

Docket: : A.12-07-005  
Exhibit Number : \_\_\_\_\_  
Commissioner : Catherine J. K. Sandoval  
Admin. Law Judge : Robert A. Barnett  
DRA Project Mgr. : Mehboob Aslam



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

**AMENDED REPORT  
ON THE RESULTS OF OPERATIONS  
OF  
GREAT OAKS WATER COMPANY**

**Test Year 2013-2014  
Escalation Years 2014-2015 and 2015-2016  
Application 12-07-005**

**For authority to increase water rates located in the Communities of portion  
of City of San Jose and contiguous territory in Santa Clara County, California.**

**Los Angeles, California  
November 7, 2012**

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**APPENDIX A – QUALIFICATIONS OF PREPARED TESTIMONY**

1 **MEMORANDUM**

2 This Report was prepared by the Division of Ratepayer Advocates (“DRA”) of the  
3 California Public Utilities Commission (“Commission”) in A.12-07-005. In this  
4 application, Great Oaks Water Company (“GOWC”) requests an order for authorization  
5 to increase rates charged for water service by \$1,930,413 or 14.28% in 2013, to decrease  
6 rates by \$477,210 or -3.09% in 2014, and to decrease rates by \$426,852 or 2.85% in  
7 2015. In addition, GOWC requests Commission authorization for a 9.26% rate of return,  
8 which was adopted pursuant to D.10-12-057. In this Report, DRA presents its analysis  
9 and recommendations associated with the requests set forth in GOWC’s application.

10 While DRA has made every effort to comprehensively analyze and provide the  
11 Commission with recommendations on each ratemaking and policy aspect presented in  
12 GOWC’s application, the absence from DRA’s report of any particular issue does not  
13 constitute DRA’s endorsement or acceptance of the underlying request, methodology, or  
14 policy position related to that issue.

15 Mr. Mehboob Aslam served as DRA’s Project Manager in this proceeding.  
16 DRA’s witnesses’ prepared qualifications are contained in Appendix A of this report.  
17 DRA’s legal counsel for this proceeding is Maria Bondonno.

18

1 **EXECUTIVE SUMMARY**

2 In A.12-07-005, GOWC requests an increase of \$1,930,413 (14.28%) in Fiscal  
3 Test Year (FTY) 2013/2104, a decrease of \$477,210 (-3.09%) in FTY 2014/2015. DRA  
4 recommends an increase of \$844,100 (6.25%) in FTY 2013/2014 and a decrease of  
5 \$75,965 (-0.53%) in year 2014/2015.

6 **Key Recommendations:**

7 DRA’s recommendations are based on slightly increased revenues, lower  
8 estimates of administrative and general expenses, lower plant additions, and relatively  
9 lower ratebase. The following tables show the differences between GOWC and DRA’s  
10 estimates as well as the name of the DRA’s witness responsible for a particular analysis:  
11

**(Revised) Summary of Differences**  
**Fiscal Test Year 2013/2014**

				GOWC Request	DRA Estimates	GOWC Exceeds DRA Estimates	GOWC Exceeds DRA %
Revenue				\$ 15,446,642	\$ 14,360,300	\$ 1,086,342	8%
O & M Expenses				\$ 7,679,054	\$ 7,679,054	0	0%
A & G Expenses				\$ 3,175,390	\$ 2,326,000	\$ 849,390	37%
Total Expenses Including Payroll				\$ 12,675,902	\$ 11,796,900	\$ 879,002	7%
Gross Plant Additions Less Retirements				\$ 39,845,048	\$ 39,607,550	\$ 237,498	1%
Ratebase				\$ 11,216,913.50	\$ 10,110,630	\$ 1,106,283	11%

**List of DRA Witnesses and Respective Chapters**

Chapter Number	Description	Witness
-	Executive Summary	Mehboob Aslam
1	Overview and Summary of Earnings	Mehboob Aslam
2	Water Consumption and Operating Revenues	Patrick Hoglund
3	Operations & Maintenance Expenses	Cleason Willis
4	Administration & General Expenses And Payroll Taxes	Laura Krannawitter
5	Income Taxes	James Simmons
6	Utility Plant and Service	Brain Yu
7	Depreciation Reserves and Depreciation Expense	Brian Yu
8	Rate Base	Brian Yu
9	Customer Service	Cleason Willis
10	Water Quality	Jenny Au
11	Special Requests	Mehboob Aslam
Appendix A	Qualifications	All

1                   **1.     OVERVIEW AND SUMMARY OF EARNINGS**

2                   **A.     INTRODUCTION**

3                   This Report sets forth DRA’s analysis and recommendations for A.12-07-005,  
4                   GOWC’s general rate increase request for FTY 2013/2014 and Fiscal Escalation Year  
5                   2014/2015.

6                   **B.     SUMMARY OF RECOMMENDATIONS**

7                   Tables 1-1 through Tables 1-3 of the Summary of Earnings compare the results of  
8                   operations for the FTY 2013/2014 including revenues, expenses and ratebase.

9                   **C.     DISCUSSION**

10                  **1)     Escalation Factors**

11                  In this application, GOWC has applied the inflation factor from DRA Energy Cost  
12                  of Service “Estimates of Non-Labor and Wage Escalation Rates” Memorandum dated  
13                  April 2012.

14                  DRA, as part of its forecasting methodology, uses the same escalation factors as  
15                  those used by GOWC in this application. Use of this methodology ensures that DRA’s  
16                  recommendations can be compared to those of GOWC on the same basis. Of importance,  
17                  an update of escalation in this GRC is necessary before a final decision is issued in this  
18                  proceeding. The Rate Case Plan, D.04-06-018, which was subsequently revised in D.07-  
19                  05-062, requires that the most recent “Estimates of Non-Labor and Wage Escalation  
20                  Rates” and “Summary of Compensation per Hour” should be used as the escalation rates.  
21                  Therefore, the parties will update the escalation factors when they jointly prepare the  
22                  comparative exhibits that will be submitted to the ALJ before a Proposed Decision is  
23                  issued.

24

1           **2) Revenue Requested**

2           The Total revenues requested by GOWC are as follows:

3

<b>Year</b>		<b>Amount Increase</b>		<b>Percent</b>
2013/2014		\$ 1,930,413		14.28%
2014/2015		\$ (477,211)		-3.09%
2015/2016		\$ (426,851)		-2.85%

4

5           **D. CONCLUSION**

6           DRA recommends a revenue increase for the Fiscal Test Year 2013/2104 as  
7 follows:

8

9

***REVISED***

<b>Year</b>		<b>Amount Increase</b>		<b>Percent</b>
2013/2014		\$ 844,100		6.25%
2014/2015		\$ (75,965)		-0.53%

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13           D.10-11-034 authorized the last general rate increase for Great Oaks Water

14 Company in A.09-09-001. The Commission's decision, D.10-12-057 sets GOWC's ROR

15 at 9.26%.

<b>(Revised) TABLE 1-1</b>				
<b>GREAT OAKS WATER COMPANY</b>				
<b>SUMMARY OF EARNINGS</b>				
<b>Test Year 2013/2014</b>				
<b>(AT PRESENT RATE)</b>				
Item	DRA	GOWC	GOWC Exceeds DRA	
	Estimates	Estimates	Amount	%
<b>(Dollars in Thousands)</b>				
<b>Operating Revenues:</b>				
Metered Water Service Revenues	\$ 13,449.0	\$ 13,449.0	0.00	0%
Fire Protection Revenue	67.27	67.27	0.00	0%
Other Revenues	0.00	0.00	0.00	0%
<b>Total Operating Revenues</b>	<b>13,516.23</b>	<b>13,516.23</b>	<b>0.00</b>	<b>0%</b>
<b>Expenses</b>				
O&M and A&G (O/T Payroll)	10,006.9	10,854.4	847.6	8%
Payroll Expenses	1,791.0	1,821.5	30.5	2%
Depreciation Expenses	876.5	1,020.2	143.7	16%
Taxes Other Than Income	316.1	279.1	(37.0)	-12%
CCFT	-	(40.6)	(40.6)	-
FIT	102.3	(156.1)	(258.4)	-253%
Fed. Deferred Income Tax Expense	12.2	76.7	64.5	-
<b>Total Expenses</b>	<b>13,105.0</b>	<b>13,855.3</b>	<b>738.1</b>	<b>6%</b>
<b>(Excludes CPUC Fees)</b>				
<b>Net Income</b>	<b>411.2</b>	<b>(339.1)</b>	<b>(738.1)</b>	<b>-185%</b>
<b>Ratebase</b>	<b>10,110.6</b>	<b>10,299.9</b>	<b>189.3</b>	<b>2%</b>
<b>Rate of Return</b>	<b>4.07%</b>	<b>-3.29%</b>	<b>-7.36%</b>	<b>-181%</b>

1  
2

**(Revised) TABLE 1-2**  
**GREAT OAKS WATER COMPANY**  
**SUMMARY OF EARNINGS**  
**Test Year 2013/2014**  
**(AT PROPOSED RATE)**

Item	DRA	GOWC	GOWC Exceeds DRA	
	Proposed	Proposed	Amount	%
(Dollars in Thousands)				
<b>Operating Revenues:</b>				
Metered Water Service Revenues	\$ 14,291.9	\$ 15,377.9	\$ 1,086.0	7.60%
Fire Protection Revenue	68.7	68.7	0.0	0%
Other Revenues	-	-	-	0%
<b>Total Operating Revenues</b>	<b>14,360.3</b>	<b>15,446.6</b>	<b>1,086.3</b>	<b>8%</b>
<b>Expenses</b>				
O&M and A&G (O/T Payroll)	10,009.7	10,854.4	844.7	8%
Payroll Expenses	1,791.0	1,821.5	30.5	2%
Depreciation Expenses	876.5	1,020.2	143.7	16%
Taxes Other Than Income	316.1	279.1	(37.0)	-12%
CCFT	67.9	102.8	34.9	51%
FIT	362.3	338.1	(24.2)	-7%
Fed. Deferred Income Tax Expense	-	76.7	76.7	767%
<b>Total Expenses</b>	<b>13,423.6</b>	<b>14,492.9</b>	<b>1,069.3</b>	<b>8%</b>
<b>(Excludes CPUC Fees)</b>				
<b>Net Income</b>	<b>936.7</b>	<b>953.8</b>	<b>17.0</b>	<b>2%</b>
<b>Ratebase</b>	<b>\$ 10,110.6</b>	<b>\$ 10,299.9</b>	<b>\$ 189.3</b>	<b>2%</b>
<b>Rate of Return</b>	<b>9.26%</b>	<b>9.26%</b>	<b>0.00%</b>	<b>0%</b>

1

## 2. CUSTOMER SALES AND REVENUES

### A. INTRODUCTION

This chapter presents DRA’s analysis and recommendations on water consumption and operating revenues of GOWC. DRA performed a review of GOWC’s report, supporting work papers, methods of estimating water consumption, and operating revenue. GOWC’s consultant Wendy Illingworth used E Views to perform a regression analysis to forecast the per customer usage for residential, multifamily, and business customer classes in this GRC. D.04-06-018 requires DRA and water utilities to use the “New Committee Method” in determining forecasted sales as follows:

- *Use monthly data for 10 years, if available. If 10 years data is not available, use all available data, but not less than five years of data. If less than five years of data is available, the utility and ORA will have to jointly decide on appropriate method to forecast the projected level of average consumption.*

- *Use 30-year average for forecast values for temperature and rain.*

- *Remove periods from the historical data in which sales restrictions (e.g., rationing) were imposed or the commission provided the utility with sales adjustment compensation (e.g., a drought memorandum account), but replace with additional historical to obtain 10 years of monthly data, if available.*

GOWC’s witness, Wendy Illingworth used the “New Committee Method”. The weather data used is from Newark, California, which is about 25 miles from GOWC’s service territory and is the nearest reporting weather station. Precipitation data for 2011 was incomplete, so data from Palo Alto was used. According to GOWC’s witness, satisfactory statistics were derived after adjusting the model for anomalies appearing in September and October 2002. GOWC’s witness adjusted the data by removing the September and October 2002 data points.<sup>1</sup> Because the usage records for September and October 2002 indicated extremely low usage in one month and then extremely high usage

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<sup>1</sup> GOWC A.12-07-005, Exhibit D, Chapter 4, p. 2.

1 the following month for all customer classes, DRA agreed with removal of those data  
2 points.

3 GOWC *used E-views to forecast its residential sales for the period from Fiscal*  
4 *Year (FY) 2011-2012 through the FTY 2013-2104 and also through 2015-2016. The Rate*  
5 *Case Plan adopted in D.07-05-062, in Section VII.9 directs utilities to:*

6 *“Estimate sales for the escalation years for the residential, multifamily, and,*  
7 *business classes by multiplying the number of customers for each escalation year by the*  
8 *test year sales per customer. Use the test year sales for all other customer classes for*  
9 *both escalation years.”*

10 *Thus, whereas GOWC has generated a forecast for residential customer use for*  
11 *the FY 2014-2015 and FY 2015-2106, DRA’s recommendations will follow the direction*  
12 *contained in D.07-05-062.<sup>2</sup>*

13 GOWC asserts that its *proposed* forecasts from its last GRC *turned out to be* more  
14 accurate than DRA’s forecasts using the New Committee Method. GOWC recommends  
15 that its forecasts be adopted in this proceeding.

16 **B. SUMMARY OF RECOMMENDATIONS**

17 DRA agrees with GOWC’s estimates for items related to Customer Sales and  
18 Revenues, and consumption per customer for Residential Customers *in the FTY*  
19 *2013/2014*. DRA’s estimates for sales and revenues for Residential customers differ  
20 from GOWC’s for FTY 2014/2015. However, DRA agrees with GOWC’s Customer  
21 Sales and Revenues for Multi- Family Residential Customers, Business Customers,  
22 Industrial, Public Authority, Schools, Private Landscaping, and Agricultural Customers.

23 DRA’s Table 2-4 shows GOWC’s proposed consumption per customer compared  
24 with DRA’s recommended consumption. DRA accepts GOWC’s estimated number of  
25 customers for all customer classes. DRA recommends the Commission accept its  
26 projections for water sales per customer as outlined below.

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<sup>2</sup> California-American Water Company Rule No. 14.1.

1           **C.     DISCUSSION**

2                   **1)     Water Consumption for Residential Customers**

3           GOWC’s consultant Wendy Illingworth used E-Views to forecast weather  
4 adjusted sales for 2011/12. The consultant also forecasted sales for 2012/13,  
5 FTY2013/14 and Fiscal Escalation Year 2015/16. The sales forecast for 2012/13 is 158.3  
6 Ccf per customer. For Test Year 2013/14, GOWC’s annual water sales forecast is 155.9  
7 Ccf per customer. In calculating the fiscal year water sales per residential customer,  
8 GOWC reduced the 2011/12 forecast by about 1.5% per year for the remaining forecast  
9 period. GOWC’s forecast is shown in the table below.<sup>3</sup>

10

<b>GOWC Forecast</b>					
<b>Year &gt;&gt;&gt;&gt;&gt;&gt;&gt;</b>	<b>Forecast FY</b>	<b>Forecast FY</b>	<b>Test Year</b>	<b>Test Year</b>	<b>Test Year</b>
<b>Use Per Customer (CCF/Year)</b>	<b><u>2011/2012</u></b>	<b><u>2012/2013</u></b>	<b><u>2013/2014</u></b>	<b><u>2014/2015</u></b>	<b><u>2015/2016</u></b>
Single-Family Res.	160.68	158.30	155.90	153.50	151.20

11  
12  
13           DRA reviewed GOWC’s work papers and regression analysis and agrees with the  
14 forecast for 2011/12. However, DRA did not *extend its forecast to FY 2014/2105 and FY*  
15 *2015/2016*. Therefore, DRA accepts the result of GOWC’s forecasted *FTY 2013/2014*  
16 consumption per residential customer of *155.9 Ccf* and utilizes this amount for the  
17 *FY 2014/2015 and FY 2015/2016*. The forecast is reasonable and consistent with the  
18 results of the “New Committee Method” sales forecast requirements of D.04-06-018  
19 because it is derived from the 30 year weather and 10 year consumption data.

20           Pursuant to the Rate Case Plan (RCP) decision, D.04-06-018, the test year sales  
21 must be used for both escalation years:

22           “Sales for the escalation years will be estimated for the residential, multifamily,  
23 and business classes by multiplying the number of customers for each escalation  
24 year by the test year sales per customer. The test year sales for all other customer  
25 classes will be used for both escalation years.” (D.04-06-018, Appendix A,  
26 Section IV, Results of Operations.”)  
27

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<sup>3</sup> GOWC A.12-07-005, work papers Exhibit D, Chapter 4, Table 1.

1 Therefore, DRA recommends that the Commission disallow GOWC's forecasted  
 2 sales for FTYs, 2014/15, and 2015/16 as *they are* inconsistent with D.04-06-018.

3 **2) Water Consumption for Multi-Family Customers**

4 For Multi-Family customers, GOWC followed the same methodology as for  
 5 Residential customers without the downward adjustment for the Test Year and Escalation  
 6 Years. GOWC's sales forecast for 2011/12 is 1,578.5 Ccf per customer. GOWC carried  
 7 this forecasted amount through the FTY 2013/14 and subsequent years.

<b>GOWC Forecast</b>					
<b>Year &gt;&gt;&gt;&gt;&gt;&gt;&gt;</b>	<b>Forecast FY</b>	<b>Forecast FY</b>	<b>Test Year</b>	<b>Test Year</b>	<b>Test Year</b>
	<b><u>2011/2012</u></b>	<b><u>2012/2013</u></b>	<b><u>2013/2014</u></b>	<b><u>2014/2015</u></b>	<b><u>2015/2016</u></b>
<b>Use Per Customer (CCF/Year)</b>					
Multi-Fam. Res.	1,578.50	1,578.50	1,578.50	1,578.50	1,578.50

9  
 10  
 11 DRA accepts GOWC's forecasted consumption per Multi-Family customer for the  
 12 FTY 2013/2014, as well as for the subsequent years, as it is consistent with the sales  
 13 forecast requirements of D.04-06-018.

