

Docket: : A.14-01-002
Exhibit Number : _____
Commissioner : Carla J. Peterman
Admin. Law Judge : S. Pat Tsen
ORA Proj. Coordinator : Yoke Chan



OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

PUBLIC VERSION

REPORT ON THE
RESULTS OF OPERATIONS

APPLE VALLEY RANCHOS
WATER COMPANY

Test Year 2015 and
Escalation Years 2016 and 2017
Application 14-01-002

For authority to increase water rates located in the
Community of Apple Valley, including Jess Ranch, located
in San Bernardino County

San Francisco, California
May 9, 2014

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APPENDIX A – ORA RESULTS OF OPERATIONS TABLES

APPENDIX B – QUALIFICATIONS

1 **MEMORANDUM**

2 This Report is prepared by the Office of Ratepayer Advocates (ORA) –
3 Water Branch. Senior Utilities Engineer Yoke Chan serves as Project
4 Coordinator, under the supervision of Program and Project Supervisors Ting-Pong
5 Yuen and Lisa Bilir and Program and Project Manager Danilo Sanchez. Maria
6 Bondonno serves as ORA legal counsel in this general rate case. The list of ORA
7 witnesses and their contributions to this report are listed in Executive Summary.
8 Appendix A of this report contains ORA’s Results of Operations Tables and
9 Appendix B contains the Qualifications and Prepared Testimony of ORA
10 witnesses.

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EXECUTIVE SUMMARY

In its Application 14-01-002, filed on January 2, 2014, Apple Valley Ranchos Water Company (AVR) requests a rate increase of 14.88% in Test Year 2015, 8.48% in Escalation Year 2016, and 8.19% in Escalation Year 2017. ORA in this report presents its analysis and recommendations that result in an estimated increase of 7.97% in the Test Year 2015, and an estimated increase of 2.99% in Escalation Year 2016.

Key Recommendations

ORA recommends that AVR’s rate of return of 9.07%, adopted in Decision 13-05-037 be used in this proceeding.

ORA recommends that the Commission adopt ORA’s results of operations for AVR (domestic & irrigation) which are based on *lower* estimates for O&M expenses, A&G expenses, plant additions and ratebase, and *lower* sales estimates. Some of ORA’s key adjustments are:

- Lower sales and lower unaccounted for water percentage. (See Chapter 2).
- O&M and A&G Expenses: Lower leased water rights expenses,
- Lower Pensions and Benefits Expenses. (See Chapter 5).
- Plant Investment and Rate Base: Disallowance and/or reduction of various plant investment requests (e.g., new well #35, 1.5 MG storage tank in Bell Mountain pressure zone and Stoddard pressure zone, and office expansion and mains replacement program). AVR’s plant addition estimate for 2014, 2015 and 2016 exceeds ORA’s estimates by 55%, 29%, and 27% respectively. (See Chapter 8).

ORA recommends that the Commission to allow AVR to track conservation expenses in a capped One-Way Balancing Account for the three years of this GRC cycle. (See Chapter 3.)

1 ORA recommends that the Commission adopt ORA’s estimates for Park
2 Water Company’s (“Park”) general office expenses and rate base and the
3 allocation of those components to Park’s division/subsidiaries which include AVR
4 (domestic and irrigation). (See Chapter 12.)

5 ORA does not oppose AVR’s requests to amortize the balances in its
6 existing balancing accounts and memorandum accounts with a few exceptions.
7 (See Chapter 14.)

8 ORA recommends AVR’s special requests be granted in part and denied in
9 part. (See Chapter 15.)

10 ORA recommends that AVR continue its pilot conservation rate design
11 program and that AVR’s proposed modifications to the tier breakpoints and price
12 differential between tiers be adopted. (See Chapter 16.)

13 ORA does not oppose AVR’s request to increase to LIRA discount and
14 related surcharge amount. (See Chapter 18.)

15 ORA recommends AVR’s requests be denied for the following : (1) add
16 the commodity revenues for the irrigation-gravity customer group to the WRAM
17 balancing account, (2) add the irrigation-gravity production costs to the MCBA,
18 (3) terminate the Incremental Cost Balancing Account on the effective date of
19 tracking irrigation-gravity water costs in the MCBA, and (4) add the cost of
20 chemicals to the supply costs captured by the MCBA. (See Chapter 19.)

21 **Compliance Matters**

22 AVR included the refunds for the salaries for unfilled positions in its
23 2013 WRAM/MCBA balance. The advice letter for recovering 2013
24 WRAM/MCBA was filed on May 6, 2014.

25 AVR is not in compliance with D. 12-09-004 with presenting a detailed
26 study and testimony to justify its total compensation package for all levels of
27 workers in terms of both the local Apple Valley labor market as well as the
28 water industry in California. (See Chapter 4.)

ORGANIZATION OF REPORT

Chapter	Description	ORA Witness
1	Introduction and Summary	Yoke Chan
2	Water Consumption and Operating Revenues	Julia Ende
3	Operations & Maintenance and Administrative & General Expenses	Cleason Willis, Herbert Merida, Julia Ende
4	Payroll (AVR and GO)	James Simmons
5	Pensions and Benefits Expenses (AVR and GO)	Jose Cabrera
6	Taxes Other than Income	Jose Cabrera
7	Income Taxes	Jose Cabrera
8	Utility Plant In Service (AVR and GO)	Jenny Au
9	Depreciation Reserve and Depreciation Expense (AVR and GO)	Sung Han
10	Working Cash and Rate Base	Julia Ende, Sung Han
11	Customer Service	Cleason Willis
12	Park Water Company's General Office O&M, A&G Expenses and Taxes	Mukunda Dawadi
13	Transactions with Corporate Affiliates and Unregulated Transactions	Roy Keowen
14	Memorandum/Balancing Accounts	Roy Keowen, Jenny Au, James Simmons, Jose Cabrera
15	Special Requests	Julia Ende, Yoke Chan
16	Water Quality	Jenny Au
17	Rate Design	Julia Ende
18	CARW program	Roy Keowen
19	WRAM/MCBA/ICBA	Julia Ende, Yoke Chan
Appendix A	ORA Results of Operations Tables	Herbert Merida
Appendix B	Qualifications	All

1 **CHAPTER 1: INTRODUCTION & SUMMARY**

2 **A. INTRODUCTION**

3 On January 2, 2014, Apple Valley Ranchos Water Company (“AVR”) filed
4 A.14-01-002 requesting authority to increase rates charged for its domestic and
5 irrigation water service by \$3,127,463 or 14.88% in Test Year 2015, by
6 \$2,056,455 or 8.48% in Escalation Year 2016, and by \$2,160,731 or 8.19% in
7 Escalation Year 2017.

8 AVR estimates that its proposed increases will produce revenues providing
9 a rate of return on equity (“ROE”) of 9.79% and a rate of return on ratebase
10 (“ROR”) of 9.07%. These rates of return were authorized by the Commission in
11 D.13-05-027.

12 This report sets forth ORA’s analysis and recommendations on AVR’s
13 general rate case requests. Tables 1-1 through 1-3 in Appendix A compare AVR’s
14 and ORA’s Summary of Earnings for the Domestic System for the Test Year
15 2015. Table 1-4 compares AVR’s and ORA’s Summary of Earnings for the
16 Irrigation System for Test Year 2015.

17 **B. DISCUSSION**

18 AVR operates two water systems - domestic and irrigation, each having its
19 own results of operations (“RO”). AVR’s domestic system generates about
20 \$20 million in annual revenues and has 24 wells and 19,000+ customers. Its
21 irrigation system generates approximately \$197,000 in annual revenues, and has
22 one well and one customer. This one well pumps into a series of lakes, from
23 which the customer takes metered lake water to irrigate a golf course.¹

24 **1) AVR – Domestic**

25 Table 1-A below provides a comparison of AVR’s and ORA’s estimated
26 domestic revenue requirement increases for Test Year 2015, both based on a

¹ AVR Revenue Requirement Report, p. 6.

1 9.07% ROR. The differences between ORA's and AVR's revenue requirement
 2 increase estimates are due to ORA's adjustments as summarized in the Executive
 3 Summary of this report.

4 **Table 1-A**
 5 **Test Year 2015 Revenue Requirement Increase (Domestic)**

	Amount of Increase	Percent Increase
AVR	\$3,105,013	14.91%
ORA	\$1,645,900	7.98%
Difference	\$1,459,113	6.93%

6 Table 1-B presents a comparison of ORA's and AVR's estimates for ROR
 7 for the Test Year 2015 at present rates and at AVR's proposed rates. As shown, at
 8 AVR's proposed rates, ORA estimates that the company will earn an ROR of
 9 10.80%, which is 1.73% higher than its authorized 9.07% ROR for Test Year
 10 2015.

11 **Table 1-B**
 12 **RORs at Present Rates and at AVR-Proposed Rates (Domestic)**

	ORA	AVR	Difference
Present Rates	7.16%	6.00%	-1.16%
AVR-Proposed Rates	10.80%	9.07%	-1.73%

13 **2) AVR – Irrigation**

14 Table 1-C below provides a comparison of AVR's and ORA's estimated
 15 irrigation revenue requirement increase for Test Year 2015.

16 **Table 1-C**
 17 **Test Year 2015 Revenue Requirement Change (Irrigation)**

	Amount	Percent
AVR	\$22,500	11.41% Increase
ORA	\$14,200	7.36% Increase
Difference	\$8,300	4.05% Increase

18 **C. CONCLUSION**

19 ORA recommends that the Commission find ORA's Test Year 2015 results
 20 of operations, presented in Tables 1-3 and 1-5 in Appendix A reasonable and

- 1 authorize a revenue *increase* of \$1,645,900 or 7.98% for the domestic system and
- 2 a revenue *increase* of \$14,200 or 7.36% for the irrigation system.

1 **C. DISCUSSION**

2 In accordance with the Rate Case Plan (D.07-05-062), utilities are required
3 to forecast customer growth using a five-year average of the change in the number
4 of customers by customer class. Should an unusual event occur, or be expected to
5 occur, then an adjustment to the five-year average can be made. Further, the
6 applicant utility and ORA must calculate consumption by using a multiple
7 regression to forecast per-customer usage for the residential and commercial
8 customer classes in general rate cases based on the New Committee Method. This
9 method relies on Standard Practice No. U-25 and “Supplement to Standard
10 Practice No. U-25” with the following improvements:

- 11 - Use monthly data for 10 years, if available;
- 12 - Use 30-year average for forecast values for temperature and
13 rain; and
- 14 - Remove periods from the historical data in which sales
15 restrictions were imposed or the Commission provided the
16 utility with sales adjustment compensation, but replace with
17 additional historical data to obtain 10 years of monthly data, if
18 available.²

19 Number of customers and unit consumption are the basis for all revenue
20 forecasts, so the subsequent comparison of revenue will reflect the changes made
21 in these projections. The water supply estimates then take into account any
22 changes in estimated number of customers, unit consumption, and unaccounted for
23 water. For water supply, a distinction is made between the “domestic” customer
24 classes and the “gravity irrigation” customer. This unique irrigation customer, a
25 golf course on Jess Ranch, has a special agreement and situation involving a
26 fishing nursery and connected ponds. Several factors result in high reported
27 unaccounted for water in the irrigation system: 1) the demands of the aquaculture;
28 2) evaporation ; 3) seepage through the beds of the lakes; and 4) water that simply

² D.07-05-062, Appendix, p. A-23, Footnote 4.

1 flows out the other end of the non-pressurized system as return flows to the basin.
2 In order to allow AVR to reasonably assess the unaccounted for water in the
3 domestic system, the gravity irrigation system is shown with a unique unaccounted
4 for water percentage. This practice is consistent with past GRCs.

5 **1) Customers**

6 ORA reviewed AVR's estimates for the number of customers for all ten
7 classes. ORA recommends including 2013 recorded data for this analysis in order
8 to use the most recent and best available data.

9 **a) Residential**

10 The residential class five-year average growth over the period of 2008-2012
11 was 42 customers per year. AVR projects annual residential customer growth to
12 be 142 customers per year beginning in 2013, which includes the 42 customers
13 mentioned above and 100 additional customers per year for a planned
14 development in Jess Ranch.

15 ORA estimates customer growth using the five-year average growth from
16 2009-2013, calculated as 95 customers per year. Based on the planned
17 development construction witnessed during an on-site visit in February 2014,
18 ORA does not believe it is reasonable to expect 100 new homes to be completed
19 and occupied with new customers on the system until next year. ORA, therefore,
20 recommends using 95 customers per year to calculate customer growth for 2014,
21 and 195 customers per year beginning in Test Year 2015.

22 **b) Business/Commercial**

23 AVR calculated the commercial class five-year average growth of 9
24 customers per year from 2008 to 2012. ORA estimates this class of customers
25 using the 2009-2013 5-year average growth of 13 customers per year starting with
26 the 2013 recorded number of 1,358 customers. This would project 1,384 in the
27 Test Year 2015, and 1,397 in the Escalation Year 2016.

1 **c) Industrial, Public Authority – Irrigation, Gravity**
2 **Irrigation, Apple Valley Golf Course, and Public**
3 **Authority**

4 ORA agrees with AVR’s customer projections of zero growth for
5 Industrial, Public Authority – Irrigation, Gravity Irrigation, and Apple Valley Golf
6 Course. All of these customer classes have had a consistent number of customers
7 for the last five years or longer. The current counts for these classes are two
8 Industrial customers, five Public Authority – Irrigation customers, one Gravity
9 Irrigation customer, and one Apple Valley Golf Course customer. Public
10 Authority gained two customers in 2011, but otherwise has had no growth over a
11 five-year period.

12 **d) Private Fire**

13 Based on the 2008-2012 five-year average, AVR estimated 17 new private
14 fire customers per year. Reflecting the declining growth in this customer class,
15 ORA recommends using the five-year average growth (2009 through 2013) of 8
16 customers per year. This would project 240 private fire customers in the Test
17 Year 2015, and 248 in the Escalation Year 2016.

18 **e) Pressure Irrigation**

19 The Pressure Irrigation customer class provides service to common areas
20 within the Jess Ranch Community. AVR proposes five new customers per year.
21 ORA recommends using the five-year average change (2008-2009 through 2012-
22 2013) of four customers per year. This would project 166 in the Test Year 2015,
23 and 169 in the Escalation Year 2016.

24 **f) Temporary Construction**

25 The temporary construction customer class differs from other classes in that
26 there is no meaning in a growth per year value, rather a rolling average number of
27 customers over a year is estimated. AVR assumes all temporary construction will
28 be related to new commercial customers and suggests they will be equal to the

1 number of new commercial projects each year. The five-year average (2008–
2 2012) number of customers (not growth) has been 6 commercial customers. ORA
3 recommends using 5-year average growth (2009-2013) of 9 customers in both Test
4 Year 2015 and Escalation Year 2016.

5 **2) Water Sales Per Customer**

6 Customer unit consumption has been somewhat unstable in the last 5 years.
7 This may be due to several factors such as an unstable economy, local
8 encouragement of conservation, rate increases, implementation of a conservation
9 rate design that provides an incentive to save water, the recent drought, and/or
10 recent statewide legislation encouraging water conservation. ORA agrees the
11 current state of the economy and the declared drought provides a justified unusual
12 event and allows for a deviation from a multiple regression, the preferred forecast
13 tool for customer consumption projections within the Rate Case Plan.

14 **a) Residential and Business/Commercial**

15 Both AVR and ORA performed a regression analysis (AVR using the
16 software Stata and ORA using the software program EvIEWS) to follow the Rate
17 Case Plan for residential and business unit consumption forecasts. AVR included
18 temperature, precipitation, time, a dummy variable for each month, and a dummy
19 variable for conservation. The residential class yielded good results with R-
20 Squared values of 0.94 for the model that includes rainfall, monthly dummies,
21 time, and the conservation dummy. Nevertheless, AVR rejects the econometric
22 method for the residential class because the forecast overstates the effects of the
23 drastic drop in unit consumption that occurred between 2007-2011, with a peak of
24 290.11 ccf per customer in 2007 down to the level of 200.85 ccf per customer in
25 2011. AVR forecasts a 1.5% annual reduction for its residential class starting with
26 2012 actual recorded consumption.

27 ORA reviewed the New Committee Method model results and performed a
28 regression analysis. For residential customers, the R-squared was statistically

1 significant, but the output was not consistent with the recent trend in consumption
2 that has occurred in years 2012 and 2013. ORA agrees that given the substantial
3 decreases in consumption already experienced, it is not reasonable to expect a
4 continued downward trajectory at this level. Based upon the circumstances
5 presented in this case, ORA will accept AVR's proposed 1.5% annual decrease for
6 the residential and commercial/business customer classes consumption starting
7 from 2013 recorded consumption of 201.34 ccf for residential and 591.68 for
8 commercial. It is unknown how long consumer behavior will hold with the
9 conservation message. As the economy recovers, consumption behavior is likely
10 to increase. To accurately forecast consumption during transition periods between
11 droughts and major changes in the economic landscape, more refined tools or
12 complex modifications to the New Committee Method may be needed. ORA
13 recommends that any changes to the New Committee Method ought to be done in
14 an industry wide proceeding such as a Rulemaking, and not on a case-by-case
15 basis.

16 **b) Industrial, Public Authority, Private Fire, Public Authority**
17 **Irrigation, Pressure Irrigation, Apple Valley Golf Course, and**
18 **Temporary Construction**

19 According to the Rate Case Plan, water sales for classes of service other
20 than residential and commercial should be forecasted based on total consumption
21 by class using the best available data. AVR did not have a uniform method for
22 forecasting the consumption for the industrial, public authority, private fire, public
23 authority irrigation, pressure irrigation, gravity irrigation, and temporary
24 construction customer classes. For each class, ORA compared AVR's proposed
25 consumption forecast to the five-year average unit consumption and, in each case,
26 ORA found the five-year average unit consumption to provide the best estimate.
27 ORA asserts that, similar to the residential and commercial customer classes, it is
28 more accurate to forecast based on unit consumption than total consumption by

1 class. ORA applies the five-year unit consumption average for consistency and to
2 capture wider fluctuations in recorded data.

3 **3) Unaccounted for Water**

4 Unaccounted for water includes real and apparent losses. Real losses are
5 those caused by leaks in mains, service connections, valves, hydrants, or storage
6 tank overflows and leaks. Apparent losses include meter measurement
7 inaccuracies, data handling errors, and unauthorized consumption. Unaccounted
8 for water is determined as the difference between the total amount of water
9 produced and the total amount of water recorded for sales.

10 Because of the unique conditions for the Gravity Irrigation customer
11 regarding supply and unaccounted for water, determinations are considered
12 separately from the rest of the system. The remaining customer classes are
13 collectively referred to as the “domestic” system.

14 AVR’s forecast of unaccounted for water for the domestic system is 7.0%.
15 This is a decrease over the 8.0% authorized in the last GRC, but still reflects a
16 higher average in unaccounted for water than experienced between 2010 and
17 2013.³ In response to ORA’s inquiry, AVR provided updated unaccounted for
18 water data including 2013 balances. The 2-year average using 2012 and 2013 data
19 is 5.1%. AVR works actively to reduce the unaccounted for water through meter
20 testing, main replacements, and efforts to find unauthorized water use.⁴ ORA
21 recommends the Commission adopt the 2-year recorded average unaccounted for
22 water target of 5.1%.

23 AVR’s forecast of unaccounted for water for the Gravity Irrigation system
24 is 79.6%. AVR referred to its forecast as “based on the last two recorded years.”⁵

³ Domestic unaccounted for water percentages: 2010 – 7.5%; 2011 – 7.9%; 2012 – 5.0%; 2013 – 5.2%.

⁴ A.14-01-002, AVR Revenue Requirements Report, Exhibit B, p. 42.

⁵ *Id.*

1 In response to ORA's inquiry, AVR provided an updated worksheet calculating a
2 2012 and 2013 2-year balance in unaccounted for water of 76.5%. This high water
3 loss for the Gravity Irrigation system is attributed to evaporation and seepage in a
4 series of lakes. AVR is required to maintain specific water levels at these lakes for
5 fishery, and as a source to irrigate greenbelts and the golf course at Jess Ranch. A
6 water supply agreement between AVR and Jess Ranch Water Company requires
7 AVR to maintain the water level for various lakes in exchange for sufficient water
8 rights at no cost to AVR. ORA recommends using the corrected 2-year recorded
9 average of 76.5% as the unaccounted for water forecast for Gravity Irrigation.

10 **4) Operating Revenue**

11 Operating revenue is calculated by multiplying the number of customers by
12 their applicable water use and applying the current tariff rates (effective January 1,
13 2014) for the present revenue and AVR's proposed rates for the proposed revenue.

14 For Test Year 2015, the total operating revenues calculated by ORA are
15 \$20,830,022 at present rates and \$23,994,437 at AVR's proposed rates. AVR's
16 calculations are \$21,023,536 at current rates and \$24,168,407 at AVR's proposed
17 rates.

18 **D. CONCLUSION**

19 To obtain a reasonable estimate of any necessary rate change in order to
20 meet an estimated test year revenue requirement, the Commission should adopt
21 ORA's recommendations to: (1) use a five-year average of customer growth for
22 forecasting active service connections; (2) use AVR's estimates of forecasted
23 consumption for the residential and commercial classes beginning with 2013
24 consumption; and (3) accurately reflect all sources of revenues, including the
25 forecasted revenues associated with new special fees in revenue forecasts.

1 ORA uses five-year averages of historical expenses (2009 to recorded
2 2013) adjusted for inflation to assess the reasonableness of AVR’s estimates,
3 except where otherwise noted.

4 AVR stated that it used the most recent ORA inflation factors when it filed
5 their application . The inflation factors used by ORA, for normalization and
6 escalation, are developed from ORA’s Energy Cost of Service Branch (“ECOS”)
7 memorandum dated March, 25th of 2014. ORA found that AVR did not use the
8 same inflation factors in its estimates and AVR used July 2013 escalation factors.

9 **Table 3-B: ORA’s Escalation Factors**

	Non labor	Labor	Composite (60% non labor/40% labor)
2008	6.2%	2.9%	4.8%
2009	-3.6%	3.8%	-1.7%
2010	4.8%	-3.0%	3.7%
2011	5.5%	1.6%	4.3%
2012	7.0%	3.1%	1.5%
2013	5.0%	2.1%	0.9%
2014	1.7%	1.5%	2.0%
2015	1.7%	1.3%	2.3%
2016	1.6%	1.7%	2.4%
2017	1.1%	1.8%	2.3%

10 **1) Operations Payroll**

11 For an estimate of Payroll – Customers expenses, please refer to Chapter 4
12 of this report.

13 **2) Operations – Other**

14 AVR used a five year escalated average of recorded dollar expenses for all
15 line items except Grounds-keeping Pump Misc, which is based on estimated 2013
16 costs escalated to the 2015 Test Year, and Other Water Treatment OP, which is
17 amortized over 3 years. ORA used the same five year escalated average of
18 recorded dollars expenses methodology for all line items. AVR is requesting
19 \$157,003 for 2015. ORA is recommending \$159,000 for 2015. The difference is

1 due to ORA using different escalation factors and recorded 2013 expense which is
2 slightly higher than AVR's estimated 2013 expense.

3 **3) Purchased Power**

4 The cost of electricity needed to operate the pumping and delivery of water
5 is called purchased power expense. Both AVR and ORA use the same Southern
6 California Edison and Southwest Gas rates for their calculations. The estimate of
7 purchased power varies with the quantities of water delivered. AVR developed
8 the total amount of power required for Test Year 2015 from the ratio of power
9 consumption and water production (KWH / Therms per CCF) by individual wells
10 and boosters from the 2010-2012 three year average. This ratio was multiplied by
11 the estimated Test Year water production and purchased power rates to calculate
12 the Domestic Test Year power consumption cost of \$1,010,269.

13 ORA finds AVR's methodology to be reasonable but estimates lower
14 sales and water production compared to AVR for the Domestic Test Year, as
15 discussed in Chapter 2 of this Report. ORA estimates \$1,010,300 for Domestic
16 for Test Year 2015. Using the above methodology, ORA estimates the Irrigation
17 for Test Year amount to be \$87,230.

18 **4) Leased Water Rights**

19 AVR estimated that for Test Year 2015 it will need 2,520 acre feet of
20 leased water rights at a rate of \$382.50 per acre foot, based on the total cost of
21 transfer of leased water rights divided by the adjusted amount of transfer acre feet
22 from the sources that AVR leases water rights from, resulting in a total cost of
23 \$963,849. AVR's leased water proposal is based on current and future demand
24 while they continue to make efforts to purchase water rights. ORA finds AVR's
25 methodology to be reasonable but estimates a lower sales and water production
26 relative to AVR for the Test Year as discussed in Chapter 2 of ORA's Report.
27 With the decreases in sales and water production, ORA estimates the need for
28 2,182 acre feet of leased water rights at a rate of \$382.50 per acre foot, and a total

1 cost of \$834,735 for Test Year 2015. ORA asserts that its estimates and
 2 recommendations are reasonable and should be adopted by the Commission.

3 **5) Replenishment**

4 AVR estimated total replenishment charges for Domestic and Irrigation
 5 consist of two assessments – the Make-up Assessment and the Administrative /
 6 Biological Assessment. The assessments are obligations required by the Mojave
 7 River Basin Water Master and levied on pumpers to offset the costs of
 8 administering a stipulated judgment and purchasing replacement and make-up
 9 water in the basin. AVR’s and ORA’s estimates for the replenishment charges are
 10 shown in the table below:

11 **Table 3-C: AVR’s and ORA’s Replenishment Charges**

	AVR Domestic	AVR Irrigation	ORA Domestic	ORA Irrigation
Make up	\$ 49,740	\$ 5,700	\$ 49,740	\$ 5,700
Ad/Bio	\$ 55,246	\$ 4,167	\$ 53,567	\$ 825
Total	\$ 104,986	\$ 9,867	\$ 103,307	\$ 6,525
Make up Water, AF	829	95	829	95
Make up unit cost	\$ 60	\$ 60	\$ 60	\$ 60
Total	\$ 49,740	\$ 5,700	\$ 49,740	\$ 5,700
Ad/Bio Water, AF	12,671	5,145	12,286	1,019
Ad/Bio unit cost	\$ 4.36	\$ 0.81	\$ 4.36	\$ 0.81
Total	\$ 55,246	\$ 4,167	\$ 53,567	\$ 825

12 ORA finds AVR’s methodology to be reasonable. The differences are due
 13 to different sales.

14 **6) Chemicals**

15 For Chemicals expense AVR based its Domestic for Test Year 2015
 16 estimate on a five – year average of recorded constant dollar data, and then
 17 escalated by its inflation factor to arrive at its estimate of \$22,180. ORA used the
 18 same methodology to arrive at its estimate of \$21,900. The difference is due to
 19 ORA using different escalation factors and recorded 2013 data.

1 **7) Payroll - Customers**

2 For an estimate of Payroll – Customers expenses please refer to Chapter 4
3 of this report.

4 **8) Customers - Others**

5 AVR is requesting \$226,100 for Test Year 2015. ORA recommends that
6 AVR only be allowed \$206,000 Test Year 2015. ORA bases its recommendation
7 on a 5-year average of the company’s historical expenditures in the account from
8 2009 to 2013. The difference is due to ORA using different escalation factors and
9 recorded 2013 data.

10 **9) Payroll Maintenance**

11 For an estimate of Payroll Maintenance expenses, please refer to Chapter 4
12 of this Report.

13 **10) Maintenance - Other**

14 AVR requested \$621,100 for Test Year 2015. ORA recommends \$665,000
15 for 2015. ORA used a 5-year average of AVR’s historical expenditures that were
16 escalated to compensate for inflation. The difference is due to ORA using
17 different escalation factors and recorded 2013 data. The recorded 2013 expense is
18 higher than AVR’s estimated 2013 expense by approximately \$18,000.

19 **11) Payroll – Clearings**

20 For an estimate of Payroll Maintenance expenses, please refer to Chapter 4
21 of this Report.

22 **12) Depreciation– Clearings**

23 Depreciation – Clearings expenses are derived from the plant chapter and
24 shown in ORA’s R.O. Table 9-1 in Appendix A of this report.

25 **13) Clearings – Other**

26 AVR used a five year escalated average of recorded dollar expenses for all
27 line items except for certain items based on payroll, and monthly billings to
28 estimate the Domestic for Test Year 2015 expense of \$218,000. The same five

1 year escalated average methodology was used to compute the Irrigation for Test
2 Year 2015 amount of \$3,142.

3 ORA used the same methodology except that the categories based on
4 payroll reflect the recommendations from the payroll witness. ORA's analysis
5 arrived at \$207,612 for Test Year 2015. The same five year estimating technique
6 was used to derive the Irrigation portion of the account for which ORA is
7 recommending \$3,122. ORA recommends that the Commission adopt ORA's
8 estimates.

9 **14) Uncollectibles**

10 AVR estimates an uncollectibles factor of 0.48% as a percentage of Present
11 Revenue based on a 5-year average, for Domestic for Test Year 2015. ORA found
12 AVR's uncollectibles factor of 0.48% reasonable.

13 **15) Conservation**

14 This section presents ORA's analysis and recommendations of AVR's
15 conservation expenses for Test Year 2015 and Escalation Years 2016 and 2017.
16 AVR requests conservation budgets of \$113,528, \$116,933, and \$120,441 for
17 2015, 2016 and 2017, respectively. ORA disagrees with AVR's estimates for
18 conservation budgets and recommends \$67,817, \$69,445 and \$71,042 in 2015,
19 2016, and 2017, respectively.

20 **a) Conservation Estimates**

21 As part of the previous GRC, AVR submitted a Water Use Efficiency
22 Business Plan (WUEP) outlining its strategy to implement water conservation
23 programs and reach BMP⁶ and regulatory compliance. The WUEP described five
24 components of conservation spending: (1) Public Information & Outreach, (2)

⁶ AVR is a member of the California Urban Water Conservation Council (CUWCC) and signatory to a CUWCC Memorandum of Understanding, committing themselves to implementation of Best Management Practices (BMPs) for more efficient use or conservation of water.

1 Home Owners Association and Large Landscape High Efficiency Nozzle
2 Distribution, (3) Multi-Family High Efficiency Toilet Direct Install, (4) Single
3 Family Landscape Survey and Nozzle Distribution, and (5) Cash for Grass Turf
4 Removal (depending on participation and funding from the Mojave Water
5 Agency). Based on the recommendations contained in the WUEP, D.12-09-004
6 authorized a total cap for conservation programs of \$321,126 over a three-year
7 period to be captured in a One-Way Balancing Account. The estimated annual
8 conservation budgets described in the WUEP are \$103,894 in Test Year 2012,
9 \$107,011 in Escalation Year 2013, and \$110,221 in Escalation Year 2014. The
10 settlement allowed for some flexibility in spending stating “because conservation
11 costs may not be incurred evenly throughout the rate case cycle, [the authorized
12 budget] will cover the entire rate cycle versus a yearly cap.”² As of this report,
13 AVR spent \$59,157 in 2012 and \$70,296 in 2013 on conservation programs. For
14 2014, AVR has adopted the \$110,221 annual conservation budget described in the
15 WUEP.

16 For conservation estimates used in AVR’s workpapers under O&M
17 expenses, AVR used \$110,221 (2014 annual conservation budget described in the
18 WUEP) escalated by its composite escalation factor of three percent to arrive at
19 Test Year estimate \$113,528. For Escalation Year 2016, AVR escalated the Test
20 Year estimate by its composite escalation factor of three percent to derive
21 \$116,933. AVR then escalated its 2016 estimate by three percent to derive
22 \$120,441 for the 2017 estimate, for a total of \$350,902 for this three-year GRC
23 cycle.

24 As AVR did not provide a breakdown to support its adopted conservation
25 budget, ORA based its conservation cost estimates on 2012 and 2013 recorded
26 expenses. To bring 2012 recorded expenses to 2013 dollars, ORA multiplied
27 \$59,157 by ORA’s 2013 ECOS composite escalation factor of 0.9% to arrive at

² A.11-01-001 Settlement dated September 15, 2011, p. 14.

1 \$59,689.⁸ ORA then calculated a two-year average of the conservation expense
2 totals of \$59,689 for 2012 (in 2013 dollars) and \$70,296 for 2013 to derive the
3 two-year average of \$64,293. ORA multiplied the two-year average by ORA's
4 escalation factor for each year to calculate the proposed budgets.² ORA estimated
5 \$67,817 for Test Year 2015, \$69,445 for Escalation Year 2016, and \$71,042 for
6 escalation year 2017, which totals \$208,304 for this GRC three-year cycle.

7 In its application, AVR did not explain how it plans to spend its proposed
8 2014 budget of \$110,221. In preparing its response to ORA's inquiry regarding
9 planned expenditures, AVR realized that its proposed budget would result in
10 under-spending the authorized cap by \$81,452.¹⁰ AVR stated that in addition to
11 spending the adopted 2014 budget of \$110,221, AVR plans to spend the \$81,452
12 underspend of the conservation budget for 2012 & 2013 on conservation
13 programs.¹¹ In total, AVR now plans to spend \$191,673 in 2014, a 173% increase
14 over 2013 spending. This response highlights that AVR did not have a detailed
15 comprehensive plan for conservation spending in the current year. ORA finds that
16 AVR does not warrant having a larger conservation budget for this GRC. Simply
17 playing catch up is an inefficient way to spend a conservation budget, which does
18 not follow a comprehensive plan, and may lead to mis-spent dollars resulting in a
19 higher costs burden to ratepayers to fund these programs. Further, not spending
20 the conservation budget as planned can also impact the expected goals to achieve
21 reductions in water demand.

⁸ The escalation rates are a composite factor based on ORA's March 25, 2014 Memorandum on Estimates of Non-Labor and Wage Escalation Rates for 2014 through 2018 from the February 2014 IHS Global Insight U.S. Economic Outlook as well as ORA's March 25, 2014 Memorandum on February 2014 Compensation Per Hour.

² ORA used the following composite escalation factors: 2014 – 2.0%; 2015 – 2.3%; 2016 – 2.4%; 2017 – 2.3%.

¹⁰ \$321,126 (Authorized cap for three year GRC) – \$59,157 (2012 recorded expense) – \$70,296 (2013 recorded expense) – \$110,221 (2014 proposed expense) = \$81,452 (under-spent balance).

¹¹ Data Request JRE 004 March 26, 2014 and response dated April 2, 2014.

1 ORA found that most of AVR’s conservation expenses were for customer
2 information and outreach (such as participation in school programs, workshops,
3 and festival giveaways) and distribution or installation of water saving devices
4 (i.e., high efficient hose nozzles and shower heads and high efficiency toilets).¹²
5 AVR has not provided cost-benefit analysis as part of this proceeding. AVR has
6 provided insufficient cause to initiate new programs and expenses that are
7 burdensome to its ratepayers. Without any preliminary cost-benefit analysis by
8 project type, the approval of the increased budget is unreasonable.

9 Additionally, AVR residential consumption has decreased significantly
10 since 2007, and the general long-term consumption trend is expected to continue
11 to decline. The WUEP’s estimates show that AVR has surpassed the 20%
12 reduction by 2020 set forth in SBx7-7 – the Water Conservation Act of 2009.
13 Hence, ORA recommends lowering AVR’s conservation spending. Considering
14 the significant reductions already achieved, ORA does not believe that AVR
15 should be requesting an increase in conservation spending during the next three
16 years.

17 **b) Conservation Balancing Account**

18 ORA recommends the Commission should again require AVR to track
19 conservation expenses in a capped, one-way balancing account, as was ordered in
20 the last GRC. This one-way balancing account should continue to be subject to
21 refund so that any unspent funds will be returned to the ratepayers in AVR’s next
22 GRC filing. For the cycle authorized in the last GRC, AVR should submit an
23 advice letter 30 days after it closes the balance in the account for 2014 to provide
24 refunds to ratepayers for any unspent funds.

25 AVR should continue to implement the five components of the WUEP
26 described above. As authorized in the last GRC, ORA recommends a cap of

¹² Response to Data Request JRE 002 dated March 18, 2014.

1 \$30,000 per year (2015-2017) for spending on Public Information and Outreach
2 programs. Otherwise, AVR should be allowed flexibility in the annual budgets for
3 the specific programs outlined in the WUEP, provided that all conservation
4 spending is for programs that meet BMPs, consistent with the intent of AVR’s
5 MOU with the CUWCC to continuously maintain an economically efficient
6 conservation plan designed to meet conservation goals. ORA recommends the
7 Commission adopt ORA’s conservation expense estimates of \$67,817 for Test
8 Year 2015, \$69,445 for Escalation Year 2016, and \$71,042 for Escalation Year
9 2017.

10 **ADMINISTRATIVE AND GENERAL EXPENSES**

11 ORA analyzed AVR’s reports, supporting work papers, responses to data
12 requests such as HMC-001, HMC-002, HMC-003, HMC-004, and other
13 information provided in meetings and e-mails, and AVR’s methods of estimating
14 A&G expenses, before making its own independent estimates. ORA applied the
15 various escalation factors established by the ORA Energy Cost of Service Branch
16 (“ECOS”) found in the March 25, 2014 publication to develop the level of
17 expenses requested in this application. AVR based its application escalation
18 factors from the ORA Energy Cost of Service Branch (“ECOS”) July 31, 2013
19 memorandum.

20 **16) A&G Payroll**

21 For an estimate of A&G Payroll expenses, please refer to Chapter 4 of this
22 Report.¹³

23 **17) Employee Benefits**

24 For an estimate of Employee Benefits expenses, please refer to Chapter 5 of
25 this Report.¹⁴

¹³ See ORA testimony of James Simmons (Chapter 4) on Payroll.

¹⁴ See ORA testimony of Jose Cabrera (Chapter 5) on Pensions and Benefits Expenses.

1 **18) Insurance**

2 AVR's Insurance expense consists of Workmen's Compensation and other
3 business liability policies, such as auto insurance, that are based on annual
4 premiums and estimated premium increases anticipated by the utility's insurance
5 broker. Workmen's Compensation premiums are also tied to estimated overall
6 payroll. AVR based its Test Year Domestic estimate by starting with the current
7 annualized premiums and factoring in any change in insurance rates forecasted by
8 AVR's insurance broker and, where appropriate, adding a factor for changes in
9 payroll consistent with the test year estimates made by the Company to estimate
10 \$662,982. The same methodology was used to compute the Test Year Irrigation
11 amount of \$1,291. The forecasted increases of 3.0% in insurance rates, which are
12 higher than the ECOS factors used by ORA, are based on the recommendations of
13 AVR's insurance broker.

14 Although ORA finds AVR's method to be reasonable, ORA adjusted the
15 amounts as a result of the payroll recommended in Chapter 4 of this Report.¹⁵ As
16 a result, ORA estimates \$644,088 for Domestic for Test Year 2015. Using the
17 same methodology, ORA estimates the Irrigation for Test Year 2015 amount to be
18 \$1,281. As a result of the payroll recommended, ORA asserts that its estimates
19 are reasonable and should be adopted by the Commission.

20 **19) Uninsured Property Damage Expense**

21 For Uninsured Property Damage expense, AVR based its Test Year
22 Domestic estimate on a five-year average of recorded expenses (2009 – 2013, with
23 2013 partially estimated) escalated by its inflation factors to estimate \$8,785.

24 ORA used the same methodology, except that the recorded 2013 amount
25 was used instead of an estimate to escalate to the Test Year amount of \$8,717.

¹⁵ See ORA testimony of James Simmons (Chapter 4) on Payroll.

1 **20) Regulatory Commission Expense**

2 AVR's Regulatory expense estimate is \$162,304 for Test Year 2015.
3 AVR's estimate of Regulatory Commission Expense reflects the additional
4 expense of a separate Cost of Capital proceeding. AVR's estimate of Regulatory
5 Commission Expense is based on the actual amount incurred the prior Test Year
6 2012 rate case escalated to the test period plus the outside consulting costs
7 associated with the following: (1) WRAM and Sales Adjustment Mechanism, (2)
8 Asset Management Report for main replacements, and (3) Total Compensation
9 Study. Added to this amount is the one-third expense associated with the previous
10 cost of capital proceeding ((A.13-05-027) filed May 1, 2012 for Test Year 2013)
11 escalated to the test period. In addition, AVR projects \$16,500 of customer
12 notices associated with the low-income data sharing program. The total is then
13 amortized over three years.

14 ORA's estimate of Regulatory Commission Expense is based on the actual
15 amount incurred the prior Test Year 2012 rate case escalated to the test period.
16 Added to this quantity is the forecasted amount for the Cost of Capital filing in
17 2016, based on the one-third expense associated with the 2013 Cost of Capital
18 proceeding already incurred, escalated to the test year. In addition, ORA projects
19 \$5,217 of customer notices associated with the low-income data sharing program
20 based on previous levels escalated to the test year. The total is then amortized
21 over three years. The outside consulting costs associated with the following: (1)
22 WRAM and Sales Adjustment Mechanism, (2) Asset Management Report for
23 main replacements, and (3) Total Compensation Study were not included since
24 these costs have already been incurred. The Regulatory Commission Expense
25 should forecast prospective costs and not engage in retroactive ratemaking. Thus,
26 ORA's calculated Regulatory Commission expense for AVR is \$131,341 for Test
27 Year 2015.

1 **21) Franchise Requirements**

2 AVR’s Franchise Requirements estimate is \$202,020 for Test Year 2015.
3 Franchise Fees are estimated at 0.97% of gross revenues based on the 5-year
4 average of recorded percentages from 2008 – 2012. ORA finds that AVR’s
5 estimate of 0.97% is reasonable and estimates a Franchise Requirement of
6 \$200,185 for Test Year 2015 based on the recommended operating revenue by the
7 revenue witness.¹⁶

8 **22) Outside Services**

9 AVR based its Outside Services expense on a five-year (2009 – 2013, with
10 2013 partially estimated) average of recorded expenses (excluding Audit and
11 Income Taxes, Insurance Consulting, Safety Consulting and Other General
12 Consulting) escalated to result in the Domestic for Test Year 2015 amount of
13 \$261,181.

14 For Audit and Income Taxes and Insurance Consulting, AVR used
15 hardcoded budgeted amounts.

16 Regarding Safety Consulting, in addition to the five-year average, AVR
17 proposes to conduct an Arc Flash Hazard Assessment, a Vulnerability/Mitigation
18 Study for Natural Disasters, and a Water Supply Evaluation.

19 In terms of Other General Consulting, in addition to the five year average,
20 AVR plans to (1) utilize public relations consultants for message development and
21 outreach tools to enhance its public relations program with the customers and the
22 cities that it serves and (2) propose to conduct 360 degree Leadership Feedback
23 Reviews for supervisors and managers to improve their performance and in turn
24 improve the performance throughout the organization.

25 The five-year escalated average methodology was used to compute the
26 Irrigation for Test Year 2015 amount of \$4,146.

¹⁶ See ORA testimony of Julie Ende (Chapter 2) on Water Consumption and Operating Revenues.

1 ORA utilized the same methodology as AVR except that the recorded 2013
2 amount was used instead of an estimate and a five-year (2009-2013) average of
3 recorded expenses used for Audit and Income Taxes and a two-year (2012-2013)
4 average of recorded expenses was used for Insurance Consulting because they are
5 more indicative of the actual trends.

6 **a) Arc Flash Hazard Assessment, the Vulnerability/Mitigation**
7 **Study for Natural Disasters, and the Water Supply Evaluation**
8 **portions from Safety Consulting**

9 ORA removed the Arc Flash Hazard Assessment, the
10 Vulnerability/Mitigation Study, and the Water Supply Evaluation portions from
11 Safety Consulting because they are not mandated by any agency and there have
12 been no hazardous, natural disaster and power outage incidents in to date.¹⁷¹⁸¹⁹
13 Furthermore, there are no current or expired terrorism alerts from the U.S.
14 Department of Homeland Security's National Terrorism Advisory System, since
15 its inception on April 20, 2011 and no level change in over eight years, since
16 August 12, 2005.²⁰ Also, using the data from the Southern California Earthquake
17 Center's Uniform California Earthquake Rupture Forecast (which the federal U.S.
18 Geological Survey refers to), the probability of an earthquake of magnitude 6.7 or
19 larger occurring in the Los Angeles area is just 6.7% over the next three years.²¹
20 On Friday March 28, 2014 there was a 5.1 magnitude earthquake in the La Habra
21 are of Southern California but there is little chance that it's a sign that a more
22 powerful earthquake. According to seismologist Kate Hutton from the California

¹⁷ See AVR's Data Request response to HMC-004, Q. 1.

¹⁸ See AVR's Data Request response to HMC-004, Q. 2.

¹⁹ See AVR's Data Request response to HMC-004, Q. 3.

²⁰ See the U.S. Department of Homeland Security's website on the National Terrorism Advisory System (<http://www.dhs.gov/national-terrorism-advisory-system>) and history of the Homeland Security Advisory System (<http://www.dhs.gov/homeland-security-advisory-system>).

²¹ See the Southern California Earthquake Center's website regarding the Uniform California Earthquake Rupture Forecast (<http://www.scec.org/ucurf2/>).

1 Institute of Technology Seismological Laboratory, there's a "one in 20" chance
 2 that the recent earthquakes would be precursors to a much larger earthquake.²²

3 **b) Public Relations Consulting and 360 degree Leadership**
 4 **Feedback**

5 ORA removed these expenses and ORA believes that AVR's public
 6 relations program should continue to be done internally and that the 360 degree
 7 Leadership Feedback is not needed since it is not mandated by the Commission or
 8 any other agency and AVR has not identified specific areas where it has found
 9 managerial weaknesses or that are not well managed by the company.²³²⁴

10 As a result, ORA estimates \$230,307 for Domestic for Test Year 2015.
 11 ORA utilized the same methodology as AVR for Irrigation except that the
 12 recorded 2013 amount was used instead of an estimate. As a result, ORA
 13 estimates \$4,621 for Irrigation for Test Year 2015.

14 **Table 3-D: Outside Services Estimates**

TY 2015				
ITEM	ORA	METHOD	AVR	METHOD
Audit & Income Taxes	\$85,833	5 year avg	\$86,820	Budgeted amount
Legal	\$47,707	5 year avg	\$49,942	5 year avg
Safety Consulting	0	5 year avg	\$15,667	5 year avg + studies
Water Quality Consulting	\$2,468	5 year avg	\$4,365	5 year avg
Benefits Consulting	\$2,012	5 year avg	\$2,102	5 year avg
Insurance Consulting	\$46,383	2 year avg	\$46,972	Budgeted amount
Other General Consulting	\$45,903	5 year avg	\$55,313	5 year avg + studies
Total Outside Services	\$230,307		\$261,181	

15 **23) A&G - Other**

16 AVR used a five-year average of recorded expenses (2009 – 2013, with
 17 2013 partially estimated) for all line items, with the exception of nine categories of
 18 expenses, to estimate the Domestic for Test Year 2015 expense of \$514,452.

²² See *Calif. earthquakes unlikely to be signs of the Big One*, USA TODAY; Associated Press (<http://www.usatoday.com/story/news/2014/03/31/california-earthquakes/7117899/>)

²³ See AVR's Data Request response to HMC-004 question 4.

²⁴ See AVR's Data Request response to HMC-004 question 5.

1 AVR did not use the five-year escalated average of recorded expenses (2009 –
2 2013, with 2013 partially estimated) for the following line items: (1) Temporary
3 Labor; (2) Leased Lines; (3) Travel, Lodging and Miscellaneous; (4) Meals and
4 Entertainment; (5) Registration; (6) Other Administrative General; (7) Company
5 Membership; (8) Emergency Preparedness Supplies; and (9) the Corporate A&G
6 Allocation.

7 AVR used a five-year average of recorded expenses (2009 – 2013, with
8 2013 partially estimated) escalated average of recorded expenses for all line items,
9 with the exception of Company Membership expenses, to estimate the Irrigation
10 for Test Year 2015 expense of \$249.

11 ORA used the same five-year escalated average of recorded expenses
12 methodology for all line items where AVR used a five-year escalated average
13 (other than Nextel), except that the recorded 2013 amount was used instead of an
14 estimate. ORA agreed with AVR's estimates for Temporary Labor and Leased
15 Lines. From the Nextel account, ORA removed the Nextel amount from the test
16 year since AVR stated that they completed the process of changing carriers from
17 Nextel to Verizon in 2012.²⁵ ORA used a five-year escalated average of recorded
18 dollar amounts for Travel, Lodging and Miscellaneous, Meals and Entertainment,
19 Registration and Other Administrative General because it better reflects AVR's
20 historical trends.

21 Concerning Company Membership, ORA revised the calculation used by
22 AVR (allocated NAWC and CWA dues and recorded 2012 dues of the other
23 organizations escalated to the test year) by using the revenue amount
24 recommended by the revenue witness and used the revised escalation factors.
25 Also, ORA removed from ORA's calculations payments to Community Based
26 Organizations such as the Apple Valley Chamber of Commerce, the High Desert
27 Employer Advisory Council, the Climate Registry, and also Costco Wholesale

1 Membership. The Commission does not allow rate recovery of dues to chambers
 2 of commerce, and AVR has not shown that its membership payments to the other
 3 referenced organizations benefit ratepayers.²⁶

4 Regarding the Emergency Preparedness Supplies, AVR stated, “To date
 5 there have not been emergency incidents where AVR was called upon to utilize its
 6 emergency preparedness supplies.”²⁷ Therefore, taking into consideration the
 7 terrorism and earthquake information discussed in the Outside Services section of
 8 A&G and the fact that there have been no hazardous, natural disaster and power
 9 outage incidents in the past, ORA removed the Emergency Preparedness Supplies.

10 The Corporate A&G Allocation discussion is found in Chapter 12 of this
 11 report. ORA proposed \$41,302 for the Corporate A&G Allocation.²⁸

12 ORA applied these adjustments to arrive at the Domestic for Test Year
 13 2015 amount of \$451,471 and Irrigation for Test Year 2015 amount of \$238 for
 14 A&G-Other.

