-	-	-
7	381	Meters	1,856	2,632	776	42%
8	382	Meter Installations	66	66	0	0%
9	383	House Regulators	809	976	167	21%
10	385	Industrial Measuring and Regulating Equipment	6,429	8,090	1,661	26%
11	386	Other Equip. on Customer Premises	-	-	-	-
12	387	Cathodic Protection Installations	2,337	3,896	1,559	67%
13		Total Distribution Plant	\$ 18,555	\$ 36,233	\$ 16,735	86%
14	389	Land and Land Rights	-	-	-	-
15	390	Structures and Improvements	-	-	-	-
16	391	Office Furniture and Equip.	552	552	-	-
17	392	Transportation Equip.	0	11,126	11,126	
18	393	Stores Equip.	-	-	-	-
19	394	Tools, Shop and Garage Equip.	1,787	1,787	-	0%
20	395	Laboratory Equip.	-	-	-	-
21	396	Power Operated Equip.	4,979	8,299	3,320	67%
22	397	Communication Equip.	740	740	-	0%
23	398	Misc. Equip.	2,644	4,138	1,494	57%
24		Total General Plant	\$ 10,703	\$26,642	\$ 15,939	149%
25		Total Gas Plant in Service	\$ 29,258	\$62,875	\$ 33,617	112%

21 A.12-05-006. Exhibit 1, Sheet 9, Page 1 of 2.

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**Table 1-9**  
**WCG Plant Additions 2007-2011<sup>22</sup>**  
**(In Nominal Dollars)**

Line No.	FERC Account No.	Title	2007	2008	2009	2010	2011
1	301-303	Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -
2	376	Mains	42,918	1,695	4,406	16,241	331
3	377	Compressor Station Equipment	-	-	-	-	-
4	378	Measuring and Regulation Equip.	-	322	-	<u>23</u>	-
5	379	Measuring Equip. Station Gate	-	-	-	-	-
6	380	Services	4,127	15,158	-	-	-
7	381	Meters	3,520	4,132	3,024	-	2,544
8	382	Meter Installations	817	2,186	198	-	-
9	383	House Regulators	403	1,748	1,234	345	848
10	385	Industrial Measuring and Regulating Equip.	-	7,877	24,269	-	-
11	386	Other Equip. on Customer Premises	-	-	-	-	-
12	387	Cathodic Protection Installations	-	-	9,484	2,203	-
13		Total Distribution Plant	\$ 51,785	\$ 33,121	\$ 42,616	\$ 18,789	\$ 3,724
14	389	Land and Land Rights	\$ -	\$ -	\$ -	\$ -	\$ -
15	390	Structures and Improvements	-	-	-	-	-
16	391	Office Furniture and Equip.	2,457	50	1,104	(17,925)	-
17	392	Transportation Equip.	(22,207)	35,856	32,430	949	-
18	393	Stores Equip.	-	-	-	-	-
19	394	Tools, Shop and Garage Equip.	697	5,099	1,115	3,143	1,104
20	395	Laboratory Equip.	-	-	-	-	-
21	396	Power Operated Equip.	-	-	18,490	728	5,677
22	397	Communication Equip.	119	410	523	54	1,643
23	398	Misc. Equip.	-	806	2,392	8,204	1,818
24		Total General Plant	\$(18,935)	\$ 42,222	\$56,054	\$(4,846)	\$10,242
25		Total Gas Plant in Service	\$32,851	\$75,342	\$98,670	\$13,943	\$13,965

<sup>22</sup> A.12-05-006. Exhibit 1, Sheet 9, Page 1 of 2 and response to data request DRA-WCG-01-CKT Q.4, dated May 17, 2012.

<sup>23</sup> Table 1-9 shows recorded plant additions excluding plant additions made in 2010 to accounts 378, 381 and 383 associated with the non-jurisdictional Federal Prison at Castle which is regulated by the FERC (see explanation below in Section VIII, Rate Base).