14 **3) Water Consumption for Business Customers**

15 For Business customers, GOWC followed the same methodology as it did for  
 16 Multi-Family customers by forecasting per customer consumption for each year.  
 17 GOWC's annual water sales forecast for Business customers is 1,210.9 Ccf for the fiscal  
 18 years 2013/14, 2014/15, and 2015/16.<sup>4</sup>

<b>GOWC Forecast</b>					
<b>Year &gt;&gt;&gt;&gt;&gt;&gt;&gt;</b>	<b>Forecast FY</b>	<b>Forecast FY</b>	<b>Test Year</b>	<b>Test Year</b>	<b>Test Year</b>
	<b><u>2011/2012</u></b>	<b><u>2012/2013</u></b>	<b><u>2013/2014</u></b>	<b><u>2014/2015</u></b>	<b><u>2015/2016</u></b>
<b>Use Per Customer (CCF/Year)</b>					
Business	1,210.90	1,210.90	1,210.90	1,210.90	1,210.90

19  
 20 DRA accepts GOWC's forecasted consumption per Business customer for the  
 21 FTY2013/2014, as well as for the subsequent years, as it is consistent with the sales  
 22 forecast requirements of D.04-06-018.

<sup>4</sup> GOWC A.12-07-005, Exhibit D, Chapter 4, Table 1.

1                   **4)     Water Consumption for Industrial Customers**

2                   For Industrial customers, GOWC calculated the average total consumption over  
 3 the most recent three year period for this class of customers. After several years of  
 4 declining consumption, the recent three year period has seen relatively flat consumption  
 5 from year to year. The forecast is 97,737 Ccf for FTY2013/14, and the same for the  
 6 subsequent years.<sup>5</sup>

<b>GOWC Forecast</b>					
Year >>>>>>>	<b>Forecast FY</b>	<b>Forecast FY</b>	<b>Test Year</b>	<b>Test Year</b>	<b>Test Year</b>
<b>Use Per Class (CCF/Year)</b>	<b><u>2011/2012</u></b>	<b><u>2012/2013</u></b>	<b><u>2013/2014</u></b>	<b><u>2014/2015</u></b>	<b><u>2015/2016</u></b>
Industrial	97,737	97,737	97,737	97,737	97,737

8  
 9  
 10                  DRA accepts GOWC’s estimated water sales forecast of 97,737 Ccf for the  
 11 Industrial class of customers for the FTY 2013/2014, as well as for the subsequent years,  
 12 as it is consistent with the sales forecast requirements of D.04-06-018.

13                   **5)     Water Sales for Public Authority Customers**

14                  For Public Authority customers, GOWC calculated the average total consumption  
 15 over the most recent two year period for this class of customers. After significant declines  
 16 in consumption since 2007, the recent two year period has seen relatively flat  
 17 consumption from year to year. The forecast is 147,169 Ccf for FTY 2013/14 and  
 18 subsequent years.

<b>GOWC Forecast</b>					
Year >>>>>>>	<b>Forecast FY</b>	<b>Forecast FY</b>	<b>Test Year</b>	<b>Test Year</b>	<b>Test Year</b>
<b>Use Per Class (CCF/Year)</b>	<b><u>2011/2012</u></b>	<b><u>2012/2013</u></b>	<b><u>2013/2014</u></b>	<b><u>2014/2015</u></b>	<b><u>2015/2016</u></b>
Public Authority	147,169	147,169	147,169	147,169	147,169

20  
 21                  DRA accepts GOWC’s estimated water sales forecast of 147,169 Ccf for the FTY  
 22 2013/14, and the subsequent years, as it is consistent with the sales forecast requirements  
 23 of D.04-06-018.

---

<sup>5</sup> Ibid.

1                   **6)     Water Sales for Schools**

2                   For its forecast for sales to Schools, GOWC calculated the average total  
 3 consumption over the most recent two year period for this class of customers. After  
 4 significant declines in consumption since 2006, the recent two year period has seen  
 5 relatively flat consumption from year to year. The forecast is 160,422 Ccf for FTY  
 6 2013/14 and subsequent years.

<b>GOWC Forecast</b>					
<b>Year &gt;&gt;&gt;&gt;&gt;&gt;&gt;</b>	<b>Forecast FY</b>	<b>Forecast FY</b>	<b>Test Year</b>	<b>Test Year</b>	<b>Test Year</b>
<b>Use Per Class (CCF/Year)</b>	<b><u>2011/2012</u></b>	<b><u>2012/2013</u></b>	<b><u>2013/2014</u></b>	<b><u>2014/2015</u></b>	<b><u>2015/2016</u></b>
Schools	160,422	160,422	160,422	160,422	160,422

8  
 9  
 10                  DRA accepts GOWC’s estimated water sales forecast of 160,422 Ccf for the FTY  
 11 2013/14, and the subsequent years, as it is consistent with the sales forecast requirements  
 12 of D.04-06-018.

13                   **7)     Water Sales for Private Landscaping**

14                  For its forecast for sales to the Private Landscaping class, GOWC calculated the  
 15 average total consumption over the most recent two year period for this class of  
 16 customers. After significant declines in consumption since 2006, the recent two year  
 17 period has seen relatively flat consumption from year to year. The forecast is 253,057  
 18 Ccf for FTY 2013/14 and for subsequent years.

<b>GOWC Forecast</b>					
<b>Year &gt;&gt;&gt;&gt;&gt;&gt;&gt;</b>	<b>Forecast FY</b>	<b>Forecast FY</b>	<b>Test Year</b>	<b>Test Year</b>	<b>Test Year</b>
<b>Use Per Class (CCF/Year)</b>	<b><u>2011/2012</u></b>	<b><u>2012/2013</u></b>	<b><u>2013/2014</u></b>	<b><u>2014/2015</u></b>	<b><u>2015/2016</u></b>
Private Landscape	253,057	253,057	253,057	253,057	253,057

19  
 20  
 21                  DRA accepts GOWC’s estimated water sales forecast of 253,057 Ccf for the FTY  
 22 2013/14, and for the subsequent years, as it is consistent with the sales forecast  
 23 requirements of D.04-06-018.

1                   **8)     Water Sales for Agricultural Customers**

2                   GOWC’s last Agricultural customer went out of business in 2011. There are  
3 currently no Agricultural customers in the system. GOWC is forecasting no sales to  
4 Agricultural customers during this GRC cycle. DRA accepts GOWC’s forecast.

5                   **9)     Methodology Used for Total Water Consumption  
6                   and Supply**

7                   Total consumption of water is the sum of metered sales and unaccounted for  
8 water. The total consumption and supply are shown in DRA’s Results of Operations  
9 Report Table D-1. GOWC used the New Committee Method to forecast customer  
10 demand for Residential, Multi-family, and Business classes. For other classes of service  
11 (Industrial, Public Authority, Schools, and Private Landscaping), GOWC used either a  
12 two or three year average of recorded consumption to forecast sales for the Fiscal Test  
13 Year and the subsequent years. DRA agreed with GOWC’s forecasts *for the Test Year*,  
14 Residential forecast *for FY 2014/2015 and FY 2015/2016*.

15                   As discussed briefly above, DRA disagrees with GOWC’s *forecast for Residential*  
16 *customer’s usage after the Test Year*. GOWC’s sales forecast is inconsistent with  
17 *D.07-05-062, DRA’s forecast should be adopted for FY 2014-2105 and FY2015-2106*.

18                   **10)    Operating Revenues**

19                   GOWC’s present revenues for water sales are based on current rates as follows:  
20 “General Metered Service” (Schedule No. 1), “Irrigation Service” (Schedule No. 3M),  
21 “Private Fire Protection Service” (Schedule No. 4), and “Contract Resale Service”  
22 (Schedule No. 6), effective July 1, 2012 by Advice Letter No. 226. DRA’s Results of  
23 Operations Report Table B-1 shows GOWC’s operating revenues and DRA’s  
24 recommended revenues based on present rates. DRA’s Results of Operations Report  
25 Table B-2 shows DRA’s and GOWC’s operating revenues at GOWC’s proposed rates.  
26 DRA recommends FTY 2013/2014 revenues of \$14,360,300. This is 7.56% less than  
27 GOWC’s requested FTY revenues of \$15,446,642.

1                   **11) Unaccounted For Water**

2                   GOWC’s estimate of Unaccounted for Water is 7.00%. This differs from the  
3 recorded 5-year average of 4.25% and the last adopted rate of 4.04%. DRA recommends  
4 adopting the recorded 5-year average of 4.25% as the estimate for unaccounted for water  
5 in this GRC period.

6                   **12) Rate Design: WRAM/MCBA Request**

7                   GOWC currently has a Monterey-style WRAM that tracks the difference between  
8 revenue GOWC receives based upon conservation rates charged to single-family  
9 residential customers and the revenue GOWC would have received if those same  
10 customers had been charged at the uniform general metered service quantity charges. A  
11 Monterey-style WRAM does not decouple sales from revenues.

12                  In this GRC, GOWC is asking the Commission to “establish a revenue-decoupling  
13 water revenue adjustment mechanism and memorandum cost balancing account.”  
14 GOWC further describes its proposal as a “combination of revenue-decoupling WRAM  
15 and MCBA accounts so that if sales volumes are below the adopted level, the WRAM  
16 will adjust sales and revenues to the adopted level and the MCBA will do the same for  
17 volume-related expenses....”<sup>6</sup>

18                  In D.10-11-034, the Commission decided not to authorize a revenue-decoupling  
19 WRAM. As GOWC notes, the Commission based its decision in part on the fact that  
20 “Great Oaks has not provided evidence of additional conservation measures its customers  
21 are making that would support consideration of a full WRAM mechanism.”<sup>7</sup>

22                  GOWC has not provided testimony identifying conservation measures that would  
23 warrant a WRAM in this proceeding. Furthermore, it has not provided evidence of  
24 modifications to its billing system, as discussed in D.10-11-034 that would support  
25 improved conservation rate design. Additionally, the Commission has expressed its  
26 concern over substantial under-collections in WRAM/MCBA Pilot programs that have

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<sup>6</sup> GOWC’s Application, Chapter 6, p.4

<sup>7</sup> D10-11-034, pp.57-62

1 occurred in recent years for other Class A water utilities. In particular, while the  
2 WRAM/MCBA has contributed to a reduction in customer water usage, it has also  
3 contributed to high under-collections, and increased surcharge to ratepayers. No doubt  
4 rate deign, the economy, weather and other factors probably all contributed to under-  
5 collections. DRA recommends that until a thorough investigation of WRAM/MCBA  
6 mechanism is conducted, GOWC's request for a full decoupling WRAM/MCBA should  
7 be denied in order to prevent GOWC customers from being impacted by WRAM/MCBA  
8 unresolved issues.

#### 9 **D. CONCLUSION**

10 Upon investigating and analyzing GOWC's requests for the number of customers,  
11 water consumption and revenues, DRA disagrees with GOWC's estimates for the  
12 consumption per customer for Residential Customers *in FY 2014/2015 and FY*  
13 *2015/2016*. DRA also disagrees with GOWC's Unaccounted For Water estimate. DRA  
14 recommends the Commission adopt DRA's estimates related to sales and revenues and  
15 deny GOWC's request for a WRAM/MCBA.

TABLE C-1				
GREAT OAKS WATER COMPANY				
AVERAGE SERVICES				
2013/2014				
ITEM	DRA Estimates	GOWC Estimates	GOWC Exceed DRA Amount	%
Metered Service:				
Single Family Residential	19,239	19,239	0	0%
Multi-Family Residential	502	502	0	0%
Business	286	286	0	0%
Industrial	45	45	0	0%
Public Authorities	157	157	0	0%
Schools	34	34	0	0%
Private Landscaping	173	173	0	0%
Agricultural			0	
Total, General Metered Water Services	20,436	20,436	0	0%
Private Fire Protection Service	292	292	0	0%
Total Average Services	20,728	20,728	0	0%

1  
2  
3

<b>(Revised) TABLE D-1</b>				
<b>GREAT OAKS WATER COMPANY</b>				
<b>Average consumption per customer (CCF)</b>				
<b>2013/2014</b>				
	<b>DRA</b>	<b>Utility</b>	<b>GOWC Exceed DRA</b>	
<b>Item</b>	<b>Analysis</b>	<b>Estimated</b>	<b>Amount</b>	<b>%</b>
Avg. Gen. Metered Ser. Water Usage:				
Single Family Residential	156	156	0	0%
Multi Family Residential	1,579	1,579	0	0%
Business	1,211	1,211	0	0%
Industrial	2,172	2,172	0	0%
Public Authorities	940	940	0	0%
Schools	4,753	4,753	0	0%
Private Landscaping	1,463	1,463	0	0%
Agricultural	0	0	0	0%
Private Fire Protection Service (Flat Rate Service)	0	0	0	0%

1  
2

**(Revised) TABLE B-1**  
**GREAT OAKS WATER COMPANY**  
**OPERATING REVENUES**  
**Test Year 2013/2014**  
**(at Present Rates)**

Item	DRA	GOWC	GOWC Exceeds DRA	
	Estimates	Estimates	Amount	%
(Dollars in Thousands)				
<b>Metered Water Service Revenues:</b>				
<b>Consumption:</b>				
Residential	\$ 6,652	\$ 6,652	\$ -	0%
Multi-Family Residential	1,636	1,636	0	0%
Business	666	666	0	0%
Industrial	221	221	0	0%
Private Authority	340	340	0	0%
Schools	432	432	0	0%
Private Landscape	613	613	0	0%
Agricultural	18	18	0	0%
Meter Charges	2,871	2,871	0	0%
<b>Total Metered Service Revenues</b>	<b>13,449</b>	<b>13,449</b>	<b>0</b>	<b>0%</b>
Private Fire Protection Services	67	67	0	0%
<b>Other Revenues:</b>				
Misc Revenues	0	0	0	0%
<b>Total Operating Rev.</b>	<b>\$ 13,516</b>	<b>\$ 13,516</b>	<b>0</b>	<b>0%</b>

1  
2  
3

**(Revised) TABLE B-2**

GREAT OAKS WATER COMPANY				
OPERATING REVENUES				
Test Year 2013/2014				
(at Proposed Rates)				
Item	DRA	GOWC	GOWC Exceeds DRA	
	Estimates	Estimates	Amount	%
(Dollars in Thousands)				
Metered Water Service Revenues:				
Consumption:				
Residential	\$ 6,958	\$ 7,275	\$ 317	4.6%
Multi-Family Residential	1,838	1,922	84	4.6%
Business	803	840	37	4.6%
Industrial	227	237	10	4.6%
Private Authority	341	357	16	4.6%
Schools	372	389	17	4.5%
Private Landscape	587	614	27	4.5%
Agricultural	0.00	0.00	0.00	0.0%
Meter Charges	3,165	3,743	579	18.3%
Total Metered Service Revenues	14,292	15,378	1,086	7.6%
Private Fire Protection Services	69	69	0.00	0%
Other Revenues:				
Credit Charge Fees	0	0	-	0%
Misc Revenues	0	0	-	0%
Total Operating Rev.	\$ 14,361	\$ 15,447	\$ 1,086	7.56%

1

1                                   **3. OPERATIONS & MAINTENANCE**

2           **A. SUMMARY OF RECOMMENDATIONS**

3           DRA has reviewed GOWC’s application and conducted analyses to ascertain the  
4 reasonableness of GOWC’s requested dollar amounts for Operations and Maintenance.  
5 DRA has determined that GOWC’s requested dollar amounts are reasonable.

6           **B. DISCUSSION**

7           DRA analyzed GOWC’s reports, supporting work papers, responses to data  
8 requests, other information provided in meetings, phone conversations and emails, and  
9 GOWC’s methods of estimating O&M expenses, before making its recommendations.  
10 This section does not include an analysis of GOWC’s Labor Expenses. DRA’s  
11 recommendations on Labor Expenses are discussed in Chapter-4. DRA appreciates the  
12 timely cooperation of GOWC’s staff in responding to oral and written data requests and  
13 emails.

14                               **1) Groundwater Charges, Account 700**

15           In account 700, Groundwater Charges, GOWC is requesting \$6,557,840 in its Test  
16 Year 2013-2014. Account 700 includes the cost of materials used and expenses incurred  
17 in the maintenance of groundwater. DRA takes no issue with GOWC’s requested  
18 \$6,557,840.

19           As indicated in DRA’s Executive Summary, GOWC prevailed in its lawsuit  
20 against Southern California Water Department concerning excessive groundwater  
21 extraction or “pump tax.” The Commission learned that Great Oaks had been  
22 withholding monthly payments to the Santa Clara Valley Water District (SCVWD) of  
23 ratepayer provided pump tax funds since April 2009. As a result of GOWC withholding  
24 ratepayer dollars to the water district they were audited by DWA, and ordered by the  
25 Commission to pay what it originally owed to SCVWD. The pump tax charge represents

1 approximately 38% of the average customer bill as is treated for ratemaking purposes as a  
2 direct pass through expense; GOWC had withheld \$5,000,000 as of March, 2010.<sup>8</sup>

3 Great Oaks stated that it took this action as a litigation strategy related to the  
4 original lawsuit, as well as subsequent lawsuits it has filed against the SCVWD over the  
5 legality of the pump tax. To date the court has ruled in Great Oaks favor and found the  
6 ground water expenses charge to GOWC to be illegal. The court has ordered SCVWD to  
7 refund the payment to GOWC, and in response SCVWD has appealed the court's  
8 decision. GOWC is now current on its payments to SCVWD. DRA is of the opinion  
9 that at some point in time the courts will ultimately rule in regards to GOWC's  
10 subsequent lawsuits against SCVWD and SCVWD's appeal of the ruling to reimburse  
11 GOWC's pump tax payments. DRA does not take issue with GOWC continuing to  
12 pursuing its legal battle regarding SCVWD's pump tax, as long as ratepayers are  
13 reimbursed, if GOWC prevails in its lawsuit.

14 DRA has reviewed the company work-papers and conducted a trending analysis of  
15 the company's work papers. DRA finds GOWC's request for pump tax expense to be  
16 reasonable.

17 **2) Maintenance of Wells, Account 711**

18 This account includes the cost of materials used and expenses incurred in the  
19 maintenance of wells and springs.<sup>9</sup> DRA takes no issue with GOWC requested \$17,920  
20 in its Test Year 2013-2014, because the company's request represents a modest 2.26%  
21 increase in expenditures in comparison to the base year.

22 **3) Purchased Power, Account 726**

23 In Account 726, Purchased Power, GOWC is requesting \$780,394 in its Test  
24 Year 2013-2014. Account 726 includes the cost of fuel or power used directly in the

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<sup>8</sup> D.11-10-034, p.3

<sup>9</sup> Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 98.