15 **Table 3-E: A&G – Other (table of items that use different methodology)**

TY 2015				
ITEM	ORA	METHOD	AVR	METHOD
Nextel	\$0	DR Response	\$2,802	5 year avg
Travel, Lodging & Misc	\$18,280	5 year avg	\$24,280	Escalated budgeted amount
Meals and	\$14,401	5 year avg	\$20,801	Escalated budgeted

(continued from previous page)

²⁵ See AVR’s Data Request response to HMC-001, Q. 6.

²⁶ See e.g. D.04-07-022, at 199 (citing *Pacific Tel. & Tel. Co. v. Public Util. Comm.* (1965) 62 Cal.2d 634, 669) (stating the Commission’s “long-standing policy not to allow recovery in rates of dues to chambers of commerce and service clubs,” and, further, explaining that in order to receive Commission approval for rate recovery of any membership dues a utility must “meet its burden of proof in demonstrating how these organizations relate to the utility’s business and offer ratepayer benefits.”).

²⁷ See AVR’s Data Request response to HMC-004, Q. 6.

²⁸ See ORA testimony of Mukunda Dawadi (Chapter 12) on Park Water Company’s General Office O&M, A&G Expenses and Taxes.

Entertainment				number
Registration	\$19,272	5 year avg	\$22,297	Escalated budgeted
Other Admin General	\$36,755	5 year avg	\$69,831	Escalated budgeted amount
Company Membership	\$57,206	Removed dues	\$61,477	Allocated and escalated
Emergency Preparedness	\$0	Removed kits	\$1,504	Escalated budgeted amount
A&G Allocation	\$41,302	GO Payroll	\$41,970	GO Payroll

1 **24) A&G Transferred**

2 AVR A&G Transferred estimate for Domestic is (\$637,345) for Test Year
3 2015. ORA’s Transferred estimate for Domestic, due to changes in capital budget
4 as recommended in Chapter 8, Utility Plant in Service, of this Report, is
5 (\$184,846) for Test Year 2015.²⁹

6 **25) Rents**

7 For Rent expense AVR based its Domestic for Test Year 2015 estimate on
8 a five-year average of recorded expenses (2009 – 2013, with 2013 partially
9 estimated) escalated by their inflation factor to estimate \$17,281.

10 ORA used the same methodology except that the recorded 2013 amount
11 was used instead of an estimate to arrive to the Test Year 2015 amount of \$16,711.
12 ORA asserts that its estimate is reasonable and should be adopted by the
13 Commission.

14 **26) General Office Allocation**

15 For an estimate of General Office Allocation expenses, please refer to
16 Chapter 12 of this Report.³⁰

17 ORA recommends that the Commission adopt its A&G expense estimates
18 and recommendations as described above.

²⁹ See ORA testimony of Jenny Au (Chapter 8) on Utility Plant in Service.

³⁰ See ORA testimony of Mukunda Dawadi (Chapter 12) on Park Water Company’s General Office O&M, A&G Expenses and Taxes.

1 **D. CONCLUSION**

2 ORA recommends that the Commission adopt its O&M and A&G expense
3 estimates and recommendations as described above.

1 **CHAPTER 4: PAYROLL**

2 **A. INTRODUCTION**

3 This section discusses ORA's analysis of AVR's operating service area and
4 General Office payroll expenses for Test Year 2015 in this general rate case
5 ("GRC").

6 **B. SUMMARY OF RECOMMENDATIONS**

7 ORA recommends the Commission approve ORA's Operating Payroll of
8 \$3,781,573. AVR has not increased its proposed headcount from that which the
9 Commission approved in the last GRC. Rather, AVR has combined existing
10 positions and eliminated others. ORA recommends approval of AVR's proposed
11 payroll addition of one part-time position for a Civil Engineer Intern. ORA's
12 estimate is based on AVR's actual payroll increases granted for 2014 of 2.75%,
13 plus scheduled promotions for 2014 and 2015, and ORA's estimated Test Year
14 2015 CPI-U increase of 1.3%.

15 In D.12-09-004, the Commission ordered AVR to conduct a total
16 compensation study:³¹ "Apple Valley Ranchos Water Company must present a
17 detailed study and testimony in its next general rate case to justify its total
18 compensation package for all levels of workers in terms of both the local Apple
19 Valley labor market as well as the water industry in California"

20 PWC commissioned Human Performance Consultation (HPC) to perform a
21 compensation study. Although AVR presents HPC's survey results in its
22 workpapers accompanying its GRC Application, it did not submit any analysis
23 comparing the results of the survey to its own total compensation levels. The
24 results of PWC's Compensation Study are, therefore, inconclusive and AVR has
25 not complied with D. 12-09-004, OP 11.

³¹ D.12-09-004, Ordering Paragraph (OP) 11.

1 ORA recommends the Commission approve ORA's General Office
2 Operating Payroll of \$4,322,235. Park Water Company (PWC) is not proposing
3 any increase to the headcount of its General Office positions. ORA recommends
4 that the Commission approve PWC's actual 2.75% payroll increases for 2014%
5 plus scheduled promotions for 2014 and 2015, and ORA's projected CPI-U
6 increase of 1.3% for Test Year 2015.

7 **C. DISCUSSION**

8 **1) AVR's Payroll Requests**

9 AVR is requesting an employee count of 42 regular positions and 1 part-
10 time position for Test Year 2015. AVR has been able to accomplish a reduction in
11 the employee head count from that last authorized by the Commission in D.12-09-
12 004 through a combination of retirements, reorganization, reassignment of duties,
13 and increased reliance on technology.

14 As explained further below, AVR's Engineering Department has one
15 Engineer and proposes one new position of Civil Engineer Intern.

16 **a) AVR's Payroll Methodology**

17 For Test Year 2015, AVR arrives at its requested Test Year 2015 payroll
18 expense by (1) forecasting AVR's expected staffing level; and (2) escalating all
19 costs to AVR's requested Test Year 2015 level by 3.0% annually for 2014 and
20 2015. Of this amount, 2% is an estimated cost of living ("COLA") increase
21 effective January 1 of each year, 2014 and 2015, and a 1.0% merit raise projected
22 to be given on April 1st of each year to all employees.

23 On December 8, 2014, the Compensation Committee, in consultation with
24 senior management of PWC and its subsidiaries, including AVR, approved a zero
25 cost of living increase for PWC and AVR employees.³² PWC further informed
26 ORA that it had approved a 2014 merit increase of 2.75%.

³² PWC Board of Directors' Meeting Minutes, December 18, 2013, p. 2.

1 AVR estimates its payroll expenses for its service area in this GRC on an
2 individual employee basis. AVR then assigns the costs for each employee to
3 various expense categories, e.g., Operations, Customers, Maintenance, and
4 Administrative and General (“A&G”). AVR’s calculations use the same approximate
5 distribution observed for 2013 recorded labor costs to assign labor costs among each
6 of the four categories for calendar years 2014 through 2015, with insignificant
7 differences due to changes in the labor distribution caused by AVR’s requested
8 additional position.

9 ORA reviewed AVR’s allocation/cost assignment methodology and finds
10 that it produces reasonable results. ORA uses the same labor distribution as AVR
11 to assign labor costs to expense categories to develop the Test Year 2015
12 estimate.

13 **b) Labor Escalation Rates**

14 AVR estimates its payroll for 2014 based on the employees' hourly rates in
15 effect at the end of 2013, an estimated 2.0% 2014 COLA increase, a 2014 one
16 percent (1%) merit salary adjustments to be granted to individual employees,
17 overtime by individual employees and scheduled promotional increases. The
18 payroll for Test Year 2015 is estimated similarly beginning with the hourly rate
19 expected at the end of year 2014 and assuming a COLA increase of 2.0% and
20 merit raise of 1%.

21 **c) New Positions Authorized in the Previous Rate Case**

22 In the previous rate case (A.11-01-001, D.12-09-004) the Commission
23 authorized an employee count of 47 full-time positions including four new
24 positions of Customer Service Representative, Water Audit Conservation
25 Specialist, Asset Management Project Coordinator, and Water Quality Specialist.
26 AVR did not fill the position of Water Audit Conservation Specialist and now
27 proposes to eliminate this position.

1 AVR requested the position of Water Audit Conservation Specialist and
2 the Commission authorized one to meet requests from customers for water audits,
3 which consists of reviewing current usage, informing the customer on indoor and
4 outdoor water consumption and possible ways to conserve water, including how
5 to adjust their sprinkler timers and reduce water runoff. At the time of the
6 previous rate case, AVR reported that it had experienced an increase in the
7 number of requests for customer assistance with irrigation systems and there was
8 also an increasing number of high water bill special reads which increased the
9 number of water audits performed. During this time, the meter-reading
10 department performed several water audits and had been unable to satisfactorily
11 complete maintenance work.

12 AVR now states in its Revenue Requirements Report³³ that it does not
13 intend to fill this position because it believes that existing personnel
14 (Conservation Coordinator, Meter Readers, and Customer Service
15 Representatives) can handle the demand for water audits.

16 Because of the completion of its Automated Meter Reading
17 (“AMR”) Program and the revision to AVR’s rules which allows
18 disconnect notices to be mailed versus provided as a door-hanger,
19 meter readers have more time for maintenance functions and can
20 also handle customer requests for audits. As previously discussed,
21 customers were calling to request water audits to conserve water and
22 apply for conservation incentives and rebates. The position of
23 Conservation Representative is responsible for responding to
24 customer requests and actively promoting AVR’s conservation
25 programs (see discussion of conservation programs in Chapter II) in
26 the community. Additionally, the Company has cross trained the
27 position of Customer Service Representative to assist with water
28 audits when needed. Further, customers have become accustomed to
29 AVR’s conservation programs including tier water rates and the very
30 successful “Cash For Grass” Program (also discussed in Chapter II)
31 resulting in a decrease in the number of customer requests for water

³³ At p. 36.

1 audits. For the above reasons, AVR will not fill the position of
2 Water Audit Conservation Specialist.³⁴

3 In D.12-09-004, the Commission made the salaries refundable (through
4 credit of the salary to the Water Revenue Adjustment Mechanism Balancing
5 Account) if a new position remained vacant or in the event that a new position
6 was filled with an existing employee but that employee's former position was
7 vacant. AVR has not only refunded the payroll associated with the Water Audit
8 Conservation Specialist, but also that of the position of the Fixed Asset Analyst I
9 (for the period of January through August 2012 when the position was vacant)
10 through adjustments to the WRAM balancing account. "The refund for the
11 position of Fixed Asset Analyst I was necessary because an existing employee
12 was promoted to the new position of Asset Management Coordinator leaving the
13 employee's former position vacant."³⁵ AVR explains in its Application that the
14 other new positions authorized by the Commission (Customer Service
15 Representative, Asset Management, Project Coordinator, and Water Quality
16 Specialist) were filled and therefore no further refunds of payroll are necessary.

17 **d) Vacant Positions**

18 AVR explains that, due to reorganization, it is eliminating the following
19 positions: Superintendent of Operations, which became vacant through a
20 retirement; Warehouse/Facilities/Fleet Maintenance, which AVR has combined
21 with the position of Meter Reading Foreperson; and Asset Management
22 Supervisor, which became vacant due to a resignation. AVR says that it can
23 accomplish the duties of these positions through reorganization and reassignment
24 of duties to other employees and, therefore, does not plan to fill these positions.

³⁴ Id. at p. 37.

³⁵ Id.

1 **e) New Positions**

2 AVR requests the addition of one part-time position, Civil Engineer Intern,
3 which AVR asserts is necessitated by the aforementioned reorganization and
4 realignment of various duties, which is functionally related to the Company’s
5 ability to not replace existing positions.

6 AVR’s Engineering Department has one Engineer and proposes one new
7 position: a Civil Engineer Intern. The position of Engineering Intern is designed
8 to “assist the Engineer in various civil engineering tasks related to the water
9 system and with day to day functions. In general, the primary purpose of having
10 this intern is to provide a cost effective way to complete repetitive engineering
11 tasks associated with the design of main replacement and main extension projects.
12 These projects range from the conceptual/preliminary design phase, final design,
13 and project close out to as-built completion.”³⁶ AVR says that some of the typical
14 tasks the Engineering Intern will perform are as follows: as-built research; update
15 as-built information in the data base; gather preliminary design information;
16 QA/QC of as-builts and project close out; answer water availability and new
17 development inquiries; provide maps, standard drawings, rate schedule and review
18 fees to development projects; follow up and provide maps to as-built requests;
19 provide utility research, will serve letters, and Engineer’s estimates; update
20 standard drawing and specifications Easement acquisition; research title reports;
21 coordinate fire flow requirements with Apple Valley Fire Prevention Department;
22 gather data and maps for Conditions of Approval letters to Town of Apple Valley;
23 and coordinate with Town of Apple Valley for its capital improvement projects.³⁷

24 ORA accepts AVR’s proposed payroll positions as reasonable because
25 AVR proposes to decrease the number of employees as compared to the employee
26 count last authorized by the Commission in D.12-09-004. ORA also accepts

³⁶ AVR Revenue Requirements Report, p. 38.

³⁷ Id., pp. 38-39.

1 AVR's actual 2014 COLA (0%) and merit raises (2.75%) as more reasonable
 2 when compared with AVR's proposed factors of 2% and 1%, respectively. ORA
 3 recommends a 1.3% escalation of 2014 payroll to Test Year 2015, and 1.7% for
 4 2016, based on the ORA ECOS' March 2014 memo estimate of the Labor
 5 Consumer Price Index (CPI-U), consistent with ORA's GRC forecasting
 6 methodology. ORA's calculations also include AVR's scheduled promotional
 7 increases for 2014 and 2015.

8 **f) ORA's Recommended and AVR Requested Payroll**

9 Table 4-A below shows a comparison of ORA's recommended and AVR's
 10 requested payroll expenditures for AVR operating service area.³⁸

Table 4-A				
APPLE VALLEY RANCHOS WATER COMPANY				
TEST YEAR 2015 PAYROLL EXPENDITURES				
			DRA (Less than) AVR	
SME Description	DRA-Recommended	AVR-Requested	Amount	%
PAYROLL-OPERATIONS	\$ 823,965	\$ 837,851	\$ (13,886)	-1.7%
PAYROLL-CUSTOMERS	\$ 498,085	\$ 506,633	\$ (8,548)	-1.7%
PAYROLL-MAINTENANCE	\$ 429,856	\$ 437,181	\$ (7,325)	-1.7%
PAYROLL-CLEARINGS	\$ 120,856	\$ 122,904	\$ (2,048)	-1.7%
A & G PAYROLL	\$ 1,590,294	\$ 1,616,364	\$ (26,070)	-1.6%
GRAND TOTAL	\$ 3,463,056	\$ 3,520,933	\$ (57,877)	-1.6%
Capitalized Payroll	\$ 315,532	\$ 320,776	\$ (5,244)	-1.6%
Irrigation Payroll	\$ 2,985	\$ 3,033	\$ (48)	-1.6%
Total	\$ 3,781,573	\$3,844,742	\$ (63,169)	-1.6%

11
 12 **2) General Office Payroll Requests**

13 PWC is requesting an employee count of 32 regular positions and 2 part-
 14 time intern positions for Test Year 2015. This is the same head count (regular
 15 positions) last authorized by the Commission for the General Office in

³⁸ Includes AVR Operating Division Payroll, Labor Direct Charged from Other Divisions, and allocated General Office Payroll. Excludes costs of one additional General Office employee ORA recommends in lieu of the Power Plan in the amount of \$209,000 (Total Company, prior to allocation to AVR.) See Section B, General Office Payroll.

1 D.12-09-004. PWC’s payroll calculations include the new position of Water
2 Quality Engineer. However, this new position does not represent an increase in
3 head count due to the retirement of the position of Consulting Engineer Emeritus.
4 Additionally, there are several new positions that result from reorganization or
5 promotion that do not represent additions to head count including the positions of
6 Benefits Manager, Director of Human Resources, Senior Network Engineer,
7 Control Systems Engineer, and Chief Information Officer/Assistant VP.

8 PWC has thus been able to accomplish a reduction in the employee head
9 count from the last authorized by the Commission in D.12-09-004 through a
10 combination of retirements, reorganization, reassignment of duties, and increased
11 reliance on technology.

12 PWC has also included in its Test Year 2015 payroll estimates the cost of
13 two Interns to assist with the sustainability analysis of PWC’s operations. PWC
14 explains that it found it necessary to hire these in 2013 to provide technical
15 support to its executive staff for special projects and is creating the position of
16 Intern in this GRC.

17 **a) PWC’s Payroll Methodology**

18 PWC estimates its General Office payroll expenses in this GRC on an
19 individual employee basis as of year-end 2013. PWC then escalates its payroll for
20 projected increases for 2014 and Test Year 2015. PWC then assigns the costs for
21 each employee to various expense categories, e.g. Operations, Customers,
22 Maintenance, and Administrative and General (“A&G”). PWC’s calculations use the
23 same approximate distribution observed for 2013 recorded labor costs to assign labor
24 costs among each of the four categories for calendar years 2014 through 2015, with
25 insignificant differences due to changes in the labor distribution caused by PWC’s
26 requested additional position.

27 ORA reviewed PWC’s allocation/cost assignment methodology and finds
28 that it produces reasonable results. ORA uses the same labor distribution as PWC

1 to assign labor costs to each of the three expense categories to develop the 2015
2 Test Year estimates.

3 **b) Labor Escalation Rates**

4 PWC estimates its payroll for 2014 based on the employees' hourly rates in
5 effect at the end of 2013, the estimated 2.0% COLA increase estimated for 2014,
6 an estimated 1% merit salary adjustments to be granted during 2014 by individual
7 employees, overtime by individual employees and scheduled promotional
8 increases. The payroll for Test Year 2015 is estimated similarly beginning with
9 the hourly rate expected at the end of year 2014 and assuming a COLA increase of
10 2.0% and merit raise of 1%.

11 In contrast, ORA uses the actual 2014 COLA increase of zero and merit
12 raises of 2.75%. ORA further escalates PWC's payroll by the estimated CPI-U
13 increase of 1.3% for Test Year 2015. ORA's calculations also include PWC's
14 scheduled promotional increases for 2014 and 2015.

15 **c) New Positions**

16 As previously mentioned, PWC has also included in its Test Year 2015
17 payroll estimates the cost of two Interns to assist with the sustainability analysis of
18 PWC's operations. PWC explains that it found it necessary to hire these interns in
19 2013 to provide technical support to its executive staff for special projects and is
20 creating the positions of Sustainability Analyst Intern in this GRC. However, the
21 addition of these two new positions does not increase PWC's headcount. PWC
22 has accomplished this through a combination of retirements, reorganization,
23 reassignment of duties, and increased reliance on technology.

24 ORA accepts PWC's proposed General Office payroll positions as
25 reasonable because PWC proposes to decrease the number of employees as
26 compared to the employee count last authorized by the Commission in
27 D.12-09-004. ORA also accepts PWC's actual 2014 COLA (0%) and merit raises
28 (2.75%) as more reasonable than the COLA and merit increases PWC proposed in

1 its GRC Application. ORA recommends a 1.3% escalation of 2014 payroll to Test
 2 Year 2015, and 1.7% for 2016, based on the ORA ECOS' March 2014 memo
 3 estimate of the Labor Consumer Price Index (CPI-U), consistent with ORA's GRC
 4 forecasting methodology.

5 Consistent with ORA's recommendation to exclude PWC's request to
 6 include the cost of Power Plan, ORA adds to its payroll estimate the costs of one
 7 additional position. PWC identified the costs of this position as necessary in the
 8 absence of Power Plan. As noted in the Table below, this results in \$209,279 of
 9 additional costs for labor, taxes, benefits, and insurance.

10 **d) ORA's Recommended and PWC's Requested General Office**
 11 **Payroll**

12 Table 4-B below shows a comparison of ORA's recommended and AVR's
 13 requested General Office payroll expenditures.

Table 4-B				
APPLE VALLEY RANCHOS WATER COMPANY				
TEST YEAR 2015 GO PAYROLL EXPENDITURES				
			ORA Greater (Less) Than AVR	
SME Description	ORA- Recommended	AVR- Requested	Amount	%
PAYROLL-OPERATIONS	\$ -	\$ -	\$ -	
PAYROLL-CUSTOMERS	\$ 4,516	\$ 4,595	\$ (79)	-1.7%
PAYROLL-MAINTENANCE	\$ 33,521	\$ 34,100	\$ (579)	-1.7%
PAYROLL-CLEARINGS	\$ 20,128	\$ 20,467	\$ (339)	-1.7%
A & G PAYROLL	\$ 3,993,903	\$ 4,061,619	\$ (67,716)	-1.7%
ADD POSITION EX-POWER PLAN *	\$ 209,279	\$ -	\$ 209,279	0.0%
GRAND TOTAL	\$ 4,261,347	\$ 4,120,781	\$ 140,566	3.4%
Capitalized Payroll	\$ 70,888	\$ 72,130	\$ (1,242)	-1.7%
Total	\$ 4,332,235	\$4,192,911	\$ 139,324	3.3%

15 **D. CONCLUSION**

16 The Commission should adopt ORA's forecast of AVR's labor
 17 expenditures for Test Year 2015 in the total amount of \$3,781,573 and ORA's

- 1 forecast of General Office labor expenditures in the total amount of \$4,322,235,
- 2 because they are fair and reasonable.

1 **CHAPTER 5: PENSIONS AND BENEFITS EXPENSES**

2 **A. INTRODUCTION**

3 This chapter discusses ORA’s review of Pensions and Benefits (“P&B”) for
4 Test Year 2015. Unless otherwise indicated, all discussions apply to AVR’s
5 operating service area, General Office, and Irrigation District. P&B are comprised
6 of a variety of financial benefits available for employees during employment and
7 upon retirement. P&B include a Group (defined benefit) Pension plan, 401(K)
8 defined contribution plan, 401(A) defined contribution plan, medical & dental
9 insurance and post-retirement benefits other than pensions (“PBOP”).

10 ORA reviewed AVR’s workpapers, pension consultant actuarial reports,
11 recent insurance contract billings, responses to ORA data requests and other
12 information contained in AVR’s testimony. The following discusses the P&B
13 expenses in which ORA recommends differing estimates for the Test Year.

14 **B. SUMMARY OF RECOMMENDATIONS**

15 **1) PBOP**

16 ORA recommends lowering the 2015 Test Year estimate of PBOP expense
17 for AVR from \$41,547 to \$35,597. For the General Office, ORA recommends
18 increasing the 2015 test year estimate from \$52,732 to \$61,301.

19 **2) Medical Insurance Premiums**

20 ORA recommends lowering the 2015 test year estimate of medical
21 insurance expense for AVR from \$605,868 to \$596,220. ORA recommends an
22 estimate of \$421,440 for the General Office in the 2015 Test Year.

23 **3) Dental Insurance**

24 ORA recommends lowering the 2015 Test Year estimate of dental
25 insurance expense for AVR from \$47,796 to \$46,332. ORA recommends an
26 estimate of \$28,908 for the General Office in the 2015 Test Year.

27 **4) 401(K) Plan**

28 ORA recommends lowering the 2015 Test Year estimate of 401(K)
29 employer contribution expense for AVR from \$79,261 to \$69,720. ORA

1 recommends an estimate of \$113,421 for the General Office in the 2015 Test
2 Year.

3 **5) EAP/Wellness Program**

4 ORA recommends lowering the 2015 Test Year estimate of EAP/Wellness
5 Program expense for AVR from \$22,269 to \$5,351. ORA recommends an
6 estimate of \$4,224 for the General Office in the 2015 Test Year.

7 **6) Defined Contribution-401(A) Plan**

8 ORA recommends lowering the 2015 Test Year 401(A) employer
9 contribution expense for AVR from \$77,276 to \$56,632. ORA recommends an
10 estimate of \$29,745 for the General Office in the 2015 Test Year.

11 **7) Irrigation District Net Benefits Adjustment**

12 ORA recommends an Employee Benefits Net Benefits Adjustment of
13 \$2,030 for 2015 in the Irrigation District.

14 **C. DISCUSSION**

15 AVR's Group Pension and Medical Insurance costs are subject to balancing
16 account treatment thereby mitigating the effect of test year forecast errors.³⁹
17 These balancing accounts have the effect of protecting customers by ensuring
18 AVR does not benefit from an overestimation of these expenses in the test year.
19 In this general rate proceeding, AVR requests Commission authorization to
20 continue its Employee and Retiree Healthcare Balancing Account to track
21 differences between authorized employee and retiree healthcare expenses included
22 in rates in this proceeding and the costs actually incurred. AVR also requests in
23 this proceeding Commission authorization to continue its Pension Expense
24 Balancing Account to track differences between authorized pension contributions
25 included in rates in this proceeding and the costs actually incurred.⁴⁰ Test year

³⁹ D.12-09-004 established an Employee and Retiree Health Care Balancing Account and a Pension Expense Balancing Account to record the difference between the actual and adopted expenses.

⁴⁰ AVR's Revenue Requirement Report, p. 134.

1 forecasted costs for pensions and healthcare can differ as a result of market
2 conditions, asset returns, and other factors used by its actuaries in determining
3 pension expense as well as forecast errors made by AVR in estimating total
4 healthcare expenses.

5 The 2015 Test Year pension expense was not increased over the 2013
6 estimated amount and is commensurate to the funding estimate prepared by
7 AVR's actuarial consultant⁴¹ and provided to ORA for review.

8 ORA found the estimates for Life, Accident Insurance, and Long-Term
9 Disability Insurance reasonably forecasted. Any differences between ORA and
10 AVR are due to differing payroll estimates.

11 **1) PBOP**

12 PBOP expenses for ratemaking purposes are based on allowable tax
13 deductible contributions into a VEBA⁴² and 401(h) plans in accordance with
14 actuarial valuations determined by AVR's actuary. The 401(h) component of the
15 PBOP expense is applicable to key employees. Under ERISA⁴³ rules, the funding
16 for this component of PBOP is on a pay as you go basis and not pre-funded.

17 AVR's application provided for a total estimated PBOP funding of \$41,547
18 for the test year. Total PBOP expense is comprised of two parts; the actuarial
19 funding and key employee funding components. The total estimated expense of
20 \$41,547 was lowered to \$35,597 after AVR discovered that the key employee
21 funding component of PBOP for AVR contained in the application workpapers
22 was erroneously carried over from its previous general rate case. AVR provided
23 ORA with the corrected calculations.⁴⁴ In its application, the key employee

⁴¹ AON Hewitt.

⁴² A VEBA is a health reimbursement arrangement that allows an employer to contribute money to a trust on behalf of its employees. The funds in this account can be used to help pay for eligible medical expenses.

⁴³ Employment Retirement Income Security Act.

⁴⁴ AVR's response to ORA Data Request JRC-001, Q. 2.

1 component of PBOP was \$6,100 (for AVR), but was later revised to \$150.
2 Likewise, the General Office application provided for a total PBOP funding of
3 \$52,732 which included the key employee funding component of \$9,600. The key
4 employee funding portion was later revised to \$18,169, and the total PBOP
5 funding increased to \$61,301 for the same reason discussed above.

6 **2) Medical Insurance Premiums**

7 AVR escalated medical insurance monthly premiums by 7.25% to arrive at
8 the test year estimate. ORA recommends using a 5.5% inflation factor instead of
9 7.25% used by AVR. This lower factor was obtained from the March 2014 Global
10 Insight U.S. Economic Outlook (Health Insurance Benefits) and is recommended
11 in order to be consistent with industry wide cost trends. Further, ORA used the
12 latest (actual) monthly insurance premium rates effective January 1, 2014
13 provided by AVR.⁴⁵ AVR used projected monthly premiums in the preparation of
14 its application. The combined result is to lower the test year estimate from
15 \$605,868 to \$596,220 for AVR. For the General Office, the 2015 estimate is
16 \$421,440 using the same methodology.

17 **3) Dental Insurance**

18 AVR escalated dental insurance monthly premiums by 5% to arrive at the
19 test year estimate. ORA accepted this escalation rate. However, ORA used the
20 latest (actual) monthly insurance premium rates effective January 1, 2014
21 provided by AVR.⁴⁶ The result is to change the test year estimate from \$47,796 to
22 \$46,332. For the General Office, the 2015 estimate is \$28,908 using the same
23 methodology.

24 **4) 401(K) Plan**

25 AVR offers this defined contribution plan benefit to recently hired
26 employees in lieu of its Group Pension Plan (defined benefit). AVR's 401(K) plan

⁴⁵ AVR's response to ORA Data Request JRC-001, Q. 3.

⁴⁶ Id.

1 is a voluntary contribution plan, and AVR matches a maximum 3% of employees’
2 contributions. The 2015 projected expense is based on the maximum 3% rate
3 applied to the total projected payroll of 44 employees (AVR) using their current
4 election effective January 1, 2014.⁴⁷ AVR’s 2015 estimate is 14.4% larger than
5 the 2012 historical expense of \$65,218. Therefore, AVR’s test year estimate
6 assumes that employees will take greater advantage of AVR’s matching of their
7 401(K) contributions in 2015 than they did in 2012. ORA recommends lowering
8 the 2015 estimate for AVR from \$79,261 to \$69,720 which is the inflation
9 adjusted five-year average of \$67,808 escalated by ORA’s Energy Cost of Service
10 Branch (“ECOS”) memorandum dated March 25, 2014 labor escalation rates for
11 2014 and 2015 (1.5% and 1.3% respectively). ORA’s estimate is preferred
12 because it takes into account the historical contributions to retirement defined
13 contribution savings. For the General Office, the 2015 estimate is \$113,421 using
14 the same methodology.

15 **5) EAP/Wellness Program**

16 ORA forecasted AVR’s EAP/Wellness expense using AVR’s inflation-
17 adjusted 5-year average and escalating it by ORA’s ECOS Branch’s escalation
18 labor factors (memorandum dated March 25, 2014) for 2014 and 2015 (1.5% and
19 1.3% respectively). AVR used a “2014 budgeted” amount of \$21,620 and
20 escalated it by 3%. ORA’s estimate using a 5-year inflation-adjusted average is
21 more reasonable than AVR’s “budgeted” amount for 2014 because the historical
22 expenses are known and certain while AVR’s “budgeted” amounts may not be
23 prudently spent in the future. Given the substantial increase AVR requests for this
24 expense, the inflation-adjusted historical amounts are preferable as a basis to
25 estimate the test year expense. ORA recommends lowering the test year estimate
26 for AVR from \$22,269 to \$5,351 which is the inflation adjusted five-year average

⁴⁷ AVR’s Revenue Requirement Report, p. 51, and AVR’s Workpapers p. 4-198.

1 of \$5,204 escalated by 1.5% for 2014 and 1.3% in 2015. For the General Office,
2 the 2015 estimate is \$4,224 using the same methodology.

3 **6) Defined Contribution-401(A) Plan**

4 Non-Elective Compensation (NEC) is a defined contribution plan offered to
5 employees hired after May 3, 2005 and who work a minimum of 1,000 hours per
6 year. AVR contributes an annual amount on a per employee basis. AVR's test
7 year estimate is based on the 2013 actual cost per employee escalated by 3% for
8 2014 and 2015, or \$3,220 per employee. ORA estimated 401(A) expense using
9 AVR's inflation adjusted five-year average of \$55,079 and escalating it by ORA's
10 ECOS Branch's labor escalation factors (memorandum dated March 25, 2014) for
11 2014 and 2015 (1.5% and 1.3% respectively). The 2015 Test Year 401(A)
12 expense for AVR should be lowered from \$77,276 to \$56,632. For The General
13 Office, the 2015 estimate is \$29,745 using the same methodology

14 **7) Irrigation District Net Benefits Adjustment**

15 ORA recommends an Employee Benefits Net Benefits Adjustment of
16 \$2,030 for 2015 in the Irrigation District. This compares to \$2,063 as estimated
17 by AVR. This is a technical allocation derived from the applicable Payroll Burden
18 Rates. ORA does not take issue with any of the allocation factors.

19 **D. CONCLUSION**

20 ORA recommends adopting its aforementioned adjusted estimates of P & B
21 as reasonable.

1 **CHAPTER 6: TAXES OTHER THAN INCOME**

2 **A. INTRODUCTION**

3 This chapter presents ORA’s analysis and recommendations relating to
4 taxes other than income. Income taxes are discussed in Chapter 7. This chapter
5 discusses taxes resulting from the payment of employee compensation (payroll
6 taxes), and the ownership of plant and property (ad valorem taxes).

7 ORA and AVR generally do not differ on any methodologies employed to
8 forecast taxes other than income. Differences in total estimated taxes are largely
9 due to differences in related inputs. ORA examined AVR’s methodologies,
10 testimony, and supporting workpapers.

11 Regulated taxes other than income are comprised of the following items:
12 (1) payroll taxes, and (2) ad valorem, or property taxes. Payroll taxes are
13 comprised of: (1) Federal Insurance Contribution Act (“FICA”), (2) Federal
14 Unemployment Insurance (“FUI”); and (3) State Unemployment Insurance
15 (“SUI”).

16 **B. SUMMARY OF RECOMMENDATIONS**

17 ORA recommends that test year’s taxes other than income be computed
18 using the following parameters and assumptions:

- 19 a. Effective payroll tax rates and wage bases used by AVR to
20 forecast payroll taxes were found to be reasonable and should be
21 applied in estimating payroll tax expense. Any differences
22 between ORA and AVR are due to differences in the test year
23 estimate for labor expense.
- 24 b. Ad Valorem tax expense methodologies were found to be
25 reasonable and should be applied in estimating property taxes.
26 Any differences between AVR and ORA are due to differences
27 in the test year’s estimated plant levels.

28 **C. DISCUSSION**

29 **1) Payroll Taxes**

30 Payroll taxes were estimated based upon rates and limitations applicable in
31 2014. The appropriate rates are applied to forecasted payroll for 2015 (test year)

1 to arrive at the test year estimated payroll taxes. Payroll rates and limitations used
2 by AVR, as well as AVR’s methodology to estimate payroll taxes, were found to
3 be reasonable. Payroll taxes consist of (1) Federal Insurance Contribution Act
4 (“FICA”) which includes Social Security tax and Medicare, (2) Federal
5 Unemployment Insurance (“FUI), and (3) State Unemployment Insurance (“SUI”).
6 Differences between ORA and AVR are due to different levels of forecasted
7 payroll expense for the test year.

8 **2) Ad Valorem Taxes**

9 AVR’s test year estimate for ad valorem taxes is based upon the
10 methodology used by the San Bernardino County Assessor’s Office, and the ad
11 valorem tax rates currently in effect. The estimated assessed values are calculated
12 based on the estimated plant additions, retirements, advances, contributions,
13 construction work in progress, and materials and supplies.

14 ORA analyzed AVR’s method of estimating ad valorem taxes for the test
15 year and found its methodology rational and reasonable. The differences between
16 ORA’s ad valorem tax estimate and AVR’s is solely due to differences in net plant
17 estimates.

18 **D. CONCLUSION**

19 There are no methodological differences between ORA and AVR for
20 computing taxes other than income. ORA recommends that the Commission
21 adopt ORA’s estimates of taxes other than income.

1 **CHAPTER 7: INCOME TAXES**

2 **A. INTRODUCTION**

3 This chapter presents ORA’s analysis and recommendations relating to
4 income tax expense. Taxes Other Than Income are discussed in Chapter 6.
5 Income tax expense is similar to any other expense category in a general rate case
6 filing in that it is a cost of service. However, it is unique in that estimating income
7 tax expense is not merely a matter of reviewing historical payments and then
8 applying objective projection criteria in order to estimate test year expense.
9 Income tax expense is the composite of projected taxable income streams, booked
10 expenses, special tax deductions, and tax credits, calculated within the combined
11 contexts of “real world” tax law and “regulatory world” tax policy (income taxes).

12 ORA and AVR generally do not differ on any methodologies employed to
13 forecast income tax expense. Differences in total estimated taxes are largely due
14 to differences in related inputs. ORA examined AVR’s methodologies, testimony,
15 and supporting workpapers and responses to ORA data request(s).

16 Regulated income tax expense is comprised of the following items:
17 (1) federal income taxes (“FIT”), and California Corporate Franchise Taxes
18 (“CCFT”).

19 **B. SUMMARY OF RECOMMENDATIONS**

20 ORA recommends that the test year income tax expense be computed using
21 the following parameters and assumptions:⁴⁸

- 22 a. For federal income tax purposes, the corporate tax rate of 34%
23 should be used to compute FIT. AVR used the same FIT rate.
- 24 b. For state income tax purposes, the corporate tax rate of 8.84%
25 should be used to compute CCFT. AVR used the same rate.

⁴⁸ These parameters and assumptions should also be applied to the escalation years 2016 and 2017.

- 1 c. All federal and state tax timing differences should be flowed
2 through to the ratepayer to the extent allowed by Commission
3 policy, and federal and state tax laws.
- 4 d. ORA concurs with AVR's methodology for computing the
5 Qualified Production Activities Deduction. Any differences
6 between ORA and AVR are due to differences in forecasted
7 revenues, plant levels, and water production mix.
- 8 e. ORA recommends that the effects of the American Taxpayer
9 Relief Act of 2012 related to the extension of Bonus
10 Depreciation be incorporated into the computation of regulated
11 taxable income and the deferred taxes for the years 2012-2015.
12 It is ORA's understanding that AVR does not oppose this
13 methodology. ORA further recommends that any revenue
14 requirement impact of the Bonus Depreciation in 2013 be
15 captured in the Tax Memorandum Account established by
16 Resolution L-411A.⁴⁹
- 17 f. ORA recommends that any changes in federal and state tax laws
18 made before the close of the record in this proceeding be
19 incorporated into the tax estimates for the test year, after review
20 of the new law(s) by ORA.

21 C. DISCUSSION

22 The following section provides a brief background of regulated income tax
23 expense and a discussion of certain specific tax deductions, credits and other tax
24 policy issues applied in determining taxable income for ratemaking purposes.
25 Unless otherwise noted, all discussions apply equally to both federal and state tax
26 expense.

27 1) Basis for Regulated Tax Expense

28 While the mathematical model used to calculate tax expense is seemingly
29 unequivocal, the underlying accounting conventions, applicable tax rates, and the
30 determination of what constitutes allowable deductions necessarily are a function

⁴⁹ Resolution L-411A established a one-way memorandum account to track the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The memorandum account applies to all cost-of-service rate regulated utilities that do not address the new tax law in a 2011 or 2012 test year.

1 of current FIT and CCFT tax laws, including new laws expected to affect the test
2 year. In addition, forecasted tax expense is based on adopted regulatory tax policy
3 as determined by numerous Commission decisions, and ORA recommended tax
4 policies. Much of existing Commission tax policy was established in Order
5 Instituting Investigation 24 (“OII 24”), D.84-05-036, 15 CPUC 2d 42 (1984).
6 Numerous subsequent decisions adopted a variety of changes in ratemaking tax
7 policy in order to comply with changes in federal and state tax laws.

8 The goal of ORA is to minimize tax expense, therefore, minimize revenue
9 requirements for taxes. Another way to articulate ORA’s goal is that the test
10 year’s income tax expense estimate should reflect, to the extent possible, the
11 current (test year) deduction of expenses in which there is a book/tax timing
12 difference. In D.84-05-036, the Commission stated, “[f]or the present, we will
13 continue our current policy regarding flow-through treatment of timing differences
14 consistent with applicable tax law.” ORA recommends that the Commission
15 continue to adopt policies which result in the test year tax estimate reflecting, to
16 the extent possible, the flow-through of forecasted expenditures. It is important to
17 note that in most cases, it is the regulated utility’s parent corporation which
18 actually pays the income taxes of the regulated utility as part of a consolidated or
19 combined income tax return. However, it is ORA’s position and the
20 Commission’s policy that the regulated utility’s taxes are determined on a stand-
21 alone basis, and not based on the actual tax liability of the parent corporation.

22 **2) FIT Deduction for Prior Year’s CCFT**

23 The amount of CCFT allowed as a deduction for FIT purposes by the
24 Internal Revenue Service (“IRS”) is not the current year’s CCFT. The amount
25 allowed on the FIT return is the prior year’s CCFT liability. This creates a timing
26 difference between when the payment of the CCFT is made and when it is allowed
27 as a tax deduction.

28 This issue was addressed in Phase II of a PG&E general rates case;
29 A.85-12-050 (I.86-11-019). D.89-11-058, issued on November 22, 1989, requires

1 that for ratemaking purposes, the prior year Commission adopted CCFT number
2 be used as the deduction for CCFT taxes in arriving at FIT taxable income in the
3 test year. However, in many cases, the current or test year estimated CCFT
4 number may be used as a test year FIT deduction. This is particularly true when
5 there is no firm prior year's payment information or the prior year's amount is
6 merely an estimate based on progressive annual estimates. AVR used the present
7 (test year) estimate CCFT number as a 2015 deduction for FIT purposes. ORA
8 concurs with AVR on this method because it yields a reasonable result. Therefore,
9 the CCFT estimate for 2014 will not be used as a deduction in arriving at the 2015
10 test year's estimated FIT.

11 **3) Tax Normalization**

12 Normalization is a ratemaking concept, which aims to adjust a utility's
13 operating expenses in the test year by eliminating abnormal, non-annual events
14 that are known and certain to change in a regularly recurring manner. For
15 example, accelerated depreciation is a tax expense, which is normalized over the
16 life of an asset when computing ratemaking tax expense. It is known and certain
17 that toward the end of the life of an asset, straight-line (book) depreciation will
18 exceed accelerated tax depreciation. However, at the conclusion of the asset's life,
19 the total depreciation charges under both book and tax methods will be equivalent.

20 Income tax normalization permits a utility to include in its current
21 ratemaking expense, an amount of income tax expense that is higher than what the
22 utility will actually pay. This is based on the theory that the taxes saved by the
23 accelerated depreciation (taken on the real world tax returns) are merely deferred.
24 Utilities generally use accelerated methods of depreciation on their real world tax
25 returns, while using the straight-line method for book purposes. IRS rules require
26 that utilities use book depreciation rates on all plant purchased or constructed after
27 1980 when computing regulated tax expense. To mitigate the effect of
28 normalization, the tax effect of the differences between accelerated and straight-
29 line depreciation is booked to a deferred tax reserve. The deferred taxes are used

1 to reduce rate base. Another example of normalization in this general rate case is
2 the computation of deferred income taxes for both FIT and CCFT purposes related
3 to the tax accounting changes related to the deduction for Repair Costs. The
4 deductions for certain capital investment costs are to be captured in a deferred tax
5 account and deducted from ratebase to lower revenue requirements. This issue is
6 discussed further below.

7 **4) Tax Depreciation**

8 For FIT purposes, tax depreciation for all post-1980 plant has been
9 normalized using book lives and rates. For 1980 and prior years' plant, the
10 appropriate accelerated depreciation has been flowed through. For CCFT
11 purposes, tax depreciation has been flowed-through in estimating CCFT taxable
12 income. Tax depreciation for ratemaking purposes does not include depreciation
13 on plant costs disallowed in previous rate cases.

14 **5) American Jobs Creation Act of 2004**

15 In terms of both impact and number of provisions, the American Jobs
16 Creation Act of 2004 ("Act") is one of the most significant reforms of U.S.
17 business taxation. The act created a new tax deduction for manufactures and
18 added new Section 199 to the Internal Revenue Code ("IRC"). Congress broadly
19 defined the term "manufacturers" as well as the underlying (qualifying)
20 "production activities" to include Class A water utilities and their well production
21 activities. Generally, the deduction is referred to as the Qualified Productions
22 Activity Deduction ("QPAD").

23 The deduction is equal to a specified percentage applied to the lesser of (1)
24 qualified production activity income for the year, or (2) taxable income for the
25 year. The deduction started at a transition percentage of 3% for 2005 and 2006,
26 6% for 2007 through 2009 and later fully expanded to 9% in 2010.

27 The impact of the legislation is that many water utilities qualify as
28 "manufacturers" to the extent that they pump well water for distribution to

1 customers. The Act defines production of potable water as a manufacturing
2 activity. AVR calculates the QPAD by applying the 9% statutory rate to its
3 production related portion of taxable income. The percentage of AVR’s taxable
4 income that is production related is calculated using a percentage (37.81%)
5 developed by AVR’s outside accountants in the preparation of AVR’s federal tax
6 return. AVR’s methodology was examined by ORA in its prior general rate case
7 and found to be reasonable. There have been no departures from the prior
8 methodology since the last rate case.⁵⁰

9 The deduction is a permanent item and not subject to a timing difference.
10 As such, it should be fully flowed through to ratepayers in the form of an
11 immediate tax deduction (schedule M adjustment). ORA reviewed AVR’s
12 methodology to calculate the deduction for the Test Year 2014, and found it to be
13 reasonably forecasted. Any differences between ORA and AVR are due to
14 differences in forecasted revenues, plant levels, and water production mix.

15 **6) Interest Expense**

16 For FIT purposes, interest expense was estimated by applying the weighted
17 average cost of debt to total ratebase including working capital. Differences in the
18 total amount of interest expense deductible for regulated income tax purposes are,
19 therefore, the result of differing rate base estimates between AVR and ORA.⁵¹
20 The unamortized deferred investment tax credit (ITC, discussed below) balance
21 was deducted from rate base for this calculation. The method of “interest
22 synchronization” does not apply to AVR because it is an “option 1” company (see
23 below).⁵² For CCFT purposes, the unamortized ITC was also deducted from rate
24 base by ORA and AVR before applying the same debt cost factor.

⁵⁰AVR response to ORA Data Request JRC-001.

⁵¹ In some cases, the differences in computed interest expense would also stem from differences in the computed weighted average cost of debt if this issue were included in the rate case.

⁵²With Interest Synchronization, deferred ITC is not deducted from ratebase resulting in a larger tax deduction for interest expense. This is because the cost of debt factor is applied to a larger

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1 **7) Investment Tax Credit (“ITC”)**

2 FIT expense was not reduced by the annual amortization of ITC. Under
3 current federal tax law, ITC must be amortized over the life of the underlying
4 plant when estimating regulated federal income tax expense. Generally, this
5 method of normalizing ITC applies to plant placed in service after 1980. Public
6 utility corporations have two normalization methods to choose from when electing
7 a method to amortize ITC for regulated tax purposes. Under option one, the tax
8 benefits of ITC are flowed through to ratepayers by deducting deferred ITC from
9 rate base; as each year passes, the deferred ITC balance decreases, thereby ratably
10 restoring rate base over the book life of the plant which generated it. Under option
11 two, the tax benefits of ITC are ratably flowed through as a direct reduction of
12 estimated FIT. Because AVR uses option one, ORA is precluded from diverting
13 from this method of ITC amortization.

14 **D. CONCLUSION**

15 All tax benefits should continue to be flowed through to the ratepayer to the
16 extent possible under the Internal Revenue Code and CPUC tax policy. There are
17 no methodological differences between ORA and AVR for computing income
18 taxes. ORA recommends the Commission adopt ORA’s estimates of income
19 taxes.

20

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sum, resulting in a larger deduction.

1 **CHAPTER 8: UTILITY PLANT IN SERVICE**

2 **A. INTRODUCTION**

3 This Chapter sets forth ORA’s analyses and recommendations for AVR’s
4 utility plant investment requests in its GRC Application 14-01-002
5 (“A.14-01-002”). ORA reviewed and analyzed AVR’s testimony, Minimum Data
6 Requirements, workpapers, capital project details, several technical reports
7 pertaining to mains, storage, and supply, and responses to ORA data requests.
8 ORA also conducted a field investigation of proposed plant additions before
9 making its own independent estimates.

10 Section B below provides a summary of ORA’s recommendations on
11 AVR’s plant investment requests presented in Chapter VI of AVR’s Revenue
12 Requirement Report. Section C presents a detailed discussion of ORA’s
13 recommended adjustments to AVR’s requested plant additions. Section D
14 presents ORA’s conclusions. Section E presents ORA’s recommended
15 adjustments to AVR’s plant investment requests in the General Office, as
16 presented in Chapter V of AVR’s General Office Report.

17 **B. SUMMARY OF RECOMMENDATIONS**

18 Table 8-A presents AVR’s and ORA’s plant-in-service estimates for 2014-
19 2016. AVR estimates \$124.1 million Plant in Service for 2014, \$134.8 million for
20 Test Year 2015, and \$149.7 million for Test Year 2016. ORA recommends a
21 lower Average Plant in Service of \$120.6 million in 2014, \$123.9 million in 2015,
22 and \$126.2million in 2016.

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Table 8-A
AVR's and ORA's Plant-in-Service Estimates
(\$ in million)

	2014	TY 2015	TY 2016
ORA	\$120.6	\$123.9	\$126.2
AVR	\$124.1	\$134.8	\$149.7
AVR > ORA	\$3.5	\$10.9	\$23.5
% AVR exceeds ORA	3%	9%	19%

Table 8-B below presents AVR's and ORA's estimated plant addition for 2014-2016. ORA's recommendations are approximately 27% to 55% of AVR's request in each year. Differences in Average Plant in Service are due to ORA recommending reductions in the capital additions requested by AVR for years 2014 through 2016.

C. DISCUSSION

1) AVR Plant in Service

AVR has recorded \$4,253,210 per year in average gross plant additions during the past five years (2008-2012).⁵³ The company's average gross plant addition request for the period of 2013-2016 is \$11.8 million per year, which represents a 277% increase over historical recorded plant additions. On a going-forward basis, ORA recommends \$4,010,429 per year in average gross plant additions during 2014-2016.

⁵³ AVR's Ratebase 15r.xlsx, AV 5 Yrs Avg Tab, Cell AD55.