1 **1. FERC Account 378 – Measuring and Regulation**  
 2 **Equipment**

3 For FERC Account 387-Measuring and Regulation Equipment, DRA proposes  
 4 to remove \$40,741 from 2010 recorded plant additions from CPUC jurisdictional rate  
 5 base due to WCG’s response to data request DRA-WCG-04-PM1, Q. 1. WCG  
 6 states, “The Federal Prison at Castle is a critical WCG gas load that houses 1,300  
 7 high security prisoners and natural gas provides essential energy input to support  
 8 this facility. The metering and regulation station was rebuilt in order to ensure safe  
 9 and reliable service to this facility and to reduce the risk of supply interruption.”<sup>24</sup>  
 10 The Federal Prison at Castle is a single customer and is not under CPUC  
 11 jurisdiction. All revenues and expenses associated with gas service to the prison are  
 12 regulated by the FERC. Therefore, the cost to build the metering and regulation  
 13 station should be paid for by the Federal Prison at Castle, not customers in this  
 14 proceeding. DRA recommends using a five-year average for forecasting plant  
 15 additions of Measuring and Regulation Equipment resulting in 2012 and 2013 plant  
 16 additions of \$64 per year. The difference between DRA’s recommendation and  
 17 WCG’s proposed (shown on Table 1-10) equals \$13,516.

18  
 19 **Table 1-10**  
 20 **WCG’s 2007-2011 Recorded with DRA Recommended and WCG Proposed**  
 21 **(in Nominal Dollars)**

Description	2007	2008	2009	2010	2011	2013 DRA Recommended	2013 WCG Proposed
FERC Account 378	\$ 0	\$ 322	\$ 0	\$ 40,741	\$ 0	\$ 64	\$ 13,580
FERC Account 378 <sup>25</sup>	\$ 0	\$ 322	\$ 0	\$ 0	\$ 0	\$ 64	\$ 13,580

22 <sup>24</sup> Source: A.12-05-006. Exhibit 1, Sheet 9, Page 1 of 2 and response to data request DRA-WCG-01-  
 23 CKT Q.4, dated May 17, 2012.

<sup>24</sup> WCG’s response to data request DRA-WCG-04-PM1, Q. 1, dated June 29, 2012.

<sup>25</sup> Excluding plant additions associated with non-jurisdictional Federal Prison at Castle which is regulated by the FERC.



1 **3. FERC Account 387 – Cathodic Protection**  
 2 **Installations**

3 DRA recommends using a five-year average to forecast plant additions for  
 4 FERC Account 387-Cathodic Protection Installations of \$2,337 in 2012 and 2013.  
 5 Recorded plant additions in 2009 were more than four times greater than any of the  
 6 last five years. WCG’s three-year average is unreasonable because it places too  
 7 much weight on the 2009 plant additions. The 2009 plant additions were for the  
 8 study of Mather Cathodic Protection system (\$4,584) and the purchase of a new  
 9 rectifier (\$4,900)<sup>26</sup> which have book lives of 27.5 years.<sup>27</sup> The five-year average is  
 10 more reasonable because it smoothes out the unusually high plant additions made  
 11 in 2009. The DRA forecast of plant additions is \$1,558 lower per year than the WCG  
 12 forecast of \$3,896 (see Table 1-12 below).

13 **Table 1-12**  
 14 **WCG’s 2007-2011 Recorded with DRA Recommended and WCG Proposed**  
 15 **(in Nominal Dollars)**

Description	2007	2008	2009	2010	2011	2013 DRA Recommended	2013 WCG Proposed
FERC Account 387	\$0	\$0	\$9,484	\$2,203	\$0	\$ 2,337	\$ 3,896

16 Source: A.12-05-006. Exhibit 1, Sheet 9, Page 1 of 2 and response to data request DRA-WCG-01-  
 17 CKT Q. 4, dated May 17, 2012.