1 operation of pumps.<sup>10</sup> GOWC's request for this account to be reasonable because  
2 the company's GOWC's request represents a 14.23% increase over the base year,  
3 however, this increase is offset by a -3.47% decrease in Test Year 2014-2015, and a -  
4 decreases -0.92% in 2015-2016. Hence, DRA finds GOWC's request for its  
5 purchased power account to be reasonable.

6 **4) Chemical Expenses, Account 744**

7 In account 744, Chemical Expenses, GOWC is requesting \$54 dollars in its Test  
8 Year 2013-2014. Account 744 consists of the cost of all chemicals and filtering materials  
9 used in the treatment of water.<sup>11</sup> It also includes the entire cost of any chemicals  
10 manufactured by the utility.

11 **5) Transmission & Distribution, Account 753**

12 In account 753, Transmission and Distribution, GOWC is requesting \$836 in its  
13 Test Year 2013-2014. Account 753 consists of the cost of labor and of materials used  
14 and expenses incurred in the operation of transmission and distribution mains, fire mains,  
15 services and hydrants.<sup>12</sup> In this case, labor expenses have been excluded. DRA finds the  
16 company's request for this account to be reasonable.

17 **6) Meter Expense, Account 754**

18 In account 754, Meter Expense, GOWC is requesting \$1,553 in its Test Year  
19 2013-2014. Account 754 consists of the materials used and expenses incurred in the  
20 operation of customer meters and associated equipment.<sup>13</sup> In this case labor expenses  
21 have been excluded. DRA finds the company's request for this account to be reasonable.

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<sup>10</sup> Id. at p. 102.

<sup>11</sup> Id. at p. 105.

<sup>12</sup> Id. at p. 108.

<sup>13</sup> Id. at p. 108.

1                   **7) Maintenance of Transmission & Distribution**  
2                   **Mains, Account 761**

3                   In account 761, Maintenance of Transmission and Distribution Mains, GOWC is  
4 requesting \$36,709 in its Test Year 2013-2014. Account 761 consists of the materials  
5 used and expenses incurred in the maintenance of mains.<sup>14</sup> In this case, labor has been  
6 excluded. DRA finds GOWC's request for this account to be reasonable because it  
7 represents a modest 2.26% increase over the company's base year expenditures for this  
8 account.

9                   **8) Maintenance of Services, Account 763**

10                  In account 763, Maintenance of Services, GOWC is requesting \$36,176 in its Test  
11 Year 2013-2014. Account 763 consists of the costs of materials used and expenses  
12 incurred in the maintenance of services, the book cost of which is includible in Account  
13 345, Services, and of similar property leased from others.<sup>15</sup> DRA finds the company  
14 request for this account to be reasonable.

15                  **9) Maintenance of Meters, Account 764**

16                  In account 764, Maintenance of Meters, GOWC is requesting \$7,939 in its Test  
17 Year 2013-2014. Account 764 includes the cost of labor and of materials used and  
18 expenses incurred in the maintenance of meters and associated equipment.<sup>16</sup> DRA finds  
19 the company's request for this account to be reasonable.

20                  **10) Maintenance of Hydrants, Account 765**

21                  In account 765, Maintenance of Hydrants, GOWC is requesting \$17,827 in Test  
22 Year 2013-2014. Account 765 includes the cost of labor and of materials used and  
23 expenses incurred in the maintenance of fire hydrants and associated equipment, book

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<sup>14</sup> Id. at p. 111.

<sup>15</sup> Id. at p. 111.

<sup>16</sup> Id. at p. 112.

1 cost of which is includible in Account 348, Hydrants, and of similar property leased from  
2 others.<sup>17</sup> DRA finds the company's request for this account to be reasonable.

3 **11) Customer Records and Collection Expenses,**  
4 **Account 773**

5 In account 773, Customer Records and Collection Expenses, GOWC is requesting  
6 \$143,784 in its Test Year 2013 – 2014. Account 773 includes the cost of labor and of  
7 materials used and expenses incurred in work on customer applications, contracts, orders,  
8 credit investigations, billing and account, collections and complaints.<sup>18</sup> DRA finds  
9 GOWC's request for this account to be reasonable because the company's request  
10 represents an increase of 2.26%, or \$3,178 over its base year expenditures for this  
11 account.

12 **12) Uncollectible Accounts, Account 775**

13 In account 775, Uncollectible Account, GOWC is requesting \$43,273 in its Test  
14 Year 2013 – 2014. DRA finds GOWC's request for this account to be reasonable  
15 because GOWC's level of expenditures has decreased by -0.40% in comparison to the  
16 company's base year expenditures for this account; in addition, GOWC's customer base  
17 has increased by 1.67% during the base year.<sup>19</sup>

18 **13) Maintenance of General Plant, 805**

19 In account 805, Maintenance of General Plant, GOWC is requesting \$35,298 in  
20 Test Year 2013 – 2014. Account 805 includes the cost assignable to customer's  
21 accounts, sales, administrative and general functions of labor and materials used, and  
22 expenses incurred in the maintenance of property.<sup>20</sup> DRA finds GOWC's request for this  
23 account to be reasonable because the company's request represents a modest 2.26%, or  
24 \$781 increase, over its base year expenditures.

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<sup>17</sup> Id. at p. 112.

<sup>18</sup> Id. at p. 114.

<sup>19</sup> Id. at p. 115.

<sup>20</sup> Id. at p. 123.



1 **4. ADMINISTRATIVE & GENERAL EXPENSES, PAYROLL AND**  
2 **PAYROLL TAXES**

3 **A. INTRODUCTION**

4 This chapter sets forth DRA’s analysis and recommendations for GOWC’s  
5 Administrative and General Expenses (“A&G”) and Expensed labor.

6 DRA analyzed GOWC’s reports, supporting work papers, responses to data  
7 requests, information provided in meetings, phone conversations and emails. DRA also  
8 researched other water utility practices and participated in a field visit (9/6/12-9/7/12)  
9 before making its recommendations.

10 **SUMMARY OF TEST YEAR 2013/2014 RECOMMENDATIONS**

11

	<b>DRA</b>	<b>Great Oaks</b>	<b>Last Authorized<sup>21</sup></b>
12 <b>A&amp;G</b>	<b>\$2,325,950</b>	<b>\$3,210,688</b>	<b>\$1,498,964</b>
13 <b>Expensed labor<sup>22</sup></b>	<b>\$ 1,791,132</b>	<b>\$1,821,458</b>	<b>\$1,663,937</b>

14  
15  
16

17 Increases in pension/ benefits and outside services represent the largest increases  
18 to GOWC’s proposed A&G expenses. DRA’s estimate is \$858,288 less than the  
19 company’s A&G numbers due to differences in how the pension/benefits projections are  
20 treated and the franchise requirements.

21 DRA’s numbers for expensed labor are \$30,326 lower due to using updated  
22 escalation factors.

23 **B. DISCUSSION**

24 In this GRC, GOWC is requesting \$3.2 million for A&G expenses. For  
25 comparison, GOWC requested \$1,862,400 in its last GRC and was authorized \$1,459,013  
26 for 2011/2012 A&G expenses. GOWC’s request is over 114% higher than the level  
27 authorized in its last GRC. The \$1,498,964 amount shown in bold above includes the  
28 inflation amounts granted for Escalation Year 2012/2013.

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<sup>21</sup> This amount represents the Commission authorized amount in escalation year 2012/2013 (via AL 226)

<sup>22</sup> Salaries are split into capitalized (10.6%) and expensed (89.4%)

1           The proposed test year amounts show a dramatic increase in five accounts as  
2 follows:

3 Account	Auth 2012	TY request	% increase
4 792 - Office Expenses	47,899	48,981	2.3%
5 793 – Insurance	80,662	91,061	12.9%
6 794 - Injuries & Damages	52,232	62,538	19.7%
7 795 - Emp. Pension & Ben	430,915	1,901,431	341.3%
8 796 - Franchise Req.	270,325	308,933	14.3%
9 797 - Reg. Comm. Exp.	27,613	28,237	2.3%
10 798 - Outside Services	209,136	380,842 <sup>23</sup>	82.1%
11 799 - Misc. Gen. Exp.	53,953	55,172	2.3%
12 800 - Outside GRC Exp.	26,567	27,167	2.3%
13 805 - Maint. Gen. Plant	34,517	35,298	2.3%
14 811 – Rents	184,238	188,291	2.3%
15 903 - Transp. Exp	80,907	82,736	2.3%
16 Total A&G Expenses	1,498,964	3,210,688	114.2%

17  
18  
19           The seven accounts with the 2.3% proposed increases noted beside them are based  
20 upon a reasonable methodology that includes escalation factors (between 2.2 and  
21 2.26%<sup>24</sup>) applied to the last authorized amounts. DRA recommends that the seven  
22 accounts be revised to reflect the most current inflation factors when the updated  
23 numbers are presented in the comparative exhibits for the Administrative Law Judge in  
24 this proceeding.

25           The five A&G accounts with greater than 10% increases are discussed in greater  
26 detail in the following section:

27

---

<sup>23</sup> \$308,933 represents the franchise amounts in the original application; \$317,749 represents the franchise requirement update when we created our RO comparison.

<sup>24</sup> See WP-37 summary of earnings table, escalation rate column

1           **Account 793 - Insurance**

2	Last Authorized	TY request	5 year average	ECOS increase estimate
3	80,662	91,061	61,128	82,033

4  
5           According to the summary of earnings table on workpaper WP-37, GOWC used a  
6 2.2% escalation rate applied to the last authorized amount for this account. The latest  
7 CPI-U suggests a factor closer to 1.7%. The appropriate factor will be applied when all  
8 updates are considered.

9           In addition to the application of escalation factors, GOWC modified the base  
10 amount for insurance twice: first, to reflect the additional auto insurance for the two new  
11 proposed field employees; and second, to reflect a 10% increase (\$8000)<sup>25</sup> in insurance  
12 costs. GOWC utilized a conservative estimate<sup>26</sup> from the insurance agent for its annual  
13 increase amounts. Based on DRA’s review of this information, we find that GOWC’s  
14 FTY estimate for insurance is reasonable and should be adopted. These test year  
15 estimates are reasonable.

16  
17           **Account 794 - Injuries & Damages**

18	Last Authorized	TY request	5 year average	ECOS increase estimate
19	52,232	62,538	33,919	53,240

20  
21           According to the summary of earnings table on workpaper WP-37, GOWC used a  
22 2.26% escalation rate applied to the last authorized amount for this account. The  
23 underlying spreadsheet (WP-6) shows this factor plus the addition of an amount assumed  
24 for worker’s compensation for four new employees. While the most current DRA Energy  
25 Cost of Service Branch (ECOS) Memo would suggest a factor closer to 1.93% (not the  
26 2.26%), DRA accepts GOWC’s methodology for estimating these expenses. DRA and  
27 GOWC should stipulate to a revised factor when the updates are allowed. DRA finds that  
28 the worker’s compensation adder in the amount of \$2,281 per each of the four new

---

<sup>25</sup> See cell I9 in A&G expense tab of the workpapers

<sup>26</sup> See Sept 27, 2012 email from Ron Ceolla regarding insurance agent projections

1 employees is reasonable and reflects a historical amount per employee that has been  
2 incurred by the company.

3

4 **Account 795 – Employee Pensions & Benefits**

5 Last Authorized	TY request	5 year average	ECOS increase estimate
6 430,915	1,901,431	368,449	437,378

7

8 GOWC’s list of company provided benefits includes the following: paid  
9 bereavement leave, holidays, vacation, sick, dental, medical, vision, paid water service,  
10 life insurance, accidental death and dismemberment insurance (“ADD”), pensions, and a  
11 health savings account (“HAS”).

12 According to the summary of earnings table on workpaper WP-37, GOWC used a  
13 2.26% escalation rate applied to the last authorized amount for this account. Supporting  
14 workpaper WP-6a includes the general use of a 2.26% escalation factor with a few  
15 exceptions. The items with unique escalation rates are medical insurance (with a 12%  
16 increase), dental, ADD, life insurance (with a 5% increase), and the HSA contributions  
17 (with a 1.633% increase)

18 The medical escalation factors were taken from estimates given by an insurance  
19 broker<sup>27</sup> and substantiate the forecasted increases in premiums. The dental amounts were  
20 developed using the 5.37% recorded increases from 2011 to 2012. Therefore, the  
21 projected medical and dental costs are the best available estimates.

22 The most significant increase to Account 795 is GOWC’s proposed revision to its  
23 pension plan. It is worth noting that GOWC has a noncontributory defined benefit  
24 pension plan covering all of its employees with one or more years of service. GOWC  
25 funds its plan in accordance with the Employee Retirement Income Security Act of 1974,  
26 the Pension Protection Act of 2006, and the Internal Revenue Code of 1986.<sup>28</sup> The plan’s

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<sup>27</sup> See Exhibit 5-1 for the medical escalation.

<sup>28</sup> Taken from the Great Oaks Water Company Notes to Consolidated Financial Statements.

1 investments are held by a bank administered trust fund and guided by the following  
2 allocation: 50% bonds, 30% balanced and 20% equity funds.

3 DRA points out that the most significant line item in the A&G expense category is  
4 GOWC's projected pension contribution of \$1.589 million in FTY 2013/2014.<sup>29</sup>  
5 Subsequent years have proposed contributions of \$965,000 and \$345,000. DRA has  
6 determined that the cost of the upgrade to the pension plan is greater than the allowable  
7 maximum employer contribution in a given year. Therefore, there is a carryover amount  
8 in the subsequent year. In other words, the \$965,000 amount in 2014/15 includes the  
9 remaining balance towards the conversion along with some baseline amount towards  
10 annual employer contribution. The last amount, \$345,000, generally represents the new  
11 baseline amount for the employer contribution for the revised pension program going  
12 forward.

13 DRA notes that while most companies are seeking ways to scale back pension  
14 expenses, GOWC is seeking to improve its program. It should be noted that GOWC does  
15 not offer supplemental pensions (SERP) for its executives, nor does it offer medical  
16 benefits after retirement. There is no 401K program, employee bonuses, stock purchase  
17 plan, long term disability insurance offerings, or employee matching program.  
18 Therefore, it cannot be easily compared to other water companies in terms of total  
19 compensation. GOWC primary explanation for the increase in pension benefits is the  
20 company's need to have competitive salaries and benefits to recruit good talent. When  
21 viewed against the offerings of CPUC regulated companies like California Water Service  
22 and San Jose Water Company in the same area, GOWC's proposal appears to be fairly  
23 modest.

24 For example, GOWC is seeking to allow an employee with 32 years of service to  
25 increase the percentage applied to the pension payout amount from 60.8% of maximum  
26 gross pay to 83.2%. Since these employees do not have medical coverage after  
27 retirement, this seems to be a reasonable proposal.

---

<sup>29</sup> See Employee benefits PUC FY tab of the spreadsheet workpaper (aka WP-6a column L)

1           Nevertheless, DRA is aware of the hardship this increase in pension benefits  
2 imposes upon ratepayers in the test year. DRA asserts that it would be more reasonable  
3 to smooth out the expense of the conversion with the use of a temporary memo account.  
4 While memo accounts can be overused, DRA thinks the use of one under these  
5 circumstances is proper.

6           DRA reviewed GOWC's actuarial proposal for the improvement in pension  
7 benefits and found the estimated future salary increase assumptions to be rather  
8 aggressive. As such, DRA asked for a revised calculation of the contribution  
9 requirements using a 3% salary growth assumption (instead of 5%) to generate new test  
10 year estimates. At the same time, the actuary updated the assumptions for the estimated  
11 returns on investments for retirees opting for lump sum payouts. The rates used in  
12 GOWC's proposed actuarial run were as follows: 1.57% (for expected lump sum  
13 distributions in the first 5 years); 4.35% (for distributions during the next 15 years); and  
14 5.18% (for distributions after 20 years). The updated returns on investments for lump  
15 sum payouts were as follows: 1.6%, 3.97%, and 4.93% respectively. DRA incorporated  
16 the updated returns in its analysis. The resultant estimates from the actuary<sup>30</sup> (with  
17 DRA's salary growth assumptions and the revised return estimates for lump sum payouts)  
18 are as follows:

19           Test year contribution = \$ 1,589,000  
20           (the same maximum allowed contribution in a year)  
21           Next year (TY+1) contribution = \$ 1,112,000  
22           Two years out (TY+2) contribution = \$ 333,000  
23

24           DRA realizes that these charges are still lumpy and would result in rate shock to  
25 ratepayers. DRA also understands that GOWC would need to make the appropriate  
26 contributions to meet regulatory requirements on funding levels. For example, there is a  
27 requirement that if the estimated funding level is less than 110% after a lump sum

---

<sup>30</sup> Email dated October 2, 2012 from Ron with actuarial output.

1 distribution to a retiree, then the former highly compensated employee/retiree is restricted  
2 to a monthly annuity payment until the employer can reach the 110% level.

3         Given that GOWC may have retirements within the next couple of years, it is  
4 reasonable to establish a contribution that would allow those potential retirees to elect a  
5 lump sum distribution. Therefore, the actuarial calculations are the best estimates of  
6 these financial responsibilities. DRA points out that the cash flow implications of any  
7 solution need to be considered. GOWC's compliance with the aforementioned rules and  
8 regulations would result in two years of large rate increases followed by a large rate  
9 decrease. Hence, DRA asserts that it is reasonable and necessary to mitigate these types  
10 of severe rate changes by spreading the cost over a longer period through the use of a  
11 temporary memorandum account.

12         A temporary memorandum account mechanism would allow for the increases in  
13 costs associated with improved pension benefits, while simultaneously defusing the effect  
14 on rates. This is done by stretching out the cost recovery of conversion costs over a  
15 longer period of time. Therefore, DRA proposes to reflect the following normalized  
16 amount for pension and benefits for ratemaking purposes, while supporting the request  
17 for a temporary memo account to capture the carrying costs and lag in recovery.