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Table 8-B
AVR's and ORA's Plant Addition Estimates

	2014	TY 2015	TY 2016	Annual Average
ORA	\$4,319,405	\$3,895,335	\$3,816,548	\$4,010,429
AVR	\$7,864,013	\$13,397,801	\$14,129,120	\$11,796,978
AVR > ORA	\$3,544,068	\$9,50,2466	\$10,312,572	\$7,786,549
ORA as % of AVR	55%	29%	27%	34%

3 ORA presents a discussion on its analyses and recommended adjustments
4 to AVR's requested plant additions as shown below:

- 5 1. New Well #35
- 6 2. 1.5 MG Storage tank in Bell Mountain Pressure Zone
- 7 3. 1.5 MG Storage tank in Stoddard Pressure Zone
- 8 4. New Office Building
- 9 5. Mains Replacement Program
- 10 6. Vehicle 08-6

11 **2) New Well #35**

12 AVR requests \$1.1 million per year in 2015 and 2016 for a total of \$2.2 to
13 construct a new well on a previously purchased property. The company stated that
14 the well is needed to "reliably meet water system demands."⁵⁴ In support of its
15 request, AVR submitted a copy of the Analysis of Source and Storage Capacity
16 Technical Report (Technical Report) dated June 2013. Based on AVR's analysis,
17 its wells will not be able to meet the system demand by 2017.⁵⁵ In order to
18 determine if AVR's water system has the capacity to meet customer demands, it is
19 important to look at how the company determined the system's supply and
20 demand.

⁵⁴ AVR's Revenue Requirement Report, p. 88.

⁵⁵ AVR's Analysis of Source and Storage Capacity Technical Report, p. 10.

1 **a) Sources of Supply**

2 AVR’s water system currently has 20 active wells, and one standby well,
3 with a total capacity of 25,505 gpm. Like most water systems, two of AVR’s
4 wells were constructed in the 1950s. AVR evaluated the demand with the various
5 scenarios from losing 15% to 25% of its well supply to taking one to two of the
6 largest producing wells out of service. Based on these scenarios, AVR determined
7 that it would not meet the 2017 maximum daily demand (“MDD”) with its largest
8 well out of service. However, neither GO-103A nor Title 22 of the California
9 Code of Regulations requires that production capacity from the largest well in a
10 water system be discounted when determining adequate supply.

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

13 *“Obtained from a source or sources reasonably adequate to provide*
14 *a reliable supply of water.”*

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

16 *“The system’s MDD and PHD shall be determined in accordance*
17 *with Waterworks Standards, CCR Title 22, Section 64554, or its*
18 *successor.”*

19 Section 64554 of Title 22 offers the following requirement:

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

21 *(i) For systems with 1,000 or more service connections, the system*
22 *shall meet 4 hours of PHD with source capacity, storage*
23 *capacity, and/or emergency connections.*

24 It is important to note that Section 64554 neither requires nor makes any
25 mention of taking any source off line to assess the capacity of a system during the
26 MDD or PHD scenario. However, ORA is willing to entertain this scenario (“firm
27 capacity”⁵⁶) to illustrate that there is enough supply in the system to support a
28 more reasonably forecasted demand as shown below with even the largest

⁵⁶ Firm Capacity – AWWA defines firm capacity as the ability of a water system to meet the maximum day demand with the largest well out of service.

1 producing well taken out of service. AVR’s largest well has a production capacity
2 of 3,261 gpm. Removing that from the capacity of 25,505 gpm, the system’s firm
3 capacity is 22,244 gpm, a reduction of 13%.

4 **b) Customer Demand**

5 System demand is the amount of water needed to provide a sufficient
6 source of supply to customers in a water system. The total amount of water
7 delivered to customers in one year divided by 365 days is known as the average
8 day demand (ADD). The maximum day demand (MDD) is the highest amount of
9 water delivered in a single day in that year. AVR’s analyses for its supply
10 reliability premise on its water system’s ability to supply the MDD with
11 considerations for “variations in demand, wells being out of service, declining
12 production capacities, well failures, etc.”⁵⁷

13 According to AVR’s Technical Report, AVR estimates the daily maximum
14 customer demands will be 22,412 gpm in 2017 and its wells can only supply
15 22,244 gpm, resulting in a shortage of 168 gpm to meet customer demand. In
16 estimating future customer demand, AVR projected the number of customers with
17 a growth rate of 1% per year and multiplied it by the demand per customer. In
18 2017, AVR projected the number of customers to be 19,973 with each customer
19 using 1.122 gpm, yielding a maximum system demand of approximately 22,412
20 gpm.

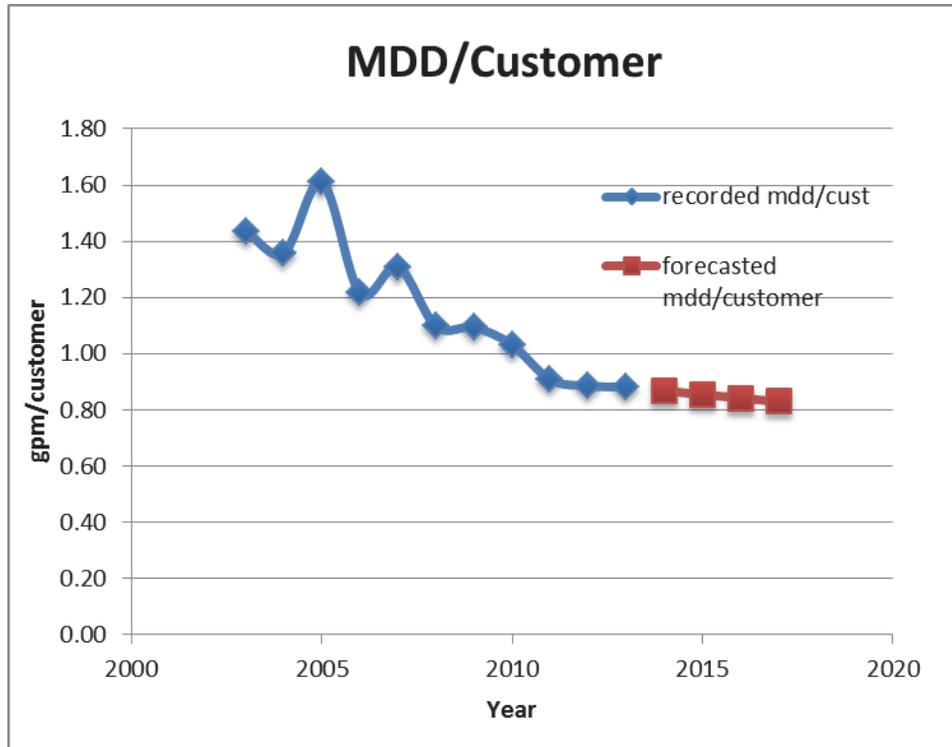
21 This is a grossly inflated estimation because consumption has been
22 declining significantly since 2009 due to Commission mandated conservation rates
23 and programs, and impact of economic conditions. In 2013, the maximum amount
24 of water that each AVR customer used is 0.88 gpm. AVR’s projected demand per
25 customer of 1.12 gpm/customer is 27% higher than the recorded 2013 customer
26 demand, despite the fact that AVR recognizes “that the demand per customer has

⁵⁷ AVR’s Revenue Requirement Report, p. 88.

1 had a **declining trend** over the years.”⁵⁸ This is evident in AVR’s chart below,
2 which shows the amount of water that a customer uses during the maximum day
3 demand. Moreover, in this GRC, AVR expects this trend will continue and
4 forecasts customer usage will decrease by 1.5% per year.⁵⁹

5
6

Chart 8-A
Maximum Day Demand per Customer⁶⁰



7

8 Since 2009, customer water usage has declined enough for many water
9 utilities to forecast lower customer demand in its consumption estimates. This may
10 be due to the combination of conservation efforts, resulting from conservation
11 rates and programs implemented in 2008, and economic conditions. According to
12 the California Urban Water Conservation Council (CUWCC), when a utility

⁵⁸ AVR’s Analysis of Source and Storage Capacity Technical Report, p. 4.

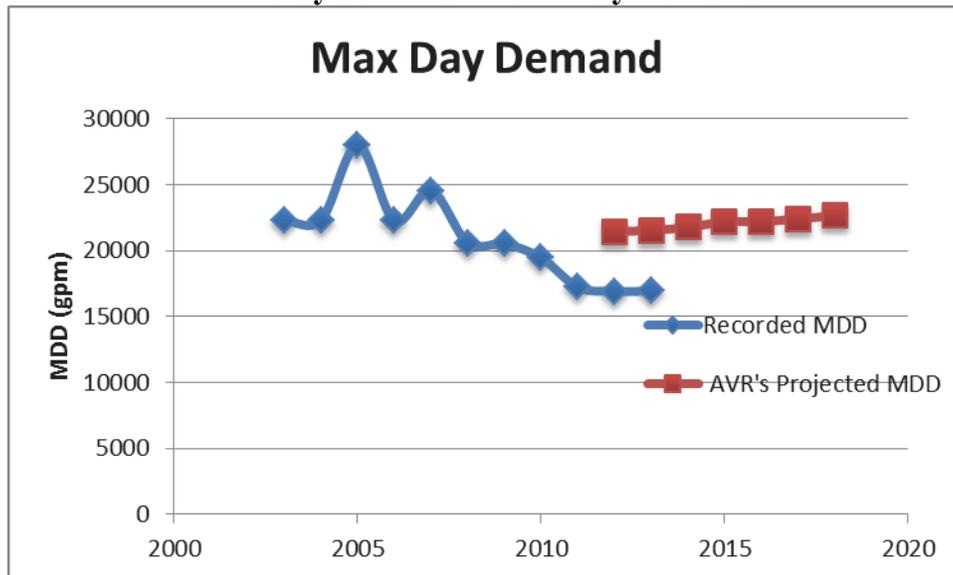
⁵⁹ AVR’s Revenue Requirement Report, p. 23.

⁶⁰ The recorded mdd/customer data comes AVR’s Analysis of Source and Storage Capacity Technical Report, Table 1, ORA estimated the forecasted mdd/customer data by reducing the 2013 recorded number by 1.5%.

1 implements a conservation rate structure, it should cause customers to use less
2 water. Customers' conservation efforts would lead to lower demand on a water
3 system, which would result in a lower or a delay in the need for infrastructure
4 improvements. The CUWCC provided the following explanation:

5 ***“The key practical long-term benefit of water conservation is the***
6 ***postponement or deferral of additional treatment and source***
7 ***development capacity.*** For public utilities, including water suppliers,
8 the incentives to add capacity always have been stronger than the
9 incentives to control demand. Conservation pricing counteracts this
10 tendency by promoting more efficient use of existing facilities.”⁶¹
11 [Emphasis added.]

12 **Chart 8-B**
13 **AVR's System Maximum Day Demand⁶²**



14
15 As shown above, AVR's method of projecting future demand does not take
16 into consideration customers' conservation efforts and, therefore, resulted in an
17 over-inflated demand. In 2013, the recorded MDD is 16,944 gpm⁶³ while AVR
18 used an MDD ranging from 19,261 to 22,955 gpm for the year 2013 in its

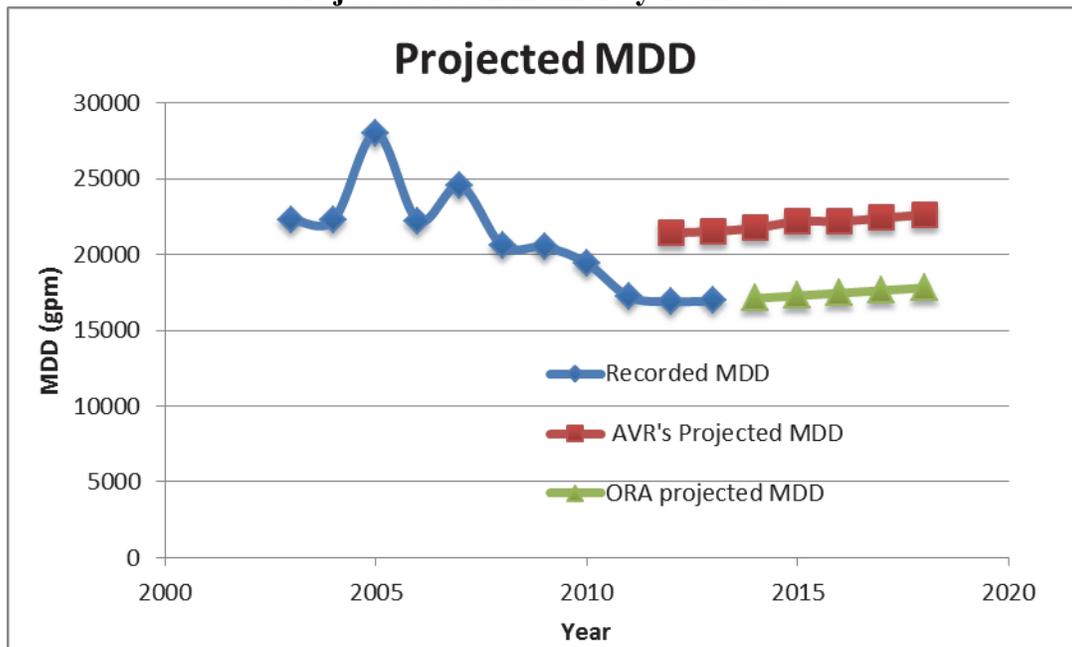
⁶¹ CUWCC Handbook titled “Designing, Evaluating, and Implementing Conservation Rate Structure,” p. 1-9.

⁶² AVR's Analysis of Source and Storage Capacity Technical Report, Tables 1 & 7.

⁶³ AVR's Response to ORA's DR JAU-001, Q.1, p. 2.

1 analysis.⁶⁴ Given the known effects of SB X7-7 and the trend of water
 2 consumption we have been observing, a more realistic and reasonable forecast of
 3 future demand would have been at least to start from the 2013 recorded MDD and
 4 project a 1% consumption increase per year. The 1% consumption increase is to
 5 account for an AVR's projected increase in the number of customers by 1% per
 6 year and an assumption that no further conservation would occur.

7 **Chart 8-C**
 8 **Projected Maximum Day Demand⁶⁵**



9
 10 Based on AVR's recorded 2013 MDD, ORA projected MDD for 2017 is
 11 17,632 gpm, which is less than the system's firm capacity of 22,244 gpm. In
 12 addition, ORA also evaluated several scenarios to determine if there is enough
 13 supply to meet the demand. One such scenario was the loss of production from
 14 eight wells that AVR's Technical Report identified as being old and/or yielding
 15 low capacity.⁶⁶ The combined capacity from these wells is 5,455 gpm.

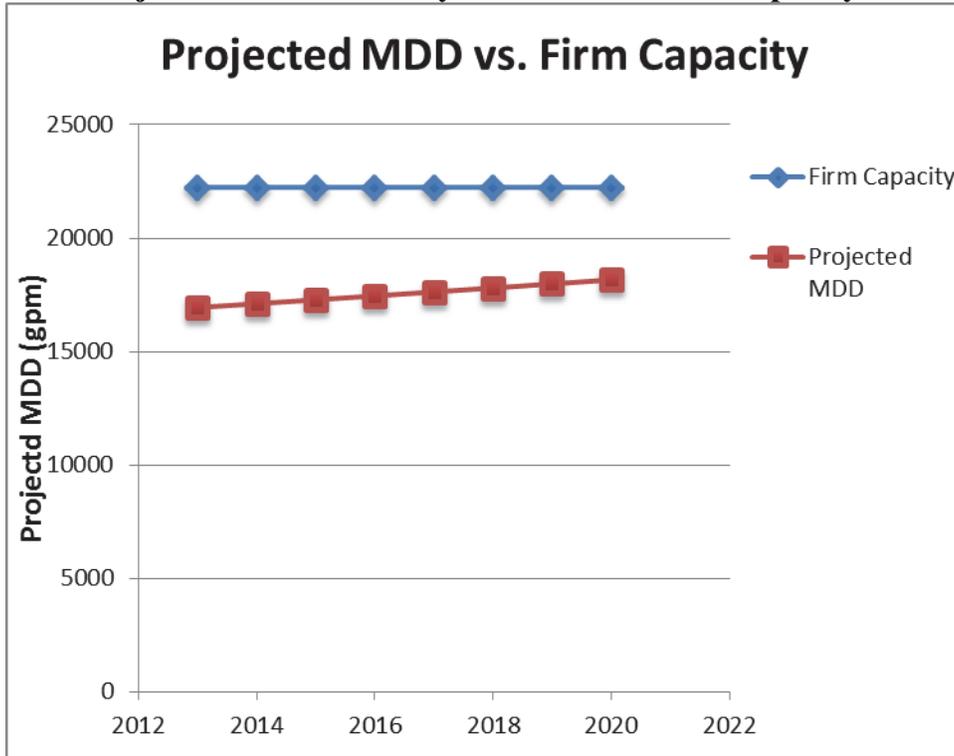
⁶⁴AVR's Analysis of Source and Storage Capacity Technical Report, Table 7.

⁶⁵ ORA projected the MDD by taking the 2013 MDD of 16,944gpm and escalating it by 1% per year.

⁶⁶ Wells 4, 9, 17R, 20R, 21, 23, 25, and 28 from AVR's Analysis of Source and Storage Capacity
(continued on next page)

1 Discounting this amount resulted in a total production capacity of 20,050 gpm in
2 the system and, therefore, enough to meet the projected demand of 17,632 gpm in
3 2017 and 17,808 gpm in 2018 as shown in the chart below.

4 **Chart 8-D**
5 **Projected Maximum Day Demand vs. Firm Capacity⁶⁷**



6
7 ORA also evaluated whether AVR’s system would be able to meet the
8 average 5-year maximum day demand with its largest well out of service. The
9 projected demand based on the 5-year average MDD is 20,043 gpm for 2017 and
10 20,243 gpm for 2018.⁶⁸ Since the system’s “firm capacity” is 22,244 gpm, it
11 clearly has the capacity to meet the 5-year MDD even with the largest well out of
12 service. It is important to note that the 5-year average MDD used in this
13 assessment is 14% higher than the 2013 recorded MDD and represents a very

(continued from previous page)
Technical Report, Table 8.

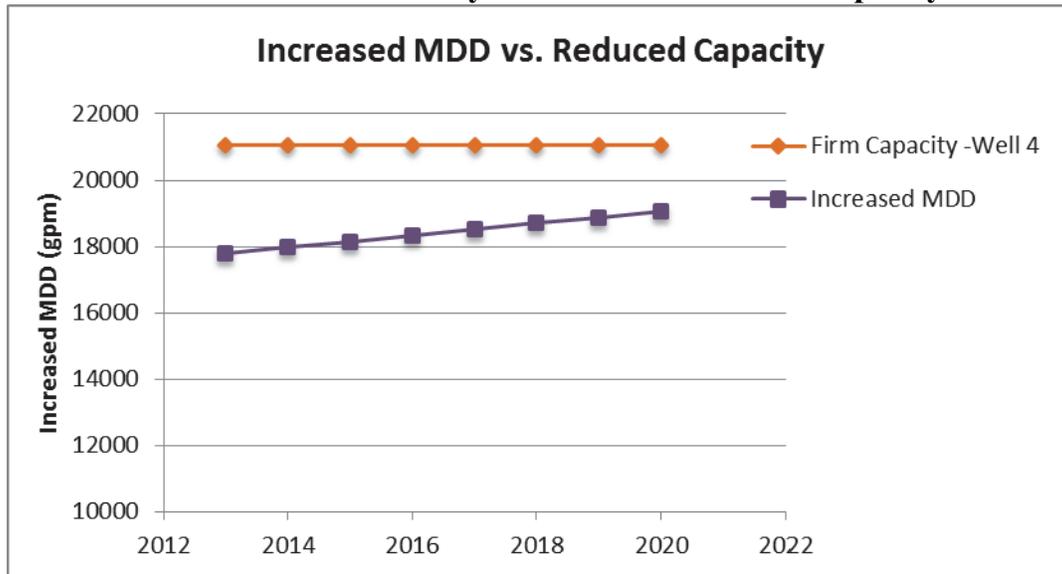
⁶⁷ AVR’s Analysis of Source and Storage Capacity Technical Report, Table 7.

⁶⁸ AVR’s Analysis of Source and Storage Capacity Technical Report, Table 7.

1 conservative estimation of customer usage. Previously, AVR recommended only
2 a 5% increase in MDD when considering “variations in water demand due
3 primarily to weather”⁶⁹.

4 In the chart below, ORA also evaluated whether AVR’s system would be
5 able to meet the average 5-year with the largest well out of service and the loss of
6 production from Well 4. Well 4 was constructed in 1953 and has a capacity of
7 1180 gpm.⁷⁰ Aside from producing water of poor water quality, AVR has
8 experience casing issues with this well⁷¹ and therefore, will likely take Well 4 out
9 of service in the near future.

10 **Chart 8-E**
11 **Increased Maximum Day Demand vs. Reduced Capacity⁷²**



⁶⁹ Rick Dalton’s Rebuttal Testimony in A. 11-01-001, p. 21. Mr. Dalton recommended a 5% increase for the 2011 MDD from the 2010 due to weather driven variations in demand based on 2010 having a mild summer. Considering that 2013 is a record dry year for weather and customers typically use more water in dry year, a 5% weather adjusted variations in use should suffice.

⁷⁰ AVR’s Analysis of Source and Storage Capacity Technical Report, Table 2.

⁷¹ AVR’s Analysis of Source and Storage Capacity Technical Report, p. 11.

⁷² ORA used the 5-yr average MDD and reduced the capacity of the largest well and Well #4.

1 Without considering the capacity from the largest well and Well 4, AVR's
2 system is capable of providing approximately 21,064 gpm. As shown in the above
3 chart, AVR's system is able to meet ORA's projected demand of 20,043 gpm and
4 20,243 gpm for 2017 and 2018, respectively.

5 **c) Conclusion**

6 Based on ORA's analysis, if AVR's customers **reverse** their practice of
7 conserving water and begin to use 14% more water than they have used in recent
8 years, then AVR will need to construct a well by 2020 at the earliest. The
9 CUWCC also stated that investor-owned utilities' incentives to add capacity
10 involve "the desire for growth, the emphasis on achieving economies of scale, and
11 the appeal of expanding the capital investment base."⁷³ Although customers are
12 conserving water, which is evident in recorded production data, AVR continues to
13 plan for capital projects based on historically higher usage data rather than recent
14 data. The effects of SBx 7-7 and recent Governor's executive order for further
15 voluntary conservation efforts are well known, but AVR seems to be ignoring that
16 fact. AVR's projected 20% reduction by 2020 required gross per capita water use
17 ("gpcd") is 245 and AVR's 2012 gpcd is 204.⁷⁴ Hence, AVR's customers have
18 been conserving water at a much higher rate than required by SBx 7-7. Using a
19 higher system demand would result in an exaggeration of the deficiencies used to
20 request the projects. AVR's use of higher water demand is inconsistent with the
21 historical pattern of lower sales in its water systems. Furthermore, a persistent and
22 major complaint from customers who have reduced water consumption is that they
23 do not see cost savings resulting from their conservation efforts as a result of less
24 need for adding supply infrastructure. Based on the information available, ORA
25 believes that although customers are conserving water as evident in sales data,

⁷³ CUWCC Handbook titled "Designing, Evaluating, and Implementing Conservation Rate Structure", p. 1-9, footnote 6.

⁷⁴ AVR's Water Transmission Main Study, p. 10, Table 2-4.

1 ratepayers may not realize any benefits in savings if the company continues to
2 plan for increasing supply infrastructure without considering the results of its
3 customers' conservation efforts. ORA recommends that AVR defer the
4 construction of this well to the next GRC when more information on customer
5 usage is available in light of a slight improvement in the economy. It is fair and
6 reasonable for ratepayers to realize the benefits of their conservation efforts.
7 Therefore, ORA recommends that the Commission disallow AVR's request to
8 construct a new well at a cost of \$2.4 million in this GRC.

9 **3) 1.5 MG Storage Tank in Bell Mountain Pressure**
10 **Zone**

11 AVR requests \$2.30 million in 2015 to construct a 1.5 million gallon (MG)
12 storage tank to serve the Bell Mountain Pressure Zone ("Bell Mountain Zone").
13 The new tank will have a usable volume of 1.2 MG and will be equipped with a
14 mixing system, a chemical feed system, and flexible connections. AVR claims
15 that a bigger tank is needed to meet fire flow capacity in the area and to resolve
16 operational and water quality problems.⁷⁵ The Bell Mountain Zone has 21
17 customers with an average day demand of 7,388 gallons per day (gpd)⁷⁶ and is
18 served by a 1.0 MG storage tank, which was constructed in 1988.⁷⁷

19 **a) Storage Capacity**

20 In determining whether there is enough storage in the Bell Mountain Zone,
21 ORA referred to GO 103A and the Waterworks Standards (CCR Title 22) for
22 storage requirements.

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

24 *"The system's MDD and PHD shall be determined in accordance*
25 *with Waterworks Standards, CCR Title 22, Section 64554, or its*
26 *successor."*

⁷⁵ AVR's Revenue Requirements Report, p. 80.

⁷⁶ AVR's The North Apple Valley Water Systems Improvement Plan, p. 3-1, Table 3-2.

⁷⁷ AVR's Analysis of Source and Storage Capacity Technical Report, Table 3.

1 Section 64554 of Title 22 offers the following requirement:

2

3 *(b) Water sources shall have capacity to meet MDD.*

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

7 ORA evaluated the operating conditions in the Bell Mountain Zone to
8 determine if they meet the requirements of Section 64554 of Title 22.

9 Condition (i). Do the source capacity, storage capacity, and/or emergency
10 connections meet 4 hours of PHD?

11 Without even considering source capacity in the zone, ORA considered the
12 amount of storage needed to provide for 4 hours of PHD, which is 4,100 gallons.⁷⁸
13 The existing storage tank has a capacity of 1,000,000 gallons and, therefore, has
14 the capacity to meet the required 4 hours of PHD under the requirements set forth
15 in Title 22. It should be noted that CDPH only requires 4 hours of PHD because
16 the Peak Hour Demand does not occur over a 24-hour period of time. Customers
17 do not use the highest amount of water over a period of 24 hours.

18 Above, ORA showed that there is enough storage in the system based on
19 regulatory requirements contained in Title 22. According to the analysis provided
20 by AVR, the Bell Mountain Zone needs 1.2 MG of storage. AVR based its need
21 on American Water Works Association's (AWWA) recommended standards to
22 provide for operational, fire flow, and emergency conditions⁷⁹. AWWA defines
23 the storage components as:

- 24 1. Operational or Equalization – to provide for peak hour flow
25 (20% to 25% of MDD)
26 2. Fire – to provide for fire flow (typically 2 hours times FF)
27 3. Emergency – to provide a reserve in case of power outage or

⁷⁸ PHD is 24,602 gpd or 1025 gph times 4 hours yields 4,100 gal. PHD info is obtained from AVR's North Apple Valley Water System Improvement Plan, p. 3-1, Table 3-2.

⁷⁹ AWWA's Determining Distribution Storage Needs, September 25, p. 8.

1 main breaks (ADD)

2 AVR claims that its analysis shows that the storage need is 1.2 MG, which
3 is higher than the existing tank's 1.0 MG of storage capacity. It is important to
4 note that AVR deviated from AWWA's recommendation when estimating the
5 operational storage. Instead of using 20% to 25% of the MDD as recommended by
6 AWWA, AVR established its own minimum operational criteria and defined it as
7 20% of the Emergency plus Fire Storage⁸⁰. AVR's use of this criterion is
8 problematic because the fire flow used in the analysis is exceptionally high
9 compared to what customers use in this zone. The Improvement Plan evaluated
10 the storage need of the Bell Mountain Zone with a fire flow of 4,000 gpm for 4
11 hours because this zone serves the Apple Valley Airport.⁸¹ As shown below, the
12 fire flow storage is the dominant criteria. Over 80% of the required storage need
13 is attributed to fire flow,⁸² which is due to the airport.

14 Emergency Storage = 0.003 MG

15 Fire Flow Storage = 0.960 MG

16 Operational Storage = 0.190 MG

17 Total Storage Required = 1.16 MG⁸³

18 The Improvement Plan clearly stated that the Apple Valley Airport is
19 served by the Bell Mountain Zone so AVR wants to provide a minimum fire flow
20 of 4,000 gpm. This means that if the Apple Valley Airport is not located in the
21 Bell Mountain Zone, then the fire flow required for the zone will not be 4,000
22 gpm. Therefore, it is imperative for the Commission to determine who is
23 responsible for providing adequate fire flow in a water system. Neither Title 22
24 nor GO 103A contain any language regarding fire flow requirements. Even

⁸⁰ AVR's North Apple Valley Water System Improvement Plan, p. 5-2.

⁸¹ AVR's North Apple Valley Water System Improvement Plan, p. 4-3.

⁸² ORA obtained 80% by dividing the fire flow storage by the total storage (0.96 divided by 1.19)

⁸³ AVR's North Apple Valley Water System Improvement Plan, p. 5-2, Table 5-1.

1 AWWA does not believe adequate fire flow capacity is the responsibility of a
2 water utility as shown in the following excerpt:

3 ***“According to the 10 State Standards, a community is not***
4 ***obligated to provide fire protection. AWWA M31, Distribution***
5 ***System Requirements for fire Protection, also states that there is***
6 ***no legal requirement that a governing body must size its water***
7 ***distribution system to provide fire protection”⁸⁴***

8 Based on the AWWA’s statement above, AVR is not obligated to size its
9 water distribution system at the time of construction to provide fire protection, not
10 to mention constructing additional storage to meet fire flow requirement for one
11 entity, namely the Apple Valley Airport. It is more reasonable for Apple Valley
12 Airport to construct its own fire flow storage as the Walmart Distribution Center
13 has in the Stoddard Zone.

14 Without considering the fire flow need of the Apple Valley Airport, ORA
15 calculated the storage requirements in the Bell Mountain Zone as follows:

Operation Storage	0.25*MDD	4100
Emergency Storage	ADD	7388
Fire Storage	3 hrs FF (3,000gpm)	540,000
		551,488 gal

16

17 Although ORA does not agree with AVR’s established criteria for
18 calculating the Operational Storage of 20% of the Emergency plus Fire flow
19 storage, ORA is willing to entertain the evaluation in this case to demonstrate that
20 there is enough storage in the Bell Mountain Zone as shown below.

⁸⁴ AWWA’s Determining Distribution Storage Needs, p. 9.

Operation Storage	0.2*(ER+FF)	108,738
Emergency Storage	ADD	3,694
Fire Storage	3hr of FF	540,000
		652,433 gal

1 The Bell Mountain Zone needs approximately 652,000 gallon of storage
2 based on AVR’s established criteria and the Zone has a 1,000,000 gallon storage
3 tank, which provides more than adequate storage for the Zone.

4 **b) Operational Issues**

5 In addition to increasing the size of the tank, AVR proposed to raise the
6 hydraulic grade line (“HGL”) of the Bell Mountain Zone to match the HGL of the
7 Main Zone by raising the tank elevation by 15 feet. AVR claimed that this would
8 improve pressure flow in the system. Operating conditions of the system were
9 evaluated by modeling different demand scenarios. The results of the hydraulic
10 model indicated that the pressure reading in some parts of the system fell below 30
11 psi during PHD and the fire flow at the Apple Valley Airport is less than 4,000
12 gpm. Of the 31 pressure points, only two are shown to be below 30 psi during the
13 peak demand period.⁸⁵ These two low readings are confined to a small area in the
14 northeast portion of the Bell Mountain Zone where there are no customer
15 connections.⁸⁶ This area also has a low fire flow. Since there are no customers in
16 the northeast portion of the Bell Mountain Zone, ORA can conclude that the
17 operational issues of low pressure and fire flow do not impact any customers.
18 AVR also wants to provide 4,000 gpm of fire flow to the Apple Valley Airport,
19 which currently gets around 2,200 to 3,800 gpm of fire flow. As ORA discussed
20 above, AVR is not required to provide adequate fire flow to the Apple Valley
21 Airport and it would be more reasonable for Apple Valley Airport to construct its
22 own fire flow storage similar to what the Walmart Distribution Center did in the

⁸⁵ AVR’s North Apple Valley Water System Improvement Plan, p. 5-7, figure 5-1.

⁸⁶ Id., at p. 5-6, Section 5.3.1.

1 Stoddard Zone. Thus, ORA asserts that there are no operational issues with the
2 existing tank and AVR has not demonstrated a true need for a new tank.

3 **c) Seismic Standards**

4 AVR claims that the existing 1.0 MG tank does not meet current seismic
5 standards set forth in AWWA's D100-11. Therefore, AVR wants to construct
6 another tank that will meet the current seismic standards. AWWA's D100-11
7 recommends that all new steel storage tanks are constructed to provide adequate
8 freeboard and equipped with seismic anchoring, flexible connections, and
9 automatic shut-off valves. AVR claims that the existing Bell Mountain tank,
10 which was constructed in 1988, does not have these features and should be
11 replaced. ORA points out, however, that the seismic standards for steel tanks
12 contained in AWWA's D100-11 are for new tank construction and do not apply to
13 existing tanks. In upgrading existing tanks for seismic safety, Class A water
14 utilities have chosen to upgrade by adding flexible connections and shut off valves
15 instead of replacing an existing tank that does not have these features. According
16 to the Improvement Plan, AVR currently operates the Bell Mountain tank with an
17 operational freeboard of 3 feet. Based upon the size and dimensions of the
18 existing tank, a freeboard of 5.3 feet is recommended to meet current seismic
19 standards. Increasing the freeboard measurement by another 2.3 feet would reduce
20 the effective volume of the existing tank to 0.77 MG.⁸⁷

21 The Improvement Plan fails to consider the less costly option of retrofitting
22 the existing Bell Mountain tank to current seismic standards. As ORA has shown
23 above, the storage needs in the Bell Mountain Zone is approximately 0.55 MG,
24 which is lower than the effective volume (0.77 MG) of the existing Bell Mountain
25 tank with the AWWA recommended freeboard distance.

⁸⁷ AVR's North Apple Valley Water System Improvement Plan, p. 6-9, Section 6.2.1

1 **d) Water Quality**

2 AVR claimed that constructing a new tank in the Bell Mountain Zone “will
3 solve existing water quality issues”.⁸⁸ The Improvement Plan provided the
4 following excerpts:

5 *“Because the demand in the Bell Mountain Zone is very low, the*
6 *tank level typically only drops when the Stoddard BPS is turned on.*
7 *As a result, the tank level fluctuates only slightly and, with a*
8 *common inlet and outlet and no capability to mix the tank, **short***
9 ***circuiting is likely..., which can lead to problems with water***
10 ***quality.”**⁸⁹*

11 *“Due to the configuration of the distribution system, the closed valve*
12 *between the Bell Mountain and Main Zones and the single source of*
13 *supply via the PRV, **short circuiting in the distribution system is***
14 ***also likely, which can lead to problems with water quality.”**⁹⁰*

15 Based upon its analysis, Water Systems Consulting, Inc. (“WSC”)
16 concluded that the existing operating conditions of the Bell Mountain tank have
17 the potential to cause water quality problems. However, the Improvement Plan
18 clearly stated that there is no current water quality problem in the Bell Mountain
19 Zone.⁹¹ The California Department of Public Health (“CDPH”) did not identify
20 any water quality issues in AVR’s system.⁹² In addition, the Improvement Plan
21 stated that if the amount of storage is increased, there is a potential for water
22 quality issues to occur.⁹³ The implication that increasing the tank size will result
23 in water quality problems seems to indicate too much water will be stored and not
24 used, causing water quality problems to develop. Based on the above, ORA
25 asserts that there are no water quality issues with AVR’s existing tank at this time

⁸⁸ AVR’s Revenue Requirement Report, p. 80.

⁸⁹ AVR’s North Apple Valley Water System Improvement Plan, p. 6-1, section 6.1.

⁹⁰ AVR’s North Apple Valley Water System Improvement Plan, p. 6-1, section 6.1

⁹¹ AVR’s North Apple Valley Water System Improvement Plan, , p. 5-5, Section 5.2.2.3.2

⁹² Email from Brenda Pauli of CDPH, dated April 3, 2014.

⁹³ AVR’s North Apple Valley Water System Improvement Plan, p. 6-1, section 6.1.

1 and AVR's request is based upon speculation and premature. Moreover, AVR's
2 own Improvement Plan indicates that increasing the size of the tank increases the
3 potential for water quality problems to develop, which supports ORA's position
4 that a new larger tank is not necessary at this time.

5 **e) Conclusions**

6 In this request, AVR overstated its needs for storage in the Bell Mountain
7 Zone by including the fire flow storage needs for the Apple Valley Airport. ORA
8 asserts that it is unreasonable for AVR to construct a new tank for the sole purpose
9 of providing adequate fire flow to the Apple Valley Airport when that is not
10 required of AVR. The airport operator is responsible for having adequate fire flow
11 and should construct its own storage as Walmart has done.

12 AVR discounted the amount of available storage capacity of the existing
13 Bell Mountain storage tank by applying current seismic standards, which are not
14 required for existing tanks. In addition, the operational and water quality issues
15 AVR attempts to solve with this request do not exist and AVR's request is based
16 upon speculation and premature.

17 As ORA has shown above, the existing storage tank provides adequate
18 storage for the Bell Mountain Zone. Therefore, ORA recommends that the
19 Commission deny AVR's request for \$2.3 million to construct an additional 1.5
20 MG storage tank in the Bell Mountain Zone.

21 **4) 1.5 MG Storage Tank in Stoddard Pressure Zone**

22 AVR requests \$2.35 million in 2016 to construct a 1.5 million gallon (MG)
23 storage tank to serve the Stoddard Pressure zone. As part of its project
24 justification, AVR submitted a copy of the North Apple Valley Water System
25 Improvement Plan (Improvement Plan) prepared in June 2013 by Water Systems
26 Consulting (WSC) Inc. The Improvement Plan evaluated the storage need in the
27 Stoddard Zone and concluded that the existing 1.0 MG storage does not provide
28 enough storage for the zone and lacks seismic safety features. Thus, AVR's

1 Improvement Plan recommended the construction of a second storage tank for the
2 Stoddard Zone.

3 The Stoddard Pressure Zone has 21 customers with an average day demand
4 of 64,926 gallons per day (gpd)⁹⁴ and is served by a 1.0 MG storage tank, which
5 was constructed in 1988.⁹⁵ In order to determine if a new 1.5 MG storage tank is
6 needed, ORA reviewed the issues of storage deficiency, seismic requirements, and
7 water quality.

8 **a) Storage Capacity**

9 The impetus for AVR's request is to increase the storage capacity in the
10 Stoddard Zone. The utility based its need on the ability to provide for operational,
11 fire flow, and emergency conditions as recommended by the American Water
12 Works Association (AWWA).⁹⁶ AWWA defined the storage components as:

- 13 4. Operational or Equalization – to provide for peak hour flow
14 (20% to 25% of MDD)
- 15 5. Fire – to provide for fire flow (typically 2 hours times FF)
- 16 6. Emergency – to provide a reserve in case of power outage or
17 main breaks (ADD)

18 AVR claims that its analysis shows that the storage need in the Stoddard
19 Zone is 1.2 MG and the existing tank only has 1.0 MG of storage capacity. It is
20 important to note that AVR diverted from AWWA's recommendation when
21 estimating the operational storage. Instead of using 20% to 25% of the MDD as
22 recommended by AWWA, AVR established its own minimum operational criteria
23 and defined it as 20% of the Emergency plus Fire Storage.⁹⁷ The problem with
24 using this planning criteria is that the fire flow required is exceptionally high

⁹⁴ The North Apple Valley Water Systems Improvement Plan, p. 3-1, Table 3-2.

⁹⁵ AVR's Analysis of Source and Storage Capacity Technical Report, Table 3.

⁹⁶ AWWA's Determining Distribution Storage Needs, September 25, p. 8.

⁹⁷ AVR's North Apple Valley Water System Improvement Plan, p. 5-2.

1 compared to what customers use (ADD) in this zone. The Improvement Plan
2 evaluated the storage need of the Stoddard Zone with a fire flow of 4,000 gpm for
3 4 hours because this zone serves the Walmart Distribution Center.⁹⁸ As shown
4 below, the fire flow storage is the dominant criteria. Over 80% of the required
5 storage need is attributed to fire flow,⁹⁹ which is due to the Walmart Distribution
6 Center.

7 Emergency Storage = 0.030 MG
8 Fire Flow Storage = 0.960 MG
9 Operational Storage = 0.200 MG
10 Total Storage Required = 1.19 MG¹⁰⁰

11 The Improvement Plan neglected to take into consideration the fact that
12 Walmart has its own fire storage. This is evidenced in AVR's Response to ORA's
13 Data Request JAU-002:

14 *"AVR reviewed the plans for the Walmart Distribution Center prior*
15 *to construction and informed the Walmart representatives of the lack*
16 *of adequate fire flow storage within the existing AVR system.*
17 *Walmart decided to construct their own on-site fire system with*
18 *storage to augment the firefighting capabilities of the AVR system."*

19 In addition, even though the Walmart Distribution Center was constructed
20 approximately 10 years ago, the "fire flow requirements have not changed."¹⁰¹
21 ORA asserts that it is inaccurate for AVR to include the fire flow capacity
22 requirements for Walmart in its storage evaluation because Walmart already has
23 its own fire flow storage. By doing so, AVR is over-estimating the zone's storage
24 needs. Using AWWA's recommended standards, ORA calculated the storage
25 requirements in the Stoddard Zone as:

⁹⁸ AVR's North Apple Valley Water System Improvement Plan, p. 4-3.

⁹⁹ ORA obtained 80% by dividing the fire flow storage by the total storage (0.96 divided by 1.19).

¹⁰⁰ AVR's North Apple Valley Water System Improvement Plan, p. 5-2, Table 5-1.

¹⁰¹ AVR's Response to ORA's DR JAU-02, Question 3, p. 3.

Operation Storage	0.25*MDD	36,034
Emergency Storage	ADD	64,926
Fire Storage	3 hrs FF (3,000gpm)	540,000
		640,960 gal

1

2 Although ORA does not agree with AVR's established criteria for
3 calculating the Operational Storage of 20% of the Emergency plus Fire flow
4 Storage, ORA is willing to entertain the evaluation in this case to demonstrate that
5 there is enough storage in the Stoddard Zone as shown below.

Operation Storage	0.2*(ER+FF)	120,985
Emergency Storage	ADD	64,926
Fire Storage	3hr of FF	540,000
		725,911 gal

6

7 Using AVR's approach, the calculation shows the storage need is 725,911
8 gal (0.73 MG) and there is a 1.0 MG storage tank in the zone providing adequate
9 storage.

10 On a final note regarding fire storage, AWWA provided the following
11 excerpts:

12 *“According to the 10 State Standards, a community is not obligated*
13 *to provide fire protection. AWWA M31, Distribution System*
14 *Requirements for fire Protection, also states that there is no legal*
15 *requirement that a governing body must size its water distribution*
16 *system to provide fire protection”¹⁰²*

17 As AWWA clearly stated above, AVR is not obligated to size its water
18 distribution system to provide fire protection, not to mention constructing
19 additional storage to meet fire flow requirement due to the Walmart Distribution
20 Center, which has its own fire storage. Based on ORA's evaluation, there is an

¹⁰² AWWA's Determining Distribution Storage Needs, p. 9.

1 existing 1.0 MG tank, which provides adequate storage for the Stoddard Zone.

2 **b) Current Seismic Standards**

3 AVR also claims that the existing 1.0 MG tank does not meet current
4 seismic standards set forth in AWWA's D100-11 as another reason to construct a
5 new tank. AWWA's D100-11 recommends that all new steel storage tanks are
6 constructed to provide adequate freeboard and equipped with seismic anchoring,
7 flexible connections, and automatic shut-off valves. AVR claims that the existing
8 Stoddard tank, which was constructed in 1988, does not have these features and
9 should be replaced. ORA points out that the seismic standards for steel tanks
10 contained in AWWA's D100-11 are recommended for new tank construction and
11 do not apply to existing tanks. In upgrading existing tanks for seismic safety,
12 Class A water utilities have chosen to upgrade by adding flexible connections and
13 shut off valves instead of replacing an existing tank that does not have these
14 features.

15 According to the Improvement Plan, AVR currently operates the Stoddard
16 tank with an operational freeboard of 3 feet. Based upon the size and dimensions
17 of the existing tank, a freeboard of 5.4 feet is recommended to meet current
18 seismic standards. Increasing the freeboard measurement by another 2.4 feet
19 would reduce the effective volume of the existing tank to 0.77 MG.¹⁰³

20 The Improvement Plan fails to consider the less costly option of retrofitting
21 the existing Stoddard tank to current seismic standards. As ORA has shown above,
22 the storage needs in the Stoddard Zone is approximately 0.64 MG, which is lower
23 than the effective volume (0.77 MG) of the existing Stoddard tank with the
24 AWWA recommended freeboard distance. ORA notes that even when using
25 AVR's approach of estimating the storage needs, the 0.73 MG also meets the
26 freeboard requirement of 0.77 MG.

¹⁰³ AVR's North Apple Valley Water System Improvement Plan, p. 6-9, Section 6.2.1.

1 **c) Water Quality**

2 AVR claims the Stoddard tank lacks a water mixing system. One of the
3 most common water quality problems is caused by how long water stays in a
4 storage tank. When water remains in a tank for an extended period of time, it
5 increases the potential for bacteria to grow, requiring larger amounts of chemicals
6 to treat, resulting in an elevated formation of disinfection by products. To
7 minimize the occurrence of such water quality issues, most water utilities reduce
8 the amount of time that water stays in a storage tank or add a mixing system.

9 Currently water stored in the Stoddard tank does not exhibit a water quality
10 problem even though there is no mixing system.¹⁰⁴ CDPH’s findings in its most
11 recent inspection of AVR’s system confirm that there is no water quality issue in
12 the system. AVR’s Improvement Plan concluded that if the amount of storage is
13 increased, there is a potential for water quality issues to occur.¹⁰⁵ The implication
14 that increasing the tank size will result in water quality problems seems to indicate
15 too much water will be stored and not used, causing water quality problems to
16 develop. Based on the above, ORA asserts that there are no water quality issues
17 with AVR’s existing Stoddard tank at this time and AVR’s request is based upon
18 speculation and premature. Moreover, AVR’s own Improvement Plan indicates
19 that increasing the size of the tank increases the potential for water quality
20 problems to develop, which supports ORA’s position that an additional storage
21 tank is not necessary at this time.

22 **d) Conclusions**

23 In this request, AVR overstated its needs for storage in the Stoddard Zone
24 by including Walmart’s fire storage needs. AVR discounted the amount of
25 available storage capacity of the existing Stoddard storage tank by applying
26 current seismic standards, which are not required for existing tanks. ORA has

¹⁰⁴ AVR’s North Apple Valley Water System Improvement Plan, p. 5-5, Section 5.2.2.3.2.

¹⁰⁵ AVR’s North Apple Valley Water System Improvement Plan, p. 5-5, Section 5.2.2.3.2.

1 shown above that the existing storage tank provides adequate storage for the
2 Stoddard Zone. ORA's evaluation of the storage needs has taken into account the
3 fact that Walmart has its own fire flow storage and is more appropriate and
4 reflective of operating conditions in the Stoddard Zone. Therefore, ORA
5 recommends that the Commission deny AVR's request of \$2.35 million to
6 construct an additional 1.5 MG storage tank in the Stoddard Zone.

7 **5) New Office Building**

8 AVR requests \$2.0 million in 2015 and \$1.9 million in 2016 for a total of
9 \$3.9 million to construct a new office building. In its last application (A.11-01-
10 001), AVR made a request to expand its office building at a cost of \$702,026. On
11 June 29, 2012, AVR asked the ALJ to set aside its request in A.11-01-001 because
12 the company was looking at constructing a new office building. Subsequently, the
13 Commission authorized a balancing account to track the costs to expand the
14 existing office in D.12-09-004. Following a seismic evaluation of the existing
15 structure, Brown and Caldwell ("B&C"), the consultant AVR hired to evaluate its
16 existing building, recommended that AVR construct a new office building instead
17 of adding on to the existing structure.

18 According to B&C, the existing structure does not meet current seismic
19 code and will need extensive work to bring it up to code before the building can be
20 expanded as originally planned. AVR claims that it is "more cost effective" to
21 construct a new building to meet AVR's office building needs.¹⁰⁶ Therefore, AVR
22 proposes to construct a cost effective, energy efficient, functional building that
23 will serve the customers and company's needs.

24 Currently, AVR houses 41 employees in three buildings and a trailer on a
25 5-acre site located in a mixed residential and industrial area of Apple Valley. In
26 D.12-09-004, the Commission found that AVR needs additional office space for

¹⁰⁶ AVR's Revenue Requirement Report, p. 95.

1 its staff and ORA will not revisit those needs here. However, AVR’s current
2 estimated cost to address its space needs has exceeded its last request by over
3 550% - more than five times.¹⁰⁷ Prior to embarking on a project of this magnitude
4 and the significant rate impacts, it is imperative for AVR to evaluate all the
5 options that are available. In its project justification, AVR stated that B&C
6 recommended that constructing a new building is the “most cost effective” option
7 following its engineering study of the existing building. It should be noted that
8 B&C’s study was focused on the structural integrity of the existing structure and
9 the feasibility of constructing a new office building on-site. Naturally, the
10 scenarios considered were limited to the cost between retrofitting the existing
11 structure to enable an expansion and constructing a new building.

