

Docket: : A.15-01-001  
Exhibit Number : \_\_\_\_\_  
Commissioner : Liane Randolph  
Admin. Law Judge : Dan Burcham  
DRA Project : Victor Chan  
Manager



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

**REPORT ON THE  
RESULTS OF OPERATIONS**

**PARK  
WATER COMPANY  
Test Year 2016 and  
Escalation Years 2017 and 2018  
Application 15-01-001**

For authority to increase water rates in the Central Basin Service Areas

Los Angeles, California  
May 6, 2015

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APPENDIX A – QUALIFICATIONS OF WITNESSES

1 **MEMORANDUM**

2 The Office of Ratepayer Advocates (“ORA”) of the California Public Utilities  
3 Commission (“Commission”) prepared this report presenting its analysis and  
4 recommendations in Park Water Company’s (“Park”) general rate case (“GRC”) A.15-  
5 01-001. In this GRC, Park **requests authorization to increase rates charged for water**  
6 **service by \$2,918,800 or 8.72 % in Test Year 2016**, by \$2,422,093 or 6.63% in  
7 Escalation Year 2017, and by \$1,598,099 or 4.08% in Escalation Year 2018. Park  
8 requests using a rate of return on equity of 9.79% and a rate of return on rate base of  
9 9.07%. The Commission adopted these rates in D.13-05-027 in its most recent Cost of  
10 Capital application (A.12-05-001).

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

15 ORA’s Legal Counsel for this case is Selina Shek.  
16



1           7.       Chapter 7- Differences in ratebase are mainly due to differences in Park’s  
2 requested capital plant addition and ORA’s recommendations as discussed in the  
3 preceding chapter. ORA further recommends adjustment to working cash. ORA  
4 recommends a weighted average ratebase of \$65,681,644 in Test year 2016 and  
5 \$71,143,177 in Test year 2017.

6           8.       Chapter 8- Differences between Park and ORA’s estimates for Taxes Other  
7 Than Income are primarily due to differences in net plant in service, estimated payroll  
8 expenses and use of the current applicable cap for the Social Security Tax. A comparison  
9 of ORA and Park’s Taxes Other Than Income are shown in Table 8-1.

10          9.       Chapter 9- ORA agrees with Park’s methodology for calculating FIT and  
11 agrees with the tax rates Park uses. ORA recommends that Park be required to track the  
12 revenue requirement impact of the repair deduction under IRC Sec. 481(a) accounting  
13 change adjustment in its Tangible Property Regulations Consequences Memorandum  
14 Account.

15          10.      Chapter 10- Based on its review, ORA finds Park’s customer service to be  
16 acceptable. ORA also finds Park’s water quality is in compliance with the requirements  
17 established by DDW, applicable federal drinking water requirements, and General Order  
18 103-A.

19          11.      Chapter 11- ORA recommends the following memorandum accounts that  
20 are being requested in this filing to be closed:

- 21                   • Income Tax Repair Regulations Implementation  
22                    Memorandum Account
- 23                   • Low-Income Customer Data Sharing Cost Memorandum  
24                    Account
- 25                   • Credit Card Memorandum Account
- 26                   • Military Family Relief Program (“MFRP”) Memorandum  
27                    Account

28           ORA recommends the following memorandum accounts to remain open:

- Tangible Property Regulations Consequences Memorandum Account
- 2014 Water Conservation Memorandum Account.

12. Chapter 12- The following are ORA's recommendations for Park's special requests in this GRC:

- Level payment plan- disallow due to lack of justification and support
- Low Income Assistance Program- CARW benefit to remain at \$6.65 as compared to Park's request of \$8.02
- Perchlorate Memorandum Account – disallows due to the request as premature and uncertain
- Subsequent Offsets prior to Final Decision- agrees with this request in order to streamline the regulatory process, improve customer service and save both Park and Commission staff's time and resources
- Sales Reconciliation Mechanism for Escalation Years- disallows because such request deviates from the general rate case process and ORA has concern over verification and accountability of the rate increases
- Modification to WRAM/MCBA- recommends that reclaimed water remain outside of WRAM and therefore costs associated with reclaimed water be excluded from the MCBA. ORA also recommends leased water rights be excluded from the MVBA, but allow chemical costs be included
- Employee and Retiree Healthcare Balancing Account- disallow due to lack of support and justification
- Group Pension Balancing Account- Disallow due to lack of support and justification
- Phase-In of Test Year Increases – Disallowed because Park's increase does not meet the Commission guideline and it is not in the interest of the ratepayers.

1           13. Chapter 13- ORA recommends \$497,631 as the Miscellaneous Revenue for  
2 Test Year 2016, whereas Park requests \$106,957.

3           14. Chapter 14- ORA agrees with Park that the current conservation design  
4 should remain in place for its residential customers while the single quantity rate design  
5 should be continued for its non-residential customers.

6

7           15. Chapter 15- ORA recommends \$34,677,600 for Year 2017 and  
8 \$35,267,600 for Year 2018 as the revenue requirement for the escalation years. To  
9 obtain escalation year increases, Park is required to file an Advice Letter 45 days prior to  
10 the start of the year showing all calculations supporting its requested increases.