18  
19 Sum of 5 years = \$3,700,000 = (1,589,000+1,112,000+333,000+333,000+333,000)  
20 Annualized over 5 years = \$740,000= 3,700,000/5

21  
22 TY = \$ 740,000  
23 TY+1 = \$ 740,000  
24 TY+2 = \$ 740,000  
25 TY+3 = \$ 740,000  
26 TY+5 = \$ 740,000

27

28 **Account 796 - Franchise Requirements**

29 Last Authorized	TY request	5 year average	ECOS increase estimate
30 270,325	317,749	227,367	275,542

31

32         According to the summary of earnings table on workpaper WP-37, GOWC shows  
33 that a 2.0% escalation factor was applied to the estimated revenues. This multiplier is

1 consistent with the Commission’s decisions in GOWC’s last two GRCs. The increased  
2 dollar amounts (relative to historical) reflect increased revenues - not a change in the  
3 percentage applied. DRA accepts the methodology and applies the 2% escalation factor  
4 to its own revenue requirement. The difference between GOWC and DRA is \$8,816.<sup>31</sup>

5  
6 **Account 798 - Outside Services**

7 Last Authorized	TY request	5 year average	ECOS increase estimate
8 209,136	380,842	266,983	212,691

9  
10 According to the summary of earnings table on workpaper WP-37, GOWC shows  
11 that a 2.26% escalation rate was applied to the last authorized amount for this account.  
12 To this base amount, GOWC added amounts for additional cycles of water testing  
13 (\$66,980) and outside regulatory assistance (\$100,000). DRA does not take issue these  
14 additional items.

15 The amounts for water testing reflect the cost to perform unregulated contaminants  
16 (UCMR 3) testing in FTY 2013/2014. The amounts for the testing in subsequent years  
17 are \$7,880 and \$51,220.<sup>32</sup> The projected estimates for these requirements are reasonable.

18 The amounts for additional regulatory assistance reflect the retirement of a  
19 regulatory attorney. While some of the work (formerly performed by the attorney) will  
20 be completed by GOWC’s newly hired public utility regulatory analyst (“PURA”) and  
21 the General Counsel, GOWC seeks to gain the counsel and advice of experts with  
22 specialization in Commission’s processes. DRA also encourages the following use of  
23 experts: to assist in the preparation of regulatory filings including rate cases, to gain  
24 knowledge of water quality changes, to improve its understanding of the water  
25 conservation efforts and customer assistance programs taking place in the state. While  
26 DRA does not challenge the projected amounts in this GRC cycle, DRA will take a firm  
27 look at the base amounts in the next GRC.

---

<sup>31</sup> The revised franchise value is based upon information provided by GOWC for the comparative RO.

<sup>32</sup> See Exhibit D, Chapter 3, page 5, paragraph 26 on water quality testing.

1           Finally, DRA recommends that the formulas be corrected for post test year  
2 amounts. There was an accidental inclusion of \$100,000 in the formula for subsequent  
3 years when the amount had already been included in the test year base.

4           Therefore, DRA recommends the following amounts for GOWC's A&G, payroll  
5 and payroll taxes:

	<u>Test year</u>	<u>21014/15</u>	<u>2015/16</u>
6			
7			
8 DRA	380,842	329,463	380,393
9 GOWC	380,842	429,463	582,753
10			
11			
12			

**SUMMARY of TEST YEAR A&G Proposals**

Account	DRA	GOWC	Comment
792 - Office Exp.	48,981	48,981	
793 – Insurance	91,061	91,061	
794 - Injuries & Damages	62,538	62,538	
795 - Emp. P & B assumption	1,901,431	smooth; diff	<i>\$1, 052,000</i>
796 - Franchise Req.	308,933	317,749	diff revenue requirement
797 - Reg. Comm. Exp.	28,237	28,237	
798 - Outside Services	380,842	380,842	
799 - Misc. Gen. Exp.	55,172	55,172	
800 - Outside GRC Exp.	27,167	27,167	
805 - Maint. Gen. Plant	35,298	35,298	
811 – Rents	188,291	188,291	
903 - Transp. Exp	<u>82,736</u>	<u>82,736</u>	
Total A&G Expenses	<b>3,175,390<sup>33</sup></b>		
	<b>2,325,950</b>		

---

<sup>33</sup> Per RO table data provided by GOWC on October 25, 2012

1 Payroll and Expensed Labor

2 Expensed labor is the non-capitalized portion of total payroll. Therefore, it is  
 3 important to by discussing total payroll.

4 Below is the summary of GOWC’s total payroll request in comparison to its most  
 5 recent escalation filing. It is broken down into three segments: (1) General Office staff  
 6 (which currently includes customer service staff); (2) field staff (which operates and  
 7 maintains the system); and (3) the management team.

	<b>CPUC</b>	<b>GOWC</b>		
	<b><u>auth 2012</u></b>	<b><u>TY request</u></b>	<b><u>% increase</u></b>	<b><u>comment</u></b>
10 General Office	281,314	460,034	63%	2 more staff
11 Field Service	837,494	846,214	1%	1 retire, 2new staff
12 Management	870,055	731,177	(16%)	1 retire
13 TOTAL Payroll	<b>1,988,862</b>	<b>2,037,426</b>	<b>2%</b>	
14 # staff	19	21		net plus two

15  
 16 As shown in the chart immediately above, GOWC is seeking four new positions  
 17 and relinquishing two higher level positions in this GRC application. Under normal  
 18 conditions, a 1.5% increase would be expected.<sup>34</sup> This 1.5% is the average of forecasted  
 19 inflation rates of labor for the Test Year 2013/14 time frame

20 When the payroll request is viewed in light of the five year average recorded  
 21 amounts for payroll, additional discussion is needed.

	<b>GOWC</b>	<b>Recorded</b>	
	<b><u>TY request</u></b>	<b><u>5 year average</u></b>	<b><u>% increase</u></b>
25 TOTAL payroll	2,037,426	1,779, 470	14.5%

26  
 27 In the 2012/13 time frame, two of GOW’s experienced employees retired from the  
 28 company. As a result, GOWC proposes to hire four new entry-level persons in and also  
 29 add new responsibilities to some of its more senior employees.

---

<sup>34</sup> Certain escalation factors set forth in DRA Energy Cost of Service Branch (“ECOS”) Memos are authorized for use in GRC applications. Sources like Global Insight and CPI-U are utilized in the development of these memos. See RCP, D.04-06-018, p. 13 for approved escalation rates.

1 As a result of GOWC's proposed changes in staffing and shifts in responsibilities,  
2 the company generally used a 3.1% inflation factor<sup>35</sup> to project the test year salaries.  
3 Exceptions were made for the new positions (which had hard wired salaries<sup>36</sup>), the CFO  
4 (who has higher academic degrees than any previous CFO), and the Director of  
5 Construction (who will be given added GIS responsibilities in the test year).

6 Because the RCP dictates the use of the labor inflation memos to project payroll,  
7 DRA reviewed historic labor inflation rates.

8 ECOS memos for Wage escalation<sup>37</sup> as follows:  
9

	<u>Year</u>	<u>Escalation</u>
10		
11	2006	3.5-3.75%
12	2007	3.5-3.75%
13	2008	3.75-4%
14	2009	3.5-3.75%
15	2010	(0.3)%
16	2011	1.6%
17	2012	3.1%
18	2013	1.7%
19	2014	1.3%
20		

21 Therefore, GOWC's use of a 3.1% labor escalation factor makes some sense for  
22 the 2012/2013 escalation advice letter filing AL-226. However, it is less clear why 3.1%  
23 labor escalation factor makes sense for GOWC's FTY 2013/14. The most current wage  
24 escalation memos are indicating a payroll escalation of less than 3.1% for the fiscal  
25

---

<sup>35</sup> GOWC used the same 3.1% inflation factor for its projected 21013/14 test year salaries as it did in AL-226 to project 2012/2013 numbers; see workpaper WP-9 column I.

<sup>36</sup> The salaries of the four new positions were seemingly related to the splitting of the salaries of the 2 retired personnel. It appears that the salary previously drawn by the retired VP of Operations and Construction has been split into two to fund the two entry level field personnel positions. Similarly, the salary previously drawn by the retired Regulatory Attorney has been divided to fund the two proposed General Office positions of Regulatory Specialist and Billing Analyst.

<sup>37</sup> Source: ECOS Memo for non-labor and wage escalation rates, July 31, 2012, Table B.

1 estimation year 2013/14 under normal conditions.<sup>38</sup>

2 Although GOWC’s workpaper WP-37 describes the labor inflation rate as 2.2% in  
3 cell E62, it cannot be traced to the underlying employees and salaries worksheet. The  
4 supporting worksheet uses the prior year’s 3.1% factor. Plugging in a 2.2% labor  
5 inflation rate in the employee and salary worksheet (WP-9) would result in an expensed  
6 labor amount of \$1,807,338 (cell I36 in WP-7).

7 DRA’s payroll projection includes the use of a 1.5% factor (i.e. the weighting of  
8 2013 and 2014 inflation factors) for each of the salaries that include an escalation  
9 provision. The proposed hard wired salary amounts for the new hires and the Director of  
10 Construction remain the same.

11 DRA recommends total payroll amounts as follows:

	<b>DRA</b>	<b>GOWC</b>	<b>\$ difference</b>
13			
14	<b>2,003,503</b>	<b>2,037,426</b>	33,923

15  
16  
17 **Splitting payroll into capital and expense**

18  
19 GOWC is proposing to capitalize 10.6% of the labor costs. DRA has determined  
20 that the five year average (2006/7- 2010/11) for capitalization is 12.9%. Moreover,  
21 GOWC’s 2010/2011 recorded capitalization rate for was 8%. Therefore, DRA finds that  
22 a percentage less than the five year average, such as GOWC’s proposed 10.6%, is  
23 reasonable.

24 DRA points out that, once the 10.6% of payroll is capitalized,<sup>39</sup> the remaining  
25 89.4% remains for expensed labor, as follows:  
26

---

<sup>38</sup> Note: ECOS also publishes a memo for projected escalation rates for compensation per hour. It is not obvious why there are *increases* in the 2013 and 2014 timeframe for compensation per hour, yet there are *decreases* for forecasted labor inflation.

<sup>39</sup> See Cell E14 in the Tab labeled “Plant in Service Add. Summary” of GOWC’s electronic workpapers.

1		Capitalized	Expensed
2		10.6%	89.4%
3			
4	<b>DRA</b>	<b>212,371</b>	<b>1,791,132</b>
5	GOWC	215,967	1,821,458
6			

7 The expensed portion of the payroll is the number set forth in GOWC’s summary  
8 of earnings table, denoted as WP-37,<sup>40</sup> in the company’s workpapers. DRA points out  
9 that the line labeled “Net Payroll Expense”. Please note that the capitalized portion of  
10 payroll is represented in rate base.

11 **C. PAYROLL TAXES**

12 Payroll taxes are part of the “taxes other than income” line in GOWC’s summary  
13 of earnings table Payroll taxes, along with property taxes, comprise these “taxes other  
14 than income.”

15 The dollar amount shown for GOWC’s “Taxes other than income” is \$279,127 for  
16 Test Year 2013/2014. This amount, when traced through the cells, did not include a link  
17 to the detailed supporting workpapers for payroll and property taxes. Instead the formula  
18 in cell C41 uses the prior year’s amount for these taxes and a 2.26% escalation factor.  
19 This was a holdover mistake from the last GRCGOWC inadvertently left the old linkage  
20 in. In response to a request from DRA, GOWC provided more accurate estimates for  
21 payroll and property taxes demonstrating a good faith effort by the company to improve  
22 their methodology.

23 Detailed payroll and property tax workpapers for the test year show the following:

24		<u>Payroll taxes<sup>41</sup></u>	<u>Property taxes<sup>42</sup></u>	<u>Total</u>
25	GOWC	141,299	188,233	372,731
26	DRA	138,587	177,505	316,092

<sup>40</sup> See Tab labeled “Test Year 2013 – 2104 Summary” in GOWC’s electronic workpapers.

<sup>41</sup> ER payroll taxes tab

<sup>42</sup> Property taxes Tab of workpaper

1 Differences between GOWC and DRA for payroll taxes are due to lower payroll  
2 projections, revised Federal unemployment taxes, and updated State unemployment  
3 insurance rates.

4 **Description**

5 The DRA’s calculation of payroll taxes is as follows:

6 Each employee’s salary has a factor associated with Social Security, Medicare,  
7 Federal Unemployment Tax (“FUTA”), and California Unemployment Insurance tax  
8 (“CAUIT”). Each factor is then applied to the appropriate salary amount up to the  
9 applicable salary maximums.

10 To demonstrate the differences between GOWC and DRA more clearly, DRA  
11 present the following chart comparing the factors used by GOWC in their Tab labeled  
12 “ER payroll taxes” (see Exhibit 8-18) and those used by DRA:

	<u>GOWC</u>	<u>DRA</u>
14 Social Security	6.2% <sup>43</sup>	6.2%
15 Medicare	1.45% <sup>44</sup>	1.45%
16 Fed Unemployment Tax rate	0.8% <sup>45</sup>	0.6%
17 Ca Unemployment Insurance rate	6.2% <sup>46</sup>	5.5%

18  
19 DRA concurs that the use of 6.2% and 1.45% are the best factors for use in test  
20 year for Social Security and Medicare obligations. These factors comply with those set  
21 forth in the IRS Publication 15 dated January 10, 2012. Furthermore, the social security  
22 wage base limit of \$110,100 represented in the workpapers is correct. Therefore, the  
23 only differences between GOWC and DRA for Social Security and Medicare are those

---

<sup>43</sup> Consistent with January 10, 2012 IRS pub 15, page 19.

<sup>44</sup> Consistent with January 10, 2012 IRS pub 15, page 19.

<sup>45</sup> Cannot map to IRS publication 15; IRS headliner Volume 317 December 7, 2011.

<sup>46</sup> The UI taxable wage limit for 2012 is \$7,000 per employee, per year. The UI rate schedule in effect for 2012 is Schedule "F+", which provides for UI contribution rates from 1.5% to 6.2% (CA EDD rates Withholding Schedules)

1 related to estimate payroll wages (see Chapter 5 for more discussion on these  
2 differences).

3 The two remaining calculations include different tax rate assumptions.

#### 4 **Federal Unemployment Tax (“FUTA”)**

5 IRS Publication 15 dated January 10, 2012, page 29, states as follows:

##### 6 **“Federal Unemployment (FUTA) Tax.**

7 For 2012, the FUTA tax rate is 6.0%. This tax applies to the  
8 first \$7,000 paid to each employee as wages during the year....

9 Generally, you can take a credit against your FUTA tax for  
10 amounts you paid into state unemployment funds. The credit  
11 may be as much as 5.4% of FUTA taxable wages. If you are  
12 entitled to the maximum 5.4% credit, the FUTA tax rate after  
13 credit is 0.6%.”

14 In GOWC’s explanation of the use of a 0.8% factor, the company reasoned that it  
15 used the factors it applied in 2011 to estimate the FTY 2013/14 FUTA obligations. In  
16 2011, GOWC included a 0.2% factor in its calculation to represent the repayment of  
17 loans to the federal government.<sup>47</sup>

18 DRA’s research into the repayment rate or credit reduction suggests a 0.3%  
19 adjustment for 2011,<sup>48</sup> which results in a 0.9% FUTA rate. Nevertheless, DRA notes that  
20 other water utilities have used a 0.8% FUTA rate for 2011. DRA did not pursue  
21 discovery on this issue because it is irrelevant to the test year projection. DRA also notes  
22 that e-mail communications with GOWC’s CFO suggest that the repayment adder would  
23 not carry over into 2012. This was not known at the time of GOWC’s filing, therefore, it  
24 makes sense that GOWC would use the more conservative assumption of including the  
25 adder for its projection purposes.

---

<sup>47</sup> October 1, 2012 email from Ron Ceolla.

<sup>48</sup> <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Employers-in-Credit-Reduction-States-Must-Adjust-Their-Unemployment-Tax-Liability-on-Their-2011-Form-940>

1 In order for DRA to have a more updated projection that includes revisions for the  
2 factors, DRA uses a 0.6% factor to represent the FUTA.

$$3 \quad 6\% \text{ FUTA rate} - 5.4\% \text{ credit} = 0.6\%$$

4 The 0.6% factor is applied to the \$7,000 wage amount required by IRS. This  
5 amounts to \$42 per employee.

### 6 7 **California Unemployment Insurance Rate (Ca UIT)**

8 The EDD website provides information for 2012 UI rates (see  
9 [http://www.edd.ca.gov/Payroll\\_Taxes/Rates\\_and\\_Withholding.htm#2012UIETTandSDI](http://www.edd.ca.gov/Payroll_Taxes/Rates_and_Withholding.htm#2012UIETTandSDI)  
10 [Rates](#)). An excerpt therefrom states as follows:

11 “2012 UI, ETT, and SDI Rates

12 The UI rate schedule in effect for 2012 is Schedule “F+.” This is Schedule F plus a  
13 15 percent emergency surcharge, rounded to the nearest tenth. Schedule “F+”  
14 provides for UI contribution rates from 1.5 percent to 6.2 percent...The taxable  
15 wage limit is \$7,000 per employee. For more information about how your UI rate  
16 is determined, see Information Sheet: California System of Experience Rating (DE  
17 231Z).”

18  
19 GOWC uses a 6.2% factor to calculate its projection. This same factor was used  
20 to project CA UIT obligations for 2010, 2011, 2013 and 2014.

21 Going to the information sheet link referenced above in the quote,<sup>49</sup> it shows a  
22 6.2% contribution rate for companies who have negative reserve ratios. This is one of the  
23 calculations required. Moreover, there is a multistep process for (1) determining which  
24 of the seven contribution rate schedules is in effect for the calendar year; (2) computing a  
25 reserve ratio determined by the ratio of your reserve account balance on July 31 to your

---

<sup>49</sup> [http://www.edd.ca.gov/pdf\\_pub\\_ctr/de231z.pdf](http://www.edd.ca.gov/pdf_pub_ctr/de231z.pdf)

1 average base payroll; and (3) locating a company's contribution rate from a rate schedule  
2 utilizing the calculations.

3 As a result of e-mail communications between DRA and GOWC's CFO, GOWC  
4 agreed to use a 5.5% contribution rate for test year projections. This is equal to 5.4%  
5 disability +0.1% employment rate.

6 Hence, DRA is satisfied that the revised rate assumption will be a more accurate  
7 reflection of test year obligations and uses it in GOWC's payroll tax calculations.

8 In summary, the differences in payroll taxes are as follows:

	DRA:	GOWC	Difference
9 Social Security	100,569	101,466	
10 Medicare	29,051	29,543	
11 FUTA	882	1,176	
12 CA UIT	8,085	9,114	
13 TOTAL	138,587	141,299 <sup>50</sup>	2,712

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<sup>50</sup>GOWC's Summary of Earnings Table has an erroneous number - \$279,127 improperly represents GOWC's estimate of taxes other than income.