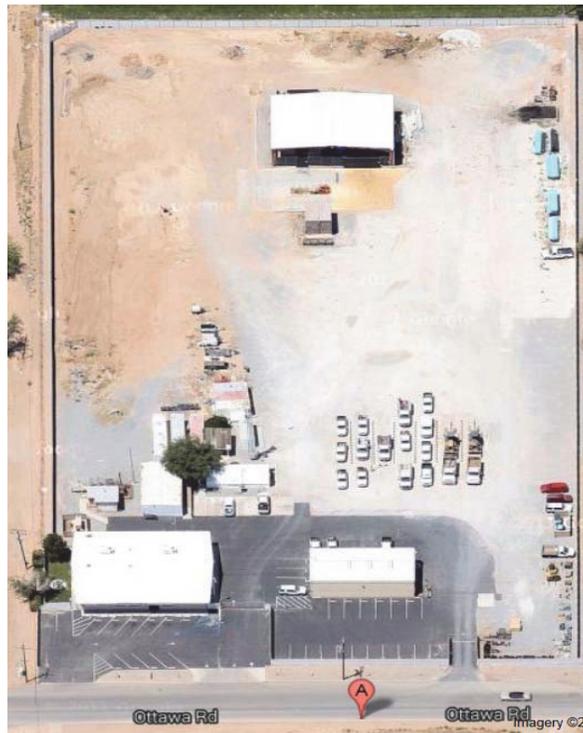
12 Subsequently, AVR hired an architectural/planning/engineering firm to
13 develop a plan for the new building, which was submitted as part of the Needs
14 Assessment Report. In evaluating its options for obtaining more office space,
15 AVR also indicated it has looked into leasing office space. According to AVR, it
16 enlisted the assistance of a real estate agent to locate a suitable property for lease,
17 but was not successful. A copy of the letter from the real estate agent indicates
18 that AVR wanted a property with the following requirements:

- 19 • Located within the town of Apple Valley;
- 20 • Zone industrial;
- 21 • Adequate office space > 13,000 sf;
- 22 • Adequate space for storage of construction equipment and
23 construction material (at least 5 acres); and
- 24 • Convenient access for customers

25 ORA is not surprised that a property with such features is difficult, if not
26 impossible, to find in a developed town like Apple Valley. The issue here is AVR
27 is looking for a property that has a 13,000 square foot building and five acres of

¹⁰⁷ ORA Divided \$3.9 mil by \$702,000.

1 land. The vacant land surrounding the building is over 17 times the size of the
2 building. In addition, although AVR is requiring 5 acres for storage equipment
3 because that is the size of land that AVR has in its current location, ORA noticed
4 during the district field visit that AVR does not fully utilize this space. At least
5 30% of the outside space is not used as shown in the pictures below. The first
6 figure is an aerial photograph of AVR's current office. The second picture
7 provides a view of the parking/storage space of the current facility.



8



1

2 ORA asserts that if AVR was not seeking such an excessive amount of
3 storage space, it could find plenty of office spaces available for lease. In fact,
4 ORA was able to locate at least three properties with over 13,000 sf for lease in
5 Apple Valley.¹⁰⁸

6 In addition, AVR stated that it has also evaluated “splitting the office” in its
7 Lease Option, but decided against it when the company considered “lost
8 efficiencies, ongoing operating costs, and highest and best used of the owned land
9 accessory facilities.”¹⁰⁹ Although AVR did not perform a study about “splitting
10 the office,” AVR provided the following explanation:¹¹⁰

¹⁰⁸ ORA’s search shows the following properties: 20226 Highway 18; 20220 Highway 18; 20288 Highway 18 (Major E and Major F); and Yucca Loma Road – Fountain @ Quail Ridge Phase II Building 1.

¹⁰⁹ AVR’s Campus Needs Assessment, Executive Summary & Basis for Report, Lease Option Evaluation.

¹¹⁰ AVR’s Response to ORA Data Request JAU-004, Q.4, p. 3.

AVR believes that it is more efficient to have all employees working under one roof with the various departments close to the other departments that they collaborate with. Face to face communication is encouraged by AVR management for collaboration, debate, and developing ideas and solutions to issues. AVR's desire to promote an interactive environment to promote collaboration and interdepartmental communications could not be achieved if its various departments (Customer Service, Conservation, Meter Reading, Dispatch, Accounting, Production, Engineering, Human Resources, and General Manager) were not located at the same facility. AVR believes that having employees working from separate locations would result in a loss of efficiency and synergy.

Of importance, AVR neglected to consider the option of leasing office space for its employee while retaining the current property as a storage yard. This is common practice for many Class A water utilities. For example, Suburban Water System's employees are located in a leased office space in a strip mall and Suburban stores its equipment and vehicles in a secured storage/field yard; some CalWater district offices even store their equipment and vehicles at their well sites.

The construction cost of \$3.9 million would result in a revenue requirement of \$819,000 per year or \$68,000 per month. Suburban Water System recently moved into a new 14,000 sf office in Covina at a cost of \$15,000 per month.¹¹¹ Suburban is able to lease an office building of comparable space to AVR's at 22% of the cost in the City of Covina, which is located in Los Angeles County. It is a commonly known fact that real estate costs in Los Angeles County are higher when compared to that of San Bernardino County. Therefore, ORA is confident that AVR can lease a property in Apple Valley for a comparable cost to Suburban's lease office.

Although ORA recognizes AVR's desire to provide adequate space and a safe environment for its employees, the Commission must be ensured that constructing a new office building represents the best option at a reasonable cost. As the applicant, AVR has the burden of proof that its request is just and reasonable. In this request, AVR has not fully explored all the options for gaining

1 additional office space and has not performed a cost benefit analysis to
 2 demonstrate that constructing a new office building is the most economically
 3 feasible alternative. Therefore, ORA recommends that the Commission deny this
 4 request and that AVR consider other viable options for gaining additional office
 5 space and perform a cost benefit analysis prior to proceeding with this project.
 6 AVR has the option of filing a separate application once it has the necessary data
 7 to meets its burden of proof.

8 **6) Mains Replacement Program**

9 In this application, AVR seeks a budget of approximately \$4.9 to \$6.0
 10 million each year to replace pipelines as shown in the table below. AVR’s budget
 11 for pipeline replacement cost comprises 43% to 63% of AVR’s capital budget in
 12 each year.

13 **Table 8-C**
 14 **Mains Replacement Budget**

	2014 Proposed Budget	2015 Proposed Budget	2016 Proposed Budget
Mains Replacement Cost (million)	\$4.985	\$5.792	\$6.007
Miles to be replaced	5.17	6.60	6.57
Total Capital Budget (million)	\$7.864	\$13.398	\$14.129
Mains Replacement Cost vs Total Capital Budget	63%	43%	43%

15
 16 This is a significant investment considering AVR’s average recorded main
 17 construction cost in the most recent 5 year is approximately \$1.24 million. AVR
 18 is increasing its main replacement program by four to five time its historical
 19 expenditures. AVR used KANEW¹¹² to analyze a pipeline’s lifecycle and the

(continued from previous page)

¹¹¹ See Attachment A – Copy of Suburban’s Lease Agreement at the end of this chapter.

¹¹² KANEW is a modeling software developed by the AAWA Research Foundation to forecast how much pipe to replace and what families of pipe to replace in a water system.

1 results of a hydraulic model to prioritize its main replacement. KANEW provides
 2 an estimate of the amount of pipelines and which pipe materials to target for
 3 replacement based on a system’s pipeline characteristics such as pipe material,
 4 age, and leak history. Like all models, the resulting output (model
 5 recommendation) is based on the input. In this case, based upon AVR’s objective
 6 of having a leak rate of 0.15 leaks per mile per year, KANEW yielded a
 7 replacement rate of 16 miles per year for Steel mains with a total replacement rate
 8 of 24 miles per year.¹¹³

9 AVR has approximately 465 miles of pipelines in its system with the
 10 following characteristics:

11 **Table 8-D**
 12 **AVR’s Inventory of Mains¹¹⁴**

Pipe Material	System Length (mi)	Leak/mi/year	Average Age (2013)
Asbestos Cement	55.25	0.13	28
Ductile Iron	32.78	0.04	8
Plastic 2 (<2 leaks)	211	0.19	18
Plastic 3 (<3 leaks)	4.43	4.14	25
Steel 5 (<5 leaks)	108	1.90	48
Steel 6 (<6 leaks)	20	25.28	54
Total¹¹⁵	465	1.41	27

13 AVR’s proposed main replacement program targets steel and plastic mains
 14 because these mains have a higher leak rate. As shown above, AVR’s system has
 15 an average leak rate of 1.41 leaks per mile per year and the company seeks a main
 16 replacement program to reduce this rate to 0.15, which is an 89% reduction. Such
 17 an aggressive and unpractical objective would require an astronomical increase in
 18 capital investment.

¹¹³ AVR’s Asset Management Study for Water Mains, p. 8.

¹¹⁴ AVR’s Asset Management Study for Water Mains, p. 4.

¹¹⁵ The total system length does not add up to 465 miles.

1 AVR’s aim of reducing its leak rate by 89% coupled with using a shorter
 2 service life for plastic and steel pipelines and an over estimation of leak rate for
 3 these two pipe materials resulted in KANEW calling for a higher replacement rate
 4 for these two categories of pipelines.

5 **a) Service Life for Plastic and Steel Pipelines**

6 In forecasting the life cycle of pipelines, KANEW takes into consideration
 7 the service lives of pipelines based on different materials. Because there are many
 8 factors that can affect a pipe’s service life such as materials and soil conditions,
 9 AWWA provided a list of pipe service lives based on material and location (soil
 10 conditions) as shown below.

Derived Current Service Lives (Years)	CI	CI (LSL)	CI (SSL)	DI (LSL)	DI (SSL)	AC (LSL)	AC (SSL)	PVC	Steel	Conc & PCCP
Northeast Large	130	120	100	110	50	80	80	100	100	100
Midwest Large	125	120	85	110	50	100	85	55	80	105
South Large	110	100	100	105	55	100	80	55	70	105
West Large	115	100	75	110	60	105	75	70	95	75
Northeast Medium & Small	115	120	100	110	55	100	85	100	100	100
Midwest Medium & Small	125	120	85	110	50	70	70	55	80	105
South Medium & Small	105	100	100	105	55	100	80	55	70	105
West Medium & Small	105	100	75	110	60	105	75	70	95	75
Northeast Very Small	115	120	100	120	60	100	85	100	100	100
Midwest Very Small	135	120	85	110	60	80	75	55	80	105
South Very Small	130	110	100	105	55	100	80	55	70	105
West Very Small	130	100	75	110	60	105	65	70	95	75

*LSL indicates a relatively long service life for the material resulting from some combination of benign ground conditions and evolved laying practices etc.
 SSL indicates a relatively short service life for the material resulting from some combination of harsh ground conditions and early laying practices, etc.*

11
 12 In its analyses, it appears that AVR used the numbers provided for the
 13 Southern part of the US although AVR’s water system is located in what would be
 14 considered the Western US. It should be noted that the service lives for steel and
 15 PVC pipes in the South are 25 years and 15 years shorter than in the West. The
 16 KANEW analysis was performed with the lower pipe service lives and has the
 17 potential to result in a premature recommendation of pipelines replacement.

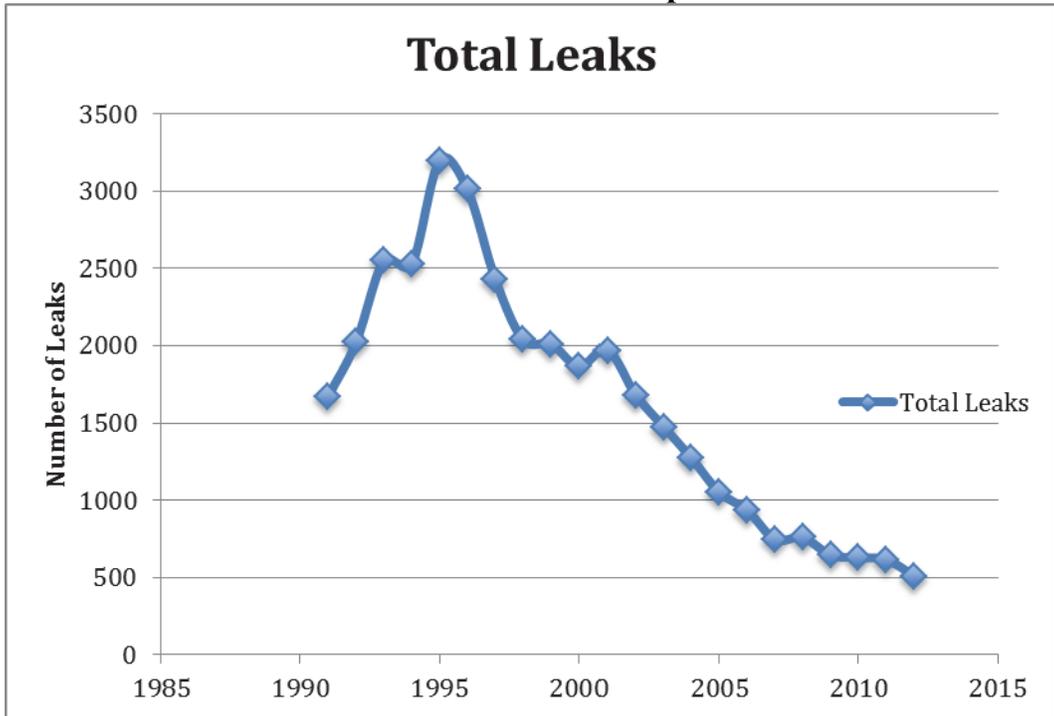
18 **b) Leak Rate**

19 A significant effort in running an analysis such as KANEW is to populate
 20 or input all the system’s pipe information into the model. The results of the

1 analysis are dependent on the information entered into the model. In its inventory
2 of leak information, AVR has approximately 1,060 leaks that were not associated
3 with any pipelines. AVR assumed that 92% of these leaks were from steel pipes
4 and arbitrarily assigned them to this category of pipes, thereby increasing the
5 number of leaks attributed to steel pipes by 28%. AVR also assumed the
6 remaining 8% (81 leaks) of unidentified leaks were from plastic pipes, which
7 increased the number of leaks for plastic pipes by 17%.

8 ORA points out that performing the analysis with lower estimated service
9 lives for steel and plastic pipes while increasing the numbers of known leaks
10 associated with these pipe materials certainly affects the outcome of the analysis.
11 Specifically, it artificially inflates the risk of failure associated with these two
12 categories of pipes thereby resulting in a higher rate of replacement than needed.

13 **Chart 8-F**
14 **Total Number of Main Leaks per Year¹¹⁶**



15 ¹¹⁶ AVR's Revenue Requirements Report, p. 63.

1 Since 1994, AVR has replaced over 95 miles of mains at a rate of
2 approximately 4.8 miles per year.¹¹⁷ The major pipe material replaced/abandoned
3 during the last 20 years has been steel with a small amount of plastic.¹¹⁸ As seen
4 above, AVR has managed to substantially reduced its water leaks from 3198 in
5 1995 to 511 leaks in 2012.¹¹⁹ AVR credited its success in reducing the number of
6 leaks in recent years to its main replacement program and, therefore, plans to
7 increase its main replacement program.¹²⁰ While ORA agrees with AVR’s
8 assessment, ORA asserts that it is not necessary for AVR to accelerate its main
9 replacement. AVR proposes to replace 5.17 to 6.6 miles of pipelines per year
10 between 2014 and 2016. This is equivalent to a replacement rate of 1.11% to
11 1.41%. The national average pipe replacement rate for water utilities is
12 approximately 0.5%.¹²¹ Considering the young age of AVR’s system with a 27
13 years weighted average age of its pipelines, one would expect AVR to replace
14 pipelines at a much lower rate than that the national average. AVR has what is
15 considered to be a relatively young water system, when compared to the average
16 age the oldest steel mains at 70 years old.¹²² According to the US EPA, there are
17 still many mains in the US, which were installed in the 1800’s and continue to
18 “provide adequate and reliable service.”¹²³ In addition, AVR’s system water loss
19 is 7%,¹²⁴ which is much lower when compared to the national average of 10%.¹²⁵

¹¹⁷ AVR’s Asset Management Study for Water Mains, p. 4.

¹¹⁸ AVR’s Asset Management Study for Water Mains, p. 18.

¹¹⁹ AVR’s Revenue Requirements Report, p. 63.

¹²⁰ AVR’s Revenue Requirement Report, p. 65.

¹²¹

<http://books.google.com/books?id=5IsudRtjBZwC&pg=PA2&dq=pipeline+replacement+rate&hl=en&sa=X&ei=kg02U9PFJOGqyAG2l4GYBw&ved=0CFYQ6AEwBA#v=onepage&q=pipeline%20replacement%20rate&f=false>

¹²² AVR’s Asset Management Study for Water Mains, p. 28.

¹²³ US EPA’s Deteriorating Infrastructure Management and Challenges and Strategies, p. 29.

¹²⁴ AVR’s Response to the Minimum Data Requirements, E-2.

1 As a matter of fact, a fact sheet produced by the National Drinking Water
2 Clearinghouse at West Virginia University stated that a system loss of 10 to 20%
3 is normal.¹²⁶ Furthermore, the weather and soil conditions in the West Coast,
4 especially Southern California, are considered to provide a more ideal
5 environment for pipelines when compared to those of the East Coast, which has
6 more extreme weather and typically more acidic and wetter soil conditions.
7 Therefore, pipelines in the East Coast do not last as long as they do in the West
8 Coast. AVR's pipelines are relatively young when compared to the national
9 average and its water loss rate is below the national average. Yet AVR, which has
10 a younger system and is located in a geographical area considered to have more
11 ideal weather and soil conditions, is proposing a replacement rate 2.8 times that of
12 the national average. The data analyzed by ORA simply does not support AVR's
13 request for such an aggressive pipeline replacement program and ORA thus
14 recommends that the Commission deny this request.

15 **c) Hydraulic Model**

16 The results of the KANEW analyses indicated that steel mains have a
17 higher probability of leaking and need to be replaced. AVR then used a hydraulic
18 model to prioritize mains replacement. The results of the hydraulic model indicate
19 a need to improve transmission capacity by replacing and increasing the size of its
20 existing mains. Over 90% of the number of mains that AVR proposed is for the
21 purpose of upsizing steel mains. AVR stated that these projects will allow the
22 system to minimize pumping costs, meet peak demand, and provide adequate fire
23 flow capacity.¹²⁷ According to AVR, customer demand has been increasing over

(continued from previous page)

¹²⁵ National average - US EPA's Distribution System Inventory, Integrity, and Water Quality, January 2007, Table 2, Statistics of US Distribution Systems.

¹²⁶ National Drinking Water Clearing House's Technical Brief, Leak Detection and Water Loss Control, p. 1.

¹²⁷ AVR's Revenue Requirements Report, p. 66.

1 the years necessitating the company to increase the transmission capacity to
2 transfer more water from the southwestern portion of the system to the north and
3 east where customer growth is located.¹²⁸ The following excerpt from AVR's
4 Water Transmission Main Study provides an explanation of the issues:

5 *“All of AVR's potable water supply is from wells that are primarily*
6 *located along the western edge of the distribution system. The*
7 *majority of the well supply is located in the southwestern portion of*
8 *its service area. One of the major issues that AVR is experiencing is*
9 *the inability to operate a large number of wells without experiencing*
10 *excessive pressure increases. These **pressure increases** are*
11 *undesirable in that they can **cause** things such as **increased leak***
12 ***rates** and require more pumping energy to be used. Because AVR*
13 ***needs to be able to pump all of its wells to recover from high***
14 ***demands** and because **any new wells** will make this issue even more*
15 *pronounced, additional transmission capacity is essential.”*

16 [Emphasis added]

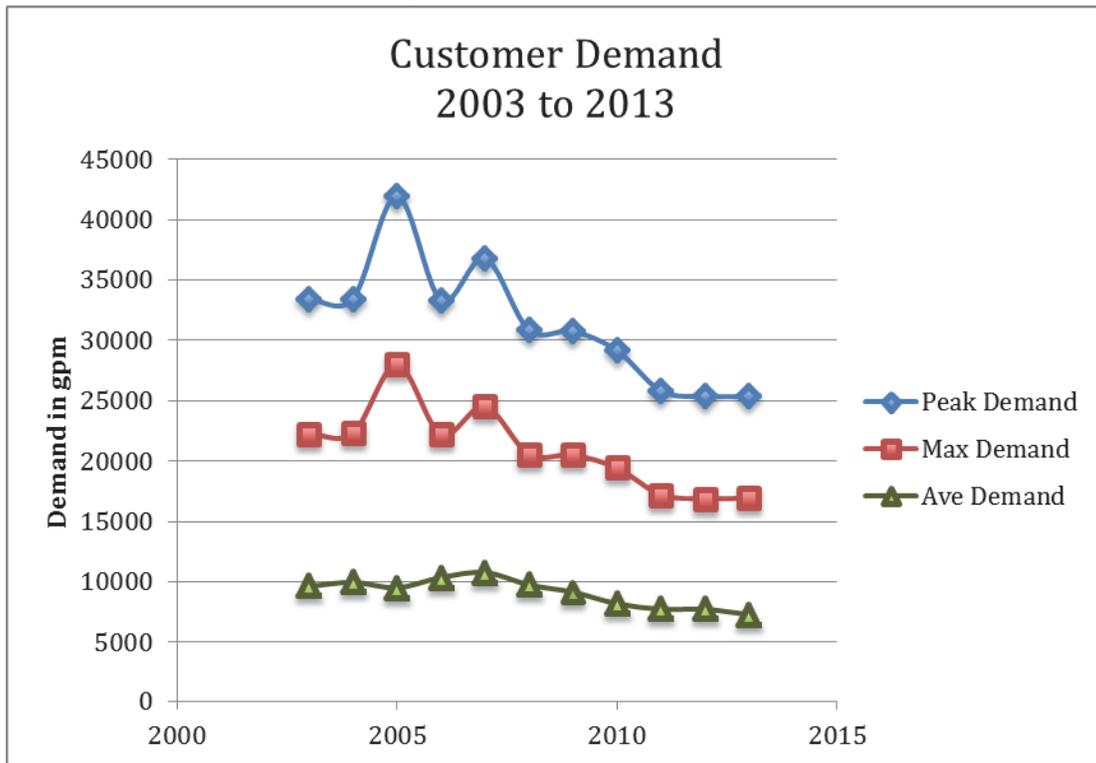
17 According to AVR, recent increases in demand require the company to
18 pump and transfer more water, which would increase the pressure in the
19 transmission mains and subsequently causes more leaks. ORA, however, finds
20 this claim to be unfounded. First of all, based upon recorded production data,
21 customer demand has not increased in recent years. As shown in the chart below,
22 customer demand in recent years has decreased by over 30% from its high in
23 2007. As a result of lower customer demand, AVR should be pumping and
24 transferring less water, not more as the company claims.

25

¹²⁸ AVR's Revenue Requirements Report, p. 66.

1
2

Chart 8-G
Customer Demand¹²⁹



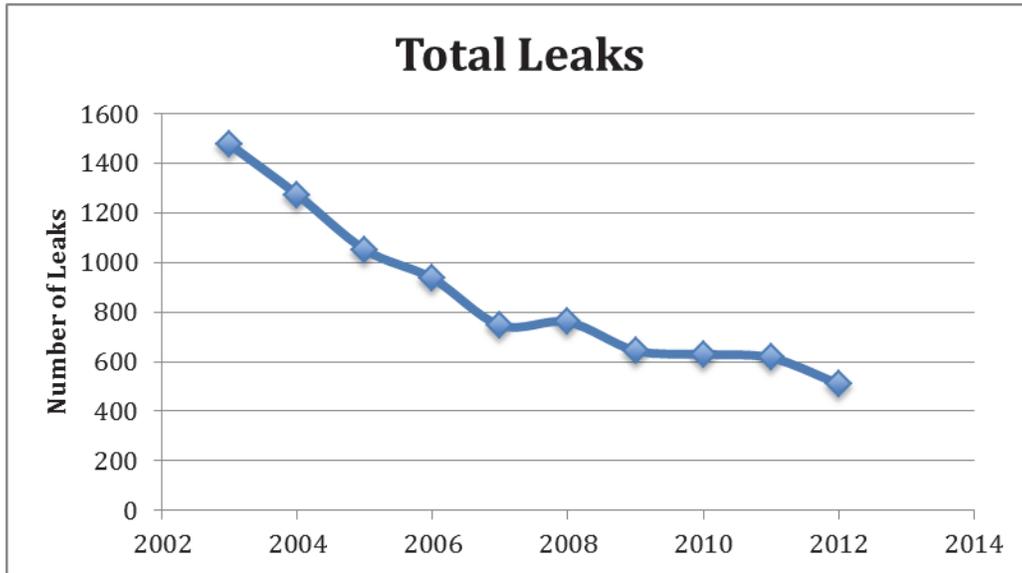
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Secondly, if AVR is transferring more water to meet demand causing an increase in pressure levels in the mains which would result in an increased leak rate, then we would see the number of leaks increasing in recent years. However, the chart below shows a decreasing trend for the number of leaks in AVR's system.

¹²⁹ AVR's Analysis of Source and Storage Capacity Technical Report, Table 1.

1
2

Chart 8-H
Total System Leaks¹³⁰



3

4 The data shown above does not validate AVR’s claim that a recent increase
5 in customer demand results in the need to replace transmission mains in its water
6 system. Although current customer demand does not require an aggressive main
7 replacement, adding new wells to provide for additional customer demand due to
8 growth may require main replacement. If AVR needs to construct wells to
9 facilitate customer growth in the north and east part of the system, the
10 Commission’s Rule 15 Line Main Extensions explicitly requires that the parties
11 benefiting from the project bear the construction cost. Existing ratepayers should
12 not be paying for its construction. AVR needs to factor in the cost of upgrading
13 the mains along with the costs to construct new facilities to support growth in its
14 water system.

15

¹³⁰ AVR’s Revenue Requirement Report, p. 63.

1 **d) Historical Expenditures**

2 As shown in the Table 8-E below, AVR’s most recent five year
3 expenditures in main replacements range between \$239,121 to \$3.2 million with
4 an annual average of \$1.65 million. In 2012, AVR spent 12 times what the
5 company spent in 2009 on main replacement. In other words, AVR increased its
6 main replacement costs by 1,200% in four years. During the same interval of
7 time, the leak rate was reduced by 21%. Although it is difficult to identify a direct
8 correlation between the cost to replace pipeline and the reduction in the number of
9 leaks, there should be a reasonable and affordable rate of replacement. Therefore,
10 ORA recommends a main replacement budget that reflects the average annual
11 expenditures of the last five years.

12 **Table 8-E**
13 **Main Replacement Expenditures (Historical & Proposed)**

Year	Recorded/Escalated	Expenditures ¹³¹
2009	recorded	\$239,121
2010	recorded	\$652,042
2011	recorded	\$1,245,777
2012	recorded	\$2,884,993
2013	recorded	\$3,230,700
average		\$1,650,527
2014	escalated	\$1,689,314
2015	escalated	\$1,729,013
2016	escalated	\$1,769,645

14 **e) Conclusion**

15 Ratepayers have been conserving water at an unprecedented rate.
16 Customers have been using 30% less water in the AVR water system. However,
17 ratepayers will not realize the benefits of their conservation efforts if AVR
18 continues to increase fixed costs by implementing programs to **accelerate**
19 **replacement of assets at a rate that is not necessary**. ORA has shown that
20 conditions of AVR’s pipeline system such as age, water loss rate, and a decreasing

¹³¹ Recorded Expenditures data come from AVR’s Response to ORA Data Request, JAU-005.

1 leak rate do not warrant a replacement rate that is above the national average.
2 Therefore, ORA recommends that the Commission deny AVR's request and adopt
3 ORA's recommendations for AVR's pipeline replacement program.

4 **7) Vehicle 08-6**

5 AVR requests \$37,016 to replace Vehicle #08-6 in 2015. Vehicle #08-6
6 was purchased in 2008 and is projected to have 118,832 miles at the end of 2016.
7 The appropriate time to replace this vehicle is in 2017 per the Department of
8 General Services recommendation of replacing a vehicle when it reaches 120,000
9 miles.¹³² ORA recommend that the Commission deny AVR's request for the
10 replacement cost of this vehicle in 2015.

11 **GENERAL OFFICE PLANT IN SERVICE**

12 Park requested several additional plant items identified in Chapter V of
13 AVR's General Office report. Park estimated \$1.735 million in 2014 and
14 \$363,716 in 2015, and \$367,906 in 2016 for these requested plant items. ORA's
15 estimates for the plant items total \$325,050, \$286,716, and \$345,906 for years
16 2014, 2015, and 2016 respectively as shown in the following tables. Differences
17 between ORA and Park's estimates are due to ORA recommending reductions in
18 the capital additions requested by Park for years 2014 through 2016 as discussed
19 in the following sections.

20

¹³² D.06-01-025, Section 5.8, p. 45 Replacement of Vehicle.

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Table 8-F
General Office Plant Additions

Power Plan	\$ -	\$ 1,400,000	\$ (1,400,000)	-100%
CIS/JDE Enhancements	\$ 96,000	\$ 106,000	\$ (10,000)	-9%
Financial Report Software Licenses	\$ 3,600	\$ 3,600	\$ -	0%
Corporate Carpool	\$ -	\$ -	\$ -	0%
Accounting and Financial Reporting	\$ 6,200	\$ 6,200	\$ -	0%
Revenue Requirements	\$ 5,839	\$ 5,839	\$ -	0%
Engineering	\$ 14,430	\$ 14,430	\$ -	0%
Risk Management	\$ 1,400	\$ 1,400	\$ -	0%
Information Systems	\$ 177,931	\$ 177,931	\$ -	0%
Human Resources	\$ 6,400	\$ 6,400	\$ -	0%
Water Quality	\$ 3,700	\$ 3,700	\$ -	0%
Executive	\$ 9,550	\$ 9,550	\$ -	0%

3

Power Plan	\$ -	\$ -	\$ -	0%
CIS/JDE Enhancements	\$ 18,000	\$ 95,000	\$ (77,000)	-81%
Financial Report Software Licenses	\$ 3,600	\$ 3,600	\$ -	0%
Corporate Carpool	\$ 35,000	\$ 35,000	\$ -	0%
Accounting and Financial Reporting	\$ 6,060	\$ 6,060	\$ -	0%
Revenue Requirements	\$ 3,212	\$ 3,212	\$ -	0%
Engineering	\$ 10,500	\$ 10,500	\$ -	0%
Risk Management	\$ 2,300	\$ 2,300	\$ -	0%
Information Systems	\$ 185,944	\$ 185,944	\$ -	0%
Human Resources	\$ 5,700	\$ 5,700	\$ -	0%
Water Quality	\$ 500	\$ 500	\$ -	0%
Executive	\$ 15,900	\$ 15,900	\$ -	0%

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Table 8-F – continued from previous page
General Office Plant Additions

Power Plan	\$ -	\$ -	\$ -	0%
CIS/JDE Enhancements	\$ 128,000	\$ 150,000	\$ (22,000)	-15%
Financial Report Software Licenses	\$ 3,600	\$ 3,600	\$ -	0%
Corporate Carpool			\$ -	0%
Accounting and Financial Reporting	\$ 6,600	\$ 6,600	\$ -	0%
Revenue Requirements	\$ 2,578	\$ 2,578	\$ -	0%
Engineering	\$ 12,430	\$ 12,430	\$ -	0%
Risk Management	\$ 1,200	\$ 1,200	\$ -	0%
Information Systems	\$ 177,348	\$ 177,348	\$ -	0%
Human Resources	\$ 3,400	\$ 3,400	\$ -	0%
Water Quality	\$ 200	\$ 200	\$ -	0%
Executive	\$ 10,550	\$ 10,550	\$ -	0%

3 In this application, Park requested to purchase software and modules in the
4 General Office for approximately \$1.729 million. Aside from Power Plan, Park
5 requested approximately 14 modules to add on to its existing JD Edwards system
6 and CIS at an approximate cost of \$328,960 in plant. Below, ORA will provide a
7 discussion of the items that ORA disagree with.

8 **8) CIS/JDE Enhancement**

9 **a) Import Tool**

10 In 2014, Park requests \$10,000 (100 hours at \$100/hour) to develop a
11 capability to import customer information from other water companies to Park's
12 system. Park explained that this is needed when Park purchases a new system and
13 need to migrate the new customer data into its system. Park is looking to purchase
14 other water system. This is a blatant divergent from the Commission's Rule 15.
15 Current customers do not benefit from this task and should not pay for this
16 expense.

1 **b) JDE – RSS, Sourcing, Core Tools, and One View Reporting**

2 Park requests \$77,000 in 2015 to purchase some add-on modules to its
3 existing system to centralize employees’ product purchasing. Park has an existing
4 purchasing module but “the company does not centralize purchasing, control
5 vendor selection, and implement procurement standards”.¹³³ According to Park,
6 these add-on modules will allow the company to accomplish these tasks. ORA is
7 doubtful that Park will be able to centralize its purchasing with these additional
8 modules since it does appear that its employees are not using the existing
9 purchasing module when purchasing products. If employees are not restricted to
10 make purchases through the existing modules, the additional modules are not
11 beneficial.

12 **9) Power Plan**

13 A significant part of the capital addition in this GRC is for the purchase of a
14 financial forecasting software known as Power Plan to replace the access
15 databases and excel spreadsheets that the company has been using. According to
16 Park, Power Plan is needed to help the company in meeting the new Tangible
17 Property Regulations and Tax Repair Regulations, budget, forecast, and track its
18 financial, manage projects, and produce financial and management reports.¹³⁴
19 Currently, Park uses a host of spreadsheets and databases along with JD Edwards
20 systems and Customer Information System (CIS). The systems and spreadsheets
21 used to prepare budgets, forecasts, and projections are “not well integrated and
22 linked”.¹³⁵ Also, the company’s income tax returns are prepared by an outside
23 accounting firm, Ernest & Young.¹³⁶

¹³³ GO Report, p. 31.

¹³⁴ AVR’s Response to ORA’s Data Request JAU-003, Q. 1.

¹³⁵ GO Report, p. 22.

¹³⁶ GO Report, p. 11.

1 Park considered several asset and financial management options such as
2 modifying its current system, construct a new system, and purchasing another
3 software. The company stated that most systems on the market do not offer a
4 solution that the company seeks and it takes too much time to build a new
5 system.¹³⁷ Park also looked at available software from three companies Prophix,
6 KCI, and Adaptive Planning but decided to purchase Power Plan.¹³⁸ Park believes
7 that Power Plan can allow the company to automate many of the functions that its
8 employees are currently performing. This will reduce employee costs and outside
9 services expense.

10 First, Park pointed to the fact that several other water utilities such as
11 CalWater, Cal Am, and Golden States are using Power Plan to manage their
12 assets.¹³⁹ Since these companies along with some major electric utilities use
13 Power Plan, Park should purchase it too. The difference here is an economy of
14 scale. The water companies that use Power Plan have a much larger customer
15 base than Park. The numbers of customers in California served by these water
16 companies range between 255,000 to 473,000, while Park has around 65,000
17 customers. In addition, Cal Am has over 14 million customers and Cal Water
18 Services has approximately 2 million customers in the US. Hence, they have
19 much more assets to manage and have customers spanning many parts of the US
20 while Park's customer base is predominantly in California. Therefore, a financial
21 and asset management system that is suitable for these three water companies may
22 be an overkill for Park - not to mention the cost of \$1.4 million. Water companies
23 of comparable size to Park such as Suburban Water Systems and San Gabriel
24 Water Company use SAP and AS400 systems for asset managements.¹⁴⁰

¹³⁷ AVR's Response to ORA's Data Request JAU-003, Q. 4.

¹³⁸ AVR's Response to ORA's Data Request JAU-003, Q. 4.

¹³⁹ GO Report, at p. 20.

¹⁴⁰ ORA's discussions with San Gabriel Water Company (Dan Dell'Osa) and Suburban Water Company (Robert Kelly), April 1, 2014.

1 Second, Park stated that a major part of Power Plan is needed to meet the
2 new Tangible Property Regulations and the Tax Repair Regulations. However,
3 Park has been using an outside accounting firm to prepare its tax return. Park
4 provided the following information:¹⁴¹

5 *“Power Plan software will support the Company’s efforts to bring*
6 *in-house certain activities associated with preparing the Company’s*
7 *income tax return. Professional services forecasted for 2015 have*
8 *factored in reduced cost in preparing the income tax returns.”*

9 ORA was not able to locate the reduced cost that Park cited in its
10 testimony. Park estimated \$126,260 for 2014, \$130,048 for 2015, and \$135,115
11 for 2016 as Audit and Income Tax Expenses. It appears that Park will continue to
12 have an outside accounting firm prepare its tax return. Any savings cited here
13 seem insignificant.

14 Third, Park indicated that the company considered software offered by
15 three other companies but rejected them because they did not meet its needs. It is
16 difficult for ORA to determine if the decision-making process is impartial and
17 unbiased as Park presented. However, ORA found that Oracle has a JD Edwards
18 EnterpriseOne suite that touted many of the features that Power Plan seems to
19 have offer. It offers financial management, project management, asset lifecycle
20 management, order management, manufacturing management, and reporting.¹⁴²
21 The costs listed for these modules are nowhere near Power Plan’s cost of \$1.4
22 million.

23 Finally, Park stated that the amount of time saved from Power Plan’s
24 automated tasks allow the company to reduce its work force by one staff in the
25 engineering department. Park forecasted a saving of \$203,800 per year in
26 employee costs while the purchase of Power Plan requires a revenue requirement

¹⁴¹ GO Report, p. 21.

¹⁴² <http://www.oracle.com/us/products/applications/jd-edwards-enterpriseone/overview/index.html>

1 of \$314,234.¹⁴³ Park neglected to mention that Power Plan also has a maintenance
2 expense of \$76,234 per year.¹⁴⁴ Although ORA agrees with Park's assumption
3 that the revenue requirement will decrease, ORA must point out that software tend
4 to have very short life cycle. It is likely that the software will require expensive
5 upgrades and additional modules before it is fully depreciated. Case in point is the
6 multiple additional modules that Park is requesting for JD Edwards and CIS in this
7 GRC. Purchasing Power Plan is a perfect opportunity for Park to increase its
8 ratebase to allow its investors a higher earning on their investment. Therefore,
9 ORA recommends that the Commission disallow Park's request to purchase Power
10 Plan.

11 **10) Park's Office Renovation**

12 AVR requests \$1.51 million in 2014 and \$1.77 million in 2015 to renovate
13 the current office building located in the City of Downey. (This renovation project
14 is part of Park Water Company's Plant addition. It is not part of General Office
15 addition but flows to GO ratebase calculation.) The Downey building is 14,577
16 square feet (sf) and houses employees of Park Water Company and General
17 Office.¹⁴⁵ The building was constructed in 1969 and is made up of a reinforced
18 brick single story structure connected to a concrete tilt-up warehouse. In 1994,
19 Park added a second floor to the tilt-up warehouse and reconfigured the customer
20 lobby. A seismic upgrade was performed in 1999.¹⁴⁶ In recent years, Park had
21 several other office reconfigurations to accommodate growth in its customer
22 service and information technology departments. To minimize disruption to its
23 employees during these reconfiguration events, Park only upgrade/modify the
24 affected sections of the building, resulting in patchworks of upgrades. As Park

¹⁴³ AVR's Response to ORA's Data Request MUK-001, Q. 2c.

¹⁴⁴ GO Report, p. 10.

¹⁴⁵ Kennard Design Group Report, p. 11.

¹⁴⁶ Kennard Design Group, p. 24.

1 hired new employees, they were placed where space was available. According to
2 Park:

3 *“This has really created a dysfunctional work space where*
4 *supervisors are unable to monitor their personnel and the lack of*
5 *collaboration with their fellow staff can affect staff morale and*
6 *productivity. Park has found a need to get its entire staff under one*
7 *roof, into their various work groups, and close to the other work*
8 *groups that they collaborate with.”¹⁴⁷*

9 In another word, Park wants to “locate its staff in the same floor by
10 department”.¹⁴⁸ Therefore, Park considered such options as renting office space,
11 constructing a new building, and remodeling the existing building. Park did not
12 choose the rental option because the company does not want to separate its
13 employees. Also, the cost of constructing a new office building would double the
14 cost of renovating the existing office and is not a cost effective solution.
15 Therefore, Park hired an architectural firm (Kennard Design Group) to evaluate
16 the existing space and recommend a course of action for renovating the office.
17 Based on Park’s goals of creating an open concept for its office space and having
18 employees in the same group sit together, Kennard recommended a renovation
19 project with an estimated cost of \$3.28 million. Kennard’s plan called for taking
20 down some walls to create space for cubicles, reducing the size of some existing
21 offices, adding approximately 225 sf to the lobby area, and adding 375 sf to the
22 warehouse to allow the installation of an elevator. Kennard also recommended
23 that Park upgrade the electrical, mechanical, and plumbing systems and make
24 additional upgrades to meet the current American Disability Act (ADA), Title 24
25 Energy Requirements, and fire/building codes. Park’s simple goal of grouping its
26 employees with their fellow staff has spiraled into a major renovation project that
27 costs almost as much as the construction costs of the new AVR office building.
28 Although ORA recognizes that Park’s office building is larger than the proposed

¹⁴⁷ General Office Report, p. 24.

¹⁴⁸ General Office Report, p. 24.

1 AVR office building, the estimated cost of a renovation project is at best a rough
2 estimate. It is difficult to estimate the costs of the necessary upgrades when the
3 plumbing, mechanical, and electrical systems and seismic conditions are hidden
4 behind walls. It will be even more difficult to control costs once the walls are torn
5 down and there is no incentive for a regulated utility to control costs as ratepayers
6 are paying for these projects.

7 Park's explanation that there is a lack of collaboration among its employees
8 because they don't sit together seems a little far-fetched. Today's technological
9 advances such as emails, cell phones, and video-conferences allow people in
10 different countries to collaborate on projects. ORA finds it difficult to perceive
11 that Park's employees are less collaborative even though they are not next to each
12 other but are located in the same building. Even Park stated that "with the
13 advance (sic.) of new technology, the need for paper has diminished". Two people
14 in different part of the building have the capability of communicating and looking
15 at the same document on their computer screens. It is no longer necessary to have
16 a face-to-face meeting. Park's employees are highly trained professionals in their
17 field who should be able to work independently. Not sitting together would not
18 hinder their professionalism, morality, or productivity. Moreover, Park is
19 requesting software and modules as discussed above to automate many of the
20 functions that are currently performed by different staff. Managers would have
21 reports on their "dashboards", employees can do all the paperwork in the field
22 with the CIS Infinity module, employees can purchase products on their own
23 computers, and software to track employees' presence. These modules and
24 software would allow Park's employees to work independently and seem to
25 discourage communications among staff. Park's office revamping project and its
26 requests for software modules seem to counteract the face-to-face interactions that
27 Park is seeking by having group sit together.

28 However, even if Park wants to reshuffle its employees so they can sit
29 together, the company could have done so without the need to revamp its entire

1 office layout. Kennard recommended a major renovation because Park wants to
2 renovate the office. Park even has the space for a work-out/exercise room for its
3 employees and therefore certainly has the space to move things around.
4 Although ORA understands Park's desire to bring a building that was constructed
5 44 years ago up to modern standards to provide a comfortable working
6 environment for its employees, Park must realize that ratepayers are required to
7 pay for these costs through water rates. Therefore, Park must evaluate all the
8 options that are available and propose the most cost effective solution. In this case,
9 Park failed to do so by not evaluating leasing an office building for the employees
10 that should be in the office while keeping the current space as a field or storage
11 location. Park also did not want to rent space because "rent is a recurring expense
12 that will continue forever".¹⁴⁹ Park's renovation costs has a revenue requirements
13 in excess of \$668,000 which will stay in the ratebase until fully depreciated, by
14 which time, it is likely that Park will need a new building.

15 Park should also evaluate moving from its current location by purchasing
16 an office building in a nearby low cost area or in its service area. Downey is not
17 even in Park's service. This is an opportunity for Park to consider moving closer
18 to its customers.

19 As the applicant, Park has the burden of proof that its request is just and
20 reasonable. In this request, Park has not fully justified its need for remodeling the
21 existing office building and explored all the options available. Therefore, ORA
22 recommends that the Commission disallow Park's request to renovate the office
23 building at a cost of \$3.28 million.

24 **B. CONCLUSION**

25 ORA's recommendations have been incorporated in the calculations for
26 ORA's recommended Plant in Service as shown in Tables 8-A and 8F.

27

¹⁴⁹ General Office, p. 24.

1
2

Attachment A- Copy of Suburban's Lease Agreement

in office



7-26-11
e-MAILED COPY
to: J. Brubaker
C. Goetz
K. Ditt
D. Lewis

main office

AIR COMMERCIAL REAL ESTATE ASSOCIATION STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - NET

1. Basic Provisions ("Basic Provisions").

1.1 Parties: This Lease ("Lease"), dated for reference purposes only July 6, 2011 is made by and between FNL/Covina Partners, LLC (a California limited liability company) and Suburban Water Systems (a California C corporation) ("Lessor")

1.2(a) Premises: That certain portion of the Project (as defined below), including all Improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 1325 N. Grand Avenue, Suite 100 located in the City of Covina, County of Los Angeles, State of California, with zip code 91724, as outlined on Exhibit attached hereto ("Premises") and generally described as (describe briefly the nature of the Premises): offices consisting of approximately 14,428 square feet.

In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to any utility raceways of the building containing the Premises ("Building") and to the common Areas (as defined in Paragraph 2.7 below), but shall not have any rights to the roof or exterior walls of the Building or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Project." (See also Paragraph 2)

1.2(b) Parking: Fifty-seven (57) unreserved vehicle parking spaces. (See also Paragraph 2.6)
1.3 Term: Five (5) years and _____ months ("Original Term") commencing January 1, 2012 ("Commencement Date") and ending December 31, 2016 ("Expiration Date"). (See also Paragraph 3)

1.4 Early Possession: If the Premises are available Lessee may have non-exclusive possession of the Premises commencing December 1, 2011 ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 Base Rent: \$ 15,264.00 per month ("Base Rent"), payable on the first day of each month commencing April, 2012. (See also Paragraph 4)

If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. See Paragraph 5.0
1.6 Lessee's Share of Common Area Operating Expenses: _____ percent (9.5 %) ("Lessee's Share"). In the event that the size of the Premises and/or the Project are modified during the term of this Lease, Lessor shall recalculate Lessee's Share to reflect such modification.

1.7 Base Rent and Other Monies Paid Upon Execution:
(a) Base Rent: \$ 15,264.00 for the period March 2012
(b) Common Area Operating Expenses: \$ _____ for the period _____
(c) Security Deposit: \$ 15,264.00 ("Security Deposit"). (See also Paragraph 5)
(d) Other: \$ _____ for _____
(e) Total Due Upon Execution of this Lease: \$ 30,528.00

1.8 Agreed Use: Administrative offices for maintenance and management of water and waste water systems.

1.9 Insuring Party. Lessor is the "Insuring Party". (See also Paragraph 6)

1.10 Real Estate Brokers: (See also Paragraph 15 and 25)
(a) Representation: The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):

Grubb & Ellis Company represents Lessor exclusively ("Lessor's Broker");
 CB Richard Ellis represents Lessee exclusively ("Lessee's Broker"); or
 _____ represents both Lessor and Lessee ("Dual Agency").
(b) Payment to Brokers: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers for the brokerage services rendered by the Brokers the fee agreed to in the attached a separate written agreement or if no such agreement is attached, the sum of _____ or _____ % of the total Base Rent payable for the Original Term, the sum of _____ or _____ of the total Base Rent payable during any period of time that the Lessee occupies the Premises subsequent to the Original Term, and/or the sum of _____ or _____ % of the purchase price in the event that the Lessee or anyone affiliated with Lessee acquires from Lessor any rights to the Premises.

1.11 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by _____ ("Guarantor"). (See also Paragraph 37)

1.12 Attachments. Attached hereto are the following, all of which constitute a part of this Lease:
 an Addendum consisting of Paragraphs 50 through 58;
 a site plan depicting the Premises; Exhibit A;
 a site plan depicting the Project;

3

1 **CHAPTER 9: DEPRECIATION RESERVE AND DEPRECIATION**
2 **EXPENSE**

3 **A. INTRODUCTION**

4 This Chapter sets forth ORA’s analyses and recommendations regarding
5 depreciation reserve and depreciation expense for AVR (Domestic and Irrigation)
6 and General Office. Tables 9-1 and 9-2 included in Appendix A provide ORA’s
7 and AVR’s estimates for depreciation reserve and depreciation expense for Test
8 Year 2015 and Escalation Year 2016.

9 **B. SUMMARY OF RECOMMENDATION**

10 ORA has reviewed and agrees with the methods used by AVR to calculate
11 depreciation reserve and depreciation expense for Test Year 2015 and Escalation
12 Year 2016. The differences between ORA’s calculations and the numbers
13 provided by AVR are attributable to the differences in plant estimates and ORA’s
14 use of updated data.

15 **C. DISCUSSION**

16 ORA used the recorded year-end 2013 depreciation reserve balances for the
17 beginning of year depreciation reserves 2014. AVR’s proposed depreciation rates
18 in this application are based on a new remaining life study performed by AVR.
19 AVR’s proposed rates were calculated in accordance with a straight-line
20 remaining life curve using the Commission’s Standard Practice U-4.
21 Depreciation accruals for Test Year 2015 and Escalation Year 2016 are based on
22 the proposed depreciation rates applied to the average respective estimated annual
23 plant balances.