18 **4. FERC Account 392 – Transportation Equipment**

19 DRA recommends \$0 for FERC Account 392-Transportation Equipment in  
 20 2012 and 2013 compared to the WCG forecast of \$11,126 for those years. DRA’s  
 21 forecast is based on the response to Data Request DRA-03-PM1 Q. 4, which  
 22 inquired into WCG’s Transportation Equipment account forecast. WCG’s response  
 23 stated, “There are no forecasted plant additions for this account (Transportation  
 24 Equipment) in 2012 or 2013.”<sup>28</sup> The response is clear. WCG does not intend to

<sup>26</sup> WCG’s response to data request DRA-WCG-01-CKT, Q. 2, dated May 17, 2012.

<sup>27</sup> A. 12-05-006. Exhibit 1, Sheet 10, Page 2 of 3.

<sup>28</sup> WCG’s response to data request DRA-WCG-03-PM1, Q. 4, dated June 22, 2012.

1 make plant additions to Transportation Equipment for 2012 or 2013. Therefore,  
 2 based on the evidence obtained through discovery, DRA recommends \$0 for  
 3 Transportation Equipment plant additions in 2012 and 2013.

4  
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**Table 1-13**  
**WCG’s 2007-2011 Recorded with DRA Recommended and WCG Proposed**  
**(in Nominal Dollars)**

Description	2007	2008	2009	2010	2011	2013 DRA Recommended	2013 WCG Proposed
FERC Account 392	\$(22,207)	\$35,856	\$32,430	\$949	\$0	\$ 0	\$ 11,126

8 Source: A.12-05-006. Exhibit 1, Sheet 9, Page 1 of 2 and response to data request DRA-WCG-01-  
 9 CKT Q. 4, dated May 17, 2012.

10 **5. FERC Account 396 – Power Operated Equipment**

11 DRA forecasts \$4,979 for FERC account 396-Power Operated Equipment for  
 12 2012 and 2013 in contrast to the WCG estimate of \$8,299. There were significant  
 13 additions made in 2009 for various non-recurring items including “DIPR Leak Test  
 14 Unit (\$10,417).” In response to DRA discovery, WCG stated “Typically non-recurring  
 15 capital additions that are not expected to be repeated during the next five years  
 16 include...the purchase of the DIPR Leak Test Unit.”<sup>29</sup> DRA’s recommended five-  
 17 year average forecast for Power Operation Equipment is more reasonable than a  
 18 three-year to determine 2012 and 2013 plant additions because WCG’s use of a  
 19 three-year average overstates the unusually high non-recurring additions of \$10,417  
 20 in 2009 and fails to account for years 2007-2008 where no additions were made  
 21 (see Table 1-14 below).

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<sup>29</sup> WCG’s response to data request DRA-WCG-03-PM1, Q. 2, dated June 22, 2012.

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**Table 1-14**  
**WCG's 2007-2011 Recorded with DRA Recommended and WCG Proposed**  
**(in Nominal Dollars)**

Description	2007	2008	2009	2010	2011	2013 DRA Recommended	2013 WCG Proposed
FERC Account 396	\$0	\$0	\$18,490	\$729	\$5,667	\$ 4,979	\$ 8,299

4 Source: A.12-05-006. Exhibit 1, Sheet 9, Page 1 of 2 and response to data request DRA-WCG-01-  
5 CKT Q. 4, dated May 17, 2012.

6

**6. FERC Account 398 – Miscellaneous Equipment**

7 DRA forecasts \$2,644 for FERC Account 398-Miscellaneous Equipment in  
8 2012 and 2013 compared to the WCG forecast of \$4,138. A review of the five years  
9 of historical data shows that significant additions were made in 2010, yet there were  
10 no additions made in 2007, and relatively small additions for 2008. WCG's request to  
11 use a three-year average to determine 2012 and 2013 additions overstates the  
12 forecast because of the unusually high additions of \$8,204 in 2010 and not  
13 considering years 2007 and 2008. DRA's recommended five-year average for  
14 Miscellaneous Equipment results in a more reasonable forecast of plant additions for  
15 2012 and 2013 in contrast to the three-year average.