### Organization of Report

Chapter Number	Description	Witness
-	Executive Summary	Victor Chan
1	Summary of Earnings	Victor Chan
2	Water Consumption and Operating Revenues	Jeff Roberts
3	Operations & Maintenance, Administrative & General Expenses	Laura Krannawitter
4	New Positions	Victor Chan
5	Utility Plant In Service	Mehboob Aslam
6	Depreciation Reserve and Depreciation Expense	Mehboob Aslam
7	Rate Base	Mehboob Aslam
8	Taxes Other Than Income	Victor Chan
9	Income Taxes	Victor Chan
10	Water Quality and Customer Service	Hani Moussa
11	Memorandum and Balancing Accounts	Ray Charvez, Jose Cabrera
12	Special Requests	Hani Moussa, Victor Chan, Jeff Roberts
13	Miscellaneous Revenue	Jeff Roberts
14	Rate Design	Jeff Roberts
15	Step Rate Increase	Victor Chan
Appendix A	Qualifications	All

1 **CHAPTER 1: SUMMARY OF EARNINGS**

2 **A. INTRODUCTION**

3 This Chapter provides ORA’s recommendations for A.15-01-001, Park’s general  
4 rate increase request for Test Year 2016 and Escalation Years 2017 and 2018.

5 **B. SUMMARY OF RECOMMENDATIONS**

6 The Summary of Earnings shown in Tables 1-1 and 1-2 at the end of this Chapter  
7 compares ORA’s estimated summary of earnings against Park’s estimated summary of  
8 earnings for Test Year 2016, including revenues, expenses, taxes and rate base.

9 **C. DISCUSSION**

10 The total revenues requested by Park are:

Year	Amount of Increase	Percent
Test Year 2016	\$2,918,800	8.72%
Escalation Year 2017	\$2,422,093	6.63%
Escalation Year 2018	\$1,598,099	4.08%

11  
12 Park estimates that its proposed rates will produce revenues providing the  
13 following returns for Test Year 2016:

Test Year	Return on Rate base	Return on Equity
2016	9.07%	9.79%

14  
15 **D. CONCLUSION**

16 ORA recommends a revenue increase for Test Year 2016 as follows (Escalation  
17 Years 2017 and 2018 are covered in Chapter 15):

Test Year	Amount of Increase	Percent
2016	\$621,470	1.87%

1 D.13-09-005 authorized the last general rate increase for park, resulting in a rate of  
 2 return on rate base (“ROR”) of 9.07% in Test Year 2013. In this Report, ORA uses  
 3 9.07% as ROR for Years 2016 to 2017. The Commission determined this ROR for Park  
 4 in D.13-05-027, which that resulted from the Commission’s recent consolidated cost of  
 5 capital proceeding.

<b>Table 1-1</b>					
SUMMARY OF EARNINGS					
Test Year 2016 (At Present Rate)					
	ORA	Park		Park Exceeded ORA	
Item	Present	Present		Amount	%
	(A)	(B)			
(Dollars in Thousands)					
<b>Operating Revenues</b>					
Total Metered Water Svcs. Revenue	32,798.5	33,096.7		(1,880.1)	-5.7%
Total Other Water revenue	497.6	390.7		(106.9)	-21.5%
Total Operating Revenue	33,296.1	33,487.4		191.3	0.6%
<b>Expenses</b>					
Operation & Maintenance	14,228.1	15,030.0		801.9	5.6%
Administrative and General	7,940.0	8,212.5		272.5	3.4%
Depreciation Expense	2,184.8	2,261.6		76.8	3.5%
Taxes Other	61.8	61.8			
Taxes Other Than Income	1,115.1	1,181.6		66.5	6.0%
CCFT	401.6	310.6		(91.0)	-22.7%
FIT	1,675.7	1,354.4		(321.3)	-19.2%
Total Expenses	27,607.1	28,412.5		805.4	2.9%
Net Income	5,689.0	5,074.9		(614.1)	-10.8%
Rate base	65,681.6	73,989.1		8,307.5	4.6%
Rate of Return	8.66%	6.86%		-1.8%	-20.8%

6

<b>Table 1-2</b>					
<b>SUMMARY OF EARNINGS</b>					
<b>Test Year 2016 (At Proposed Rate)</b>					
	ORA	Park		Park Exceeded ORA	
Item	Proposed	Proposed		Amount	%
	(A)	(B)			
(Dollars in Thousands)					
<b>Operating Revenues</b>					
Total Metered Water Svcs. Revenue	33,420.0	36,015.5		(1,880.1)	-5.6%
Total Other Water revenue	497.6	390.7		(106.9)	-21.5%
Total Operating Revenue	33,917.6	36,406.2		2,488.6	7.3%
<b>Expenses</b>					
Operation & Maintenance	14,232.7	15,046.6		813.9	5.7%
Administrative and General	7,943.1	8,223.6		280.5	3.5%
Depreciation Expense	2,184.8	2,261.6		76.8	3.5%
Taxes Other	61.8	61.8			
Taxes Other Than Income	1,115.1	1,181.6		66.5	6.0%
CCFT	473.4	566.2		92.8	19.6%
FIT	1,950.5	2,354.0		403.5	20.7%
Total Expenses	27,961.4	29,695.4		1,734.0	6.2%
Net Income	5,956.2	6,710.8		754.6	12.7%
Rate base	65,681.6	73,989.1		8,307.5	4.6%
Rate of Return	9.07%	9.07%		0.0%	0.0%

1  
2

1           **CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES**

2   **A.     INTRODUCTION**

3           This chapter presents ORA’s analysis and recommendations on the average  
4   number of customers, water sales per customer, and operating revenues of Park Water  
5   Company for Test Year 2016. ORA reviewed Park’s Revenue Requirement Report,  
6   supporting workpapers, and methods of estimating water consumption and operating  
7   revenues. ORA also went on a site tour, reviewed Park’s data request responses and  
8   reviewed average consumption projections using a variety of historical time periods.  
9   ORA’s recommendations and Park’s estimates for the average number of customers,  
10   water consumption, and operating revenues are presented in tables at the end of this  
11   chapter.