24 The following table shows the depreciation rates for Test Year 2015 and
25 Escalation Year 2016.

26

Table 9-A: AVR depreciation rates

APPLE VALLEY RANCHOS WATER COMPANY TOTAL DEPRECIATION ACCRUALS/EXPENSE				
ESTIMATED 2014 THRU 2016		2015-2016	2014	
TOT DEP		DEPRECIATION	DEPRECIATION	SALVAGE
	CPUC	RATE	RATE	RATE
ORGANIZATION	301	0.00%	0.00%	0.00%
(CONTRIBUTED) ORGANIZATION	30101	0.00%	0.00%	0.00%
MISC. INTANGIBLE PLANT	303	0.00%	0.00%	0.00%
LAND & LAND RIGHTS	306	0.00%	0.00%	0.00%
(CONTRIBUTED) LAND & LAND RIGHTS	30601	0.00%	0.00%	0.00%
S OF S, LAND AND LAND RIGHTS	310	0.00%	0.00%	0.00%
S OF S, STRUCTURES & IMPROVMENTS	311	1.19%	1.71%	-10.00%
(CONTRIBUTED) S OF S STRUCTURES & IMPROVEMENTS	31101	1.19%	1.71%	-10.00%
S OF S COLL/IMPOUND RESERVOIR	312	0.00%	0.00%	0.00%
S OF S LAKE, RIVER, OTHER INTAKES	313	0.00%	0.00%	0.00%
S OF S WELLS	315	2.62%	2.67%	-5.00%
(CONTRIBUTED), S OF S WELLS	31401	2.62%	2.67%	-5.00%
S OF S SUPPLY MAINS	316	0.00%	0.00%	0.00%
PLANT OTHER S O S	317	2.48%	2.55%	0.00%
PUMPING STRUCTURES & IMPROVEMENTS	321	3.31%	3.33%	0.00%
	32101	3.31%	3.33%	0.00%
PUMPING OTHER EQUIPMENT	324	3.75%	3.80%	10.00%
(CONTRIBUTED) PUMPING OTHER EQUIPMENT	32401	3.75%	3.80%	10.00%
W.T. STRUCTURES & IMPROVEMENTS	331	0.00%	0.00%	0.00%
W.T. EQUIPMENT	332	3.28%	4.20%	0.00%
T & D RESERVOIRS, TANKS	342	1.97%	1.97%	0.00%
(CONTRIBUTED) T & D RESERVOIRS, TANKS	34201	1.97%	1.97%	0.00%
T & D MAINS	343	2.40%	2.41%	0.00%
(CONTRIBUTED) T & D MAINS	34301	2.40%	2.41%	0.00%
T & D SERVICES	345	2.57%	2.59%	0.00%
(CONTRIBUTED) T & D SERVICES	34501	2.57%	2.59%	0.00%
T & D METERS	346	2.83%	2.82%	10.00%
(CONTRIBUTED) T & D METERS	34601	2.83%	2.82%	10.00%
T & D HYDRANTS	348	2.28%	2.29%	10.00%
(CONTRIBUTED) T & D HYDRANTS	34801	2.28%	2.29%	10.00%
GENERAL STRUCTURES & IMPROVEMENTS	390	2.83%	2.88%	10.00%
OFFICE FURNITURE & EQUIPMENT	391	8.01%	7.96%	10.00%

TRANSPORTATION EQUIPMENT	392	11.10%	14.83%	5.00%
COMMUNICATION EQUIPMENT	397	8.35%	8.41%	0.00%
POWER OPERATED EQUIPMENT	396	4.73%	5.41%	10.00%
TOOLS, SHOP, GARAGE EQUIPMENT	394	5.91%	5.94%	5.00%
COMPUTER EQUIPMENT-Desktops	39830/60	12.41%	13.16%	0.00%
COMPUTER EQUIPMENT-System	39840	10.47%	9.95%	0.00%
LABORATORY EQUIPMENT	395	0.00%	1.17%	0.00%
TELEMETRY EQUIPMENT	39710	8.35%	8.41%	0.00%
T&D OTHER(MANHOLES)	349	0.00%	0.00%	0.00%
OTH TANGIBLE PROPERTY	399	4.00%	4.00%	0.00%

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Table 9-B: Irrigation depreciation rates

JESS RANCH IRRIGATION COMPANY					
TOTAL DEPRECIATION ACCRUALS/EXPENSE					
ESTIMATED 2014 THRU 2016					
TOT DEP	CPUC	NARUC	2015-2016	2014	SALVAGE
			DEPRECIATION	DEPRECIATION	
			RATE	RATE	RATE
ORGANIZATION	301	301	0.00%	0.00%	0.00%
MISC. INTANGIBLE PLANT	303	303	0.00%	0.00%	0.00%
LAND & LAND RIGHTS	306	306	0.00%	0.00%	0.00%
(CONTRIBUTED) LAND & LAND RIGHTS	30601	30601	0.00%	0.00%	0.00%
S OF S, LAND & LAND RIGHTS	310	310	0.00%	0.00%	0.00%
S OF S, STRUCTURES & IMPROVMENTS	311	311	0.00%	0.00%	0.00%
S OF S COLL/IMPOND RESERVOIR	312	312	0.00%	0.00%	0.00%
S OF S LAKE, RIVER, OTHER INTAKES	313	313	0.00%	0.00%	0.00%
S OF S WELLS	315	314	1.61%	1.26%	-5.00%
S OF S SUPPLY MAINS	316	316	0.00%	0.00%	0.00%
PUMPING STRUCTURES & IMPROVEMENTS	321	321	2.78%	2.97%	0.00%
PUMPING OTHER EQUIPMENT	324	328	3.95%	4.09%	10.00%
(CONTRIBUTED) PUMPING OTHER EQUIPMENT	32401	32801	3.95%	4.09%	10.00%
W.T. STRUCTURES & IMPROVEMENTS	331	331	0.00%	0.00%	0.00%
W.T. EQUIPMENT	332	332	0.00%	0.00%	0.00%
T & D RESERVOIRS, TANKS	342	342	0.00%	0.00%	0.00%
(CONTRIBUTED) T & D RESERVOIRS, TANKS	34201	34201	0.00%	0.00%	0.00%
T & D MAINS	343	343	2.31%	2.38%	0.00%
(CONTRIBUTED) T & D MAINS	34301	34301	2.31%	2.38%	0.00%
T & D SERVICES	345	345	2.48%	2.48%	0.00%
(CONTRIBUTED) T & D SERVICES	34501	34501	2.48%	2.48%	0.00%
T & D METERS	346	346	3.22%	3.26%	10.00%
(CONTRIBUTED) T & D METERS	34601	34601	3.22%	3.26%	10.00%
T & D HYDRANTS	348	348	0.00%	0.00%	0.00%
(CONTRIBUTED) T & D HYDRANTS	34801	34801	0.00%	0.00%	0.00%
GENERAL STRUCTURES & IMPROVEMENTS	371	390	0.00%	0.00%	0.00%
OFFICE FURNITURE & EQUIPMENT	372	391	0.00%	0.00%	0.00%
TRANSPORTATION EQUIPMENT	373	392	0.00%	0.00%	0.00%
COMMUNICATION EQUIPMENT	376	397	0.00%	0.00%	0.00%
POWER OPERATED EQUIPMENT	377	396	0.00%	0.00%	0.00%
TOOLS, SHOP, GARAGE EQUIPMENT	378	394	0.00%	0.00%	0.00%
COMPUTER EQUIPMENT	372	398	0.00%	0.00%	0.00%
CADD MAPPING	372	39806	0.00%	0.00%	0.00%

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JESS RANCH IRRIGATION COMPANY
TOTAL DEPRECIATION ACCRUALS/EXPENSE
ESTIMATED 2014 THRU 2016

TOT DEP	CPUC	NARUC	2015-2016	2014	SALVAGE
			DEPRECIATION	DEPRECIATION	
			RATE	RATE	RATE
ORGANIZATION	301	301	0.00%	0.00%	0.00%
MISC. INTANGIBLE PLANT	303	303	0.00%	0.00%	0.00%
LAND & LAND RIGHTS	306	306	0.00%	0.00%	0.00%
(CONTRIBUTED) LAND & LAND RIGHTS	30601	30601	0.00%	0.00%	0.00%
S OF S, LAND & LAND RIGHTS	310	310	0.00%	0.00%	0.00%
S OF S, STRUCTURES & IMPROVMENTS	311	311	0.00%	0.00%	0.00%
S OF S COLL/IMPOUND RESERVOIR	312	312	0.00%	0.00%	0.00%
S OF S LAKE, RIVER, OTHER INTAKES	313	313	0.00%	0.00%	0.00%
S OF S WELLS	315	314	1.61%	1.26%	-5.00%
S OF S SUPPLY MAINS	316	316	0.00%	0.00%	0.00%
PUMPING STRUCTURES & IMPROVEMENTS	321	321	2.78%	2.97%	0.00%
PUMPING OTHER EQUIPMENT	324	328	3.95%	4.09%	10.00%
(CONTRIBUTED) PUMPING OTHER EQUIPMENT	32401	32801	3.95%	4.09%	10.00%
W.T. STRUCTURES & IMPROVEMENTS	331	331	0.00%	0.00%	0.00%
W.T. EQUIPMENT	332	332	0.00%	0.00%	0.00%
T & D RESERVOIRS, TANKS	342	342	0.00%	0.00%	0.00%
(CONTRIBUTED) T & D RESERVOIRS, TANKS	34201	34201	0.00%	0.00%	0.00%
T & D MAINS	343	343	2.31%	2.38%	0.00%
(CONTRIBUTED) T & D MAINS	34301	34301	2.31%	2.38%	0.00%
T & D SERVICES	345	345	2.48%	2.48%	0.00%
(CONTRIBUTED) T & D SERVICES	34501	34501	2.48%	2.48%	0.00%
T & D METERS	346	346	3.22%	3.26%	10.00%
(CONTRIBUTED) T & D METERS	34601	34601	3.22%	3.26%	10.00%
T & D HYDRANTS	348	348	0.00%	0.00%	0.00%
(CONTRIBUTED) T & D HYDRANTS	34801	34801	0.00%	0.00%	0.00%
GENERAL STRUCTURES & IMPROVEMENTS	371	390	0.00%	0.00%	0.00%
OFFICE FURNITURE & EQUIPMENT	372	391	0.00%	0.00%	0.00%
TRANSPORTATION EQUIPMENT	373	392	0.00%	0.00%	0.00%
COMMUNICATION EQUIPMENT	376	397	0.00%	0.00%	0.00%
POWER OPERATED EQUIPMENT	377	396	0.00%	0.00%	0.00%
TOOLS, SHOP, GARAGE EQUIPMENT	378	394	0.00%	0.00%	0.00%
COMPUTER EQUIPMENT	372	398	0.00%	0.00%	0.00%
1 CADD MAPPING	372	39806	0.00%	0.00%	0.00%

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Table 9-C: General Office depreciation rates

**GENERAL OFFICE
DEPRECIATION RATES
Years 2015 and 2016**

DESCRIPTION	PUC	ACCOUNT G.L.	2015-2016	2014	EST. FUTURE
			DEPRECIATION RATE	DEPRECIATION RATE	NET SALVAGE %
OFFICE FURNITURE & EQUIP.	372	39100	20.17%	5.72%	0.00%
TRANSPORTATION EQUIPMENT	373	39200	5.51%	14.95%	5.00%
LABORATORY EQUIPMENT	375	39500	0.00%	0.00%	0.00%
COMMUNICATION EQUIPMENT	376	39700	12.04%	10.83%	0.00%
COMPUTER EQUIP. - SYSTEM	372	39800	11.59%	11.35%	0.00%
COMPUTER EQUIP. - DESKTOPS	372	39830	10.96%	10.07%	0.00%
COMPUTER EQUIP. - SOFTWARE	372	39840	0.95%	1.77%	0.00%

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3 **D. CONCLUSION**

4 ORA reviewed and accepts AVR's methodology and depreciation rate.

5 The differences in ORA and AVR proposed depreciation reserves and accruals are

6 due to differences in plant additions and the use of the recorded year end 2013

7 depreciation reserve balances.

1 **CHAPTER 10: WORKING CASH AND RATEBASE**

2 **A. INTRODUCTION**

3 This Chapter sets forth ORA’s analysis and recommendations for AVR’s
4 Domestic, Irrigation and allocated General Office rate base.

5 **B. SUMMARY OF RECOMMENDATIONS**

6 Differences in Rate Base are mainly due to differences in AVR’s requested
7 capital investment in plant and ORA’s recommended level of capital investment.

8 Tables 10-1 and 10-2 (in Attachment A) provide summaries of ORA’s and
9 AVR’s weighted average depreciated rate base (Domestic and allocated General
10 Office) respectively. ORA’s and AVR’s weighted average Irrigation depreciated
11 rate base are shown in Table 1-4.

12 **C. DISCUSSION**

13 **1) Materials and Supplies**

14 AVR’s estimated materials and supplies (“M&S”) for Test Year 2015 is
15 based on a percentage of the average number of customers in the Test Year. This
16 percentage is based on a 5-year average calculated from the relationship between
17 M&S recorded amounts and average numbers of customers per year (2008 –
18 2012). ORA agrees with this methodology and estimates.

19 **2) Deferred Income Taxes**

20 The difference in Deferred Taxes is attributable to differences in plant
21 estimates.

22 **3) Interest Expense**

23 The difference in Interest Expense is also attributable to differences in plant
24 estimates. Both AVR and ORA use 3.49% weighted cost of debt to determine the
25 interest expense.

26 **4) Working Cash**

27

1 Working Cash is a component of Rate Base on which a utility is allowed to
2 earn its authorized rate of return. The calculation of working cash is an iterative
3 calculation that will change depending upon estimated revenue requirements,
4 which in turn will be influenced by working cash needs. Working cash is the
5 additional amount of capital that is required to fund ongoing operations and bridge
6 the gap between the time expenditures are made and the time revenues are
7 received. Working cash can be positive or negative and consists of several
8 different components. In the current proceeding, both AVR and ORA derive a
9 working cash allowance using the Detailed Basis set out in accordance with
10 Standard Practice U-16.¹⁵⁰ This method includes the forecasted Operational Cash
11 Requirement and a Lead-Lag study of timing differences between collection of
12 revenues and payment of cash expenses.

13 **5) Operational Cash**

14 AVR's determination of operational cash requirement is derived in part
15 from the balance sheet of AVR and in part from the balance sheet of Park's
16 Corporate Division General Office, a portion of which is allocated to AVR. ORA
17 recommends adjustments to AVR's operational cash requirement forecast based
18 on its analysis of the balance sheet accounts.

19 In its operational cash estimate, AVR has included the average unamortized
20 balance of Regulatory Commission expense based on a beginning of year 2105
21 balance of \$486,911.¹⁵¹ This total of \$486,911 is the amount of Regulatory
22 Commission expense AVR estimates that it will incur over the three-year rate case
23 period, 2015-2017. AVR's requested annual revenue requirement therefore

¹⁵⁰ Standard Practice U-16 is an informal document issued by the Commission's Division of Water and Audits to provide guidance on working cash calculations but does not constitute a Commission-approved methodology because it has never been adopted by the Commission.

¹⁵¹ AVR Workpaper "AVR Working Cash 15r," Deferred Debits tab.

1 includes one-third of this total, or \$162,304 per year.¹⁵² This expense would be
2 recovered through rates authorized for Test Year 2015, and Escalation Years 2016
3 and 2017. If the \$486,911 is included in the operational cash estimate, AVR
4 would be further compensated for an expense that will already be recovered in
5 rates. Therefore, ORA removes all dollars associated with Regulatory
6 Commission expenses in its operational cash estimate.

7 AVR also included as part of its operational cash estimate the average
8 unamortized balance of various study costs. These costs include ARC Flash
9 Hazard Assessment (\$20,000), Vulnerability /Mitigation Study (\$20,000), Water
10 Supply Evaluation (\$7,000), and Leadership feedback (\$12,000) for a total of
11 \$59,000.¹⁵³ As described in Chapter 3, ORA is disallowing these expenses. ORA
12 removes these costs from the estimate of operational cash.

13 The balance sheet for Park’s General Office includes the cost of a \$300,000
14 Operational Efficiency Study. As discussed in detail in Chapter 12, Park does not
15 have any supporting documents for the proposed Operational Efficiency Study,
16 has not conducted a cost benefit analysis, and does not have approval from its
17 Board of Directors. Clearly, it is premature to include the proposed operational
18 efficiency study in the revenue requirements of this GRC. Accordingly, ORA has
19 removed this forecasted expense from the forecast for operational working cash.

20 The result of ORA’s adjustments to AVR’s forecast of operational working
21 cash is a reduction of \$520,332 in 2015 and \$308,672 in 2016.

22

¹⁵² ORA estimates a lower amount for Regulatory Commission expense. See ORA’s testimony of Herbert Merida.

¹⁵³ AVR Workpaper “AVR Working Cash 15r,” Deferred Debits tab and AVR Workpaper “AVR Expenses 2015r,” ExpenseDetail” tab.

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Working Cash – Total Fixed Portion		
	ORA Estimate	AVR Estimate
2015	\$189,929	\$710,261
2016	\$295,227	\$603,899

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3 **6) Lead-Lag Study**

4 In its application, AVR proposed an increased revenue lag from 50.84 days
5 to 56.34 days. AVR asserts that the current calculation assumes the revenue in the
6 revenue requirement is fully billed and received in the same year. AVR states that
7 “a significant portion of the revenue requirement is not billed or received in that
8 year but is instead captured in the WRAM and billed and received much later in
9 the form of surcharges.”¹⁵⁴

10 ORA is opposed to AVR’s request for an increased revenue lag. In
11 addition to earning interest from the WRAM account, AVR is now requesting to
12 change the revenue lag and increase its working cash. ORA points out that if the
13 alleged revenue lag as a result of the WRAM account were substantive, its impact
14 would be affecting other water utilities with a similar WRAM account. Thus,
15 ORA recommends that this issue be addressed in in an industry-wide proceeding
16 such as a rulemaking (OIR).

17 The differences between ORA’s and AVR’s estimates result from different
18 revenue estimates, different expense estimates, and different revenue lag days.

19 **D. CONCLUSION**

20 ORA has thoroughly evaluated AVR’s proposed estimates and the
21 Commission should adopt ORA’s recommendations.

¹⁵⁴ A.14-01-002, AVR Revenue Requirements Report, Exhibit B, p. 114.

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CHAPTER 11: CUSTOMER SERVICE

A. INTRODUCTION

This chapter sets forth ORA’s analysis and recommendations for AVR’s Customer Service systems and procedures.

B. SUMMARY OF RECOMMENDATIONS

ORA analyzed AVR’s customer service and procedures and finds that the company’s current procedures provide good quality service. Moreover, it appears that AVR plans to implement additional procedures related to customer service that will be beneficial to customers.

The standard set by General Order 103-A is that the number of customer complaints should not exceed 0.1% of the total number of customers.¹⁵⁵ The results of ORA’s analysis of the number of complaints filed by customers (from 2009 to 2013) indicate that the overall level of customer satisfaction complies with the GO 103-A standard. Hence, it appears that AVR has been able to achieve that level of customer satisfaction by not exceeding the GO 103-A customer complaint standard. (See Table 11A.)

¹⁵⁵ GO 103-A, Appendix E, p. 5.

1 **Table 11A – Apple Valley Ranchos Water Company customer complaints**

YEARS	2009	2010	2011	2012	2013
TYPES OF COMPLAINTS					
UNAUTHORIZED ACCOUNT INFORMATION	0	1	0	0	0
BILLING	0	0	0	0	0
HIGH BILL	3	6	4	4	2
RATES	2	7	1	4	0
FIRE SUPPRESSION REQUIREMENTS	0	0	0	1	0
SERVICE DISCONNECTION	0	0	0	1	0
QUALITY OF SERVICE	0	0	0	0	0
WATER QUALITY	0	0	0	0	0
PRESENTATION OF BILL/TIERS	0	0	0	0	0
REFUND REQUESTS	0	0	0	1	1
WATER LINE LEAKS	0	0	0	0	1
TOTAL COMPLAINTS	5	14	5	11	4
TOTAL NUMBER OF CUSTOMERS	18982	19115	19198	19333	19507
PERCENTAGE OF COMP. IN RELATION TO THE TOTAL NUMBER OF CUSTOMERS	0.0263%	0.0732%	0.0260%	0.0569%	0.0205%

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3 **C. DISCUSSION**

4 ORA sent AVR Data Request CDW-004 to find out what steps AVR has
5 taken to provide its customers with excellent customer service. AVR responded
6 with an outline of its customer service praxis, which includes the following:

- 1 • Assist customers with high water bills. Confirm read. Check meter
2 for leaks.

- 3 • Schedule water audit to determine the reason for high usage.
4 Technicians assist customers with setting irrigation timers as the
5 temperatures rise and fall.

- 6 • Provide Data Logger historical information to customers from AMR
7 meters. This is a time and date stamped report indicating daily usage
8 and inconsistencies.

- 9 • Participated in Data Sharing program with Southwest Gas and
10 Southern California Edison. Customer files are shared among these
11 companies to determine the low income customers that are not
12 already taking advantage of AVR's CARW program. The low
13 income program is now self-qualifying which enables more
14 customer participation.

- 15 • AVR has changed its billing outsource vendor to a California
16 company. This enables water bills to reach customers in a timelier
17 manner through the USPS.

- 18 • AVR's automated phone system has been enhanced to be more user-
19 friendly and provide additional services to customers. For example,
20 customers can make payments by phone, request a payment
21 extension, obtain account information etc. This phone service is
22 available 24 hours.

- 23 • A courtesy call is generated daily to customers' phone number of
24 record, reminding them that their water bill payment is due.

- 25 • AVR's website is continually updated with information that is
26 beneficial to our customers. It also enables customers to register on
27 Infinity Link. This link allows customers to obtain account
28 information and make a payment.

- 29 • Fillable forms for various services are available on the website.
30 Customers no longer have to rely on faxing applications for water
31 service or coming to the office to start new service. Forms can be e-
32 mailed to the Customer Service Department for processing.

- 33 • Security deposits are often required to start new water service. AVR
34 is now able to quote a deposit amount to the customer, based on the

1 average billing. This deposit charge will appear on the customers’
2 first bill.

- 3 • Cash for grass program is offered where a customer can replace
4 grass for drought tolerant landscaping, rock scape, or artificial turf
5 and receive a financial incentive of \$0.50/sq-ft of turf.

6 ORA, in that same data request, asked AVR the following question:

7 “Are there any additional steps that the company will be taking to continue
8 to improve its customer service for the next rate case cycle?” AVR’s response
9 stated as follows:¹⁵⁶

10 AVR is investigating the feasibility of the activities shown below (with
11 the exception of HomeServe which AVR has recently implemented) which
12 are designed to enhance the services provided to customers. Some of these
13 activities may require Commission approval prior to implementation.

- 14 • Partnership with HomeServe, a third party vendor who provides
15 water service line insurance.
- 16 • Provide budget billing where customers pay the same amount per
17 billing cycle for their water bills, spread over a year timeframe.
- 18 • Provide e-bills, eliminating paper bills.
- 19 • Provide GoMobile app for cell phones.

20 **D. CONCLUSION**

21 ORA finds AVR’s customer service level satisfactory and in compliance
22 with the requirements of GO 103-A.

¹⁵⁶ AVR’s Response to Question 3 of ORA’s DR CDW-004.

1 **CHAPTER 12: GENERAL OFFICE**

2 **A. INTRODUCTION**

3 This chapter presents Office of Ratepayer Advocates’ (“ORA”) analyses
4 and recommendations regarding the General Office (“GO”) expenses incurred by
5 Park Water Company (“PWC”) to be recovered from ratepayers in Apple Valley
6 Ranchos (“AVR”) General Rate Case (“GRC”) A.14-01-002. During the review
7 process, ORA examined the general office expenses from the GRC filing, PWC's
8 responses to data requests, emails, and findings from ORA audits of PWC’s
9 general office expenses. As a result of its review, ORA calculates its own
10 recommendation for Test Year (“TY”) 2015 for each GO expense account, which
11 is then allocated to AVR domestic and AVR irrigation in accordance with the
12 Four-Factor allocation method adopted by the Public Utilities Commission
13 (“Commission”).¹⁵⁷

14 PWC is headquartered in Downey, California, and provides water services
15 in two states, Montana and California. Mountain Water Company, a wholly owned
16 subsidiary of PWC, provides water service in Montana. PWC provides water
17 services in two places in California: (1) AVR, a wholly owned subsidiary of PWC,
18 provides water service in and around the Town of Apple Valley in San Bernardino
19 County, and (2) Central Basin Division, an operating unit of PWC, provides water
20 service in Los Angeles County.

21 PWC’s General Office provides engineering, financial, information
22 technology, regulatory, water quality, and other management services to its
23 subsidiaries, AVR and Mountain Water, and to its Central Basin Division. The
24 costs of these services are either directly assigned or allocated to each
25 division/subsidiary.

¹⁵⁷ The Commission established the Four-Factor Method in 1956 for the purpose of setting forth procedures to determine the allocation of expenses and common utility plant among departments, districts and states. D.09-03-007, p. 18.

1 **B. SUMMARY OF RECOMMENDATION**

2 After reviewing PWC’s application, conducting discovery, and auditing
3 PWC’s GO expenses, ORA recommends GO expense of \$7,673,875 in TY 2015
4 and \$7,925,254 for Escalation Year 2016. PWC’s proposed GO expense is
5 \$7,958,626 for TY 2015 and \$8,295,774 for Escalation Year 2016. ORA’s GO
6 expense recommendation is lower than PWC’s request by \$284,751 (3.71%) in
7 TY 2015 and \$370,520 (4.46%) in 2016. The difference between ORA’s
8 recommendation and PWC’s forecast is due to several factors, including, but not
9 limited to, use of different inflation factors, use of different methodologies, and
10 ORA’s removal of various unsupported expenses. Table 12-A at the end of this
11 chapter provides an overview of the quantitative differences between PWC’s
12 request and ORA’s recommendation.

13 **C. DISCUSSION**

14 PWC has generally used a five-year (2009 - estimated 2013) average of the
15 incurred costs adjusted for inflation to estimate its TY 2015 expenses. However, in
16 some instances, PWC has deviated from following a five-year average method in
17 forecasting its budget. In those instances, PWC has either used a two-year average
18 method or a budgeted amount.¹⁵⁸ PWC explains that it used a different
19 methodology (two-year average) because the use of the historical average does not
20 result in reasonable estimates for the test year.¹⁵⁹

21 PWC used the Commission’s Four-Factor method to allocate the General
22 Office expenses to each of PWC’s divisions and subsidiaries. The four factors (or
23 categories) that ultimately determine the Four-Factor percentages include the
24 following: (1) operation and maintenance expenses, (2) plant in service, (3) direct
25 payroll, and (4) number of customers. The Four-Factor allocation percentages are

¹⁵⁸ Exhibit C – General Office Report FINAL, p. 10, para. 1.

¹⁵⁹ Exhibit C – General Office Report FINAL, p. 10, para. 1.

1 determined by dividing the totals for each division or subsidiary by the total for its
2 divisions and subsidiaries. PWC subsequently applied these percentages to its
3 division and subsidiaries as its allocation of the GO expenses. The allocation
4 factors that PWC has presented with its application for this rate case are 40.90%
5 for Central Basin, 29.52% for AVR, 29.41% for Missoula, and 0.17% for Jess
6 Ranch Irrigation, and are based on 2012 recorded data.

7 ORA requested PWC to update its allocation factors based on recorded
8 2013 data.¹⁶⁰ This update resulted in allocation factors of 41.74% for Central
9 Basin, 29.29% for AVR, 28.78% for Missoula, and 0.19% for Jess Ranch
10 Irrigation.¹⁶¹ ORA reviewed, accepted, and utilized these updated Four-Factor
11 percentages in its estimates.¹⁶²

12 ORA disagrees with PWC for some of its estimated expenses for TY 2015
13 mainly for two reasons. First, some of the recorded expenses, which the estimation
14 is based on, were either not utility-related expenses or non-recurring expenses.
15 Second, the methodology used by PWC in its estimation did not produce a
16 reasonable amount. A description of disagreement, basis of the adjustment of
17 expenses and ORA's estimation methodology are discussed in detail in the
18 following sections, wherever applicable.

19 ORA uses 2009 to recorded 2013 for expenses with using five-year
20 average. ORA uses a 1.023% escalation factor for Test Year 2015, and 1.024%
21 for 2016, based on ORA ECOS' March 2014 memo estimate of the Composite
22 Index (composite non-labor 60%/compensation per hour 40% inflation factors),
23 consistent with ORA's GRC forecasting methodology.¹⁶³ ORA also updated some

¹⁶⁰ ORA Data Request MUK-003.

¹⁶¹ AVR's Response to ORA's Data Request MUK-003.

¹⁶² Paragraph 3, p. 3 of A.14-01-02.

¹⁶³ Rate Case Plan D.07-05-062, Appendix A, p. A-19.

1 of the recorded expenses based on discovery findings to derive its suggested
2 amount.

3 ORA recommends 3.71% less GO expenses than PWC for TY 2015. The
4 differences are summarized in Table 12-A at the end of this chapter.

5 **1) Maintenance-Other Expenses**

6 Maintenance-Other expenses consist of GO computer hardware, software,
7 office maintenance costs, and general plant payroll burden costs. For TY 2015,
8 PWC proposes total Maintenance-Other expenses of \$576,768. ORA recommends
9 \$431,089, which is \$145,679 less than PWC. The primary reasons for the
10 differences are described in the following section:

11 **a) Other Maintenance General Plant (Obj. 7717, Sub 932)**

12 Expenses in this account include the annual maintenance contracts related
13 to PWC's computer software systems. PWC estimated \$374,538 in TY 2015 for
14 this category of expenses at the time of its GRC application. However, PWC
15 updated its estimate for TY 2015 to \$356,361 in a response to an ORA discovery
16 request.¹⁶⁴ In its response, PWC explained "Work paper page 2-109 has been
17 revised for the following changes: 1) MSDN subscription – This was estimated at
18 a total of \$5,950, the revised total is \$632; 2) PowerPlan (\$76,234) and JDE
19 (\$11,749) were inadvertently included in the amount budgeted for 2014. These
20 amounts should have been included in the amounts proposed for 2015. The revised
21 total for 2014 budgeted amount is \$260,561. ... With the above mentioned
22 revisions, the 2015 revised total should be \$356,361 (Account No. 7717.932)
23 instead of \$374,538."

24 ORA's estimated \$231,298 for this category of expense for TY 2015,
25 which is \$143,240 less than PWC's estimate. The differences are due to the use of

¹⁶⁴ PWC's response to DR MUK-001, q. B.2. (a).

1 a different estimation methodology, use of different inflation factors, and ORA's
2 removal of PWC's proposal for additional software maintenance costs.

3 PWC estimates expenses for TY 2015 by using a two-year (2012 and 2013)
4 inflation adjusted average, which is not representative of the expense trend.

5 Therefore, ORA estimates software maintenance cost for TY 2015 by using the
6 five-year inflation adjusted average of the incurred costs (2009 to 2013). ORA
7 also removes PWC's additional maintenance costs for proposed new software
8 applications, Power Plan (\$76,234) and JD Edwards (\$26,749), in order to be
9 consistent with ORA's recommendations to disallow PWC's proposed new
10 software applications.¹⁶⁵ ORA uses five-year average estimation method because
11 it helps to normalize the overestimation tendency.

12 **2) Clearings-Other**

13 PWC's estimate for the TY 2015 is \$31,646 whereas ORA's estimate is
14 \$30,497. PWC's estimated expense in this category is \$1,148 higher than ORA's
15 estimate. Both ORA and PWC used five-year average method in their estimation.
16 The difference is just due to the use of different inflation factors and different five-
17 year average.

18 **3) Insurance**

19 PWC's estimate for the TY 2015 is \$172,547 whereas ORA estimates
20 \$171,843. PWC's estimated expense in this category is \$704 higher than ORA's
21 estimated amount. Both ORA and PWC used same methodology in their
22 estimation. The difference is due to the use of different inflation factors and
23 different five-year average.

24 **4) Outside Services**

25 PWC's estimate of outside service expense is \$723,559 for TY 2015.
26 ORA's estimate is \$581,407, which is \$142,152 less than PWC's estimate. The

¹⁶⁵ See Chapter 8 Utility Plant in Service.

1 differences are due to the use of different inflation factors and recording of non-
2 utility expenses as utility expenses by PWC, which is described as follows:

3 **a) Other General Consulting (Obj. 7200, Sub 50)**

4 PWC estimates \$206,985 for Other General Consulting expenses for the
5 TY 2015 while ORA estimates \$92,783. PWC's estimate is \$114,202 higher than
6 ORA's estimate. There are mainly two reasons for the estimated differences: (1)
7 inclusion of a one-time, non-recurring expense in the estimation by PWC, and (2)
8 ORA's removal of an unsupported expense.

9 First, PWC estimates its TY 2015 expenses using five-year average method
10 based on 2009 to 2013 recorded expenses, which include the non-recurring
11 consulting service fee of \$100,000 paid to Mr. Henry H. Wheeler in 2012.¹⁶⁶ The
12 Commission in D.11-12-007 adopted the settlement agreement among the
13 Division of Ratepayers Advocates, Western Water Holdings, LLC, PWC Merger
14 Sub, Inc., Park Water Company (U 314 W), and Apple Valley Ranchos Water
15 Company (U-346-W). Item 19 of the Appendix A of the settlement states that
16 consulting fees of \$63,000 paid to Mr. Wheeler will be recognized as utility
17 expense in calculating revenue requirements for rate making purposes for 2012
18 and 2013 and none (\$0) will be recognized in 2014. Item 20 of the Appendix states
19 "In future General Rate Increase applications for Park Water or AVR, those
20 companies agree to specifically identify any consulting fees contained in the
21 historic expenses incurred under any consulting agreement with Henry H Wheeler,
22 Jr. so that DRA will have the information to propose any adjustment it may
23 consider appropriate." ORA was unable to locate within A.14-01-002 any
24 information provided by PWC that would comply with this requirement. Thus,
25 ORA removed this non-recurring consulting fee of \$100,000 from 2012 expenses

¹⁶⁶ PWC's response to DR MUK-002, q. 1(c).

1 and estimated expenses for TY 2015 by using five-year average method based on
2 recorded 2009-2013 expenses, excluding the \$100,000 consulting fee.

3 Second, PWC has apportioned \$100,000 annually for a proposed
4 Operational Efficiency (“OE”) Study for TY 2015. According to PWC’s General
5 Office document, the OE study will assess performance and efficiency of the
6 company as a whole, identify areas that are needed to be improved, develop
7 programs and schedules to implement for the efficiency enhancement, establish a
8 performance evaluation system, and cost \$300,000 in total.¹⁶⁷ However, PWC has
9 neither explained nor provided documents showing how the proposed study will
10 affect ratepayers in terms of costs and benefits.

11 Hence, ORA disagrees with PWC’s unsupported for this OE study cost
12 estimate and finds it to be unreasonable at this time. ORA tried to understand
13 PWC’s position and status of the study through Data Request MUK-001. In
14 response, PWC stated, “it is not possible to provide or develop at this point a
15 detailed and quantified cost-benefit analysis for the proposed operational
16 efficiency study. In fact, this type of analysis is one of the primary purposes of
17 performing the proposed study.” PWC further explained that the primary focus of
18 the proposed study will be to review and assess the operational processes and
19 practices of Park and its two operating subsidiaries.

20 From PWC’s explanations, it is apparent that the proposed OE study is
21 premature. Prior to committing \$300,000 in ratepayer funds to study operational
22 efficiency, PWC should be required to show some indication that potential
23 ratepayer benefits would exceed the proposed costs. Therefore, ORA recommends
24 removing the proposed study cost of \$100,000 from the PWC’s estimated budget
25 for TY 2015.

¹⁶⁷ Exhibit C – General Office Report FINAL, p. 11-12.

1 **b) Legal Expenses (Obj. 7200, Sub 11)**

2 PWC estimates \$135,008 in legal costs for TY 2015. ORA estimates
3 \$131,551, which is \$3,457 less than PWC’s estimate. Both PWC and ORA have
4 used the five-year average method of estimation. The difference is due to the use
5 of different inflation factors and five-year average by PWC and ORA, and ORA’s
6 adjustment of non-utilities expenses.

7 ORA estimates legal expenses for TY 2015 by adjusting recorded expenses
8 after PWC’s data responses to MUK-002, which supported removal of the
9 following non-utility expenses from the recorded amounts.¹⁶⁸

Year	AVR Proposed Expense	Non-Utility Expense	Utilities Expense
2009	\$190,968	-	\$190,968
2010	\$161,403	\$208	\$161,195
2011	\$105,746	\$7,386	\$98,360
2012	\$94,210	-\$5,787	\$99,997
2013	\$58,158	-	\$58,158

10 **c) Audit and Income Tax (Obj. 7200, Sub 10)**

11 PWC estimates \$130,048 in audit and income tax preparation expenses for
12 TY 2015. ORA estimates \$114,172, which is \$15,876 less than PWC’s estimate.
13 The difference is due to the use of a different estimation methodology, and use of
14 different inflation factors. To estimate its TY 2015 expenses in this category,
15 PWC escalates a 2014 budgeted amount, which is a hard-coded number in PWC’s
16 work papers. ORA uses the five-year average of recorded expenses escalated for
17 inflation as its estimate. The use of five-year average method in budget estimation
18 is more representative of the expense trend, and more reasonable than relying
19 exclusively on PWC’s discretionary budget.

¹⁶⁸ PWC’s Response to DR MUK-002, q. 2(c).

1 **5) A&G Other**

2 PWC estimates \$558,047 for Other Administrative and General (A&G)
3 expenses for TY 2015 while ORA estimated amount is \$492,551, which is
4 \$65,496 less than PWC's estimate. The differences are because of the use of
5 different escalation factors and ORA's removal of unsupported, unreasonable, or
6 non-recurring expenses in its estimation of the TY 2015 expense amount. A
7 description of the differences is discussed in the sections below.

8 **a) Bank Fees (Obj. 7080)**

9 Both PWC and ORA used the five-year (2009 to 2013) average of recorded
10 data. PWC estimates \$22,017 in bank fees for TY 2015 while ORA estimates
11 \$16,532. PWC's estimate is \$5,485 higher than ORA's estimate. The difference is
12 due to ORA's removal of a one-time cost of \$25,000 for a credit limit renewal fee
13 from 2012 expenses. The inclusion of a non-recurring (one-time) cost in any year
14 in forecasting Test Year expense cannot reasonable because this causes
15 overestimation of future budgets.

16 **b) Board of Directors' Fees (Obj. 7560)**

17 PWC estimates Board of Directors' fees of \$111,240 for TY 2015. ORA
18 adjusts this expense to \$100,000 to remove inflation. The settlement agreement
19 between PWC and ORA (then The Division of Ratepayer Advocates) established
20 Board of Directors' fees of \$100,000 (in 2012 Dollars) for the period of 2012 to
21 2014 for rate making purposes.¹⁶⁹ There is no need to adjust the amount for
22 inflation since it was purposely established as a fixed amount in 2012 dollars.

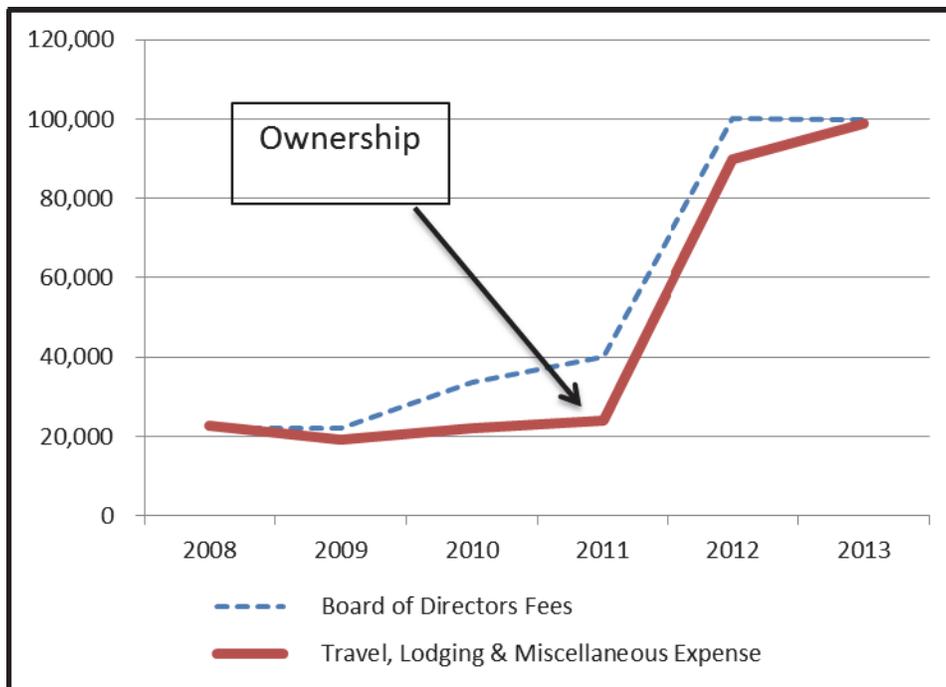
¹⁶⁹ The settlement agreement (D.11-12-007), Appendix A, No. 18.

1 c) **Travel, Lodging & Miscellaneous (Obj. 7030, Sub 1)**

2 PWC estimates travel, lodging, and miscellaneous expenses of \$100,466.
3 ORA estimates \$50,233, which is \$50,233 less than PWC’s estimate.

4 As demonstrated in the following graph, the Travel, Lodging and
5 Miscellaneous expense of the PWC has increased more than 400 percent¹⁷⁰ in
6 years directly following PWC’s acquisition by Western Water Holdings, which is
7 owned by the Carlyle Group.

8 **Figure 1: Comparison of Board of directors fees and travel, lodging and**
9 **miscellaneous expense**



10

11 The Commission approved ownership changes from the Wheeler family to
12 The Western Water Holdings, LLC. on Dec 1, 2011 (effective date).¹⁷¹ One of the
13 assumptions underpinning the Commission’s approval was that the transfer of

¹⁷⁰ $(\$111,135 - \$22,013) / \$22,013 \times 100 = 404.86\%$ (where \$111,135 is the average expense of 2012-2013 and \$22,013 is the average expense of 2008-2011 based on PWC provided work papers)

¹⁷¹ D.11-12-007 on A.11-01-019.

1 ownership would not cause any rate increase. However, subsequent to the transfer
2 of ownership, the Travel, Lodging and Miscellaneous expense have increased by
3 more than 400 percent in recent years. For example, the average annual amount
4 recorded to this account from 2008 to 2011 was \$22,013. After the transfer of
5 ownership, the average annual amount recorded (2012-2013) was \$111,135.

6 In its testimony, PWC states “the projected costs are based on 2-year
7 averages, which coincide with the change in ownership of Park. The expense is
8 reflective of the change in activity resulting from travel to Park’s Board of
9 Directors meetings, which are being held at Park and its subsidiaries on a rotating
10 basis.”¹⁷² Hence, ORA asked PWC through Data Request MUK-002 to provide
11 supporting documents for the 2014 budgeted amount. PWC response provided in
12 pertinent part as follows: “2014 budgeted amount of \$97,540 is based on a 2-year
13 escalated average because of the change in ownership of Park. This is reflective of
14 the change in activity resulting from travel to Park's Board of Directors meetings
15 which are being held at Park and its subsidiaries on a rotating basis.”¹⁷³

16 From the PWC’s above explanations, it is obvious that the travel and
17 lodging expenses have been increased as a result of the acquisition of PWC by the
18 Carlyle Group. The increased expenses in this account are questionable. PWC
19 could have controlled the travel, lodging, and miscellaneous expenses related to
20 board of directors’ meetings either by conducting meetings in a place where the
21 meeting expenses could be lower or by using life-size video conferencing tools.
22 Since PWC is solely owned by The Carlyle Group and not a SEC registered
23 (public) company, there is no need to conduct business in different places which
24 results in increasing expenses. Had PWC used video conferencing tools there
25 would not be any extra expenses since PWC had subscribed such tools in yearly
26 basis and the commission had allowed such expenses.

¹⁷² Exhibit C – General Office Report FINAL, p. 11.

1 Hence, ORA recommends an equal sharing of the PWC forecasted
2 expenses between PWC and ratepayers. This recommendation for equal sharing of
3 forecasted expenses in this account provides an incentive for PWC to control costs
4 that are resulted from the corporate restructuring. It also prevents ratepayers from
5 falling into a disadvantaged financial position as a result of increased post
6 restructuring expenses.

7 **6) Property Tax and Payroll Taxes**

8 PWC calculates its GO ad valorem taxes for TY 2015 based on a prior
9 assessed value by the assessor's office (LA County). PWC calculates average
10 incremental tax rates per annum and then estimates \$28,591 ad valorem taxes for
11 TY 2015 by using the calculated rates. ORA has no issues with PWC's tax rate.

12 PWC calculates payroll taxes based on the estimated payroll amount.
13 Payroll taxes consist of Federal Insurance Contribution Act ("FICA"), Federal
14 Unemployment Tax Act ("FUTA"), and State Unemployment Insurance Tax Act
15 ("SUTA"). FICA taxes include two separate components, Social Security and
16 Medicare. PWC uses the following tax rates for its payroll tax calculation:

- 17 • FICA (Social Security) – 6.2%
- 18 • FICA (Medicare) – 1.45%
- 19 • FUTA – 0.6%
- 20 • SUTA – 4.3%

21 FICA (Social Security) is subject to a wage cap of \$122,100, whereas
22 FUTA and SUTA taxes are subject to a wage cap of \$7,000. FICA (Medicare) is
23 applied to total wages.

24 ORA has no disagreement with PWC's methodology of payroll tax
25 calculation.

(continued from previous page)

¹⁷³ PWC's response to DR MUK-001, q. E(9).

1 **D. CONCLUSION**

2 ORA respectfully requests that Commission adopt ORA’s projections,
 3 shown in Table 12-A, for this GRC. ORA’s projections are derived from the
 4 analyses described in this chapter.

5 Table 12-A

Comparative Summary of General Office Expenses Recommendations Test Year 2015				
Category	ORA Projected	PWC Proposed	\$ PWC > ORA	% PWC > ORA
PAYROLL-CUSTOMERS ¹⁷⁴	\$ 4,516	\$ 4,595	\$ 79	1.75%
PAYROLL-MAINTENANCE ¹⁷⁵	\$ 33,521	\$ 34,100	\$ 579	1.73%
MAINTENANCE-OTHER	\$ 431,089	\$ 576,768	\$ 145,679	33.79%
PAYROLL-CLEARINGS	\$ 20,128	\$ 20,467	\$ 339	1.68%
DEPRECIATION-CLEARINGS	\$ 8,728	\$ 11,035	\$ 2,308	26.44%
CLEARINGS-OTHER	\$ 30,497	\$ 31,646	\$ 1,148	3.77%
A & G PAYROLL	\$ 3,993,903	\$ 4,061,619	\$ 67,716	1.70%
EMPLOYEE BENEFITS ¹⁷⁶	\$ 1,176,956	\$ 1,220,451	\$ 43,496	3.70%
INSURANCE	\$ 171,843	\$ 172,547	\$ 704	0.41%
OUTSIDE SERVICES	\$ 581,407	\$ 723,559	\$ 142,152	24.45%
A & G – OTHER	\$ 492,551	\$ 558,047	\$ 65,496	13.30%
A & G TRANSFERRED CREDIT	\$ (17,639)	\$ (17,639)	\$ -	0.00%
PROPERTY TAXES	\$ 28,591	\$ 28,591	\$ -	0.00%
PAYROLL TAXES	\$ 224,731	\$ 226,584	\$ 1,853	0.82%
DEPRECIATION ¹⁷⁷	\$ 287,809	\$ 306,254	\$ 18,445	6.41%
ADDITIONAL EMPLOYEE - Elim. PowerPlan ¹⁷⁸	\$ 209,279	\$ -	\$(209,279)	-100.00%
WWH Adjustment ¹⁷⁹	\$ (4,036)	\$ -	\$ 4,036	100.00%
TOTAL	\$ 7,673,875	\$ 7,958,626	\$ 284,751	3.71%

¹⁷⁴ See ORA testimony of James Simmons (Chapter 4) on payroll.

¹⁷⁵ See ORA testimony of James Simmons (Chapter 4) on payroll.

¹⁷⁶ See ORA testimony of Jose Cabrera (Chapter 5) on employee benefits.

¹⁷⁷ See ORA testimony of Sung Han (Chapter 9) on depreciation.

¹⁷⁸ See ORA testimony of James Simmons (Chapter 4) on payroll.

¹⁷⁹ See ORA testimony of Roy Keowen (Chapter 13) on Corporate Affiliates and Unregulated Transactions.

1 **CHAPTER 13: AFFILIATED TRANSACTIONS**

2 **A. INTRODUCTION**

3 This chapter presents ORA’s analysis and recommendations on AVR’s
4 affiliated transactions and non-tariffed products and services (NTP&S). AVR has
5 two affiliated transactions involving Western Water Holdings (WWH). WWH is
6 the parent company of Park Water Company (PWC) and has no other operations.
7 AVR mentions two contracts subject to “excess capacity” D.00-07-018 in its
8 application. D.00-07-018 has been superseded and AVR must now comply with
9 the rules set forth in D.10-10-009 for NTP&S. D.10-10-009 was modified in
10 decision D.11-10-034, and D.11-10-034 was corrected in D.12-01-042.

11 **B. SUMMARY OF RECOMMENDATIONS**

Description	Summary of Recommendations
Loan to Equity Holders	ORA has reviewed the terms of the loan arrangement between which appear to be reasonable.
Services for Western Water Holdings	It is recommended that services performed for WWH be added as a line-item reduction to general office expenses, during this GRC only, because the amounts are immaterial. Outside of the current, Park should report the amount of services it provides to WWH as an affiliated transaction.
HomeServe	All revenues from contracts with HomeServe should accrue to the benefit of the ratepayer since the annual revenues are less than \$100,000.
Nextel	The terms of the contract appear to be reasonable. Until the contract with Nextel is terminated, revenues should continue go to the benefit of ratepayers.

1 **C. DISCUSSION**

2 **1) Loan to Equity Holders**

3 In Park Water Companies' 2012 annual filings to DWA there was only one
4 affiliated transaction affecting AVR. WWH granted an equity interest to certain
5 unnamed individuals of Park Water Co. and its subsidiaries. This equity interest
6 generated a tax liability for those certain unnamed individuals of Park and its
7 subsidiaries. WWH offered to loan those individuals the money to pay those tax
8 liabilities. WWH borrowed money from Park Water Company to pay the tax
9 liability to the certain unnamed individuals of Park and its subsidiaries. Those
10 certain individuals therefore owe Western Water Holdings who therefore owes
11 Park/AVR \$272,839.09 as of year-end 2013.