16  
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**Table 1-15**  
**WCG's 2007-2011 Recorded**  
**(in Nominal Dollars)**

Description	2007	2008	2009	2010	2011	2013 DRA Recommended	2013 WCG Proposed
FERC Account 398	\$ 0	\$ 806	\$ 2,392	\$ 8,204	\$ 1,818	\$ 2,644	\$ 4,138

19 Source: A.12-05-006. Exhibit 1, Sheet 9, Page 1 of 2 and response to data request DRA-WCG-01-  
20 CKT Q. 4, dated May 17, 2012.

21

1 **VII. DISCUSSION / ANALYSIS OF DEPRECIATION EXPENSE AND**  
2 **RESERVE**

3 Depreciation is the recovery of the original cost of fixed capital assets less the  
4 estimated net salvage value over the usefulness life of the property by means of a  
5 plan of charges through operating expenses. The depreciation reserve balances for  
6 the test year are calculated in the Results of Operations (RO) model which  
7 incorporates the estimated depreciation expenses based on net plant addition  
8 forecasts and automatically calculates the reserve requirement for the test year.

9 **A. Overview of WCG's Request**

10 In its application, WCG uses the same depreciation rates adopted in TY2009  
11 approved by the Commission as part of the settlement agreement between WCG  
12 and DRA. Depreciation rates are summarized in Table 1-16.

13 **B. DRA's Analysis**

14 After reviewing the proposal, DRA concludes that the average service lives  
15 for depreciable assets proposed by WCG appear to be reasonable. WCG has  
16 proposed no change to currently authorized depreciation rates. DRA accepts WCG's  
17 proposed depreciation rates for purposes of this GRC only.

18

1

**Table 1-16**

2

**WCG's Current Authorized Depreciation Rates**

Line No.	FERC Account	Title	Current Authorized Rates %	Average Service Life (in years)
1	276	Mains	3.33	30
2	278	Measuring Regulating Equipment	6.67	15
3	279	Measuring Equipment Station Gate	3.33	30
4	280	Services	3.33	30
5	281	Meters	5.00	20
6	282	Meter Installations	5.00	20
7	283	House Regulators	5.00	20
8	285	Industrial Measuring and Regulation Station	3.33	30
9	286	Other Equip on Customer Premises	3.33	30
10	287	Cathodic Protection Installations	3.64	27.5
11	291	Office Furniture and Equipment	14.29	7
12	292	Transportation Equip.	10.00	10
13	294	Tools, Shop, and Garage Equip.	12.50	8
14	296	Power Operated Equip.	20.00	5
15	297	Communications Equip.	20.00	5
16	298	Misc. Equip.	20.00	5

3

Source: A. 12-05-006. Exhibit 1, Sheet 10, Page 2 of 3.

4

1 **VIII. DISCUSSION / ANALYSIS OF RATE BASE**

2 Rate Base is the depreciated asset value of WCG's net investments used to  
 3 provide service to its customers. The major components of Rate Base are Fixed  
 4 Capital (plant-in-service), Adjustments, Working Cash, and Deductions for Reserves.  
 5 A utility is allowed to earn a return on the sum of these Rate Base components. All  
 6 Rate Base components are developed on a weighted average basis.

7 Table 1-17 compares DRA's and WCG's TY2013 forecasts of average rate  
 8 base.

9 **Table 1-17**  
 10 **Jurisdictional Average Rate Base for 2013**  
 11 **(in Nominal Dollars)**

Line No.	Description	DRA Recommended	WCG Proposed <u>22</u>	\$ Amount WCG>DRA	Percent WCG>DRA
		a	b	(c=b-a)	(d=c/a)
1	Gas Plant-in-Service	\$2,922,852	\$2,972,310	\$49,458	1.69%
2	Plant Held for Future Use	0	0	0	0.0%
3	Accumulated Provision for Depreciation of Gas Plant in Service	(1,353,473)	(1,357,774)	(4,301)	0.32%
4	Net Utility Plant-in-Service	1,569,379	1,614,536	45,157	2.88%
5	Materials & Supplies	8,326	8,330	4	0.05%
6	Working Cash (1/12 <sup>th</sup> of Cash Operating Expenses)	64,294	68,809	4,515	7.02%
7	Customer Advances for Construction	(33,036.27)	(33,036.27)	0.00	0.0%
8	Contributions in Aid of Construction	(603,685.09)	(603,685.09)	0.00	0.0%
<b>9</b>	<b>Net Average Rate Base</b>	<b>\$1,005,277</b>	<b>\$1,054,953</b>	<b>\$49,676</b>	<b>4.94%</b>

