Docket:	:	A.14-02-004
Exhibit Number	:	
Commissioner	:	Michael Picker
Admin. Law Judge	:	Kelly Hymes
DRA Project Manager	:	Victor Chan

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

(PUBLIC VERSION)

AMENDED REPORT ON THE RESULTS OF OPERATIONS

SUBURBAN WATER SYSTEMS

Test Year 2015 and
Escalation Years 2016 and 2017
Application 14-02-004

For authority to increase water rates in the San Jose Hills and Whittier La Mirada Service Areas

Los Angeles, California
June 23, 2014

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APPENDIX A – QUALIFICATIONS AND PREPARED TESTIMONY

MEMORANDUM

The Office of Ratepayer Advocates ("ORA") of the California Public Utilities Commission ("Commission") prepared this report presenting its analysis and recommendations in Suburban Water Systems Company's ("Suburban") general rate case ("GRC") A.14-02-004. In this GRC, Suburban **requests authorization to increase rates charged for water service by $8,932,501 or 13.37 % in Test Year 2015**, by $3,210,905 or 4.32% in Escalation Year 2016, and by $2,722,809 or 3.51% in Escalation Year 2017. Suburban requests using a rate of return on equity of 9.79% and a rate of return on rate base of 8.61%. The Commission adopted these rates in D.12-05-004.

Victor Chan serves as ORA's project coordinator in this proceeding and is responsible for the overall coordination in the preparation of this report. ORA's witnesses prepared testimony on Suburban's GRC requests. Appendix A of this report contains the qualifications of ORA's witnesses.

ORA's Legal Counsel for this case is Selina Shek.

EXECUTIVE SUMMARY

In Application A.14-02-004 filed on February 24, 2014, Suburban requests authority to increase rates charged for water service by $8,932,501 or 13.37% in Test Year 2015, by $3,210,905 or 4.32% in Escalation Year 2016, and by $2,722,809 or 3.51% for Escalation Year 2017. ORA in this report presents its analysis and recommendations that result in an estimated increase of $3,300,100 or 4.77 % in the Test Year 2015, an estimated increase of $2,048,000 or 2.83% in Escalation Year 2016, and an estimated increase of $2,832,000 or 3.80% for Escalation Year 2017.

Key Recommendations

1. ORA recommends that Suburban's rate of return of 8.61%, adopted in Decision 13-05-027, be used in this proceeding.

2. ORA recommends that the Commission adopt ORA's results of operations for Suburban which are based on *lower* estimates for O&M expenses, A&G expenses, plant additions and ratebase, and *higher* sales estimates. Some of ORA's key adjustments are:

   a. O&M and A&G Expense: Lower payroll and pensions and benefits estimates; lower conservation expenses and disallowance of catch-up option in regulatory expenses. ORA also disallow seven of the nine new positions that Suburban is requesting in this GRC.

   b. Plant Investment and Rate Base: Disallowance and/or reduction of various plant investment requests. ORA's recommended plant addition estimate for the three-year 2014-2016 period is about 74% of Suburban's request.

   c. ORA recommends that the Commission adopt ORA's estimate for working cash by excluding non-cash item such as depreciation.

3. ORA recommends that the Commission adopt ORA's estimates for expenses, rate base and the allocation methodology for Suburban's Parent Company, Southwest.

4. DRA recommends the Commission agree with the use of prior year state tax as a deduction for calculating federal income tax. ORA also recommends the Commission adopt ORA's use of DPAD for calculating the federal income tax.

5. ORA recommends the Commission disallow Suburban's request for: (1) amortization of 2016 cost of capital costs and establish a memorandum account; (2) employee healthcare balancing account; (3) credit card memorandum account; and (4) income tax repair regulations implementation memorandum account amortization.

6. ORA recommends that Suburban continue its conservation rate design since the rate structure has been effective in reducing water usage by Suburban's customers. Suburban is ahead of schedule in meeting the 20/20 goal mandated by legislation.

Organization of Report

Chapter Number	Description	Witness
-	Executive Summary	Victor Chan
1	Summary of Earnings	Victor Chan
2	Water Consumption and Operating Revenues	Jenny Au
3	Operations & Maintenance, Administrative & General, and Conservation Expenses	Pat Esule
4	Payroll, New Positions	Jeff Roberts
5	Income Taxes And Taxes Other Than Income	Jeff Roberts
6	Utility Plant In Service	Susana Nasserie, Brian Yu
7	Depreciation Reserve and Depreciation Expense	Brian Yu
8	Rate Base	Susana Nasserie
9	Water Quality and Customer Service	Susana Nasserie, Victor Chan
10	Suburban Parent Company	Mehboob Aslam
11	Review of Existing Memorandum and Balancing Accounts	Jeff Roberts
12	Special Requests	Hani Moussa, Victor Chan, Mehboob Aslam
13	Rate Design	Jenny Au
14	Step Rate Increase	Victor Chan
Appendix A	Qualifications	All

CHAPTER 1: SUMMARY OF EARNINGS

A. INTRODUCTION

This Chapter provides ORA's recommendations pertaining to A.14-02-004, Suburban's general rate increase request for Test Year 2015 and Escalation Years 2016 and 2017.

B. SUMMARY OF RECOMMENDATIONS

The Summary of Earnings shown in Tables 1-1 and 1-2 at the end of this Chapter compares ORA's estimated summary of earnings against Suburban's estimated summary of earnings for the Test Year 2015, including revenues, expenses, taxes and rate base.

C. DISCUSSION

The total revenues requested by Suburban are:

Year	Amount of Increase	Percent
Test Year 2015	$8,932,501	13.37%
Escalation Year 2016	$3,210,905	4.32%
Escalation Year 2017	$2,722,809	3.51%

Suburban estimates that its proposed rates will produce revenues providing the following returns for Test Year 2015:

Fiscal Test Year	Return on Rate base	Return on Equity
2015	8.61%	9.79%

D. CONCLUSION

ORA recommends a revenue increase for Test Year 2015 as follows (Escalation Years 2016 and 2017 are covered in Chapter 14):

Test Year	Amount of Increase	Percent
2015	$3,300,100	4.77%

D.12-04-009 authorized the last general rate increase for Suburban, resulting in a rate of return on rate base ("ROR") of 8.83% in Test Year 2012. In this Report, ORA uses 8.61% as ROR for Years 2015 to 2017. The Commission determined this ROR for Suburban in D.13-05-027, which that resulted from the Commission's recent consolidated cost of capital proceeding.

Table 1-1 **(revised)**

SUMMARY OF EARNINGS					
Test Year 2015 (At Present Rate)					
	ORA	Suburban		Suburban Exceeded ORA	
Item	Present	Present			
	(A)	(B)		Amount	%
	(Dollars in Thousands)				
Operating Revenues					
Total Metered Water Svs. Revenue excluding PUC Fee	68,699.9	66,819.8		(1,880.1)	-2.7%
Total Other Water revenue	484.0	418.6		(65.4)	-13.5%
Amortization of Deferred revenue	6.0	6.0		0.0	0.0%
Total Operating Revenue	**69,189.9**	67,244.4		**(1,945.5)**	**-2.8%**
Expenses					
Operation & Maintenance	31,421.7	29,922.7		(1,499.0)	-4.8%
Payroll Expense	**6,941.6**	8,828.8		**1,887.2**	**27.2%**
Admininistrative and General	**10,110.4**	11,242.6		**1,132.2**	**11.2%**
Depreciation Expense	**7,696.4**	7,873.6		**177.2**	**2.3%**
Taxes Other Than Income	**2,091.1**	2,247.8		**156.7**	**7.5%**
CCFT	**698.4**	349.3		**(349.1)**	**-50.0%**
FIT	**2,292.8**	1,152.1		**(1,140.7)**	**-49.8%**
Total Expenses	**61,252.4**	61,616.9		**364.5**	**0.6%**
Net Income	**7,937.5**	**5,627.5**		**(2,310.0)**	**-29.1%**
Rate base	**116,963.7**	122,645.1		**5,681.4**	**4.6%**
Rate of Return	**6.8%**	**4.6%**		**-2.2%**	**-32.4%**

	Table 1-2 **(revised)**			
SUMMARY OF EARNINGS				
Test Year 2015 (At Proposed Rates)				
	ORA	Suburban	Suburban Exceeded ORA	
Item	Proposed	Proposed		
	(A)	(B)	Amount	%
Operating Revenues				
Total Metered Water Svs. Revenue excluding PUC Fee	72,000.0	75,750.0	3,750.0	5.2%
Total Other Water revenue	484.0		(-65.4)	-13.5%
Amortization of Deferred revenue	6.0	6.0	0.0	0.0%
Total Operating Revenue	**72,490.0**	76,174.6	**3,684.6**	**5.1%**
Expenses				
Operation & Maintenance	31,421.7	29,953.9	(-1467.8)	-4.7%
Payroll Expense	**6,941.6**	8,828.8	**1,887.2**	**27.2%**
Admininistrative and General	**10,153.3**	11,356.1	**1,202.8**	11.8%
Depreciation Expense	**7,696.4**	7,873.6	**177.2**	**2.3%**
Taxes Other Than Income	**2,091.1**	2,247.8	**156.7**	**7.5%**
CCFT	**890.9**	1,125.6	**234.7**	**26.3%**
FIT	**3,055.0**	4,225.9	**1,170.9**	**38.3%**
Total Expenses	**62,250.0**	65,611.7	**3,361.7**	**5.4%**
Net Income	**10,240.0**	**10,562.9**	**322.9**	**3.2%**
Rate base	**116,963.7**	122,645.1	**5,681.4**	**4.6%**
Rate of Return	**8.75%**	8.61%	-0.1%	**-2.0%**

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This Chapter sets forth ORA's analyses and recommendations on the forecasted number of customers, water consumption, unaccounted water, and operating revenues in Test Year 2015 for Suburban Water Systems. ORA reviewed Exhibits A-F, supporting workpapers, data request responses, and method of estimating water consumption and operating revenues to arrive at the recommendations in this chapter.

B. SUMMARY OF RECOMMENDATIONS

Tables 2-2 through 2-4 at the end of this Chapter compare ORA's recommendations, Suburban's estimates, and the differences between ORA and Suburban's calculations for the average number of customers, water consumption, and operating revenues. The differences in the estimates of water consumption are due to differences in calculations and methodologies as discussed below. ORA concurs with Suburban's estimates for number of customer for all classes of customers including residential, business, industrial, public authority, other water utilities, construction water services, and recycle water sales. For water consumption ORA concurs with Suburban's estimates for all classes of customers with the exception of the residential class. For Test Year 2015, Suburban estimated a total of 76,107 customers,[1] and a total water supply of 20,171,131 Ccf.

At present rates, ORA's calculated operating revenue for the Test Year is $69,124,475; whereas Suburban's estimate is $67,244,429. Differences between ORA and Suburban's operating revenue estimates are primarily attributed to differences in water consumption levels for the residential class.

[1] Suburban's Workpapers, Volume 1, Table 4-4, Line 26.

C. DISCUSSION

D.04-06-018 requires that Class A water utilities forecast customer growth using a five-year average of the change in the number of customers by customer class and use the "New Committee Method" to forecast per-customer usage for residential and small commercial customer classes by using a multiple regression analysis. The "New Committee Method" requires the following:

- Use monthly data for 10 years, if available. If 10 years of data is not available, use all available data, but not less than five years of data. If less than five years of data is available, the utility and ORA will have to jointly decide on an appropriate method to forecast the projected level of average consumption;
- Use 30-year average for forecast values for temperature and rain; and
- Remove periods from the historical data in which sales restrictions (e.g. rationing) were imposed or the Commission provided the utility with sales adjustment compensation (e.g. drought memorandum account), but replace with additional historical data and obtain 10 years of monthly data, if available.

1) Customers

In the San Jose Hills and La Mirada Whittier Districts, Suburban has metered and unmetered customers in eight customer classes, which includes residential, business, industrial, public authority, other water utilities, construction, recycle, and fire protection. D.04-06-018 requires customer forecasts to use a minimum of a five-year average of the change in the number of customers by customer class. Suburban uses the five-year incremental average from 2008 to 2012 to estimate customer changes for all classes of customers. For Test Year 2015, Suburban estimates 76,107 as the total average number of customers. ORA's analysis finds Suburban's estimate reasonable and concurs with Suburban's number of customers estimate for Test Year 2015.

2) Water Sales Per Customer

In accordance with the Rate Case Plan, Suburban used a regression analysis to forecast unit consumption for the residential and business classes. However, Suburban

deviated from the New Committee Method by using only the most recent five years of data in its analysis, instead of the required 10 years. According to Suburban, the trend of reduced water consumption in the most recent five years is more representative of customer behavior for future years than water consumption in the last ten years. Suburban claims that the local and regional commitments to conservation coupled with the rising cost of water would cause customers to cut back on water usage,[2] resulting in lower sales.

(a) **Residential and Business**

Suburban's forecasting method of using monthly data from only five years is not consistent with the requirements of the New Committee Method. The Commission allows using five years of data if and only if ten years of data is not available. That is not the case here. Suburban has ten years of monthly data, but decided to restrict the analysis to the most recent five years, which contains a period of a steep drop in residential unit consumption. The resulting forecast extends the steep decline into future years. Suburban's forecast shows a 2013 residential unit consumption of 204.4 ccf and 189.2 ccf for the San Jose Hills and the Whittier-La Mirada Districts, respectively. These forecasts represent a 7% to 8% decrease from the recorded 2012 residential unit consumption. ORA asserts that this is not a reasonable forecast as explained below.

[2] Suburban's Report on Demand Forecasts, p. 4.

Table 2-1a
San Jose Hill District

Year	recorded residential unit consumption (ccf)	annual % change	forecasted residential unit consumption using 5-yr data		forecasted residential unit consumption using 10-yr data	
2003	248.6					
2004	255.6	2.8%				
2005	238.5	-6.7%				
2006	247.9	3.9%				
2007	262.3	5.8%				
2008	244.4	-6.8%				
2009	227.9	-6.8%				
2010	210.2	-7.8%				
2011	208.8	-0.7%				
2012	219.2	5.0%				
2013			204.4	-6.8%	210.5	-4.0%
2014			198.1	-3.1%	205.4	-2.4%
2015			191.9	-3.1%	200.4	-2.4%
2016			185.6	-3.3%	195.3	-2.5%

Table 2-1b
Whittier-La Mirada District

Year	recorded residential unit consumption (ccf)	annual % change	forecasted residential unit consumption using 5-yr data		forecasted residential unit consumption using 10-yr data	
2003	228.5					
2004	235.8	3.2%				
2005	221.1	-6.2%				
2006	229	3.6%				
2007	242.6	5.9%				
2008	229.3	-5.5%				
2009	213.7	-6.8%				
2010	197.6	-7.5%				
2011	196.6	-0.5%				
2012	205.5	4.5%				
2013			189.2	-7.9%	199.6	-2.9%
2014			183.1	-3.2%	195.5	-2.1%
2015			176.9	-3.4%	191.4	-2.1%
2016			170.8	-3.4%	187.3	-2.1%

As shown in the table above, recorded customer consumption between 2003 and 2012 shows periods of both increasing and decreasing trends. A distinctive trend of decreasing customer consumption began in 2008 and ended in 2011. This was during the period of the great recession and the financial crisis. In Suburban's San Jose Hill District, the residential unit consumption reached a high of 262.3 ccf in 2007 and decreased to 208.8 ccf in 2011.[3] However, the residential unit consumption in the same district increased to 219.2 ccf in 2012, a 5% increase from the 2011 unit consumption. There is no question that a public call for conservation, the rising cost of water, and severe economic conditions have contributed to the steep decline in water consumption between 2008 and 2011. However, ORA asserts that it is not reasonable to expect the same level of decline in 2013 as that observed in 2008.

In 2008, Suburban implemented conservation rate for residential customers, which provided an incentive to save water and the economy took a severe downturn during the same time, contributing to additional decline in water consumption. In 2013, the economy recovered from the great recession that began in December 2007 and ended in June 2009.[4] Further, the Bureau of Economic Analysis reported that California's economy grew 3.4% from 2011 to 2012.[5]

As observed in Suburban's recorded residential unit consumption, the 2007-2009 economic recession played an important role in the decline in customer consumption. There is evidence to expect the opposite is true. That is, an economic expansion can cause water consumption to increase. As observed in Suburban's recorded data, the residential unit consumption increased 5% between 2011 and 2012 when California's economy grew by 3.4%. In short, the current state of the economy does not support Suburban's forecast of an 8% reduction in residential unit consumption between 2012 and 2013. Further, Suburban did not provide ORA with the 2013 recorded monthly unit

[3] Suburban's Use Per Customer for Residential and Business.xlsx, Recorded tab.

[4] http://www.nber.org/cycles/sept2010.html.

[5] https://www.bea.gov/newsreleases/regional/rpp/rpp_highlights_01.pdf.

consumption to confirm the results of its forecasts and recommendations. ORA requested the information on several occasions through data requests and follow-up emails. Suburban stated that the data for 2013 is not available as of May 2, 2014, and will not be available until Suburban files its annual report in August 2014.[6] ORA issued a standing data request (ORA Data Request ORA-A.14-02-004.JA-02) in order to obtain the data as soon as it is available.

Although the existing conservation rate and current drought condition may cause residential customers to continue to conserve water, the rate of conservation will not be as steep as observed in the first few years following implementation of a conservation rate. In its most recent GRC, Apple Valley Ranchos ("AVR") provided the following statement regarding residential consumption and conservation, which ORA concurs with:

> AVR asserts that the rate at which unit consumption is falling is beginning to level out rather than continue on a deep downward trajectory.[7]

ORA reviewed Suburban's forecasts for the residential class using the New Committee Method with five years of data and 10 years of data. The results from the analysis using ten years of data indicate a moderate decrease in consumption level, which is consistent with a leveling out of conservation practices and the current state of the economy. Therefore, ORA recommends a residential unit consumption of 200.4 ccf and 191.4 ccf for the San Jose Hill and Whittier-La Mirada Districts, respectively, in Test Year 2015.

Suburban also forecasted the business unit consumption using five years of data. The difference between the results of the analyses when using five years of data and ten years of data for the business class are negligible. Therefore, ORA accepts Suburban's Test Year 2015 forecasts of 1131.8 ccf and 1108.5 ccf for the San Jose Hill and Whittier-La Mirada Districts, respectively.

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[6] Emails from Kiki Carlson, dated May 2, 2014.

[7] AVR's Revenue Requirement Report, p. 23.

(b) **Industrial, Public Authority, Other Water Utilities, Construction Water Services, and Recycle Water Sales**

According to the Rate Case Plan, water sales for classes of service other than residential and commercial should be forecasted based on total consumption by class using the best available data. Suburban forecasts the consumption for the remaining classes of customers based on 5-year average. ORA accepts Suburban's forecast as shown in Tables 2-2 and 2-4.

3) Unaccounted for Water

Unaccounted for water is the amount of water lost through operations plus unaccounted for water due to leakage. Unaccounted for water is the difference between the total amount of water produced and the total amount of water recorded as sales.

In this GRC, Suburban estimates a water loss of 5.81% for Test Year 2015. Suburban's historical water loss between 2008 and 2012 are shown in Table below:

Year	Water Loss (%)[8]
2008	5.23
2009	5.49
2010	6.18
2011	6.67
2012	5.49
Average	**5.81**

The average water loss from 2008 to 2012 is 5.81%. ORA agrees with Suburban's water loss rate.

4) Revenue

Operating revenue is calculated by multiplying the number of customers by their estimated water use and multiplying that by the current tariff rates to estimated present

[8] Suburban's Workpapers, Table 5-10.

revenue and by the proposed rates to estimated proposed revenue. Suburban's operating revenue at the present rates for Test Year 2015 is $67,244,429, while ORA's estimate is $69,124,475. Differences between ORA and Suburban's operating revenue estimates are due to differences in unit consumption estimates as discussed above.

D. CONCLUSION

As described above, ORA generally agrees with Suburban's estimates for customer numbers, customer sales, and water loss. ORA recommends that the Commission adopt ORA's estimates related to sales and revenues as set forth in Tables 2-2 through 2-4.

Table 2-2a			
SUBURBAN WATER SYSTEMS			
San Jose Hill			
Average consumption per customer			
Test Year 2015			
	ORA	Utility	ORA Exceed Utility
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential	200.4	191.9	4.4%
Commercial, Small	1,131.8	1,131.8	0.00%
Industrial-Large	27,054.4	27,045.4	0.00%
Public Auth-Small	1738	1,738	0.00%
Other Water Utilities	0	0	0.00%
Construction Water	777	777	
Recycled Water	8,391	8,391	0.00%

Table 2-2b			
SUBURBAN WATER SYSTEMS			
Whittier/La Mirada			
Average consumption per customer			
Test Year 2015			
	ORA	Utility	ORA Exceed Utility
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential	191.4	176.9	8.2%
Commercial	1,110.4	1,110.4	0.00%
Industrial	4,616.0	4,616.0	0.00%
Public Auth-Small	2,729.0	2,729.0	0.00%
Other Water Utilities	528.0	528.0	0.00%
Construction Water	838.0	838.0	0.00%
Recycled Water	0	0	0.00%

TABLE 2-3			
SUBURBAN WATER SYSTEMS			
San Jose Hill and Whittier/La Mirada			
OPERATING REVENUES			
Test Year 2015			
(at Present Rates)			
Item	ORA	Utility	ORA Exceed Utility
	(A)	(B)	(C)
	(Dollars in Thousands)		
Metered Service:			
Residential	50,238.5	48,358.5	3.9%
Commercial	11,254.5	11,254.5	0.00%
Industrial	1,609.0	1,609.0	0.00%
Public Authority	3,450.0	3,450.0	0.00%
Other Water Utilities	35.8	35.8	0.00%
Construction/Flooding	14.3	14.3	0.00%
Recycled Water	925.2	925.2	0.00%
Subtotal	67,527.3	65,647.2	2.9%
Other Water Service:			
P.U.C. Reimbursement Fee	1030.0	1,001.8	2.8%
Private Fire Protection	1,060.2	1,060.2	0.00%
Fire Hydrant Service	112.4	112.4	0.00%
Total Other Water Service Revenue	2,202.6	2,174.4	1.3%
Total Water Service Revenue	69,729.9	67,821.6	2.8%
Total Water Service Less PUC Reimbursement Fee	68,700.0	66,819.8	2.8%
Other Water Revenue			
Miscellaneous Service	236.1	236.1	0.00%
Rent of Water Property	9.9	9.9	0.00%
Other Revenues	8.7	8.7	0.00%
Other Revenues – CR Reimbursements	0	0	100%
Other Revenue – Fire Flow Testing	0	0	0.00%
Other Revenue – Non Tariff Products & Services	229.4	164.0	39.9%
Total Other Revenues	484.1	418.6	15.6%
Amortization of Deferred Revenue	6.0	6.0	0.00%
Total Revenues	69,189.9	67,244.4	2.9%

TABLE 2-4			
SUBURBAN WATER SYSTEMS			
San Jose Hill and Whittier/La Mirada			
TOTAL CONSUMPTION AND SUPPLY			
(Ccf per year – Test Year 2015)			
	ORA	Utility	ORA Exceed Utility
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential	13,967,275	13,175,766	6.01%
Business	3,651,966	3,651,966	0.00%
Industrial	624,639	624,639	0.00%
Public Authority	1,163,676	1,163,676	0.00%
Other Water Utilities	8,448	8,448	0.00%
Construction Water Service	3,230	3,230	0.00%
Total Metered	19,419,234	18,627,725	4.25%
Unaccounted Water (%)	5.81%	5.81%	0.00%
Supply Forecast	20,617,087	19,776,755	4.25%
Recycled water	394,382	394,382	0.00%
Total Supply Forecast	21,011,464	20,171,132	4.17%

CHAPTER 3: OPERATIONS AND MAINTENANCE; ADMINISTRATIVE AND GENERAL EXPENSES

A. INTRODUCTION

This Chapter presents ORA's analysis and recommendations on Operation and Maintenance ("O&M") and Administrative and General ("A&G") Expenses, except Payroll. Payroll Expenses are discussed in Chapter 4, by ORA witness Jeffrey Roberts. ORA witness, Mehboob Aslam, is responsible for information used in this Chapter that is related to Parent Company Expenses, including Injuries and Damages and Medical and Dental Expenses. Mr. Aslam's analysis is found in Chapter 11.

Suburban requests authority to increase rates charged for water service in its San Jose Hills and Whittier/La Mirada service areas for Test year 2015 and Escalation Year 2016.

B. SUMMARY OF RECOMMENDATIONS

ORA conducted an independent analysis of Suburban's workpapers and methods of estimating the O&M and A&G Expenses for Test Year 2015. Methods Suburban used to project Test Year expenses include historical averages adjusted for inflation, last recorded year expenses, and unit costs multiplied by production.

Table 3-1 shows a comparison of the total O&M and A&G Expenses (excluding payroll) as requested by Suburban and recommended by ORA for Test Year 2015. ORA recommended O&M Expense exceeds Suburban's estimated O&M Expense due to higher estimated water sales and purchase power.

Table 3-1: Total Operating Expenses Other than Payroll

Item	ORA	Suburban Water	Suburban exceeds ORA
O&M Expense	$31,449,330	$29,922,690	($1,526,640)
A&G Expense	$11,091,370	$12,244,383	$1,153,013
Total	$42,540,700	$42,167,073	($373,627)

Both ORA and Suburban apply escalation factors established by the ORA Energy Cost of Service and Natural Gas Branch, published in its Memorandum dated June 28, 2013. ORA recommends that these escalation factors be updated before the Commission renders its final decision in this proceeding.

C. DISCUSSION

For Operation & Maintenance Expenses, ORA discusses Suburban Water Company's request and ORA's analysis and recommendation for Test Year 2015. In its application, many of Suburban's estimated O & M expenses were based on a five-year historical average adjusted for inflation. In most cases, ORA took no issue with using historical averaging. However, if the level of expense for a historical year appeared unusually high, ORA examined the expenses recorded for that year to determine if any items were included in error or if an unusual circumstance resulted in additional spending that is not expected to recur in the Test Year. For expenses where Suburban used a methodology other than the historical average, ORA examined Suburban's methodology and reason or support for deviating from using the historical average, to determine whether Suburban's estimate was reasonable.

1) Source of Supply Expenses

Source of Supply Expenses include those expenses related to groundwater Pumping Assessments and Purchased Water. Suburban's total water supply for the San Jose Hills and Whittier/La Mirada service areas include water pumped from company-owned wells, which extract groundwater from the Main San Gabriel

Basin and the Central Basin, purchased potable and recycled water from the state water project and numerous other wholesalers. Suburban Water Company's projected water mix for Test Year 2015 is approximately 63% groundwater and 37% purchased water.[9] Suburban maintained a water loss of 5.49% in 2012 and projects 5.81% water loss in the Test Year, well below the 7% water loss recommended by the California Urban Water Conservation Council ("CUWCC").

(a) **Pumped Water Assessments, Main Basin, Acct 703**

Suburban estimates $7,712,937, in Pumping Assessments for groundwater pumped from the Main Basin for Test Year 2015. ORA reviewed the unit costs assessed by the Main Basin for pumped water and Suburban's calculations. ORA accepts Suburban's estimate.

(b) **Pumped Water Assessments, Central Basin, Acct 703**

Suburban estimates $686,774 in Pumping Assessments for groundwater pumped from the Central Basin for Test Year 2015. ORA reviewed the unit costs assessed by the Central Basin for pumped water and Suburban's calculations. ORA accepts Suburban's estimate.

In the San Jose Hills service area, Suburban owns 13 groundwater wells of which 7 are out of service due to ongoing contamination issues. There are 7 wells in operation in the Whittier/La Mirada service area.[10] As indicated above, Suburban pumps water from both the Main San Gabriel Basin and the Central Basin.

The Main San Gabriel Basin is an adjudicated groundwater basin of which Suburban Water is a party to the judgment entitling Suburban Water to 12.58% of the Operating Safe Yield.[11] Suburban is allowed to produce water in excess of its

[9] Suburban Water response to Minimum Data Request, item C.

[10] Suburban Application A14-02-004, p 3-9, 3-11.

[11] Suburban Water Systems 2010 Urban Water Management Plan, p 3-1.

production rights by paying Replacement Water Assessment fees on Excess Production. In the last recorded year, 2012, the operating safe yield was 180,000 Acre Feet ("AF"). Due to the ongoing drought, as of Fiscal Year 2014-15, the Operating Safe Yield has decreased to 150,000 AF.[12] Therefore, the amount of groundwater Suburban is allowed to pump from the Main Basin without penalty has also decreased to 18,868 AF/year.

Suburban is also a party to the adjudication of the Central Basin. In the Central Basin, Suburban's authorized allocation is 3,721 AF per year. Suburban pays Replacement Water Assessment fees for over-pumping its allotment in the Central Basin. Although Suburban Water Company's efforts to conserve water have been successful, due to the extended drought, restrictions on the amount of water available to meet supply have caused an increase in over-pumping assessments.

In reviewing costs for Pumped Water Assessment for both the Main Basin and the Central Basin, ORA verified authorized supply allocations, invoices, unit costs and fees, and examined Suburban's workpapers and calculations used to arrive at its estimates. ORA found no issues with either the unit costs or the methodology used to calculate Suburban's estimated expenses for Groundwater Pumping Assessments.

(c) **Purchased Water, Acct 704**

The balance of Suburban Water Company's supply is purchased water from various wholesalers including Upper San Gabriel Municipal Water District, Three Valleys Municipal Water District, Covina Irrigating Company, and California Domestic Water Company, to name just a few. Suburban estimates $15,414,200 for Purchased potable and recycled water for Test Year 2015. Suburban's

[12] Main San Gabriel Basin Resolution No. 05-13-252, Suburban Workpapers Volume 2, Bates #403.

estimates are based on the unit costs multiplied by the estimated water supply. ORA estimates $17,360,295, a difference of $1,946,095.

ORA verified the unit costs charged by the wholesalers, reviewed invoices, and examined Suburban's calculations in its workpapers. ORA found no issues with either the unit costs or the methodology used to calculate Purchased Water. ORA estimates higher water sales resulting in the need for additional purchased water. See Chapter 2 for ORA discussion of the Sales Forecast.

(d) **Cooperating Respondents ("CR") Reimbursement**

CR Reimbursement is a credit amount to offset purchased water. Suburban continues to receive reimbursement from the CR for contamination costs. Suburban estimates reimbursements of $13,795 in Test Year 2015. ORA reviewed Suburban's workpaper methodology and calculation and does not disagree with the methodology. For the purposes of this report, ORA uses Suburban's estimate. However, the actual CR Reimbursement should be based on the final adopted purchased water expense in this proceeding. Suburban shows this amount as a credit ($13,795) in its Summary of Earnings on Table 10-1.

(e) **Maintenance of Wells, Acct 711**

For Maintenance and repair of Wells, Suburban estimates $4,714 in Test Year 2015. Suburban's estimate is based on an inflation adjusted average of the last recorded years, (2010, 2011, and 2012). Suburban's estimate is acceptable as it is consistent with historical costs for 4 of the last 5 years.

2) Pumping Expenses

Pumping expenses include the costs to pump, boost and deliver supply through the system, as well as, the costs to maintain or improve pumping structures and equipment.

(a) **Purchased Power, Acct 726**

Purchased Power Expense is the cost of electricity and gas needed to pump and deliver water through the San Jose Hills and Whittier/La Mirada systems. The majority of Suburban's well and booster pumps are supplied by electricity purchased from Southern California Edison Company. Suburban also has gas powered well pumps and boosters that are supplied by natural gas purchased from Southern California Gas Company.

For Test Year 2015, Suburban estimates $2,671,434 for total Purchased Power Expense, of which $2,664,662 is for electrical power and $6,773 is for natural gas. ORA estimates $2,728,993 for total Purchased Power, a difference of $57,759 caused by differences in the sales forecast. ORA estimates higher water sales which also increases the purchased power needed to pump and boost water through the system.

Suburban Water's estimate for electric well pumping and booster pumping is based on the estimated water quantities to be pumped in Test Year 2015, the most recent recorded average kWh per unit of production (ccf) as recorded in 2012, and the most recent rate per kWh as charged by Southern California Edison Company as of June 1, 2013. Suburban's estimate for its natural gas powered wells and booster pumps is based on the average costs incurred for 2012, the last recorded year.

ORA reviewed Suburban's workpapers, calculations, and billing invoices for electric and gas service and found no issues with Suburban's methodology. Purchased Power varies with the amount of production. Differences between ORA and Suburban's estimate for total Purchased Power Expense are attributed to differences in the Sales Forecast.

(b) **Maintenance of Structures & Improvements, Acct 730**

For Test Year 2015, Suburban estimates $16,612 for Maintenance of Buildings and Plant. Suburban's estimate is based on the inflation adjusted

five-year average. ORA accepts Suburban's estimate as it is within the normal level of expense.

3) Maintenance of Pumping Equipment, Acct 732

Pumping equipment includes Sub-Accounts to track maintenance on engines, motors, pumps, boosters, and field and safety supplies. Some of the sub-Accounts included zero budgets for the Test Year. ORA accepts Suburban's request for zero dollars for those Sub-Accounts and discusses the Sub-Accounts that include monetary requests for the Test Year below.

(a) **Clay Valves, Sub-Account 155**

Suburban estimates $59,002 for Test Year 2015. Suburban requests an increase over historical spending to implement a more aggressive program to maintain clay valves, consistent with the level of spending in 2012. Suburban's estimate is based on its recorded 2012 level of expense, adjusted for inflation. ORA recommends $24,097 for Test Year 2015, $34,905 less than Suburban Water.

In reviewing Suburban's request, in Data Request PE 06, ORA requested the number of clay valves Suburban had completed maintenance in 2012 and 2013. Suburban's response was that it had completed maintenance on 12 valves in 2012 and just 1valve in 2013.The total expense recorded for 2012 was $55,940 or approximately $4,661 per clay valve installation. In the 4 years prior to 2012, Suburban's average expense for clay valves was approximately $13,700 per year. Based on the historical level of expense and the fact that the number of valves maintained in 2013 does not support Suburban's claim that it is taking a more aggressive approach to maintaining such valves, ORA recommends a more modest increase in the maintenance program based on a five-year average historical expense. ORA's recommendation is reasonable in that it allows for a modest increase in the maintenance program and does not increase the budget to a level

that may not be met by Suburban and deny ratepayers the full benefit of the funds they pay through increased rates.

(b) **Electric Motors, Sub-Account 161**

Suburban requests $26,509 for Maintenance of Electric Motors in Test Year 2015. Suburban's request is based on the last recorded expense for 2012 adjusted for inflation. Suburban provided no reason or support for using the last recorded year as the basis for the forecast. ORA recommends $23,900 for the Test Year, a difference of $2,609. ORA's estimate is based on the inflation adjusted five-year average. ORA's estimate is more reasonable in that it incorporates the normal patterns of maintenance work Suburban typically completes. Suburban provided no reason or support for only considering 2012. By only using 2012 plus inflation, Suburban guarantees an increase in its budget without any support that an increase in maintenance is required or will be delivered.

(c) **Gas Engines, Sub-Account 163**

For Test Year 2015, Suburban estimates $31,415. Suburban's estimate is based on the inflation adjusted five-year recorded average expense. ORA accepts Suburban's estimate as reasonable since it reflects Suburban's typical level of maintenance for gas engines.

(d) **Pump Repairs, Sub-Account 165**

Suburban requests $4,081 for Pump Repairs in the Test Year. This request is based on the inflation adjusted five-year average level of expense. ORA accepts Suburban's estimate as reasonable since it reflects the typical level of maintenance expense incurred for Pump Repairs.

(e) **Plant Piping, Sub-Account 170**

Suburban requests $4,213 for Test Year 2015. This request is based on the inflation adjusted five-year average level of expense. ORA accepts Suburban's

estimate as reasonable since it reflects Suburban's typical level of maintenance expense incurred for Plant Piping.

4) Water Treatment Expenses, Accts 742 - 748

Water Treatment Expenses include water sampling at wells, laboratory expenses, Department of Health Services Fees, field supplies, and filtering and chemical supplies. ORA reviewed each sub-Account for the various expenses related to water treatment.

Most of the expenses included in Water Treatment were estimated using a five-year historical average adjusted for inflation. ORA took no issue with those expenses. For expenses where Suburban used a different methodology, ORA examined Suburban's methodology and support, if provided, to determine whether Suburban's estimate was reasonable. The table below shows the total estimate for Water Treatment Expenses Suburban presented compared with ORA's recommendation. Differences are explained following the table.

Table 3-2: Water Treatment Expenses

Item	Suburban	ORA	Difference
Field Supplies	$16,986	$16,986	$0.00
Laboratory Services	$116,434	$116,434	$0.00
Dept. of Health Services	$104,525	$104,525	$0.00
Chemicals and Filtering	**$347,848**	**$343,317**	**$4,531**
Chlorinator Repairs	$9,328	$9,328	$0.00
Total	**$595,121**	**$590,589**	**$4,531**

(a) **Chemicals and Filtering Materials, Acct 744, Water Treatment Sub-Account 174**

Suburban estimates $347,848 for Test Year 2015. According to Suburban, *"Water treatment expense is projected at 2012 recorded expense which is*

considered indicative of future expenses."[13] Suburban provides no explanation or support for why Suburban believes that 2012 is indicative of expenses to be incurred in Test Year 2015.

ORA recommends $343,317 for Test Year 2015, a difference of $4,531. ORA's recommendation is based on the inflation adjusted five-year average recorded level of expense. ORA's estimate is more reasonable since it includes a more normal pattern of expense. The five-year historical record shows levels of expense both higher and lower than that was incurred in 2012. By simply choosing the 2012 level of expense plus inflation, Suburban guarantees an increased budget at ratepayer expense, but provides no support that a higher budget is necessary.

5) Transmission and Distribution Expense Accts 752 - 766

Transmission and Distribution Expense includes the maintenance of storage facilities, reservoirs, mains, services, meters and hydrants. For Test Year 2015, Suburban estimates $1,166,921. ORA recommends $1,131,652, $35,269 lower than Suburban. Many of Suburban's estimates for specific Transmission and Distribution accounts were based on the historical level of spending, plus inflation. ORA reviewed each specific account and sub-account, agreeing with some estimates as reasonable and disagreeing with others. The following table shows Suburban's total estimate for Transmission and Distribution Expenses compared with ORA's recommendation. ORA discusses the differences following the table.

[13] Suburban Water Systems A14-02-004, Exhibits A – F, p. 5-2.

Table 3-3: Transmission and Distribution Expense

Item	Suburban	ORA	Difference
Storage Facilities , 752	$114,866	$114,866	$0.00
Reservoirs & Tanks, 760	$41,086	$41,086	$0.00
Mains, 761	$496,897	$496,897	$0.00
Services, 763	$283,709	$283,709	$0.00
Meters,764	**$129,799**	**$94,530**	**$35,269**
Hydrants,765	$100,564	$100,564	$0.00
Total	**$1,166,921**	**$1,131,652**	**$35,269**

(a) **Meters, Acct 764**

Meters include several Sub-Accounts for the purchase of field supplies, safety supplies, repair of field equipment, maintenance of meters, large meter program, and small meter program maintenance. Suburban's combined estimate for Maintenance of Meters is $129,799 for Test Year 2015. ORA estimates $94,530, a reduction of $35,269.

(i) Maintenance of Meters, Sub-Acct 239

Suburban estimates $52,071, where the historical average expense was approximately $15,000 *(excluding inflation)*. ORA recommends $16,802 for Test Year 2015, $35,269 less than Suburban's estimate. ORA used the five-year historical average, plus inflation.

Suburban claims that the increased budget is to reflect a more aggressive meter testing program for production meters, to assist in maintaining Suburban's history of low water loss.[14] Suburban provided no testimony or support that an increase in Maintenance of Meters is necessary to reduce or maintain the already low water loss. In fact, Suburban's water loss has averaged below the CUWCC

[14] Ibid.

recommended 7% water loss for several years.[15] Suburban's water loss since 2008 is as follows:

Table 3-4: Historical Water Loss

2008	2009	2010	2011	2012
5.23%	5.49%	6.18%	6.67%	5.49%

Suburban has maintained its low percentage for water loss below 7% without a more aggressive meter testing program. ORA's estimate is more reasonable since it is based on the historical level of expense and Suburban has provided no support that a more aggressive program is necessary to maintain its low water loss.

6) Customer Account Expense, Accts 771 – 775

Customer Account Expense includes the cost of expenses incurred in customer accounting and collecting activity such as: meter reading expense for uniforms and clothing, Customer Records & Collection Expenses for billstock/envelopes, postage, deposit interest, and other customer professional services.

Suburban estimates $615,372 for Test Year 2015*(excluding Uncollectible Accounts)*. ORA recommends $596,734 *(excluding Uncollectible Accounts)*, $18,638 less than Suburban. Differences in Suburban's estimate and ORA's recommendation are explained below.

(a) **Bill Stock/Envelopes, Sub-Acct 230**

For Test Year 2015, Suburban estimates $120,811 for Bill Stock and Envelopes. Suburban's estimate is based on the 2012 recorded expense. ORA recommends $102,173 for Test Year 2015, $18,638 less than Suburban's estimate.

[15] Suburban Water Systems response to the Minimum Data Request item E. 2. Unaccounted for water (ccf).

In 2012, Suburban spent $114,540 on Envelopes and Bill Stock. According to Suburban's response to ORA Data Request PE 07, request number 1, Suburban states that the increase in 2012 was due to more past due notices being mailed to customers, and that Suburban believes that 2012 was representative of normal operation costs.

Review of the historical expense for Envelopes and Bill Stock shows that in the years 2008 through 2011, the average expense was only $87,324 *(excluding inflation)* each of the four years was lower than 2012. The amount incurred for 2012 is only representative of 2012; it does not appear to be representative of the normal level of expense.

Table 3-5: Bill Stock/Envelopes Expense

2008	2009	2010	2011	2012
$75,764	$86,652	$91,442	$95,437	$114,450

ORA's estimate is based on the inflation adjusted five-year average expense. Recent unemployment figures released by the Bureau of Labor Statistics shows that the unemployment rate in California has improved significantly from a high of 10.9% in 2009 the height of the recession, to 10.1% in 2012 and 7.9% in 2013.[16] Suburban blames an increase in past due notices for the increase in Bill Stock and Envelopes expense in 2012. Since current economic indicators show an improved economic outlook, it is reasonable to project fewer past due notices in the Test Year or at least a return to a more normal pattern. ORA's estimate is more representative of the normal operational costs because it includes recessionary years when more past due notices might have been required, as well as years when fewer notices were required. The Commission should adopt ORA's estimate.

[16] Bureau of Labor Statistics Local Area Unemployment Statistics, http://data.bls.gov/cgi-bin/surveymost.

(b) **Postage A/R Bills Sub-Acct 336**

For Postage required for mailing of customer bills and notices, Suburban estimates $410,573 for Test Year 2015. Suburban's estimate is based on the number of customers, number of bills/notices, and the most recent postal rates effective January 26, 2014. ORA reviewed Suburban's calculations and methodology as well as verified the postage rates used and agrees that Suburban's estimate is reasonable.

Suburban does not offer electronic billing for its customers. ORA recommends that Suburban investigate whether or not its customers would be receptive of receiving electronic billing as an option, and whether or not such service would be economically efficient since US Postal rates have increased at a rate greater than inflation.

(c) **Uncollectible Accounts, Acct 775**

For Test Year 2015, Suburban estimates a 0.35% Uncollectible rate, based on what Suburban describes as an increasing trend in uncollectibles. Suburban states that the trend is largely due to the sluggish economy. The recorded Uncollectible Rate for the past five years is as follows:

Table 3-6: Uncollectible Accounts

2008	2009	2010	2011	2012
0.14%	0.09%	0.20%	0.22%	0.35%

ORA recommends an Uncollectible rate of 0.26% for Test Year 2015, based on the most recent three-year recorded average (2010 – 2012). ORA's estimate is more reasonable due to the fact that improvement in the economy is evident in the lower unemployment rate since 2012. Suburban has also requested, and ORA agreed, to an increase in Suburban's security deposit from $5.00 to $30 in order to offset uncollectible accounts. The security deposit can be applied to offset the uncollectible amount should a customer default on their water bill.

Furthermore, Suburban has provided no evidence that an upward trend in uncollectible accounts continued into 2013. In its Data Request PE 06 request number 6, ORA requested the uncollectible dollar amount and rate for 2013. Suburban responded that the 2013 rate was not available, but that the unaudited balance was $176,888, almost $50,000 less than the 2012 balance of $226,509. Suburban provided no support that the Uncollectible rate will continue in an upward trend. The Commission should disallow Suburban's estimate and adopt ORA's estimate as it is more reasonable.

D. Administrative and General Expenses

1) Water Conservation, Acct 783

In this proceeding, Suburban estimates significantly higher conservation expenses. Suburban requests $675,000 per year beginning in Test Year 2015. ORA recommends $351,478 per year beginning in Test Year 2015, a difference of $323,522 per year. In its last General Rate Case, the Commission authorized Suburban to spend $337,500 per year in years 2012 – 2014.[17] ORA recommends the same level of expense, adjusted for inflation.

(a) Suburban Water Conservation Request for Test Year 2015 – 2017

Suburban Water requests doubling its conservation spending to fund the following programs:[18]

- Ultra High Efficiency Toilet ("UHET") Distributions
- Large Landscape Surveys or Retrofits
- Residential Smart Controller Installations
- Public Outreach and information, educational materials and conservation devices, and

[17] D.12-04-009, Settlement Agreement between ORA and Suburban Water Systems.

[18] Suburban Water Company A.14-02-004, Direct Testimony of Conservation Manager Darleen Phares, p. 2.

- School Theater Program

In Test Year 2015, Suburban proposes completing distribution of UHETs for 2,000 customers at a cost of $400,000 ($200 per unit). In addition, Suburban proposes spending $200,000 for either Large Landscape Surveys and Retrofits or Residential Smart Controller sprinkler system installations, $50,000 for public outreach and information, educational materials and conservation devices, and $25,000 for school Theater Program.

In 2016-2017, Suburban proposes spending $300,000 for Large Landscape Surveys and Retrofits, $300,000 for Residential Smart Controller sprinkler installations, $50,000 for public outreach and information educational materials and conservation devices, and $25,000 for the school Theater Program.

(b) **Current Conservation Program**

Suburban Water implemented a conservation rate structure with increasing block rates in 2008.[19] Its current Conservation Program authorized $337,500 per year to provide HETs, educational materials and water audits.[20] Suburban also received $57,050 rebate funding from Central Basin in 2012 as part of its HET distribution program.[21] Suburban underspent its budget in 2012 by $72,800 which was carried over to 2013. According to Suburban's Water Conservation Manager, Suburban has access to rebates from Metropolitan Water District provided in collaboration with the Upper San Gabriel Valley Municipal Water District, Central Basin Municipal Water District, and Three Valleys Municipal Water District. In 2013 Suburban applied for and received another $102,750 in rebate funding from the Metropolitan Water District.[22]

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[19] D.08-02-036, Settlement Agreement between DRA and Suburban Water, item 6.2, p. 20.

[20] D.12-04-009, Settlement Agreement between DRA and Suburban Water, Appendix A, item 9.

[21] Suburban Water Company 2012 Annual Report, Schedule E-3.

[22] Prepared Testimony of Suburban Water Company witness Darleen Phares, p. 10, lines 8-16.

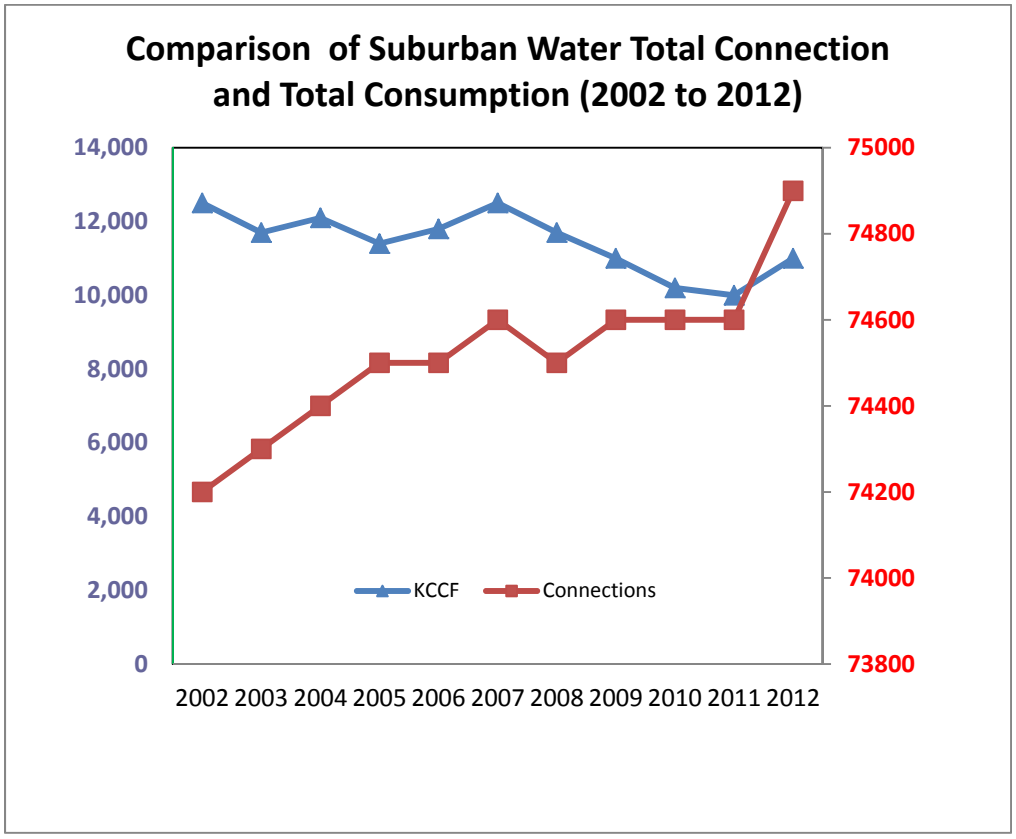
Due to the ongoing drought, Metropolitan Water District announced in February 2014 that its board has doubled Metropolitan's annual conservation and outreach budget from $20 million to $40 million, stating as follows; *"The increase will provide additional rebate incentives for Southern Californians to purchase water-saving devices throughout the district's six-county service area and help reach the Brown Administration's goal of a statewide per-capita water use reduction of 20 percent."*[23] This additional funding will likely result in future rebates available to Suburban Water for its HET distribution program.

(c) **Conservation Achievements**

Suburban Water is 100% metered and residential customers represent 95% of its customer base. Most of the conservation efforts are targeted at the residential customer. A review of the decline in water sales is proof that Suburban's Conservation Program has been effective. As can be seen from the following chart comparing ten years of recorded customer consumption data with the total number of customers over the same period, noticeable reductions in both water consumption as well as, total water consumption have been achieved since 2000.

[23] The Metropolitan Water district of Southern California News Release dated February 11, 2014.

Figure 3-A



Source: *Suburban Water Workpapers, Tables 4-4, 4-5, and 4-6 in A.08-01-004, A.11-02-002, and A.12-02-004.*

(d) **SBX7-7 or 20% by 2020 Mandate**

Suburban Water is well on track to meet its target of 20% reduction in per capita urban water use by year 2020. Suburban's 2020 target for Gallons per Capita per Day ("GPCD") is 141.6 for San Jose Hills service area and 154.3 for Whittier/La Mirada service area. In fact, as of 2012, Suburban has already surpassed its interim target for 2015 of 155.3 for San Jose Hills and 173.6 for Whittier/La Mirada.[24] The following table shows the 2020 target GPCD, the 2015 interim target GPCD, and the most current recorded GPCD.

[24] Suburban Water Systems 2010 Urban Water Management Plan, Section 2.4.2, Table 2-6 and 2-7.

Table 3-7: Baseline and Target Daily Per Capita Water Use Summary

Service Area	San Jose Hills	Whittier/La Mirada
2020 Urban Water Use Target	141.6	154.3
2015 Interim Urban Water Use Target	155.3	173.6
2012 Recorded GPCD[25]	149	171

(e) **Summary and Recommendation**

Suburban has fully utilized its authorized funding by distributing and installing 2,286 HETs in 2012-2013, and plans to distribute and install another 1,500 HETs in 2014. Between 2010 and 2013, Suburban performed 16 large landscape audits and 13 landscape irrigation retrofits.[26]

ORA recommends that the Commission disallow Suburban's request to increase spending on conservation. Under the current level of funding, Suburban has achieved significant water savings. Furthermore, Suburban's reason to increase spending by $300,000 per year to install Smart Controller sprinkler systems in 2016 and 2017 is not necessary. Under the current level of funding, Suburban has been able to perform several large landscape audits and irrigation retrofits that have contributed to the resulting water savings already achieved.

Since Suburban has previously performed large landscape audits and retrofits under the previously authorized budget and with the aid of funding from suppliers such as Metropolitan Water District, it can continue to do so without additional ratepayer funding. Additionally, Suburban has provided no evidence in its showing that its customers have any interest in smart controller sprinkler systems. Nor has Suburban provided any data on the potential water savings to be achieved by installing them. The current program at the current level of funding, along with the current rate structure appears to be sufficient to result in the desired

[25] Suburban Water response to ORA data request PE 13.b, item 4.

reduction in water use. There appears to be no valid reason to support Suburban's request to double conservation spending.

2) Office Supplies and Other Expenses, Acct 792

Office Supplies and Other Expenses include numerous Sub-Accounts to track spending for supplies, building utilities, travel expense, meals and entertainment, dues and subscriptions, telecommunications, machine rent/repair and community relations.

Suburban requests a total of $1,228,678 for Test Year 2015, whereas ORA recommends $1,173,707 for Test Year 2015, $54,971 less than Suburban. Some of Suburban's estimates for specific expense items are based on the historical average expense, adjusted for inflation, while other items were based on either the last recorded year or included additional "new" spending forecasted in the Test Year. ORA carefully reviewed expense items that deviated from the historical norm or included new spending. ORA agreed with the level of expense for some items but disagreed with others. The following details ORA's alternate recommendation for those expense items that ORA found to be unreasonable or unsupported.

(a) **Coffee Shop, Sub-Acct 227**

For Test Year 2015 Suburban estimates $17,562 for Coffee Shop expenses. Suburban provides break-rooms in each of its three offices furnished with tables and chairs and appliances including refrigerators, microwave and toaster ovens, vending machines, and coffee machines for Suburban employees. Suburban based its estimate on the five-year historical expenditure plus inflation. ORA recommends no more than $2,000 for Test Year 2015, a difference of $15,562.

ORA reviewed the recorded $18,783 spent in 2012 and found that most of the expenditure was paid to vendors providing coffee service. Suburban's contract with the coffee vendor revealed that along with the rental of coffee urns/thermos equipment and water filters, Suburban is required to purchase all coffee and condiment supplies from the vendor. Suburban also purchased some food items

such as chicken noodle soup from the vendor. In its Data Request PE 07, ORA inquired whether Suburban employees are required to pay for or contribute any amount of money for items consumed. Suburban responded that they are not.

ORA takes a stronger stance against rising expenses that do not directly or even indirectly improve water service to the ratepayer. During the past several years, water customers have been required to conserve water and endure ever increasing rates. Whenever ratepayers question why their bills are going up while their consumption of water is going down they are often told that the utility must cover its fixed costs. This is true. Suburban must continue to cover its reasonable fixed costs. However, some fixed costs are not reasonable or become less so in an era of economic downturn. It is ORA's position that ratepayer funding of Suburban's employees' coffee is no longer a reasonable expense and is not necessary to the provision of safe reliable water service. Suburban's employees are very well paid, certainly paid enough to supply their own coffee, or for Suburban to provide this benefit at shareholder expense.

ORA recommends a small budget of $2,000 per year to purchase or maintain appliances for the storage and preparation of employees' meals eaten on site. If Suburban wishes to use this budget to purchase coffee machines for each of its three offices it may do so. However, coffee, tea, condiments and other consumables should be purchased by the employees who wish to consume them or provided by Suburban's shareholders.

(b) **Travel Expense, Sub-Acct 300**

Suburban estimates $82,143 for Travel Expense in Test Year 2015. Suburban's estimate is based on the recorded expense for 2012, adjusted for inflation, plus $15,000 in the Test Year to cover travel expenses for two proposed new hires, Talent Manager and PR Director. ORA recommends $59,315 for Test Year 2015. ORA's estimate is $22,828 lower than Suburban's estimate. ORA's estimate is based on the five-year historical average expense for 2008-2012, adjusted for inflation. ORA removed the additional $15,000 in Test Year 2015

because ORA recommends that the Commission disallow the positions of Talent Manager and PR Director. *(See ORA's testimony in Chapter 4 regarding Suburban's request for these new positions.)* Additionally, Suburban provides no documentation or support for the amount requested for necessary travel by these two positions.

(c) **Meals and Entertainment, Sub-Acct 301**

Suburban estimates $47,803 for Meals and Entertainment in Test Year 2015. Suburban's estimate is based on the recorded expense for 2012, adjusted for inflation, plus $4,000 in the Test Year to cover expenses for two proposed new hires. ORA recommends $37,167 for Test Year 2015. ORA's estimate is $10,636 lower than Suburban's estimate. ORA's estimate is based on the five-year historical average expense for 2008-2012, adjusted for inflation. ORA removed the additional $4,000 in Test Year 2015 because ORA recommends that the Commission disallow the positions of Talent Manager and PR Director. *(See ORA's testimony in Chapter 4 regarding Suburban's request for these new positions.)*

(d) **Subscriptions, Sub-Acct 316**

For Subscriptions, Suburban estimates $7,274 for Test Year 2015. ORA recommends $6,010, $1,264 less than Suburban. Suburban's estimate is based on the last recorded year, 2012.

Since Suburban based its estimate on 2012, ORA requested that Suburban provide a list of all ledger entries for 2012, including the amount of the subscription, frequency for renewal or payment and employee or department for whom the subscription is paid.[27] Suburban's response included a spreadsheet showing amounts paid out each month in 2012, the department receiving the media, and the vendor. Several of the entries did not have a vendor listed and

[27] ORA Data Request PE 08, request item number 1.

monthly entries included both debits and credits. The total amount paid during 2012, according to the document, is $8,896.16. This amount is different from the $6,896 shown as the amount recorded for 2012 on Suburban's workpaper Table 5-1K. It appears that Suburban has little control over its accounting for Subscriptions and the estimate for 2015 is based on unreliable information. The Commission should adopt ORA's estimate since it represents the historical level of expense.

(e) **Other Professional Service, Sub-Acct 324**

Other Professional Service is an account where Suburban records expenses related to recording, verifying or requesting copies of deeds and easements.[28] For 2015, Suburban estimated $1,113. Suburban's estimate is based on the inflation adjusted five-year average recorded expense.

ORA recommends $325 for Test Year 2015. ORA's estimate is based on the inflation adjusted five-year recorded average with a correction to the amount recorded for 2011. Upon reviewing Suburban's workpapers, ORA found that the recorded expense for 4 of the last 5 years ranged from $200 to $500, with the exception of 2011 which had $3,729. In Data Request PE 08, ORA asked Suburban to explain the unusual increase in 2011 expenditures. Suburban responded to PE 08 that $3,686 was erroneously posted to this account rather than its account used to track Community Relations. ORA removed the $3,686 from the 2011 total then calculated the inflation adjusted five-year average expense to arrive at its estimate of $325. The Commission should adopt ORA's estimate since it is more accurate.

