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Exhibit Number	:	ORA - ____
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Administrative Law Judges	:	Rafael Lirag
		Douglas Long
ORA Witnesses	:	Michael Conklin
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		Suzie Rose

ORA
OFFICE OF RATEPAYER ADVOCATES

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

PUBLIC
REPORT ON GENERAL OFFICE
Golden State Water Company
Test Year 2016 General Rate Case
A.14-07-006

San Francisco, California
March 6, 2015

MEMORANDUM

This Report on General Office is prepared by Michael Conklin, Jeff Roberts and Suzie Rose of the *Office of Ratepayer Advocates (ORA) - Water Branch,* and under the general supervision of Program & Project Manager Danilo Sanchez, and Program & Project Supervisor Lisa Bilir. The witnesses' Statement of Qualifications are included in ORA's Company-Wide Report on the Results of Operations. Shanna Foley and Kerriann Sheppard serve as ORA legal counsels.

Report on General Office

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Chapter 1. EXECUTIVE SUMMARY

A. INTRODUCTION

This report presents the Office of Ratepayer Advocates' (ORA) analysis and recommendations regarding the General Office (GO) allocation, GO operations and maintenance (O&M) expenses, GO administrative and general (A&G) expenses, and the GO plant-in-service forecasted by Golden State Water Company (GSWC or "the Company") to be recovered from ratepayers in General Rate Case ("GRC") A.14-07-006. Recommendations regarding labor and benefits expenses and taxes are contained in ORA's Payroll and Benefits Report and Company-Wide Report, respectively. In this chapter, ORA presents its key recommendations from this report and describes its general approach to forecasting GSWC's Test Year 2016 GO.

Additional chapters contained within this report detail ORA's recommendations related to:

- Overhead Allocation
- Non-Tariffed Products & Services and Affiliate Transactions
- GSWC's Supplemental Testimony on Safety
- Audit of GSWC's Internal Controls over its Procurement Process.

B. KEY RECOMMENDATIONS

ORA's recommendations are presented throughout this report. Following are some key recommendations:

1) The Commission should adopt a modified three-factor approach for the allocation of GO expenses to GSWC's subsidiary ASUS.

2) Expenses related to expired equipment lease agreements should be excluded from historical data when forecasting the Test Year.

3) Expenses related to GSWC's charitable effort 'Operation Gobble' should be excluded from historical data when forecasting the Test Year.

4) Insurance inflation increases should be based on the CPI-U and the estimates provided by GSWC's broker should be disregarded.

5) GSWC should be denied its requested $1 million of ratepayer funding for defense of eminent domain proceedings against it.

6) Fees for Chambers of Commerce-type organizations, including the National Association of Water Companies, should be excluded from historical data when forecasting the Test Year due to lack of ratepayer benefits.

7) GSWC should be denied recovery of the $375,000 in the Well Study Balancing Account because GSWC did not incur costs prudently and as authorized.

8) GIS system implementation costs should be excluded from rates because GSWC failed to show how ratepayers would economically benefit from the investment.

9) Recorded and forecasted plant in service amounts should not reflect the additional costs associated with luxury vehicles for GSWC employees.

10) The Commission should cite and fine GSWC for multiple instances of non-compliance with the Commission's Affiliate Transaction Rules.

C. EXPENSE FORECASTING METHODOLOGIES

Generally, GSWC bases its Test Year GO expense forecasts on an inflation-adjusted average of past years' recorded data. However, GSWC did not use the same number of years' data for each account being forecasted; rather each account was subjected to its own individual methodology. For example, while GSWC used a four-year average to forecast Common Customer Account expense, it used only one-year of recorded 2013 data to forecast Postage expense. Similarly, GSWC used a five-year average to forecast Business Meals expense, while using a two-year average to forecast Office Supplies. With a couple of notable exceptions, ORA generally accepted GSWC's basic expense forecasting methodologies while making numerous adjustments to remove certain recorded costs from the Test Year forecast and recommending denial or modification of additional GSWC requests for ratepayer funding. ORA's reasoning for its adjustments and recommendations are presented in the following chapters of this report.

Chapter 2. GENERAL OFFICE – ALLOCATION

A. INTRODUCTION

GSWC is headquartered in San Dimas, CA and its General Office also performs the GO functions for its parent company, American States Water Company ("American States"). American States is the holding company for (1) GSWC, (2) Bear Valley Electric (BVE), a Commission-regulated electric utility serving parts of San Bernardino County, and (3) American States Utility Services (ASUS), a contracted services subsidiary.

ASUS is organized as a separate affiliate of GSWC and has six subsidiaries of its own through which it operates and maintains water and wastewater systems at various military bases under privatization contracts with the US Government.

Because BVE and ASUS also benefit from the Shared Services provided by the GSWC GO, it is necessary to determine the appropriate amount of GO utility plant and expenses that should be allocated to American States' subsidiaries BVE, ASUS and to GSWC.

Determining the appropriate allocation of GO utility plant and expenses for each of American States' subsidiaries requires the development of a methodology that can be used to equitably allocate these costs based on the benefits received by each subsidiary, without becoming mired in the complexities of tracking every single detail. Perhaps more importantly, the appropriate methodology should promote compliance with the Commission's Affiliate Transaction Rules that state in part: "The utility, its parent and other affiliated companies shall allocate common costs among them in such a manner that the ratepayers of the utility shall not subsidize any parent or other affiliate of the utility."[1]

This chapter presents a brief discussion of the commonly used GO allocation technique known as the Commission's "four-factor" method, a recent history of GSWC's methodologies as adopted by the Commission, and ORA's analysis and recommendations for GSWC's current GRC application.

B. DISCUSSION

The four-factor methodology was first presented in the Commission's 1956 Memorandum ("1956 Memorandum") and is restated in the Commission Standard Practice U-6-W, which addresses the allocation of A&G and common utility plant and the four-factor methodology. The 1956 Memorandum explains that its purpose is "to set forth recommended procedures for the allocation of administrative and general expenses and common utility plant among departments, districts and states." Due to the relative complexities involved with allocating indirect costs, the 1956 Memorandum lists the following four factors and recommends taking the arithmetical average of the percentages for each factor to produce a result within reason:

1. Gross Plant
2. Number of Employees
3. Direct Operating Expenses
4. Number of Customers

While the four factor methodology has been used often and for quite some time, it is important to note that, as stated by the Commission in a recent proceeding, "the Commission has discretion to

[1] D.10-10-019 as modified by D.11-10-034, Rule IV.B, p. A-6, re: R.09-04-012.

use all of the four factors, or not, or some other methodology, as long as the record supports the findings and conclusions that the rates approved are just and reasonable."[2]

1. Recent History of GSWC's GO Allocation

GSWC's GO Cost Allocation methodology has been a source of disagreement between ORA and GSWC in past GRC proceedings, particularly regarding the appropriate *number of customers* to assign to ASUS when determining the four-factor allocation. For example, the Commission in D.07-11-037 used the actual number (17,788) of ASUS service connections at military bases when it adopted a *modified-three factor approach*. The Commission explained that the military contracts "essentially call for ASUS to provide full water and wastewater services to these bases. It is therefore appropriate to use 100% of the connections at these bases to determine the appropriate weighted percentage customer count."[3] In the following GRC, in D.10-11-035, the Commission adopted a *four-factor approach* and agreed with GSWC that ASUS only had six customers.[4] However, the Commission granted ORA a limited rehearing on the matter when the Commission found that "DRA's argument that the Commission accepted the very same argument it rejected in GSWC's last GRC for Region II is correct."[5] In D.13-05-011 from GSWC's last GRC proceeding, the Commission adopted an ORA-GSWC settlement on the matter where the parties agreed to specific allocation factors for each entity.[6] ORA and GSWC ultimately settled the matter as related to the D.10-11-035 rehearing, agreeing "to address the

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[2] D.13-12-030, p. 6. This is a decision denying Suburban Water Company, another Class A Water Utility, application for rehearing an issue from GRC D.12-04-009 where the Commission diverged from the traditional four factors to allocate indirect costs to Suburban Water Company's affiliate.

[3] D.07-11-037, pp. 36-37, re. GSWC's A.06-02-023, TY 2007 GRC for Region 2.

[4] D.10-11-035, p. 24, re. GSWC's A.08-07-010, A.07-01-014, TY 2010 GRC for Regions 2 and 3.

[5] D.11-07-057, p. 22, re. GSWC's A.08-07-010, A.07-01-014, TY 2010 GRC for Regions 2 and 3.

[6] A.11-07-017, Settlement Agreement §12.2, adopted by D.13-05-011.

issue of the appropriate number of military customers and appropriate allocation methodology in GSWC's 2014 general rate case."[7] GSWC's four-factor allocation and the *number of customers* factor in particular is discussed in further detail below with the above background in mind.

2. Current GRC A.14-07-006

The Company begins its GO allocation process by first establishing three distinct allocation entities, GSWC, BVE, and ASUS and then by identifying the extent to which its GO departments provide benefits, if any, to the three entities. Next, the Company allocates the identified GO department expenses into separate Cost Centers according to that GO department's provision of entity benefits. The Company develops three GO Cost Centers to facilitate the allocation process:

1) the Corporate Support Cost Center ("Corporate Support"),
2) Billing & Cash Processing (BC&P), and
3) Centralized Operations Support (COPS).

To complete its allocation process, the Company applies a version of the four-factor methodology to each Cost Center to determine the amount of each Cost Center to allocate to GSWC, BVE, or ASUS.

The Corporate Support Cost Center captures GO plant and expenses that, according to the Company, provide benefits to all three allocation entities, GSWC, BVE, and ASUS. Examples of Corporate Support expenses are executive salaries, human capital management, pension and benefits administration, internal controls, risk management, and board of directors' fees. The

[7] D.14-09-009, p. 7, re. GSWC's A.08-07-010, A.07-01-014, TY 2010 GRC for Regions 2 and 3.

Company's methodology results in an allocation of Corporate Support costs to GSWC (77.53 percent), BVE (8.89 percent), and ASUS (13.58 percent).[8]

The BC&P Cost Center contains plant and expenses related to services that according to the Company benefit only GSWC and BVE. Examples of BC&P Cost Center plant and expenses include the IT Customer Information System ("CIS"), GO Postage Expense, and the salaries and benefits for the Customer Billing Center employees. The Company's methodology allocates BC&P costs to GSWC (89.71 percent) and to BVE (10.29 percent).[9]

The COPS Cost Center contains plant and expenses that the Company has identified as providing benefits only to GSWC and therefore 100% of the COPS Cost Center is allocated to GSWC ratepayers.[10] Examples of COPS expenses according to the Company are the Customer Support Center, Property Insurance, and the Water Use Efficiency and Conservation department. Through its inquiries and analysis, ORA found no evidence that suggests ASUS or BVE materially benefit from the departments GSWC quantified in the COPS Cost Center, and thus ORA finds GSWC's basic methodology of using three Cost Centers to allocate GO costs acceptable.

However, once the Company allocates the costs to its three Cost Centers, the more controversial issue becomes determining the appropriate percentage of each Cost Center to be allocated to entities deemed to benefit from that Cost Center. For Test Year (TY) 2016, GSWC is forecasting an aggregate amount of $49.51 million GO expenses to be allocated across its three allocation entities. **Table 2-A** below summarizes the Company's three Cost Centers as discussed

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[8] Workpaper GO-SOE14, tab "Allocation."

[9] Ibid.

[10] Ibid.

in the preceding paragraphs and the percentage of each Cost Center that the Company assigns to its entities within the Cost Center:

Table 2-A: Summary of GSWC's Cost Center Allocations

($ in 000's)								
GO Cost Center	**$ Forecasted**	**GSWC Allocation**		**BVE Allocation**		**ASUS Allocation**		**Totals**
Corporate Support	$24,626.9	GSWC:	77.53%	BVE:	8.89%	ASUS:	13.58%	100.00%
BC&P	$7,640.4	GSWC:	89.71%	BVE:	10.29%			100.00%
COPS	$17,244.1	GSWC:	100.00%					100.00%
Total Dollars Forecasted	$49,511.4	GSWC:	$43,191.5	BVE:	$2,975.5	ASUS:	$3,344.3	$49,511.4

To determine the Corporate Support allocation factors for GSWC, ASUS, and BVE, the Company applied a version of the four-factor methodology. It also used a similar methodology to allocate BC&P costs between BVE and GSWC. ORA recommends a number of adjustments to GSWC's four-factor methodology for Corporate Support as well as for BC&P. ORA has no adjustments to the allocation of the COPS Cost Center because, as mentioned above, ORA is satisfied that COPS contains only expenses materially benefiting water operations and is allocated 100% to GSWC. Therefore, ORA presents no further analysis regarding the COPS allocation methodology.

The remainder of this chapter contains a summary of ORA's recommendations, followed by a discussion detailing each of the four factors as applied by GSWC, presented alongside an explanation of ORA's recommendation. This chapter concludes with a summary of the financial impact of adopting ORA's recommendations and a corresponding comparison table illustrating the differences between the methodologies used by ORA and GSWC.

In order to facilitate a meaningful dollar amount comparison to illustrate the effects of ORA's and GSWC's cost allocation factors, ORA presents its GO Allocation dollar amount comparisons using GSWC's own forecasts of the TY 2016 GO expenses. In other words, the comparisons are made using plant and expense estimates by GSWC to show the impact of the changes in the allocation methodology. ORA's adjustments of GO plant and expenses are presented in separate chapters of this report. Those adjustments together with ORA's recommendations on allocation methodology result in GO Allocation dollars presented in ORA's Results of Operations tables for various ratemaking areas. Those tables are found in ORA's Company-wide Report.

3. Summary of Recommendations

Allocation to ASUS (Corporate Support Cost Center)

- Adopt GSWC's proposed *gross plant factor* to reflect the true value of plant owned and operated by ASUS' subsidiaries. GSWC's factor is based on and consistent with the methodology for determining ASUS plant that was adopted by the Commission in D.10-11-035.
- Remove the *number of customers factor* altogether from the four-factor allocation, resulting in an overall modified three-factor approach. This treatment is consistent with the *number of customers factor* determination made by the Commission in Suburban Water System's GRC Decision D.12-04-009 and upheld in the rehearing D.13-12-030.
- For determining the *operations expense factor*, decrease operations expense aggregated to GSWC from $156,646,000 to $97,716,900 to remove the amount included for purchased water expense.[11] This is consistent with the determination made by the Commission for GSWC in D.10-11-035.[12]

[11] For determining the Corporate Support allocation to ASUS, GSWC data *includes* BVE financial information.

[12] D.10-11-035, p. 24, re. GSWC's A.08-07-010, A.07-01-014, TY 2010 GRC for Regions 2 and 3.

- For determining the *number of employees* factor, decrease the amount of GSWC payroll expense from $42,509,300 to $34,795,800 to remove Corporate Support payroll included in GSWC's weighting. This treatment is consistent with the Commission's Standard Practice U-6-W.

Allocation of BC&P Cost Center (between GSWC and BVE only)

- For the BC&P Cost Center's four-factor allocation, decrease the *operations expense factor* amount aggregated to GSWC from $130,168,600 to $71,239,200 to remove the amount included for purchased water expense.[13] This recommendation is consistent with the determination made by the Commission for GSWC in D.10-11-035.

4. Discussion of Individual Cost Center Factors

Corporate Support Cost Center

Determining the appropriate allocation of the Corporate Support Cost Center to GSWC's affiliate ASUS is the most significant aspect of this chapter. As summarized in **Table 2-B** below, ORA recommends a substantially higher allocation percentage of this Cost Center to ASUS, a slight increase in allocation percentage to BVE, and a corresponding, substantial decrease in allocation percentage to GSWC. The net effect is that GSWC's ratepayers would not have to bear about 7.46% of the total Cost Center[14] under ORA's methodology, relative to that under GSWC's methodology.

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[13] For determining the BC&P allocation to BVE, GSWC data does not include BVE financial information.

[14] Assuming GSWC's original GO cost estimates, unadjusted by ORA.

Table 2-B: Corporate Support Allocation Comparison

Entity	GSWC Allocation %	ORA Allocation %*
ASUS 13	.58%	21.04%
Bear Valley Electric (BVE)	8.89%	9.94%
Golden State (GSWC)	77.53%	69.01%
Total	100.00%	100.0%

*ORA contains minor rounding difference

The Company's methodology for determining the ASUS allocation of Corporate Support combines data on factors such as plant, number of customers, and operating expenses for BVE and GSWC as if these two companies were a single entity, and compares the result to ASUS data. ORA performed its analysis and recommendations in a manner consistent with the Company's presentation.

Gross Plant Factor - ASUS Corporate Support Allocation

In past GSWC GRCs, the Gross Plant factor has been the subject of some controversy, with GSWC proposing to use only the value of ASUS furniture, vehicles and equipment, but excluding the value of water distribution and wastewater systems on the basis that ASUS does not own those plant items.[15] However, upon examination of ASUS contracts with the military bases, the Commission found that the contracts effectively transferred ownership of the water assets to ASUS. On this subject, the Commission stated: "There is little doubt as to the intent of the contracts and therefore we adopt DRA's recommendation that Golden State's plant factor for

[15] D.10-11-035, p. 25, re. GSWC's A.08-07-010, A.07-01-014, TY 2010 GRC for Regions 2 and 3.

ASUS–Military include [sic] the water distribution and wastewater collection systems . . ."[16] As shown in its workpapers as well as the testimony of John Garon, GSWC appears to have abided by this recent ruling for the plant factor for its current GRC application.[17] For that reason, ORA recommends not altering GSWC's assigned plant factors of 24.88% to ASUS and 75.12% to GSWC and BVE.

Number of Customers Factor - ASUS Corporate Support Allocation

For the current GRC, GSWC once again counts the total number of ASUS customers as six, which in reality is the number of military contracts held by ASUS subsidiaries.[18] Because GSWC uses 280,661 as its (and BVE's) total number of customers compared to ASUS' six customers, GSWC's applied weighting of this factor results in virtually 100% of one of the four factors being allocated to GSWC ratepayers. GSWC's methodology is not credible or reasonable because it produces an outcome that is not reflective of actual cost causation. The application of this methodology ultimately distorts the four-factor allocation resulting in ratepayer subsidization of affiliate costs.

Recently, the Commission ruled on a nearly identical matter where Suburban Water Systems ("Suburban") used the number of affiliate contracts for its *number of customers* factor when applying the four-factor methodology.

In D.12-04-009, the Commission removed the *number of customers* factor altogether from Suburban's four-factor methodology after determining that "[c]ounting each contract as a single customer, while counting Suburban as over 75,000 customers, is not credible, therefore it is not

[16] Ibid.

[17] GSWC Prepared Testimony of John Garon, p. 33.

[18] Ibid.

fair or reasonable."[19] Soon after, the Commission upheld this Decision when it denied Suburban's application for a rehearing of the matter, emphatically ruling: "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."[20] For the same reason, it is clear in GSWC's case that its use of the number of ASUS contracts instead of the number of customers (connections) served also skews the allocation of the Corporate Support Cost Center. Accordingly, GSWC's allocation methodology should follow D.12-04-009 and exclude the number of customers factor altogether.

GSWC's GO expense allocation methodology itself demonstrates that removing the number of customers factor is the most appropriate treatment for determining the Corporate Support allocation to ASUS. As previously discussed, GSWC distributes its GO plant and expenses into three Cost Centers - Corporate Support, COPS, and BC&P - with ASUS only receiving an allocation for a portion of Corporate Support. Because GSWC already assigns the clearly customer-related departments (i.e., costs) to the COPS and BC&P Cost Centers, the allocation of the Corporate Support Cost Center should not include the number of customers factor, regardless of the number of ASUS contracts, or customers. For example, COPS, which is allocated 100% to GSWC water ratepayers, contains the *Customer Support Services Department*, which according to GSWC, "provides support and/or serves our water customers and stakeholders," and "consists of the Customer Service Center, Community Education, Water Use Efficiency, Operations Administration, Operations Accounting . . ."[21]

[19] D.12-04-009, p. 16, re: Suburban's A.11-02-002, TY 2012 GRC.

[20] D.13-12-030, Order Granting Limited Rehearing of D.12-04-009, p. 7.

[21] GSWC Prepared Testimony of Hilda Wahhab, p. 8.

Similarly, the BC&P Cost Center (allocated only to GSWC and BVE) includes regulatory affairs and "the IT Customer Information System ("CIS"), and Utility Specific Applications including the New Customer Care and Billing ("CC&B") system, and PowerPlan, the Call Center billing department and the Cash Processing department."[22]

In direct contrast with COPS and BC&P, Corporate Support - the only Cost Center with allocation to ASUS - contains cost drivers that are not directly related to GSWC, BVE, or ASUS customer counts. According to GSWC, "Corporate Support includes the Corporate Executives, Accounting and Finance, Internal Audit, Risk Services, Information Technology ("IT"), and Human Capital Management ("HCM") departments."[23] These examples include departments such as payroll, and financial and tax reporting whose costs are more directly related to number of employees,[24] financial performance, and other corporate- level activities.[25]

Because GSWC already assigns customer-related cost drivers to the two Cost Centers that are not allocated to ASUS, GSWC effectively and preemptively applies the *number of customers* factor to the aggregate GO cost pool, and allocates 100% of number of customers factor-driven costs to GSWC and BVE. Applying GSWC's proposed application of the *number of customers* factor to the Corporate Support Cost Center not only incorrectly equates number of contracts with number of customers, but also incorrectly applies a factor that has very little bearing, if any, on the Cost Center being allocated.

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[22] Ibid, p. 9.

[23] Ibid, p. 5.

[24] GSWC Prepared Testimony of John Garon, p. 12 states that between 2008 and 2014, ASUS increased its employee count from 84 to 149, a 77% increase.

[25] GSWC Prepared Testimony of John Garon, p. 31.

GSWC's testimony focuses on explaining why the Commission should adopt the number of ASUS customers as *six*, based on ASUS's subsidiary's six contracts. GSWC supports its position by referencing D.10-11-035, and by drawing a comparison between ASUS' subsidiary's military bases to the military bases and mobile home parks served by GSWC.[26] GSWC bases its comparison on its assertion that ASUS does not have direct contact with customers on the military bases, just as GSWC does not know, or have reason to know, how many service connections are on the military bases it serves.[27] However, this comparison simply highlights the impracticality of using the number of customers factor to allocate Corporate Support at all.

Likewise, GSWC explains that ASUS military contracts should be treated similarly to its mobile home parks (that are each counted as one service connection) because like ASUS, "GSWC does not <u>read their meters</u> if they are sub-metered, GSWC does not provide <u>them with a bill,</u> GSWC does not provide them with any <u>customer service</u> and they <u>do not call GSWC's call center</u> if they need service…."[28] [Emphasis added.] GSWC's position appears to establish that the relevant factors that determine being counted as an individual *numbered customer* do not exist beyond GSWC's meter for its mobile home parks, and ASUS military contracts should be treated the same. However, in order to accomplish this comparison, GSWC cites to activities (call center support and billing) that are captured in the COPS and BC&P Cost Centers, and <u>not</u> to Corporate Support. However the whole purpose of this allocation including ASUS is for Corporate Support costs.

In essence, GSWC contends that ASUS military contracts compare to and should be counted like GSWC mobile home park customers for the purpose of determining the number of customers

[26] The Commission granted ORA a rehearing on this issue as decided in D.10-11-035, although a settlement was reached between ORA and GSWC on the matter before the issue was reheard.

[27] GSWC Prepared Testimony of John Garon, p. 33.

[28] GSWC Prepared Testimony of John Garon, p. 34.

factor to allocate Corporate Support costs. GSWC's reasoning is costs that are captured in the COPS and BC&P Cost Centers are treated similarly in terms of their allocation to GSWC and BVE. GSWC's logic is flawed. GSWC's reliance on customer-related costs captured in COPS and BC&P Cost Centers to make its comparison stresses the inappropriateness of including the *number of customers* factor in the Corporate Support allocation.

Since customer-related cost drivers are not assigned to the Corporate Support Cost Center and more importantly because the Commission has established in the Suburban case that "counting each contract as a single customer . . . is not credible,"[29] the *number of customers factor* should be removed altogether as a determining factor for allocating the Corporate Support Cost Center. Consequently, ORA recommends that the Commission, consistent with its decision in Suburban GRC D.12-04-009, adopt a modified three-factor methodology that excludes the *number of customers* factor when allocating GSWC's Corporate Support Cost Center.

Operating Expense - Corporate Support Factor

The Commission's 1956 Memorandum details the *operating expense factor* as: "Direct operating expenses, excluding uncollectibles, general expenses, depreciation and taxes."[30] GSWC's methodology for calculating the Operating Expense factor sums the O&M and A&G expenses for each ratemaking area, appropriately excludes depreciation expense, and makes an adjustment to subtract the allocated GO expense portion. GSWC's methodology results in an *operating expense* factor weighting of 88.5% to GSWC/BVE and 11.15% to ASUS. ORA recommends that purchased water expense in the amount of $58,929,700[31] be removed from

[29] D.12-04-009, p. 16, re: Suburban's A.11-02-002, TY 2012 GRC.

[30] Standard Practice U-6-W, p. 2.

[31] GSWC Response to ORA Data Request MC8-015, q. 6.

GSWC's operating expense calculation for purposes of determining the Corporate Support allocation.

Purchased water expense is a pass-through type of supply cost[32] that consumes a minimal amount of GO resources or employee attention, while accounting for a large share of the total operating expenses. For example, according to GSWC, for recorded year 2012 purchased water expense accounts for 44.2% of total operating expenses.[33] Including purchased water expenses in GSWC's operating expenses for purposes of deriving an allocation factor results in an inappropriate, disproportionate shifting of Corporate Support costs to GSWC. The result of adopting ORA's recommendation is an *operating expense* factor weighting of 83.25% to GSWC/BVE and 16.75% to ASUS.

In two prior GSWC GRCs, the Commission removed purchased water supply costs in determining the amount of expenses to include in the *operating expense* allocation factor. In D.07-11-037, the Commission removed the water supply expenses entirely from the *operating expense* factor that was included in its modified three-factor approach adopted in that case. In doing so, the Commission reasoned that "[i]t makes sense to exclude supply costs, for example, because all of the parties with which ASUS has contracts are responsible for supplying their own water."[34] In D.10-11-035, the Commission again removed the purchased water expenses from the *operating expense factor* when it found that "neither the quantity nor expense related to purchased water materially impacts the amount of general office activity and including the purchased water costs unreasonably skews the allocation results."[35] On more than one occasion,

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[32] Trued-up via the Modified Cost Balancing Account mechanism.

[33] GSWC Response to ORA Data Request MC8-015, q. 6.

[34] D.07-11-037, p. 39, re: GSWC's A.06-02-023, TY 2007 GRC for Region 2.

[35] D.10-11-035, p. 24, re. GSWC's A.08-07-010, A.07-01-014, TY 2010 GRC for Regions 2 and 3.

the Commission has ruled that removing purchased water expense from the GO allocation calculation is appropriate, because of the negligible effect this expense has on General Office activities. In the current GRC, the Commission should uphold these recent rulings.

Number of Employees - Corporate Support Factor

GSWC calculates the *number of employees* factor for the allocation of Corporate Support by comparing total GSWC/BVE payroll to total ASUS payroll, which results in a factor weighting of 81.7% to GSWC and 18.3% to ASUS. ORA recommends removing ** BEGIN CONFIDENTIAL [redacted] ** END CONFIDENTIAL of Corporate Support employee salaries from the GSWC total payroll amount used for determining the *number of employees* factor, because Corporate Support is the item being allocated. ORA's recommendation results in a *number of employees* factor weighting of 78.5% to GSWC, and 21.5% to ASUS, and is a treatment consistent with the Commission's Standard Practice U-6-W.

Standard Practice U-6-W explains the calculation for the *number of employees* factor as the "[n]umber of employees (using direct operating payroll, <u>excluding general office payroll</u>, as the best measure of this component)."[36] [Emphasis added.] ORA agrees with Standard Practice U-6-W because the purpose of the *number of employees* factor is to compare the number of employees in ratemaking areas to estimate how much shared GO expense to allocate to each ratemaking area. Therefore, it is inappropriate and circular to assign GO payroll to any particular ratemaking area's payroll when determining payroll allocation factors. Similarly, because Corporate Support is being allocated between ASUS and GSWC, it is inappropriate to assign Corporate Support employees to GSWC's employee weighting. The fact that Corporate

[36] Standard Practice U-6-W, p. 2.

Support is being allocated between the two entities itself demonstrates that Corporate Support employees should not be designated to either ASUS or GSWC.

In the current GRC, Corporate Support includes approximately ** BEGIN CONFIDENTIAL [redacted][7] ** END CONFIDENTIAL in GO employee salaries to be allocated between ASUS and GSWC/BVE.[38] However, GSWC also included this ** BEGIN CONFIDENTIAL [redacted] ** END CONFIDENTIAL as part of GSWC/BVE employee salaries when developing its *number of employees* factor for comparison with ASUS.[39] Because the ** BEGIN CONFIDENTIAL [redacted] ** END CONFIDENTIAL salary expense is in Corporate Support, it inherently does not belong with any single entity, and thus should not be assigned to GSWC's weighting. GSWC's methodology incorrectly includes an item it is allocating (the ** BEGIN CONFIDENTIAL [redacted]** END CONFIDENTIAL) as a weighting toward developing an allocation factor for that same item. Counting the ** BEGIN CONFIDENTIAL [redacted] ** END CONFIDENTIAL as part of GSWC's employee factor results in an inappropriate increase in GSWC's *number of employees* factor.

It is worth noting that GSWC appropriately excluded GO employees when calculating the *number of employees* factor for the BC&P Cost Center, and in a similar tactic removed GO expenses from each region when calculating its total GSWC *operating expense* factor amount for Corporate Support. The same logic that governs GSWC's *number of employees* factor for the BC&P Cost Center and its *operating expense* factor for Corporate Support should also govern GSWC's *number of employees* factor for the Corporate Support allocation. GSWC should

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[37] GSWC's TY 2016 forecast, not adjusted by ORA.

[38] Salary data extracted from GSWC's PDF response to DATA REQUEST MC8-015, q. 5.a.

[39] Ibid.

adhere to the provisions of Standard Practice U-6-W and exclude Corporate Support payroll from the *number of employees* factor determination.

5. Summary of ORA's Modified Three-Factor Corporate Support Recommendation

The Commission should adopt a modified three-factor allocation for GSWC's Corporate Support Cost Center. The modification is to remove the Number of Customers factor altogether leaving the three factors: Utility Plant, Operating Expenses, and Number of Employees (measured with Operating Payroll). Additionally, the Commission should adopt ORA's proposed modifications to GSWC's calculations for the Operating Expenses and Number of Employees factors while leaving the Utility Plant factor as proposed by the Company.

ORA's combined recommendations for the modified three-factors results in 21.04% of Corporate Support allocated to ASUS and are summarized in **Table 2-C** below. The dollar amounts are GSWC's estimates unadjusted by ORA.

Table 2-C: ORA's Modified Three-Factor Recommendation

Corporate Support

($ in 000's)									
	Utility Plant	%	Number of Customers	Operating Expenses	%	Operating Payroll	%	Total	Allocation Factor
GSWC (inc BVE)	$1,367,784.1	75.1%	N/A	$97,716.9	83.2%	$34,795.8	78.5%	236.9%	78.96%
ASUS	$453,068.6	24.9%	N/A	$19,664.1	16.8%	$9,530.8	21.5%	63.1%	**21.04%**
Totals	$1,820,852.7	100.0%	N/A	$117,381.0	100.0%	$44,326.5	100.0%	300.0%	100.0%

BC&P Cost Center Four-Factor Allocation (allocated only to BVE and GSWC)

GSWC uses a four-factor allocation methodology to allocate the BC&P Cost Center, resulting in 89.71% of total BC&P being allocated to GSWC, while 10.29% is allocated to BVE. As shown in **Table 2-D** below, ORA recommends that 87.41% of BC&P is allocated to GSWC and 12.59% is allocated to BVE.

Table 2-D: BC&P Allocation Comparison

Entity	GSWC Allocation %	ORA Allocation %
Bear Valley Electric (BVE)	10.29%	12.59%
Golden State (GSWC)	89.71%	87.41%
Total	100.00%	100.00%

ORA recommends an adjustment to GSWC's methodology for the BC&P Cost Center's four-factor allocation, which determines the amounts allocated between GSWC and BVE, both of which are utilities regulated by the Commission. Specifically, the adjustment is to remove $58,929,700 for the amount of purchased water expense included with GSWC's total expenses when determining GSWC's weighting for the BC&P *operating expense* factor.

As discussed above, in two previous GSWC GRCs, the Commission determined that removing purchased water expense was appropriate because the level of expense does not correspond to the level of attention or activity provided by GO staff. In D.10-11-035, the Commission found that "neither the quantity nor expense related to purchased water materially impacts the amount of general office activity and including the purchased water costs unreasonably skews the allocation results."[40] Excluding purchased water expense appropriately removes a pass-through type expense that unfairly skews the allocation factor toward GSWC ratepayers and is consistent with determinations made by the Commission for GSWC on more than one occasion.

ORA's recommendation reduces GSWC's *operating expense* factor amount from $130,168,600 to $71,239,200. As summarized in **Table 2-E** below, the aggregate result of ORA's

[40] D.10-11-035, p. 24, re. GSWC's A.08-07-010, A.07-01-014, TY 2010 GRC for Regions 2 and 3.

recommendation on the BC&P allocation is that 87.41% of total BC&P is allocated to GSWC, while 12.59% is allocated to BVE.

Table 2-E: ORA's Four-Factor Recommendation

BC&P

($ in 000's)										
	Utility Plant	**%**	**Number of Customers**	**%**	**Operating Expenses**	**%**	**Employee Count**	**%**	**Total**	**Allocation Factor**
GSWC	$1,288,376.0	94.2%	257,087	91.6%	$71,239.2	76.2%	297.0	87.6%	349.6%	87.41%
BVE	$79,408.2	5.8%	23,574	8.4%	$22,221.1	23.8%	42.0	12.4%	50.4%	$\boxed{\textbf{12.59\%}}$
Totals	$1,367,784.1	100.0%	280,661	100.0%	$93,460.2	100.0%	339.0	100.0%	400.0%	100.0%

C. CONCLUSION

The following summarizes the estimated financial impact of adopting ORA's recommendations for GO Allocations to the Corporate Support and BC&P Cost Centers. For the purposes of comparison with the GSWC's proposed allocations, this summary uses GSWC's forecasted TY 2016 GO expenses. For TY 2016, the Company is forecasting approximately $49.51 million for total GO expense and assigns approximately $24.63 million to the Corporate Support Cost Center to be allocated among ASUS, BVE and GSWC.

As shown in Table 2-F below, GSWC's methodology allocates **13.58% ($3.34 million)** of the $24.63 million to ASUS while ORA's combined recommended adjustments to the allocation methodology result in **21.04% ($5.18 million)** of the $24.6 million being allocated to ASUS. Thus, ORA's Corporate Support recommendations combine to allocate an **additional $1.84 million to ASUS**, instead of to GSWC's and BVE's ratepayers.

Table 2-F: Corporate Support Dollar Amount Comparison

($ in 000's)					
Entity	**GSWC Allocation**	**GSWC $**	**ORA Allocation***	**ORA $**	**Difference ($)**
ASUS 13.58%		$3,344.3	21.04%	$5,181.5	$1,837.2
Bear Valley Electric (BVE)	8.89%	$2,189.3	9.94%	$2,447.9	$258.6
Golden State (GSWC)	77.53%	$19,093.2	69.01%	$16,995.0	($2,098.2)
Corporate Support Total	100.00%	$24,626.9	100.0%	$24,624.4	

*Contains minor rounding difference

Of the $49.51 million GSWC is forecasting for total GO expenses, the Company assigns $7.6 million to the BC&P Cost Center to be allocated between BVE and GSWC. As shown in **Table 2-G** below, GSWC's methodology allocates **10.29% ($786,200)** to BVE, while ORA's recommendation results in **12.59% ($961,900)** of the $7.6 million being allocated to BVE reducing the allocation to GSWC ratepayers by $175,700.

Table 2-G: BC&P Dollar Amount Comparison

($ in 000's)					
Entity	**GSWC Allocation**	**GSWC $**	**ORA Allocation**	**ORA $**	**Difference**
Bear Valley Electric (BVE)	10.29%	$786.2	12.59%	$961.9	$175.7
Golden State (GSWC)	89.71%	$6,854.2	87.41%	$6,678.5	($175.7)
BC&P Total	100.00%	$7,640.4	100.00%	$7,640.4	

On a final note, ORA's recommendations rest on a solid foundation of Commission practice and past decisions. The reasonableness of ORA's recommendation is further evidenced by reviewing ASUS's potential GO cost allocation as compared to ASUS' financial impact on American States as a whole. Based on American States' 2013 10-k filing, ASUS operations are responsible for **24%** of total company revenues[41] while GSWC's four-factor methodology in this GRC assigns only **6.7%** of total $49.5 million in GO expenses to ASUS.[42] Moreover, in recent years ASUS has substantially increased its number of employees - a factor that contributes heavily to Corporate Support costs - and now accounts for **20.4%** of total company employees.[43] In light of the fact that ASUS accounts for 24% of total American States revenues and 20.4% of total employees, ORA's recommendation results in a far more reasonable and appropriate 10.5%, compared to GSWC'6.7%, of total GO expenses allocated to ASUS.[44] ORA respectfully requests that the Commission adopt its recommendation.

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[41] American States' 2013 Form 10-k, p. 25: ASUS revenue was $113.2 million out of $472.1 million total.

[42] ($3.34 million to ASUS/$49.51 million total GO)= 6.7% of total GO.

[43] American States' 2013 Form 10-k, p. 4: ASUS has 148 employees out of 722 total.

[44] Table 2-F: (ORA recommends $5.18 million to ASUS/$49.5 million total GO) = 10.5% of total GO to ASUS.

Chapter 3. GENERAL OFFICE – OPERATING EXPENSES

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for GSWC's Test Year 2016 General Office (GO) operating expenses - GO Operations and Maintenance (O&M) and Administrative and General (A&G) expenses, excluding labor and benefits. As discussed in ORA's chapter on GO Allocation, GSWC divides its GO expenses into three Cost Centers and then allocates a percentage of each Cost Center to its ratepayers and to its affiliate. GSWC presents its GO expense workpapers in a similar fashion, presenting forecasts for the three separate Cost Centers before aggregating them together in a final summary. For each of its GO expense accounts, GSWC presents the five-year inflated average along with either a two-year or three-year average depending on the forecast proposed by GSWC for the particular account.

In order to facilitate a meaningful dollar amount comparison and to avoid a potentially complicated discussion, ORA presents its recommended expense dollar amounts using GSWC's GO allocation percentages. To clarify, this chapter's stated recommended dollar amounts do not take ORA's recommended changes to GO allocation factors into consideration. In addition, ORA presents its analysis and recommendations for each GO expense account based on the amounts attributable to GSWC ratepayers. **Table 3-M** following the conclusion of ORA's discussion on General Office Expenses contains the combined results of ORA's recommended GO allocation factors and its recommended GO expense amounts.

B. SUMMARY OF RECOMMENDATIONS

GO O&M Expenses

GSWC's General Office O&M expense accounts include recurring transactions, for example those related to the operation of customer service centers, postage for customer billing, and purchases from company issued credit cards. **Table 3-A** below provides a summary of the difference between GSWC's forecasted GO O&M expense amounts and ORA's recommendations, organized according to GO account.

Table 3-A: Comparative Summary of GO O&M Expenses

(in $)				
GO Expense Account	GSWC	ORA	GSWC > ORA	ORA % change
Acct.615, Other Revenues	$141,330	$141,330	$0	0.0%
Acct.773, Common Customer	$367,288	$268,416	$98,872	-26.9%
Acct.773.25, Postage	$1,134,431	$1,134,431	$0	0.0%
Acct.775, Uncollectibles	$542	$542	$0	0.0%
Acct.781, All Other Expenses	$543,064	$543,064	$0	0.0%
Net	$2,186,655	$2,087,783	$98,872	-4.5%

GO A&G Expenses

GSWC's General Office A&G expense accounts generally contain Office Supplies, Legal and Consulting Fees, Insurance Premiums, Regulatory Expense, Rental Expense and other Miscellaneous expenses. **Table 3-B** below provides a summary of the difference between GSWC's forecasted GO A&G expense amounts and ORA's recommendations, organized according to GO account.

Table 3-B: Comparative Summary of GO A&G Expenses

(in $)				
GO Expense Account	GSWC	ORA	GSWC > ORA	ORA % change
Acct.792, Office Supplies	$2,168,508	$2,000,600	$167,909	-7.7%
Acct.793, Property Insurance	$441,200	$378,400	$62,800	-14.2%
Acct.794, Injuries & Damages	$1,423,843	$1,244,925	$178,918	-12.6%
Acct.796, Business Meals	$81,491	$81,491	$0	0.0%
Acct.797, Regulatory Expense	$1,267,700	$1,190,191	$77,509	-6.1%
Acct.798, Outside Service	$6,508,144	$5,211,244	$1,296,900	-19.9%
Acct.799, Miscellaneous	$1,722,468	$1,811,692	($89,224)	5.2%
Acct.805, Other Maintenance	$1,807,980	$1,783,918	$24,062	-1.3%
Acct.811, GO Rent	$398,569	$385,381	$13,188	-3.3%
Acct.812, A&G Capitalized	($1,837,707)	($1,586,198)	($251,509)	13.7%
Net	$13,982,196	$12,501,644	$1,480,552	-10.6%

Summary of Recommendations

1) Use a two-year average to forecast Common Customer Account 773, instead of GSWC's four-year average.
2) Remove expenses related to GSWC's philanthropic effort Operation Gobble from the forecast for Office Supplies Account 792.
3) Use CPI-U inflation factors for escalation, instead of using GSWC's broker estimates, for Property Insurance Account 793 and Injuries & Damages (General Liability) Account 794.
4) Remove expenses related to the twice-delayed Cost of Capital proceeding and GSWC's depreciation consultant from the forecast of Regulatory Expense Account 797.
5) Permit GSWC's implementation of a mechanism to move from a deferred to a forecasted basis for Regulatory Expense recovery, as per the settlement adopted by D.14-09-009.
6) Deny GSWC's request for ratepayer funding of $1 million annually for expenses related to defending condemnation proceedings in Outside Services Account 798.

7) Remove various expenses from historical data used to forecast Outside Services, Account 798 including lobbying expenses, expenses related to condemnation defense, and other expenses directed by the Commission to be recovered from shareholders.
8) Permit the increase in GSWC's contract with public relations firm Randle Communications, because it is mostly offset by decreased employee labor and benefits expense from outsourcing GSWC's in-house Community Relations department, but require specific reporting and adjustments.
9) Deny GSWC's request for ratepayer funding of dues for the National Association of Water Companies and certain other Chamber of Commerce-type organizations from the forecast for Miscellaneous Account 799.
10) Use the Commission's Composite Inflation factors to forecast IT-related maintenance expense inflation instead of GSWC's 3% annual increases in Other Maintenance Account 805.

C. DISCUSSION – O&M and A&G EXPENSES

In this section, ORA presents its adjustments to GSWC's operating expense forecasts for the Test Year 2016.

1. Other Revenues, Account 615

GSWC is engaged in contracts with a number of local municipalities to add a line-item for municipal sewer and trash services to its bills, collect payments, and then remit the collected payments back to the municipalities. The municipalities reimburse GSWC amounts ranging from 35 cents to $1.00 for each customer.[45] GSWC uses Account 615 to forecast the ratepayer-sharing portion of the municipal contract revenues, as well as the rebates from Purchase Card

[45] GSWC Prepared Testimony of Hilda Wahhab, p. 11.

purchases. According to GSWC, the revenue sharing amounts are forecasted based on Rule X contained within Appendix A of D.10-10-019, the Commission's Affiliate Transaction Rules.[46] For ratemaking purposes, GSWC shares revenues with ratepayers by subtracting the forecasted shared amount from total GO expenses, thereby lowering the overall revenue requirement. For further discussion, see ORA's Chapter on GSWC's Non-Tariffed Products and Services and Affiliate Transactions.

2. Common Customer Account, Account 773

For Test Year 2016, GSWC forecasts a total Common Customer Account (Common Customer) expense amount of $409,417. As shown in **Table 3-C** below, GSWC forecasts $367,288 to be recovered from ratepayers, while the remaining balance is allocated to Bear Valley Electric. GSWC used a four-year average of recorded costs escalated forward using ORA inflation factors to arrive at the Test Year estimate. ORA disagrees with GSWC's methodology and recommends using a five-year average as well as excluding recorded costs for an equipment lease that expired in 2011.

Table 3-C: Acct. 773, Common Customer

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$0	$0	77.53%	$0	$0
BC&P	$409,417	$299,204	89.71%	$367,288	$268,416
COPS	$0	$0	100%	$0	$0
Net	$409,417	$299,204		$367,288	$268,416

[46] GSWC Prepared Testimony of Hilda Wahhab, p. 12.

GSWC explained its reasoning behind using the four-year average:

> Examining the recorded data, there is an increase in expenses of 7.5% annually over 2009-2013, which is considerably higher than the ORA inflation factors. GSWC choose [sic]the four-year average to estimate expense level as a more realistic forecast of what will be incurred in the 2016 test year, based on its historical experience.[47]

Recorded expenses were lower in year 2009, $268,400, compared to $342,500 recorded in 2010; a 27% increase. Because the four year average does not include the lower expenses recorded in 2009, it gives a higher estimate.

ORA recommends the use of a five-year average escalated using ORA inflation factors to arrive at the 2016 Test Year estimate. GSWC used a similar methodology for forecasting another General Office expense account Business Meals, Account 796.

GSWC provided the individual transactions in this account in response to Data Request JR6-001. Located in the data provided in the response, ORA found groups of transactions related to equipment finance and prepaid maintenance agreements. These transactions commenced prior to 2008 and terminated in 2011. ORA asked about these transactions in Data Request JR6-003:

> For PUC account 773, please explain why expense items MACQUARIE EQUIPMENT FINANCE, L terminate in year 2011, and
>
> For PUC account 773, please explain expense items "41Amort Prepaid Maint Agreem" with commentary explaining what this amortization is, and why the costs are recorded only until 2011.[48]

In response to the above data requests, GSWC stated that these costs were associated with the lease of an AS400 server and related equipment.[49] GSWC also stated that the lease term ended in 2011 when the company purchased the server.

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[47] GSWC Response to ORA Data Request JR6-007, q. 2.

[48] ORA Data Request JR6-003, q8.

The costs associated with this lease finished three years prior to filing of this GRC. ORA found no indication that the financing of this equipment will continue into the Test Year. ORA removed the recorded costs for the lease of the server and related equipment ($162,677 in 2009, $166,532 in 2010, and $70,453 in 2011) for the purposes of calculating the five-year average to forecast the Test Year.

As a result, ORA recommends $268,416 for TY 2016 Common Customer expense, an amount $98,872 less than GSWC is forecasting for its ratepayers.

3. Office Supplies, Account 792

GSWC forecasts a company-wide net amount of $2,477,180 for Office Supplies expense in Test Year 2016. As shown in **Table 3-D** below, GSWC allocates $2,168,508 to be recovered from GSWC ratepayers. GSWC arrives at its TY 2016 forecast by calculating the two-year average of recorded Office Supplies expense from years 2012 and 2013, and adjusting for inflation using standard factors detailed in the monthly inflation memorandum published by ORA.

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[49] GSWC Response to ORA Data Request JR6-003, q7 & q8.

Table 3-D: Acct. 792, Office Supplies

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$1,335,736	$1,335,736	77.53%	$1,035,596	$1,035,596
BC&P	$82,913	$82,913	89.71%	$74,381	$74,381
COPS	$1,058,531	$890,623	100%	$1,058,531	$890,623
Net	$2,477,180	$2,309,271		$2,168,508	$2,000,600

ORA recommends $2,000,600 to be recovered from ratepayers, an amount $167,908 less than GSWC's forecast. The difference between ORA and GSWC's position is mainly due to ORA's removal of GSWC's annual charitable contribution of holiday turkeys from historical data used for the forecasting expenses. According to GSWC, "GSWC participates in a philanthropic partnership with the California Water Association and local state elected officials in 'Operation Gobble,' an annual program to provide Thanksgiving turkeys to those in California who need them the most. GSWC's costs related to Operation Gobble are included in 792- Office Supplies and Expenses."[50] The Commission has a long-standing policy of excluding philanthropic efforts, or charitable contributions from rates, as reiterated in D.04-07-022:

> The American Heritage Dictionary defines 'philanthropy' as 'the effort to increase the well-being of mankind, as by charitable donations.' The Commission's policy of excluding charitable donations from authorized rate recovery was upheld by the California Supreme Court in Pacific Tel. & Tel. Co. v. Public Util. Comm. (1965) 62 Cal.2d 634, 669.[51]

[50] GSWC Response to ORA Data Request MC8-021, q3.b.

[51] D.04-07-022, p. 210, re: Southern California Edison's A.02-05-004, TY 2003 GRC.

Thus, ORA removes the respective amounts $124,944 and $158,630 from recorded years 2012 and 2013 for forecasting purposes as GSWC has indicated that these amounts are related to Operation Gobble.[52] It should be noted Operation Gobble expenditures are also included in GSWC ratemaking areas' historical A&G expenses used for expense forecasting (see similar adjustments in ORA Testimony by Josefina Montero).

In addition, ORA removes $30,278 from GSWC's Account 792-Office Supplies expense forecast costs that according to GSWC are lodging expenses related to a one-time incident at GSWC's Truro Well site in September 2013.[53] According to GSWC, "During the process of capping that well, contractors experienced an unexpected release of naturally occurring methane gas from the well resulting in a hazardous emergency situation."[54] One reason why including expenses related to the Truro Well incident in GSWC's future Test Year forecast is improper is because it represents a non-recurring item that severely distorts the average. For example, GSWC's workpapers show in 2011 and 2012, the amounts recorded in the account are $2,222 and $1,443, respectively. However, in 2013 the recorded amount is $30,545 mostly due to the Truro Well incident. Additionally, ratepayers should not fund increases due to the Truro Well incident because GSWC stated that it has filed a claim against the contractor's insurance policy and are waiting for a response.[55] Accordingly, ORA removes the 2013 lodging expenses related to the Truro Well incident from the historical data used to develop TY 2016 forecast. (See ORA Testimony of Jenny Au for further details on the Truro Well incident and reasons for adjustments.)

[52] GSWC Response to ORA Data Request MC8-024, q2.a and MC8-024, q2.d.

[53] GSWC Response to ORA Data Request MC8-024, q1.d.

[54] GSWC Response to ORA Data Request JA-001, q3. a.

[55] GSWC Response to ORA Data Request JA-005, q2.