<b>(Revised) TABLE F-1</b>				
<b>GREAT OAKS WATER COMPANY</b>				
<b>(2013/2014)</b>				
<b>OPERATION AND MAINTENANCE EXPENSES</b>				
Item	DRA	Utility	GOWC Exceeds DRA	
	Estimates	Estimates	Amount	%
	(Dollars in Thousands)			
<b>Payroll Expenses</b>				
Field Employees	\$ 836.20	\$ 846.20	\$ 10.00	1.2%
Office Employees	455.50	460.00	4.50	1.0%
Management	711.70	731.20	19.50	2.7%
Total Payroll	2,003.40	2,037.40	34.00	1.7%
Less Capitalized Payroll	(212.40)	(216.00)	(3.60)	1.7%
Net Payroll Expenses	1,791.00	1,821.40	30.40	1.7%
<b>A&amp;G Expenses:</b>				
Office Supplies & other exp, Acct 792	49.00	49.0	(0.02)	0.0%
Property Ins, Acct 793	91.10	91.1	(0.04)	0.0%
Injuries & Damages, Acct 794	62.50	62.5	0.04	0.1%
Employee Pensions & Benefits, Acct 795	1,052.00	1,901.4	849.43	80.7%
Franchise Requirements, Acct 796	308.90	308.9	0.00	0.0%
Rate Case Expenses, Acct 797	28.20	28.2	0.0	0.1%
Outside Services, Acct 798	380.80	380.8	0.0	0.0%
Misc. Gen Exp incl CWA Dues, Acct. 799	55.20	55.2	(0.0)	-0.1%
Account 800	27.20	27.2	-	0.0%
Rents, Acct 811	188.30	188.3	(0.0)	0.0%
Transportation Exp, Acct 903	82.70	82.7	0.0	0.0%
Total A&G Expense	2,325.90	3,175.4	849.49	36.5%
Total O&M and A&G Exp. Other than Payro	10,005.20	10,854.44	849.24	8.5%
Total Operating Expenses including Payrol	\$ 11,796.20	\$ 12,675.8	\$ 879.64	7.5%

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TABLE G-1				
GREAT OAKS WATER COMPANY				
TAXES OTHER THAN INCOME				
(2013/2014)				
Item	DRA Estimates	Utility Estimates	GOWC Exceeds DRA Amount	%
Ad Valorem Tax:	177.5	188.2	10.7	6%
City & County Taxes	0	0	0	0%
Payroll Taxes:				
FICA (Social Security)	100.6	101.5	0.9	1%
FICA (Medicare)	29.1	29.5	0.4	1%
FUTA	0.9	1.2	0.3	33%
SUI	8.1	9.1	1.0	12%
Total Payroll Taxes	138.6	141.3	2.7	2%
Total Taxes other than income	316.15	329.5	13.4	4%

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1 **5. INCOME TAXES**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analysis and recommendations of Income Taxes for  
4 GOWC for the Test Year 2013-2014. DRA’s and GOWC’s estimates of Taxes Other  
5 Than Income Taxes for Test Year 2013-2014 are included in Chapter 54.

6 **Table 5-A: Comparison of Income Tax Expenses Estimates**

7 **Fiscal Test Year (FTY) 2013-2014**

8 **(Revised)**

	<i>DRA</i>	<i>GOWC</i>	<i>GOWC Exceeds (Less Than) DRA</i>
	<i>\$ 000s</i>	<i>\$ 000s</i>	<i>\$ 000s</i>
<i>State</i>	<i>67.9</i>	<i>102.8</i>	<i>34.9</i>
<i>Federal</i>	<i>362.30</i>	<i>338.1</i>	<i>(24.2)</i>
<i>Total</i>	<i>430.2</i>	<i>440.9</i>	<i>10.1</i>

9  
10 **B. SUMMARY OF RECOMMENDATIONS**

11 In this Chapter, DRA describes the issues found with Great Oaks’ calculation of  
12 income taxes and how DRA has treated them, pending the resolution of various issues.<sup>51</sup>  
13 Generally, DRA has used Great Oaks’ income tax calculations as presented in GOWC’s  
14 Application, correcting for any identifiable errors. However, a few unresolved questions  
15 still remain, and are duly noted in this chapter. Upon resolving these issues, DRA will  
16 present final income taxes in a Comparison Exhibit, in which DRA and GOWC will  
17 submit the final calculations for each of our recommendations.

18 The differences between DRA and GOWC’s estimates are primarily due to  
19 differences in revenues, expenses, and rate base estimates. DRA and Great Oaks agree  
20 that the California Corporate Franchise Tax (“CCFT”) should be computed as a

<sup>51</sup> DRA qualifies the recommendations shown for Great Oaks’ income tax calculations, pending Great Oaks’ resolution of outstanding issues which DRA has requested GOWC to address in DRA’s Data Requests JJS-002 and JJS-003, subsequent phone conversations, and e-mails.

1 deduction for current year's deduction for Federal Income Tax ("FIT") purposes.  
2 Furthermore, DRA and Great Oaks applied the Domestic Production Activities  
3 Deduction ("DPAD") in determining the tax benefit associated with GOWC's ground  
4 water production.<sup>52</sup> DRA discusses the specific issues found with Great Oaks' income  
5 tax calculations and describes the additional data needed to finalize these calculations in  
6 the sections below. DRA's estimate for Total Income Tax Expenses for Fiscal Test Year  
7 (FTY) 2013/2014 is \$430,200<sup>53</sup>. GOWC's FTY 2013/2014 estimate is \$440,900.  
8 GOWC's estimate is greater than DRA's by \$10,700. DRA recommends that the  
9 Commission adopt DRA's Income Tax Expense estimates.

### 10 C. DISCUSSION

11 DRA conducted an independent analysis of GOWC's workpapers and methods of  
12 calculating Income Tax Expenses for FTY 2013/2014 in order to arrive at its own  
13 calculations.

#### 14 1) Basis for Regulated Tax Expenses

15 DRA did not find in GOWC's Application and Testimony a description of  
16 GOWC's methods of calculating its estimates for Income Taxes for this GRC. The  
17 reason for this appears to be that GOWC essentially prepared its GRC Application by  
18 focusing on compliance with the minimum data requirements (MDRs) of the Rate Case  
19 Processing Plan. Because there are no MDRs pertaining to Income Taxes, GOWC did  
20 not specifically address them in its rate case application.

21 Nevertheless, based upon our review of GOWC's workpapers, DRA believes that  
22 the tax deductions and credits in this proceeding were calculated in accordance with the  
23 normalization requirements of the Economic Recovery Act of 1981 (ERTA). Further,  
24 DRA believes that the provisions of the Tax Equity and Fiscal Responsibility Act of 1982  
25 (TEFRA) have been incorporated in the tax deduction estimates. Finally, and to the

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<sup>52</sup> DRA makes one minor correction to GOWC's DPAD calculation, as explained further below.

<sup>53</sup> Amounts shown in this discussion are rounded to the nearest \$100.

1 extent possible given the circumstances of this case, the provisions of the Tax Reform  
2 Act of 1986 (TRA 86) have been estimated and included into the general rate case in  
3 accordance with the requirements of D.87-09-026, dated September 10, 1987, D.87-12-  
4 028, dated December 9, 1987, and D.88-01-061, dated January 28, 1988. Additionally,  
5 DRA believes that GOWC prepared its Income Taxes in conformity with the provisions  
6 of TRA 86, to the extent that they have been incorporated into California Corporation  
7 Franchise Tax (CCFT) and State Income Tax (SIT) law, as stipulated in the California  
8 Bank and Corporation Tax Fairness Simplification and Conformity Act of 1987 (State  
9 Tax Act of 1987).

10 These provisions have been estimated and integrated into the CCFT calculations  
11 for this general rate case. CCFT and federal income taxes are calculated using estimated  
12 present and proposed revenues, estimated tax-deductible expenses, interest, and tax  
13 depreciation.

## 14 **2) CCFT Deduction for Federal Income Tax Purposes**

15 In estimating the FIT under both the Present Rates and the Proposed Rates, both  
16 GOWC and DRA use current year's CCFT as a deduction for the current year's FIT  
17 calculation. DRA believes that it is appropriate and necessary to match the calculation of  
18 current CCFT with the CCFT deduction used to calculate Federal Income Taxes.  
19 Otherwise, providing a different amount of CCFT for expenses from the amount used as  
20 a deduction for FIT can create distortions in the utility's cost of service. Matching the  
21 two CCFT amounts eliminates inconsistency under the Present Rates and the Proposed  
22 Rates in determining the CCFT as a deduction for FIT purposes.

23 The authorized revenue requirements are reflected in the utility's rates and  
24 ratepayers pay for the utility's income taxes as part of those revenue requirements.  
25 Therefore, the ratepayers are in fact fully funding the current year authorized expenses,  
26 including the current year's estimated CCFT, as they are incurred by utility companies.

27 In summary, the ratepayers have fully funded the CCFT expenses and its carrying  
28 costs under current GRC methodology. DRA's approach, which is the same as GOWC's,  
29 is consistent with the current tax laws and is justified by the reasons discussed in the

1 preceding paragraphs. Using the current year's CCFT as a deduction in the current year's  
2 FIT calculation is an accurate way to estimate the company's expenses and its revenue  
3 requirements. It also better matches revenues and expenses for the same period. GOWC  
4 also uses the same method of computing State Income Taxes for the test year at proposed  
5 rates and uses this number as the deduction of SIT in calculating Federal Income Tax.  
6 Therefore, DRA recommends that the Commission adopt the methodology upon which  
7 both DRA and GOWC agree in this case.

### 8                   **3) Domestic Production Activities Deduction ("DPAD")**

9           Section 199 of the Internal Revenue Code (the "Code") was added by Section 102  
10 of the American Jobs Creation Act of 2004, and amended by Section 403(a) of the Gulf  
11 Opportunity Zone Act of 2005 and Section 514 of the Tax Increase Prevention and  
12 Reconciliation Act of 2005 ("TIPRA"). On June 1, 2006, the Internal Revenue Service  
13 ("IRS") published the final regulations under Section 199, which specified the details of  
14 the DPAD. Beginning taxable year 2010, Section 199 of the Code allows a deduction  
15 equal to 9% of the lesser of (a) the qualified production activities income ("QPAI") of the  
16 taxpayer for the taxable year, or (b) taxable income (determined without regard to Section  
17 199) for the taxable year.

18           DRA has reviewed GOWC's calculation of the DPAD in its Fiscal Test Year  
19 (FTY) 2013/2014 and agrees with its methodology with one exception, as noted below.  
20 GOWC uses the same method on its tax return as it uses in its Application to estimate the  
21 DPAD. The prescribed method of computing the DPAD is as follows:

- 22           (a) GOWC first calculates its Federal Taxable Income, before applying the  
23           DPAD, by subtracting Operating Expenses, Depreciation Expense,  
24           Ratemaking Interest, Acquisition Premium, Taxes Other Than Income,  
25           and CCFT from Total Operating Revenue (excluding Deferred Revenue  
26           and Other Revenues).
- 27           (b) GOWC next calculates the Qualified Production Activities Income  
28           (QPAI) by multiplying 76.5%, the ratio of production expenses to the  
29           sum of production and distribution expenses, by the amount of Federal  
30           Taxable Income calculated in section (a) above.

1 (c) Finally, GOWC determines its DPAD by multiplying the QPAI  
2 determined in (b) above by the DPAD percentage prescribed by Section  
3 199 of the Code, amounting to 9% for Year 2010 and thereafter.  
4

5 DRA notes that GOWC deducts its Federal Income Taxes to arrive at the QPAI.  
6 DRA modifies the DPAD calculation to exclude FIT in accordance with the above-  
7 described formula when calculating DRA's Test Year estimates. DRA notes that GOWC  
8 will not be disadvantaged by the Commission's adoption of this modification for the  
9 forecasted Test Year because GOWC may prospectively calculate the DPAD in  
10 accordance with the prescribed method when it files its future tax returns.

11 The differences in income taxes between DRA and GOWC for Test Year 2013-  
12 2014 are due to differences in estimates of revenues and expenses, water production, and  
13 DRA's correction or exclusion of parts of GOWC's Income Tax calculations. DRA's  
14 recommendations are, however, qualified and subject to revision. The qualification arises  
15 because, in some cases, DRA's recommendations may change as GOWC provides  
16 additional information or explanation of its Income Tax calculations. DRA recommends  
17 that the Commission adopt DRA's methodology, subject to this qualification.

#### 18 **4) Ratemaking Interest**

19 To calculate the ratemaking interest, DRA *and* GOWC uses *GOWC's last*  
20 *authorized* Weighted Cost of Debt multiplied by DRA's *and* GOWC's recommended rate  
21 bases, *respectively*, for each of the Test Years. Differences between DRA's and  
22 GOWC's estimates are attributable to the differences in Average Rate Base (less  
23 Working Cash Allowance) estimates. Currently, GOWC carries a very limited amount of  
24 debt and its equity balance is approximately 98%. *GOWC and DRA are* proposing to  
25 impute 30% long term debt and a 7.5% cost of debt, *consistent with GOWC's currently*  
26 *authorized capital structure and cost of debt*. Accordingly, DRA recommends an  
27 imputed interest expense of \$180,800, which is \$50,900 lower than GOWC's estimate of  
28 \$231,700 for FTY 2013/2014. The difference is primarily attributable to GOWC not  
29 deducting Working Cash Allowance in its calculation.

1 Both DRA and GOWC use composite tax rates of 8.84% and 34% to calculate the  
2 CCFT and FIT, respectively. The differences in estimates for Federal and State income  
3 taxes between DRA and GOWC are due to differences in estimates for revenues,  
4 expenses, and rate base.

#### 5 **5) Pending Issues**

6 In this section, DRA notes various issues concerning State Income Taxes and  
7 Advances for Construction (AFC) that remain unexplained in GOWC's Application. As  
8 such, DRA's recommendation below is tentative, pending receipt and review of GOWC's  
9 final responses to DRA's Data Requests.

#### 10 **6) State Income Taxes**

11 DRA makes several changes to GOWC's State Income Taxes. In GOWC's  
12 application, *GOWC* normalizes Depreciation Expenses for its calculation of State Income  
13 Taxes. Normalization of State Depreciation Deductions, however, is contrary to  
14 Commission policy, which uses the flow through methodology. Under the Commission's  
15 method, State Income Tax deductions for Depreciation are the same as the depreciation  
16 amount GOWC reports on its tax return. Therefore, Deferred Taxes need not be  
17 calculated for State Income Taxes. Accordingly, DRA recommends the elimination of  
18 GOWC's calculation of Deferred Taxes for State Depreciation Expenses. *GOWC*  
19 *informs DRA that it tentatively agrees with this modification.*

20 Similarly, GOWC calculates Deferred Taxes for "State Rebates," which are  
21 Advances for Construction that GOWC amortizes over a 40-year period for State Income  
22 Tax purposes. The tax calculations related to this amortization remains unexplained  
23 because GOWC applies the state income tax rate to the AFC Deferred Tax Balance net of  
24 amortization, which approximates \$49,000, to arrive at a net decrease to the Deferred  
25 Taxes Liability account. Yet, because the account that GOWC is amortizing is a  
26 Deferred Tax account, it is illogical that GOWC applies the state tax rate to the AFC  
27 Deferred Tax balance. GOWC simultaneously reduces the Deferred Taxes – Advances  
28 for Construction account by approximately \$50,000, representing both the federal and

1 state annual amortization of the balance of this account over a period of 40 years.  
2 Pending GOWC's justification of this calculation, DRA excludes these calculations  
3 because, as of now, this item remains unexplained. *GOWC informs DRA that it*  
4 *tentatively also agrees to the removal of the calculation of Deferred Taxes on Rebates for*  
5 *State income tax purpose, as described in the first three sentences of this paragraph.*

6 **7) Contributions in Aid of Construction**

7 DRA makes several corrections relating to GOWC's CIAC calculations. First,  
8 DRA reduces the amount of Depreciation Expenses for ratemaking by \$137,692 to reflect  
9 GOWC's amortization of CIAC in FTY 2013-2014. DRA uses the same reduced amount  
10 of Depreciation Expense (net of CIAC amortization) in the calculation of GOWC's  
11 Federal Income Taxes. Related to the above, GOWC incorrectly reduces its rate base  
12 twice for the annual amount of CIAC amortization. DRA's calculations correct for these  
13 errors.

14 **8) Deferred Taxes**

15 Related to the issues described above under the heading "State Income Taxes,"  
16 GOWC's Rate base includes an asset account entitled "Deferred Tax - Advances For  
17 Construction" (AFC) in the amount of \$922,937 for FTY 2013/2014. GOWC has been  
18 amortizing this account over a 40-year period since 1999. DRA requested GOWC's  
19 justification for this account and its impact on GOWC's taxes for ratemaking.<sup>54</sup> DRA  
20 excludes this account from its recommended Rate Base, pending additional information  
21 from GOWC. GOWC has informed DRA that it is researching the question to provide  
22 the history and justification for the ratemaking treatment of this account.

23 GOWC's State and Federal Income Tax calculations include approximately a  
24 \$76,000 unexplained deduction to both federal and state taxable income entitled  
25 "Deferred Tax Expense" for FTY 2013-2014. GOWC also adds this same amount as an  
26 Income Tax Expense as stated in its Summary of Earnings. DRA eliminates this amount,

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<sup>54</sup> Data Request JJS-002 and JJS-003.

1 pending receipt of any additional information and explanation from GOWC. GOWC  
 2 already accounts for the changes in its Deferred Tax balances in its workpapers due to the  
 3 normalization of Depreciation Expenses on post-1980 property.

4 **D. CONCLUSION**

5 DRA recommends that the Commission adopt its Income Tax Expense estimates,  
 6 subject to modification. Prior to Parties' final submissions in this GRC, GOWC will  
 7 either confirm DRA's calculations or suggest modifications. DRA will consider any  
 8 additional information GOWC provides, which might justify further refinements to  
 9 DRA's Income Tax calculations in this case.