(f) **Professional Dues-Personal, Sub-Acct 328**

Professional Dues tracks employees' professional certification and license fees. Suburban estimates $ 25,435 for Test Year 2015. Suburban's estimate is based on the inflation adjusted five-year average expenditure for Professional

[28] Suburban Water response to ORA Data Request PE 08, request number 2.

Dues. ORA recommends $24,207 for Test Year 2015. ORA also used the inflation adjusted five-year average, but reduced each year by $1,110. ORA reduced each year prior to determining the five-year average expense due to finding several entries for memberships to Costco, Sam's Club, and Kiwanis Club of La Mirada totaling $1,110 listed in Suburban's ledger for 2012.[29] ORA knows of no reason why Suburban should purchase several memberships for big box retailers or why membership to Kiwanis Club of La Mirada should be paid for by ratepayers. These expense items are not reasonable fixed costs that are required to ensure or improve safe water service to ratepayers and should be disallowed.

(g) **Community Relations, Sub-Acct 340**

For Community Relations, Suburban estimates $9,483 for Test Year 2015. ORA recommends $6,818, a difference of $2,665. Suburban based its estimate on the recorded expense for 2012. In response to ORA's Data Request PE 08, Suburban stated that Community Relations is an expense account generally related to the dissemination of customer information and furthering relationships with community groups. Since the historical level of expense varied from a low of $3,900 to a high of $9,300 during the period 2008 - 2012, ORA asked Suburban to explain why Suburban assumes the same level of expense for the Test Year as 2012. Suburban responded, *"2012 is considered to be representative of expenses that will be incurred in the Test Year."* Nothing in this response explains <u>why</u> Suburban assumes or considers 2012 is representative of the Test Year. ORA finds this response to be non-responsive as it lacks any detailed explanation.

ORA's estimate is a more accurate picture of the average level of expense for Community Relations. ORA first corrected the 2011 expenditure from Suburban's entry of $962 to $4,648, an increase of $3,686. ORA made this correction since Suburban erroneously recorded $3,686 in Other Professional

[29] Suburban Water response to ORA Data Request PE 08, item number 6, for 2012, Costco memberships totaled $385, Sam's Club $275, Kiwanis Club of La Mirada $450.

Services, Sub-Acct 324.[30] ORA's estimate for Other Professional Services is based on the five-year historical average, adjusted for inflation. The table below shows the original expense as recorded by Suburban and ORA's correction. Fluctuations in the historical annual expense warrant the use of the historical average rather than Suburban's estimate based on 2012, which lacks justification.

Table 3-8: Community Relations

	2008	2009	2010	2011	2012
Suburban	$9,296	$3,910	$4,088	$962	$8,990
ORA	$9,296	$3,910	$4,088	$4,648	$8,990

3) Property Insurance, Acct 793

Suburban estimates $211,064 for Test Year 2014. ORA's recommends $211,064. ORA's analysis and recommendation was completed by ORA witness Mehboob Aslam. *(See Chapter 11)*

4) Injuries and Damages, Acct 794

ORA's analysis and recommendations for the many Sub-Accounts included in Injuries and Damages was completed by ORA witness Mehboob Aslam. *(See Chapter 11)*

5) Employees' Pension and Benefits, Acct 795

Employees' Pension and Benefits includes several Sub-Accounts covering training, 401K Employer contribution, Medical and Dental Insurance, Auto allowance, Employee Education, and Employee Welfare. Suburban estimates $2,207,079 in Test Year 2015, excluding payroll. ORA estimates $1,863,219 for Test Year 2015, for a difference of $343,860. Below ORA discusses differences in ORA and Suburban estimates for specific Sub-Accounts.

[30] See Section f) Other Professional Services, ORA reduced the 2011 recorded amount since Suburban indicated that this amount should have been recorded in Community Relations.

(a) **Safety/Compliance Training, Sub-Acct 319**

Suburban estimates $26,054 for Test Year 2015. ORA estimates $23,474, a difference of $2,580. Suburban's estimate is based on the last recorded 2012 expenditure of $25,020, adjusted for inflation. Suburban's workpaper shows that the recorded amounts since 2008 have fluctuated from year to year. Suburban has provided no support or justification for using the most recent recorded year of increased spending. ORA based its estimate on the five-year inflation adjusted average expense. The table below shows the historical level of expense.

Table 3-9: Safety Compliance Training

2008	2009	2010	2011	2012
$17,228	$19,063	$29,176	$17,203	$25,020

The Commission should adopt ORA's estimate since it is more representative of the normal level of expense.

(b) **Training/Seminars, Sub-Acct 320**

For Training/Seminars Suburban estimates $83,610 for Test Year 2015. Suburban used the historical five-year average expenditure adjusted for inflation, plus $40,000 to cover travel expense and training for the requested Talent Manager position.

ORA recommends $43,610 for Test Year 2015. ORA's estimate is based on the five-year historical average expenditure adjusted for inflation excluding the additional $40,000 Suburban requested in 2015. ORA excludes the additional $40,000 because ORA recommends that the requested position be disallowed. Additionally, Suburban has provided no support for the amount requested, no documentation showing proposed training courses, classes or necessary travel. Suburban also requested an increase in its Travel Expense, under Account 792, Sub-Account 300 for the Talent Manager *{see section D. number 2), item b) above.}* Suburban provided no explanation of whether it erroneously requested

increased travel dollars in two accounts and has provided no support for either request.

(c) **401K Employer Contribution, Sub-Acct 397**

Suburban's estimate for 401K Employer Contribution is $353,153 for Test year 2015. Suburban's estimate is based on 4% of the sum of the Operation, Maintenance, and Administrative payroll. ORA estimates $277,663. ORA used the same 4% employer contribution multiplied by the sum of the Operation, Maintenance, and Administrative payroll, but arrived at different dollar amount due to differences in the estimated payroll. *See Chapter 4 for ORA's discussion of Payroll.*

(d) **Medical and Dental Insurance, Sub-Acct 412**

For Test Year 2015, Suburban estimates $1,987,048. This expense item is determined at the Parent Company level and allocated to the utility. ORA's analysis and testimony is provided in Chapter 11, by ORA's Mehboob Aslam. Using the unit cost determined by Mr. Aslam and the head count determined by ORA's payroll witness, Jeffrey Roberts, ORA estimates $1,859,842 for Test Year 2015.

(e) **Employee Welfare, Sub-Acct 416**

Suburban estimates $156,541 in Test Year 2015 for Employee Welfare. ORA recommends $50,000, $106,541 lower than Suburban's estimate. Suburban's estimate is based on the last recorded year expense for 2012 plus an additional $50,000 per year.

Suburban's sole testimony on this item is a single sentence found in its Exhibit A – F, on page 5-3, *"Employee Welfare expense is increased to reflect the additional cost of a maturing workforce migrating toward retirement."* ORA found the explanation for the requested increase to be strange since Suburban employees receive medical benefits and participate in a retirement program. Why does a maturing workforce require additional $50,000 in spending for Employee Welfare?

In response to ORA's Data Request PE 09, Suburban indicated that the types of expenses recorded in Employee Welfare are for employee service awards and retirements. Service awards are given to employees to *"celebrate their longevity with the company."* According to Suburban, the amount of the service awards given to employees increase as the number of years the employee has been with the company increases. Suburban also indicates that in 2013, approximately 13% of its 123 employees have been with the company over 30 years. In 2013, Suburban recorded $211,246 in Employee Welfare costs.[31] The table below shows Suburban's Service Award schedule. As shown, an employee is eligible to receive a cash Service Award after only 1 year, 3 years, then every five years.

Table 3-10: Suburban Water Service Award Schedule

Number of Years of Service	Estimated Cost/Person
1	$75
3	$425
5	$575
10	$800
15	$1,000
20	$1,350
25	$1,625
30	$2,000
35	$2,350
40	$3,175
45	$4,000

[31] Suburban Water response to ORA data request PE 09, item number 2.

Based on the information provided by Suburban, in 2013 13% (approximately 16) of Suburban's 123 employees have at least 30 years of service. Under the Service Award program, each employee reaching their 30th anniversary in 2013 would have received at least $2,000. According to the table above, the rapid frequency to become eligible for receiving service anniversary awards is after the first, third, and fifth year then every five years. Under this schedule, a large portion of the remaining 107 of Suburban's employees could have been eligible to receive a cash award in 2013.

Other Employee Welfare spending in 2013 included approximately $26,000 on retirement celebrations for 4 employees, $11,400 on Suburban's Annual End of Year Luncheon. Suburban also hosts an annual company picnic, but did not provide the amount spent for its 2013 picnic.[32] In 2012, Suburban spent $31,605 on its Annual Picnic. The average cost for the Annual Picnic during 2008 – 2012 was approximately $39,000.[33]

During the period 2008 – 2012, other Employee Welfare costs included Pre-employment drug screens, employee physicals, post-accident drug screens, and employee flu shots. In response to ORA's request for the amount spent on these costs, Suburban's response showed a total of approximately $5,000 for 2012, a minimal amount compared with the amounts spent on Service Awards and company celebrations. Suburban also noted in its response that $28,270 was spent on "Other".[34] ORA does not know whether the "Other" spending was for necessary expenses similar to employee physicals and drug testing or some other celebratory event.

ORA is concerned that Suburban's answer to increasing Employee Welfare expense is to simply increase the amount it receives from ratepayers rather than

[32] Suburban Water response to ORA Data Request PE 10.

[33] Suburban Water response to ORA Data Request sent via e-mail on 5/1/2014 to Regulatory Analyst Kiki Carlson, at 11:30 a.m.

[34] Ibid.

examine the generosity of its programs and make efforts to reduce the expenses or spend more efficiently. Suburban could redesign its Service Award program to lengthen the time an employee receives his first award and increase the interval or number of years between awards. If the purpose of the Service Award program is to prevent the loss of employees to other water companies early in their career, Suburban could design the Service Award program to focus on the first 5 – 10 years of employment. Suburban should also exclude management and executive staff from the Service Award program.

Combining the End of Year Luncheon with the Annual Picnic would allow for an annual company-wide celebration at half the cost that Suburban has spent in the past. Retirement celebrations could be combined if more than one retirement occurs within the year, and employees attending such events could contribute to the costs of their participation. These are just a few examples of how Suburban could honor its loyal employees without simply asking its customers for more money.

Employee Welfare as described and utilized by Suburban is not a fixed cost that must be covered, nor is it an unavoidable expense. This account is purely discretionary and has been used as an employee gift and party fund account. Perhaps the account should be renamed to reflect is actual function.

ORA recommends a much smaller amount of $50,000 per year. Suburban's ratepayers should not be required to support discretionary spending on employee perks and parties at the level of spending exhibited by Suburban. ORA understands Suburban's position that it awards employee loyalty and longevity in an effort to retain a knowledgeable and loyal workforce. However, ratepayers should not be the sole contributor to Suburban's employee appreciation program. If Suburban believes that additional spending is necessary then its shareholders should fund any amount that exceeds $50,000. Because ratepayers are captive customers, Suburban has had no incentive to control or reduce its discretionary

spending. ORA should have recommended a significant reduction in this account previously.

(f) **Auto Allowance, Sub-Acct 417**

In 2011, Suburban began providing a bi-weekly Auto Allowance to executives and managers who use their personal vehicles to travel between Suburban's three offices and to attend off-site meetings. These executives and managers are not assigned company vehicles. In Test Year 2015, Suburban requests $49,629 for Auto Allowance. The following table lists the eligible positions and applicable amounts for Auto Allowance.[35]

Table 3-11: Bi-Weekly Auto Allowance

Position	Amount ($)
President	$415.39
VP Quality Assurance	$369.23
VP Finance	$323.08
VP Engineering	$323.08
Manager Engineering	$323.08
Manager Human Resources	$323.08

ORA attempted to obtain a clear understanding of Suburban's Auto Allowance program; when it was instituted, how the allowance is determined, and whether the program is justified. Suburban's response to ORA has several inconsistencies. In Suburban's response to ORA on May 12, 2014, Suburban states that the Auto Allowance program as requested in this case was implemented in 2008 to replace an earlier program.[36] Suburban's workpapers show no costs

[35] Suburban Water response to ORA Data Request PE 09, item number 3.

[36] Suburban Water response to ORA e-mail supplemental to PE 09 and PE 10dated May 1, 2014. at 11:30 a.m., item number 1.

identified as Auto Allowance prior to 2011.[37] Suburban provided no information of where these expenses were tracked from 2008 to 2010.

Suburban also claims that the earlier program consisted of either a monthly cash payment with additional reimbursement for gasoline, maintenance and insurance, or alternatively some employees received company cars with gasoline, maintenance and insurance paid for directly by the company. Suburban claims that the new program limits Suburban's liability exposure and costs associated with accidents, reduces Suburban's vehicle insurance premiums and overall cost of service. Suburban provided no support for any of these claims.

In PE 10, ORA asked Suburban to provide information regarding mileage and trips for those employees receiving an Auto Allowance. ORA's requests and Suburban's responses were as follows:

ORA PE 10 Q.6.

Please explain how mileage is recorded for each employee/position now receiving Auto Allowance (whether daily, weekly, monthly, quarterly, etc.)

Suburban Response:

Employees who receive an Auto Allowance are not required to record mileage.

ORA PE 10 Q. 7.

For each employee/position receiving Auto Allowance, please provide the average number of trips and monthly mileage driven in 2011, 2012, and 2013.

Suburban Response:

See response no. 6 above.

ORA PE 10 Q. 8.

[37] Suburban Water workpapers, Volume 1, Worksheet 5-1L.

Please provide a copy of two (2) mileage and trip logs maintained in 2013, for each employee/position receiving Auto Allowance.

Suburban Response:

See response no. 6 above.

In Suburban's response to ORA dated May 12, 2014, Suburban claimed that *"Employees are reimbursed for mileage but at a rate of 30 cents per mile which is substantially less than the 50.5 cents per mile received by employees without a car allowance."*[38] How can Suburban not require employees to record mileage and at the same time claim to reimburse them at 30 cents per mile? Suburban's response to ORA makes no sense.

ORA recommends $0 for Auto Allowance for Test Year 2015. Suburban has provided no reason that the employees filling the positions noted in Table 3-11 should not use company pool vehicles or otherwise have an assigned company vehicle to travel between Suburban's three offices and to attend off-site meetings.

Providing a bi-weekly Auto Allowances in the amounts noted above, with no evidence and appropriate record keeping supporting whether or not the recipient ever uses his vehicle for business purposes, is a misuse of ratepayer funds. This account appears to be nothing more than a management perk or part of a benefits package for the employee.

The Commission should disallow Suburban's request. If Suburban's employees use personal vehicles for company business they should require proper tracking and record keeping of their mileage and be compensated at the Standard Mileage Rate set by the Internal Revenue Service.

[38] Suburban Water response to ORA e-mail supplemental request regarding PE 09 and PE 10, dated May 1, 2014, at 11:30 a.m.

(g) **Employee Education, Sub-Acct 420**

Suburban offers an Education Assistance program to reimburse tuition and costs associated with obtaining certifications or degrees for its employees. Suburban requests an increase in its budget in 2015 to $31,676 because of an increased number of employees eligible to participate in the program. Suburban's estimate is based on the last recorded year expense in 2012, plus $10,000.

ORA reviewed the criteria employees must meet to participate in the program and recommends $28,869. ORA's estimate is based on the historical five-year average expense adjusted for inflation. ORA's estimate should be adopted by the Commission because it accounts for fluctuations in the level of participation that may occur from year to year.

6) Franchise Requirements, Acct 796

(a) **<u>Franchise Fees, Sub-Acct 601</u>**

Franchise Fees are based on the Franchise rate multiplied by total water service revenues. For Test Year 2015, Suburban estimates $875,340, based on 1.31% of its estimated revenue. Suburban uses the last recorded rate for 2012. ORA used the same rate, 1.31%, but recommends $899,969. The difference is due to differences in estimated water sales.

7) Regulatory Commission Expenses, Acct 797

(a) **Regulatory Expenses, Sub-Acct 344**

For Test Year 2015, Suburban estimates $328,598. Suburban's estimate includes costs for this current General Rate proceeding, cost associated with its 2012 Cost of Capital Proceeding, and prospective costs for its 2015 Cost of Capital Proceeding. ORA recommends $202,456 in forecasted costs for Suburban's next Cost of Capital proceeding due in 2015 and Suburban's General Rate Case for Test Year 2017.

Suburban and ORA have historically agreed to defer and amortize in the Test Year expenses incurred for current rate case proceedings. Since Suburban's

last General Rate Case filed in A.11-02-002, ORA recommended that the practice of amortizing deferred rate case expenses be converted to a prospective forecast. The recovery of historical expenses without prior Commission authorization such as a memorandum account is retroactive rate making and is not allowed by the Commission. Also, in D.12-04-009, the Commission indicated that there are good reasons to use a forecast because, it provides a limit on costs or at least an incentive to control costs, whereas amortizing prior costs provides little or no incentive for Suburban to control costs.[39] ORA agrees with the Commission that forecasting rate case costs provide the best incentive to control costs. Therefore ORA recommends that only forecasted expenses be included in Test Year 2015.

It is ORA's position that there is no need to allow Suburban to have a "catch up" provision when switching to forecasting rate case expenses from amortizing the actual incurred cost, which is inconsistent with the Commission's prospective ratemaking process. Suburban will continue to recover its rate case expenses on a prospective basis as long as it continues to file rate cases. The only way it would not recover its costs, is if Suburban's forecast is lower than its recorded rate case expenses or cease to exist as a business entity.

Although the Commission adopted Suburban Water's proposal to amortize prior regulatory costs, in D.12-04-009 the Commission directed Suburban to, "*present 10-years of actual data in addition to whatever proposal it prefers, to also present a three year forecast for the next rate case cycle as well as a catch-up adjustment to shift from amortization to a forward forecast.*[40]" Suburban's request in this proceeding for Test Year 2015 and its "catch-up" option is as follows:[41]

[39] D.12-04-009, Section 7.3.

[40] Ibid.

[41] Suburban Water A.14-02-004 Workpaper "Regulatory Costs".

Table 3-12: Suburban Water Request and Optional Catch up Plan

Item	Request	Optional
2014 GRC Costs	$702,187	$702,187
2017 GRC Costs		$744,829
2012 Cost of Capital Litigation Memo Acct.[42]	$138,038	$138,038
2015 Cost of Capital Litigation	$145,571	$145,571
Total Costs	$985,795	$1,730,624
	/3 =	/3 =
	$328,598	$576,875

The following table shows ORA's estimate for the forecasted 2017 Regulatory Expense and an optional recommendation should the Commission require a "catch up" in order to change Suburban from amortizing rate case costs to a prospective forecast. Should Suburban be allowed to catch up its deferred 2014 rate case costs, ORA recommends that recovery of the 2014 costs be amortized over six years rather than three years to ease the transition for ratepayers.

[42] Suburban included its 2012 Cost of Capital Litigation Memorandum Account in its request for Regulatory Expense and also requested in Special Request No. 1 to amortize the 2012 Cost of Capital Litigation Memorandum Account in base rates. ORA has agreed to Special Request No. 1, see Chapter 13.

Table 3-13: ORA Recommended Forecast and Optional Catch Up Plan

	ORA	Catch Up	Optional
2014 GRC Costs	$0	$659,144	$659,144
2017 GRC Costs	$461,797		$461,797
2012 Cost of Capital Litigation Acct	$0		$0
2015 Cost of Capital Litigation	$145,571		$145,571
Total Costs	$607,368	$659,144	$1,266,513
	/3 =	/6 =	
	$202,456	$109,857	$312,313

(i) 2012 Cost of Capital Litigation Expense

The 2012 Cost of Capital Litigation Expense was included in A.11-02-002 as a forecasted expense. In D.12-04-009, recovery of the 2012 Cost of Capital expense was excluded from the joint settlement between ORA and Suburban and is subject to rehearing as ordered by D.13-12-030.

Suburban has recorded these costs in its 2012 Cost of Capital Litigation Memorandum Account. In this application, Suburban has included the 2012 Cost of Capital in its estimate for Regulatory Expense *(see Table 3-12).* Suburban also seeks amortization of the 2012 Cost of Capital Litigation Memorandum Account in base rates in Special Request No. 1.[43]

ORA removed the 2012 Cost of Capital Litigation Expense from the request for Regulatory Expense since this issue is subject to rehearing. ORA's recommendation regarding Suburban's Special Request No. 1 Amortization of the 2012 Cost of Litigation Memorandum Account is provided in Chapter 13 of this report.

[43] Suburban Water application A.14-02-004, p. 8 item V, A.

(ii) 2015 Cost of Capital Litigation Expense

Both Suburban and ORA estimated $145,571 by using the 2012 Cost of Capital Litigation Expense as the basis and adjusting for inflation.

(iii) 2014 General Rate Case Expense

Suburban's estimated 2014 rate case costs total $702,187 includes $382,415 in legal expense. ORA reviewed invoices for these costs and found no issues. Non-legal expenses totaled $319,772 of which $267,000 was paid to consultants and expert witnesses on subjects including; the sales forecast, depreciation study, water quality and hydrology, operating expenses, and parent company allocable and indirect costs. The remaining costs included printing, postage, travel expense, witness training, and newspaper advertisement. Although ORA recommends that the 2014 deferred rate case expense be excluded from recovery in Test Year 2015, ORA reduced Suburban's estimated costs for the 2014 GRC from $702,187 to $659,144. Adjustments to the 2014 costs include the following:

- Witness Training $2,827– Suburban included costs for witness training. Each of Suburban's witnesses in this proceeding is experienced staff who has provided both written and verbal testimony in numerous proceedings. None of the witnesses expected to participate in this training have less than 11 years with the company. According to Suburban's response to ORA Data Request PE 03, item 6, Suburban witnesses received witness training in 2011 in San Francisco over 1.5 days. Exclusion of this unnecessary training will also reduce travel and meals.

- Postage for Customer Mailing $34,216– Suburban is required to notify its customers of its proceedings and the time and place of any public hearings. Suburban's estimate for postage is to notify its customers of Public Participation Hearings. Since Suburban now bills customers monthly rather than bi-monthly, it should avoid this cost by doing more to schedule such proceedings in enough time to include notification with regular billing statements as a bill insert. In the past two rate proceedings, no Public

Participation Hearing was held or noticed. It is more cost effective to provide notices whenever possible with the regular monthly bill.[44]

- Consultant Don King $6,000 - In response to PE 03, item number 3, Suburban informed ORA that Mr. King will not be a consultant in the 2014 GRC and that the related cost will not be incurred.

(iv) 2017 General Rate Case Expense

Suburban's forecast of $744,829 for 2017 is based on their 2014 rate case expense costs adjusted for inflation. ORA's forecast of $461,797 is based ORA's reduced 2014 estimate noted in section (iii) above. ORA adjusted legal costs for inflation and further reduced non-legal Consultant fees.

For 2017, ORA removed fees paid to consultants Walter Bench and Jeff Woller totaling $230,605. Suburban retained Mr. Bench in 2013 to provide expert testimony on corporate allocable indirect costs, benefit insurance, property and casualty insurance in Suburban's 2014 GRC. Suburban retained Mr. Woller in 2013 to provide expert testimony on the allocation of parent company expenses, specifically the use of 2 Factor versus 4 Factor Allocations. Suburban's use of Mr. Bench and Mr. Woller as consultants in the 2014 rate case was in part due to contentious issues in A.11-02-002 and reorganization at the parent company level that required intensive analysis on the impact to Suburban Water and its ratepayers. A major part of that reorganization by Suburban's parent company was the elimination of almost all of its non-regulated assets, which were contentious and litigated extensively in past GRCs. With a simplified parent company organization structure, ORA expects that the issues addressed by Mr. Bench and Mr. Woller in the 2014 rate case will be resolved and not subject to the same level of analysis and litigation in 2017.

[44] Even though a Public Participation Hearing is planned for this current proceeding, Suburban and the Commission's Public Advisor's Office should work to schedule the hearing far enough in advance to notify customers via bill insert.

The differences in ORA's recommendation and Suburban Water's request is attributable to forecasting versus deferring and amortizing rate case costs, exclusion of expenses that are not necessary such as expert witness training for Suburban's experienced witnesses, postage for mailing of public hearings when Suburban can provide such notice via bill insert, and the reduction and/or exclusion of consultant fees.

The table below shows the authorized rate case expense for Suburban's last two General Rate Case proceedings compared with the amount Suburban requests for this 2014 General Rate Case, on a per customer connection basis. As shown in Table 3-14, Suburban's request for rate case expense *(excluding Cost of Capital)* is about 37% higher than the amount authorized in the last General Rate Case, which is approximately 32% higher than the preceding General Rate Case.

Table 3-14: Authorized Rate Case Expense vs Requested Rate Case Expense per Connection

D.09-03-007	D.12-04-009	A.14-02-004 Request
$387.3 ($ in Thousands)	$512.9 ($ in Thousands)	$704.2 ($ in Thousands)
/76,000 connections	/76,000 connections	/76,000 connections
= $5.05 per connection	= $6.74 per connection	= $9.26 per connection

It is ORA's mission to obtain the lowest rate possible consistent with reliable and safe service. By forecasting rate case costs, Suburban will be motivated to control its costs without violating the Commission's prospective rate setting policy. The Commission should adopt ORA's recommendation of a prospective forecast of $202,456 for Test Year 2015 as it provides ratepayers protection from Suburban's unrestrained regulatory costs.[45]

[45] ORA's estimate of $202,456 per year over 3 years equals $607,368 including 2016 Cost of Capital Litigation Expense results in cost per connection of $7.99.

(b) **PUC Reimbursement Fee, Sub-Acct 605**

Suburban estimates $1,001,761 in Test Year 2015 for PUC Reimbursement Fee. Suburban tracks this amount in Other Revenues and as an expense. ORA estimates $1,029,961. Differences in Suburban's and ORA estimates are due to differences in projected total water sales.

8) Outside Services Employed, Acct 798

Outside Services include legal fees, audit fees, and other professional services received. Suburban estimates a total $492,709 for Test Year 2015. ORA recommends $445,501, a difference of $47,208. ORA discusses the differences below.

(a) **Audit Fees, Sub-Acct 312**

Suburban estimates $158,212 for Test Year 2015, based on the inflation adjusted last recorded year 2012. ORA recommends $152,405, based on the five-year recorded average adjusted for inflation. ORA's estimate better reflects the fluctuations that may occur from year to year. Suburban provided no reason or support for using a single year as the basis for its estimate.

(b) **Other Professional Services, Sub-Acct 324**

Other Professional Services include costs for outside consultants. Suburban estimates $189,481 for Test Year 2015. ORA recommends $148,080, $41,401 less than Suburban. Suburban used a five-year recorded average adjusted for inflation to arrive at its estimate. ORA used an inflation adjusted five-year average, but removed consultant fees and an erroneous amount included in 2011 recorded expenses.

Upon reviewing the five-year recorded expenses as presented in Suburban's workpapers, ORA noticed that expenses recorded in 2011 were significantly higher than other years. The table below shows the recorded Other Professional Services incurred for the past five years.

Table 3-15: Other Professional Services

2008	2009	2010	2011	2012
$62,868	$135,792	$127,047	$373,949	$168,814

In ORA Data Request PE 09 item number 5, ORA requested a copy of Suburban's ledger showing costs incurred for 2011. In response to PE 09, Suburban indicated that $35,250 was erroneously booked into the account. Suburban reported that the corrected 2011 amount should be $341,699[46].

Upon reviewing other ledger entries for 2011, ORA tallied $161,534 paid to a single individual, R. Mercieca. ORA requested that Suburban provide a summary of R. Mercieca's employment with Suburban and an explanation of the work performed in 2011. Suburban responded to ORA that R. Mercieca was a former employee of SouthWest Water Company and had also held the position of Controller while employed by Suburban Water Systems until November 2002. According to Suburban, R. Mercieca was employed as a consultant in 2011 to manage day to day operations of the accounting department, act as an interim controller, and complete the annual tax provision.[47]

According to Suburban witness testimony provided by Walter J. Bench, Suburban's parent company employs a finance department including a Controller.[48] For Test Year 2015, ORA is recommending 43% of parent company costs be allocated to Suburban Water *(see Chapter 11 of this report)*. The allocated costs Suburban paid include the salaries for the Controller and other financial staff.

Based on ORA's review of the recorded expenses from 2008 - 2012, to normalize the level of expense and forecast for Test Year 2015, ORA removed the

[46] Suburban Water response to ORA Data Request PE 09, item number 5.

[47] Suburban Water response to ORA Data Request PE 11, item 1-3.

[48] Prepared Testimony of Walter J. Bench, Attachment 2, p. 13.

consultant fees Suburban paid to R. Mercieca in 2011 from its analysis. ORA considers the fees paid to R. Mercieca a one-time expense since such expenses occurred in only 1 of the last 5 years. Suburban has access to financial services from its parent company for which Suburban pays its share of costs. Before hiring temporary help to perform duties of Controller or other financial duties, ORA should fully benefit from the expertise it is already paying for. ORA's recommendation of $148,080 is based on an adjusted five-year average expense, less the erroneous $35,250 and $161,534 paid to R. Mercieca in 2011.

9) Maintenance of General Plant, Acct 805

Maintenance of General Plant includes various Sub-Accounts to track maintenance of various equipment and janitorial services and supplies. Suburban's total estimate for these Sub-Accounts is $148,826 for Test Year 2015. ORA recommends $146,868. ORA agreed with Suburban's estimate for all Sub-Accounts with the exception of Sub-Account 200, Janitorial Service/Supplies. For this Sub-Account, Suburban used the last recorded year 2012 and ORA used an inflation adjusted five-year recorded average. Suburban provided no support or justification for using the last recorded year. ORA recommendation is more accurate since it reflects the fluctuations that occur in this account from year to year.

10) Miscellaneous Accounts

(a) **Rent, Acct 811**

Suburban estimates $494,407 for Rent in Test Year 2015. Suburban's estimate is based on the actual lease cost of its new main office facility, its San Jose Hills and Whittier/La Mirada offices. ORA reviewed each lease agreement and accepts Suburban's estimate.

(b) **Administrative Expense Transferred, Acct 812**

Administrative Expense Transferred represents a credit for General and Administrative Overhead. Suburban estimates ($929,718) for Test Year 2015.

ORA recommends ($667,544). Differences in ORA and Suburban estimates are due to differences in plant construction and costs of removal.

11) Clearing Accounts

(a) **Inter Company Clearing Accounts, Acct 901**

ORA's analysis and recommendations for the many Sub-Accounts included in Injuries and Damages was completed by ORA witness Mehboob Aslam. *(See Chapter 11)*

(b) **Transportation Expense – Clearing, Acct 903**

Transportation Expense Clearing accounts consists of several Sub-Accounts including Car/Truck Service, Car/Truck Gas, Heavy Equipment, Tires, License Fees, Vehicle Insurance, and Sale of Vehicles. Suburban estimates a total $513,660 for Test Year 2015. Suburban's estimate for most of the Sub-Accounts is based on an inflation adjusted five-year average. ORA recommends $492,822 which is $20,838 less than Suburban's estimate.

ORA accepted Suburban's estimates for all Sub-Accounts with the exception of Sub-Account 102 for Car/Truck Gas. Suburban used the last recorded year, 2012 as the basis to estimate for 2015. Review of the period 2008 – 2012 shows fluctuations in recorded expense. ORA used an inflation adjusted five-year average because of fluctuations in gas prices that may occur in the Test Year as have occurred in the past.

(c) **Tools & Work Equipment - Clearing, Acct 906**

Suburban estimates $12,792 in Test Year 2015 for Sub-Account 103, Heavy Equipment Service. Suburban's estimate is based on the inflation adjusted five-year average expense. ORA accepts Suburban's estimate.

E. CONCLUSION

ORA carefully reviewed and considered Suburban's justification and support for its numerous accounts and found areas of excessive and unnecessary costs unrelated to provisions of safe and reliable service.

Over the past several years, ratepayers have endured increase after increase while being told that the utility must cover its necessary and fixed costs. ORA has shown that many of the costs incurred by Suburban Water are neither necessary nor fixed and should be reduced. To further control unavoidable expenses Suburban should be transitioned to a prospective forecast of its Rate Case Expense. Doing so without requiring a catch up of deferred Rate Case costs will not harm Suburban, but be a benefit to the ratepayer. ORA recommends that the Commission adopt ORA's estimates on Operation & Maintenance and Administrative & General Expenses as recommended herein.

CHAPTER 4: PAYROLL AND NEW POSITIONS

A. INTRODUCTION

This Chapter sets forth ORA's analyses and recommendations relating to the 2015 Test Year payroll expenses Suburban requests in A.14.02-004. ORA also reviewed and made recommendations on Suburban's request for various new positions.

B. SUMMARY OF RECOMMENDATIONS

Suburban requests $9,517,913 in payroll expenses and ORA recommends $6,941,580. ORA made adjustments to Suburban's request due to Suburban's inconsistent showing of its payroll expense numbers. Additionally, ORA recommends removing the entire incentive compensation program because Suburban failed to support this request. Finally, ORA disallows the Customer Service Rep.1, Talent Leadership Development Manager, Regional HR Manager, Public Relations Director, and the three person leak crews. ORA allows Suburban's request for a Buyer and Data Warehouse analyst positions.

C. DISCUSSION

ORA investigated, analyzed, and developed its recommendations based on the information and data derived from multiple sources, including the Application, Suburban's Prepared Testimony, Suburban's Minimum Data Requirements, Suburban's Work Papers, both hardcopy and electronic versions, site visits to the main office, both District Offices, and various plant sites, information obtained from discussions and e-mail exchanges with Suburban employees, and responses to ORA Data Requests.

A comparison of the operating expense accounts ORA recommends and Suburban requests for Test Year 2015 is provided in Table 4-1.

Table 4-1

Suburban Request	ORA Reccomendation	Suburban Exceeds ORA	% Difference
$9,517,913	$6,941,580	$2,623,935	27.57%

1) Escalation Factors

ORA and Suburban applied the yearly rate of inflation to bring forward historical payroll costs to forecast future years. Suburban used 1.3% for 2014, 1.5% for 2015, and 1.7% for 2016, respectively. These numbers were from the "Division of Ratepayer Advocates: estimates of Non-labor and wage Escalation Rates for 2013 through 2017 from the June 2013 IHS Global Insight U.S. Economic Outlook." ORA agrees with Suburban's escalation factors, but the most recent escalation factor memo should be used once numbers are finalized.

2) Forecasting Methodology

Suburban supports its request for payroll expenses with worksheet 5-1A in the work papers. The worksheet provides an estimated 2013 salary and provides the actual cost recorded for the years 2008 through 2012 with a breakdown by position. Additionally, worksheet 5-1A presents the payroll costs for employees that were terminated during the 2008-2012 time period. Suburban provided the above information in the worksheet, but **did not** use recorded costs to forecast the 2015 test year payroll costs.

Suburban calculated the 2015 test year payroll cost using the 2013 *hourly rate* for each position *then multiplied by 2,080* hours to arrive at the equivalent full time salary for each position. Suburban uses this full time equivalent then escalates using ORA escalation factors to arrive at the 2015 test year amount.

ORA found Suburban's forecasting methodology insufficient because the hourly rate per position was hardcoded into worksheet 5-1A without support. Further, Suburban's forecasting methodology used a full 2,080 hours per position that assumes the entire company will have a 0% vacancy/turnover rate.

Additionally, Suburban had not demonstrated an adjustment for vacancies in the forecast.

ORA first attempted to use a 5-year historical average of costs per position to forecast payroll. Upon review of the last five years of recorded data from Worksheet 5-1A, ORA found the following issues:

- There were many gaps found for positions in the 5-year time period.
- The detached list of terminated employees **did not** fully match the respective position gaps in the worksheet.[49]
- In many cases the 2012 salary did not closely match the 2013 salary.

Because of the above highlighted issues with recorded payroll costs, ORA ruled out the use of a 5-year historical average to forecast payroll.

Overall, the support Suburban provide was insufficient to accurately forecast payroll. ORA was unable to use Suburban's forecast because the numbers were hardcoded & assumed no vacancy or turnover. Further, ORA was unable to use a 5 year recorded average cost to forecast payroll because of omitted and insufficient data. ORA originally considered a full audit of payroll, but the company currently has 123 positions authorized; auditing each of these positions would be both time-consuming and inappropriate. ORA instead chose to use a 10% sampling methodology.

ORA's 10% sampling methodology involves six succinct steps:

1. Select a sample size of approximately 10% of payroll.
2. Accurately verify the last five years recorded costs of the positions selected in the sample.
3. Adjust out the costs for time periods in which the position was vacant or the company was not incurring a cost.

[49] See Q.A. Manager 'Terminated Employees' versus Line 60 of Worksheet 5-1A.

4. Average the costs over the sample time period to arrive at an accurate position cost for forecasting.
5. Compare the total costs of the sample positions against the data provided in the worksheet to arrive at a "Sample as a percentage of data provided."
6. Deduct the calculated percentage across total payroll to arrive at an accurate estimate.

First, ORA chose the meter reading and accounting departments because the total salary costs and number of employees totaled approximately 10% of company-wide payroll. Additionally, these positions were chosen so ORA could physically verify the employees during the March 25 & March 26 site visits.

Second, ORA asked for the last five years' recorded data for the fourteen positions in the sample[50]. The first data request (JR6-001) was sent out on March 12, 2014. Suburban called two days later on March 14, 2014 to inform ORA that this request would be incredibly difficult to satisfy because the documents with this information were in paper format instead of electronic format. The company stated that the process would involve sifting through human resource documents at an offsite document storage company, Iron Mountain. Suburban continued to say that this request would take an inordinate amount of time to satisfy. ORA documented the discussion in email "RE Follow Up JR6-001."

ORA was originally dismayed at the notion that a company would not have this relatively straightforward information readily available, but was ultimately amenable to this request. Based on phone discussions, ORA modified the data request to three months of supporting data instead of the original five years to reduce the burden upon Suburban. The revised JR6-001 stated that Suburban should confirm that these fourteen positions were filled December 1, 2013 to

[50] JR6-001.

March 1, 2014.[51] In summation, Suburban's payroll record keeping system, forced ORA to modify the sampling time period from five years to three months.

ORA received a response from Suburban on March 21, 2014 confirming the positions were filled with a breakdown by position and bi-monthly salary. Below is table 4-2 compiled from Suburban's response.

Table 4-2

Position	Compensation	Yearly Adj	Position	Compensation	Yearly Adj
Accountant	$ 2,538	$ 60,923	Meter Reader	$ 1,306	$ 31,334
Accountant	$ 2,442	$ 58,615	Meter Reader	$ 1,282	$ 30,778
Accounting Manager	$ 3,654	$ 87,692	Meter Reader	$ 1,262	$ 30,298
Senior Accountant	$ 3,080	$ 73,920	Meter Reader	$ 1,146	$ 27,514
Senior Accountant	$ 3,332	$ 79,974	Meter Reader	$ 1,124	$ 26,976
Senior Accountant	$ 3,060	$ 73,443	Meter Reader	$ 1,200	$ 28,800
Senior Accounting Clerk II	$ 2,198	$ 52,743			
Senior Accounting Clerk II	$ 2,255	$ 54,125			

Confirming ORA's concerns, the 2013 salaries provided in JR6-001 **did not** match the 2013 estimated salaries in Worksheet 5-1A. ORA found that Suburban overstated and understated many salaries in the sample. On average, ORA had found that Suburban *overstated* the base salary of the fourteen positions in ORA's sample by 3.8%. Table 4-3 below shows the salary discrepancy between JR6-001 and worksheet 5-1A.

[51] RE Follow Up JR6-001.

Table 4-3

Provided in JR6-001				Worksheet 5-1A			
Position	Bi-Monthly	Yearly		Position	2013 Rate		
Accountant	2538.46	$ 60,923		Accountant	$ 58,635		
Accountant	2442.31	$ 58,615		Accountant	$ 50,357		
Accounting Manager	3653.85	$ 87,692		Accounting Manager	$ 101,650		
Senior Accountant	3080	$ 73,920		Sr. Accountant	$ 65,478		
Senior Accountant	3332.26	$ 79,974		Sr. Accountant	$ 78,749		
Senior Accountant	3060.12	$ 73,443		Sr. Accountant	$ 85,966		
Senior Accounting Clerk II	2197.62	$ 52,743		Sr. Acct Clerk II	$ 58,178		
Senior Accounting Clerk II	2255.19	$ 54,125		Sr. Acct Clerk II	$ 56,763		
		$ 541,435			$ 555,776		$ 14,341
							2.58%
Meter Reader	1305.6	$ 31,334		Meter Reader I	$ 31,554		
Meter Reader	1282.4	$ 30,778		Meter Reader I	$ 30,347		
Meter Reader	1262.4	$ 30,298		Meter Reader I	$ 33,051		
Meter Reader	1146.4	$ 27,514		Meter Reader I	$ 30,826		
Meter Reader	1124	$ 26,976		Meter Reader I	$ 31,304		
Meter Reader	1200	$ 28,800		Meter Reader I	$ 32,635		
		$ 175,699			$ 189,717		$ 14,018
							7.39%
Total Sample Salaries		$ 717,135		Total from Wkst 5-1A	$ 745,493		
		Dollar Difference		$28,358			
		Percentage Difference		3.80%			

Considering the initial problems encountered during the verification of ORA's sample, ORA decided to make sure the numbers provided in JR6-001 were accurate and no vacancies were realized during this time period. In JR6-005, ORA asked for the pay stubs of all eight positions in the Accounting Department for the first pay period in January and asked for the pay stubs for the second pay period in February for all six positions in the Meter Reading Department. Suburban provided the pay stubs and the gross salary for each pay period request. ORA found that the amounts **did match** the numbers provided in JR6-001.

While the salary data retrieved from the pay stub sample adequately confirmed the salary costs per employee, Suburban could not produce pay stubs for two of the fourteen employees in the sample. Regarding the accounting department Suburban stated, "There is no pay stub for the employee <Name

Omitted> because his employment with Suburban commenced on January 29, 2014."[52] Regarding the meter reading department Suburban stated, "There is no pay stub for <Name Omitted> related to the last pay period in February 2014, because his employment with Suburban commenced on March 3, 2014."[53] ORA had previously asked if these specific positions had been filled during the three month period starting December 1, 2013 ending March 1, 2014. Because this response was in conflict with the answer provided in a previous data request, ORA followed up on this concern in JR6-007. Suburban provided the following response:

> Suburban corrects its earlier response. One of the senior accountant positions was vacant for a brief period during the time specified in this data request. The position was vacant from December 1, 2013 to January 28, 2014[54]

For the Meter Reading Department, Suburban provided a chart[55] that outlined two vacancies during the period outlined in ORA's sample. The total vacancies in ORA's sample time period are compiled in Table 4-4 below.

Table 4-4

Position	Date Position was vacant beginning . . .	Date position was filled	Days Vacant
Senior Accountant	December 1, 2013	January 29, 2014	59
Meter Reader 1	March 2, 2014	March 10, 2014	8
Meter Reader 1	December 22, 2013	March 3, 2014	71

At this point, the sample salaries had been accurately verified and vacancies uncovered. ORA compiled a table with the accurate salary data and removed the vacant position costs from the sample to more accurately forecast payroll. ORA then adjusted the three-month sample into a yearly equivalent by multiplying by four to create a yearly-adjusted average. This yearly adjusted average portrays a

[52] Data Request JR6-05 Follow-Up to JR6-01Response Q1a.

[53] Data Request JR6-05 Follow-Up to JR6-01Response Q2a.

[54] Data Request JR6-07 Payroll Response Q4a.

[55] Data Request JR6-07 Payroll Response Q5h.

more accurate forecast because it accounts for time periods in which the position was vacant and the company was not incurring a cost. ORA's process is shown in Table 4-5 below.

Table 4-5

ORA Payroll Forecast						Wksht 5-1A
Position	December	January	February	Yrly Adj Avg		2013 Est.
Accountant	$5,077	$5,077	$5,077	$60,923		$ 58,635
Accountant	$4,885	$4,885	$4,885	$58,615		$ 50,357
Accounting Manager	$7,308	$7,308	$7,308	$87,692		$ 101,650
Senior Accountant	$0	$411	$6,160	$26,283		$ 65,478
Senior Accountant	$6,665	$6,665	$6,665	$79,974		$ 78,749
Senior Accountant	$6,120	$6,120	$6,120	$73,443		$ 85,966
Senior Accounting Clerk II	$4,395	$4,395	$4,395	$52,743		$ 58,178
Senior Accounting Clerk II	$4,510	$4,510	$4,510	$54,125		$ 56,763
Meter Reader	$2,611	$2,611	$2,611	$31,334		$ 31,554
Meter Reader	$2,565	$1,903	$2,565	$28,130		$ 30,347
Meter Reader	$2,525	$2,525	$2,525	$30,298		$ 33,051
Meter Reader	$2,293	$2,293	$2,293	$27,514		$ 30,826
Meter Reader	$2,248	$2,248	$2,248	$26,976		$ 31,304
Meter Reader	$1,703	$0	$0	$6,813		$ 32,635
				$644,863		$745,493
	Dollar Difference		$100,630			
	Percentage Difference		13.50%			
	Suburban 2013 Payroll Estimate		$7,737,694			
	ORA Payroll Estimate		**$6,693,222**			

With the vacancies adjusted out and the accurate salary data inserted, ORA arrived at a total yearly adjusted average of $644,863 for the fourteen positions in the sample. Suburban had forecasted $745,493 in Worksheet 5-1A for the same positions resulting in a percentage difference of 13.5%. Finally, ORA used the 13.5% percentage difference between the fourteen-position sample and worksheet 5-1A and applied it to all positions in Worksheet 5-1A to arrive at an accurate 2013 payroll estimate. ORA then escalated using the factors outlined in the "escalation factors" portion of this testimony to arrive at the test year 2015 estimate.

ORA made a more than reasonable effort to obtain accurate payroll data from Suburban to develop our forecast. In an attempt to see how close the ORA payroll estimate is to actual 2013 payroll expenses, ORA asked a simple straightforward question in JR6-008; "What was Suburban's actual payroll cost for 2013?" The company responded, "Suburban has not closed its books for 2013, hence payroll costs are not currently available." This response was provided April 22, 2014, or nearly five months after the end of the calendar year 2013. ORA believes it is unreasonable for Suburban to have difficulty providing prior year actual payroll costs.

ORA outlined the trouble it encountered in obtaining a relatively simple and straightforward fourteen-employee payroll sample. Difficulties include data request revisions upon further inquiry, missing data, incorrect data request responses, and data request delays/extensions. ORA finds it highly unreasonable for Suburban to be unable to provide accurate payroll information for forecasting. Additionally, the three year period prior to filing the GRC gave Suburban ample time to produce an accurate payroll forecast. This also raises questions about Suburban's accounting practices and how it maintains its books and records, since it was not able to produce the recorded payroll data requested, and ORA is still waiting for a response from Suburban.

In summation, Suburban provided support for payroll in Worksheet 5-1A that included missing, omitted, and incomplete information. ORA used a simple 10% audit methodology to attain a more accurate payroll forecast. Suburban has a total of 123 authorized positions, and ORA chose 14 positions to audit between the Accounting and Meter Reading departments to satisfy the 10% requirement.

Because Suburban's payroll data was both insufficient and incomplete, ORA asked for the actual salaries of these employees for the specified three-month timeframe. The salaries for the 14 employees in the sample were lower than what was provided in the payroll support worksheet 5-1A. ORA verified the salaries by

crosschecking the data against the bi-monthly pay stubs. Data retrieved from pay stubs is highly accurate and ORA used this as the basis for the sample.

ORA had now derived a sample with a solid salary basis. The next step in ORA's sampling process was to adjust out vacancies during this time period. ORA found that three of the positions in the sample were vacant during the three-month time period. ORA created a table outlining the actual costs incurred for the fourteen positions in the three-month time period then multiplied by four to arrive at the twelve month or yearly salary equivalent.

This 2013 fourteen-employee sample yearly salary equivalent with vacancies adjusted out totaled $644,863. This sample figure compared to the fourteen positions Suburban's $745,493 listed in Worksheet 5-1A resulted in a difference of 13.5%. ORA then reduced the total 2013 salary forecast in Worksheet 5-1A by 13.5% to arrive at a 2013 estimated salary cost of $6,693,105. This number was then escalated to the 2015 test year using ORA escalation factors. ORA estimates $6,881,817 for the 2015 test year regular payroll.

Ultimately, it was Suburban's responsibility to provide sufficient and accurate data to support their request for an increase in payroll costs. ORA highlighted the many issues and irregularities with the company's forecasting methodology and record keeping practices. To verify the accuracy of over a 120 salaries would be inordinately time-consuming and inappropriate. The 10% sample methodology is an effective method to establish accuracy with the data provided by Suburban.

3) Incentive Compensation

To calculate 2015 test year incentive compensation costs, Suburban first calculated the percentage difference between 2012 total payroll costs vs. the 2012 incentive compensation ("IC") costs. This calculation resulted in a percentage of 5.35%. Suburban then multiplied this percentage by the estimated 2015 total payroll costs to forecast the 2015 IC. Suburban forecasts $443,856 for the 2015 test year.

ORA reviewed the work papers and found the IC numbers were hard coded into Worksheet 5-1L. As a result, there was no breakdown to justify the costs[56]. This raised concerns as to the reasonableness of these costs. To verify these costs, ORA asked in JR6-006 for the 2011 incentive compensation payouts with a breakdown by employee received, amount, and date. Suburban responded unsatisfactorily by providing only amounts and an ambiguous employee number without a name[57]. Suburban's reason for not providing this information was "Dates are not available due to records have been destroyed/deleted by ADP" [58] This again raised concerns as to the reasonableness and legitimacy of the costs. Upon review of the individual payouts, ORA found many irregularities. For example, in 2011 one employee received a one-year incentive compensation totaling $103,428[59]. This was not an isolated incident; ORA found seven employees that received between $10,000 and $27,000 in 2011.

To further verify these costs, ORA asked how incentive compensation is calculated.[60] Suburban stated the company has two types of incentive compensation calculations:

- "Spot Bonus amounts are discretionary and amounts vary depending on circumstances.. [sic]
- Short-term incentive compensation is calculated by multiplying the employee's base salary by the target bonus percentage. The target bonus percentage is based on achievement of various company and employee-specific goals."

Neither of the two methods Suburban used to calculate incentive compensation could constitute justifiable or reasonable costs. Suburban's explanation of "Spot Bonuses" provides no specifics as to the nature of the

[56] See Line 33 Column L in Worksheet 5-1L.

[57] See Data Request JR6-06 Incentive Compensation Response Q1f.

[58] See Data Request JR6-06 Incentive Compensation Response Q1f.

[59] See Data Request JR6-06 Incentive Compensation Response Q1f 'Employee 100345'.

[60] JR6-006 Q1b.

incentive nor the calculation used to arrive at the amount. Additionally, Suburban **did not** demonstrate a cost control mechanism or authority hierarchy as to how the IC's are approved. The "short-term incentive compensation" method also lacked clarity and accountability. Suburban did not provide any explanation of the "target bonus percentage" or what the "various company and employee-specific goals" were.

ORA views Suburban's methods for its calculation of incentive compensation to be ambiguous and vague failing to demonstrate true accountability. Additionally, Suburban could not provide names or dates for recorded costs due to poor record-keeping practices. In this specific instance, ORA could not determine <u>who the bonus went to</u>, <u>who authorized the bonus</u>, and <u>how the bonus was calculated</u>. Suburban failed to justify these costs as reasonable. Because of this lack of accountability, authorizing these costs to be forecasted into rates could create a potential vehicle for impropriety and abuse at the ratepayer's expense. ORA recommends the Commission remove the entire 2015 test year amount for incentive compensation.

4) New Positions

Suburban requests adding 7 new positions into the payroll forecast to bring the total employee forecast count from 123 to 130. Two of the positions have already been filled and the remaining five positions have not been filled. ORA reviewed Suburban's application for the positions on an individual basis as outlined below.

5) Buyer (POSITION FILLED)

Suburban outlined in its testimony a business need for the Buyer position to provide skilled purchasing knowledge dealing with outside vendors for the purpose of obtaining services, supplies and equipment needed to maintain daily operations. This position was filled in 2011. Through discovery, ORA found a detailed job description and physically verified the position at the main office.

ORA finds a reasonable and justifiable need for this position. ORA recommends allowing this position.

(a) **Regional HR Manager (POSITION FILLED)**

Suburban outlined in its testimony that the position of Regional Human Resources ("HR") Manager was added to support HR services. To verify why the company did not have a prior need for this position; ORA asked in JR6-01 how the company fulfilled HR needs prior to hiring an executive HR position. Suburban responded "Prior to hiring an HR Manager, HR services were provided remotely by Suburban's Parent, *Southwest Water Company*"[61]

Originally, ORA viewed this position favorably as the company only had a "Sr. HR Admin Assistant" listed on the payroll sheet 5-1A to provide HR services. However during the March 25th site visit, ORA noticed a Vice President of Human Resources position that was not listed in the payroll worksheet. ORA asked in JR6-03 for the name, salary and duties of this position[62]. Suburban responded that this position has a bi-weekly salary of $8,269[63] that provides strategic human resources support for *Southwest Water Company*[64] (Suburban's parent company). The company clearly mentioned that this position provides HR services to the parent company but plainly omits a statement regarding HR services provided to Suburban. Upon further investigation, ORA found that currently, Suburban is requesting to allocate 49.8% of its parent company costs to Suburban. Thus, 49.8% of the salary of the Vice President of Human Resources is currently paid by Suburban's ratepayers. Please note that ORA is recommending an allocation rate of 43%. Additionally, the employee's private office was located at Suburban's main office facilities.

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[61] Data Request JR6-01 Response No. 4.

[62] JR6-003.

[63] Data Request JR6-03 Human Resources Response_CONFIDENTIAL Name and Salaries Q1a.

[64] Data Request JR6-03 Human Resources Response_CONFIDENTIAL Name and Salaries Q1b.

In summation, Suburban states this employee's duties are tied to the parent company, while the employee's private office is located at Suburban's main office, and $98,000+ of these HR services are allocated yearly to Suburban ratepayers. ORA could not reconcile Suburban's statements against the actual treatment of this position. For ratemaking purposes though, ORA found that ratepayers are already funding an executive employee's salary with Human Resource duties. Suburban did not provide commentary as to why ratepayers should fund two executive level Human Resource positions.

ORA recommends the Commission either:

- Disallow the $108,659 unauthorized salary in the payroll forecast or;
- Remove Suburban's allocation of the Vice President of Human Resources position.

ORA removed the requested Regional HR Manager Position costs from the payroll forecast.

(b) **Data Warehouse Manager**

Suburban requests a data warehouse manager that will be responsible for administration, designing, developing, and supporting Suburban's financial databases. ORA inquired as to the need for the position in JR6-01 in which Suburban provided a more detailed description of job duties. Suburban stated that this position would be able to utilize Suburban's Enterprise Resource Planning system more effectively. Additionally, this position would be able to help ensure resources are used efficiently and help with providing information for regulatory agencies when needed. ORA reviewed the $108,000 salary and found it to be in line with industry standards. Suburban has demonstrated an appropriate need for this position and ORA believes this position will benefit ratepayers. ORA recommends the Commission allow this position.

(c) **Customer Service Office Rep. 1**

Suburban stated in testimony that this position is needed to assist with increased customer calls and the additional walk-in customers that incur daily in the San Jose Hills and Whittier/La Mirada service area offices. During the ORA site visit on March 26, ORA had a list of questions to ask the VP of Customer Assurance John Brettl about the request for this additional position. The VP of Customer Assurance is in charge of customer service personnel. At the beginning of this conversation with Mr. Brettl, ORA was cut short after the first question because Mr. Brettl stated that the previous manager in charge of the office requested the additional position, but Mr. Brettl instead stated the position was not needed.

ORA attempted to follow up and document this statement in JR6-004 for testimony, but the tone and information stated in the previous discussion had changed. Mr. Brettl acknowledged the conversation but rescinded his previous statement in an attached email to response JR6-04.[65] Because Mr. Brettl had originally stated that the position was unneeded, ORA did not ask any further questions of him during the site visit. This hindered ORA's discovery efforts.

To follow-up Suburban's statements made in testimony, ORA requested that customer calls are increasing enough to merit a new position.[66] Suburban responded with two detailed graphs that showed both total calls and average time to answer over a three year time period[67]. At the end of 2011, the graph shows one spike in both calls, and time to answer. While the chart did show one spike, this subsided the following year[68]. Suburban failed to demonstrate a consistent pattern of long wait times or sustained call volume enough to merit a new position.

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[65] Data request JR6-04 Customer Service Response "Email Attachment".

[66] JR6-001 Q7a.

[67] Data Request JR6-01 Response Q7a.

[68] See Chart 1 & 2 provided as Response to JR6-001 Q7a.

To supplement Suburban's testimony, ORA had asked for documentation supporting increased physical transactions in these service areas[69]. Suburban provided a chart titled 'Total Company Walk-in Payments' with two years of data but only three sets of data points[70]. Suburban did not provide any support verifying the data was or commentary on where it was collected from.

Suburban has stated the need for the position is due to increased customer calls and walk-ins. While the company did show one spike in call volume and call wait times for a short period at the end of 2011, it did not demonstrate a consistent pattern enough to merit a new position. Additionally the walk-in charts showed an increase, but Suburban did not provide accurate enough data points or a description of where this information originated. Further, first impressions are important; ORA's initial discovery found that the manager *directly* responsible for customer service personnel stated clearly that this position was unneeded. Suburban had three years to confer with this employee to arrive at consistent conclusions. ORA uncovered non-definitive answers across the board. ORA recommends the Commission disallow the Customer Service Office Rep. 1 position.

(d) **Talent Leadership Development Manager**

Suburban states in testimony that this $109,000 a year position is needed to build effective relationships with leaders across the company to assess talent, create effective development strategies and bring new leaders to the forefront of the organization. Suburban's testimony fails to demonstrate a clear benefit to ratepayers or an adequate business need.

Because Suburban's states a major reason for this position is to bring new leaders to the forefront of the organization, ORA followed up on this concern in

[69] JR6-01 Q7c.

[70] See Data Request JR6-01 Q7c 'Total Walk-in Payments'.

JR6-01 and asked, "Considering the relatively small number of management positions in the company and low turnover rate for these positions, please indicate the business need for a position that will draw a costly six-figure salary." Suburban responded:

- "Although our testimony references management enhancement, this position will touch every Suburban employee to create a meaningful succession plan throughout the organization.
- This position will allow us to do a comprehensive human capital inventory for every Suburban employee capturing education, certifications, strengths to be leveraged, weaknesses to be addressed, professional ambitions and other noteworthy individual characteristics.
- From the inventory and additional assessments, we will build a professional development plan for every employee with a timeline and catalog of accomplishments.
- The TLDM "Talent Leadership Development Manager" will monitor progress and facilitate the execution of the plan providing timely feedback, coaching and mentoring along the way."

Suburban states that this employee will create a meaningful succession plan throughout the organization, but did not explain how a succession plan will directly benefit ratepayers. Additionally, a comprehensive human capital inventory is a vague and ambiguous term that fails outline a benefit to rate payers. Further, Suburban states that this position will build a professional development plan for every employee with a catalog of accomplishments. Overall, Suburban demonstrated a benefit to employees and management, but failed to show how these duties would benefit ratepayers.