4. Property Insurance, Account 793

GSWC forecasts $441,200 total Property Insurance expense in Test Year 2016. As shown in **Table 3-E** below, GSWC allocates the entire amount to be recovered from ratepayers. ORA recommends $378,400 for GSWC's TY 2016 Property Insurance, a difference of $62,800. The difference between ORA and GSWC's figures are mainly due to different inflation factors.

Table 3-E: Acct. 793, Property Insurance

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$0	$0	77.53%	$0	$0
BC&P	$0	$0	89.71%	$0	$0
COPS	$441,200	$378,400	100%	$441,200	$378,400
Net	$441,200	$378,400		$441,200	$378,400

GSWC arrived at $441,200 by taking the 2014 invoiced amount, removing the capitalized portion and then escalating the remaining expense amount by 10% each year for 2015 and 2016. GSWC's workpapers indicate that the 10% annual increase factor is based on estimates that were provided to GSWC by its insurance broker. ORA obtained a copy of the email provided to GSWC by its insurance broker containing the estimate information, along with a statement that clearly notes the limited value of the estimates: "These budgeted values are estimates based on market trending. They are subject to change due to a number of factors including market shift, industry losses, or American States Water losses."[56]

[56] GSWC Response to ORA Data Request MC8-020, q1.a.

Due to GSWC's broker's own admission of its estimates' limited usefulness, ORA analyzed GSWC's recorded data and found that the most recent five-year's average increase (2009-2013) for Property Insurance is 2.9%.[57] As a result, ORA does not recommend using GSWC's broker's estimates to forecast insurance inflation. Instead, ORA recommends beginning with GSWC's 2014 expensed amount and applying the CPI-U index to inflate Property Insurance to a Test Year 2016 price level. ORA's methodology results in a forecast more consistent with the average increase over the past five years.

Because Property Insurance includes coverage for the GO property, ORA asked GSWC to explain why it allocated 100% of Property Insurance expenses to ratepayers when its affiliate plainly makes use of the GO facility, and thus benefits from the Property Insurance covering the GO. GSWC explained that "GSWC overlooked the small portion of Property Insurance …that should be allocated to affiliates."[58] Accordingly, GSWC provided additional analysis showing that $1,959 should be allocated to its affiliate for Property Insurance. ORA's recommendation incorporates that adjustment.

As a result of the $1,959 allocation to GSWC's affiliate and ORA's recommended inflation factors, ORA recommends $378,400 for Property Insurance expense to be recovered from ratepayers in TY 2016, an amount $62,800 less than GSWC.

5. Injuries and Damages (Liability) Insurance, Account 794

GSWC is forecasting an aggregate TY 2016 amount of $1,675,300 for Injuries and Damages Insurance and as shown in **Table 3-F** below, GSWC allocates $1,423,843 of this amount to its

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[57] Workpaper GO-SOE 14, tab "Table 3-A GO Summary", line 24.

[58] GSWC Response to ORA Data Request MC8-020, q2.

ratepayers. ORA recommends a TY 2016 amount of $1,244,925 for Injuries and Damages to be allocated to GSWC ratepayers, a difference of $178,918.

Table 3-F: Acct. 794, Injuries and Damages Insurance

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$1,066,600	$937,300	77.53%	$826,935	$726,689
BC&P	$114,600	$97,800	89.71%	$102,808	$87,736
COPS	$494,100	$430,500	100%	$494,100	$430,500
Net	$1,675,300	$1,465,600		$1,423,843	$1,244,925

Injuries and Damages Insurance Account 794 includes forecasts for various liability-related insurance premiums, such as General Liability, Business Auto, Worker's Compensation, and Director and Officer. In addition, the fees for GSWC's broker Aon are captured and forecasted in Account 794. Much like its Property Insurance calculation, GSWC arrived at its TY 2016 forecasted Injuries and Damages Insurance expenses by taking the 2014 invoiced amounts, removing the capitalized portion, and then escalating the great majority of its policies by 10% each year for 2015 and 2016.[59] GSWC's insurance premium escalation factors are based on escalation factors provided to GSWC by its insurance broker.[60]

Just as with Property Insurance, ORA obtained a copy of an email provided to GSWC by its insurance broker Aon containing the estimate information, along with a disclaimer that clearly

[59] GSWC workpaper GO SOE-14, tab 793-794 Insurance, GSWC escalates Business Auto Insurance by 5% annually and Fiduciary Liability by CPI-U. GSWC escalates its remaining policies by 10% annually after 2014.

[60] GSWC Prepared Testimony of Hilda Wahhab, p. 17.

notes the limited value of the estimates: "These budgeted values are estimates based on market trending. They are subject to change due to a number of factors including market shift, industry losses, or American States Water losses."[61] Due to the broker's own admission of its estimates' limited usefulness, ORA does not recommend using the broker's estimates to forecast insurance inflation. Instead, ORA recommends beginning with GSWC's 2014 expensed amounts and inflating to TY 2016 price levels using the CPI-U.

GSWC's largest single insurance line item is for Workers Compensation Loss Reserve (Workers' Compensation) expense, forecasted for TY 2016 at $1,291, 800. GSWC began with a 2014 expense estimate of $1 million, adjusted to increase for the capitalized portion and inflated by the CPI-U to reach 2016. The basis for GSWC's $1 million estimate is an email from GSWC's vice president of finance, Gladys Farrow, which states "A three-year average gets you $952k, whereas 2-years is $1.1 million. I think the number to use is ~$1 million."[62] Farrow's email also demonstrates the volatile nature of GSWC's Workers' Compensation expense. For example, the 2013 expense amount is shown to be $1.4 million whereas the previous four-year average is $616, 250. This four-year average is offset by the low 2009 recorded amount of $175,000. ORA recommends using a five-year inflation-adjusted average to forecast Workers' Compensation expense instead of using Farrow's $1 million estimate. ORA's methodology is preferable to GSWC's because of the particularly high degree of variability indicated by Farrow's email. GSWC's Workers' Compensation expense requires an adequate smoothing technique that a five-year average provides. In addition, ORA's method is preferable because it is based on actual, recorded data instead of just estimation.

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[61] GSWC Response to ORA Data Request MC8-020, q1.a.

[62] GSWC Response to ORA Data Request MC8-020, q6.c.

ORA also inquired with GSWC as to why it allocated no amount of Business Auto Insurance expenses to GSWC's affiliate, given that this insurance covers the vehicles driven by GSWC's shared corporate officers. GSWC responded that "GSWC overlooked the small portion of… Business Automobile insurance covering shared executive automobiles that should be allocated to affiliates."[63] GSWC's response also provides an analysis showing that it should have allocated $133 to its affiliate ASUS.[64] In light of GSWC's response, ORA's overall recommendation incorporates the $133 allocation.

GSWC also captures the expense related to its insurance broker Aon's fee within its Injuries and Damages forecast. ORA questioned why there is an approximate 14% increase in Aon's fee from the amount shown for 2011 in GSWC's previous General Rate Case, to the 2014 amount GSWC presents in the current GRC workpapers. GSWC explained that "Aon's fee from 2008-2011 was $150,000. In 2012, it was increased to $175,000 with a 3% increase per year. GSWC negotiated a 3 year term and locked the fee at $171,237.50 which works out to a 5% savings over 3 years."[65]

Given the recent increase to Aon's fee, ORA also inquired with GSWC about its most recent issuance of Request For Proposals (RFP) for these insurance brokerage services, to which GSWC stated that its last RFP to insurance brokers was issued in 2008.[66] The Commission should require GSWC to issue RFPs to insurance brokers before GSWC's next GRC filing, with sufficient time to provide testimony in the TY 2019 GRC discussing the results of the RFPs to ensure that GSWC's ratepayers do not overpay for insurance brokerage services.

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[63] GSWC Response to ORA Data Request MC8-020, q2.

[64] $976*13.58%= $133

[65] GSWC Response to ORA Data Request MC8-020, q1.c.

[66] GSWC Response to ORA Data Request MC8-020, q1.d.

6. Regulatory Expense, Account 797

Regulatory Expense includes amounts for legal services, printing and mailing and consulting expenses incurred by a utility during the processing of required General Rate Case and Cost-of-Capital applications. For its Regulatory Expense, GSWC is requesting $1,267,700 for TY 2016, while ORA recommends $1,190,191. As summarized in **Table 3-G** below, GSWC allocates all of its Regulatory Expense to the COPS Cost Center; therefore, 100% of the total forecast amount is allocated to ratepayers.

Table 3-G: Acct. 797, Regulatory Expense

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$0	$0	77.53%	$0	$0
BC&P	$0	$0	89.71%	$0	$0
COPS	$1,267,700	$1,190,191	100%	$1,267,700	$1,190,191
Net	$1,267,700	$1,190,191		$1,267,700	$1,190,191

GSWC arrived at its forecasted amount by starting with the amount of legal expense recorded during its 2011 GRC and Cost-of-Capital (GRC/CoC) proceeding and applying inflation factors to reach a 2016 amount of $957,206 for regulatory legal expense. GSWC then added the estimated amounts for the consultants hired during the instant proceeding, as well as estimated printing and mailing expenses to arrive at an aggregate base amount of Regulatory Expense of $1,842,290 for 2014 GRC/CoC.

Next, GSWC applied inflation factors to the 2014 GRC/CoC amount to forecast the amount for the 2017 GRC/CoC proceeding, which resulted in $1,960,809 for the 2017 GRC/CoC. Finally, GSWC added the 2014 and 2017 GRC/CoC amounts together and amortizes the sum evenly over three years beginning in TY 2016, resulting in an annual amount of $1,267,700. Although ORA makes several adjustments to GSWC's estimates, GSWC's overall methodology of recovering the cost of two GRCs during this single proceeding appears to be consistent with the terms of the settlement adopted by the Commission in D.14-09-009.[67]

The issue of GSWC moving from a deferred to a forecasted recovery of Regulatory Expenses was addressed in the combined settlement agreement ("the Settlement") encompassing proceedings A.08-07-010 and A.07-01-014. In the settlement, the parties agreed:

> that Golden State will have a transition mechanism that will enable Golden State to both (i) forecast its 2017 GRC regulatory expenses, and (ii) recover its regulatory expenses incurred through 2015 for the preparation of the 2014 GRC on a deferred basis. The parties agree that Golden State will recover its deferred 2014 GRC regulatory expenses over a three year amortization period....[68]

As a result of the Commission adopting the Settlement in D.14-09-009, ORA agrees with GSWC's basic methodology of implementing a one-time transition mechanism during this GRC to *recover both* its forecasted 2017 GRC Regulatory Expenses, as well as the current 2014 GRC Regulatory Expenses.[69] In GSWC's next GRC application, as a result of the implementation of this transition mechanism, Regulatory Expense should be based on an estimate of a single GRC and Cost of Capital proceeding on a forecasted, prospective basis instead of deferred.

While ORA agrees that GSWC's general methodology moving from deferred to prospective recovery of its Regulatory Expense is in line with the Settlement, as mentioned above, ORA makes certain recommendations to adjust GSWC's TY 2016 forecast.

First, ORA recommends removing the forecasted cost of the consultant for a depreciation study from the 2017 GRC forecast. GSWC includes an estimated $58,500 in each of the 2014 GRC

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[67] A.08-07-010 and A.07-01-014 Settlement Agreement §8.3, adopted by D.14-09-009.

[68] Ibid.

[69] GSWC's methodology also includes recovery for two Cost-of-Capital proceedings.

and 2017 GRC for the consultant who performed a depreciation study and provided testimony during the current 2014 GRC. Given that GSWC is proposing to recover the $58,500 for the latest depreciation study submitted in the current GRC, asking ratepayers to fund an additional $58,500 for another depreciation study for the 2017 GRC is excessive. The inappropriate nature of this request is illustrated by the fact that when asked by ORA, GSWC management was unable to recall when the last study had been done and conceded that GSWC has not routinely performed a new depreciation study for every GRC application.[70] As a result, ORA recommends removing the $58,500 depreciation study expense from the forecast of the 2017 GRC Regulatory Expenses.

ORA also recommends removing $132,368 related to the 2014 Cost of Capital proceeding from the TY 2016 forecast. GSWC was originally scheduled to file its Cost of Capital application as part of a joint proceeding on March 31, 2014.[71] However, the Commission granted a one-year postponement at the request of the joint applicants. On November 14, 2014, the joint applicants again requested a postponement of one year, whereby the joint parties would file the next cost of capital application on March 31, 2016, and again the Commission granted the joint parties request.[72]

As mentioned previously, GSWC's TY 2016 Regulatory Expense forecasting methodology includes expenses related to two Cost of Capital proceedings, which according to GSWC's workpapers, are the 2014 and 2017 Cost of Capital proceedings. However, because the joint

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[70] September 2, 2014 meeting between ORA and GSWC.

[71] While the Joint Parties' deadline for filing their next cost of capital applications would have been May 1, 2014 under the Rate Case Plan (D.07-05-062, Appendix A at A-3), the Commission modified this deadline to March 31, 2014 (only for the Joint Parties) (D.12-07¬009 at 21, Ordering Paragraph 3).

[72] Commission letter dated January 8, 2015, re: Request for One-Year Postponement of Class A Water Company Cost-of-Capital Proceeding.

parties postponed the 2014 Cost of Capital proceeding twice, GSWC will only be filing a single Cost of Capital application before its 2017 GRC. The 2014 Cost of Capital application will now be filed in March of 2016, during the Test Year of the current GRC. The postponements will push back the planned March 2017 Cost of Capital proceeding to a March 2019 application filing date. The costs for the 2019 Cost of Capital filing should be addressed in GSWC's next GRC (to be filed July 2017). In essence, the two-year postponement of the Cost of Capital proceeding has facilitated the desired mechanism of moving GSWC from a deferred to a forecasted recovery basis. Therefore, ORA recommends removing from GSWC's estimates the related expense amount of $132,368 (a three-year total or an equivalent TY 2016 amount of $44,123).

Lastly, ORA recommends removing $18,356 from both the 2014 and the 2017 Regulatory Expense forecasts for costs related to the printing and mailing for BVE customers as shown on GSWC workpapers.[73] ORA inquired as to why BVE rate case expenses are being allocated to GSWC customers. GSWC responded that it "agrees that this cost should also be allocated to BVE customers."[74] BVE rates and regulatory expenses are determined in separate GRC proceedings and therefore should not be recovered at all from GSWC ratepayers, just as GSWC's rate case expenses are allocated to the COPS GO Cost Center which is allocated 100% to GSWC ratepayers, and not from BVE customers. As a result, ORA recommends removing $18,356 for BVE-related expenses from the expense forecasts for both 2014 GRC and 2017 GRC.

In summary, ORA agrees with GSWC's methodology implementing the Regulatory Expense transition mechanism according to the terms of the Settlement adopted by the Commission in D.14-09-009. However, ORA recommends removing expenses due to the delayed 2014 Cost of

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[73] Workpaper GO-SOE14, tab "797 Rate Case Expense," cell D30.

[74] GSWC Response to ORA Data Request MC8-005, q1.

Capital proceeding, the current GRC's depreciation study from the 2017 GRC forecast, and the BVE printing and mailing expenses from both the current GRC and next GRC. ORA's adjustments result in an amount of $1,190,191 of Regulatory Expenses beginning in Test Year 2016, which is $77,509 less than GSWC's forecasted amount of $1,267,700.

7. Outside Services, Account 798

Outside Services expense consists of the various expenses that GSWC may incur for services that are not handled by the utility in-house. The majority of the expense comprising the TY 2016 forecast can be broken down into three categories: legal, public relations, and consulting expenses. As shown in **Table 3-H** below, through the combined allocation of its three GO Cost Centers, GSWC is forecasting $6,508,160 for Outside Services expense to be recovered from its ratepayers in TY 2016, while ORA is recommending $5,211,244.

Table 3-H: Acct. 798, Outside Services Expense

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$3,882,688	$3,847,372	77.53%	$3,010,248	$2,982,868
BC&P	$326,517	$326,517	89.71%	$292,918	$292,918
COPS	$3,204,978	$1,935,458	100%	$3,204,978	$1,935,458
Net	$7,414,183	$6,109,347		$6,508,144	$5,211,244

The difference is mainly due to ORA's recommendation that the Commission deny GSWC's requested $1 million of ratepayer funding for expenses related to its defense against eminent domain proceedings. ORA also makes a number of additional recommendations to remove certain expenses from historic recorded data when forecasting TY 2016.

Other than GSWC's requested increases related to legal and public relations expenses discussed below, GSWC bases its remaining Outside Services Test Year 2016 forecast on an inflation-adjusted three-year average of recorded 2011-2013 expenses. ORA finds GSWC's use of an inflation-adjusted three-year average generally acceptable in light of GSWC's 2011 sale of its affiliate Chaparral City Water. However, ORA recommends a number of adjustments to historic data before averaging for forecasting purposes.

As shown on GSWC's workpapers beginning in TY 2016, an additional hard-coded amount of $1,482,750 is added to the three-year average and is forecasted going forward.[75] The testimony of Hilda Wahhab explains the $1.5 million addition as follows:

> In the second quarter of 2013, GSWC expanded the contract with Randle Communications. As a result, the three year average does [not] reflect the full cost GSWC will incur with Randle Communications and for other outside services GSWC will incur in its efforts to improve and secure its presence in the communities it serves. In 2016, GSWC increased the escalated three-year average costs for outside services by $1.5 million to account for these costs.[76]

In addition, GSWC's Outside Services workpaper include two additional footnotes in support of its forecasts:

- The Test Year forecast includes $1 million for Defense cost related to condemnation effort.[77]
- Also, the Test Year forecast includes $800K for Randle Communicating contract.[78]

ORA began its analysis of GSWC's expense increase by requesting clarification of the methodology used by GSWC in arriving at an additional annual amount of $1,482,750. In response, GSWC explained:

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[75] Workpaper GOE-SOE 14, tab 798 Outside Services, cell S12.

[76] GSWC Prepared Testimony of Hilda Wahhab, p. 21

[77] Workpaper GOE-SOE 14, tab 798 Outside Services, cell G52.

[78] Workpaper GOE-SOE 14, tab 798 Outside Services, cell G53.

> In 2011 Golden State Water Company signed a contract of $244,800 with Randle Communications to supplement the customer education and community relations programs which was expanded to $805,000 in the second quarter of 2013. As a result, the three year average contains recorded cost of Randle Communication. The forecast of $1.5 million is made up of two components:
>
> 1) the incremental cost for Randal Communication contract of about $500K per year and
>
> [2)] an estimated of $1million to improve and secure GSWC's presence in the communities it serves.[79]

As a result of GSWC's explanations included in its testimony, its response to discovery and the footnotes on its workpaper, ORA performs its analysis based on the understanding that GSWC is requesting Test Year increases of:

1) $482,750 related to increasing its contract with Randle Communications; and

2) $1 million dollars to fund defense costs related to condemnation efforts.

Randle Communications Public Relations Increase

ORA verified that the recorded three-year average of Randle Communications expense in the Outside Services account is an amount, that when summed with the requested $482,750 increase in TY 2016, will be equivalent to the new Randle Communications annual contract amount of $805,000. The testimony of Denise Kruger explains that the benefits of the increase in the Randle Communications contract result from GSWC outsourcing its Community Relations department:

> Given our in-house team did not have the proper skills for multiple communication venues (web design, media relations, bill notices, direct mail, public presentations, etc.), and given the need to reduce costs by eliminating any duplication of effort between the

[79] GSWC Response to ORA Data Request MC8-002, q1.a.

> in-house staff and outsourced team, Golden State Water determined the best, most efficient course was to utilize the skills and expertise of the outsourced vendor more fully, and eliminate the in-house staff.[80]

Because the $482,750 increase for the Randle Communications contract is expected to be offset by the decrease in employee-related expenses related to the elimination of GSWC's in-house Community Relations staff, ORA does not recommend an adjustment to remove the $482,750 increase at this time.

However with the increase in GSWC's contract with Randle Communications, ORA is concerned that certain expenses traditionally ordered by the Commission to be borne by shareholders, such as advertising, lobbying, or charitable contributions may become embedded within Randle Communications' billing and thus recovered from ratepayers under the pretense of GSWC's public relations expenses booked under Outside Services. For example, a Randle Communications invoice requested as part of ORA's sampling contained itemized expenses totaling $2,017.54 relating to "Operation Gobble," GSWC's annual charity effort that donates holiday turkeys to local community organizations.[81] ORA recommends removing the $2,017.54 related to Operation Gobble from the recorded Outside Services expenses used to forecast TY 2016.

There is also evidence that GSWC's contract with Randle embeds expenses related to fighting condemnation efforts, an expense that should not be borne by ratepayers. For example, a Randle invoice obtained by ORA contains itemized charges for Randle Communications Director (and GSWC spokesperson) Julie Hooper to attend Claremont Media Meetings.[82] As discussed in detail below, GSWC and the City of Claremont have become embroiled in a contested eminent

[80] GSWC Prepared Testimony of Denise Kruger, p. 9.

[81] GSWC Response to ORA Data Request MC8-002, q4, (document 90878).

[82] GSWC Response to ORA Data Request MC8-002, q4, (document 889378) Randle Invoice 1258.

domain proceeding. ORA recommends that the Commission order GSWC, in future GRC filings, to itemize and make clear adjustments to reduce recorded Randle Communications expenses for any amounts related to charitable efforts, condemnation defense, as well as other expenses not allowed by the Commission to be recovered from ratepayers (such as Chamber of Commerce dues and lobbying, etc.) as discussed herein and elsewhere in ORA testimony.

Condemnation Defense Expenses

Next, ORA examined GSWC's request for $1 million of ratepayer funding for defense costs related to condemnation proceedings. As briefly mentioned above, while GSWC's explanation for its request is noted in GSWC's workpapers as for "defense costs related to condemnation,"[83] GSWC's testimony and its data request response describe the request somewhat differently - as an "estimate of $1 million to improve and secure GSWC's presence in the communities it serves."[84] When ORA asked GSWC to explain *how* it arrived at the estimated annual defense cost of $1 million, GSWC simply responded as follows: "an estimate of $1 million was added to the forecasted outside services in the test year. The $1 million is a proxy of the future cost."[85] GSWC's response does nothing to clarify how it arrived at the $1 million estimate, nor does GSWC make clear how it intends to spend these estimated funds.

ORA sought an explanation of how ratepayers would benefit from funding an additional $1 million annually for GSWC to fend off condemnation efforts. GSWC responded: "All GSWC's customers will benefit from the economy of scale by lower rates. A smaller customer base will

[83] GSWC Workpaper GO SOE 14, tab "798 Outside Service" cell G52.

[84] GSWC Response to ORA Data Request MC8-002, q1.a.

[85] GSWC Response to ORA Data Request MC8-002, q2.b

increase shared costs."[86] GSWC's response does not attempt to further demonstrate or quantify how remaining ratepayers would potentially experience increased shared costs of $1 million annually in the case that a particular condemnation effort against it was successful, nor does it come close to meeting GSWC's burden of proof to warrant inclusion in rates. As explained below, GSWC failed to consider the possibility that remaining ratepayers are just as likely to benefit from the treatment of the proceeds received from the disposition of GSWC's assets in the event of a successful condemnation proceeding against it.

D.07-09-021 (R.04-09-003) states that "Condemnation/threat of condemnation/inverse condemnation/service duplication proceeds shall be governed by Pub. Util. Code § 790."[87]

PUC Code §790 in turn states:

> Whenever a water corporation sells any real property that was at any time, but is no longer, necessary or useful in the performance of the water corporation's duties to the public, the water corporation shall invest the net proceeds, if any, including interest at the rate that the commission prescribes for memorandum accounts, from the sale in water system infrastructure, plant, utilities and properties that are necessary or useful in the performance of its duties to the public.[88]…this article shall apply to the investment of the net proceeds referred to in subdivision (a) for a period of 8 years from the end of the calendar year in which the water corporation receives the net proceeds. The balance of any net proceeds and interest thereon that is not invested after the eight-year period shall be allocated solely to ratepayers."[89]

The result is that remaining ratepayers benefit either from improved infrastructure at a stable rate of return (the utility's access to the zero-cost capital means the utility does not have to raise

[86] GSWC Response to ORA Data Request MC8-002, q2.a.

[87] D.07-09-021, p. 35, Ordering Paragraph 8, re: R.04-09-003, Order Instituting Rulemaking on the Commission's own motion for the purpose of considering policies and guidelines regarding the allocation of gains from sales of energy, telecommunications, and water utility assets.

[88] California Public Utilities Code, §790(a).

[89] California Public Utilities Code, §790(c).

additional capital at uncertain rates), or benefit directly from the proceeds from the disposition if the utility does not reinvest the proceeds within eight years. Either way, the Commission's direction for treatment of the proceeds from a condemnation renders GSWC's remaining ratepayers indifferent to the outcome. To illustrate, the City of Claremont, which has begun the process of taking over its water system from GSWC through eminent domain has recently had its water system appraised by GSWC's own consultant at $222 million.[90] Under Commission rules, these potential proceeds must either be re-invested in water infrastructure or allocated back to GSWC ratepayers. Accordingly, the Commission should deny GSWC's request for ratepayer funding.

Moreover, the Commission has a long-standing policy not to allow recovery for utility political activities. In D.06-11-050, the Commission clarified that "Commission policy is clear that political and lobbying activity should not be included in customer rates."[91]

A utility's efforts to defeat an action brought against it by a municipality fall into the category of political activity. For example, residents of the City of Claremont ("the City"), where GSWC owns and operates a water system, voted in November 2014 to pass Measure W, which authorized the City to issue bonds for the purpose of funding a potential takeover of GSWC's water system through eminent domain. Measure W, along with the eminent domain effort itself, has generated considerable debate within the City.

Proponents of Measure W included the organization Friends of Locally Owned Water ("FLOW") which aligned itself with the City's effort to pass the Measure, while GSWC aligned

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[90] Marquez, L. (2014, October 3). Claremont water system valued at $222 million in new report. Retrieved January 29, 2015, from http://www.dailybulletin.com/government-and-politics/20141003/claremont-water-system-valued-at-222-million-in-new-report

[91] D.06-11-050, p. 73, re. Cal Am A.05-02-012, A.05-02-013, TY 2007 GRC.

itself with the Claremont Affordable Water Advocates ("CAWA") in opposing the measure. There is little doubt that GSWC's actions defending against Claremont's eminent domain proceeding are political in nature. CAWA is an organization itself headed by a local political figure;[92] while the group STOP the Water Tax- NO on W was "sponsored and funded by Golden State Water Company."[93] While ORA takes no position the City's efforts, ratepayers should not be required to fund GSWC's efforts to defeat them. Disallowing and preventing ratepayer funding of such efforts is consistent with Commission policy on political expenditures.

Further, the Commission has historically not allowed utilities to recover costs related to defending eminent domain proceedings from ratepayers. Its policy on this matter is clear:

> We note that Commission policy agrees with Ms. Kashtan's position that **customers should not be expected to pay for legal fees to defend a condemnation.** In the past, costs associated with condemnation proceedings in Superior Court have been borne, in their entirety, by the owner or shareholders of the utility in question. **It has never been this Commission's policy to allow these costs for ratemaking**.[94] [Emphasis added.]

The Commission should uphold this policy and deny GSWC's request for the $1 million in ratepayer funding to fight condemnation efforts.

In summary, ORA recommends that GSWC's request for $1 million in condemnation defense expenses be denied because ratepayer funding of a utility's condemnation defense efforts runs contrary to long-standing and established Commission policy. ORA also recommends that the Commission direct GSWC to make clearly labeled adjustments in its workpapers in future GRCs

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[92] Bailey, A. (2014, June 27). Retrieved September 16, 2014, from https://www.claremont-courier.com/articles/news/t12191-cawa

[93] Marquez, L. (2014, October 16). Retrieved October 27, 2014, from http://www.dailybulletin.com/environment-and-nature/20141016/measure-w-focus-of-claremont-water-forum

[94] Resolution W-4254 California Public Utilities Commission 2001 Cal. PUC LEXIS 471 May 14, 2001.

to remove all costs related to condemnation defense efforts from historic data in order to prevent these costs from being recovered from ratepayers through forecasted expenses (via averaging of historical costs).

Removal of Other Historic Expenses from Three-Year Average

As mentioned above, GSWC bases its TY 2016 forecast of Outside Services on an inflation-adjusted three-year average. However, before calculating the average and applying inflation factors, GSWC makes several adjustments to historic costs. In the settlement adopted by the Commission in D.14-09-009, GSWC agreed to "exclude 75% of all legal and consulting costs incurred in this rehearing proceeding from any historical expenses used to forecast expenses in any future GRCs and/or other filings."[95] GSWC's workpapers show that GSWC removed $1,356,373 between 2011 and 2013. ORA analyzed the source documents provided by GSWC through discovery and performed recalculation and reconciliation.[96] ORA compared the result of its analysis with GSWC's adjustment to remove 75% of the cost from historic data as agreed to in the settlement and is satisfied that GSWC has abided by the terms.

GSWC made an additional adjustment in its workpapers to reduce historic amounts incurred in 2012 and 2013 for "defense costs related to the Ojai and Claremont condemnation efforts…"[97] Although GSWC has asserted confidentiality regarding the actual amount of this adjustment, ORA is statutorily permitted to view the information in order to perform its duty to protect GSWC's ratepayers. In order to ensure GSWC removed all historic defense costs related to condemnation, ORA's procedures included performing discovery through data requests,

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[95] A.08-07-010 and A.07-01-014 Settlement Agreement §10.1, adopted by D.14-09-009.

[96] GSWC Response to ORA Data Request MC8-004, q3.a

[97] GSWC Prepared Testimony of Hilda Wahhab, p. 21.

inquiries of GSWC staff, examination of accounting journal entries, and sampling of invoice source documents. Because GSWC's 2012-2013 adjustment is netted against 2013 recorded data, ORA began its analysis by adjusting to correct for this minor timing distortion.

In addition, during the discovery process, ORA obtained the journal entries itemizing the invoices that make up the balance of GSWC's net adjustment to remove historic defense costs related to the Ojai and Claremont condemnation efforts.[98] By comparing these entries with the invoices that remain in recorded historic costs, ** BEGIN CONFIDENTIAL [redacted][99] ** END CONFIDENTIAL ORA assumes this was a year-end oversight by GSWC, and recommends removing from historic 2013 amounts before forecasting the TY 2016 the additional expenses totaling **BEGIN CONFIDENTIAL**[redacted]**END CONFIDENTIAL** from these four invoices.

GSWC's final adjustment to remove expenses from historic Outside Services expense before forecasting its Test Year amount is to remove costs related to the procurement audit ordered by the Commission when adopting the settlement of A.10-01-009. The settlement provides that:

> Water & Audits will engage an independent auditor to examine the operations of the company. Section 7.5 of the Settlement provides that, for each separate and independent audit, Golden State agrees to pay all costs of the independent auditor and not seek recovery of this expense from its customers at any time.[100]

ORA examined the source document invoices and related journal entries and is satisfied that GSWC's adjustment captures the Commission's directive that shareholders should bear these

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[98] **Confidential** GSWC Response to ORA Data Request MC8-004, q3.c.

[99] **Confidential** GSWC response to Data Request MC8-016, q2.

[100] D.11-12-034, pp. 7-8, re: GSWC's A.10-01-009, TY 2011 GRC.

costs. It should be noted that in GSWC's response to ORA's data request, GSWC noticed that it removed $72,027 in error for invoices that were unrelated to the procurement audit.[101] ORA incorporated the correction of GSWC's error into its TY 2016 forecast.

ORA recommends a number of additional adjustments to remove certain expenses from GSWC's historic Outside Services expenses prior to averaging for TY 2016 forecasting purposes. Information provided by GSWC in response to ORA's data requests show that 2013 recorded costs contain $375 for dues paid to the Sacramento Asian Pacific Chamber of Commerce, as well as a $10,000 donation to the Cordova Community Council for the "Golden State Water Magic Maker Partnership Package."[102] In addition, GSWC's response showed that 2012 recorded costs include $275 for the Santa Maria Valley Chamber of Commerce.[103] ORA recommends removing all of these expenses from the three-year average because of the Commission's long-standing policies of not allowing recovery dues to chambers of commerce and service clubs,[104] or charitable contributions.[105]

Finally, ORA also recommends removing the $52,273 historic expense related to Randle Communications invoiced amounts for the one-time Truro well incident for reasons discussed earlier in this report as well in ORA testimony by Jenny Au.[106]

GSWC also provided information through responses to ORA data requests that show 2013 recorded costs contain expenses related to an audit performed by Macias Consulting Group

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[101] GSWC Response to ORA Data Request MC8-004, q3.b.

[102] GSWC Response to ORA Data Request MC8-002, q4.

[103] GSWC Response to ORA Data Request MC8-004, q2.b.

[104] D.04-07-022, p. 199, re: Southern California Edison's A.02-05-004, TY 2003 GRC.

[105] Cordova Community Council is a 501(c) 3 organization.

[106] GSWC Response to ORA Data Request MC8-002, q4, Document 900136, Randle Invoice 13315.

("Macias"). ORA obtained a copy of the Macias audit report and found it was performed as part of GSWC's compliance with Affiliate Transaction Rule (ATR) VIII.E as adopted in D.10-10-019. Specifically, Rule VIII.E states that in order to ensure compliance with the ATR,

> [c]ommencing in 2013 and biennially thereafter, the utility shall have an audit performed by independent auditors" and that "[t]he audits shall be at shareholder expense.[107]

Because the ATRs require that the audit performed pursuant to Rule VIII.E be shareholder funded, ORA recommends removing from historic costs used for forecasting purpose the $99,487 in the Corporate GO Cost Center related to Macias Consulting.[108]

For purposes of forecasting TY 2016 expenses, ORA also recommends removing $158,360 from 2013 recorded Outside Services for costs related to the consultants hired by GSWC to implement the new IRS Repairs regulations. In the settlement agreement reached during the prior GRC, "DRA and TURN agreed that GSWC would increase its test year Outside Services for its General Office function by $300,000 and GSWC would be granted a memorandum account associated with other tax effects resulting from the implementation of the repair regulations."[109] The "final incurred costs will be reviewed in GSWC's next GRC and be subject to refund."[110] According to GSWC, it captured the related $158,360 in a memorandum account,[111] yet ORA found that the same expense was recorded in 2013 Outside Services.

The implementation of the IRS Repairs Regulations was carefully reviewed and discussed by ORA, TURN, and GSWC, and GSWC was granted a specific amount in TY 2013 Outside

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[107] D.10-10-019, Rule VIII.E.

[108] GSWC Response to ORA Data Request MC8-016, q1.a, DATA REQUEST MC8-025, q1.

[109] A.11-07-017, Settlement § 8.5, as adopted by D.13-05-011.

[110] Ibid. For more details, see ORA's Report on Balancing and Memorandum Accounts in this proceeding.

[111] GSWC Prepared Testimony of Ronald Moore, pp 5-7.

Services to implement these changes, subject to ratepayer refund of amounts not spent. It would be inappropriate to include such one-time, refundable expenses allowed as part of a settlement to be forecast into future rates. Including these expenses in recorded costs used as a basis for forecasting would project these strictly limited amounts into future rates, constitute double recovery and violate the intent of the settlement. The settlement provided for a subject to refund amount totaling $900,000 to be recovered in rates between 2013-2015. To allow GSWC to recover additional funds through an inflated forecasted average is inappropriate. As a result, ORA recommends removing the $158,360 from 2013 historic rates when calculating the average for the TY 2016 forecast.

Finally, ORA recommends the removal of lobbying expenses from historic 2013 expenses before determining the inflation-adjusted three year average. According to invoices requested by ORA, ** BEGIN CONFIDENTIAL ** [redacted] ** END CONFIDENTIAL Lobbying activities further GSWC's shareholders' business strategies, not necessarily ratepayer interests, and the Commission has a long-standing practice of disallowing lobbying activities from ratepayer recovery. As cited previously, in D.06-11-050, the Commission clarified that "Commission policy is clear that political and lobbying activity should not be included in customer rates."[114] ORA's recommends removing ** BEGIN CONFIDENTIAL [redacted]

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[112] GSWC Response to ORA Data Request MC8-002, q4.

[113] GSWC Response to ORA Data Request MC8-002, q4, Document 870769, ** BEGIN CONFIDENTIAL [redacted] ** END CONFIDENTIAL

[114] D.06-11-050, p. 73, re. Cal Am A.05-02-012, A.05-02-013, TY 2007 GRC.

[redacted]

** END CONFIDENTIAL.

As a result of ORA's recommended adjustments discussed above, ORA recommends $5,236,285, which is $1,271,875 less than GSWC's request, for GSWC's TY 2016 GO Outside Services.

8. Miscellaneous, Account 799

Examples of GSWC's Miscellaneous GO expenses include Board of Director's fees, Professional Dues & Membership fees, and Shareholder Services. As shown in **Table 3-I** below, of its forecasted aggregate amount of Miscellaneous Expenses GSWC requests $1,722,467 from its ratepayers in TY 2016 while ORA recommends $1,811,692, a net *increase* of $89,225.

Table 3-I: Acct. 799, Miscellaneous Expense

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$1,626,076	$1,877,860	77.53%	$1,260,697	$1,455,905
BC&P	$2,961	$2,961	89.71%	$2,656	$2,656
COPS	$459,115	$353,132	100%	$459,115	$353,132
Net	$2,088,152	$2,233,952		$1,722,468	$1,811,692

GSWC arrives at its forecast by calculating the three-year average of recorded 2011-2013 and adjusting for inflation to TY 2016. GSWC makes an additional adjustment to remove the amount of its dues to the National Association of Water Companies ("NAWC") and the California Water Association ("CWA") that are deemed to be spent on lobbying.

ORA recommends a net $89,225 increase in Miscellaneous Acct. 799 expense because ORA's GO plant witness is recommending that certain software licenses that GSWC classifies as capital expenditures should instead be reclassified as annual expenses. See Chapter 4 – General Office

– Plant for further details. Setting aside the software reclassification expense increase described above, ORA recommends a traditional *decrease* of $167,058 from GSWC's forecast. The reason for ORA's decrease is its recommendation to deny GSWC ratepayer recovery of Dues and Membership fees for the NAWC and other Chamber of Commerce type organizations.

Dues and Membership Fees

Dues and Membership expenses that are recoverable in rates typically consist of fees paid to industry service organizations that are shown to closely relate to the utility's business *and* to provide ratepayer benefits. Because the Commission has a long-standing practice of disallowing ratepayer recovery of dues in certain professional organizations that have not been shown to provide ratepayer benefits, such as Chambers of Commerce, and because these dues can be quite substantial, ORA reviewed GSWC's request in detail.

For TY 2016, GSWC is requesting adjusted amounts of $176,166 for NAWC dues and $198,039 for CWA dues. GSWC adjusted both amounts for inflation and to remove portions self-reported by these organizations to be spent on lobbying. The NAWC reports that 14% of dues will be spent on lobbying while CWA reports 33% of member dues is spent on lobbying. ORA obtained GSWC's invoices for the NAWC and CWA and was able to substantiate GSWC's recorded 2013 amounts, as well as the portions indicated by the organizations as lobbying expense.

Both the NAWC and CWA are organized as non-profits under Internal Revenue Code (IRC) 501(c) 6, which provides tax-exempt status for business leagues, chambers of commerce, real-estate boards, and boards of trade not organized for profit.[115] Because the NAWC and CWA are organized this way, they are subject to filing a publicly available Form 990 with the Internal Revenue Service (IRS) which is similar to a balance sheet, only for a non-profit entity. ORA

[115] IRC §501(c) 6.

was able to view each organization's IRS Form 990 and confirm the lobbying expense ratios reconciled to the amount reported by each organization.

Non-profit organizations that file IRS Form 990 are classified by the IRS using the National Taxonomy of Exempt Entities (NTEE) system based on descriptive data contained in each organization's application for recognition of tax-exempt status. The IRS classifies both the NAWC and CWA under category S41which is described as follows:

> Chambers of Commerce & Business Leagues: Organizations like chambers of commerce, business leagues and commercial trade associations whose members are businessmen and women and merchants who have affiliated for the purpose of promoting the general commercial interests of the community or the interests of their own trade.[116]

Because at the NTEE level, the NAWC and CWA possess the characteristics of a Chamber of Commerce organization, which the Commission traditionally disallows from rates,[117] it is important to re-examine the ratepayer benefits provided by these two organizations.

In D.04-07-022, the Commission made its position clear that the utility (in this case, Southern California Edison, or SCE) has the burden of proving that dues and membership fees offer ratepayer benefits. On this subject, the Commission stated:

> …it should have been clear to SCE that it needed to sustain its burden of proving that the dues and memberships at issue offer ratepayer benefits. SCE's brief does not point to any portion of SCE's direct showing where such proof is provided. SCE focuses on the fact that it is not seeking ratepayer reimbursement for chamber of commerce or service club dues, but the point of the foregoing passage is not that all memberships and dues are recoverable from ratepayers so long as they are not for chambers of commerce or service

[116] National Center for Charitable Statistics. Web. 12 Nov. 2014. <http://nccsdataweb.urban.org/PubApps/nteeSearch.php?gQry=s41>.

[117] D.96-01-011, Findings of Fact 46 states "We have a long-standing policy not to require ratepayers to fund dues to chambers of commerce and service clubs for ratemaking purposes."

> clubs. SCE must show that any memberships or dues for which rate recovery is sought offer ratepayer benefits.[118] [Emphasis added.]

GSWC should be held to this same burden of proof for its dues and membership expenses. In light of the standard outlined by the Commission in D.04-07-022, ORA asked GSWC to provide a specific example of ratepayer benefits resulting from its memberships in NAWC and CWA, and to provide a cost-benefit analysis in order for it to meet its burden of proof. Instead of complying, GSWC's responded with mostly vague references as to how memberships in the NAWC and CWA help GSWC itself:

> …so that the Company has a forum to discuss the multiple aspects of investor-owned utility businesses in California and nationwide with other similar utilities. Membership in Water Associations helps the Company stays informed with the regulated water industry as well as enhance open communication concerning sound business policies and practices. Regular meetings and discussions with other CWA and NAWC members help the Company look at business alternatives to improve efficiencies and operations, which ultimately benefit the rate payers.[119] [Emphasis added.]

GSWC's response by no means sustains its burden of *proving* that CWA and NAWC dues provide ratepayer benefits.

However, GSWC was able to provide at least one example of a ratepayer benefit, although its example pertains solely to CWA: "CWA's counsel represents CWA member utilities in California and responds to the majority of OII and OIR issued by the California Commission which helps reduce GSWC's legal costs."[120] While GSWC declined to provide the requested cost-benefit analysis of CWA dues paid as compared to reduced legal costs, ORA was able to

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[118] D.04-07-022, p. 199, re: SCE's A.02-05-004, TY 2003 GRC.

[119] GSWC Response to ORA Data Request MC8-008, q5.

[120] Ibid.

confirm that CWA has indeed represented CWA member utilities by responding to OII and OIR issued by the Commission.

GSWC eventually concludes its response to ORA's request for specific examples of ratepayer benefits by admitting "…however, this benefit is often intangible and unquantifiable."[121] While GSWC has shown that membership dues in CWA may provide at least some type of benefit to ratepayers in the form of reduced legal expenses, GSWC's response that the benefits are "often intangible and unquantifiable" does not meet the burden of proof necessary to justify recovery in rates of NAWC annual membership dues.

Furthermore, the CWA itself currently serves as a Chapter of the NAWC, helping the NAWC "share support and influence."[122] As such, GSWC's ratepayers already fund access to the NAWC's "intangible and unquantifiable" benefits through funding GSWC's membership dues in the CWA. Allowing additional ratepayer funding for the NAWC, an organization which bills itself as the "voice of the private water industry"[123] would constitute an unjust expense that has not been shown by GSWC to benefit its ratepayers.

Other Chamber of Commerce organizations

ORA recommends removing expenses related to funding an additional number of Chamber of Commerce-type organizations before forecasting the Test Year. ORA's discovery efforts produced information that shows recorded costs in 2011-2013 that directly relate to expenses traditionally disallowed by the Commission. Specifically, between 2011-2013, ORA

[121] GSWC Response to ORA Data Request MC8-008, q5.

[122] Web. Retrieved January 21, 2015 from <http://www.nawc.org/membership/chapters-and-related-groups/default.aspx>.

[123] Web. Retrieved January 21, 2015, from http://www.nawc.org/about-NAWC/.

recommends removing $20,000 to the Orange County Business Council,[124] $15,000 to the California Chamber of Commerce[125] and $4,140 for the Los Angeles Area Chamber of Commerce.[126] Because the Commission has "a long-standing policy not to require ratepayers to fund dues to chambers of commerce and service clubs for ratemaking purposes,"[127] ORA removes the related expenses. ORA also found these types of expenses recorded in GSWC's ratemaking areas historic data and made similar adjustments. (See ORA testimony by Josefina Montero.)

In summary, because GSWC has failed to meet its burden of proof showing ratepayer benefits of funding the NAWC, and because ratepayers already fund representation in the NAWC through the CWA's chapter status in the NAWC, the Commission should deny GSWC recovery for NAWC dues. Additionally, ORA recommends that GSWC not receive forecasted recovery for the various Chamber of Commerce-type dues discussed above. Finally, ORA's GO plant witness recommends certain annual software licenses capitalized by GSWC be reclassified as expenses, which decreases ratebase, but increases Miscellaneous Expense. As a result, ORA recommends $1,811,692 for TY 2016 Miscellaneous Expense, an amount $89,225 more than GSWC.

9. Maintenance of General Plant, Account 805

The majority of GSWC's forecasted Maintenance of General Plant ("Maintenance Expense") pertains to Information Technology (IT)-related expenses, while a far lesser portion concerns

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[124] GSWC's response to DATA REQUEST MC8-025, q2.

[125] Ibid.

[126] Ibid.

[127] D.96-01-011, Findings of Fact 46.

traditional maintenance. As shown in **Table 3-J** below, GSWC is requesting $1,807,980 from its ratepayers in TY 2016, while ORA recommends $1,783,918.

Table 3-J: Acct. 805, Maintenance of General Plant

(in $)

General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$1,070,113	$1,057,333	77.53%	$829,659	$819,751
BC&P	$1,010,960	$998,233	89.71%	$906,932	$895,515
COPS	$71,389	$68,652	100%	$71,389	$68,652
Net	$2,152,462	$2,124,219		$1,807,980	$1,783,918

The methodology GSWC uses to arrive at its forecasted amount of Maintenance Expense differs between its IT-related expense and its non-IT related expense. According to GSWC, for its *IT-related* Maintenance Expense, GSWC removes historic recorded expenses and bases its TY forecast on a zero-based 2014 budget prepared by its Director of IT.[128] GSWC also states that Account 805 was "escalated using the Estimates of Non-Labor and Wage Escalation Rates memorandum."[129] For purposes of GSWC's application filing, these rates for 2015 and 2016 are 2.18% and 2.40%, respectively. However, GSWC's workpapers show that GSWC actually applied a 3% annual escalation factor to its 2014 forecasted amount to arrive at TY 2016 instead of the inflation factors from "the Estimates of Non-Labor and Wage Escalation Rates memorandum" as asserted it its testimony.[130]

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[128] GSWC Prepared Testimony of Hilda Wahhab, p. 22.

[129] Ibid.

[130] GSWC workpaper IT Forecasted Maintenance, tab "Maintenance," cell C109.

For its *non-IT related* maintenance expense, GSWC simply applies the inflation factors from the "Estimates of Non-Labor and Wage Escalation Rates memorandum"[131] to the recorded 2013 amount to reach a 2016 forecasted level. GSWC's final step to forecast Maintenance Account 805 is to sum the forecasted IT-related Maintenance Expense amounts with the non-IT amounts to arrive at GSWC's total Maintenance Expense amount for TY 2016.

ORA's analysis of GSWC's Maintenance Expense consisted of performing on-site inquiries of GSWC personnel, discovery through data requests, and analysis of GSWC's workpapers. ORA disagrees with GSWC's use of 3% in its workpapers as an annual inflation factor for IT-related maintenance expense, because GSWC provided no basis for its use. Moreover, using 3% escalation is at odds with GSWC's own testimony which incorrectly states that "Maintenance of General Plant is based on the 2013 recorded adjusted as stated below and then escalated using the Estimates of Non-Labor and Wage Escalation Rates memorandum."[132]

ORA recommends using inflation factors based on the Estimates of Non-Labor and Wage Escalation Rates memorandum as stated in GSWC's testimony, instead of using the 3% annual increases as shown on GSWC's workpapers. ORA's recommendation only seeks to implement the same escalation rates for IT-related and non-IT related Maintenance Expense in a manner that is consistent with GSWC's own testimony. It should also be noted here that ORA corrected a minor formula error on one of GSWC's workpapers regarding the inflation factors applied to non-IT maintenance expenses.[133]

ORA also sampled historical invoices for appropriateness of future forecasting and verified the terms of certain IT-related warranties. ORA obtained and analyzed the journal entries for

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[131] GSWC Prepared Testimony of Hilda Wahhab, p. 22.

[132] Ibid.

[133] GSWC Response to ORA Data Request MC8-009, q1: GSWC agrees with ORA's correction.

GSWC's 2013 recorded non-IT related maintenance expense balances. ORA determined that journal entries made in 2013 for vendor "DP Air Corp" totaling $2,067 were for maintenance expenses incurred by GSWC's Customer Service Center, which in September 2014 was relocated to already-existing office space in GSWC's Anaheim office.[134] The relocation of the Customer Service Center to an existing space will produce economies of scale that GSWC's ratepayers should benefit from. The reduction of expenses related to the maintenance and upkeep for the CSC is one of those benefits. Accordingly, ORA recommends removing $2,067 from historic recorded 2013 maintenance expense when forecasting GSWC's TY 2016 expenses.

As a result of ORA's use of composite inflation escalation for IT-related Maintenance Expense consistent with GSWC's testimony, and the removal of $2,067 of "DP Air Corp" from 2013 recorded costs, ORA recommends $1,783,918 for Maintenance of General Plant, an amount that is $24,062 less than GSWC's forecast.

10. Rent, Account 811

As shown in **Table 3-K** below, GSWC is forecasting $398,569 to be recovered from ratepayers for GO Rent expense in TY 2016, while ORA recommends $385,381. The difference between ORA and GSWC is due to the differing methodologies used to inflate the CSC portion of the Anaheim office rent to Test Year 2016 price levels.

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[134] GSWC Response to ORA Data Request MC8-018, q1.a, lines 59-61 and GSWC's workpaper GO-SOE 14, tab "805 Oth Maint," line 128 containing $2,067 is labeled "Customer Service Center-Admin."