12 It was ORA's concern that Park loaned WWH at a cost to Park. ****BEGIN**

13 **PROPRIETARY****

14

15

16

17

18

19 ****END PROPRIETARY****

20 ORA reviewed the terms of the loan, which appear to be reasonable.

21 **2) Services for WWH**

22 During the rate case, it was discovered that Park does a small amount of
23 administrative work for its parent company, WWH. Park records the amount of
24 time its employees spend working for WWH. WWH does not have any other
25 operations aside from ownership of Park, so the amount of services provided is
26 relatively small, estimated at \$4,035, \$4,160, and \$4,238 for 2015, 2016, and 2017
27 respectively. ORA reviewed the service contract and the terms appear to be
28 reasonable. To account for the services performed, AVR has proposed to reduce

1 expenses with a line item rather than adding additional revenues to Park. ORA
2 notes that the amounts being discussed here are immaterial, so ORA does not
3 oppose AVR using this method during this GRC. However, outside of the current
4 GRC, AVR should report the amount of services provided WWH in accordance
5 with the rules governing affiliated transactions.

6 Accordingly, it is recommended that services performed for WWH be
7 added as a line-item reduction to general office expenses, during this GRC. For the
8 next GRC, Park should report the amount of services it provides to WWH as an
9 affiliated transaction.

10 **3) HomeServe**

11 AVR has two contracts with HomeServe¹⁸⁰ subject to the NTP&S decision
12 D.12-01-042. AVR handles a small portion of HomeServe's marketing
13 communication as well as billing for HomeServe customers who are also AVR's
14 customers.¹⁸¹ Having reviewed the contracts and examined a sample payment, it
15 appears that AVR is properly reporting its affiliated transactions as passive or
16 active in accordance with D.12-01-042. However, the annual other operating
17 revenues from HomeServe's contracts for 2013 were \$1,175 which do not meet
18 the \$100,000 threshold needed for Park to benefit from revenue sharing.¹⁸²
19 Therefore, all revenues generated from HomeServe should benefit ratepayers.

20 All revenues from contracts with HomeServe should accrue to the benefit
21 of the ratepayers since the annual revenues are less than \$100,000.

22 **4) Nextel**

23 Nextel has a lease arrangement with AVR to semi-permanently mount
24 equipment on top of AVR's water tanks. ORA reviewed the lease terms, which
25 appear to be reasonable. Since annual lease income is for 2013 was only \$10,104,

¹⁸⁰ HomeServe provides emergency repair services for AVR's customers during off-hours.

¹⁸¹ A.14-01-002 pp. 7-8.

¹⁸² D.12-01-042, Rule X.C6.

1 less than \$100,000, AVR should not allocate revenues. Under D.12-01-042, Rule
2 X.C6, all proceeds should go to the benefit of ratepayers.¹⁸³ AVR is in the process
3 of terminating their contract with Nextel, at Nextel's request; however, disposition
4 of the lease has not been determined yet.

5 The terms of the contract appear to be reasonable. Until the contract with
6 Nextel is terminated, annual revenues should continue to accrue to the benefit of
7 ratepayers.

8 **D. CONCLUSION**

9 In general, all of AVR's affiliated transactions appeared to be reasonable.
10 In regards to NTP&S, it appears as though AVR is incorrectly allocating revenues
11 that should go exclusively to the benefit of ratepayers. It is recommended that
12 AVR should follow the guidance provided for in D.12-01-042 and only allocate
13 other operating revenues between ratepayers and shareholders when other
14 operating revenues are in excess of \$100,000.

¹⁸³ D.12-01-042, Rule X.C.6.

1 **CHAPTER 14: MEMORANDUM AND BALANCING ACCOUNTS**

2 **A. INTRODUCTION**

3 This chapter presents ORA’s analysis and recommendations on AVR’s
4 requests related to its existing balancing and memorandum accounts. The GRC is
5 the appropriate time for a comprehensive review of all the balancing and
6 memorandum accounts and while all accounts were reviewed, the
7 recommendations in this chapter only address the accounts that were specifically
8 requested in AVR’s GRC A.14-01-002. AVR has 8 balancing accounts and 16
9 memorandum accounts. The combined balance of all of AVR’s balancing and
10 memorandum accounts as of year-end 2013 is \$4,787,831.¹⁸⁴ This net amount to
11 be recovered via surcharges on customer bills is approximately 22% of AVR’s
12 current \$22 million in authorized revenue requirements.¹⁸⁵ For a complete list of
13 all of AVR’s balancing and memorandum accounts and their balances, please see
14 Attachment A at the end of the chapter.

15 During the review of AVR’s balancing and memorandum (memo)
16 accounts, ORA identified issues regarding the practice, procedure, and
17 maintenance of the accounts. These issues will be discussed below under Section
18 C. Discussion below.

19 **B. SUMMARY OF RECOMMENDATIONS**

Description	Summary of Recommendations
Booking Recovery to Memorandum Accounts	AVR should not treat memorandum and balancing accounts interchangeably. Once memorandum accounts are approved for recovery, AVR should move them to a balancing account.

¹⁸⁴ Attachment A – This figure is the sum of all balancing and memorandum account balances according to response to DR ROY-003. Amount includes estimates made by AVR.

¹⁸⁵ In A.14-01-002, AVR is requesting recovery of \$3,506,309 of the total \$4,787,831.

Memorandum Accounts Recorded on the Balance Sheet	AVR should not record memorandum accounts on the balance sheet until the Commission approves those amounts for recovery. Memorandum Accounts should not be treated as regulatory assets.
Application Requests	The GRC is the appropriate time for balancing and memorandum accounts to be reviewed and settled.
Use of Estimates	Under no circumstances, should AVR be permitted to seek recovery of estimated amounts that the company has “recorded” in balancing or memorandum accounts.
WRAM/MCBA Balancing Account	Since AVR filed its 2013 WRAM/MCBA balances on May 6, 2014 via Advice Letter 190, the balances will be reviewed within the context of the Advice Letter.
Incremental Cost Balancing Account - Irrigation	Since the ICBA account balance is estimated, ORA does not recommend recovery at this time.
Pension Expense Balancing Account	ORA recommends the refund of over-collections of the Pension Expense balancing account in the amount of \$22,427. ORA also recommends the account be continued until the next general rate case.
Conservation Memorandum Account	Since the amounts appear to be reasonable, ORA recommends recovery of the under-collected Conservation Memorandum Account in the amount of \$77,384.
Outside Services Memorandum Account	ORA recommends the recovery of the remaining balance, including interest, of \$2,006 in the Outside Services memorandum account. ORA also recommends the account be closed.
Pressure Reducing Memorandum Account	Due to the fact that the technology is no longer being considered by AVR, and there is a zero balance in the account, ORA recommends closing the Pressure Reducing Valve Memorandum

	Account.
Office Remodel Balancing Account	ORA recommends denying recovery of any amounts recorded in the Office Remodel Balancing Account. Further, AVR should remove any amounts already recorded in the account. ORA recommends the account be closed since the project is no longer a rebuild or remodel. Additionally, ORA recommends that AVR bear the full burden of amounts already incurred expenses for its abandoned rebuild or remodel project or its new office building project.
Solar Project Memorandum Account	ORA recommends denying AVR's request.
Credit Card Memorandum Account	ORA recommends approving AVR's request, subject to review.
2010 Tax Act (Bonus Depreciation) Memorandum Account	ORA recommends the Commission order an audit of AVR's Tax Act Memorandum Account.
Chrom-6 Memorandum Account	ORA recommends denying AVR's request of a new Chrom-6 Memorandum Account.

1 **C. DISCUSSION**

2 **1) Accounting Issues Regarding Memorandum Accounts**

3 AVR treats its balancing and memorandum accounts the same with no
4 distinction between the two types of accounts.¹⁸⁶ Standard Practice SP-27-W
5 explains the difference between balancing and memorandum accounts. Balancing
6 accounts are kept on the balance sheet, are used to track recovery or amortization

¹⁸⁶ Response to DR ROY-006, Question 1.

1 of amounts authorized by the Commission, and include amounts that were tracked
2 in a memorandum or reserve account and authorized for recovery.¹⁸⁷

3 Memorandum accounts, on the other hand, are not assured recovery, are kept off
4 the books, and are only to be used to track costs for reasonableness review by the
5 Commission.¹⁸⁸ In D.12-09-004, The Commission clarified the distinction
6 between the two types of accounts as follows:

7 There is an important regulatory distinction between a balancing
8 account and a memorandum account: the Commission has clearly
9 established that a balancing account is used where recovery is
10 essentially assured, subject to determining the reasonableness of the
11 amounts incurred, so that ratepayers as well as shareholders are
12 protected from forecast error. A memorandum account on the other
13 hand has no assurance of recovery until the underlying program or
14 project is subsequently deemed reasonable ... The purpose of a
15 balancing account is simply to protect against over- or under-
16 collections, unlike a memorandum account where we have yet to
17 determine that the expense category is eligible for recovery from
18 ratepayers.¹⁸⁹... There is another distinction as well: a balancing
19 account usually has a revenue stream attached to it so that the cost is
20 tracked against the initial amount of revenue provided in rates. A
21 memorandum account by contrast usually only records the expenses
22 which will be considered for recovery later.¹⁹⁰

23 It is clear that the purposes of balancing and memorandum accounts are
24 different. It is also clear that the accounting treatment for these accounts must be
25 distinct. AVR however, does not make any distinction between the two types of
26 accounts.

27 This raises two important concerns with AVR's current practices: one,
28 treating a memorandum account like a balancing account may cause account
29 balances to be recovered without Commission review, and two, AVR may use the

¹⁸⁷ SP-U-27-W p.6 No.29-31.

¹⁸⁸ SP-U-27-W p.4 No.24-25.

¹⁸⁹ D.12-09-004 pp.13-14.

¹⁹⁰ D.12-09-004 p. 13. Footnote 4.

1 fact that it records memorandum accounts on the balance sheet as justification for
2 Commission approval. Each concern is addressed in the following paragraphs.

3 **a) Discussion**

4 **i. Booking Recovery to Memorandum Accounts**

5 AVR treats its memorandum accounts like its balancing accounts, with no
6 distinction between the two. This means that when a memorandum account is
7 authorized for recovery, the revenue from the associated surcharge is booked in
8 the same account as an offset to under-collected balances of that account. This is
9 not in accordance with the recommended practices in SP-U-27-W. SP U-27-W
10 recommends that once a cost tracked in a memorandum account is authorized for
11 recovery, the authorized amount is moved to a balancing account for recovery.
12 The memorandum account zeroes out and any further costs tracked in the
13 memorandum account will be reviewed for recovery at a later date. This method
14 prevents newly tracked costs from being comingled with amounts that are
15 currently being recovered, but have not yet been fully recovered. Since AVR does
16 not use this method for its memorandum accounts, it raises concerns that costs
17 tracked in memorandum accounts may not be subject to a reasonableness review
18 and could potentially be recovered without Commission review.

19 Treating a memorandum account as a balancing account could cause AVR
20 to recover account balances that have not been reviewed for reasonableness. The
21 amount of a surcharge applied to a customer bill to recover an under-collected
22 balance is forecasted based upon estimates of customers and consumption. If the
23 actual number of customers or consumption is greater than the forecast used to
24 develop the surcharge, the amount collected from the surcharge will be more than
25 the initial balance. Since AVR co-mingles the collection from surcharges with the
26 recording of costs, the same memorandum account continues to track new costs.
27 If the amount collected from higher-than-anticipated surcharge revenue is netted
28 against newly tracked costs, as AVR does, the newly tracked costs may never be
29 reviewed since they would appear as having been already recovered. Clearly,

1 AVR should not be allowed to recover any amounts that are not approved by the
2 Commission.

3 To prevent this type of situation from happening, once memorandum
4 accounts' balances are approved for recovery, consistent with SP-U-27-W AVR
5 should move them to a balancing account for recovery or amortization.

6 **ii. Memorandum Accounts Recorded on the Balance**
7 **Sheet**

8 AVR books its memorandum accounts on the balance sheet as either a
9 regulatory asset or regulatory liability and not in accordance with practices
10 recommended in SP-U-27-W.¹⁹¹ This practice violates the overall accounting
11 concept of conservatism.¹⁹² AVR should not report any contingency gains on their
12 financial statements until the amounts are realized.¹⁹³ ORA is concerned that
13 AVR records its memorandum accounts on the balance sheet because this practice
14 may lead the Commission to authorize recovery for no reason other than to avoid
15 the implications of an asset write-down. In D.05-07-045, Southern California
16 Water Company (SCWC) used the same accounting treatment of its memorandum
17 accounts in regards to litigation costs. SCWC had booked its litigation
18 memorandum accounts on the balance sheet, citing that FAS No. 71 allowed for
19 such when costs had a high probability for recovery. SCWC argued that if it could
20 not recover the amounts recorded on its balance sheet, the company would suffer
21 undue financial hardship from the effects of writing down the regulatory asset on
22 the balance sheet. Financial hardships could include cost of restating past financial
23 statements, violation of loan terms, loss of credit availability, loss of investors, and
24 unfavorable financing rates. The Commission agreed SCWC would suffer
25 financial hardship and so the Commission reluctantly authorized recovery.¹⁹⁴

¹⁹¹ Response to DR ROY-001 Question 4. See attachment B.

¹⁹² As defined SFAC No.2 and updated in SFAC No. 8.

¹⁹³ ASC 450 – Contingencies.

¹⁹⁴ D.05-07-045 Sections 4.5 & 4.6.

1 The Commission should not be placed into a similar predicament by AVR.
2 The company can choose its accounting methods; however, the concern is that this
3 particular accounting method will be used by AVR to help guarantee recovery of
4 its memorandum account balances even if those amounts are not considered
5 reasonable by the Commission.

6 It is recommended the Commission order AVR to alter its accounting
7 methods to avoid recording memorandum accounts on the balance sheet until
8 those amounts are approved for recovery by the Commission.

9 **b) Conclusion**

10 For both situations regarding the accounting treatment of its balancing and
11 memorandum accounts, it is recommended that AVR alter its accounting methods;
12 AVR should not co-mingle the tracking of costs and the recovery of costs in the
13 same account and AVR should not record memorandum accounts on the balance
14 sheet. The Commission should order AVR should follow the guidance provided
15 in SP-U-27-W in regards to its balancing and memorandum accounts. If the
16 Commission does not, it may allow AVR to recover amounts that have not been
17 reviewed by the Commission. In addition, if AVR is not ordered to change its
18 practices, the Commission may be placed in a predicament when it must guarantee
19 recovery to avoid the effects of an asset write-down.

20 **2) Application Requests**

21 **a) Discussion**

22 AVR has conflicting application requests and Data Request responses. In
23 its GRC application, AVR requests “review and disposition” of certain balancing
24 and memorandum accounts.¹⁹⁵ AVR clarified during ORA’s walk-through visit
25 on January 23, 2014 that this was meant as either recovery or refund of the

¹⁹⁵ A.14-01-002, pp. 9-12.

1 account balances. However, when asked to provide a list of accounts for which
2 AVR intended to seek recovery, all related work-papers, and all general ledger
3 data in Data Request ROY-001, AVR stated in response that “final account
4 balances cannot be determined at this time” for several of the accounts including
5 the following: Office Remodel Balancing Account, Employee and Retiree
6 Healthcare Balancing Account, Group Pension Balancing Account, and One-Way
7 Conservation Expense Balancing Account. AVR proposes that the accounts be
8 recovered through advice letter filings after the current rate case cycle is
9 completed. D.06-04-037 states: “Class A water utilities shall report on the status
10 of their balancing and memorandum accounts in their general rate cases and shall
11 propose adjustments to their rates in that context to amortize under- or over-
12 collections in those accounts subject to reasonableness review. They also may
13 propose such rate adjustments by advice letter at any time that the under- or over-
14 collection in any such account exceeds two percent (2%) of annual revenues for
15 the utility or a ratemaking district of the utility”.¹⁹⁶

16 **b. Conclusion**

17 The GRC is the appropriate time for balancing and memorandum accounts
18 to be settled. D.06-04-037 only allows advice letter filing for
19 balancing/memorandum account recovery in between rate case cycles when the
20 balance exceeds 2% of annual revenues.

21 **3) Use of Estimates**

22 **a) Discussion**

23 AVR uses estimates in some of its balancing accounts. In AVR’s
24 WRAM/MCBA and in the ICBA-Irrigation Balancing Accounts, AVR estimates
25 the amount it spends for replenishment and leased water rights and to a lesser

¹⁹⁶ D.06-04-037 Ordering Paragraph No.3 on p.10.

1 extent, purchased power. AVR states the reason for the estimate is due to a long
2 lag time in billing from the Mojave Water Agency. AVR states the Mojave Water
3 Agency uses a retroactive calculation methodology in producing its bill, and can
4 take more than a year until actual amounts are known to AVR. AVR also states
5 that purchased power can take up to six-months to be billed. The purpose of these
6 balancing accounts is to track the difference between authorized costs and actual
7 costs. By estimating the actual amount tracked in their accounts AVR is
8 comparing two estimated numbers, which is an incorrect application of the
9 accounts.

10 **b) Conclusion**

11 The Commission should not allow AVR to recover estimated amounts that
12 the company has “recorded” in balancing or memorandum accounts.

13 **4) WRAM/MCBA Balancing Account**

14 AVR requests the Commission review and authorize under-collected
15 balances in the WRAM/MC BA. The purpose of WRAM/MCBA is to track the
16 difference between authorized and actual water quantity revenues and water
17 production costs related to increased conservation activities. The authority to
18 establish this account was granted in D.08-09-026.

19 ORA did not review the WRAM/MCBA balances in the GRC. On May 6,
20 2014, AVR filed its Advice Letter 190 requesting to recover the 2013 balance per
21 the settlement. ORA will review the Advice Letter and the amount being
22 requested.

23 **5) Incremental Cost Balancing Account (ICBA) - Irrigation**

24 AVR requests the Commission approve recovery of the under-collected
25 balances of the Incremental Cost Balancing Account (ICBA) for the estimated
26 amounts of \$3,095.

1 The ICBA tracks incremental differences in authorized water productions
2 costs and actual water production costs. This account was authorized by the
3 Commission in D.03-06-083. The last authorized recovery date of this account is
4 April 26, 2013 through Tier 1 Advice Letter 183-W for the amount through the
5 end of March 2013 of \$477,575. AVR has changed its position on recovery in this
6 GRC in favor of recovery through an advice letter filing at a later date.

7 ORA does not recommend recovery at this time since account balances are
8 estimated. It is recommended that AVR be eligible to seek recovery of ICBA
9 balances once costs are no longer estimated.

10 **a) Examination Scope and Objectives**

11 ORA examination scope and procedures include verifying the amount to be
12 refunded, verifying the reasonableness of the benefit, and verifying the volatility
13 of the expense.

14 **b) Examination Procedures and Results**

15 ORA has read applicable decisions and advice letters, reviewed AVR's
16 work-papers, beginning and ending account balances, amounts to be recovered,
17 supporting payment checks, the irrigation customer group tariff, leased water
18 rights contracts, and sampled invoices. ORA was able to verify expenses recorded
19 in the account, except those that AVR had recorded as estimates due to a lag in
20 invoicing. AVR's lag in invoicing is primarily from the Mojave Water Agency,
21 which uses a retroactive calculation method to determine the amount charged to
22 AVR. The lag is significant and according to AVR's representatives, could be over
23 a year in length. There is also a small lag in invoicing for AVR's purchased
24 power. AVR is aware of the timing differences and therefore estimates the invoice
25 amount until actual amounts are known. This methodology is incorrect. The
26 purpose of a balancing account is to track the difference between projected and
27 recorded amounts; not the difference between projected and estimated amounts.

1 AVR should not record a cost in a balancing or memorandum account until the
2 cost is incurred. Aside from AVR's estimated costs, all other costs recorded in the
3 account appeared to be reasonable and were properly supported.

4 **c) Conclusion**

5 Since the ICBA account balance is estimated, ORA does not recommend
6 recovery for the under-collected account balances at this time.

7 **6) Employee and Retiree Health Care Balancing Account**

8 AVR requests that the Commission approve a refund of the over-collected
9 balance of \$285,653 and to allow the account to continue to track difference
10 between projected and actual Employee and Retiree Health Care. AVR has
11 changed its position to wait until the end of the rate case cycle to see if costs will
12 reduce the amount to be refunded to an under-collection before attempting to seek
13 recovery through an advice letter filing,

14 The Employee and Retiree Health Care balancing account tracks the
15 difference between actual and authorized health care expense amounts. This
16 account was authorized in D.12-09-004.

17 ORA recommends the refund of over-collections in the amount of
18 \$285,653. ORA also recommends the account be continued until the next general
19 rate case.

20 **a) Examination Scope and Objectives**

21 ORA examination scope and procedures include verifying the amount to be
22 refunded, verifying the reasonableness of the benefit, and verifying the volatility
23 of the expense.

24 **b) Examination Procedures and Results**

25 ORA's examination procedures included reading related decisions and
26 advice letters, reviewing employee benefits plan and evaluating it for
27 reasonableness, reading provider contract and determine what level of service is

1 provided, verifying beginning and ending account balances and amount of
2 expense, and sampling payment checks. AVR's Employee and Retiree Health
3 Care Balancing Account balances through year end 2013 appear to be reasonable.

4 **c) Conclusion**

5 ORA recommends the refund to ratepayers of over-collections in the
6 amount of \$285,653. ORA also recommends the account be continued until the
7 next general rate case.

8 **7) Pension Expense Balancing Account**

9 AVR requests the Commission approve a refund of the over-collected
10 balance of \$22,427 and to allow the account to continue to track difference
11 between projected and actual pension expenses. AVR has subsequently stated it
12 would prefer to handle disposition of the account outside of the GRC. AVR
13 wishes the account continue until the end of the rate case cycle in hopes the
14 amount of over-collection will be reduced at which point disposition of the
15 account would be handled through an advice letter filing.

16 The Pension Expense Balancing Account tracks the difference between
17 actual and authorized health care benefits expense amounts. This account was
18 authorized in D.12-09-004.

19 ORA recommends the refund of over-collections of the Pension Expense
20 Balancing Account in the amount of \$22,427. ORA recommends the account be
21 continued until the next general rate case.

22 **a) Examination Scope and Objectives**

23 ORA examination scope and objectives include verifying the amount to be
24 refunded, the reasonableness of the pension expense, and the volatility of the
25 expense.

1 **b) Examination Procedures and Results**

2 ORA examination procedures included: reading applicable decisions and
3 advice letters, reviewing actuarial report and estimates, AVR’s pension plan,
4 beginning and ending account balances and amounts to be refunded. ORA’s
5 examination did not detect any abnormal amounts or unusual trends. The account
6 balances appear to be reasonable and were spent in accordance with the terms of
7 the balancing account.

8 **c) Conclusion**

9 ORA recommends the refund to ratepayers of over-collections of the
10 Pension Expense Balancing Account in the amount of \$22,427. ORA also
11 recommends the account be continued until the next general rate case.

12 **8) Conservation Memorandum Account**

13 AVR requests the Commission approve recovery of expenses associated
14 with the Conservation Memorandum Account for the period of January 1, 2011 to
15 December 31, 2011 for the balance of \$77,384.

16 The Conservation Memorandum Account tracks certain costs associated
17 with “Best Management Practices” outlined in the Memorandum of Understanding
18 adopted by the California Urban Water Conservation Council. This account was
19 authorized in Decision D.08-09-026.

20 ORA recommends recovery of the under-collected Conservation
21 Memorandum Account in the amount of \$77,384.

22 **a) Examination Scope and Objectives**

23 ORA examination scope and procedures include verifying the requested
24 recovery amount including interest and determining the eligibility of recovery.

1 **b) Examination Procedures and Results**

2 ORA’s examination procedures included: reading applicable decisions,
3 advice letters, and related documents; verifying beginning and ending account
4 balances; reconciling amounts provided in Data Requests and in work papers;
5 reviewing expense receipts. ORA’s examination did not reveal any unusual
6 activity. The amounts appeared to be reasonable and spent in accordance with
7 terms of the account.

8 **c) Conclusion**

9 Since the amounts appear to be reasonable, ORA recommends recovery of
10 the under-collected Conservation Memorandum Account in the amount of
11 \$77,384.

12 **9) Outside Services Memorandum Account**

13 AVR requests the Commission approve recovery of under-collected
14 balances in the Outside Services Memorandum Account for the amount of \$2,006.

15 The outside services account was created to track the costs associated with
16 the potential risk involving the Mojave Water Agency project. This account was
17 authorized in D.08-09-026. The account automatically tracks expenses until year-
18 end 2011. The account balance was last authorized for recovery in September
19 2012 in Advice Letter 177-W for balances up to year-end 2010.

20 ORA recommends the recovery of the remaining balance, including
21 interest, of \$2,006 in the Outside Services memorandum account. ORA also
22 recommends the account be closed.

23 **a) Examination Scope and Objectives**

24 ORA examination scope and procedures include verifying the requested
25 recovery amount including interest and determining the eligibility of recovery.

1 **b) Examination Procedures and Results**

2 Examination procedures included reading applicable decisions and advice
3 letters, verifying the account balance, and examining the invoices for
4 appropriateness. There was only one invoice to examine which appeared to be
5 reasonable and appropriate.

6 **c) Conclusion**

7 The examination revealed the account balance to be reasonable. Thus, ORA
8 recommends the recovery of the remaining balance, including interest, of \$2,006
9 in the Outside Services memorandum account. Since there was only one expense
10 tracked in this account, ORA also recommends the account be closed.

11 **10) Pressure Reducing Memorandum Account**

12 AVR requests the Commission to approve the closure of the Pressure
13 Reducing Valve Memorandum Account.

14 The Pressure Reducing Valve memorandum account tracks the cost
15 associated with implementing pressure reducing valve modernization technology
16 into AVR's water system. This account was authorized in D.12-09-004.

17 ORA does not object to AVR's request, and agrees with AVR's
18 recommendation to close the Pressure Reducing Valve Memorandum Account.

19 **a) Examination Scope and Objectives**

20 ORA determines if it is appropriate to close the Pressure Reducing Valve
21 Memorandum Account.

22 **b) Examination Procedures and Results**

23 Examination procedures will include reading applicable decisions,
24 determining the reason AVR wishes to close the account, and verifying the
25 account has a zero balance. AVR representatives stated that AVR looked further
26 in to implementing this technology into its current water system but could not

1 implement the technology effectively. AVR's engineers discovered that the new
2 technology would be incompatible due to the lack of water pressure needed for the
3 valves to work properly. The project was no longer under consideration from AVR
4 and thus no expenses were tracked in the account. This was further verified in
5 responses to Data Requests ROY-001 and ROY-003.

6 **c) Conclusion**

7 Due to the fact that the technology is no longer being considered by AVR,
8 and there were no costs recorded in the account, ORA recommends closing the
9 Pressure Reducing Valve Memorandum Account.

10 **11) Office Remodel Balancing Account**

11 AVR requests the Commission approve recovery of under-collected
12 amounts of revenue requirement associated with its office remodeling project. The
13 amount AVR is requesting to be recovered, including interest is \$24,905.

14 The Office Remodel Balancing Account tracks the revenue requirement
15 associated with the office building remodeling project that was proposed in the last
16 GRC. This account was authorized in decision D.12-09-004.

17 ORA does not recommend recovery of the Office Remodel Balancing
18 Account. It is recommended the amounts tracked in the account be removed and
19 the account be closed.

20 **a) Examination Scope and Objectives**

21 ORA examination scope and procedures include verifying the requested
22 recovery amount including interest and determining the eligibility of recovery.

23 **b) Examination Procedures and Results**

24 Examination procedures include reading applicable decisions and advice
25 letters, verifying the account balance, project costs, and rate of return calculations.

26 ORA found unauthorized amounts recorded in this balancing account. The

1 authorizing decision states: “Therefore we will do the following: Ranchos may
2 have a balancing account, that will be subject to a reasonableness review, to
3 recover the revenue requirement for the project effective once the construction is
4 completed.”¹⁹⁷ However, ORA has found that the project was no longer an office
5 remodel, but a completely new office building project. AVR clarified that the
6 purpose of this account was for a remodel and not a new office building.¹⁹⁸ The
7 purpose of this account is to track the revenue requirements on a completed office
8 rebuild or remodel project and since the project is not complete, there should be no
9 costs recorded in this account and no recovery. Since the project is now far beyond
10 the scope of an office a rebuild or remodel, it is recommended that this account be
11 closed.

12 c) Conclusion

13 ORA recommends denying recovery of any amounts recorded in the Office
14 Remodel Balancing Account. Further, AVR should remove any amounts already
15 recorded in the account. ORA recommends the account be closed since the project
16 no longer a rebuild or remodel and has not completed the project within the 3-year
17 rate case cycle. Additionally, ORA recommends that AVR bear the full burden of
18 amounts already incurred expenses for its abandoned rebuild or remodel project or
19 its new office building project, since a new office project was not authorized for
20 this balancing account.

21 12) Solar Project Memorandum Account

22 In its Application, AVR states that it is in the preliminary stages of
23 investigating the potential for installing an AC solar photovoltaic generation

¹⁹⁷ D.12-09-004 p. 18.

¹⁹⁸ D.12-09-004 p.17 Footnote 5 states: “In comments Ranchos and DRA correctly point out the proposed decision mischaracterized these changes as a ‘new building’ whereas the changes are really modifications and reconfigurations to the existing building which effectively results in a ‘new office space’. This correction of characterization does not affect the findings that the

(continued on next page)

1 system on the grounds of its office site. AVR is undertaking a feasibility analysis
2 of placing panels on a proposed service vehicle shelter and carport shade
3 structures to be installed in the employee parking lot. AVR requests that the
4 Commission authorize a new memorandum account to track the costs, expenses,
5 and capital costs associated with this solar project. AVR does not provide any
6 estimate of the expected costs of this project because the costs are currently
7 unknown and uncertain. Accordingly, AVR states that it cannot readily forecast
8 them in this GRC.

9 Nonetheless, AVR says that it anticipates obtaining a proposal from a
10 design/build vendor to install a solar photovoltaic system during the rate case
11 process and will provide the proposal to Staff for review. ORA opposes this
12 request because AVR contradicts itself by saying on the one hand it plans to
13 provide a proposal from a vendor for staff to review during the rate case process
14 but, on the other hand, that it cannot readily forecast the cost in this GRC. This
15 implies that the vendor proposal that AVR plans to submit would not have any
16 cost information, which is not reasonable because a solar panel vendor should be
17 able to prepare and present the estimated costs associated a detailed proposal.
18 Clearly, AVR should be able to estimate the total cost of a solar project with a
19 well-defined scope and scale and would, therefore, not need to request a memo
20 account for this purpose. AVR has not disclosed how many turn-key solar panel
21 system vendors it has consulted, or which of several system installations and
22 financing arrangements it has considered. AVR's inability to obtain a cost estimate
23 for this project remains unexplained, and therefore, lacks the justification required
24 for Commission approval of such expenditures for ratemaking purposes.

(continued from previous page)

project need has been justified subject to the recovery restrictions included herein”.

1 In AVR's Response to ORA's Data Request¹⁹⁹, AVR describes a solar
2 project that is potentially much broader in scope than it originally described in its
3 Application, as follows:

4 Additionally, AVR has shared its electrical load information with a
5 renewable energy developer vendor, with the intent of exploring the
6 possibility of a single plant supplying the aggregate load from our
7 well sites. We are presently in discussions with Indian Energy to
8 determine how much land is needed for a solar site to produce
9 enough electricity to meet the electrical demand from our well sites.

10 AVR's proposed solar project does not qualify for a memorandum account
11 because it is open-ended and undefined. Granting a memorandum account for
12 such a proposal would not provide the proper incentives for economically efficient
13 investments. Nor does AVR's vague, undefined proposal meet the Commission's
14 least-cost criterion, which requires that AVR demonstrate that its proposal
15 represents the least cost option among all possible alternatives. In contrast, the
16 Commission's approval of a reasonable cost estimate of a specific plan to install
17 solar panels on its parking structures would give AVR an incentive to invest
18 economically. The Commission should consider this request only after AVR
19 presents it in the form of a quantifiable, tangible proposal, showing justification of
20 its economic efficiency by including a cost benefit analysis. Accordingly, ORA
21 recommends that the Commission deny AVR's request for approval of a
22 memorandum account for a solar panel project in this GRC because it is ill-
23 defined and, when adequately defined, its costs will be estimable. If the
24 Commission reviews and finds these costs reasonable in a future GRC, it may
25 include them in AVR's Rate Base.

¹⁹⁹ ORA's Data Request JJS-003, Q. #3.

1 **13) Credit Card Memorandum Account**

2 AVR requests that the Commission review the Credit Card Memorandum
3 Account balances for approval and disposition. The purpose of the Credit Card
4 Memorandum Account is to track the costs and savings associated with providing
5 credit/debit card payment services. AVR requests that the Credit Card
6 Memorandum Account be closed after disposition.

7 Resolution W-4935, authorized this memorandum account “to record all
8 costs associated with the credit card program previously authorized in rates that
9 were or are incurred to support the credit and debit card payment options. The
10 memorandum account shall also include any savings associated with offering the
11 program. The net balance in the memorandum account shall be refunded to
12 customers as part of Apple Valley’s next general rate case.”²⁰⁰

13 AVR reports that this memorandum account has a zero balance and that
14 AVR does not plan to use it further.²⁰¹ ORA inquired about the details of this
15 account. AVR responded,²⁰² with the following explanation:

16 Please note that on the attached schedule the credit card
17 memorandum account reflects a balance of \$0. AVR did not book
18 an amount for this account for year-end 2013 accounting because the
19 estimated balance was considered de minimis (approximately a few
20 thousand dollars) and more importantly because AVR has been
21 struggling with interpreting the language in Resolution in W-4935
22 regarding how to calculate the credit memorandum account which is
23 less than clear. AVR intended to file an advice letter refunding the
24 balance recorded in the credit card memorandum account through
25 year-end 2014 in February of 2015 after a final balance had been
26 calculated and was available. Upon further examination, AVR finds
27 that Resolution W-4935 requires the balance in the memorandum
28 account to be refunded to the general body of ratepayers as part of
29 this GRC proceeding. Therefore AVR is currently working on

²⁰⁰ Resolution W-4935, p. 1 and Ordering Paragraph 4.

²⁰¹ AVR Revenue Requirement Report, p. 136.

²⁰² AVR’s 3/10/2014 Response to ORA Data Request ROY-003, p. 2.

1 preparing its best estimate of a projected year-end 2014 balance for
2 the credit card memorandum account and will provide it to you for
3 review as soon as possible.

4 ORA recommends approval of AVR's request, subject to ORA's review.
5 ORA has not yet had the opportunity to review and determine the reasonableness
6 of AVR's memorandum account balance because AVR has not yet provided ORA
7 with its calculations for this account. AVR should be permitted to close the credit
8 card memorandum account subject to this review. Although AVR states in the
9 quote above that AVR intends to provide the estimated year-end 2014 balance as
10 soon as possible, ORA does not yet know if AVR will provide the information in
11 time for ORA to make an informed assessment of the memorandum account prior
12 to ORA's submission of ORA's final recommendations in this GRC. In order to
13 comply with the Commission's OP 4 of W-4935, AVR must timely provide these
14 data for review in the current GRC. ORA recommends that the Commission allow
15 AVR to dispense with the Credit and Debit Memorandum Account subject to
16 AVR's timely provision of the detailed calculations of the estimated year-end
17 2014 balance in this GRC and ORA's review and recommendations thereon.

18 **14) 2010 Tax Act (Bonus Depreciation) Memorandum**
19 **Account**

20 AVR requests the Commission review its 2010 Tax Act²⁰³ (related to Bonus
21 Depreciation) Memorandum Account (Memo Account) for "approval and
22 disposition." AVR further requests that the account be closed after disposition.²⁰⁴
23 In its response to ORA Data Request JRC-001, AVR articulated a number of
24 requests related to this issue in an attempt to respond to ORA's inquiry over
25 exactly what is being requested in this proceeding. The summation of the

²⁰³ Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

²⁰⁴ AVR Application A.14-01-002, p. 11.

1 explanation given is unclear and confusing to ORA, specifically on the question of
2 whether or not AVR has included in rates, the tax benefits related to the Tax Act.

3 Resolution L-411A authorized AVR to establish a one-way memorandum
4 account to track the impacts of the Tax Relief, Unemployment Insurance
5 Reauthorization, and Job Creation Act of 2010 (Tax Act). The Commission
6 required creation of the Bonus Depreciation Memorandum Account as a result of
7 the 2010 Tax Act relating to Bonus Depreciation to track ratepayer benefits
8 associated with Bonus Depreciation. The Memo Account applies to all cost-of-
9 service rate-regulated utilities that do not address the new tax law in a 2011 or
10 2012 general rate case.

11 ORA posed several questions related to this request in ORA Data Request
12 Number JRC-001. AVR stated that the Memo Account is tracking the cumulative
13 revenue requirement of the Tax Act from the effective date of the resolution (April
14 14, 2011) up to the point when those impacts are incorporated into rates, which
15 will be the effective date of the rates resulting from this general rate case
16 proceeding, or January 1, 2015. AVR asserted that the impacts of the Tax Act are
17 reflected in this general rate case in the deferred tax calculations and that the 2015
18 and 2016 balances of the deferred tax reserve used as a rate base reduction in this
19 general rate case incorporates the applicable Tax Act bonus depreciation.²⁰⁵ AVR
20 stated that the balance in the Memo Account will not be known and available for
21 amortization (included in rates) until January 1, 2015. Therefore, it appears that
22 AVR has not, to date, flowed-through to ratepayers, the cumulative revenue
23 requirement impacts of the tax benefits of the Tax Act.

24 In its response to the data request, AVR stated that it is not requesting that
25 the Memo Account be closed prior to January 1, 2015, and AVR is not requesting
26 that any specific balance be approved for amortization in this proceeding because
27 the final balance will not be known until after the record is closed. On the other

²⁰⁵ AVR Response to ORA Data Request JRC-001, Q.1.

1 hand, AVR stated that it is requesting that the Commission find that the impacts of
2 the Tax Act are incorporated into the rates resulting from this proceeding and, as
3 of the effective date of those rates, those impacts should no longer be tracked in
4 the Memo Account.²⁰⁶

5 AVR has not to date, passed to ratepayers the cumulative revenue
6 requirement impacts of the tax benefits of the Tax Act, even though it knew of the
7 accumulated entries into the Memo Account since it was created in 2011, through
8 2013. The entries and accumulated balance of the Memo Account need to be
9 examined through a detailed audit conducted by the Commission's Division of
10 Water and Audits (DWA) to determine the correct amount to be flow-through to
11 ratepayers. The net accumulated tax benefit should be flowed through to
12 ratepayers, albeit, retroactive, beginning the effective date of the ensuing Advice
13 Letter.

14 ORA is unable to recommend at this time that the Commission find the
15 impacts of the Tax Act will in fact be incorporated into rates resulting from this
16 general rate case proceeding. ORA is further unable to recommend that as of the
17 effective date of those rates, the impacts of the Tax Act should no longer be
18 tracked in the Memo Account.²⁰⁷

19 ORA recommends that the Commission order an audit of AVR's Tax Act
20 Memo Account to determine the exact amounts of the entries into it since its
21 inception, and to determine the balance in the account subject to amortization.
22 After the Memo Account is audited, AVR should be required to file an Advice
23 Letter in early 2015 to flow-through to ratepayers the cumulative revenue
24 requirement associated with the impact of the net tax benefits of the Tax Act
25 accumulated to date.

²⁰⁶ AVR Response to ORA Data Request JRC-001, Q.1 (e).

²⁰⁷ AVR Response to ORA Data Request JRC-001, Q.1(e).

1 **15) Chromium-6 Memorandum Account**

2 AVR seeks the Commission’s authority to establish a Chromium 6
3 Memorandum Account to track unknown costs for water treatment or remediation
4 of water sources that would result from exceeding the maximum contaminant level
5 (“MCL”) for hexavalent chromium (“Cr6”) to be adopted by the California
6 Department of Public Health (“CDPH”).²⁰⁸ Cr6 is a heavy metal that is known to
7 cause cancer when inhaled or ingested and is naturally occurring in low
8 concentrations in many parts of the state. The presence of Cr6 in the environment
9 is also attributed to industrial activities such as the manufacturing of textile dyes,
10 wood preservation, leather tanning, and anti-corrosion coatings.²⁰⁹

11 On August 23, 2013, the CDPH submitted its proposed standard for
12 maximum contaminant levels (“MCL”) of 10 ppb for Cr6 to the Office of
13 Administrative Law (“OAL”) for publication in the California Regulatory Notice
14 Register. In December 2013, the Alameda County Superior Court ordered the
15 CDPH to finalize its MCLs for Cr6 by Spring 2014. On April 15, 2014, the
16 CDPH submitted the proposed final regulation establishing the MCL for Cr6 at 10
17 ppb to the OAL for a 30-day review. Under the Administrative Procedure Act, the
18 OAL has 30 working days to review and approve or disapprove the proposed
19 filing. The CDPH anticipates that OAL will make a determination by May 30,
20 2014. In short, the CDPH proposes to regulate Cr6 at 10 ppb and expects the OAL
21 to approve the regulation with an implementation date of July 1, 2014.²¹⁰

22 At the time of AVR’s GRC filing, the CDPH only proposed a draft MCL at
23 10 ppb and although AVR’s latest water quality samples from wells do not
24 indicate Cr6 levels above CDPH’s proposed MCL,²¹¹ AVR is requesting in this

²⁰⁸ Revenue Requirement Report, p. 136.

²⁰⁹ <http://www.cdph.ca.gov/certlic/drinkingwater/Documents/Chromium6/Chromium-6FactSheet-Update-08-21-2013.pdf>

²¹⁰ The CDPH’s April 15, 2014, Press Release (Attachment C).

²¹¹ Revenue Requirement Report, p. 129.

1 GRC a Chromium 6 Memorandum Account in case the CDPH further lowers the
2 final standard. However, the CDPH did not make changes to the proposed
3 standard and finalized the standard at 10 ppb on April 15, 2014. Since the CDPH
4 proposes a final MCL of 10 ppb and AVR's wells do not exceed the MCL level,
5 AVR does not need to provide treatment at any of its wells, therefore, a
6 memorandum account is not needed to track treatment costs.

7 AVR's main source of water supply comes from 21 underground wells and
8 none of the wells contains Cr6 levels above CDPH's proposed final MCL.
9 Although AVR's Revenue Requirement Report shows that water samples
10 collected from 16 wells in 2002 and 2011 detected Cr6 levels above 1000 parts per
11 trillion ("ppt"),²¹² it is important to note that 1000 ppt is equivalent to 1 parts per
12 billion ("ppb"), which is below CDPH's proposed final MCL for Cr6 of 10 ppb.
13 AVR's Revenue Requirement Report also discloses that none of AVR's wells
14 contain Cr6 levels above CDPH's proposed MCL of 10 ppb.²¹³

15 AVR claimed that it may need to install treatment facilities at its wells if
16 the CDPH decides to adopt a lower MCL than the proposed level of 10 ppb. Since
17 AVR's filing, the CDPH has finalized its MCL at the proposed level on April 15,
18 2014. With the CDPH's latest action solidifying California's regulation of Cr6 at
19 10 ppb and the fact that none of AVR's wells are impacted with Cr6 above this
20 level, AVR will not need to install treatment facilities or incur treatment cost.
21 Therefore, AVR does not have any treatment costs to track related to the new Cr6
22 regulation and hence need a memorandum account for this purpose.

23 For the reasons stated above, ORA strongly recommends that the
24 Commission deny AVR's request to establish a Chromium 6 Memorandum
25 Account.

²¹² AVR's Revenue Requirement Report, p. 128.

²¹³ See Table set forth in AVR's Revenue Requirement Report, p. 129.

1 **D. CONCLUSION**

2 In general, AVR’s balancing and memorandum accounts appeared to be
3 reasonable except where noted above.

4 AVR uses the same accounting treatment for its balancing and
5 memorandum accounts and it should not since it could use its accounting methods
6 to justify recovery of otherwise unreasonable amounts, or recover amounts that
7 have not been reviewed by the Commission. ORA recommends that AVR change
8 its accounting treatment of its balancing and memorandum accounts in accordance
9 with the guidelines found in SP-U-27-W.

10 AVR should not use advice letters for recovery outside of the GRC unless
11 account balances exceed 2% of annual revenues. As clarified in D.06-04-037,
12 “Class A water utilities shall report on the status of their balancing and
13 memorandum accounts in their general rate cases and shall propose adjustments to
14 their rates in that context to amortize under- or over-collections in those accounts
15 subject to reasonableness review...” The ideal time to handle balancing and
16 memorandum accounts is during the GRC.

17 AVR should not be permitted to use estimates in its balancing and
18 memorandum accounts under any circumstances. Per SP-27-W, balancing and
19 memorandum accounts track the difference between actual and authorized
20 amounts. Estimating account balances could lead AVR to recover for costs it has
21 not yet incurred.

22

1 **Attachment A - Balancing and Memorandum Account estimated balances**

Balancing and Memorandum Account Name	Estimated Balance as of 12/31/2013
Incremental Cost Balancing Account – Irrigation System	\$3,095
Incremental Cost Balancing Account – Domestic System	\$188,237
California Alternative Rates for Water Revenue Reallocation Balancing Account	\$425,758
Water Revenue Adjustment Mechanism Balancing Account/Modified Cost Balancing Account	\$3,506,309
Employee and Retiree Healthcare Balancing Account	(\$254,973)
Pension Expense Balancing Account	(\$22,427)
Military Family Relief Program (MFRP) Memo. Account	\$0
Conservation Memorandum Account	\$77,494
Outside Services Memorandum Account	\$71,717
Conservation Proceeding Memorandum Account	\$0
Low-Income Customer Data Sharing Cost Memo. Account	\$5,869
2010 Tax Act Memorandum Account	(\$161,000)
Interim Rates Memorandum Account (IRMA)	\$946,802
Pressure Reducing Valve Memorandum Account	\$0
Credit Card Memorandum Account	\$0
2010 Cost of Capital Memorandum Account - Domestic	\$37,577
2010 Cost of Capital Memorandum Account - Irrigation	\$0
2013 Cost of Capital Memorandum Account - Domestic	(\$61,037)
2013 Cost of Capital Memorandum Account - Irrigation	\$(494)
Office Remodel Balancing Account	\$24,905
One-Way Conservation Balancing Account	\$0
Income Tax Repair Regulations Implementation (ITRRI) Memorandum Account	\$0
Tangible Property Regulations Consequences (TPRC) Memorandum Account	\$0
Catastrophic Event Memorandum Account	\$0
Account Balance Total	\$4,787,831

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Attachment B - (Response to Data Request Roy-001)

APPLE VALLEY RANCHOS WATER CO.

P.O. BOX 7005
21760 OTTAWA ROAD
APPLE VALLEY, CA 92307
(760) 247-6484 • FAX (760) 247-1654



February 11, 2014

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Re: Data Request No. ORA-A.14-04-002.ROY-001

Apple Valley Ranchos Water Company (AVR) submits the following responses to Data Request No. ORA-A.14-01-002.ROY-001 in reference to Apple Valley Ranchos Water Company General Rate Case No. A.14-01-002.

DATA REQUESTS

1. Please provide a complete list of all balancing and memorandum accounts currently authorized.

Response:

The balancing accounts and memorandum accounts currently authorized are listed below. Please note that the Incremental Cost Balancing Account is applicable only to AVR's Irrigation System.

Balancing Accounts

- Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA)
- California Alternative Rates for Water (CARW) Balancing Account
- Office Remodel Balancing Account

3

- Employee and Retiree Healthcare Balancing Account
- Group Pension Balancing Account
- One-Way Conservation Expense Balancing Account

Memorandum Accounts

- Incremental Cost Balancing Account
- Military Family Relief Program Memorandum Account
- Outside Services Memorandum Account
- Conservation Proceeding Memorandum Account
- Conservation Expense (Best Management Practices – BMP) Memorandum Account
- Low-Income Customer Data Sharing Cost Memorandum Account
- Catastrophic Event Memorandum Account
- Interim Rates Memorandum Account
- Pressure Reducing Valve Memorandum Account
- 2010 Cost of Capital Memorandum Account
- 2013 Cost of Capital Memorandum Account

2. Please provide a list of balancing and memorandum accounts for which you are seeking recovery in this GRC.

Response:

The balancing accounts and memorandum accounts for which AVR is seeking recovery of in this GRC are the California Alternative Rates for Water (CARW) Revenue Reallocation Balancing Account, Conservation (Best Management Practice- BMP) Memorandum Account, and the Outside Services Memorandum Account.

There are a number of balancing and memorandum accounts that are effective throughout the current rate case cycle (2012 – 2014) and as such final balances cannot be determined at this time. These accounts include the Office Remodel Balancing Account, Employee and Retiree Healthcare Balancing Account, Group Pension Balancing Account, and One-Way Conservation Expense Balancing Account.

AVR proposes that the Commission authorize the filing of advice letters to request recovery/refund of the balances recorded in these accounts after the accounts are terminated (at the conclusion of the current rate case cycle) and final balances have been determined.

3. Please provide all work papers, all general ledger data, and all transaction data (source documents if possible) related to the balancing and memorandum accounts identified in Question 2.

Response:

Please see the attached workpapers for the CARW Revenue Reallocation Balancing Account, Conservation BMP Memorandum Account, and the Outside Services Memorandum Account.

4. Are any of the accounts kept as regulatory assets on the financial statements? If yes, identify which accounts by name.