Further, Suburban did not provide an adequate business need. Suburban did not demonstrate difficulty with current managers or highlight the inability to recruit or recognize talent within the organization. Suburban should have highlighted recent managerial failures or recent management mis-hires to demonstrate a need to develop talent within the organization. Because Suburban

did not provide this information, ORA is unaware whether or not there has even been an issue requiring talent or leadership development.

Suburban did not provide support showing that there was a similar position in a regulated water utility of this size. Additionally, ORA is unaware of any talent or leadership development positions in any of the other water utilities. Overall, Suburban had to show how a talent development leadership manager is needed to provide safe and reliable water service. The answers provided by the company demonstrated a benefit to employees and managers, but did not show a clear benefit to ratepayers. ORA recommends the Commission disallow the Talent Leadership Development Manager position.

(e) **Public Relations Director**

Suburban states that a Public Relations ("PR") Director will be responsible for directing and organizing the overall public relations and communications activities of the organization. In general, PR directors are involved in lobbying activities, creating corporate value and image enhancement for Suburban shareholders. These duties are not directly aligned with ratepayer benefit and ORA has disallowed similar positions in the past.

ORA asked for specifics in JR6-07 "How has the company met this need prior to asking for the position in the GRC? Considering the $129,000 a year salary, what benefits will ratepayers receive by funding this position?" Suburban responded:

> "In 2012 the parent company SWWC dissolved its communications department. The Suburban Communications Manager no longer has that valuable support available.
>
> The new Public Relations Director position will be responsible for directing and organizing the overall public relations and communications activities of Suburban. This new position will manage the development and communication of information designed to keep the public informed about Suburban's programs, accomplishments, and goals for meeting the needs of its customers. Customers will reap the benefits of having an open dialog about

water policy, which is not similarly available through other mediums. "

Suburban currently employs a Communications Manager at a salary of approximately $75,000[71] that fulfills the broad need to interact with the public. Suburban did not outline the specific 'valuable support' that SWWC provided to the communications manager, nor did the company provide a clear distinction between the duties of the Communication Manager and the proposed PR Director. Further, Suburban did not provide support showing that the current duties of the Communications Director are too burdensome and require two executive level positions to perform.

On top of this, ORA views the costs related to this position as extravagant. The company is requesting a $129,000 yearly salary be forecasted into rates. If allowed, ratepayers would be in effect paying salaries in excess of $200,000 to be "informed about Suburban's programs, accomplishments, and goals for meeting the needs of its customers."

While ORA recognizes the need for ratepayers to be informed about Suburban activities and programs. ORA found that the company already has a position broadly dedicated to performing this task. Overall, Suburban failed to show a clear benefit to ratepayers for this six-figure salary. ORA recommends the Commission disallow the Public Relations Director position.

(f) **3-Person Leak Crew**

Suburban states that an additional leak crew is required to meet the existing and *growing demand* to complete repairs. The MDR Section E number 6 provides information as to system wide leaks in the following table:

[71] Worksheet 5-1A line 13.

Table 4-7

Recorded Year Leaks				
2008	2009	2010	2011	2012
1022	1163	905	848	383

The table shows a *declining trend* in leaks, which is contrary to what Suburban stated in testimony.

In additional support for this request, Suburban states this leak crew is needed to make inroads in the burgeoning problem of valve replacements. This sentiment was reiterated during the March 25 & March 26 site visits. ORA asked for clarification of this request in JR6-02:

> "During leak repairs that required a main valve shutoff, how many resulted in a situation where Suburban was unable to shut off the closest main (because of a faulty valve) and were forced to shut off mains further downstream in the water system?"

Suburban responded: "Suburban does not document the valves isolated during required shutdowns."[72]

Suburban failed to document a need for a separate valve replacement/leak crew by not providing *any* specific data. Additionally, Suburban states in testimony that leaks are increasing when the data shows the opposite. Ultimately, the cost associated with this additional crew does not provide adequate benefits to ratepayers. ORA recommends the Commission disallow this three-person leak crew.

D. CONCLUSION

Suburban had three years to prepare accurate and timely data for forecasting. ORA found many issues with the completeness and accuracy of the Suburban information provided. Suburban should focus on the issues addressed in this Chapter and adopt more sound documentation principles to provide more

[72] Data Request JR6-02 Leak Crew Response Q1b.

relevant data for the next GRC cycle. ORA recommends the Commission adopt ORA's payroll estimates.

CHAPTER 5: INCOME TAXES AND TAXES OTHER THAN INCOME

A. INTRODUCTION

This Chapter sets forth the Office of Ratepayer Advocates'("ORA") analysis of Suburban Water Company's ("Suburban") Income Taxes related to Suburban's General Rate Case ("GRC") A.14-02-004.

ORA's recommendations are based on an analysis of Suburban's application testimony, work papers, and responses to data requests. Furthermore, ORA reviewed previous Commission rulings, information contained within the Internal Revenue Services' Internal Revenue Code ("IRC") and information from the California Franchise Tax Board when appropriate.

B. SUMMARY OF RECOMMENDATIONS

The difference between Suburban and ORA's estimate is due to different revenue requirement, expenses, rate base and other tax issue estimates. ORA included the imputed Domestic Production Activities Deduction ("DPAD") calculation based upon prior Commission rulings and decisions. Additionally, ORA agreed with Suburban's methodology regarding the California Corporation Franchise Tax ("CCFT") deduction in calculating federal income tax. Tables 5-1 and 5-2 present the calculation of income taxes by both ORA and Suburban.

C. DISCUSSION

1) Ad Valorem Tax

Suburban requests $1,514,660 for ad valorem tax expenses. ORA recommends $1,504,139 in Test Year 2015.

ORA reviewed Suburban's calculation methodology in Table 9-2 from Suburban's workpapers. ORA found the numbers in the worksheet flowed through correctly and Suburban's calculation to be accurate. The difference is due to

ORA's Adjustment to the capital projects as discussed in Chapter 6, Plant in Service of this report.

2) Payroll Taxes

Suburban requests $733,130 for payroll tax expenses. ORA recommends $586,937 in Test Year 2015.

ORA reviewed Suburban's calculation methodology in Table 9-1 from Suburban's workpapers. ORA found the numbers in the worksheet flowed through correctly and Suburban's calculation methodology to be accurate. Suburban inputted the correct tax estimate percentages with a breakdown of how each tax is treated up to the specified income level. ORA used Suburban's calculation methodology, but the difference is due to ORA's estimates of payroll expenses as discussed in Chapter 4 of this report.

3) State Income Tax

Suburban requests $349,261 for payroll tax expenses. ORA recommends $700,163 in Test Year 2015.

ORA reviewed Suburban's calculation methodology in Table 9-4 from Suburban's workpapers. ORA found the numbers provided in the worksheet to flow through correctly and Suburban's methodology to be accurate. Additionally, Suburban and ORA use the California Corporation Franchise Tax ("CCFT") rate of 8.84% to calculate state income tax. The difference is due to different estimates of revenues, expenses, and rate base by both parties.

4) Federal Income Tax

Suburban requests $1,152,098 of federal income tax expenses as part of the cost of service in this application. ORA recommends $2,299,878 of expenses as part of the cost of service in Test Year 2015.

ORA reviewed Suburban's calculation methodology in Table 9-4 from Suburban's workpapers. This calculation is similar to the state income tax method discussed in Section 3 of this chapter. ORA found the numbers flowed through

correctly, and Suburban's calculation methodology to be accurate. Suburban and ORA both used the Federal Income Tax rate of 35% to calculate federal income tax. ORA used Suburban's calculation methodology but the difference is due to different estimates of revenues, expenses, and rate base.

5) CCFT Deduction

One component of calculating gross federal taxable income is to deduct the amount of state tax paid. Suburban calculates the 2015 test year CCFT deduction using the *prior year's* (2014) estimated CCFT. Calculation of the CCFT federal tax deduction has been a contentious issue between ORA and Suburban.

In Suburban's prior GRC ("A.") 11-02-002, Suburban and ORA were in disagreement as to the treatment of CCFT tax deduction. ORA had argued that the correct treatment of the CCFT tax deduction was the use of the CCFT tax *two years prior* to the test year. This conclusion arose due to changes in California tax law that no longer requires companies to make estimated state tax payments one year in advance[73].

In Decision D.12-04-009, the Commission adopted a partial settlement between Suburban and ORA for the prior GRC, which resolved all litigated and disputed matters in the proceeding, but the decision also granted limited rehearing on four issues. The CCFT deduction was one of the issues granted limited rehearing. On May 29, 2012, Suburban filed an official application for rehearing of D.12-04-009. Suburban stated in the application for rehearing that the correct method to calculate the CCFT tax deduction was use of *the estimated prior year*. In D.13-12-030, the Commission granted a limited rehearing on this issue to determine whether or not the estimated 2012 CCFT should be used to calculate the federal income tax expense for the 2012 test year.

[73] A.11-02-002 B1 p. 4.

During the prehearing conference in A.11-02-002 for the rehearing issues on April 8, 2014, the presiding officer decided to move the issue of the correct calculation of the CCFT deduction to the current proceeding. Both ORA and Suburban are to file testimony and make their respective recommendations. The final approved methodology will be used for the current proceeding as well as for A.11-02-002.

Suburban states in Section 9.7 that the use of the estimated prior test year is the correct method to calculate the federal taxable income. Suburban cites D.89-11-058 pertaining to the treatment of the CCFT deduction of federal income tax. The decision states: "*The prior year CCFT number should be used in future ratemaking calculations*." ORA reviewed this prior decision and found it to be applicable to this proceeding.

Suburban continues to support its request with testimony discussion regarding a more recent Golden State Water Company ("GSWC") general rate case decision. Suburban asserts that this decision states the utility is still required to calculate the current year federal income tax deduction using the prior year CCFT. Although Suburban did not cite specific commentary, ORA reviewed past testimony ORA provided for GSWC's most recent GRC in A.11-07-017. In this prior rate case, ORA *had* advocated that the *prior test year* amount be used. ORA states its argument in this passage "*DRA recommends the Commission use the CCFT numbers from 2012 escalation data that GSWC intended to file with the commission.. The CCFT estimates provided in the above mentioned data response presents a more accurate estimate*"[74] In this specific instance in A.11-07-017 GSWC's test year was set at 2013, and ORA advocated that the 2012 CCFT tax be used for forecasting the federal income tax deduction.

Overall, ORA understands the importance of providing consistent recommendations for both ratepayers and utilities. Additionally, Suburban's

[74] A.11-07-017 Exhibit Number DRA-4 REVISED 3b.

justification to use the prior test year proved to be satisfactory with adequate historical basis. Upon close review and analysis of testimony and referenced decisions, ORA agrees with Suburban's use of the prior year CCFT and adopts Suburban's methodology for the CCFT deduction for the calculation of the federal income.

Suburban estimates a test year 2015 CCFT deduction of $642,291 vs. ORA's estimate of $903,785. While the calculation methodology remained the same, the difference is attributed to factors involved in the calculation of the prior year State Income Tax. An explanation of this can be found in Section 3 of this Chapter. ORA recommends the Commission adopt this estimate.

6) Domestic Production Activities Deduction

Another component of calculating gross federal taxable income amount is the Domestic Production Activities Deduction ("DPAD"). This component is used as a deduction to reduce the gross federal taxable income amount allowed by "American Jobs Creation Act of 2004" to encourage domestic production and production-related activities. Since tax year 2005, this deduction was available to different entities, such as Suburban, which produce potable water in the United States.

In this Application, Suburban didn't address this allowed deduction as part of its costs of service to reduce the federal taxable income amount. Suburban had previously argued that DPAD should not be included in the calculation of federal income tax if Suburban's parent company had continued to experience tax losses. The Commission views, for tax purposes, regulated utilities should be treated as stand-alone entities.

This overall sentiment is reiterated by the presiding officer in D.13-12-030:

> "Suburban incorrectly maintains that the Decision violated Commission precedent by directing Suburban to impute the DPAD in calculating the gross federal taxable amount. Suburban contends the DPAD is not available if the entity experiences a loss for tax

purposes and Suburban's parent company has continued to experience tax losses since the last general rate case"[75]

Ultimately the presiding officer ruled that Suburban's assertions were incorrect and the imputation of DPAD was lawful.[76] Suburban is re-litigating an issue that has already been decided by the Commission in Suburban's GRC, and in Suburban's application for rehearing. Suburban raising the same issue in this rate case is a collateral attack on the prior decisions. Suburban had the opportunity to appeal the Commission's decision the rehearing on DPAP to the California Supreme Court and it chose not to. Suburban's arguments regarding DPAP should be given no weight in this proceeding.

ORA calculated Suburban's DPAD by determining the ratio of qualified production and multiplying that ratio by taxable income for Federal Income Tax and multiplying that amount by the 9% DPAD deduction. The qualified production ratio was derived by adding total amount of well and surface water produced and dividing by total production[77]. For rate making purposes, ORA recommends $428,618 of DPAD be imputed in calculating gross federal taxable income amount for Test Year 2015.

This deduction results in the amount of $2,299,878 for gross federal income tax expense.

D. CONCLUSION

Generally, ORA agrees with Suburban's methodology for calculating Income Tax and agrees with the tax rates Suburban used. Although ORA had previously advocated for a different treatment of the CCFT tax deduction, Suburban was able to demonstrate the method was reasonable and justifiable.

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[75] D.13-12-030 Page 8.

[76] D.13-12-030 Section D.

[77] See target 'O6280' in Suburban RO Workpaper.

Lastly, DPAD was included in ORA's income tax forecast based upon prior Commission precedent. ORA recommends the Commission adopt estimates set forth in this chapter.

TABLE 5-1						
SUBURBAN WATER COMPANY						
TAXES OTHER THAN INCOME						
				Proposed		
	2015 @ PRESENT RATES			**2015**	**2016**	**2017**
	ORA	Utility		ORA	ORA	ORA
Item	Analysis	Estimated		Analysis	Analysis	Analysis
	(A)	(B)		(A)	(B)	
		(Dollars in Thousands)				
Total City and County Ad Valorem Taxes	1,504.1	1,514.7		1,504.1	1,586.1	1,668.1
Payroll Taxes:						
FICA Taxes- OASDI	464.0	590.1		464.0	471.9	480.4
FICA Taxes- HI	108.5	138.0		108.5	110.4	112.3
FUI Taxes- On the first $7000	6.9	7.1		6.9	6.9	6.9
SUI Taxes- On the first $7000	53.4	55.1		53.4	53.4	53.4
Employment Training Fund(E.T.F) Taxes	0.0	0.0		0.0	0.0	-
Subtotal FICA, FUI, SUI, and ETF Taxes	632.7	790.4		632.7	642.5	653.0
Payroll Taxes Capitalized	(45.8)	(57.2)		(45.8)	(46.5)	(47.4)
Total Taxes Other Than Income	2,091.1	2,247.8		2,091.1	2,182.1	2,273.7

TABLE 5-2 **(revised)**					
SUBURBAN WATER COMPANY					
INCOME TAX					
Test year 2015					
	ORA	Utility		ORA	Utility
Item	Present Rates			Recommended Rates	
	(A)	(B)		(E)	(F)
	(Dollars in Thousands)				
Operating Revenues:					
Total Taxable Operating Revenues	**70,219.9**	68,246.2		**72,420.0**	77,310.9
State Income taxes					
Less: Operating Expenses Exclud. Dep and Income Tax	**51,595.3**	53,243.7		**51,687.7**	53,522.9
Interest Expense	3,051.0	3,201.0		3,051.0	3,201.0
Subtotal of Deductions	**54,646.3**	56,444.7		54,737.8	56,724.0
Taxable Income Before Deduction	**15,573.6**	11,801.5		**17,751.3**	20,586.9
Less: Tax Depreciation , State	7,693.0	7,870.2		7,693.0	7,870.2
State Income Taxable Income	**7,880.6**	3,931.2		**10,058.3**	12,716.7
CA Corp. Francise Tax (8.84%)	**696.6**	347.5		**889.2**	1,124.2
Plus Deferred Tax Exp, taxable Contribution	1.7	1.7		1.7	1.7
Total State Income Tax Expense	**698.4**	349.3		**890.9**	1,125.9
Federal Income Tax					
CCFT Taxable Income	**7,880.6**	3,931.2		**10,058.3**	12,716.7
Plus Additional Tax depreciation	2.7	2.7		2.7	2.7
Less Prior Year CCFT	903.8	642.3		903.8	642.3
Federal Taxable Income	**6,979.5**	3,291.7		**9,157.3**	12,077.1
Less: Inputed Domestic Production Act. Ded.	**428.6**			**428.6**	
Total Federal Income Tax Expenses (35%)	**2,292.80**	1,152.1		**3,055.0**	4,227.0

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CHAPTER 6: UTILITY PLANT-IN-SERVICE

A. INTRODUCTION

This Chapter sets forth ORA's analyses and recommendations for Plant in Service for Suburban Water System's San Jose Hills/Glendora ("SJH") and Whittier/La Mirada ("WLM") customer service areas, and its main office located in Covina. Suburban estimates $242.5 million Average Plant in Service for Test Year 2015 and $261.3 million for 2016. ORA recommends a lower Average Plant in Service of $238.2 million for Test Year 2015 and $250.3 million for 2016. Differences in Average Plant in Service are due to ORA recommending reductions in capital additions Suburban requested for 2014 through 2016 (See table 6-32 at the end of the Conclusion section of this chapter).

ORA recommended capital additions are based on ORA's independent review of Suburban's application, work papers, construction budgets, and information and data obtained during the discovery phase of this proceeding.

B. SUMMARY OF RECOMMENDATIONS

Table 6-1 compares Suburban's requested capital improvements with ORA's recommended capital improvements for the estimated year 2014 and the Test Years 2015 and 2016.

Table 6-1: Capital Improvements

	2014		2015		2016	
Description	Suburban	ORA	Suburban	ORA	Suburban	ORA
Routine & Direct Purchase	$3,572,000	$3,046,073	$5,336,049	$3,140,391	$4,157,049	$3,094,539
SJH	$777,732	$777,732	$3,230,959	$0	$2,794,557	$1,373,572
WLM	$9,904,565	$9,904,565	$9,632,000	$8,655,000	$10,065,705	$1,672,000
Total	$14,254,297	$13,728,370	$18,199,008	$11,795,391	$17,017,311	$6,140,111

C. DISCUSSION

1) San Jose Hills/Glendora

For the estimated Year 2014 and Test Years 2015 and 2016, Suburban proposes capital budgets for eleven (11) unauthorized projects and twenty (20) planned projects for the San Jose Hills and Glendora service areas. The budget includes major projects such as reservoir replacement, reservoir rehabilitations, pipeline replacements, valve replacements, pump replacements, electrical panel replacements, and vehicles purchased. After reviewing Suburban's testimony, work papers and additional information obtained during the discovery period, ORA adjusted Suburban's requests. Table 6-2 and Table 6-4 list Suburban's request and ORA's adjustments for the unauthorized and the planned projects respectively. The following are ORA discussions on Suburban's proposed budgets for Unauthorized and Planned projects in San Jose Hills/Glendora district.

(a) **Proposed Capital Budgets for Unauthorized Projects**

Suburban proposes a budget for fourteen (14) Unauthorized Projects in 2012 and 2013. The Commission did not authorize these projects in its previous GRC, but Suburban deemed them to be critical or high priority due to emergency situations, and therefore needed to be constructed prior to the current GRC. ORA reviewed each of these unauthorized projects and found them to be reasonable. Of the 14 unauthorized projects, Suburban spent $3,174,746 in 2012 and $1,138,729 in 2013 for 11 projects in the San Jose Hills/Glendora district. Three remaining projects constructed for $256,537 in 2012 and $331,983 in 2013 were reviewed for the WLM district as described in its own section of this chapter.

In its response to ORA's data request, Suburban submitted additional documentation, such as work orders, invoices and bidding reports to support the projects costs. Suburban also included maintenance records, diving inspection reports and consultant reports to substantiate the reason why these projects needed to be built without Commission authorization. After carefully evaluating the

documentation and visiting several completed project sites, ORA disagrees with one of Suburban's request within the SJH district, but, recommends that Suburban provide better support for several other projects identified in the following discussion.

Table 6-2: Proposed Capital Budgets for Unauthorized Projects

No	Description	2012		2013		Total	
		Suburban	ORA	Suburban	ORA	Suburban	ORA
1	520 Zone Tie In	$52,933	$52,933	$967	$967	$53,900	$53,900
2	Newton & Wickshire Valve Station	$60,389	$60,389	$389	$389	$60,778	$60,778
3	Meeker & Yarnell	$249,338	$249,338	($705)	($705)	$248,633	$248,633
4	Plant 132 Pump Station	$241,571	$241,571	$350	$350	$241,921	$241,921
5	Plant 162 Pump Station	$175,023	$175,023	$149,126	$149,126	$324,149	$324,149
6	Rowland Ave Pipeline	$788,515	$788,515	$528	$528	$789,043	$789,043
7	Plant 132 R1 Paint	$374,647	$374,647	$390,602	$390,602	$765,249	$765,249
8	Plant 409 Pump Station **	$256,537	$256,537	$20,492	$20,492	$277,029	$277,029
9	Mar Vista Pipeline	$321,330	$321,330	$4,026	$4,026	$325,356	$325,356
10	Fleet Capital Vehicle	$911,000	$911,000			$911,000	$911,000
11	Covina Irrigation Pump Station			$131,028	$131,028	$131,028	$131,028
12	I-10 Widening Pipe Relocation			$462,418	$0	$462,418	$0
13	Tie-in with City of Cerritos**			$8,899	$0		
14	MSGVB Water Right**			$302,592	$97,890		
		$3,431,283	$3,431,283	$1,470,712	$794,693	$4,590,504	$4,128,086
** See WLM district section in this chapter for discussion							

(i) Plant 132- R1 Reservoir Rehabilitation - Interior and Exterior Painting for $765,249

Suburban proposes spending $765,249 to rehabilitate the 0.5 Million Gallon ("MG") steel reservoir R1. The project was completed in 2013 without the Commission's authorization. Craig Gott, Vice President of Suburban' Field Operations, stated in his testimony that the reservoir's interior and exterior coating failed and that resulted in exposure of bare steel to water. This condition would cause the steel to corrode and could lead to leakage, which would eventually

become structurally unsound and collapse. For this reason, ORA agrees with the need to recoat the reservoir.

However, ORA has discovered that Suburban did not follow its own competitive bidding procedure[78] in order to make sure that the project cost is as low as possible. Instead, Suburban issued a direct contract to Titan Pacific based on the fact that the company had previously provided the lowest bid for a similar project to remove coal tar enamel and coat in Plant 503. Without competitive bidding, it is unknown if Suburban was able to complete this project at the lowest possible cost.

ORA conducted an inspection of this project during its field trip and found that the project has been completed and is now in service. Based on ORA's analysis of similar projects, the proposed budget appears to be reasonable. Therefore, ORA recommends the expenditure of $765,249 should be included in the ratebase, but going forward Suburban should follow its vendor selection procedures. Suburban should also provide proper justification and support.

(ii) Plant 132 Pump Station (Electrical Equipment Upgrade) - for $241,921

Suburban proposes spending $241,921 to upgrade the existing electrical equipment, including breakers, starters, Variable Frequency Drive ("VFD") and low voltage transformer at Plant 132. The project was completed in 2013 was not previously authorized in Suburban's last GRC. According to Mr. Gott's testimony, Suburban inspected the electrical panel and its contractor, Hunter Electrical Services. The condition of the panel was found to be old and obsolete and did not meet the current standard. Mr. Gott's testimony also provided a list of issues identified by the contractor.

ORA agrees with Suburban that the electrical equipment condition requires a replacement. The cost of the project also appears to be reasonable. However, as

[78] Suburban's response to DRA's data request SN-01 question no.1.

with any capital projects, Suburban has the burden of proof to show that the project it proposes is needed and necessary. In this case, no inspection reports were available to ORA to identify the electrical issues described in the testimony. The pictures provided in its Workpapers Vol. 3 as support for this project were almost 10 years old and the reports of the inspections were not available.

Since the project has been completed and is used-and-useful to ratepayers, ORA recommends that the cost of this project be included in the ratebase, but in future filings Suburban should do a better job by including the necessary documentation to support such requests in the future.

(iii) Plant 162 Pump Station for $324,149

Suburban proposes a budget of $324,149 to upgrade its existing electrical equipment including breakers, starters and transformers at Plant 162. The project was completed in 2013. Plant 162 contains one 3 Million Gallon ("MG") steel reservoir and four booster pumps. The plant serves as a backup for zone 740 in the event that Plant 132 is inactive.

According to Mr. Gott's testimony, a routine inspection by Southern California Edison ("SCE") and Electrical Contractor ("Sam Hunter") discovered safety and other concerning issues. The existing electrical equipment and its cabinets failed to comply with current requirement standards, which jeopardizes the safety of Suburban's personnel and risk the pump's ability to operate. In addition, the electrical utility transformer was located on the surface which could be subject to flooding. Mr. Gott's testimony stated a list of issues identified by the contractors that would require an upgrade to the existing electrical equipment. However, similar to Plant 132, Suburban did not provide inspection reports that support its claim of the electrical issues. In a response to ORA data request SN-02, Suburban included invoices and work orders to justify the $324,149 project expenditure.

Since the project has been completed and is used-and-useful to ratepayers, ORA recommends that the cost of this project be included in the ratebase, but in future filings Suburban should do a better job by including the necessary documentation to support such requests in the future.

(iv) Fleet Capital Vehicle for $911,000 in 2012

Suburban spent $911,000 to purchase 79 vehicles in 2012 as a result of its decision to end its practice of leasing vehicles. Under its previous practice, Suburban would lease utility vehicles and replace them after 50 months or 60,000 miles. In 2012, the company purchased 79 vehicles which were leased by Suburban and its parent company, Southwest.[79] Southwest had a fleet of surplus vehicles as a result of the company reorganization. The total cost for purchasing these vehicles was $914,723.

Most of these vehicles were a late model with relatively low mileage. Because of its relationship with its parent company, Suburban was able to receive a discount for these vehicles. Table 6-3 listed the 79 purchased vehicle's model, mileage and purchase price.

Suburban provided a cost benefit analysis in its workpaper, which showed the purchase option would result in more benefits to the ratepayers. After taking into consideration the purchase price, depreciation and taxes, Suburban is showing a reduced revenue requirement of $381,100 in 2015. Additionally, by returning older model vehicles (04-08) to the lessor and acquiring newer model vehicles (10-12) from its parent company, Suburban is reducing carbon emissions and in the process, helping the state to comply with AB 32, which was adopted by California Air Resources Board, to reduce greenhouse gas emissions by 25% by 2020.

[79] Suburban's Direct Testimony of Craig Gott page 25-27. Suburban purchased 50 vehicles from Suburban's lessor, and purchased 29 vehicles from Southwest with reasonable price.

Table 6-3: List of Vehicle Model, Mileage and Purchase Price

No	Description (Current Vehicles)	Recorded Mileage (as of 12/2013)	Purchase Price
1	2010 F-150 4x2	50,007	$9,591
2	2010 F-150 4x2	46,022	$9,494
3	2010 F-150 4x2	47,439	$9,591
4	2010 F-350 4x2	36,644	$9,913
5	2010 F-150 4x2	37,524	$9,591
6	2010 F-350 4x2	66,875	$15,780
7	2010 F-350 Chassi	35,545	$19,210
8	2011 F-150 4x2	45,267	$20,848
9	2010 F-150 4x2	50,365	$10,179
10	2011 F-150 4x2	72,500	$24,515
11	2010 F-350 Chassi	20,569	$19,257
12	2010 Ranger 4x2	68,067	$8,723
13	2011 Ranger 4x2	68,316	$16,082
14	2011 Ranger 4x2	36,987	$14,618
15	2011 F-450 Chassi	10,585	$28,311
16	2010 F-150 4x2	48,037	$9,385
17	2011 F-450 Chassi	14,161	$42,897
18	2010 F-450 Chassi	15,877	$30,081
19	2010 F-350 Chassi	49,432	$18,168
20	2010 F-150 4x2	28,545	$8,469
21	2010 F-150 4x2	36,963	$9,588
22	2010 F-150 4x2	44,402	$9,559
23	2011 F-150 4x2	34,685	$19,122
24	2010 Ford Escape Hybrid	41,606	$8,672
25	2011 Ranger 4x2	26,427	$14,611
26	2011 Ranger 4x2	23,980	$16,067
27	2010 F-150 4x2	46,382	$9,387
28	2010 F-150 4x2	47,911	$9,586
29	2010 F-150 4x2	22,947	$8,467
30	2010 F-150 4x2	24,252	$9,931
31	2010 F-150 4x2	41,236	$9,588
32	2011 F-350 Chassi	86,600	$35,643
33	2011 Ranger 4x2,	20,270	$12,265
34	2011 Ranger 4x2,	24,706	$12,265
35	2011 Ranger 4x2,	22,933	$12,375
36	2011 Ranger 4x2,	24,650	$12,027

No	Description (Current Vehicles)	Recorded Mileage (as of 12/2013)	Purchase Price
41	2011 Ranger 4x2,	26,730	$12,375
42	2011 Ranger 4x2,	28,683	$12,460
43	2011 Ranger 4x2,	42,701	$12,317
44	2011 Ranger 4x2,	27,525	$12,460
45	2011 Ranger 4x2,	24,363	$12,317
46	2011 Ranger 4x2,	28,689	$12,233
47	2011 Ranger 4x2,	40,592	$13,721
48	2011 Ranger 4x2,	13,115	$12,587
49	2011 F-150 4x2,	32,813	$15,535
50	2011 F-150 4x2,	42,081	$15,286
51	2011 F-150 4x2,	17,552	$19,766
52	2011 F-150 4x2,	32,252	$15,068
53	2011 Prius,	36,263	$19,791
54	2011 Prius,	27,545	$21,212
55	2011 Prius,	39,941	$21,212
56	2010 Prius	41,796	$15,658
57	2010 Prius	39,201	$16,923
58	2010 Prius	34,476	$15,658
59	2011 Ranger 4x2	36,898	$13,725
60	2011 Ranger 4x2	42,477	$13,725
61	2011 Ranger 4x2	77,303	$13,603
62	2004 F-450 Chassi	58,175	$179
63	2005 Ford 250 Reg	77,236	$138
64	2006 F-350 Reg	59,223	$138
65	2006 F-350 Reg	65,591	$138
66	2006 F-450 Chassi	37,491	$141
67	2006 F-350 Reg	61,717	$138
68	2006 Chevy Express	29,379	$261
69	2007 Ford F150 Reg	57,143	$345
70	2007 Ford F650	32,334	$975
71	2007 Ford Ranger	49,081	$138
72	2008 Ford F350 Reg	58,107	$138
73	2008 Ford F350 Reg	55,090	$138
74	2007 Ford F650	28,722	$138
75	2008 Ford F150 Reg	78,944	$138
76	2008 Ford F150 Reg	54,634	$138

37	2011 Ranger 4x2,	28,716	$12,317
38	2011 Ranger 4x2,	18,267	$12,638
39	2011 Ranger 4x2,	29,433	$12,317
40	2011 Ranger 4x2,	24,255	$12,265

77	2008 Ford F150 Reg	90,346	$138
78	2008 Ford F350 Chass	55,158	$138
79	2008 Ford F350 Chass	78,210	$138
		Total	$914,723

Finally, a memorandum issued by the CPUC in October 24, 1995, stated vehicle replacement guidelines for large water utilities. The guidelines recommended that utilities shall purchase light trucks and passenger cars instead of leasing them[80] based on the cost benefit study conducted by the Large Water Utilities Section, Energy & Water Operational Costs Branch. If approved by the Commission, Suburban becomes the last Class A water company to make this switch because all Class A Water Utilities have already adopted a policy to purchase rather than to lease.

ORA agrees with Suburban's request to purchase its vehicles, but Suburban's filing shows some discrepancies. Mr. Gott's testimony shows $911,000, the Workpapers Volume-1 shows $1,033,743, and ORA's data request response shows $914,723. Therefore, consistent with Mr. Gott's testimony, ORA recommends $911,000 to be included in 2012 rate base.

(v) I-10 Widening project for $462,417 in 2012

Suburban requests a $462,417 budget to accommodate Caltrans I-10 widening project between freeway 605 and 57 in 2012. This project includes abandoning a 300 Length Feet ("L.F.") existing 12-inch pipeline, relocating 600 LF an existing pipeline and its valves, and also extending a pipeline with three (3) 24-inch and two (2) 14-inch steel casing for the construction between crossing sound wall and concrete barriers. This project was anticipated to be completed in by the end of 2013. Suburban's testimony and its workpapers provide minimum

[80] CPUC Memorandum to: Large Water Utilities Section, Energy & Water Operational Costs Branch, Subject: Vehicle Replacement Guidelines for Large Water Utilities. Dated October 24, 1995.

information to justify the project. The Workpapers Vol.3 shows estimated costs sharing of $462,417 for Suburban and $198,000 for Caltrans. However, Suburban provides no documentation to support why Suburban should be responsible to fund $462,417 of this Caltrans Project. In its response to ORA data request[81], Suburban provided a copy of a Notice to Owner letter, which indicated that the project was "*qualify for relocation at 100% STATE expense under the provision s of Section (703) of the Streets and Highways Code*".

Based on Suburban's response, this project should be treated as contributed plant and ratepayers should not pay for it. ORA does not see the need for Suburban to fund any amount toward this project. Therefore, ORA recommends disallowing $462,417 from Suburban's request.

(b) **Proposed Capital Budgets for Planned Projects**

In this GRC, Suburban requests twenty (20) planned projects for $777,732 in 2014, $3,230,959 in 2015 and $2,794,557 in 2016 for its SJH district. ORA recommends $777,732 in 2014, $0 in 2015 and $1,373,572 in 2016 after reviewing Suburban's application, supporting documentation, data request responses, and visiting project sites.

ORA agrees with 12 of Suburban's proposed projects, but disagrees and provides recommendations for the other 8 projects. The following discusses the 8 planned projects for 2015 and 2016:

[81] Suburban's response to ORA's data request SN-03 question 1b. See attachment: Notice To Owner under "Liability for the cost of the work is:…"

Table 6-4: Proposed Capital Budgets for Planned Projects

No	Description	2014		2015		2016	
		Suburban	ORA	Suburban	ORA	Suburban	ORA
1	CIC Pump Station - Installation of Suburban pumps	$189,000	$189,000				
2	Plant 501 Vault - Vault Replacement	$180,732	$180,732				
3	Tract No.46780 - Sunset and Farlington (Sunset and Palms)	$230,000	$230,000				
4	Plant 132 Generator - Install fixed generator	$178,000	$178,000				
5	Plant 507 R1 - Reservoir Rehabilitation			$398,959	$0		
6	Plant 129 - Reservoir Replacement			$2,716,000	$0		
7	I-10 Widening - From Citrus to 57			$116,000	$0		
8	Plant 507 R2 - Reservoir Rehabilitation					$354,557	$0
9	Tract No. 40799 (Solana Park) - Azusa and Francisquito (services)					$300,000	$300,000
10	Sunkist and N. Garvey Alley - Replace 4-inch and 6-inch steel pipeline in Alley					$335,000	$258,572
11	900 Zone Reliability - Construct Check Valve from 730 to 900					$83,000	$83,000
12	Radio Replacements					$504,000	$0
13	Sunkist & Meeker (Steel Pipe) Pipeline					$311,000	$0
14	Hemphill & Backton (AC Pipe)					$175,000	$0
15	Tract No. 39733 - California and Vine (services)					$140,000	$140,000
16	Larimore Street - Larimore from Cadwell to Hayland					$120,000	$120,000
17	Tract No. 51749 (Sunset Palms) - Sunset and Delvale					$170,000	$170,000
18	Beckner Street - Beckner from Orange to Tonopah					$177,000	$177,000
19	Tract No. 35791 - Francisquito and Aileron					$34,000	$34,000
20	Plant 109 Reservoir Rehabilitaion					$91,000	$91,000
	Total	$777,732	$777,732	$3,230,959	$0	$2,794,557	$1,373,572
	Suburban exceeds ORA (in %)		0%		100%		51%

(i) Plant 129 - R1 Reservoir Replacement for $2,716,000 in 2015

Suburban proposes a budget of $2,716,000 to replace the existing 2.5 MG concrete R1 reservoir at Plant 129 with a new steel reservoir in 2015. The diving inspection dated April 2, 2013 by Dive/Corr. Inc, reported that leaks were located on the lower side of the reservoir and continuous cracks were from the outlet, past the ladders and beyond. Additional geotechnical and structural evaluation of the

reservoir condition by a structural consulting engineering firm, PacRim, revealed that the reservoir walls have undergone tensile stresses, which is not permitted by current Code standards. The study concluded that the existing reservoir structure has reached its useful life and recommends that the reservoir should be taken off line. Suburban has taken this reservoir offline since June 2013, approximately 12 months ago.[82]

After reviewing Suburban's documentation and visiting Plant 129 site, ORA concurs with the conditions of the reservoir. However, ORA believes that the reservoir replacement is not urgently needed for the following reasons:

The system is capable of operating with one reservoir

There are two reservoirs, R1 and R2, with a combined storage capacity of 7.5 million gallons in Plant 129. In 2012, the R2 reservoir with 5MG storage capacity was taken offline for about 9 months during its recoating project. While the 5MG reservoir was offline, Suburban managed to operate its system satisfactorily with the remaining 2.5 MG R1 reservoir in Plant 129. At the same time, Suburban did not experience any noticeable increase in the number of customer complaints relating to water pressure, water quality or outage.[83] This is an indication that the removal of one reservoir did not cause any major operational problems.[84]

Since the inspection by PacRim, the R1 reservoir with 2.5 MG storage capacity has been out of operation, leaving only R2 Reservoir in operation in Plant 129 for the last 12 months. Once again, Suburban was able to operate its water system without interruptions and no formal complaints related to the shutdown of

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[82] Suburban's response to ORA's data request SN-05 question 2.

[83] See Chapter 9, Customer Service: no noticeable increase of customer complaints for water pressures, water quality or outage.

[84] Suburban's Exhibits A-F, Public Relations- Page 3-5.

the R1 reservoir had been reported.[85] When asked by ORA how it managed to operate the zone without the R1 reservoir, Suburban responded that its Production Department has been closely monitoring the zone to ensure sufficient water is available at full capacity.[86]

The fact that either reservoir has been taken offline for an extended period time without any significant operational issues and the lack of customer complaints during the outage has led ORA to believe that the need for replacing the R1 reservoir is not urgent at this time.

Storage Capacity Evaluation

In Mr. Gott's testimony, Suburban identifies the areas that are impacted by the Plant 129 reservoirs. The affected areas include zone 547, zone 730[87], zone 900 and zone 1050[88]. According to Suburban's Master Plan for the San Jose Hill District ("Master Plan"), the four zones' storage availability is 26 Million Gallon ("MG")[89]. Suburban presented no storage capacity evaluation for the zones in its testimony. In order to analyze the need of this storage, ORA performed its own storage capacity analysis and evaluation for the above zones.

Suburban's Master Plan calculates the required storage based on 100% of MDD[90] for each system zone. From the available data in Suburban's Master Plan

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[85] Ibid.

[86] Suburban's Response to ORA data request SN05 question 2b.

[87] The Master Plan identifies zone 730 includes other zones such as zone 560,640 and 660 south.

[88] The Gott's testimony states that "The reservoirs serve as the head tank for the 547 Zone in Suburban's San Jose Hills system in the City of West Covina. The 547 Zone serves 20,653 connections, and is the entry point for much of Suburban's supply. In addition to the combined 7.5 MG of storage for domestic, emergency and fire, the reservoirs serve as a forebay for the large pump station at Plant 129 that boosts water to the 730, 900, and 1050 Zones (total of 7,510 connections). Combining the 547 Zone and the Zones the plant 129 pumping plant boosts to equals to 28,163 connections. See page 248 line.

[89] The total available storage in zone 574, 730, 900 and 1050s is 12+7+7=26 MG. See Master Plan table 7-4 page 69 of 107.

[90] Note: Suburban calculates required storage for zone 574 based on 100% ADD because the zone has production wells. From the well data exhibit AF page 3-9, the 121-W1, 142-W5, 147-W3, 151-W2 and 140-W5 wells have a total capacity of 13,400 gpm and from the Master Plan table 7-

(continued on next page)

and its response to ORA data requests, the following is the storage requirement according to Suburban[91]:

Table 6-5: Total Storage Required (Suburban)

Required Storage	23.1	MG
Fireflow requirement Storage	3.3	MG
Total Storage Required	26.4	MG

ORA calculates the storage requirement for the four system zones using the AWWA criteria that recommends

> the storage available to supply the peak demand should equal approximately 20 to 25 percent of the maximum daily demand volume, provided that pumping meets the daily operational demands up to the maximum daily demand.[92]

Using the above AWWA criteria, ORA first determines whether the zones have enough pumping capacity to meet its MDD. In a response to ORA's data request[93], Suburban provided the last 6-year average of MDD. ORA used the numbers available in the Master Plans to evaluate the pumping capacity for each zone.

ORA analyzed the pumping capacity[94] vs. maximum daily demand ("MDD"),[95] and found that Suburban has more than enough pumping capacity for the four zones. Suburban's excess pumping capacity is 15,200 gpm.[96]

(continued from previous page)
2 the total capacity of wells is 12,100 gpm.

[91] See ORA's Workpapers – "Plant 129 Storage Required Calculation" for detailed calculation for Suburban total required storage including the fire flow requirements.

[92] AWWA's Determining Distribution System Storage Needs, September 25, p. 8.

[93] Suburban's response to ORA's data request SN-05 question 1.

[94] November 2013 Suburban's Water System Master Plan for San Jose Hills District Table 7-7 Existing Booster pumping Capacity in SJH District .

[95] Suburban's Response to ORA's data requests SN05 question no. 1b.

[96] See ORA's workpaper for SJH and Routine items under the tab-"Plant 129-Storage Required" for detailed calculation.

Accordingly, the storage need to meet the peak demand should only be 20 to 25% of the MDD for each zone. Based on AWWA recommendation, ORA adjusted the Required Storage calculation to 25% MDD. The total MDD for the four zones as provided per data request[97] is 21, 920 gpm. Based on this data, the required storage for the four system zones, excluding fire flow storage requirements is:

25%x 21,920 gpm x 1,440 min per day/ (1,000,000) = 7.9 MG

The calculation summary[98] is shown below including Suburban's fire flow requirement, ORA notes that it did not an make adjustment to the fire flow requirement:

Table 6-6 Total Storage Required (ORA)

Required Storage	7.9	MG
Fireflow requirement Storage	3.3	MG
Total Storage Required	11.2	MG

As mentioned earlier, Suburban currently has 26 MG available storage. By following the above AWWA recommendation, ORA determined that the system in the impacted zones actually has a surplus capacity of 14.8 MG (26 MG – 11.2 MG). With 14.8 MG surplus capacity, the system has enough storage capacity even without the 2.5 MG reservoir R1.

Therefore, ORA recommends disallowing the 2.5 MG reservoir replacement for $2,716,000, because the reservoir is not needed at this time.

(ii) Plant 507 Reservoir Rehabilitation (R1) for $398,959 in 2015 and Reservoir Rehabilitation (R2) for $354,557 in 2016

[97] See ORA's workpaper for SJH and Routine items under the tab- "*Plant 129 Storage Required*" for detailed calculation.

[98] *Ibid*.

Two bolted steel reservoirs, R1 and R2 are located in Plant 507 site. Suburban proposes budgets of $398,959 in 2015 and $354,557 in 2016 to rehabilitate these two existing bolted steel reservoirs. The existing reservoirs were constructed in late 1998 by a developer for the City of West Covina. Suburban acquired the system from West Covina in 2000. According to Mr. Gott's testimony, the gaskets which tightened and sealed the reservoir's steel plates were observed to lose its integrity and are no longer capable to provide a complete seal. This has caused the reservoirs to leak and damage the structural integrity of the steel plates.

In July 25, 2012, Suburban had Dive/Corr.Inc's inspect the two bolted steel reservoirs. The diving inspection identified the disintegrated interior and exterior conditions in both reservoirs. The CDPH's Water Sanitary Survey dated November 1, 2012 also reported that the exterior wall coating for both tanks were in poor condition. Suburban proposed four alternatives to remediate the reservoirs: 1) do nothing; 2) replace gaskets and bolts; 3) recoat tanks with elastomeric polyurethane; and 4) Replace the reservoirs. Suburban selected alternative #3 to recoat the reservoir with an Elastomeric Polyurethane because the company believes it is the most cost effective option. After reviewing the Dive/Corr. Inc's inspection reports, CDPH's sanitary survey report and visiting the Plant 507 site, ORA agrees with Suburban regarding the need to rehabilitate the reservoir. However, the cost estimate Suburban provided is questionable due to the lack of support:

Suburban has no historical cost comparison for similar projects

ORA requested Suburban to provide three similar completed projects. In its response, the company explained that, "*Suburban does not own other bolted tanks*

similar to Plant 507 reservoirs and has not made an attempt to perform this alternative"[99]. Suburban has no historical expenditure to base its project cost.

Suburban has not performed competitive bidding

In its response to ORA's data request SN-01 no. 2b, the company stated it had not conducted any competitive bidding. ORA believes that cost estimates from competitive bidding are critical in a situation in which cost estimates cannot be obtained from similar historical expenditures.

Suburban provides an estimate from only one vendor for its alternative #3

Even though Suburban provided cost comparisons amongst different alternatives, Suburban only includes an estimate from one vendor to justify the estimated cost for Alternative 3. In its last GRC, the Commission authorized $1,338,000 for a recoating project at Plant 503 based on the estimated cost provided by the same vendor.[100] When the project was completed in 2013, the final cost of the completed project was $ 2,089,277[101], which was an increase of (2,088,277-1,338,000)/1,338,000 = 56% more than the authorized amount.

Given the lack of support for its cost estimates, ORA recommends Advice Letter treatment for the two projects with a cap of $398,959 in 2015 for the reservoir R1 and $354,557 in 2016 for reservoir R2.

(iii) I-10 Widening project for $116,000 in 2015

Suburban requests a budget of $116,000 to accommodate Caltrans I-10 widening project between freeway 605 and 57. This project includes to abandon and to relocate several existing pipes and valves. The project also plans to extend a pipeline with 16-inch steel casing for crossing sound wall and concrete barriers.

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[99] Suburban's response to ORA data request SN-01 question: no 2.a.

[100] Suburban's respond to ORA data request SN-01, Attachment No.2. - Tabulation of bids.

[101] Suburban's Water Systems Exhibits A-F 2014 Propose Application, Capital Expenditure table 6-1, line 48: Recoat plant 503 reservoir for $1,955,058 in 2012 and $134,219 in 2013 totaling $2,089,277.

Suburban's testimony and it's response to ORA's data request[102] do not have any support or explanation about Caltrans' cost sharing in this project. ORA contacted Caltrans, and was informed that the State (Caltrans) is obligated 100% except for the cost to clean up asbestos pipes.[103]

Based on Caltrans' response that this project is 100% funded by the State, this project should be treated as contributed plant and ratepayers should not pay for it. Therefore, ORA recommends to disallow the $116,000 project.

(iv) Radio Replacements for $504,000 in 2016

Suburban proposes a budget of $504,000 to install a radio network between plant sites in order to improve reliability of its System Control and Data Acquisition ("SCADA")[104] communication. According to Mr. Gott's testimony,[105] the company is currently using dial-up modems communication to interface with its SCADA systems. This approach has proven to be successful for Suburban in the past, but has become unreliable due to the telecommunication utility networks' (third party providers such as Verizon and AT&T) inability to provide reliable or adequate support for the current modem system and the poor service of utilities' customer support. The outdated modem equipment has also caused a struggle for the utilities' technicians to identify or fix the problem. This results in ongoing network failures that cause "com-fails" at plants that in turn affect other system failures, such as empty reservoirs or over-pressurized systems.

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[102] Suburban's response to ORA's data request SN03 question 1.

[103] ORA and Caltrans email correspondence on May 20, 2014 – ORA's Attachment 1.

[104] SCADA system consists of three components: Hardware, Software and Communication Network. The hardware includes terminals which are computer servers that host the operating software, Remote Terminal Units ("RTU"), which is computer or Programmable Logic Controllers ("PLC") that located at each of the plant sites. The Software is the operating system that monitors and sends instructions to the RTU's. The Communication Network is the communication link or media between the Terminals and RTU's.

[105] March 25 and 26, 2014 ORA's discovery field trips to Suburban's facilities.

Suburban proposes upgrading all of its dial-up modems at the plant sites with radio system equipment.

ORA disagrees with this replacement project because Suburban provides insufficient justification to replace the modems with radio communication. The following sections address ORA's concerns regarding Suburban's request.

Suburban provides minimum information to support the problematic modems

In its testimony and workpapers, Suburban provides no evidence to substantiate its claims that the modems are unreliable with inadequate customer service. Suburban does not provide records of failing modems to specify which modems require the upgrades, and how many modems are consistently having problems. In its response to ORA's data request, Suburban included a list of modems on several plants and its numbers of failure days. From this list ORA agrees that the dial-up modems need to be replaced with a more reliable communication network.[106] However, ORA believes the communication failures data should be included in the application as evidence. Without this data, ORA cannot validate the need of the project.

Suburban provides incomplete cost comparison to select the most cost effective technology for its SCADA system

Suburban provides three alternatives to justify this modem replacement project. They are: 1) do nothing; 2) radio communication; and 3) Ethernet DSL modems. To support the radio communication, Suburban provides a detailed report of a third party's radio installation survey of about 57-locations and its project cost estimates. The report elaborates on the radio equipment, detailed cost breakdown, identifies the ideal locations for the radio equipment and includes information of the other radio parts, labor cost, drawing and engineering.

[106] Suburban's response to DRA's data request SN-07 item#1.

However, to support the Ethernet DSL modem alternative, Suburban discusses very briefly in a 4-line paragraph, which claims that "*the Ethernet DSL does not eliminate the dependency on customer service from a third party network provider*". There is no cost estimate presented for the Ethernet DSL modem alternative.

ORA disagrees with this approach. ORA believes that unlike the current Suburban (dial-up) modems,[107] which are rarely being used anymore, the Ethernet DSL modems are a newer and faster technology that is widely being used in residential and commercial locations. ORA believes that other technologies such as Ethernet DSL modem, and wireless 4G[108] are equally viable options to consider compared to the radio technology in terms of its speed, reliability and customer service. Suburban should further evaluate these technologies before making its final decision on which technology would be the most cost effective. When this is done, Suburban should present its findings in its next GRC regarding the merits of the technology, cost and reliability comparing to those in the radio technology in order for the Commission to make a finding.

Suburban only provides a cost estimate from one vendor

Suburban's SCADA consultant provides a report that presents a detailed cost estimate of $385,846.95 for the radio communication installations. To achieve a fair cost estimate for the ratepayers, more than one vendor quote should be evaluated as a comparison tool. In case vendor quotes are not available, historical expenditures of similar projects can also be used. Since Suburban provides only one cost estimate, ORA cannot justify the cost accuracy of the project.

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[107] During the March 25, 2014 field trip, Suburban explains currently Suburban uses dial-up modems for their SCADA communication.

[108] Wireless 4G: http://www.prosoft-technology.com/Landing-Pages/Wireless-Solutions.

ORA recommends the radio communication replacement project for $504,000 in 2016 be disallowed because Suburban has not yet justified why a viable alternative technology, such as Ethernet DSL service or wireless 4G cannot be used. Suburban's cost estimate for the radio communication technology is based on a single vendor and provides ORA with a low level of confidence that its cost estimate is fair and reasonable.

(v) Sunkist and Garvey Street Pipeline Replacement for $355,000 in 2016

Suburban proposes a budget of $355,000 in 2016 to replace 1,450 Length Feet ("L.F.") of 6-inch and 4-inch Asbestos Cement (AC) pipeline on Hemphill St. with 8-inch PVC CL-305 including the replacement of 13 service pipelines. Suburban explains that zone 547 has had multiple failures resulting in leaks. The leaks have disrupted service to customers since early 2003. It also explains that the pipeline replacement is to improve reliability, quality, abundance of service to customers including to accommodate fire hydrants and provide fire protection.

While ORA does not oppose the replacement of the main pipeline, ORA disagrees with the request to upgrade the pipeline size. Suburban's only explanation for upgrading the pipeline is that it will improve reliability, quantity and abundance service to customers. Suburban provides no support on why the current size pipelines have deficiencies or it needs to comply with the fire code. Suburban's Master Plan for SJH district indicates that the future water demands of the San Jose Hills District are not anticipated to increase by any significant amount. Table 6-7 shows SJH district Future Demand Projections, the water service, and water demands projections remains the same for the next 20 years.

Suburban also requires to meet its conservation target of 20% reduction in per capita urban water use by year 2020. Suburban is on track to meet the

conservation target, which reflecting less water use is projected until the year 2020.[109] Therefore, DRA believes the size of the existing pipeline is adequate.

Table 6-7: SJH District Future Demand Projections

	2015	2020	2025	2030	2035
Water Service Account	42,837	42,837	42,837	42,837	42,837
Baseline Water Demands (AFY)	28,970	28,970	28,970	28,970	28,970
Target Water Demands (AFY)	31,110	28,380	28,380	28,380	28,380

In addition, ORA also disagrees with the replacement of 13 service pipelines because the leak History of these service mains do not warrant a complete replacement. The average age of these pipelines is more than 50 years old.[110] As shown in Table 6-8, the leak history from 2003 to 2011 reveals only one (1) service leak in 2009. Therefore ORA believes the replacement of 13 service pipelines is premature and unnecessarily.

[109] Refer to ORA witness, Pat Esule for her recommendation on the SBX7-7 or 20% by 2020 Mandate in Chapter 3.

[110] Suburban's response to ORA data request SN-03 question b.

Table 6-8: 2003 to 2011 Leak History:

No.	District	Address	Street	Leak Type	Leak Date
1	SJH	2101	GARVEY AVE N	Main	5/30/2003
2	SJH		SHADY LANE	Main	6/4/2003
3	SJH	2021	SHADY LANE	Main	3/19/2004
4	SJH	188	SUNKIST AVE	Main	3/23/2004
5	SJH	2029	GARVEY AVE N	Main	4/27/2004
6	SJH	169	SUNKIST AVE	Main	5/16/2005
7	SJH	2149	GARVEY AVE N	Main	4/26/2007
8	SJH		SUNKIST AVE	Main	2/15/2008
9	SJH	172	SUNKIST AVE	Main	5/27/2008
10	SJH		SUNKIST AVE	Main	10/7/2008
11	SJH	172	SUNKIST AVE	Service	3/6/2009
12	SJH	169	SUNKIST AVE	Main	10/11/2011

ORA adjusts Suburban's budget for this project by upsizing the original main size of 4-inch to 6-inch, instead of 8-inch and removing 13 service pipelines from the request. Table 6-9 shows ORA adjustments, note that ORA uses the 6-inch pipe construction cost of $70/ L.F. and 6-inch gate valve cost of $1,500.[111]

[111] Suburban provides cost estimates for various sizes of pipeline construction and gate valves. See Suburban's Direct Testimony of Craig Gott page 433 –line 4 to construct 6-inch PVC of $70/ L.F and page 431 –line 2 for the 6-inch Gate Valve of $1,500.

Table 6-9: ORA's calculation of the new pipeline cost estimate

Line Item	Qty	Unit	Unit Cost	Total
Construct 6-in PVC CL-305	1450	Ea.	$70	$101,500
6 inch tie-in	2	Ea.	$4,500	$9,000
6-inc Gate Valve	4	Ea.	$1,500	$6,000
6 inch tie-in	2	Ea.	$4,500	$9,000
2-inc	0	Ea.	5100	$0
1-in	0	Ea.	2000	$0
AC Removal/Replacement	1450		$50	$72,500
				$198,000
Eng. and Inspection	12%			$23,760
				$221,760
General Admin 6%	6%			$13,306
				$235,066
Contingency	10%			$23,507
Total Estimated Project Cost				$258,572

For the above reasons, ORA recommends $258,572 in 2016 for the Sunkist Street pipeline replacement project.

(vi) Sunkist and Meeker pipeline replacement for $311,000 in 2016

Suburban proposes a budget of $311,000 in 2016 to replace 1,150 L.F. 4-inch steel main pipeline on Sunkist Avenue with 8-inch PVC CL-305 pipe. According to Mr. Gott's testimony, the 547 zone has had multiple failures resulting in leaks. The leaks have disrupted service to customers since early 2000. In addition, Suburban plans to improve the main size to accommodate fire hydrants and provide fire protection. Table 6-10 shows the historical leaks of the mains and services from 2000 to 2008:

Table 6-10: 2000-2008 Leak History

No main or service leaks for the last 5 years

No	District	Street	Leak Type	Leak Date
1	SJH	Sunkist Ave	Service	8/7/2000
2	SJH	Sunkist Ave	Service	8/10/2000
3	SJH	Sunkist Ave	Main	8/24/2000
4	SJH	Sunkist Ave	Service	9/1/2000
5	SJH	Sunkist Ave	Main	1/16/2008
6	SJH	Sunkist Ave	Main	6/27/2008

ORA disagrees with the replacement of this pipeline. The average age of the pipelines is 68 year old.[112] As shown in Table 6-10, three leaks out of four which happened in 2000 and were service leaks, not main leaks. The last two leaks occurred in 2008 were main leaks. For the last six years, the pipeline has operated without any new leaks. In this GRC, Suburban estimates a water loss of 5.81% for Test Year 2015. Suburban's historical water loss between 2008 and 2012 are shown in Table 6-11:

Table 6-11

Year	Water Loss (%)[113]
2008	5.23
2009	5.49
2010	6.18
2011	6.67
2012	5.49
Average	**5.81**

However, Suburban failed to present its analysis to tie in how Suburban's new pipelines will reduce the unaccounted water any further or whether it makes economic sense to replace the pipelines now, since the leakage reduction may be minimal.

[112] Suburban's response to ORA data request SN-03 question b.

[113] Suburban's Workpapers, Table 5-1O.

Based on the above reasons, ORA believes that the condition of this pipeline still has the potential to be in service for the foreseeable future and it's premature to replace it at this time. Therefore, ORA recommends disallowing the Sunkist pipeline replacement project for $311,000.

(vii) Hemphill Street Pipeline Replacement for $175,000 in 2016

Suburban proposes a budget of $175,000 in 2016 to replace 600 L.F. of 4-inch Asbestos Cement ("AC") pipeline on Hemphill St. with 8-inch PVC CL-305. In its budget, Suburban includes its request to replace 16 service pipelines. Suburban explains that the 660 zone has had multiple failures resulting in leaks. The leaks have disrupted service to customers since early 2001. Suburban also explains that the pipeline replacement is to improve reliability, quality and abundance of service to customers.

ORA disagrees with the replacement of the pipelines. First, Suburban's only explanation for upgrading the pipeline size is that they will improve reliability, quantity and abundance service to customers. Suburban provides no support why the current size pipelines have deficiencies or the need to comply with the fire code. Suburban's Master Plan for SJH district indicates that the future water demands of the San Jose Hills District are not anticipated to increase by any significant amount. Table 6-12 shows SJH district Future Demand Projections, the water service, and water demands projections remains the same for the next 20 years.[114] Also ORA discussed in earlier section (f) that Suburban is on track to meet the conservation target, which reflecting less water use is projected until the year 2020. Therefore, ORA believes the size of existing pipeline is adequate.