30 A. 12-05-006, Exhibit 1, Sheet 2, Page 1 of 1.

1           **A. Overview of WCG’s Request**

2           In its application, WCG uses the same method to determine rate base as  
3 approved by the Commission for TY 2009 as part of the settlement agreement  
4 between WCG and DRA. WCG’s TY2013 jurisdictional average rate base is  
5 \$1,054,953.<sup>31</sup>

6           **B. DRA’s Analysis**

7           DRA recommends a TY2013 Jurisdictional Average Rate Base of \$1,005,277,  
8 which is calculated through the RO model developed by WCG. Main factors  
9 contributing to DRA’s recommendation are reductions in plant additions for 2012 and  
10 2013 (explained in Section VI) and removal of recorded 2010 Measuring and  
11 Regulation Equipment from CPUC jurisdictional rate base, as explained below.

12           During the discovery process, DRA inquired about previous plant additions  
13 including the Measuring and Regulation Equipment installed in 2010. DRA asked  
14 WCG to explain how the equipment is part of providing safe and reliable service to  
15 CPUC jurisdictional customers.<sup>32</sup> WCG’s response was “The Federal Prison at  
16 Castle is a crucial WCG gas load in that it houses 1,300 high security prisoners and  
17 natural gas provides essential energy input support for this facility. The metering and  
18 regulation station was rebuilt in order to insure safe and reliable service to this  
19 facility and to reduce the risk of supply interruption.”<sup>33</sup> There is no issue with the  
20 necessity of the Measuring and Regulation Equipment. It is clear through WCG’s  
21 response to discovery that the Measuring and Regulation Equipment installed in  
22 2010 was rebuilt to provide service to the Federal Prison, which is outside of CPUC  
23 jurisdiction.

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<sup>31</sup> A. 12-05-006. Exhibit C, Prepared Direct Testimony of Raymond J. Czahar, CPA, on behalf of West Coast Gas Company (dated May 1, 2012), p. 9.

<sup>32</sup> Data request DRA-WCG-04-PM1 Q. 1, dated June 29, 2012.

<sup>33</sup> WCG’s response to data request DRA-WCG-04-PM1 Q. 1, dated June 29, 2012.

1 DRA also inquired into the 2010 plant additions made to Meters (account 381)  
2 for \$2,327, and House Regulators (account 383) for \$502. WCG further explained in  
3 response to discovery, that:

4 "The existing meter was on the verge of failing and a new  
5 meter was installed at the time the metering and regulation  
6 station was rebuilt. At the time the new meter was installed  
7 WCG decided it would be prudent to replace the existing  
8 regulator to insure safe and reliable service."<sup>34</sup>

9 There is no issue with the necessity of the "Meter for Rebuilt Reg Station at Castle"  
10 or the "Regulator for Castel Prison"<sup>35</sup> but, it is clear through WCG's response to  
11 discovery that these additions were made to provide service to the Federal Prison.  
12 All revenues and expenses associated with providing gas service to the Federal  
13 Prison are covered by FERC. Therefore, customers covered in this proceeding should  
14 not bear the \$40,741 cost of the Measuring and Regulation Equipment, the \$2,327  
15 for Meters or the \$502 for House Regulators recorded in 2010 plant additions.

16 DRA recommends the Commission remove a total of \$49,676 (Table 1-17)  
17 from Gas Plant in Service based on DRA's inputs into the RO model.

18 Additional differences between DRA's and WCG's TY2013 rate base are  
19 shown on Table 1-17 — such as materials and supplies, working cash, etc. —  
20 determined via flow-through calculations in the RO model based on DRA's inputs.