12   **B.     SUMMARY OF RECOMMENDATIONS**

13           ORA does not disagree with Park’s methodology for calculating customer growth  
14   and finds the forecasted total customer amounts to be what can reasonably be expected in  
15   test year 2016.

16           Park’s consumption forecasts are generally considered reasonable for tariff  
17   schedules Industrial Bi-Monthly, Industrial Monthly, Public Authority, Private Fire  
18   Service Bi-Monthly, Private Fire Service Monthly, Temporary Bi-Monthly, and  
19   Temporary Monthly. However ORA instead provides a more accurate forecast for the  
20   Residential Bi-Monthly, Business Bi-Monthly, Business Monthly, and Reclaimed  
21   (Recycled) water tariff schedules.

22           ORA recommends 1.55% for unaccounted for water based on the most recent  
23   recorded figure in 2014.

24           Revenues at present rates were calculated by multiplying total customers by total  
25   consumption within the tariff rate. ORA does not disagree with this methodology, but  
26   updates the data inputs for total consumption.

1 Tables 2-1 to 2-4 at the end of this chapter provides ORA’s recommended forecast  
 2 for TY 2016 on customer consumption, customer growth, total water supplies and total  
 3 revenue as compared to Park’s requests.

4 **C. DISCUSSION**

5 1. **Average number of customers**

6 Park’s service areas consist of residential, commercial, and industrial properties,  
 7 which are generally located in fully developed areas. The work papers showed very slow  
 8 to no growth across all customer classes. The customer growth rate was calculated by  
 9 finding the yearly average across the five years of previously recorded data. This method  
 10 produced a forecast of 27,369 total customers which could be reasonably experienced in  
 11 the test year. Taking into consideration Park’s low-growth service areas and modest  
 12 growth forecasts, ORA does not contest the number of customers forecasted for test year  
 13 2016.

**2016 Projected Average Number of Customers**

	<b>Residenti al</b>	<b>Business</b>		<b>Industri al</b>		<b>Publi c</b>	<b>Privat e Fire</b>		<b>Tem p</b>	<b>Recycl e</b>	<b>TOTA L</b>
Tariff No.	11	22	2 3	33	34	45-46	5 2	53	82	86	
<b>Park</b>	25,239	1,64 5	4 9	3	2	199	6 4	13 0	13	25	<b>27,369</b>
<b>ORA</b>	25,239	1,64 5	4 9	3	2	199	6 4	13 0	13	25	<b>27,369</b>

14 2. **Average Consumption Forecasts**

15 In D.04-06-018, the Commission adopted a revised Rate Case Plan<sup>1</sup> for Class A  
 16 water utilities. In this decision, the Commission adopted the “New Committee Method”  
 17 to forecast per customer usage for residential and small customer classes in general rate  
 18 cases. The Commission states that customer consumption is to be calculated by using  
 19 multiple regression analysis based on Commission Standard Practice (“SP”) U-2 and the

<sup>1</sup> D.04-06-018, Appendix at 6 D.07-05-062.

1 supplement U-25<sup>2</sup>. Park has provided the results from the New Committee Method, but it  
2 is not recommending the use of that output for this rate case. Instead, Park proposes an  
3 alternative for customer usage forecasts. ORA’s more reliable forecasting methodology  
4 is discussed separately by individual customer class below.

5 **a. Residential Bi-Monthly**

6 **(i) Park Forecast**

7 Park asserts in its revenue requirement report that many different statistical models  
8 were used in developing the residential test year consumption forecasts. However Park  
9 claims that when compared with recorded data, these models will not accurately reflect  
10 consumption in the test year. Park relies upon a Commission water conservation directive  
11 to annually reduce consumption per service connection by 1-2%.<sup>3</sup> Starting with 2013  
12 recorded numbers, the company chose the midpoint of this directive (1.5%) as the yearly  
13 decrease in water consumption to arrive at the test year. This method yields an average  
14 yearly consumption for residential ratepayers of 127.76 ccf.<sup>4</sup> Through an initial data  
15 request, ORA asked about the basis used to arrive at a 1.5% yearly decrease. Park stated  
16 that this percentage was based on company judgement.<sup>5</sup>

17 **(ii) ORA Review**

18 ORA generally agrees that the new committee method produces a forecast that is  
19 significantly lower than what would likely be experienced in the test year. In this  
20 proceeding, the focus is on finding an accurate forecasting methodology that bridges the  
21 gap between the arbitrary nature of a 1.5% yearly reduction, and the unrealistic results of  
22 the new committee method. In the 90-day update, Park provided updated workpapers  
23 outlining the most recent 2014 recorded sales numbers. Based on the updated numbers,

---

<sup>2</sup> SP U-25 limits the regression analysis to three variables : rainfall, temperature, and time.  
<sup>3</sup> Exhibit B-Park Water Company Revenue Requirements Report p.28.  
<sup>4</sup> Central\_Basin\_Forecast\_oct15(Final)’ ‘3) ‘Res Forecast’ Cell N5.  
<sup>5</sup> Data Request Response JR6-001 Q3a.

1 ORA found an average yearly residential consumption of 126.57ccf;<sup>6</sup> representing a  
2 surprising 5.3% one year reduction in consumption from 2013.