[114] Suburban's Master Plan for SJH district. Section 4.3 Future Demand Projections, page 32.

Table 6-12: SJH District Future Demand ProjectionsTable 5-2

	2015	2020	2025	2030	2035
Water Service Account	42,837	42,837	42,837	42,837	42,837
Baseline Water Demands (AFY)	28,970	28,970	28,970	28,970	28,970
Target Water Demands (AFY)	31,110	28,380	28,380	28,380	28,380

Second, the numbers of historical leaks for the services and mains do not support their replacement. Table 6-13 shows the historical leaks from 2001 to 2010. As shown on the table, only one service leak occurred in 2001and none has occurred in the past 13 years. As for the 58 year[115] old main pipeline, which had only two main leaks occurred in 2010, but none has occurred since then.

Table 6-13: 2001-2010 Leak History

No.	District	Street	Leak Type	Leak Date
1	SJH	Hemphill St	Service	2/12/2001
2	SJH	Hemphill St	Main	1/14/2002
3	SJH	Hemphill St	Main	4/7/2003
4	SJH	Hemphill St	Main	10/28/2005
5	SJH	Hemphill St	Main	7/7/2009
6	SJH	Hemphill St	Main	4/13/2010
7	SJH	Hemphill St	Main	9/27/2010

In addition as discussed earlier in section (g), in this GRC Suburban estimates a water loss of 5.81% for Test Year 2015. However, Suburban failed to present its analysis to tie in how Suburban's new pipelines will reduce the unaccounted water any further or whether it makes economic sense to replace the pipelines now, since the leakage reduction may be minimal.

For the above reasons, ORA believes that the project to replace the 4-inch main and 16 service lines is unnecessary at this time. Suburban should maintain these lines until their condition warrants the replacement. ORA recommends

[115] Suburban's response to ORA data request SN-03 question no. b.

disallowing the Hemphill Street pipeline replacements project of $175,000 in 2016.

2) Whittier/La Mirada

For the estimated Year 2014 and Test Years 2015 and 2016, Suburban proposes capital budgets for three (3) unauthorized projects and twenty-three (23)[116] planned projects for the Whittier and La Mirada service areas. Suburban's requested capital budgets for the unauthorized projects are: $577,867 in 2012 and $336,009 in 2013. Suburban's requested capital budget for the planned projects are: $9,904,565 in 2014, $9,632,000 in 2015 and $10,065,705 in 2016. The budget includes major projects, such as reservoir replacement, pipeline replacements, new pipelines, valve station replacements, electrical panel replacements, and vehicle purchase. After reviewing Suburban's testimony, work papers and additional information obtained during the discovery period, ORA adjusted Suburban's requests. ORA accepted the requests for unauthorized projects in 2012 and adjusted the request in 2013 to $122,408. ORA adjusted the requests for the planned projects to: $9,904,565[117] in 2014, $8,655,000 in 2015 and $1,672,000 in 2016. Table 6-14 and Table 6-16 list Suburban's request and ORA's adjustments for the unauthorized and the planned projects, respectively.

(a) **Proposed Capital Budgets for Unauthorized Projects**

As it was previously noted, Suburban requests $913,876 for the projects completed in its Whittier and La Mirada (WLM) service area. ORA reviewed the submitted application, testimony, workpapers and Suburban's response to ORA data requests. ORA found these completed projects to be reasonable except for the Main San Gabriel Valley Basin (MSGVB) Water Rights Purchase. ORA's

[116] Suburban requests Colima and Lambert pipeline separately on the projects list; ORA counted it as a part of Plant 408 project. Hence, the number of projects listed on Table 6-16 thus shows 22 only.

[117] ORA accepted all requests in 2014.

adjustment to MSGVB Water Rights Purchase is shown in Table 6-14 and discussed in section c) below.

Table 6-14 Whittier/La Mirada Unauthorized Projects - Suburban vs. ORA

No.	Description	2012 SWC	2012 ORA	2013 SWC	2013 ORA
	W/LM Unauthorized Projects				
1.	Plant 409 Pump Station	$256,537	$256,537	$20,492	$20,492
2.	Mar Vista Pipeline	$321,330	$321,330	$4,026	$4,026
3.	MSGVB Water Right			$302,592	$97,890
4.	Tie-in with City of Cerritos[118]			$8,899	$0
	Total:	$577,867	$577,867	$336,009	$122,408
	Suburban Request Total:	$913,876			
	ORA Recommended Total:	$700,275			

(i) Plant 409 Electrical Upgrades for $277,029 in 2012

Suburban requests $277,029 for upgrading the existing electrical equipment, including breakers, starters, and low voltage transformer at Plant 409. Suburban's contractor (Hunter Electrical Services) identified the following for the need to upgrade the electrical panels:

1. Main breakers for the electrical panel are outdated and parts are no longer available
2. Original soft starters for boosters B-1, B-2, and B-3 are damaged, outdated and parts are no longer available.

Suburban also noted that the existing building was very narrow and there was not enough clearance in front of the panels to meet the current electrical code for safety.

[118] This portion of the Tie-in with the City of Cerritos project was not mentioned in the Suburban testimony under the Completed Unauthorized Projects section, but only found in its Workpaper Spreadsheets. Since ORA is recommending a disallowance for the project, cost allocated in 2013 will be adjusted to $0.

ORA reviewed the submitted documents and found this project to be reasonable. ORA also confirmed the completion of this project during its site visit of Suburban projects. ORA recommends the Commission allow this project.

(ii) Mar Vista Pipeline for $325,356 in 2012

Suburban requests $325,356 in 2012 for the replacement of 1,270 feet of 10-inch steel main on Mar Vista Ave. with 12-inch PVC pipe. Suburban states, in its testimony, that the existing 10-inch steel main had multiple failures resulting in leaks that required repairs. Below is the leak history Suburban provided:

STREET	LEAK TYPE	LEAK DATE
Mar Vista	Main	3/19/1999
Mar Vista	Service	3/3/2004
Mar Vista	Service	3/4/2004
Via Escondida	Main	9/17/2004
Via Escondida	Main	10/19/2004
Las Pasadas	Main	4/26/2005
Enramada	Main	1/19/2006
Enramada	Service	1/25/2006
Las Pasadas	Main	9/17/2010
La Sierra	Main	3/8/2011
Mar Vista	Main	5/14/2012
Mar Vista	Main	5/14/2012
Mar Vista	Main	7/9/2012
Mar Vista	Main	7/9/2012
Mar Vista	Main	7/9/2012

ORA reviewed the leak history and found there were seven main leaks in the last five years on this segment. One thing to note is that when reviewing

Suburban's leak history for the main replacements, ORA counts only the leaks that are labeled "main." ORA would not consider the leaks that are labeled "service," "valve," or "hydrant" as justifications for replacing main pipelines because failure of service connections or hydrant connection are not necessarily the signs of a failing main pipeline. If the main pipeline failure was the reason for the service connection failure, then it should have been labeled as "main" in the leak map. However, for this project, ORA found the main replacement was reasonable. ORA recommends the Commission allow this project.

(iii) Main San Gabriel Valley Basin Water Rights for $302,592 in 2013

Suburban requests $302,592 for the purchase of 23.75 acre-feet (AF) of water rights from California Domestic Water Company.

ORA reviewed the recent water rights transaction information that Suburban provided in its response to ORA Data Request BYU-02. According to the information provided, the cities of La Habra and Brea purchased 450 AF of Main San Gabriel Valley Basin water rights at $15,500 per AF at the end of 2013. This was higher than Suburban's $12,740.72 per AF water rights purchase cost. As such, the cost Suburban paid to acquire 23.75 acre-feet at $302,592 was fair. However, ORA does not agree with Suburban's request for the full recovery of this cost in rate base. The company has not shown how ratepayers would be indifferent to the cost of the water rights and the avoidance of over-pump charges in the Main San Gabriel Valley Basin.

According to Suburban's testimony, Suburban has the right to pump 12.40617% of the Operating Safe Yield (OSY) from the Main San Gabriel Valley Basin. The average allotment for Suburban would be approximately 24,518.86 acre-feet per year (AFY); however, it is subject to OSY change which is, set by the Watermaster, based on local environmental factors. According to its testimony, Suburban produced an average of 36,179 AF of water annually for the last five years. That is substantially more than the allowed 24,518.86 AFY.

Suburban has to pay higher rates for the over-pumped volume of water. The cost of this water rights purchase can only be justified if it is equal or less than the over pump charges that Suburban has to pay annually.

ORA reviewed the over pumped amount of water and over pump charges for the last six years which was provided in Suburban's response to ORA Date Request BYU-02.

Table 6-15: Suburban's Historical Over-pumped Charges in Main Basin

Water Year	AF	Amount	Dollars/AF	% Change
2007/2008	3,448.08	$689,806	$200	
2008/2009	14,190.57	$4,878,855	$344	72%
2009/2010	10,651.21	$6,243,320	$586	70%
2010/2011	15,343.64	$8,193,639	$534	-9%
2011/2012	16,058.58	$7,852,638	$489	-8%
2012/2013	10,979.02	$7,013,258	$639	31%
		Average:	$465	43%

Using the 6 year average value ($465), each year Suburban would save $11,051.
Using the most recent value ($639), each year Suburban would save $15,171.

Saving per year: $11,051 (avg) or $15,171 (max)

As shown in the table above, assuming Suburban's over pumping continues, Suburban would save $11,051 per year from the over pump charges based on the 6 year average of $465/AF.[119] Over pump charge rates tend to fluctuate annually, and rates can vary based on the condition of the basin and amounts pumped. ORA estimates that based upon the latest over pump charges per AF of $639, Suburban will save $15,171 per year. ORA confirmed the water rights purchase has some cost savings effect; however, the revenue requirement of including the water rights purchase cost in rate base far exceed the savings. Water rights are considered intellectual property and it's treated as a non-depreciable asset. Therefore, Suburban will earn a return on the purchase cost into perpetuity.

[119] 6 year average value of $465 was used for the over pumped charges in Dollars per over pumped water in acre feet (AF).

As shown in the following table, ORA calculates the purchase cost of $302,592 will have an annual revenue requirement impact of $46,896.

Table 6-15.a: Calculation of Revenue Requirement

Purchase Cost of Water Rights	$ 302, 592
Suburban Authorized Rate of Return	0.0861
Return on Purchase	$26,053
Net to Gross Multiplier	1.8
Annual revenue requirement	$ -46,896
Total Annual Expected Savings at $639/AF	$15,171
Annual Additional Cost to Ratepayers	$-31,725
Cost Per AF to Ratepayers	$1,336

The net cost burden to ratepayer will be an annual increase in revenue requirement of $31,725 after accounting for the savings of avoiding to pay the over pumping fee on 23.75 AF. In other words, the ratepayers have to pay $46,896 per year to attain $15,171 annual savings. ORA believes it is reasonable and equitable for the ratepayers to pay only for a portion of the water rights purchase cost that is equal to the annual savings to make the ratepayer indifferent on the purchase. If this adjustment is not made, ratepayers could be paying higher costs for many years until at some point the over pump charges reach over $1,975/AF ($46,896/23.75AF).

ORA adjusted the water rights purchase cost so that the revenue requirement generated equals the annual savings of $15,171. The resulting amount to be included in rate base for the purchase price should be $97,890.[120] This amount can be revisited in future GRCs and adjusted upward, if the over pumping fees exceed $639/AF. ORA believes limiting the amount of the purchase

[120] Revenue requirement calculation:
$302,592 X 0.0861 X 1.8 = $46,896, then bring $46,896 down to $15,171 and reverse calculate, $15,171 ÷ (0.0861 X 1.8) = $97,890.

cost in rate base to $97,890 is reasonable and makes ratepayers indifferent to the purchase. Accordingly, DRA recommends the Commission only allow $97,890 of the requested amount of $302,592 in rate base.

(b) **Proposed Capital Budgets for Planned Projects**

ORA's bases for the adjustments made to Suburban's requests are discussed in the following sections. A comparison of Suburban's requests and ORA's adjustments is presented in Table 6-16 below.

Table 6-16: W/LM Capital Projects - Suburban Request vs. ORA Recommendation

		2014		2015		2016	
No.	Description	SWC	ORA	SWC	ORA	SWC	ORA
	Planned Capital Projects						
1.	Plant 224 Facility Construction - Northern Reservoir	$6,548,000	$6,548,000				
	Plant 224 Facility Construction - Southern Reservoir			$7,177,000	$7,177,000	$1,407,000	$1,407,000
2.	Plant 408 Facility Construction - Santa Gertrudes Pipeline, Valve Stations	$1,384,000	$1,384,000				
	Plant 408 Facility Construction - 350 Zone Valve Station	$306,000	$306,000				
	Plant 408 Facility Construction - Construct 500 L.F. on Colima from Lambert to Lanning			$411,000	$411,000		
	Plant 408 Facility Construction - Site Grading and Walls					$3,813,705	$0
3.	Sorensen Channel Crossing - Freestanding	$266,000	$266,000				
4.	Valley View Grade Separation Pipeline - Grade Separation Pipeline	$294,000	$294,000				
5.	Milvern and Mollyknoll Pipeline	$1,106,565	$1,106,565				
6.	Cerritos Tie-In - Construct inter-connection with City of Cerritos			$130,000	$0		
7.	Ocaso Pipeline Project - Replace 4-inch and 2-inch steel pipe			$502,000	$502,000		
8.	I-5 freeway crossing extensions - extend 2 crossings			$565,000	$565,000		
9.	Central Basin Exploratory Well - Drill exploratory well in Central Basin - Plant 211			$261,000	$0		
10.	Bright Avenue Pipeline - Replace 2-inch steel distribution main			$130,000	$0		
11.	340 Zone Reliability - Construct additional source to the 340 zone			$456,000	$0		
12.	Colima Crossing - Install pipeline across Colima Rd. south of Whittier Blvd.					$89,000	$0
13.	600 Zone Reliability (La Serna) - Install 4,080L.F. of PVC pipe					$823,000	$0
14.	WLM Valve Station 1 - L&W					$100,000	$100,000
15.	WLM Valve Station 2 - L&L					$105,000	$105,000

16.	San Ardo Pipeline					$322,000	$0
17.	La Sierra & Via Sierra (Steel Pipe) Pipeline					$264,000	$0
18.	Homeland & Russell (Steel Pipe) Pipeline					$198,000	$0
19.	Hornell and Stamy					$164,000	$0
20.	Stanton & Rosalita (Steel Pipe) Pipeline					$717,000	$0
21.	Plant 413 Suction Line - Construct 3,180LF of 24-inch DIP					$2,003,000	$0
22.	Colima and Janine					$60,000	$60,000
	Total:	**$9,904,565**	**$9,904,565**	**$9,632,000**	**$8,655,000**	**$10,065,705**	**$1,672,000**

(i) Plant 224 Replacement Reservoirs for $6,548,000 in 2014, $7,177,000 in 2015 and $1,407,000 in 2016

Suburban requests $6,548,000 in 2014, $7,177,000 in 2015, and $1,407,000 in 2016; for replacing the existing reservoir at Plant 216 with new reservoirs at the neighboring Plant 224. This project started in the previous rate case and Suburban proposes that the project will be completed in this rate case cycle.

This project was submitted and approved by the Commission in the previous rate case. The project experienced a delay due to easement issues with the neighboring properties. Plant 216 reservoir's roof, concrete walls and concrete floor was failing and Suburban's diving inspection report showed the failing portions of the reservoir were beyond repairable conditions.

Suburban could not just replace the existing reservoir at Plant 216 because the system design prevents the reservoir being taken out of service. In order for Suburban to replace the reservoir, the new reservoir has to be built first before taking the existing reservoir out of service. Plant 216 site did not have enough space for a replacement reservoir. Adjacent to Plant 216 site, there was a vacant site suitable for a new reservoir, which is owned by California Domestic Water Company (Cal Domestic). Suburban entered into a contract arrangement with Cal Domestic to use the adjacent site to build a new reservoir site (Plant 224), connect the new reservoir to the system, remove the existing reservoir at Plant 216, and swap the land of Plant 216 and (future) Plant 224. Construction of Plant 224 is

currently on-going and the detail of land swap is being worked out between Suburban and Cal Domestic.

In the last rate case, a total of $14,120,428 was approved for 2012 and 2013. Due to the size and the complexity of the project, the construction was phased over two rate case cycles. The total project estimate was $22,200,843. However, due to the above mentioned project delays, Suburban reports that it spent $1,400,245 in 2012, and $6,322,782 in 2013. Suburban utilized the un-spent amount to fund the above mentioned "unauthorized" projects. The remaining total estimate for this project is $15,133,000, which Suburban requests in this rate case.

ORA reviewed the progress of the project during the Suburban site visit. Additionally, Suburban met with ORA in 2013 to explain the land swap progress with Cal Domestic and assured ORA that this project will be completed in this rate case cycle. Therefore, ORA recommends the Commission allow Suburban to finish this project by approving its request.

(ii) Plant 408 Replacement Reservoir for $1,690,000 in 2014 and $3,814,000 in 2016

Suburban requests $1,690,000 in 2014 and $3,814,000 in 2016[121] for replacing Plant 408 reservoir R-1. The existing reservoir capacity is 7.1 Million Gallons (MG) and Suburban proposes replacing it with three reservoirs totaling 6.65 MG capacity.

The existing reservoir developed holes on its steel bottom due to corrosion. Suburban monitored these holes by diving inspections since 1994. During the diving inspections, temporary repairs were made to seal those holes at the steel bottom. In 2008, Suburban discovered a considerable leak from the reservoir, and subsequent diving inspection confirmed there were three significant leaks. One of the leaks was from a crack in the steel plate on one of the sloped walls. According

[121] Project discussed in section f) Colima and Lambert Pipeline below is related to Plant 408. In fact, it was identified as one of the items (Zone 400 Improvement) in the alternatives chosen for Plant 408. Suburban requests $411,000 in 2015 for Colima and Lambert Pipeline project.

to the report, this crack had been repaired in the past, but had continued to propagate. During the diving inspection of 2010, the contractor (Dive Corr., Inc.) found additional fractures on the reservoir bottom steel plate. Since then, Suburban has been monitoring the leaks by inspecting them annually.

Diving inspection reports from 2012 and 2013 confirmed that the leaks were getting worse. Suburban commenced a geotechnical assessment in 2013, conducted by a geotechnical consulting engineers (Tetra Tech), and their report recommended that the entire reservoir needs to be replaced.

ORA agrees with Suburban on the need for the reservoir to be taken out of service. Suburban requested this project in the previous rate case. As part of the settlement reached with ORA, Suburban decided to withdraw this project in exchange for Plant 224 reservoir. In this rate case, Suburban requests only the first phase of the project.[122] The total estimated project cost is $16,335,059 and Suburban requests $5,914,705 in this rate case.

Suburban considered six different alternatives for this project before submitting the final proposal. Alternative 1 is a modification to the existing system for temporary operation while Plant 408 Reservoir R-1 is being taken out of service. Alternatives 2 to 6 are different designs and methods to replace the reservoir R-1's capacity. Suburban combined Alternatives 1 and 6 for the cost effectiveness of this combination. The following table summarizes the alternatives that Suburban considered:

[122] Suburban is proposing a total of three phases for this project spanning over three GRCs.

Table 6-17: List of Alternatives Suburban Considered

Alternative	Description	Amount
1	Temporary Operation	$2,101,000[123]
2	Rehabilitate the Existing Tank	$17,007,172
3	Replace Reservoir at Existing Elevation – Concrete Reservoir	$20,669,651
4	Replace Reservoir at Higher Elevation – Tall Steel Reservoirs	$14,796,144
5	Replace Reservoir at Higher Elevation – Short Steel Reservoirs	$13, 555, 388
6	Replace Reservoir at Existing Elevation – Steel Reservoir	$14,234,060

Alternative 1 is a must option since the existing reservoir cannot be taken off-line without this system modification. Alternative 5 is the least costly option, but constructing the new reservoir at the existing elevation would provide better hydraulic characteristics than at a higher elevation. Thus, Suburban chose Alternative 6.

The following table summarizes the cost and schedule for the proposed project:

Table 6-18: Summary of Cost and Schedule for the Alternatives Chosen

Alt.	Item	Amount	Year
1	Santa Gertrudes Pipeline	$1,068,000	2014
1	Flow Control/Pressure Sustaining Valve Station	$143,000	2014
1	Pressure Reducing Valve Station	$173,000	2014

[123] Requested amount for the Temporary Operation consist of $1,384,000 for creating the 337 Zone and $306,000 for creating the 350 Zone. The total amount is $1,690,000 which is requested for the Plant 408 in 2014. Suburban requests $411,000 in 2015 for constructing a pipeline at Colima and Lambert to improve the 400 Zone transmission. Even though this pipeline project is related to Plant 408 project, this pipeline project was included under "pipeline projects" in the workpapers.

	Create 337 Zone Total:	$1,384,000	
1	Calmada & Lambert (400 to 350 Zone) Valve Station	$112,000	2014
1	Gunn & Lambert (400 to 350 Zone) Valve Station	$100,000	2014
1	Mills & Lambert (400 to 350 Zone) Valve Station	$94,000	2014
	Create 350 Zone Total:	$306,000	
1	Colima and Lambert Pipeline[124]	$411,000	2015
	Improve 400 Zone Transmission Total:	$411,000	
6	Site Work	$3,813,705	2016
6	2.37 MG Welded Steel Reservoir	$2,625,890	2017
6	2.37 MG Welded Steel Reservoir	$2,625,890	2018
6	Pump Station Piping	$2,573,701	2019
6	Electrical and Instrumentation	$373,650	2019
6	Emergency Power Generator	$105,000	2019
6	1.9 MG Welded Steel Reservoir	$2,116,223	2020
	Replace Reservoir Total:	$14,234,059	
	Project Total Estimate:	**$16,335,059**	

As presented in the above table, Suburban proposes Alternative 1 and site preparation of the Alternative 6 in this rate case. Although the majority of the Alternative 6's cost will be requested in the future rate cases that will cover 2018 to 2020, it is likely that Suburban will get an implied approval from the Commission to proceed with the entire project for Alternative 6 if the site work portion of the request is allowed in this GRC. In order for the Commission to have an opportunity to review the project in its entirety, ORA proposes in this GRC that Suburban should construct Alternative 1 only to allow the existing Plant 408 R-1 to be taken out of service. The need for replacing the R-1's capacity should be reviewed in Suburban's next GRC. The Site Work portion of Alternative 6 should not be allowed.

[124] This project was identified as one of the projects under Alternative 1; however, Suburban requested this project separately. Thus, the Plant 408 project request in the workpaper does not include $411,000 in 2015.

ORA's recommendation is based on the following reasons:

Plant 408 has three reservoirs that serve the 335 Zone, the 425 Zone and the 450LM Zone. Currently, reservoir R-1 only serves the 335 Zone, and reservoirs R-2 and 3 serve the 425 Zone and the 450LM Zone[125]. Alternative 1 of Plant 408 project will make various modifications to make R-2 and R-3 serve all three zones at the same time.

ORA's analysis will show that the three zones (335 Zone, 425 Zone and 450LM Zone) would have enough storage capacity when Plant 408 R-1 is being taken out of service. Suburban's proposal for Plant 408 project calls for operating the system without the capacity of Plant 408 R-1 from 2014 to 2020. If the system can operate without 7.1MG storage for 6 years, ORA believes it is possible to keep the configuration permanently without the need for replacing the storage capacity. ORA will demonstrate that Suburban would still have enough storage capacity without the 7.1 MG R-1.

Suburban's Whittier/La Mirada Water System Master Plan, Table 7-6 recommended the following storage capacity for the three zones.

Table 6-19: W/LM Storage Capacity per Suburban's Water Master Plan

Pressure Zone	MDD (gpm)	Storage Req. (MG)	Fire Flow Requirements			total storage required (MG)	supply plant	storage available (MG)	additional storage needed (MG)
			rate (gpm)	duration (hours)	storage (MG)				
La Mirada Service Area									
285	201	0.29	5,000	5	1.50	1.79	409-R1	1.5	0.3
335	4,561	6.57	3,750	4	0.90	7.47	408-R1	7.5	0.0
425	1,943	2.80	3,000	3	0.54	3.34	408-R2 & R3	5.8	0.0
450LM	1,367	1.97	5,000	5	1.50	3.47	428-R1	2.1	1.4
total	8,072	11.63			4.44	16.07		16.9	1.7

[125] The storage capacity for the 450LM Zone is served by 2.0 MG reservoir at Plant 428. Plant 408's R-2 and 3 act as forebays for the booster that feed the 450LM Zone.

Suburban calculated the storage requirement on the following assumptions: (1) storage alone should be able to meet the Maximum Day Demand and the fire flow demand; and (2) Suburban should meet the fire flow requirements listed in the Los Angeles County Fire Department's Regulation 8, which is based on the land use.

The maximum day demand (MDD) for the 335 Zone does not have to be met solely by a reservoir (or reservoirs). The 335 Zone has a production well at Plant 409 and also receives water from the 400 Zone through various transmission lines and connection mains. Plant 409 has booster capacity of 2,215 gpm.[126] This capacity alone meets about 50% of the 335 Zones MDD. Moreover, the 335 Zone's primary supply source is from the 400 Zone through valves located at La Mirada/Leffingwell, La Mirada/Weeks, and La Mirada/Imperial.[127] The supply from the 400 Zone to the 335 Zone depends on how stable the pressure at the south 400 Zone would be. During this rate case, transmission to south 400 Zone would improve through the proposed improvements under Alternative 1 and Colima & Lambert pipeline project.

ORA also performed a calculation using the AWWA criteria that recommends "<u>the storage available to supply the peak demand should equal approximately 20 to 25 percent of the maximum daily demand volume, provided that pumping meets the daily operational demands up to the maximum daily demand</u>[128]".

[126] Suburban's Whittier/La Mirada Water System Master Plan, Table 7-7.

[127] According to Craig Gott's direct testimony.

[128] AWWA's Determining Distribution System Storage Needs, September 25, p. 8.

Table 6-20: ORA Adjusted W/LM Storage Capacity

Pressure Zone	MDD (gpm)	Storage Req. (MG) **25%**	Fire Flow Requirements rate (gpm) ORA	duration (hours)	storage (MG)	total storage required (MG)	supply plant	storage available (MG)	additional storage needed (MG)
La Mirada Service Area									
285	201	**0.07**	3,750	4	0.90	0.97	409-R1	1.5	0.0
335	4,561	**1.64**	3,750	3	0.68	2.32	408-R1	3.8	0.0
425	1,943	**0.70**	2,250	2	0.27	0.97	408-R2 & R3	2.0	0.0
450LM	1,367	**0.49**	3,750	4	0.90	1.39	428-R1	2.1	0.0
total	8,072	**2.91**			2.75	5.65		9.4	0.0

Using the AWWA criteria, ORA first determines if each zone has enough pumping capacity to meet the MDD. As it was explained above, the 335 Zone has enough supply to meet the MDD without considering the storage capacity. Since it does, therefore, it only needs 25 percent of the MDD volume for the storage according to AWWA criteria.

The 450LM Zone is supplied by boosters at Plant 408. The combined booster capacity is 4,647 gpm[129] and is well beyond the MDD of 1,376 gpm. The 450LM Zone has a 2.0 MG storage reservoir that is far more than the 0.5 MG storage required based on 25% of MDD criteria.

The 425 Zone is supplied by boosters at Plant 413[130] and Plant 408. The booster capacity of Plant 413 alone, rated at 2,889 gpm, can easily meet the MDD of 1,943 gpm. Boosters at Plant 408 have combined capacity of 2,316 gpm. ORA believes the pumping capacity alone can meet the MDD for the 425 Zone. Thus, 25% of the MDD should be the basis for the required storage.

[129] Suburban's Whittier/La Mirada Water System Master Plan, Table 7-7.

[130] Plant 413 transports purchased water from Cal Domestic to 425 Zone.

ORA also made some adjustment to the fire flow requirement. Suburban's fire flow requirement is based on the land use and the lot size.[131] According to Suburban's testimony, this requirement came from the Los Angeles County Fire Department's Regulation 8.[132] Suburban provided a copy of Regulation 8 to ORA as an attachment to their response to ORA Data Request BYU-02. After reviewing the Regulation 8, ORA found that only land developers, and building owners who are constructing new buildings or renovating their existing buildings, are required to follow this regulation when they are submitting land development plans or building permits. The regulation is also an instructional guideline for the Fire Department's Land Development Unit and Fire Prevention Engineering Section when they are to review developer submitted land development plans and building permits.[133] It does not apply to a water utility, such as Suburban. When a land developer applies for a development project, it is required to follow the requirements of Regulation 8. If it needs additional fire flow, the developer should contact the water utility and make the necessary arrangements, (i.e. paying for the additional supply or storage) with the utility. According to Regulation 8, the governing fire flow based on building size is listed in sections A and B of the Procedures chapter (chapter IV), and in Table 1 of the Regulation 8. Suburban used fire flow of 3,750 gpm for the 335 Zone, 3,000 gpm for the 425 Zone, and 5,000 gpm for the 450LM Zone. ORA wants to point out that the 450LM Zone's 5,000 gpm fire flow requirement is questionable. According to Suburban's W/LM Water System Master Plan, Table 4-4, a fire flow requirement of 5,000 gpm for 5 hours applies only to a commercial or industrial land with over 70,000 square-feet

[131] Suburban's Whittier/La Mirada Water System Master Plan, Table 4-4.

[132] Not directly related to this project, but Suburban's response to ORA's data request regarding the Combining the 600 and 620 Zones Project, Suburban provided a copy of LA County Regulation 8 as the basis for their fire flow requirements.

[133] Sections A and B of Responsibility chapter (chapter II) of the regulation.

lot size. According to the Table 3-2 of the same document, the 450LM Zone does not have either commercial or industrial land use.

Since Suburban states that it uses the regulation as a basis for their fire flow requirements, ORA reviewed the requirements of the regulation to verify if Suburban correctly applied the requirements of the regulation. According to the applicable footnotes to the Table 1 of the Regulation 8, the fire flow requirement can be reduced if certain conditions are met. The Footnote Section (2) states:

> "(2) *Reduction in fire flow shall be cumulative for type of construction and a fully sprinklered building. The following allowances and/or additions may be made to standard fire flow requirements*."

Subsections a. through c. states as follows:

> *"a. A 25% reduction shall be granted for the following types of construction: Type I-F.R., Type II-F.R., Type II one-hour, Type II-N, Type III one-hour, Type III-N, Type IV, Type IV one hour, and Type V one-hour. This reduction shall be automatic and credited on all projects using these types of construction. Credit will not be given for Type V-N structures (to a minimum of 2,000 gpm available fire flow).*
>
> *b. A 25% reduction shall be granted for fully sprinklered buildings (to a minimum of 2000 gpm available fire flow).*
>
> *c. When determining required fire flows for structures that total 70,000 square feet or greater, such flows shall not be reduced below 3,500 gpm at 20 psi for three hours."*

According to the subsections a. and b., the fire flow for the 335 Zone, 425 Zone and 450LM Zone can be reduced as much as 50%. Subsection a. allows a 25% reductions to virtually all of the commercial buildings. Subsection b. allows a 25% reduction to most of the commercial or industrial buildings which would have not been able to acquire a building permit unless they have installed sprinklers. However, to be conservative in estimating the fire flow, ORA only reduced the fire flow values of Suburban's data by 25%. The new fire flow for the

zones are: 3,750[134] gpm for the 335 Zone, 2,250 gpm for the 425 Zone and 3,750 gpm for the 450LM Zone. The resulting storage capacities are calculated and presented in the table below.

Table 6-21: W/LM Storage and Fire Flow Requirements – ORA Adjusted

Pressure Zone	MDD (gpm)	Storage Req. (MG) 25%	Fire Flow Requirements			total storage required (MG)	supply plant	storage available[135] (MG)	**additional storage needed (MG)**
			rate (gpm) **ORA**	duration (hours)	storage (MG)				
La Mirada Service Area									
285	201	0.07	**3,750**	4	0.90	0.97	409-R1	1.5	**0.0**
335	4,561	1.64	**3,750**	3	0.68	2.32	408-R1	3.8	**0.0**
425	1,943	0.70	**2,250**	2	0.27	0.97	408-R2 & R3	2.0	**0.0**
450LM	1,367	0.49	**3,750**	4	0.90	1.39	428-R1	2.1	**0.0**
total	8,072	2.91			2.75	5.65		9.4	**0.0**

According to the adjusted storage capacity, Suburban does not need to replace the storage capacity of Plant 408 R-1 reservoir. Furthermore, Suburban has various emergency connections[136] with the neighboring water utilities. To be specific, the 450LM Zone has an emergency connection with the City of Fullerton at Hawkspoint and Highlander; the 425 Zone has an emergency connection with the City of La Habra at Summershade and Grayling; the 335 Zone has an emergency connection with Metropolitan Water District at Imperial and La Mirada, and with Golden State Water Company at Foster and Edwards. According to Section 7.2.3 of Suburban's Whittier/La Mirada Water System

[134] This is a 75% value of 5,000 gpm. ORA assumed Suburban made the reduction, thus , ORA did not make adjustments here.

[135] The available storage for the 335 Zone and 425 Zone were calculated by proportionally dividing the Plant 408 R-2 and R-3's combined storage (3MG+2.8MG = 5.8MG) according to the Total Storage Required calculated in the table (2.32MG:0.97MG).

[136] Suburban's Whittier/La Mirada Water System Master Plan, Table 7-3.

Master Plan, these connections can provide water on a regular basis or on an emergency basis. ORA believes Suburban Zones 335, 425 and 450LM have more than enough supply and storage capacity to meet the MDD and fire flow demands without the storage capacity of Plant 408 R-1. ORA recommends the Commission approve Alternative 1 in this rate case and disallow Alternative 6 until Suburban can demonstrate that additional storage capacity is needed.

(iii) Sorensen Channel Crossing for $266,000 in 2014

Suburban requests $266,000 for replacing 8-inch steel main crossing Sorensen Storm Drain Channel in the 265 Zone with 250 feet of 12-inch PVC and steel pipes. This project was approved in the last rate case. According to Suburban's testimony, this project was deferred due to the delay in acquiring an easement from the Los Angeles County Flood Control District. Suburban acquired the easement in 2013 and the project was completed in 2014. During the Suburban site visit, ORA confirmed the completion of this project.

ORA finds this project reasonable and recommends the Commission allow Suburban's request.

(iv) Construct New 16-inch Pipeline in Valley View Phase 2 for $294,000 in 2014

Suburban requests $294,000 to construct 1,200 feet of 16-inch Ductile Iron Pipe (DIP) on Valley View Ave. to complete the relocation of the existing 8-inch pipe. This project was necessary due to the construction of a grade separation for the railroad crossing at the intersection of Stage Road and Valley View Ave. Phase 1 of this project was to install 350 feet of 16-inch DIP on Valley View Ave., south side of Stage Road, and to install 4,100 feet of 16-inch DIP on Valley View from north side of Stage Road to Mansa. Phase 1 was completed in 2010

Suburban requested this project in the past rate cases. ORA had reviewed the reasonableness of this project in the past. The project delay was due to the Alameda Corridor Project Authority's delay in grade separation construction

schedule. Currently, the grade separation project is on-going, and ORA finds Suburban's request for this project reasonable. ORA recommends the Commission allow this project.

(v) Milvern & Leffingwell Pipeline Replacement Project for $1,107,000 in 2014

Suburban requests $1,107,000 to replace 1,700 feet of 8-inch and 6-inch Asbestos Cement (AC) mains on Milvern Dr. with 12-inch, 8-inch and 6-inch PVC pipes and construct 750 feet of 12-inch PVC pipe on Leffingwell Road and Lambert Road.

The Milvern Dr. portion of this project was approved in the last rate case; however, according to Suburban's testimony, Suburban had to defer the construction of this project due to the paving moratorium limitations the City of Whittier imposed subsequent to the City's paving project. The design of the Milvern Dr. project, and the contractor selection have been completed. According to Suburban's testimony, all necessary permits have been acquired and the construction of the project will begin in January 2014.

Leffingwell Road and Lambert Road are the major roads adjacent to Milvern Drive. Construction of the new main on Leffingwell and Lambert is related to Plant 408 project mentioned above. This project is related to one of the items identified under Alternative 1 (Colima and Lambert Pipeline Project), which ORA found reasonable, to improve the 400 Zone transmission. Suburban reports these projects were combined for design and construction efficiency.

ORA finds this project reasonable, thus recommends the Commission allow this project.

(vi) Colima & Lambert Pipeline Project for $411,000 in 2015

Suburban requests $411,000 for constructing 650 feet of 12-inch PVC pipe on Colima Road to improve the water flow from North to South in the 400 Zone. This project is related to the Plant 408 Reservoir 1 replacement discussed above.

This project was one of the items identified under Alternative 1, which ORA found reasonable to improve the 400 Zone transmission.

ORA finds this project reasonable and recommends the Commission allow this project.

(vii) City of Cerritos Tie-in for $130,000 in 2015

Suburban requests $130,000 for constructing a 12-inch check valve station on Valley View Ave. and Pine Pl. to make a tie-in with the City of Cerritos. According to the Suburban's testimony, a tie-in with the City is to provide fire protection to the South 285 Zone during the construction of I-5 Freeway Widening Project.

Suburban's 285 Zone is divided north and south by the I-5 Freeway and they are connected by two 16-inch pipes crossing the I-5 freeway. Primary source for north 285 Zone is from the 335 Zone through pressure reducing valve (PRV) connections. Primary source for south 285 Zone is from the production well at Plant 410 located on the south of the I-5 freeway.

According to the testimony, the south 285 Zone's operational supply can be met by the production from the well at Plant 410, but its fire protection supply relies on the flow from the two existing 16-inch connections to the north 285 Zone. Suburban's testimony states in 2014, these two existing freeway crossings will be taken offline and extended approximately 150 feet to accommodate the I-5 Widening Project. Suburban states during the construction of this pipe extension, the fire protection supply to the south 285 Zone will be completely eliminated. In order to provide fire protection "only" during the pipe extension, Suburban requests a "permanent" connection with the City of Cerritos.

ORA disagrees with Suburban's claim that the fire protection supply to the south 285 Zone will be completely eliminated. Since Suburban has two 16-inch connections that transport water between the north and south of its 285 Zone, Suburban should work on the extension of the pipes one at a time. According to the information from Suburban's Workpaper Volume 3 of 3, the locations of the

connections are geographically apart: one at adjacent to Valley View Ave. and the other at the middle location between Phoebe Ave. and Trojan Way. ORA estimates these locations are more than 2,000 feet apart. ORA believes Suburban can work on one connection at a time while maintaining the fire protection supply to the south 285 Zone. Moreover, according to Suburban's section of its testimony for the I-5 Widening Crossings Extensions, it states the following: "*In order to maintain supply to the portion of 285 zone south of the I-5 freeway, crossing extension construction needs to be scheduled and phased so that one crossing remains in service at all times*." Furthermore, the I-5 Widening Construction Plan (CP-97) provided by Suburban in response to ORA Data Request BYU-02 includes an emergency connection with the City of Buena Park to provide adequate domestic water supply and meet the fire flow requirement when the 16-inch crossings are needed to be shut off[137]. CP-97 identifies this emergency connection with the City of Buena Park is to be funded by Caltrans[138].

For reasons stated above, ORA believes the requested tie-in connection to the City of Cerritos is not necessary during the freeway crossing construction. Thus, ORA recommends the Commission disallow this project.

(viii) Ocaso Ave. Pipeline Replacement Project for $502,000 in 2015

Suburban requests $502,000 to replace 1,500 feet of 1-inch plastic, 2-inch and 4-inch steel mains on Ocaso Ave. with 8-inch PVC pipe. Suburban's testimony states that the existing main on Ocaso Ave. has multiple failures in the past which resulted in numerous interruptions of service to customers. Below is the leak history Suburban provided:

[137] I-5 Freeway Widening CP-97, page 14.

[138] Ibid., page 29.

STREET	LEAK TYPE	LEAK DATE
Ocaso Ave	Main	8/10/1998
Ocaso Ave	Main	10/5/1999
Ocaso Ave	Main	4/25/1999
Ocaso Ave	Main	7/22/1999
Ocaso Ave	Main	9/24/2002
Ocaso Ave	Main	8/5/2005
Ocaso Ave	Main	8/2/2006
Ocaso Ave	Main	4/8/2006
Ocaso Ave	Main	4/26/2009
Ocaso Ave	Main	6/10/2010
Ocaso Ave	Main	9/3/2011
Ocaso Ave	Main	9/27/2011

ORA reviewed the leak history Suburban provided and found there were four occurrences of mainline leaks on Ocaso Ave. within the last five years (2009 to 2013)[139]. ORA found Suburban's request reasonable and recommends the Commission allow this project.

(ix) I-5 Widening Crossings Extensions for $565,000 in 2015

Suburban requests $565,000 for extending the two existing 16-inch and 20-inch steel casings crossing the I-5 freeway and replacing the existing 12-inch and 16-inch steel pipes (which runs inside the steel casings) with 12-inch and 16-inch PVC pipes. The need for this project was due to Caltrans' I-5 freeway widening project[140]. Caltrans will pay for the grading, paving, and relocating pipelines

[139] For 2012 and 2013 there were no records of leak provided.

[140] According the I-5 Freeway Widening Construction Plan (CP-97) that Suburban provided in response to ORA data request BYU-02, the total scope of the project is over $3.5 million.

(continued on next page)

outside of the freeway boundaries, while Suburban will be responsible for the extension of the pipes.

ORA reviewed the reasonableness of this project in the past and determined this project was necessary in order to maintain the fire flow supply to the south 285 Zone. Suburban has requested this project multiple times in past rate cases, but due to Caltrans' delay in the I-5 widening construction schedules, it has been deferred until now even though the pipe extensions were approved.

ORA finds this project reasonable and recommends the Commission allow this project.

(x) Central Basin Exploratory Well at Plant 211 for $261,000 in 2015

Suburban requests $261,000 for constructing an exploratory well at its Plant 211 to verify that the site is viable for a production well. Suburban is planning to drill and equip a production well in the Central Basin area. Suburban requested this project to find a suitable site for the well. Suburban was approved to construct an exploratory well at Plant 427 in the previous rate case.

Suburban explains the need for a new production well based on its water rights allotment in the Central Basin. Suburban showed that it had been producing below the allotment by an average of 1,246.55 acre-feet per year (AFY). Suburban argues that if it produces the full amount of the allotment, it would lease more water rights to other Central Basin producers and the revenue from leasing would be credited to the volume related costs, thereby, reducing the water cost for the ratepayers.

ORA does not agree with Suburban's reasons. In the previous rate case, the Commission approved an exploratory well and Suburban constructed the exploratory well at its Plant 427. The test resulted in a significant production

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Caltrans will fund most of the project cost except for these 16-inch freeway crossings extension per Highway Code 702 and 703.

potential; however, in its testimony, Suburban reports that the water from the test well at Plant 427 had unacceptably high levels of color. Suburban states that water treatment would be required to make this water acceptable for service. Suburban goes on to say that: "*at this time, Suburban will not pursue a production well at Plant 427*" without further explanation. ORA believes Suburban should provide the cost effective analysis of water treatment before moving forward.

Another key point is that Suburban claims that with its current water production facilities in the Central Basin area, it cannot produce water to the full allotment. According to its testimony, Suburban argues that, from 2008 to 2012, it under-produced an average of 1,246.55 AFY of water from the Central Basin. Suburban also stated that a production well at its Plant 409 is offline, which would further reduce the production capacity.

During the Suburban site visit, ORA witnessed that the production well at Plant 409 was being repaired and it should have been back in service by now. Also, the most current under production data Suburban provided was 331.1AFY in 2012. Suburban has a water rights allotment of 3,721AFY and produced 3,389.99AFY in 2012. That is very close to its water rights amount and Suburban was able to produce it with its current facilities. The capacity of the new production well is designed to produce 1,000 gallons-per-minute (gpm) or 1,614.08 AFY.

ORA believes if the new production well is approved, there might be an over pumping situation in which the over produced amount of water would be charged at a higher rate than the water pumped under the allotted water rights amount. Suburban should prepare a comparison showing the cost of the new well construction, including the cost of the exploratory wells, and the revenue from leasing the water rights that would benefit towards the cost savings. Accordingly, ORA recommends the feasibility of this project and eventual construction of a production well be presented in Suburban's next rate case. ORA recommends the Commission disallow this project in this rate case.

(xi) Bright Ave. Pipeline Replacement for $130,000 in 2015

Suburban requests $130,000 for replacing 400 feet of 2-inch steel main on Bright Avenue with 8-inch PVC pipe. According to Suburban's testimony, the existing 2-inch steel distribution main on Bright Ave between Whittier Bl. and Oak St. in the 340 Zone had multiple failures resulting in leaks requiring repairs. Below is the leak history Suburban provided:

STREET	LEAK TYPE	LEAK DATE
Oak St.	Main	4/20/2007
Bright Ave	Main	1/17/2011
Bright Ave	Service	10/05/2006
Bright Ave	Service	9/22/2003
Bright Ave	Service	6/9/2011

ORA reviewed the leak history Suburban provided and found there were only two occurrences of main leaks: main leak at Oak St. in 2007 and main leak at Bright Ave. in 2011. For other pipeline replacement projects, Suburban lists leaks as far back as 1999. However, the leak history provided for this project lists five leaks only and three of the leaks were service leaks, not main leaks. Moreover, the leak occurred in the 12-inch water main in Oak Street should not be counted as the leak in the Bright Ave. which brings the historical leak count for the Bright Ave. down to one occurrence.

ORA could not find the urgency in replacing the main with so few leaks. Therefore, ORA recommends the Commission disallow this project.

(xii) 340 Zone Reliability Project for $456,000 in 2015

Suburban requests $456,000 for constructing 1,700 feet of 12-inch PVC pipe on Washington Blvd. to provide a secondary source of supply from the east 340 Zone to west 340 Zone. Suburban states that the existing single 12-inch asbestos cement (AC) pipe on Washington Blvd. between Crowndale Ave and

Lambert Rd. is the only supply connection to the west 340 Zone which serves about 500 customers. Suburban argues that a failure on this pipe on Washington Blvd. would result in the west 340 Zone being out of water indefinitely until the pipe is repaired.

ORA disagrees with Suburban's claim that a failure in this pipeline would cause west 340 Zone to run out of water. According to Suburban's Whittier/La Mirada Water System Master Plan, Suburban has an emergency connection with the City of Whittier in the 340 Zone between Crowndale and Lambert. Moreover, Suburban's Workpaper Volume 3-3 has project maps that show the location of the 8-inch tie-in (emergency connection) with the City. The location is adjacent to Crowndale Ave. which is on the west of the 340 Zone. Thus, should there be a failure on the 12-inch pipeline that would prevent water flow from the east 340 Zone to west 340 Zone, the customers in the west 340 Zone would still be able to get water from the City of Whittier's emergency connection.

ORA finds Suburban's request for this project unnecessary. Therefore, recommends the Commission disallow this project.

(xiii) Colima Pipeline Crossing Project for $89,000 in 2016

Suburban requests $89,000 for constructing 90 feet of 8-inch PVC pipe on Colima Rd. to connect two existing 8-inch dead-end mains on Whittier Blvd. and Colima Rd. Suburban's testimony states the existing dead-end mains have poor turnover resulting in a loss of chlorine residual that leads to undesirable water quality. ORA finds that this condition is typical for any dead-end mains. Water trapped at the end of a main should be periodically flushed if the water quality is questionable. Suburban did not provide any information regarding the water quality at this location and whether it meets the CDPH's standard or not; or how often they flush the dead-end. ORA could not find any CDPH citations or notes regarding the water quality of Suburban's dead-end mains. ORA could not

determine any urgency or the need for this project. ORA recommends the Commission disallow this project.

(xiv) Combining 600 & 620 Zones for $823,000 in 2016

Suburban requests $823,000 for constructing 4,080 feet of 8-inch PVC pipe on Youngwood Dr., La Serna Dr., and Villaverde Dr. According to Suburban's testimony, the purpose of this project is to provide reliable service to the 620 Zone from the 600 Zone. According to Suburban's description of the project site, there is an existing 8-inch main that transports water from the 600 Zone to the 620 Zone. Suburban requests an additional pipeline from the 600 Zone to the 620 Zone for extra fire protection reliability.

The 620 Zone receives water from the 600 Zone through the existing 8-inch pipe; it also receives water from the 520 Zone through booster pumps at Plant 218. The 620 Zone has a storage reservoir at Plant 221. Suburban's rationale for the requested project is as follows: if the existing 8-inch pipeline fails, the 620 Zone cannot provide fire flow for an extended time period; therefore, an additional pipeline is needed for fire flow reliability.

ORA does not agree with Suburban's rationale. Suburban's testimony states that the existing storage is three times of the 620 Zone's minimum fire protection demand.[141] The minimum fire flow demand for the 620 Zone is 1,250 gpm for 2 hours and Suburban's calculation for its reservoir storage alone can provide the demand for 6 hours. Suburban states here that the 620 Zone's fire flow demand can be met adequately by the storage reservoir at Plant 221 only. Additionally, the boosters at Plant 218 can supply 524 gpm[142] of water to the 620 Zone and the existing 8-inch pipe can deliver water from a 2.0 Million Gallon (MG) storage

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[141] Direct Testimony of Craig Gott, page 410 states: "The minimum fire protection demand for the 620 Zone is 1,250 gpm for 2 hours. At this demand the Plant 221 reservoir would be exhausted after only 6 hours of firefighting…"

[142] Whittier/La Mirada District Water System Mater Plan, Table 7-7

reservoir at Plant 221. Based on its analysis, ORA has determined that the 620 Zone does not have a fire flow deficiency.

Suburban's justification for an extra pipeline connecting the 600 Zone and the 620 Zone is based on the County of Los Angeles Fire Department's categorization of the 620 Zone as a "Very High Fire Hazard" Zone. Suburban argues that if the existing 8-inch pipeline becomes unavailable and, consequently, the fire occurred at the 620 Zone would require more than 6 hours of fire flow, thus, the 620 Zone would become vulnerable. This is a double assumption. The existing storage meets the required flow assuming the pipeline is unavailable. The Zone has enough supply and storage to provide the required fire flow demand. Based on the information reviewed, ORA finds that the 620 Zone does not have deficiencies regarding the fire flow. In summary, the Los Angeles Fire Department's fire flow requirement for the "Very High Fire Hazard" Zone is 1,250 gpm for 2 hours[143]; and Suburban's existing facilities in the 620 Zone can easily meet the requirement.

Suburban questions the reliability of the existing pipeline based on the following: (1) the pipeline was built in 1966 and is considered old; and (2) it has failed due to ground movement in the Golf Course[144] in the past. ORA argues that even though the pipe was constructed 48 years ago that the pipeline has a low leak history and still is in an acceptable condition. In Suburban's response to ORA Data Request BYU-02, it lists only three occurrences of leaks with one leak dated 7/7/2009, and the other leaks with unknown dates. In Suburban's response to ORA Data Request BYU-02, it states: "*… there is only one major repair on this pipeline…*" Thus, ORA interprets the leaks with unknown dates to be minor. Nevertheless, ORA wants to point out that all of these leaks were labeled as "Service Leaks" not "Main Leaks." ORA asked for a leak history for the 8-inch

[143] Los Angele County Fire Department Regulation 8, page 2.

[144] The existing 8-inch main runs in an easement through the Friendly Hills Golf Course.

main connecting the 600 Zone and the 620 Zone. Suburban did not provide any leak history for the main, leading ORA to conclude that the main did not have any leaks in the past. Suburban has not met its burden of proof that its request for an additional pipeline is needed for system redundancy, or that the pipeline needs replacement due to its deteriorating condition.

ORA considers this project request unreasonable. Therefore, ORA recommends the Commission disallow this project.

(xv) La Mirada & Weeks (L&W) Valve Station Replacement for $100,000 in 2016

Suburban requests $100,000 for re-constructing the L&W Valve Station to ensure reliable supply from the 400 Zone to the 335 Zone. According to Suburban, this valve station was constructed in the 50's and the useful life of the valves has already passed. Also, the existing valve station's steel vault cover is not spring assisted and the existing vault has limited access room. This could be a work place safety issue.

Suburban requested and the Commission approved similar types of Valve Station Vault re-construction projects in the past rate cases. ORA has reviewed some of the completed vaults and the results appeared to provide better safety for the workers. Additionally, for this particular project, ensuring reliable supply from the 400 Zone to the 335 Zone is beneficial for the Alternative 1 for Plant 408 Reservoir Replacement Project. ORA considers this project reasonable; and therefore, recommends the Commission allow this project.

(xvi) La Mirada & Leffingwell (L&L) Valve Station Replacement for $105,000 in 2016

Suburban requests $105,000 for re-constructing the L&L Valve Station to ensure reliable supply from the 400 Zone to the 335 Zone. According to Suburban, this valve station was constructed in the 1950's and the useful life of the valves has already passed. Also, the existing valve station's steel vault cover is not spring

assisted and the existing vault has limited access room. This could be a work place safety issue.

Suburban has requested and was approved for similar types of Valve Station Vault re-construction project in the past rate cases. ORA has reviewed some of the completed vaults and the results appeared to provide better safety for the workers. Additionally, for this particular project, ensuring reliable supply from the 400 Zone to the 335 Zone is beneficial for the Alternative 1 for Plant 408 Reservoir Replacement Project. ORA considers this project reasonable; and therefore, recommends the Commission allow this project.

(xvii) San Ardo Rd. & Borda Rd. Pipeline Replacement for $322,000 in 2016

Suburban requests $322,000 for replacing 1,200 feet of 8-inch steel main on San Ardo Rd. and Borda Rd. with 8-inch PVC pipe. Suburban's testimony states that "*The existing 8-inch steel distribution main … has had multiple failures resulting in leaks …*" but the leak history shows that there were only three occurrences of main leaks. Other leaks listed on the leak history were seven service leaks and one valve leak. ORA does not consider service leaks and valve leaks to be an indication of failing main pipeline. The dates of listed main leaks are as follows:

Street	Leak Type	Date
Borda Rd.	Main Leak	3/20/2012
San Ardo Rd.	Main Leak	8/26/2011
Borda Rd.	Main Leak	11/9/2002

ORA finds there were only two leaks that occurred in the last five years, and does not consider this is a sign of a main pipeline failing. Suburban should continue their practice of repairing leaks as they occur until such a time when it is no longer cost effective to do so. ORA recommends the Commission disallow this project.

(xviii) La Sierra Pipeline Replacement for $264,000 in 2016

Suburban requests $264,000 for replacing 1,100 feet of 4-inch steel main on La Sierra Ave. with 8-inch PVC pipe. Suburban's testimony states "*The existing 4-inch steel distribution main … has had multiple failures resulting in leaks …*" From Suburban provided leak history; there were six occurrences of main leaks listed. One leak record did not have a date on it.

The dates of listed main leaks are as follows:

Street	Leak Type	Date
Via Sierra Ramal Ave.	Main Leak	10/10/2000
La Sierra Ave.	Main Leak	3/16/2004
La Sierra Ave.	Main Leak	2/9/2007
La Sierra Ave.	Main Leak	8/6/2007
La Sierra Ave.	Main Leak	5/14/2012
La Sierra Ave.	Main Leak	Unknown

ORA finds there was only one leak that occurred in the last five years, and does not consider this is a sign of a main pipeline failing. ORA even considered accounting for the leaks that occurred in the past. Even so, it would be five leaks in 15 years. Suburban should continue their practice of repairing leaks as they occur until such a time when it is no longer cost effective to do so. ORA recommends the Commission disallow this project.

(xix) Homeland Pipeline Replacement for $198,000 in 2016

Suburban requests $198,000 for replacing 700 feet of 4-inch steel main on Homeland St. with 6-inch PVC pipe. According to Suburban's testimony, it states "*The existing 4-inch steel distribution main … has had multiple failures resulting in leaks …*" From the Suburban provided leak history; there were four occurrences of main leaks listed. The dates of listed main leaks are as follows:

Street	Leak Type	Date
Homeland Ave.	Main Leak	10/10/2000
Russel St.	Main Leak	11/14/2007
Homeland Ave.	Main Leak	1/6/2010
Homeland Ave.	Main Leak	11/29/2010

ORA finds there were only two leaks that occurred in the last five years, and does not consider this is a sign of a main pipeline failing. ORA even considered accounting for the leaks that occurred in the past. Even so, it would be four leaks in 15 years. Suburban should continue their practice of repairing leaks as they occur until such a time when it is no longer cost effective to do so. ORA recommends the Commission disallow this project.

(xx) Stamy Rd. & Alley Way Pipeline Replacement for $164,000 in 2016

Suburban requests $164,000 for replacing 420 feet of 2-inch steel main on the private Alley Wy. and Stamy Rd. with 6-inch PVC pipe. Suburban's testimony states "*The existing 2-inch steel distribution main … has had multiple failures resulting in leaks …*" From the Suburban provided leak history; there were two occurrences of main leaks listed. Other listed leaks were service leaks; one with a date and one without. ORA considers service leaks and valve leaks not an indication of failing main pipeline. The dates of listed main leaks are as follows:

Street	Leak Type	Date
Hornell St.	Main Leak	7/10/2002
Hornell St.	Main Leak	9/27/2005

ORA finds there were no leaks that occurred in the last five years, and does not consider this is a sign of a main pipeline failing. ORA even considered accounting for the leaks that occurred in the past. Even so, it would be only two leaks in the past 12 years. Suburban should continue their practice of repairing

leaks as they occur until such a time when it is no longer cost effective to do so. ORA recommends the Commission disallow this project.