Table 3-K: Acct. 811, Rent Expense

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	$29,547	$29,547	77.53%	$22,908	$22,908
BC&P	$0	$0	89.71%	$0	$0
COPS	$375,661	$362,473	100%	$375,661	$362,473
Net	$405,208	$392,020		$398,569	$385,381

The GO Rent expense account includes the forecasted amounts GSWC expects to incur for office space in Anaheim, which as of September 2014 houses GSWC's Customer Service Center (CSC), departments and portions of GO departments (such as engineering), as well as the Orange County District staff and Orange County District water supply staff and warehouse.[135] GSWC's TY 2016 GO Rent expense also includes forecasted amounts for GSWC's leased storage units.

Prior to September 2014, GSWC's Customer Service Center or CSC was located in a separate building that was leased by GSWC, and as noted in GSWC's testimony, the CSC lease was GSWC's most expense lease.[136] GSWC decided to relocate the CSC to existing office space at GSWC's Anaheim office. Accordingly, GSWC adjusted its workpapers to remove the previous CSC lease expense amount from the TY forecast, and added a portion of the Anaheim rent to be recovered via GO expenses for the use of the new CSC space. GSWC determined that 33.66% of the Anaheim rent expense should be allocated to the CSC.

[135] GSWC Prepared Testimony of Denise Kruger, p. 4.

[136] GSWC Prepared Testimony of Denise Kruger, p. 3.

ORA examined GSWC's leases and GRC workpapers in order to ensure that the forecasted Anaheim rent allocated to the CSC was appropriate and that the forecasts for TY 2016 rent amounts reflected the actual terms of GSWC's lease agreements. ORA does not disagree with GSWC's allocation of 33.66% of the Anaheim rent to the CSC, but recommends an adjustment to GSWC's overall forecasting methodology for the TY 2016 Anaheim rent. GSWC begins with an Anaheim rent amount of $534,267[137] which GSWC escalates *twice* by 3%, presumably to account for increases in the lease terms. GSWC allocates 33.66% of this total escalated amount to the CSC total for 2014 and then factors two *additional inflation* factors to bring this 2014 aggregate amount to 2016 forecasted price levels.

ORA's examination of the Anaheim lease terms shows that GSWC's base 2014 amount of $534,267 is actually an approximation of the rent amount for *2015*.[138] Therefore, GSWC is incorrect inflating this 2015 amount *twice* in attempting to reach a 2016 level. ORA arrives at its Anaheim rent forecast for TY 2016 by first taking the lease terms detailing 11 months of 2014 and adding one inflated month for December 2014 resulting in a 2014 amount of $519,993. ORA inflates this 2014 amount twice by 3% pursuant to the terms of the lease, to arrive at $551,661 rent expense for 2016. ORA then allocates 33.66% of this amount to the CSC, arriving at the amount $185,689 for 2016. It is worth noting that GSWC agreed with ORA that its inflation factors were applied incorrectly and sent a revised calculation, although ORA still had a minor correction to GSWC's revision.[139] ORA's adjustment results in a recommendation of $385,381 for Rent Expense, which is less than GSWC's estimate by $13,188.

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[137] Workpaper "Rent 2014 GRC CSA's and District" "summary" tab, cell C92.

[138] GSWC Response to ORA Data Request MC8-010 q2, lease attachment, p. 3 shows Dec. 2013- Nov. 2014 rent is $518,696. This 2014 approximation escalated by 3% equals a 2015 rent approximation of $534,256.

[139] GSWC Response to ORA Data Request MC8-010, q3.

11. A&G Capitalized, Account 812

GSWC's A&G Capitalized amount represents the portion of GO A&G expense that is deemed by GSWC to impart benefits to capital projects. Accordingly, GSWC subtracts these amounts from its expense forecasts and adds them to the Overhead Cost pool where the amounts are allocated to capital projects. Unlike expenses, once these Overhead expense amounts are allocated to capital projects, they are amortized over the life of the asset while GSWC earns a rate of return on the asset.

As shown in **Table 3-L** below, GSWC allocates $1,837,707 of capitalized A&G to ratepayers while ORA recommends $1,586,198.

Table 3-L: Acct. 812, A&G Capitalized Expense

(in $)					
General Office Cost Center	GSWC Forecast	ORA Forecast	GSWC allocation % to ratepayers	GSWC forecasted ratepayer amount	ORA recommended ratepayer amount
Corporate	($1,229,400)	($1,292,157)	77.53%	($953,154)	($1,001,809)
BC&P	($78,200)	($74,926)	89.71%	($70,153)	($67,216)
COPS	($814,400)	($517,173)	100%	($814,400)	($517,173)
Net	($2,122,000)	($1,884,256)		($1,837,707)	($1,586,198)

The difference between ORA and GSWC is due to the difference in ORA's recommended amount of A&G expenses, ORA's adjustment to GSWC's capitalization ratio, and a minor adjustment ORA made to GSWC's workpapers. For Capitalized Corporate Miscellaneous Acct. 799, GSWC based its amount subject to capitalization on 2013 recorded data, adjusted for inflation, instead of its amount actually forecasted for TY 2016.[140] ORA bases the amount subject to capitalization on its TY 2016 forecast for Miscellaneous Acct. 799. In addition, and as discussed in further detail in ORA's chapter on Overhead Allocation, GSWC capitalizes 19.1% of Office Supplies, Outside Services and Miscellaneous expense while ORA recommends capitalizing 18.3%.

General Office Depreciation Expense

GSWC forecasts $4,822,159 for total General Office Depreciation and Amortization expense in TY 2016 and allocates $3,998,893 to GSWC ratepayers. GSWC arrives at its amount by applying its proposed composite depreciation rate of 7.83% for GO to its proposed TY 2016 GO plant balance. Any difference between ORA and GSWC's GO depreciation expense will be due to the GO allocation difference and recommendations from ORA's depreciation and plant witnesses.

General Office Expense Conclusion

As mentioned in the introduction to this chapter, from an overall dollar standpoint, ORA's GO Expense recommendation is partially a function of ORA's recommended GO Allocation factors. While ORA may forecast a certain amount of GO Expense for TY 2016, the actual dollar amount ORA recommends for GSWC ratepayer recovery is determined by the allocation percentages detailed in ORA's chapter on General Office Allocation. Although these chapters were presented on a discrete basis in order to present meaningful dollar comparisons, **Table 3-M** below presents the combined adjustment impacts of ORA's recommendations in GO expenses and GO allocation factors.

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[140] GSWC workpaper GO-SOE 14, tab "A&G Exp. Capitalized", cell H19.

Table 3-M: Summary of ORA's Combined Recommendations for GO Expenses & GO Allocation Factors

($ in 000's) Cost Center				
	Corporate Support	BC&P	COPS	Totals
GSWC Forecasted Total Dollar Amounts:	$24,626.9	$7,640.4	$17,244.1	
GSWC's Ratepayer Allocation Factors:	77.53%	89.71%	100%	
GSWC's $ Amount Allocated to Ratepayers:	$19,093.2	$6,854.2	$17,244.1	$43,191.5
ORA Forecasted Total Dollar Amounts:	$24,708.5	$7,503.9	$15,778.1	
ORA's Ratepayer Allocation Factors:	69.01%	87.41%	100%	
ORA's $ Amount Allocated to Ratepayers:	$17,051.4	$6,559.0	$15,778.05	$39,388.4
Net $ Amount Difference GSWC > ORA:	$2,041.9	$295.2	$1,466.0	$3,803.1

D. DISCUSSION - WELL STUDY BALANCING ACCOUNT

In D.10-11-035, the Commission adopted a settlement (Settlement) between GSWC and ORA allowing GSWC to establish the Well Study Balancing Account (WSBA). The WSBA would allow GSWC "to recover $375,000 for the cost of hiring a consultant to conduct a comprehensive well replacement study"[141] and that recovery would "be based on actual prudently incurred costs at the time of the next general office general rate case."[142] In its current GRC, GSWC is requesting to amortize the $375,000 WSBA balance and close the account. ORA recommends the Commission deny GSWC recovery of the $375,000 on the grounds that the costs incurred by GSWC are inconsistent with the terms of the Settlement and were not prudently incurred.

Request for Well Study

GSWC's initial request to fund the Well Replacement Study (the Study) appears in testimony filed with GSWC's GRC Application 08-07-010. GSWC estimated $375,000 for the Study as described in the testimony of John Garon:

> Contract consultant to conduct a **comprehensive well replacement study for all GSWC wells**. This study will be utilized to develop **well replacement schedules** for the next 10 years.… Estimated costs assume consultant expenditures of **8 hours per well, 300 wells** at $125/hour."[143] [Emphasis added.]

GSWC specifically described the study's objective as producing a **document** that, in conjunction with its Water Master Plans, can be used to prioritize new well and well replacement needs. GSWC stated in its testimony that:

> The Water Resource Department will be commissioning a well replacement study in 2010 as identified in GSWC's strategic plan. **This study** along with GSWC's master plans **will be a key planning document** to prioritize new well and well replacement needs.[144] [Emphasis added.]

[141] D.10-11-035, Ordering Paragraph No. 7, p. 98, re. GSWC's GRC A.08-07-010 and A.07-01-014.

[142] Ibid.

[143] GSWC Prepared Testimony of John Garon, July, 2008, p. 106, re. GSWC's GRC A.08-07-010.

[144] GSWC Prepared Testimony of Toby Moore, July, 2008, p. 7, re. GSWC's GRC A.08-07-010.

Settlement on Well Study Balancing Account

On October 6, 2009, due to an inadvertent omission, GSWC and ORA jointly filed a supplement to the Settlement ultimate adopted by D.10-11-035, specifying the parties' agreement to establish the WSBA:

> GSWC requested $375,000 to contract with a consultant in 2010 to conduct a comprehensive well replacement study for all GSWC wells. DRA recommended the cost of the study be expensed in the year the study is conducted. GSWC and DRA agreed the cost of the study could be tracked in [sic] balancing account for recovery based on actual prudently incurred costs at the time of the next general office GRC.[145]

Contracted Work

The Settlement adopted by D.10-11-035 emphasizes that GSWC's recovery should be "based on actual prudently incurred costs," for the current GRC. As such, ORA performed extensive discovery related to the WSBA. ORA's discovery included, but was not limited to, examining consultant bid responses to GSWC's Requests for Proposals (RFPs), the contract between GSWC and its chosen consultant AMEC Environment and Infrastructure (AMEC) (the AMEC Contract), change orders, invoices from AMEC, and the Summary Report provided by AMEC to GSWC, dated November 2014 (Summary Report).

GSWC sent RFPs to four consultants. One consultant opted not to submit a proposal and the three remaining consultants submitted bids containing negligible dollar differences. Interestingly, despite GSWC's original estimate of $375,000, all three proposals hovered around $200,000.[146] In GSWC's most recent GRC prior to the instant proceeding, ORA examined the discrepancy between GSWC's original estimate of $375,000 and the contracted amount and

[145] Joint Motion to Adopt Supplemental Settlement Agreement, p. 2, re. GSWC's GRC A.08-07-010.

[146] GSWC Response to ORA Data Request SN2-016, q1. b.

recommended the WSBA be capped at $203,173.[147] However, with AMEC's work on the project not yet completed, GSWC and ORA eventually settled the matter with the parties agreeing that the WSBA would retain its original cap.[148]

GSWC's assertion in its testimony was that the $375,000 would be used to hire a consultant to "conduct a comprehensive well replacement study for all GSWC wells."[149] However, ORA's analysis instead shows that GSWC spent the approved funds on what amounts to a software upgrade for its already-existing well replacement software. A review of GSWC's RFP for the project shows that instead of a well study, GSWC solicited bid proposals for "Well Rehabilitation and Replacement Evaluation Services."[150] These services would principally consist of "planning, data collection, software development, reporting and meetings."[151] As a matter of fact, GSWC's RFP never even refers to the requested project as a "**study**," a "**planning document**," or "**well replacement schedules**," as GSWC plainly represented to ORA and the Commission in its request.

As mentioned, GSWC chose the consultant AMEC, whose winning bid submission was accompanied by a letter stating its intent: "We are confident in AMEC's abilities to successfully perform the services required and provide value to GSWC; by **developing a reliable, user-friendly well evaluation software application** for GSWC, we can provide a valuable tool for the company's well management system."[152] [Emphasis added.] Further, AMEC's stated

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[147] Settlement Agreement A.11-07-017, p. 200. Adopted by D.13-05-011.

[148] Ibid, pp. 200-201.

[149] GSWC Prepared Testimony of John Garon, July, 2008, p. 106, re. GSWC's GRC A.08-07-010.

[150] GSWC Response to ORA Data Request SN2-016, q1.a.

[151] Ibid.

[152] GSWC Response to ORA Data Request SN2-016, q1.b, AMEC Proposal, letter dated June 28, 2011.

approach to the project demonstrates it was not undertaking a *comprehensive well study*, as prescribed by the Settlement:

> Our efforts will focus on the following Project components: (1) evaluation and improvement of the current well evaluation application, (2) development of an updated relational database and user-friendly software, and (3) clear documentation and communication throughout the process.[153]

It is important to note that although funds were approved for a consultant to perform a comprehensive well replacement study, AMEC's data collection efforts did not consist of AMEC actually inspecting any of GSWC's well sites; the consultant simply relied on information provided by GSWC.[154] Although AMEC did mention in its proposal that it was available to conduct such inspections if needed, "**[s]uch inspections, however, are not included in this scope of work** and would be considered an optional task, if requested by GSWC."[155] [Emphasis added.] Indeed, GSWC's Addendum No. 1 to its RFP specifically excludes the prospect of actual well-site visits by potential consultants:

> Q**.** Should the Consultant plan/budget to visit each well site and conduct independent testing to determine the current operational condition?
>
> A. No field visits are currently planned. The current operational condition of each well will be assessed from data/information in the possession of GSWC.[156]

The terms of the AMEC Contract focus exclusively on GSWC's rights with regards to the use, licensing, modification, and support of the software delivered as a result of the AMEC Contract,

[153] GSWC Response to ORA Data Request SN2-016, q1.b, AMEC Proposal, p. 3.

[154] Ibid, p. 5.

[155] Ibid.

[156] GSWC Response to ORA Data Request SN2-016. q.1.a, Addendum No. 1, p. 2.

and do not once mention a well replacement study.[157] As pointed out previously, the Contract was originally for an amount approximating $200,000, which left $175,000 of the approved budget unspent. ORA examined several change orders to the AMEC Contract which show that instead of using the remaining budget to have AMEC perform actual well site inspections, which AMEC offered to do, GSWC directed the remaining funds to be spent on additional software enhancements also inconsistent with the Settlement, to conduct a comprehensive well replacement study and of questionable ratepayer benefit.

For example, Change Order Number One, adding $63,350 to the AMEC Contract, includes a software enhancement that allows GSWC employees to manually adjust the weighting factors that calculate the adjusted-life-expectancy of wells, instead of having those factors hard-coded as originally designed.[158] This type of modification casts doubt on the objective value of the project as a whole by creating the possibility of user error or other manipulation when considering the replacement of a well (e.g., changing to weighting factors to produce a desired outcome). In addition, Change Order Number One describes a separate software module for pump assessment as a tool that when "used in conjunction with the well evaluation tool, will help provide GSWC with an effective means to manage its complete water supply and **provide justification to the PUC for rate increases**."[159] [Emphasis added.] The actual contract between GSWC and AMEC also provides evidence that GSWC misspent the funds approved for a comprehensive well study by its exclusive focus on GSWC's rights with regards to the use, licensing, modification, and support of the software delivered as a result of the AMEC Contract.[160]

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[157] GSWC Response to ORA Data Request SN2-016, q1.c, Contract 1274, p. 2, "Work Scope for Consulting/Engineering Service Work."

[158] GSWC Response to ORA Data Request SN2-016, q1.c, Document 20120511.

[159] Ibid.

[160] GSWC Response to ORA Data Request SN2-016, q1.c, Contract 1274, p. 2.

Upon completion of the project, AMEC supplied GSWC with a Summary Report dated November, 2014.[161] ORA examined the Summary Report expecting to find the results of a "comprehensive well replacement study" as approved by the Commission. Instead, the Summary Report showed that AMEC did not evaluate any of GSWC's wells. AMEC's Summary Report states:

> Evaluation of when to rehabilitate and/or replace each of GSWC's wells is not included in this summary report, but will be performed by GSWC using the final GWRaP software deliverable. Instead this report documents the database and computer-based well rehabilitation and replacement planning program development process.[162]

Instead of conducting a well replacement study, AMEC's Summary Report explains that GSWC had been using a well evaluation program developed in the mid-1990s and that the "overall objective for the Project was to improve GSWC's well evaluation program to optimize performance and cost-effectiveness of well rehabilitation and replacement."[163] The project undertaken by AMEC pursuant to its contract with GSWC does not constitute a comprehensive well replacement study and is therefore inconsistent with the terms of the Settlement.

In sum, GSWC requested $375,000 in ratepayer funding to hire a consultant to perform a comprehensive well replacement study and the Commission approved GSWC's request, specifying that recovery would be based on "prudently incurred costs."[164] ORA's analysis shows that GSWC chose not to spend the approved funds (subject to balancing accounting treatment) on a well replacement study. Instead, GSWC opted for an upgrade to its existing software, which among its uses will help GSWC "***provide justification to the PUC for rate***

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[161] GSWC Response to ORA Data Request SN2-016, q1.e.

[162] GSWC Response to ORA Data Request SN2-016, q1.e.

[163] Ibid, p. 1.

[164] D.10-11-035, Ordering Paragraph No. 7, p. 98, re. GSWC's GRC A.08-07-010 and A.07-01-014.

increases."[165][Emphasis added.] GSWC also failed its basic requirement to incur its costs prudently. For example, when faced with an initial budget surplus, instead of requesting AMEC to conduct actual well site inspections and evaluations, GSWC opted for yet more software enhancements. Consequently, ORA recommends that GSWC be denied its requested recovery of the $375,000 balance in the WSBA and moreover not be allowed to book any of the costs spent on the AMEC Contract in plant in service. Lastly, ORA recommends closing this balancing account because GSWC has failed to implement the project four years after Commission authorization in D.10-11-035.

E. CONCLUSION

ORA respectfully requests that the Commission adopt its TY 2016 recommendations contained in this chapter for GSWC's General Office Expenses as summarized on Tables 3-A and 3-B. Additionally, this chapter also includes ORA's recommendation for the Commission to deny GSWC recovery for the WSBA.

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[165] GSWC Response to ORA Data Request SN2-016, q1.c, Document 20120511.

Chapter 4: GENERAL OFFICE - PLANT

A. INTRODUCTION

This chapter sets forth ORA's analyses and recommendations for Plant in Service for GSWC's General Office (GO). ORA's recommendations are based on its independent review of GSWC's application, work papers, and construction budgets, as well as information and data obtained during the discovery phase of this proceeding.

The GO capital budget is divided into three business segments: Corporate Support (General Office), Centralized Operations Support – COPS (Water), and Billing and Cash Processing (Utility). All GO capital expenditures presented herein are subject to the GO allocation methodology presented in Chapter 2 of this report.

In this General Rate Case (GRC) application, GSWC requests a total GO capital budget of $17.3M for the years 2015 – 2017. GSWC additionally requests $8.8M in GO capital expenditures for 2014, including $3.8M of "Construction Work in Progress" [166] (CWIP) to be closed in 2014. All GO capital expenditure estimates reflect a 17.42% overhead, and a 10% contingency.[167,168,169]

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[166] This includes in-progress projects, as well as projects GSWC expects to start and complete in 2014.

[167] As calculated in GSWC's "Capital Items 2014-2017.xls."

[168] 2014 capital expenditure estimates include 5% instead of 10% contingency, as calculated in GSWC's "Capital Items 2014-2017.xls."

[169] Capital purchases additionally include 9.25% sales tax, as calculated in GSWC's "Capital Items 2014-2017.xls."

The GO capital budget requests include implementation of a new GIS system ($6.03M), IT upgrades ($8.53M), an office move ($1.5M), a generator replacement ($0.6M), vehicle purchases, office upgrades, and other smaller capital requests.

B. SUMMARY OF RECOMMENDATIONS

The authorized Plant Additions for total GO for 2012-2014 in GSWC's last GRC (Test Year 2013) totaled $10.8M, compared to the requested $17.4M for 2015-2017 in this rate case.[170] This is a 61% increase in GO plant additions over 2013 GRC authorized amounts. As part of GSWC's response to the Minimum Data Requirements (MDR) for this GRC, GSWC submitted a list of projects authorized but not built. According to GSWC's submittal,[171] the total amount of projects authorized but not built for 2012-2014 is $3,701,639.[172] This represents 34% of the total authorized budget for the years 2012-2014.

For the Test Year 2013 GRC, 34% of GO funds authorized for GO Capital Budget were not spent (not including advice letters).[173] This demonstrates a pattern of GSWC requesting more funds for its GO capital budget than is truly necessary for continued operation. Accordingly, in an effort to limit the GO capital budget to fund capital items that are necessary and justified, ORA has the following recommendations in regards to the GSWC's General Office capital expenditure requests:

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[170] 2013 GRC Settlement Agreement, adopted in Decision 13-05-011.

[171] "MDR D5 GO.pdf", submitted by GSWC for MDR Question D5.

[172] Total of "stipulated" amounts less "expenditures" amounts in "MDR D5 GO.pdf".

[173] According to "MDR D6 GO pdf," submitted by GSWC for MDR Question D6, the amount of projects built but not authorized for this same time period totaled $73,948, a minimal amount compared to the projects authorized but not built. If this amount is subtracted from the $3.7M of projects authorized but not built, the "unspent" amount remains 34% of the authorized amount.

1) A 5% contingency factor should be used for capital projects and a 0% contingency factor should be used for blanket/routine projects.
2) The existing vehicle pool size is adequate and there is no need for a new vehicle.
3) Additions to Utility Plant in Service should not reflect the additional costs associated with luxury vehicles or the double booking of vehicle costs.
4) GSWC should be required to report information related to GO vehicle purchases for 2014-2017 in GSWC's next GRC.
5) Office upgrade expenditures should be revised to provide a more reasonable budget for these upgrades.
6) Budgetary requests for the relocation of the Customer Service Center to the Anaheim office should be revised to reflect more updated budgetary estimates.
7) Visitor parking lot improvements for the San Dimas office are unnecessary
8) GSWC has not demonstrated a need for the San Dimas office generator replacement.
9) GSWC failed to quantify how ratepayers would financially benefit from allowing costs of the GIS system in rates and therefore these costs should be excluded.
10) Costs related to IT upgrades should be revised to reflect GSWC's demonstrated needs and justified costs.
11) If the requested funds for the CC&B and JD Edwards upgrades are approved, GSWC shall not seek funds for additional upgrades to these systems before the TY 2022 GRC.
12) Annual software license renewals and software maintenance agreements should not be treated as capital expenditures, and should instead be treated as operating expenses.
13) The Environmental Quality portion of the GO capital budget should be allocated to Billing and Cash Processing instead of COPS.
14) Rounding of budgetary requests should occur after multiplying by the quantity of units, not before.

Table 4-A below presents a summary of the GO capital budgets proposed by GSWC and recommended by ORA for 2014-2017. For purposes of comparison, ORA presents its

recommended plant costs using GSWC's proposed construction overhead factor. Details of ORA's adjustments are presented in the sections that follow.

Table 4-A: GSWC[174] and ORA[175] Recommended GO Capital Budget

Description ($000)	2014*		Amounts Requested in Current GRC Application					
			2015		2016		2017	
	GSWC	ORA	GSWC	ORA	GSWC	ORA	GSWC	ORA
Corporate Support	5,924	5,867	2,135	717	3,355	1,517	1,109	179
COPS	2,034	1,369	2,529	416	1,804	117	2,818	131
Billing and Cash Processing	823	823	2,656	2,356	566	267	368	69
Total	8,782	8,059	7,320	3,490	5,725	1,901	4,294	379
2015-2017 TOTAL:							17,340	5,769
2015-2017 TOTAL ADJUSTMENT, GSWC > ORA:								11,570
2015-2017 TOTAL DIFFERENCE, (GSWC-ORA)/(GSWC):								67%

*Includes: 1) 2014 Previously Authorized Amounts; 2) 2014 Construction Work in Progress; and 3) 2014 New Capital Projects Requested in Current GRC Application

C. DISCUSSION

1. Contingency Factor (10%)

GSWC makes use of a 10% contingency factor for all 2015 – 2017 GO Plant budgetary requests.[176] As discussed in its Report on Plant, Common Issues and Region 2, ORA recommends that the Commission adopt a 5% contingency factor for capital projects and a 0% contingency factor for blanket/routine projects. This ORA recommendation applies to both Operating District and GO Plant capital requests. ORA's summary tables of recommendations

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[174] GSWC Prepared Testimony of Hilda Wahhab at pp. 26-28.

[175] A summary table of ORA's adjustments to GSWC's GO "Capital Items 2014-2017.xls" is provided in the Conclusion section at the end of this chapter, and details are provided in Appendix GO-Plant-8 (Capital Budget Comparison).

[176] As applied in the "Summary" tab of GSWC's "Capital Items 2014-2017," row 34.

for GO Plant budgetary requests provided in this testimony reflect this contingency factor adjustment.

2. Anaheim Office New Pool Vehicle ($42,900)

GSWC is requesting $42,900 to add a new vehicle to the existing vehicle pool for the Anaheim office in 2015. GSWC states that this new vehicle is needed because:

> Frequent travel by members of the department is required in order to overcome the logistical challenges of having close to forty systems statewide. The office currently has three pool vehicles…all three vehicles are in poor condition….an additional reliable pool vehicle is required to keep up with the travel demand of the engineers located in the Anaheim office and the addition of 30 plus employees to the office.[177]

GSWC has also requested funds to replace all three pool vehicles currently assigned to the Anaheim office in this GRC (vehicle 748 in 2015, and vehicles 2154 and 885 in 2016).[178] As discussed in ORA's Report on Plant - Common Issues and Region 2, ORA recommends replacing two of the three GO pool vehicles in this GRC cycle based on the California Department of General Services vehicle replacement policy. In addition to these three pool vehicles; GSWC currently has one additional pool vehicle (vehicle 67477) and five employee vehicles assigned to the Anaheim office.[179]

Based on the purchase year and the existing mileage on the existing pool vehicles, the average annual mileage for each vehicle is as follows:[180]

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[177] GSWC Prepared Testimony of Hilda Wahhab, p. 47.

[178] Ibid, pp. 47-49.

[179] GSWC Response to ORA Data Request SR4-005, file "Q1 GO vehicles 11 14 14 v1.xls."

[180] Calculated from Hilda Wahhab testimony, pp. 47-49, and GSWC response to Data Request SR4-005 file "Q1 GO vehicles 11 14 14 v1.xls."

- Vehicle 748 average annual mileage = 6133 miles
- Vehicle 2154 average annual mileage = 12500 miles
- Vehicle 885 average annual mileage = 7908 miles
- Vehicle 67477 average annual mileage = 7260 miles

Based on the minimal annual mileage put on the four existing pool vehicles, the fact that two of the pool vehicles will be replaced in this GRC cycle, and the additional five vehicles assigned to Anaheim office staff, there is no demonstrated need for an additional pool vehicle in the Anaheim office.

While the Anaheim office did acquire additional staff members when the Customer Service Center (CSC) moved to the Anaheim office (discussed in more detail below), the CSC employees are not new employees to the company. It is unclear why their relocation to the Anaheim office would require an additional new pool vehicle. If the job functions of these employees require the use of pool vehicles, then one or more of the four pool vehicles in the San Dimas office[181] (the previous location of the CSC employees) can be transferred to the Anaheim office to accommodate those needs.

Additionally, GSWC requests the replacement of six existing GO vehicles (including three pool vehicles mentioned above). **Table 4-B** summarizes GSWC's requests and ORA's recommendations on replacement and additional vehicles. ORA's reasoning for the recommendations summarized in **Table 4-B** is discussed in ORA's Report on Plant - Common Issues and Region 2. ORA's summary tables for the GO capital budget presented herein reflect these recommendations.

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[181] GSWC Response to ORA Data Request SR4-005, "Q1 GO vehicles 11 14 14 v1.xls."

Table 4-B: GO Vehicle Replacements

Vehicle Number	GSWC Requested Replacement Year	ORA Recommendation
2145	2016	Replace in 2017
2174	2015	Replace in 2016
748	2015	Deny request
2154/67601	2016	Replace in 2017
885	2016	Replace in 2015
70335	2015	Replace in 2015
New Vehicle	2015	Not necessary

3. Luxury Vehicles

GSWC's end-of-year 2013 GO plant balance reflects the recorded plant additions summarized in **Table 4-C**.

Table 4-C: GSWC Recorded GO Plant Additions[182]

Year	GO Plant Additions
2008	$2,054,100
2009	$1,219,000
2010	$3,415,000
2011	$22,967,800
2012	$5,686,500
2013	$3,585,700

Included in these recorded plant additions are the full cost of a number of luxury vehicles, summarized in **Table 4-D** below. The costs for these vehicles are significantly greater than the cost of the average GSWC GO vehicle purchased in the years 2011-2013.

[182] GSWC file "GOWTDAVG14 - All (For validation only).xls".

ORA recommends that the Commission disallow the additional cost associated with these luxury vehicles, in comparison to an average vehicle purchased by GSWC. Ratepayers should not have to fund luxury vehicles for already highly compensated executives. Providing company executives with luxury vehicles is a corporate perk that should be funded by GSWC shareholders, not ratepayers.

ORA recommends allowing an average GSWC vehicle cost for these vehicles to be included in plant additions. The average cost of the seven GO non-luxury vehicles purchased in 2011-2013 was $32,545.[183] Therefore, ORA recommends adjusting the recorded cost of the luxury vehicles to reflect this average cost.

GSWC also recorded the full cost to plant additions of two vehicles for the same employee, one posted in September 2012 and one posted in May 2013.[184] Whether GSWC purchased two vehicles for one employee in less than a year, or if GSWC purchased one vehicle and the cost was divided across two years of plant additions, ORA recommends disallowing all costs above $32,545 for the total recorded amount for vehicles for this employee. **Table 4-D** shows ORA and GSWC's GO plant additions for luxury vehicles.

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[183] As reported in GSWC's response to Data Request PPM-001, "Q.1 Table 4-M GO".

[184] GSWC's response to Data Request SR4-005, "Q1 GO vehicles 11 14 14 v1" listed a "New Vehicle" purchase in 2012 as belonging to the same employee as a 2013 Acura RDX purchased in 2013.

Table 4-D: Luxury Vehicles included in Recorded Plant Additions[185]

Year	Vehicle	Position	GSWC	ORA[186]	GSWC > ORA
2007	2007 Acura MDX	SVP Finance & CFO	$43,693	$32,545[187]	$11,148
2008	2009 Audi	VP Regulatory Affairs	$40,288	$32,545	$7,742
2010	2010 Honda Pilot	VP Asset Management	$46,213	$32,545	$13,668
2011	2012 Audi Q5	SVP Regulated Utilities	$58,403	$32,545	$25,858
2011	New Vehicle[188]	VP Customer Service	$44,547	$32,545	$12,002
2012	New Vehicle[189]	VP Environmental Quality	$42,590	$0	$43,590
2013	2013 Acura RDX	VP Environmental Quality	$40,098	$32,545	$7,553
2013	2013 Audi Q7	President/CEO	$60,368	$32,545	$27,823
2014	2014 Grand Cherokee	VP Water Operations	$48,366	$32,545[190]	$15,821

Additionally, ORA recommends that GSWC be required going forward to stop including in its budget requests or recorded costs the cost of luxury vehicles – i.e., vehicles whose costs exceed

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185 Data obtained from GSWC's response to Data Request PPM-001, "Q.1 Table 4-M GO", and GSWC's response to Data Request SR-005, "Q1 GO vehicles 11 14 14 v1".

186 Adjustments were made to files "GOWTDAVG14 COPS.xls" and GOWTDAVG14.xls", in which "plant additions" were hardcoded by GSWC.

187 2007 plant additions are not included in GSWC's workpapers. Therefore this adjustment is not reflected in plant additions, due to age.

188 This vehicle was included in GSWC's response to Data Request PPM-001, "Q.1 Table 4-M GO" as a GO plant addition, but was not included in GSWC's response to Data Request SR4-005, "Q1 GO vehicles 11 14 14 v1" requesting additional GO vehicle information. Therefore, the vehicle year, make, and model were not provided by GSWC. The vehicle is considered a "luxury vehicle" for the purposes of this testimony because the cost was significantly greater than the average GSWC non-luxury vehicle cost for 2011-2013.

189 This vehicle was listed in GSWC's response to Data Request SR4-005, "Q1 GO vehicles 11 14 14 v1" as belonging to the same employee as the 2013 Acura RDX purchased in 2013.

190 This vehicle was not a part of GSWC's 2014 CWIP, therefore ORA was not able to make an adjustment in this GRC. ORA recommends that an adjustment be made to 2014 plant additions for this vehicle in the next GRC cycle.

the average cost of a typical GO sedan (for example, a Chevrolet Malibu). This is a practice followed by California Water Service Company, a Class A water company.[191]

Furthermore, GSWC should be required to adjust vehicle-related expenses (registration, insurance, etc.) to reflect the average cost of a typical GO sedan.

4. GO Vehicle Reporting Requirements

In response to various data requests regarding vehicles,[192] ORA received conflicting and incomplete information from GSWC regarding GO vehicles. The following examples are provided to illustrate just a few of the discrepancies and example questions they raise:

- GSWC reported the "New Vehicle" discussed above (**Table 4-D**)as a 2011 plant addition in its response to Data Request PPM-001, "Q.1 Table 4-M GO," but information for same cannot be located in its response to Data Request SR4-005, which requested information on all existing GO vehicles. Did the vehicle get retired after only three years? Did GSWC not want to disclose its existence?
- In GSWC's response to PPM-001 (re. 2011-2103 recorded plant additions), the same executive's name was shown associated with two vehicle-related capital expenditures in two consecutive years: $42,591 for a "new vehicle" in 2012 and $40,098 for a "2013 Acura RDX" in 2013, for a total of $86,689 in 2 years. Did this executive receive a new car every year?
- Numerous vehicles for which GSWC is requesting replacement in this GRC, including Vehicles 748, 2154, and 885 were not included in GSWC's response to

[191] As reflected in the workpapers of California Water Service Company's most recent GRC.

[192] GSWC Responses to ORA Data Requests SR4-005 and PPM-001.

Data Request SR4-005, which requested additional GO vehicle information for all GO vehicles.

- Vehicle 2154 is described as a GO pool vehicle in Hilda Wahhab's testimony at page 49, while it is listed as a General Manager vehicle in response to GSWC's response to Data Request SR4-005.
- Vehicle 2154 is referred to as "Vehicle 2154" in Hilda Wahhab's testimony at page 49, but it is listed in the workpapers and in response to GSWC's response to Data Request SR-005 as "Vehicle 67601" with no reference made to Vehicle 2154. ORA assumes that this is the same vehicle based on the purchase year, number of miles on the vehicle, and the amount and year of the budgetary request.

As discussed in the above section, GSWC booked the full cost of luxury vehicles in GO plant additions. Some of these vehicles have as high as 88% of total mileage on the car recorded as "personal mileage."[193] While ORA was working to obtain full disclosure of information related to these bookings and associated vehicle expenditures, GSWC provided incomplete and conflicting information to ORA. Therefore, ORA recommends that the Commission require GSWC to report in every GRC application information related to all GO vehicle purchases in order to facilitate a more expeditious review of these vehicle purchases. ORA recommends that the Commission require GSWC to report the following data as a part of this application filing for each GO vehicle purchased in the preceding five years (i.e., most recent five recorded years):

- GSWC Vehicle ID number.
- Year, make, and model of the vehicle.
- Position the vehicle is assigned to, and name of the person currently in that position.

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[193] As reported in GSWC Response to ORA Data Request SR4-005, "Q1 GO vehicles 11 14 14 v1."

- Reason for which a company vehicle is assigned to that person or position.
- Mileage on the vehicle at the date of submittal.
- Percent of travel mileage on the vehicle which is classified as "business travel."
- The year, make, model, purchase date, and mileage at retirement of the vehicle that the current vehicle replaced.
- Cost booked to plant for the vehicle.

5. Office Upgrades

GSWC is requesting a variety of office upgrades. ORA recommends that office upgrade expenditures be revised to provide a more reasonable budget for these upgrades. **Table 4-E** below summarizes the GO capital budget requests for office upgrades and ORA's recommended amounts for these requests.

Table 4-E: GO Office Upgrades

GSWC Request	GSWC Requested Amount[194]	ORA Recommended Amount
Ontario Office – Conference Room Table[195] $6,500		$2,500
Ontario Office – 12 Conference Room Chairs[196] $17,100		$1,600
70" SMART Board for Anaheim Office[197] $15,600		$0
6 New Office Chairs[198] $7,800		$800
Layout Tables for Anaheim Office[199] $10,000		$0
Replace 17 Office Chairs[200] $34,000		$2,200
General Office Upgrades[201] $73,500		$63,200

GSWC is requesting a variety of chair replacements, which range in cost from $450/chair to $2,000/chair, not including the 10% contingency.[202] When asked if GSWC requested any additional quotes beyond the two provided in the workpapers, GSWC responded "GSWC limited its search to HON products because HON products are known for quality performance that have a long life and are ergonomically adjustable for all statures."[203] The chairs for the engineering

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[194] Not including the 10% contingency that GSWC adds to each item in the capital budget.

[195] GSWC Prepared Testimony of Hilda Wahhab at p. 34.

[196] Ibid.

[197] Ibid.

[198] Ibid, at p. 43.

[199] Ibid, at p. 47.

[200] Ibid, at p. 50.

[201] GSWC GO Workpapers Volume 2 of 2, Corporate Support tab, p. 60.

[202] Costs discussed in this section do not reflect the 10% contingency that is requested by GSWC for each of these items. The contingency is added to the total of all the items in the summary table of GSWC's workpapers. ORA keeps the same convention in the edited workpapers. Therefore, the contingency amounts associated with the items in this section are not included in the costs discussed.

[203] GSWC Response to ORA Data Request SR4-004 at p. 5

design department, which everyone in the department will receive,[204] are ergonomic chairs, with budgetary estimates of $2000/chair. In response to ORA's request, GSWC provided its workplace ergonomic policy.[205] GSWC's workplace ergonomic policy does not require that GSWC provide ergonomic chairs for all employees. Instead, the policy requires that an ergonomic evaluation be conducted when specific conditions exist.[206] After the ergonomic evaluation, recommendations are given,[207] which could potentially include a recommendation for a special ergonomic chair, although ergonomic chairs are not mentioned anywhere within the policy. Based on this policy, it is not necessary for each and every employee to receive an ergonomic chair, rated for 450 lbs. and 24/7 usage, as is the case for GSWC's current request.[208] ORA additionally inquired as to whether GSWC staff had issues with the existing chairs, and why the chairs needed to be replaced. GSWC did not detail any staff issues with the existing chairs, and responded that "[t]he cushions are wearing and the chairs are now due for

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[204] Ibid, at p. 3.

[205] GSWC response to data request SR4-004, "Q.3e Ergonomics Policy.pdf".

[206] GSWC's workplace ergonomic policy states at p. 5: "Ergonomic evaluations shall be conducted and this program implemented for employees of specific job classifications when the following conditions exist:

- More than one employee, with identical work activities, has experienced repetitive motion injuries according to the physicians' written diagnosis within a 12-month period of time;
- The repetitive motion injuries are objectively identified and diagnosed by a licensed physician as musculoskeletal injuries; and
- The repetitive motion injuries must be caused by a repetitive job, process or operation which contributed to 50% or more of the injuries."

[207] Ibid, Step 12 at p. 6

[208] GSWC GO Workpapers, Volume 2 of 2, COPS tab, p. 3

replacement at 5-7 years old."[209] ORA recommends that all chairs be replaced with fully adjustable, HON "managerial mid-back chairs," at a price of $103/chair, instead at $450-2,000/chair.[210]

GSWC requests a new conference room table for the Ontario office, at a cost of $6,500 not including contingencies.[211] Included in the replacement cost for the table is a "hospitality credenza." In the request for a new table, no mention is made of a credenza, and no justification for its necessity is provided. ORA excludes the $2,500 credenza from the forecast.[212] Additionally, ORA recommends using the quote provided in the Corporate Support section for the requested 8'x4' conference room table with power outlets, bringing the unit cost of the conference room table replacement from $6,500 to $2,500.[213] ORA also excludes the $1,500 credenza for the IT Conference Room upgrades from the forecast for the same reasons listed above. Additionally, ORA visited the Anaheim office, and the conference room did not appear to need a new credenza.

GSWC is requesting $15,600 for a 70" SMART Board Interactive Panel for the Anaheim office, not including contingencies. GSWC states that the SMART Board will "promote collaborative working amongst engineers, water quality personnel, and system operators in analyzing system data."[214] While ORA supports GSWC promoting team building and collaborative working, existing resources can be utilized to achieve the same outcome. The 70" SMART Board

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[209] GSWC Response to ORA Data Request SR4-004 at p. 3.

[210] Quote included as Appendix GO-Plant-1 (Chair Quote).

[211] GSWC Prepared Testimony of Hilda Wahhab at p. 34

[212] GSWC GO Workpapers, Volume 2 of 2, COPS tab, p. 2

[213] GSWC GO Workpapers, Volume 2 of 2, Corporate Support tab, p. 71, 8'x4' table.

[214] GSWC Prepared Testimony of Hilda Wahhab at p. 35

Interactive Panel provides little, if any, benefit to ratepayers. ORA excludes the cost for this item from the forecast because the costs outweigh the benefits to ratepayers.

GSWC is requesting $10,000, not including contingencies, for layout tables for the engineering design group. GSWC states: "Currently the engineering design group does not have any layout tables."[215] ORA requested a drawing of the office layout,[216] which was provided by GSWC and is included herein as Appendix GO-Plant-2 (Office Layout). The layout shows ample table and desk space for GSWC engineers to lay out drawings. Therefore, the requested layout tables are unnecessary and are excluded from ORA's forecast.

6. Anaheim Office Facility Improvements for Customer Service Center Relocation ($1.49M)

In 2014, the lease for GSWC's Customer Service Center (CSC) in San Dimas expired, and the landlord was unwilling to extend the lease.[217] After considering alternatives for renting additional space, GSWC decided to relocate the CSC from San Dimas to the existing Anaheim office leased space, without renting additional space. To accommodate the additional CSC staff, the Anaheim facility required various facility improvements to the phone/IT systems, office and workstations (including ADA and code compliance), as well as the installation of an emergency generator.[218] Justification for the relocation and a detailed cost estimate are discussed in Denise Kruger's testimony.[219] The cost estimate for the various facility improvements was $1.42M in

[215] Ibid, at p. 47

[216] Data Request SR4-004, question 4.

[217] GSWC Prepared Testimony of Denise Kruger at p.3.

[218] Ibid, at p. 4.

[219] Ibid, at pp. 3-7.

2014. For 2014 projects, GSWC used a 5% contingency factor therefore the total cost estimate for the facility improvements was $1.49M including contingencies.[220]

The majority of the work has already been completed, and ORA requested that GSWC provide updated budgetary estimates for this project. As of October 2014, GSWC's updated budgetary estimate for the facility improvements related to the CSC relocation is $757,430.[221] This includes monies spent to date ($729,070 as of October 2014), as well as anticipated remaining costs ($28,360 as of October 2014).[222] Approximately 96% of the updated budgetary estimate has already been spent.[223]

ORA does not oppose the relocation of the CSC to the Anaheim office, or the need for improvements to the Anaheim office to accommodate the additional CSC staff. However, GSWC's capital budget request for the relocation of the CSC to the Anaheim office should reflect the updated budgetary estimates. Therefore, ORA recommends allowing $757,430 for this project in 2014 which is equal to GSWC's updated budgetary estimate.

7. San Dimas Visitor Parking Lot Improvements ($126,060)

GSWC requests $114,600 ($126,060 including contingencies) for visitor parking lot improvements for the San Dimas office in 2015.[224] GSWC states that "the visitor parking lot's

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[220] GSWC GO "Capital Items 2014-2017.xls", Summary tab.

[221] "Q1a Cost Breakdown" spreadsheet provided by GSWC in response to data request SR4-004.

[222] Ibid.

[223] $729,070/$757,430 x 100 = 96.2%

[224] GSWC Prepared Testimony of Hilda Wahhab at p. 30.

asphalt base has deteriorated and various potholes and cracks continue to erode the surface…the base of the lot needs to be re-laid to reestablish the integrity of the lot."[225]

On September 18, 2014, ORA staff visited the San Dimas office and parked in the visitor parking lot. Staff's assessment of the condition of the lot revealed some minor cosmetic cracking in the asphalt. Appendix GO-Plant-3 (Visitor Parking Lot) provides photos of the visitor parking lot and the cracks in the asphalt. Despite the minor cosmetic cracking, the visitor parking lot is in acceptable condition for general daily use, and does not appear to pose any safety risks. Visitor parking lot improvements at San Dimas are not needed and ORA does not forecast costs associated with this project.

8. San Dimas Office Generator Replacement ($595,100)

GSWC is requesting $66,000 in 2015 and $475,000 in 2016 to replace the existing 1994 250-kw generator with a "new energy efficient generator that will have a fuel storage tank approximately 6.5 times larger…than the current generator to allow for longer off-power incidents before needing to refuel."[226] The replacement request "is due to [the current generator's] age and obsolescence. Replacement parts are hard to find…"[227] The total cost including contingencies is $595,100.

GSWC has experienced eight unplanned power outages over the last two years, with an average outage time of 16 minutes, and the longest outage lasting 46 minutes.[228] The current generator is

[225] Ibid.

[226] GSWC Prepared Testimony of Hilda Wahhab at pp. 29-31

[227] Ibid, at p. 32

[228] GSWC Response to ORA Data Request SR4-003 at p. 3.

fully functional and currently operational, and can run for 13.34 hours at a full load.[229] The useful life of standby generators depends more on how much the generator is used than on the age of the generator.[230] A typical standby generator set can last from 10,000 to 30,000 hours.[231] The existing generator is currently 20 years old. However, it has been used for a total of only 455 hours in its lifetime. Therefore, with proper maintenance, the existing generator could theoretically last another 10 years or more.[232]

Additionally, in the event that the existing generator was not operational during a power outage due to required maintenance, GSWC has 14 portable generators within a 50-mile radius that would potentially be available for use at the San Dimas office.[233] Six of these are approximately the same size or larger than the existing 250-kw San Dimas generator; the other 8 are approximately 50%-75% of the size of the existing San Dimas generator.[234] Appendix GO-Plant-5 (Portable Generators) provides a list of GSWC's portable generators within a 50-mile radius.

GSWC also states that "the unit does not meet the current SCAQMD requirements but is currently grandfathered in under the old regulations."[235] As stated, the existing generator is grandfathered in and therefore does not require replacement in order to comply with the South Coast Air Quality Management District (SCAQMD) regulations.

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[229] Ibid, at p. 2.

[230] See Appendix GO-Plant-4 (Generator Useful Life).

[231] Ibid.

[232] Ibid states at p. 1 "a standby generator set could conceivably last 20 to 30 years. One way to ensure a long, reliable operating life is to implement a preventive maintenance (PM) program."

[233] GSWC Response to ORA Data Request SR4-003 at pp. 6-7.

[234] Ibid.

[235] GSWC Prepared Testimony of Hilda Wahhab, p. 32.

ORA does not forecast any costs for the San Dimas office generator replacement, as GSWC has not demonstrated a need to replace the fully functional existing generator at the current time. ORA further recommends that, if the existing generator deteriorates to the point that it shows signs of imminent failure before GSWC's next GRC, and GSWC can provide evidence that this is the case, then GSWC be allowed to install a generator similar to that at the Anaheim location and with a cap of $200,000.[236] In this case, ORA recommends that the Commission allow GSWC to seek cost recovery via advice letter.

9. GIS Project ($6.03M)

GSWC is requesting $5.5M over three years to implement a GIS Project,[237] a total of $6.03M including contingencies. GSWC states that the project is needed because "[o]ur current process to convert AutoCAD base maps to GIS using existing GSWC staff is very time consuming and with 38 systems to convert will take several years to accomplish."[238] GSWC has identified a plan to implement the GIS Project, and identified benefits associated with each stage of the plan.[239] The majority of the benefits detailed involve benefits related to increased efficiency and ease of access for GSWC staff. In regards to benefits to GSWC's customers, GSWC states: "The GIS will provide a variety of benefits to GSWC's customers, including: 1) several of the GIS applications will provide improved customer service, 2) the GIS will provide for work process efficiencies that will result in long term staffing efficiencies."[240] GSWC also determined the return on investment (ROI) for "most of the projects based on time savings for recurring

[236] Estimate for the generator at the Anaheim location per Denise Kruger testimony at p. 5.

[237] GSWC Prepared Testimony of Robert McVicker and Mark Insco at p. 31.

[238] Ibid, at p. 16.

[239] Ibid, at pp. 17-28.

[240] Ibid, at p. 28.

tasks."[241] ORA requested further details on how these ROIs were calculated, and GSWC provided additional details as discussed below.[242]

In concept, ORA does not dispute that implementation of the proposed GIS system may provide some benefits to ratepayers. However, GSWC needs to quantify and substantiate these benefits to ratepayers. The ratepayer benefits alleged by GSWC in this case are at best minimal, while the cost of the project is extremely high. (The GIS budget request represents 35% of GSWC's total GO Capital Budget request.[243]) ORA requested examples of "improved customer service" that GSWC stated would result from the GIS Project. All of the examples GSWC provided in response related to improved response time and improvement in responding to customer service requests, although no comparison with current response times was included, so the actual degree of improvement remains unsubstantiated.[244]

GSWC projects that ROI and associated savings attributable to GIS implementation will be exclusively from the time GIS implementation will save GSWC employees.[245] ORA requested that GSWC detail how the savings would be realized by GSWC customers, and over what timeframe the savings are anticipated. GSWC responded as follows:

"The savings…will be realized Company-wide primarily by improved GSWC staff efficiency and reducing expenses over time. The timing of the savings is dependent on how quickly field workflows are implemented. This is where the high ROI resides. It is anticipated that it will

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[241] Ibid, at pp. 29-30.

[242] GSWC Response to ORA Data Request SR4-002, ROI files.

[243] $6.03M/$17.34M = 35%.

[244] Ibid, p. 3.

[245] Ibid, ROI files.

take several years for implementation of the GIS and change in workflows to result in the savings estimated."[246]

GSWC does not propose any current or future reduction of employee positions therefore the time savings detailed would not result in any measureable monetary savings that could be realized by ratepayers. However, the cost of implementing the GIS system will result in measureable monetary impacts to the ratepayers. ORA is not proposing that GSWC cut current employee positions. However, in the absence of any monetary savings for ratepayers, the costs of the GIS project far outweighs the benefits to ratepayers. ORA does not include costs related to GIS system implementation in its forecast.