<b>(Revised) TABLE H -1</b>				
GREAT OAKS WATER COMPANY				
Income Tax				
2013/2014				
At Present Rates				
Item	DRA Estimates	Utility Estimates	GOWC Exceeds DRA	
	(Dollars in Thousands)			%
Operating Revenues	\$ 13,516	\$ 13,516	0.029	0%
Expenses:				
Oper & Maint/A&G Expenses	\$ 10,007	\$ 10,854	\$ 848	8%
Payroll	1,791	1,821	30	2%
Taxes Other Than Income	316	279	(37)	-12%
Deferred Income Taxes	-	77	77	-
Depreciation Expense	1,298	1,020	(278)	-21%
Interest Expense	181	232	51	28%
Total Operating Expenses Excluding Income Tax	13,593	14,284	691	5%
Taxable Income, CCFT	(76)	(767)	(691)	905%
CCFT Rate (8.84%)	8.84%	8.84%	0	0%
Current Calif. Corp. Franchise Tax	0	(68)	(68)	-
Deductions				
Normalized Tax Depreciation	877	(1,180)	(2,056)	-235%
Interest Expense	0	226	226	-
FIT Taxable Income	333	(765)	(1,098)	-330%
FIT	102	(260)	(362)	-354%
FIT (Before Adjustment)	102	(260)	(362)	-354%

10

<b>(Revised) TABLE H -1-2</b>				
GREAT OAKS WATER COMPANY				
Income Tax				
2013/2014				
At Proposed Rates				
Items	DRA Estimates	Utility Estimates	GOWC Exceeds DRA Amount	%
Operating Revenues	\$ 14,360.3	#####	\$ 1,086	8%
Expenses:				
Oper & Maint/A&G Expenses	\$ 10,006.9	#####	848	8%
Payroll	\$ 1,791.0	\$ 2,037.4	246	14%
Taxes Other Than Income	\$ 316.1	\$ 329.5	13	4%
Deferred Income Taxes	\$ -	\$ 76.7	77	-
Depreciation Expense	\$ 1,297.8	\$ 1,020.2	(278)	-21%
Interest Expense	\$ 180.8	\$ 231.7	51	28%
Total Operating Expenses Excluding Income Tax	\$ 13,592.6	#####	957	7%
Taxable Income, CCFT	\$ 767.7	\$ 1,163.0	395	51%
CCFT Rate (8.84%)	8.84%	\$ 0.1	0	0%
Current Calif. Corp. Franchise Tax	\$ 67.9	\$ 102.8	35	51%
Deductions				
Normalized Tax Depreciation	\$ 876.5	\$(1,020.2)	(1,897)	-216%
Interest Expense	\$ -	\$ 231.7	232	-
FIT Taxable Income	\$ 1,063.5	\$ 994.6	(69)	-6%
FIT	\$ 362.1	\$ 338.1	(24)	-7%
FIT (Before Adjustment)	\$ 362.1	\$ 338.1	(24)	-7%

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1           **6. PLANT IN SERVICE AND CAPITAL ADDITIONS**

2           **A. INTRODUCTION**

3           This chapter sets forth DRA’s analyses and recommendations for Plant in Service  
4 for GOWC. DRA reviewed and analyzed GOWC’s testimony, application, workpapers,  
5 capital project justifications, estimating methods, and responses to DRA data request.  
6 DRA also conducted a field investigation of the major proposed plant additions prior to  
7 making its own independent estimates, including adjustments where appropriate.  
8 Differences between DRA’s and GOWC’s estimates of plant additions are detailed in  
9 Tables 6-1 and 6-2 below.

10          **B. SUMMARY OF RECOMMENDATION**

11          GOWC requested plant additions and DRA’s recommendations for FTYs  
12 2013/2014, 2014/2015, and fiscal estimated 2015/2016 are presented in Table 6-3. Over  
13 all, GOWC requests \$2,705,984, and DRA recommends \$2,335,984 in plant additions for  
14 the test years. *GOWC also requests \$240,700 for FY 2012/2013 and DRA recommends*  
15 *\$188,200.* The differences are due to DRA’s adjustments to following projects:

- 16           • Well 14 – drill and equip a new well  
17           GOWC request \$370,000 in 2013/2014  
18           DRA recommends \$0
- 19           • Interties – Connection with San Jose Water  
20           GOWC requests \$52,500 in 2012/2013  
21           DRA recommends Tier 2 Advice Letter

22          **C. DISCUSSION**

23          In this GRC, DRA agrees with the needs and costs of most of GOWC’s plant  
24 additions. In the following section, DRA discusses its adjustments and the need for some  
25 significant projects in the following categories: (1) Capital Additions; (2) Routine Items;  
26 and (3) Advice Letter projects.

Table 6-1

Plant Addition				
Year	Description	Plant Total		Difference
		GOWC	DRA	
2012/2013	Skid Steer Loader	\$26,000	\$26,000	\$0
2012/2013	Vacuum Truck	\$25,000	\$25,000	\$0
2012/2013	Interties - Connection with SJW	\$52,500	Advice Letter	\$52,500
2012/2013	Water Quality Sampling Stations	\$43,200	\$43,200	\$0
2013/2014	Billing and Database Software	\$55,000	\$55,000	\$0
2013/2014	Vehicles - 2 new pickup trucks	\$36,000	\$36,000	\$0
2013/2014	Well 14 - Drill a new well	\$370,000	\$0	\$370,000
<u>Pipeline Projects</u>				
2012/2013	Demerest to Walmart Tie-in	\$16,000	\$16,000	\$0
2012/2013	Shenado Place Tie-in	\$18,000	\$18,000	\$0
2012/2013	Paloma to Riverview Tie-in	\$20,000	\$20,000	\$0
2012/2013	Coyote Road Tie-in	\$14,000	\$14,000	\$0
2012/2013	Alyssa Court Tie-in	\$26,000	\$26,000	\$0
<u>Advice Letter Project</u>				
2013/2014	Country View Tank	Advice Letter	Advice Letter	\$0
2013/2014	Well 2 Pump (Storage) Building	Advice Letter	Advice Letter	\$0

1

2           Capital Additions

3                   **1) Skid Steer Loader**

4           GOWC requests \$26,000 in year 2012/2013 for purchasing a Bobcat S185 skid  
5           steer loader, small trailer for the loader, and accessories. GOWC currently uses two Case  
6           loader/backhoes for leak repair and main installations. However, for certain projects, the  
7           Case loader/backhoes were too bulky for the job. GOWC requests smaller skid steer  
8           loader to handle the jobs in tight spaces, small trailer to transport the skid steer loader

1 around, and accessory attachments to use the skid steer loader in different job functions.  
2 GOWC plans to purchase a used skid steer loader and a trailer. DRA finds the project  
3 reasonable and recommends the Commission to allow this project.

4 **2) Vacuum Truck**

5 GOWC requests \$25,000 in 2012/2013 for purchasing a vacuum truck. GOWC  
6 had been hiring a contractor when a vacuum truck was needed. GOWC reported that it  
7 has already purchased a used vacuum truck for the sum of \$25,000. DRA finds this  
8 purchase to have been reasonable because a new vacuum truck would cost over  
9 \$250,000. DRA finds these expenses to be reasonable.

10 **3) Interties – Connection with San Jose Water Company**

11 GOWC requests \$52,500 in year 2012/2013 for modifying the existing three  
12 emergency connections (interties) with San Jose Water. The California Department of  
13 Public Health had expressed concerns with the existing connections which can trap  
14 stagnant water that could create health conditions. CDPH requested both GOWC and San  
15 Jose Water to modify the interties that would prevent the trapping of stagnant water.  
16 GOWC has been in communication with San Jose Water to fulfill the CDPH request.  
17 However, according to GOWC's response to DRA data request DR BYU-01, GOWC has  
18 not been able to come up with intertie design. GOWC could not estimate when the  
19 project will be completed, because it currently lacks a design for the interties. Also,  
20 GOWC did not have any information regarding whether there would be any cost sharing  
21 between GOWC and San Jose Water since CDPH required both utilities to modify the  
22 interties. In addition, CDPH did not specify any dead line for this project.

23 DRA reviewed the request and found the project is necessary and reasonable.  
24 However, this project is at an early stage of development. For example, no designs have  
25 been made and there is uncertainty as to when the project will start and be completed. In  
26 addition, this project will impact both GOWC and San Jose Water, sharing of the project  
27 cost should be explored. Any sharing of costs will impact GOWC's initial cost estimate.

1 Accordingly, DRA recommends the Commission allows this project via a Tier-2 Advice  
2 Letter process.

3 **4) Water Quality Sampling Stations**

4 GOWC requests \$43,000 in 2012/2013 for relocation of its eight water sampling  
5 stations from service connections to active water mains. Previous locations were prone to  
6 occasional stagnant water problems. DRA reviewed the request and finds the project  
7 necessary and reasonable. GOWC's relocation of the water sampling stations will draw  
8 better water samples for testing its water supply and meet CDPH water quality  
9 requirements. Accordingly, DRA recommends the Commission allows this project.

10 **5) Billing and Database Software**

11 GOWC requests \$55,000 in 2013/2014 for the additional features and  
12 programming in Billing and Database Software. The Commission authorized the Billing  
13 and Database Software project in the previous GRC. GOWC is requesting the cost of the  
14 additional programming works needed to complete the project. The Commission  
15 authorized \$120,000 in previous GRC for GOWC to convert their billing and database  
16 system, which was built proprietary to an obsolete IBM AS400 hardware, into a SQL  
17 database with more conventional hardware platform. During the conversion, the new  
18 software had gone through many unanticipated modifications and enhancements for the  
19 following reasons:

- 20 • GOWC changed the look and format of the customer's bills to be more  
21 easily understandable and minimizing confusion about tiered rates
- 22 • GOWC redesigned the database to be more granular, allowing for more  
23 detailed reports and quicker searches
- 24 • GOWC is integrating "in office" check scanning to have better banking  
25 control and improving the customer service graphic user interface (GUI)  
26 screens
- 27 • GOWC had to reprogram the software due to accommodate tiered rate  
28 billing, and calculation and recording of WRAM account balances
- 29 • GOWC had to redesign the program to accommodate the new low  
30 income customer data sharing mandate

- GOWC had to reformat the printing command due to U.S. Postal Service's adoption of modified bar code for bulk mail addressing

DRA reviewed the request and finds the request necessary and reasonable  
DRA recommends the Commission allows this project.

#### **6) Vehicles – 2 new Pickup Trucks**

GOWC requests \$36,000 in year 2013/2014 for the purchase of two new pickup trucks for new field service employees. DRA finds the new trucks for the new field service employees reasonable. DRA recommends the Commission allow purchasing the trucks.

#### **7) Well 14 – Drill a new Well**

GOWC requests \$370,000 in year 2013/2014 for drilling and equipping Well 14. GOWC's Well 22 had been recently shut down due to low production and GOWC is requesting a new well (Well 14) to be drilled and equipped to replace Well 22. According to GOWC's response to DRA data request DR BYU-01, GOWC's water system is capable of meeting MDD, PHD and fire flow demand without any additional water supplies. In the same response, GOWC stated that the need for the new well is for the supply redundancy to mitigate future occurrences of ground water contamination<sup>55</sup> as well as to meet the increasing demand due to future development.

DRA does not believe the redundancy (drilling additional ground water supply) is appropriate for mitigating future ground water contamination since the source of the redundant well is also a ground water and if the future contamination would occur near the new well, then the redundant capacity of the new well become useless

For the future demand, according to Table 11A of GOWC's Urban Water Management Plan, which forecasts the demand through year 2035, the total water

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<sup>55</sup> GOWC states, in response to DRA DR BYU-01, on four different occasions within the past 30 years, GOWC had been forced to shut down wells due to industrial contamination and it is possible for contamination in a single area to affect four or five of GOWC's wells.

1 demand is decreasing. Also, during DRA’s facilities tour, DRA was informed that the  
2 City of San Jose does not have any major development plans until year 2045.

3 Therefore, DRA believes the new well (Well 14) is not necessary. Additionally,  
4 the Well 14 site is already a GOWC property and the well can always be drilled and  
5 equipped should the need arise in the future. DRA recommends the Commission  
6 disallows this project.

7 **Pipeline Projects**

8 The Pipeline Projects listed below are tie-in projects which would connect the  
9 dead-end mains into nearby transmission mains. The main reason for these projects was  
10 to improve water quality by eliminating stagnant water in the dead-end mains. Another  
11 benefit these projects would bring is some of the area served by these dead-end mains  
12 now has additional source of supply since the tie-in would connect the area into two  
13 different transmission mains. Some of the projects listed (*Demerest to Wal-Mart and*  
14 *Paloma to Riverview*) would increase the flow rate to the fire hydrants.

15 During the DRA’s facilities tour, the locations of these tie-in projects were  
16 reviewed on GIS system and DRA concurred with GOWC that these projects were  
17 reasonable.

18 **8) Demerest to Wal-Mart Tie-in**

19 GOWC requests \$16,000 in year 2012/2013 for connecting two dead-end mains to  
20 improve water circulation in both lines and to provide a second point of supply to the  
21 homes on Demerest and Mayland streets as well as to increase flow rates to hydrants  
22 along the line. DRA finds the project reasonable and recommends the Commission to  
23 allow this project.

24 **9) Shenado Place Tie-in**

25 GOWC requests \$18,000 in year 2012/2013 for connecting two dead-end mains to  
26 create better water flow in both lines, create redundant supply, and eliminate a stagnant  
27 water condition. DRA finds the project reasonable and recommends the Commission to  
28 allow this project.

1                   **10) Paloma to Riverview Tie-in**

2                   GOWC request \$20,000 in year 2012/2013 for connecting the water line along  
3 Paloma Avenue to the water main along Skyway Drive where all other neighboring water  
4 lines are connected to. According to GOWC, the connection will improve reliability,  
5 redundancy, water quality and fire hydrant supply. DRA finds the project reasonable and  
6 recommends the Commission allows this project.

7                   **11) Coyote Road Tie-in**

8                   GOWC requests \$14,000 in year 2012/2013 for connecting two dead-end mains  
9 along Coyote Road to improve water quality, flow rate, dependability and redundancy.  
10 DRA finds the project reasonable and recommends the Commission allows this project.

11                   **12) Alyssa Court Tie-in**

12                   GOWC requests \$26,000 in year 2012/2013 for connecting the 8-inch water main  
13 along Alyssa Court to the 12-inch water main along Silicon Valley Boulevard to improve  
14 water quality, flow rates, reliability and redundancy. DRA finds the project reasonable  
15 and recommends the Commission allows this project.

16                   **Advice Letter Projects**

17                   **13) Country View Tank**

18                   DRA points out that GOWC has previously requested this same project in its  
19 application, A.09-09-001. The Commission in decision, D.10-11-034 ordered:

20                   “7.Great Oaks Water Company (Great Oaks) may submit a Tier 2  
21 advice letter to recover the costs of the County View Tank when the  
22 project is completed and it is used and useful. Construction costs are  
23 capped at \$385,000 and Great Oaks shall recover the costs  
24 authorized by the Commission from future customers through a  
25 service fee.” (D.10-11-034, p.78)  
26

27                   However, GOWC has filed a rehearing application to the Commission D.10-11-  
28 034 contending that there should be no construction costs cap and the cost recovery  
29 should not be from future customers via service fee. GOWC rehearing decision is  
30 currently awaiting a resolution.

1 In its instant GRC, GOWC requests amendment to the decisions made in the  
2 previous GRC which specified charging a group of customers, which are the beneficiary  
3 of this project, via connection fees. DRA wants to clarify who the beneficiary of the  
4 project is.

5 Based on the fresh review of this project and discussions with GOWC's personnel,  
6 DRA believes that the fire flow needs of the existing some 90 customers located  
7 downstream in GOWC's Calero System contribute to the low pressure issues for the new  
8 customers located on the upstream portion of the Calero System. The low pressure issues  
9 became more apparent because more houses are being built on the upstream portion of  
10 the Calero system. Therefore, the tank is needed to serve the existing deficiencies in  
11 order to deal with potential fire flow emergencies. At first, it appears the tank is needed  
12 to mitigate the low pressure deficiencies for the customers on the upstream; however, the  
13 low pressure issue only becomes apparent when there's a fire flow situation on the  
14 downstream. In other words, the fire flow needs of the existing customers created the  
15 low pressure issues for the new customers. Hence, the cost recovery for the tank should  
16 be treated in a common fashion where the existing customers would pay for any increase  
17 in the utility ratebase which is found reasonable. DRA finds the need for the project is  
18 reasonable; however, the cost estimates for \$385,000 are uncertain due to non-existence  
19 of a land purchase agreement. In order to deal with the cost uncertainty, GOWC has  
20 requested an Advice Letter application for the project. DRA finds the request reasonable  
21 and recommends the Commission allows GOWC to file a Tier-3 Advice Letter upon  
22 completion of the project without any construction cost cap; however, the cost recovery  
23 must be contingent upon adequate regulatory review of the reasonableness of these cost  
24 and subsequent authorization of the cost recovery in the rates.

25 Please note, if the Commission accepts DRA's above recommendation regarding  
26 the Country View Tank, this issue as presented in GOWC's rehearing decision will  
27 become moot.

1                   **14) Well 2 Pump (Storage) Building**

2           GOWC requested a stand-by generator for the Well 2 pump in the previous GRC  
3 and the Commission authorized the purchase of the generator. However, the Well 2 site  
4 is in a residential area and the City of San Jose has a noise level restriction in this area  
5 below 55dB. GOWC needs a building enclosure which can attenuate the noise of the  
6 generator. GOWC then request the building to be built larger than just enclosing the  
7 generator so it can provide storage space for its operational needs. During the DRA’s  
8 field tour of GOWC facilities, DRA noticed equipment, parts, and materials were on the  
9 ground of Well 2 site due to the lack of storage. GOWC requests this project to be  
10 treated as an Advice Letter process since the design for the project is not finalized.  
11 GOWC estimates the construction cost for the building to be \$180,000. DRA finds the  
12 project necessary and the request reasonable. DRA recommends the Commission allows  
13 this project as a Tier-3 Advice Letter application with the cap amount of \$180,000.

14 **Recurring/Routine Items**

15                   **15) Meter Replacement Program**

16           GOWC requests \$625,328 per year for each of the Test Years for the Meter  
17 Testing and Replacement Program. GOWC developed a 5-year Meter Testing and  
18 Replacement Program to maintain its compliance with the General Order 103A  
19 requirements<sup>56</sup> regarding the number of years a meter may remain in service without  
20 retesting. GOWC also needs to comply with the Health and Safety Code §116875 which  
21 requires pipes and plumbing fixtures used in public water systems be lead-free.