(xxi) Stanton & Elmrock Pipeline Replacement for $717,000 in 2016

Suburban requests $717,000 for replacing 2,100 feet of 8-inch steel main on Stanton Ave. and Elmrock Pl. with 12-inch PVC pipe. Suburban's testimony states "*The existing 8-inch steel distribution main … has had multiple failures resulting in leaks …*" From the Suburban provided leak history; there were eight occurrences of main leaks listed with one of the leak listed had an unknown date. Other leaks listed on the leak history were two service leaks, one hydrant leak, five valve leaks; and one valve leak with unknown date. ORA considers service leaks, hydrant leaks and valve leaks not an indication of failing main pipeline. The dates of listed main leaks are as follows:

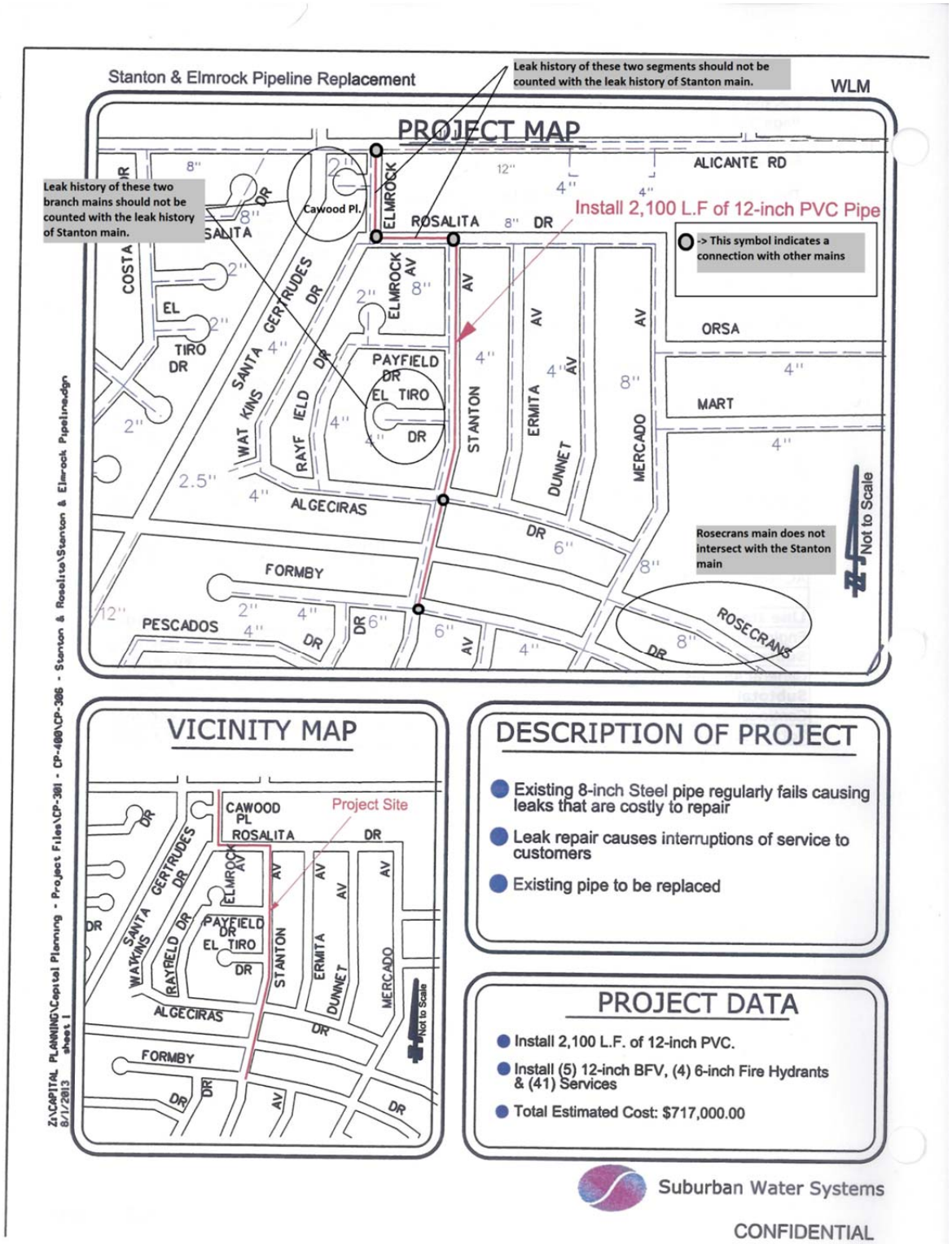
Street	Leak Type	Date
Stanton Ave	Main Leak	9/12/2000
Stanton Ave	Main Leak	9/17/2001
Elmrock Ave	Main Leak	4/10/2003
Rosecrans Ave	Main Leak	9/28/2005
El Tiro Dr.	Main Leak	10/6/2005
Cawood Pl.	Main Leak	3/7/2011
Algeciras Dr.	Main Leak	9/19/2011
Stanton Ave	Main Leak	Unknown

ORA finds there were only two leaks that occurred in the last five years, and does not consider this is a sign of a main pipeline failing. Moreover, according to the Project Map provided in Suburban's Workpaper Volume 3 of 3, Tab 53, Cawood Pl. main is a short 2-inch branch main connected to the 8-inch main on

Elmrock Av. The El Tiro Dr. main is a short 4-inch branch main connected to the 8-inch Stanton main. The Algecira Dr. main is a 4-inch to 6-inch main[145] on Algecira Dr. which perpendicularly intersects with the Stanton main. Below diagram shows the schematics of the pipelines for the subject area:

[145] 4-inch pipe on the west of Stanton and 6-inch on the east of Stanton

Diagram 6-1 Pipeline Schematic for Stanton and Elmrock Project



Further analyzing the requested section of the main, the Elmrock main should be a separate main which is connected to Alicante main on the north and Rosalita main on the south. The Stanton main is a single segment between Rosalita on the north and Algeciras on the south. Another segment of the Stanton main should be between Algeciras on the north and Formby on the south.

Considering Suburban can replace segments of pipeline from a connection to the next connection, the leak history should be analyzed segment by segment. In addition, along the proposed pipeline replacement, there is no direct connection with the Rosecrans main. Therefore, the leak records for the following connections should not be counted, as a whole, for this project:

- Rosecrans main leak should not be counted,
- Cawood Pl. main leak should not be counted for the Elmrock main,
- El Tiro main leak should not be counted for the Stanton main.
- Algeciras main leak should not be counted for the Stanton main.

This segment analysis results in only two main leak history for the Stanton main which were in 2000 and 2001. For the Elmrock main, there was only one leak occurrence in 2003. ORA concludes there were not enough leak occurrences to justify the need for this pipeline replacement project. Suburban should continue their practice of repairing leaks as they occur until such a time when it is no longer cost effective to do so. ORA recommends the Commission disallow this project.

(xxii) Plant 413 Suction Pipeline Replacement for $2,003,000 in 2016

Suburban requests $2,003,000 for constructing 5,565 feet of 24-inch Ductile Iron Pipe (DIP) pipeline to replace the existing steel and concrete pipeline (D-pipeline). Suburban justifies the need for this project based on: (1) the existing pipeline has had many leaks which forced costly repairs; (2) if repair is needed, the entire line is incapable of supplying water to Plant 413 since this is direct

transmission line; (3) the existing pipeline cannot withstand the operating pressure of the system, thus, water pressure feeding to the pipeline is being reduced at its source. But when Suburban receives water at Plant 413, the pressure is being increased again through the booster pumps to properly serve the system. Suburban argues this is inefficient use of energy.

ORA wants to point out that the D-pipeline is owned and maintained by the California Domestic Water Company (Cal Domestic). Suburban purchases water from Cal Domestic and the D-pipeline is the direct transmission line to Suburban's Plant 413. Service interruption caused by the leak repairs should be coordinated between Suburban and Cal Domestic. Both should work together to minimize the effects of over pressurizing and under pressurizing of the D-pipeline which is the main cause of the D-pipeline failure. Even if the entire D-pipeline will be replaced, Suburban would still operate the boosters at the Plant 413 when necessary. The only energy saving would be for the Cal Domestic not having to reduce the pressure. There wouldn't be any tangible savings from it for Suburban ratepayers.

Suburban requests this pipeline replacement based on the fact that Cal Domestic has offered[146] to "contribute" this pipeline to Suburban rather than upgrading the condition of the pipeline. In doing so, Cal Domestic is shifting the cost burden and responsibility of maintaining this pipeline to Suburban which leads to shifting this additional cost to Suburban's ratepayers.

In order to show that this project can generate net benefit to Suburban's ratepayers, Suburban must provide cost benefit analysis to show it's reasonable to have ratepayers fund this project. Without such support, ORA believes the largest beneficiary in this project is Cal Domestic since it will be free from operating and maintaining the D-pipeline. Suburban may have some operational benefit since it

[146] According to Suburban's response to ORA Data Request BYU-02, Cal Domestic's offer was verbal and there is no formal agreement in place for the "contribution."

will not have to communicate with Cal Domestic each time they want to increase the flow from the D-pipeline. However, this small operational benefit does not outweigh the significant cost burden that will be placed on Suburban's ratepayers to pay for the construction cost of the new pipeline and its future maintenance cost.

Based on the above discussion, ORA cannot recommend this project since it primarily benefits Cal Domestic at the expense of Suburban ratepayers. . Until Suburban can show the net savings or benefits to its ratepayers exceed the costs, ORA recommends the Commission disallow this project.

(xxiii) Colima & Janine Pipeline Project for $60,000 in 2016

Suburban requests $60,000 for installing 60 feet of 8-inch PVC pipe to connect the existing 8-inch pipe on Janine Rd. and the existing 6-inch pipe on Colima Rd. to provide a secondary source of supply to the existing customers on Janine Rd. ORA reviewed the project map provided in Suburban's Workpaper Volume 3 of 3, Tab 44, and found that the existing 8-inch main on Janine Road terminates at Colima Rd. on the west, but does not connect to the 6-inch main on Colima Rd. There is an existing 8-inch pipe on La Serna Dr. that transports water from north to south and serves the customers along La Serna Drive; then it bends westerly at Janine Rd. and becomes the existing 8-inch main on Janine to transport water towards the west and serves the customers. According to Suburban's testimony, when a leak occurs on the main along La Serna, it needs to be shut off at the upstream of the main pipeline to make repairs which would make the customers along Janine Dr. waterless. This project proposes creating a connection between the 6-inch main on Colima Rd. and the 8-inch main on Janine Rd. This connection will enable a water supply to Janine Rd. and La Serna Dr., from west to east, should the existing 8-inch main on La Serna be shut off at its upstream. ORA finds this project reasonable; and therefore, recommends the Commission allow this project.

3) Main Office, Routine Plant & Direct Purchases

This section presents ORA's analysis of the routine plant and direct purchases. Suburban requests a budget of $3,702,000 in 2014, $5,336,049 in 2015 and $4,157,049 in 2016 for this category of expenses. ORA recommends a budget of $4,046,073 in 2014, $3,140,391 in 2015 and $3,094,539 in 2016. Suburban's requested budget and ORA's recommendation for Routine Plant and Direct Purchases are summarized in the following table 6-22:

Table 6-22: Suburban's Request vs ORA's Recommendation budgets

		2014		2015		2016	
No.	Description	Suburban	ORA	Suburban	ORA	Suburban	ORA
	Company Funded Construction Projects						
1.	Pump Replacements at Various Locations	212,000	212,000	212,000	212,000	212,000	212,000
2.	QA Treatment Improvements	131,000	33,000	93,000	33,000	33,000	33,000
3.	Water Sampling Stations	180,000	0	180,000	0	180,000	0
4.	Control Valve Refurbishment Program			139,000	24,000	139,000	24,000
5.	Air Release Valve Replacements	27,000	27,000	27,000	27,000	27,000	27,000
6.	Blow-off Replacements	58,000	58,000	58,000	58,000	58,000	58,000
7.	Governmental Projects	151,000	151,000	151,000	151,000	151,000	151,000
8.	Misc. Pipeline Replacements	248,000	248,000	248,000	248,000	248,000	248,000
9.	Valve Replacements	219,000	219,000	219,000	219,000	219,000	219,000
10.	Vault Replacements	27,000	27,000	27,000	27,000	27,000	27,000
11.	Plant Improvements	204,000	204,000	204,000	204,000	204,000	204,000
12.	Plant Paving Project	45,000	12,215	49,000	12,215	43,000	12,215
13.	Security Upgrades	190,000	190,000	193,000	193,000	108,000	108,000
14.	GIS and Model System Upgrades	95,000	58,000	90,000	58,000	68,000	58,000
	Total Company Expenditures Construction Projects	1,787,000	1,439,215	1,890,000	1,466,215	1,717,000	1,381,215
	ANNUAL PROJECTS & DIRECT PURCHASES						
1.	*Services	1,141,000	981,858	1,406,049	981,858	1,406,049	981,858
2.	Meters Replacements	258,000	258,000	392,000	392,000	394,000	392,000
3.	Meters Installations	116,000	116,000	166,000	49,318	144,000	49,318
4.	Hydrants	112,000	112,000	112,000	112,000	112,000	112,000
5.	Office Furniture and Equip (excl personal computers)	36,000	36,000	36,000	36,000	36,000	36,000
6.	**Personal Computers (Hardware & Software)	58,000	39,000	218,000	39,000	48,000	39,000
7.	Transportation Equipment						
8.	Vehicle Replacement			1,052,000	0	236,000	39,148
9.	Communication Equipment	33,000	33,000	33,000	33,000	33,000	33,000

10.	Power Operated Equipment						
11.	Tools, Shop and Garage Equipment	31,000	31,000	31,000	31,000	31,000	31,000
	Total Direct Purchases	1,785,000	1,606,858	3,446,049	1,674,176	2,440,049	1,713,324
	Total Company Funded Expenditures	**3,572,000**	**3,046,073**	**5,336,049**	**3,140,391**	**4,157,049**	**3,094,539**
	Suburban exceeds ORA (in %)		15%		41%		26%

The routine plant and direct purchases are normal recurring capital expenditures that are part of the overall capital budgets. Typically, ORA uses a 5-year historical average of expenditures to evaluate the routine items unless there are specific circumstances to deviate from the average. ORA estimates Suburban's requested budgets based on the company's 5-year historical expenditures from 2008 to 2012. ORA also analyzes the company's rationale and additional supporting documentation that the company provided in response to ORA's data requests.

Based on the average of 2008 to 2012, Suburban's 5-year historical expenditures, ORA agrees with Suburban's budgets for the following items:

1. Pump Replacement at Various Location,
2. Blow-off Replacements,
3. Governmental Projects
4. Misc. Pipeline Replacement,
5. Air Release Valve Replacements,
6. Valve Replacement,
7. Vault Replacement,
8. Plant Improvement,
9. Security Upgrade,
10. Hydrant,
11. Office Furniture,
12. Communication Equipment,
13. Tools, Shop and Garage

The following are the items that ORA disagrees with Suburban's requests. For each of these items, ORA reviewed not only the historical average between 2008 and 2012, but also its specific circumstance impacting the routine plant category.

(i) QA Treatment Improvements for $131,000 in 2014, $93,000 in 2015 and $33,000 in 2016

Suburban requests a budget of $131,000 in 2014 for routine replacement items, such as chemical dosing pumps and chlorine analyzer that are normal recurring capital expenditures for the water quality assurance. This ongoing replacement is required because the existing equipment reached the end of useful life.

Suburban's budget of $131,000 in 2014 consists of two components: The first is a routine estimate of $33,000 that is based on the 5-year expenditure average from 2008 to 2012. The second is a specific project estimate of $98,000 for equipment at Plant 409, which includes four water storage tank mixers, four ammonia tank vapor return retrofits and one sampling stations. Suburban claims that the 2014 specific project estimate is based on a vendor quotation[147]. However, ORA discovered no vendor quotation was included in this application.

Similar to the request in 2014, Suburban requests $93,000 in 2015 for QA replacement that consists of $33,000 for the routine estimate. The second component is a specific project estimate of $60,000 for equipment at Plant 409, which includes two ammonia tank vapor return retrofits and four chlorine analyzers. Suburban claims that the 2015 specific project cost is based on a vendor's quote. Once again, no vendor's quote was included in this application[148].

ORA disagrees that specific project costs be included in the routine plant budget because the estimated cost for the specific component of the budget could

[147] Suburban's Direct Testimony of Craig D.Gott, P.E Page 178.

[148] Suburban's Direct Testimony of Craig D.Gott, P.E Page 270.

not be substantiated. ORA, therefore, excludes the specific project amount and average the remaining cost based on the historical five years, 2008 to 2012, resulting in an amount of $33,000 for the QA treatment routine improvements in the 2014 to 2016.

(ii) Water Sampling Stations for $180,000 in 2014, 2015 and 2016

Suburban requests a budget of $180,000 in 2014, 2015 and 2016 to install seventy two (72) water quality sampling stations throughout the entire water system. Currently Suburban uses customer's outdoor hose bibs as their sampling locations. In its testimony, Suburban explains that using customer's hose bibs increase the potential of cross-contamination where the bacteria originates from external sources other than the system or the water supply to a customer's service. Occasionally, Suburban detects a positive total coliform sample, but repeat samples do not confirm the initial detection. Suburban suspects the false positive total coliform detections were related to cross-contamination current sampling locations. Suburban also states that customers may hesitate or do not want to participate to provide access to the sampling location on their properties. In 2013, Suburban completed four water quality sampling stations in one of the districts as a pilot project. Based on its review, ORA disagrees with this proposed project because of the following:

ORA evaluates Suburban's needs in installing the sampling stations by reviewing the CDPH requirement. California Code of Regulations, Title 22, Chapter 15 – Article 3, Primary Standards – Bacteriological Quality requires that "*each community water system to maintain an updated sample siting plan for routine collection of bacteriological samples at locations that are representative of water throughout the distribution system*". In Suburban's response to an ORA data request, the company explains that Suburban currently has 5 CDPH – approved bacteriological sample siting plans for each districts. All five sample

siting plans have been approved by CDPH[149]. There are no further requirements from CDPH that obligates Suburban to construct additional sampling sites and as such, Suburban is currently meeting CDPH's sampling site plan requirement.

Suburban's testimony also explains that occasionally Suburban experiences false positive sampling events. In its response to the ORA data request, Suburban explains that a minimum of three repeat samples must be collected whenever a primary location has total coliform-positive sample. Suburban also indicates that the number false positive samplings are very insignificant in the last five years[150]. Based on the numbers Suburban provided, it had 28 false positive sampling events out of 19,844 samplings. The number of false positive samplings was only about 0.14% of the total sampling. Suburban also stated that there is no relationship between the number of false positive samplings and the number of sampling stations that need to be constructed[151]. ORA understand that the installation of 72 sampling stations will provide easy access and convenience for Suburban. However, Suburban does not clearly support that the installation of 72 stations are crucial. Suburban already has CDPH-approved bacterial sample siting plans. This information leads ORA to believe that Suburban has no urgency to construct the 24 sampling stations per year in the next 3 years.

In addition, Suburban provides insufficient information for the cost of repeat samples should false positive sampling events occur. Upon a response to ORA's data request, Suburban explains that a minimum of three repeat samples must be collected whenever a primary sampling location has total coliform-positive. Each sample is approximately $10 for laboratory analysis, in addition a minimum of two labor hours for sample collection and transport to the library.

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[149] Suburban's Response to DRA's Data Request SN-06 question #c and #d.

[150] Suburban's response to ORA data request SN-06 follow-up: question no.3. ORA calculation shows very insignificant (0.14%) false positive sampling events of in the last 5 years. (28/19,844 *100% = 0.14%)

[151] Suburban's response to ORA data request SN-06 follow-up: question no.3.

Using this unclear information, ORA best estimates the cost of 28 repeat samplings equals to $17,640 per five years or about $3,600 per year. (See table 6-23:)

Table 6-23: ORA's Repeat Sampling Estimate

No	Description	unit	cost/unit	total
1	Laboratory analysis	1	$10	$10
2	Labor sample collection	2	$60	$120
3	Transportation	2	$40	$80
	cost of 1 repeat sampling			$210
	cost of 3 repeat sampling	3	$210	$630
28	false positive sampling events in five years	28	$630	**$17,640**

Based on the above estimated cost, ORA is concerned that construction of the 72 stations project approach is not cost effective. This data shows that it is better for Suburban to continue its current approach that has an estimate expense of $3,600 per year instead of installing the 72 stations for $540,000 in three years. Having an annual revenue requirement impact of approximately of $95,000 once all stations are installed, the cost difference to ratepayers is 26 times more than what they would be paying under the current approach.

However, more importantly Suburban is already in compliance with CDPH's requirement for its water quality sampling site plan. Therefore, ORA disagrees with Suburban's request to install seventy two (72) water quality sampling stations for a budget of $180,000 in 2014, 2015 and 2016 and recommends disallowing this project.

(iii) Pressure Control Valve Refurbishment for $139,000 in 2015 and $139,000 in 2016

Suburban requests a budget of $139,000 per year to refurbish pressure control valves in 2015 and 2016. This is a new refurbishment program for pressure control valves. Pressure control valves perform functions such as pressure reduction, pressure sustaining, pressure relief, flow control, reservoir level and pump control. Mr. Gott's testimony stated that the valves are mechanical devices

that are constantly making adjustments and are subject to wear. The valves also will fail due to exposure to corrosive environments. Suburban indicates that there are 283 valves total in SJH and WLM districts. Suburban's Mechanical Maintenance group performed a pilot study to determine the costs of the annual program. The study determined an average cost of $4,800 to refurbish a valve. Suburban's plan is to refurbish 29 valves each year for the next 10 years, which amounts to$139,000 per year.

ORA requested the Mechanical Maintenance pilot study report. In its response to ORA's data request, Suburban explains that the pilot study refers to the routine annual inspection of Suburban's pressure control valves, with no formal written study. The study stated 11 valves were defective, but Suburban did not identify the total number of valves inspected in the study[152]. Such information would, at a minimum, provide a percentage of total number of valves that are currently defective. Suburban can then use this information to establish its replacement program. Unfortunately, this information was once again lacking.

The only historical information Suburban provided to ORA was that it replaced or refurbished a total of 10 such valves between 2012 and 2013. Consistent with its forecast methodology for routine item using historical average, ORA recommends Suburban should replace 5 valves per year for a total of $24,000 in Test Years 2015 and 2016.

(iv) Plant paving program for $45,000 in 2014, $49,000 in 2015 and $43,000 in 2016

Suburban requests a budget of $45,000 in 2014, $49,000 in 2015 and $43,000 in 2016 for routine plant paving program. The budget will be for maintaining the existing pavement integrity and to extend the pavement's lifetime. Suburban plans to apply a seal coat for the pavement for every five years. A seal

[152] Suburban's response to ORA data request SN-06 question b, Suburban is not responding to question for the number of valves in the study.

coat is a thin film that aids in maintaining the adhesiveness of the pavements. If seal coat is not applied to the existing pavement, it will cause the pavement to lose the adhesiveness resulting in cracks, which reduce the pavement's life time.

In this rate case, Suburban identifies specific locations that need to be recoated. The number of plant sites that need a new seal coat in 2014, 2015, and 2016 are 7, 7 and 10 locations, respectively. ORA disagrees with Suburban's approach because Suburban provides only the year of the last seal for some locations, but no other support identifies that pavement on the specific location require recoating. Suburban provides no pictures to show the conditions of the pavement or other inspection report to show if there are problems on the pavement. For that reason, ORA cannot justify the need for seal coating for the locations.

ORA has been consistently using the historical expenditure average methodology to forecast expenditures for routine capital items. Plant paving program was started in 2011[153] and the available historical expenditures are $ 8,920 in 2011 and $15,509 in 2012. Based on the historical expenditure average, ORA recommends a budget of $12,215 per year for the paving improvement in 2014 to 2016.

(v) Geographic Information System ("GIS") and Model System Upgrades for $95,000 in 2014 and $90,000 in 2015 and $68,000 in 2016

Suburban requests a budget of $95,000 in 2014 and $90,000 in 2015 and $68,000 in 2016 for its routine purchase of GIS and its model system upgrades. Suburban uses its GIS database system as its inventory system to locate, track and report its facilities, such as pipes and valves. The primary goal for using the GIS is to analyze its pipe and valve inventory using asset management principles to determine replacement priority and cost estimates for master planning. Suburban

[153] D.11-02-004-Appendix A, page31.

proposes upgrading its GIS's performance to reach current industry standard. However, Suburban provides no explanation about what the current industry standard is and its plan to meet this standard. Suburban also does not include cost breakdown and vendor's quote to upgrade the GIS system. During the site visit, Suburban presented the use of the GIS system and its performance. The presentation showed the GIS database system's inventory and its ability to locate and track Suburban's pipes and valves. ORA believes Suburban's GIS system is operating fine.

Since the forecast of the routine capital expenditure is based on historical expenditure, ORA recommends a budget of $58,000 per year for GIS and Model System Upgrade from 2014 to 2016 based on Suburban's historical expenditures from 2010 to 2012.

(vi) Services replacements for $1,141,000 each year in 2014, 2015 and 2016

Suburban requests $1,141,000 each year in 2014, 2015 and 2016 for its routine service line replacement program. According to Suburban, this ongoing replacement is required because the existing service lines have reached the end of their useful lives. Suburban proposes its budget based on the average unit cost of the past three-year historical expenditures (2010 to 2012) as shown in the Table 6-24:

Table 6-24: Suburban's Unit and Total Cost Estimates

Year	QTY	Total Cost	Unit Cost
2010	347	$1,020,467	$2,941
2011	419	$995,845	$2,377
2012	483	$1,402,307	$2,903
3-Yr Average	416		$2,740

Estimate budget per year			
	QTY	Unit Cost	Total Cost
	416	$2,740	$ 1,140,874.43

ORA disagrees with Suburban's approach in using a 3-year historical expenditures because Suburban has not provided support for using the three year average methodology. In contrast, ORA based its estimate on the five year average because the use of additional data points should provide a more reliable estimate for future years (See Table 6-25).

Table 6-25: ORA's Unit and Total Cost Estimates

Year	QTY	Total Cost	Unit Cost
2008	206	$652,703	$3,168
2009	304	$779,893	$2,565
2010	347	$1,020,467	$2,941
2011	419	$995,845	$2,377
2012	483	$1,402,307	$2,903
5-Yr Average	352		$2,791

Estimate budget per year for the 2014, 2015 and 2015			
	QTY	Unit Cost	Total Cost
5-Yr Average	352	$2,791	$ 981,857.71

Using the historical five year average methodology, ORA derives a unit cost of $2,791, which results in an estimate of $981,857. Based on this methodology, ORA recommends a budget for this account for $981,858 each year in 2014 to 2016.

(vii) Meter Replacements and Meter Installations

Suburban requests a budget of $258,000 in 2014, $392,000 in 2015 and $394,000 for 2016 for the meter replacement program. Suburban also requests $116,000 in 2014, $166,000 in 2015 and $144,000 for 2016 for its meter installations. ORA reviews the budgets by combining the cost of the two accounts as follows:

Table 6-26: Meter Replacement and Installation Total Cost

Description	Estimated Year	Test Year	
	2014	**2015**	**2016**
Meters Replacements	$258,000	$392,000	$394,000
Meters Installations	$116,000	$166,000	$144,000
Meter Replacements and Installations	$374,000	$558,000	$538,000

Suburban intends to replace all customers' small and larger meters to ensure that meters accurately measure the volume of water delivered to customers. The small meters, less than 2-inch diameters, are replaced every 15 years. The larger meters, 2-inch diameters and greater, are replaced every 12 years.

In its testimony Suburban provides numbers of meters by sizes that need to be replaced. Suburban proposes replacing 3,900 in 2014, 5,728 in 2015, and 4,974 in 2016. To estimate the meter replacement program cost per year, Suburban uses the number of the meters and multiplies it by replacement unit costs, which is based on historical vendor prices. See table 6-27 for Suburban's cost estimate approach

Table 6-27: Meter Replacement Cost Estimate

Meter Size	Unit Cost	2015	
		QTY	Cost
5/8"	$41.03	495	$20,310
3/4"	$57.82	4,092	$236,599
1"	$88.81	994	$88,277
1.5"	$255.31	48	$12,255
2"	$353.68	99	$35,014
Total		5,728	$392,000

[154]

A similar approach is used to determine meter installation program cost per year as shown in table 6-28:

[154] Small meter is less than 2-inch diameter, larger meter is 2-inch diameter and larger.

Table 6-28: Meter Installation Cost Estimate

Meter Size	Unit Cost	2015	
		QTY	Cost
5/8"	$27.38	495	$13,553
3/4"	$27.38	4,092	$112,039
1"	$27.38	994	$27,216
1.5"	$27.38	48	$1,314
2"	$27.38	99	$2,711
Sub-total		5,728	$156,833
G&A Cost		6%	$9,410
Total Cost			$166,000

[155]

While ORA agrees with the methodology to calculate the cost estimate, ORA disagrees with Suburban's estimate for the number of meter replacements. The only information ORA has is that Suburban plans to replace small and larger meters every15 years and 12 years, respectively. Suburban provided no information regarding the number of the meters in its inventory, the age of the meters by size, and the conditions of the meters. Such information is critical to determine the number and the timing of the meter replacement.

Table 6-29: 2008 to 2012 average of combined cost of Meter Replacements and Installations

Description	Recorded Year					
	2008	**2009**	**2010**	**2011**	**2012**	**2008-2012 average**
Meters Replacements	$321,564	$378,197	$486,821	$346,014	$428,236	
Meters Installations			$69,486	$78,409	$97,863	
Meter Replacements and Installations	$321,564	$378,197	$556,307	$424,423	$526,099	$441,318
2008 to 2012 average recoded expenditure of Combined Meter Replacements and Installations						**$441,318**

[155] Small meter is less than 2-inch diameter, larger meter is 2-inch diameter and larger.

At this time, ORA believes that Suburban provides insufficient supports for its meter replacement and installation program. Using five years historical average from 2008 to 2012, ORA recommends $374,000 in 2014, $441,318 in 2015, and $441,318 in 2016.

(viii) Personal Computers (Hardware & Software) for $58,000 in 2014 and $218,000 in 2015 and $48,000 in 2016.

Suburban requests a budget of $58,000 in 2014 and $218,000 in 2015 and $48,000 in 2016 for its routine purchase of computer hardware, software, and printers for the company's offices and billing center. The offices and billing center's computer hardware and printers are replaced after a minimum of 4-years. The software upgrades is for improving the software technology or replacing outdated software. Of the $218,000 budget in 2015, $172,000 is the cost for the hardware and software relating to the Credit Card Payment Option. Since ORA is disallowing Suburban's request for the credit card payment option, the actual request for 2015 is $46,000. (Please refer to ORA's witness, Victor Chan, for his recommendation on the Credit Card Payment Option in Chapter 12, Special Requests)

Excluding the Credit Card Payment Option from its computer hardware & software budget, Suburban's request for this category of expenditure is $58,000 in 2014, $46,000 in 2015 and $48,000 in 2016. Using five years historical average from 2008 to 2012, ORA recommends $ 39,000 for the Personal Computers (Hardware and Software) budget per year for 2014 to 2016.

(ix) Capital Vehicle Purchase for Main Office, SJH and WLM Districts for $1,005,200 in 2015 and $236,000 in 2016

Suburban requests a budget of $1,005,200 in 2015 and $236,000 in 2016 for vehicle purchase. In this GRC, Suburban proposes to replace 18 vehicles, add 3 new vehicles and purchase a new forklift. ORA recommends a budget of $0 in 2015 and $39,148 in 2016.

For Test Year 2015, Suburban requests to replace six vehicles for the SJH District, six vehicles for the WLM, and one vehicle for the main office. Suburban also requests three additional new vehicles and one new forklift for its requested new leak crews. Since ORA is recommending disallowing Suburban's request for the new leak crew, the vehicles and the forklift associated with the leak crew will also be disallowed. (Please refer to ORA witness, Jeff Roberts, for his recommendation on the leak crews in Chapter 4-Payroll). For 2016, Suburban requests one replacement vehicle for SJH and five replacement vehicles for WLM districts.

ORA's vehicle replacement policy is consistent with Department of General Services ("DGS") policy that vehicles be replaced based on mileage and gross vehicle weight rating. ORA's vehicle replacement policy was adopted by the Commission in D.06-01-025. In the general rate case for Southern California Water Company, the Commission agreed with ORA that the DGS criteria be used for class A water companies.[156]

Suburban claims that its vehicle replacement criteria is based on the vehicle replacement guideline from the DGS and what was previously approved for California Water Service in D.07-12-055[157]. According to Suburban's testimony, its policy is to replace vehicles after 8 years or earlier if it is determined that it would be cost-effective to do so regardless of age or mileage.

D.07-12-055 adopts DGS Vehicle Replacement policy. Discussion in D.07-12-055 states that in its Bakersfield report, DRA mistakenly testifies that the DGS policy is to allow a vehicle to be replaced when the age of the vehicle is eight years old or the miles driven have reached 150,000 miles. The decision states further that "In its briefs, DRA corrects the DGS mileage standard to 120,000 and

[156] D.06-01-025 discussion, mimeo., at pages 44-45, and Conclusion of Law 24, mimeo., at page 82.

[157] Suburban Water Company Direct Testimony of Craig Gott, p 290, lines 3-8

recognizes that DGS guidelines also allow that vehicles can be replaced earlier with an appropriate supporting report."[158] No mention of vehicle age is cited in the correction or the brief. ORA's policy is that vehicles should be replaced at 120,000 miles for light duty vehicles and sedans and at 150,000 miles for heavy duty vehicles. In addition ORA considers early replacement if the company can provide a vehicle inspection report supporting the need for early replacement. Suburban has provided no such report.

Based on the above explanation ORA disagrees with Suburban's approach. Consistent with the Commission in prior proceedings, ORA analyzes the need for vehicle replacement by following the guideline from DGS fleet handbook.[159] It provides vehicle replacement based on vehicle category and its mileage as follows:

Table 6-30: DGS Vehicle Replacement Criteria

Authorized emergency vehicles as defined in Section 165 of the Vehicle Code, that are equipped with emergency lamps or lights described in Section 25252 of the Vehicle Code	100,000 miles
Sedans, station wagons, vans and light duty trucks or vehicles having a gross vehicle weight rating (GVWR) or 8500 pounds or less	120,000 miles
Heavy duty trucks or vehicles (Class 3 and under) having a gross vehicle weight rating (GVWR) of 8501 pounds or more	150,000 miles
4-wheel drive vehicles	150,000 miles

Sedans and light duty trucks including Ford F150 meet the criteria for replacement at 120,000 miles. Vehicles including; Ford F250, F350, F450 and F650 are heavy duty vehicles that meet the replacement criteria of 150,000 miles. Table 6-31 shows ORA's analysis of the vehicle replacements. As shown, most of the vehicles have relatively low mileage.

[158] D.07-12-055 Section 5.2 Vehicle Replacement Policy.

[159] ORA uses DGS fleet handbook issued in April 22, 2008 for its vehicle replacement policy http://www.documents.dgs.ca.gov/ofa/handbook.pdf

Table 6-31: 2015 and 2016 Vehicle Replacements-ORA Calculation Summary

Based on the above criteria, ORA determined that none of the vehicles

Vehicle in 2015								
No	Description of Current Vehicles	Vehicle ID	Location	New Vehicle Cost	Age in Year Replaced	Mileage as of 12-31-2013	Mileage Per Year	Mileage as of 12-31-2015
1	2006 Chevy Express (V	0064056	Main	$37,697	10	29,379	3,672	36,724
2	2005 Ford 250 Reg	0052011	SJH	$52,225	11	77,236	8,582	94,400
3	2006 F-350 Reg	0062071	SJH	$46,775	10	65,591	8,199	81,989
4	2006 F-350 Reg	0062211	SJH	$69,025	10	61,717	7,715	77,146
5	2007 Ford F650 (Heavy	0075061	SJH	$80,900	9	32,334	4,619	41,572
6	2007 Ford Ranger (Ligh	0073001	SJH	$22,182	9	49,081	7,012	63,104
7	2008 Ford F350 Reg	0072111	SJH	$47,320	8	58,107	9,685	77,476
8	2004 F-450 Chassi	0046004	WLM	$90,115	12	58,175	5,818	69,810
9	2006 F-350 Reg	0062064	WLM	$46,230	10	59,223	7,403	74,029
10	2006 F-450 Chassi	0067004	WLM	$68,860	10	37,491	4,686	46,864
11	2007 Ford F150 Reg	0071224	WLM	$36,390	9	57,143	8,163	73,470
12	2008 Ford F350 Reg	0072094	WLM	$70,660	8	55,090	9,182	73,453
13	2007 Ford F650	0075054	WLM	$80,355	9	28,722	4,103	36,928
14	F-150	New Crew	SJH	$36,390				
15	F-450	New Crew	SJH	$68,860				
16	F-650	New Crew	SJH	$80,355				
17	110-Backhoe	New Crew	SJH	$117,555				
			Total	$1,051,894				
Vehicle in 2016								
No	Description of Current Vehicles	Vehicle ID	Location	New Vehicle Cost	Age in Year Replaced	Mileage as of 12-31-2013	Mileage Per Year	Mileage as of 12-31-2016
1	2008 Ford F150 Reg	0081231	SJH	$39,148	9	90,346	15,058	135,519
2	2008 Ford F150 Reg	0081284	WLM	$37,480	9	78,944	13,157	118,416
3	2008 Ford F150 Reg	0081264	WLM	$37,480	9	54,634	9,106	81,951
4	2008 Ford F350 Chass	0082144	WLM	$68,575	9	55,158	9,193	82,737
5	2008 Ford F350 Chass	0082134	WLM	$53,315	9	78,210	13,035	117,315
			Total	$235,998				

Suburban requested in 2015 would reach DGS' vehicle replacement criteria. The only vehicle that will reach the mileage replacement criteria is the F-150 truck (Vehicle ID: 81231) in 2016.

The Commission should adopt ORA's recommendation as it is consistent with prior proceedings and DGS Vehicle Replacement Policy.

D. CONCLUSION

The Commission should adopt ORA's recommendation for plant additions. The adjustments ORA made provide for a reliable level of service to ratepayers at reasonable costs. Suburban provides insufficient support for its proposed projects and construction budgets.

Table 6-32: Weighted Average Plant in Service
Estimated Year 2014, Test Years 2015 and 2016

	ORA	Utility	ORA	Utility	ORA	Utility
Item	EY 2014		TY 2015		TY 2016	
	(Dollars in Thousands)					
Plant in Service-BOY	218,225.9	218,888.4	232,680.1	233,858.0	243,750.5	251,204.0
Utility Plant Additions During Year:						
Intangible Plant	0.0	0.0	0.0	0.0	0.0	0.0
Landed Capital	0.0	0.0	0.0	0.0	0.0	0.0
Source of Supply	0.0	0.0	0.0	261.0	0.0	0.0
Pumping Plant	579.0	579.0	212.0	212.0	212.0	212.0
Water Treatment Plant	33.0	131.0	33.0	93.0	33.0	33.0
Transmission Distribution Plant	12,984.5	13,323.7	10,445.2	15,228.0	12,641.7	18,954.6
General Plant	1,152.6	1,241.4	606.2	1,906.0	560.4	1,311.0
Undistributed Items						
Total Utility Plant Addition During the Year	14,749.2	15,275.1	11,296.4	17,700.0	13,447.1	20,510.6
Less Retirement	295.0	305.5	225.9	354.0	268.9	410.2
Plant-in-Service (EOY)	232,680.1	233,858.0	243,750.5	251,204.0	256,928.7	271,304.4
Wtd. Avg. Plant in Service	225,453.0	226,373.2	238,215.3	242,531.0	250,339.6	261,254.2

Attachment 1

From: Daniels, Dawn V@DOT [mailto:dawn.daniels@dot.ca.gov]
Sent: Tuesday, May 20, 2014 2:51 PM
To: Nasserie, Susana
Cc: Aviles, Celina C@DOT; Graves, Michele@DOT
Subject: RE: Suburban Water Company: I-10 Widening Project at Citrus to Route 57 in 2015

Susana,

Yes, as far as that Notice to owner sent, Caltrans is obligated 100%. Now, I have just recently sent another "Notice of action" on the removal of 8" AC pipes to my R/W agent in which a new Notice to Owner has or will be sent to Suburban water. Caltrans will pay 100% on the removal of the pipe, but Suburban Water Systems is responsible for the cost to clean up for the asbestos pipe.

Thank you,
Dawn Daniels

From: Nasserie, Susana [mailto:susana.nasserie@cpuc.ca.gov]
Sent: Tuesday, May 20, 2014 2:37 PM
To: Daniels, Dawn V@DOT
Subject: RE: Suburban Water Company: I-10 Widening Project at Citrus to Route 57 in 2015

Hi Dawn,

in regards to your response:

Does Caltrans, any city or other parties provide Suburban with funds or contribution to complete this project?
R/W Utilities Per Streets and Highways Code 703 The State (Caltrans)is obligated 100%.

Could you please elaborate regarding your explanation on "R/W Utilities Per Streets and Highway Code 703 (Caltrans) is obligated 100%"?
Does it mean Suburban is not responsible to fund for this project ?

Thank you,
Susana Nasserie

From: Daniels, Dawn V@DOT [mailto:dawn.daniels@dot.ca.gov]
Sent: Tuesday, May 20, 2014 12:51 PM
To: Nasserie, Susana
Cc: Aviles, Celina C@DOT; Yoh, Roger@DOT; Graves, Michele@DOT; Ozaki, Kristofer@DOT
Subject: Suburban Water Company: I-10 Widening Project at Citrus to Route 57 in 2015

Good afternoon Susana,

Here is the information you have requested. If you have any more questions, please feel free to call me anytime.

Notice to Owner letter for this project—(Please see Attachment)
Does Caltrans anticipate a delay for this project, if a delay is anticipated could you please elaborate about the new schedule?
Construction should begin by mid 2015 and we do not expect any additional delays.

Does Caltrans, any city or other parties provide Suburban with funds or contribution to complete this project?
R/W Utilities Per Streets and Highways Code 703 The State (Caltrans)is obligated 100%.

Do you have an official information about this project on the website or others that you can share with other agencies?
We do not have a website available at this time. We may have one set up during the construction phase.

Thank you,
Dawn Daniels

Dawn Daniels/ Transportation Engineer
Design A / Utilities Engineering
Utilities Eng

CHAPTER 7: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This chapter sets forth ORA's analysis and recommendation for depreciation. The following table shows the weighted average accumulated depreciation for Test Years 2015 and 2016.

Table 7-1 Accumulated Depreciation and Expense
Estimated Year 2014, Test Years 2015 and 2016
(Dollars in Thousands)

	ORA	Suburban	ORA	Suburban	ORA	Suburban
	EY 2014		TY 2015		TY 2016	
Item	(A)	(B)	(C)	(D)	(E)	(F)
Accumulated. Depreciation (BOY)	77,461.6	77,453.7	83,499.7	83,502.5	90,353.8	90,405.7
Add:						
Depreciation Accrual	7,570.9	7,592.2	8,602.9	8,780.1	9,008.9	9,443.3
Salvage	19.1	19.1	19.1	19.1	19.1	19.1
Less:						
Retirements	295.0	305.5	225.9	354.0	268.9	410.2
Cost of Removal	1,257.0	1,257.0	1,542.1	1,542.1	1,882.8	1,882.8
Adjustment						
Depreciation Reserve (EOY)	83,499.7	83,502.5	90,353.8	90,405.7	97,229.9	97,575.1
Avg. Accumulated Depreciation	80,480.7	80,478.1	86,926.7	86,954.1	93,791.8	93,990.4

B. SUMMARY OF RECOMMENDATIONS

Differences in ORA and Suburban's average accumulated depreciation estimates for the estimated and test years are due to differences in Suburban's requested plant additions and ORA recommended plant additions for estimated

year 2014 and test years 2015 and 2016. Suburban requests $80,478,100 in 2014, $86,954,100 in Test Year 2015, and $93,990,400 in Test Year 2016. ORA recommends $80,480,700 in 2014, $86,926,700 in Test Year 2015, and $93,791,800 in Test Year 2016.

C. DISCUSSION

Suburban prepared its depreciation estimate according to the straight line remaining life methodology set forth in Standard Practice U-4. Suburban used data related to utility plant accounts, age of the plant, and accumulated depreciation as of December 31, 2012. ORA reviewed Suburban's depreciation study and rates of depreciation.

1) "West Covina Adjustment"

As in the prior GRC proceeding (A.11-02-002), Suburban made adjustments to plant data associated with utility plant obtained through the purchase of the City of West Covina water system in 2000. ORA accepts the company's methodology in this GRC.

2) Vehicles

As it was previously discussed in Chapter 6, Plant in Service, Suburban purchased 79 vehicles in 2012. According to Suburban's testimony on depreciation, it began depreciating these vehicles in 2012. Suburban's testimony states that these used vehicles were considered 2012 vintage and Suburban assumed 8 years as the useful life of these vehicles. According to Suburban's U-4 Depreciation Study workpaper, it uses 7.5 years for the remaining life of these vehicles in 2012.

As it was presented in the Plant in Service Chapter, number of vehicles Suburban purchased for each model year is as follows:

Table 7-2: Number of Vehicles per Model Years

Model Year	Number of Vehicles
2011	36
2010	25
2008	7
2007	4
2006	5
2005	1
2004	1

Majority of the purchased vehicles were 2010 and 2011 models. Suburban's testimony implies that Suburban assumed 9 to 10 years as the useful life for vehicles with models years 2010 and 2011.

Suburban refers to the California Department of General Service (DGS) vehicles replacement criteria as the basis for the useful life of 8 years. ORA previously argued against Suburban's position in the Plant in Service Chapter since DGS's vehicle replacement criteria are based on mileage and condition of vehicles.

According to ORA findings in the Plant in Service Chapter regarding the vehicle mileage, ORA found Suburban's vehicles show low annual mileage accrual. Only a small number of vehicles reached DGS's mileage threshold in 9 years; none reached the threshold in 8 years. According to annual mileage accrual records for some vehicles, it may take more than 12 to 15 years to reach DGS's mileage threshold. For these reasons, and as previously stated in the Plant in Service Chapter, ORA does not agree with Suburban using 8 years as a basis for replacing vehicles.

In this GRC, Suburban requests new vehicle purchase in 2015 and 2016 to replace the existing vehicles. Should 8 year useful life be remained in the depreciation calculation, it will contradict with DGS's vehicle replacement policy because ORA found Suburban's vehicle would take more than 8 years to reach DGS's mileage threshold.

However, ORA proposes to leave the remaining life as it is presented by Suburban in the testimony only for this rate case. ORA's proposal is based on the following:

1. Suburban uses 8 years useful life for the used vehicles (with various earlier model years) purchased in 2012[160]
2. This is a transition period for Suburban to move from entirely leasing its fleet vehicles to purchasing vehicles.
3. Suburban has to come up with a method to correctly estimate the remaining life of its fleet vehicles based on the DGS mileage threshold

ORA recommends the Commission require Suburban to update the useful life of its vehicles in its depreciation calculations for the next rate case. In doing so, ORA recommends the Commission require Suburban to properly survey its vehicle fleet for the annual mileage accrual, current conditions of vehicles with verifiable inspection reports, and apply DGS's mileage threshold; and also submit the results in the next GRC as the basis for the vehicle useful life estimation.

D. CONCLUSION

ORA recommends the Commission adopt ORA's recommended average accumulated depreciation as it is based on a reasonable level of plant additions and retirements. ORA also recommends the Commission require Suburban to provide better estimates of vehicle useful life based on the DGS's vehicle replacement criteria with supporting documents in the next GRC.

[160] For vehicle model years 2010 and 2011, it increased the remaining life by 1 or 2 years, but for the vehicles with model years earlier than 2008, it is a considerable increase in remaining life albeit the number of vehicles affected were relatively small.

CHAPTER 8: RATE BASE

A. INTRODUCTION

This Chapter presents ORA's analysis and recommendations on rate base. The following table compares the Rate Base between Suburban and ORA for estimated year 2014, Test Year 2015 and 2016.

B. SUMMARY OF RECOMMENDATIONS

Suburban's estimates rate base for Estimated Year 2014 is $112,126,750. Suburban estimates $122,645,070 and $134,457,510 for Test Years 2015 and 2016 respectively.

	Table 8-1 SUBURBAN WATER COMPANY WEIGHTED AVERAGE DEPRECIATED RATEBASE					
	ORA	Utility	ORA	Utility	ORA	Utility
	EY 2014		TY 2015		TY 2016	
Item	(A)	(B)	(C)	(D)	(E)	(F)
	(Dollars in Thousands)					
Average Utility Plant in Service	$225,452.98	$226,373.19	$238,215.31	$242,530.99	$250,339.62	$261,254.19
Average Construction Work In Progress	$6,993.40	$6,993.40	$6,862.50	$6,862.50	$3,588.50	$5,495.35
Average Materials and Supplies	$268.01	$268.01	$274.07	$274.07	$279.93	$279.93
Working Cash	($4,369.56)	($3,003.67)	($4,620.67)	($3,175.36)	($4,689.74)	($3,235.96)
Total Additions to Rate Base	$228,344.83	$230,630.92	$240,731.20	$246,492.20	$249,518.32	$263,793.51
Less Deduction from Rate Base:						
Reserve for Depreciation	$80,480.67	$80,478.06	$86,926.72	$86,954.07	$93,791.85	$93,990.37
Advances for Construction	$7,569.27	$7,569.27	$7,714.71	$7,714.71	$7,523.68	$7,523.68
CIAC	$14,487.83	$14,487.83	$13,632.10	$13,632.10	$12,774.70	$12,774.70
Unamortized Investment Tax Credits	$235.61	$235.61	$202.69	$202.69	$169.77	$169.77
Accumulated Deferred Taxes, Taxable Advances For Construction	($100.39)	($100.39)	($94.08)	($94.08)	($87.77)	($87.77)
Accumulated Deferred Taxes, Taxable CIAC	($8.30)	($8.30)	($2.59)	($2.59)	$0.00	$0.00
Unamortized Deferred Revenue, Taxable C.I.A.C.	$27.05	$27.05	$21.08	$21.08	$15.11	$15.11
Pension Reserve	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Accumulated Deferred Income Taxes						
Depreciation Timing Differences	$15,268.09	$15,272.64	$14,702.62	$14,754.92	$13,982.03	$14,174.23
Accum. Deferred Income Taxes - Pension Reserve	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Pension Reserve						

Interest During Construction (IDC)	$633.24	$633.24	$783.39	$783.39	$929.33	$929.33
Amortization of Interest During Construction	($90.84)	($90.84)	($119.17)	($119.17)	($153.42)	($153.42)
Total Deduction from Rate Base	$118,502.24	$118,504.17	$123,767.47	$123,847.12	$128,945.28	$129,336.00
Total Average rate Base	$109,842.59	$112,126.75	$116,963.73	$122,645.07	$120,573.04	$134,457.51

ORA recommends rate base for Estimated Year 2014 is $109,842,590. ORA estimates $116,963,730 and $120,573,040 for Test Years 2015 and 2016 respectively. Difference in ORA and Suburban's estimates are due to differences in Plant additions for 2014, 2015, and 2016 depreciation and working cash.

C. DISCUSSION

1) Plant Additions for 2014, Test Years 2015 and 2016

ORA's adjustment to Suburban's proposed plant additions are discussed in detail in Chapter 6.

2) Depreciation

ORA's adjustments for Depreciation are discussed in detail in Chapter 7.

3) Working Cash

Suburban requests a negative Working Cash amount of ($3,384,488) for Estimated Year 2013, ($3,003,671) for Estimated Year 2014, ($3,175,356) for Test Year 2015 and ($3,235,960) for Test Year 2016. Whereas ORA recommends a negative Working Cash amount of ($4,640,775) for Estimated Year 2013, ($4,369,557) for Estimated Year 2014, ($4,620,671) for Test Year 2015 and ($4,689,736) for Test Year 2016. The difference in Working Cash is due to ORA's adjustment on the lead-lag study of cash working capital. The adjustment includes depreciation, other non-cash items and interest expenses.

First, ORA removes the depreciation expense from the lead-lag study. A lead-lag study considers the timing differences of actual cash revenues and actual cash expenses. Non-cash items should not be included. As a non-cash expense for which no timing difference exists, depreciation expense should be excluded from cash working capital. Including this expense would allow for a return to be calculated

twice on investment that has only been made once. ORA also removed from lead-lag calculations other non-cash items including deferred income taxes and uncollectible accounts.[161] Removing non-cash expenses from the lead-lag study contradicts the Standard Practice U-16. In Decision 04-09-061 issued on September 23, 2004, the Commission approves that depreciation should not include in its cash working capital calculation.[162]

Next, on the lag days calculation ORA takes into account of the actual cash payment of debt interest expense that Suburban has forecasted, but not included in its lead-lag study. The actual cash expense to cover interest on Suburban's long-term debt is collected from Suburban's customers through rates. Between the times that Suburban receives revenues from customers and the time it is required to pay the interest on the long term debt, the funds are available for use by Suburban. Therefore, the lag days related to interest expense should be considered in a lead-lag study similar to any other cash expense in order to arrive at an appropriate total for cash working capital. ORA includes expense lag days of 91.3 (average service period for semi-annual payments = 365/4) and the annual interest expense forecasted in ORA's Workpapers Table 9-4, line no.13

After the above adjustments to the lead-lag study for Suburban's cash working capital, ORA recommends a negative Working Cash amount of ($4,640,775) for Estimated Year 2013, ($4,369,557) for Estimated Year 2014, ($4,620,671) for Test Year 2015 and ($4,689,736) for Test Year 2016.

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[161] ORA adjusts the Depreciation Expense, Uncollectible Accounts and Deferred Income Taxes expenses from the A.14-02-004 excel spreadsheet, under tab "Model" – Table 8-2 to reflect the non-cash items that should not be included. The adjustments are completed by removing (putting '$0' amount) the Estimated Expense for the year 2013 to 2016.

[162] Commission Decision D04-09-061 September 23, 2004 : "Therefore, we clarify that for the current and future financial periods Pacific shall no longer include depreciation in its cash working capital calculations, regardless of whether the simplified or detailed method is employed".

4) Construction Work In Progress ("CWIP")

Suburban requests $6,993,400 in Estimated Year 2014, $6,862,500 in Test Year 2015 and $5,495,353 in 2016, whereas ORA recommends $6,993,400 in Estimated Year 2014, $6,862,500 in Test Year 2015 and $3,588,500 in 2016. The difference is due to ORA's disallowance of a major project Suburban requested in Whittier/La Mirada district that is Plant 408 Facility Construction - Site Grading and Walls in 2016. ORA's discussion of the project is provided in Chapter 6- Plant in Service.

D. CONCLUSION

Based on the discussion above, the Commission should adopt the rate base ORA recommends in the above table.

CHAPTER 9: CUSTOMER SERVICE&WATER QUALITY

A. INTRODUCTION

This chapter provides ORA's review on Suburban's water quality and customer service program. ORA's review of Suburban's water quality program will assist the Commission in making a finding that its water quality meets all applicable state and federal drinking water standards. The review of Suburban's customer service program will provide an overall view on the level of customer service as measured by the number of customer complaints in different areas.

B. SUMMARY OF RECOMMENDATIONS

Although not functioning in the role of the Commission's "assigned water quality expert," ORA reviewed the water quality data Suburban submitted and has found no evidence that Suburban's water quality is out of compliance with federal or state water quality requirements. ORA confirmed this finding by contacting the California Department of Public Health ("CDPH"), which is the primary agency responsible for the administration and enforcement of the federal Safe Drinking Water Act in California. In regards to Suburban's overall customer service and as supported by the recent decline in informal complaints to the Commission's Consumer Affairs Branch, ORA finds Suburban to have an adequate customer service program that effectively responds to customer inquiries.

C. DISCUSSION

1) Water Quality

The water system in Suburban's San Jose hills and Whittier La Mirada areas serves approximately 293,000 people through 76,000 connections.[163] In the years 2008 thru 2012, Suburban received an average of 64 percent of water supply

[163] 2010 Urban Water Management Plan, Page 1-5 and 1-6.

from its groundwater and 36 percent from purchased water.[164] The purchased water is capable of delivering 12,000 gallons per minutes ("gpm") [165] of combined treated surface water from Metropolitan Water District ("MWD"), California Domestic Water Company ("Cal Domestic"), Covina Irrigation Company ("CIC") CIC and other water utilities.[166] Suburban has groundwater supply that comes from twenty (20) wells with twelve (12) active wells and eight (8) inactive or standby wells. The active wells are wells 140W-5, 142W-2, 147W-3, 151W-2 and RASF W-1 in the San Jose Hills area and wells 210W-4, 210W-7, 210W-8, 210W-9, 210W-10, 409W-3 and 410W-1 in the Whittier/La Mirada area.[167] The groundwater is capable of delivering a total capacity of 33,750 gpm.[168] The system also has 26 steel reservoirs and 5 concrete reservoirs with a combined capacity of 73.5 million gallons ("MG").[169] Maximum daily demand ("MDD") and average daily demands ("ADD") are routinely recorded by the centralized computer Supervisory Control and Data Acquisition System ("SCADA") system. In the San Jose Hills district, the maximum day demand (MDD) during the past ten years was 31,906 gpm and in the Whittier/La Mirada district was 23,760

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[164] Suburban's Minimum Data Requirements – 2008to 2012 average of water production, purchased and pumped water: No. C1 and C2 page 9 converting from CCF to gallon per minute.

[165] Ibid.

[166] CDPH's November 1, 2012 Sanitary Survey System 1910205, Suburban Water System-San Jose Hills District, CDPH's July 10, 2012 Sanitary Survey System 1910059, Suburban Water System-La Mirada District, CDPH's June 27, 2013 Sanitary Survey System 1910200, Suburban Water System-Covina Knolls District, CDPH's June 27, 2013 Sanitary Survey System 1910046, Suburban Water System-Glendora District, CDPH's January 17, 2013 Sanitary Survey System 1910174, Suburban Water System-Whittier District.

[167] Suburban Water System Exhibits A – F, page 3-4 to 3-11 table 3-1 and table 3-3.

[168] ORA's of Suburban's well capacity's calculation from Suburban Water System Exhibits A – F, page 3-4 to 3-11 table 3-1 and table 3-3.

[169] Suburban Water System Exhibits A – F, page 3-4 to 3-11 table 3-1 and table 3-3.

gpm.[170] Suburban provided an average (2008 thru 2010) of 32,400 gpm of groundwater and purchased water from MWD and other utilities.[171]

Since the discovery of contamination in the Main San Gabriel Basin such as nitrates, Volatile Organic Compounds ("VOCs"), N-nitrosodimethylamine ("NDMA"), and perchlorate, Suburban's groundwater supply in the San Jose Hills district has been severely impacted. In 1972, CDPH lowered the allowable maximum contaminant level ("MCL") of nitrates in potable water from 90 to 45 parts per million ("ppm"). This resulted in a numbers of wells no longer being used to serve its customers in the basin. In December 1979, high levels of VOC's were discovered which resulted in extensive investigation and planning of the basin's wells by federal, state and local agencies including Suburban. The basin was placed on the National Priority List in 1984 under Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), or Superfund by the United States Environmental Protection Agency ("US-EPA"). In 1998, the discovery of NDMA in many groundwater supply put additional wells in the basin being taken out of service. In 2002, CDPH lowered perchlorate action level ("AL") from 18 part per billion ("ppb") to 4 ppb and in October 18, 2007 CDPH established an MCL to 6 ppb.[172]

Through all of these contaminants discoveries, San Jose Hill's area lost many of its production wells. When Suburban had to shut down a major number of wells due to contamination in 2002, approximately 91% of its supply came from purchased water. In recent years, Suburban was able to place several of its

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[170] Suburban Water System Master Plan for San Jose Hill district, section 4.2 page 31 of 107. ORA converted 141 Acre-Foot ("AF")/day to 31,906 gpm. And for Whittier/La Mirada District, section 4.2 page 30 of 96. ORA converted 105 Acre-Foot ("AF")/day to 23,760 gpm.

[171] Suburban's Minimum Data Requirements – 2008 to 2012 average of water production, purchased and pumped water: No. C1 and C2 page 9 converting from 22.8 million CCF per year to32,400 gpm gallon per minute.

[172] Direct testimony of Stephen B. Johnson, page 1-4.

wells back in production under a blending plan. Table 9-1, shows approximately 47 % of water supply in the San Jose Hill district comes from purchased water.[173]

Table 9-1

Suburban **2013** Production Data				
	Groundwater	Purchase	Total	% Purchase
Suburban's Water Systems	AFY			
Whittier Water	13,306	4,322		
La Mirada	3,413	7,730		
Total	16,719	12,052	28,771	42%
San Jose Hills	15,803	12,297		
Covina Knolls District	-	553		
Glendora District	-	1,103		
Total	15,803	13,954	29,757	47%

Suburban has consistently purchased water in relatively the same amount for the Whittier/ La Mirada area. In 1997, 38% of Suburban's supply came from purchased water. In 2010 and 2013, Suburban purchased 32% and 42%[174] respectively of its supply from MWD and other water utilities.