In addition, once a GIS system is implemented, additional costs and employee time would be required to maintain and upgrade the system. The ROIs provided by GSWC assume model updates every three years.[247] However, the cost of the additional maintenance of the system, and upgrades to the system are not accounted for in the ROI calculations. Including these costs would serve to further increase the cost of the GIS Project. The additional employee time and GIS staff positions that would likely be required to implement the GIS system[248] are also not accounted for.

Implementation of the GIS system might provide a minimal amount of benefits to ratepayers in the form of improved efficiency and convenience. However, GSWC has not shown how ratepayers would see any monetary savings for an investment of over $6 million, with an

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[246] GSWC Response to ORA Data Request SR4-002, pp. 3-4

[247] GSWC Response to ORA Data Request SR4-002, ROI files.

[248] Per discussion with GSWC staff during ORA's GO field visit.

approximately annual revenue requirement impact of $1.2 million.[249] Given the absence of any quantifiable monetary savings for ratepayers and the uncertainty of other benefits, the costs of the GIS project far outweigh the benefits to ratepayers. Therefore, ORA recommends excluding the costs related to GIS system implementation from the forecast in this GRC cycle. Alternatively, the Commission could approve the project and impute savings through lowering the forecasts for operating expenses in this and subsequent GRCs, in an amount equivalent to the revenue requirement associated with this GIS capital investment. This would provide the necessary incentives for GSWC to achieve its claimed savings.

10. IT Upgrades ($8.53M)

GSWC is requesting $7.75M over three years for IT upgrades,[250] a total of $8.53M including contingencies.[251] Randy Miller's testimony addresses GSWC's need for the various projects in the IT capital budget.[252] ORA recommends that costs related to IT upgrades should be revised to reflect GSWC's demonstrated needs and justified costs. The following discussion presents ORA's recommended revisions.

While Miller's testimony provides a discussion of the need for each of these projects, in general ORA did not find the assertions made within Miller's testimony and the costs associated with the requested upgrades to be substantiated in GSWC's workpapers[253] (as further discussed in detail below). During a field visit to the GSWC general office and in Data Requests, ORA brought

[249] Estimate based calculation of annual revenue requirement using a factor of 20% of total investment.

[250] GSWC Prepared Testimony of Randy Miller, p. 3.

[251] Including the 10% contingency applied in GSWC's "Capital Items 2014-2017.xls".

[252] GSWC Prepared Testimony of Randy Miller, pp. 2 - 28.

[253] GSWC Workpapers General Office Volume 2 of 2, Corporate Support tab sheets 1-60 and Billing & Cash Processing tab sheets 1-104.

specific examples to GSWC's attention of instances where the amounts requested by GSWC were not supported by the workpapers. In many instances, GSWC's responses to these inquires did not provide adequate documentation to substantiate the amounts requested. Examples of some of these instances are further discussed below.

It is GSWC's burden of proof to show the need for the requested projects, as well as to fully substantiate the amounts requested. In the instances that GSWC has failed to do so, ORA recommends that the Commission not allow GSWC to submit additional info in rebuttal that could and should have been provided during discovery phase in response to ORA's requests.

Table 4-F summarizes ORA's adjustments to the GO IT upgrade projects[254] (excluding software requests[255]).

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[254] As discussed in this section, and detailed in ORA's adjustments to GSWC's file "Capital Items 2014-2017.xls."

[255] ORA's recommended adjustments to IT software requests are discussed in a separate section of this testimony in conjunction with other GO Plant software requests.

Table 4-F: ORA Adjustments to GO IT Upgrade Requests[256]

Description	2015		2016		2017		Total	
	GSWC	ORA	GSWC	ORA	GSWC	ORA	GSWC	ORA
Network Equipment	$480,200	$0	$722,300	$409,400	$0	$0	**$1,202,500**	**$409,400**
Additional Disk Storage	$108,500	$0	$108,500	$0	$108,500	$0	**$325,500**	**$0**
Data Center(s) Hardware Refresh	$236,800	$0	$236,800	$0	$236,800	$0	**$710,400**	**$0**
Personal Computers &	$288,600	$1,900	$288,600	$1,900	$288,600	$1,900	**$865,800**	**$5,700**
Upgrade Financial Reporting Software	$10,000	$8,300	$0	$0	$0	$0	**$10,000**	**$8,300**
Total Adjustments*	**$1,124,100**	**$10,200**	**$1,356,200**	**$411,300**	**$633,900**	**$1,900**	**$3,114,200**	**$423,400**

*This table is not a comprehensive list of upgrade requests; it only shows items for which ORA recommends adjustments.

Network Equipment

GSWC is requesting $1.2M, not including contingencies, over two years (2015-2016) to upgrade network equipment. GSWC provides the following justification for this project:

Our network devices along with our security firewalls are aging. The majority of them will reach the end of their lifecycle and also the end of support from the manufacturer in the next couple of years. The network hardware refresh will ensure we maintain support from the manufacturers in case of a failure, and therefore increase the reliability of our network environment.[257]

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[256] GSWC Prepared Testimony of Randy Miller, p. 3-28 and GSWC's "Capital Items 2014-2017.xls."

[257] GSWC Prepared Testimony of Randy Miller, p. 3.

GSWC did not provide justification for its claim that the majority of its network devices would reach the end of their lifecycles. In its workpapers, GSWC provided a quote for new items[258] without detailing what existing items would be replaced and without detailing which of the new items would be installed in which year. ORA requested additional information regarding the items being replaced, the year for the replacement, and the need for the replacements in the year requested.[259] In response, GSWC provided a spreadsheet with the existing network equipment for which replacement is requested, as well as the year of the replacement.[260] GSWC explains that "the equipment is being replaced due to reaching a 5 year lifecycle and End of Software Support."[261] The file provided lists an "End of Software Maintenance Releases Date," which corresponds to a number of "End-of-Sale and End-of-Life Announcement" files also provided by GSWC.[262] Information in the files provided show that GSWC considers these products to have reached the end of their lifecycles and are in need of replacement by the "End of Software Maintenance" date.

The "End of Software Maintenance" date is described in the End of Life Announcements as: "The last date that Cisco Engineering may release any final software maintenance releases or bug fixes. After this date, Cisco Engineering will no longer develop, repair, maintain, or test the product software."[263] The hardware will continue to receive support after this date, but after this date, Cisco allows customers to extend, renew, and make use of service contracts for these products. Cisco additionally lists a "Last Date of Support," described as "the last date to receive

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[258] GSWC Workpapers General Office Volume 2 of 2, Corporate Support tab, sheets 4-7.

[259] Data Request SR4-008.

[260] GSWC Response to ORA Data Request SR4-008, "Q1 - Network Device Replacement.xls."

[261] Ibid, response to question 1d, p.1.

[262] Ibid, Q1 "End-of-Sale and End-of-Life Announcement" pdf files.

[263] Ibid.

service and support for the product. After this date, all support services for the product are unavailable, and the product becomes obsolete."[264]

ORA recommends that the Last Date of Support be used as the basis for product retirement and replacement, instead of the End of Software Maintenance Date. There is no indication that these products will stop functioning simply because the software will no longer be developed or maintained. Cisco offers service contract renewals up to 10 months before last date of support for the hardware.[265] The Last Date of Support also does not represent the date that the product will stop functioning; it simply represents the end of service and support in the event that the hardware does stop functioning.

GSWC addresses the difference between the end of software maintenance versus the end of hardware support in its data request response, stating that although the hardware will continue to be supported, the software is also a critical component, as it can cause failures.[266] GSWC goes on to discuss the potential implications of these hypothetical failures. While ORA recognizes that this could in theory be the case, GSWC does not: provide any examples of these software failures ever occurring, detail the impact of specific instances of failure, quantify the potential impact of failure, or provide a cost-benefit analysis of the likelihood of software failure compared to the potential costs. The statement quoted above could simply be a hypothetical worst case scenario. It may have never actually occurred, may not be at all likely to occur, and may have minimal impact if it did occur. In the absence of any substantiation of the likelihood or consequences of software failure, ORA recommends using the end of hardware support (Last Date of Support) date as the basis for product retirement and replacement budgeting.

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[264] Ibid.

[265] Ibid.

[266] Ibid, response to question 1d, pp. 1-2.

Based on information provided by GSWC, all of the items that GSWC is proposing replacing in 2016 have an "end of hardware support" date in 2018.[267] Therefore, ORA recommends that these items not be included in the GO capital budget. For the 61 items that GSWC is requesting replacement in 2015, 52 of these items have an end of hardware support date in 2016, and nine in 2018. ORA recommends replacing these 52 items in 2016. For these 52 items, ORA recommends proportionally reducing GSWC's request for 2015 and allowing the reduced amount in the GO capital budget for 2016. ORA attempted to acquire information from GSWC to match existing items to requested items so as to evaluate the cost of the replacement items necessary in 2016. However, GSWC did not provide this information in a manner that would allow ORA to make these adjustments on a per-item basis. Lacking the information requested, ORA prorates GSWC's 2015 requested amount to adjust for the 52 items requiring replacement,[268] and recommends allowing this prorated amount in the 2016 GO capital budget.[269]

Additional Disk Storage

GSWC is requesting $325.5K, not including contingencies, over three years (2015-2017) for additional disk storage. GSWC's justification for this project is as follows:

> As with most organizations we continue to see a significant increase in data storage requirements. This is driven in part by the mandated document retention requirements which include retention periods for up to the lifetime of the corporation for items such as water quality testing and treatment records. We also have retention periods of up to 50

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[267] Ibid, "Q1 - Network Device Replacement.xlsx" and "End-of-Sale and End-of-Life Announcement" pdf files.

[268] GSWC requests $374,362 for 2015 Network Equipment before sales tax and overhead. ($374,362) x (52/61) x 1.0925 (for sales tax) x 1.1742 (for overhead) = $409,400.

[269] ORA's total adjustments are reflected in the summary tables herein, and detailed in ORA's adjustments to GSWC's GO "Capital Items 2014-2017.xls" workpapers.

> years for records concerning plant construction, drilling, engineering as well as several other data records.[270]
>
> Based on these needs, GSWC predicts that we will exceed our current capacity of 370,893 GB.[271]

ORA inquired as to whether GSWC investigated other alternatives to disk storage for storing documents.[272] GSWC responded that magnetic tape was the only other option considered.[273] Given GSWC's demonstrated increasing storage needs, ORA recommends that GSWC explore additional options for data storage beyond disk storage and magnetic tape. These options could include cloud and zip storage, as well as purging electronic files and records that are no longer necessary or no longer require retention. These options would serve to reduce disk storage needs.

However, even without these alternatives for reducing disk storage needs, ORA finds the purchase of additional disk storage to be unnecessary. GSWC states that based on disk space used since 2011, GSWC additional storage needs are approximately 55,399 GB per year.[274] GSWC also states that GSWC's current storage capacity is 370,893 GB, with a total of 188,867 GB currently used.[275] Based on these numbers provided by GSWC, if disk space continues to require the same additional amounts per year, GSWC will be using 355,064 GB of disk space in three years, with 15,829 GB still available. GSWC did not state any specific needs or provide any justification for storage needs growing at a greater rate from 2014 – 2017 than was

[270] GSWC Prepared Testimony of Randy Miller at p. 4.

[271] Ibid, p. 5.

[272] Data request SR4-008, question 2.

[273] GSWC response to ibid, p. 2.

[274] Ibid, p. 4.

[275] Ibid, pp. 4-5.

experienced from 2011 – 2014. Therefore, ORA finds that the purchase of additional disk space is unnecessary, and recommends excluding this amount from the forecast.

Additionally, ORA recommends that GSWC explore options in the next three years that could reduce the need for disk storage in the future, as discussed above.

Data Center Hardware Refresh

GSWC is requesting $710.4K, not including contingencies, over three years (2015-2017) for a data center hardware refresh. GSWC states:

> The primary and disaster recovery datacenter server refresh will ensure we meet the increased demand for performance due to the evolution of technology and increase the stability of our computing environment. Many of our servers and other datacenter components such as tape libraries, storage disk array fabric, etc., will need to be refreshed due to the end of their life cycle in 2015 through 2017. The aging electronics of this hardware will increase the probability of failures.[276]

GSWC did not provide justification for its claim that many of its servers will need to be refreshed due to end-of-lifecycle issues. In its workpapers, GSWC provided a quote for new items, without detailing what existing items would be replaced, and without detailing which of the new items would be installed in which year. ORA requested additional information regarding the items being replaced, the year for the replacement, and the need for the replacements in the year requested. In response, GSWC provided a spreadsheet with the existing network equipment GSWC requests to replace, as well as the year of the requested replacement for each of the items in the data center hardware refresh project.[277] In this spreadsheet, GSWC provides a column titled "HP retirement announced," in which the two responses provided are "not announced" or "yes, see attachment." Eight additional attachments

[276] Ibid, p. 5.

[277] GSWC Response to ORA Data Request SR4-008, "Q3 - Server Replacement Inventory.xls".

are provided,[278] some of which contain 100+ item lists of "retired products," with no dates attached. GSWC does not provide information correlating the items requesting replacement to the file presumably showing that replacement is required, and does not highlight the lengthy lists to show that the GSWC servers in question are on these lists. ORA compared the spreadsheet to the lists provided, and of the 81 items requesting replacement, found only 41 of those items in the lists of "retired products." Additionally, the files provided by GSWC that list the retired products state the following:

> The items listed on this page are out of production, but may still be available through HP Remarketing Services. If you are considering end-of-life or refurbished units from the HP Renew Program, please select the appropriate link.[279]

These statements show that the lists provide by GSWC to justify replacement only indicate that the products listed have been retired (as of unknown date), but do not show that the product is no longer expected to be functional and requiring replacement. Additionally, approximately half of the products for which GSWC is requesting funds to replace are not on the lists of retired products, and no justification has been provided for these replacements. GSWC also fails to tie the list of existing items to the list of requested replacements in any way.

Regarding these requested replacements, GSWC further states the following:

> As vendors drive customers to upgrade their software solutions due to software enhancements, bug fixes and product obsolescence, hardware typically must be replaced to ensure we meet the minimum requirements to achieve performance expectations…In addition, the evolution of technology quickly makes existing hardware obsolete requiring it to be replaced in order to ensure compatibility for new hard drives, network interface cards, etc.[280]

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[278] Ibid, Q3 pdf files.

[279] Ibid, Q3 "Retirement List" pdf files.

[280] GSWC Prepared Testimony of Randy Miller, pp. 5-6.

To address this concern, ORA requested that GSWC provide a table that shows the following information for each requested item; 1) the existing item that GSWC is replacing, 2) the size of the existing item, 3) the recommended size of the item needed to meet the minimum requirements of the existing associated operating systems, and 4) supporting documentation verifying the size needed.[281] GSWC did not provide such a table.[282] GSWC did provide three documents presumably submitted to verify the sizes needed.[283] However, in the absence of the table requested, ORA was not able to determine how these documents relate to the existing items and the need for replacement.

GSWC states that this project is needed due to; 1) existing products reaching the end of their lifecycles, and 2) existing products being undersized to meet the future software needs of GSWC. GSWC has not provided sufficient justification for either of these claims. Therefore, ORA recommends denying GSWC's request to include funds for a data center hardware refresh in the GO Capital budget.

Additionally, ORA noted that GSWC had funds authorized in 2012, 2013, and 2014 for a "Data Center Server Refresh" project. This project was reported in MDR D5 GO, submitted with this GRC application in July 2014, as a project authorized but not completed in 2014. ORA requested an updated accounting of funds spent on this project in 2014. GSWC responded that as of January 2014, it has spent \$261,742 of the \$542,300 authorized in 2014 for the "Data center server refresh phase 3 of 3" project and the "disaster recovery center server refresh phase 2 of 2."[284] GSWC's response to Data Request SR4-009 confirms that this project has been

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[281] Data Request SR4-008, question 3c.

[282] GSWC Response to ORA Data Request SR4-008, question 3c.

[283] Ibid, "Q3 Windows Server…" pdf files.

[284] GSWC Response to ORA Data Request SR4-008, question 3b.

completed.[285] Therefore, ORA recommends adjusting the CWIP amounts for 2014 to reflect the lower amount spent in completing this project, and has adjusted the 2014 CWIP amounts accordingly.[286]

Personal Computers and Peripherals

GSWC requests $865.8K, not including contingencies, over three years (2015-2017) for upgrading personal computers and peripherals. GSWC states that "[t]he IT Department is budgeting for all standard computers and peripherals for the Company. This is done on a 4 year refresh schedule."[287]

In its workpapers, GSWC cites "quote from PCM" as the source of the amount requested.[288] The quote provided from PCM on the following page in the workpapers shows a total cost of $4,378.96.[289] GSWC provides no additional justification or substantiation for the $865.8K requested. ORA pointed out this discrepancy to GSWC during the site visit, but GSWC did not provide any additional information to reconcile the difference. ORA recommends adjusting the funds for this project to match the amount substantiated in the quote provided by GSWC.

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[285] GSWC Response to ORA Data Request SR4-009, cells H18 and H19 in file "SR4-009 (GO CWIP) response.xls."

[286] As detailed in ORA's adjustments to GSWC's "CWIP list GO 12-31-13 run 2-5-14.xls" workpapers. Results reflected in summary tables herein.

[287] GSWC Prepared Testimony of Randy Miller, p. 7.

[288] GSWC Workpapers General Office Volume 2 of 2, Billing and Cash Processing tab, sheet 1.

[289] Ibid, sheet 2.

GSWC distributed the cost equally over three years. ORA recommends this same methodology, and has distributed one third of this amount to each year.[290]

Upgrade Consolidated Financial Reporting Software

GSWC requests $10K, not including contingencies, for updating iQ4bis software for consolidated financial reporting in 2015.[291] In its workpapers, GSWC cites "quote from Halo (plus estimated travel expenses)" as the source of the amount requested.[292] The quote from Halo states "32 hours of professional services to update the project file and to migrate the existing analysis views to the new version = $7040." No estimated travel expenses are provided. Therefore, ORA recommends excluding from the forecast all but the $7,040 that is substantiated in the workpapers.[293]

11. CC&B and JD Edwards Upgrades ($3,166,500)

GSWC requests $2.125 M, not including contingencies, to upgrade its Customer Care and Billing (CC&B) software.[294] The existing Oracle software was installed in 2009, and the "extended support" for this software will expire in 2017. Without further upgrades, GSWC would at that time "be at risk of being unable to process customer requests in the event a

[290] As detailed in ORA's adjustments to GSWC's GO "Capital Items 2014-2017.xls" workpapers. Overhead and taxes are applied on top of this amount.

[291] GSWC Prepared Testimony of Randy Miller, pp. 8-9.

[292] GSWC Workpapers General Office Volume 2 of 2, Corporate Support tab, sheet 1.

[293] As detailed in ORA's adjustments to GSWC's GO "Capital Items 2014-2017.xls" workpapers. Overhead is applied on top of this amount.

[294] GSWC Prepared Testimony of Randy Miller, p. 10.

software problem is not solvable by Oracle's pre-existing support tools or a phone call to Oracle."[295]

GSWC additionally requests $752,800, not including contingencies, to upgrade its JD Edwards Enterprise One ERP software.[296] The existing JD Edwards software was implemented in 2010, and support for the existing version expires in September 2016. After that date, "there will no longer be updates, fixes, security alerts, or update scripts created for this release and [GSWC] would be on [its] own to modify the source code" in the event of a system problem.[297]

Combined, these software upgrades total $2.88 M ($3.17 M including contingencies). ORA does not currently contest the need for these two software upgrades, although there is a concern that GSWC may seek to upgrade the same software in its next GRC despite a software version lifecycle of approximately six years. As a result, ORA recommends that if GSWC's requested funds for the CC&B and JD Edwards upgrades are approved in this GRC, GSWC should be excluded from seeking funds for additional upgrades to these systems until the GRC for Test Year 2022, at the earliest.

12. Annual Software License Renewals and Maintenance Agreements

GSWC requests numerous software license renewals and software maintenance agreements as part of its GO capital budget, including many software license renewals and maintenance agreements that are renewed on an annual basis. ORA recommends that software license and software maintenance agreements that are renewed on an annual basis should not be treated as capital expenditures, and should instead be treated as operating expenses. **Table 4-H -** GO

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[295] Ibid, p. 12.

[296] Ibid, p. 22.

[297] Ibid, pp. 22-23.

Software Expenditures (page 119) summarizes the software requests included in GSWC's GO capital budget, along with ORA's recommendations for these requests.

In response to ORA's inquiry as to why GSWC included annual software license renewals and annual software maintenance agreements in the GO capital versus the GO expense budget, [298] as would typically occur for recurring annual expenses, GSWC provided the following response:

"Such costs have historically been included in rate base and approved by the Commission. Industry accounting guides state that certain costs, such as license costs, which would otherwise be expensed, may be capitalized if approved by regulators, as shown in the excerpt below from a utility industry accounting manual:

> 18.2 Capitalization
>
> UP 12.2 discusses key considerations in accounting for plant construction, including capitalization of interest and other costs. In addition to considering that guidance, a regulated utility may have unique considerations in developing capitalization policies, because regulators often permit recovery of costs that would otherwise be charged to expense. Regulated utilities generally capitalize the costs of planning and constructing a plant based on their expectation of regulatory recovery.
>
> Only those incurred costs that are probable of recovery through future rates should be capitalized as part of utility plant (construction work in progress). Examples of expenses that regulated utilities may be able to recover that would otherwise be charged to expense include amounts relating to feasibility and engineering studies, contract negotiations, license applications, and related legal costs, along with the costs of engineering, planning and construction, operations and maintenance, financing, power purchase agreements, and other similar preconstruction and development costs. Factors to consider in determining whether these amounts should be capitalized are similar to those used to evaluate regulatory assets in general (see UP 17.3)."[299]

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[298] ORA Data Request SR4-001 question 5.

[299] GSWC Response to ORA Data Request SR4-001 at pp. 3-4

GSWC's rationale for including annual software license renewals and annual software maintenance agreements as a capital expense relies on one line in a utility industry construction accounting manual that references "license applications," without any specification that this phrase applies to annual software license renewals. Additionally, this source specifically states in the above quotation that it applies to "accounting for plant construction." GSWC provides no rationale as to why this source should reasonably apply to GO annual software license renewals.

ORA recommends that annual software license renewals and annual software maintenance agreements be considered operating expenses, not capital expenditures, for the following reasons, discussed in more detail below:

1) Costs paid annually are generally considered expenses.
2) Other utilities under CPUC jurisdiction expense these costs.
3) This treatment is in alignment with accounting rules regarding software.

Costs paid annually are generally considered expenses

From a regulatory ratemaking standpoint, costs paid annually are generally not capitalized but expensed. Annual costs such as a software license that expires within one year are no longer used and useful after one year, and should therefore not be included in "plant in service." GSWC's current practice depreciates these annual license renewals over four years,[300] so at any given time, ratepayers are paying a return on software licenses that expired up to three years earlier.

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[300] GSWC Response to ORA Data Request SR4-001, question 7.

Other utilities under CPUC jurisdiction expense these costs

Other Class A Water Utilities and Energy IOUs under CPUC jurisdiction expense annual software license renewals and annual software maintenance agreements.

California Water Service Company, a large Class A water utility under CPUC jurisdiction, expenses annual software license renewals and annual software maintenance agreements. Southern California Edison, an Energy IOU under CPUC's jurisdiction, does the same.

This treatment is in alignment with accounting rules regarding software

The American Institute of CPAs (AICPA), the Federal Accounting Standards Advisory Board (FASAB)'s Generally Accepted Accounting Principles (GAAP), and Governmental Accounting Standards Board (GASB) accounting rules and guidelines are all in agreement that annual software license renewals and annual software maintenance agreements should be expensed and not capitalized.

AICPA Statement of Position (SOP) 98-1 titled "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" details how to account for the costs of computer software developed or obtained for internal use. This SOP has also been adopted by GAAP in Codification Topic 350-40 for internal use software.[301]

While the title of the AICPA SOP states that it applies to "software developed or obtained for internal use," SOP 98-1 also applies to software purchased from commercial vendors, as is the case for GSWC's annual software license renewal requests. As defined in the FASAB handbook, "'Internal use software' means software that is purchased from commercial vendors

[301] According to the GAAP website, at "cpaclass.com/gaap-accounting-standards/codification-300/asc-codification-topic-350-40.htm."

'off-the-shelf,' internally developed, or contractor-developed solely to meet the entity's internal or operational needs."[302] Commercial off-the-shelf (COTS) software is further defined as "software that is purchased from a vendor and is ready for use with little or no changes."[303] GSWC's software in question in this section is COTS software; therefore SOP 98-01 applies to this software.

AICPA SOP 98-1 contains a section titled "Capitalize or Expense,"[304] which divides computer software projects into stages and provides instruction on whether the cost should be capitalized or expensed. **Table 4-G** below summarizes the information contained in this section.

Table 4-G: Summary of AICPA SOP 98-1 and U.S. G.A.A.P. Codification Topic 350-40 for Internal Use Software

Project Stage	Accounting Treatment
Preliminary	Costs are expensed as incurred.[305]
Application Development	Costs to develop internal-use software during the application development stage are capitalized.[306]
Post-implementation/operation stage	Costs are expensed as incurred.[307]
Upgrades and Enhancements to Software	Costs may be capitalized if "additional functionality" is added.[308]
Capitalized software costs	Costs are amortized on a "straight line" basis over the estimated useful life and should be reviewed for impairment.[309]

[302] Statement of Federal Financial Accounting Standards 10, at paragraph 8, included herein as Appendix GO-Plant-6 (FASAB Handbook).

[303] Ibid, at paragraph 9a.

[304] Included herein as Appendix GO-Plant-7 (AICPA SOP 98-1).

[305] SOP 98-1.20.

[306] SOP 98-1.21.

[307] SOP 98-1.22.

[308] SOP 98-1.24.

[309] SOP 98-1.26.

As can be seen from the summary table, according to SOP 98-1, software should only be capitalized during the “application development stage,” and in the event of “upgrades and enhancements to software.” SOP 98-1’s subsections .21 and .24 discuss these specifications in more detail, as follows:

> **.21** *Application Development Stage*. Internal and external costs incurred to develop internal-use computer software during the application development stage should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new systems should also be capitalized. Training costs are not internal-use software development costs and, if incurred during this stage, should be expensed as incurred.

> **.24** *Upgrades and Enhancements*. For purposes of this SOP, upgrades and enhancements are defined as modifications to existing internal-use software that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. In order for costs of specified upgrades and enhancements to internal-use computer software to be capitalized in accordance with paragraphs .25 and .26, it must be probable that those expenditures will result in additional functionality.

The “Application Development Stage” is further defined in SOP 98-1.17, and includes the following activities: “Design of chosen path, including software configuration and software interfaces; Coding; Installation to hardware; Testing, including parallel processing phase.”[310]

GSWC’s annual license renewals for software packages that have already been instituted clearly do not fall into the “application development stage.” To be considered an “upgrade and enhancement,” the upgrades must result in additional functionality, and annual license renewals that are necessary for the continuous use of software do not generally result in additional functionality.

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[310] SOP 98-1.17.

GSWC's annual software license renewals and maintenance agreements fall into the "post-implementation/development stage." It is less clear which category licenses for new software packages fall into. ORA recommends that GSWC's annual software license renewals and maintenance agreements be expensed, while non-annual license renewals and new software packages continue to be included in the capital budget.

While it is not always necessary for utilities to follow AICPA and U.S. GAAP accounting standards, ORA finds in this instance that these standards provide a more reasonable approach to accounting for software license renewal and software maintenance agreement costs incurred annually. Therefore, ORA recommends that these accounting standards be followed for GSWC's software requests, and that GSWC's requested software license renewals and software maintenance agreements that incur expenses annually should be considered operating expenses, not capital expenditures.

ORA recognizes that the transition from including software licensing and maintenance costs as a capital expense to an operating expense requires some lead time, as GSWC is requesting authorization for operating expense budgets for Test Year 2016, and not for 2015, in this GRC. Therefore, ORA recommends that software license renewals and software maintenance costs be treated as capital expenditures in 2015, then treated as operating expenses for 2016 and thereafter.

Table 4-H below summarizes GSWC's software requests included in the GO Capital Budget, as well as ORA's recommendations.

Table 4-H: GO Software Expenditures

Software	Year	GSWC Request[311,312]	ORA Recommendation	
			Amount[313]	Ratemaking Treatment
Microsoft Annual Payment & True-Up	2015	$547,400	$303,720	Capital
Microsoft Annual Payment & True-Up	2016	$528,000	$258,661	Expense
Microsoft Annual Payment & True-Up	2017	$499,500	$258,661	Expense
Computrace Software	2015	$46,700	$20,700	Capital
JDE Initial License Fee (ILF)	2015	$2,300	$2,300	Capital
JDE Initial License Fee (ILF)	2016	$23,500	$23,500	Capital
AntiVirus Replacement or Upgrade	2016	$47,400	$37,565	Capital
Autodesk Software Maintenance Agreement	2015	$26,000	$26,000	Capital
Autodesk Software Maintenance Agreement	2016	$26,000	$21,850	Expense
Autodesk Software Maintenance Agreement	2017	$26,000	$21,850	Expense
Hydraulic Modeling Software	2015	$46,300	$46,300	Capital
Hydraulic Modeling Software	2016	$46,300	$34,350	Expense
Hydraulic Modeling Software	2017	$34,500	$34,350	Expense
GIS Software	2015	$39,000	$13,167	Capital
GIS Software	2016	$37,700	$11,214	Expense
GIS Software[314] 2017		$19,000	$11,214	Expense

[311] Calculated from GSWC GO Capital Items 2014-2017.xls, totaled across budget categories for each type of software.

[312] Excludes the 10% contingency GSWC adds to all of its GO capital budget requests, includes overhead and sales tax where applicable.

[313] For amounts listed: capital treatment excludes contingency, and includes overhead; O&M treatment does not receive overhead or contingency and is therefore not included. Applicable sales tax is included in all amounts listed.

[314] Annual license renewals for existing GIS software.

Under the current treatment of software licenses as capital expenses, GSWC earns a return on the software license purchase plus the associated overhead loading, where under ORA's proposed treatment only the cost of the software purchase is recoverable from ratepayers. Therefore, it will be to the ratepayers' advantage over the long run to treat these annual software license renewal and annual maintenance agreement costs as operating expenses.

Because operating expense budgets are not "trued-up"[315] in the same way that capital expenses are, changing the treatment of software license and maintenance costs require that the budgets be as accurate as possible. Therefore, ORA recommends using a five-year average of historic actual expenditures from 2009 to 2013 to determine the appropriate additions to the GO operating expense budget, unless GSWC has requested a lesser amount for future expenditures, indicating a lesser need in the 2015-2017 budget than has historically been required. The "Amount" column under "ORA Recommendation" in **Table 4-H** above reflects this recommendation. **Table 4-I** below provides a summary of the source of the dollar amounts for ORA's recommendations for GO software (as presented in **Table 4-H** above).

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[315] In general, the term "true up" refers to adjusting a figure from an estimated or agreed value to its true value. For the purposes of this chapter, the term "true up" refers to adjusting an authorized amount to a recorded amount in a future GRC.

Table 4-I: Source of ORA Recommended Amounts for GO Software

Software	Source of ORA Recommended Amount
Microsoft Annual Payment & True-Up	Five-year average of GSWC expenditures, 2009-2013[316]
Computrace Software	Five-year average of GSWC expenditures, 2009-2013[317]
JDE Initial License Fee (ILF)	GSWC requested amount[318]
AntiVirus Replacement or Upgrade	Five-year average of GSWC expenditures, 2009-2013[319]
Autodesk Software Maintenance Agreement	GSWC requested amount[320,321]
Hydraulic Modeling Software	GSWC requested amount[322,323,324]
GIS Software	Five-year average of GSWC expenditures, 2009-2013[325]

The costs for the software for which ORA recommends treatment as an operating expense (as detailed in **Table 4-H** above) have been included in ORA's GO A&G expense Account 799,

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[316] GSWC expenditures provided by GSWC in response to data request SR4-007, in file "Q.1-6 (IT).xls".

[317] Substantiation provided in response data request SR4-007 did not specify which portion of the information that GSWC applied to the Computrace software. ORA used the total of the amounts provided in file "Q.2 IT 2009 8700054 Sophos.xls", cells K14 and K24, which were the two line items that made reference to Computrace. ORA added GSWC's 17.42% overhead factor to the total.

[318] GSWC GO Capital Items 2014-2017.xls

[319] GSWC expenditures provided by GSWC in response to data request SR4-007, in file "Q.1-6 (IT).xls".

[320] GSWC GO Capital Items 2014-2017.xls

[321] Overhead is included as requested by GSWC in the 2015 ORA capital budget recommendation; ORA does not include overhead in the 2016 and 2017 operating expense budget recommendations.

[322] GSWC GO Capital Items 2014-2017.xls

[323] Overhead is included as requested by GSWC in the 2015 ORA capital budget recommendation; overhead is not included in the 2016 and 2017 ORA operating expense budget recommendations.

[324] ORA TY 2016 operating expense budget recommendation is an average of GSWC's 2016 and 2017 capital budget requests.

[325] GSWC expenditures provided by GSWC in response to data request SR4-007, in file "Q 2 ESRI 2009-2013 -GIS.xls".

Miscellaneous Test Year 2016 forecast, as discussed in the testimony of Michael Conklin. The five-year average expenditures provided by GSWC included overhead costs. However, operating expenses do not receive overhead treatment. Therefore, where ORA used the five-year average expenditures to determine software expense in the operating budget, ORA backed out the GSWC 17.42% overhead factor from the five-year averages to arrive at the ORA-recommended expense forecast.

13. Allocation of Environmental Quality Budget

In the Environmental Quality portion of the GO capital budget, GSWC requests a total of $43.5K over three years for ergonomic equipment and safety training videos.[326] GSWC currently allocates the Environmental Quality portion of the GO capital budget to COPS.[327] In Chapter 7, ORA recommends allocating costs and expenses associated with the Health and Public Safety Department to Utility (a.k.a. Billing and Cash Processing) instead of COPS. The portion of the GO capital budget that corresponds to the Health and Public Safety Department is the Environmental Quality section. Therefore, in accordance with the recommendation presented in Chapter 7, ORA allocates the $43.5K in the Environmental Quality portion of the GO capital budget for 2015-2017 to Billing and Cash Processing, instead of COPS.[328]

14. Rounding Errors

In GSWC's GO ratebase table "2014-2017 Capital Items.xls," GSWC erroneously rounds budgetary requests before multiplying by unit quantities. The rounded figures are then multiplied by the unit quantity, sometimes significantly increasing the final cost. ORA corrected

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[326] GSWC Prepared Testimony of Hilda Wahhab, pp. 50-51.

[327] As detailed in GSWC's GO file "Capital Items 2014-2017.xls."

[328] Adjustments made to the "Summary" tab of the file "Capital Items 2014-2017," rows 38 and 39.

this error in the Capital Project Management tab, cell I-141, and the Engineering Design tab, cell I-91. Other rounding error instances occur in line items that ORA excluded. If the Commission disagrees with ORA and authorizes these items, GSWC should fix the rounding errors.

D. CONCLUSION

The Commission should adopt ORA's recommendations presented above. **Table 4-J** provides ORA's GO plant estimates based on the above recommendations. Appendix GO-Plant-8 (Capital Budget Comparison) provides additional detail, including a comparison of all of the individual line-items in GSWC's and ORA's GO capital budgets.

Table 4-J: GO Plant Summary Table

	2014	2015	2016	2017	Total 2015-2017
GENERAL OFFICE (GO)					
Accounting	$0	$0	$0	$0	$0
Executive Office	$0	$0	$0	$0	$0
Human Capital Management (HCM)	$24,900	$0	$0	$0	$0
Information Technology (IT)	$2,636,400	$399,620	$1,223,265	$0	$1,622,885
Internal Audit	$0	$0	$0	$0	$0
Risk Management	$80,600	$252,500	$156,000	$163,000	$571,500
Tax	$0	$0	$0	$0	$0
Regulatory Affairs		$0	$0	$0	$0
CENTRALIZED OPERATIONS (COPS)					
Administration Support	$0	$0	$0	$0	$0
Asset Management	$29,000	$21,200	$0	$0	$21,200
Capital Project Management	$13,200	$82,901	$87,800	$48,400	$219,101
Contracts	$3,500		$0	$0	$0
Customer Service Center (CSC)	$26,400	$39,500	$7,800	$7,800	$55,100
Engineering Design	$87,600	$135,000	$4,000	$58,200	$197,200
Environmental Quality	$14,300	$14,500	$14,500	$14,500	$43,500
New Business	$0	$0	$0	$0	$0
Planning	$79,900	$57,348	$2,000	$2,000	$61,348
Preventive Maintenance	$37,100	$0	$0	$0	$0
Property Accounting	$3,300	$1,418	$2,600	$2,600	$6,618
Regulatory Affairs	$0	$2,500	$0	$0	$2,500
Technical Services	$0	$38,500	$2,000	$0	$40,500
Water Quality	$0	$0	$0	$0	$0
Water Resources	$0	$0	$0	$0	$0
Water Use Efficiency	$0	$0	$0	$0	$0
Capital improvement for Anaheim Office -**Proposed**	$757,430				
BILLING & CASH PROCESSING (B&P)					
IT (Computers)	$391,200	$2,127,700	$1,900	$1,900	$2,131,500
Tax (PowerPlant)	$0	$0	$226,000	$46,000	$272,000
					$0
Contingency 5%	$171,400	$158,630	$86,390	$17,220	$262,240
Total	$4,356,230	$3,331,317	$1,814,255	$361,620	$5,507,192
General Office	$2,879,000	$717,330	$1,517,190	$179,300	$5,292,820
Central Operations Support	$1,066,430	$416,200	$116,820	$130,900	$1,730,350
Billing & Cash Processing	$410,800	$2,356,420	$266,640	$68,640	$3,102,500
Total	**$4,356,230**	**$3,489,950**	**$1,900,650**	**$378,840**	**$5,769,440**

Chapter 5: OVERHEAD ALLOCATION

A. INTRODUCTION

The purpose of an overhead allocation is to allocate the *indirect* costs of capital projects between GSWC's actual capital projects. Although *directly* incurred costs for capital projects are assigned directly to projects, *indirect costs*, most of which occur at the General Office stage, must also be allocated to the actual capital projects in GSWC's ratemaking areas. To accomplish this allocation, GSWC forecasts an overhead loading factor of 17.42% for TY 2016 and a *capitalized labor to total labor* factor of 19.1% In addition, GSWC is requesting to carry-forward its residual overhead cost pool balance to subsequent years, instead of allocating the year-end residual overhead balance to a year's existing capital projects, which is GSWC's current practice.

B. SUMMARY OF RECOMMENDATIONS

Based on its analysis presented herein regarding overhead allocation, ORA recommends that the Commission:

1) Adopt an overhead loading factor of 17.34% and a *direct labor to total labor* capitalization factor of 18.3%.
2) Deny GSWC's request to carry-forward residual overhead cost pool balances to subsequent years, instead of allocating the residual balances to existing capital projects at each year-end.

C. DISCUSSION

GSWC's overhead allocation methodology begins by establishing an overhead cost pool where it accumulates all of its overhead expenses for allocation to capital projects. The overhead cost pool consists of five components:

1) Indirect Labor & Benefits
2) Insurance expense
3) A&G expense
4) Depreciation expense
5) Miscellaneous

According to GSWC's testimony, component one (Indirect Labor and Benefits) is calculated by using estimates of employee time, and due to the lack of a more accurate or efficient methodology, components two through four are allocated using the overall ratio of *capitalized labor* to *total labor*.[329] Capitalized labor is calculated by summing the amount of labor expense that indirectly supports capital projects, such as property accountant's salaries, with labor that directly supports capital projects, such as engineering staff salaries. Comparing capitalized labor to total labor results in the overall ratio of *capitalized labor to total labor* used to capitalize overhead amounts for components two through four. To illustrate, if the ratio of *capitalized labor to total labor* was 18.0%, and A&G expenses (component three) were $100,000, then $18,000 would accumulate in the overhead cost pool account and be allocated to capital projects (in the form of an Overhead or OH loading factor), while $82,000 would be recovered as A&G expense in Test Year rates. Lastly, as stated by GSWC, the fifth "Miscellaneous" component is determined by direct charges to the Overhead Cost pool.[330]

1. Capitalized GO A&G Expense Ratio

According to GSWC's workpapers, for TY 2016 the overall ratio of *capitalized labor to total labor* that GSWC used to capitalize component three, General Office A&G expenses to the

[329] GSWC Prepared Testimony of Jimmy Cheung, p. 8.

[330] GSWC Response to ORA Data Request MC8-022, q3.

Overhead Cost Pool is 19.1%.[331] However, GSWC's testimony states that "[f]or the twelve months ended December 31, 2013, 18.3% of GSWC's labor costs were capitalized to jobs, either as indirect costs to the overhead pool account or as direct costs to jobs."[332] [Emphasis added.] ORA requested an explanation for this apparent discrepancy, especially because a separate GSWC workpaper[333] showing the derivation of the 19.1% was clearly labeled as 2013 information. In response, GSWC explained: "The expense ratio of 19.1% presented in the GO-SOE 14, tab "A&G Exp. Capitalized" is based on forecasted labor expense ratio, while the ratio of 18.3% is based on the recorded labor expense ratio."[334] GSWC also stated that the workpaper it supplied substantiating its 19.1% calculation was mislabeled and should have been labeled 2014.[335]

If GSWC uses 19.1% (2014 estimated data) to capitalize component three, that means that less is immediately expensed in the GO and more is added to ratebase than if GSWC used the 18.3% based on 2013 recorded data, as its testimony states. ORA recommends using 18.3% to capitalize GO A&G expense (component three) based on GSWC's 2013 recorded data because the calculation is based on actual hard data, not an estimate. Additionally, GSWC's workpapers show that the overhead components other than component three are all based on 2013 recorded data, escalated for inflation.[336] ORA's recommendation of 18.3% is preferable to GSWC's because it relies on recorded data and is consistent with GSWC's methodologies for the remaining components of the overhead cost pool. Holding all else constant, using 18.3% to

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[331] GSWC workpaper GO-SOE 14, tab "A&G Exp. Capitalized," lines 24, 57, and 83.

[332] GSWC Prepared Testimony of Jimmy Cheung, p. 6.

[333] GSWC's GO-SOE 14, tab "A&G Exp. Capitalized.

[334] GSWC Response to ORA Data Request MC8-022, q1.a.

[335] GSWC Response to ORA Data Request MC8-022, q2.

[336] GSWC workpaper Overhead Rate Projection 2015-2017 v04, tab "OH by Object", column L.

capitalize A&G GO expense results in an increase to TY GO expense and a corresponding decrease in the amount of the overhead cost pool that also results in a decreased average overhead loading factor as discussed below.

2. Overhead Loading Factor

Once GSWC estimates the overhead cost pool, GSWC calculates the ratio of the overhead cost pool amount to its total capital expenditures (without overhead) and uses this resulting ratio as the "overhead loading factor." GSWC then applies this overhead loading factor to the gross capital expenditure value of each item with the goal being to assign all of the overhead cost pool to capital expenditures, allowing the utility to earn a return on the capitalized indirect overhead. Ideally, the balance at year-end in the overhead cost pool account would be at zero, because all of the accumulated overhead would be assigned to capital projects. The overhead loading factor itself is important because it determines the amount of the applied overhead markup when calculating the plant addition value for forecasting rate base.

GSWC proposes using a calculated three-year average overhead loading factor of 17.42% for each year between 2015-2017 capital projects, instead of GSWC's calculated single TY 2016 overhead loading factor rate of 17.62%. As stated earlier, ORA recommends using a calculated three-year average overhead loading rate of 17.34%, a difference mainly due to ORA's recommendation to capitalize 18.3% of GO A&G expenses instead of 19.1%. The decreased amount of A&G expenses in the overhead cost pool results in a slightly decreased ratio of overhead cost pool to capital expenditures that makes up the overhead loading factor.

3. Residual Overhead Balances

Of course, when dealing with large estimates and capital projects that are subject to timing uncertainties, at year-end the overhead cost pool account in reality will likely not be at zero, and a residual positive or negative balance will remain. Currently, GSWC's treatment of the residual balance in the overhead cost pool account is to zero out the account at year-end by allocating any residual balance, positive or negative, to the capital projects for that year. In the current proceeding, GSWC is proposing to carry over any residual balance in the overhead cost pool account to the following year, instead of zeroing out the account by allocating the residual balance to that year's projects. GSWC is making this proposal because it believes that allocating the residual balance to projects from that year to bring the overhead cost pool to zero "results in a disproportionate amount of overhead allocated to those projects as compared to projects constructed in other years."[337]

ORA asked GSWC to provide specific examples of projects with disproportionate overhead allocations, as well as to provide details of the residual balances at year end in the overhead cost pool account each of the past five years. As seen in the **Table 5-A** below, GSWC's response shows that in only one year (2012) out of the last five was there a year-end residual balance in the overhead cost pool account that might be considered substantial.[338]

Table 5-A: GSWC Residual Overhead Balances

(in $)					
	2009	**2010**	**2011**	**2012**	**2013**
Residual Overheard Balance at 12/31 before final allocation:	($1,053,890)	($526,424)	$769,714	$3,149,154	$155,516

GSWC also provided specific examples from 2009 and 2012 of projects that the Company considered were disproportionately allocated overhead.[339] However GSWC's 2009 examples showed projects with overhead rates ranging between 16% and 19% - hardly what would be

[337] GSWC Prepared Testimony of Jimmy Cheung, p. 12.

[338] GSWC Response to ORA Data Request MC8-022, q7.

[339] GSWC Response to ORA Data Request MC8-022, q8.

considered disproportionate.[340] Again, only GSWC's examples for 2012, with overhead rates ranging between 22% and 28% appear to have resulted in an overhead allocation that might be considered disproportionate.[341]

In support of its position, GSWC maintains that "Residual overhead balances are mainly due to fluctuations in capital spending. Such timing differences in capital spending will self-correct over the remaining rate case cycle."[342] ORA agrees that overhead balances are mainly due to fluctuations in capital spending, but does not agree that timing differences simply self-correct over time. Interestingly, GSWC admits to doubting its own assertion, stating:

> In the event that GSWC determines that a significant residual overhead pool balance <u>will not self-correct</u> over the remaining years, an adjustment will be made to the overhead allocation [loading] factor to minimize the overhead balance by the end of the rate case cycle as projects are performed.[343] [Emphasis added.]

ORA is concerned that if residual overhead balances are not zeroed out and allocated to projects at the end of each year, there is a risk of a substantial balance accumulating before an adjustment is made. For GSWC's ratepayers, this could be detrimental in the event a substantial negative residual balance accumulates. A negative residual balance can accumulate due to capital spending above forecasted amounts being placed in service and allocated overhead which GSWC has not actually incurred. Furthermore, before the practice of annually zeroing out its residual balances, GSWC demonstrated a history of carrying substantial negative balances.

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[340] For example in the current GRC, GSWC is forecasting 17.42% overhead allocation rate.

[341] GSWC Response to ORA Data Request MC8-022, q8, GSWC's 2009 examples show overhead rates after the residual allocation range between 16 and 19%, 2012 examples range between 22 and 28%.

[342] GSWC Prepared Testimony of Jimmy Cheung, p. 12.

[343] Ibid.

> SCWC's work papers show the balance to be a negative $4.5 million but SCWC's witness testified that is was actually $3 million. The substantial negative balance shows that SCWC has allocated indirect costs to capital costs that it has not incurred.[344]

Because GSWC has failed to meet its burden of proving that zeroing out residual overhead balances results in disproportionate overhead rates allocated to projects, ORA recommends denying GSWC's request to carry-forward residual overhead balances. ORA also recommends that if GSWC is to make the same request in its next GRC, it should include a larger, updated data set and a detailed comparison exhibit showing the effect of carrying forward the residual balances versus zeroing out.

D. CONCLUSION

ORA requests that the Commission adopt its recommendation to use its calculated three-year average overhead loading factor 17.34% instead of GSWC's 17.42%, a difference resulting from its recommendation to use 18.3% to capitalize GO A&G expenses. Additionally, ORA recommends that GSWC be denied its request to carry-forward residual overhead balances.

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[344] D.06-01-025, p. 33, re: Southern California Water Company's A.05-02-004, TY 2006 GRC. SCWC became Golden State Water Company in 2005.

Chapter 6. NON-TARIFFED PRODUCTS AND SERVICES, AND AFFILIATE TRANSACTIONS

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for GSWC's Non-Tariffed Products and Services (NTP&S or Unregulated Activities) and Affiliate Transactions for Test Year 2016 related to GSWC's A.14-07-006. GSWC, being a Class A Water Utility, is governed by the Commission's Affiliate Transaction Rules (ATRs), adopted in D.10-10-019 as modified by D.11-10-034. The ATRs became effective on July 1, 2011. Therefore, ORA's analysis and recommendations will focus on GSWC's compliance with the criteria set forth in the Commission's ATRs.

B. SUMMARY OF RECOMMENDATIONS

Based on its analysis herein regarding NTP&S and Affiliate Transactions, ORA recommends that the Commission:

1) GSWC should comply with Affiliate Transaction Rule X.E regarding Annual Reporting and appropriately and fully disclose to the Commission the details of all its NTP&S activities, including cell site leases, in all future Annual Report of Affiliate Entities. The next report is due on March 31, 2015.
2) GSWC should comply with ATR Rule X.C regarding NTP&S Revenue Sharing and appropriately implement 30% gross revenue sharing with ratepayers for cellular antenna site leases.
3) GSWC should comply with ATR Rule X.D regarding NTP&S Cost Allocation and appropriately allocate costs incurred due to NTP&S projects.

4) GSWC should comply with ATR Rule VIII.E regarding Independent Audits and ensure that the mandated Independent Audit be recorded "below-the-line," at shareholder expense.
5) The Commission should issue a citation to GSWC for each instance of non-compliance and levy the appropriate penalty in accordance with Commission Resolution W-4799.

C. DISCUSSION

1. Macias Audit

Rule VIII.E of the Affiliate Transaction Rules specifies the following reporting requirement:

> Commencing in 2013, and biennially thereafter, the utility shall have an audit performed by independent auditors if the sum of all unregulated affiliates' revenue during the last two calendar years exceeds 5% of the total revenue of the utility and all of its affiliates during that period. The audits shall cover the last two calendar years which end on December 31, and shall verify that the utility is in compliance with these Rules.[345]

Pursuant to ATR Rule VIII.E, Macias Consulting Group (Macias) in 2013 performed an attestation audit regarding GSWC's compliance with the ATR. ORA reviewed Macias' resulting report that GSWC submitted to the Commission.[346]

In summary, Macias's examination found that (1) "[t]he only NTP&S offered by GSWC is the billing of sewer services to customers in certain jurisdictions, according to GSWC officials"[347]

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[345] D.10-10-019 as modified by D.11-10-034, p. A-11, re: R.09-04-012.