22           GOWC determined about 3,800 meters would be tested per year and be replaced  
23 with lead-free meters. GOWC also requests replacing 2,100 aging meter boxes in the  
24 next three years during meter replacements. For these requests, GOWC estimates cost of  
25 \$625, 328 per each Test Year totaling \$1,875,983 for three years. DRA finds the requests  
26 for the meter and the meter box replacements are necessary and reasonable. DRA  
27 recommends the Commission allows this project.

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<sup>56</sup> General Order 103, Section IV, 6. A(1)

1                   **16) Routine Items**

2                   DRA reviewed GOWC’s requests for Routine Items for the Test Years. Table 76-2  
 3 below presents GOWC’s requested budget items. DRA reviewed GOWC’s requests and  
 4 found all items and budgets necessary and reasonable. Besides the meter replacement  
 5 program, GOWC’s requests for other routine items were similar to their requests in  
 6 previous GRC.

7  
 Table 6-2

<b>Recurring/Routine Items</b>				
<b>Year</b>	<b>Description</b>	<b>Plant Total (per year)</b>		<b>Difference</b>
		<b>GOWC</b>	<b>DRA</b>	
2013/2014 thru 2015/2016	Replacement Hydrants	\$40,000	\$40,000	\$0
2013/2014 thru 2015/2016	Computer Equipment	\$9,000	\$9,000	\$0
2013/2014 thru 2015/2016	Replacement Vehicles	\$36,000	\$36,000	\$0
2013/2014 thru 2015/2016	Service Installations	\$30,000	\$30,000	\$0
2013/2014 thru 2015/2016	Communication Equipment	\$1,000	\$1,000	\$0
2013/2014 thru 2015/2016	Power Operated Equipment	\$2,000	\$2,000	\$0
2013/2014 thru 2015/2016	Tools, shop and garage equipment	\$5,000	\$5,000	\$0
2013/2014 thru 2015/2016	Meter Replacement Program	\$625,328	\$625,328	\$0
	<b>Three year total</b>	<b>\$2,244,984</b>	<b>\$2,244,984</b>	<b>\$0</b>

8  
 9                   **D. CONCLUSION**

10                  Table 6-3 presents GOWC’s request for Utility Plant in Service and DRA’s  
 11 recommendations. DRA recommends the Commission adopt DRA’s numbers.

12  
 13  
 Table 6-3

<b>Plant in Service</b>
-------------------------

<b>Year</b> >>>>>	<b>Test Year 2013/2014</b>		<b>Test Year 2014/2015</b>		<b>Test Year 2015/2016</b>	
	<b>GOWC</b>	<b>DRA</b>	<b>GOWC</b>	<b>DRA</b>	<b>GOWC</b>	<b>DRA</b>
Plant In Service- BOY	\$39,140,400	\$39,087,900	\$40,549,695	\$40,127,195	\$41,486,741	\$41,064,241
Total Additions	\$1,425,295	\$1,055,295	\$969,046	\$969,046	\$973,902	\$973,902
Total Retirements	-\$16,000	-\$16,000	-\$32,000	-\$32,000	-\$32,000	-\$32,000
Plant In Service- EOY	\$40,549,695	\$40,127,195	\$41,486,741	\$41,064,241	\$42,428,644	\$42,006,144
Avg. Plant In Service	\$39,845,048	\$39,607,548	\$41,018,218	\$40,595,718	\$41,957,693	\$41,535,193
% Increase/Decrease	2.26%	1.72%	2.94%	2.49%	2.29%	2.31%

1                   **7.     DEPRECIATION EXPENSE AND RESERVE**

2                   **A.     INTRODUCTION**

3                   GOWC’s requested depreciation reserve and DRA’s recommendations for Test  
4 Years 2013/2014, 2014/2015 and 2015/2016 are presented in Table 7-1. GOWC requests  
5 \$21,239,884, \$22,394,816 and \$23,574,937 for Average Accumulated Depreciation for  
6 each respective test years. DRA recommends \$20,881,048, \$21,886,937 and  
7 \$22,909,506 for each respective test years.

8                   **B.     SUMMARY OF RECOMMENDATIONS**

9                   GOWC’s requested depreciation reserve and DRA’s recommendations for Test  
10 Years 2013/2014, 2014/2015 and 2015/2016 are presented in Table 7-1.

11                   **C.     DISCUSSION**

12                   Differences in GOWC’s request and DRA’s recommendation for accumulated  
13 depreciation and expense are due to differences in plant additions for the test year.  
14 Differences in plant additions are discussed in Chapter 6 of this report. GOWC’s  
15 depreciation studies were prepared based on GOWC’s fixed assets as of December 31,  
16 2011. DRA finds the depreciation factors used by GOWC reasonable and should be  
17 adopted. However, DRA found some errors in GOWC’s workpapers and both parties  
18 agreed to correct these errors.<sup>57</sup> List of errors on the workpapers are as follows:

- 19                   • Workpapers page WP-25 (Deferred Tax – Depreciation), cell E15 (PUC  
20                   Depreciation Expense for FY 2011). The correct amount should  
21                   be\$937,171, instead of \$963,543.
- 22                   • Workpapers page WP-21 (Contributions in Aid of Construction), cell  
23                   C9 (Contribution) for CY 2008. The corrected amount should be  
24                   \$171,911 instead of 187,511.

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<sup>57</sup> GOWC response to DRA Data Request DR JJS-002, dated October 9, 2012.

- 1           • Workpapers page WP-21 (Contributions in Aid of Construction), cell  
2           D10 (Other Credits for CY 2009). The corrected amount should be  
3           (\$131,886) instead of \$0.00.
- 4           • Exhibit E, Tab “Depreciation Summary.” (WP-18) The calculation of  
5           depreciation is not reduced for the amortization of Contribution in Aid  
6           of Construction (CIAC). Line 8, amortization of CIAC is incorrectly  
7           added to the Accumulated Depreciation.

8           **D. CONCLUSION**

9 Overall, DRA has reviewed GOWC’s analyses and accepts the company’s methodology.  
10 Table 7-1 below shows GOWC’s original request and DRA’s recommendation. The  
11 difference is due to DRA’s adjustments for Plant in Service and the above mentioned  
12 corrections.  
13

Table 7-1

	Depreciation Summary					
	Test Year 2013/2014		Test Year 2014/2015		Test Year 2015/2016	
	GOWC	DRA	GOWC	DRA	GOWC	DRA
	(Dollars)					
BOY-Balance	20,667,430	20,380,430	21,812,338	21,381,666	22,977,294	22,392,207
Add Credits						
Add- Depreciation	1,020,216	1,014,236	1,050,255	1,039,541	1,074,309	1,063,598
Add-CIAC net	137,692	0	143,702	0	149,975	0
Add-Salvage	3,000	3,000	3,000	3,000	3,000	3,000
Total Credits	1,160,908	1,017,236	1,196,957	1,042,541	1,227,285	1,066,598
Deduct- Debits						
Deduct Retired	-16,000	-16,000	-32,000	-32,000	-32,000	-32,000
Total Debits	-16,000	-16,000	-32,000	-32,000	-32,000	-32,000
EOY-Balance	21,812,338	21,381,666	22,977,294	22,392,207	24,172,579	23,426,805
Adjustments	0	0	0	0	0	0
New EOY- Balance	21,812,338	21,381,666	22,977,294	22,392,207	24,172,579	23,426,805
Comp. Dep. Rate	2.56%	2.56%	2.56%	2.56%	2.56%	2.56%
Avg. Accum. Dep.	21,239,884	20,881,048	22,394,816	21,886,937	23,574,937	22,909,506

1  
2  
3

1 **8. RATE BASE**

2 **A. INTRODUCTION**

3 DRA's and GOWC's estimates for average rate base for Test Years 2013/2014,  
4 2014/2015 and 2015/2016 are discussed in this chapter.

5 **B. SUMMARY OF RECOMMENDATIONS**

6 GOWC's requested an average rate base amount and DRA's recommendations for  
7 Test Years 2013/2014, 2014/2015 and 2015/2016 are presented in Table 98-1. GOWC  
8 requests \$10,299,921, \$10,710,465 and \$10,558,695 for Average Weighted Depreciated  
9 Rate Base for each respective test years. DRA recommends \$10,579,818, \$10,760,884  
10 and \$10,758,847 for each respective test years.

11 **C. DISCUSSION**

12 The difference between GOWC's requests and DRA's recommendations are due  
13 to the differences in plant additions, depreciation, and working cash. Differences in plant  
14 additions are discussed in Chapter 6 of this report. Differences in accumulate  
15 depreciation reserve are discussed in Chapter 7 of this report.

16 **1) Working Cash**

17 GOWC requests \$2,074,796 and \$2,037,726 and \$1,953,573 in working cash for  
18 each of the Test Years 2013/2014, 2014/2015 and 2015/2016 respectively. DRA  
19 recommends working cash of \$2,074,954 and \$2,037,708 and \$1,953,123 for Test Years  
20 2013/2014, 2014/2015 and 2015/2016 respectively. Both DRA and GOWC use the same  
21 methodology to estimate the working cash requirement. The differences in total working  
22 cash are due to differences in operational and administrative expenses which are  
23 discussed in Chapter 3 and 4 of this report.

24 **D. CONCLUSION**

25 The differences between the Rate Base developed by DRA and GOWC are due to  
26 the differences in the estimates for plant in service, depreciation reserve, and working  
27 cash.

**Table 8-1**

Weighted Average Depreciation Ratebase						
	Test Year 2013/2014		Test Year 2014/2015		Test Year 2015/2016	
	GOWC	DRA	GOWC	DRA	GOWC	DRA
Utility Plant						
Plant in Service	\$39,140,400	\$39,087,900	\$40,549,695	\$40,127,195	\$41,486,741	\$41,064,241
Construction WIP	\$489,429	\$489,429	\$500,490	\$500,490	\$511,801	\$511,801
Gen.Ofc.Prorate	\$0	\$0	\$0	\$0	\$0	\$0
Total Gross Plant	\$39,629,829	\$39,577,329	\$41,050,185	\$40,627,685	\$41,998,543	\$41,576,043
Less Accum. Dep. Plant in Service	\$21,239,884	\$20,881,048	\$22,394,816	\$21,886,937	\$23,574,937	\$22,909,506
Less Other Res.						
Deferred Inc. Tax	\$1,187,188	\$1,213,784	\$1,374,108	\$1,409,050	\$1,582,420	\$1,625,281
Def. Inv. Tax Cr.	\$33,923	\$33,923	\$27,795	\$27,795	\$23,136	\$23,136
Total Other Res.	\$1,221,111	\$1,247,707	\$1,401,903	\$1,436,845	\$1,605,556	\$1,648,417
Less Adjustments						
CIAC	\$2,632,587	\$2,632,587	\$2,510,091	\$2,510,091	\$2,382,247	\$2,382,247
Adv. for Constr.	\$6,311,123	\$6,311,123	\$6,070,636	\$6,070,636	\$5,830,149	\$5,830,149
Total Adjustments	\$8,943,710	\$8,943,710	\$8,580,727	\$8,580,727	\$8,212,396	\$8,212,396
Add Mat. & Sup.	\$0	\$0	\$0	\$0	\$0	\$0
Add Working Cash	\$2,074,796	\$2,074,954	\$2,037,726	\$2,037,708	\$1,953,042	\$1,953,123
<b>TOTAL RATE BASE</b>	<b>\$10,299,921</b>	<b>\$10,579,818</b>	<b>\$10,710,465</b>	<b>\$10,760,884</b>	<b>\$10,558,695</b>	<b>\$10,758,847</b>
Net Income	\$953,773	\$979,691	\$991,789	\$996,458	\$977,735	\$996,269
Rate of Return	9.26%	9.26%	9.26%	9.26%	9.26%	9.26%



1 GOWC does not survey its customers about water quality. Expenses for customer  
2 water quality surveys have not been requested or authorized in rates. GOWC provides its  
3 customers with information about water quality on an annual basis as required by the  
4 California Department of Public Health.

5 GOWC uses ITRON hand held meter reading devices. This computer gives the  
6 location of the meter, meter number and usage history, and it allows the GOWC to collect  
7 other meter statistics.

8 GOWC does not currently accept credit or debit card payments but offers its “Sure  
9 Pay” option for payment of customer bills. This option allows for automatic payment of  
10 bi-monthly bills from the customers’ checking accounts. There are currently 3,982  
11 customers enrolled in Sure Pay or approximately 19.5% of its total water service  
12 connections participating in this payment option.

13 Residential customer bills are issued bi-monthly, while non-residential customer  
14 bills are issued at the end of each month. Bills are due 22 days from the billing date. On  
15 the 23<sup>rd</sup> day following the billing date a late notice is mailed to the billing address with a  
16 17 day due date. Fourteen days after the reminder notice is mailed, a final notice is left at  
17 the service address indicating that payment is due the following Monday. Termination of  
18 service is not performed until the following Wednesday after verification that payment  
19 has not been received as of 9 a.m. that morning.

20 GOWC’s number of formal customer complaints filed with the Commission’s  
21 Consumer Affairs Branch averaged about 5 per year (2007 - 2011), and none were filed  
22 as of September of 2012. Most of the complaints were categorized by the Commission’s  
23 Consumer Affairs Branch as disputed or high bill complaints. DRA verified this with  
24 data provided by CAB. DRA then conducted a trending analysis incorporating the total  
25 number and type of complaints in order to determine if the company’s customer service is  
26 improving, or not and if the annual percentage of complaints meets, or exceeds the  
27 requirements of G.O. 103A. The results of DRA’s analysis revealed that GOWC’s  
28 service quality exceed the standard Performance Measure set by the commission for

1 complaints filed with CAB. That standard is being less than, or equal to 0.1% of the  
2 company's total customers.

3 **D. CONCLUSION**

4 DRA examined GOWC's customer service procedures, customer complaints,  
5 customer walk-in facility, and call center, and finds GOWC to have good customer  
6 service procedures for Test Year 2013 – 2014.

1 **10. WATER QUALITY**

2 **A. INTRODUCTION**

3 This Chapter presents DRA’s analysis and recommendations on water quality for  
4 Great Oaks Water Company (“GOWC”). GOWC’s operates a water system under a  
5 permit from the California Department of Public Health (“CDPH”). GOWC’s main  
6 water supply comes from nineteen (19) groundwater wells, which draw water from the  
7 Santa Clara Valley Groundwater Basin.<sup>58</sup> It is important to note that, currently, water  
8 from GOWC’s wells meets drinking water standards and does not need to be treated or  
9 disinfected prior to distribution to customers.<sup>59</sup>

10 Investor owned water utilities are required to submit information about water  
11 quality as part of each utility’s General Rate Case (“GRC”) application.<sup>60</sup> In accordance  
12 with these requirements, GOWC submitted water quality information in its Minimum  
13 Data Requirements (“MDR”). In developing its recommendation for water quality, DRA  
14 reviewed GOWC’s testimony, application, working papers, and the most recent CDPH  
15 inspection reports available for GOWC’s water system. DRA also contacted CDPH  
16 representatives for the agency’s appraisal of GOWC’s water system.

17 **B. SUMMARY**

18 Based upon the information provided by GOWC and CDPH, it appears that  
19 GOWC’s water system is currently in compliance with CDPH water quality regulations,  
20 all applicable federal drinking water requirements, and General Order 103-A.

21 **C. DISCUSSION**

22 Between July 2010 and June 2012, CDPH issued one citation to GOWC for  
23 exceeding the maximum contaminant level (“MCL”) for total coliform bacteria. The

---

<sup>58</sup> Great Oaks Water Company 2010 Urban Water Management Plan, p. 17.

<sup>59</sup> CDPH’s 2010 Sanitary Survey Findings, dated September 7, 2010.

<sup>60</sup> See D.04-06-018 (adopting revised Rate Case Plan (“RCP”)); see also D.07-05-062, (adopting changes to the RCP including improved oversight of water quality data through the use of Minimum Data Requirements (“MDR”) pertaining to water quality that must be completed by the utility as part of its GRC testimony and cost of capital testimony).

1 violation did not result in a significant impact to water quality and was appropriately  
2 addressed by GOWC. The nature of the violation and the actions taken by GOWC are  
3 discussed below.

4 In a letter dated March 9, 2012, CDPH cited GOWC for failing to meet the MCL  
5 for total coliform bacteria during the month of February 2012. During February 2012,  
6 GOWC collected a total of 111 water samples and six samples exhibited positive  
7 coliform results. This accounts for 5.4 percent of the total water samples collected during  
8 the month which tested positive for total coliform. Pursuant to Section 64426.1(b)(1)  
9 Chapter 15, Title 22, California Code of Regulations (“CCR”), if more than five percent  
10 of the monthly samples show positive total coliform results in a public water system that  
11 collects at least 40 bacteriological water samples per month, the public water system is in  
12 violation of the total coliform MCL. Therefore, GOWC was cited by CDPH for violating  
13 the total coliform MCL during February 2012.

14 GOWC collected follow-up and repeated samples for analyses and the results were  
15 negative for total coliform and E.coli. As a result of the violation, CDPH directed GOWC  
16 to notify its customers of the citation and prepare a corrective action plan. According to  
17 CDPH representatives, GOWC has complied with the directives issued by CDPH.

#### 18 **D. CONCLUSION**

19 Based upon the information provided by GOWC and CDPH, GOWC’s water  
20 system appears to have been and continues to be in compliance with federal and state  
21 drinking water standards between 2010 and 2012. The low number and general nature of  
22 the violations do not indicate a pattern of water quality problems in GOWC’s water  
23 systems. Therefore, DRA recommends that the Commission find that GOWC is in  
24 compliance with all applicable federal and state drinking water standards, including GO-  
25 103A.

1 **11. SPECIAL REQUESTS**

2 **A. INTRODUCTION**

3 This Chapter presents DRA’s analysis and recommendations on Great Oaks Water  
4 Company (“GOWC”) GOWC’s request to establish a Chrome VI Memorandum Account  
5 for potential compliance costs related to the treatment of Chromium VI and GOWC’s  
6 request for an “Employee Health Insurance Memorandum Balancing Account”.