It is important to note that Suburban does not operate any treatment plants. In order to remediate the impacted water from the basin, Suburban must either purchase treated water from its purveyors, such as MWD, Cal Domestic, and CIC or blend the contaminated water with clean water.

Suburban is required to routinely schedule Title 22 source water quality monitoring for general mineral, general physical, inorganic chemical, nitrate, nitrite, perchlorate , asbestos, arsenic, regulate volatile organic ("VOC") chemical, regulated synthetic organic chemical ("SOC") and radiological. The 2012 Annual Inspection reports (which are included in this filing) show that Suburban's

[173] ORA's calculation based on information provided by James Ko of CDPH on email dated 5/19/2014.

[174] Information provided by James Ko of CDPH on email dated 5/10/ 2011 and 5/19/2014.

monitoring schedules are up-to-date.[175] The bacteriological sample siting plan ("BSSP") for the San Jose Hills distribution system was last revised on August 15, 2012 and for the La Mirada system on April 2, 2010.[176] There was a small percentage of repeat sample collections of total coliforms on the sites in the Whittier/La Mirada and San Jose Hills districts. On November 23, 2011, one of Cal Domestic's customers reported a total coliform positive in its distribution system. The repeat samples returned absent results for any further total coliform being present. Upon customer notification, Cal Domestic failed to follow-up with the repeat samples for E.coli from its wells on November 23, 2011. This resulted in a non-health related monitoring violation issued by CDPH.[177] The CDPH reports indicated no bacteriological problems within the distribution systems. ORA contacted CDPH to further investigate the issue. CDPH confirmed the coliform level in the Suburban's water system were under threshold levels and there were no violation notification has been issues related Suburban incompliance with CDPH requirements.[178]

Based upon the information Suburban and CDPH provided, Suburban's water systems appear to have been and continue to be in compliance with federal and state drinking water standards between 2012 and 2013. Therefore, ORA

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[175] CDPH's November 1, 2012 Sanitary Survey System 1910205, Suburban Water System-San Jose Hills District, CDPH's July 10, 2012 Sanitary Survey System 1910059, Suburban Water System-La Mirada District, CDPH's June 27, 2013 Sanitary Survey System 1910200, Suburban Water System-Covina Knolls District, CDPH's June 27, 2013 Sanitary Survey System 1910046, Suburban Water System-Glendora District, CDPH's January 17, 2013 Sanitary Survey System 1910174, Suburban Water System-Whittier District are checked if this is the most current reports per James Ko in email dated 5/19/2014.

[176] CDPH's November 1, 2012 Sanitary Survey System 1910205, Suburban Water System-San Jose Hills District page 6, CDPH's July 10, 2012 Sanitary Survey System 1910059, Suburban Water System-La Mirada District page 4.

[177] Water Quality Report 2011 for Whittier/La Mirada Service Area.

[178] ORA's phone conversation with James Ko of CDPH on May 22, 2014.

recommends that the Commission find that Suburban is in compliance with all applicable federal and state drinking water standards, including GO-103A.

2) Customer Service

Since its last GRC in 2012, Suburban has been maintaining its customer service quality at a level that meets the requirements of Commission's General Order 103-A, which states a general expectation that customers "should receive service that is consistently adequate, reliable, and incompliance with applicable water quality standards." Most of the major customer complaints remain at a relatively low rate as a percentage of its overall number of customers, which stands at 75,946 as of December 31, 2013. In its filing, Suburban provides the following data regarding its customer complaints:

Table 9-2 Customer Complaints 2009 to 2013

Complaint Category	2009	2010	2011	2012	2013	5-Yr Avg
Leak	2794	2541	2424	1521	1986	2253
Bill Inquiry	1352	1481	1979	2517	2037	1873
High Pressure	26	32	29	42	61	38
Low Pressure	212	224	257	209	186	180
No Water	260	318	334	273	289	295
Water Quality	212	163	88	91	77	126

(a) **Leak**

The number of leak complaints represent the largest type of customer complaints Suburban received. Over the last 5 years, Suburban has been receiving

an average of 2,253 such calls from its customers, representing 2.9% of its total number of customers. The following is a procedure established by Suburban to deal with this type of complaint.

- Suburban Customer Service Office Representative (CSOR) receives a customer complaint regarding a leak. The CSOR questions the customer to determine the best course of action a) leak location (i.e. street, meter box, customer's yard), b) severity of the leak (i.e. meter box overflowing and running down the gutter, if running down the gutter how wide is the stream of water?).
- Once the CSOR determines the location and severity of the leak, a service notification is dispatched to a Customer Service Field Representative (CSFR) for investigation. Most leaks are investigated within 24 hours. If the leak is determined to be an emergency (based on customer feedback), a CSFR is dispatched immediately.
- A field investigation is conducted by the CSFR and further consideration/action taken depending whether the leak is from Suburban or the customer.

It should also be noted that the number of leaks, as reported by Suburban, continues to decrease from years 2008 thru 2012 as shown in the following table:

Table 9-3: Historical Leak data 2008 to 2012

Recorded Years				
2008	2009	2010	2011	2012
1022	1163	905	848	383

This decreasing trend indicates that Suburban's effort to reduce leaks in its system with pipeline replacements in targeted areas has been effective. Suburban's water loss or unaccounted for water remains in a range of 5% to 7%, which is one of the lowest among all Class A Water Companies. Replacement of

its mains and service lines will help Suburban control or reduce the number of leak complaints in the coming years.

(b) **Bill Inquiry**

Suburban received 1,873 complaints by customers concerned about their bills. This represents 2.4% of the total number of its customers. The average would be lower without the dramatic increase in the number of complaints in 2012. This may have to do with several rate adjustments during that period of time. In May 2012, there was a General Rate Case increase that resulted in increased quantity and service charges for customer bills. Additionally, in April 2012, there was a Water Offset Surcharge imposed on customer bills. In June 2012, there was an Interim Rate Surcharge imposed on customer bills. In November 2012, there was an increase in the Whittier Franchise Tax from 8% to 12% imposed on customer bills for customer residing in the City of Whittier. In general, any change in rates billed to customers may prompt customers to inquire or complain because bills are different from what they have seen in the past.

Suburban has established a procedure to handle customer complaints regarding bills.

- CSOR receives a customer complaint regarding a billing issue. The CSOR would ask questions to determine the best course of action.
- Once the CSOR determines the concern for the customer complaint, the CSOR verbally provides the customer consumption history for the account and answers any questions posed. Often times, the customer is satisfied and does not require any further action on the part of the CSOR. If the customer requests to have the matter further investigated, a service notification is dispatched to a CSFR for a field investigation. Most billing inquiries are investigated within 24 hours.
- Once the field investigation is completed, the CSFR completes the service notification by notating the account with the field action taken including any notes left for the customer.

(c) **High/Low Pressure**

Suburban received an annual average of 38 high pressure and 180 low pressure complaints from years 2009 thru 2013, representing 0.28% of its total customers. Suburban's procedures for handling complaints dealing with water pressure are as follow:

- CSOR receives a customer complaint regarding high/low pressure and asks the customer the following questions to determine the best course of action:
- Once the CSOR determines the customer's concern, a service notification is dispatched to a CSFR for investigation. Most high/low pressure inquiries are investigated within 24 hours.
- The CSFR verifies the common pressure for the area. A field investigation is conducted and the following action is taken:
  - The CSFR takes a pressure read at the customer's hose bib.
  - If the customer is unavailable, the CSFR leaves a door hanger to inform the customer of the pressure reading and whether the pressure is within normal range for the area and/or acceptable limits. If follow up assistance is required, the CSFR will notate so on the form. If the customer is available, this information is verbally provided to the customer.
  - If the pressure is higher or lower than normal, the field representative will contact Suburban Operations to advice of the high/low pressure and refer the service notification to Suburban Operations for further investigation.
- Once the field investigation is completed, the CSFR completes the service notification by notating the account with the field action taken and notes left for the customer.

(d) **No Water**

Suburban received an annual average of 295 complaints from years 2009 thru 2013, representing 0.38% of its total customers. Suburban's procedures for handling complaints dealing with no water are as follow:

- CSOR receives a customer complaint regarding no water. The CSOR will first check the customer's account for its current status to assure that the service was not turned off due to non-payment. If not, the CSOR then checks with Suburban Operations to determine if there was an emergency shut-down in the vicinity of the customer premises. If there was not a shut-down in the vicinity, the CSOR would ask the customer a number of questions to determine the best course of action:
  - "Is the problem isolated to one area or the entire property?"
- If the problem is isolated to just part of the property, the CSOR advises the customer to check for shut-off valves such as those attached to sinks, toilets, etc. If the problem is isolated to just one area, it is an indication of a plumbing problem that the customer is responsible for, and the customer is advised to contact a plumber.
  - "Have you checked the gate valve at the hose bib or inside the meter box?"
- If the customer indicates that valves are open and that the entire property is affected, the CSOR will dispatch a service notification to a CSFR for investigation. Most no water complaints are investigated within 24 hours.
- A CSFR conducts a field investigation and the following action is taken:

- The CSFR assures that the keystop, gate valve at the meter box and gate valve at the hose bib are open and functioning. Once all valves are verified, the CSFR checks the hose bib to assure that water service has been restored.
  - Once the field investigation has been completed, the CSFR completes the service notification by notating the account with the field action taken and notes left for the customer.

(e) **Water Quality**

Suburban received an annual average of 295 complaints from years 2009 thru 2013, representing 0.16% of its total customers. Suburban's procedures for handling complaints dealing with water quality are as follow:

- Most water quality inquiries are received from customers originally by a CSOR by telephone and can be categorized as 1) taste and odor to the water, 2) particles in the water, 3) color of the water or 4) request for water quality information.
- Generally, informational inquiries are handled immediately over the telephone by a QA Technician (Technician) and may be followed up with an email or delivery of a copy of the most recent Consumer Confidence Report to the customer. These informational requests pertain mostly to the hardness of the water, whether fluoride is added to the water or the level of nitrate in the water.
- The number of inquiries for Categories 1 – 3 is reported to the California Department of Public Health (CDPH) in monthly reports and summarized for the year in the CDPH annual report for each Suburban system.
- All customer inquiries about taste, odor, particles and color are handled by a Technician, in person, at the customer's residence, preferably the same day the inquiry is received.
- The first task is to determine internally if any Suburban construction/repairs have been made or are in progress in the proximity of the customer. If so, additional flushing of the system would be appropriate until the lines clear. Sometimes, street cleaners taking water from a Suburban hydrant or the fire

department opening a hydrant can cause a transient pressure fluctuation that can cause a change in the aesthetics of the water.

- When proceeding to the customer's residence, the Technician collects a water sample from the nearest hydrant or blow-off and observes whether there are any aesthetic problems with the water in the main.
- A chlorine residual and pH are measured with field kits.
- On the rare occasion that the problem is in the main, the Technician flushes the main from a hydrant or blow-off until the problem clears.
- Next, with permission from the customer, the Technician takes a water sample from the customer's outdoor hose bib, if available, to determine whether the stated problem may have occurred between the meter and the house.
- It may be necessary for the Technician to request additional water samples from inside the residence to observe the problem firsthand if the cause has not yet been determined. Mostly, aesthetic problems are traced to interior galvanized or copper piping, hot water heaters, water softeners and/or swamp odors from the sewer line.

According to Suburban, almost all customer water quality complaints are resolved the same day the complaint is reported. Infrequent scheduling conflicts with the customers might delay on-site investigation by no more than one day.

ORA contacted the Commission's Consumer Affairs Branch and received reports showing that there were 208 phone and 119 written complaints/inquiries relating to Suburban between years 2010 thru 2013. Of these complaints/inquiries, all except 22 phone and 8 written complaints/inquiries were related to billing issues. The remaining complaints/inquiries were related to various non-billing issues ranging from service quality to low income program. Most of these complaints/inquiries were answered by CAB's customer representatives while others were resolved in a prompt manner either in favor of Suburban or the customers.

Overall, ORA believes Suburban has done satisfactorily as shown in the low rate of complaints as a percentage of its total number of customers. Its established procedure should allow it to continue to provide service to its customers that is consistently adequate, reliable, and incompliance with applicable water quality standards.

D. CONCLUSION

ORA's review of Suburban's water systems shows that Suburban has been able to comply with federal and state drinking water standards. ORA recommends the Commission find Suburban in compliance with all applicable federal and state drinking water standards, including GO-103A. Suburban's customer service program was also found to be satisfactory.

CHAPTER 10: GENERAL OFFICE

A. INTRODUCTION

This Chapter covers Suburban's request for its parent company, Southwest Water Company's ("Southwest") indirect cost allocations along with one of its affiliates, Utility Group's cost allocations. The Chapter also evaluates Suburban's request for its health & dental, property, and general insurance allocations. In addition the Chapter addresses the allocation of five Information Technology (IT) staff hired for the General office.

Parent Company Background:

In 1975 Southwest, then a regulated utility, requested the Commission's authority to purchase Suburban, also a regulated utility, in Application ("A.") 55655. In its application, Southwest sought the Commission's permission to purchase Suburban and consolidate its regulated operations in California. The Commission approved that transaction in Decision, ("D.") 84466; however, the Commission did not authorize Southwest to transform itself into a holding or a parent company. Since then Southwest has transformed itself into a parent company and Suburban has since become the subsidiary regulated by the Commission. Therefore, Suburban never operated under any formal Affiliate Transaction Rules ("ATRs"), which normally most other Class-A utilities have when the Commission authorizes establishing a parent or a holding company organizational structure.

It was not until 2007, upon the request of ORA (then DRA), that the Commission ordered Suburban to formally file an application to establish a holding company structure (A.09-07-015). Subsequently, due to the fact that Commission had also ordered an industry-wide Order Instituting Ratemaking ("OIR"), R. 09-04-012, to establish generic Affiliate Transaction Rules for water and sewer utilities that have a parent or a holding company structure, the Commission in D.10-05-001 dismissed Suburban's application without prejudice.

On October 14, 2010, the Commission issued its decision, D. 10-10-019 regarding affiliate transactions between water and wastewater regulated utility and their respective parent or holding companies. This decision imposed industry-wide ATRs on Class-A water utilities including Suburban.

In the interim, while the OIR proceeding for ATRs was underway, Suburban on April 6, 2010 filed A.10-04-009, seeking the Commission's approval for a transfer of indirect control of itself and direct control of its parent, Southwest Water Company to an investment fund managed by J.P. Morgan Investment Inc. Then another entity, Water Asset Management also contributed to the purchase of Southwest and has an ownership interest of approximately 10%. The Commission authorized this transfer of control under the condition that once the generic ATRs were adopted in R.09-04-012, both the new owners and Suburban would operate under those ATRs.

Currently, the various subsidiaries of Southwest are grouped under three major business segments: Suburban Water Systems; Texas Utilities; and Southeast Utilities. In addition, in 2003, the Southwest created a new entity to provide management, regulatory and communications services to Suburban and other subsidiaries. It should be noted that after Southwest's acquisition by J.P. Morgan Investment Inc. in year 2010, two of its old subsidiaries operating under the Non-Utility Segment, Texas Services and O&M Services seize to exist. These past subsidiaries served various contracts with local municipalities and cities all over the nation. Suburban claims that its parent, Southwest exited the service segment of its business during 2012 and related costs have been separately identified as discontinued operations.[179]

Suburban's affiliate, the Non-Utility Group was the largest business segment of Southwest with direct operating expenses amounting to $95,256,928 for 2009. The Non-Utility segment provided non-regulated water related services,

[179] Suburban's Witness, Walter Bench Direct Testimony, page-5.

such as facility operations and maintenance, 24-dispatch, and full set of water and wastewater services to various cities, public agencies, and private owners of water and wastewater systems. The Non-Utility segment provided service to numerous entities under 547 contracts; currently 11 of these contracts are still in effect and Southwest's subsidiary, Southeast Utilities serve them.

B. SUMMARY OF RECOMMENDATIONS

In its current GRC, Suburban requests an overall allocable cost of its parent company, Southwest in the amount of $8,997,631 for Test Year 2015. Of this amount, Suburban requests allocating $4,480,822 to Suburban's regulated operations. Suburban assessed this allocation amount based upon its calculated allocation rate of 49.8% using two-factor allocation method. The Office of Ratepayer Advocates ("ORA") recommends an overall allocable cost of $9,628,421 and a subsequent cost allocation to Suburban of $4,140,221 at the allocation rate of 43%.[180]

In its current GRC, Suburban requests an overall allocable cost of its business segment, Utility Group, of $686,886 for Test Year 2015. Of this amount, Suburban requests allocating $345,504 to Suburban's operations. Suburban assessed this allocation amount based upon its calculated allocation rate of 50.3% using the four-factor allocation method. ORA recommends an overall allocable cost of $686,886 and a subsequent cost allocation to Suburban of in the amount of $295,361 at the allocation rate of 43%.

In addition, Suburban claims that a total payroll and benefits costs related to the 5 new IT related positions are $630,790. Suburban requests a cost allocation of $370,274 for its operations base on direct charges.[181] ORA recommends that IT

[180] ORA's recommended amount $9,628,421 is more than Suburban's requested amount $8,997,631 for its parent company allocable expenses due to the fact that ORA combines $630,790 of IT related cost that Suburban requested to be allocated separately.

[181] Suburban GRC Application, A.14-02-004, Exhibit-A, page 5-6.

costs are common costs and should therefore be allocated along other Southwest costs based on the Commission's common cost allocation guidelines.

Suburban requests $1,987,048, $463,010, and $211,064 for Medical & Dental Insurance, Injuries & Damages, and Property Insurance in Test Year 2015, respectively. ORA recommends $1,859,842 for medical and dental insurance, but regarding Injuries & Damages for $463,010, and Property Insurance of $211,064, ORA finds Suburban's request reasonable.

Finally, Suburban requests $163,958 and $164,624 for Other Revenues-Non-tariffed Services for 2015 and 2016, respectively. ORA finds that Suburban has misapplied the gross revenue sharing NTP&S rules X.C.5 and 6. ORA recommends that the amounts should be $229,374 and $231,829 in 2015 and 2016 respectively.

C. DISCUSSION

1) Parent Company Costs:

Suburban's parent company, Southwest, after its recent acquisition is planning to go through a tremendous re-structuring exercise which reflects its aspirations to create the "right-size" of its staff centered on its core competencies. For example, Southwest decided to exit its service program under which it used to provide various operational, maintenance, and management services to water and wastewater operations of municipalities and cities throughout the nation. Southwest used to have approximately 547 such service contracts which are now reduced to only 11.[182] These restructuring efforts resulted in a sizeable reduction in staff and operational cost of Southwest. For example, the parent company costs were $12,081,857 in year 2012; but now by Test Year 2015, the costs will be reduced to$8,997,631, a reduction of over $3.0 million.

[182] Suburban's witness, Walter Bench Direct Testimony, page-8.

For the most part, ORA agrees to such restructuring efforts and finds the estimates of Suburban's parent company allocable costs of $8,997,631 for the Test Year 2015 reasonable, but ORA disagrees that the Test Year 2015 cost of $630,790 for the Southwest five IT personnel should be allocated separately. These personnel costs should be allocated based on only one factor, customer count as requested by Suburban. Suburban is incorrect in presenting these costs as being "directly charged".[183]

These IT related costs are in fact, common costs and therefore, should be allocated based on the Commission's cost allocation guidelines. The directly charged costs are those costs that are "direct" in nature and thus can be traced directly to the specific activity provided to subsidiaries which make use of them. In Southwest's case, the IT related costs are not traced directly to its three subsidiaries as none of these subsidiaries is charged directly for these services. **Suburban, admits that rather than charging these IT costs directly, these costs are allocated based on number of customers**.[184] Therefore, it is evident that these IT related costs are in fact, common costs and should be allocated based on the Commission established guidelines, such as the four factor allocation methodology. Therefore, ORA recommends including these costs with other parent company allocable costs and then allocate them in a usual manner of allocation. The resulting parent company allocable costs for the Test Year will thus be $9,628,421.[185]

2) Parent Company Cost Allocations:

Suburban used a 2-factor allocation method to allocate its parent company costs to three subsidiaries of its parent, namely: Suburban Water Systems; Texas

[183] See ORA's Attachment-10.1: Suburban's Response to ORA data Request, AMX-01, Questions: 1b, and 2.e.

[184] Suburban Application, Exhibit A-F, page 5-6.

[185] $8,997,631 + $630,790 = $9,628,421.

Utilities; and Southeast Utilities. Apparently, Suburban justifies its erroneous approach of deviating from the Commission's traditional 4-factor allocation methodology by stating that the Commission in its last decision, D.12-04-009 adopted a 2-factor methodology; however, at the same time, Suburban admits that the use of a 2-factor methodology is inconsistent with the 4-factor methodology --- a procedure set forth in the Commission's memo "Allocation of Administrative and General Expenses and Common Utility Plant", dated July 26, 1956.[186]

ORA finds Suburban's justifications for deviating from the Commission's traditional 4-factor allocation methodology highly erroneous and misleading. The reason the Commission used a 2-factor methodology in Suburban's last GRC application, A.11-02-002 is fully explained in the Commission Rehearing D.13-12-030 where the Commission expounded that the main reasons the Commission departed from the use of traditional 4-factor allocation methodology were: 1) Suburban's failure to provide complete and consistent data; 2) Suburban's arguments and calculations were unreasonable because the interpretations applied to gross plant and customer factors were not credible; and 3) the data accuracy was questionable. Below, ORA reiterates excerpts from the pertinent portion of D.13-12-030 for the sake of completeness and clear understanding as to why the Commission used a 2-factor methodology for the last rate case:

> *"**In the Decision, we articulated our reasons for adopting a two-factor allocation and for not using the four-factor methodology. Specifically, we explained that: (1) the data provided by Suburban was incomplete and inconsistent to distribute general costs incurred to benefit multiple entities; (2) Suburban's arguments and calculations are unreasonable because the interpretations applied to plant and customer factors are not credible; and (3) the accuracy of the data** is essential to include in the calculation. (D.12-04-009, pp. 11-17.)*

[186] Suburban's Witness, Walter Bench Direct Testimony, page-27.

In weighing the record evidence, we questioned the credibility of Suburban's proposed customer count calculation as an allocation factor, and found it lacking. ***In fact, we determined that it is unlikely that Suburban receives 75,000 times the service received by each of the unaffiliated entities who are counted as a single customer. For the number of customers factor, Suburban included the number of service connections for Suburban's own operations, and thus, used a value of 75,000 as the number of customers. (See DRA-1, pp. 8-43; DRA-2, Attachment-I; see also Reporters Transcript ("RT") Vol. 2, pp. 107, 169-180.) With this, we reasoned that counting each contract as a single customer, while counting Suburban as over 75,000 customers is not credible, and therefore, unfair and unreasonable. (D.12-04-009, p. 17.) The number of the contracts does not equal the number of customers. As record shows, the use of the number of contracts instead of the number of customers skews the allocations. (See DRA Ex. 2-Attachment-I, p. 1 , which states Suburban serves over 400 contracts and more than 350,000 connections, the number of service connections relates to the individual number of customers; see also DRA Ex. 1, pp. 8-43; RT Vol. 2, pp. 169-180.)*** *As such, we explained that in this case, it is reasonable to determine that Suburban's proposed customer count should not be used as a relevant factor for allocation purposes. This determination was based on the record, and was weighed by the Commission.*

We further explained that Suburban's calculations for gross plant are similarly unreliable, and thus, the application of the 4-factors allocation methodology was not appropriate. (D.12-04-009, p. 18.) Specifically, the data offered by Suburban was not consistent for all entities, and thus, any proposed allocation based on that data was not warranted. Further, Suburban failed to provide the information relating to the gross plant values of the non-utility group clients, and therefore, this was another reason for not using the gross plant factor. (D.12-04-009, p. 18.) Thus, we acted correctly and lawfully in not applying the gross plant factor to Suburban's parent company cost allocations between its various regulated and non-regulated subsidiaries because it would have yielded an unreasonable result.

Based on the above discussion, it was reasonable for us to not use the four-factor methodology in this particular case. Thus, by rejecting the use of two of the factors, we acted reasonably by using a two-factor allocation. (D.12-04-009, pp. 11-19."

[Emphasis added, D.13-12-030, pp.6-7]

Unfortunately, instead of mending its shortcomings with respect to the needed data pertaining to the other two factors; Number of Customers; and Gross Plant as it relate to its sister subsidiaries, Suburban instead only used the 2-factors while disregarding the other two. It should be noted that even though Southwest divested its service operations, there are 11-Service contracts which are still active, and Suburban once again failed to provide the adequate information for the Number of Customers and the Gross Plant, which is similar to what the Commission addressed in D.13-12-030.

Even though Suburban presented alternative cost allocations pursuant to the traditional 4-factors, the data Suburban used regarding the other two factors, namely, Number of Customer and Gross plant is inconsistent and inaccurate as it was in Suburban's last GRC application. For example, Suburban still counts each of the11-Service contracts as 11 "customers" and does not include the Gross Plant value of its clients operation for which its sister subsidiary, Southeast is responsible under these service contracts.

ORA did request the pertinent information regarding the Number of Customers and Gross Plant, but Suburban mostly responded that the information was not available.[187] It is Suburban's duty and responsibility to meet its burden of proof and provide adequate support for the rate relief it is requesting. ORA finds it quite disturbing that Suburban has ignored and failed again to provide the necessary information to correct the flaws found by the Commission in the previous GRC where the Commission found flaws with the data used to determine these allocation. More importantly, in D.12-04-009 the Commission states:

> *"…**it is not DRA's burden to find and develop the data. Suburban's burden of proof is to provide the whole truth in a fair and consistent manner.** Counting each contract as a single*

[187] See Attachment-10.1, Suburban's response to ORA's Data Request, AMX-01, Question-4 and 5.

customer, while counting Suburban as over *75,000 customers, is not credible, therefore it is not fair or reasonable."* [**Emphasis added, D.12-04-009, p.16]**

(a) **Four Factors**

(i) Direct Operating Expenses Factor

Suburban used the "Direct Operating Expenses" cost allocation factor in its 2-factor cost allocation methodology and in its 4-factor allocation methodology. Suburban used these direct operating expenses for all three subsidiaries including itself. For example, Suburban used $34,411,926, $28,443,072, and $6,670,170 for Suburban, Texas Utilities, and Southeast Utilities, respectively. Therefore, Suburban assessed a cost allocation based on "Direct Expenses" as 49.5% for Suburban, 40.9% for Texas Utilities, and 9.6% for Southeast Utilities.

However, one of the subsidiaries and Suburban's affiliate, Southeast Utilities is also engaged in providing services to the 11 service contracts, where it serves various water and wastewater facilities of cities and municipalities in the United States southeast geographical areas. Therefore, in order to maintain consistency and reasonableness of the allocation factor (cost driver), namely, the "Direct Operating Expenses" it is imperative that the direct operating expenses of Southeast must also include the operating expenses it incurs while serving the 11 service contracts, since these operating expenses determine the Southeast Utilities' true level of activity. If these direct operating expenses are excluded from Southeast's operations, the resulting cost allocations will be unfairly diverted toward Suburban.

In response to ORA's data request, AMX-01 (question-6), Suburban states that the direct operating expenses for serving 11 service contracts were $1,793,205. While in response to another ORA's data request, AMX-02 (question-2), Suburban admits that it has excluded these direct operating expenses from Suburban's 4-factor and 2-factor cost allocation calculations.

Therefore, by excluding these direct operating expenses from the cost allocation methodology, Suburban has effectively diverted the parent company's cost allocations away from Southeast, and has skewed the parent company's cost allocations toward captive ratepayers of Suburban. For example, if the operating costs of these 11 service contracts are included in Southeast Utilities' costs, the resulting cost allocation percentages based on the Direct Operating Expense factor would be 48.30% for Suburban, 40.0% for Texas Utilities, and 11.9% for Southeast Utilities as compared to requested allocations of 49.5% for Suburban, 40.9% Texas Utilities, and 9.6% for Southeast Utilities. Therefore, the portion of the parent company's costs that would be allocated to Suburban's captive ratepayers is reduced by 1.20% (49.50% - 48.30%).[188]

For the above reasons, ORA rejects Suburban's use of direct operating expenses for Southeast for cost allocation purposes as these expenses exclude the direct operating expenses used in operating 11 service contracts. This use of the direct operating expenses factor is unreasonable and inconsistent across all the subsidiaries and results in Suburban's captive ratepayers subsidizing the cost of Suburban's parent and its affiliates.

(ii) Number of Employees (Direct Operating Payroll) Factor

Suburban used the "Number of Employees (Direct Operating Payroll" cost allocation factor in its 2-factor cost allocation methodology. Suburban used these direct payroll expenses for all three subsidiaries including itself. For example, Suburban used $7,749,136, $6,696,037, and $1,030,532 for Suburban, Texas Utilities, and Southeast Utilities, respectively. Based on these numbers, Suburban assessed a cost allocation based on "Direct Payroll" as 50.1% for Suburban, 43.3% for Texas Utilities, and 6.7% for Southeast Utilities.

[188] See ORA's adjustment to Suburban's 2-factor methodology in table at the end of this section.

As previously discussed, one of the subsidiaries, Southeast Utilities is also engaged in providing services to the 11 service contracts under which it serves various water and wastewater facilities. Therefore, in order to maintain consistency and reasonableness of the allocation factor (cost driver), namely, the "Direct Payroll Expenses" it is imperative that the direct operating payroll of Southeast must also include the payroll expenses it incurs while serving the 11 service contracts, as these payroll operating expenses capture Southeast Utilities' true level of activity.

In response to ORA's data request, AMX-01 (question-7), Suburban states that the direct operating payroll expenses for serving 11 service contracts were $433,696. While in response to another ORA's data request, AMX-02 (question-4), Suburban admits that these direct operating payroll expenses are excluded from Suburban's 4-factor and 2-factor cost allocation calculations.

Therefore, by excluding these direct operating payroll expenses from the cost allocation methodology, Suburban has effectively diverted parent company's cost allocations away from Southeast, and has skewed parent company's cost allocations toward Suburban's captive ratepayers. For example, if these costs are included in the Southeast Utilities calculation, the resulting cost allocations percentages would be 48.70% for Suburban, 42.0% for Texas Utilities, and 6.7% for Southeast Utilities as compared to requested allocations of 50.1% for Suburban, 43.3% Texas Utilities, and 6.7% for Southeast Utilities. Therefore, reducing 1.40% (50.1% - 48.7%) of parent company, Southwest costs away from Suburban's captive ratepayers.[189]

For the above reasons, ORA rejects Suburban's use of direct operating payroll expenses for Southeast for cost allocation purposes as these expenses exclude the direct operating payroll expenses used in operating 11 service contracts. Therefore, Suburban's use of the direct operating payroll expenses

[189] Ibid.

factor is unreasonable and inconsistent across all the subsidiaries and results in Suburban's captive ratepayers subsidizing the cost of Suburban's parent and its affiliates.

(iii) Number of Customers Factor

Suburban did not use the "Number of Customers" cost allocation factor in its 2-factor cost allocation methodology. Instead, Suburban used the Number of Customers allocation factor in its 4-factor cost allocation methodology. Suburban used customer counts of 75,671, 44,854, and 8,431 for Suburban, Texas Utilities, and Southeast Utilities, respectively. Suburban assessed a cost allocation based on "Number of Customers" as 58.7% for Suburban, 34.7% for Texas Utilities, and 6.6% for Southeast Utilities.

However, just as in its last GRC application, Suburban did not include the number of customers for the entities actually served by Southeast Utilities for the purpose of calculating these cost allocations. Therefore, the cost driver i.e. "Number of Customers" is not consistent across the various subsidiaries as Southeast's operations under-reports its number of customers by excluding its clients' number of customers which it serves under the 11-service contracts. The exclusion of this data results in unfair and unreasonable cost allocations between the subsidiaries.

For example, in response to ORA's data request, AMX-01 (question-4), Suburban simply responded that the number of customers to more than half of the clients, Southeast serves is not available. Suburban's approach is extremely problematic. In its last GRC application, the Commission specifically underscored these deficiencies and rejected Suburban's approach for use of Number of Customers allocation factor:

> *"**Most problematic is the customer count. It is not likely that Suburban receives 75,000 times the service received by each one of the unaffiliated entities who are counted as a single customer.** Thus Suburban's proposed customer count calculation is not a credible allocation factor…DRA persevered in this proceeding*

and demonstrated the one necessary point: ***the data offered by Suburban is not consistent for all entities. Because the data is not consistent any proposed allocation based on that data is not fair."***

Emphasis added, D.12-04-009, pp.16-17

It should be noted that this time around, Suburban excluded the number of customers of its unaffiliated entities, namely, 11-service contracts all together. Unlike its past GRC application, where Suburban used a count of 547 service contracts, this time around it has even removed the remaining 11 service contracts served by its affiliate, Southeast Utilities.

In addition, Suburban's apparent approach toward collecting and providing accurate and credible data is even more egregious now since the Commission has established the Affiliate Transaction Rules (ATRs), which demand more strict adherence of a utility's affiliate business transactions when it comes to providing the pertinent records regarding the affiliate transactions and their impact on the cost recovery. For example, ATR, VIII.B requires that:

"The utility and its affiliate companies shall provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the ***Commission of its regulatory responsibilities in examining any of the costs sought to be recovered by the utility in rate proceedings or in connection with a transaction or transactions between the utility and its affiliates."***

Emphasis Added, D.11-10-034, Appendix A, VIII.B

Therefore, it is unacceptable when Suburban simply claims that the Number of Customer information for its affiliates' clients are not available, and then requests allocation of $4,480,822 of its parent company costs to its regulated operations, but refuses to provide the supporting information regarding its affiliates that play an important role in determining the true level of these cost allocations.

(iv) Gross Plant Factor

Suburban did not use the "Gross Plant" cost allocation factor in its 2-factor cost allocation methodology, but used the gross plant allocation factor in its 4-factor cost allocation methodology. Suburban used gross plant amounts of $207,656,138, $222,782,947, and $55,174,942 for Suburban, Texas Utilities, and Southeast Utilities respectively. Suburban assessed a cost allocation based on "Gross Plant" as 42.8% for Suburban, 45.9% for Texas Utilities, and 11.4% for Southeast Utilities.

However, just as in its last GRC application, Suburban did not include gross plant amounts of the entities served by its affiliate, Southeast Utilities in these cost allocation calculations. Therefore, the cost driver i.e. "Gross Plant" is not consistent across the various subsidiaries as Southeast's operations are under-reported by excluding its clients' assets for the cost allocation purposes, which results in unfair and unreasonable cost allocations between the subsidiaries.

For example, in response to ORA's data request, AMX-01 (question-5), Suburban repeats the same response that gross plant information for the entities served under the service contracts is not available which it has provided in its last GRC application. Suburban's approach is extremely problematic. In its last GRC application, the Commission specifically underscored these deficiencies and rejected Suburban's approach for use of Gross Plant allocation factor:

> *"**We find Suburban's arguments and calculations to be unreasonable because its interpretations applied to the plant and customer factors are not credible.** In order to include any data in a calculation the Commission must have complete faith in the truthfulness and accuracy of the data and cannot rely not a selective reading of the Allocation Practice…**We also find that Suburban's calculations for gross plant are not reliable**…DRA persevered in this proceeding and demonstrated the one necessary point: **the data offered by Suburban is not consistent for all entities. Because the data is not consistent any proposed allocation based on that data is not fair."***

Emphasis added, D.12-04-009, pp.15-17

In addition, Suburban's apparent cavalier approach toward collecting and providing accurate and credible data is even more egregious now since the Commission has established the Affiliate Transaction Rules (ATRs), which demand strict adherence of a utility's affiliate business transactions when it comes to providing the pertinent records regarding the affiliate transactions and their impact on the cost recovery.[190] Therefore, in light of the above Commission's ruling it is unacceptable when Suburban simply claims that the gross plant information for its affiliates' client is not available when this information is essential to ascertain the reasonableness of the cost allocations toward Suburban's captive ratepayers. And by not providing the needed information, Suburban has increased the risk of cross subsidization by its captive customers.

(b) **ORA's Recommendations:**

Given the fact that Suburban's application lacks the necessary supporting information regarding the traditional and preferred four allocation factors, Suburban's 2-factor or 4-factor allocations cannot be relied upon. In addition, it is not ORA's duty to find the necessary support for Suburban's cost recovery and develop the necessary data as the Commission acknowledged in D.12-04-009:

> ***"…it is not DRA's burden to find and develop the data. Suburban's burden of proof is to provide the whole truth in a fair and consistent manner."***
>
> **D.12-04-009, p. 16.**

As in the previous rate case, ORA is forced to make a reasonable determinations from the data that is readily available. Suburban's affiliate Southeast private service contract requires that the scope of such activities should be accounted for in parent company costs among the various affiliates while utilizing the Commission's long standing 4-factor allocation methodology. Unfortunately, Suburban continually refuses either to obtain or maintain the

[190] D.11-10-034. Appendix-A (Affiliate Transaction Rules), VIII.B.

necessary information regarding the 4-factors as it relates to these service contracts. What is more troubling is that even though Suburban has divested most of its service contracts, it has kept 11 service contracts for which it deliberately and consciously chosen not develop and track the data to determine the proper allocation of costs to its Southeast affiliate.

For example, on May 05,2014, during a telephone conversation, Suburban's Vice President of Regulatory Affairs, Robert Kelly stated that local manager at Southeast decided that these remaining 11 service contracts are necessary for Southeast's strategic business model and thus these contracts will not be discontinued in foreseeable future. ORA believes that these 11 service contracts are a major part of Southwest's operations through one of its subsidiaries, Southeast, and therefore, the parent company costs must be allocated prudently and the Suburban's captive ratepayers must not subsidize these affiliate operation costs. For example, in response to ORA's Data Request, AMX-07, Suburban stated that these 11 service contracts collectively raised a gross revenue amount of $4,289,302---quite a sizeable revenue for the parent company. ORA believes such a revenue-generating operation must bear its equitable share of the corporate costs as well.

As Suburban's affiliate, Southeast serves these 11 service contracts, and ORA recommends the cost of serving these contracts should be included in Southeast's costs, which Suburban left out as discussed earlier. More specifically, Suburban excluded the Direct Operating Expenses of $1,793,205 and Direct Operating Payroll (Number of employees) of $433,696, which Southeast spends to service these 11 service contracts.

Similarly, the Commission should not be forced to accept the 2-factor allocations. Suburban seems to believe that if it does not provide the necessary information regarding 4-factors; it can automatically default to using 2-factors. This is simply unacceptable and a gaming of the four-factor allocation methodology. ORA recommends that in absence of the other 2 cost allocation

factors, namely, Gross Plant and Number of Customers, the Commission should use "Property" as an alternate cost allocation factor. Suburban currently uses "Property" as an allocation factor to allocate its Property Insurance costs from the parent company, Southwest to its various subsidiaries.

For example, in response to ORA's data request, AMX-03 Follow up, question-1, Suburban provided the information that the total property insurance costs are allocated on the basis on the property value of various subsidiaries including the service contracts that are marked as "Discontinued Operations".[191] According to this insurance cost schedule, the property insurance costs are allocated in the following manner:

Property		
Entities	Allocations (Amount)	Allocations (Percentage)
Suburban	159,820,881	39.2%
Texas Utilities	138,212,445	33.9%
Southeast Utilities	94,995,574	23.3%
Discontinued Operations	14,677,428	3.6%
Corp	0.00	0.0%
Total	407,706,328	100.0%

ORA recommends that given the troubled history of Suburban with not providing the necessary data to appropriately allocate its parent company's costs among its subsidiaries under the traditional 4-factor allocation methodology, the Commission should use "Property" as a reasonable alternative to the "Gross Plant" allocation factor. The use of "Property" is a reasonable alternative as Suburban is already using this as a cost allocation factor to allocate property insurance costs among its various affiliates and thus, it is a reasonable cost driver for the scope of operations and the level of activities at the various affiliates.

[191] See Attachment-10.2, Suburban's Response to ORA's Data Request, AMX-03 Follow up, Quetsion-1.

ORA was unable to determine any reliable source of data to ascertain an alternative for the 4th factor, namely Number of Customers. Therefore, ORA recommends that under the circumstances the Commission should use 3-factors instead and compel Suburban to provide the adequate information regarding all 4-factors in its next GRC or face a risk to of being denied any allocations all together.

Based on the foregoing discussion, ORA recalculated Southwest's cost allocations based on 3-factors as follows:

ORA 3-Factor Allocations

	Factor 1: Direct Operating Expense		Factor 2: Payroll		Factor 3: Property		3 Factors %	
	Direct Operating Expense	Percentage	Total Payroll	Percentage	Property	Percentage	Total	Average
Suburban Water Systems	$ 34,411,926	43%	$ 7,749,136	49%	$ 159,820,881	39%	130%	43%
Texas Utilities	34,551,211	43%	6,696,047	42%	138,212,445	34%	119%	40%
Southeast Utilities	10,128,590	13%	1,030,532	6%	94,995,574	23%	42%	14%
11-Contracts	1,793,205	2%	433,696	3%	14,677,428	4%	9%	3%
Total	$ 80,884,932	100%	$ 15,909,411	100%	$ 407,706,328	100%	300%	100%

Therefore, ORA recommends that Suburban's share of its parent company costs should only be 43%. ORA recommends that in Test Year 2015, the parent company's allocable costs should be $9,628,421, and Suburban's share of parent company costs therefore, should be $4,140,221($9,628,421 x 43%) in the Test Year 2015.

3) Utility Group Cost Allocations:

Suburban claims that in 2003, Southwest created a new entity, Utility Group, to provide management, regulatory and communications services to Suburban and its other subsidiaries. In its current GRC, Suburban requests an overall allocable cost of its business segment, Utility Group, of $686,886 for Test Year 2015. Of this amount, Suburban requests allocating $345,504 to Suburban's operations based upon its calculated allocation rate of 50.3% using the 4-factor allocation method.

ORA objects to Suburban's use of 4-factor allocations for the Utility Group's costs among the various affiliates. The 4-factors used are inconsistent across all the affiliates as discussed earlier, and hence, the resulting cost allocations are unreasonable and increase the risk of cross subsidization. Please note that in past, when Southwest had not adopted its recent policy of divesting its service operations, the "Non-utility Group," a specialized entity to serve the non-regulated contract service obligations, was excluded from the affiliates to whom the costs of Utility Group were allocated; however, presently, as the Southeast takes up the task of serving 11 service contracts, the non-utility operations are now getting benefits of Utility Group operations and thus these 11-service contracts must be taken into account for the purpose of cost allocation of the Utility Group. The exclusion of Direct Operating Expenses of $1,793,205 and Direct Operating Payroll (Number of employees) of $433,696, pertaining to the 11 service contracts will result in unreasonable cost allocations. Similarly, the erroneous claim of counting 11 service contracts as "customers" served by Southeast---approach the Commission has categorically rejected, will also contribute in cost allocations that are unreasonable and will result in cross subsidization.

Therefore, for all practical purposes, we end up with the same level of inconsistency among the 4-factors that was present in Suburban's last GRC and was rejected by the Commission. For example, Southeast's factor, Number of Customers, does not include the number of customers served under the 11-service contracts; this simply skewed cost allocations toward Suburban's captive customers. Similarly, in case of allocation factor, Gross Plant, Southeast's gross plant values do not include the value of gross plant it operates and maintains under the 11-contracts. Therefore, the values of these two cost factors are inconsistent and result in unfair and biased cost allocations toward Suburban's captive ratepayers.

Based on foregoing discussion, ORA recommends that the use of 3-factors, namely, Direct Operating Expenses, Number of Employee (Direct Payroll), and Property should be used to allocate Utility Groups costs to Suburban. More specifically, ORA agrees with Suburban's request that total Utility Group's allocable costs should be $686,886 for the Test Year 2015, but the allocations to Suburban's should be based on 43% instead of the requested 50.3%. And therefore, these allocated costs should be $295,361 instead of $345,504 as requested by Suburban.

4) Medical and Dental Insurance Costs:

Suburban acquires medical and dental insurance at its parent company's level and then the premiums and related administrative costs are allocated to various subsidiaries including Suburban on a monthly basis based on headcounts--per employee per month (PEPM).[192] Suburban used its actual premiums for both medical and dental insurances in year 2013 as a base year value to calculate PEPM values; these PEPM are then escalated to forecast the future Test Year. For example, for its medical insurance, Suburban estimates these PEPM values in the amount of $1,458.99 for Test Year 2015. Similarly, for the dental insurance, Suburban's estimates PEPM of $60.10. For medical insurance, Suburban used above average inflation factors of 7.40%, 5.70%, and 5.7% for the years 2014, 2015 and 2016, respectively. For dental insurance, Suburban used typical Consumer Price Index (CPI) factors of 2.40% for the years: 2014 through 2016.

ORA disagrees with Suburban's approach to calculate PEPM for dental insurance, and medical insurance. ORA recommends a different inflation escalation factor, that is still above the ECOS CPI factors:

[192] Suburban's witness, Walter Bench's Direct Testimony, p. 32.

(a) **PEPM for Dental Insurance:**

Suburban calculates the value of PEPM for its dental insurance cost based on two distinct parameters: Total dental plan cost and number of participants. Both of these parameters change every policy period resulting in varying PEPM values. For example, from 7/1/2010 - 6/30/2011, the total dental plan cost was $609,800 and the number of participants were 996, thus resulting in PEPM of $51. On the other hand, from 1/1/2013 -12/31/2014, the total plan cost was $472,300 and the number of participants were 686, thus resulting in PEPM of $57.[193]

As these two parameters of PEPM for the dental costs are ever-changing, it is not prudent for Suburban to use only the last year PEPM value as a base year to forecast the future PEPM values. Therefore, ORA recommends using an average value of these parameters over the four most recent periods in order to calculate a more reasonable value of dental PEPM. Based on this proposed approach, ORA recommends a PEPM value of $53.47 to be used as base year-2013. ORA then by employing Suburban's proposed CPI factor of 2.40% estimated the value for the medical PEPM for the Test year 2015 as $56.07

Historic PEPM Cost					
Time Period	7/1/10- 6/30/11	7/1/11 - 12/31/12	1/1/13 - 12/31/13	1/1/14-12/31/14	Average
Amount	$ 609,800	$ 620,400	$ 472,300	$ 205,900	$ 477,100
Participants	996	1,011	686	281	744
Average PEPM					**$ 53.47**
PEPM Forecast					
	2013	**2014**	**2015**	**2016**	
Dental Premium PEPM	$ 53.47	$ 54.76	$ 56.07	$ 57.42	

[193] Ibid, p. 38.

(b) **PEPM for Medical Insurance:**

For medical PEPM, whereas ORA agrees with Suburban's use of actual 2013 PEPM costs as a base year value, it does not agree with Suburban's use of the higher escalation factors of 7.40% and 5.70% for the Test year and Attrition Years, respectively. Unlike the dental PEPM, here Suburban assumed a constant level of 100 participants for medical insurance.[194] Therefore, the severity of volatility is reduced from the period-to-period values of medical PEPM as only the variations in the total medical costs are causing the changes in the medical PEPM.

Once Suburban calculated the medical PEPM in the amount of $1,285.21 for base year 2013, Suburban then employs an escalation factor of 7.40% to estimate the medical PEPM value of $1,380.32 for the year 2014, and an escalation factor of 5.70% to estimate the PEPM value of $1,458.99 for the Test Year 2015. Suburban claims that theses medical cost inflation factors are developed by the Kaiser Family Foundation in its April-2013 study.[195]

ORA, on the other hand, relied on the forecasts prepared by IHS Economics, a source for economic data the Commission has been routinely used to ascertain the level of inflation. IHS forecasts that healthcare costs will increase by 3.7% in year 2014 and 5.5% in year 2015, and 5.9% in year 2016.[196] These inflation factors are still higher than the CPI inflation factors listed in ORA's ECOS Escalation Memo.

ORA also conducted research into other recent articles and studies regarding health care cost. ORA found that medical cost inflation forecasts are fairly lower than the 7.40% used by Suburban. For example, in a recent annual survey by the global professional services company, Tower Watson and the National Business Group Health indicated that in year 2014 the medical costs

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[194] Ibid, p. 33.

[195] Ibid, p. 36.

[196] See Attachment-10.3, An excerpt of IHS Publication.

would increase by 4.4%. Similarly, the leading journal in health policy projects that healthcare costs will increase by 6.1% in 2014.[197]

Therefore, based upon the foregoing discussion, ORA recommends that Suburban's medical insurance PEPM should be $1,332.76 in year 2014, $1,406.06 in the Test Year 2015 and $1,489.02 in the Attrition Year 2016.[198]

5) General Liability Insurance and Other Insurances:

Suburban's parent company, Southwest keeps multiple insurance policies for its various subsidiaries and due to the obligations imposed by the non-utility operations under 11-service contracts which are served by one of its subsidiaries Southeast. Various insurance policies, such as General Liability, Workers' Compensation, Property, Auto, and Umbrella are included at the parent company level. The various insurance policy premiums are then allocated to various subsidiaries including Suburban based on various allocation factors. For example, the General Liability Insurance premium is allocated based on total revenues; Auto insurance premium based on number of automobiles; and Property Insurance premium is allocated based on gross assets of various subsidiaries.

More specifically, Suburban uses a grand total of $1,773,725 premium September 1, 2102 through August 31, 2013 at its parent company level[199] Suburban then uses a grand total allocated amount of $595,540 for its own operations in the year 2013.[200] Suburban then used these various allocations in

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[197] See Attachment-10.4, Copy of Tower Watson article and Screenshot of the Health Affair Journal's article.

[198] $1,285.21 x 1.037 = $1,332.76

$1,332.76 x 1.055 = $1,406.06

$1,406.06 x1.059 = $1,489.02

[199] Suburban's Witness Walter Bench Direct Testimony, Attachment-12. However, at ORA's inquiries during the discovery, Suburban submitted a revised Attachment -12 which shows the revised amount of $1,787,746 for the period September 1, 2103- August 31, 2013 and $1,697,802 for the period September 1, 2013 – August 31, 2104.

[200] Suburban's Workpapers, Excel Schedule titled, Insurance GRC.xls.

year 2013 to develop its forecasts for Test Year 2015 across three major categories: Injuries and Damages; Property Insurance, and Auto Insurance in the total amount of $617,404.

However, Suburban's workpapers do not present details of the calculations for these allocations which compelled ORA to issue a series of data requests to clarify these allocated amounts. For example, Suburban's witness Walter Bench in his direct testimony presented an attachment, Attachment-12 that only delineates the breakdown of the total premium between the various lines of insurance policies, but presents no information related to allocations toward the various subsidiaries including Suburban. Suburban's workpaper did include a schedule in Excel format, file titles, Insurance GRC.xls; however, this schedule also lacks the details about how the allocated quantities were assessed.

In the end, Suburban was able to provide the necessary information related to various insurance premium allocations toward Suburban due to ORA's intensive discovery efforts. After careful evaluation and scrutiny, ORA agrees that the requested allocations are reasonable, however, ORA recommends that in its next GRC, Suburban should include details of the complete records of insurance premium allocations and present the necessary related detail within its direct testimony.

6) Other Revenues---Non-tariffed Product and Services:

Suburban runs three distinct Non-Tariffed Product and Services (NTP&S): Residential Houseline Program; Antenna-Lease; and Recycled Water Operations. For the Test Year 2015, Suburban estimates total revenues of $501,461, $70,085, and $16,755 for the Residential Houseline Program, Antenna-Lease, and Recycled Water Operations, respectively. Suburban then splits the gross revenues between the shareholders and the ratepayers pursuant to D.11-10-034. Based on 90%-10% split in case of the active Residential Houseline Program, Suburban requests gross revenue allocations of $127,148 for ratepayers in Test Year 2015 while based on 70%-30% split for its passive NTP&S activities, Suburban requests gross revenue

allocations of $29,156 for Antenna-Lease and $7,006 for the Recycled Water operation. ORA disagrees with the requested amounts and instead recommends that in Test Year 2015 gross revenue allocations of $140,146, $72,188, and $17,040 for Residential Houseline Program, Antenna-Lease, and Recycled Water Operations, respectively.

According to D.11-10-034, Appendix-A, Rules, X.C.5 and X.C.6, if the utility with annual Other Operating Revenue (OOR) of $100,000 or more, revenue sharing should occur only for revenues in excess of that amount. All NTP&S revenue below that level shall accrue to the benefits of ratepayers. Suburban's workpapers do not explain the application of this $100,000 threshold and it appears that Suburban misapplied the $100,000 threshold. For example, Suburban's workpapers indicate that Antenna-Lease (Cell Tower) passive NTP&S program generates $72,188 in Test Year 2015; however, instead of accruing entire amount to the benefit of ratepayers pursuant to rule X.C.6, Suburban request only $30,000 for the ratepayers. Similarly, Suburban estimates that the Recycled Water Operations will generate gross revenue of $17,040 in Test Year 2015 but accrues only $7,117 to the benefit of ratepayers. For its Residential Houseline Program, Suburban estimates gross revenue of $501,461 in Test Year 2015, but accrues only $126,840 toward the ratepayers.

These calculations are rater very simple---one only has to reduce the $100,000 of gross revenue that is generated by these various NTP&S programs and then apply 90^-10% split of 70%-30% split accordingly. Therefore, in case of both Antenna-Lease (Cell Tower) and Recycled Water Operations, the threshold of $100,000 annual gross revenue is not reached, therefore pursuant to Rule X.C.6 the entire gross revenue should be accrued to the benefits of ratepayers.

In the case of Residential Houseline Program, as the estimated gross revenues are $501,461, the applicable gross revenues for the sharing would be only $401,461 after the $100,000 threshold is considered. Then the application of 90%-10% split to the adjusted amount of $401,461 would result in the amount of

$40,146 for the Suburban's ratepayers. Therefore, the total amount that should be accrued to the benefit of ratepayers due to the Residential Houseline Program is $140,146 instead of $126,840 as requested by Suburban. Following table summarizes the difference between the gross revenue splits as requested by Suburban and recommended by ORA:

Allocation of NTP&S Gross Revenues			
		Suburban	**ORA**
Residential Houseline Program		$ 501,461	$ 501,461
Antenna-Lease		$ 72,188	$ 72,188
Recycled Water Operations		$ 17,040	$ 17,040
		$ 590,689	**$ 590,689**
Percent Allocation to Ratepayers			
10%	Residential Houseline Program	$ 126,840	$ 140,146
30%	Antenna-Lease	$ 30,000	$ 72,188
30%	Recycled Water Operations	$ 7,117	$ 17,040
		$ 163,958	**$ 229,374**
Percent Allocation to Shareholders			
90%	Residential Houseline Program	$ 374,621	$ 361,315
70%	Antenna-Lease	$ 42,187	0
70%	Recycled Water Operations	$ 9,923	0
		$ 426,731	**$ 361,315**

7) Affiliate Transaction Rule Expense Allocations:

A close evaluation of Suburban's application also reveals that Suburban has requested a credit amount of $113,377 in Test Year 2015 as a cost reduction due to Affiliate Transaction Rule expense allocations. However, Suburban fails to produce any supporting testimony regarding these credit amounts. Upon ORA's inquiry, ORA data request, AMX-05, Suburban finally provided additional details to support these estimates. The Test Year 2015 estimates are based on an amount of $108,000 in year 2012 and estimated forward-based on traditional CPI index. The base year amount of $108,000 is comprised of direct expenses of Suburban's employee (s) assisting its affiliates and under ATR II.F.1 and X.E.6 and are required to be reported. After careful evaluation of Suburban's workpapers and responses it has provided against ORA's several data requests, ORA finds these allocation credits reasonable. However, ORA strongly recommends that Suburban must provide reasonable amounts of direct testimony and other pertinent details regarding its Affiliate Transaction Rules related to expenses and credits.

D. CONCLUSION

ORA has carefully reviewed Suburban's direct testimony and related workpapers to evaluate Suburban's various requests related to its parent company, Southwest's cost and cost allocations and various insurance allocations. Suburban estimated that its parent company allocable costs for the Test Year 2015 would be reduced mainly due to the recent corporate strategy to remain focused on its core competencies. The recent corporate strategy forced the parent company to right size its operations and resources. Perhaps this was the main reason, Southwest decided to divest from its service segment, known as "Non-Utility" group which was mainly responsible for serving various service contracts. All but 11 such service contracts remain.

However, the cost allocation issues remain contentious as the 11 remaining service contracts are now serviced directly by one of the Suburban's affiliates, Southeast, which itself is a utility and hence these service contracts are now served by a "Utility" and not by a "Non-utility." Thus, this makes Suburban's traditional use of the 4-factor for the purpose of "Utility Group" costs allocations unreasonable as the Southeast's operations now extended to the service of these 11-contracts and the 4-factors must include the information pertaining these 11 service contracts that are consistent with that of Suburban and its other affiliates

In addition, Suburban's proposed 2-factor cost allocation methodology for its parent company costs also results in cross subsidization by its captive ratepayers and should be rejected. Similarly, Suburban continues to provide inconsistent information regarding traditional four allocation factors, and therefore, cannot be considered appropriate for assessing the fair allocations between the various subsidiaries including Suburban. Therefore, based on the best available information, ORA proposed using 3-allocation factors resulting in more reasonable cost allocations as they mitigate the risk of cross subsidization.

Suburban's forecasts for Medical and Dental Insurance are higher than the industry expectations and thus are adjusted downward to match industry expectations. Suburban's costs estimates for the Injuries & Damages insurance, and Property insurance policies are reasonable.

Suburban's estimates for the Other Revenues pursuant to NTP&S are found to be unreasonable as Suburban's workpapers are not clear and Suburban serves no supporting direct testimony to explain its methodology. It appears that Suburban has misapplied the gross revenue sharing NTP&S Rule X.C.6

Lastly, it was found that generally, Suburban's application lack necessary supporting details and direct testimony. For example, various insurance allocation details were missing and not until after ORA's intensive discovery efforts, did they finally provide the information. Suburban must provide all pertinent details and supporting documentation within its GRC application and not wait until discovery. It should be noted that Suburban has similar issues in its last GRC application. If the problem persists, Suburban should face the risk of disapproval of its requests in its future GRC application pursuant to the Commission rule Section 454 (a). It is the utility that has to justify any new rate. The burden of proof rests with Suburban not with ORA.[201]

[201] Commission Decision regarding last Suburban's GRC application, D.12-04-009, p.16

ATTACHMENT-10.1

1 _____

Suburban
Water Systems
A SouthWest Water Company
1325 N. Grand Ave. Ste. 100, Covina, CA 91724-4044
Phone: 626.543.2500, Fax: 626.331.4848
www.swwc.com

March 27, 2014

Mehboob Aslam
California Public Utilities Commission
320 W. 4th Street, Suite 500
Los Angeles, CA 90013

Subject: Response to ORA Written Data Request AMX-01, items 1 – 8

Dear Mr. Aslam,

Attached is the information you requested in writing for Suburban's Total Company General Rate Case.