[346] Macias Audit of GSWC's Compliance with Affiliate Transaction Rules, Appendix NTP&S-1.

[347] Macias Audit of GSWC's Compliance with Affiliate Transaction Rules, p. 28.

and (2) "GSWC complied with all Rules except for Rule X.E, and partial noncompliance with Rule IV.C."[348]

Regarding item 1, Rule X.E governs the annual reporting requirements to the Commission of a utility's NTP&S projects and requires details such as a description of each activity, the gross revenues received from the activity, the revenue sharing allocated to ratepayers, and the classification (either active or passive) of each activity.[349] Macias found that during its examination of 2012 activity, GSWC *was not in compliance* with Rule X.E of the ATRs; its report states:

> [W]e were unable to locate the items required per Rule X.E above for GSWC's one NTP&S. Based on discussions with GSWC, the items required by Rule X.E were excluded from the report because 100% of the revenue generated by GSWC was returned to ratepayers through rate reductions. GSWC has indicated they [sic] will now include the items required under Rule X.E in their [sic] Annual Report of Affiliate Entities.[350]

Although GSWC was found by Macias to be deficient in reporting its 2012 NTP&S activity, ORA verified that for 2013 GSWC reported <u>one</u> NTP&S activity in its Annual Report of Affiliate Entities. ORA further verified that the revenue amounts and activity classification reported by GSWC reconciled to the details of the NTP&S contracts that GSWC was able to provide. However, of greater concern to ORA is that during the course of its current GRC investigation, ORA found that GSWC engaged in an NTP&S activity that remained unreported to Macias and to the Commission.

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[348] Macias Audit of GSWC's Compliance with Affiliate Transaction Rules, p. 2.

[349] D.10-10-019 as modified by D.11-10-034, pp. A-13-A-14, re: R.09-04-012.

[350] Macias Audit of GSWC's Compliance with Affiliate Transaction Rules, p. 32.

2. Compliance with Reporting of NTP&S - ATR X.E

During two field visits (Bay Point and Apple Valley CSAs), ORA team members became aware of cellular towers on utility property. Water utilities leasing out well site space to telecommunications providers for antenna placement is not uncommon in the industry. However, such contracts should be classified as an NTP&S activity, under the Use of Facilities general category.

ORA inquired about the extent of GSWC's cellular site lease NTP&S activity as well as GSWC's non-disclosure. In response, GSWC stated that it has two cellular lease sites, "one in the Apple Valley CSA and one in the Bay Point CSA."[351] Regarding GSWC's non-disclosure of this activity, GSWC explained that:

> After the Commission issued D.10-10-019 and addressed all the rehearing issues and in this GRC, GSWC attempted to identify and account for all NTP&S contracts per Rule X of the Affiliate Transaction Rules. GSWC overlooked the two remaining antenna leases and did not address them in its Annual Report, this GRC or in the audit performed by Macias Consulting Group.[352]

Due to GSWC's current state of non-compliance with Rule X.E, ORA recommends that GSWC be ordered to comply with Rule X.E and appropriately and fully disclose the details of all cellular leases and other reportable revenues in all future Annual Reports, including its 2014 Report, of NTP&S Projects.

3. Compliance with Revenue Sharing - ATR X.C

GSWC also explained that because of its oversight, GSWC did not forecast sharing the "10% of revenues" for the Bay Point CSA, and claims because 100% of revenues were allocated to Apple

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[351] GSWC Response to ORA Data Request MC8-003, q2.

[352] GSWC Response to ORA Data Request MC8-011, q3.

Valley, GSWC neglected to remove 90%. GSWC agrees that these items should be "corrected in this GRC."[353] GSWC is incorrect in its assertion of 10% revenue sharing of cell site lease revenues.

Provision of cellular antenna site space clearly falls under the definition of a "passive activity" as defined in Appendix A of the ATRs: "Placement of third party communications equipment, attachments, conduit and cable.[354] ATR Rule X.C advises that passive activities are subject to 30% revenue sharing. As a result, ORA recommends that GSWC comply with ATR Rule X.C and forecast sharing of 30% of gross revenues from all antenna site leases (and other "passive activity" transactions).[355]

Regarding item 2 above, ATR Rule IV.C states that a "utility shall list all shared directors and officers between the utility and its affiliates in its annual report to the Commission." According to Macias, GSWC failed to include this listing in its Annual Report of Affiliated Entities to the Commission. However GSWC did include the list in that year's 10-k and Annual Report to the Commission, which explains Macias' finding of "partial non-compliance with Rule IV.C." ORA is satisfied that GSWC's partial non-compliance with ATR Rule IV.C was an oversight and procedures are currently in place to ensure compliance with Rule IV.C in the future.

4. Compliance with Cost Allocation - ATR X.D

The Commission set forth NTP&S cost allocation rules in D.11-10-034. When applied correctly, these rules are the primary safeguard preventing ratepayers from subsidizing a utility's unregulated activities. ATR Rule X.D governing cost allocation states:

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[353] Ibid.

[354] D.10-10-019 as modified by D.11-10-034, p. A-16, re: R.09-04-012.

[355] ORA made adjustments in each CSA's revenue workpapers to reflect 30% of gross antenna lease revenues to be shared with ratepayers.

> All costs, direct and indirect, including all taxes, incurred due to NTP&S projects shall not be recovered through tariffed rates. These costs shall be tracked in separate accounts and any costs allocated between tariffed utility services and NTP&S shall be documented and justified in each utility's rate case.[356]

Macias examined GSWC's compliance with ATR X.D and concluded: "GSWC is in compliance with Rule X.D. GSWC did not incur additional costs by providing the one NTP&S as the bills for sewer services were included in the water bills which were already being sent to each customer by GSWC."[357] However, ORA is not convinced that GSWC is in compliance with ATR Rule X.D. GSWC's response to ORA's inquiry on the matter is as follows:

> The service being provided under these contracts is for billing of sewer and trash services for various cities that provide these services to GSWC's customers. There are no additional costs to GSWC, <u>except maybe the time it takes</u> to remit a check to the Cities…[358] [Emphasis added.]

According to GSWC, one of its duties in performing this NTP&S is remitting checks to the cities, which takes employee time. GSWC apparently does not track this time in a separate account as directed by Rule X.D. However, the Commission's ATRs do not allow utilities the flexibility to determine what magnitude of activities or expenses constitute amounts worthy of being tracked. ORA's examination of the NTP&S contracts revealed additional responsibilities that GSWC is obligated to perform, such as making credit adjustments for dispute resolutions, providing annual reports, and record retention for sewer billing information.[359] Additionally, GSWC's 2013 Annual Report on Affiliate Transactions itemizes annual employee time spent on NTP&S as six hours of a Controller's time, and 60 hours of an Accountant's time. These

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[356] D.10-10-019 as modified by D.11-10-034, p. A-13, re: R.09-04-012.

[357] Macias Audit of GSWC's Compliance with Affiliate Transaction Rules, p. 31.

[358] GSWC Response to ORA Data Request MC8-003, q3.b.

[359] GSWC Response to ORA Data Request MC8-003, q4, City of Placentia Billing Services Agreement, §1.14, 1.2, 1.3.

amounts should not be subsidized by ratepayers. ORA recommends that GSWC comply with Rule X.D and separately track all employee time and any other expense related to performance of NTP&S projects so that the Commission can ensure that these costs are not recovered in tariffed rates.

5. Compliance with ATR Rule VIII.E (Independent Audit)

Finally, as mentioned in this report's section on General Office Outside Services - Account 798, GSWC included the expense for the Macias Independent Audit in its historical 2013 data used to forecast TY 2016. ATR Rule VIII.E clearly states that the "audits shall be at shareholder expense."[360] Including the Macias audit costs in recorded years' data used for forecasting TY expenses is a way to have ratepayers, instead of shareholders, fund the audit's costs and consequently violates this rule. As a result, consistent with ATR VIII.E, ORA recommends removing the expense for the Macias audit for TY Outside Services expense forecasting purposes. In the future, GSWC should record the expense for this audit below the line in a non-regulated account, as directed by ATR VIII.E.

6. Recommendation to issue citation for non-compliance with ATRs

Despite the ATRs being in effect for approximately three years at the time GSWC filed A.14-07-006, ORA found no less than four instances of GSWC non-compliance with the ATRs.[361] This level of deficiency is unacceptable. Because D.10-10-019, Ordering Paragraph Number 1 formally adopted the ATRs, GSWC is already bound by the Commission to comply with these rules. Consequently, the Commission should issue a citation and appropriately fine GSWC for each instance of non-compliance with a Commission Ordering Paragraph. In accordance with

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[360] D.10-10-019 as modified by D.11-10-034, p. A-11, re: R.09-04-012.

[361] D.10-10-019, Ordering Paragraph 1 formally adopts the ATRs. Class A Water Utilities were given an extension for implementation until July 1, 2011.

the guidance provided by Commission Resolution W-4799, ORA recommends a fine of $10,000 for each of GSWC's four cases of non-compliance for a total fine of $40,000.[362]

D. CONCLUSION

In summary, although GSWC has had ample opportunity to comply with the Commission's ATRs, a number of deficiencies remain. As a result, ORA recommends that GSWC be ordered to comply with ATRs X.E, X.C, X.D and VIII.E, and that the Commission issue citations and fines for each instance of GSWC's non-compliance in accordance with Commission Resolution W-4799.

[362] Resolution No.W-4799 California Public Utilities Commission October 29, 2009, Appendix A.

Chapter 7. GSWC SUPPLEMENTAL TESTIMONY ON SAFETY

A. INTRODUCTION

This chapter presents the results of ORA's review of the Supplemental Testimony provided by GSWC in response to the assigned Administrative Law Judges' directive at the Pre-Hearing Conference held on September 2, 2014 for the current proceeding, A.14-07-006. GSWC was directed to submit Supplemental Testimony focusing on its approach to safety, including its policies related to emergency preparedness, employee safety training, safety in operations, and customer safety.[363]

GSWC provided the Supplemental Testimony on October 24, 2014 as ordered. This left ORA with only a portion of the usual time available to it to review all other rate case materials. ORA reviewed and evaluated GSWC's Supplemental Testimony for accuracy and internal consistency. ORA performed discovery, which consisted of making inquiries of GSWC management and reviewing a random sampling of documents to test GSWC's compliance with its own safety policies. This chapter presents the results of ORA's analysis with a brief summary of recommendations followed by a more detailed discussion.

B. SUMMARY OF RECOMMENDATIONS

The Commission should require GSWC to do the following:

1) Allocate 12.5% of the salaries and related benefits expense for certain Health and Safety General Office support staff to its affiliate Bear Valley Electric Service (BVES).

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[363] Reporter's Transcript, PHC, pp. 36-40, September 2, 2014, San Francisco, CA.

2) Submit updated safety-related Supplemental Testimony as part of GSWC's next GRC Application.

3) The Commission should appropriately penalize GSWC for its failure to follow health and safety procedures in its Southwest district.

C. DISCUSSION

GSWC's Supplemental Testimony is organized into four sections: Enterprise Risk Management ("ERM") Policy, Health & Safety, Emergency Preparedness, and Customer Safety. ORA presents its analysis in a similar fashion.

ERM Policy

GSWC explains that in 2009, it hired Grant Thornton, LLP to guide company management in implementing the ERM framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The COSO ERM model was first released in 2004 and has become a widely-used method of identifying key business risks to firms and managing the responses to those risks. According to GSWC, the Company reviews and updates its ERM findings every 18 months.[364]

Health & Safety

GSWC's Supplemental Testimony provides an extensive accounting of its various Health and Safety policies and procedures. Examples include policies related to Backhoe Safety, Asbestos, Confined Space Entry, Forklift Safety, and Fall Prevention. GSWC provides a brief summary of each of its policies and in each case presents a citation to the applicable section of Title 8,

[364] GSWC Prepared Supplemental Testimony of Denise Kruger, p. 2.

California Code of Regulations – Industrial Relations, while affirming its compliance to the respective section.

GSWC also provides detailed testimony about the Health & Safety training of its employees. According to its testimony, GSWC maintains an extensive library of safety training videos and a library of safety-related written materials from the American Water Works Association (AWWA) and the Division of Occupational Safety and Health, or DOSH (better known as Cal/OSHA). GSWC employees are required to attend initial safety training and annual refresher classes, the extent of which depends upon the employee's job classification. According to GSWC, employee completion of required safety training is tracked by supervisors using GSWC's Learning Management System (LMS), which has resulted in a 96% completion rate. GSWC's testimony also states that it maintains compliance with recent OSHA revisions, and accordingly its Districts conduct Safety Tailgate meetings every ten days. Additionally, GSWC provides testimony describing the implementation of a behavioral-based safety training program called SafeStart that it states has been well received by employees and will be expanded.

ORA takes issue with GSWC's staffing of the Health & Safety department in the General Office (GO) Expense. Specifically, ORA's issue is not related to the adequacy of staffing, but the funding of the Health & Safety staff itself. Testimony presented by GSWC describes numerous Health & Safety staff as providing benefits to GSWC as well as to its affiliate BVES. Some examples are the Training and Compliance Supervisor that according to GSWC "is accountable for developing innovating solutions for **GSWC and BVES,**"[365] and the Health and Safety

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[365] GSWC Prepared Supplemental Testimony of Denise Kruger, p. 20.

Specialist who "oversees the development and implementation of safety and health programs within **<u>GSWC & Bear Valley Electric Service (BVES)</u>**."[366] [Emphasis added.]

In all, ORA identified six positions that, according to GSWC's Supplemental Testimony, provide benefits to BVES. However, GSWC's workpapers reflect no allocation of these positions' labor and benefits expenses to BVES. Instead, GSWC ratepayers bear 100% of these expenses. Because both GSWC and BVES derive benefits from these Health & Safety employees, ORA allocates the labor and related benefits for these six positions to properly reflect the shared benefits between GSWC and BVES. Specifically, ORA moves these six positions' labor and benefits expenses from the Centralized Operations Support (COPS) Cost Center to the Billing and Cash Processing (BC&P) Cost Center. As explained in ORA's GO allocation testimony, COPS expenditures are allocated 100% to GSWC, while B&CP (Utility) expenditures are allocated between GSWC (87.41%) and BVES (12.59%).

Accordingly, ORA recommends that only 87.41%, instead of 100%, of the labor and benefits expenses associated with the following six positions be allocated to GSWC:

1) Environmental Compliance Manager
2) Interim Training and Compliance Supervisor
3) Training and Compliance Specialist
4) Training and Compliance Specialist
5) Safety Support Analyst
6) Safety Specialist.

Additionally, ORA recommends that all capital costs associated with the Health and Safety department be similarly accounted and allocated for (i.e., the allocation to GSWC ratepayers

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366 GSWC Prepared Supplemental Testimony of Denise Kruger, p. 21.

should be reduced). Examples of these costs are safety and training materials, desk and laptop computers, assigned vehicles (if any), work station and related equipment, etc. Lastly, all incremental expenses incurred by these six positions should be similarly accounted for and allocated. These expenses include travel and training expenses, for example. ORA does not have sufficient information to make a comprehensive adjustment for the incremental expenses incurred by these positions. As such, ORA recommends that GSWC implement this allocation change on a prospective basis, beginning in Test Year 2016.

Operational Safety

GSWC's Supplemental Testimony also provides an in-depth discussion of its operational safety-related procedures. This area discusses the company's incentive programs encouraging safe practices and details a multitude of GSWC's safety inspections and the related forms detailing the results of these inspections. ORA conducted an audit of GSWC's inspection forms[367] described in the Supplemental Testimony. ORA requested samples of GSWC's yearly Office Safety Inspection Forms, Weekly Vehicle Inspection Forms, and Weekly Jobsite Inspection Forms and of these, GSWC responded satisfactorily with one exception.

GSWC's testimony states: "Each office facility is tasked with performing a yearly office site inspection."[368] ORA's sampling included a request for GSWC's Southwest District Office Safety Inspection Forms for the past three years; however, GSWC was only able to provide the Office Safety Inspection Form for 2014. Interestingly, this Office Safety Inspection Form was dated two days *after* ORA's request.[369] GSWC explained that "the new Interim General

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[367] GSWC Prepared Supplemental Testimony of Denise Kruger, pp. 58-80.

[368] GSWC Prepared Supplemental Testimony of Denise Kruger, p. 26.

[369] ORA Data Request MC8-023 was sent to GSWC on 12/2/14; the Form is dated 12/4/14.

Manager has noted this and has assigned staff going forward to conduct yearly inspections."[370] Because GSWC was only able to produce one report that was coincidentally completed two days after receiving ORA's data request, one is left to wonder if the inspection would have been conducted without ORA's inquiry. Furthermore, GSWC's limited explanation of the deficiency did not address *why* this District has not been "performing a yearly office site inspection," as GSWC witness Senior Vice President Denise Kruger has represented to the Commission in GSWC Supplemental Testimony.[371] At best, the company failed to adequately implement and enforce its own stated health and safety policies and procedures, and at worst, it is submitting false testimony and intentionally misleading the Commission. In either case, this discovery does raise significant concerns about the adequacy of GSWC's health and safety performance, as well as the veracity of its testimony here and elsewhere in this GRC.

Based on the information presented above, ORA recommends that the Commission impose appropriate penalties to prevent future failures in implementation of health and safety procedures and "mis-reporting." ORA recommends that, at a minimum, the Commission should remove an amount equivalent to the Health and Safety department's (GSWC-allocated) labor and benefits expenses from this GRC (three years' total) and place it in a non-interest bearing memorandum account. GSWC's recovery of these expenses should depend upon demonstration to the Commission in the next GRC proceeding that it fully and adequately implements its health and safety policies and procedures.

Lastly, ORA recommends that the Commission again direct GSWC to submit testimony in its next GRC application filing regarding its updated safety policies and procedures, including a specific reference to how it addressed the deficiency found in the Southwest District Office.

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[370] GSWC Response to ORA Data Request MC8-023, q2.

[371] GSWC Prepared Supplemental Testimony of Denise Kruger, p. 26.

Emergency Preparedness

According to GSWC, examples of various measures taken to mitigate the effect of emergencies on the company range from basic strategic property protection measures like installing fire sprinklers, to designing earthquake resistant structures, to erecting site security fences and intrusion alarms. GSWC's Supplemental Testimony also provides a detailed discussion on its Inter-Agency Coordination efforts, its Emergency Action Plans, and its Emergency Preparedness and Response Plan (EPRP). GSWC's EPRP sets forth how the company should respond in the event of a disaster and portions of the document are shared with governmental officials. Because EPRPs are prepared for each of GSWC's districts, this is another area where ORA sampled the EPRPs. ORA reviewed the EPRPs GSWC provided in response to ORA's discovery request, and found no inconsistency with GSWC's stated policy as described in its testimony.[372]

Customer Safety

GSWC's EPRP addresses not only its business operations but also Customer Safety aspects. Evidenced by the example in GSWC's Supplemental Testimony, the EPRP extends to situations such as a water contamination event, where GSWC issued "Do Not Drink" orders, conducted emergency water testing, and provided customers with Emergency Drinking Water to ensure access to safe drinking water. In addition, GSWC has incorporated into its expanded contract with Randle Communications the handling of communications with the public in the event of an emergency.

GSWC also maintains that the safety of its customers and the general public is largely maintained in other ways by its adherence to its operational safety protocols. For example, according to GSWC, employees participating in the SelfStart behavioral training program will

[372] GSWC Response to ORA Data Request MC8-023, q5.

exhibit safer driving of company vehicles, while other training like Traffic Control and Flagger classes along with other worksite safety issues work to protect customers and the general public as much as its employees.[373]

Recent Events

ORA found that GSWC has exposed its customers to safety issues in two incidents which are beyond the extent of the safety issues discussed in its Supplemental Testimony. In September 2013, 37 families in the City of Hawthorne were evacuated from their homes due to an unexpected release of methane gas from a well that GSWC was in the process of abandoning. Additional information regarding this Truro Well event and associated plant adjustments are discussed in ORA's Report on Plant – Common Issues and Region 2. ORA's expense witnesses have also removed certain expenses related to the Truro Well incident from the Test Year forecast. More recently, in January 2015, customers in the City of Gardena have complained of "black water" discharging from their faucets.[374] ORA discusses the "black water" in its testimony on water quality, also in ORA's Report on Plant – Common Issues and Region 2.

D. CONCLUSION

As evidenced by the deficiency uncovered during ORA's sampling selection, there remains room for great improvement in GSWC's safety practices and policies. ORA recommends that GSWC be penalized for failing for follow procedure in the Southwest district, and be ordered to account for expenses related to Health and Safety staff by allocating the appropriate portion to Bear Valley Electric. GSWC should also file similar Supplemental Testimony during the filing period

[373] GSWC Prepared Supplemental Testimony of Denise Kruger, pp. 31-32.

[374] Hayes, Rob. "Black Water Coming Out of Faucets in Gardena Neighborhood." ABC7.com. ABC Inc., KABC-TV Los Angeles. 27 January, 2015 Web. Accessed February 24, 2015.

of its next GRC, which will extend to interested parties additional time to plan and prepare a more in-depth examination.

Chapter 8. INTERNAL CONTROLS PROCUREMENT PROCESS AUDIT

A. INTRODUCTION

This chapter presents ORA's discussion of GSWC's Prepared Testimony on Internal Controls over its procurement process, as ordered by the Commission in D.11-12-034. The Commission ordered GSWC to submit its Testimony on Internal Controls during the current GRC because it found that Golden State failed to exercise reasonable internal control over its procurement process with Richardson Engineering Company and there was evidence that Golden State overpaid for services received from Richardson Engineering Company.[375]

B. SUMMARY OF RECOMMENDATIONS

ORA recommends that the Commission schedule a second phase in this proceeding to address the results of the first external audit of GSWC's procurement process and to fully assess its compliance with D.11-12-034.

C. DISCUSSION

In May 2009, the Commission became aware of inconsistencies with GSWC's procurement process and the related internal controls governing that process. The Commission's Division of Water and Audits (DWA) subsequently performed an audit and investigation that found significant problems surrounding GSWC's bidding process involving contractor Richardson Consulting, as well as the Company's initial response to the matter. Subsequently, DWA and

[375] D.11-12-034, Findings of Fact 2, 3. re: GSWC's A.10-01-009, TY 2011 GRC.

GSWC reached a settlement ("Settlement") resolving the matter, which the Commission adopted in D.11-12-034.

In its Decision, the Commission added the additional requirement that the Company:

> [p]resent direct testimony and provide detailed factual support in the next two general rate cases in the form of a thorough and comprehensive presentation on the scope and operation of its internal control system, and the day to day exercise of those internal controls, applicable to all of its California operations.[376]

In addition, the adopted Settlement contains the stipulation that GSWC undergo a total of three outside audits of its procurement processes, continuing once every three years, not to be conducted at ratepayer expense.[377] At the time of this writing, the result of the first outside audit has not been made available to ORA. A final report is expected to be issued by DWA in mid-March 2015, after ORA has submitted its current report. Accordingly, ORA reserves the right to submit Supplemental Testimony in order to articulate its recommendations to the Commission once it has had the opportunity to analyze the audit findings and GSWC's subsequent response.

D. CONCLUSION

At the time of ORA's report filing, the results of the first external audit of GSWC's internal controls over its procurement process have not been made available to ORA. As a result, ORA reserves the right to file Supplemental Testimony on the matter once it has reviewed the auditor's findings. ORA recommends that the Commission schedule a second phase in this proceeding to address the results the first external audit of GSWC's procurement process and to fully assess its compliance with D.11-12-034.

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[376] D.11-12-034, p. 11, re: GSWC's A.10-01-009, TY 2011 GRC.

[377] D.11-12-034, p. 8, re: GSWC's A.10-01-009, TY 2011 GRC.

ORA
OFFICE OF RATEPAYER ADVOCATES

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON GENERAL OFFICE

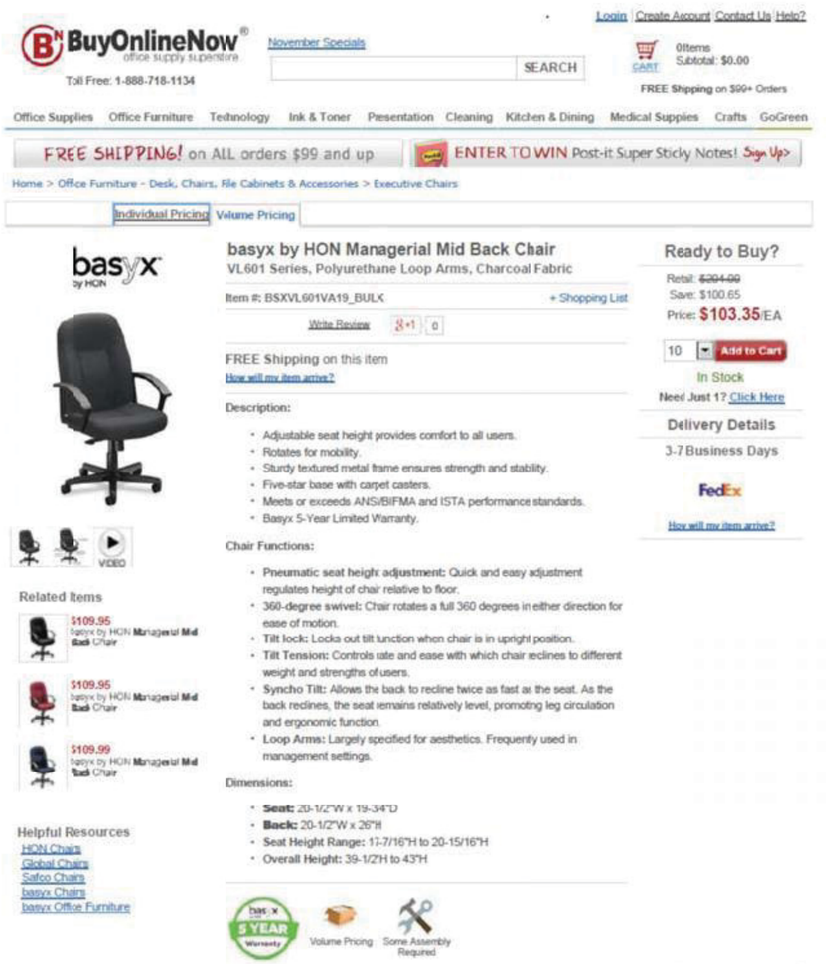
APPENDICES

Golden State Water Company
Test Year 2016 General Rate Case
A.14-07-006

San Francisco, California
March 6, 2015

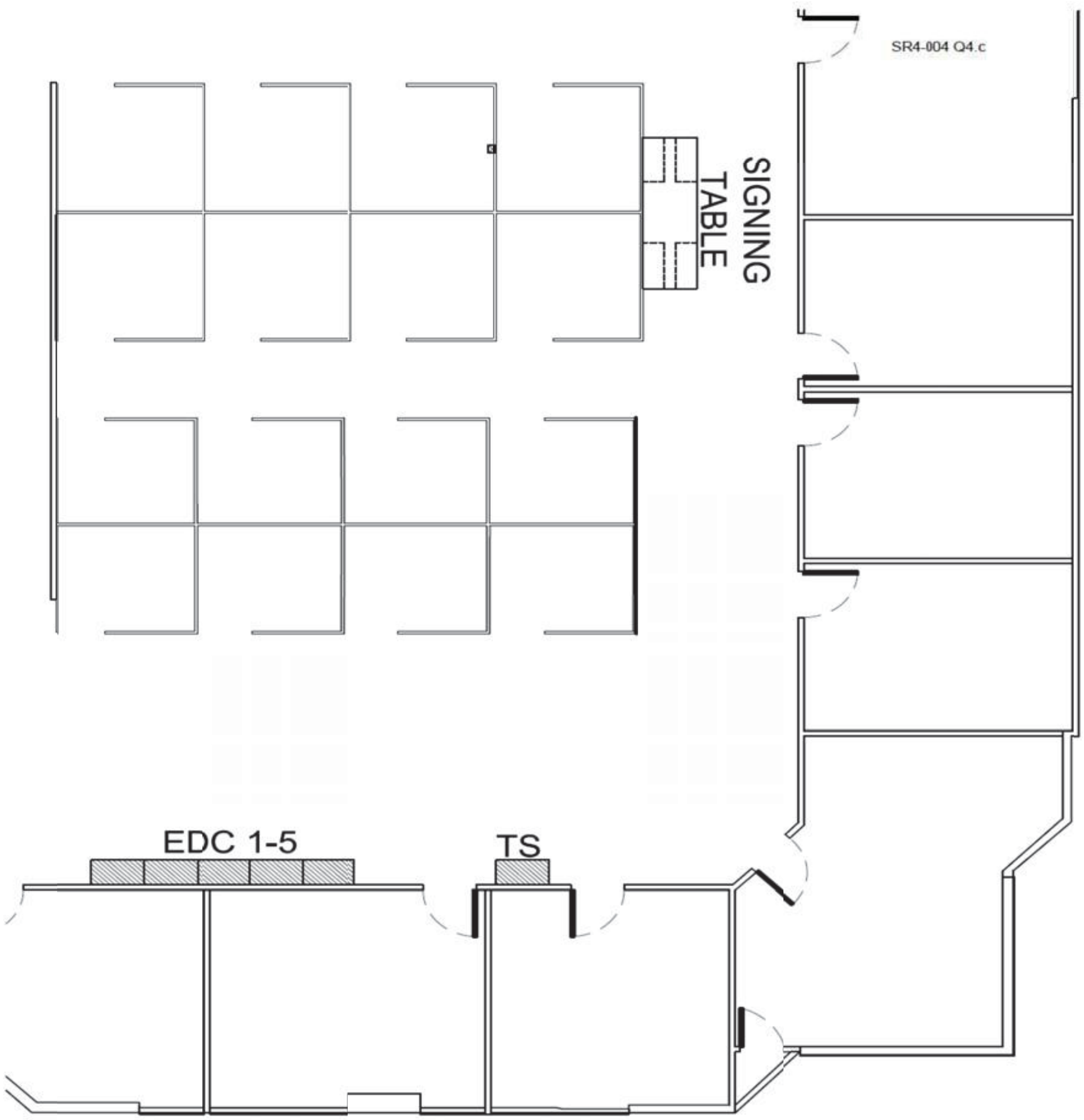
APPENDIX GO-PLANT-1 (Chair Quote)

Quote for ORA Recommended Office Chair-HON Managerial Mid-Back Chair



APPENDIX GO-PLANT-2 (Office Layout)

Office Layout for GSWC Engineering Design Group GSWC Response to SR4-004, Question 4c



APPENDIX GO-PLANT-3 (Visitor Parking Lot)

Photos of San Dimas Visitor Parking Lot- Taken during 9/18/14 ORA Field Visit:

1 

APPENDIX GO-PLANT-4 (Generator Useful Life)

Excerpt from: "Standby Generator Maintenance – Be Prepared for Power Outages"
www.asne.com/standby-generator-maintenance-prepared-power-outages/
Page 1 of 6

QUICKLINKS

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Standby Generator Maintenance – Be Prepared for Power Outages

0

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Why perform standby generator maintenance?

While the average life expectancy of a well-maintained service vehicle is approximately 5000 hours (assuming 300,000 miles at 60 mph), a typical **standby generator** set can last from 10,000 to 30,000 hours. On the other hand, a standby generator might operate as little as 26 hours a year (based on only 30 minutes of weekly exercise and no outages) or as much as several hundred hours a year, depending upon the number and duration of power outages.

In either case, a standby generator set could conceivably last 20 to 30 years. One way to ensure a long, reliable operating life is to implement a preventive maintenance (PM) program.

Preventive maintenance and service are typically done on a schedule based upon engine hours and/or time periods. The maintenance cycle can—*and should*—be adapted to meet specific application needs. The more hours per year a unit operates, the more frequently it will require service. Environment also plays a role: The more severe the environment (dusty, extremely hot or cold, highly humid, etc.), the more frequent the need for service may be.

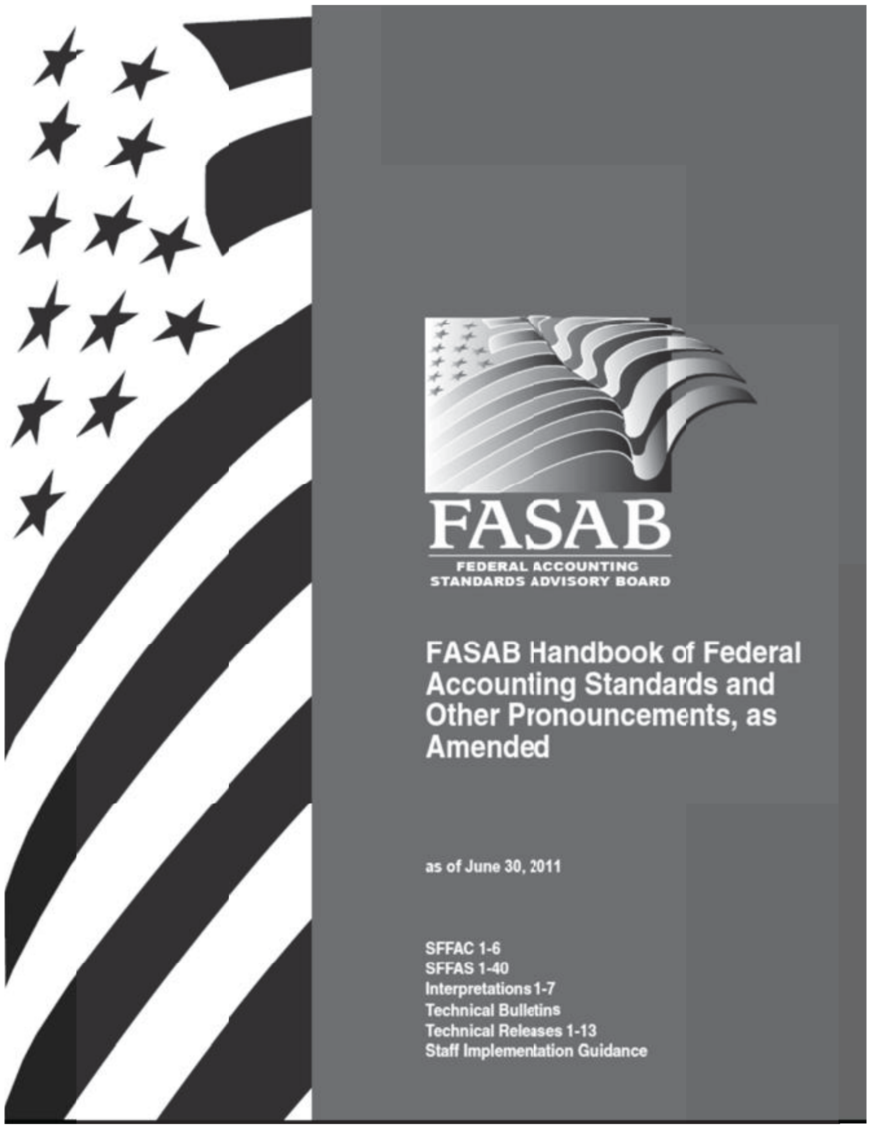
APPENDIX GO-PLANT-5 (Portable Generators)

GSWC Portable Generators within a 50-Mile Radius of the San Dimas Office
GSWC Response to Data Request SR4-003 at pp. 6-7

GSWC ID	Category	City	Location	MaxPower (bhp)	MaxPower (kW)
Foothill-1	Portable	Claremont	2185 Indian Hill Blvd.	166	123
Foothill-2	Portable	Claremont	2185 Indian Hill Blvd.	166	123
Foothill-3	Portable	Claremont	2185 Indian Hill Blvd.	535	398
Foothill-4	Portable	Claremont	2185 Indian Hill Blvd.	166	123
Foothill-5	Portable	Claremont	2185 Indian Hill Blvd.	317	236
Foothill-6	Portable	Claremont	2185 Indian Hill Blvd.	317	236
Foothill-7	Portable	Claremont	2185 Indian Hill Blvd.	166	120
OCP-2	Portable	Cowan Heights	1311 Peacock Hill	539	401
OCP-3	Portable	Anaheim	1920 W Corporate Wy	286	213
OCP-1	Portable	Santa Ana	11581 Newport Blvd.	535	398
Central-1	Portable	Bell	6612 Bissell Street	535	398
Central-2	Portable	Paramount	8143 McKinley Ave.	288	214
Central-3	Portable	Artesia	17456 Roseton Ave.	288	214
Central-4	Portable	Culver City	10713 Ranch Road	166	120

APPENDIX GO-PLANT-6 (FASAB Handbook)

Excerpts from FASAB Handbook of Federal Accounting Standards, June 2011



Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software

Status

Issued	June 1998
Effective Date	For periods beginning after September 30, 2000
Interpretations and Technical Releases	None.
Affects	• SFFAS 10, paragraph 7, rescinds SFFAS 6, paragraphs 27-28, and provides a comprehensive standard for accounting for internal use software.
Affected by	• SFFAS 32 amends paragraph 35.

Summary

This statement provides accounting standards for internal use software. Under the provisions of this statement, internal use software is classified as "general property, plant, and equipment" (PP&E) as defined in Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*. This statement includes software used to operate a federal entity's programs (e.g., financial and administrative software, including that used for project management) and software used to produce the entity's goods and services (e.g., air traffic control and loan servicing).

Internal use software can be purchased off-the-shelf from commercial vendors and can be developed by contractors with little technical supervision by the federal entity or developed internally by the federal entity. SFFAS 6 specified treatment for internally developed software different from that for commercial off-the-shelf (COTS) software and contractor-developed software. SFFAS 6 addressed COTS and contractor-developed software generally, providing that they were "subject to its provisions." On the other hand, specific provision was made for internally developed software.

SFFAS 6 prohibited the capitalization of the cost of internally developed software unless management intended to recover the cost through user charges, and the software was to be used as general PP&E. For capitalizable software, capitalization would begin after the entity completed all planning, designing, coding, and testing activities that are necessary to establish that the software can meet the design specifications.

At the conclusion of the PP&E project the Federal Accounting Standards Advisory Board discussed whether the standard for internally developed software should also apply to contractor-developed software. Also, some users of SFFAS 6 were unsure how to apply it to COTS and contractor-developed software. The Board decided, in December 1996, to review the issue and develop a separate standard for internal use software.

Background

4. At the conclusion of the general property, plant, and equipment (PP&E) project, the Federal Accounting Standards Advisory Board (Board) discussed whether the standard for internally developed software should also apply to contractor-developed software. Also, some users of Statement of Federal Financial Accounting Standards (SFFAS) No. 6 were unsure of how to apply it to COTS and contractor-developed software. The Board decided in December 1996 to review the issue and develop a separate standard for internal use software.

5. In June 1997, the Board issued an exposure draft entitled *Accounting for Internal Use Software*. The Board received comments from 26 respondents and held a public hearing on December 18, 1997.

Materiality

6. The provisions of this statement need not be applied to immaterial items.

Effective Date

7. The provisions of this statement are effective for reporting periods that begin after September 30, 2000. Paragraphs 27 and 28 of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which pertain to internally developed software, are rescinded upon this standard's issuance. Federal entities may continue their current accounting practices for internal use software for accounting periods beginning before October 1, 2000. Early implementation of this statement is encouraged.

Internal Use Software Accounting Standard

Definitions

8. Software includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. "Internal use software" means software that is purchased from commercial vendors "off-the-shelf," internally developed, or contractor-developed solely to meet

the entity's internal or operational needs. Normally software is an integral part of an overall system(s) having interrelationships between software, hardware, personnel, procedures, controls, and data.

9. This definition of internal use software encompasses the following:

   a. Commercial off-the-shelf (COTS) software: COTS software refers to software that is purchased from a vendor and is ready for use with little or no changes.

   b. Developed software

      (1) Internally developed software refers to software that employees of the entity are actively developing, including new software and existing or purchased software that are being modified with or without a contractor's assistance.

      (2) Contractor-developed software refers to software that a federal entity is paying a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software.

Software Development Phases

10. Software's life-cycle phases[2] include planning, development, and operations. This standard provides a framework for identifying software development phases and processes to help isolate the capitalization period for internal use software that the federal entity is developing.

[2]There are no federal requirements regarding the phases that each software project must follow. The **life-cycle** phases of a software application described here are compatible with and generally reflect those in the Office of Management and Budget's (OMB) Circular A-130, *Management of Information Resources*, and *Capital Programming Guidance*; the Government Accountability Office's (GAO), *Measuring Performance and Demonstrating Results of Information Technology Investments* (GAO/AIMD-98-89, Mar. 1998); and the American Institute of CPA's Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (Mar. 4, 1998). Successful software projects normally would have at least an initial design phase, an application development phase, and a post-implementation/operational phase. Also, software eventually would become obsolete or otherwise be replaced and therefore have a termination phase. Circular A-130 acknowledges that the "life cycle varies by the nature of the **information system**. Only two phases are common to all information systems—a beginning and an end. As a result, life cycle management techniques that agencies can use may vary depending on the complexity and risk inherent in the project." (A-130, "Analysis of Key Sections," p. 63).

APPENDIX GO-PLANT-7 (AICPA SOP 98-1)

Excerpts from FASAB Handbook of Federal Accounting Standards, June 2011.

Section 10,720

Statement of Position 98-1
Accounting for the Costs of Computer Software Developed or Obtained for Internal Use

March 4, 1998

NOTE

Statements of Position on accounting issues present the conclusions of at least two-thirds of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting. Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles, identifies AICPA Statements of Position that have been cleared by the Financial Accounting Standards Board as sources of established accounting principles in category *b* of the hierarchy of generally accepted accounting principles that it establishes. AICPA members should consider the accounting principles in this Statement of Position if a different accounting treatment of a transaction or event is not specified by a pronouncement covered by Rule 203 of the AICPA Code of Professional Conduct. In such circumstances, the accounting treatment specified by the Statement of Position should be used, or the member should be prepared to justify a conclusion that another treatment better presents the substance of the transaction in the circumstances.

Summary

This Statement of Position (SOP) provides guidance on accounting for the costs of computer software developed or obtained for internal use. The SOP requires the following:

- Computer software meeting the characteristics specified in this SOP is internal-use software.
- Computer software costs that are incurred in the preliminary project stage should be expensed as incurred. Once the capitalization criteria of the SOP have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project); and interest costs incurred when developing computer software for internal use should be capitalized. Training costs and data conversion costs, except as noted in paragraph .21, should be expensed as incurred.
- Internal costs incurred for upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23. Internal costs incurred for maintenance should be expensed as incurred. Entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred.

Stages of Computer Software Development

.17 The following table illustrates the various stages and related processes of computer software development.

Preliminary Project Stage	*Application Development Stage*	*Post-Implementation / Operation Stage*
Conceptual formulation of alternatives	Design of chosen path, including software configuration and software interfaces	Training
Evaluation of alternatives	Coding	Application maintenance
Determination of existence of needed technology	Installation to hardware	
Final selection of alternatives	Testing, including parallel processing phase	

The SOP recognizes that the development of internal-use computer software may not follow the order shown above. For example, coding and testing are often performed simultaneously. Regardless, for costs incurred subsequent to completion of the preliminary project stage, the SOP should be applied based on the nature of the costs incurred, not the timing of their incurrence. For example, while some training may occur in the application development stage, it should be expensed as incurred as required in paragraphs .21 and .23.

1

Capitalize or Expense

.19 *Preliminary Project Stage.* When a computer software project is in the preliminary project stage, entities will likely—

a. Make strategic decisions to allocate resources between alternative projects at a given point in time. For example, should programmers develop a new payroll system or direct their efforts toward correcting existing problems in an operating payroll system?

b. Determine the performance requirements (that is, what it is that they need the software to do) and systems requirements for the computer software project it has proposed to undertake.

c. Invite vendors to perform demonstrations of how their software will fulfill an entity's needs.

d. Explore alternative means of achieving specified performance requirements. For example, should an entity make or buy the software? Should the software run on a mainframe or a client server system?

e. Determine that the technology needed to achieve performance requirements exists.

f. Select a vendor if an entity chooses to obtain software.

g. Select a consultant to assist in the development or installation of the software.

.20 Internal and external costs incurred during the preliminary project stage should be expensed as they are incurred.

.21 *Application Development Stage.* Internal and external costs incurred to develop internal-use computer software during the application development stage should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new systems should also be capitalized. Training costs are not internal-use software development costs and, if incurred during this stage, should be expensed as incurred.

.22 The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data

[2] FASB Interpretation No. 6 excludes from research and development costs computer software related to an entity's selling and administrative activities.

and the data in the new system, creation of new/additional data, and conversion of old data to the new system. Data conversion often occurs during the application development stage. Data conversion costs, except as noted in paragraph .21, should be expensed as incurred.

.23 *Post-Implementation / Operation Stage.* Internal and external training costs and maintenance costs should be expensed as incurred.

.24 *Upgrades and Enhancements.* For purposes of this SOP, upgrades and enhancements are defined as modifications to existing internal-use software that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. In order for costs of specified upgrades and enhancements to internal-use computer software to be capitalized in accordance with paragraphs .25 and .26, it must be probable[3] that those expenditures will result in additional functionality.[4]

.25 Internal costs incurred for upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23.[5] Internal costs incurred for maintenance should be expensed as incurred. Entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred.

.26 External costs incurred under agreements related to specified upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23. (If maintenance is combined with specified upgrades and enhancements in a single contract, the cost should be allocated between the elements as discussed in paragraph .33 and the maintenance costs should be expensed over the contract period.) However, external costs related to maintenance, unspecified upgrades and enhancements, and costs under agreements that combine the costs of maintenance and unspecified upgrades and enhancements should be recognized in expense over the contract period on a straight-line basis unless another systematic and rational basis is more representative of the services received.

.27 Capitalization of costs should begin when both of the following occur.

a. Preliminary project stage is completed.

b. Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable[6] that the project will be completed and the software will be used to perform the function intended. Examples of authorization include the execution of a contract with a third party to develop the software, approval of expenditures related to internal development, or a commitment to obtain the software from a third party.

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[3] See paragraph .62 of this SOP for meaning of "probable."

[4] This SOP does not change the conclusions reached in Emerging Issues Task Force Issue No. 96-14, *Accounting for the Costs Associated with Modifying Computer Software for the Year 2000*, which requires that external and internal costs associated with modifying internal-use software currently in use for the Year 2000 be charged to expense as incurred. New internal-use software developed or obtained that replaces previously existing internal-use software should be accounted for in accordance with this SOP.

[5] See footnote 4.

[6] See paragraph .62 of this SOP for meaning of "probable."

.28 When it is no longer probable[7] that the computer software project will be completed and placed in service, no further costs should be capitalized, and guidance in paragraphs .34 and .35 on impairment should be applied to existing balances.

.29 Capitalization should cease no later than the point at which a computer software project is substantially complete and ready for its intended use. For purposes of this SOP, computer software is ready for its intended use after all substantial testing is completed.

.30 New software development activities should trigger consideration of remaining useful lives of software that is to be replaced. When an entity replaces existing software with new software, unamortized costs of the old software should be expensed when the new software is ready for its intended use.

Capitalizable Costs

.31 Costs of computer software developed or obtained for internal use that should be capitalized include only the following:

a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software. Examples of those costs include but are not limited to fees paid to third parties for services provided to develop the software during the application development stage, costs incurred to obtain computer software from third parties, and travel expenses incurred by employees in their duties directly associated with developing software.

b. Payroll and payroll-related costs (for example, costs of employee benefits) for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. Examples of employee activities include but are not limited to coding and testing during the application development stage.

c. Interest costs incurred while developing internal-use computer software. Interest should be capitalized in accordance with the provisions of FASB Statement No. 34, *Capitalization of Interest Cost.*[8]

General and administrative costs and overhead costs should not be capitalized as costs of internal-use software.

.32 Entities often license internal-use software from third parties. Though FASB Statement No. 13, *Accounting for Leases*, excludes licensing agreements from its scope, entities should analogize to that Statement when determining the asset acquired in a software licensing arrangement.