Response:

AVR's financial statements reflect the balances for all of its current balancing accounts and memorandum accounts (regulatory assets or liabilities). The accounts kept as regulatory assets on the financial statements are listed in the above response to Item No. 1. There are no balances reflected on the financial statements for the Military Relief Program Memorandum Account, Low-Income Customer Data Sharing Cost Memorandum Account, Pressure Reducing Valve Memorandum Account, and Credit Card Memorandum Account because there has been no activity and therefore no balance for these accounts.

This completes the response to data request ROY-001. If you have any questions or require additional clarification or information, please contact me.

Sincerely,

APPLE VALLEY RANCHOS WATER COMPANY



EDWARD N. JACKSON
Representative
Director of Revenue Requirements
Park Water Company
9750 Washburn Road
P.O. Box 7002
Downey, CA 90241
(562) 923-0711 ext. 1212
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ENJ/emz

Attachment

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Attachment C

CDPH's April 15, 2014 Press Release



News Release

CALIFORNIA DEPARTMENT OF PUBLIC HEALTH

FOR IMMEDIATE RELEASE

April 15, 2014
PH14-038

CONTACT: Anita Gore
Heather Bourbeau
(916) 440-7259

CDPH Submits Final Regulation Package Regarding Hexavalent Chromium (Cr VI) and Drinking Water

SACRAMENTO - The California Department of Public Health (CDPH) today submitted to the Office of Administrative Law (OAL) its final proposed regulation establishing the first ever drinking water Maximum Contaminant Level (MCL) for hexavalent chromium (Cr VI). More than 18,000 comments were received by CDPH regarding the proposed regulation. The proposed final regulation documents include the Summary and Response to comments received.

The proposed final regulation will take effect after it has been reviewed and approved by OAL in compliance with the Administrative Procedures Act. This review can take up to 30 working days to complete. Once approved, the regulation is then filed with the Secretary of State and will become effective the first day of the following quarter.

"The drinking water standard for hexavalent chromium of 10 parts per billion will protect public health while taking into consideration economic and technical feasibility as required by law," said Dr. Ron Chapman, CDPH director and state health officer.

If the regulation is approved as expected, implementation of the new drinking water standard for hexavalent chromium will begin July 1, 2014.

Today's filing also complies with timelines imposed by the Alameda Superior Court in *Natural Resources Defense Council, Inc. v. California Department of Public Health*.

The [department's submission](#) to OAL can be found on the CDPH website.

www.cdph.ca.gov



4

1 **CHAPTER 15: SPECIAL REQUESTS**

2 **A. INTRODUCTION**

3 This chapter presents ORA’s analysis and recommendations regarding the
4 special requests made by AVR in its application. More specifically, AVR has
5 requested the following:

- 6 1) Implement a tariff charge for fire-flow tests;
- 7 2) Increased tariff charge for restoration of service requests;
- 8 3) Implement a tariff charge for non-emergency, voluntary
9 disconnection after-hours;
- 10 4) Offer a level payment plan option to customers;
- 11 5) Change the current interest rate on customer deposits under Rule
12 No.7 from 7% per annum to the average monthly 90-day
13 Commercial paper rate;
- 14 6) Recognize subsequent offsets prior to the issuance of a final
15 decision in this GRC; and
- 16 7) Authorize a new rate adjustment mechanism, termed the Sales
17 Reconciliation Mechanism (SRM) that would be applied if
18 triggered during the escalation years of the general rate case
19 period.

20 ORA closely evaluated these special requests for reasonableness in light of
21 AVR’s history, for conformity with Commission requirements and precedent, and
22 for anticipated ratemaking impact.

23 **B. SUMMARY OF RECOMMENDATIONS**

24 Based on ORA’s evaluation of AVR’s proposals, the special requests
25 should be granted in part and denied in part.

26

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2 **TABLE 15-A: SUMMARY OF AVR'S SPECIAL REQUESTS AND ORA**
3 **RECOMMENDATION**
4

Special Request Number	AVR's Special Request	ORA's Recommendation
1	Implement a tariff charge for fire-flow tests	Allow
2	Update the tariff charge for restoration of service requests	Allow with modifications
3	Implement a tariff charge for non-emergency, voluntary disconnection of service after-hours	Disallow
4	Offer a level payment plan	Disallow
5	Change the interest rate on customer deposits to 90-day commercial paper rate	Allow
6	Subsequent offsets	Allow
7	Implement a Sales Reconciliation Mechanism	Disallow

5 **C. DISCUSSION**

6 **1) The Commission should grant AVR's Special Request #1**
7 **to implement a tariff charge for fire-flow tests**

8 AVR requests the Commission's authorization for a tariff charge for fire-
9 flow tests. AVR argues that only customers who request this service benefit from
10 it, therefore, they should be required to pay the associated costs.²¹⁴

11 ORA agrees that it is consistent with the cost of service principle to charge
12 only those customers who actually request this service. In response to ORA's data
13 request, AVR provided calculations for the cost of the service based on the 2015
14 projected payroll numbers and the historic average number of requested tests.²¹⁵
15 According to AVR, fire-flow tests are performed by employees in the Utility
16 Serviceperson position and require one hour to complete on average. AVR
17 projects an average hourly rate for the Utility Serviceperson position of \$57.74.²¹⁶

²¹⁴ A.14-01-002, AVR Revenue Requirements Report, Exhibit B, p. 145.

²¹⁵ Response to Data Request JRE-002, Question 2.

²¹⁶ *Id.*, Question 2.

1 Based on a rounded average hourly payroll burden of \$60 and an average of 10
2 tests performed per year, AVR anticipates collecting \$600 per year in
3 miscellaneous revenue. The \$600 per year revenue collected from the tariff
4 charge should be included in the revenue requirement, but excluded for rate design
5 purposes. ORA recommends that the Commission grant AVR's request for a
6 customer tariff charge for this service.

7 **2) The Commission should grant AVR's Special Request #2**
8 **to increase the tariff charge for restoration of service with**
9 **ORA's recommended modifications**

10 AVR requests Commission authorization to update the tariff charge for
11 restoration of service during both working hours and after-hours.²¹⁷ AVR requests
12 an increase in fees for regular hour reconnections from \$30 to \$35, and an increase
13 in after-hour reconnections from \$60 to \$200, based on the cost to provide the
14 service.²¹⁸ AVR's proposed increase in the reconnection charges reflect an
15 assumption of half an hour of regular labor for reconnections during working
16 hours, and two hours of overtime labor for reconnections during after-hours. The
17 average time required during after-hours (two hours) is an assumed value provided
18 by AVR without justification in the application or workpapers for this GRC. ORA
19 disagrees with the assumptions used to calculate the after-hours reconnection fee.
20 In addition, ORA is concerned that a fee of \$200.00 may be excessive and cost
21 prohibitive for some customers to resume water service.

22 ORA agrees that these fees should ideally be based on the cost of service,
23 but does not support the assumptions related to the two hours of work time
24 required made by AVR in the calculation of \$200.00 during after-hours.
25 Therefore, ORA recommends a more modest increase of \$100.00 during after-
26 hours, which reflects the cost of one hour of overtime labor and is a 67% increase

²¹⁷ AVR Rule No. 11 C.3 Discontinuation of Service defines non-regular hours as after 4:30pm during weekdays and on weekends and holidays.

²¹⁸ AVR Workpaper "AVR Miscellaneous Revenues.xlsx," Hrly Rate Calc tab.

1 over the existing fee amount.²¹⁹ The revenue collected from restoration of service
2 should be included in the revenue requirement, but excluded for rate design
3 purposes. Given the lack of supporting data, ORA recommends that AVR begin
4 to track these services and costs and submit recorded info in the next GRC.

5 ORA recommends that the Commission grant AVR's request for an
6 updated customer tariff charge for this service with the modifications proposed by
7 ORA set forth above.

8 **3) The Commission should deny AVR's Special Request #3**
9 **to implement a tariff charge for voluntary disconnection**
10 **after-hours**

11 AVR requests the Commission's authorization for a tariff charge for non-
12 emergency, voluntary disconnections after-hours. Again, AVR argues that only
13 customers who request this service should be required to pay the associated costs.

14 AVR failed to provide evidence supporting the reasonableness of this
15 request. AVR did not provide an explanation as to why a customer would request
16 a voluntary disconnection after-hours, or any historical data on voluntary
17 disconnections for which this charge would be applicable. Additionally, AVR did
18 not provide proposed tariff language that specified what this service entails.
19 Furthermore, AVR did not include estimated revenue for charges for voluntary
20 disconnections that it claimed would be equal to the cost of providing this service.
21 ORA asserts that approval of tariff charges for non-emergency, voluntary
22 disconnections will harm customers as they will pay for these services, but the
23 associated revenues will not be reflected in the general rates. Given the lack of
24 supporting data, ORA recommends that AVR begin to track these services and
25 costs and submit recorded info for reconsideration in the next GRC. For the
26 purposes of this GRC, ORA recommends that the Commission deny the
27 implementation of tariff charges for these services.

²¹⁹ As part of the previous GRC, AVR reconnections fees were increased from \$15 to \$30 during regular hours and from \$20 to \$60 after-hours.

1 **4) The Commission should deny AVR’s Special Request #4**
2 **to create a Level Payment Plan**

3 AVR requests Commission authorization to offer a Level Payment Plan
4 option to customers. This option would allow customers to pay for water service
5 in equal bi-monthly payments based on their last 12 months average bill, or a
6 representative bill if their consumption history is shorter than one year. At the end
7 of a 12-month period, customers will receive a settlement bill with a payment due
8 or a credit balance.²²⁰

9 Although the payment plan would assist low-income customers in paying
10 their water bills, implementation may be challenging and the level bills throughout
11 the year would interfere with the ability to send conservation pricing signals. It is
12 unclear how the changed price signals resulting from more levelized payments
13 will impact customers’ current conservation behaviors. There are more pragmatic
14 challenges, however, including whether surcharges and taxes should be included
15 in the bills that are “averaged” to develop the monthly levelized payments. This is
16 particularly problematic in the case of surcharges like those for low-income
17 assistance programs. If, due to a level payment plan, a customer sometimes pays
18 more than their actual bill, and sometimes pays less, assumptions must be made
19 about how to allocate the amounts actually charged for proper accountability.

20 Therefore, for all the reasons discussed above, AVR’s request to offer a
21 Level Payment Plan should be denied.

22 **5) The Commission should grant AVR’s Special Request #5**
23 **to Change the Interest Rate Applied to Customer Deposits**
24 **Under Tariff Rule No.7**

25 AVR proposes to change the interest rate on customer deposits under tariff
26 Rule No. 7 from 7% per annum to the average monthly 90-day commercial paper
27 rate. These advanced deposits are required from customers with insufficient credit
28 in order to obtain water service from AVR. After 12 consecutive months, AVR

1 returns these customer deposits with interest. AVR also returns the deposit and
2 interest if a customer wishes to discontinue their service prior to the end of the 12-
3 month period.²²¹

4 Given that AVR's request has no impact on ratemaking, and that the 7%
5 interest rate prescribed by tariff rule No.7 does not reflect current market
6 conditions, ORA agrees with AVR and recommends that the 7% rate should be
7 changed to the 90-day commercial paper rate.

8 **6) The Commission should grant AVR's proposal to**
9 **recognize any subsequent offsets**

10 AVR proposes that the Commission recognize any subsequent offsets that
11 occur prior to the issuance of a final decision in this GRC. AVR's request to
12 reflect the offsettable expenses into the current GRC proceeding is consistent with
13 Commission's goal of streamlining the regulatory process, improving customer
14 service and saving both AVR and Commission staff's time and resources.
15 Therefore, ORA agrees with AVR that the final decision should reflect offsettable
16 expenses to the extent that they have been resolved and updated. However, ORA
17 is concerned that the inclusion of offsettable expenses could potentially lead to the
18 perception of higher revenue requirement than what AVR has requested in its
19 application. ORA recommends AVR notify its customers explaining the resulting
20 increase and the reason for the increase after the Commission's final decision as a
21 condition for the approval of this request.

22 **7) The Commission should deny AVR's Special Request #7**
23 **to implement a Sales Reconciliation Mechanism**

24 In Special Request #7, AVR requests a new mechanism to adjust rates
25 between general rate cases. Termed the sales reconciliation mechanism, the

(continued from previous page)

²²⁰ A.14-01-002 Application dated January 2, 2014, p. 12.

²²¹ AVR Rule No. 7.

1 requested deviation from the current ratemaking process would allow AVR to
2 change customer base rates beyond what is currently permitted under the General
3 RCP.

4 ORA is strongly opposed to this request and points out that the public
5 interest is harmed when individual elements of comprehensive Commission
6 decisions such as the RCP are eroded in a piecemeal fashion.

7 AVR's proposal is based substantially on the SRM proposed by California
8 Water Service Company (Cal Water) in its recent GRC Application, A. 12-07-
9 007.²²² The purpose of the SRM is to adjust the adopted sales forecast in the two
10 escalation years following the test year if total sales for the prior year are more
11 than 5% above or below the adopted test year sales. The SRM would provide an
12 adjustment of 50% of the difference. For example, if sales are 6% below adopted,
13 escalation year rates would be reset based upon a 3% downward adjustment in the
14 sales forecast. Likewise, if sales were 6% above adopted, rates would be reset
15 based on a 3% upward adjustment in the sales forecast.²²³

16 **a) Conflict with the Rate Case Plan**

17 Pages A-19 through 20 of the Revised RCP for Class A Water Utilities
18 detail the procedures that Class A water utilities must follow when estimating
19 escalation-year sales to establish customer rates. In particular, escalation-year
20 sales are calculated based upon the average customer growth and test-year sales
21 per customer, which have been generally analyzed, tested for reasonableness, and
22 authorized by Commission decision as part of the general rate case process.²²⁴

23 As the inputs that form the basis for the escalation-year's calculation of
24 sales have been previously reviewed and authorized by Commission decision, the

²²² Exhibit F – Testimony of David Morse, p. 4.

²²³ Exhibit F – Testimony of David Morse, pp. 3-4.

²²⁴ D.07-05-062, Opinion Adopting Revised Rate Case Plan for Class A Water Utilities.

1 annual escalation filings by Class A water utilities are typically designated as Tier
2 I, which require no additional customer notice and permit rate changes to become
3 effective pending disposition.²²⁵

4 According to AVR, the proposed SRM would incorporate sales
5 reconciliation into the Commission’s process for escalation increases and
6 eliminate the need for an additional informal filing. However, unlike the current
7 escalation year filing where many of the inputs to the calculation have been known
8 and reviewed, the SRM would allow calculations that have not been reviewed or
9 examined for accuracy by ORA staff to immediately impact customer rates
10 through the same automatic and ministerial process.

11 **b) The Commission should require greater utility**
12 **accountability for customer rate changes – not less.**

13 Concerns regarding transparency and customer notification when general
14 rates can be adjusted outside of a general rate case proceeding are relevant when
15 considering yet another mechanism to automatically adjust customer rates. Just as
16 customers deserve to know the rates they will be asked to pay, the Commission
17 deserves to know the total and cumulative impacts of rates it is being asked to
18 authorize. When customers’ general rates are allowed to change increasingly
19 more outside of the general rate case process through numerous ratemaking
20 vehicles, both the Commission and customers are seriously disadvantaged in
21 knowing the actual and cumulative rate impacts that will result. Addition of yet
22 another mechanism, particularly the SRM, is not warranted at this time.

23 The issue of a SRM is currently being litigated in the Cal Water GRC
24 (A.12-07-007). The Commission has not yet issued a decision in the Cal Water
25 proceeding, but we anticipate guidance will be available from the Commission
26 before hearings or briefs in this AVR case.

²²⁵ Water Industry Rule 7.3, Commission General Order 96-B.

1 **D. CONCLUSION**

2 ORA thoroughly evaluated AVR's proposed special requests and has
3 presented detailed analysis in light of the utility's records and Commission
4 requirements and precedent. The Commission should adopt ORA's
5 recommendations.

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CHAPTER 16: RATE DESIGN

A. INTRODUCTION

This chapter presents ORA’s analysis and recommendations on AVR’s proposed rate design. AVR requests authorization to continue the conservation rate design program with modifications to the tier breakpoints and tier price differentials.

B. SUMMARY OF RECOMMENDATIONS

ORA reviewed AVR’s current conservation rate design and the proposed modifications to the tier breakpoints and price differential between tiers. ORA recommends the Commission adopt AVR’s conservation rate design for residential and non-residential customers as described in this chapter.

C. DISCUSSION

AVR proposes to continue its existing conservation rate design program. The proposed rate design is a continuation of the program adopted by D.08-09-026 and authorized in D.12-09-004.

AVR currently provides service under the following tariff schedules:

<u>Schedule No.</u>	<u>Name</u>
1	Residential General Metered Service
2	Gravity Irrigation Service
3	Non-Residential General Metered Service
4	Non-Metered Fire Service
LC	Late Payment Charge
UF	Public Utilities Commission Reimbursement Fee
	CARW California Alternative Rates for Water
CARW SC	California Alternative Rates for Water – Surcharge

1) Residential Service Rate Design

AVR’s proposed rate design for residential customers would continue the conservation rate design program with some adjustments, which are discussed in the following sections.

1 **a) Present Rate Design**

2 The current program includes increasing block rates in three tiers, which
3 charge higher volumetric rates for increased water usage. The tier breakpoints are
4 based on AVR’s consumption patterns and seasonality. The consumption range
5 for Tier 1 is designed to capture indoor water use and is intended to include
6 residential customers with low to average consumption. The consumption range
7 for Tier 2 increases to the mid-point between the average monthly annual
8 consumption and the average monthly summer consumption. All consumption
9 over Tier 2 is considered Tier 3.

10 In the present rate design, Tier 1 includes consumption up to and including
11 the first 13 ccf (hundred cubic feet) per month at the volumetric rate of \$2.478 per
12 ccf. Tier 2 includes all usage over 13 ccf through 26 ccf per month at the
13 volumetric rate of \$2.788 per ccf. Tier 3 includes all usage over 26 ccf per month
14 at the volumetric rate of \$3.098 per ccf. Since AVR bills residential customers on
15 a bi-monthly basis, twice the monthly values are used as the tier breakpoints as
16 presented on customer bills (Tier 1 includes the first 26 ccf, Tier 2 includes usage
17 over 26 ccf through 52 ccf, and Tier 3 includes usage over 52 ccf.)

18 AVR’s present rate pricing structure is designed to recover 70% of revenue
19 from the quantity charge. The CUWCC’s BMP 1.4 sets the threshold of a rate
20 structure being conservation oriented if more than 70% of revenue comes from the
21 quantity charge. Prior to conservation rate design, implemented by AVR in 2009,
22 a larger portion of revenue was recovered in the service charge.

23 **b) Proposed Rate Design**

24 The proposed rate design adjusts the consumption breakpoint between Tier
25 1 and Tier 2 and between Tier 2 and Tier 3, and increases the price differential
26 between the volumetric rates.

27 AVR used a 2012 bill tabulation analysis, that is the total amount of water
28 usage that was billed at any usage level or tier, to determine the forecasted water

1 use by tier. As in the previous GRC, Tier 1 includes consumption up to the
2 midpoint between the median and the average winter consumption (the proxy for
3 indoor water use). The consumption range for the second Tier extends to the mid-
4 point between the average monthly consumption and the average summer
5 consumption. All consumption over Tier 2 is considered Tier 3. Using this more
6 current data from the 2012 bill tabulation analysis, AVR proposes that the
7 breakpoint between Tier 1 and Tier 2 shifts from 13 ccf to 12 ccf per month and
8 the breakpoint between Tier 2 and Tier 3 shifts from 26 ccf to 21 ccf per month.²²⁶

9 AVR also proposes to change the volumetric price differential between the
10 tiered rates from 10 percent to 12 percent. In the previous rate case, the
11 differential between tiers was increased from 5 percent to 10 percent. AVR's
12 proposed change in this case is a continuation of the gradual increase in
13 volumetric price differential to encourage customers to adopt conservation
14 measures. The quantity rates for these tiers are set with a differential of 12
15 percent, so that the quantity rate for the Tier 1 is 76% of the quantity rate for Tier
16 3. The quantity rate for Tier 2 is 88% of the quantity rate for Tier 3. Tier 3 is
17 calculated by dividing the revenue from total estimated consumption at the
18 commodity rate by the consumption in the first and second tiers.²²⁷ The proposed
19 volumetric rate for Tier 1 is \$2.921 per ccf, for Tier 2 is \$3.382 per ccf, and for
20 Tier 3 is \$3.843 per ccf.

21 ORA's Table 16-A below presents AVR's current rate design and rates, as
22 presented in AVR's tariff sheets, and compares them to AVR's proposed rate
23 design and rates as presented in Appendix B of AVR's Revenue Requirement
24 Report.²²⁸

²²⁶ AVR spreadsheet "AVR Blocks 15-Residential" provided in Tiffany Thong email dated April 25, 2014

²²⁷ AVR Workpaper "AVR Rev 2015r," Future Rates tab.

²²⁸ ORA uses AVR's proposed rates for the purposes of illustration in this rate design chapter. However, ORA's use of AVR's proposed rates should not be interpreted to mean that ORA

(continued on next page)

Table 16-A – AVR’s Current Rate Design vs. AVR’s Proposed Rate Design

Residential	AVR’s Current Rate Design and Rates	AVR’s Proposed Rate Design and Rates
Tier 1	0 – 13 ccf	0 – 12 ccf
	\$2.478	\$2.921
Tier 2	Over 13 ccf – 26 ccf	Over 12 ccf – 21 ccf
	\$2.788	\$3.382
Tier 3	Over 26 ccf	Over 21 ccf
	\$3.098	\$3.843
Price differential between each tier	10%	12%

ORA opposes AVR’s proposed rates illustrated in Table 16-A above, because as presented elsewhere in this report, ORA recommends a lower revenue requirement in this general rate case. However, ORA supports AVR’s rate design methodology used to determine the new tier breakpoints and price differential between tiers. ORA recommends that the Commission adopt AVR’s proposed conservation rate design methodology for residential customers for use in developing the Test Year 2015 residential service rates for this GRC.

c) ORA’s Review of the Impact on Customer Bills by AVR’s Proposed Rate Design

ORA’s Table 16-B below demonstrates the amount and percent increase for residential 5/8-inch meter bi-monthly bills for various quantities of water (10 through 100 ccf). This table includes the volume of 32.68 ccf per bi-monthly bill,

(continued from previous page)

agrees with AVR’s proposed rates. Because of ORA’s recommendations in this Report that result in a lower revenue requirement, the actual rates adopted by the Commission will likely be lower than those proposed by AVR. As with past GRCs, ORA does not determine the specific rates associated with its proposed operating revenue. AVR’s proposed rates represent the highest possible rates and the highest possible bill impacts for this GRC.

1 which corresponds to AVR’s proposed average consumption of 196.07 ccf per
 2 customer per year in Test Year 2015.

3 **Table 16-B – Example Bi-Monthly Bill Amounts at Present and AVR’s**
 4 **Proposed Rates (Residential 5/8-inch meter)**

Total Bi-Monthly Quantity (ccf)	Bi-Monthly Bill Amount		Amount Increase	Percent Increase
	Present Rates and Tier Design	AVR's Proposed Rates and Tier Design		
10	\$ 70.46	\$76.13	\$ 5.67	8.05%
20	\$ 95.24	\$105.34	\$10.10	10.60%
30	\$ 121.26	\$137.32	\$16.06	13.24%
32.68	\$ 128.73	\$ 146.38	\$ 17.65	13.71%
40	\$ 149.14	\$ 171.14	\$ 22.00	14.75%
50	\$ 177.02	\$ 208.64	\$ 31.62	17.86%
60	\$ 207.38	\$ 247.07	\$ 39.69	19.14%
70	\$ 238.36	\$ 285.50	\$ 47.14	19.78%
80	\$ 269.34	\$ 323.93	\$ 54.59	20.27%
90	\$ 300.32	\$ 362.36	\$ 62.04	20.66%
100	\$ 331.30	\$ 400.79	\$ 69.49	20.98%

5 Table 16-B above shows that AVR’s proposed conservation rate design
 6 results in a rate increase to all customers, but the highest rate increases will be to
 7 high-use customers. This creates an incentive for customers to use less water.
 8 Water conservation is consistent with state goals and should lower all customers’
 9 costs in the long-term by lowering operation and production costs and deferring or
 10 avoiding infrastructure investment. As stated above, ORA opposes AVR’s
 11 proposed rate increases but supports AVR’s rate design methodology.

12 **2) Non-Residential and Gravity Irrigation Service Rate**
 13 **Design**

14 **a) Non-residential Service**

15 AVR proposes to continue the use of a single quantity rate for AVR’s non-
 16 residential customers. Due to significant variations of usage throughout these
 17 customer classes, developing increasing block rates would likely require
 18 reclassification of these customers.

1 AVR's proposed non-residential rate design calculates 70% of revenue will
2 come from the quantity rates and 30% will come from service charges. AVR's
3 proposed non-residential customer service charges are based on customer meter
4 sizes and are equal to those determined in the residential customer class rate
5 design.

6 Fire service does not have a quantity charge, and AVR proposes to increase
7 the fixed service charge by the percent increase in total operating revenue.

8 The Public Authority – Irrigation customer class includes irrigation water
9 sold to the Town of Apple Valley for its James Woody Park which has a
10 discounted commodity rate approved by the Commission in Resolution W-4499.
11 In this GRC, the discounted rate is adjusted using forecasted consumption to
12 determine the charge required to create an overall rate increase equal to the system
13 average percent increase. The same adjustment is proposed for the discounted rate
14 for the Town's irrigation water used at the Apple Valley Country Club.

15 Although ORA does not agree with AVR's proposed rates, ORA agrees
16 with AVR's rate design methodology and finds the proposed non-residential rate
17 design to be reasonable. Thus, ORA recommends that the Commission adopt
18 AVR's proposed rate design methodology for use to determine rates for this rate
19 case cycle.

20 **b) Gravity Irrigation Service**

21 AVR's proposed Gravity Irrigation service charge for Jess Ranch Golf
22 Course (the single customer in this customer class), is based on the customer's
23 meter size and is equal to that determined in the residential customer class rate
24 design. AVR's proposed volumetric charge is based on a cost of service study that
25 was performed by AVR in this rate case.²²⁹ This practice for the gravity irrigation
26 customer class has been used for the last three rate case cycles and is important to

²²⁹ AVR Workpaper "Irr Expense 2-15r.xlsx"

1 ensure that this single customer is not subsidized by any other customers. AVR
2 should continue to submit updated cost of service data in future GRCs.

3 **D. CONCLUSION**

4 ORA recommends that the Commission adopt AVR's proposed
5 conservation rate design methodology for residential and non-residential
6 customers for use in the Test Year 2015 rate case cycle. ORA should continue to
7 provide revised data regarding the gravity irrigation cost of service.

CHAPTER 17: WATER QUALITY

A. INTRODUCTION

This Chapter presents ORA’s analysis and recommendations on water quality for Apple Valley Ranchos Water Company (“AVR”). AVR operates a water system under a permit from the California Department of Public Health (“CDPH”). AVR’s main water supply comes from twenty one (21) groundwater wells, which ORA water from the deep Alto subunit of the Mojave Groundwater Basin. AVR describes the quality of its source of supply as “high quality,” due to the fact that the aquifer is recharged from snowmelt from the nearby mountains and water from the California State Water project spread in the Mojave River. Currently, AVR disinfects the water with chlorine prior to distributing it to customers.

Investor owned water utilities are required to submit information about water quality as part of each utility’s General Rate Case (“GRC”) application. In accordance with these requirements, AVR submitted water quality information in its Minimum Data Requirements (“MDR”). In developing its recommendation for water quality, ORA reviewed AVR’s testimony, application, work papers, and the most recent CDPH inspection report available for AVR’s water system. ORA also contacted CDPH representatives for the agency’s appraisal of AVR’s water system.

B. SUMMARY OF RECOMMENDATIONS

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

1 **C. DISCUSSION**

2 Between 2011 and 2013, CDPH did not issue any citation to AVR for
3 exceeding the maximum contaminant level (“MCL”). The most recent CDPH
4 inspection report available for AVR’s water system is dated September 29,
5 2008.²³⁰ CDPH recently conducted an inspection of the water system, but has not
6 finalized its report. CDPH indicated that the system is well maintained and did not
7 observe any major deficiencies during the inspection of wells, reservoirs, and
8 other components. AVR is in compliance with all water quality monitoring
9 requirements.²³¹ On April 15, 2014, CDPH finalized its proposed regulation of
10 chromium 6 at 10 parts per billion (“ppb”). Although 16 of AVR’s wells contain
11 detectable concentrations of chromium 6, none are above CDPH’s proposed
12 standard of 10 ppb.

13 **D. CONCLUSION**

14 Based upon the information provided by AVR and CDPH, AVR’s water
15 system appears to have been and continues to be in compliance with federal and
16 state drinking water standards between 2011 and 2013. Therefore, ORA
17 recommends that the Commission find that AVR is in compliance with all
18 applicable federal and state drinking water standards, including GO-103A.

19

²³⁰ Minimum Data Requirement, Response #G6.

²³¹ Email from Brenda Pauli of CDPH, dated April 3, 2014.

1 **CHAPTER 18: CALIFORNIA ALTERNATIVE RATES**
2 **FOR WATER BALANCING ACCOUNT**

3 **A. INTRODUCTION**

4 This chapter addresses the recovery of under collected balances in AVR’s CARW
5 Balancing Account as well as AVR’s proposal to increase the flat-rate discount provided
6 to CARW qualifying customers. ORA recommends recovery of the under-collected
7 balance of \$425,758 through a temporary surcharge. ORA does not oppose AVR’s
8 proposed increase in discount provided, however it is recommended AVR investigate
9 alternate discount methods and present findings in the next GRC.

10 CARW helps make water more affordable to low-income customers. To reduce
11 their total water bill, qualifying low-income customers currently receive a flat-rate
12 discount while non-qualifying customers fund the program through a flat-rate surcharge.
13 A balancing account was established in D.05-12-020 to minimize the effects of over-
14 collection or under-collections of the program.

15 To qualify for a discount, AVR’s residential customers with a service connection
16 of one-inch or less must self-certify their household earnings are below certain threshold
17 amounts depending on household size. AVR’s threshold amounts are as follows:

Number of Persons in Household	Total Combined Yearly Income
1	\$22,980
2	\$31,020
3	\$39,060
4	\$47,100
5	\$55,140
6	\$63,180
7	\$71,220
8	\$79,260
Add \$8,040 for each additional person	

18 Under AVR’s self-certification process, customers complete and submit a form to
19 AVR to participate in the low income program. Customers who already participate in an

1 energy utility low income program are automatically enrolled in AVR's low income
2 program through a data sharing arrangement with energy utilities that have overlapping
3 service areas with AVR. While AVR's website indicates it may request verification
4 information from customers, AVR does not actually have a verification mechanism in
5 place that accompanies its enrollment process.²³² Moreover, AVR does not have a
6 verification mechanism to support its procedure of verifying customer eligibility once
7 every two years.

8 Data-sharing with other utilities was authorized in D.11-05-020 to make it easier
9 for low-income customers to be identified and given a discount. CARW program
10 participation has increased dramatically since the implementation of data sharing; AVR
11 had less than 2,000 low-income customers before data sharing implementation. As of
12 December 2013, AVR had 5,088²³³ low-income customers, which represent 26% of
13 AVR's total customers.

14 **B. SUMMARY OF RECOMMENDATIONS**

15 ORA recommends that AVR recover the under-collected balances in the CARW
16 account through year-end 2013 in the amount of \$425,758 via a 12-month temporary
17 surcharge. ORA does not oppose AVR's methodology in increasing the amount of
18 discount provided to CARW qualifying customers in this GRC. However, ORA
19 recommends AVR investigate using a percentage based discount and provide its findings
20 and recommendations in the next GRC.

21 **C. DISCUSSION**

22 **1) Recovery of Under-Collected Balances**

23 AVR requests the Commission approve recovery of the under collected-balance of
24 the CARW balancing account for the amount of \$425,758. The amounts in the account

²³² <http://www.avrwater.com/customersDetail.php?recordID=25>

²³³ From Electronic File - AVR NumCusts_AVR 2013.xlsx; Total number of customers is 19,545.

1 were last authorized for recovery through advice letter 176-W for balances through
2 December 10, 2010. ORA recommends that AVR recover the under-collected balances
3 of \$ 425,758 for the period December 10, 2012 to December 31, 2013.

4 **2) Examination Scope and Objectives**

5 ORA examination scope and objectives include verifying the requested recovery
6 amount including interest and determining the eligibility of recovery.

7 **3) Examination Procedures and Results**

8 ORA examination procedures included reading applicable decisions and advice
9 letters, verifying tariffs, determining whether commercial customers are included,
10 determining the number of customers and qualifying customers, determining the amounts
11 of discount or surcharge billed to customers, determining the beginning and ending
12 account balances, sampling bills, and determining if the surcharge from previous
13 balances is applied to qualifying customers. Costs tracked in AVR's CARW Balancing
14 Account appeared to be reasonable through year-end 2013. ORA sampled customer
15 billing data for the year of 2013. The sample did not show anything out of the ordinary.
16 Since there were no extraneous or unauthorized amounts in the account, ORA
17 recommends recovery of the under-collected amount of \$425,758 through a 12-month
18 temporary surcharge.

19 **4) Increasing CARW Discounts**

20 **a) AVR's Proposed Increases in Discount.**

21 AVR proposes to increase the amount of its flat rate discount provided by the
22 "overall percentage rate increase authorized by the Commission."²³⁴ AVR has proposed
23 rate increases of 14.88%, 8.48%, and 8.19% for years 2015, 2016 and 2017, respectively,
24 for an overall rate increase of 31.55%. If the currently authorized CARW discount of
25 \$6.69 increases by 31.55%, the result is \$8.80. AVR states it wants to increase the flat

1 rate discount by the actual authorized rates, therefore, the numbers provided in its
2 application are not exact figures. Calculating the corresponding surcharge needed to
3 ensure there is no over-collection or under-collections in the account would increase the
4 surcharge collected from all customers from \$0.55 to \$2.86 per customer bill in order to
5 adequately fund the low income discount program.

6 The proposed discount of \$8.80 would represent an equivalent discount of 11.88%
7 of AVR's proposed average residential customer bill in 2015.²³⁵ ORA does not oppose
8 AVR's proposed method to increase its flat-rate discount to CARW customers in this
9 GRC.

10 ORA notes that other Class-A water utilities either currently have or are proposing
11 different methods to develop the discount provided to qualifying customers. For example,
12 California-American Water Company is proposing a 20% discount to low income
13 customer bills instead of a flat-rate discount,²³⁶ and California Water Service Company
14 has a 50% discount to monthly service charge (up to a capped amount.) ORA
15 recommends that AVR investigate using a percentage based method and provide its
16 analysis and recommendations in the next GRC application. A percentage based method
17 could eliminate the need to reset the discount amount to reflect changes in authorized
18 rates.

19 **b) Calculating Surcharge**

20 Funding the program will be a matter of forecasting water usage rates and
21 applying the discounts above to low-income customers. ORA recommends that AVR use
22 the same method for determining the amount of surcharge needed to fund the program as
23 it has done in the past. AVR should estimate the total amount of funding needed and
24 apply it to the number of non-qualifying customers on a monthly basis.

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²³⁴ Response to DR ROY-005 Question 1.

²³⁵ For 5/8" x 3/4" meter with 33 ccf per billing cycle.

²³⁶ A.13-07-002, Direct Testimony of David Stephenson of Cal-Am and Direct Testimony of Daphne
(continued on next page)

1 **D. CONCLUSION**

2 ORA finds that previous unrecovered amounts in AVR's CARW Balancing
3 Account are reasonable and recommends that the Commission allow AVR to recover the
4 \$425,758 account balance as of year-end 2013 through a 12-month temporary surcharge.

5 ORA does not oppose AVR's methodology in increasing the amount of discount
6 provided to CARW qualifying customers in this GRC. However, ORA recommends
7 AVR investigate using a percentage based discount and provide its findings and
8 recommendations in the next GRC.

9 The amount of surcharge should be based on the amount of estimated discount to
10 be provided to qualifying customers and then applied to estimated amounts of non-
11 qualifying customers so that, ideally, the balancing account will have a zero balance at
12 the end of each period.

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Korthamar of ORA.

1 **CHAPTER 19: WATER REVENUE ADJUSTMENT**
2 **MECHANISM/MODIFIED COST BALANCING ACCOUNT**

3 **A. INTRODUCTION**

4 AVR makes the following requests regarding changes to its Water Revenue
5 Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA) revenue
6 decoupling mechanism:

- 7 1) Add the commodity revenues for the irrigation-gravity customer
8 group to the WRAM balancing account and add the irrigation-
9 gravity production costs to the MCBA;
- 10 2) On the effective date of tracking irrigation-gravity water costs in
11 the MCBA, the current Incremental Cost Balancing Account for
12 irrigation-gravity would terminate;
- 13 3) Additionally, AVR requests to add the cost of chemicals to the
14 supply costs captured by the MCBA.²³⁷

15 **B. SUMMARY OF RECOMMENDATIONS**

16 1) Commodity revenues and production costs for the irrigation-gravity customer, a
17 single golf course, should not be tracked in the WRAM/MCBA because it will not further
18 the State’s water conservation goals, fluctuations in price are already tracked in the
19 Incremental Cost Balancing Account, and the gravity-irrigation system is in a unique
20 situation that leads to high unaccounted for water (estimated by AVR at 79.6%) so it is
21 not fair for other customers to pay for increases or reductions in commodity costs due to
22 the gravity irrigation golf course.

²³⁷ AVR Application Exhibit B, P. 133-134.

1 2) Because ORA recommends not tracking irrigation-gravity commodity costs in
2 the MCBA, it is unnecessary to terminate the current Incremental Cost Balancing
3 Account.

4 3) Cost of chemicals should not be added to the supply costs captured by the
5 MCBA because these costs are within AVR's control and with full-cost balancing
6 account treatment AVR would no longer have the proper incentive to reduce costs, which
7 could unnecessarily lead to additional costs for ratepayers. This approach is consistent
8 with the MCBA principles outlined in the Water Action Plan and authorized by the
9 Commission for Park and CalWater in D.08-02-036 in Phase 1A of the Conservation OII
10 (I.07-01-022) and for AVR in D.08-09-026.²³⁸

11 **C. DISCUSSION**

12 **1) Commodity revenues and production costs for irrigation-** 13 **gravity should not be tracked in the WRAM/MCBA**

14 The production costs included in AVR's MCBA are purchased power,
15 replenishment, and leased water rights.²³⁹ For the irrigation-gravity customer (a single
16 golf course), there is no leased water rights costs because of AVR's water supply
17 agreement that allows AVR to pump the water for free (except for purchased power and
18 replenishment fees).²⁴⁰ Thus, the only commodity costs that would be included in the
19 MCBA under AVR's proposal are purchased power and replenishment fees.

²³⁸ D.08-02-036, p. 26 and D.08-09-026, Attachment A – Settlement Agreement, p. 36.

²³⁹ AVR Application Exhibit B, P. 133-134.

²⁴⁰ Park acquired the stock of Jess Ranch Utilities Inc. in 1994 and the resulting water supply contract grants to "Jess Ranch Utilities Inc., at no cost, the right to pump and take from wells within the Jess Ranch development sufficient water to supply the domestic customers in the Jess Ranch Development, up to 2500 A.F., and sufficient water to meet the irrigation needs of the golf course and greenbelt areas of the Jess Ranch Development, up to 1500 A.F." . . . "the water supply agreement also provides sufficient water rights for the Jess Ranch Irrigation System at no cost (except for purchased power and replenishment fees)." Exhibit B, pp. 42-43.

1 AVR forecasts \$95,626 in Test Year 2015 for electric commodity charges for the
2 irrigation-gravity customer.²⁴¹ This is higher than the recorded years of electric
3 commodity charges of \$76,012 in 2010, \$76,000 in 2011, and \$61,128 in 2012, and
4 \$70,683 in 2013. Thus, AVR is not anticipating reductions in purchased power
5 commodity charges in Test Year 2015 relative to recent years, despite anticipating
6 reductions in usage for the golf course irrigation-gravity customer. There is no
7 compelling argument that full-cost rather than incremental-cost balancing account
8 treatment for purchased power and replenishment fees associated with the irrigation-
9 gravity golf course will further the State's water conservation goals. There is little
10 fluctuation in the costs in the purchased power account from year to year, and the
11 fluctuations due to price are already tracked in an Incremental Cost Balancing Account.
12 Replenishment fees are less than \$10,000 per year under AVR's forecast and it is
13 unnecessary to track variations in this amount in the MCBA balancing account.

14 If reductions in purchased power did occur in Test Year 2015 relative to the costs
15 ultimately adopted in this GRC for the irrigation-gravity customer, those would be
16 tracked in the WRAM/MCBA under AVR's proposal.

17 There are a number of reasons it does not make sense to track these costs in the
18 WRAM/MCBA. The WRAM/MCBA surcharges/surcredits are paid for or credited to all
19 AVR's customers and it is not fair for the rest of the customers, other than the gravity
20 irrigation golf course, to pay for reductions or increases in purchased power costs due to
21 the gravity irrigation customer. The gravity irrigation golf course is in a unique situation
22 involving a longstanding legal agreement that leads AVR to have very high unaccounted
23 for water of 79.6% under AVR's estimate.²⁴² Furthermore, the amount of water pumped
24 into the irrigation system is out of AVR's control.²⁴³ Since the amount of water pumped
25 is outside of AVR's control, providing full cost-recovery of any amount of purchased

²⁴¹ AVR Workpaper "Irr Expense 2015r.xlsx," see "ExpenseDetail" tab.

²⁴² AVR Application Exhibit B, pp. 42-43.

²⁴³ AVR Application Exhibit B, p. 45.

1 power needed for the water in this system will not improve AVR's incentives to reduce
2 the water pumped and the associated purchased power. Thus, AVR's proposal does not
3 further the state's goals for water or energy conservation/efficiency. Rather, it will
4 simply benefit AVR by ensuring full cost recovery for an amount of purchased power
5 that is needed to supply one golf course customer. Continuing the incremental cost
6 balancing account for purchased power is the most appropriate course of action.

7 **2) Incremental Cost Balancing Account Should Continue**

8 Because ORA recommends not tracking irrigation-gravity commodity costs in the
9 MCBA, it is unnecessary to terminate the current Incremental Cost Balancing Account.
10 The Incremental Cost Balancing Account “[t]racks differences in the water production
11 costs (purchased power, pump taxes) authorized in rates and the actual water production
12 costs (purchased power, pump taxes) incurred by the utility” and has a current estimated
13 balance of \$3,095.²⁴⁴ ORA addresses the recorded balance in this account in ORA's
14 testimony of Roy Keowen.

15 **3) Chemical Costs Should Not Be Included in the MCBA**

16 AVR argues that all production related costs, including chemical costs, should be
17 reflected in the MCBA to avoid potential for unintended incentives or disincentives to
18 AVR and customers. AVR states further that with all production costs included, the
19 MCBA will serve to refund all production cost savings due to lower than adopted sales,
20 or whenever actual production costs are lower than the forecasted costs included in rates,
21 back to customers.²⁴⁵

22 AVR forecasts \$21,954 in Test Year 2015 for chemicals for the domestic
23 system.²⁴⁶ Balancing account treatment for this de minimis category is unnecessary and
24 creates greater administrative burden for the Commission than any benefits to customers

²⁴⁴ AVR's Response to ORA Data Request ROY-003 Question 1.

²⁴⁵ AVR Application Exhibit B, pp. 133-134.

²⁴⁶ AVR Workpaper “AVR Expenses 2015r.xlsx,” see “SME 2015” tab.

1 or AVR. \$21,954 is only 0.092% of AVR’s proposed revenue requirement.²⁴⁷ Whereas,
2 balancing accounts are only amortized when the balance exceeds 2% of the revenue
3 requirement.²⁴⁸ Tracking the cost of chemicals in a balancing account is unlikely to ever
4 lead to a material balance for amortization. This is further illustrated because the
5 recorded amounts in this category do not vary greatly from year to year: \$29,659 for
6 2008, \$25,306 for 2009, \$17,161 for 2010, \$16,472 for 2011, and \$21,420 for 2012.²⁴⁹

7 Additionally, there could be harm to customers in authorizing this request because
8 chemical costs are under the control of AVR. AVR makes decisions about which
9 chemicals to purchase, and which suppliers to purchase from. With full cost recovery for
10 chemical costs through the MCBA, AVR would no longer have the proper incentive to
11 reduce chemical costs, which could unnecessarily lead to additional costs for ratepayers.
12 In this regard, the chemical cost category is different than the other production cost
13 categories tracked in the WRAM/MCBA – purchased power, replenishment and leased
14 water rights – where the unit cost for these items is outside of AVR’s control.

15 **4) Five Options related to WRAM/MCBA in Decision 12-04-048**

16 D.12-04-048 ordered AVR and other utilities to review the WRAM and MCBA
17 mechanisms in subsequent general rate cases and to provide testimony to address five
18 possible alternatives to the current operation of full revenue decoupling programs. The
19 five options identified in D.12-04-048 are:

- 20 • Option 1: Should the Commission adopt a Monterey-style WRAM
21 rather than the existing full WRAM?
- 22 • Option 2: Should the Commission adopt a mechanism that bands the
23 level of recovery, or refund, of account balances based on the relative
24 size of the account balance.

²⁴⁷ Proposed revenue requirement is \$23,881,184 per AVR Workpaper “AVR Expenses 2015r.xlsx,” see “SME 2015” tab.

²⁴⁸ Standard Practice U-27-W, p. 8.

²⁴⁹ AVR Workpaper “AVR Expenses 2015r.xlsx,” see “ExpenseDetail” tab.

- 1 • Option 3: Should the Commission place WRAM/MCBA surcharges
2 only on higher tiered volumes of usage, thereby benefiting customers
3 who have usage only in Tier 1 or have reduced their usage in the higher
4 tier levels?
- 5 • Option 4: Should the Commission eliminate the WRAM mechanism?
- 6 • Option 5: Should the Commission move all customer classes to
7 increasing block rate design and extend the WRAM/MCBA
8 mechanisms to these classes?

9 AVR addresses its compliance with D.12-04-048 and concluded that the
10 Commission should not adopt any of the five options outlined in D 12-04-048.²⁵⁰ AVR
11 also stated: “Also, there is not a long history of data to measure the impact of
12 conservation changes such as tiered rates and conservation programs. For example, data
13 for residential consumption by tier is only available from 2009 through 2012”.²⁵¹

14 ORA reviews AVR’s WRAM and MCBA balances submitted to DWA in 2010,
15 2011 and 2012 and the balances are shown below.

	WRAM Balances	MCBA Balances	Net WRAM/MCBA balances	Net balances as of revenue
2010	\$ (2,954,850)	\$ 855,732	\$ (2,099,118)	10.0%
2011	\$ (4,147,758)	\$ 1,577,059	\$ (2,570,699)	11.5%
2012	\$ (2,151,769)	\$ 688,306	\$ (1,463,463)	10.2%

17 Based on AVR’s testimony and WRAMs/MCBAs balances, ORA’s observations
18 are summarized as below.

- 19 **5) Are the WRAMs/MCBAs achieving their stated purpose?**
- 20 a) It is difficult to determine whether WRAMs/MCBAs have achieved
21 their stated purpose at this time with only one rate case cycle of data
22 available.
 - 23 b) Since the WRAMs/MCBAs were implemented, the MCBA balance has
24 decreased from 2011 to 2012.

²⁵⁰ Testimony of David Morse on Compliance with D.12-04-048 to Review Five Options, p. 18.

²⁵¹ Testimony of David Morse on Request for a Sales Reconciliation Mechanism, p. 3.

- 1 c) Actual quantity revenues have been lower than adopted quantity
2 revenues since the WRAMs were implemented, resulting WRAM under
3 collections during 2010, 2011 and 2012.
- 4 d) It is unclear what roles (such as weather, the economy, drought
5 declarations and community involvement in conservation) have played
6 in AVR's declining water sales.
- 7 e) ORA reviewed WRAM/MCBA balances for 2010 to 2012. On May 6,
8 2014, AVR filed its Advice Letter (AL) 190 requesting authorization to
9 recover a total under-collection of \$2,880,714 or 12.33% of its 2014
10 adopted revenue requirements.

11 **6) Have the WRAMs/MCBAs removed disincentives to**
12 **implement conservation rates and conservation program?**

- 13 a) It appears that the WRAMs/MCBAs have generally removed
14 disincentives for AVR to implement conservation rates and
15 conservation programs by severing the relationship between sales and
16 revenues.
- 17 b) AVR implemented conservation rates in October 2009, and this rate
18 structure has been in place for approximately 4 years.
- 19 c) AVR has implemented various conservation programs as well as
20 customer outreach initiatives between 2009 and 2013.
- 21 d) AVR has met or exceeded its 20/2020 goals.
- 22 e) It is apparent that any disincentives AVR may have had with respect to
23 implementing conservation rates have been removed. However, the
24 exact role that the WRAMs/MCBAs have played in removing such
25 disincentives is not known.

26 **7) Have cost savings resulting from conservation been passed**
27 **onto ratepayers?**

- 28 a) Since the implementation of WRAMs/MCBAs, AVR has requested the
29 amortization of its net 2010, 2011, 2012 and 2013 WRAM/MCBA
30 balances by filing four advice letters.
- 31 b) The MCBA balances reported in 2010 to 2012 are all over collections.

1 c) Since the MCBA balances are netted against the WRAM, the MCBA
2 over collections associated with purchased, purchased power and pump
3 taxes are passed onto AVR's ratepayers.

4 d) ORA has not observed any cost savings associated with deferred
5 infrastructure investment as a result of lower water demand.

6 Based upon the continuing necessity for refinement of WRAM/MCBA
7 calculations, the limited period for which these mechanisms have been operating and the
8 lack of adequate understanding regarding the environment in which the mechanisms
9 operate with the water industry, ORA concludes that there are not adequate data at this
10 time to address the five options the Commission has identified in D.12-04-048.