Sincerely,

/s/Robert L. Kelly

Robert L. Kelly
Vice President, Regulatory Affairs

Response to DRA Written Data Request AMX 01 – 3/13/14

1. For Suburban's parent company, Southwest, prepare a schedule in MS Excel with proper linking showing the following costs for the years 2012 and 2013:

    a. Total Southwest costs
    b. Directly Charged costs to all affiliates and subsidiaries. If the direct costs were not charged and were allocated, then explain the basis for such allocations and provide the pertinent information regarding the allocation rates and the allocation bases.
    c. Southwest costs that are allocated based on 2-factor/4-factor to the Suburban Water Systems, Texas, Texas Utilities, Southeast Utilities, and the 11-conracts under the Service operations.
    Response a – c:
    Please see "AMX-01 Response 3-27-14.xls" for 2012. 2013 is not available.

    d. Reconcile the total Southwest costs that are directly charged and allocated under item 1(a) and 1(b) above.
    Response:
    Direct costs (1(b)) are subset of total SouthWest costs (1(a)), and therefore reconciling the two categories is not possible.

2. For the 5-Information Technology (IT) new positions, prepare a schedule showing:

    a. Job Description
    Response:
    Please see Attachment No. 1 for job descriptions.

    b. Details of the duties actually performed
    Response:
    Details of the duties actually performed are as follows:
    - Two Billing Support Analysts, type of work includes:
        - Configuration and support for billing application and processes
            - Billing Rate Requirement Analysis, Rate Design, Rate Configuration / Development, Rate Setup / Testing in the Development and Quality Environments, Regression Testing and Knowledge Transfer. - Depth of configuration experience with Billing Processes within ISU-CCS Application
            - Configured ERP
            - Testing and production support and delivery
            - Functional and technical specification development
            - Develop system requirements, design and prototyping, defining support procedures, and implemented practical business solutions
            - Support bill print process
        - Customer billing analysis

        - Answer client process questions relating to technical aspects of manual billing, contract billing, invoicing and interfaces
        - Troubleshoot and resolve billing module problems
        - Work with Metavante software

- Two Billing and Collections Analyst, type of work includes:
    - Configuration and support for collections
        - Completes special projects assigned by the billing supervisor
        - Review processes and wrote clear standard operating procedures
        - Initiate service orders for billing related fieldwork
    - Customer collections analysis
        - Set up and disconnect account services
        - Enter rate and usage adjustments to accounts
        - Research accounts and compile paperwork for deposit refunds and collection requests
        - Apply system adjustments
        - Verify accuracy of district deposits, bill adjustments, and maintenance of customer deposit liability

- One IT Asset Manager, type of work includes:
    - Manage deployment of end user facing technologies
        - Build standard images for desktop and laptop computers and lead image testing program prior to deployment
        - Configure and installed desktop/laptop computers, peripherals, and software
        - Work closely with Technical Infrastructure team to resolve issues that overlap IT and Client Services areas of responsibilities
        - Assign, resolved and closed help desk tickets related to desktop support and Client Services
        - Respond to client requests for desktop support assistance (this position is expected to work desktop support issues approximately 25% of the time, with the remaining time allocated to Asset Management and other project tasks)
        - Provide team leadership for Houston-based desktop support personnel
        - Maintained accurate records that ensure compliance with software licensing
        - Ensure compliance with all applicable SWWC ITGC audit standards, including but not limited to policies and procedures and access to programs and data
        - Identify and stayed up-to-date with current technology trends and issues affecting areas of responsibility
        - Assist in onboarding and training new team members
        - Maintain collegial and professional working relationship with customers as well as IT staff and management in order to maximize effectiveness in discharging job duties

1

- Make independent decisions and performed job duties with minimal supervision, escalating issues to Client Services Manager when appropriate

- Track IT assets (Cell Phones, Laptops, Local Hardware)
  - Manage lease schedules for leased IT assets and worked closely with leasing companies
  - Track and maintain company-owned and leased IT assets
  - Obtain vendor quotes and worked closely with vendor representatives for procurement, repair, and maintenance of assets
  - Recommend process improvements; recommended upgrade or replacement of IT assets as needed

c. Contrast, or explain the differences between the job details under items 2(a) and 2(b) above.
Response:
For Billing Support Analyst, shortly after conversion, one position performs additional work primarily to aid reconciliations between legacy and ERP billing system for Texas Utilities. The only difference between 2(a) and 2(b) duties above for Billing Support Analyst is "Training" which is performed by an outside consultant and the additional work to aid legacy reconciliations. For billing and collections analyst; there are no differences between 2(a) and 2(b) above. For IT Asset Manager the only difference between 2(a) and 2(b) is they assist desktop support personnel.

d. Explain if there is any other IT staff hired at Southwest that provides for the IT related needs of Southwest? If not, then explain how the IT-related needs of Southwest are fulfilled?
Response:
In 2012 there were 19 indirect IT staff as shown in Exhibit II of Walter Bench's testimony.

e. Explain why the cost related to the 5-IT positions are not directly charged based on the IT related services provided to the needs of Suburban Water Systems, Texas Utilities, Southeast Utilities, and 11 service contacts.
Response:
The 5-IT positions are directly charged as stated in 1.b. response above. The 5 IT positions do not serve the 11 contracts, for example; there is an individual at Southeast Utilities dedicated to billing for the 11 contracts.

f. Explain why Suburban believes that the Number of Customers is the most appropriate allocation base for the purpose of allocating cost related to the 5-IT positions.
Response:

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Number of customers is the most appropriate direct charge basis for purposes of allocating cost related to the 5-IT positions because they correlate to the billing, collection and asset management services provided to each utility.

g. Explain why the traditional 4-factors are not employed for the allocations.
Response:
Pursuant to 1956 4-Factor Memo regarding Initial Direct Assignments:
"It is especially important that effective measures be taken to assure that as many of these expenses as possible are assigned directly".

We were able to identify these 5-IT positions as being directly charged based on number of customers as a cost driver.

3. Provide the copies of the 11-Service contracts.
Response:
Please see "CONFIDENTIAL CONTRACTS" by visiting Manatt extranet.
THIS INFORMATION IN THE DATA REQUEST RESPONSE IS CONFIDENTIAL AND IS PROVIDED ONLY TO ORA PERSONNEL ASSIGNED TO A.14-02-004. THIS INFORMATION IS PROVIDED PURSUANT TO P.U. CODE 583.

4. Provide the Number of Customers (actual end-users) served under each 11-service contracts.
Response:

Contract Name	# of End User
Double Oak Water Reclamation	3,317
Weatherly Utilities	865
ECO	399
Capstone Utilities	303
Cliffs	Not available
Drummond Corp.	Not available
Enviro Services	Not available
Jefferson County BOE	Not available
Moody PSC	Not available
Shelby County Commission	Not available
Vanguard	Not available

5. Provide the value of gross plant of the entities served under each 11-service contracts.
Response:
Not Available

6. Provide the value of "Direct Operating Expenses"---excluding uncollectible, general expenses, depreciation and taxes incurred in serving the 11-setvice contracts.
Response:

1

$1,793,205

7. Provide the value of Number of Employees (using direct operating payroll, excluding general office payroll, as the best measure) utilized in serving the 11-service contracts.
   Response:
   $433,696

8. Identify what entity (parent company, affiliates, or sister subsidiary) is utilized to provide the actual services under the 11-contracts.
   Response:
   Southeast Utility Group.

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2

ATTACHMENT-10.2

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Suburban
Water Systems
A SouthWest Water Company
1325 N. Grand Ave. Ste. 100, Covina, CA 91724-4044
Phone: 626.543.2500, Fax: 626.331.4848
www.swwc.com

May 2, 2014

Mehboob Aslam
California Public Utilities Commission
320 W. 4th Street, Suite 500
Los Angeles, CA 90013

Subject: Response to ORA Written Data Request AMX-03 Follow-up

Dear Mr. Aslam,

Attached is the information you requested in writing for Suburban's Total Company General Rate Case.

Sincerely,

/s/Robert L. Kelly

Robert L. Kelly
Vice President, Regulatory Affairs

1

Response to DRA Written Data Request AMX 03 Follow-up – 4/16/14

1. On March 7, 2014 during a meeting here at ORA's offices in Los Angeles, Suburban witness, Mr. Walter Bench explained that premiums of various insurances are allocated to different subsidiaries based on the same criteria as used by the brokers or insurance companies to assess these premiums. Please provide the copies of Southwest's workpapers showing such calculations of insurance related cost allocations to various subsidiaries. If no such documents exist, explain why not? And how these allocations are assessed without such calculations?
   Response:
   Attached is Attachment 12 (see file "AMX-03 Follow-up Response - Updated Attachment 12.xlsx") to Walter Bench's testimony which has been updated to include premiums for the policy period September 1, 2013 - September 1, 2014. Attached Attachment 12 has also been revised for a minor revision to Contractors Pollution premium to account for a premium reduction of $8,051 which was found and a reallocation of Contractors Pollution premium that was made in policy periods September 1, 2011 - September 1, 2012 and September 1, 2012 - September 1, 2013 (see file "AMX-03 Follow-Up Response - Insurance Premiums Allocations Policy Periods 2011-12 2012-13.xlsx"). The affected Contractors Pollution premiums have been highlighted on the referenced updated and revised Attachment 12. Also attached are SouthWest's workpapers which identify lines of coverage, premiums associated with each line of coverage, and premium allocation methodology and allocations for each line of coverage to various subsidiaries for the policy periods September 1, 2011 – September 1, 2012 and September 1, 2012 – September 1, 2013.

2. Your previous response to ORA's Data Request, Question1.b indicates that various insurances' premiums do take into account the various features of the 11 service contract into account. For example, Worker Compensation insurance premiums for example are allocated based on all wages eligible, including wages eligible associated with the 11 contracts. Similarly, pre-paid General Liability /Umbrella/Pollution premiums are allocated based on all revenue, including the revenue associated with 11 contracts. Please provide the following information:

   a. Prepare a schedule in MS Excel that is properly linked and shows the following details:

      i. List of all the insurances listed on the Attachemnet-12 of Walter Bench's Direct Testimony and within Suburban's workpapers (Cell D2394, and Cells: D2411-D2419).
      ii. All the allocations basis and amount of allocations toward the following subsidiaries and entities: Suburban Water Systems; Texas Utilities; Southwest Utilities, 11- entities served under each of 11-service contract, and the Residential Houseline Program.
      iii. The same allocation data for the last 5-year period.

   Response i - iii:
   Please see attached file "AMX-03 Follow Up Response Q.2.xlsx" for years 2009 through 2012. 2013 data is not available.

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SouthWest Water Company
Insurance Premium/Allocation
Policy Period 9/1/12 - 9/1/13

	Gen Liability		Worker's Comp & Fees		Auto		Property		Broker Fees**	Premises Pollution	
	8/2012YTD revenue	% split		% split PER BUDGET	8/2012 # vehicles	% split	Replacement Cost*			per 2013 budgeted revenue	
SUB	$1,949	59.5%	5,219	31%	100	22.2%	159,820,881	39.2%		77,092	56.9%
TXU	26,666	30.5%	3,801	25%	96	21.3%	138,212,445	33.9%		44,310	32.7%
SEU	8,682	9.9%	478	12%	20	4.4%	94,995,574	23.3%		14,168	10.5%
DISCO****	-	0.0%	-	0%	233	51.8%	14,677,428	3.6%		-	0.0%
Corp	-	0.0%	3,738	32%	1	0.2%	-	0.0%		-	0.0%
Total	87,297	100.0%	13,236	100.0%	450	100.0%	407,706,328	100.0%		135,570	100.0%

*Based on 2010-11 renewal Statement of Values.
**Broker fees allocated based on the weighted average of all other costs for each SBU.
*** Claim handling fees allocated based on a weighted average of WC and auto allocations.
****DISCO = Discontinued Operations

***Claim Handling Fees

Policy		Invoice Total	GL Acct	% Split SUB	TXU	SEU	DISCO	Corporate	Annual $ Split SUB	TXU	SEU	DISCO	Corporate
Workers' Compensation		$ 203,639	613100	31%	25%	12%		32%	$ 62,628	$ 50,412	$ 25,349	$ -	$ 65,249
Business Auto		$ 179,900	655090	22%	21%	4%	52%		39,978	38,379	7,996	93,148	0
Claims Handling Fees		$ 21,481	613100	31%	25%	12%		32%	6,606	5,318	2,674	0	6,883
Claims Handling Fees		$ 18,977	655090	22%	21%	4%	52%		4,217	4,048	843	9,826	0
Premises Pollution	a	$ 324,377	655080	57%	33%	10%			61,486	35,340	11,300	0	0
Travel		$ 5,990	655060					100%	0	0	0	0	5,990
Property		$ 523,663	655070	39%	34%	23%	4%		205,276	177,522	122,013	18,852	0
Primary Liability		$ 174,873	655050	60%	31%	10%			104,064	53,417	17,392	0	0
Umbrella Liability		$ 215,659	655080	60%	31%	10%			128,335	65,876	21,448	0	0
Crime		$ 6,154	655060					100%	0	0	0	0	6,154
Directors & Officers, EPL		$ 63,173	655020					100%	0	0	0	0	63,173
Directors & Officers - excess		$ 20,100	655020					100%	0	0	0	0	20,100
Fiduciary		$ 4,593	655060					100%	0	0	0	0	4,593
Broker Service Fee		$ 190,000	655040						74,856	52,583 #	25,541	14,887	22,134
Finance Charge		$ 8,989	700100					100%	0	0	0	0	8,989
Contractor's Pollution (over 2 yrs)		$ 16,021	655080				100%		0	0	0	16,021	0
Contractor's Pollution (over 2 yrs)		$ 59,333	655080				100%		0	0	0	59,333	0
Workers' Compensation	b	$ 35,708	613100	31%	25%	12%		32%	10,982	8,840	4,445	0	11,441
Business Auto	b	$ 4,754	613100	22%	21%	4%	52%		1,056	1,014	211	2,462	0
		$ 2,077,384							$ 699,485	$ 492,749	$ 239,212	$ 214,528	$ 214,706
													$ 1,860,681

a 3 year policy 108,126 per year
b audited wc adjustment for policy end 2012 paid and allocated in 2011

Reconciliation to Attachment 12:

Premises Pollution	$ (216,252)	Invoice of $324,377 applies for a three year policy period ($324,377/3 = $108,126 allocated to each policy period
Contractors Pollution	(16,905)	$216,252 is allocable to two remaining policy periods ($108,126 x 2 = $216,252
Contractors Pollution	(16,021)	
Workers Compensation	(35,708)	
Business Auto	(4,754)	
2012-13 Premium	$ 1,787,744	

general ledgr	$ 1,865,492
difference	$ (4,812)

ATTACHMENT-10.3

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IHS™ **Economics**

US Economic Outlook

April 2014

Created on 15 Apr 2014 for Thomas Renaghan

The weather clears, inventories move, and growth ensues

by Doug Handler and Nariman Behravesh

Highlights

- The especially adverse winter weather and the subsequent return to normalcy will drive the pattern of economic growth in the first and second quarters.
- The offset from an unusually large inventory build during the second half of 2013 and corrections for unusual capital spending and export patterns in the fourth quarter will impede growth in the first half of 2014.
- The widened trade deficit in the February data also contributes to reduced first-quarter growth.
- Forecasts of housing starts and existing home sales for 2014 and 2015 have been reduced, reflecting weakness in permits, less builder optimism, and rising materials costs.
- Growth in the second half of 2014 will be better than in the first half, averaging 1.8% during the first two quarters of the year and 2.6% in the latter two quarters.

Analysis

The forecast for real GDP growth in the first quarter has been reduced to 0.9% from last month's 1.4%. The storyline on why the quarter will be relatively weak remains in place with three factors depressing growth: the weather, reduced inventory gains, and corrections for unusual capital spending and export patterns at the end of last year. Additionally, a weak international trade report and weaker-than-expected housing data have driven the downward revision.

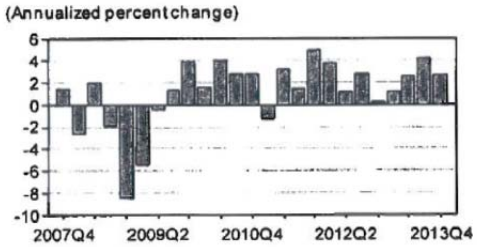
The economic areas that were influenced by the weather appear to be resolving themselves now, whereas the other factors should fully run their course by mid-year. One of the sectors most affected by the weather is automobiles. March's light-vehicle sales data of 16.3 million units (annual rate), up from 15.3 million in February, confirm both the importance of the weather issue and that the underlying strength of the economy will emerge with the spring daffodils. Automobile sales will remain strong in the second quarter and will look especially positive compared with the earlier quarter.

Usage of natural gas spiked during the cold first two months of the year, well beyond winter norms. Therefore, the springtime decline in usage will be a drag on growth in the second quarter. Healthcare spending grew rapidly in January and February due in part to the operational kickoff of the Affordable Care Act and the increased utilization of the healthcare system. Healthcare spending will continue to grow in 2014, but not at the same rate as in the first quarter.

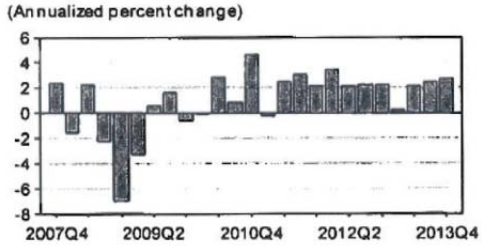
In 2013, inventory growth contributed an average of 0.8 percentage point of real GDP growth per quarter—well above its long-term trend. For the first two quarters of 2014, we expect this trend to be reversed, with reduced inventory gains subtracting about 0.7 percentage point of growth in each quarter.

A significant forecast change this month involves the housing market and residential construction, shaving

Real GDP growth
(Annualized percent change)



Real final sales growth
(Annualized percent change)



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standard. Only a handful of countries have seen such a sharp increase in debt in such a short amount of time. None of them avoided either a major credit crisis or a sharp slowdown in growth.

2. Since 2010, Chinese officials have tried to restrain credit expansion by the banking system—and partially succeeded. This has led to explosive growth in shadow banking activity, to the extent that by the end of 2013 such institutions were financing almost as much as the banks (compared with a very small amounts before 2008). This poses a systemic risk to China's financial system, because it is difficult to estimate the extent of the nonperforming loan problems in the shadow banks due to their very opaque accounting practices.

3. Much of the credit expansion was allocated via political connections to state-owned enterprises and local governments. A significant portion was used for speculative real estate ventures (not always in regions where there were housing shortages), infrastructure investments (not necessarily where the need was the greatest), and increasing manufacturing capacity (in industries such as chemicals, steel and aluminum, where there is already some excess capacity). Ironically, even as this credit binge was occurring, small-and medium-sized companies were starved for credit.

The trouble is that as growth slows in China, the problems of excess capacity, nonperforming loans, and general financial stress will worsen.

Analysts who are not worried about a hard landing for China cite its exceptionalism, including low levels of central government debt, high levels of foreign-exchange reserves and domestic savings, and a current-account surplus. While these defenses will probably help China avoid a financial meltdown, they probably won't prevent a growth slowdown. Other countries such as Japan, Malaysia, and Taiwan had comparable defenses under similar circumstances and still suffered deeply. It is also important to remember that China has extracted itself from similar financial predicaments in the past (e.g., in the mid-1990s). Nevertheless, this time around the debt overhang is considerably bigger, and its resolution is complicated by the much larger role of shadow banks, over which the central government only has limited control.

The extent of China's slowdown will depend on the policy response by the central government. In a "tough love" scenario, the government would give a high priority to reducing the debt overhang, curtailing the activities of shadow banks, and other reforms. Growth could fall as low as 3% or 4% for a couple of years. In a "blink" or "back to the future" scenario, the government would give a higher priority to growth, enacting whatever stimulus measures are necessary. The IHS baseline view is a blend of these two scenarios, although there is mounting evidence that the government is becoming more worried about growth than reforms, and has already begun implementing stimulus measures. However, by "kicking the can down the road," China's leaders will likely only delay the inevitable and potentially make things worse, in the long run, by not dealing with the addiction to debt soon enough.

Who is vulnerable?

The same countries and industries that benefitted from China's boom would also likely suffer if there were a Chinese bust. For example, China now consumes over the 40% of the world output of the following commodities: chemicals, coal, iron ore, aluminum, nickel, steel, and copper. Countries with the highest export exposure include commodity-exporting economies (including Mongolia, Australia, Brazil, Chile, and many in Africa), and a majority of China's Asian neighbors (including Japan, Malaysia, South Korea, Taiwan, and Vietnam). On the other hand, direct financial exposure to China is fairly limited, with the exception of Hong Kong and Singapore. Finally, contagion from a nasty Chinese scenario could engulf emerging markets with twin deficits and high leverage. The direct vulnerability of the United States to the Chinese economy is fairly limited. However, a broader China-induced global slowdown could deal a blow to United States by impacting worldwide growth.

US GDP analysis

Current quarter and one quarter ahead: The second revision of GDP showed that growth increased to a 2.6% annual rate, up from 2.4% last month, but still down sharply from the initial report of 3.2%.

The most important change in the revision was the incorporation of the Quarterly Services Survey (QSS) from the Census Department. The new data showed an increase in healthcare spending during the fourth quarter, effectively "stealing" growth from IHS's first-quarter forecast. Software investment also slowed, based on the QSS data, suggesting that the sector was not as vibrant as was previously reported.

Our forecast pattern for the first and second quarters is dominated by the weather. Sales of natural gas (a consumer service) surged in January and increased again

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February, growing from an annualized rate of $46 billion in December to $77 billion in February (nominal dollars). The return to normalcy in spring will be a drag on growth in the second quarter. In contrast, motor vehicle sales were impacted by the weather throughout most of the winter. New data in March showed sales surged to the highest volume since 2007. A generally strong sales pattern will persist in April and beyond. Construction contracts and consumer spending on many discretionary items will also experience this saw-tooth pattern in the near future. The GDP components of inventories, exports and imports also react to surges and contractions in many of the weather-related goods categories, exacerbating their short-term impact.

As noted in the Analysis section, we have reduced our 2014 and 2015 forecast for single-family housing starts and existing home sales. While this move has its most profound impact on residential investment, it also affects many areas of home-related consumer spending and the commissions of real estate agents.

Consumer spending and income: Fourth-quarter growth in real personal consumption expenditures was revised up from 2.6% to 3.3%, mostly due to stronger spending in healthcare services. However, there was a significant downward revision to retail sales used to estimate consumer spending for January, and a tepid 0.2% increase in overall real spending for February. Our first-quarter real spending growth is currently standing at 1.9%, compared with our 2.6% growth from last month's forecast. We expect 2014 to outpace 2013 on the spending, income, and consumer confidence fronts. Growth in real consumer spending is likely to run in the 2.4-3.3% range for all years between 2014 and 2016.

Business investment spending: The jump in aircraft investment in last year's fourth quarter continues to be the dominant feature of the short-term business investment forecast. This added around $12 billion to real growth at the end of last year. Because this is hugely out of line with the previous 10 years of history, we have assumed that aircraft investment returns to its trend rate in the first quarter. Besides this very short-term drain on growth, investment in most other equipment areas will remain firm throughout 2014.

The latter half of 2013 was characterized by a very large nonfarm inventory build, particularly at the wholesale and retail levels. Relatively weak consumer spending on goods in the first quarter will slow the process of working down these stockpiles, but more significant inroads will be made during the second quarter. For the remainder of 2014, inventory growth should be a neutral contributor to the forecast.

Housing: This month's forecast change to single-family housing starts and existing home sales is detailed in the Analysis section. Changes to the multifamily sector forecasts were minor. Even with the changes, residential investment growth will contribute more than 0.5 percentage point of real GDP growth in each quarter between the second quarter of 2014 through the fourth quarter of 2015. Since we expect investor bidding to slow and credit concerns to prevent some families from entering the market, prices should face less upward pressure: we now anticipate the median price of an existing home to be about 2% lower than we had previously expected by the end of 2015. Modest price growth of 1-3% per year ensues over the 2016-17 period.

International trade: Gains in net exports contributed one percentage point of growth to real GDP in the fourth quarter, mostly though export growth, traceable to outsized gains in food products and industrial commodities. Overall, real exports grew at a 9.5% annual rate during the end of last year, with no real catalyst from exchange-rate movements or the economic growth of key US trading partners. For the first quarter, exports will remain strong, holding on to most, but not all of this growth, falling at a 2.3% annual rate. This is broadly consistent with the export data from first two months of international trade data from the Department of Commerce.

Real imports grew at only a 1.5% annual rate in the fourth quarter and are expected to fall very slightly in the first quarter. A substantial increase in imports of petroleum products will be offset by declines in computer, consumer goods, and automobile imports.

Beginning in the third quarter this year and lasting though 2015, the real trade deficit will be a drain on economic growth, subtracting about half a percentage point from GDP growth per quarter. Most of this deterioration will be due to rising imports from faster economic growth and improved consumer and business demand conditions. On a balance-of-payments basis, this deterioration will be minor as the deficit rises from a projected 1.8% of GDP in 2014 to 2.3% in 2016.

Government spending: The sequester-driven, lower federal government growth trajectory that began during last year's fourth quarter will continue into 2014 and beyond. In fact, real spending is forecasted to fall 0.4% per year through 2024. Unadjusted for inflation, government purchases still will grow at only a 1.0% rate for

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Recent developments

Three key pieces of information—autos, employment, and retail sales—were necessary to determine if the economy was thrown for a loop over the winter weather, or if the weather was simply a disguise for underlying weakness. In March, all three areas made a decisive comeback, allowing us to declare that the winter weakness was indeed weather-related.

For retail sales, the increase was broad based. Moreover, February was significantly stronger than originally thought, based on revised data. There were significant gains posted by autos, furniture, building material, clothing, and general merchandise stores, as well as restaurants and nonstore retailers. Based on calculations done after this forecast was released, we have upped our real consumer spending growth in the first quarter to 2.1%, from the 1.9% in our current forecast, due to the recent March retail sales report.

Our most current view of consumer mood comes from the Reuters/University of Michigan's mid-April Consumer Sentiment Index, which increased after falling in March—the current conditions subindex maintained its solid improvements relative to last year, but the expectations subindex rebounded after taking a hit in February. The Conference Board's March Consumer Confidence Index soared to its highest level since January of 2008. Consumers feel relatively good about where they are today, but remain cautious about tomorrow, and their perspective changes from month to month.

Personal income and spending gained 0.3% in February, while wages and salaries were up 0.2%. The saving rate edged up to 4.3%, as real (inflation-adjusted) spending was up 0.2%. Overall consumer prices were up 1.1% year over year (y/y), and core prices were up 1.6% y/y. Despite growth in retail sales, consumers paid down credit-card debt in February, possibly the result of stronger tax refunds relative to last year. However, consumers took on new nonrevolving debt at the fastest rate in a year, likely in the form of student loans.

Outlook

Our forecast for first-quarter growth in real consumer spending is at 1.9% (annual rate), with particular weakness in durables. However, the March retail sales report—released after we published our forecast—implied slightly stronger spending gains in the first quarter. For all of 2014, growth should be 2.4%, a bit stronger than the 2.0% pace in 2013, despite the weakness in the first quarter of the year. Spending on durables should make a strong comeback in the second quarter mostly due to positive payback on the autos front. Spending on services growth is likely to be weaker after the first quarter—since spending on healthcare services and natural gas was strong due to the Affordable Care Act and unseasonably colder winter weather, respectively.

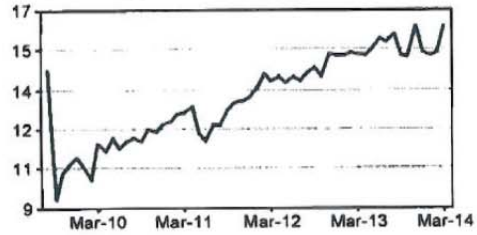
Risks to the forecast

In the pessimistic scenario (probability of 20%), weak global growth stalls the US economic recovery and real consumer spending increases just 1.6% in both 2014 and 2015.

In the optimistic scenario (probability of 20%), the recovery reignites and real consumer spending advances 3.0% in 2014 and 4.1% in 2015.

Light-vehicle sales bounce back

(Millions of units)



Revolving consumer credit outstanding

(Billions of US dollars)

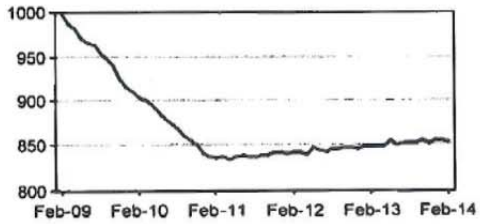


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TABLE 3
Productivity and Costs

	2013:4	2014:1	2014:2	2014:3	2014:4	2015:1	2013	2014	2015	2016	2017	2018	2019
Index, Seasonally Adjusted													
Nonfarm Business Productivity & Costs (2009=1.000)													
Output per Hour	1.067	1.068	1.071	1.072	1.073	1.076	1.058	1.071	1.080	1.095	1.113	1.134	1.159
Compensation per Hour	1.098	1.103	1.111	1.120	1.128	1.138	1.091	1.115	1.152	1.194	1.238	1.285	1.334
Unit Labor Costs	1.029	1.033	1.037	1.045	1.051	1.058	1.031	1.041	1.067	1.090	1.112	1.133	1.150
Manufacturing Output per Hour	1.117	1.120	1.134	1.144	1.157	1.168	1.112	1.139	1.185	1.230	1.270	1.310	1.359
Durable Goods Industries	1.217	1.222	1.238	1.253	1.272	1.289	1.205	1.246	1.318	1.388	1.451	1.515	1.590
Nondurable Goods Industries	1.052	1.051	1.063	1.070	1.076	1.081	1.052	1.065	1.088	1.107	1.127	1.145	1.170
Employment Cost Index (Dec 2005=1.000)													
Total Compensation	1.196	1.204	1.211	1.218	1.225	1.234	1.187	1.215	1.246	1.281	1.319	1.359	1.400
Wages	1.191	1.198	1.204	1.211	1.218	1.225	1.182	1.208	1.236	1.266	1.299	1.333	1.368
Benefits	1.209	1.219	1.227	1.235	1.244	1.255	1.200	1.231	1.269	1.316	1.366	1.421	1.477
Health Insurance	1.377	1.390	1.403	1.425	1.443	1.463	1.365	1.415	1.492	1.580	1.674	1.764	1.844
Percent Change, SAAR													
Nonfarm Business Productivity & Costs													
Output per Hour	1.8	0.4	1.2	0.2	0.6	0.8	0.5	1.3	0.8	1.4	1.6	1.9	2.2
Compensation per Hour	1.7	1.7	2.9	3.2	3.1	3.6	1.6	2.3	3.3	3.6	3.7	3.8	3.8
Unit Labor Costs	-0.1	1.3	1.7	3.0	2.5	2.8	1.1	1.0	2.5	2.1	2.0	1.9	1.5
Manufacturing Output per Hour	1.3	1.0	5.0	3.8	4.3	3.8	1.8	2.4	4.1	3.7	3.3	3.2	3.7
Durable Goods Industries	3.0	1.8	5.4	4.8	6.2	5.5	2.7	3.4	5.7	5.3	4.5	4.5	4.9
Nondurable Goods Industries	-0.1	-0.1	4.5	2.7	2.1	1.8	1.1	1.2	2.1	1.8	1.8	1.6	2.1
Employment Cost Index													
Total Compensation	2.0	2.7	2.4	2.4	2.3	2.7	1.9	2.3	2.6	2.8	2.9	3.0	3.1
Wages	2.4	2.2	2.3	2.2	2.2	2.3	1.9	2.2	2.3	2.5	2.5	2.6	2.7
Benefits	2.0	3.2	2.6	2.9	2.8	3.5	2.0	2.6	3.1	3.6	3.8	4.0	4.0
Health Insurance	2.3	3.9	3.8	6.4	5.2	5.7	2.7	3.7	5.5	5.9	5.9	5.3	4.5

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TABLE 1

Prices and Wages

	2013:4	2014:1	2014:2	2014:3	2014:4	2015:1	2013	2014	2015	2016	2017	2018	2019
Indexes													
Employment Costs (Dec 2005=1.000)	1.196	1.204	1.211	1.218	1.225	1.234	1.187	1.215	1.246	1.281	1.319	1.359	1.400
Wages & Salaries	1.191	1.198	1.204	1.211	1.218	1.225	1.182	1.208	1.236	1.266	1.299	1.333	1.368
Benefits	1.209	1.219	1.227	1.235	1.244	1.255	1.200	1.231	1.269	1.316	1.366	1.421	1.477
Health Insurance	1.377	1.390	1.403	1.425	1.443	1.463	1.365	1.415	1.492	1.580	1.674	1.764	1.844
Consumer Prices (1982-84=1.000)													
All-Urban	2.341	2.352	2.364	2.381	2.393	2.400	2.330	2.372	2.410	2.446	2.492	2.545	2.596
Core (excl. Food & Energy)	2.352	2.361	2.374	2.389	2.403	2.416	2.338	2.382	2.433	2.477	2.524	2.574	2.624
Commodities	1.471	1.468	1.467	1.470	1.473	1.476	1.473	1.470	1.480	1.495	1.510	1.525	1.540
Nonenergy Services	2.888	2.905	2.927	2.950	2.972	2.992	2.864	2.938	3.016	3.081	3.149	3.222	3.295
Food	2.380	2.394	2.413	2.424	2.432	2.436	2.370	2.415	2.444	2.483	2.530	2.579	2.630
Energy	2.440	2.460	2.459	2.499	2.497	2.445	2.444	2.479	2.403	2.364	2.398	2.497	2.562
Energy Commodities	3.052	3.100	3.043	3.088	3.078	2.976	3.074	3.077	2.909	2.865	2.889	2.969	3.054
Energy Services	1.960	2.015	2.070	2.109	2.114	2.110	1.948	2.077	2.090	2.053	2.100	2.226	2.277
Producer Prices, Stage of Processing (1982=1.000)													
Finished Goods	1.973	1.991	2.000	2.009	2.010	2.007	1.966	2.003	2.005	2.018	2.048	2.096	2.133
Core (excl. Food & Energy)	1.858	1.870	1.880	1.888	1.895	1.902	1.851	1.883	1.911	1.940	1.972	2.006	2.040
Food	2.036	2.063	2.052	2.048	2.048	2.051	2.034	2.053	2.057	2.076	2.098	2.126	2.158
Energy	1.930	1.960	1.984	2.003	1.993	1.957	1.920	1.985	1.918	1.881	1.909	2.007	2.048
Consumer Goods	2.109	2.133	2.142	2.151	2.151	2.144	2.102	2.144	2.139	2.150	2.183	2.240	2.281
Core Consumer Goods	2.015	2.029	2.041	2.049	2.057	2.065	2.007	2.044	2.076	2.111	2.150	2.191	2.232
Producer Goods	1.648	1.656	1.664	1.671	1.677	1.682	1.642	1.667	1.689	1.710	1.733	1.757	1.783
Intermediate Materials	2.004	2.032	2.045	2.055	2.057	2.051	2.008	2.047	2.047	2.056	2.076	2.105	2.121
Crude Materials	2.429	2.598	2.607	2.602	2.575	2.546	2.465	2.596	2.506	2.472	2.503	2.612	2.630
Percent Change, SAAR													
Employment Costs	2.0	2.7	2.4	2.4	2.3	2.7	1.9	2.3	2.6	2.8	2.9	3.0	3.1
Wages & Salaries	2.4	2.2	2.3	2.2	2.2	2.3	1.9	2.2	2.3	2.5	2.5	2.6	2.7
Benefits	2.0	3.2	2.6	2.9	2.8	3.5	2.0	2.6	3.1	3.6	3.8	4.0	4.0
Health Insurance	2.3	3.9	3.8	6.4	5.2	5.7	2.7	3.7	5.5	5.9	5.9	5.3	4.5
Consumer Prices													
All-Urban	1.1	1.7	2.2	2.9	2.0	1.1	1.5	1.8	1.6	1.5	1.9	2.2	2.0
Core (excl. Food & Energy)	1.6	1.5	2.2	2.5	2.4	2.2	1.8	1.9	2.1	1.8	1.9	2.0	1.9
Commodities	-0.6	-0.9	-0.1	0.7	0.7	0.8	0.0	-0.2	0.7	1.0	1.0	1.0	1.0
Nonenergy Services	2.4	2.4	3.0	3.1	3.0	2.8	2.4	2.6	2.7	2.1	2.2	2.3	2.3
Food	1.0	2.3	3.2	1.9	1.3	0.7	1.4	1.9	1.2	1.6	1.9	1.9	2.0
Energy	-2.4	3.4	-0.2	6.8	-0.4	-8.0	-0.7	1.4	-3.0	-1.6	1.4	4.1	2.6
Energy Commodities	-5.2	6.4	-7.1	6.1	-1.3	-12.6	-2.7	0.1	-5.5	-1.5	0.8	2.8	2.8
Energy Services	2.0	11.7	11.4	7.8	0.9	-0.8	2.7	6.6	0.6	-1.8	2.3	6.0	2.3
Producer Prices, Stage of Processing													
Finished Goods	0.7	3.8	1.6	1.7	0.3	-0.7	1.2	1.9	0.1	0.7	1.5	2.3	1.8
Core (excl. Food & Energy)	0.9	2.7	2.1	1.7	1.4	1.5	1.5	1.8	1.5	1.5	1.6	1.7	1.7
Food	-0.1	5.3	-2.2	-0.7	0.0	0.5	2.2	0.9	0.2	0.9	1.1	1.3	1.5
Energy	0.8	6.4	4.9	3.8	-1.9	-7.1	-0.2	3.4	-3.4	-1.9	1.5	5.1	2.1
Consumer Goods	0.5	4.6	1.8	1.7	0.1	-1.3	1.3	2.0	-0.2	0.5	1.5	2.6	1.8
Core Consumer Goods	0.8	2.9	2.2	1.7	1.4	1.6	2.0	1.8	1.6	1.7	1.8	1.9	1.9
Producer Goods	1.2	1.9	2.0	1.7	1.3	1.3	0.9	1.5	1.3	1.3	1.3	1.4	1.5
Intermediate Materials	-0.7	5.7	2.6	2.0	0.3	-1.0	0.0	1.9	0.0	0.4	1.0	1.4	0.8
Crude Materials	-6.4	30.8	1.4	-0.8	-4.2	-4.3	2.1	5.3	-3.5	-1.3	1.2	4.4	0.7

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ATTACHMENT-10.4

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TOWERS WATSON

U.S. Employers Experiencing Smallest Increases in Health Care Costs in 15 Years, Towers Watson/National Business Group on Health Survey Finds

Employers remain committed to offering benefits to active employees, although major plan changes are on the horizon; employees, spouses shouldering more costs

March 6, 2014 | UNITED STATES

NEW YORK, March 6, 2014 — The cost of providing employer-sponsored health care benefits is expected to increase 4.4% this year, a slight uptick from last year, when cost increases fell to a 15-year low, according to an annual survey by global professional services company Towers Watson (NYSE, NASDAQ: TW) and the National Business Group on Health (NBGH), an association of large employers. The closely watched industry survey of 595 large U.S. employers also found that the vast majority of employers remain committed to providing benefits to active employees, but say moderate to significant changes to their plans are in store over the next few years.

The 19th Annual Towers Watson/NBGH Employer Survey on Purchasing Value in Health Care found that employer costs are expected to reach $9,560 per employee in 2014, an increase of 4.4%* from $9,157 in 2013. Health cost increases fell to a 15-year low of 4.1% in 2013. In response to rising costs, employers continue to shift costs to employees. The survey found the employees' share of premiums increased nearly 7%, to $2,975, this year. Out-of-pocket costs also increased. The total employee cost share has climbed from 34.4% in 2011 to 37% in 2014. Employees now pay over $100 more each month for health care compared with just three years ago.

"Despite the moderation, health care costs continue to outpace inflation and remain a major concern for U.S. employers given the challenging macroeconomic environment," said Ron Fontanetta, senior health care consultant for Towers Watson. "To find more effective ways to manage health costs, many employers are focusing on reshaping their health strategy for the next three to five years."

Indeed, while the vast majority (95%) of respondents indicate that subsidizing health care coverage for active employees is a very important part of their rewards package, almost as many (92%) expect to make moderate to significant changes to their programs by 2018

CONTRIBUTION STRATEGY FOR SPOUSES CHANGING

One of the many changes employers have been implementing and expect to continue making is to their contribution strategies for spouses and dependents. Nearly half (49%) of employers have increased employee contributions for dependent tiers at higher rates than for individuals. Another 19% expect to make this move next year. About one-quarter (24%) of companies now use spousal surcharges of around $100 per month when other coverage is available to the spouse. Only 56% of

companies believe that subsidized health care for spouses will be very important for 2015 and beyond — down from over 70% today, an indication that the trend toward increased cost sharing for spouses will likely continue.

MORE EMPLOYERS EMBRACING ACCOUNT-BASED HEALTH PLANS

Account-based health plans (ABHPs) are proving effective in helping employers manage costs. Nearly three-quarters of respondents currently offer these plans, with another 9% expecting to add one for the first time in 2015. Total-replacement ABHPs are also on the rise, with nearly 16% of respondents having adopted them, up from only 7% in 2012. Nearly one-third of all companies could offer ABHPs as their only option by 2015 if they follow through with current plans.

EMPLOYERS LOOKING AT EXCHANGE OPTIONS

Two-thirds of companies believe that private exchanges will offer a viable alternative to employer-sponsored coverage for active employees as early as 2015.

"While private exchanges are proving to be an effective option for retiree health coverage, most employers are taking a wait-and-see approach to gauge whether these models can deliver greater value for their active employees than self-managed programs," said Helen Darling, president and CEO of the National Business Group on Health. "Additionally, employers that no longer want to sponsor health care benefits could send their employees to a public exchange, although confidence in those remains quite low."

Other findings from the survey include:

- **Retiree health.** Employer subsidies for retiree medical coverage have sharply declined over the last 20 years, especially for pre-Medicare-eligible retirees, due to costs rising significantly faster than plans for active employees. Nearly two-thirds of employers that offer access to a sponsored plan today say they are likely to eliminate those programs in the next few years and steer their pre-Medicare-age population to public exchanges.
- **Health and financial subsidies.** Twenty-two percent of companies adopted outcomes-based incentives (other than for tobacco), and that figure could reach 46% by 2015 if companies follow through with their plans. Two-thirds of companies also use financial incentives to encourage participation in wellness activities, and 22% of those companies (especially best performers) design these as penalties.
- **Value purchasing.** Driving value in health care has become increasingly crucial to employers. The best-performing respondents are addressing key drivers of performance including pharmacy management, network delivery options and enhanced wellness strategies.

** Represents projected increase after plan changes were made. Projected increase before plan changes is 7.0%.*

ABOUT THE SURVEY

The 19th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care tracks employers' strategies and practices, and the results of their

efforts to provide and manage health benefits for their workforce. This report identifies the actions of high-performing companies, as well as current trends in the health care benefit programs of U.S. employers with at least 1,000 employees. The survey was completed by 595 employers between November 2013 and January 2014. Respondents collectively employ 11.3 million full-time employees, have 7.8 million employees enrolled in their health care programs and represent all major industry sectors.

ABOUT TOWERS WATSON

Towers Watson (NYSE, NASDAQ: TW) is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. The company offers consulting, technology and solutions in the areas of benefits, talent management, rewards, and risk and capital management. Towers Watson has more than 14,000 associates around the world and is located on the web at **towerswatson.com** <http://www.towerswatson.com/> .

ABOUT THE NATIONAL BUSINESS GROUP ON HEALTH

The National Business Group on Health is the nation's only nonprofit membership organization of large employers devoted exclusively to finding innovative and forward-thinking solutions to their most important health care and related benefit issues and to being the voice for large employers on national health care issues. The Business Group, whose 390 members include 66 of the Fortune 100, identifies, develops and shares best practices in health benefits, disability, health and productivity, and related paid-time-off and work/life balance issues. Business Group members provide health coverage for more than 55 million U.S. workers, retirees and their families. For more information, visit **businessgrouphealth.org** <http://www.businessgrouphealth.org>

National Health Expenditure Projections, 2012–22: Slow Growth Until Coverage Expands And Economy Improves

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Abstract

Health spending growth through 2013 is expected to remain slow because of the sluggish economic recovery, continued increases in cost-sharing requirements for the privately insured, and slow growth for public programs. These factors lead to projected growth rates of near 4 percent through 2013. However, improving economic conditions, combined with the coverage expansions in the Affordable Care Act and the aging of the population, drive faster projected growth in health spending in 2014 and beyond. Expected growth for 2014 is 6.1 percent, with an average projected growth of 6.2 percent per year thereafter. Over the 2012-22 period, national health spending is projected to grow at an average annual rate of 5.8 percent. By 2022 health spending financed by federal, state, and local governments is projected to account for 49 percent of national health spending and to reach a total of $2.4 trillion.

Cost Of Health Care | Health Economics | Health Reform | Health Spending

Articles citing this article

The Association of Hospital Cost-Inefficiency With Certificate-of-Need Regulation

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CHAPTER 11: REVIEW OF EXISTING MEMORANDUM AND BALANCING ACCOUNTS

A. INTRODUCTION

This chapter presents the results of a routine audit ORA performed on the currently open memorandum accounts ("MAs") and balancing accounts ("BAs") in conjunction with Suburban's GRC (A.14-02-002). Suburban is not currently seeking recovery of these accounts in this proceeding, but the scope of ORA's audit was to determine the company's justification for, and continuing need to keep these accounts open.

Suburban provided the currently open MAs and BAs in responses to data request VCC-02. The company currently has eighteen accounts open as shown in Table 11-1. The table outlines the name of the account, with the authorizing proceeding and the balance of the account as of end-of year 2013.

Table 11-1

No.	Suburban's Balancing and Memorandum Accounts	Authorizing Proceeding	12/31/13	
1.	7/10 - 6/11 Pumped & Purchased Water and Power Balancing Accounts	AL 286-W	$3,253,768	*
2.	7/12 - 12/12 Pumped & Purchased Water and Power Balancing Accounts	AL 289-W	$857,901	*
3.	1/12 - 4/13 Pumped & Purchased Water and Power Balancing Accounts	AL 301-W	$1,038,935	*
4.	5/13 - 12/13 Pumped & Purchased Water and Power Reserve Accounts	D.03-06-072	N/A	
5.	Low Income Ratepayer Assistance (LIRA) Balancing Account	AL 294-W	$2,300	*
6.	Recycled Water Balancing Account	D.12-04-009	N/A	
7.	Water Revenue Adjustment Mechanism Balancing Account	D.08-02-036	$519,974	*
8.	Water Revenue Adjustment Mechanism Balancing Account	AL 285-W	$35,337	*
9.	Water Contamination Litigation Memorandum Account	W-4094	$0	
10.	Security Measures Memorandum Account	D.03-05-078	$0	
11.	American Jobs Creation Act Deduction Memorandum Account	D.06-08-034	$0	
12.	Cornerstone Project Memorandum Account	D.09-03-007	N/A	
13.	Military Family Relief Program Memorandum Acount	AL 245-W	$8,694	**
14.	Low Income Ratepayer Assistance (LIRA) Memorandum Account	AL 255-W	$341,133	*
15.	Low Income Customer Data Sharing Memorandum Account	AL 284-W	$1,777	**
16.	2009 Cost of Capital Litigation Memorandum Account	D.09-07-038	N/A	
17.	2012 Cost of Capital Litigation Memorandum Account	AL 291-W	$138,038	**
18.	1-Way Conservation Balancing Account	D.12-04-009	($95)	**

The above highlighted accounts were the target of ORA's audit. ORA chose the MAs and BAs that had small or zero ($0) balances, N/A balances, or were authorized for issues that might not have an ongoing justifiable need. For

example, the Security Measures Memorandum Account was authorized by the Commission in 2003, more than a decade ago. ORA chose this account to review because the issues related to this MA may no longer be relevant.

The larger more well established MA and BA's were not the target of ORA's audit as they are more routine in nature, and come under additional scrutiny when they go through the advice letter recovery process.

ORA provides in this chapter a brief discussion of the MAs and BAs. This discussion includes history and purpose, and follow-up commentary providing recommendations to the Commission regarding the specific account.

B. SUMMARY OF RECOMMENDATIONS

In this chapter, ORA makes three general recommendations:

1) The Commission should audit the American Jobs Creation Act Deduction Memorandum account. Suburban did not provide any commentary or discussion as to the nature of this account. Additionally, ORA uncovered Suburban's obligation to track tax benefits of the American Jobs Creation Act; the company seemingly failed to do so as the account currently tracks a balance of $0. These issues are highlighted further in the discussion portion of this chapter.

2) Suburban should submit a preliminary statement for each of the Balancing and Memorandum Accounts not currently listed in the company's preliminary statement before the close of the rate case. ORA discovered that the "Recycled Water Balancing Account" & the "American Jobs Creation Act Deduction MA" were specifically absent.

3) The Commission should close the Security Measures MA, and the Low Income Data Sharing MA. Specific commentary is provided in detail in the discussion portion of this chapter.

C. DISCUSSION

ORA reviewed the following accounts;

1) Recycled Water Balancing Account

This balancing account has a balance of N/A as of 12/31/13. Suburban has annotated balances with "N/A" as information not available because the company has not reconciled their books for 2013.[202] Suburban initially asked for this BA in the prior rate case A.11-02-002. Suburban stated, "Suburban is requesting approval of a new balancing account for recycled water, one which will be an incremental balancing account similar to Suburban's current purchased water balancing account; that is the balancing account will be limited to tracking variances from the adopted price level of recycled water."

D.12-04-009 granted the account. "In rebuttal and in settlement Suburban explained that other water utilities have similar balancing accounts, that the rulemaking did not appear to be addressing this issue. For the purpose of settlement, DRA agreed to Suburban's request."[203]

ORA asked in this proceeding for justification for the continuing need for this Balancing account, in which Suburban responded;

> "This account shall record the variance of purchased cost of recycled water from the adopted price level of recycled water. Recycled water balancing account is common and if there is no balancing account, Suburban would not have entered the recycled water project with Upper District. The terms of Suburban's recycled water agreement which was approved by Suburban Advice Letter 278-W provide that "SWS shall not be required to purchase recycled water from Upper District without a recycled water tariff satisfactory to SWS and approved by the CPUC". Suburban regards a recycled water balancing account as being critical for the provision of recycled water service. Therefore, Recycled Water Balancing Account should continue as long as Suburban provides Recycled Water to its' customers."

[202] VCC-02 comments row 34.

[203] D.12-04-009 Appendix A Page 51.

ORA generally agrees with Suburban's sentiment. Currently there is no balance being tracked in this account, and the company is not seeking recovery of this account in this general rate case.

Upon review of Suburban's preliminary statement[204] there is no mention of this BA. Traditionally, these accounts are listed in the preliminary statement indicating the authorizing proceeding, purpose, and accounting procedure. Suburban did not provide testimony explaining why it is not listed.

ORA recommends the company submit a preliminary statement for this balancing account.

2) Water Contamination Litigation Memorandum Account

ORA asked Suburban to provide justification for the continuing need for this memorandum account and Suburban responded:

> On March 26, 1998, by Resolution W-4094, the Commission authorized all water utilities to establish a memorandum account for water contamination litigation expenses. Water contamination litigation could become widespread throughout the State in the coming years. In recent years Suburban was party to lawsuits involving the largest super fund site in the United States, the Baldwin Park Operable Unit. All water utilities under Commission jurisdiction are authorized to establish memorandum accounts for recording expenses associated with water contamination lawsuits and litigation.

Resolution W-4094 authorized all water utilities under Commission jurisdiction to establish memorandum accounts for recording expenses resulting from water contamination litigation and to file for recovery of reasonable expenses recorded in the memorandum account in a subsequent rate case application or separate advice letter.

[204] http://www.swwc.com/suburban/tariff-preliminary-statement2.pdf.

In this instance, Suburban currently has recorded balance of $0 in this account. Although Suburban is not seeking recovery of this MA or tracking a balance, ORA believes that there is a possibility for costs associated with water contamination to be tracked in the future. ORA believes there is a justifiable ongoing need for this account and recommends the Commission take no action in this proceeding.

3) Security Measures Memorandum Account

ORA asked Suburban to provide justification for the continuing need of this memorandum account and Suburban responded:

> This account tracks ongoing costs associated with any federal or state legislation requiring security measures to prevent acts of terrorism. Because there is uncertainty as to the costs that may be incurred associated with federal or state legislation dealing with security, Suburban should be allowed to continue this memorandum account in the event future investments for improving security are needed, especially in source water and distribution systems.

D.03-05-078 authorized this MA; the decision stipulated that "utility expenses for security are inevitable. We will authorize establishment of the memorandum account."[205]

ORA reviewed this MA and found that it was opened in conjunction with the Public Health Security & Bioterrorism Preparedness and Response Act of 2002.[206] Suburban currently records a $0 balance and has not provided testimony showing that the company will incur future costs for security measures. Additionally, it has been over a decade since this MA was opened and it should be possible for the company to forecast any future expenses or capital in a GRC. ORA recommends that the Commission close this memorandum account.

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[205] D.03-05-078 Page 9.

[206] D.03-05-078 Page 9.

4) American Jobs Creation Act Deduction Memorandum Account

ORA asked Suburban to provide justification for the continuing need for this memorandum account and Suburban responded:

> "The Memorandum Account was established to record any future tax consequences associated with the act."

This explanation lacks both substance and support. Suburban failed to provide commentary as to the specific requirements or obligations of the American Jobs Creation act. Suburban cited D.06-08-034[207] as the proceeding that authorized the establishment of this MA. The company cited an incorrect authorizing decision; ORA found that the proceeding should have been "05" instead of "06."

A prior Suburban settlement agreement with ORA for Proceeding A.05-08-034 stated:

> "Due to uncertainty of the potential benefits associated with the American Jobs Creation Act, Suburban agrees to record any future tax benefits associated with the Act in a memorandum account, the balance of which will be refunded to ratepayers when the Commission decides the actual tax benefits, if any, realized by Suburban under the Act. Until the Commission has finally determined those actual tax benefits, in every GRC, Suburban is to report the recorded balance of the memorandum account and the status of its tax benefit under the Act."[208]

Resolution L-411A authorized this MA in the following language:

> "There is hereby established for the Covered Utilities described in Ordering Paragraph 2, effective April 14, 2011, a memorandum account to reflect, on a CPUC-jurisdictional, revenue requirement basis, impacts from the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("The New Tax Law")."

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[207] VCC-02 C22

[208] Suburban GRC Settlement Agreement with ORA Date: December 28, 2005 Section 9.3

ORA found that Suburban had not provided any commentary on the company's obligation to track tax benefits under the American Jobs Creation Act. Suburban stated that there was currently a $0 balance being tracked in the account. ORA could not reconcile whether or not a balance should be tracked in this account. Additionally, the company does not have this Memorandum account listed in the preliminary statement so there is no commentary as to the accounting treatment of this MA. Upon further review, Resolution L411A states:

> "It will be necessary for each Covered Utility to file an advice letter to incorporate the memorandum account into its tariffs… We will allow all Covered Utilities until June 30, 2011 to file the required advice letters."

ORA could not find Suburban's advice letter applicable to this Resolution nor did Suburban provide any support or testimony stating that they had filed this advice letter.

Because of Suburban's obligation to both track and record any tax benefits of the account, and the company's apparent failure to do so. ORA was left with insufficient support and indecisive information. ORA recommends the company submit a preliminary statement for this Memorandum account, and recommends the Commission complete a full audit of this Memorandum Account.

5) Military Family Relief Program Memorandum Account

ORA asked Suburban to provide justification for the continuing need for this memorandum account and Suburban responded:

> On September 22, 2005 the Governor signed AB 1666 into law effective January 1, 2006. Section 827 of this bill obligates water companies to provide 180 day shut off protection to the family/dependents of military personnel as well as providing for extended payment terms, in order to assist military families due to reduced income from a call to active duty military service. This program significantly increases Suburban's risk of non-payment over the normally established uncollectible allowance included in rates. This memorandum account provide potential future recovery

> of reduced revenues resulting from implementation of California Military Families Financial Relief Act of 2005 by providing water utility service shutoff protection for a 180 day period to families of service members who are called to active duty.

ORA reviewed Section 827 of AB 1666 and found it to be currently applicable. The current balance being tracked in the MA is $8,694. ORA finds this memorandum account to be reasonable and finds that Suburban has a continuing justifiable need for this MA. ORA recommends the Commission take no action in regards to this memorandum account in this proceeding.

6) Low Income Customer Data Sharing Memorandum Account

ORA asked Suburban to provide justification for the continuing need for this memorandum account and Suburban responded:

> Decision 11-05-020 authorized water utilities to track reasonable and legitimate data sharing implementation and ongoing costs in memorandum accounts for future determination of recovery.

ORA reviewed the above decision and found that the MA is applicable to this decision. Currently there is a balance being tracked in this account of $1,777; the costs tracked in this account are believed to be final. The Low Income Customer Data Sharing program was adopted in 2011 and the portion of the program allocated to water utilities is finished. The remaining costs of this program can be adequately forecasted in the GRC. ORA recommends this account be closed and the remaining balance tracked in this account be recovered.

7) 2009 Cost of Capital Litigation Memorandum Account

ORA asked Suburban to provide justification for the continuing need for this memorandum account and Suburban responded:

> The Cost of Capital Litigation Memorandum Account represents incremental costs that are not currently included in rates. This account was authorized in prior rate case decision 12-04-009 for amortization period from January 2012 through December 2014. This account is scheduled to be closed on January 1, 2015.

ORA reviewed the decision and found Suburban's statements to be accurate. This account is scheduled to be closed on January 1, 2015. ORA recommends the Commission take no action in regards to this memorandum account as the mechanism for closure is already in place.

8) One-way Conservation Balancing Account

ORA asked Suburban to provide justification for the continuing need for this memorandum account and Suburban responded:

> This account was authorized and established in prior rate case decision 12-04-009. This account is effective for period January 2012 through December 2014, and is scheduled to be closed on January 1, 2015.

ORA reviewed the decision and found Suburban's statements to be accurate. The account is scheduled to be closed on January 1, 2015. ORA recommends the Commission take no action in regards to this memorandum account as the mechanism for closure is already in place.

D. CONCLUSION

ORA reviewed the MA and BA accounts and found that most had a reasonable and justifiable need to remain open. There were exceptions and ORA made three overall recommendations. As outlined in the discussion portion of this chapter, Suburban did not provide essential data regarding American Jobs Creation Act Deduction Memorandum Account in which ORA recommended a full audit. Additionally, there were discrepancies between the company's MA BA provided in discovery, versus what was listed in the company's preliminary statements. ORA recommended the company file preliminary statements for the MA & BA's not listed, specifically the two outlined above. Lastly, the commission should close the Security Measures MA, and the Low Income Data Sharing MA as the issues are either no longer relevant or the company could not demonstrate an ongoing need.