APPENDIX GO-PLANT-8 (Capital Budget Comparison)

Comparison of GSWC's and ORA's GO Capital Budgets.
As detailed in GSWC's "Capital Items 2014-2017.xls" and ORA's adjusted version of this file

Information Technology (IT)
Capital Budgets for GRC - 2015 - 2017

2015			ORA			GSWC
2015	**Network Equipment**					
	Quote from Applied Computer Solutions			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 480,200
2015	**Additional Disk Storage**					
	Quote from Insight Integrated Systems			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 108,500
2015	**Data Center(s) Hardware Refresh**					
	Quote from Enterprise Computing Solutions			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 236,800
2015	**Microsoft Annual Payment& True-Up**					
	Quote from Microsoft			$ 466,155		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 81,204.20			
	Total Estimate			$ 303,720	$ 303,720	$ 547,400
2015	**Computrace Software**					
	Quote from PCM			$ 17,670		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 3,078.11			
	Total Estimate			$ 20,700	$ 20,700	$ 46,700
2015	**Personal Computers and Peripherals (GSWC/BVES)**					
	SEE BILLING & CASH PROCESSING SECTION			$ -		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ -
2015	**Upgrade iQ4bis (aka Halo BI)**					
	Quote from Halo (plus estimated travel expenses)			$ 7,040		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 1,226.37			
	Total Estimate			$ 8,300	$ 8,300	$ 10,000
2015	**Additional enhancements for TransformAP**					
	Quote from Bottomline			$ 55,000		
	Sales Tax	0.00%				
	Overhead	17.42%	$ 9,581.00			
	Total Estimate			$ 64,600	$ 64,600	$ 64,600
2015	**CC&B Upgrade (GSWC & BVE)**					
	SEE BILLING & CASH PROCESSING SECTION					
	Quote from Various Sources			$ -		
	Sales Tax on Hardware only		$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ -
2015	**JDE Initial License Fee (ILF) - based on Company headcount**					
	Quote from Various Sources			$ 2,000		
	Sales Tax	0.00%				
	Overhead	17.42%	$ 348.40			
	Total Estimate			$ 2,300	$ 2,300	$ 2,300

2016						
2016	**Network Equipment**					
	Quote from Applied Computer Solutions			$ 319,128		
	Sales Tax	9.25%	$ 29,519.36			
	Overhead	17.42%	$ 60,734.42			
	Total Estimate			$ 409,400	$ 409,400	$ 722,300
2016	**Additional Disk Storage**					
	Quote from Insight Integrated Systems			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 108,500
2016	**Data Center(s) Hardware Refresh**					
	Quote from Enterprise Computing Solutions			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 236,800
2016	**Microsoft Licensing Renewal & Annual True Up**					
	Quote from Microsoft			$ 449,658		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 78,330.42			
	Total Estimate			$ -	$ -	$ 528,000
2016	**Personal Computers and Peripherals (GSWC/BVES)**					
	SEE BILLING & CASH PROCESSING SECTION			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ -
2016	**AntiVirus Replacement or Upgrade**					
	Quote from PCM			$ 40,375		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 7,033.33			
	Total Estimate			$ 37,565	$ 37,565	$ 47,400
2016	**Upgrade JD Edwards ERP System**					
	Quote from Denovo			$ 641,110		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 111,681.36			
	Total Estimate			$ 752,800	$ 752,800	$ 752,800
2016	**JDE Initial License Fee (ILF) - based on Company headcount**					
	Quote from Various Sources			$ 20,000		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 3,484.00			
	Total Estimate			$ 23,500	$ 23,500	$ 23,500
2017						
2017	**Additional Disk Storage**					
	Quote from Insight Integrated Systems			$		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 108,500
2017	**Data Center(s) Hardware Refresh**					
	Quote from Enterprise Computing Solutions			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 236,800
2017	**Microsoft Annual Payment & True Up**					
	Quote from Microsoft			$ 425,385		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 74,102.07			
	Total Estimate			$ -	$ -	$ 499,500
2017	**Personal Computers and Peripherals (GSWC/BVES)**					
	SEE BILLING & CASH PROCESSING SECTION			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ -
					1,622,885	4,760,600

Information Technology (IT) - Billing & Cash Processing
Capital Budgets for GRC - 2015 - 2017

2015				ORA		GSWC
2015	**Personal Computers and Peripherals (GSWC/BVES)**					
	Quote from PCM			$ 1,460		
	Sales Tax	9.25%	$ 135.02			
	Overhead	17.42%	$ 277.79			
	Total Estimate			$ 1,900	**$ 1,900**	**$ 238,600**
2015	**CC&B Upgrade**					
	Quote from Various Sources			$ 1,792,721		
	Sales Tax on Hardware only		$ 17,689.00			
	Overhead	17.42%	$ 315,373.42			
	Total Estimate			$ 2,125,800	**$2,125,800**	**$2,125,800**
2016						
2016	**Personal Computers and Peripherals (GSWC/BVES)**					
	Quote from PCM			$ 1,460		
	Sales Tax	9.25%	$ 135.02			
	Overhead	17.42%	$ 277.79			
	Total Estimate			$ 1,900	**$ 1,900**	**$ 238,600**
2017						
2017	**Personal Computers and Peripherals (GSWC/BVES)**					
	Quote from PCM			$ 1,460		
	Sales Tax	9.25%	$ 135.02			
	Overhead	17.42%	$ 277.79			
	Total Estimate			$ 1,900	**$ 1,900**	**$ 238,600**
					2,131,500	**2,991,600**

General Office - Facility
Capital Budgets for GRC - 2015 - 2017

					ORA		GSWC
2015	500 kW Generator Replacement (Preliminary) (1)						
	DP Air				$ 56,200		
	Sales Tax			-			
	Overhead	17.42%		9,790.04			
	Total Estimate				$ -	$ -	$ 66,000
2015	Replacement of 3 WSHP HVAC Units						
	Quote from DP Air				$ 69,599		
	Sales Tax			-			
	Overhead	17.42%		12,124.10			
	Total Estimate				$ 81,700	$ 81,700	$ 81,700
2015	Data Room UPS System Bateries (3-5yr life)						
	Quote from DP Air				$ 9,940		
	Sales Tax			-			
	Overhead	17.42%		1,731.55			
	Total Estimate				$ 11,700	$ 11,700	$ 11,700
2015	Visitor Parking Lot Improvements						
	Quote from DP Air				$ 97,589		
	Sales Tax			-			
	Overhead	17.42%		17,000.00			
	Total Estimate				$ -	$ -	$ 114,600
2015	General Office upgrades						
	Quote from Various				$ 48,328		
	Sales Tax			4,470.34			
	Overhead	17.42%		9,197.47			
	Total Estimate				$ 62,000	$ 62,000	$ 73,500
2015	GO Facility Expansion - Utility Room to Office Space						
	Quote from DP Air				$ 23,200		
	Sales Tax			-			
	Overhead	17.42%		4,041.44			
	Total Estimate				$ 27,200	$ 27,200	$ 27,200
2015	GO Facility Expansion -IT conference room						
	Quote from MTC/DP Air				$ 20,447		
	Sales Tax			-			
	Overhead	17.42%		3,561.87			
	Total Estimate				$ 24,000	$ 24,000	$ 24,000
2015	Data Center UPS Battery Cabinets						
	Quote from DP Air				$ 36,076		
	Sales Tax			-			
	Overhead	17.42%		6,284.35			
	Total Estimate				$ 42,400	$ 42,400	$ 42,400
2015	Cooling tower external float						
	Quote from DP Air				$ 2,949		
	Sales Tax			-			
	Overhead	17.42%		513.66			
	Total Estimate				$ 3,500	$ 3,500	$ 3,500

2016	500kW Generator Replacement (2)						
	Quote from	DP AIR			$ 404,568		
	Sales Tax			-			
	Overhead	17.42%		70,475.75			
	Total Estimate				$ -	$ -	$ 475,000
2016	Replacement of 3 WSHP HVAC Units						
	Quote from	DP AIR			$ 75,167		
	Sales Tax			-			
	Overhead	17.42%		13,094.02			
	Total Estimate				$ 88,300	$ 88,300	$ 88,300
2016	Carpeting , Painting						
	Quote from	Various			$ 52,500		
	Sales Tax			5,118.75			
	Overhead	17.42%		10,037.19			
	Total Estimate				$ 67,700	$ 67,700	$ 67,700
2017	Replacement of 3 WSHP HVAC Units						
	Quote from	DP AIR			$ 81,180		
	Sales Tax			-			
	Overhead	17.42%		14,141.55			
	Total Estimate				$ 95,300	$ 95,300	$ 95,300
2017	Carpeting , Painting						
	Quote from	Various			$ 52,500		
	Sales Tax			5,118.75			
	Overhead	17.42%		10,037.19			
	Total Estimate				$ 67,700	$ 67,700	$ 67,700
						$ 571,500	$1,238,600

Tax - Billing & Cash Processing Capital Budgets for GRC - 2015 - 2017						
2016				ORA		GSWC
2016	Tax WorkFlow management					
	Quote from			$ 226,000		
	Sales Tax					
	Overhead	17.42%				
	Total Estimate			$ 226,000	$ 226,000	$ 226,000
2017	Tax WorkFlow management					
	Quote from			$ 46,000		
	Sales Tax					
	Overhead	17.42%				
	Total Estimate			$ 46,000	$ 46,000	$ 46,000
					$ 272,000	$ 272,000

Asset Management 30W
Capital Budgets for GRC - 2015 - 2017

			ORA			GSWC
2015	**New Conference Room Desk**					
	Quote from (Preside)			$ 1,968		
	Sales Tax	9.25%	182.04			
	Overhead	17.42%	$ 374.54			
	Total Estimate			$ 2,500	**$ 2,500**	**$ 6,500**
2015	**Conference Room Chairs**		12			
	Quote from (Preside)		1,214.00	$ 14,568		
	Sales Tax	9.25%	1,347.54			
	Overhead	17.42%	$ 2,772.49			
	Total Estimate			$ 18,700	**$ 18,700**	**$ 17,100**
2016	**70" Smartboard**					
	Quote from (Cal Western Visuals			$ 12,150		
	Sales Tax	9.25%	1,123.88			
	Overhead	17.42%	$ 2,312.31			
	Total Estimate			$ -	**$ -**	**$ 15,600**

Capital Project Management

Capital Budgets for GRC - 2015 - 2017

Year	Description	Rate	Amount	Code / Cost	OFA	GSWC
2015				OFA		GSWC
2015	**321511-01 Blankets: CPM 32W (Tools & Safety Equip.)**		1	**B-11**		
	Trimble GPS SD - Previous purchase price for same unit = $13,798			$ 14,000		
	Sales Tax	9.25%	1,295.00			
	Overhead	17.42%	2,664.39			
	Total Estimate			$ 18,000	**$ 18,000**	**$ 18,000**
2015	**321509-01 Blankets: CPM 32W (Office Furniture and Equip.)**		1	**B-09**		
	Manager Office - Quote from recent purchases			$ 4,950		
	GIS ArcView License CD - Quote from ESRI			$ 3,500		
	Misc. chairs and equipment			$ 2,500		
	Sales Tax	9.25%	1,012.88			
	Overhead	17.42%	2,083.93			
	Total Estimate			$ 14,100	**$ 14,100**	**$ 14,100**
2015	**Blankets: CPM 31W (Tools & Safety Equip.)**		1	**B-11**		
	Trimble GPS - Previous purchase price for same unit = $13,798			$ 14,000		
	Line Locator - Invoice for recent purchase			$ 3,000		
	Sales Tax	9.25%	1,572.50			
	Overhead	17.42%	3,235.33			
	Total Estimate			$ 21,900	**$ 21,900**	**$ 21,900**
2015	**Blankets: CPM 31W (Office Furniture and Equip.)**		1	**B-09**		
	GIS ArcView License - Quote from ESRI			$ -		
	Misc. chairs and equipment			$ 2,500		
	Sales Tax	9.25%	231.25			
	Overhead	17.42%	475.78			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 7,700**
2015	**CPM 38W: Replace Laptop & Docking Station (Sinagra)**		1	B-09		
	Quote from GSWC I.T.			$ 2,200		
	Sales Tax	9.25%	203.50			
	Overhead	17.42%	418.69			
	Total Estimate			$ 2,900	**$ 2,900**	**$ 2,900**
2015	**CPM 38W: Replace Inspector Vehicle 2174 with similar vehic**		1	B-10		
	Based on recent purchase of similar vehicle			$ 25,500		
	Bed Cover and Safety Equipment			$ 5,000		
	Sales Tax	9.25%	2,821.25			
	Overhead	17.42%	5,804.56			
	Total Estimate			$ 39,200	**$ 39,200**	**$ 39,200**
2015	**CPM 38W: GIS - Basic (ArcView) License (concurrent use)**		1	B-09		
	Quote from Esri			$ 3,500		
	Sales Tax	9.25%	323.75			
	Overhead	17.42%	666.10			
	Total Estimate			$ 2,700.92	**$ 2,701**	**$ 4,500**
2015	**CPM 38W: Trimble GPS Unit and Software - Coastal District**		1	B-09		
	Previous purchase price for same unit = $13,798			$ 14,000		
	Sales Tax	9.25%	1,295.00			
	Overhead	17.42%	2,664.39			
	Total Estimate			$ 18,000	**$ 18,000**	**$ 18,000**
2015	**CPM 38W: Blankets (Office Furniture and Equipment, etc.)**		1	B-09		
	Quote from 3-year historical average			$ 2,000		
	Sales Tax	9.25%				
	Overhead	17.42%				
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**

Year	Description	Rate	Amount	Qty	Estimate	Total	Total
2016							
2016	**321611-01 Blankets: CPM 32W (Tools & Safety Equip.)**			1	**B-11**		
	Trimble GPS CD - Previous purchase price for same unit = $13,798				$ 14,000		
	Sales Tax	9.25%	1,295.00				
	Overhead	17.42%	2,664.39				
	Total Estimate				$ 18,000	**$ 18,000**	**$ 18,000**
2016	**321609-01 Blankets: CPM 32W (Office Furniture and Equip.)**			1	**B-09**		
	GIS ArcView License SD - Quote from ESRI				$ 3,500		
	Misc. chairs and equipment				$ 2,500		
	Sales Tax	9.25%	555.00				
	Overhead	17.42%	1,141.88				
	Total Estimate				$ 7,700	**$ 7,700**	**$ 7,700**
2016	**Blankets: CPM 31W (Vehicles)**			1	**B-10**		
	Replace manager vehicle 2145 with Chevy Impala or similar per internet quote				$ 30,395		
	Sales Tax	9.25%	2,811.54				
	Overhead	17.42%	5,784.58				
	Total Estimate				$ 39,000	**$ 39,000**	**$ 39,000**
2016	**Blankets: CPM 31W (Office Furniture and Equip.)**			1	**B-09**		
	GIS ArcView License - Quote from ESRI				$ 3,500		
	Misc. chairs and equipment				$ 2,500		
	Sales Tax	9.25%	555.00				
	Overhead	17.42%	1,141.88				
	Total Estimate				$ -	**$ -**	**$ 7,700**
2016	**CPM 38W: Replace Computer - Laptop and Docking Station -**			1	B-09		
	Quote from GSWC I.T.				$ 2,200		
	Sales Tax	9.25%	203.50				
	Overhead	17.42%	418.69				
	Total Estimate				$ 2,900	**$ 2,900**	**$ 2,900**
2016	**CPM 38W: Trimble GPS Unit and Software - Northern District**			1	B-09		
	Previous purchase price for same unit = $13,798				$ 14,000		
	Sales Tax	9.25%	1,295.00				
	Overhead	17.42%	2,664.39				
	Total Estimate				$ 18,000	**$ 18,000**	**$ 18,000**
2016	**CPM 38W: Blankets (Office Furniture and Equipment, etc.)**			1	B-09		
	Quote from 3-year historical average				$ 2,000		
	Sales Tax	9.25%					
	Overhead	17.42%					
	Total Estimate				$ 2,000	**$ 2,000**	**$ 2,000**

2017	**Project**						
2017	**321709-01 Blankets: CPM 32W (Office Furniture and Equip.)**			1	**B-09**		
	Misc. chairs and equipment				$ 2,500		
	Sales Tax	9.25%		231.25			
	Overhead	17.42%		475.78			
	Total Estimate				$ 3,300	**$ 3,300**	**$ 3,300**
2017	**Blankets: CPM 31W (Office Furniture and Equip.)**			1	**B-09**		
	Misc. chairs and equipment				$ 2,500		
	Sales Tax	9.25%		231.25			
	Overhead	17.42%		475.78			
	Total Estimate				$ 3,300	**$ 3,300**	**$ 3,300**
2017	**CPM 38W: GIS - Basic (ArcView) License (concurrent use)**			2	**B-09**		
	Quote from Esri				$ 3,500		
	Sales Tax	9.25%		323.75			
	Overhead	17.42%		666.10			
	Total Estimate				$ -	**$ -**	**$ 9,000**
2017	**CPM 38W: Replace 6 Office Chairs & Equipment**			6	**B-09**		
	Quote from Sierra Office Supply				$ 103		
	Sales Tax	9.25%		9.53			
	Overhead	17.42%		19.60			
	Total Estimate				$ 800	**$ 800**	**$ 7,800**
2017	**Blankets (Office Furniture and Equipment, etc.)**			1	B-09		
	Quote from 3-year historical average				$ 2,000		
	Sales Tax	9.25%					
	Overhead	17.42%					
	Total Estimate				$ 2,000	**$ 2,000**	**$ 2,000**
2017	**Project**						
	Quote from				$ -		
	Sales Tax	9.25%		-			
	Overhead	17.42%		-			
	Total Estimate				$ -	**$ -**	**$ -**
						$ 219,101	$ 249,000

Customer Service Center (CSC)

Capital Budgets for GRC - 2015 - 2017

Year	Item	Rate	Amount	ORA		GSWC
2015				**ORA**		**GSWC**
2015	2 -VM Servers for the Phone System at the DR site					
	Quote from ECS			$ 24,694		
	Sales Tax		2,284.18			
	Overhead	17.42%	4,699.58			
	Total Estimate			$ 31,700	**$ 31,700**	**$ 31,700**
2015	**2 -UPS Replacment Power Modules - APC in computer room**					
	Quote from Online - APC			$ 3,540		
	Sales Tax		327.45			
	Overhead	17.42%	673.71			
	Total Estimate			$ 4,500	**$ 4,500**	**$ 4,500**
2015	10 units per year Agent Wireless Headsets					
	Quote from CBI			$ 2,550		
	Sales Tax		235.88			
	Overhead	17.42%	485.30			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 3,300**
2016	10 units per year Agent Wireless Headsets					
	Quote from Amazon			$ 2,550		
	Sales Tax		235.88			
	Overhead	17.42%	485.30			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 3,300**
2016	**2 -UPS Replacment Power Modules - APC in computer room**					
	Quote from GNNet.com			$ 3,540		
	Sales Tax		327.45			
	Overhead	17.42%	673.71			
	Total Estimate			$ 4,500	**$ 4,500**	**$ 4,500**
2017	Agent Wireless Headsets			$ 2,550		
	Quote from Amazon					
	Sales Tax		235.88			
	Overhead	17.42%	485.30			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 3,300**
2017	**2 -UPS Replacment Power Modules - APC in computer room**					
	Quote from Amazon			$ 3,540		
	Sales Tax		327.45			
	Overhead	17.42%	673.71			
	Total Estimate			$ 4,500	**$ 4,500**	**$ 4,500**
				Totals	$55,100	$55,100

Engineering Design Center 24-W
Capital Budgets for GRC - 2015 - 2017

					ORA	GSWC
2015	**Replace Computer - (CAD Technicians)**		6			
	Online Quote			$ 3,500		
	Sales Tax		323.75			
	Overhead	17.42%	609.70			
	Total Estimate			$ 30,000	$ 30,000	$ 30,000
2015	**Replace Computers (Desktop or Laptop & Docking Station-Eng**		9			
	Quote from GSWC I.T.			$ 2,500		
	Sales Tax		231.25			
	Overhead	17.42%	435.50			
	Total Estimate			$ 36,000	$ 36,000	$ 36,000
2015	**Autodesk Software Maintenance Agreement**		1			
	Quote from USCAD			$ 20,000		
	Sales Tax		1,850.00			
	Overhead	17.42%	3,484.00			
	Total Estimate			$ 26,000	$ 26,000	26000
2015	**Layout Tables**		5			
	Quote from			$ 1,000		
	Sales Tax		92.50			
	Overhead	17.42%	174.20			
	Total Estimate			$ -	$ -	10000
2015	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 2,500		
	Sales Tax		231.25			
	Overhead	17.42%	435.50			
	Total Estimate			$ 4,000	$ 4,000	$ 4,000
2015	**Replace Pool Vehicle #748 for Anaheim Office**		1			
	Based on recent purchase of similar vehicle			$ 25,500		
	Safety Equipment and Tools			$ 4,500		
	Sales Tax		2,775.00			
	Overhead	17.42%	5,226.00			
	Total Estimate			$ -	$ -	$ 39,000
2015	**New Anaheim Pool Vehicle**		1			
	Based on recent purchase of similar vehicle			$ 25,500		
	Safety Equipment and Tools			$ 4,500		
	Sales Tax		2,775.00			
	Overhead	17.42%	5,226.00			
	Total Estimate			$ -	$ -	$ 39,000

2016	**GIS - Basic (ArcView) License (concurrent use)**		4			
	Quote from ESRI			$ 3,500		
	Sales Tax		323.75			
	Overhead	17.42%	609.70			
	Total Estimate			$ -	$ -	2000(
2016	**Autodesk Software Maintenance Agreement**		1			
	Quote from USCAD			$ 20,000		
	Sales Tax		1,850.00			
	Overhead	17.42%	3,484.00			
	Total Estimate			$ -	$ -	2600(
2016	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 2,500		
	Sales Tax		231.25			
	Overhead	17.42%	435.50			
	Total Estimate			$ 4,000	$ 4,000	4000
2016	**Replace Manager Car Vehicle 67601 with Ford Taurus or Simil**		1			
	Internet Quote			$ 30,395		
	Sales Tax		2,811.54			
	Overhead	17.42%	5,784.58			
	Total Estimate			$ 39,000	$ 39,000	$ 39,000
2016	**Replace Pool Vehicle #885 for Anaheim Office**		1			
	Based on recent purchase of similar vehicle			$ 25,500		
	Safety Equipment and Tools			$ 4,500		
	Sales Tax		2,775.00			
	Overhead	17.42%	5,226.00			
	Total Estimate			$ 39,000	$ 39,000	39000
2017	**Autodesk Software Maintenance Agreement**		1			
	Quote from USCAD			$ 20,000		
	Sales Tax		1,850.00			
	Overhead	17.42%	3,484.00			
	Total Estimate			$ -	$ -	$ 26,000
2017	**Replace 17 Office Chairs & Equipment**		17			
	Quote from Sierra Office Supply			$ 103		
	Sales Tax		9.53			
	Overhead	17.42%	17.94			
	Total Estimate			$ 2,200	$ 2,200	3400(
2017	**11 x 17 Color Copier/Scanner**		1			
	Quote from Computer House			$ 10,000		
	Sales Tax		925.00			
	Overhead	17.42%	1,742.00			
	Total Estimate			$ 13,000	$ 13,000	1300(
2017	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 2,500		
	Sales Tax		231.25			
	Overhead	17.42%	435.50			
	Total Estimate			$ 4,000	$ 4,000	$ 4,000
					$ 197,200	$ 389,000

	Environmental Quality					
	Capital Budgets for GRC - 2015 - 2017					
2015			**ORA**			**GSWC**
2015	**Ergonomic Equipment**					
	Quote from OM Workspace			$ 8,900		
	Sales Tax		823.25			
	Overhead	17.42%	1,693.79			
	Total Estimate			$ 11,400	**$ 11,400**	**$ 11,400**
2015	**Safety Training Videos (4)**					
	Quote from Coastal Training			$ 2,400		
	Sales Tax		222.00			
	Overhead	17.42%	456.75			
	Total Estimate			$ 3,100	**$ 3,100**	**$ 3,100**
2016						
2016	**Ergonomic Equipment**					
	Quote from OM Workspace			$ 8,900		
	Sales Tax		823.25			
	Overhead	17.42%	1,693.79			
	Total Estimate			$ 11,400	**$ 11,400**	**$ 11,400**
2016	**Safety Training Videos (4)**					
	Quote from Coastal Training			$ 2,400		
	Sales Tax		222.00			
	Overhead	17.42%	456.75			
	Total Estimate			$ 3,100	**$ 3,100**	**$ 3,100**
2017						
2017	**Ergonomic Equipment**					
	Quote from OM Workspace			$ 8,900		
	Sales Tax		823.25			
	Overhead	17.42%	1,693.79			
	Total Estimate			$ 11,400	**$ 11,400**	**$ 11,400**
2017	**Safety Training Videos (4)**					
	Quote from Coastal Training			$ 2,400		
	Sales Tax		222.00			
	Overhead	17.42%	456.75			
	Total Estimate			$ 3,100	**$ 3,100**	**$ 3,100**
					$ 43,500	**$ 43,500**

Engineering Planning Department
Capital Budgets for GRC - 2015 - 2017

2015				**ORA**		**GSWC**
2015	**GIS Project**					
	Quote from			$ 1,520,000		
	Sales Tax		-			
	Overhead	17.42%	264,784.00			
	Total Estimate			$ -	$ -	**$1,784,800**
2015	**Replace Computer Workstation (CAD/GIS w/ extra memory)**		1			
	Quote from internet			$ 3,500		
	Sales Tax		-			
	Overhead	17.42%	609.70			
	Total Estimate			$ -	$ -	**$ 4,200**
2015	**GIS - Basic (ArcView) License (concurrent use)**		4			
	Quote from Esri			$ 3,500		
	Sales Tax		-			
	Overhead	17.42%	609.70			
	Total Estimate			$ 9,048	**$ 9,048**	**$ 16,800**
2015	**Hydraulic Model - InfoWater License (floating)**		2			
	Quote from Innovyze			$ 10,000		
	Sales Tax		-			
	Overhead	17.42%	1,742.00			
	Total Estimate			$ 23,600	**$ 23,600**	**$ 23,600**
2015	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 1,700		
	Sales Tax		-			
	Overhead	17.42%	296.14			
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**
2015	**GIS Software - Annual License Renewal**		1	**LS**		
	Quote from Esri			$ 8,500		
	Sales Tax		-			
	Overhead	17.42%	1,480.70			
	Total Estimate			$ -	$ -	**$ 10,000**
2015	**Hydraulic Modeling Software - Annual License Renewal**		1	**LS**		
	Quote from Innovyze			$ 19,350		
	Sales Tax		-			
	Overhead	17.42%	3,370.77			
	Total Estimate			$ 22,700	**$ 22,700**	**$ 22,700**

2016						
2016	**Replace Computer Workstation (CAD/GIS w/ extra memory)**		1			
	Quote from Internet			$ 3,500		
	Sales Tax		-			
	Overhead	17.42%	609.70			
	Total Estimate			$ -	**$ -**	**$ 4,200**
2016	**Hydraulic Model - InfoWater CapPlan License (floating)**		2			
	Quote from Innowze			$ 10,000		
	Sales Tax		-			
	Overhead	17.42%	1,742.00			
	Total Estimate			$ -	**$ -**	**$ 23,600**
2016	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 1,700		
	Sales Tax		-			
	Overhead	17.42%	296.14			
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**
2016	**GIS Project**					
	Quote from			1,117,000		
	Sales Tax		-			
	Overhead	17.42%	194,581.40			
	Total Estimate			$ -	**$ -**	**$1,311,600**
2016	**GIS Software - Annual License Renewal**		1	**LS**		
	Quote from Esri			$ 8,500		
	Sales Tax		-			
	Overhead	17.42%	1,480.70			
	Total Estimate			$ -	**$ -**	**$ 10,000**
2016	**Hydraulic Modeling Software - Annual License Renewal**		1	**LS**		
	Quote from Innowze			$ 19,350		
	Sales Tax		-			
	Overhead	17.42%	3,370.77			
	Total Estimate			$ -	**$ -**	**$ 22,700**

2017						
2017	**Replace Computer Workstation (CAD/GIS w/ extra memory)**		1			
	Quote from Internet			$ 3,500		
	Sales Tax		-			
	Overhead	17.42%	609.70			
	Total Estimate			$ -	$ -	$ 4,200
2017	**Hydraulic Model - InfoWater UDF License (floating)**		1			
	Quote from Innovyze			$ 10,000		
	Sales Tax		-			
	Overhead	17.42%	1,742.00			
	Total Estimate			$ -	$ -	$ 11,800
2017	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 1,700		
	Sales Tax		-			
	Overhead	17.42%	296.14			
	Total Estimate			$ 2,000	$ 2,000	$ 2,000
2017	**GIS Project**					
	Quote from			2,030,000		
	Sales Tax		-			
	Overhead	17.42%	353,626.00			
	Total Estimate			$ -	$ -	$2,383,600
2017	**GIS Software - Annual License Renewal**		1	LS		
	Quote from Esri			$ 8,500		
	Sales Tax		-			
	Overhead	17.42%	1,480.70			
	Total Estimate			$ -	$ -	$ 10,000
2017	**Hydraulic Modeling Software - Annual License Renewal**		1	LS		
	Quote from Innovyze			$ 19,350		
	Sales Tax		-			
	Overhead	17.42%	3,370.77			
	Total Estimate			$ -	$ -	$ 22,700
					$ 61,348	$5,672,500

Property Accounting
Capital Budgets for GRC - 2015 - 2017

Year	Item	Rate	Amount	ORA	ORA Total	GSWC
2015			ORA			GSWC
2015	**Blankets: PA 37W (Office Furniture and Equip.)**		1	**B-09**		
	GIS ArcView License - Quote from ESRI			$ 3,200		
	Sales Tax		296.00			
	Overhead	17.42%	609.00			
	Total Estimate			$ 1,418	**$ 1,418**	**$ 4,200**
2016	**Blankets: PA 37W (Office Furniture and Equip.)**		1	**B-09**		
	Misc Chairs and equipemnt			$ 2,000		
	Sales Tax		185.00			
	Overhead	17.42%	380.63			
	Total Estimate			$ 2,600	**$ 2,600**	**$ 2,600**
2017	**Blankets: PA 37W (Office Furniture and Equip.)**		1	**B-09**		
	Misc. chairs and equipment			$ 2,000		
	Sales Tax		185.00			
	Overhead	17.42%	380.63			
	Total Estimate			$ 2,600	**$ 2,600**	**$ 2,600**
1					**$ 6,618**	**$ 9,400**

Technical Services Department 25W
Capital Budgets for GRC - 2015 - 2017

Year	Item	Rate	Amount	ORA	ORA Total	GSWC
			ORA			GSWC
2015	**Blankets: CPM 25W (Vehicles)**		1	**B-11**		
	Replace Vehicle 70335 with Ford Fusion of equal			$ 30,000		
	Sales Tax		2,775.00			
	Overhead	17.42%	5,709.41			
	Total Estimate			$ 38,500	**$ 38,500**	**$ 38,500**
2016	**Blankets: CPM 25W (Office Furniture and Equip.)**		1	**B-09**		
	Misc Office Furniture			$ 1,500		
	Sales Tax		138.75			
	Overhead	17.42%	285.47			
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**
2					**$ 40,500**	**$ 40,500**

ORA
OFFICE OF RATEPAYER ADVOCATES

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON GENERAL OFFICE

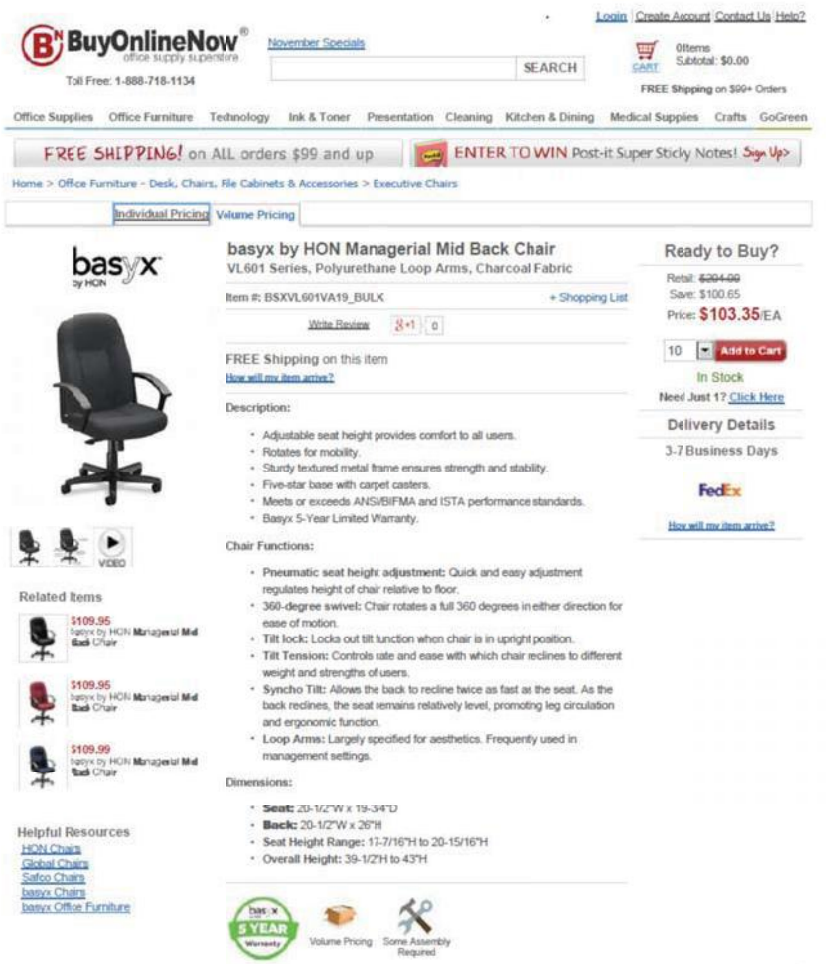
APPENDICES

Golden State Water Company
Test Year 2016 General Rate Case
A.14-07-006

San Francisco, California
March 6, 2015

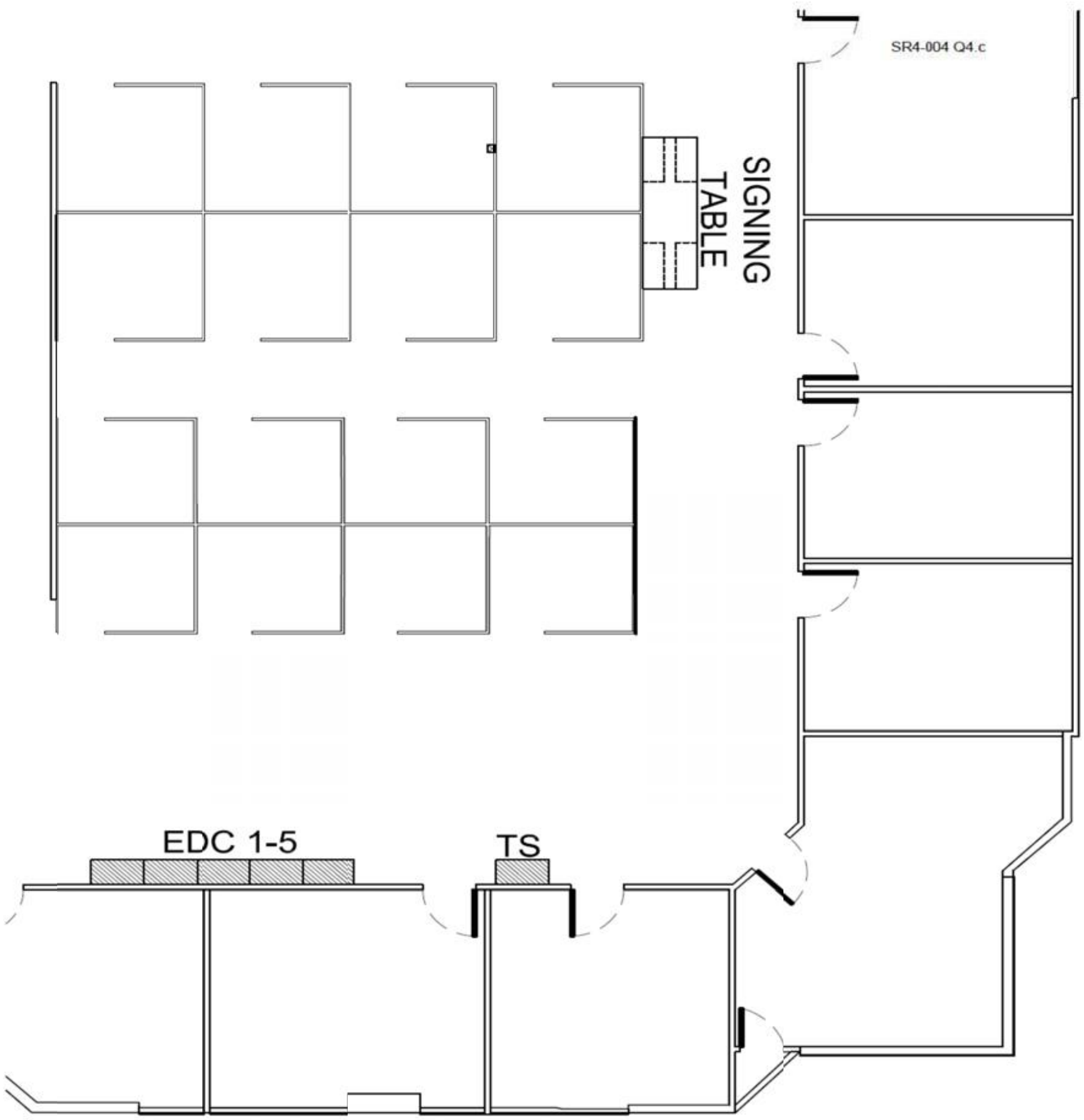
APPENDIX GO-PLANT-1 (Chair Quote)

Quote for ORA Recommended Office Chair-HON Managerial Mid-Back Chair



APPENDIX GO-PLANT-2 (Office Layout)

Office Layout for GSWC Engineering Design Group GSWC Response to SR4-004, Question 4c



APPENDIX GO-PLANT-3 (Visitor Parking Lot)

Photos of San Dimas Visitor Parking Lot- Taken during 9/18/14 ORA Field Visit:

APPENDIX GO-PLANT-4 (Generator Useful Life)

Excerpt from: “Standby Generator Maintenance – Be Prepared for Power Outages”
www.asne.com/standby-generator-maintenance-prepared-power-outages/
Page 1 of 6

QUICKLINKS

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News & Events

← Portable Generator Safety Tips | Quickly & Safely Connect a Portable Generator using a Tap Box →

Standby Generator Maintenance – Be Prepared for Power Outages

0

Share 0 g+1 0 4

Why perform standby generator maintenance?

While the average life expectancy of a well-maintained service vehicle is approximately 5000 hours (assuming 300,000 miles at 60 mph), a typical **standby generator** set can last from 10,000 to 30,000 hours. On the other hand, a standby generator might operate as little as 26 hours a year (based on only 30 minutes of weekly exercise and no outages) or as much as several hundred hours a year, depending upon the number and duration of power outages.

In either case, a standby generator set could conceivably last 20 to 30 years. One way to ensure a long, reliable operating life is to implement a preventive maintenance (PM) program.

Preventive maintenance and service are typically done on a schedule based upon engine hours and/or time periods. The maintenance cycle can—*and should*—be adapted to meet specific application needs. The more hours per year a unit operates, the more frequently it will require service. Environment also plays a role: The more severe the environment (dusty, extremely hot or cold, highly humid, etc.), the more frequent the need for service may be.

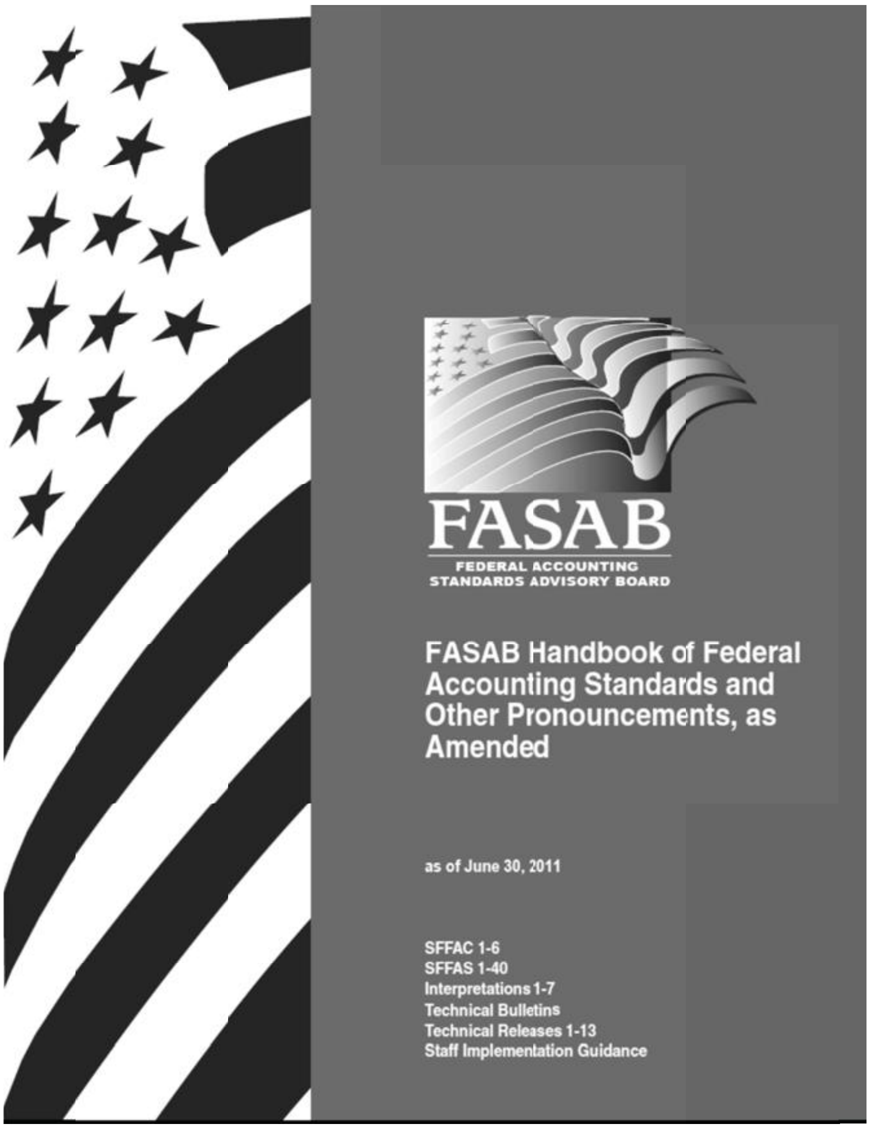
APPENDIX GO-PLANT-5 (Portable Generators)

GSWC Portable Generators within a 50-Mile Radius of the San Dimas Office
GSWC Response to Data Request SR4-003 at pp. 6-7

GSWC ID	Category	City	Location	MaxPower (bhp)	MaxPower (kW)
Foothill-1	Portable	Claremont	2185 Indian Hill Blvd.	166	123
Foothill-2	Portable	Claremont	2185 Indian Hill Blvd.	166	123
Foothill-3	Portable	Claremont	2185 Indian Hill Blvd.	535	398
Foothill-4	Portable	Claremont	2185 Indian Hill Blvd.	166	123
Foothill-5	Portable	Claremont	2185 Indian Hill Blvd.	317	236
Foothill-6	Portable	Claremont	2185 Indian Hill Blvd.	317	236
Foothill-7	Portable	Claremont	2185 Indian Hill Blvd.	166	120
OCP-2	Portable	Cowan Heights	1311 Peacock Hill	539	401
OCP-3	Portable	Anaheim	1920 W Corporate Wy	286	213
OCP-1	Portable	Santa Ana	11581 Newport Blvd.	535	398
Central-1	Portable	Bell	6612 Bissell Street	535	398
Central-2	Portable	Paramount	8143 McKinley Ave.	288	214
Central-3	Portable	Artesia	17456 Roseton Ave.	288	214
Central-4	Portable	Culver City	10713 Ranch Road	166	120

APPENDIX GO-PLANT-6 (FASAB Handbook)

Excerpts from FASAB Handbook of Federal Accounting Standards, June 2011



Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software

Status

Issued	June 1998
Effective Date	For periods beginning after September 30, 2000
Interpretations and Technical Releases	None.
Affects	• SFFAS 10, paragraph 7, rescinds SFFAS 6, paragraphs 27-28, and provides a comprehensive standard for accounting for internal use software.
Affected by	• SFFAS 32 amends paragraph 35.

Summary

This statement provides accounting standards for internal use software. Under the provisions of this statement, internal use software is classified as "general property, plant, and equipment" (PP&E) as defined in Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*. This statement includes software used to operate a federal entity's programs (e.g., financial and administrative software, including that used for project management) and software used to produce the entity's goods and services (e.g., air traffic control and loan servicing).

Internal use software can be purchased off-the-shelf from commercial vendors and can be developed by contractors with little technical supervision by the federal entity or developed internally by the federal entity. SFFAS 6 specified treatment for internally developed software different from that for commercial off-the-shelf (COTS) software and contractor-developed software. SFFAS 6 addressed COTS and contractor-developed software generally, providing that they were "subject to its provisions." On the other hand, specific provision was made for internally developed software.

SFFAS 6 prohibited the capitalization of the cost of internally developed software unless management intended to recover the cost through user charges, and the software was to be used as general PP&E. For capitalizable software, capitalization would begin after the entity completed all planning, designing, coding, and testing activities that are necessary to establish that the software can meet the design specifications.

At the conclusion of the PP&E project the Federal Accounting Standards Advisory Board discussed whether the standard for internally developed software should also apply to contractor-developed software. Also, some users of SFFAS 6 were unsure how to apply it to COTS and contractor-developed software. The Board decided, in December 1996, to review the issue and develop a separate standard for internal use software.

Background

4. At the conclusion of the general property, plant, and equipment (PP&E) project, the Federal Accounting Standards Advisory Board (Board) discussed whether the standard for internally developed software should also apply to contractor-developed software. Also, some users of Statement of Federal Financial Accounting Standards (SFFAS) No. 6 were unsure of how to apply it to COTS and contractor-developed software. The Board decided in December 1996 to review the issue and develop a separate standard for internal use software.

5. In June 1997, the Board issued an exposure draft entitled *Accounting for Internal Use Software*. The Board received comments from 26 respondents and held a public hearing on December 18, 1997.

Materiality

6. The provisions of this statement need not be applied to immaterial items.

Effective Date

7. The provisions of this statement are effective for reporting periods that begin after September 30, 2000. Paragraphs 27 and 28 of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which pertain to internally developed software, are rescinded upon this standard's issuance. Federal entities may continue their current accounting practices for internal use software for accounting periods beginning before October 1, 2000. Early implementation of this statement is encouraged.

Internal Use Software Accounting Standard

Definitions

8. Software includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. "Internal use software" means software that is purchased from commercial vendors "off-the-shelf," internally developed, or contractor-developed solely to meet

the entity's internal or operational needs. Normally software is an integral part of an overall system(s) having interrelationships between software, hardware, personnel, procedures, controls, and data.

9. This definition of internal use software encompasses the following:

   a. Commercial off-the-shelf (COTS) software: COTS software refers to software that is purchased from a vendor and is ready for use with little or no changes.

   b. Developed software

      (1) Internally developed software refers to software that employees of the entity are actively developing, including new software and existing or purchased software that are being modified with or without a contractor's assistance.

      (2) Contractor-developed software refers to software that a federal entity is paying a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software.

Software Development Phases

10. Software's life-cycle phases[2] include planning, development, and operations. This standard provides a framework for identifying software development phases and processes to help isolate the capitalization period for internal use software that the federal entity is developing.

[2]There are no federal requirements regarding the phases that each software project must follow. The **life-cycle** phases of a software application described here are compatible with and generally reflect those in the Office of Management and Budget's (OMB) Circular A-130, *Management of Information Resources*, and *Capital Programming Guidance*; the Government Accountability Office's (GAO), *Measuring Performance and Demonstrating Results of Information Technology Investments* (GAO/AIMD-98-89, Mar. 1998); and the American Institute of CPA's Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (Mar. 4, 1998). Successful software projects normally would have at least an initial design phase, an application development phase, and a post-implementation/operational phase. Also, software eventually would become obsolete or otherwise be replaced and therefore have a termination phase. Circular A-130 acknowledges that the "life cycle varies by the nature of the **information system**. Only two phases are common to all information systems—a beginning and an end. As a result, life cycle management techniques that agencies can use may vary depending on the complexity and risk inherent in the project." (A-130, "Analysis of Key Sections," p. 63).

APPENDIX GO-PLANT-7 (AICPA SOP 98-1)

Excerpts from FASAB Handbook of Federal Accounting Standards, June 2011.

Section 10,720

Statement of Position 98-1
Accounting for the Costs of Computer Software Developed or Obtained for Internal Use

March 4, 1998

NOTE

Statements of Position on accounting issues present the conclusions of at least two-thirds of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting. Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles, identifies AICPA Statements of Position that have been cleared by the Financial Accounting Standards Board as sources of established accounting principles in category *b* of the hierarchy of generally accepted accounting principles that it establishes. AICPA members should consider the accounting principles in this Statement of Position if a different accounting treatment of a transaction or event is not specified by a pronouncement covered by Rule 203 of the AICPA Code of Professional Conduct. In such circumstances, the accounting treatment specified by the Statement of Position should be used, or the member should be prepared to justify a conclusion that another treatment better presents the substance of the transaction in the circumstances.

Summary

This Statement of Position (SOP) provides guidance on accounting for the costs of computer software developed or obtained for internal use. The SOP requires the following:

- Computer software meeting the characteristics specified in this SOP is internal-use software.
- Computer software costs that are incurred in the preliminary project stage should be expensed as incurred. Once the capitalization criteria of the SOP have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project); and interest costs incurred when developing computer software for internal use should be capitalized. Training costs and data conversion costs, except as noted in paragraph .21, should be expensed as incurred.
- Internal costs incurred for upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23. Internal costs incurred for maintenance should be expensed as incurred. Entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred.

Stages of Computer Software Development

.17 The following table illustrates the various stages and related processes of computer software development.

Preliminary Project Stage	*Application Development Stage*	*Post-Implementation / Operation Stage*
Conceptual formulation of alternatives	Design of chosen path, including software configuration and software interfaces	Training
Evaluation of alternatives	Coding	Application maintenance
Determination of existence of needed technology	Installation to hardware	
Final selection of alternatives	Testing, including parallel processing phase	

The SOP recognizes that the development of internal-use computer software may not follow the order shown above. For example, coding and testing are often performed simultaneously. Regardless, for costs incurred subsequent to completion of the preliminary project stage, the SOP should be applied based on the nature of the costs incurred, not the timing of their incurrence. For example, while some training may occur in the application development stage, it should be expensed as incurred as required in paragraphs .21 and .23.

1

Capitalize or Expense

.19 *Preliminary Project Stage.* When a computer software project is in the preliminary project stage, entities will likely—

a. Make strategic decisions to allocate resources between alternative projects at a given point in time. For example, should programmers develop a new payroll system or direct their efforts toward correcting existing problems in an operating payroll system?

b. Determine the performance requirements (that is, what it is that they need the software to do) and systems requirements for the computer software project it has proposed to undertake.

c. Invite vendors to perform demonstrations of how their software will fulfill an entity's needs.

d. Explore alternative means of achieving specified performance requirements. For example, should an entity make or buy the software? Should the software run on a mainframe or a client server system?

e. Determine that the technology needed to achieve performance requirements exists.

f. Select a vendor if an entity chooses to obtain software.

g. Select a consultant to assist in the development or installation of the software.

.20 Internal and external costs incurred during the preliminary project stage should be expensed as they are incurred.

.21 *Application Development Stage.* Internal and external costs incurred to develop internal-use computer software during the application development stage should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new systems should also be capitalized. Training costs are not internal-use software development costs and, if incurred during this stage, should be expensed as incurred.

.22 The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data

---

[2] FASB Interpretation No. 6 excludes from research and development costs computer software related to an entity's selling and administrative activities.

and the data in the new system, creation of new/additional data, and conversion of old data to the new system. Data conversion often occurs during the application development stage. Data conversion costs, except as noted in paragraph .21, should be expensed as incurred.

.23 *Post-Implementation / Operation Stage.* Internal and external training costs and maintenance costs should be expensed as incurred.

.24 *Upgrades and Enhancements.* For purposes of this SOP, upgrades and enhancements are defined as modifications to existing internal-use software that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. In order for costs of specified upgrades and enhancements to internal-use computer software to be capitalized in accordance with paragraphs .25 and .26, it must be probable[3] that those expenditures will result in additional functionality.[4]

.25 Internal costs incurred for upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23.[5] Internal costs incurred for maintenance should be expensed as incurred. Entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred.

.26 External costs incurred under agreements related to specified upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23. (If maintenance is combined with specified upgrades and enhancements in a single contract, the cost should be allocated between the elements as discussed in paragraph .33 and the maintenance costs should be expensed over the contract period.) However, external costs related to maintenance, unspecified upgrades and enhancements, and costs under agreements that combine the costs of maintenance and unspecified upgrades and enhancements should be recognized in expense over the contract period on a straight-line basis unless another systematic and rational basis is more representative of the services received.