3 ORA believes that this more recent 2014 recorded number is a more accurate basis  
4 to forecast test year consumption. The use of this forecast results in a slightly lower  
5 overall consumption forecast for residential ratepayers for test year 2016 of 126.57ccf.

6 Through early 2015, California drought conditions reached a severity that  
7 obligated the Governor's office to proclaim a state of emergency. As recently as April,  
8 2015, drought conditions have worsened to a level that state executive action was  
9 implemented; in the form of an executive order mandating statewide water reduction of  
10 25%.<sup>7</sup> The Executive Order includes actions that will save water, increase enforcement  
11 to prevent wasteful water use, streamline the state's drought response and invest in new  
12 technologies that will make California more drought resilient.<sup>8</sup> The Commission will be  
13 taking action in accordance with the Governor's Executive Order as stated in Resolution  
14 W-5034, "Once the State Water Resources Control Board adopts new Regulations  
15 consistent with the Governor's Executive Order issued April 1, 1015, the Division of  
16 Water and Audits will follow suit with appropriate regulations for the water utilities  
17 subject to the jurisdiction of the California Public Utilities Commission (sic)."<sup>9</sup>

18 Park Water Company has an approved Rule 14.1 tariff that outlines the company's  
19 plan during emergency water conservation and rationing.<sup>10</sup> In effect, this gives the  
20 company and ratepayers the vehicle to implement the impending water conservation  
21 measures.

22 At time of writing, the State Water Resources Control Board ("SWRCB") is  
23 considering amending drought-related emergency regulations to ensure urban water

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<sup>6</sup> 'CB\_Rev-RateDesign\_16-rr' Cell "J7/E7".

<sup>7</sup> Executive Order B-29-15.

<sup>8</sup> California Governor's Press Office. (April 1, 2015) Top Story: Governor Brown Directs First Ever Statewide Mandatory Water Reduction [Press Release].

<sup>9</sup> Resolution W-5034 Order 7.

<sup>10</sup> <http://parkwater.com/about-park-water/regulatory-information/rates-and-tariff>, accessed 4/30/15.

1 suppliers in the state of California meet the mandated 25% reduction. The SWRCB  
2 calculates the conservation amount for each urban water supplier by the amount of water  
3 already conserved, then designates each supplier into a conservation tier. Per the  
4 calculation, Park’s per capita consumption is calculated at 55.6 Gallons per capita per day  
5 (“GPCD”); this designates the company in the 2<sup>nd</sup> Tier with an 8% conservation  
6 standard.<sup>11</sup> In SWRCB’s proposed text amending the emergency drought regulation,  
7 urban water suppliers that averaged less than 65 GPCD—applicable to Park—shall  
8 reduce its total potable water by 8 percent as compared to its reference month in 2013.<sup>12</sup>  
9 The two time periods used in SWRCB’s calculation were “June 2013 to February 2014”  
10 and “June 2014 to February 2015”;<sup>13</sup> the amount already conserved was calculated by  
11 finding the percent difference between the two reference time periods. In SWRCB’s  
12 calculation, Park has already conserved 8% as compared to the prior time period. Subject  
13 to change as this proposed text becomes final, Park should remain at or below current  
14 consumption levels to avoid possible penalties.

15 How the Governor’s Executive Order impacts forecasting methodology in this  
16 proceeding is still unclear. To best serve ratepayers during these exceptional conditions,  
17 ORA is willing and open to work in settlement with Park as more information is  
18 disclosed during this general rate case proceeding.

19 **b. Business Monthly & Bi-Monthly**

20 Consistent with the residential sales forecasting methodology, Park used the 2013  
21 recorded sales with a 1.5% yearly reduction to forecast the test year for both the business  
22 bi-monthly and monthly tariffs. Again, the data provided in the updated workpapers  
23 resulted in the same situation—both tariffs experienced a significant one year sales

---

<sup>11</sup>

[http://www.swrcb.ca.gov/waterrights/water\\_issues/programs/drought/docs/emergency\\_regulations/supplier\\_tiers\\_20150428.pdf](http://www.swrcb.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulations/supplier_tiers_20150428.pdf), accessed 5/1/2015

<sup>12</sup> Proposed Text Article 22.5 Drought Emergency Water Conservation

[http://www.swrcb.ca.gov/waterrights/water\\_issues/programs/drought/docs/emergency\\_regulations/draft2\\_5percent\\_conservation\\_regs20150428.pdf](http://www.swrcb.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulations/draft2_5percent_conservation_regs20150428.pdf), accessed 5/1/2015

<sup>13</sup> See header

1 reduction from 2013— 4.3% and 12.3% respectively. Citing the same concerns with the  
2 residential tariff, ORA relies on the 2014 recorded sales to forecast test year 2016  
3 consumption.

<b>2016 Forecasted Business Consumption (in ccf)</b>		
	Bi-Monthly	Monthly
<b>Park</b>	511.04	6,284.12
<b>ORA</b>	511.61	5,767.65

4 **c. Reclaimed Water**

5 For reclaimed water, Park used the same forecasting methodology as business and  
6 residential customers resulting in a 5,503.2ccf test year estimate per customer. As  
7 demonstrated above, this water class followed a similar pattern; a one year 7.6%  
8 reduction from 2013. In the interest of consistency, ORA recommends using the 2014  
9 recorded number that results in a test year forecast of 5316.68ccf per customer.