CHAPTER 12: SPECIAL REQUESTS

A. INTRODUCTION

This Chapter provides ORA's analyses and recommendations for Suburban's Special Requests which include:

- Amortization of 2012 Cost of Capital Litigation Memorandum Account
- Amortization of Forecasted 2016 Cost of Capital Costs, and Establish Associated Memorandum Account
- Employee Healthcare Balancing Account
- Credit Card Payment Option, Expenditure of Capital Costs, and Associated Memorandum Account
- Affiliated Transaction Rule Employee Transfer, Military Family Relief Program Memorandum Accounts Amortization, Leased Vehicle Sale Proceeds Amortization
- Water Revenue Adjustment Mechanism ("WRAM") Balancing Account Amortization
- Low Income Ratepayer Assistance Memorandum Account Amortization
- Income Tax Repair Regulation Implementation Memorandum Account Amortization
- Increase Amount of Deposit to establish Credit and Criteria for Return of Deposits
- Increase Low Income Ratepayer Assistance Surcharge
- Customer Information Sharing

B. DISCUSSION

1) Amortization of 2012 Cost of Capital Litigation Memorandum Account

(a) Introduction

Costs associated with Suburban's 2012 Cost of Capital Litigation Memorandum Account are not included in Suburban's current rates and have not

otherwise been recovered. In Suburban's last general rate case A.11-02-002 it entered into a partial settlement with ORA. The costs for the 2012 Cost of Capital proceeding were included in that settlement. The subsequent decision in that proceeding, D.12-04-009, Ordering Paragraph 1 stated "The proposed test year 2012 ratemaking settlement (Attachment A) between Suburban Water Systems and the Division of Ratepayer Advocates is adopted." However, the decision erroneously excluded the costs of the 2012 cost of capital proceeding from the authorized revenue requirement. Suburban and ORA filed a joint Petition for Modification of D.12-04-009 addressing this error. Suburban also addressed this issue in its Application for Rehearing of D.12-04-009. In D.13-12-030 the Commission granted limited rehearing of this issue. Therefore, Suburban seeks amortization in base rates as part of this proceeding similar to rate case expense.

(b) **Summary of Recommendations**

As part of Suburban and ORA's Settlement Agreement, ORA and Suburban agreed that the revenue requirement should include the 2012 cost of capital proceeding expenses of $138,038. The Settlement Agreement includes a three year recovery period for these expenses and Standard Practice U-27-W requires that the amortization should be spread over a 12 month period for amounts that are 5% or less of the revenue requirement. Thus, the Commission should affirm what the Parties agreed to in the Settlement Agreement, and apply Standard Practice U-27-W in the amortization of the expense due to the lapsed time since the D.12-04-009.

(c) **Discussion**

In the 2011 general rate case proceeding, Suburban and ORA were able to reach agreement on most of the disputed issues. On August 31, 2011, ORA and Suburban filed a motion for approval of the Partial Settlement Agreement between Suburban Water Systems and the Office of Ratepayer Advocates ("Settlement

Agreement"). As part of the Settlement Agreement, ORA and Suburban agreed that the revenue requirement should include regulatory expenses of $138,038 for the 2012 cost of capital proceeding. Although the Commission in D. 12-04-009 stated that it was adopting the Settlement Agreement, it did not include the agreed upon 2012 cost of capital expenses in the adopted revenue requirement. Suburban filed an application for rehearing of D. 12-04-009 and Suburban and ORA jointly filed a petition for modification of D. 12-04-009. In the meantime, Suburban filed Advice Letter 291-W for authorization to track the 2012 cost of capital expenses in a memorandum account. Advice Letter No. 291-W was approved effective April 26, 2012. Because the parties did not have a chance to comment on the removal of the forecasted cost of capital expenses, the Commission granted limited rehearing of the issue in D.13-12-030. At the prehearing conference, ALJ Long explained that the forecasted regulatory expenses for the 2012 cost of capital proceeding were removed for the sake of consistency, since the revenue requirement did not include forecasted regulatory expenses for the 2014 general rate case. There is a history, however, of treating expenses related to the cost of capital proceeding differently than general rate case costs. Cost of capital proceedings were tracked in a memorandum account for future recovery.

ORA is in agreement with Suburban's request on the 2012 Cost of Capital proceeding regulatory costs, except for the one-month surcharge Suburban requests for recovery. ORA recommends that the Commission require Suburban to recover its regulatory expenses for the 2012 cost of capital proceeding over a 12 month period pursuant to the Parties Settlement Agreement as well as Standard Practice U-27-W.

(d) **Conclusion**

ORA recommends that Suburban's 2012 Cost of Capital proceeding regulatory costs of $138,038 should be recovered over a 12 month period pursuant to the Parties Settlement Agreement as well as Standard Practice U-27-W.

2) Amortization of Forecasted 2016 Cost of Capital Costs, and Establish Associated Memorandum Account

(a) **Introduction**

Expenses related to cost of capital proceedings are handled differently than general rate case costs. In the Settlement Agreement in A.11-02-002, Suburban and ORA agreed to recovery of the regulatory expenses for the 2012 cost of capital proceeding as forecasted costs amortized currently over 3 years. In this proceeding Suburban requests similar treatment for the 2016 Costs of Capital costs. Suburban is seeking to amortize its forecasted 2016 Cost of Capital in base rates as part of this proceeding similar to rate case expense.

(b) **Summary of Recommendations**

ORA recommends the Commission disallow Suburban's request to establish a memorandum account in order to amortize its 2016 Cost of Capital costs. The cost for the 2016 Cost of Capital proceeding of $145,571 is being forecasted and will be recovered through the base rates in this proceeding.

(c) **Discussion**

The cost of capital proceeding was originally scheduled for May 2015. Suburban and other Class A water utilities have agreed to a one-year postponement of their cost of capital filings, which was approved by the Commission's Executive Director on February 12, 2014. Consistent with Commission's prospective rate making policy, this cost is being forecasted by ORA's witness, Patricia Esule in Chapter 3, section 7, and subjected to recovery through base rates as approved by the Commission in this proceeding. Accordingly, there is no need for Suburban to have a memorandum account for the purpose of tracking the 2016 cost of capital expenses.

(d) **Conclusion**

Therefore, ORA recommends that the forecasted 2016 Cost of Capital expenses of $145,571 recommended by ORA's witness Patricia Esule in Chapter 3, section 7, be amortized over 3 years and the request to establish a memorandum account be denied.

3) Employee Healthcare Balancing Account

(a) **Introduction**

Suburban requests similar treatment Apple Valley Ranchos Water Company received in D.12-09-004 that would allow it to create an Employee and Retiree Health Care Balancing Account to record and recover the difference between the adopted forecast and the actual costs of employee and retiree health care expenses beginning January 1, 2015. Suburban will file a Tier 1 Advice Letter or request in a General Rate Case to determine the disposition of the accumulated balances.

(b) **Summary of Recommendations**

ORA recommends the Commission reject Suburban's request for establishing an Employee and Retiree Health Balancing Account because it is neither necessary nor in the interest of its ratepayers. Suburban's forecast of its medical expenses using Kaiser Foundation study has fully captured the full impact of the Patient Protection and Affordable Care Act (PPACA). The over-collection in Apple Valley Ranchos Water Company's balancing account suggests minimal impact from the PPACA thus far and that the Company's forecast should be sufficient to cover its medical expenses. Conversely, granting Suburban such a balancing account would offer no incentive to Suburban in controlling its medical costs, which would ultimately be passed on to its ratepayers. As such, ORA recommends the Commission deny Suburban's request.

(c) **Discussion**

In requesting the Employee Health Care Balancing Account, Suburban's main justification is that there are numerous drivers that are creating high medical care costs. It points out that the leading driver is the newly enacted Patient Protection and Affordable Care Act (PPACA), which would result in an influx of newly insured who will be gaining access to health services.

Related to this request, Suburban proposes an increase of 7.4% in 2014 and 5.7% annually thereafter for its projected health care expenses based on an April 2013 Kaiser Family Foundation study. The level of increase for its escalation years, 2016 and 2017, is significantly higher than the CPI escalation increase recommended by the Rate Case Plan. Despite such a large increase being built into its forecast, Suburban is still requesting the Commission approve its request for a balancing account.

ORA opposes Suburban's request for establishing such a balancing account on the grounds that it is unnecessary at this time. The balancing account request, if granted, would also be harmful to the interest of Suburban's ratepayers.

<u>It is Unnecessary to Grant Suburban a Healthcare Balancing Account</u>

Suburban's request is based on its belief that the newly enacted PPACA would result in an increase to its medical expenses that is beyond its current forecast. To support its health expenditure projection, Suburban cited a recent April 2013 study by the Kaiser Family Foundation. The Kaiser study expects a one-time increase of two to three percentage points in health spending growth as more people become insured under PPACA. The Kaiser study refers to an article by Health Affairs which indicates that in 2014, health spending growth is expected to accelerate to 7.4% as the major coverage expansions from the PPACA begin. The article goes on to say that health care spending is expected to grow at an average rate of 5.7% annually through 2021. Based on the Kaiser study, Suburban

uses a one-time accelerated growth rate of 7.4% in 2014 and 5.7% annually thereafter to project its future medical costs.

There are many reports and studies that have been done on the impact of the PPACA on health care cost projection, but the projection by the Kaiser study appears to be conservative. Its projection of 7.4% in 2014 and 5.7% thereafter are somewhat higher when comparing to other studies. For example, in September 2013, The Health Affairs published an online report titled "*National Health Expenditure Projections, 2012-22: Slow Growth Until Coverage Expands and Economy Improves*." According to the report, health spending growth is projected to remain slow, at just under 4%, through 2013, primarily because of the recent recession. After that, however, it is expected to increase to 6.1% as a result of expansions of both Medicaid and private health insurance coverage under the PPACA. For the entire period from 2012 to 2022, health spending is expected to grow at an average rate of 5.8% per year.

In another study, the data from the September, 2013 HIS Global Insight shows health insurance premiums will increase in the range of 3.1% to 5.0% for the period of 2013 to 2016. A more recent March 2014 publication shows a slight increase to 3.7% to 5.9% during the same period. The HIS Global Insight is the source of information for Estimates of Non-Labor and Wage Escalation Rates and Compensation Per Hour published by ORA's ECOS and Water Branches.

Although each of the studies that ORA cited above varied in its projection rates, they nonetheless have provided a projection rate that is lower than those projected by Suburban. The forecast of medical costs is not an exact science because it involves information that can be highly subjective depending on assumption and source of information. ORA believes that the use of the conservative projection from the Kaiser Foundation study should allow Suburban to fully capture most of the unknowns in the PPACA. Even Suburban itself acknowledged in its response to VCC-03 that "*there are no factors of which we*

are currently aware which can cause health and dental expenses to increase for which Suburban has not factored into its forecast in this GRC."

In Decision D.12-09-004, the Commission granted Apple Valley Ranchos Water Company the authority to establish an Employee and Retiree Health Care Balancing Account to record and recover the difference between the adopted forecast and the actual costs of employee and retiree health care expenses beginning January 1, 2012. This is the same treatment that Suburban is seeking from the Commission in this GRC. However, since its establishment in January 1, 2012, ORA has learned that Park Apple Valley not only did not record any unexpected increase associated with the implementation of the PPACA, it actually over-collected $250,000 in the account as of December 31, 2013. Medical expenses had already been fully captured in Park Apple Valley's own forecast, or in this case, over-forecasted. Suburban's claim that it should be allowed to have a balance account because its medical costs may not capture the full impact of the PPACA in this GRC is, therefore, unfounded. Granting Suburban a similar balancing account would likely result in an over-collection from Suburban's ratepayers as shown in the Apply Valley Ranchos Water Company's decision.

The discussion above shows that Suburban has fully accounted for all the unknowns associated with the implementation of the PPACA by using Kaiser Foundation's projection rates in its medical expense forecasts. Therefore, it would be unnecessary for the Commission at this time to grant Suburban a balancing account in order to capture the unexpected costs of the PPACA implementation.

ORA's witness on Suburban's Parent Company, Mehboob Aslam, discusses ORA's recommendation on medical insurance cost and the detailed discussion on Group Health Insurance is included in his testimony.

<u>The Employee Health Balancing Account Does Not Benefit Ratepayers</u>

ORA believes providing Suburban with an Employee Healthcare Balancing Account would not provide benefits to its ratepayers but in fact would likely harm them. Allowing Suburban to track its health care costs for future recovery will

provide Suburban with little incentive to responsibly manage its health care costs because it will effectively shift the risks of increasing health care costs from Suburban to its ratepayers. Once Suburban receives a health care balancing account, it will have incentives that are perverse to economic efficiency because Suburban will perceive that potentially all future medical costs will be borne by ratepayers, even if they are only remotely connected to the PPACA.

With the protection of a balancing account, Suburban would have little incentive to negotiate or shop for a most reasonable insurance coverage plan. It would not matter to Suburban if it chooses an expensive provider or pursue a more enhanced coverage since ratepayers would be paying the difference through recovery of the balancing account. Instead of requiring greater cost sharing from its employees consistent with the general trends in the private sector health coverage, Suburban is doing the opposite with little to no financial risk. Below is a table showing the contribution from Suburban's employees and their family toward different medical plans:

	Value Plan	Plus Plan	Premier Plan
Employee Only	$11.48	$36.55	$44.50
Employee + Spouse	$44.86	$91.37	$109.75
Employee + Child	$30.90	$73.10	$88.99
Employee + Family	$62.30	$125.30	$154.25

(d) **Conclusion**

ORA recommends the Commission reject Suburban's request for a health care cost balancing account because ORA's projected medical costs provides a

reasonable estimate of Suburban's health care costs. Adopting ORA's estimate and rejecting Suburban's request for a balancing account will not only allow Suburban to recover its reasonable health care costs, but will also provide Suburban with incentives to control costs.

4) Credit Card Payment Option, Expenditure of Capital Costs, and Associated Memorandum Account

(a) **Introduction**

Pursuant to AB 746, Suburban proposes allowing its customers a payment option to pay, without a fee, for their utility bill with a credit card. It is seeking the Commission's authorization to establish a memorandum account, the Credit Card Pilot Program Memorandum Account ("CCPPMA"), to track the cost and savings in a 12-month pilot credit card payment option similar to the program California Water Service Company (CWS), which the Commission approved in Advice Letter No. 1808-B. At the end of the pilot program, Suburban will file a report with the Commission summarizing the results of the pilot program and recommend the next step.

(b) **Summary of Recommendations**

ORA recommends the Commission disallow Suburban' s request to offer its customers a pilot program for no-fee credit card/debit card payment option. Suburban's request does not comply with PU Code 755, which requires that no portion of the credit card/debit card expense can be shifted to customers that do not choose to pay a bill by credit card or debit card. The memorandum account that tracks the costs and savings in CWS' pilot program shows a deficit of over $1.4 million since its inception. This illustrates that Suburban, as in CWS' case, will not be in compliance with PU Code 755 because Suburban will have to seek recovery of costs to fund the credit card program from the general body of its customers.

(c) **Discussion**

In September 2005, AB 746 was passed to require the CPUC to make certain regulatory findings associated with credit card usage. The bill allows utilities to accept credit or debit card payments, and enables, with the approval of the Public Utilities Commission, the utilities to recover the costs of such transactions through fees for customers using credit or debit cards. If it is determined that the savings to the utilities exceeds the costs for such transactions, the net savings would be passed on to the customer.

In 2007, CWS filed an advice letter, AL-1808-B with the Commission to establish a non-fee credit card pilot program, following a similar request by PG&E. The advice letter indicated that CWS would file a report with the Commission on the pilot program to help the Commission make a finding that a no fee credit card program is in the public interest, either because it has no net cost or for other policy reasons. Suburban now requests a similar pilot program with the intent of finding out if it would comply with the requirement of Section 755 of the Public Utilities Code.

Public Utilities Code 755 permits water utilities to offer a credit card bill payment option if approved by the Commission. Public Utilities Code 755 requires that only those customers choosing to use the credit or debit card payment option shall incur the additional charges associated with providing this service, unless and until the Commission determines that the credit or debit card payment option results in savings to ratepayers that exceed the next cost of accepting payment by those cards. (Public Utilities Code 755(a)(2).)[209] The Commission is

[209] Public Utilities Code 755(a)(2) states:

"Only the customers that choose to use the [credit or debit card] payment options incur the additional charge and that no portion of the expense is shifted to customers that do not choose to pay a bill by credit card or debit card, unless and until the commission determines that the savings to ratepayers exceeds the net cost of accepting those cards."

required to determine the reasonableness of transaction costs charged to customers that choose to pay their water bills by credit or debit card pursuant to Public Utilities Code 755(c). If the Commission determines that the savings to the utility corporation exceed the costs to the company, the net savings shall be passed on to the utility corporation's customers. (Public Utilities Code 755(c)(3).)

The Commission has approved two utilities, PG&E in Resolution G-3390, and CWS in AL 1808-A, to establish a non-fee paying credit card pilot programs. Since the approval, both programs have not been able to show that they can result in being financially cost-neutral to the companies as required by PU Code 755. In the PG&E's case, the utility decided to close its program for the following reasons:

1. Customers largely transitioned from lower cost payment options to the higher cost Visa option,
2. The expected number of avoided costs for shut off for non-payment was significantly less than initially expected, and
3. The overall costs associated with the Visa pilot program exceeded PG&E's initial expectations.

Clearly, the program offered by PG&E from which CWS' program modeled after concluded that its "no-fee" credit card program was not cost neutral. In Resolution G-3390, the Commission approved PG&E to close its "no-fee" pilot credit card program because the costs of the program exceeded its savings.

For CWS, its credit card memorandum account tracks the costs associated with its third party bill payment providers while the savings are those associated with check processing and bill mailing. ORA has learned that from its implementation in January 2008 to May 2012, the memorandum account accumulated a total cost of $1,925,000 while realizing savings of $484,500, for a net cost of $1,441,116. This running deficit suggests that the no fee credit card option is not cost neutral and would require subsidy from those customers who are

not in the program. It is likely Suburban would experience similar deficit if it implements a pilot program similar to CWS.

Suburban's request to offer a no-fee credit card pilot program also goes contrary to the programs offered by other water and energy utilities. In Resolution W-4935 and W-4936, the Commission approved Park Water Company and Apple Valley Ranchos Water Company requests to add an option to its tariffs that allow customers to pay their bills using a credit card or debit card. The approval is based on the conditions that both companies will charge a convenience fee not to exceed $2.50 for each transaction. Similarly, the Commission approved Valencia Water Company in Resolution W-4908 to charge $2.50 per transaction to its customers through a third party vendor. Each of these credit card programs suggests that the cost incurred by each credit card transaction has to be borne by customers who are not using this payment option. To be able to offer a no-fee credit card program, Suburban would have to demonstrate that its program is different and that its cost structure is so much more superior over the other companies that a transaction cost is unnecessary, or that it would not result in any additional cost to the general body of ratepayers. Both PG&E and CWS are not able to offer such a program even though they have much bigger customer bases and better economies of scale. Other water utilities such as Park, Valencia and Apply Valley Ranchos who are similar in size to Suburban cannot do so either. It is therefore highly questionable that Suburban can be an exception. Until Suburban can provide the Commission with additional evidence that it can implement a more cost effective program, the Commission should reject Suburban's request for a non-fee credit card pilot program.

(d) **Conclusion**

ORA recommends the Commission disallow Suburban's request to offer its customers a no-fee credit card/debit card payment option. As shown in PG&E and CWS' pilot programs that Suburban is modeling after, the program Suburban

proposed will not be cost neutral, and therefore, will not be in compliance with PU Code 755.

5) Affiliate Transaction Rule Employee Transfer, Military Family Relief Program Memorandum Accounts Amortization, Leased Vehicle Sale Proceeds Amortization

(a) **Introduction**

Suburban requested to amortize a one-time credit totaling $41,147 of its Affiliate Transaction Rule Employee Transfer Memorandum Account. The memorandum account is required pursuant to D.11-10-034, Appendix A, IV.D.3 each time a utility employee is transferred to its other affiliates. Suburban also requests authority to amortize its Military Family Relief Program Memorandum Account. The current debit balance in the account is $8,694. Finally, Suburban requests authority to amortize the Leased Vehicle Sale Proceeds of $128,405 as a one-time surcredit.

(b) **Summary of Recommendations**

ORA has reviewed and recommends Suburban's requests to amortize the balances in: 1) Affiliate Transaction Rule Employee Transfer Memorandum Account Amortization, 2) Military Family Relief Program Memorandum Account Amortization, and 3) Sales of Vehicle Amortization be approved. The amortization will result in $1.01 per 100 cubic feet of water consumption surcredit for Suburban's ratepayers.

(c) **Discussion**

Suburban's workpapers indicate that an overall surcredit in the amount of $1.01 per 100 cubic feet will be assessed as a net surcredit that is based on the following three items:

i) Affiliate Transaction Rule Employee Transfer Memorandum Account Amortization (credit): $41,147

ii) Military Family Relief Program Memorandum Account Amortization (charge): $8,694

iii) Sales of Vehicle Amortization (credit): $128,405

Based on the amounts discussed above, Suburban is requesting to assess a net surcredit in the amount of $1.01 per 100 cubic feet of water consumption. Military Family Relief Program Memorandum Account was established pursuant to Commission's directives under Advice Letter No.245-W approved on January 24, 2006. After careful evaluation of Suburban's workpapers and responses it has provided against ORA's several data requests, ORA finds the surcredit reasonable.

(d) **Conclusion**

ORA recommends the Commission to allow Suburban to amortize the balances in: 1) Affiliate Transaction Rule Employee Transfer Memorandum Account Amortization, 2) Military Family Relief Program Memorandum Account Amortization, and 3) Sales of Vehicle Amortization. The amortization will result in $1.01 per 100 cubic feet of water consumption surcredit for Suburban's ratepayers.

6) Water Revenue Adjustment Mechanism ("WRAM") Balancing Account Amortization

(a) **Introduction**

Suburban requests authority to amortize as a one-time surcharge for the current $555,311 debit balance as of December 31, 2013 in its WRAM Balancing Account, which includes the under collection of prior amortization authorized by Advice Letter 285-W. Bills for January 2015 would be subject to a one-time surcharge of $0.399 and $0.305 per 100 ccf of water used applicable to residential customers in the San Jose Hills and Whittier/La Mirada Services Areas.

(b) **Summary of Recommendations**

ORA has reviewed Suburban's workpapers and determined that its request to amortize $555,311 under-collection in its WRAM Memorandum Account is reasonable. However, ORA recommends that the amortized amount be recovered over a 12-month period as required by Standard Practice U-27 instead of a one month recovery time Suburban proposed. The final surcharge should also be calculated based on the final water sales quantity the Commission adopted in this proceeding.

(c) **Discussion**

Suburban's WRAM account was authorized by the Commission in Decision D.08-02-036. It is a Monterey-style WRAM, which tracks the differences between revenue received for actual sales under the proposed conservation rate design and the revenue Suburban would have received if its existing rate design, a single quantity rate, remained in place. In this GRC, it is seeking to amortize $555,311, from October 2011 to December 31, 2013, the under-collection in the memorandum account. Based on ORA's review of Suburban's supporting workpapers, the amount being amortized in the memorandum account is reasonable.

While ORA does not disagree with the amount being amortized in this request, ORA disagrees with Suburban that the amortized amount be recovered in one month. Instead, ORA recommends that the amortized amount be recovered over a 12-month period pursuant to Standard Practice U-27. ORA also recommends that the final surcharge for both San Jose Hills and Whittier/La Mirada service areas should be recalculated based on the final water sales that the Commission will adopt in this proceeding.

(d) **Conclusion**

ORA recommends the Commission approve Suburban's request to amortize $555,311 in its WRAM Memorandum Account. The Commission should also require Suburban to amortize this amount over a 12-month period and that the surcharge should be calculated based on the final water sales the Commission adopts in this proceeding.

7) Low Income Ratepayer Assistance Memorandum Account Amortization

(a) **Introduction**

Suburban requests authority to amortize as a one-time surcharge the current $343,433 debit balance in its Low Income Ratepayer Assistance (LIRA) Memorandum Account as of December 31, 2013, which includes an over-refunded residual of $2,300 for the previously authorized amortize requested in Advice Letter 294-W. This amortization will result in a surcharge of $0.217 per 100 ccf water used in the January 2015 customer bills.

(b) **Summary of Recommendations**

ORA has reviewed Suburban's workpapers and determined that its request to amortize the $343,433 under-collection in its LIRA Memorandum Account is reasonable. However, ORA recommends that the amortized amount be recovered over a 12-month period pursuant to Standard Practice U-27 instead of a one month recovery time proposed by Suburban. The final surcharge should also be calculated based on the final water sales quantity adopted by the Commission in this proceeding.

(c) **Discussion**

Suburban's LIRA program was part of a settlement with ORA and adopted by the Commission in Decision D.08-02-036. The settlement provides that low income residential customers who meet the requirements for the California

Alternate Rates for Energy (CARE) program will receive a $6.50 monthly credit to the service charge. To fund the LIRA program, a surcharge based on the forecasted program funding requirement would be assessed on each ccf unit of water sales by Suburban. Customers who are not participating in the program do not need to pay the surcharge.

Suburban requests amortizing its under collection of $341,033 in its LIRA Memorandum Account from May 2012 to December 2013. Additionally, an amount of $2300 was over-refunded in its prior amortization as authorized by Advice Letter 294-W. This amount will be amortized together with the amount in the LIRA Memorandum Account for a total amortization of $343,433. ORA has reviewed Suburban's workpapers and invoices supporting this amortization and found them to be reasonable.

While ORA does not disagree with the amount being amortized in this request, ORA disagrees with Suburban that the amortized amount be recovered in one month. Instead, ORA recommends that the amortized amount be recovered over a 12-month period in accordance to Standard Practice U-27. Additionally, ORA's recommendation of $0.217 per ccf water sales is based on Suburban's 2015 sales forecast in its filing. ORA recommends that the final surcharge should be calculated based on the sales forecast as approved by the Commission in its final decision of this GRC.

(d) **Conclusion**

ORA recommends the Commission approve Suburban's request to amortize $343,433 in its LIRA Memorandum Account. The Commission should also require Suburban to amortize this amount over a 12-month period and that the surcharge should be calculated based on the final water sales the Commission adopts in this proceeding.

8) Income Tax Repair Regulations Implementation Memorandum Account Amortization

(a) **Introduction**

Suburban requests authority to amortize as a one-time surcharge the current $40,297 debit balance in its Income Tax Repair Regulations Implementation Memorandum Account. Bills for January 2015 would be subject to a surcharge of $0.025 per 100 cubic feet of water used.

(b) **Summary of Recommendations**

ORA recommends the Commission disallow Suburban's request to amortize as a one-time surcharge the current $40,297 debit balance in its Income Tax Repair Regulations Implementation Memorandum Account.

(c) **Discussion**

On August 22, 2013, the Commission granted Suburban the authority to establish this memorandum account by Advice Letter No. 303-W-A. The following is the purpose of the memorandum account as stated in Suburban's Preliminary Statement:

> The purpose of this memorandum account is to track the expense of initial implementation of the Repair Regulations and will include (i) outside implementation service fees, and (ii) other directly applicable expenses to comply with the U.S. Treasury Department Regulations issued in December 2011 (T.D. 9564) and subsequent guidance issued by the Internal Revenue Service ("IRS").
>
> In anticipation that the final repair and maintenance regulations would be substantially the same as the IRS's draft requiring mandatory capitalization of repair and maintenance costs beginning in 2014, Suburban filed Advice Letter No. 303-W requesting a memorandum account in which to defer the costs of the necessary study needed to comply with the draft regulations.

Suburban entered into an agreement with Grant Thornton LLP on August 23, 2013. Grant Thornton LLP had substantially completed work on the project by the time final regulations were issued on September 19, 2013. Treasury Regulation 1.263(a)-3(n) provided an unexpected and critically important provision. Deducting repair and maintenance costs beginning in 2014 was not mandatory but elective: Treas. Reg. 1.263 (a)-3 (n) (i) In general. A taxpayer may elect to treat amounts paid during the taxable year for repair and maintenance costs (as defined under section 1.162-4) to tangible property as amounts paid to improve that property under this section and as an asset subject to the allowance for depreciation if the taxpayer incurs these amounts in carrying on its trade or business and if the taxpayer treats these amounts as capital expenditures on its books and records regularly used in computing income (books and records). A taxpayer that elects to apply this paragraph (n) in a taxable year must apply this paragraph to all amounts paid for repair and maintenance to tangible property that it treats as capital expenditures on its books and records in that taxable year. Any amount for which this election is made shall not be treated as amounts paid for repair or maintenance under section 1.162-4.

As a result of this new provision in the Treasury Regulations, SouthWest Water Company intends to make this election and therefore will not be deducting repair and maintenance costs in its Federal Income Tax Return in 2014 or in the subsequent test years for any of its affiliates including Suburban.

Suburban is not confident that the necessary abundance and accuracy of records are available to meet the IRS's high bar for repair deductions. Because Suburban acted in good faith with the knowledge it had available at the time in incurring the costs of this study, Suburban believes recovery of the Income Tax Repair Regulations Implementation Memorandum Account should be authorized.

In ORA's data request VCC-04, ORA requested additional information from Suburban regarding the following question:

> What benefit was provided to ratepayers as a result of the implementation of the Income Tax Repair Regulation?

Suburban's Response:

> As discussed in Exhibit A, SouthWest Water Company will be making the election not to deduct repair and maintenance costs in its Federal Income Tax Return in 2014 and in the subsequent test years for any of its affiliates including Suburban.

Since, Suburban has decided not to take the federal tax deduction in 2014, ORA ratepayers will not benefit from making the accounting switch to the repair deduction, and therefore recommends the Commission disallow recovery of $40,297 recorded in the memorandum account. ORA also notes that Suburban failed to open a memo account to track the benefits associated with the Repairs Regulations, as other utilities have opened similar memo accounts which track both-the cost of implementation and the resulting benefit. This means that even if Suburban where to implement the provision, the company's shareholders will get to capture all the tax benefits, yet ratepayers would be burdened with the costs.

(d) **Conclusion**

ORA recommends the Commission disallow Suburban's request to seek recovery as a one-time surcharge of the current $40,297 debit balance in its Income Tax Repair Regulation Implementation Memorandum Account.

9) Increase Amount of Deposit to Establish Credit and Criteria for Return of Deposits

(a) **Introduction**

Suburban requests authority to increase its deposit requirement from $5 to $30 for monthly billing and $10 to $60 for bi-monthly billing in order to establish credit by its customers. This request is similar to Rule No. 7A.1.a. in Golden State Water Company's Tariff, which was approved by the Commission in D.04-03-039. Suburban also requests to add criteria to Return of Deposits in Section D of Rule 7 in its tariff.

> *Deposits will be returned to customers after being held for 12 consecutive months, provided that all bills for service are paid prior to becoming past due. The return of the deposit will be made with interest as provided in Paragraph E of this rule.*

(b) **Summary of Recommendations**

Suburban's request to increase its customer deposit requirement from $5 to $30 for monthly billing, and $10 to $60 for bi-monthly billing, is similar to Golden State Water Company's Rule 7A.1.a., which was approved by Commission in Decision D.04-03-039. The increase deposit requirement will serve as a stronger deterrent for non-payment by high credit risk customers. It will also allow Suburban to reduce the amount of uncollectible revenue when those customers fail to pay. ORA recommends the Commission to approve Suburban's request in the interest of its overall ratepayers.

(c) **Discussion**

Suburban proposes changing the deposit amount it requires from residential customers with a 5/8" x ¾" meter to establish credit. Under its current Rule 7, the Company charges a $5 deposit for monthly-billed residential customers and $10 deposit for bi-monthly billed residential customers. This deposit is required for customers who pose a credit risk for non-payment.

The current criteria for the deposit requirement are included in Suburban's Rule 7. When new customers are unwilling or unable to provide Social Security account number information for purposes of identification to establish credit, Suburban requires a deposit from the new customers. For customers whose services have been discontinued for nonpayment of bills, the deposit amount would be twice the estimated average monthly or bimonthly bill to be rendered for the service requested.

The purpose of the deposit is to provide Suburban a deterrent for non-payment by those customers who post a credit risk. It will also allow Suburban to recover some of its uncollectible expenses by applying the deposit toward the unpaid bills. Currently, the average unpaid bill that goes into uncollectible is about $150[210]. This means that the existing deposits of $5 monthly or $10 bi-monthly could only recover a fraction of that cost. The remaining defaulted amount becomes uncollectible expenses and would eventually be recovered through Suburban's other ratepayers. This punishes those ratepayers who pay their bills on time. ORA believes it is neither reasonable nor fair for them to bear this additional financial burden.

In this filing, Suburban proposes an uncollectible rate of 0.35% under the assumption that the Commission would approve its request to increase the customer deposit amount. In the event this request is not approved, the uncollectible rates would increase to 0.48%, which would result in an increase of $86,866 in its uncollectible expenses for Test year 2015.

The current deposit amount of $5 for monthly and $10 for bimonthly were established nearly 20 years ago in 1995 and is not enough to cover Suburban's processing cost of handling the deposit. ORA believes it would be appropriate for Suburban to increase its customer deposit in the interest of its overall ratepayers and, at the same time, allow it to be in line with other Class A water utilities for

[210] Suburban DR response VCC-3.

such a requirement. The Commission should, therefore, approve Suburban's request.

In conjunction with the increase in deposit requirement, ORA also recommends Suburban change the interest rate paid on the customer deposits from the current 7.5% monthly to the 90-day commercial paper rate per month up to the time the deposit is returned. This revision will allow Suburban to pay an interest on customer deposits that are more in line with the current rates paid by banks for savings and deposits.

(d) **Conclusion**

Suburban's current deposit requirement of $5 and $10 was established nearly 20 years ago and is too low to serve as a deterrent to high credit risk customers and cover their unpaid bills. The Company's request to increase the deposit requirement to $30 and $60 is reasonable and will provide relief to its general customers by reducing the amount of uncollectible expenses. ORA recommends the Commission approve Suburban's request and also revise its interest rate paid on the deposits.

10) Increase Low Income Ratepayer Assistance Surcharge

(a) **Introduction**

Suburban requests authority to increase the amount of the Low Income Ratepayer Assistance (LIRA) surcharge from $0.014 to $0.043 per 100 cubic feet water sales, excluding those customers receiving a Low Income Ratepayer Assistance credit. This is needed in order to collect enough revenue from the non-participating ratepayers to balance the funding the LIRA program requires.

(b) **Summary of Recommendations**

ORA does not disagree with Suburban that the LIRA surcharge should increase due to increases in the number of program participants. However, ORA disagrees with Suburban's forecast of the number of LIRA participants in Test

year 2015. Suburban used 9,025 based on the recorded 2013 data while ORA believes the participant rate should be lower because: 1) the economic condition in the Los Angeles County is gradually improving, and 2) a revised income guideline will require a higher income eligibility requirement as filed by Suburban in AL-305-W. ORA recommends 6,032 as the participant rate for 2015 based on the average of the past three years. Finally, the final surcharge should be calculated based on ORA's recommended LIRA participant forecast and the sales forecast as the Commission approves in this GRC.

(c) **Discussion**

Suburban's LIRA program was part of a settlement with ORA and adopted by the Commission in Decision D.08-02-036. The settlement provides that low income residential customers who meet the requirements for the California Alternate Rates for Energy (CARE) program will receive a $6.50 monthly credit to the service charge. To fund the LIRA program, a surcharge based on the forecasted program funding requirement will be assessed on each ccf unit of water sold by Suburban. Customers who participates in the program do not need to pay the surcharge.

Suburban's request to increase its surcharge from the current $0.014 to $0.043 per 100 ccf is necessary because of the increase in the number of participants in the LIRA program. The increase in the LIRA program cost is directly proportional to the number of participants. As the number of participants increase, so will the program cost.

Based on the LIRA participant data Suburban provided, ORA does not disagree that the LIRA program cost would increase during Test Year 2015, but disagrees with the magnitude of the increase. Using the most recent recorded data from 2013, Suburban forecasts its LIRA program will have 9,025 participants each year from 2015 to 2018. In VCC-03 DR response, Suburban provided the following number of LIRA participants between 2008 and 2013:

Year	2008	2009	2010	2011	2012	2013	3-yr Avg
Participants	2238	3926	3862	3606	5466	9025	6032

The historical data above shows that the LIRA participants have been increasing since 2008, except for a slight dip in 2010 and 2011. LIRA participants reached 9,025 in 2013, the highest number over the past 6 years. The increase in the number of LIRA participants coincided with the most recent recession, which began in early 2007 and one which is considered the worst since the Great Depression of 1929. The unemployment rate reached 12.5%[211] in Los Angeles County during the peak of the recession in 2010. It is not difficult to correlate the number of LIRA participants with the on-going economic conditions. In general, a higher unemployment rate will lead to a higher number of LIRA participants.

According to most economic reports, the recent recession was over in 2009 and economic conditions have gradually improved since, although still at a slow pace. The unemployment rate in Los Angeles County, likewise, is improving. As of February of 2014, the rate stands at 8.9%[212]. As the unemployment rate continues to improve, ORA believes the number of LIRA participants should start trending downward.

One factor that might have contributed to the rise in LIRA participants in 2012 and 2013 was the impact of Decision D.11-05-020 adopted by the Commission in May 2011 requiring water and energy utilities with overlapping service territories to share low-income customer information in order to increase the participation rates in water low-income assistance programs. It also encouraged water and energy utilities to collaborate on outreach efforts to low-

[211] Data provided by U.S. Department of Labor's Bureau of Labor Statistics.

[212] Data provided by U.S. Department of Labor's Bureau of Labor Statistics.

income customers. Suburban is one of the water utilities that participated in the information sharing with SCE. However, it is unclear to ORA as to what percentage of the increase of participants was due to such information sharing. As such, ORA forecasts the number of LIRA participants to be 6,032 based on the average of the past three years, 2011 to 2013, during this rate case cycle. The use of 6,032 as the number of LIRA participants will result in a LIRA surcharge of $0.028 per ccf.

On April 30, 2014, Suburban filed Advice Letter 305-W requesting to update the income eligibility guidelines for its low income program in compliance with the CPUC's Energy Division's letter dated April 1, 2014. The income eligibility guidelines presented in the letter are also being used by the Class A and B water utilities in determining their low income rate assistance program income guidelines. Specifically, the Energy Division's letter determined that the income eligibility guidelines for June 1, 2014 to May 31, 2015 will be increased slightly from the previous years. The following is a table comparing the current income eligibility guideline and the one being proposed in Al-305-W:

	Total Combined Annual Income	
Total Persons in Household	Current	Proposed under AL 305-W
1	$ 22,980.00	
2	$ 31,020.00	$ 31,460.00
3	$ 39,060.00	$ 39,580.00
4	$ 47,100.00	$ 47,700.00
5	$ 55,140.00	$ 55,820.00
6	$ 63,180.00	$ 63,940.00
7	$ 71,220.00	$ 72,060.00
8	$ 79,260.00	$ 80,180.00

The proposed income guidelines under AL 305-W will have a higher eligibility requirement than the current guideline. As such, ORA expects there

will be a lower number of LIRA participants who are eligible to enroll into the program for the Test year 2015.

ORA's recommendation of $0.028 for the LIRA surcharge is based on Suburban's 2015 sales forecast in its filing. ORA recommends that the final surcharge should be calculated based on ORA's recommended LIRA participant forecast and the sales forecast the Commission approved in the final decision of this GRC.

(d) **Conclusion**

ORA agrees that the LIRA program cost is projected to increase as more participants are enrolled into the program. However, ORA disagrees with Suburban's proposed surcharge of $0.043 per ccf, which was calculated based on 2013 LIRA participant rate. For reasons discussed above, ORA proposed a surcharge of $0.028 by using an average participant rate of the past three years (2010 to 2013) is more reasonable and more likely reflects the number of participants in the program for Test Year 2015. The Commission should adopt ORA's recommendation.

11) Customer Information Sharing

(a) **Introduction**

Suburban requests authority to create Rule 23, Customer Information Sharing, in order to be able to disclose certain customer information to prescribed public entities, if requested. This information will be used for the sole purpose of calculating fees, such as local taxes, sewer fees, miscellaneous city and county fees and/or for the facilitation of water conservation efforts, whereby the calculation of these fees and efforts depends on data held by Suburban. Suburban will also enter into Nondisclosure Agreements with entities to insure that the customer information shared is kept private and only used for the sole purpose for which it is intended.

(b) **Summary of Recommendations**

ORA agrees with Suburban's request to share its customer information with other public agencies because the Commission approved the same tariff rule for Golden State Water Company (GSWC) in Resolution W-4834. ORA also believes that the sharing of customer data with public entities for the purpose of calculation of local taxes, sewer fees, miscellaneous city fees and water conservation efforts is in the public interest. There are sufficient safeguards for individual privacy rights in both the limited context of when and to whom the customer information will be shared and in the limited nature of the customer information that will be shared with government agencies. In addition, Suburban will enter into a Confidentiality and Non-Disclosure Agreement with government agencies prior to the release of any customer information. This will provide added assurance that the customer information that is shared is kept private and only used for the purpose for which it is intended.

(c) **Discussion**

Suburban's request to establish Rule 23 is similar to the request by GSWC in its Advice Letter No. 1403-W filed on May 25, 2010. In that request, GSWC requested to amend its tariffs by adding Rule 22, Customer Information Sharing, and Form No. 24, Confidentiality and Non-Disclosure Agreement. In Resolution W-4834, the Commission provided a detailed discussion of its decision and approved GSWC's request. Consistent with the ruling in R-4834, ORA recommends that the Commission should have the same following findings and conclusions regarding Suburban's request:

1. Suburban proposes adding Tariff Rule 23 to establish guidelines for the release of customer-specific information to local government (city and county) and wholesale water agencies.
2. Tariff Rule 23 provides that the sharing of customer-specific information is for the purpose of calculating local taxes, sewer

fees, miscellaneous city fees and water conservation efforts that is dependent on data in Suburban's possession.

3. Tariff Rule 23 provides that the customer-specific information released to local government and wholesale water agencies is limited to: 1) customer name; 2) service address; and 3) water consumption data that may include service establishment and termination dates.

4. Prior to sharing customer information, Suburban will enter into confidentiality and non-disclosure agreements with local governments and wholesale water agencies to insure that the customer information shared is kept private and only used for the purposes for which it is intended.

5. Suburban proposes adding a sample Confidentiality and Non-Disclosure Agreement to its tariffs as Form No. 24.

6. While utility customers, like other individual California citizens, have constitutionally-based privacy interests, which include an interest in controlling the disclosure of detailed personal information, the extent of a privacy interest is dependent on the circumstances.

7. Disclosure of customer information for public interest purposes should be balanced against privacy concerns raised by disclosure.

8. There is a public policy interest in encouraging the efficient use of water.

9. Conservation measures and programs are an important aspect of encouraging the efficient use of water.

10. Customer-use data are important for implementation and enforcement of conservation measures and programs to assure that effective measures and programs are instituted.

11. Efficiency in the provision of essential utility services is an important public policy interest.

12. The sharing of customer-use data by Suburban can contribute to the efficient provision of utility service by government-run waste-water systems.

13. The state's public policy interest is served, to the extent that local government's taxes and fees depend on, or are more efficiently assessed by, obtaining customer-usage information from Suburban.

14. There are sufficient safeguards for individual privacy in Tariff Rule 23 in both the limited context of when and to whom the customer information will be shared and in the limited nature of the customer information that will be shared with government agencies.

15. Suburban will enter into a Confidentiality and Non-Disclosure Agreement with government agencies prior to the release of any customer information. This will provide an added assurance that the customer information that is shared is kept private and only used for the purpose for which it is intended.

16. On balance, the public policy interest for sharing customer information proposed by Suburban in this filing, and as outlined in Tariff Rule 23, outweighs the privacy concerns that may be occasioned by the release of this information to local government agencies.

Suburban's request to establish Rule 23 for customer information sharing is reasonable. In a resolution that granted GSWC the same request, the Commission discussed in detail that the ability to share information with other local public agencies by water utilities would serve the public policy interest as long as privacy issues are adequately addressed. ORA believes the privacy issue has been addressed because Suburban will enter into Non-Disclosure Agreements with public agency entities to insure that customer information shared is kept private and only used for the sole purpose for which it is intended. ORA recommends the Commission approve Suburban's request.

C. Conclusion

For reasons discussed in each Special Request, the Commission should find ORA's discussion reasonable and adopt its recommendation.

CHAPTER 13: RATE DESIGN

A. INTRODUCTION

This Chapter sets forth ORA's analysis on Suburban's rate design. Suburban does not request changes to its current block rate structures that were implemented in 2008.

B. SUMMARY OF RECOMMENDATIONS

ORA agrees with Suburban that the current block-rate structure "has proven to be highly effective in reducing water demand". ORA agrees with Suburban that no changes should be made at this time to the current rate structures. However, the rate design structure should be re-evaluated it in Suburban's next GRC.

C. DISCUSSION

Suburban currently provides water service to its customers under the following tariffs:

SCHEDULE NO. SJ-1, SAN JOSE HILLS RESIDENTIAL METERED SERVICE

SCHEDULE NO. SJ-2, SAN JOSE HILLS NON-RESIDENTIAL METERED SERVICE

SCHEDULE NO. SJ-3, SAN JOSE HILLS RECYCLED WATER METERED SERVICE

SCHEDULE NO. WLM-1, WHITTIER/LA MIRADA RESIDENTIAL METERED SERVICE

SCHEDULE NO. WLM-2, WHITTIER/LA MIRADA NON-RESIDENTIAL METERED SERVICE

SCHEDULE NO. 4, PRIVATE FIRE PROTECTION SERVICE

SCHEDULE NO.4A, FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

Suburban's rate design is consistent with the method set forth in D.86-05-064. Suburban's service charge is 30% of the fixed costs to encourage conservation. At this time, the Commission should continue to apply the current rate design method until the Commission issues its final decision on the conservation rates for Suburban. Suburban implemented conservation rates for its Residential customers in October 2008 and requested that no changes in the current inclining block rate design. Customer usage data shows that Suburban's current inclining block rate structure appears to have an impact of conservation efforts. Suburban's SBX7-7 2015 target daily per capita water use are 155.3 gross daily per capita (gpcd) and 173.6 gpcd for San Jose Hills and Whittier La Mirada Districts, respectively.[213] Suburban's 2012 daily per capita water use are 149 gpcd and 171 gpcd in San Jose Hills and Whittier-La Mirada, respectively.[214] Based upon the information submitted, Suburban is on target and even exceeds its conservation goal in meeting the requirements of SBX7-7. Therefore, ORA concurs with the company's request to continue implementing the inclining block rate. Suburban's two-block rate design consists of different volume breakpoints for different meter sizes as shown in the following table:

Meter Size	Tier 1	Tier 2
5/8 x ¾ inch meter	0 - 20 Ccf	> 20 Ccf
¾ inch meter	0 - 20 Ccf	> 20 Ccf
1-inch meter	0 - 28 Ccf	> 28 Ccf
1 ½ -inch meter	0 - 70 Ccf	> 70 Ccf
2-inch meter	0 – 233 Ccf	> 233 Ccf
3-inch meter	0 – 321 Ccf	> 321 Ccf

[213] Suburban's Urban Water Management Plan, p. 2-6, Tables 2-6 and 2-7.

[214] Suburban's Response to ORA's Data Request PE-13.b, Question 4.

D. CONCLUSION

Based on the above information, ORA recommends that the Commission allow Suburban to retain its current conservation rate structure.

CHAPTER 14: ESCALATION YEARS INCREASE

A. FIRST ESCALATION YEAR

As required in the Rate Case Plan, Suburban is required to file its Escalation Years 1 and 2 rate increase by requesting by Tier 1 advice letter no later than 45 days prior to the first of the escalation year.[215] The advice letter filing should include all calculations and documentation necessary to support the requested rate change.[216] The requested rate increase should be subject to the pro forma earnings test, as specified in D.04-06-018.[217] [218]

The Commission's Water Division and Audits ("DWA") will review the requested step rates to determine their conformity with the decision in this GRC. These rates will go into effect upon DWA's determination of compliance. DWA will inform the Commission if it finds that the proposed rates are not in accord with the GRC decision. The Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than January 1, 2016. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year, the Commission will grant an attrition adjustment for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues. The revenue change shall be calculated by multiplying ORA's forecasted inflation

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[215] D.07-05-062, Appendix A, page 19.

[216] Id.

[217] Id.

[218] D.04-06-018 on page 14 states: "The escalation year increase shall be decreased to the extent the pro-forma rate of return exceeds the authorized rate of return for the 12-months ending in September for January filers and in April for July filers prior to the escalation year."

rate and operational attrition plus financial attrition times adopted rate base in 2017 times the net-to-gross multiplier.

C. ESCALATION YEARS' REVENUE REQUIREMENTS

Table 14-1 below shows the Summaries of Earnings for Escalation Years 2016 and 2017. To obtain the increases in these years, D.04-06-018 and D.07-05-062 require water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 14-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

Table 14-1 **(revised)**			
SUBURBAN WATER COMPANY			
SUMMARY OF EARNINGS (Escalation Years @ Proposed Rates)			
	ORA		ORA
Item	2016		2017
	(A)		(B)
	(Dollars in Thousands)		
Operating Revenues			
Total Metered Water Svs. Revenue excluding PUC Fee	74,048.0		76,880.0
Total Other Water revenue	484.0		484.0
Amortization of Deferred revenue	6.0		6.0
Total **Operating** Revenue	**74,538.0**		**77,370.0**
Expenses			
Operation & Maintenance	30,546.8		30,982.7
Payroll Expenses	**7,059.6**		**7,186.7**
Admininistrative and General	**10,762.2**		**10,990.8**
Depreciation Expense	8,780.1		**9,863.9**
Taxes Other Than Income	**2,182.1**		**2,273.7**
CCFT	**1,028.2**		**1,154.1**
FIT	**3,624.7**		**4,076.2**
Total Expenses	**63,983.7**		**66,528.0**
Net Income	**10,554.3**		**10,842.0**
Ratebase	**120,573.0**		**124,182.3**
Rate of Return	**8.75%**		**8.73%**

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APPENDIX A

QUALIFICATIONS AND PREPRARED TESITMONY

QUALIFICATIONS AND PREPARED TESTIMONY

OF

VICTOR CHAN

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

A1. My name is Victor Chan and my business address is 320 West 4th Street, Suite 500, Los Angeles, California. I am Senior Utilities Engineer, Supervisor in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from Cal Poly, Pomona with a Bachelor of Science in Mechanical Engineering. I am a registered mechanical engineer with the State of California.

Q3. Briefly describe your professional experience.

A3. I have been employed by the Commission since August 1996. From 1996 to 2003, I worked as an utilities engineer for the CPSD Division where I performed safety audits on various gas, electric, telephone and cable utilities. From 2003 to present, I have been working as a Senior Utilities Engineer Supervisor for the Water Branch of DRA and served as a project manager for general rate cases of various water companies in California.

Q4. What is your responsibility in this proceeding?

A4. I am the project lead in the Suburban GRC. I am also sponsoring the Memorandum, Executive Summary, Chapter 1- Summary of Earnings, Chapter 9- Customer Service, Chapter 12- Special Requests, and Chapter 14- Escalation Years.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY

OF

PATRICIA ESULE

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

A1. My name is Patricia Esule and my business address is 320 W. 4th Street, Los Angeles, California, 90013. I am a Public Utility Regulatory Analyst IV ("PURA IV"), in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I received an Associate Degree in Liberal Arts from College of the Sequoias in Visalia, California in 1979. Attended NARUC Rate School in 2004. Completed Utility Finance & Accounting for Non-Professionals course in 2007.

I joined Office of Ratepayer Advocates – Water Branch as a PURA III in May 2003 and was promoted to PURA IV in February 2007. My previous positions at the Commission include; Associate Transportation Analyst in the Consumer Protection and Safety Division investigating allegations of telecommunication fraud and abusive sales tactics from 2001 to 2003, Supervisor in Consumer Affairs Branch from 1992 to 2001, and Consumer Affairs Representative from 1989 to 1992. Prior to coming to the Commission I worked for several years in the telecommunications industry for Pacific Telephone and Telegraph and AT&T Communications.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 3 – O&M Expenses and A&G Expenses, excluding Payroll, Taxes, Pension & Benefits and other Parent Company issues.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY

OF

BRIAN YU

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

A1. My name is Brian Yu. Business address is 320 W. 4th Street, Suite 500, Los Angeles, CA 90013. My positions with the Commission is a Utilities Engineer.

Q2. Please summarize your education background and professional experience.

A2. I graduated California Polytechnic University, Pomona; majored in Mechanical Engineering. I am a licensed California Professional Mechanical Engineer. I have been working for ORA since 2007 and my duties were to review and be witness for plant and ratebase chapters of class A water company general rate cases. Prior to that, I had worked for the Commission's Rail Transit Safety Section from 2001 to 2007. My functions at the Rail Safety Section were: State safety oversight liaison for the Los Angeles METRO, conducting safety audits for major rail transit systems in California, conducting safety inspections of power lines for the rail transit systems in California, and reviewing safety certification processes for the rail transit systems. Prior to that, I worked at a private general construction company which mainly did government and military construction projects. My responsibility included: plan review, project estimate, and construction site management.

Q3. What is your responsibility in this proceeding?

A3. .I am responsible for the Whittier/La Mirada portion of Chapter 6- Utility Plant in Service and Chapter 7-Depreciation Reserve and Depreciation Expenses.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY

OF

JANUARSIH SUSANA NASSERIE

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

A.1. My name is J Susana Nasserie. My business address is 320 W. 4th Street, Los Angeles. My positions with the Commission is a Utilities Engineer.

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

A. 2. I am employed by the California Public Utilities Commission as Utilities Engineer in the Water Branch of the Office of Ratepayers Advocates.

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

A. 3. I graduated from Institute Technology Bandung in Indonesia with a Bachelor of Science Degree in Electrical Engineer and also from California State University of Fullerton with a Master Degree in Environmental Engineering with emphasis in water supply and water quality engineering. I have been employed by the California Public Utilities Commission since September 2010. From July 2000 through January 2009, I was a System Programmer Analyst at the Los Angeles Regional Water Control Board, where I managed the LA Water board's databases and website. From February 2009 through August 2010, I was an Air Resources Engineer in at the Air Resources Board under In-Use Retrofit section, where I analyzed emission data for retrofit projects. I also developed the section's web database system.

Q. 4. What is your area of responsibility in this proceeding?

A. 4. I am sponsoring Chapter 6, Utility Plant in Service for the San Jose Hills District, main office and Routine Items. In addition, I am also sponsoring Chapter 8-Rate base and Chapter 9- Water Quality and Customer Service.

Q. 5. Does this conclude your prepared testimony?

A. 5. Yes, it does.

QUALIFICATION AND PREPARED TESTIMONY

OF

JEFFREY ROBERTS

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

A1. My name is Jeffrey Roberts and my business address is 320 W 4th Street, Los Angeles, CA 90028. I am a Public Utilities Regulatory Analyst (PURA) in the Water Branch of the Office of Ratepayer Advocates (ORA).

Q2. Please summarize your educational background and professional experience.

A2. I received a Bachelor of Science Degree in Finance from the Richard Stockton College of New Jersey in 2011. In April of 2013 I joined the Commission, where I worked as a Regulatory Analyst on a variety of assignments including advice letters, application filings, and general rate case proceedings. Recently, I oversaw the cost of capital rate reduction advice letters 430 & 431 for San Gabriel Water Company, and am currently the project coordinator on Great Oaks Water Company application for debt issuance (A.14-01-023). Additionally, I am responsible for portions of the A&G expenses and payroll for the Cal-Am GRC (A.13-07-002). Prior to my role at the commission; I worked as an analyst preparing investment prospectuses for an early-stage green energy company.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 4-Payroll, Chapter 5-Income Taxes, and Chapter 11-Review of Existing Memorandum/Balancing Accounts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY

OF

JENNY AU

Q.1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Jenny M. Au and my business address is 320 West 4th Street, Suite 500, Los Angeles, California. I am a Utilities Engineer in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from Cal Poly Pomona with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.

Q3. Briefly describe your professional experience.

A3. I have been employed by the California Public Utilities Commission since April 2007 and participated in many GRCs. I prepared testimonies on Capital Projects, Sales Forecasting, and Water Quality in various Class A water utilities GRCs including Suburban, Golden States, Great Oaks, San Gabriel, Apple Valley Rancho, San Jose, and Cal Water.

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

From January 1993 through November 2006, I was a Water Resource Control Engineer at the *Los Angeles Regional Water Control Board's Site Cleanup Unit*.

The Site Cleanup Program staff oversees the site investigation and corrective action at contaminated sites. I managed over 100 complex soil and groundwater cleanup projects involving a multiple of contaminants such as petroleum hydrocarbons, volatile organic compounds (PCE, TCE, etc.), emerging chemicals (perchlorate, 1,4 dioxane, chromium VI), and inorganics (metals, nitrate). My projects ranged from small industrial sites (e.g. dry cleaners) to multi–acre Department of Defense (DOD) sites. I reviewed and provided comments on site assessment and remediation plans and reports to ensure that the extent of soil and groundwater contamination is adequately defined and properly remediated to levels which do not pose a risk to human health and the environment. I also prepared NPDES permits and Waste Discharge Requirements for cleanup projects.

Q4. What is your responsibility in this proceeding?

A4. I am responsible for Chapters 2 and 11.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY

OF

HANI MOUSSA

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

A1. My name is Hani Moussa and my business address is 320 West 4th Street, Suite 500, Los Angeles, California. I am a Program and Project Supervisor in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at San Diego, with a Bachelor of Science Degree in Electrical Engineering. I am a registered electrical engineer in the State of California.

Q3. Briefly describe your professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many proceedings. I have been employed in the ORA Water Branch since 2005.

Q4. What is your responsibility in this proceeding?

A4. I am responsible for Special Requests (1.) Amortization of 2012 Cost of Capital Litigation Memorandum Account; (2.) Amortization of Forecasted 2016 Cost of Capital Costs, and Establish Associated Memorandum Account; and (8.) Income Tax Repair Regulations Implementation Memorandum Account Amortization.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY

OF

MEHBOOB ASLAM

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

A.1. My name is Mehboob Aslam. My business address is 320 west 4th Street, Suite 500, Los Angeles, CA 90013.

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

A.2. I am employed by the California Public Utilities Commission as a Utility Engineer.

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

A.3. I graduated from the University of Engineering & Technology, Lahore, Pakistan with a Bachelor of Science Degree in Mechanical Engineering and a Master of Science Degree, in Business Administration with an emphasis on Accounting and Finance from Western Kentucky University, USA.

I have been employed by the CPUC since 2001. From 2001 through 2002, I was a member of the Consumer Protection and Safety Division, where I was responsible of energy utilities' operating practices to enforce the rules and regulations relating to safe use of the plant and workforce. I Performed engineering reviews, and conducted incident investigations for both gas and electric utilities. I have also helped resolve customers' complaints.

From 2002 through present, I have been working for Office of Ratepayer Advocates in its Water Branch; mostly dealing with Class-A water utilities. I have performed evaluations of public utility plant and properties, regulation of utility tariffs and rates, studies of cost of service, and studies of the utility's operating

practices to enforce the rules and regulations relating to ratemaking. I have presented my findings and recommendations as an expert witness at public hearings before the Commission. I have also been actively involved with few of Commission's OIR/OII proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for Chapter 10 of ORA's report on Parent Company Allocations. I am also responsible for Medical and Dental insurance and various other lines of insurances such as general liabilities, auto, property insurance etc. I am also responsible for Non-tariffed Product and Services (NYP&S) revenue sharing. In addition, I am also responsible for a special request regarding amortization of Affiliate Transaction Rule Employee Transfer Memorandum Account as discussed in Chapter-12.

Q.5. Does this conclude your prepared testimony?

A.5. Yes, it does.