.27 Capitalization of costs should begin when both of the following occur.

a. Preliminary project stage is completed.

b. Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable[6] that the project will be completed and the software will be used to perform the function intended. Examples of authorization include the execution of a contract with a third party to develop the software, approval of expenditures related to internal development, or a commitment to obtain the software from a third party.

---

[3] See paragraph .62 of this SOP for meaning of "probable."

[4] This SOP does not change the conclusions reached in Emerging Issues Task Force Issue No. 96-14, *Accounting for the Costs Associated with Modifying Computer Software for the Year 2000*, which requires that external and internal costs associated with modifying internal-use software currently in use for the Year 2000 be charged to expense as incurred. New internal-use software developed or obtained that replaces previously existing internal-use software should be accounted for in accordance with this SOP.

[5] See footnote 4.

[6] See paragraph .62 of this SOP for meaning of "probable."

.28 When it is no longer probable[7] that the computer software project will be completed and placed in service, no further costs should be capitalized, and guidance in paragraphs .34 and .35 on impairment should be applied to existing balances.

.29 Capitalization should cease no later than the point at which a computer software project is substantially complete and ready for its intended use. For purposes of this SOP, computer software is ready for its intended use after all substantial testing is completed.

.30 New software development activities should trigger consideration of remaining useful lives of software that is to be replaced. When an entity replaces existing software with new software, unamortized costs of the old software should be expensed when the new software is ready for its intended use.

Capitalizable Costs

.31 Costs of computer software developed or obtained for internal use that should be capitalized include only the following:

a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software. Examples of those costs include but are not limited to fees paid to third parties for services provided to develop the software during the application development stage, costs incurred to obtain computer software from third parties, and travel expenses incurred by employees in their duties directly associated with developing software.

b. Payroll and payroll-related costs (for example, costs of employee benefits) for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. Examples of employee activities include but are not limited to coding and testing during the application development stage.

c. Interest costs incurred while developing internal-use computer software. Interest should be capitalized in accordance with the provisions of FASB Statement No. 34, *Capitalization of Interest Cost.*[8]

General and administrative costs and overhead costs should not be capitalized as costs of internal-use software.

.32 Entities often license internal-use software from third parties. Though FASB Statement No. 13, *Accounting for Leases*, excludes licensing agreements from its scope, entities should analogize to that Statement when determining the asset acquired in a software licensing arrangement.

APPENDIX GO-PLANT-8 (Capital Budget Comparison)

Comparison of GSWC’s and ORA’s GO Capital Budgets.
As detailed in GSWC’s “Capital Items 2014-2017.xls” and ORA’s adjusted version of this file

Information Technology (IT)
Capital Budgets for GRC - 2015 - 2017

2015			ORA			GSWC
2015	**Network Equipment**					
	Quote from Applied Computer Solutions			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 480,200
2015	**Additional Disk Storage**					
	Quote from Insight Integrated Systems			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 108,500
2015	**Data Center(s) Hardware Refresh**					
	Quote from Enterprise Computing Solutions			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 236,800
2015	**Microsoft Annual Payment & True-Up**					
	Quote from Microsoft			$ 466,155		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 81,204.20			
	Total Estimate			$ 303,720	$ 303,720	$ 547,400
2015	**Computrace Software**					
	Quote from PCM			$ 17,670		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 3,078.11			
	Total Estimate			$ 20,700	$ 20,700	$ 46,700
2015	**Personal Computers and Peripherals (GSWC/BVES)**					
	SEE BILLING & CASH PROCESSING SECTION			$ -		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ -
2015	**Upgrade iQ4bis (aka Halo BI)**					
	Quote from Halo (plus estimated travel expenses)			$ 7,040		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 1,226.37			
	Total Estimate			$ 8,300	$ 8,300	$ 10,000
2015	**Additional enhancements for TransformAP**					
	Quote from Bottomline			$ 55,000		
	Sales Tax	0.00%				
	Overhead	17.42%	$ 9,581.00			
	Total Estimate			$ 64,600	$ 64,600	$ 64,600
2015	**CC&B Upgrade (GSWC & BVE)**					
	SEE BILLING & CASH PROCESSING SECTION					
	Quote from Various Sources			$ -		
	Sales Tax on Hardware only		$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ -
2015	**JDE Initial License Fee (ILF) - based on Company headcount**					
	Quote from Various Sources			$ 2,000		
	Sales Tax	0.00%				
	Overhead	17.42%	$ 348.40			
	Total Estimate			$ 2,300	$ 2,300	$ 2,300

2016						
2016	**Network Equipment**					
	Quote from Applied Computer Solutions			$ 319,128		
	Sales Tax	9.25%	$ 29,519.36			
	Overhead	17.42%	$ 60,734.42			
	Total Estimate			$ 409,400	$ 409,400	$ 722,300
2016	**Additional Disk Storage**					
	Quote from Insight Integrated Systems			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 108,500
2016	**Data Center(s) Hardware Refresh**					
	Quote from Enterprise Computing Solutions			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 236,800
2016	**Microsoft Licensing Renewal & Annual True Up**					
	Quote from Microsoft			$ 449,658		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 78,330.42			
	Total Estimate			$ -	$ -	$ 528,000
2016	**Personal Computers and Peripherals (GSWC/BVES)**					
	SEE BILLING & CASH PROCESSING SECTION			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ -
2016	**AntiVirus Replacement or Upgrade**					
	Quote from PCM			$ 40,375		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 7,033.33			
	Total Estimate			$ 37,565	$ 37,565	$ 47,400
2016	**Upgrade JD Edwards ERP System**					
	Quote from Denovo			$ 641,110		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 111,681.36			
	Total Estimate			$ 752,800	$ 752,800	$ 752,800
2016	**JDE Initial License Fee (ILF) - based on Company headcount**					
	Quote from Various Sources			$ 20,000		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 3,484.00			
	Total Estimate			$ 23,500	$ 23,500	$ 23,500
2017						
2017	**Additional Disk Storage**					
	Quote from Insight Integrated Systems			$		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 108,500
2017	**Data Center(s) Hardware Refresh**					
	Quote from Enterprise Computing Solutions			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ 236,800
2017	**Microsoft Annual Payment & True Up**					
	Quote from Microsoft			$ 425,385		
	Sales Tax	0.00%	$ -			
	Overhead	17.42%	$ 74,102.07			
	Total Estimate			$ -	$ -	$ 499,500
2017	**Personal Computers and Peripherals (GSWC/BVES)**					
	SEE BILLING & CASH PROCESSING SECTION			$ -		
	Sales Tax	9.25%	$ -			
	Overhead	17.42%	$ -			
	Total Estimate			$ -	$ -	$ -
					1,622,885	4,760,600

Information Technology (IT) - Billing & Cash Processing
Capital Budgets for GRC - 2015 - 2017

					ORA		GSWC
2015							
2015	**Personal Computers and Peripherals (GSWC/BVES)**						
	Quote from PCM				$ 1,460		
	Sales Tax	9.25%		$ 135.02			
	Overhead	17.42%		$ 277.79			
	Total Estimate				$ 1,900	**$ 1,900**	**$ 238,600**
2015	**CC&B Upgrade**						
	Quote from Various Sources				$ 1,792,721		
	Sales Tax on Hardware only			$ 17,689.00			
	Overhead	17.42%		$ 315,373.42			
	Total Estimate				$ 2,125,800	**$2,125,800**	**$2,125,800**
2016							
2016	**Personal Computers and Peripherals (GSWC/BVES)**						
	Quote from PCM				$ 1,460		
	Sales Tax	9.25%		$ 135.02			
	Overhead	17.42%		$ 277.79			
	Total Estimate				$ 1,900	**$ 1,900**	**$ 238,600**
2017							
2017	**Personal Computers and Peripherals (GSWC/BVES)**						
	Quote from PCM				$ 1,460		
	Sales Tax	9.25%		$ 135.02			
	Overhead	17.42%		$ 277.79			
	Total Estimate				$ 1,900	**$ 1,900**	**$ 238,600**
						2,131,500	**2,991,600**

General Office - Facility
Capital Budgets for GRC - 2015 - 2017

					ORA		GSWC
2015	500 kW Generator Replacement (Preliminary) (1)						
	DP Air				$ 56,200		
	Sales Tax			-			
	Overhead	17.42%		9,790.04			
	Total Estimate				$ -	$ -	$ 66,000
2015	Replacement of 3 WSHP HVAC Units						
	Quote from DP Air				$ 69,599		
	Sales Tax			-			
	Overhead	17.42%		12,124.10			
	Total Estimate				$ 81,700	$ 81,700	$ 81,700
2015	Data Room UPS System Bateries (3-5yr life)						
	Quote from DP Air				$ 9,940		
	Sales Tax			-			
	Overhead	17.42%		1,731.55			
	Total Estimate				$ 11,700	$ 11,700	$ 11,700
2015	Visitor Parking Lot Improvements						
	Quote from DP Air				$ 97,589		
	Sales Tax			-			
	Overhead	17.42%		17,000.00			
	Total Estimate				$ -	$ -	$ 114,600
2015	General Office upgrades						
	Quote from Various				$ 48,328		
	Sales Tax			4,470.34			
	Overhead	17.42%		9,197.47			
	Total Estimate				$ 62,000	$ 62,000	$ 73,500
2015	GO Facility Expansion - Utility Room to Office Space						
	Quote from DP Air				$ 23,200		
	Sales Tax			-			
	Overhead	17.42%		4,041.44			
	Total Estimate				$ 27,200	$ 27,200	$ 27,200
2015	GO Facility Expansion -IT conference room						
	Quote from MTC/DP Air				$ 20,447		
	Sales Tax			-			
	Overhead	17.42%		3,561.87			
	Total Estimate				$ 24,000	$ 24,000	$ 24,000
2015	Data Center UPS Battery Cabinets						
	Quote from DP Air				$ 36,076		
	Sales Tax			-			
	Overhead	17.42%		6,284.35			
	Total Estimate				$ 42,400	$ 42,400	$ 42,400
2015	Cooling tower external float						
	Quote from DP Air				$ 2,949		
	Sales Tax			-			
	Overhead	17.42%		513.66			
	Total Estimate				$ 3,500	$ 3,500	$ 3,500

2016	**500kW Generator Replacement (2)**						
	Quote from	DP AIR			$ 404,568		
	Sales Tax			-			
	Overhead	17.42%		70,475.75			
	Total Estimate				$ -	**$ -**	**$ 475,000**
2016	**Replacement of 3 WSHP HVAC Units**						
	Quote from	DP AIR			$ 75,167		
	Sales Tax			-			
	Overhead	17.42%		13,094.02			
	Total Estimate				$ 88,300	**$ 88,300**	**$ 88,300**
2016	**Carpeting , Painting**						
	Quote from	Various			$ 52,500		
	Sales Tax			5,118.75			
	Overhead	17.42%		10,037.19			
	Total Estimate				$ 67,700	**$ 67,700**	**$ 67,700**
2017	**Replacement of 3 WSHP HVAC Units**						
	Quote from	DP AIR			$ 81,180		
	Sales Tax			-			
	Overhead	17.42%		14,141.55			
	Total Estimate				$ 95,300	**$ 95,300**	**$ 95,300**
2017	**Carpeting , Painting**						
	Quote from	Various			$ 52,500		
	Sales Tax			5,118.75			
	Overhead	17.42%		10,037.19			
	Total Estimate				$ 67,700	**$ 67,700**	**$ 67,700**
						$ 571,500	**$1,238,600**

	Tax - Billing & Cash Processing					
	Capital Budgets for GRC - 2015 - 2017					
2016				**ORA**		**GSWC**
2016	**Tax WorkFlow management**					
	Quote from			$ 226,000		
	Sales Tax					
	Overhead	17.42%				
	Total Estimate			$ 226,000	**$ 226,000**	**$ 226,000**
2017	**Tax WorkFlow management**					
	Quote from			$ 46,000		
	Sales Tax					
	Overhead	17.42%				
	Total Estimate			$ 46,000	**$ 46,000**	**$ 46,000**
					$ 272,000	**$ 272,000**

Asset Management 30W
Capital Budgets for GRC - 2015 - 2017

			ORA			GSWC
2015	**New Conference Room Desk**					
	Quote from (Preside)			$ 1,968		
	Sales Tax	9.25%	182.04			
	Overhead	17.42%	$ 374.54			
	Total Estimate			$ 2,500	**$ 2,500**	**$ 6,500**
2015	**Conference Room Chairs**		12			
	Quote from (Preside)		1,214.00	$ 14,568		
	Sales Tax	9.25%	1,347.54			
	Overhead	17.42%	$ 2,772.49			
	Total Estimate			$ 18,700	**$ 18,700**	**$ 17,100**
2016	**70" Smartboard**					
	Quote from (Cal Western Visuals			$ 12,150		
	Sales Tax	9.25%	1,123.88			
	Overhead	17.42%	$ 2,312.31			
	Total Estimate			$ -	**$ -**	**$ 15,600**

Capital Project Management
Capital Budgets for GRC - 2015 - 2017

Year	Item	Rate	Amount	Qty / Cost	OFA	GSWC
2015					OFA	GSWC
2015	**321511-01 Blankets: CPM 32W (Tools & Safety Equip.)**			1	B-11	
	Trimble GPS SD - Previous purchase price for same unit = $13,798			$ 14,000		
	Sales Tax	9.25%	1,295.00			
	Overhead	17.42%	2,664.39			
	Total Estimate			$ 18,000	$ 18,000	$ 18,000
2015	**321509-01 Blankets: CPM 32W (Office Furniture and Equip.)**			1	B-09	
	Manager Office - Quote from recent purchases			$ 4,950		
	GIS ArcView License CD - Quote from ESRI			$ 3,500		
	Misc. chairs and equipment			$ 2,500		
	Sales Tax	9.25%	1,012.88			
	Overhead	17.42%	2,083.93			
	Total Estimate			$ 14,100	$ 14,100	$ 14,100
2015	**Blankets: CPM 31W (Tools & Safety Equip.)**			1	B-11	
	Trimble GPS - Previous purchase price for same unit = $13,798			$ 14,000		
	Line Locator - Invoice for recent purchase			$ 3,000		
	Sales Tax	9.25%	1,572.50			
	Overhead	17.42%	3,235.33			
	Total Estimate			$ 21,900	$ 21,900	$ 21,900
2015	**Blankets: CPM 31W (Office Furniture and Equip.)**			1	B-09	
	GIS ArcView License - Quote from ESRI			$ -		
	Misc. chairs and equipment			$ 2,500		
	Sales Tax	9.25%	231.25			
	Overhead	17.42%	475.78			
	Total Estimate			$ 3,300	$ 3,300	$ 7,700
2015	**CPM 38W: Replace Laptop & Docking Station (Sinagra)**			1	B-09	
	Quote from GSWC I.T.			$ 2,200		
	Sales Tax	9.25%	203.50			
	Overhead	17.42%	418.69			
	Total Estimate			$ 2,900	$ 2,900	$ 2,900
2015	**CPM 38W: Replace Inspector Vehicle 2174 with similar vehic**			1	B-10	
	Based on recent purchase of similar vehicle			$ 25,500		
	Bed Cover and Safety Equipment			$ 5,000		
	Sales Tax	9.25%	2,821.25			
	Overhead	17.42%	5,804.56			
	Total Estimate			$ 39,200	$ 39,200	$ 39,200
2015	**CPM 38W: GIS - Basic (ArcView) License (concurrent use)**			1	B-09	
	Quote from Esri			$ 3,500		
	Sales Tax	9.25%	323.75			
	Overhead	17.42%	666.10			
	Total Estimate			$ 2,700.92	$ 2,701	$ 4,500
2015	**CPM 38W: Trimble GPS Unit and Software - Coastal District**			1	B-09	
	Previous purchase price for same unit = $13,798			$ 14,000		
	Sales Tax	9.25%	1,295.00			
	Overhead	17.42%	2,664.39			
	Total Estimate			$ 18,000	$ 18,000	$ 18,000
2015	**CPM 38W: Blankets (Office Furniture and Equipment, etc.)**			1	B-09	
	Quote from 3-year historical average			$ 2,000		
	Sales Tax	9.25%				
	Overhead	17.42%				
	Total Estimate			$ 2,000	$ 2,000	$ 2,000

2016						
2016	321611-01 Blankets: CPM 32W (Tools & Safety Equip.)		1	B-11		
	Trimble GPS CD - Previous purchase price for same unit = $13,798			$ 14,000		
	Sales Tax	9.25%	1,295.00			
	Overhead	17.42%	2,664.39			
	Total Estimate			$ 18,000	$ 18,000	$ 18,000
2016	321609-01 Blankets: CPM 32W (Office Furniture and Equip.)		1	B-09		
	GIS ArcView License SD - Quote from ESRI			$ 3,500		
	Misc. chairs and equipment			$ 2,500		
	Sales Tax	9.25%	555.00			
	Overhead	17.42%	1,141.88			
	Total Estimate			$ 7,700	$ 7,700	$ 7,700
2016	Blankets: CPM 31W (Vehicles)		1	B-10		
	Replace manager vehicle 2145 with Chevy Impala or similar per internet quote			$ 30,395		
	Sales Tax	9.25%	2,811.54			
	Overhead	17.42%	5,784.58			
	Total Estimate			$ 39,000	$ 39,000	$ 39,000
2016	Blankets: CPM 31W (Office Furniture and Equip.)		1	B-09		
	GIS ArcView License - Quote from ESRI			$ 3,500		
	Misc. chairs and equipment			$ 2,500		
	Sales Tax	9.25%	555.00			
	Overhead	17.42%	1,141.88			
	Total Estimate			$ -	$ -	$ 7,700
2016	CPM 38W: Replace Computer - Laptop and Docking Station -		1	B-09		
	Quote from GSWC I.T.			$ 2,200		
	Sales Tax	9.25%	203.50			
	Overhead	17.42%	418.69			
	Total Estimate			$ 2,900	$ 2,900	$ 2,900
2016	CPM 38W: Trimble GPS Unit and Software - Northern District		1	B-09		
	Previous purchase price for same unit = $13,798			$ 14,000		
	Sales Tax	9.25%	1,295.00			
	Overhead	17.42%	2,664.39			
	Total Estimate			$ 18,000	$ 18,000	$ 18,000
2016	CPM 38W: Blankets (Office Furniture and Equipment, etc.)		1	B-09		
	Quote from 3-year historical average			$ 2,000		
	Sales Tax	9.25%				
	Overhead	17.42%				
	Total Estimate			$ 2,000	$ 2,000	$ 2,000

2017	**Project**					
2017	**321709-01 Blankets: CPM 32W (Office Furniture and Equip.)**		1	**B-09**		
	Misc. chairs and equipment			$ 2,500		
	Sales Tax	9.25%	231.25			
	Overhead	17.42%	475.78			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 3,300**
2017	**Blankets: CPM 31W (Office Furniture and Equip.)**		1	**B-09**		
	Misc. chairs and equipment			$ 2,500		
	Sales Tax	9.25%	231.25			
	Overhead	17.42%	475.78			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 3,300**
2017	**CPM 38W: GIS - Basic (ArcView) License (concurrent use)**		2	**B-09**		
	Quote from Esri			$ 3,500		
	Sales Tax	9.25%	323.75			
	Overhead	17.42%	666.10			
	Total Estimate			$ -	**$ -**	**$ 9,000**
2017	**CPM 38W: Replace 6 Office Chairs & Equipment**		6	**B-09**		
	Quote from Sierra Office Supply			$ 103		
	Sales Tax	9.25%	9.53			
	Overhead	17.42%	19.60			
	Total Estimate			$ 800	**$ 800**	**$ 7,800**
2017	**Blankets (Office Furniture and Equipment, etc.)**		1	B-09		
	Quote from 3-year historical average			$ 2,000		
	Sales Tax	9.25%				
	Overhead	17.42%				
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**
2017	**Project**					
	Quote from			$ -		
	Sales Tax	9.25%	-			
	Overhead	17.42%	-			
	Total Estimate			$ -	**$ -**	**$ -**
1					$ 219,101	$ 249,000

Customer Service Center (CSC)
Capital Budgets for GRC - 2015 - 2017

2015			**ORA**			**GSWC**
2015	2 -VM Servers for the Phone System at the DR site					
	Quote from ECS			$ 24,694		
	Sales Tax		2,284.18			
	Overhead	17.42%	4,699.58			
	Total Estimate			$ 31,700	**$ 31,700**	**$ 31,700**
2015	**2 -UPS Replacment Power Modules - APC in computer room**					
	Quote from Online - APC			$ 3,540		
	Sales Tax		327.45			
	Overhead	17.42%	673.71			
	Total Estimate			$ 4,500	**$ 4,500**	**$ 4,500**
2015	10 units per year Agent Wireless Headsets					
	Quote from CBI			$ 2,550		
	Sales Tax		235.88			
	Overhead	17.42%	485.30			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 3,300**
2016	10 units per year Agent Wireless Headsets					
	Quote from Amazon			$ 2,550		
	Sales Tax		235.88			
	Overhead	17.42%	485.30			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 3,300**
2016	**2 -UPS Replacment Power Modules - APC in computer room**					
	Quote from GNNet.com			$ 3,540		
	Sales Tax		327.45			
	Overhead	17.42%	673.71			
	Total Estimate			$ 4,500	**$ 4,500**	**$ 4,500**
2017	Agent Wireless Headsets			$ 2,550		
	Quote from Amazon					
	Sales Tax		235.88			
	Overhead	17.42%	485.30			
	Total Estimate			$ 3,300	**$ 3,300**	**$ 3,300**
2017	**2 -UPS Replacment Power Modules - APC in computer room**					
	Quote from Amazon			$ 3,540		
	Sales Tax		327.45			
	Overhead	17.42%	673.71			
	Total Estimate			$ 4,500	**$ 4,500**	**$ 4,500**
				Totals	$55,100	$55,100

Engineering Design Center 24-W
Capital Budgets for GRC - 2015 - 2017

				ORA		GSWC
2015	**Replace Computer - (CAD Technicians)**		6			
	Online Quote			$ 3,500		
	Sales Tax		323.75			
	Overhead	17.42%	609.70			
	Total Estimate			$ 30,000	**$ 30,000**	**$ 30,000**
2015	**Replace Computers (Desktop or Laptop & Docking Station-Eng**		9			
	Quote from GSWC I.T.			$ 2,500		
	Sales Tax		231.25			
	Overhead	17.42%	435.50			
	Total Estimate			$ 36,000	**$ 36,000**	**$ 36,000**
2015	**Autodesk Software Maintenance Agreement**		1			
	Quote from USCAD			$ 20,000		
	Sales Tax		1,850.00			
	Overhead	17.42%	3,484.00			
	Total Estimate			$ 26,000	**$ 26,000**	26000
2015	**Layout Tables**		5			
	Quote from			$ 1,000		
	Sales Tax		92.50			
	Overhead	17.42%	174.20			
	Total Estimate			$ -	**$ -**	**10000**
2015	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 2,500		
	Sales Tax		231.25			
	Overhead	17.42%	435.50			
	Total Estimate			$ 4,000	**$ 4,000**	**$ 4,000**
2015	**Replace Pool Vehicle #748 for Anaheim Office**		1			
	Based on recent purchase of similar vehicle			$ 25,500		
	Safety Equipment and Tools			$ 4,500		
	Sales Tax		2,775.00			
	Overhead	17.42%	5,226.00			
	Total Estimate			$ -	**$ -**	**$ 39,000**
2015	**New Anaheim Pool Vehicle**		1			
	Based on recent purchase of similar vehicle			$ 25,500		
	Safety Equipment and Tools			$ 4,500		
	Sales Tax		2,775.00			
	Overhead	17.42%	5,226.00			
	Total Estimate			$ -	**$ -**	**$ 39,000**

2016	**GIS - Basic (ArcView) License (concurrent use)**		4			
	Quote from ESRI			$ 3,500		
	Sales Tax		323.75			
	Overhead	17.42%	609.70			
	Total Estimate			$ -	$ -	20000
2016	**Autodesk Software Maintenance Agreement**		1			
	Quote from USCAD			$ 20,000		
	Sales Tax		1,850.00			
	Overhead	17.42%	3,484.00			
	Total Estimate			$ -	$ -	26000
2016	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 2,500		
	Sales Tax		231.25			
	Overhead	17.42%	435.50			
	Total Estimate			$ 4,000	$ 4,000	4000
2016	**Replace Manager Car Vehicle 67601 with Ford Taurus or Simil**		1			
	Internet Quote			$ 30,395		
	Sales Tax		2,811.54			
	Overhead	17.42%	5,784.58			
	Total Estimate			$ 39,000	$ 39,000	$ 39,000
2016	**Replace Pool Vehicle #885 for Anaheim Office**		1			
	Based on recent purchase of similar vehicle			$ 25,500		
	Safety Equipment and Tools			$ 4,500		
	Sales Tax		2,775.00			
	Overhead	17.42%	5,226.00			
	Total Estimate			$ 39,000	$ 39,000	39000
2017	**Autodesk Software Maintenance Agreement**		1			
	Quote from USCAD			$ 20,000		
	Sales Tax		1,850.00			
	Overhead	17.42%	3,484.00			
	Total Estimate			$ -	$ -	$ 26,000
2017	**Replace 17 Office Chairs & Equipment**		17			
	Quote from Sierra Office Supply			$ 103		
	Sales Tax		9.53			
	Overhead	17.42%	17.94			
	Total Estimate			$ 2,200	$ 2,200	34000
2017	**11 x 17 Color Copier/Scanner**		1			
	Quote from Computer House			$ 10,000		
	Sales Tax		925.00			
	Overhead	17.42%	1,742.00			
	Total Estimate			$ 13,000	$ 13,000	13000
2017	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 2,500		
	Sales Tax		231.25			
	Overhead	17.42%	435.50			
	Total Estimate			$ 4,000	$ 4,000	$ 4,000
					$ 197,200	$ 389,000

Environmental Quality
Capital Budgets for GRC - 2015 - 2017

2015				**ORA**		**GSWC**
2015	**Ergonomic Equipment**					
	Quote from OM Workspace			$ 8,900		
	Sales Tax		823.25			
	Overhead	17.42%	1,693.79			
	Total Estimate			$ 11,400	**$ 11,400**	**$ 11,400**
2015	**Safety Training Videos (4)**					
	Quote from Coastal Training			$ 2,400		
	Sales Tax		222.00			
	Overhead	17.42%	456.75			
	Total Estimate			$ 3,100	**$ 3,100**	**$ 3,100**
2016						
2016	**Ergonomic Equipment**					
	Quote from OM Workspace			$ 8,900		
	Sales Tax		823.25			
	Overhead	17.42%	1,693.79			
	Total Estimate			$ 11,400	**$ 11,400**	**$ 11,400**
2016	**Safety Training Videos (4)**					
	Quote from Coastal Training			$ 2,400		
	Sales Tax		222.00			
	Overhead	17.42%	456.75			
	Total Estimate			$ 3,100	**$ 3,100**	**$ 3,100**
2017						
2017	**Ergonomic Equipment**					
	Quote from OM Workspace			$ 8,900		
	Sales Tax		823.25			
	Overhead	17.42%	1,693.79			
	Total Estimate			$ 11,400	**$ 11,400**	**$ 11,400**
2017	**Safety Training Videos (4)**					
	Quote from Coastal Training			$ 2,400		
	Sales Tax		222.00			
	Overhead	17.42%	456.75			
	Total Estimate			$ 3,100	**$ 3,100**	**$ 3,100**
					$ 43,500	**$ 43,500**

	Engineering Planning Department **Capital Budgets for GRC - 2015 - 2017**					
2015			**ORA**			**GSWC**
2015	**GIS Project**					
	Quote from			$ 1,520,000		
	Sales Tax		-			
	Overhead	17.42%	264,784.00			
	Total Estimate			$ -	**$ -**	**$1,784,800**
2015	**Replace Computer Workstation (CAD/GIS w/ extra memory)**		1			
	Quote from Internet			$ 3,500		
	Sales Tax		-			
	Overhead	17.42%	609.70			
	Total Estimate			$ -	**$ -**	**$ 4,200**
2015	**GIS - Basic (ArcView) License (concurrent use)**		4			
	Quote from Esri			$ 3,500		
	Sales Tax		-			
	Overhead	17.42%	609.70			
	Total Estimate			$ 9,048	**$ 9,048**	**$ 16,800**
2015	**Hydraulic Model - InfoWater License (floating)**		2			
	Quote from Innovyze			$ 10,000		
	Sales Tax		-			
	Overhead	17.42%	1,742.00			
	Total Estimate			$ 23,600	**$ 23,600**	**$ 23,600**
2015	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 1,700		
	Sales Tax		-			
	Overhead	17.42%	296.14			
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**
2015	**GIS Software - Annual License Renewal**		1	**LS**		
	Quote from Esri			$ 8,500		
	Sales Tax		-			
	Overhead	17.42%	1,480.70			
	Total Estimate			$ -	**$ -**	**$ 10,000**
2015	**Hydraulic Modeling Software - Annual License Renewal**		1	**LS**		
	Quote from Innovyze			$ 19,350		
	Sales Tax		-			
	Overhead	17.42%	3,370.77			
	Total Estimate			$ 22,700	**$ 22,700**	**$ 22,700**

2016						
2016	**Replace Computer Workstation (CAD/GIS w/ extra memory)**		1			
	Quote from Internet			$ 3,500		
	Sales Tax		-			
	Overhead	17.42%	609.70			
	Total Estimate			$ -	**$ -**	**$ 4,200**
2016	**Hydraulic Model - InfoWater CapPlan License (floating)**		2			
	Quote from Innovyze			$ 10,000		
	Sales Tax		-			
	Overhead	17.42%	1,742.00			
	Total Estimate			$ -	**$ -**	**$ 23,600**
2016	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 1,700		
	Sales Tax		-			
	Overhead	17.42%	296.14			
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**
2016	**GIS Project**					
	Quote from			1,117,000		
	Sales Tax		-			
	Overhead	17.42%	194,581.40			
	Total Estimate			$ -	**$ -**	**$1,311,600**
2016	**GIS Software - Annual License Renewal**		1	**LS**		
	Quote from Esri			$ 8,500		
	Sales Tax		-			
	Overhead	17.42%	1,480.70			
	Total Estimate			$ -	**$ -**	**$ 10,000**
2016	**Hydraulic Modeling Software - Annual License Renewal**		1	**LS**		
	Quote from Innovyze			$ 19,350		
	Sales Tax		-			
	Overhead	17.42%	3,370.77			
	Total Estimate			$ -	**$ -**	**$ 22,700**

2017						
2017	**Replace Computer Workstation (CAD/GIS w/ extra memory)**		1			
	Quote from Internet			$ 3,500		
	Sales Tax		-			
	Overhead	17.42%	609.70			
	Total Estimate			$ -	**$ -**	**$ 4,200**
2017	**Hydraulic Model - InfoWater UDF License (floating)**		1			
	Quote from Innovyze			$ 10,000		
	Sales Tax		-			
	Overhead	17.42%	1,742.00			
	Total Estimate			$ -	**$ -**	**$ 11,800**
2017	**Blankets (Office Furniture and Equipment, etc.)**		1			
	Quote from 3-year historical average			$ 1,700		
	Sales Tax		-			
	Overhead	17.42%	296.14			
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**
2017	**GIS Project**					
	Quote from			2,030,000		
	Sales Tax		-			
	Overhead	17.42%	353,626.00			
	Total Estimate			$ -	**$ -**	**$2,383,600**
2017	**GIS Software - Annual License Renewal**		1	**LS**		
	Quote from Esri			$ 8,500		
	Sales Tax		-			
	Overhead	17.42%	1,480.70			
	Total Estimate			$ -	**$ -**	**$ 10,000**
2017	**Hydraulic Modeling Software - Annual License Renewal**		1	**LS**		
	Quote from Innovyze			$ 19,350		
	Sales Tax		-			
	Overhead	17.42%	3,370.77			
	Total Estimate			$ -	**$ -**	**$ 22,700**
					$ 61,348	**$5,672,500**

Property Accounting
Capital Budgets for GRC - 2015 - 2017

Year	Item	Rate	Amount	Budget	ORA	GSWC
2015				ORA		GSWC
2015	**Blankets: PA 37W (Office Furniture and Equip.)**		1	**B-09**		
	GIS ArcView License - Quote from ESRI			$ 3,200		
	Sales Tax		296.00			
	Overhead	17.42%	609.00			
	Total Estimate			$ 1,418	**$ 1,418**	**$ 4,200**
2016	**Blankets: PA 37W (Office Furniture and Equip.)**		1	**B-09**		
	Misc Chairs and equipemnt			$ 2,000		
	Sales Tax		185.00			
	Overhead	17.42%	380.63			
	Total Estimate			$ 2,600	**$ 2,600**	**$ 2,600**
2017	**Blankets: PA 37W (Office Furniture and Equip.)**		1	**B-09**		
	Misc. chairs and equipment			$ 2,000		
	Sales Tax		185.00			
	Overhead	17.42%	380.63			
	Total Estimate			$ 2,600	**$ 2,600**	**$ 2,600**
1					**$ 6,618**	**$ 9,400**

Technical Services Department 25W
Capital Budgets for GRC - 2015 - 2017

Year	Item	Rate	Amount	Budget	ORA	GSWC
				ORA		GSWC
2015	**Blankets: CPM 25W (Vehicles)**		1	**B-11**		
	Replace Vehicle 70335 with Ford Fusion of equal			$ 30,000		
	Sales Tax		2,775.00			
	Overhead	17.42%	5,709.41			
	Total Estimate			$ 38,500	**$ 38,500**	**$ 38,500**
2016	**Blankets: CPM 25W (Office Furniture and Equip.)**		1	**B-09**		
	Misc Office Furniture			$ 1,500		
	Sales Tax		138.75			
	Overhead	17.42%	285.47			
	Total Estimate			$ 2,000	**$ 2,000**	**$ 2,000**
2					**$ 40,500**	**$ 40,500**

APPENDIX NTP&S-1 (MACIAS AUDIT REPORT)

Golden State
Water Company
A Subsidiary of American States Water Company

September 30, 2013

California Public Utilities Commission, Division of Water and Audits
Attn: Rami Kahlon
505 Van Ness Avenue
San Francisco, CA 94102-3298

Re: Golden State Water Company Attestation Audit of Affiliate Transaction Rules

Dear Mr. Kahlon:

In compliance with Affiliate Transaction Rule VIII.E as adopted in Decision 10-10-019 on October 14, 2010, enclosed is a copy of the Golden State Water Company Attestation Audit of Affiliate Transaction Rules. Rule VIII.E requires an independent audit and reads:

> **Independent Audits.** *Commencing in 2013, and biennially thereafter, the utility shall have an audit performed by independent auditors in the sum of all unregulated affiliates' revenue during the last two calendar years exceeds 5% of the total revenue of the utility and all of its affiliates during that period. The audits shall cover the last two calendar years which end on December 31, and shall verify that the utility is in compliance with these Rules. The utility shall submit the audit report to the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates no later than September 30 of the year in which the audit is performed. The Division of Water and Audits shall post the audit reports on the Commission's web site. The audits shall be at shareholder expense.*

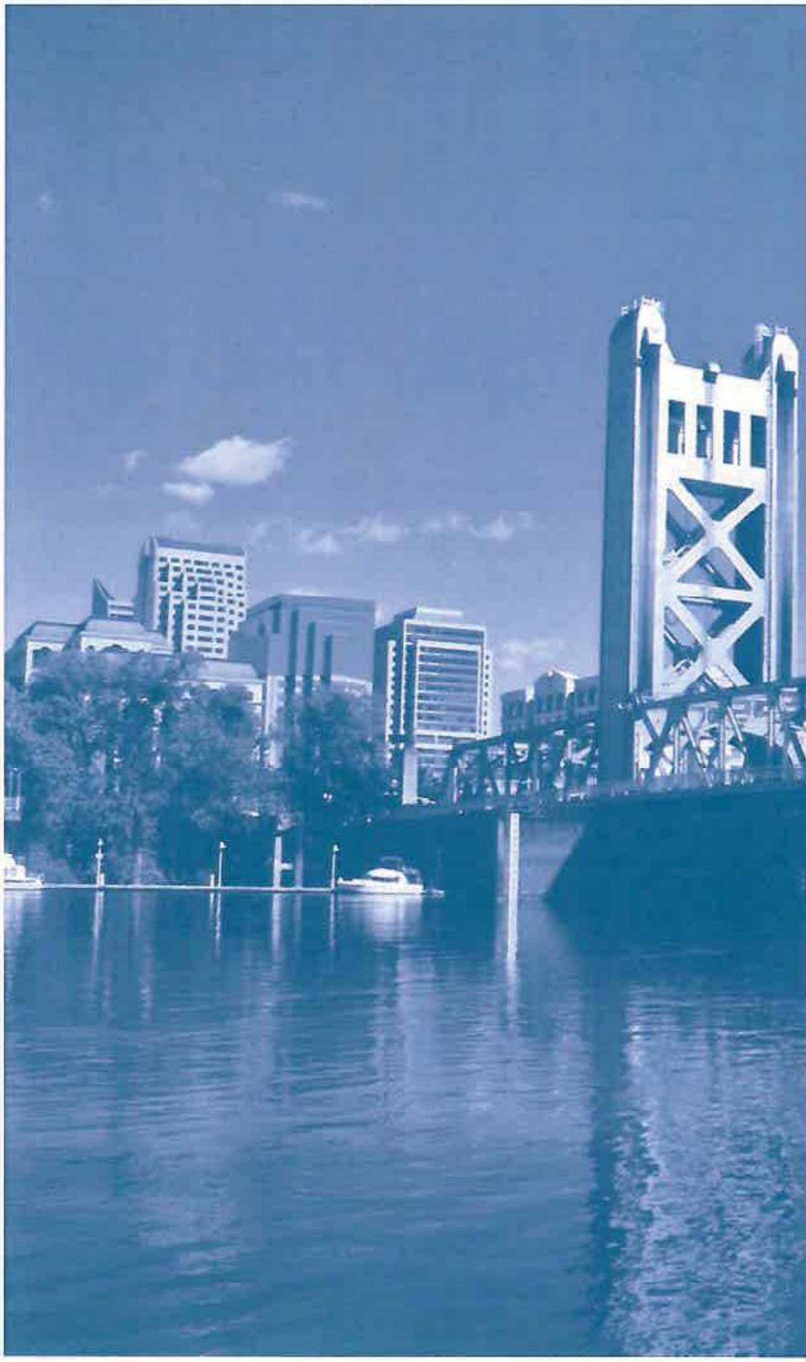
The report covers the period of June 30, 2011 to December 31, 2012 and it was conducted by an independent consulting firm.

If you have any questions, please call John Garon at (909) 394-3600, extension 679.

Thank you,

Keith Switzer

Keith Switzer
Vice President of Regulatory Affairs,
Golden State Water Company



Golden State Water Company

Final Report

Attestation Audit of Affiliate Transaction Rules for the Period June 30, 2011 to December 31, 2012

MACIAS
CONSULTING GROUP

August 30, 2013

MACIAS
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AN ACCOUNTANCY CORP.

HEADQUARTERS
3000 S St., Ste. 300
Sacramento, CA 95816
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WALNUT CREEK
OAKLAND
CENTURY CITY
LOS ANGELES
NEWPORT BEACH
SAN DIEGO
SEATTLE

August 30, 2013

Mr. Keith Switzer
Vice President for Regulatory Affairs
Golden State Water Company
630 East Foothill Blvd.
San Dimas, CA 91773

Dear Mr. Switzer:

Enclosed is our final report of Golden State Water Company's compliance with California Public Utilities Commission's Rules for Water and Sewer Utilities Regarding Affiliate Transactions, adopted in D. 10-10-019 and as modified in D.11-10-034 and D.12-01-042. This report summarizes information collected by Macias Consulting Group, Inc. in July 2013.

We would like to thank all personnel for their assistance and cooperation during the audit. Their collective interest, cooperation, and dedication greatly enhanced the results of this project.

Sincerely,

Kenneth A. Macias

Kenneth A. Macias, D.P.A., M.B.A., CPA
President/CEO
Macias Consulting Group, Inc.

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SEATTLE

Independent Accountant's Report

We have examined Golden State Water Company's compliance with California Public Utilities Commission's Standard Rules and Procedures for Water and Sewer Utilities Governing Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services during the period June 30, 2011 through December 31, 2012. Management is responsible for Golden State Water Company's compliance with those requirements. Our responsibility is to express an opinion on Golden State Water Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Golden State Water Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Golden State Water Company's compliance with specified requirements.

In our opinion, Golden State Water Company complied, in all material respects, with the aforementioned requirements for the period June 30, 2011 through December 31, 2012.

This report is intended solely for the information and use of Golden State Water Company and the California Public Utilities Commission and is not intended to be and should not be used by anyone other than these specified parties.

Macias Consulting Group, Inc.

Macias Consulting Group, Inc.
Sacramento, California

August 30, 2013

Executive Summary

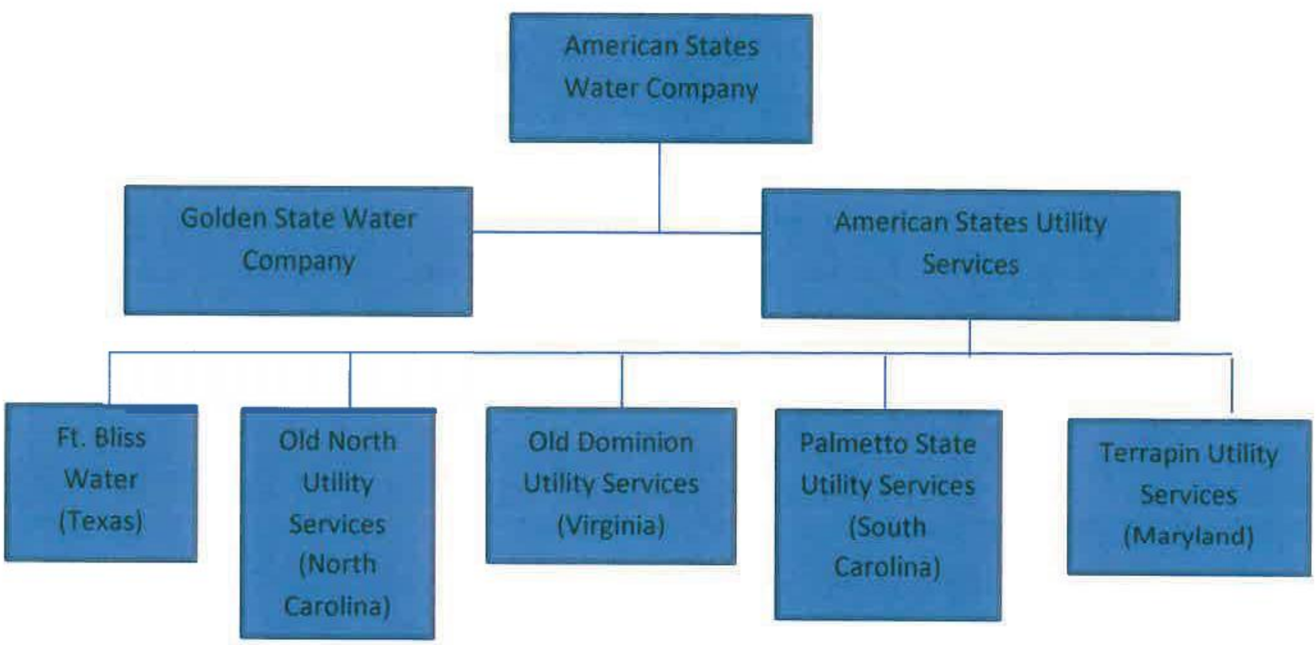
This audit addressed Golden State Water Company's (GSWC) compliance with the California Public Utilities Commission's (Commission) directives regarding its Rules and Procedures for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (Rules). Our examination found that GSWC complied with all Rules except for Rule X.E and partial noncompliance with Rule IV.C. The details of these noncompliance issues are included in Appendix A.

Background

In October 2010, the Commission adopted Decision (D.) 10-10-019, which provided Class A and B water utilities with a set of rules governing affiliate transactions. Up to that point, some water utilities were operating under Commission affiliate transaction rules designed primarily for the establishment of holding companies. The Commission adopted these affiliate transaction rules to provide "consistent and understandable rules for all subject water and sewer utilities." The Commission further stated in the Decision that "our newly adopted rules address our goals of protecting ratepayers, ensuring the financial health of the utility, and preventing anti-competitive behavior in the competitive marketplace."

Subsequently, D.11-10-034 and D.12-01-042 were issued to modify the Rules. The Rules took effect on June 30, 2011.

GSWC is wholly owned by its parent company American States Water Company (AWR). AWR also owns American States Utility Services (ASUS), which provides water and/or wastewater operation and maintenance services to a number of military bases outside of California, shown as follows:



Audit Purpose and Objective

The purpose of this audit is to comply with the audit requirements of Rule VIII.E, which requires each utility to engage an independent auditor biennially to verify compliance with the Rules. The Commission's guidance states that the first audits should begin in 2013 and are due by September 30 of the year in which the audit is performed. Macias Consulting Group (MCG) was selected by GSWC to conduct the audit.

Audit Scope and Methodology

Since the Rules did not go into effect until June 30, 2011, the audit period covered by this first audit is June 30, 2011 through December 31, 2012. The audit fieldwork consisted of interviews, research, data analysis, observations and sample testing, conducted generally at GSWC's headquarters in San Dimas, CA during the period July 8, 2013 through July 31, 2013. Appendix A describes the audit methodology used to determine GSWC's compliance with each Rule.

Audit Findings and Conclusions

Appendix A details the findings and conclusions for each Rule, which consists of sub-rules that provide the specific criteria. GSWC, in response to Rule VIII.C prepared a biennial compliance plan, which describes the procedures in place to ensure compliance with the Rules. We have provided GSWC's response to the compliance plan for each sub-rule, followed by MCG's conclusions and comments.

Appendix A – Audit Methodology, Findings and Conclusions

Rule I – Jurisdiction and Applicability

Rule I.A – These Rules apply to all Class A and Class B California public utility water and sewer corporations or companies subject to regulation by the California Public Utilities Commission.

GSWC Compliance Plan: GSWC affirms that as a Class A water utility subject to Commission regulation; these Rules apply to it and its employees.

MCG Conclusion: Commission directives classify utilities as Class A if the utility serves 10,000 or more customers. GSWC serves over 255,000 customers in California.

Rule I.B – These Rules apply to transactions between a Commission-regulated utility and another affiliated entity that is engaged in the provision of products that use water or sewer services or the provision of services that relate to the use of water or sewer services, including the utility's parent company, and to the utility's use of regulated assets for non-tariffed utility services, unless specifically modified or exempted by the Commission. Transactions between a Commission-regulated utility and an affiliated utility regulated by a state regulatory commission (whether the utility is located in California or elsewhere) are exempt from these Rules, except for provisions of Rule IV.B and Rule X.

GSWC Compliance Plan: GSWC's affiliate, American States Utility Services, Inc. (ASUS), only operates water and wastewater systems outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service; and therefore is exempt under Rule I.B. GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule IV.B and Rule X. Further, GSWC maintains a current list of covered affiliates, which contains a list of all affiliates of GSWC, as defined in Rule II.E. and for each affiliate a description of its purposes or activities, and the applicability of the Rules to the affiliates. GSWC reserves the right to reclassify an affiliate as the activities of that affiliate dictate.

MCG Conclusion: While GSWC makes a compelling case that ASUS is exempt from the rules because its subsidiaries operate outside of California and are regulated by the states they operate in, GSWC has, nonetheless, taken a conservative approach and is treating ASUS as if they were not exempt. Therefore, we conducted the compliance audit as if ASUS was not exempt from the Rules.

Rule I.C - Utilities shall comply with all applicable State and Federal statutes, laws and administrative regulations.

GSWC Compliance Plan: GSWC affirms that it is in compliance with all applicable State and Federal statutes, laws and administrative regulations to which it is subject.

MCG Conclusion: GSWC believes it is complying with existing laws as demonstrated by the fact that they are continually audited by federal and state agencies, their public accounting firm and their Internal Audit Department with no serious deficiencies reported. We reviewed their annual financial audits for 2011 and 2012 and found that each year GSWC received an unqualified opinion that the financial statements present fairly the financial position of the company. Additionally, we reviewed a number of water quality reports, which showed GSWC to be in compliance with federal and state standards and we spoke with the Internal Audit Manager. After reviewing these reports and sources we have no reason to believe that GSWC's statement of compliance in Rule I.C is not accurate.

Rule I.D - Existing Commission rules for each utility and its parent company continue to apply except to the extent they conflict with these Rules. In such cases, these Rules supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent company from adopting other utility-specific guidelines, with advance Commission approval through Decision or Resolution. In the case of ambiguity regarding whether a conflict exists, there shall be a rebuttable presumption that these Rules apply.

GSWC Compliance Plan: GSWC notes that its Holding Company Rule 14 allowed debt of the holding company or affiliates to be guaranteed by the utility with prior approval by the Commission. Rule VII.D forbids the debt of the holding company or affiliates to be guaranteed by the utility. Rule VII.F adopts Holding Company Rules 12, 13, 15 and 16. Holding Company Rule 15 requires approval of issuance of holding company or affiliate debt if guaranteed by the Utility yet Affiliate Transaction Rule (ATR) VII.D forbids the debt of the holding company to be guaranteed by the utility. This appears to be a conflict. GSWC will abide by ATR VII.D.

MCG Conclusion: See our discussion of Rule VII.D later in this report.

Rule I.E - Where these Rules do not address an item currently addressed in a utility's existing rules imposed by this Commission, which govern that utility's transactions with its affiliate(s) or its use of regulated assets for non-tariffed utility services, the existing utility-specific rules continue to apply for that item only.

GSWC Compliance Plan: GSWC notes that the following Holding Company Rules are not specifically addressed in Affiliate Transaction Rules:

11. Capital Requirements. The capital requirements of the Utility shall be given first priority by the Utility's board of directors and, consistent with its fiduciary responsibilities, by the holding company's board of directors, as well.

20. Unregulated Operations And Transfer Of Employees. (d) The Utility shall endeavor to transfer to its affiliates any employee, whose primary responsibility is to conduct unregulated operations, taking into consideration the Utility's obligations to any such employee, its obligations under any contract with its unions or others, and the cost of providing comparable terms of employment.