10 **3. Total Water Supply/Unaccounted for Water**

11 Unaccounted for water is also known as the leak percentage recorded in a  
12 company's overall water system. There are two components used in calculating this  
13 percentage: the total water production (both wells & purchased water) and total metered  
14 sales from all customer classes. Unaccounted for water is determined by calculating the  
15 percent difference between the two. Park calculated the test year forecast of unaccounted  
16 for water by using the average of 2012 & 2013 recorded data. This resulted in a 3.86%  
17 calculation for each year into 2016. In the updated workpapers it was uncovered that this  
18 calculation did not accurately reflect the 2014 recorded percentage of 1.55%.<sup>14</sup> Because  
19 this is Park's most recent data and the two year forecasting methodology did not reliably  
20 forecast even one year into the future, it is recommended that the 2014 recorded data be  
21 used in forecasting the test year. Therefore, ORA recommends using a rate of 1.55% for  
22 unaccounted for water in test year 2016.

---

<sup>14</sup> 'UnaccountedWater 16-rr' Cell H46.

1           **4. Revenues at Present Rates**

2           Park presents revenues at present rates in the revenue requirement portion of the  
3 application, which is derived from workpapers also filed therein. The company forecasted  
4 a \$33,096,664 test year. The calculations in the workpapers were reviewed with special  
5 attention paid to the accurate flow of data through the workbooks. No issues were found  
6 with document linking between tabs or other workbooks. The methodology of calculating  
7 revenues was analyzed, and it was found that the multiplication of customers by the unit  
8 consumption modeled through the current tariff rate provided an accurate calculation.  
9 ORA does not contest this method for calculating the overall revenues. Revenues were  
10 adjusted however, due to different estimates on average unit consumption. This is  
11 reflected in the tables located at the end of the chapter. ORA calculated a test year of  
12 \$32,798,530.

13           **D. CONCLUSION**

14           California’s ongoing drought has been exceptional in duration and remarkable for  
15 its perniciousness. 2014 was a challenging year for the water industry as a whole; the  
16 beginning of 2015 presages even more difficult times ahead. The forecasts for sales,  
17 customer growth, and revenue were developed with an appreciation of the realities of this  
18 this state’s current water environment. As such, ORA recommends the Commission  
19 adopt the recommendations set forth in this chapter.

20

**TABLE 2-1**

PARK WATER COMPANY				
OPERATING REVENUES				
Test Year 2016				
(at Present Rates)				
Item	ORA	Utility	Park Exceeded ORA	
			Amount	Percent
	(A)	(B)	C	(D)
(Dollars in Thousands)				
<u>Water Service Revenue:</u>				
Residential	22,442,210.0	22,595,192.0	152,982.0	0.68%
Business Bi-Monthly	5,537,807.0	5,532,925.0	(4,882.0)	-0.1%
Business Monthly	1,721,787.0	1,852,372.0	130,585.0	7.58%
Industrial Bi-Monthly	93,783.0	93,783.0	0.0	0.00%
Industrial Monthly	121,339.0	121,339.0	0.0	0.00%
Public Authority	1,921,691.0	1,921,691.0	0.0	0.00%
Private Fire Service Bi-Mon	53,992.0	53,992.0	0.0	0.00%
Private Fire Service Monthl	120,425.0	120,425.0	0.0	0.00%
Fire Hydrant Bi-Monthly	7,661.0	7,661.0	0.0	0.00%
Temporary	139,363.0	139,363.0	0.0	0.00%
Reclaimed	638,472.0	657,921.0	19,449.0	3.05%
Total	32,798,530.0	33,096,664.0	298,134.0	0.91%
<u>Other Water Revenue</u>				
Miscellaneous Revenues	450,447.0	390,674.0	(59,773.0)	-13.27%
Total Other Water Revenue	450,447.0	390,674.0	(59,773.0)	-13.27%
Total Operating Rev.	33,248,977.0	33,487,338.0	238,361.0	0.72%
Total Operating Rev. less PUC Reimburs	33,241,316.0	33,479,677.0		

1

2

**TABLE 2-2**

PARK WATER COMPANY				
AVERAGE SERVICES				
Test Year 2016				
Item	ORA	Utility	Park Exceeded ORA	
	Analysis	Estimated	Amount	Percent
	(A)	(B)	C	(D)
<u>Customers by Class:</u>				
Residential	25,239	25,239	0.0	0.00%
Business Bi-Monthly	1,645	1,645	0.0	0.00%
Business Monthly	49	49	0.0	0.00%
Industrial Bi-Monthly	3	3	0.0	0.00%
Industrial Monthly	2	2	0.0	0.00%
Public Authority (Combined)	199	199	0.0	0.00%
Private Fire Service Bi-Monthly	64	64	0.0	0.00%
Private Fire Service Monthly	130	130	0.0	0.00%
Resale	0	0	0.0	0.00%
Temporary Bi-Monthly	0	0	0.0	0.00%
Temporary Monthly	13	13	0.0	0.00%
Irrigation-Reclaimed	25	25	0.0	0.00%
<b>Total Average Number of Customers</b>	<b>27,369</b>	<b>27,369</b>	<b>0.0</b>	<b>0.00%</b>