## 21 **IX. DISCUSSION / ANALYSIS OF TAX EXPENSES**

22 Regulated tax expense comprises the following items: (1) Federal Income  
23 Taxes (FIT) and State Income Taxes (California Corporate Franchise Taxes  
24 (CCFT)); (2) payroll taxes; and (3) property taxes. These tax expense categories are  
25 the composite of projected taxable income streams, book expenses, special tax

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<sup>34</sup> Data request DRA-WCG-04-PM1 Q. 1, dated June 29, 2012.

<sup>35</sup> Data request DRA-WCG-04-PM1 Q. 1, dated June 29, 2012.

1 deductions, and tax credits, calculated within the combined contexts of “real world”  
2 tax law, and “regulatory world” tax policy.

3 This section presents DRA’s analyses and recommendations regarding  
4 WCG’s forecasts of tax expenses for 2013. WCG is seeking rate recovery of: (1)  
5 state and federal income taxes; and (2) property (i.e., ad valorem) taxes; and (3)  
6 payroll taxes.

7 **A. Overview of WCG’s Request**

8 In its application, WCG calculates property taxes as 1.01% of rate base.<sup>36</sup>  
9 Income taxes are calculated using 8.884% of taxable income for state and 35% for  
10 federal.<sup>37</sup>

11 **B. DRA’s Analysis**

12 DRA’s forecasted tax expenses are computed in the Results of Operations  
13 (RO) model, since they are dependent upon DRA’s forecasts of income, expenses,  
14 and plant balances.

15 All taxes appear to be calculated correctly through the RO model and DRA  
16 takes no issue with the tax rates WCG uses.

17 **X. DISCUSSION / ANALYSIS OF RATE DESIGN**

18 Rate design is the process by which rates are set for utility service after the  
19 utility’s overall revenue requirement is determined and then allocated to the utility’s  
20 various customer classes. Specific rates are calculated, or designed, to recover the  
21 required amount of revenue from customers within each customer class.

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<sup>36</sup> A. 12-05-006, Exhibit 1, Sheet 16.

<sup>37</sup> A. 12-05-006, Exhibit 1, Sheet 20.

1           **A. Overview of WCG’s Request**

2           In its application, WCG requests the overall 7.81% increase in rates be  
3 allocated to all customers on an equal basis.<sup>38</sup> The average monthly residential bill  
4 would increase \$3.43 per month.<sup>39</sup>

5           **B. DRA’s Analysis**

6           After reviewing the proposal, DRA accepts WCG’s request to allocate the rate  
7 increase to all customers on an equal basis, as adopted in WCG’s last TY2009  
8 general rate case.<sup>40</sup> Through the RO model DRA’s recommended rate increase is  
9 3.27%, resulting in a \$1.43 increase to the average monthly residential bill. Table 1-  
10 18 below shows current volumetric rates, WCG proposed rates (based on WCG’s  
11 sales forecast), and DRA proposed rates (based on DRA’s sales forecast) by  
12 customer class. Table 1-19 shows the average monthly residential bill at current  
13 rates, WCG proposed rates, and DRA proposed rates.  
14

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<sup>38</sup> A. 12-05-006. Exhibit C, Prepared Direct Testimony of Raymond J. Czahar, CPA, on behalf of West Coast Gas Company (dated May 1, 2012), p. 11.

<sup>39</sup> A. 12-05-006. Exhibit C, Prepared Direct Testimony of Raymond J. Czahar, CPA, on behalf of West Coast Gas Company (dated May 1, 2012), p. 12.

<sup>40</sup> A. 08-04-007. Settlement Agreement, p. 5.