23. Transfer of Intangible Assets and Goods from the Utility. Any transfer without monetary consideration of any intangible asset or good from the Utility to any affiliate shall be priced at cost or fair market value, whichever is higher, if the asset or good is currently, or was at any time, included in the Utility's rate base, including (a) any asset or good booked to plant held for future use that is currently, or was at any time, included in the Utility's rate base or (b) any asset or good to which the Utility's ratepayers have contributed any carrying or operating cost. Any gain resulting from the transfer of any such asset or good shall be allocated in accordance with applicable provisions of the Public Utilities Code and policies of the Commission. Absent any change in the applicable policy of the Commission or provision of the Public Utilities Code, all gain from the transfer of any such asset or good without monetary consideration shall be allocated to ratepayers.

24. For the purposes of this settlement, intangible assets and goods shall mean all intellectual property (whether such property constitutes patents, trademarks, service marks, copyrights, or any other intellectual property). GSWC will continue to abide by these Holding Company Rules.

MCG Conclusion: GSWC appears to be in compliance with Rule I.E. Capital requirements (Holding Company Rule 11) are given a high priority by the Board of Directors and the Board's Audit Committee. We reviewed GSWC's Annual Capital Budget Report, which is prepared annually and approved by the Board's Audit Committee. We also observed that Audit Committee meeting agendas include a presentation on the status of GSWC's capital budget. Through discussions and a review of GSWC organization charts, we determined that there are no GSWC employees whose primary responsibilities include unregulated operations (Holding Company Rule 20). Concerning intangible assets (Holding Company Rules 23 and 24), we determined that both AWR and GSWC hold and annually amortize intangible assets; however, there were no assets of this class transferred during the period under audit.

Rule I.F - These Rules do not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.

GSWC Compliance Plan: GSWC affirms that these Rules do not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.

MCG Conclusion: GSWC affirms the Rule. Our inquiries and testing did not reveal any instances of non-compliance with this Rule.

Rule I.G - A California utility that is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application with this Commission, served on all parties to this proceeding and its most recent general rate case, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates if such out-of-state operations do not substantially affect the utility's operations and the operating costs inside California. The applicant has the burden of proof.

GSWC Compliance Plan: Rule I.G does not apply to GSWC.

MCG Conclusion: We agree that Rule I.G does not apply to GSWC since it only operates as a regulated utility within the State of California.

Rule I.H - A California utility's affiliates that operate entirely outside of California are exempt from Rule III.B and Rule III.C of these Rules, for transactions between the utility and such affiliates, if the affiliates' operations do not substantially affect the utility's operations and the operating costs inside California.

GSWC Compliance Plan: GSWC's affiliate, ASUS, only operates water and wastewater systems outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service. GSWC provides Corporate Support for ASUS and ASUS pays GSWC for services rendered. ASUS' operations, as noted in Rule I.H, do not substantially affect the utility's operations and therefore, GSWC considers ASUS exempt under Rule I.H, from Rule III.B and Rule III.C.

MCG Conclusion: We agree with GSWC's response based on our review of the corporate support provided by GSWC to ASUS as outlined in Rule V (Shared Corporate Support). The corporate support provided by GSWC to ASUS is allowed under Rule V and the costs related to such services are allocated to ASUS as provided for under Rule IV.B.

Rule I.I - These Rules shall be interpreted broadly, to effectuate the Commission's stated objectives of protecting consumer and ratepayer interests and, as an element thereof, preventing anti-competitive conduct.

GSWC Compliance Plan: GSWC affirms that, for its particular circumstances, application of these Rules, broadly interpreted, will protect consumer and ratepayer interests and will prevent anti-competitive conduct.

MCG Conclusion: It is the Commission's view that the Rules, broadly interpreted, should always lean in favor of the ratepayer. GSWC affirms this Rule. MCG has not observed any actions taken by GSWC that would lead us to believe GSWC does not affirm this Rule as attested to by them.

Rule II. Definitions

II.A "Parent company" or "parent"
"Parent company" or "parent" is the entity, including a holding company or corporation that owns, or has substantial operational control (as defined in Rule II.E) of, the regulated utility.

II.B "Utility"
"Utility" (unless specified as a water utility) refers to all water utilities and sewer utilities regulated by the Commission.

II.C "Water utility"
"Water utility" refers to all water utilities regulated by the Commission.

II.D "Sewer utility"
"Sewer utility" refers to all sewer utilities regulated by the Commission.

II.E "Affiliate"
"Affiliate" means any entity whose outstanding voting securities are more than 10 percent owned, controlled, directly or indirectly, by a utility, by its parent company, or by any subsidiary of either that exerts substantial operational control.

For purposes of these Rules, "substantial operational control" includes, but is not limited to, the possession, directly or indirectly of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of more than 10 percent by the utility in an entity's company creates a rebuttable presumption of substantial operational control.

For purposes of these Rules "affiliate" includes the utility's parent company, or any company that directly or indirectly owns, controls, or holds the power to vote more than 10 percent of the outstanding voting securities of a utility or its parent company.

Regulated subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate for the purpose of these Rules. However, these Rules apply to all interactions any such regulated subsidiary has with other affiliated unregulated entities covered by these Rules.

For the purposes of this Rule, "affiliate" shall not include a mutual water company, a joint powers authority, other governmental or quasi-governmental agency or authority, a public/private partnership, a watermaster board, a water basin association, or a groundwater management authority in which a utility participates or in which a utility is a member or shareholder.

GSWC Compliance Plan: GSWC affirms and applies these definitions in the administration of its procedures, mechanisms and policies for ensuring compliance with these rules. This rule excludes the following entities from the definition of affiliate, with which GSWC has business relationships, and over which it exercises some degree of influence or control:

American River (Folsom rights)
Bear Valley Electric Services (which is a division of GSWC)
Central Basin Water Association
Central Coast Water Authority
Chino Basin Watermaster
Covina Irrigating Company
Los Osos Groundwater Basin
Main San Gabriel Basin Watermaster
Mojave Basin Watermaster
Mojave Water Agency
Nipomo Mesa Management Area
Ojai Basin Groundwater Management Agency
Orange County Water District
Pomona Valley Protection Association
Regional Water Authority (Sacramento)
Regional Water Quality Control Board Sacramento
Central Groundwater Authority
Sacramento Groundwater Authority
San Gabriel Basin Water Quality Authority
San Gabriel Valley Water Association
Six Basin Watermaster
Southeast Water Coalition Joint Powers Authority
Three Valleys MWD - Miramar Plant
Twitchell Management Authority
West Basin Water Association
West End Consolidated Water Company
Yolo County Flood Control and Water Conservation District

and all joint powers authorities ("JPA"), watermaster boards, public-private partnerships, groundwater basin management authorities, and/or mutual water companies that GSWC may enter into or conduct transactions with and any other entities as listed under the definition of "affiliate."

II.F "Costs"

"Costs" are used in these Rules to refer to the total expenses assigned or allocated to different projects or activities through the utility's and parent company's accounting systems. Cost categories include:

1. *Direct Costs.* Direct costs are costs that can be clearly identified to specific projects or activities because the resource in question, or some measurable portion of that resource, has been dedicated to the project or activity. An example would be the hours of a worker's time spent on the effort, materials purchased and used specifically on that effort, or the proportion of a machine's hours dedicated to the effort.

2. *Direct Overhead Costs.* For organizations that produce multiple outputs, direct overhead costs are the common costs of a subset of the organization, such as supervisors and support staff of a division not assigned or traceable to specific projects, or machinery shared among a subset of the company's projects. Such overhead costs require allocation to specific projects through proxies and methodologies designed to accurately reflect the particular production aspects of each project; e.g., some processes are more capital-intensive than others and need less supervision input. Allocation methodologies for direct overhead costs can make use of several factors, often activity-based and often using "cost causation" as one of the principles in their design.

3. *Indirect Overhead Costs.* Indirect overhead costs are functions that affect the entire organization, such as the headquarters building, the Chief Executive Officer and Chief Financial Officer, General Counsel and associated legal support, personnel departments, security for this building or these offices, shareholder and public relations, insurance, depreciation, advertising, and similar functions. These are real costs of the organization and must be allocated to the ongoing projects and activities to determine the total cost of each. These are also sometimes called "General Overhead Costs."

4. *Fully-loaded* (also known as fully-allocated) costs. Fully-loaded (or fully-allocated) costs refer to the total cost of a project or activity, which is the sum of Direct, Direct Overhead, and Indirect Overhead costs, as defined in Rule II.F 1, 2 and 3.

II.G "Transaction"
"Transaction" means any transfer of an item of value such as a good, service, information or money between a utility and one or more of its affiliates.

II.H "Property"
"Property" refers to any right or asset, tangible or intangible, to which an entity has legal or equitable title.

II.I "Real Property"
"Real property" refers to any interest in real estate including leases, easements, and water rights. "Customer" means any person, firm, association, corporation or governmental agency supplied or entitled to be supplied with water, wastewater, or sewer service for compensation by a utility.

II.J "Customer information"
"Customer information" means information and data specific to a utility customer which the utility acquired or developed in the course of its provision of utility services.

II.K "Cross-subsidy"
"Cross-subsidy" means the unauthorized over-allocation of costs to captive ratepayers resulting in under-allocation of costs to a utility affiliate.

GSWC Compliance Plan: GSWC affirms these definitions and applies these definitions in the administration of its procedures, mechanisms and policies for ensuring compliance with these rules.

MCG Conclusion: GSWC applies and consistently uses these definitions in their "Affiliate Transaction Rules Compliance Plan" (dated 4/30/2012), "Affiliated Company Transactions Procedures" (revised 10/3/2012), and includes the definitions in their Affiliate Transaction Rules training.

Rule III. Utility Operations and Service Quality

Rule III.A - A utility shall not allow transactions with affiliates to diminish GSWC staffing, resources, or activities in a manner that would result in degradation of the reliability, efficiency, adequacy, or cost of utility service or an adverse impact on customer service. Utility management attention shall not be diverted to such transactions in a way that would result in such degradation. The utility's parent and affiliates shall not acquire utility assets at any price if such transfer of assets would impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

GSWC Compliance Plan: GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule III.A. Further, GSWC's ongoing compliance with General Order 103-A precludes the possibility of degradation of the reliability, efficiency, adequacy, or cost of utility service (in particular, Section II of GO 103-A, Standards of

Service, "requires that each utility shall operate its system so as to deliver reliable, high quality service to its customers at reasonable cost" and that "each water utility shall ensure that it complies with the [California Dept. of Public Health's] permit requirements and all applicable drinking water regulations"). Further, GSWC's compliance with Public Utilities Code Section 851 precludes the acquisition of utility assets in such a manner as to impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

In addition, GSWC notes that Rule III.A is similar to GSWC's Holding Company Rules 20 b and c. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: We found that, other than shared corporate support, GSWC and ASUS are maintained as completely separate entities. There is no degradation of utility service or impact to customer service related to the affiliates. Additionally, we examined the transactions recorded in the property, plant, and equipment accounts of the general ledger for GSWC and ASUS and found no transfers of assets from GSWC to its affiliates.

To determine that GSWC and ASUS maintain separate management offices, utility services, and customer service centers, we conducted interviews of GSWC management, GSWC customer service management and ASUS management. We also made site visits to GSWC headquarters, GSWC's customer service center and ASUS headquarters. We examined customer service reports at the GSWC customer service center and reviewed the websites for GSWC, ASUS and the parent company, American States Water Company.

Rule III.B - Except as otherwise provided by these Rules, a utility shall not

1. Provide leads to its affiliates;

2. Solicit business on behalf of its affiliates;

3. Acquire information on behalf of or to provide to its affiliates;

4. Share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates, except that a utility may share such information with a parent under the condition that the parent does not share the information with any other entity;

5. Request authorization from its customers to pass on customer information exclusively to its affiliates;

6. Give the appearance that the utility speaks on behalf of its affiliates; or

7. Represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers.

8. Provisions 3, 4 and 5 of Rule III.B shall not apply to utility affiliates that are nonprofit and whose sole purpose is to serve the functions of regulated utilities, the parents of regulated utilities, governmental or non-profit entities, including nonprofit affiliates of regulated utilities.

9. Utilities may file an Advice Letter seeking an exemption to Rule III.B.8 within ninety days of the effective date of the Commission decision adopting these rules, requesting that a non-profit affiliate subject to Rule III.B.8 be allowed to serve the functions of other affiliates, as long as those other affiliates provide no more than five per cent of the annual revenues of the non-profit affiliate.

GSWC Compliance Plan: As noted in compliance to Rule I.H; GSWC's affiliate, ASUS, only operates water and wastewater systems outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service. GSWC provides Corporate Support for ASUS, and ASUS pays GSWC for services rendered. ASUS' operations do not substantially affect the utility's operations and therefore, are exempt from Rule III B.

MCG Conclusion: We found no evidence ASUS operates water or wastewater systems inside California. See Rule IV.B for the allocation of GSWC's allocation of costs for providing corporate support to ASUS.

Rule III.C - Except as provided elsewhere in these rules, if a utility provides customer or utility information, services, or unused capacity or supply to an affiliate, it must offer such customer or utility information, services, or unused capacity or supply to all similarly situated market participants in a non-discriminatory manner, which includes offering on a timely basis.

GSWC Compliance Plan: As noted in compliance to Rule I.H; GSWC's affiliate, ASUS, only operates water and wastewater systems outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service. GSWC provides corporate support for ASUS, and ASUS pays GSWC for services rendered. ASUS' operations do not substantially affect the utility's operations and therefore, are exempt from Rule III.C.

MCG Conclusion: We agree with GSWC's position on this Rule. We found no evidence that ASUS operates water or wastewater systems inside California or that ASUS' operations substantially affect GSWC's operations since the only working relationships between the two companies involve shared corporate support services.

Rule IV. Separation

Rule IV.A - The utility shall maintain accounting records in accordance with Generally Accepted Accounting Principles, the Commission's Uniform System of Accounts, Commission decisions and resolutions, and the Public Utilities Code.

GSWC Compliance Plan: As a publicly traded Company, GSWC affirms that it maintains its accounting records in accordance with Generally Accepted Accounting Principles (GAAP), the Commission's Uniform System of Accounts, relevant Commission decisions and resolutions, and that its accounting records are consistent with the provisions in Public Utility Code Sections 314 and 701. Utility accounting records are available for review upon Commission request. American States Water Company financial statements and GSWC financial statements are audited for GAAP compliance by independent accountants on an annual basis. Furthermore, GSWC notes that Rule IV.A is similar to GSWC's Holding Company Rule 18. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: We reviewed the audited annual financial reports for 2011 and 2012 to confirm that Generally Accepted Accounting Principles were applied. We also reviewed the Commission's Uniform System of Accounts and GSWC's Chart of Accounts to confirm that GSWC was using the Commission's Uniform System of Accounts.

Rule IV.B - The utility, its parent and other affiliated companies shall allocate common costs among them in such a manner that the ratepayers of the utility shall not subsidize any parent or other affiliate of the utility.

GSWC Compliance Plan: GSWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.B. GSWC applies Rule II.F's definitions to its compliance with Rule IV.B. All such costs are reviewed and approved in each of GSWC's general rate cases. Furthermore, GSWC notes that Rule IV.B is similar to GSWC's Holding Company Rule 19. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: By reviewing accounting records and Commission guidance for charging common costs to affiliates, we determined that GSWC charged 10.22 percent of its entire General Office expenses and rate base to ASUS and its subsidiaries. This charge was supported by the Commission in D. 10-11-035. Further, in reviewing the prepared testimony of John Garon in GSWC's 2008 General Rate Case (GRC), we noted that GSWC is charging an amount equal to 3 per cent of the salaries and benefits of the President and Chief Executive Officer (CEO) and the Senior Vice President-

Finance, Chief Financial Officer and Secretary (CFO) for time spent on quarterly conference calls, monthly financial reviews, quarterly Securities and Exchange Commission reviews and miscellaneous other tasks. GSWC reported these as direct charges in its Annual Report of Affiliated Transactions in both 2011 and 2012. During the course of this audit, GSWC determined it was more appropriate to reclassify these charges from direct to allocated charges since, in their opinion, they provide no direct services to AWR on a regular basis. Since there was no objection from either the Commission or the Division of Ratepayers Advocates in GRC proceedings on the adequacy of this 3 per cent charge, we believe that GSWC is in compliance with Rule IV.B.

Rule IV.C - The utility shall list all shared directors and officers between the utility and its affiliates in its annual report to the Commission. Not later than 30 days following a change to this list, the utility shall notify the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates of the change(s).

GSWC Compliance Plan: GSWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.C. GSWC provides a list of all shared directors and officers between the utility and its affiliates in its Annual Report to the Commission, and in the supporting documentation for its general rate case applications. GSWC affirms that it will notify the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates no later than 30 days following a change to the list of shared directors and officers.

MCG Conclusion: We confirmed that GSWC provided the Commission with a listing of shared directors and officers in the 2012 Annual Report of Affiliated Entities; however, in the same report for 2011, this listing was not included. GSWC said this was an oversight. MCG noted that the listing was included in the 2011 Annual Report, which includes the Form 10-k filed with the Securities and Exchange Commission.

Rule IV.D - Employees transferred or temporarily assigned from the utility to an affiliate shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.

GSWC Compliance Plan: GSWC will provide training to employees transferred or temporarily assigned to affiliates that fall under the applicability of this Rule, specifying that the employees shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.

MCG Conclusion: We reviewed the employee training packet for the Affiliate Transaction Rules. Topics included warning employees about not using or sharing non-public, propriety utility information with affiliates. Included in the training was an acknowledgement form which further emphasized the employees understood the Rules and the importance of not sharing propriety information. We spoke with the Human Capital Management Director who told us that each employee receiving the training was required to sign the acknowledgement form, which was then filed in the employee's personnel folder. We randomly tested five employees' folders and found the acknowledgement forms in the personnel files as required.

Rule IV.E - All employee movement between a utility and its affiliates, as defined in Rule I.B, shall be consistent with the following provisions:

Rule IV.E.1 - A utility shall track and report to the Commission all employee movement between the utility and affiliates, consistent with Rule VIII.F.

GSWC Compliance Plan: GSWC interprets this Rule as being applicable to permanent movement only, and it affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.1. GSWC includes this information in its Annual Report to the Commission. GSWC's Affiliate Transactions Procedures document provides guidance for compliance with this Rule. The current version of the Affiliate Transactions Procedures document is available to the Commission upon request. These procedures may be updated periodically and issued by GSWC's affiliate rules compliance officer. Furthermore, GSWC notes that Rule IV.E.1 is similar to GSWC's Holding Company Rules 10 C and D. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: We reviewed the 2011 and 2012 Annual Reports of Affiliated Entities to determine if permanent transfers were included. There was a single transfer over the two-year period, occurring in 2012. The Human Capital Management Director confirmed that only one employee transferred from GSWC to ASUS during the period of the audit.

Rule IV.E.2 - When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 15% of the employee's base annual compensation. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision does not apply to clerical workers.

GSWC Compliance Plan: GSWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.2. GSWC includes this information in its Annual Report to the Commission. GSWC's Affiliate Transactions Procedures document provides guidance for compliance with this Rule. The current version of the Affiliate Transactions Procedures document is available to the Commission upon request. These procedures may be updated periodically and issued by GSWC's affiliate rules compliance officer.

MCG Conclusion: The 2012 Annual Report of Affiliated Entities included information about the transfer of one employee. We followed up to determine if the appropriate payment of 15 percent of the employee's base annual compensation was paid by ASUS to GSWC. We confirmed the payment was transferred as required.

Rule IV.E.3 - Utility employees may be used on a temporary or intermittent basis (less than 30 percent of an employee's chargeable time in any calendar year) by affiliates only if:

a. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility shall be priced at a minimum of the greater of fully loaded cost plus 5% of direct labor cost, or fair market values. When the affiliate obtains the services of an executive employee, compensation to the utility shall be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value;

b. Utility needs for utility employees always take priority over any affiliate requests;

c. No more than 10% of full time equivalent utility employees may be on loan at a given time;

d. Utility employees agree, in writing, that they will abide by these Rules; and

e. Affiliate use of utility employees shall be conducted pursuant to a written agreement approved by the appropriate utility and affiliate officers.

GSWC Compliance Plan: GSWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.3. GSWC includes this information in its Annual Report to the Commission. GSWC's Affiliate Transactions Procedures document provides guidance for compliance with this Rule. The current version of the Affiliate Transactions Procedures document is available to the Commission upon request.

These procedures may be updated periodically and issued by GSWC's affiliate rules compliance officer. Because of the cost and difficulty associated with developing or obtaining the fair market value ("FMV") of an employee's time, when the use of an employee is determined to be infrequent, less than 5% of an employee's chargeable time in any calendar year, GSWC will charge the Affiliate in compliance with Rules IV.B and VI.E to ensure that the utility does not cross subsidize the affiliate and forego an FMV determination.

MCG Conclusion: We agree that GSWC has documented procedures in place to ensure Rule IV.E.3 is followed. However, during the period under audit, no employees covered by Rule IV.E.3 were used on a temporary intermittent basis by the parent or the affiliate, according to officials in both the Regulatory Affairs and Human Capital Management departments.

Rule V. Shared Corporate Support

Rule V.A - A utility, its parent company, or a separate affiliate created solely to perform corporate support services may share with its affiliates, joint corporate oversight, governance, support systems, and personnel as further specified in these Rules. Any shared support shall be priced, reported and conducted in accordance with these Rules as well as other applicable Commission pricing and reporting requirements.

GSWC Compliance Plan: GSWC's Affiliate Transactions Procedures document states that the portion of the fully loaded costs of shared corporate services that benefits American States Water Company and/or affiliates shall be charged to American States Water and/or affiliates. GSWC interprets this rule as permitting allocations pursuant to existing practice, previous GRC decisions, etc., to the extent allocations are in compliance with Rule IV.B. Furthermore, GSWC provides shared corporate support to its affiliate company ASUS. Shared Corporate Support is allocated in Compliance with Rule IV.B and reviewed in GSWC's GRCs.

MCG Conclusion: We agree that shared services by GSWC to ASUS are accurately reported and fully reimbursed under Rule IV.B. During our review of Rule IV.B, GSWC subsequently determined it was more appropriate to reclassify these charges from direct to allocated charges since, in their opinion, they provide no direct services to AWR on a regular basis. (See our expanded discussion of this point in Rule IV.B.)

Rule V.B - Corporate support shall not be shared in a manner that allows or provides a means for the transfer of confidential information from the utility to the affiliate, creates the opportunity for preferential treatment or unfair competitive advantage, leads to customer confusion, or creates significant opportunities for cross-subsidy of affiliates. The restriction on transfer of confidential information from the utility to the affiliate does not apply to corporate support, shared services and access to capital.

GSWC Compliance Plan: GSWC interprets this Rule such that the restriction on transfer of confidential information from the utility to the affiliate does not apply to corporate support, shared services and access to capital. The provision of corporate support services will not provide a means for the transfer of confidential non-public Utility information from the Utility to an affiliate that would create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidy of affiliates.

MCG Conclusion: We believe this Rule is worded such that the first and last sentences appear contradictory. GSWC firmly holds that the restriction on the transfer of confidential information does not apply to shared services. We agree with this conclusion based on a close reading of D.10-10-019, which states in the conclusion of law (point 23) *"It is reasonable to allow water and sewer utilities to share non-public or proprietary information with their affiliates for the limited purposes of shared corporate services, as long as there are sufficient limits on other sharing of nonpublic or proprietary information.*"

Rule V.C - Examples of services that may be shared include: corporate governance and oversight, payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, and pension management engineering, water or sewage for resale, water storage capacity, and purchasing of water distribution systems.

GSWC Compliance Plan: GSWC affirms that all of the services listed in Rule V.C can be shared between GSWC, its parent company (if applicable) and all covered affiliates.

MCG Conclusion: We found that GSWC does share a number of corporate services with ASUS, which fit the parameters of Rule V.C and are provided and paid for in accordance with Rules IV.B and V.A.

Rule V.D - Examples of services that may not be shared include: hedging and financial derivatives and arbitrage services, and marketing.

GSWC Compliance Plan: GSWC affirms that all of the services listed in Rule V.D cannot be shared between GSWC, its parent company (if applicable) and all covered affiliates.

MCG Conclusion: We confirmed through interviews and review of documentation that these prohibited shared services are not provided by GSWC to ASUS.

Rule VI. Pricing of Goods and Services between the Utility and Its Affiliate(s)

To the extent that these Rules do not prohibit the transfer of goods and services between a utility and its affiliates:

GSWC Compliance Plan: Furthermore, GSWC notes that Rule VI is similar to GSWC's Holding Company Rules 21, 23, 24, 26, 27, and 28. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Rule VI.A - Transfers from the utility to its affiliates of goods and services offered by the utility on the open market will be priced at fair market value.

Rule VI.B - Transfers from an affiliate to the utility of goods and services offered by the affiliate on the open market shall be priced at no more than fair market value.

Rule VI.C - For goods or services for which the price is regulated by a state agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods or services, this Commission's pricing provisions govern.

Rule VI.D - Goods and services produced, purchased or developed to be offered on the open market by the utility shall be provided to the utility's affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.

Rule VI.E - Transfers from the utility to its affiliates of goods and services not produced, purchased or developed to be offered on the open market by the utility shall be priced at fully allocated cost plus 5% of direct labor cost.

Rule VI.F - Transfers from an affiliate to the utility of goods and services not produced, purchased or developed to be offered on the open market by the affiliate shall be priced at the lower of fully loaded cost or fair market value.

Rule VI.G - The utility shall develop a verifiable and independent appraisal of fair market value for any goods or services that are transferred to any affiliated company at fair market value under these Rules. The Commission's staff shall have access to all supporting documents used in the development of the fair market value. If sufficient support for the appraisal of fair market value does not exist to the reasonable satisfaction of the Commission's staff, the utility shall hire an independent consultant acceptable to the Commission staff to reappraise the fair market value for these transactions.

GSWC's Compliance Plan for Rules VI.A, VI.B, VI.C, VI.D, VI.E, VI.F, and VI.G: GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VI.A. GSWC's Controller is responsible for ensuring that transfers are calculated and recorded appropriately. When the Controller questions the amount charged for the utility's goods or services, the utility's Vice President of Regulatory Affairs will be notified, as will the affected affiliate for review of the transaction.

Further, with respect to Rule VI.E, GSWC interprets the surrogate for fair market value as a preference for "shall be priced at fully allocated cost plus 5% of direct labor cost." Often, employee transfers will be done on an emergency basis where there is not sufficient time to ascertain "fair market value." Accordingly, GSWC will employ the formula in Rule VI.E, and it will interpret this approach as being consistent with the definitions in Rule II.F.

Furthermore, GSWC notes that Rule VI.G is similar to GSWC's Holding Company Rules 22 and 25. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: GSWC is in compliance with Rule VI. In its 2011 Annual Report of Affiliated Entities, GSWC reported $10,093 of direct service provided to ASUS. Examination of the transaction details revealed that the charges were related to GSWC employees who performed work for ASUS in January, February, and March of 2011, which was prior to the implementation date of the Affiliate Transaction Rules. GSWC would have been required to report these charges under the Holding Company Rules in effect at the time, and therefore included them in the Report of Affiliate Transactions. GSWC also reported direct service provided to AWR of $39,346 in 2011, and $38,849 in 2012. This charge is 3 percent of the CFO and CEO's salaries and benefits, which represents time and effort spent working on AWR activities. During the course of the audit, GSWC reclassified these expenses from direct to allocated expenses. (See expanded discussion of this point in Rule IV.B.)

Both AWR and GSWC own water production rights in the Mojave Basin. Water production for the basin is administered by the Mojave Basin Area Watermaster. Depending on conditions, AWR water production rights can either be used by GSWC or offered to other water producers through the Watermaster. If the AWR rights are used by GSWC, GSWC pays the related Watermaster assessment fees and costs of production. However, GSWC does not pay AWR for the use of the rights. Therefore, this transaction occurs below fair market value under Rule VI.B.

Rule VII. Financial Health of the Utility

GSWC Compliance Plan: GSWC notes that Rule VII is similar to GSWC's Holding Company Rules 11-16; GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

VII.A - The parent shall provide the utility with adequate capital to fulfill all of its service obligations prescribed by the Commission.

GSWC Compliance Plan: GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.A. GSWC's Vice President – Finance, Treasurer and Assistant Secretary maintains the utility's long-term capital investment estimates, as well as the utility's estimate of capital needed to meet its investment capital requirements.

Furthermore, GSWC notes that Rule VII.A is similar to GSWC's Holding Company Rule 12. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: GSWC is in compliance with Rule VII.A. Per discussion with GSWC officials, GSWC has an established process to determine the long-term capital investment estimates and needs of the Organization. GSWC prepares a finance application and files it with the Commission as needed. This application conveys to the Commission the Organization's finance needs for the next five years. This projected estimate is reviewed quarterly. We reviewed the most recent application. Furthermore, the parent, AWR, has a $100 million credit facility, enabling AWR to provide funds, as needed, to its subsidiaries, including GSWC. These "intercompany" loans are required to be paid to zero at least once every 24 months. GSWC said it has not needed AWR to draw on the credit facility on behalf of GSWC during the 18 months ended December 31, 2012, as GSWC has had enough cash from operating activities at its disposal. This explanation is consistent with our detailed review of GSWC's 2012 financial statements included in the 2012 Annual Report.

VII.B - If the parent is publicly traded, the utility shall notify the Director of the Commission's Division of Water and Audits and the Director of the Division of Ratepayer Advocates in writing within 30 days of any downgrading to the bonds of the parent, another affiliate, and/or the utility, and shall include with such notice the complete report of the issuing bond rating agency.

GSWC Compliance Plan: As a publicly traded company, GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.B and affirms that it will comply, as required.

MCG Conclusion: GSWC is in compliance with Rule VII.B. After discussions with GSWC officials and a review of GSWC's Annual Reports, we noted no downgrading of GSWC's bonds during the 18 months ended December 31, 2012. Rather, we noted that in 2010, the rating of GSWC's bonds was increased from A to A+.

VII.C -The creation of a new affiliate by the parent or another affiliate shall not adversely impact the utility's operations and provision of service.

GSWC Compliance Plan: As a publicly traded company, GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.C and affirms that the creation of a new affiliate by GSWC or its parent will not adversely affect the utility's operation and provision of service.

MCG Conclusion: GSWC is in compliance with Rule VII.C. Per discussion with GSWC, no new affiliates were created by the parent or by existing affiliates during the 18 months ended December 31, 2012. Furthermore, nothing came to our attention during our performance of testing procedures related to the other Affiliate Transaction Rules that would indicate the creation of additional affiliates.

VII.D - Debt of the utility's parent or other affiliates shall not be issued or guaranteed or secured by the utility.

GSWC Compliance Plan: GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.D. GSWC interprets this rule as being applicable to debt issued by the parent on behalf of a non-regulated affiliate, not when the parent is issuing debt on behalf of the utility or another Commission-regulated affiliate. Furthermore, GSWC notes that Rule VII.D is similar to GSWC's Holding Company Rule 14. GSWC has been in compliance with Holding Company Rules since 1998 and continues to do so. Holding Company Rule 14 allowed debt of the holding company or affiliates to be guaranteed by the utility with prior approval by the Commission. ATR VII.D forbids the debt of the holding company or affiliates to be guaranteed by the utility. GSWC will abide by ATR VII.D.

MCG Conclusion: GSWC is in compliance with Rule VII.D. GSWC officials said that GSWC does not guarantee or secure the debt of any entity, nor has it issued debt on behalf of any entity. Nothing came to our attention during our review of GSWC's Annual Reports or during our performance of testing procedures related to the other Rules that would indicate the issuance, guarantee or securitization of debt for, or on behalf of, any other entity.

VII.E - Financial Separation. Within three months of the effective date of the decision adopting these Rules, each utility with a parent company shall file a Tier III advice letter proposing provisions that are sufficient to prevent the utility from being pulled into the bankruptcy of its parent company. The process specified the Advice Letter Filing shall include a verification that the provisions have been implemented and signed by the utility's senior management (e.g., the Chief Executive Officer, Chief Financial Officer, and General Counsel).

GSWC Compliance Plan: Pursuant to the conditions stated in the letter from Commission Executive Director Paul Clanon to California Water Association Attorney Jose E. Guzman, Jr., dated December 9, 2010, GSWC filed its Tier III advice letter on March 31, 2011, demonstrating its compliance with Rule VII.E.

MCG Conclusion: We believe GSWC is in compliance with Rule VII.E. We obtained a copy of Advice Letter No. 1443-W, dated March 31, 2011, filed with the Commission. We also obtained a copy of a protest filed by the Division of Ratepayers Advocates, and the associated Advice Letter Suspension Notice issued by the Commission's Water Division, dated May 2, 2011. We noted that the Advice Letter Suspension Notice covered the period, May 2, 2011 to August 29, 2011, at which time a second suspension automatically commenced. GSWC said the issue remains unresolved at the Commission. GSWC has not received notice that Advice Letter No. 1443-W has been acted upon by the Commission.

VII.F - Rules VI, VII, VIII(B) and VIII(C) adopted in Decision 97-12-011 (applicable to California Water Service Company), and Rules 12, 13, 15 and 16 adopted in Decision 98-06-068 (applicable to Golden State Water Company), continue in effect for those companies only.

GSWC Compliance Plan: GSWC affirms that the stated Rules 12, 13, 15 and 16 in Decision 98-06-068 continue to be in effect. GSWC notes ATR VII.D forbids the debt of the holding company to be guaranteed by the utility. This appears to be in contradiction with Holding Company Rule 15. GSWC will abide by ATR VII.D.

MCG Conclusion: GSWC is in compliance with Rule VII.F. GSWC asserts that these rules contradict Holding Company Rule 15. As such, GSWC complies with rules 12, 13, 15 and 16 adopted in Decision 98-06-068, which appear to be the stricter of the two sets of rules. Nothing came to our attention during our review of GSWC's Annual Reports or during our performance of testing procedures related to the other Rules that would indicate non-compliance with Rule VII.F.

Rule VIII. Regulatory Oversight

Rule VIII.A - The officers and employees of the utility and its affiliated companies shall be available to appear and testify in any proceeding before the Commission involving the utility. If, in the proper exercise of the Commission staff's duties, the utility cannot supply appropriate personnel to address the staff's reasonable concerns, then the appropriate staff of the relevant utility affiliated companies including, if necessary, its parent company, shall be made available to the Commission staff.

GSWC Compliance Plan: GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.A. GSWC will continue to make the officers and employees of the utility and its covered affiliates available to testify before the Commission, as necessary or required, consistent with the provisions of Public Utility Code Section 314 and Decision 98-06-068.

Furthermore, GSWC notes that Rule VIII.A is similar to GSWC's Holding Company Rule 8. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: After interviewing GSWC and ASUS management and reviewing the compliance procedures and training materials, we have no reason to believe that GSWC will not make staff available to appear before Commission proceedings.

Rule VIII.B - The utility and its affiliated 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. The utility shall continue to maintain its books and records in accordance with all Commission rules. The utility's books and records shall be maintained, housed and available in California.

GSWC Compliance Plan: GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.B. GSWC will continue to make its books and records open for examination by the Commission and its staff, consistent with the provisions of Public Utility Code Section 314 and Decision 98-06-068.

Furthermore, GSWC notes that Rule VIII.B. is similar to GSWC's Holding Company Rule 9. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: During the course of this audit, GSWC provided all of the requested books and records. These books and records were maintained and housed at GSWC's San Dimas, California headquarters. Maintenance of the books in accordance with Commission rules was reported under Rule IV.A.

Rule VIII.C - Compliance Plans. Each utility shall include a compliance plan as part of its annual report, starting in 2011 with the 2010 annual report and biennially thereafter. The compliance plan shall include:

1. A list of all affiliates of the utility, as defined in Rule II.D, and for each affiliate a description of its purposes or activities, and whether the utility claims that Rule I.B makes any portion of these Rules applicable to the affiliate;

2. A description of the procedures in place to assure compliance with these Rules; and

3. A description of both the specific mechanisms and the procedures that the utility and parent company have in place to assure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules in any respect. The description shall address, but shall not be limited to (a) the dissemination of information transferred by the utility to an affiliate covered by these Rules, (b) the provision of services to its affiliates covered by these Rules or (c) the transfer of employees to its affiliates covered by these Rules in contravention of these Rules. A corporate officer from the utility and parent company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

GSWC Compliance Plan: GSWC filed its initial compliance plan with the Commission with its 2011 Annual Report. GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.C. GSWC's Regulatory Affairs Department is responsible for maintaining and updating this compliance plan. If changes are determined to be necessary to ensure compliance, this plan will be revised and updated annually or as needed. GSWC maintains a current list of applicable affiliates of the utility. Further, GSWC affirms that this plan complies with Rule VIII.C., and that the appropriate procedures and mechanisms are detailed in its Affiliate Transactions Procedures document.

MCG Conclusion: We reviewed copies of the 2011 and 2012 compliance plans and determined they contained the information required in items 1 through 3.

Rule VIII.D - New Affiliates. Upon the creation of a new affiliate, the utility shall immediately notify the Commission of its creation, as well as posting notice of this event on its web site. No later than 60 days after the creation of this affiliate, the utility shall file an information-only filing, as provided for in Rule 6.1 of General Order 96-B, with the Director of the Commission's Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates. The advice letter shall state the affiliate's purpose or activities and whether the utility claims these Rules are applicable to the new affiliate, and shall include a demonstration to the Commission that there are adequate procedures in place that will assure compliance with these Rules. The advice letter may include a request, including supporting explanation, that the affiliate transaction rules not be applied to the new affiliate. If the utility requests that the affiliate transactions rules not be applied to the new affiliate, in lieu of an information-only filing, the utility shall file a Tier 2 advice letter making such a request, including an explanation of why these Rules should not apply to the new affiliate.

GSWC Compliance Plan: GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.D. GSWC will notify the Commission of the creation of any new affiliate. No later than 60 days after the creation of an applicable affiliate, the utility shall file an information-only filing, as provided for in Rule 6.1 of General Order 96-B, with the Director of the Commission's Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates, demonstrating how GSWC will implement these Rules with respect to the new affiliate. GSWC notes that its compliance will comport with the discussion in Rule II.E of this plan.

MCG Conclusion: We found no evidence that GSWC created a new affiliate during the period under audit.

Rule VIII.E - Independent Audits. Commencing in 2013, and biennially thereafter, the utility shall have an audit performed by independent auditors if the sum of all unregulated affiliates' revenue during the last two calendar years exceeds 5% of the total revenue of the utility and all of its affiliates during that period. The audits shall cover the last two calendar years which end on December 31, and shall verify that the utility is in compliance with these Rules. The utility shall submit the audit report to the

Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates no later than September 30 of the year in which the audit is performed. The Division of Water and Audits shall post the audit reports on the Commission's web site. The audits shall be at shareholder expense.

GSWC Compliance Plan: GSWC will comply with this Rule, as stated, and will cooperate with the Commission's independent auditor, as well as the Division of Water and Audits during the audit.

MCG Conclusion: Macias Consulting Group performed the required audit for the period June 30, 2011 to December 31, 2012.

Rule VIII.F - Annual Affiliate Transaction Reports. Each year, by March 31, the utility shall submit a report to the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates that includes a summary of all transactions between the utility and its affiliated companies for the previous calendar year. The utility shall maintain such information on a monthly basis and make such information available to the Commission's staff upon request. The summary shall include a description of each transaction and an accounting of all costs associated with each transaction although each transaction need not be separately identified where multiple transactions occur in the same account (although supporting documentation for each individual transaction shall be made available to the Commission staff upon request). These transactions shall include the following:

1. Services provided by the utility to the affiliated companies;

2. Services provided by the affiliated companies to the utility;

3. Assets transferred from the utility to the affiliated companies;

4. Assets transferred from the affiliated companies to the utility;

5. Employees transferred from the utility to the-affiliated companies;

6. Employees transferred from the affiliated companies to the utility;

7. The financing arrangements and transactions between the utility and the affiliated companies;

8. Services provided by and/or assets transferred from the parent holding company to affiliate company which may have germane utility regulation impacts; and

9. Services provided by and / or assets transferred from affiliated company to the parent holding company which may have germane utility regulation impacts.

GSWC Compliance Plan: GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII. F. GSWC affirms that, as part of its Annual Report to the Commission, it will submit an affiliate transactions report to the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates that includes a summary of all transactions between the utility and its affiliated companies for the previous calendar year. With respect to Rule VIII.F.8, GSWC interprets this rule as being applicable to those affiliates and affiliate transactions covered in Rule I.B., and it affirms that the applicable services provided by, and/or assets transferred from, the parent holding company to the affiliate company will be included in the affiliate transactions report. Furthermore, GSWC notes that Rule VIII.F, except for items 8 and 9, is similar to GSWC's Holding Company Rule 10. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.
MCG Conclusion: We reviewed copies of the 2011 and 2012 affiliate transaction reports and determined they contained the information required in items 1 through 9.

Rule IX. Confidentiality

Any records or other information of a confidential nature furnished to the Commission pursuant to these Rules that are individually marked Confidential are not to be treated as public records and shall be treated in accordance with P. U. Code § 583 and the Commission's General Order 66-C, or their successors.

GSWC Compliance Plan: GSWC affirms compliance with Rule IX. Furthermore, GSWC notes that Rule IX is similar to GSWC's Holding Company Rule 30. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

MCG Conclusion: P. U. Code § 583 makes it a misdemeanor for any current or former officer or employee of the Commission to divulge certain confidential information furnished to the commission by a public utility. To confirm that GSWC properly indicates confidential information we:

- Discussed Rule IX with GSWC regulatory affairs personnel
- Examined GSWC's training materials for officers and managers
- Examined GSWC's compliance plan
- Examined sample documents provided to consultants hired by the CPUC's Division of Ratepayer Advocates for proper indication of confidential information.

GSWC complies with Rule IX by properly indicating what information it submits is to be treated as confidential.

Rule X. Provision of Non-Tariffed Products and Services (NTP&S)

GSWC Compliance Plan: GSWC notes that this is a change from GSWC's Holding Company Rules which required that all unregulated businesses be conducted by one of GSWC's unregulated affiliates. In Decision 10-10-019, Ordering Paragraph 5 states: "Notwithstanding Paragraph 20 of the Settlement adopted by Decision 98-06-068 and attached thereto, Golden State Water Company may offer non-tariffed products and services consistent with the rules in Appendix A."

Further, GSWC will comply with all provisions of Rule X. GSWC will file a Report on Non-Tariffed Products and Services annually with its Annual Report to the Commission, beginning on June 30, 2011.

X.A - Except as provided for in these rules, new products and services shall be offered through affiliates.

MCG Conclusion: GSWC is in compliance with Rule X.A. The only NTP&S offered by GSWC is the billing of sewer services to customers in certain jurisdictions, according to GSWC officials. As GSWC already provides regular water bills to these customers, no additional cost is incurred by GSWC to include the sewer charges on the bills. GSWC bills for the sewer services, collects the payments, and "remits" the payments to the respective cities/ratepayers through reduced rates. From our discussions with other GSWC employees, and our review of GSWC's Annual Report and other documentation, nothing came to our attention which would cause us to believe that GSWC is providing other NTP&S which were not disclosed to us.

X.B - A utility may only offer on the open market the following products and services:

1. Existing products and services offered by the utility pursuant to tariff;
2. New products and services that are offered on a tariffed basis; and
3. Products and services that are offered on a non-tariffed basis (NTP&S) and that meet the following conditions:

    a) The NTP&S utilizes a portion of the excess or unused capacity of a utility asset or resource;

    b) Such asset or resource has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;

    c) The involved portion of such asset or resource may only be used to offer the product or service on a non-tariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;

    d) The products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and

e) The utility's offering of the NTP&S does not violate any California law, regulation, or Commission policy regarding anti-competitive practices.

MCG Conclusion: See discussion under Rule X.A above. Based on the above, GSWC is in compliance with Rule X.B.

X.C - Revenues. Gross revenue from NTP&S projects shall be shared between the utility's shareholders and its ratepayers. In each general rate case, NPT&S revenues shall be determined and shared as follows:

1. Active NTP&S projects: 90% shareholder and 10% ratepayer.

2. Passive NTP&S projects: 70% shareholder and 30% ratepayer.

3. A utility shall classify all NTP&S as active or passive. For a new NTP&S not listed in the table, which requires approval by the Commission by advice letter pursuant to Rule X.G an "active" project requires a shareholder investment of at least $125,000. Otherwise the new NTP&S shall be classified as passive. No costs recoverable through rates shall be counted toward the $125,000 threshold.

4. Revenues received that are specified in a contract as pass-through of costs, without any mark-up, shall be excluded when determining revenue sharing. If an advice letter is required pursuant to Rule X.G, the utility shall specify in the advice letter any items other than postage, power, taxes, and purchased water for which it proposes pass-through treatment and must obtain Commission approval for such treatment.

5. For those utilities with annual Other Operating Revenue (OOR) of $100,000 or more, revenue sharing shall occur only for revenues in excess of that amount. All NTP&S revenue below that level shall accrue to the benefit of ratepayers.

6. For those utilities with annual OOR below $100,000, there shall be no sharing threshold, and ratepayers shall accrue all benefits for non-tariffed products and services.

MCG Conclusion: GSWC is in compliance with Rule X.C. As noted under Rule X.A above, the only NTP&S provided by GSWC was billing/collection services for certain jurisdictions. GSWC referred to the "Designation of Activities" schedule to determine that the billing/collection services provided by GSWC are designated as "Active" activities and fall under the category of "Customer Account Management Services." We obtained a copy of the "Designation of Activities" schedule and verified the classification. GSWC passed all revenue derived from this NTP&S activity to the rate payer through rate reductions, though, per the guidelines of Rule X, GSWC was entitled to retain 90% of the amounts in excess of $100,000.

Furthermore, we obtained various schedules which 1) summarized the total revenues from the NTP&S, 2) rolled the total revenues balance into the total operating expense balance, and 3) allocated the total net operating expense to the various regions where the cities which benefit from the NTP&S reside. This allocation process is used, in part, to determine the various billing rates. It is through this process that the revenue generated from this NTP&S is returned to the rate payer.

GSWC finance and accounting staff indicated that monthly reports are generated from GSWC's accounting software which indicate the amount billed to customers as part of this NTP&S. Rather than returning 100% of amounts billed to the ratepayers, GSWC is allowed to hold back $0.35 for each bill sent, as well as a small pre-determined uncollectible amount. The rate used to determine the uncollectible amount is determined independent of GSWC. We corroborated all of the information obtained through discussions.

X.D - Cost Allocation. All costs, direct and indirect, including all taxes, incurred due to NTP&S projects shall not be recovered through tariffed rates. These costs shall be tracked in separate accounts and any costs to be allocated between tariffed utility services and NTP&S shall be documented and justified in each utility's rate case. More specifically, all incremental investments, costs, and taxes due to non-tariffed utility products and services shall be absorbed by the utility shareholders, i.e., not recovered through tariffed rates.

MCG Conclusion: GSWC is in compliance with Rule X.D. GSWC did not incur additional costs by providing the one NTP&S as the bills for sewer services were included in the water bills which were already being sent to each customer by GSWC.

X.E - Annual Report of NTP&S Projects. Each utility shall include information regarding its NTP&S projects in its Annual Reports, including but not limited to the following:

1. A detailed description of each NTP&S activity;

2. Whether and why it is classified active or passive;

3. Gross revenue received;

4. Revenue allocated to ratepayers and to shareholders, as established in the company's current general rate case;

5. A complete identification of all regulated assets used in the transaction;

6. A complete list of all employees (by position) that participated in providing the non-tariffed service, with amount of time spent on provision of the service;

7. If the NTP&S has been classified as active through advice letter submission, provide the number of the advice letter and the authorizing Resolution; and

8. If the NTP&S did not require approval through advice letter, provide the date notice was given to the Commission.

MCG Conclusion: GSWC is not in compliance with Rule X.E. During our review of the 2012 Annual Report of Affiliate Entities, we were unable to locate the items required per Rule X.E above for GSWC's one NTP&S. Based on discussions with GSWC, the items required by Rule X.E were excluded from the report because 100% of the revenue generated by GSWC was returned to the rate payers through rate reductions. GSWC has indicated they will now include the items required under Rule X.E in their Annual Report of Affiliate Entities.

X.F - When a utility initiates the offering of NTP&S that are designated as active or passive in the table below, the utility shall provide notice of such activity by letter to the Director of the Division of Water and Audits and the Program Manager of the Division of Ratepayer Advocates-Water Branch, within 30 days of instituting such activity.

MCG Conclusion: GSWC is in compliance with Rule X.F. GSWC said the current NTP&S has been provided for many years. There were no new NTP&S initiated during the 18 months ended December 31, 2012. As such, GSWC has nothing to report under Rule X.F.

X.G - Provision of New NTP&S. Any water or sewer utility that proposes to engage in the provision of new NTP&S not included in the table below, using the excess capacity of assets or resources reflected in the utility's revenue requirement, and which are proposed to be classified as active as described herein, shall file a Tier 3 advice letter (see Resolution ALJ-202) with the Director of the Division of Water and Audits seeking Commission approval. The advice letter shall be served on the service list for Rulemaking 09-04-012 and the service list for the utility's current or most recent general rate case. The advice letter shall contain the following:

1. A full description of the proposed NTP&S, including, without limitation, the identity of parties served (if known), revenue and cost forecasts, and the term of any contract to be employed.

2. A description of the accounting method to be used to allocate the incremental costs between tariffed services and caused by the NTP&S.

3. Copies of all operative documents for the proposed service.

4. A detailed description of any items other than postage, power, taxes, and purchased water for which the utility proposes pass-through treatment for purposes of calculating revenue sharing.

5. Complete identification of all utility regulated assets and personnel resources that will be used in the proposed transaction. Identify the particular excess capacity (or capacities) asset or resource to be used to provide the NTP&S.

6. A complete list of all employees that will participate in providing the service, with an estimate of the amount of time each will spend.

7. A showing that the proposed NTP&S may be offered without adversely affecting the cost, quality, or reliability of the utility services.

8. A showing of how the NTP&S will be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk, and no undue diversion of utility management attention.

9. A showing of how the NTP&S does not violate any law, regulation, or Commission policy regarding anti-competitive practices.

10. A justification for classifying the NTP&S as active. The utility shall demonstrate that there is or will be incremental shareholder investment above $125,000.

11. A statement that all risks incurred through this proposed NTP&S project shall be borne by the utility's shareholders.

12. A description of the market served by the proposed NTP&S project, a list or description of the current incumbents in that market, and an analysis of how the utility's entry into the market will affect the market's competitiveness. Include in this analysis a description of how the utility will guard against using anti-competitive pricing in this market.

13. Any other information, opinions, or documentation that might be relevant to the Commission's consideration of the NTP&S.

MCG Conclusion: Based on our discussions with GSWC, the current NTP&S has been provided for many years. There were no new NTP&S initiated during the 18 months ended December 31, 2012. As such, GSWC has nothing to report under Rule X.G and GSWC is in compliance with Rule X.G.