1

**TABLE 2-3**

PARK WATER COMPANY				
Average consumption (Ccf) per customer				
Test Year 2016				
Item	ORA	Utility	Park Exceeded	ORA
	Analysis	Estimated	Amount	Percent
	(A)	(B)	C	(D)
<u>Average Consumption by Customer Class</u>				
Residential Bi-Monthly	126.6	127.8	1.2	0.95%
Business Bi-Monthly	511.6	511.0	(0.6)	-0.12%
Business Monthly	5,767.7	6284.1	516.4	8.95%
Industrial Bi-Monthly	5,353.0	5353.0	0.0	0.00%
Industrial Monthly	10,817.2	10817.2	0.0	0.00%
Public Authority	1,445.9	1445.9	0.0	0.00%
Private Fire Service Bi-Monthly	2.8	2.8	0.0	0.00%
Private Fire Service Monthly	11.6	11.6	0.0	0.00%
Resale	0.0	0.0	0.0	0.00%
Temporary Bi-Monthly	242.1	242.1	0.0	0.00%
Temporary Monthly	1,372.2	1372.2	0.0	0.00%
Irrigation	5,316.7	5503.2	186.5	3.51%

1

2

**TABLE 2-4**

PARK WATER COMPANY				
TOTAL CONSUMPTION AND SUPPLY (Ccf per year - Test Year 2016)				
Consumption by Customer Class	ORA	Utility	Park Exceeded ORA	
	(A)	(B)	Amount C	Percent (D)
Residential Bi-Monthly	3,194,441.0	3,224,514.0	30,073.0	0.94%
Business Bi-Monthly	841,601.0	840,655.0	(946.0)	-0.11%
Business Monthly	282,615.0	307,922.0	25,307.0	8.95%
Industrial Bi-Monthly	16,059.0	16,059.0	0.0	0.00%
Industrial Monthly	21,634.0	21,634.0	0.0	0.00%
Public Authority	287,729.0	287,729.0	0.0	0.00%
Private Fire Service Bi-Monthly	180.0	180.0	0.0	0.00%
Private Fire Service Monthly	1,509.0	1,509.0	0.0	0.00%
Resale	0.0	0.0	0.0	0.00%
Temporary Bi-Monthly	0.0	0.0	0.0	0.00%
Temporary Monthly	17,839.0	17,839.0	0.0	0.00%
Irrigation	132,917.0	137,580.0	4,663.0	3.51%
<b>Total Consumption</b>	<b>4,796,524.0</b>	<b>4,855,621.0</b>	<b>59,097.0</b>	<b>13.29%</b>
Unaccounted For Water	74,346.1	187,427.0	63,760.0	85.76%
Park- 3.86%				
ORA- 1.55%				
<b>Total Supply Forecast</b>	<b>4,870,870.1</b>	<b>5,043,048.0</b>	<b>127,520.0</b>	<b>2.62%</b>

1

2



- 1 5) estimating lower purchased water costs of \$97,892 based upon 59,097  
2 ccf fewer sales as discussed in Chapter 2;
- 3 6) reducing the forecasted unit costs of the “unidentified” leased water  
4 rights which resulted in a \$58,760 adjustment;
- 5 7) reducing the proposed conservation expenses by \$293,963;
- 6 8) reducing the amount of money spent on advertising by \$3,396;
- 7 9) reducing the amount of money spent on the supplies for sales promotion  
8 by \$6,397;
- 9 10) applying the uncollectible rate to metered sales revenue which resulted  
10 in a \$20,563 adjustment; and
- 11 11) carrying adjustments through maintenance and clearings other  
12 accounts.

13 **2. A&G**

14 ORA recommends the following A&G adjustments to the 2016 expenses,  
15 which reduce the test year A&G expense by \$275,426:

- 16 1) adjusting the COLA and Merit assumptions for A&G payroll;
- 17 2) imputing a vacancy adjustment based upon historic vacancy rates;
- 18 3) eliminating “excellence awards”/bonuses;
- 19 4) eliminating the water quality operations engineer position as discussed in  
20 Chapter 4. The total adjustments for Items 1 to 4 result in \$162,800  
21 adjustment;
- 22 5) reducing the proposed employee benefits amounts by \$233,031 including  
23 the use of a 4.6% vacancy rate;
- 24 6) reducing the forecasted regulatory expenses by \$29,292;
- 25 7) identifying a placeholder for updating the general office allocation when  
26 the Apple Valley/general office decision is adopted by the Commission;
- 27 8) correcting errors for insurance projections discovered during discovery  
28 resulted in a \$83,319 adjustment (inclusive of 4.6% vacancy  
29 adjustment);
- 30 9) differences in franchise fees that results in \$11,818 adjustment; and
- 31 10) minor adjustments of \$543 to A&G Other.

32 Note: A&G transfer credit amount difference of (\$245,375) is provided by ORA’s  
33 capital witness.

1           **3.     Inflation factors**

2           Traditionally, utilities and ORA apply various escalation factors established  
3 by ORA Energy Cost of Service Branch (“ECSB”) and Water Branch publications  
4 to develop the level of expenses requested in Park’s application.

5           While ECSB memos were utilized to calculate five year escalated average  
6 numbers; a few important deviations must be noted: 1) not every expense item  
7 utilized the five year escalated average methodology; and 2) when projecting  
8 2015, 2016 and other years going forward, Park did NOT utilize the ECSB memo  
9 information to obtain labor and composite escalation factors.

10          In this sense, Park chose not to use the traditional method.

11          Therefore, ORA had to review instances where the 5 year methodology was  
12 not utilized and decide how to proceed with regard to the erroneous escalation  
13 factors utilized by Park.

14          At this time, ORA is not representing the differences solely attributable to  
15 the escalation factors. Instead ORA will make these escalation factor corrections  
16 in the comparison exhibit. ORA wants to focus on other important differences so  
17 that the Commission can address those shortfalls<sup>16</sup> first before addressing the  
18 deviation from Commission practice with regard to escalation factors.