7 GOWC states that when or if state and/or federal regulations for treatment levels  
8 established. GOWC further claims that upon the establishment of a MCL by state and /or  
9 federal regulatory agencies, the memorandum account would become effective and will  
10 track operating costs and capital expenditures related to meeting the established MCL.  
11 According to GOWC, Chromium VI naturally occurs in the area where GOWC’s pumps  
12 are located, and at present it has very low levels. The full extent of natural occurrence of  
13 Chromium VI is not well known; however, estimated costs to provide for this  
14 contingency is nearly impossible at this time and would be purely speculative at best.<sup>61</sup>

15 For the “Employee Health Insurance Memorandum Balancing Account”, GOWC  
16 claims that current Patient Protection and Affordability Care Act makes these costs  
17 extremely volatile, and potential increases in health insurance costs cannot reasonably be  
18 calculated or estimated.

19 In developing its recommendations for these special requests, DRA reviewed  
20 GOWC’s testimony, application, and working papers and drawn its independent  
21 conclusions.

22 **B. SUMMARY**

23 Based upon the information provided by GOWC and DRA’s independent review,  
24 DRA recommends that the Commission should deny GOWC’s request for establishing  
25 Chromium VI Memorandum Account. For the GOWC’s request of “Employee Health  
26 Insurance Memorandum Balancing Account”, DRA recommends that the Commission

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<sup>61</sup> GOWC’s Application, Chapter-3, p.6

1 should allow GOW to establish an “Employee Health Memorandum Account” that is not  
2 a “Balancing Account” but it is a memorandum account that will only track incremental  
3 health costs that are potentially caused a result of Patient Protection and Affordability  
4 Care Act.

5 **C. DISCUSSION**

6 Standard Practice U-27 states that memorandum accounts are to be used to track  
7 costs that are unforeseeable because of events of an exceptional nature that:

- 8 • Are not under the utility’s control
- 9 • Could not have been reasonably foreseen in the utility’s last rate  
10 case
- 11 • Are of a substantial nature in that the amount of money involved  
12 is worth the effort of processing a memo account, and
- 13 • Have ratepayers benefit

14

15 GOWC’s current request fails to meet several of the above mentioned guidelines.

16 For example, in case of GOWC’s request for Chromium VI Memorandum Account,

17 GOWC claims that:

18 “Estimated costs to provide for this contingency is nearly impossible  
19 at this time and would be purely speculative at best.” (GOWC’s  
20 Application, Chapter-3, pp.5-6)

21

22 It is therefore, evident that as the estimated costs to deal with the Chromium VI  
23 contaminant in future cannot be performed with any certainty at present; it would be  
24 unreasonable to assume that these costs can be of substantial nature that could warrant  
25 establishment of a memorandum account.

26 Similarly, the timing of any potential regulations by the state and federal  
27 government is more likely to happen near GOWC’s next GRC application, by which  
28 time, GOW would have much clearer idea regarding the potential costs estimates.

29 Therefore, GOWC’s next GRC application in year 2015 would be a more reasonable time  
30 for this memorandum account. For example, according to a California Department of

1 Public Health (CDPH), the rule making process for Chromium VI will extend to year  
2 2014-2015. It is common practice that even though a final rulemaking is accomplished; a  
3 grace period is usually allotted for the utilities to come up with compliance plans for the  
4 newly established MCL standards. Therefore, it is reasonable to assume that the  
5 compliance with potential Chromium VI will not be needed until year 2016 at which  
6 time, GOWC would be filing its next GRC application.

7 On the other hand, GOWC request for “Employee Health Insurance Memorandum  
8 Balancing Account” does meet the criterion set for establishment of a memorandum  
9 account. However, the only uncertain element which may affect the future health costs is  
10 the impact of the Patient Protection and Affordability Care Act itself. The usual market  
11 uncertainties regarding market rates and changes in the insurance premiums can be  
12 estimated based on regular actuarial studies and techniques. Therefore, DRA  
13 recommends that the Commission should limit the establishment of such “Employee  
14 Health Insurance Memorandum Account” to only those costs that can be clearly traced  
15 back to the Patient Protection and Affordability Care Act itself. These costs should then  
16 be subject to the necessary regulatory oversight when GOWC will request recovery of the  
17 memorandum account balance. Please also notice that GOWC titles its requested account  
18 as “Employee Health Insurance Memorandum Balancing Account”. DRA asserts that no  
19 mean DRA’s instant recommendation should be construed to mean recommendations for  
20 a “Balancing Account”. DRA is recommending a “Memorandum Account” and not a  
21 “Balancing Account”. To eliminate any potential confusion, DRA recommends that the  
22 requested memorandum account should be titled “Employee Health Insurance  
23 Memorandum Account”.

#### 24 **D. CONCLUSION**

25 Based upon the information provided by GOWC and DRA’s independent review  
26 and foregone discussion, DRA recommends that the Commission deny GOWC’s request  
27 to establish a Chromium VI Memorandum Account; however, the Commission should  
28 allow GOWC’s request to establish an “Employee Health Insurance Memorandum

- 1 Account” for the limited tracking of those increased costs that can be directly traced to
- 2 the Patient Protection and Affordability Care Act.

## **APPENDIX -A**

### **QUALIFICATIONS OF WITNESSES**

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
MEHBOOB ASLAM**

1  
2  
3  
4  
5 Q1. Please state your name, business address, and position with the California Public  
6 Utilities Commission (Commission).

7 A1. My name is Mehboob Aslam. My business address is 320 W. 4<sup>th</sup> Street, Los  
8 Angeles, CA. My job title is Public Utilities Regulatory Analyst-V (PURA V). I  
9 am currently employed in the Division of Ratepayer Advocates.

10  
11 Q2. Please summarize your education background and professional experience.

12 A2. I have a Bachelors of Science in Mechanical Engineering degree from one of the  
13 prestigious engineering universities of Pakistan, University of Engineering &  
14 Technology (UET) Lahore, Pakistan. I also have a MBA postgraduate degree in  
15 business management with added emphasis on accounting and finance from  
16 Western Kentucky University.

17  
18 I joined the Commission in 2001 with its Consumer Protection and Safety  
19 Division (CPSD), Safety Branch as Utilities Engineer. While working for CPSD, I  
20 conducted various gas and electric utilities audits pursuant to the Commission's  
21 General Orders: GO 95, GO 112E, and GO 128. In 2002, I transferred to the  
22 Division of Ratepayer Advocates (DRA) with its Water Branch. In this capacity, I  
23 have performed numerous complex economic, financial, and policy research  
24 analyses. While working for DRA, I have represented DRA in several general rate  
25 case proceedings concerning Class-A water utilities including: San Gabriel Valley  
26 Water Company; Golden State Water Company; Valencia Water Company;  
27 Suburban Water Company, California American Water Company; and San Jose  
28 Water Company. On multiple occasions, I have also performed in the capacity of  
29 Lead Analyst while working on complex ratemaking issues such as Commission's  
30 Order Instituting Ratemaking (OIR) regarding Water companies' Affiliate

1 Transaction Rules, use of Advance Metering Infrastructure (AMI) for water  
2 utilities, General Office cost allocations, complex IT projects, and major Water  
3 Treatment Plants and Infrastructure costing in excess of \$10 million.

4

5 Q3. What is your responsibility in this proceeding?

6 A3. I am responsible of the following Chapters: Executive Summary; Overview and  
7 Summary of Earnings, and Special Requests. I also acted as Project Manager for  
8 the DRA team.

9

10 Q4. Does this conclude your prepared testimony?

11 A4. Yes, it does.

12

1 **QUALIFICATIONS AND PREPARED TESTIMONY**  
2 **OF**  
3 **PATRICK E. HOGLUND**  
4

5 Q1. Please state your name and business address.

6 A1. My name is Patrick E. Hoglund. My business address is 505 Van Ness Avenue,  
7 San Francisco, California.

8 Q2. By whom are you employed and in what capacity?

9 A2. I am employed by the California Public Utilities Commission - DRA Water  
10 Branch - as a Senior Utilities Engineer.

11 Q3. Please briefly describe your educational background and work experience.

12 A3. I am a graduate of the University of California, Berkeley, with a Bachelor of  
13 Science Degree in Industrial Engineering and Operations Research. I am also a  
14 graduate of the University of Rochester, William E. Simon School of Business  
15 with a Master of Business Administration Degree with concentrations in Finance  
16 and Corporate Accounting. I am a licensed professional Industrial Engineer.

17  
18 I have been employed by the California Public Utilities Commission since 2005.  
19 My current assignment is within DRA – Water where I work on Class A General  
20 Rate Cases, Cost of Capital proceedings, and policy related matters. From July  
21 1999 through August 2004, I was a Senior Rates Analyst at Pacific Gas and  
22 Electric Company, where I worked on a variety of revenue requirements issues  
23 related to natural gas. From 1990 through 1997, I was employed by the California  
24 Public Utilities Commission. During this time I worked on small water utility rate  
25 cases, large water utility rates cases, and also worked in the Telecommunications  
26 and Energy Branches of the former Commission Advisory and Compliance  
27 Division, as well as in the Division of Ratepayer Advocates.

28 Q4. What are your responsibilities in this proceeding?

A4. I am responsible for the preparation of Chapter 2, Customer Sales and Revenues of  
DRA's report.

1 Q5. Does this conclude your prepared testimony?

2 A5. Yes, it does.

3

1 **QUALIFICATIONS AND PREPARED TESTIMONY**  
2 **OF**  
3 **CLEASON WILLIS**  
4

5 Q1. Please state your name and business address.

6 A1. My name is Cleason Willis. My business address is 505 Van Ness Avenue, San  
7 Francisco, California 94102.

8  
9 Q2. By whom are you employed and in what capacity?

10 A2. I am employed by the California Public Utilities Commission as a Regulatory  
11 Analyst.

12  
13 Q3. Please briefly describe your educational background and work experience.

14 A3. I graduated from the California State University of Hayward / East Bay with a  
15 Bachelor of Science Degree in Business Administration and Finance, and a  
16 Master's of Science Degree in Public Administration and Management. After  
17 Graduation for my undergraduate degree; I started working for the California  
18 Public Utilities Commission. Since joining the Commission, I have performed  
19 economic, and reasonableness analysis for various Electrical, Gas, Water, and  
20 Telecommunications utilities. I have written reports, and testified regarding the  
21 validity of my findings and recommendations concerning my analysis for various  
22 utility proceedings.

23  
24 Q4. What are your areas of responsibility for this proceeding?

25 A4. I am responsible for the Division of Rate Payer Advocates Operations and  
26 Maintenance report and the Customer Service report for Great Oaks Water  
27 Company.

28

1                                   **QUALIFICATIONS AND PREPARED TESTIMONY**  
2   **OF**  
3   **LAURA KRANNAWITTER**  
4

5   Q1.   Please state your name and business address.

6   A1.   My name is Laura Krannawitter. My business address is 320 West 4<sup>th</sup> Street, Suite  
7       500, Los Angeles, Ca 90013.

8  
9   Q2.   By whom are you employed and in what capacity?

10   A2.   I am employed by the California Public Utilities Commission as a Senior Utilities  
11       Engineer, specialist.

12  
13   Q3.   Please briefly describe your educational background and work experience.

14   A3.   I graduated from San Francisco State University with a Bachelor of Science  
15       Degree in Engineering with honors, and a Master of Business Administration, with  
16       an emphasis in international business. I have a Professional Engineering license in  
17       mechanical engineering (#M27421)

18  
19       I have been employed by the CPUC since 1987. For 25+ years, I have worked on  
20       Electric, Gas, Telecommunications, Transportation, and Water matters. I have  
21       worked predominantly on energy matters, but the last six years have been focused  
22       on water issues. The majority of my tenure was spent working in the advocacy  
23       division of the Commission, but I have also worked in the advisory and Executive  
24       branches as well. In addition to advocacy testimony, I have also written  
25       resolutions for advice letters, alternate decisions for Commissioners, and language  
26       for various OIR's. I currently work on energy and water matters in the Division of  
27       Ratepayer Advocates (DRA).

- 1 Q4. What is your area of responsibility in this proceeding?
- 2 A4. I am responsible for chapter 4, Administrative and General Expenses, Payroll
- 3 Expenses and Payroll taxes for the general rate case of Great Oaks Water
- 4 Company.
- 5
- 6 Q5. Does this conclude your prepared testimony?
- 7 A5. Yes, it does.
- 8

1                                   **QUALIFICATIONS AND PREPARED TESTIMONY**  
2                                   **OF**  
3                                   **BRIAN YU**

4  
5 Q1. Please state your name, business address, and position with the California Public  
6 Utilities Commission (Commission).

7 A1. My name is Brian Yu and my business address is 320 W. 4<sup>th</sup> Street, Suite 500, Los  
8 Angeles, CA 90013. I am a Utilities Engineer in the Water Branch of the Division  
9 of Ratepayer Advocates.

10  
11 Q2. Please summarize your education background.

12 A2. I graduated from the California State Polytechnic University, Pomona, with a  
13 Bachelor of Science in Mechanical Engineering.

14  
15 Q3. Briefly describe your professional experience.

16 A3. I have been employed by the Commission since September 2001. While at the  
17 CPUC, I have conducted safety and security audits of rail transit systems,  
18 coordinated system safety and security certifications of new transit systems,  
19 conducted safety inspections of rail transit power lines, and served as the State's  
20 safety liaison for the Los Angeles County Metropolitan Transportation Authority.  
21 Since transferred to DRA in 2007, I have participated in various Class A water  
22 utilities' general rate case mainly reviewing the capital projects.

23  
24 Q4. What is your responsibility in this proceeding?

25 A4. I am responsible for review of the GSWC Capital Projects in Region III Mountain  
26 Desert District, Region III Depreciation, and Ratebase.

27  
28 Q5. Does this conclude your prepared direct testimony?

29 A5. Yes, it does.

30

1                                   **QUALIFICATIONS AND PREPARED TESTIMONY**  
2   **OF**  
3   **JENNY M. AU**

4  
5 Q1. Please state your name and business address.

6 A1. My name is Jenny M. Au. My business address is 320 W. 4<sup>th</sup> Street, Suite 500,  
7 Los Angeles, CA 90013.

8  
9 Q2. By whom are you employed and in what capacity?

10 A2. I am employed by the California Public Utilities Commission as an Utilities  
11 Engineer .

12  
13 Q3. Please briefly describe your educational background and work experience.

14 A3. I graduated from the Cal Poly Pomona with a Bachelor of Science Degree in Civil  
15 Engineering. I have been employed by the CPUC since 2007. I am a licensed  
16 professional Civil Engineer.

17 I have been employed by the California Public Utilities Commission since April  
18 2007. My current assignment is in the Water Branch of the *Division of Ratepayer*  
19 *Advocates (DRA)*, where I participate in various GRCs. I prepared testimonies on  
20 Capital Projects, Sales Forecasting, and Water Quality in various Class A water  
21 utilities GRCs including Suburban, Golden States, Great Oaks, San Gabriel, Apple  
22 Valley Rancho, San Jose, and Cal Water.

23 From December 2006 through March 2007, I was a Hazardous Substance  
24 Engineer at the *Department of Toxic Substances Control's School Program*. The  
25 School Program assists school districts in the assessment of environmental  
26 conditions at school properties. As a project manager, I oversaw the assessment,  
27 investigation, and cleanup of proposed school sites to certify that the sites are safe  
28 for the students and teachers who will attend the schools.

1 From January 1993 through November 2006, I was a Water Resource Control Engineer at  
2 the *Los Angeles Regional Water Control Board's Site Cleanup Unit*. The Site Cleanup  
3 Program staff oversees the site investigation and corrective action at contaminated sites. I  
4 managed over 100 complex soil and groundwater cleanup projects involving a multiple  
5 of contaminants such as petroleum hydrocarbons, volatile organic compounds (PCE,  
6 TCE, etc.), emerging chemicals (perchlorate, 1,4 dioxane, chromium VI), and inorganics  
7 (metals, nitrate). My projects ranged from small industrial sites (e.g. dry cleaners) to  
8 multi-acre Department of Defense (DOD) sites. I reviewed and provided comments on  
9 site assessment and remediation plans and reports to ensure that the extent of soil and  
10 groundwater contamination is adequately defined and properly remediated to levels  
11 which do not pose a risk to human health and the environment. I also prepared NPDES  
12 permits and Waste Discharge Requirements for cleanup projects.

13

14 Q4. What is your area of responsibility in this proceeding?

15 A4. I am responsible for the chapter on Water Quality in DRA's testimony.

16

17 Q5. Does this conclude your prepared testimony?

18 A5. Yes, it does.

19

20



1 Here, I have participated in the financial examinations of major regulated public  
2 utilities, testifying in a position of ratepayer advocacy in proceedings before the  
3 CPUC. I have worked on the general rate cases (GRCs) of AT&T  
4 Communications, Pacific Bell, and General Telephone Company of California. I  
5 led a review of the affiliate transactions of Pacific Bell Directory, and I served as  
6 the DRA project manager of Roseville Telephone Company's 1995 GRC.

7  
8 From 1996 through 2000, I worked for the CPUC's Telecommunications Division  
9 in the capacity of a senior PURA. My duties included: assisting administrative  
10 law judges and the Commission in the preparation of decisions; preparing  
11 resolutions; the review and processing of applications for certificates of public  
12 convenience and necessity of competitive local exchange telecommunications  
13 companies; and the review and processing of advice letters. There, I also served  
14 as the CPUC liaison to: the Universal Lifeline Telephone Service (ULTS)  
15 Marketing Board; the ULTS Administrative Committee; and the Community  
16 Technology Fund. My duties included oversight and all CPUC staff  
17 administrative functions for the ULTS program, including the preparation of  
18 budgets, contracts, and the Commission resolutions authorizing them.

19  
20 Since April 2001, I have been employed in the CPUC's Division of Ratepayer  
21 Advocates (DRA) as a PURA V. My current duties include participation in major  
22 proceedings before the CPUC in a position of ratepayer advocacy.

23  
24 In April, 2007, I successfully passed the examination for Certified Rate of Return  
25 Analyst (CRRA) administered by the Society of Utility and Regulatory Financial  
26 Analysts (SURFA.)

27  
28 I have testified before this Commission on many occasions.  
29

- 1 Q4. What is the purpose of your testimony today?
- 2 A4. I have prepared and am sponsoring the following in this proceeding:
- 3 Chapter 6 - Income Taxes - of DRA's Report on the Results of Operations of the
- 4 Great Oaks Water Company for FTY 2013-2014.
- 5
- 6 Q5. Does that complete your prepared direct testimony in this proceeding?
- 7 A5. Yes, at this time.