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**Table 1-18  
Total Volumetric Rates  
(in Nominal Dollars)**

Line No.	Customer Class	WCG Current Rates <sup>41</sup>	WCG Proposed Rates <sup>42</sup>	DRA Proposed Rates
1	Residential Baseline <sup>43</sup>	\$ 1.01443	\$ 1.09369	\$ 1.04758
2	Residential Excess	1.25240	1.35026	1.29333
3	Mather-Schedule 2 Summer <sup>44</sup>	1.34883	1.45422	1.39291
4	Mather-Schedule 2 Winter	1.34883	1.45422	1.39291
5	Mather-Schedule 3 Summer	1.00063	1.07882	1.03333
6	Mather-Schedule 3 Winter	1.13719	1.22605	1.17436
7	Castle-Schedule C-1 Summer	1.04594	1.12767	1.08012
8	Castle-Schedule C-1 Winter	1.17447	1.26624	1.21285
9	Castle-Schedule C-2 Summer	0.86469	0.93225	0.89295
10	Castle-Schedule C-2 Winter	0.94024	1.01371	0.97097
11	Castle-Schedule C-3 Summer	0.82100	0.88515	0.84783
12	Castle-Schedule C-3 Winter	\$ 0.88420	\$ 0.95329	\$ 0.91310

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**Table 1-19  
Average Monthly Residential Bill  
(in Nominal Dollars)**

Line No.	Average Monthly Residential Bill	WCG Current Rates <sup>45</sup>	WCG Proposed Rates <sup>46</sup>	DRA Proposed Rates
1	Customer Charge	\$ 3.47	\$ 3.74	\$ 3.58
2	Volumetric Charges	40.37	43.52	41.57
3	Total Monthly Bill	\$ 43.84	\$ 47.26	\$ 45.15

9

<sup>41</sup> A.12-05-006, Exhibit 1, Sheet 26a, pages 1 and 2.

<sup>42</sup> A.12-05-006, Exhibit 1, Sheet 26b, pages 1 and 2.

<sup>43</sup> Residential baseline is defined as average yearly customers multiplied by 12 (number of months) divided by TY2103 forecasted sales (in therms). Consequently, WCG's forecast for baseline is 28.2 (A.12-05-006, Exhibit 1, Sheet 23), while DRA's forecast is 28.4, due to the difference in sales forecasts for 2013.

<sup>44</sup> A.12-05-006, Exhibit 1, Sheet 3 page 1 of 10. Summer is defined by WCG as April-September, and winter as November-February.

<sup>45</sup> A.12-05-006, Exhibit 1, Sheet 26a, p. 1.

<sup>46</sup> A.12-05-006, Exhibit 1, Sheet 26b, p. 1.

1 **XI. WITNESS QUALIFICATIONS**

2 Q.1 Please state your name and business address.

3 A.1 My name is Peter H. Morse. My business address is 505 Van Ness Avenue,  
4 San Francisco, California 94102.

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

6 A.2 I am employed by the California Public Utilities Commission as a Public  
7 Utilities Regulatory Analyst in the Division of Ratepayer Advocates, Energy  
8 Cost of Service and Natural Gas Branch.

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

10 A.3 I hold a Bachelor of Science degree from California Polytechnic State  
11 University San Luis Obispo with a major in Agricultural Business and a minor  
12 in Sustainable Environments.

13 Since joining the Commission in June 2012, I conducted a deficiency review  
14 of the Notice of Intent (NOI) for a 2014 GRC tendered by Pacific Gas and  
15 Electric Company (PG&E) in early July. I am responsible for reviewing and  
16 analyzing PG&E's Customer Care requests and forecasts.

17 Prior to joining the Commission, I was employed by Utility Consultants of  
18 California as an Associate Analyst, where I was responsible for quantitative  
19 analysis of water and energy consumption data, analysis of water  
20 conservation data and formatting workpapers for general rate cases.

21 Q.4 What is the purpose of your testimony in this proceeding?

22 A.4 I am responsible for Exhibit DRA-1, which addresses West Coast Gas  
23 Company's Results of Operations, Sales & Revenues, Plant Additions,  
24 Depreciation Expense & Reserve, Rate Base, Tax Expenses, and Rate  
25 Design.

26 Q.5 Does that complete your witness qualifications?

27 A.5 Yes, it does.

28