11 However, one obvious effect ORA believes attribute directly to the implementation of the
12 WRAM/MCBA mechanism is the level of conservation it has been able to achieve.

13 Thus, ORA believes the Commission should not abandon AVR's current pilot project as
14 the need to conserve is even more urgent given the drought state of emergency declared
15 by the Governor and 2013-2014 being one of the driest year in recorded state history.

16 And, neither should the Commission dismiss the alternatives that were identified in
17 D. 12-04-048 as it may be necessary to re-formulate the WRAM/MCBA mechanism once
18 more information on the working of WRAM/MCBA becomes available. Therefore,
19 ORA recommends the Commission should reaffirm both the pilot project status of AVR's
20 decoupling program and the requirement to consider alternatives to decoupling in future
21 GRCs or industry wide proceeding such as an OII.

22 **D. CONCLUSION**

23 ORA urges the Commission to continue Incremental Cost Balancing Account
24 treatment for the irrigation-gravity customer's commodity costs and to continue to
25 exclude chemical costs from the MCBA since these costs are within AVR's control.

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APPENDIX A

RESULTS OF OPERATION TABLES

**Apple Valley Ranchos Water Company
General Rate Case A.14-01-002
Test Year 2015**

TABLE 1-1						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
SUMMARY OF EARNINGS						
TEST YEAR 2015						
(AT PRESENT RATES)						
Item	ORA	AVR	AVR			
	Estimate	Estimate	Amount	%		
(Thousands of \$)						
Operating revenues	20,637.6	20,826.8	189.2	0.9%		
Operating expenses:						
Operation & Maintenance	5,487.2	5,744.3	257.1	4.7%		
Administrative & General	6,447.9	6,323.6	(124.4)	-1.9%		
Depreciation & Amortization	3,154.2	3,383.4	229.3	7.3%		
Taxes other than income	909.5	904.5	(5.0)	-0.5%		
State Corp. Franchise Tax	253.9	216.3	(37.6)	-14.8%		
Federal Income Tax	835.3	754.5	(80.8)	-9.7%		
Total operating exp.	17,088.0	17,326.6	238.6	1.4%		
Net operating revenue	3,549.7	3,500.3	(49.4)	-1.4%		
Rate base *	49,568.7	58,294.1	8,725.4	17.6%		
Return on rate base	7.16%	6.00%	-1.2%	-16.2%		

1 * AVR's rate base does not match amount from Table 10-1

TABLE 1-2						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
SUMMARY OF EARNINGS						
TEST YEAR 2015						
(AT UTILITY PROPOSED RATES)						
Item	ORA	AVR	AVR			
	Estimate	Estimate	Amount	%		
(Thousands of \$)						
Operating revenues	23,780.1	23,931.9	151.7	0.6%		
Operating expenses:						
Operation & Maintenance	5,502.3	5,759.2	256.9	4.7%		
Administrative & General	6,478.4	6,353.7	(124.7)	-1.9%		
Depreciation & Amortization	3,154.2	3,383.4	229.3	7.3%		
Taxes other than income	909.5	904.5	(5.0)	-0.5%		
State Corp. Franchise Tax	527.6	486.8	(40.9)	-7.7%		
Federal Income Tax	1,852.4	1,759.5	(92.9)	-5.0%		
Total operating exp.	18,424.4	18,647.1	222.7	1.2%		
Net operating revenue	5,355.7	5,284.7	(71.0)	-1.3%		
Rate base *	49,568.7	58,294.1	8,725.4	17.6%		
Return on rate base	10.80%	9.07%	-1.7%	-16.1%		
* AVR's rate base does not match amount from Table 10-1						

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TABLE 1-3						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
SUMMARY OF EARNINGS						
TEST YEAR 2015						
(ORA ESTIMATES)						
Item	ORA Est.	@ Rates	Proposed			
	@ Present Rates	Proposed by ORA	Exceeds Present Amount	%		
(Thousands of \$)						
Operating revenues	20,637.6	22,283.5	1,645.9	8.0%		
Operating expenses:						
Operation & Maintenance	5,487.2	5,495.1	7.9	0.1%		
Administrative & General	6,447.9	6,463.9	16.0	0.2%		
Depreciation & Amortization	3,154.2	3,154.2	0.0	0.0%		
Taxes other than income	909.5	909.5	0.0	0.0%		
State Corp. Franchise Tax	253.9	397.2	143.4	56.5%		
Federal Income Tax	835.3	1,367.7	532.4	63.7%		
Total operating exp.	17,088.0	17,787.7	699.7	4.1%		
Net operating revenue	3,549.7	4,495.9	946.2	26.7%		
Rate base	49,568.7	49,568.7	0.0	0.0%		
Return on rate base	7.16%	9.07%	1.91%	26.7%		

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TABLE 1-4									
APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION									
SUMMARY OF EARNINGS									
TEST YEAR 2015									
(Thousands of \$)									
	PRESENT		AVR		PROPOSED		AVR		
	ORA Estimate	AVR Estimate	exceeds Amount	ORA %	ORA Estimate	AVR Estimate	exceeds Amount	ORA %	
OPERATING REVENUES	192.4	196.7	4.3	2.2%	214.3	219.2	4.8	2.3%	
TOTAL REVENUES	192.4	196.7	4.3	2.2%	214.3	219.2	4.8	2.3%	
OPERATIONS & MAINTENANCE									
PAYROLL-OPERATIONS	3.0	3.0	0.0	0.0%	3.0	3.0	0.0	0.0%	
OPERATIONS-OTHER	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
PURCHASED WATER	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
PURCHASED POWER	87.2	95.6	8.4	9.6%	87.2	95.6	8.4	9.6%	
REPLENISHMENT CHARGES	6.5	9.9	3.3	51.2%	6.5	9.9	3.3	51.2%	
CHEMICALS	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
UNCOLLECTIBLES	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
PAYROLL-MAINTENANCE	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
MAINTENANCE-OTHER	2.2	2.1	(0.1)	-6.0%	2.2	2.1	(0.1)	-6.0%	
PAYROLL-CLEARINGS	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
CLEARINGS-OTHER	3.1	3.2	0.0	1.5%	3.1	3.2	0.0	1.5%	
SUBTOTAL O & M	102.1	113.8	11.7	11.4%	102.1	113.8	11.65	11.4%	
ADMINISTRATIVE & GENERAL									
PAYROLL	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
PAYROLL-BENEFITS	2.0	2.1	0.0	1.6%	2.0	2.1	0.0	1.6%	
INSURANCE	1.3	1.3	0.0	0.8%	1.3	1.3	0.0	0.8%	
FRANCISE REQTS	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
OUTSIDE SERVICES	4.6	4.1	(0.4)	-8.9%	4.6	4.1	(0.4)	-8.9%	
OFFICE SUPPLIES	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
A & G - OTHER	0.2	0.2	0.0	4.4%	0.2	0.2	0.0	4.4%	
MISCELLANEOUS	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
RENTS	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
GENERAL OFFICE ALLOCATION									
A & G EXPENSES	13.6	12.6	(1.0)	-7.2%	13.6	12.6	(1.0)	-7.2%	
AVR ALLOCATION									
A & G EXPENSES	26.7	27.9	1.2	4.6%	26.7	27.9	1.2	4.6%	
SUBTOTAL A & G	48.3	48.2	(0.1)	-0.2%	48.3	48.2	(0.1)	-0.2%	
AD VALOREM TAXES	3.5	3.5	0.0	0.0%	3.5	3.5	0.0	0.0%	
PAYROLL TAXES	0.7	0.7	0.0	0.0%	0.7	0.7	0.0	0.0%	
RECOVER UNDERCOLLECTION									
DEPRECIATION	15.2	15.6	0.4	2.9%	15.2	15.6	0.4	2.9%	
CA INCOME TAX	1.1	0.5	(0.6)	-56.7%	3.1	2.5	(0.6)	-19.4%	
FEDERAL INCOME TAXES	4.0	1.8	(2.2)	-55.0%	11.2	9.2	(2.0)	-18.0%	
TOTAL EXPENSE	174.8	184.0	9.2	5.2%	184.0	193.4	9.4	5.1%	
NET REVENUES	17.5	12.7	(4.9)	-27.7%	30.3	25.8	(4.6)	-15.0%	
RATE BASE	283.0	284.2	1.2	0.0	283.0	284.2	1.2	0.4%	
RATE OF RETURN	6.20%	4.46%	-1.7%	-28.0%	10.72%	9.07%	(0.0)	-15.4%	

Table 1-5

APPLE VALLEY RANCHOS WATER COMPANY - IRRIGATION					
SUMMARY OF EARNINGS					
TEST YEAR 2015					
(ORA ESTIMATES)					
	ORA Est. @ Present Rates	@ Rates Proposed by ORA	Proposed Exceeds Present		
			Amount	%	
OPERATING REVENUES	192.4	206.5	14.2	7.4%	
OPERATIONS & MAINTENANCE	102.1	102.2	0.1	6.7%	
ADMINISTRATIVE & GENERAL	48.3	48.5	0.1	28.4%	
AD VALOREM TAXES	3.5	3.5	0.0	0.0%	
PAYROLL TAXES	0.7	0.7	0.0	0.0%	
RECOVER UNDERCOLLECTION					
DEPRECIATION	15.2	15.2	0.0	0.0%	
CA INCOME TAX	1.1	2.4	1.2	108.8%	
FEDERAL INCOME TAXES	4.0	8.5	4.6	115.8%	
TOTAL EXPENSE	174.8	180.9	6.0	3.4%	
NET REVENUES	17.5	25.7	8.1	46.4%	
RATE BASE	283.0	283.0	0.0	0%	
RATE OF RETURN	6.20%	9.07%	2.87%	46.4%	

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TABLE 2-1						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
AVERAGE NUMBER OF CUSTOMERS						
TEST YEAR 2015						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
Metered Connections						
Residential	18,008	17,979	(29)	-0.2%		
Commercial	1,384	1,364	(20)	-1.4%		
Industrial	2	2	0	0.0%		
Public Authority	45	45	0	0.0%		
Public Authority Irrigation	5	5	0	0.0%		
Private Fire	240	272	32	13.3%		
Pressure Irrigation	166	175	9	5.4%		
Gravity Irrigation	1	1	0	0.0%		
Construction	9	9	0	0.0%		
Apple Valley Country Club	1	1	0	0.0%		
Total Metered Connections	19,861	19,853	(8)	0.0%		
Total Active Connections						
Include Fire Protection	19,861	19,853	(8)	0.0%		
Exclude Fire Protection	19,621	19,581	(40)	-0.2%		

TABLE 2-2						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
AVERAGE NUMBER OF CUSTOMERS						
ESCALATION YEAR 2016						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
Metered Connections						
Residential	18,203	18,121	(82)	-0.5%		
Commercial	1,397	1,373	(24)	-1.7%		
Industrial	2	2	0	0.0%		
Public Authority	45	46	1	1.3%		
Public Authority Irrigation	5	5	0	0.0%		
Private Fire	248	289	41	16.5%		
Pressure Irrigation	169	180	11	6.5%		
Gravity Irrigation	1	1	0	0.0%		
Construction	9	9	0	0.0%		
Apple Valley Country Club	1	1	0	0.0%		
Total metered connections	20,080	20,027	(53)	-0.3%		
Total Active Connections						
Include Fire Protection	20,080	20,027	(53)	-0.3%		
Exclude Fire Protection	19,832	19,738	(94)	-0.5%		

TABLE 2-3						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
WATER SALES PER AVERAGE CUSTOMER						
TEST YEAR 2015						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
(CCF/CONN./YR)						
Residential	197.4	199.1	1.7	0.9%		
Commercial	581.5	592.8	11.2	1.9%		
Industrial	641.0	630.6	(10.4)	-1.6%		
Public Authority	6,389.0	6,389.0	0.0	0.0%		
Public Authority - Irrigation	5,365.0	5,365.0	0.0	0.0%		
Pressure Irrigation	1,606.0	1,681.0	75.0	4.7%		
Gravity Irrigation	443,715.0	456,275.0	12,560.0	2.8%		
Construction	784.0	991.3	207.2	26.4%		
Private Fire	6.8	8.0	1.2	16.8%		
AVCC	126,540.0	122,164.0	(4,376.0)	-3.5%		

TABLE 2-3a						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
WATER SALES PER AVERAGE CUSTOMER						
ESCALATION YEAR 2016						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
(CCF/CONN./YR)						
Residential	197.4	199.1	1.7	0.9%		
Commercial	581.5	592.8	11.2	1.9%		
Industrial	641.0	630.6	(10.4)	-1.6%		
Public Authority	6,389.0	6,389.0	0.0	0.0%		
Public Authority - Irrigation	5,365.0	5,365.0	0.0	0.0%		
Pressure Irrigation	1,606.0	1,681.0	75.0	4.7%		
Gravity Irrigation	443,715.0	456,275.0	12,560.0	2.8%		
Construction	784.0	991.3	207.2	26.4%		
Private Fire	6.8	8.0	1.2	16.8%		
AVCC	126,540.0	122,164.0	(4,376.0)	-3.5%		

TABLE 2-4						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
TOTAL SALES AND SUPPLY						
TEST YEAR 2015						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
(Kccf per Year)						
<u>Domestic Sales</u>						
Residential	3,555.2	3,580.1	25.0	0.7%		
Commercial	804.8	808.5	3.7	0.5%		
Industrial	1.3	1.3	(0.0)	-1.6%		
Public Authority	288.8	288.8	0.0	0.0%		
Pressure Irrigation	266.6	294.2	27.6	10.3%		
Private Fire Service	1.6	2.2	0.5	32.4%		
AVCC	126.5	122.2	(4.4)	-3.5%		
Public Authority Irrigation	26.8	26.8	0.0	0.0%		
Construction	7.1	8.9	1.9	26.4%		
Total domestic sales	5,078.7	5,133.0	54.3	1.1%		
Unaccounted For Water	272.9	386.4	113.4	41.6%		
AVR	7.0%					
ORA	5.1%					
Total delivered - domestic	5,351.6	5,519.3	167.7	3.1%		
<u>Gravity Irrigation Sales</u>						
Unaccounted For Water	1,444.4	1,784.8	340.3	23.6%		
AVR	79.6%					
ORA	76.5%					
Total delivered - Gravity Irrigation	1,888.1	2,241.0	352.9	18.7%		
Total delivered	7,239.8	7,760.4	520.6	7.2%		
<u>Supply</u>						
Pumped Water	7,239.8	7,760.4	520.6	7.2%		
Purchased Water	0.0	0.0	0.0	0.0%		
Total production	7,239.8	7,760.4	520.6	7.2%		

TABLE 2-5						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
TOTAL SALES AND SUPPLY						
ESCALATION YEAR 2016						
					AVR	
					exceeds ORA	
Item		ORA	AVR		Amount	%
(Kccf per Year)						
<u>Domestic Sales</u>						
Residential		3,593.6	3,608.4		14.8	0.4%
Commercial		812.4	813.9		1.5	0.2%
Industrial		1.3	1.3		(0.0)	-1.6%
Public Authority		287.5	291.3		3.8	1.3%
Pressure Irrigation		271.4	302.6		31.2	11.5%
Private Fire Service		1.7	2.3		0.6	36.1%
AVCC		126.5	122.2		(4.4)	-3.5%
Public Authority Irrigation		26.8	26.8		0.0	0.0%
Construction		7.1	8.9		1.9	26.4%
Total domestic sales		5,128.4	5,177.7		49.3	1.0%
Unaccounted For Water		275.6	389.7		114.1	41.4%
AVR	7.0%					
ORA	5.1%					
Total delivered - domestic		5,404.0	5,567.4		163.4	3.0%
<u>Gravity Irrigation Sales</u>						
Unaccounted For Water		443.7	456.3		12.6	2.8%
AVR	79.6%					
ORA	76.5%					
Total delivered - Gravity Irrigation		1,888.1	2,241.0		352.9	18.7%
Total delivered		7,292.1	7,808.4		516.3	7.1%
<u>Supply</u>						
Pumped Water		7,292.1	7,808.4		516.3	7.1%
Purchased Water		0.0	0.0		0.0	0.0%
Total production		7,292.1	7,808.4		516.3	7.1%

TABLE 2-6						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
OPERATING REVENUES						
TEST YEAR 2015						
(AT PRESENT RATES)						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
(Thousands of \$)						
<u>Metered Revenues</u>						
Residential	14,767.4	14,826.2	58.8	0.4%		
Commercial	3,406.3	3,399.1	(7.2)	-0.2%		
Industrial	5.2	5.1	(0.1)	-1.1%		
Public Authority	967.2	975.8	8.6	0.9%		
Fire Service	307.8	348.8	41.0	13.3%		
Public Authority Irrigation	35.3	35.3	0.0	0.0%		
Irrigation - Pressure	933.5	1,020.1	86.6	9.3%		
Irrigation - Gravity	192.4	196.7	4.3	2.2%		
Temporary Service	52.5	57.6	5.1	9.7%		
AVCC	115.9	112.1	(3.8)	-3.3%		
Subtotal	20,783.3	20,976.8	193.5	0.9%		
Misc Revenue	46.7	46.7	0.0	0.0%		
Deferred Revenues	0.00	0.00	0.0	0.0%		
Total revenues	20,830.0	21,023.5	193.5	0.9%		
Total revenues without Irrigation - Gravity	20,637.6	20,826.8	189.2	0.9%		

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TABLE 2-7						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
OPERATING REVENUES						
TEST YEAR 2015						
(AT AVR PROPOSED RATES)						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
(Thousands of \$)						
<u>Metered Revenues</u>						
Residential	17,044.4	17,076.7	32.2	0.2%		
Commercial	3,877.4	3,862.1	(15.3)	-0.4%		
Industrial	5.9	5.8	(0.1)	-1.4%		
Public Authority	1,128.1	1,134.7	6.6	0.6%		
Fire Service	354.6	400.8	46.3	13.0%		
Public Authority Irrigation	39.7	39.6	(0.1)	-0.2%		
Irrigation - Pressure	1,084.3	1,182.7	98.4	9.1%		
Irrigation - Gravity	214.3	219.2	4.9	2.3%		
Temporary Service	57.3	63.3	6.0	10.5%		
AVCC	137.7	132.7	(5.0)	-3.6%		
Subtotal	23,943.8	24,117.7	174.0	0.7%		
Misc Revenue	50.7	50.7	0.0	0.0%		
Deferred Revenues	0.00	0.00	0.0	0.0%		
Total revenues	23,994.4	24,168.4	174.0	0.7%		
Total revenues without Irrigation - Gravity *	23,780.1	23,931.9	151.7	0.6%		

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* AVR's estimate adjusted to match amount used by AVR in SOE in error

TABLE 3-1						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
OPERATION & MAINTENANCE EXPENSES						
TEST YEAR 2015						
Item	ORA	AVR	AVR exceeds ORA		Amount	%
(Thousands of \$)						
<u>At present rates</u>						
Operating Revenues less irrigation gravity	20,637.6	20,826.8				
Uncollectible rate	<u>0.48000%</u>	<u>0.48000%</u>				
Uncollectibles	99.1	100.0			0.9	0.9%
<u>Operation & Maintenance Expenses</u>						
Operations Payroll	824.0	837.9			13.9	1.7%
Operations Other	159.0	157.3			(1.7)	-1.1%
Purchased Water	0.0	0.0			0.0	0.0%
Purchased Power	1,010.3	1,030.0			19.7	2.0%
Leased Water Rights	834.7	963.8			129.1	15.5%
Replenishment Assessment	103.3	105.0			1.7	1.6%
Chemicals	21.9	22.0			0.1	0.3%
Payroll - Customers	498.1	506.6			8.5	1.7%
Customers - Other	206.0	226.1			20.2	9.8%
Conservation Expenses	67.8	132.4			64.6	95.2%
Payroll - Maintenance	429.9	437.2			7.3	1.7%
Maintenance - Other	665.0	621.0			(44.0)	-6.6%
Payroll - Clearings	120.9	122.9			2.0	1.7%
Depreciation - Clearings	239.8	264.2			24.3	10.1%
Clearings - Other	207.6	218.0			10.4	5.0%
Uncollectibles	99.1	100.0			0.9	0.9%
Total O & M Expenses	5,487.2	5,744.3			257.1	4.7%
<u>At proposed rates</u>						
Operating Revenues less irrigation gravity	23,780.1	23,931.9				
Uncollectible rate	<u>0.48000%</u>	<u>0.48000%</u>				
Uncollectibles	114.1	114.9				
Total O & M Expenses (incl uncoll)	5,502.3	5,759.2			256.9	4.7%

TABLE 3-2

APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2015

Item	ORA	AVR	AVR exceeds ORA	
			Amount	%
(Thousands of \$)				
<u>AT PRESENT RATES</u>				
Oper. Rev. less uncoll.	20,637.6	20,826.8	189.2	0.9%
Fran. Tax rate	0.97%	0.97%	0.0	0.0%
A&G Payroll	1,590.3	1,616.4	26.1	1.6%
Employee Benefits	1,297.2	1,359.8	62.6	4.8%
Insurance	644.1	663.0	18.9	2.9%
Uninsured Property Damage	8.7	8.8	0.1	0.8%
Regulatory Commission Expense	131.3	162.3	31.0	23.6%
Franchise Requirements	200.2	202.0	1.8	0.9%
Outside Services	230.3	261.2	30.9	13.4%
A&G Other	451.5	514.5	63.0	14.0%
A&G Transferred	(184.8)	(637.3)	(452.5)	244.8%
Rents	16.7	17.3	0.6	3.4%
General Office Allocation	2,089.2	2,183.7	94.5	4.5%
A&G Allocation	(26.7)	(27.9)	(1.2)	4.6%
Total A & G Expenses	6,447.9	6,323.6	(124.4)	-1.9%
<u>AT PROPOSED RATES</u>				
Franchise Requirements	230.7	232.1		
Other Expenses Total	6,247.8	6,121.5	(126.2)	-2.0%
Total A & G Expenses	6,478.4	6,353.7	(124.7)	-1.9%

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TABLES 4 AND 5 ARE NOT USED.

TABLE 6-1						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
TAXES OTHER THAN INCOME (PAYROLL TAXES AND AD VALOREM TAXES)						
TEST YEAR 2015						
Item	ORA	AVR	AVR exceeds DRA			
			Amount	%		
			(Thousands of \$)			
Payroll Taxes						
Apple Valley Ranchos	264.6	255.7	(8.9)	-3.4%		
General Office Allocation	65.8	66.9	1.1	1.6%		
Ad Valorem taxes						
Apple Valley Ranchos	570.7	573.5	2.9	0.5%		
General Office Allocation	8.4	8.4	0.0	0.0%		
1 Taxes other than income	909.5	904.5	(5.0)	-0.5%		

TABLE 7-1						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
TAXES BASED ON INCOME						
TEST YEAR 2015						
(PRESENT RATES)						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
(Thousands of \$)						
Operating revenues less Irrigation	20,637.6	20,826.8	189.2	0.9%		
Deductions:						
O & M expenses	5,487.2	5,744.3	257.1	4.7%		
A & G expenses	6,447.9	6,323.6	(124.4)	-1.9%		
Taxes not on Income	909.5	904.5	(5.0)	-0.5%		
Interest	1,747.6	2,052.1	304.5	17.4%		
Meals Adjustment	(12.8)	(12.8)	0.0	0.0%		
Income before taxes	6,058.2	5,815.2	(243.1)	-4.0%		
<u>Calif. Corp. Franchise Tax</u>						
State Tax Depreciation	(3,186.5)	(3,368.6)	(182.1)	5.7%		
Taxable income for CCFT	2,871.7	2,446.5	(425.2)	-14.8%		
CCFT Rate	8.84%	8.84%				
CCFT	253.9	216.3	(37.6)	-14.8%		
<u>Federal Income Tax</u>						
Tax Depreciation	3,261.1	3,301.7	40.6	1.2%		
State Corp Franch Tax	253.9	216.3	(37.6)	-14.8%		
QPAD	86.5	78.2	(8.4)	-9.7%		
Taxable income for FIT	2,456.7	2,219.0	(237.7)	-9.7%		
FIT Rate	34.00%	34.00%				
FIT	835.3	754.5	(80.8)	-9.7%		
Investment Tax Credit	0.0	0.0	0.0	0.0%		
Net Federal Income Tax	835.3	754.5	(80.8)	-9.7%		
Total FIT & CCFT	1,924.4	1,725.2	(199.2)	-10.4%		

TABLE 7-2						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
TAXES BASED ON INCOME						
TEST YEAR 2015						
(AVR PROPOSED RATES)						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
(Thousands of \$)						
Operating revenues less Irrigation	23,780.1	23,931.9	151.7	0.6%		
Deductions:						
O & M expenses	5,502.3	5,759.2	256.9	4.7%		
A & G expenses	6,478.4	6,353.7	(124.7)	-1.9%		
Taxes not on Income	909.5	904.5	(5.0)	-0.5%		
Interest	1,747.6	2,052.1	304.5	17.4%		
Meals adjustment	(12.8)	(12.8)	0.0	0.0%		
Income before taxes	9,155.2	8,875.2	(280.0)	-3.1%		
<u>Calif. Corp. Franchise Tax</u>						
State Tax Depreciation	(3,186.5)	(3,368.6)	(182.1)	5.7%		
Taxable income for CCFT	5,968.7	5,506.5	(462.1)	-7.7%		
CCFT Rate	8.84%	8.84%				
CCFT	527.6	486.8	(40.9)	-7.7%		
<u>Federal Income Tax</u>						
Tax Depreciation	3,261.1	3,301.7	40.6	1.2%		
State Corp Franch Tax	253.9	216.3	(37.6)	-14.8%		
QPAD	191.9	182.3	-9.6	-5.0%		
Taxable income for FIT	5,448.2	5,174.9	(273.4)	-5.0%		
FIT Rate	34.00%	34.00%				
FIT	1,852.4	1,759.5	(92.9)	-5.0%		
Investment Tax Credit	0.0	0.0	0.0	0.0%		
Net Federal Income Tax	1,852.4	1,759.5	(92.9)	-5.0%		
Total FIT & CCFT	4,232.4	4,005.7	(226.7)	-5.4%		

TABLE 7-3

APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION									
INCOME TAX									
TEST YEAR 2015 (Thousands of \$)									
	PRESENT		AVR		PROPOSED		AVR		
	ORA Estimate	AVR Estimate	exceeds Amount	ORA %	ORA Estimate	AVR Estimate	exceeds Amount	ORA %	
OPERATING REVENUES	192.38	196.70	4.3	2.2%	214.3	219.2	4.8	2.3%	
EXPENSES									
OPER & MAINT	102.1	113.8	11.7	11.4%	102.1	113.8	11.7	11.4%	
UNCOLLECTIBLES	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
ADMIN & GENERAL	48.3	48.2	-0.1	-0.2%	48.3	48.2	-0.1	-0.2%	
FRANCHISE FEES	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
AD VALOREM TAXES	3.5	3.5	0.0	0.0%	3.5	3.5	0.0	0.0%	
PAYROLL TAXES	0.7	0.7	0.0	0.0%	0.7	0.7	0.0	0.0%	
MEALS ADJUSTMENT	-0.1	-0.1	0.0	0.0%	-0.083	-0.083	0.0	0.0%	
SUBTOTAL	154.5	166.0	11.5	7.5%	154.5	166.0	11.5	7.5%	
DEDUCTIONS									
CA TAX DEPRECIATION	15.2	15.2	0.0	0.0%	15.2	15.2	0.0	0.0%	
INTEREST 3.49% of RB	9.9	9.9	0.0	0.4%	9.9	9.9	0.0	0.4%	
CA TAXABLE INCOME	12.8	5.6	-7.3	-56.7%	34.7	28.0	-6.7	-19.4%	
CCFT @ 8.84%	1.1	0.5	-0.6	-56.7%	3.1	2.5	-0.6	-19.4%	
DEDUCTIONS									
FED. TAX DEPRECIATION	14.9	14.9	0.0	0.0%	14.9	14.9	0.0	0.0%	
INTEREST	9.9	9.9	0.0	0.4%	9.9	9.9	0.0	0.4%	
CA TAX	1.1	0.5	-0.6	-56.7%	1.1	0.5	-0.6	-56.7%	
QPAD	0.4	0.2	-0.2	-55.0%	1.2	0.9	-0.2	-18.0%	
FIT TAXABLE INCOME	11.6	5.2	-6.4	-55.0%	32.8	26.9	-5.9	-18.0%	
FIT (BEFORE ADJUSTMENT) @ 34.00%	4.0	1.8	-2.2	-55.0%	11.2	9.2	-2.0	-18.0%	
PRORATED ADJUSTMENT									
INVESTMENT TAX CREDIT	0.0	0.0	0.0	0.0%	0.0	0.0	0.0	0.0%	
NET FEDERAL INCOME TAX	4.0	1.8	-2.2	-55.0%	11.2	9.2	-2.0	-18.0%	

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TABLE 8-1					
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC					
PLANT IN SERVICE					
TEST YEAR 2015					
Item	ORA	AVR	AVR exceeds ORA		
			Amount	%	
(Thousands of \$)					
Plant in Service - BOY	120,628.6	124,134.4	3,505.8	2.9%	
Gross Additions	3,921.8	11,424.2	7,502.4	191.3%	
Retirements	(693.9)	(738.0)	(44.1)	6.4%	
Net Additions	3,227.9	10,686.2	7,458.3	231.1%	
Plant in Service - EOY	123,856.5	134,820.6	10,964.1	8.9%	
Weighting Factor	50.00%	50.00%			
Wtd. Avg. Plant in Service	122,242.5	129,477.5	7,234.9	5.9%	

TABLE 8-2					
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC					
PLANT IN SERVICE					
ESCALATION YEAR 2016					
Item	ORA	AVR	AVR exceeds ORA		
			Amount	%	
(Thousands of \$)					
Plant in Service - BOY	123,856.5	134,820.6	10,964.1	8.9%	
Gross Additions	3,953.6	16,710.0	12,756.3	322.6%	
Retirements	(1,547.6)	(1,875.2)	(327.6)	21.2%	
Net Additions	2,406.1	14,834.8	12,428.7	516.6%	
Plant in Service - EOY	126,262.5	149,655.4	23,392.9	18.5%	
Weighting Factor	50.00%	50.00%			
Wtd. Avg. Plant in Service	125,059.5	142,238.0	17,178.5	13.7%	

TABLE 9-1						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
DEPRECIATION RESERVE & EXPENSE						
TEST YEAR 2015						
Item	ORA	AVR	AVR exceeds ORA			
			Amount	%		
(Thousands of \$)						
Depreciation Reserve - BOY	33,318.4	33,273.9	(44.5)	-0.1%		
Accruals						
Clearing Accounts	239.8	264.2	24.3	10.1%		
Depreciation Expense	3,001.6	3,167.9	166.4	5.5%		
Contribution	143.2	143.5	0.3	0.2%		
Total Accruals	3,384.6	3,575.6	191.0	5.6%		
Retirements	(739.3)	(783.4)	(44.1)	6.0%		
Depreciation Reserve - EOY	35,963.7	36,066.1	102.4	0.3%		
Weighting Factor	50.00%	50.00%				
Wtd. Avg. Depr. Reserve	34,641.1	34,670.0	28.9	0.1%		
General Plant alloc to Irrigation	(2.0)	(2.1)	(0.1)	4.2%		
Main Office Depreciation Exp	98.3	161.3	63.0	64.1%		
Amortization	56.3	56.3	0.0	0.0%		
Irrigation Depreciation	15.2	15.6	0.4	2.9%		

TABLE 9-2

APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2016

Item	ORA	AVR	AVR exceeds ORA	
			Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	35,963.7	36,066.1	102.4	0.3%
Accruals				
Clearing Accounts	238.7	272.8	34.0	14.2%
Depreciation Expense	3,096.0	3,519.6	423.6	13.7%
Contribution	142.5	142.9	0.3	0.2%
Total Accruals	3,477.2	3,935.2	458.0	13.2%
Retirements	(1,445.8)	(1,749.3)	(303.5)	21.0%
Depreciation Reserve - EOY	37,995.2	38,252.0	256.9	0.7%
Weighting Factor	50.00%	50.00%		
Wtd. Avg. Depr. Reserve	36,979.4	37,159.1	179.6	0.5%
General Plant alloc to Irrigation	(2.1)	(2.4)	(0.3)	12.7%
Main Office Depreciation Exp	109.3	173.6	64.3	58.9%
Amortization	56.3	56.3	0.0	0.0%
Irrigation Depreciation	15.3	16.0	0.7	4.6%

1

TABLE 10-1						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
WEIGHTED AVERAGE DEPRECIATED RATE BASE						
TEST YEAR 2015						
						AVR
						exceeds ORA
Item	ORA	AVR	Amount	%		
(Thousands of \$)						
Wtd. Avg. Plant in Serv.	122,242.5	129,477.5	7,234.9	5.9%		
less General Plant	(27.3)	(29.2)	(1.9)	6.8%		
Work in Progress	47.1	1,490.8	1,443.8	3066.7%		
Materials & Supplies	336.7	336.7	0.1	0.0%		
Working Cash - Lead-Lag	1,070.1	1,441.1	371.0	34.7%		
Working Cash Fixed Portion						
AVR	456.8	581.3	124.5	27.2%		
Main Office	56.0	129.0	73.0	130.4%		
Wtd. Avg. Depr. Res.	(34,641.1)	(34,670.0)	(28.9)	0.1%		
Wtd. Avg. Depr. Res., GenPlant	15.6	15.0	(0.6)	-3.7%		
Advances	(28,171.3)	(28,265.8)	(94.5)	0.3%		
Contributions	(2,051.7)	(2,045.8)	5.9	-0.3%		
Unamortized ITC	(44.5)	(44.5)	0.0	0.0%		
Deferred Income Taxes	(10,416.2)	(11,429.3)	(1,013.0)	9.7%		
Method 5 Adjustment	0.8	0.8	0.0	0.0%		
Main Office Allocation	705.7	1,356.0	650.2	92.1%		
Average Rate Base	49,568.7	58,329.5	8,760.8	17.7%		
Interest Calculation:						
Avg Rate Base *	49,568.7	58,294.1	8,725.4	17.6%		
x Weighted Cost of Debt	3.49%	3.49%	0.0	0.0%		
Interest Expense	1,729.9	2,034.5	304.5	17.6%		
add Interest Ded for Adv	17.6	17.6	0.0	0.0%		
Net Interest Expense	1,747.6	2,052.1	304.5	17.4%		
* AVR's estimate adjusted to match as a result of AVR error in Ratebase						

TABLE 10-2						
APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC						
WEIGHTED AVERAGE DEPRECIATED RATE BASE						
ESCALATION YEAR 2016						
					AVR exceeds ORA	
Item	ORA	AVR	Amount	%		
(Thousands of \$)						
Wtd.Avg. Plant in Service	125,059.5	142,238.0	17178.5	13.7%		
less General Plant	(27.4)	(35.8)	(8.4)	30.6%		
Work in Progress	23.5	1,245.4	1221.9	5190.8%		
Material & Supplies	339.6	339.7	0.1	0.0%		
Working Cash - Lead-Lag	1,079.0	1,702.0	623.0	57.7%		
Working Cash Fixed Portion						
AVR	429.1	502.9	73.8	17.2%		
Main Office	57.7	101.0	43.3	75.0%		
Wtd. Avg. Depr. Reserve	(36,979.4)	(37,159.1)	(179.6)	0.5%		
Wtd. Avg. Depr. Res., IRR	16.1	15.4	(0.7)	-4.5%		
Advances	(27,550.6)	(27,641.8)	(91.3)	0.3%		
Contributions	(1,948.9)	(1,942.6)	6.2	-0.3%		
Unamortized ITC	(39.7)	(39.7)	0.0	0.0%		
Deferred Income Taxes	(10,350.9)	(11,425.9)	(1,075.0)	10.4%		
Method 5 Adjustment	0.7	0.7	0.0	0.0%		
Main Office Allocation	719.2	1,483.0	763.8	106.2%		
Average Rate Base	52,039.2	69,368.0	17,328.8	33.3%		
Interest Calculation:						
Avg Rate Base *	52,039.2	69,260.9	17,221.7	33.1%		
x Weighted Cost of Debt	3.49%	3.49%	0.0	0.0%		
Interest Expense	1,816.2	2,417.2	601.0	33.1%		
less Cap. Interest	19.4	19.4	0.0	0.0%		
Net Interest Expense	1,835.5	2,436.6	601.0	32.7%		

* AVR's estimate adjusted to match as a result of AVR error in Ratebase

TABLE 10-3

APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC

NET-TO-GROSS MULTIPLIER

TEST YEAR 2015 & ESCALATION YEAR 2016

Item	ORA	PWC
1) Gross Revenue	100.00000%	100.00000%
2) Uncollectibles	0.48000%	0.48000%
3) Franchise Tax rate	0.97000%	0.97000%
4) Uncollectibles + Franchise tax rate	1.45000%	1.45000%
5) Line 1 - Line 4	98.55000%	98.55000%
6) CCFT (line 5 * 8.84%)	8.71182%	8.71182%
7) Line 5 - Line 6	89.83818%	89.83818%
8) Domestic Production Activities	95.14710%	95.14710%
9) FIT (line 8 * 34%)	32.35001%	32.35001%
10) Net after taxes (line 1 - line 9)	57.48817%	57.48817%
Net-to-Gross Multiplier (line 1/line 10)=	1.73949 (ORA)	
Net-to-Gross Multiplier (line 1/line 10) =	1.73949 (Utility)	

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APPENDIX B

QUALIFICATIONS AND PREPARED TESTIMONY

1 **QUALIFICATIONS AND PREPARED TESTIMONY**
2 **OF**
3 **YOKE CHAN**
4

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

7
8 A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San
9 Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the
10 Office of Ratepayer Advocates.

11
12 Q2. Please summarize your education background.

13
14 A2. I graduated from the University of California at Los Angeles, with a Bachelor of
15 Science Degree in Civil Engineering. I am a registered civil engineer in the State
16 of California.

17
18 Q3. Briefly describe your professional experience.

19
20 A3. I have been employed by the Commission for many years and have testified and
21 worked on many general rate case proceedings, offset rate cases, transfer and
22 compliance matters of Class A water utilities. I have also worked on ECAC
23 proceedings for the energy utilities.

24
25 Q4. What is your responsibility in this proceeding?
26

27 A4. I am the Project Coordinator for this proceeding and responsible for Chapters 1, 15
28 and 19.

29 Q5. Does this conclude your prepared direct testimony?
30

31 A5. Yes, it does.
32

1 levels which do not pose a risk to human health and the environment. I also
2 prepared NPDES permits and Waste Discharge Requirements for cleanup projects.

3

4 Q4. What is your responsibility in this proceeding?

5 A4. I am responsible for Chapters 8, 14 and 17.

6

7 Q5. Does this conclude your prepared direct testimony?

8 A5. Yes it does.

9

1 **QUALIFICATIONS AND PREPARED TESTIMONY**
2 **OF**
3 **JOSE CABRERA**
4

5 Q.1 Please state your name and address.

6 A.1 My name is Jose R. Cabrera. My business address is 505 Van Ness Avenue, 3rd
7 floor, San Francisco, California 94102.

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

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

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

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

18 I joined the Commission in 1985, and participated in financial and compliance
19 examinations as well as performed a variety of financial analysis and advisory
20 work in the former Commission Advisory and Compliance Division for three
21 years. From 1988 to 1992 I was a part-time Lecturer of Accounting in the
22 Department of Accounting, School of Business, at California State University, San
23 Francisco. I joined ORA in 1988 and since then have worked on a variety of
24 water, telecommunication and energy matters in general rate cases and other
25 formal proceedings. I have served as the sole lead regulatory tax witness
26 responsible for federal & state income forecasts and tax policy recommendations
27 in general rate cases, advocated regulatory tax policy in other proceedings, as well
28 as provided a variety of advisory work for other divisions within the Commission
29 on matters related to Commission regulatory tax policy. I have been in the Water
30 Branch since 2006, and participate in the analysis of test year expense forecasts
31 and policy issues in general rate cases, policy issues in merger and acquisition
32 applications, and a variety of other matters of Class A Water Companies.
33

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

35 A.4 I am responsible for the preparation of Chapter 5, Pensions & Benefits Expenses,
36 Chapter 6, Taxes Other Than Income, Chapter 7, Income Taxes, and a Section in
37 Chapter 14, Memo/Balancing Accounts related to Approval and Deposition of the
38 2010 Tax Act Memorandum Account.

39 Q.5 Does that complete your prepared testimony?

40 A.5 Yes, it does.
41

1 **QUALIFICATIONS AND PREPARED TESTIMONY**
2 **OF**
3 **MUKUNDA DAWADI**

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

6 A1. My name is Mukunda Prasad Dawadi and my business address is 505 Van Ness
7 Avenue, San Francisco, California. I am an Auditor I in the Communication and
8 Water Policy Branch of the Office of Ratepayer Advocates (ORA).

9 Q2. Please summarize your educational background.

10 A2. I received a Master's of Science in Accountancy from California State University,
11 Los Angeles in 2012. I graduated from Tribhuvan University (TU) of Nepal in
12 1998 with a Master's of Business Administration/Bachelor's Degree in Business
13 Management (Capital Structure and Accounting).

14 Q3. Please summarize your business experience.

15 A3. I worked as an accountant in a private company for 2 years starting from
16 December of 2011. I joined the California Public Utilities Commission as an
17 Auditor I in January 21, 2014.

18 Q4. What is your responsibility in this proceeding?

19 A4. I am responsible for the General Office Expenses excluding payroll and benefits
20 (Chapter 12).

21 Q5. Does this conclude your prepared direct testimony?

22 A5. Yes, it does.

23

1 **QUALIFICATIONS AND PREPARED TESTIMONY**
2 **OF**
3 **JULIA ENDE**
4

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

7
8 A1. My name is Julia Ende and my business address is 505 Van Ness Avenue, San
9 Francisco, California. I am a Public Utilities Regulatory Analyst in the Water
10 Branch of the Office of Ratepayer Advocates.

11
12 Q2. Please summarize your education background.

13
14 A2. I graduated from Carnegie Mellon University with a Bachelor of Science Degree
15 in Policy & Management.

16
17 Q3. Briefly describe your professional experience.

18
19 A3. In October 2013 I joined the Water Branch of the Commission's Office of
20 Ratepayer Advocates as a Public Utilities Regulatory Analyst working on General
21 Rate Case proceedings. Prior to joining ORA, I worked at a law firm, taking part
22 in negotiations between public agencies/non-profits and labor unions. My work
23 also involved analyzing budget and class and comparability data and drafting
24 proposals and full-text Memoranda of Understanding.

25
26 Q4. What is your responsibility in this proceeding?
27

28 A4. I am responsible for ORA's testimony on Operating Revenues, Working Cash,
29 Conservation, Rate Design, WRAM/MCBA Policy Changes and Special Requests
30 #1, 2, 3, 4, 5 and 7.

31 Q5. Does this conclude your prepared direct testimony?
32

33 A5. Yes, it does.
34

1 **QUALIFICATIONS AND PREPARED TESTIMONY**
2 **OF**
3 **ROY KEOWEN**
4

5 Q1. Please state your name, business address, and position with the California Public
6 Utilities Commission (Commission).
7

8 A1. My name is Roy Anthony Keowen and my business address is 505 Van Ness
9 Avenue, San Francisco, California. I am an Auditor I in the Water Branch of the
10 Office of Ratepayer Advocates (ORA).
11

12 Q2. Please summarize your educational background.
13

14 A2. I received a Bachelor's of Science in Business Administration, Option in
15 Accounting from California State University, Los Angeles in 2009.
16

17 Q3. Please summarize your business experience.
18

19 A3. I worked for 1 year as a tax-auditor for the California State Board of Equalization
20 and 1 year as a part-time office manager for a small non-profit organization.
21

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

24 A4. I am responsible for Chapter 14 covering AVR's Balancing and Memorandum
25 accounts including CARW Balancing Account, 2010 Tax-Act Memorandum
26 Account, Credit-Card Memorandum Account, proposed Solar Project Memorandum
27 Account, and proposed Chrome-6 Memorandum Account. I am also responsible for
28 Chapter 13 regarding affiliated transactions, and non-tariffed products & services.
29

30 Q5. Does this conclude your prepared direct testimony?
31

32 A5. Yes, it does.
33

1 **QUALIFICATIONS AND PREPARED TESTIMONY**
2 **OF**
3 **JAMES SIMMONS**
4

5 Q. Please state your name and business address.
6

7 A. My name is James J. Simmons. My business address is 505 Van Ness Avenue, San
8 Francisco, California 94102.
9

10 Q. By whom, and in what capacity are you employed?
11

12 A. I am employed by the Public Utilities Commission of California (CPUC) as a Public
13 Utilities Regulatory Analyst (PURA) V in the Office of Ratepayer Advocates (ORA).
14

15 Q. Please summarize your educational background and work experience.
16

17 A. I received a Bachelor of Science degree in Business Administration from the
18 University of Maryland, College Park, with an emphasis in Accounting.
19

20 After graduation, I worked for six years for the West Virginia Public Utilities
21 Commission (WVPSC), attaining the level of Senior Utilities Analyst in the Audit
22 Office. My duties included investigation and the preparation of audit reports on
23 water, electric, gas, and motor carrier public utilities regulated by the WVPSC, and
24 testifying as a staff expert witness in rate setting proceedings before that Commission.
25

26 In November, 1984, I successfully passed the examination for Certified Public
27 Accountant (CPA) and was awarded a CPA Certificate and License from the West
28 Virginia Board of Accountancy in February, 1985.
29

30 I joined the staff of the CPUC in November 1985 in the Office of Ratepayer
31 Advocates (ORA), initially employed in the class of Financial Examiner and later in
32 the class of Public Utilities Regulatory Analyst (PURA), attaining the senior level of
33 each. Here, I have participated in the financial examinations of major regulated
34 public utilities, testifying in a position of ratepayer advocacy in investigations and
35 proceedings before the CPUC. I have worked on the general rate cases (GRCs) of
36 AT&T Communications, Pacific Bell, and General Telephone Company of California.
37 I led a review of the affiliate transactions of Pacific Bell Directory, and I served as the
38 ORA project manager of Roseville Telephone Company's 1995 test year GRC.
39

40 From 1996 through 2000, I worked for the CPUC's Telecommunications Office in the
41 capacity of a senior PURA. My duties included: assisting administrative law judges
42 and the Commission in the preparation of decisions; preparing resolutions; the review
43 and processing of applications for certificates of public convenience and necessity of

1 competitive local exchange telecommunications companies; and the review and
2 processing of advice letters. There, I also served as the CPUC liaison to: the
3 Universal Lifeline Telephone Service (ULTS) Marketing Board; the ULTS
4 Administrative Committee; and the Community Technology Fund. My duties
5 included oversight and all CPUC staff administrative functions for the ULTS
6 program, including: review and processing of carriers' ULTS claims, the preparation
7 of budgets, contracts, and the Commission resolutions authorizing them.
8

9 Since April 2001, I have been employed in the CPUC's Office of Ratepayer
10 Advocates (ORA) as a senior PURA. My current duties include participation in major
11 proceedings before the CPUC in a position of ratepayer advocacy.
12

13 In April, 2007, I successfully passed the examination for Certified Rate of Return
14 Analyst (CRRRA) administered by the Society of Utility and Regulatory Financial
15 Analysts (SURFA) administered annually at Georgetown University in Washington,
16 D.C.
17

18 I have testified before this Commission on many occasions.
19

20 Q. What is the purpose of your testimony today?
21

22 A. I have prepared and am sponsoring ORA's Testimony on: ORA's Testimony on
23 Payroll Expenditures (Chapter 4) both for AVR and General Office and AVR's
24 Requests for Solar Project and Credit Card_Memorandum Accounts (Chapter 14).
25

26 Q. Does that complete your prepared direct testimony in this proceeding?
27

28 A. Yes, at this time.
29

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

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

6
7 A1. My name is Cleason Willis and my business address is 505 Van Ness Avenue, San
8 Francisco, California. I am a Regulatory Analyst in the Water Branch of the
9 Office of Ratepayer Advocates.

10
11 Q2. Please summarize your education background.

12
13 A2. I graduated from the California State University of Hayward / East Bay, with a
14 Bachelor of Science Degree in Business, and a Master's of Science Degree in
15 Public Administration, in Management.

16
17 Q3. Briefly describe your professional experience.

18
19 A3. I have been employed by the Commission for many years and have testified and
20 worked on many general rate case proceedings for Electrical, Gas,
21 Telecommunications, and Water Utilities

22
23 Q4. What is your responsibility in this proceeding?
24

25 A4. I am the Operations and Maintenance, and Customer Service witness for this
26 proceeding and responsible for Chapters 3 and 11.

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

29 A5. Yes, it does.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley Ranchos Water Company (U346W) for Authority to Increase Rates Charged for Water Service by \$3,127,463 or 14.88% in 2015, \$2,056,455 or 8.48% in 2016, and \$2,160,731 or 8.19% in 2017.

A.14-01-002
January 2, 2014

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served a copy of **REPORT ON THE RESULTS OF OPERATIONS APPLE VALLEY RANCHOS WATER COMPANY TEST YEAR 2015 AND ESCALATION YEARS 2016 AND 2017 (PUBLIC VERSION)** to all known parties by either United States mail or electronic mail, to each party named on the official service list attached in **A.14-01-002**.

I also hand-delivered a hard copy to the assigned Administrative Law Judge's mail slot.

Executed on **May 9, 2014** at San Francisco, California.

/s/ IMELDA EUSEBIO

Imelda Eusebio



CALIFORNIA PUBLIC UTILITIES COMMISSION
Service Lists

PROCEEDING: A1401002 - APPLE VALLEY RANCHOS
FILER: APPLE VALLEY RANCHOS WATER COMPANY
LIST NAME: LIST
LAST CHANGED: MAY 2, 2014

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