19          Therefore, to avoid comparing differences in ORA’s and Park’s estimates  
20 that result solely from the application of erroneous and appropriate escalation  
21 factors, ORA temporarily applied the same non-traditional factors Park used in  
22 deriving Test Year and Escalation Year expense estimates.

23          To establish the final test year expenses, the Commission should utilize the  
24 most current ECSB and Water Branch Memorandum’s data available. Both Park  
25 and ORA should use them when the Joint Comparison Exhibit is prepared.

---

<sup>16</sup> Park’s labor and non-labor escalation assumptions are 3% for 2015, 2016, 2017, etc. By comparison the March 24, 2015 ECSB memo shows the following labor escalations: 1.6% for 2015, 0.1% for 2016 and 2.3% for 2017; non-labor escalations: 0.4% for 2015, 2% for 2016, and 2.2% for 2017.

1 In the Rate Case Plan Decision 04-06-018, page 13, the Commission lays  
2 out which escalation rate factors are applicable to each expense type.

3 Although Park suggests that the uniform 3% inflation factor is “generally  
4 based upon a five year average,” there is an authorized methodology sanctioned by  
5 the Commission. This unauthorized and unfounded escalation hypothesis should  
6 be rejected.

7 ORA’s “preliminary”<sup>17</sup> calculation of its own expense adjustments found  
8 that Park’s estimated expenses were reduced by over \$170,000 when the latest  
9 ECOS/Water Branch memo factors are considered. Therefore, its significance  
10 must be noted.

11 **C. DISCUSSION**

12 For discussion purposes, ORA will discuss the expense items as follows:

13 Payroll, O&M and A&G

14

Expenses 2016	ORA	PARK	Difference
payroll	4,273,148	4,737,484	464,336
non-payroll O&M	11,928,988	12,412,189	483,201
non payroll A&G	6,223,119	6,335,745	112,626
subtotal of non payroll ex	18,152,107	18,747,934	595,827
	22,425,255	23,485,418	1,060,163

15

16 **1. Payroll**

17 The company’s proposal is to employ 49 people by 2016. In the last rate  
18 case, the CPUC authorized 52 positions by adopting a settlement in D.13-09-005.  
19 In 2014, Park employed 46 people.

20  
21  
22  
23

---

<sup>17</sup> Very rough estimate.

1 Below represents the differences in payroll between ORA and Park

	ORA	PARK	Difference
payroll 2016			
PAYROLL-OPERATIONS	1,026,641	1,232,821	206,180
PAYROLL-CUSTOMERS	748,000	790,167	42,167
PAYROLL-MAINTENANCE	376,239	421,078	44,839
PAYROLL-CLEARINGS	149,345	157,695	8,350
A & G PAYROLL	1,972,923	2,135,723	162,800
Grand total	4,273,148	4,737,484	464,336

2

3 a) **Vacancy rate adjustment**

4 One cannot ignore that over the past 5 years, Park has systematically had a  
5 number of vacancies it carries year to year.

year	vacancy rate	vacancy
2010	2.0%	1.0
2011	4.0%	2.0
2012	2.0%	1.0
2013	3.85%	2.0
2014	12%	6.0
5 year avg	4.68%	

6

7 Given the historic pattern, ORA imputed a 4.6% decrease for payroll and  
8 payroll related expenses<sup>18</sup> to account for the historic vacancy rate. By contrast,  
9 Park's payroll and expense projections represent the company at full employment.

10 It is more reasonable to model a downward adjustment for vacancy rates  
11 when projecting future payroll expenses. ORA made a 4.6% downward  
12 adjustment to payroll related expenses. While this approach has deficiencies, and  
13 is overly simplistic, it is superior to Park's projections which do not acknowledge  
14 historic vacancies.

15 In the next sections, ORA will discuss the Park assumptions used to  
16 develop payroll that ORA opposes. The first is the assumptions for cost of living

---

<sup>18</sup> Payroll operations, Payroll customers, Payroll maintenance, Payroll clearings, A&G payroll, employee benefits, and insurance.

1 (“COLA”)/“merit”, and the second is other salary enhancements applied by Park  
2 to develop its estimate.

3 b) **COLA/merit**

4 Two sentences on page 40<sup>19</sup> of Park’s expense testimony state:

5 Payroll for 2015 is estimated based upon employees hourly rates in  
6 effect at the end of 2014, estimated 3% COLA increase estimated for  
7 2015, estimate of merit salary adjustments to be granted during 2015  
8 to individual employees, and overtime by individual employees.

9 Payroll for Test year 2016 is estimated similarly beginning with the  
10 hourly rate expected at the end of year 2015 and assuming a COLA  
11 increase of 3%.

12 References are then given to 63 pages in the workpapers that will enlighten  
13 the reader. Buried in the middle of the 63 pages are the input tabs<sup>20</sup> that show the  
14 2% COLA and 1% merit factors applied in Park’s modelling conventions.

15 On other pages in Park’s workpapers<sup>21</sup> there is a convention of showing a  
16 2% COLA, 1% April change, and additional columns using the merit  
17 nomenclature to capture additional increases to some individual employees  
18 (i.e. “merit b4” and “Merit after”) in dollar amount increases.

19 Park created unnecessary confusion by using the words COLA and merit  
20 inconsistently between workpapers and testimony. Park did not highlight how the  
21 testimony and workpapers are linked and work together to capture these types in  
22 increases.

23 ORA requested<sup>22</sup> historical information with regard to COLA and merit  
24 percentages. The information is presented below:

---

<sup>19</sup> Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses.

<sup>20</sup> Park’s Revenue Requirement workpapers section 1-4, chapter IV, operating expenses p4-137;  
4-169.

<sup>21</sup> Park’s Revenue Requirement workpapers section 1-4, chapter IV, operating expenses p4-116;  
4-148.

<sup>22</sup> Data request LLK002 Q 2 and 3.

	COLA %
2010	0
2011	0.90%
2012	3.10%
2013	3.20%
2014	0
5 year average	1.44%
2-Year Average	1.60%

1

	merit
	<b>% Increase</b>
2010	1.41%
2011	1.13%
2012	0
2013	0.66%
2014	2.90%
5 year average	1.22%
2-Year Average	1.78%

2

3 In its responses, Park discusses how its proposal is less than the 2 year  
4 average.

5 ORA recommends utilizing the 5 year average amounts. Therefore, ORA's  
6 proposed COLA of 1.44% and Merit of 1.22% results in a 2.66% factor overall as  
7 compared to Park's 3% factor. Given the March 24, 2015 ECSB memos, labor  
8 escalations are running 1.6% for 2015, 0.1% for 2016. Therefore, ORA's  
9 assumptions could be further reduced if those factors are adopted.

10 With regard to the specific "merit salary adjustments" that Park speaks of in  
11 testimony,<sup>23</sup> ORA deleted the 2016 increases of \$1.59 and \$1.72 for two  
12 employees on workpaper 4-148 (staff accountant 1 (employee 588) and production  
13 technician 1 (employee 529)). ORA did not make adjustments to 2015 salary  
14 merit entries in the model on workpaper page 4-116.

---

<sup>23</sup> Park's Revenue Requirement Report Exhibit B, chapter IV, operating expenses page 40.

1 During informal conversations, ORA learned that a new staff accountant  
2 would be hired to replace an accountant who left. Because of this, ORA felt that a  
3 new hire would not be eligible for the salary merit increase that would have  
4 occurred for the accountant who left.

5 The removal of the salary merit for the production technician 1 was  
6 designed to craft a salary that matched the proposal discussed in ORA’s Chapter 4  
7 sponsored by ORA witness Victor Chan.

8 c) **Excellence Awards/Bonus A&G**

9 Buried within the payroll workpapers<sup>24</sup>, one can find a line item for  
10 “excellence awards” of \$21,768 with the identifier 999 in years 2015 and 2016.  
11 There is no explanation of this amount, how it is developed or how it flows  
12 through the spreadsheets.

13 Informal conversations with Park reveal that detail buried within A&G  
14 payroll workpapers<sup>25</sup> show account 6340.920 labeled “Bonuses” relate to the  
15 historic amounts of money dedicated to bonuses. However, incorrect modeling  
16 placed the forecasted amounts of \$21,768 in account 6340.925, designated bonus  
17 injuries and damages.

18 Nowhere in Park testimony is this program discussed, how it was calculated  
19 or what it means relative to historical amounts. It is Park’s burden of proof and  
20 responsibility to discuss its expenses and show how they are developed and  
21 prudent. ORA cannot comment on the reasonableness of the bonuses as Park has  
22 not discussed: 1) the criteria used for its bonus program; 2) what performance  
23 measures are considered; and 3) if the magnitude of the bonus is consistent with 5  
24 year average.

25 Without substantiation, explanation or context, ORA recommends that this  
26 program cost not be recovered in rates. ORA will model this recommendation by

---

<sup>24</sup> Park’s Revenue Requirement workpaper section 1-4, chapter IV, operating expenses page 4-115, 4-147

<sup>25</sup> Park’s Revenue Requirement workpaper section 1-4, chapter IV, operating expenses 4-13

1 eliminating the hours proposed for this line item to ensure that ORA's adjustment  
2 flows through all the calculations.

3 In the future, Park should discuss the methodology and performance  
4 measurements it uses to select who gets bonuses and quantify the amounts for its  
5 employees. It should also discuss whether or not there are differences between  
6 staff level bonuses and managerial bonus formulas/criteria.

7 **d) Reclassified/ new positions**

8 The discussion of new or reclassified positions is being provided in Chapter  
9 4 by Victor Chan.

10 **2. Operations and Maintenance**

11 Excluding payroll, Park seeks to recover \$12,412,189 in O&M expenses for  
12 test year 2016. ORA recommends \$11,928,988 for non-payroll O&M.

13 Here is a chart that highlights the areas of disagreement and shows the  
14 breakdown of the \$484,343 difference by subject area.

15

<u>Operating and Maintenance Expenses :</u>	ORA	PARK	Difference
<u>non-payroll</u>			
Purchased Water-Potable	7,541,481	7,628,298	86,817
Purchased Water-Reclaimed	169,655	180,731	11,076
Leased Water Rights	495,370	554,130	58,760
Customer-Others	597,342	902,671	305,329
Uncollectibles (% x revenue)	185,811	207,515	21,704
Maintenance-Other	628,840	628,639	(201)
Clearings-Other	304,230	305,087	857
			-
	9,922,728	10,407,071	484,343

16  
17

18 For O&M, Park used a variety of estimating tools. Park represents that  
19 those expenses that are projected using the 5 year averages not discussed in  
20 testimony. Rather, only those expenses that deviate from 5 year averages are  
21 mentioned in testimony. As laid out in its testimony, Park utilizes the following  
22 approaches to develop its estimates:

- 1 • a four year escalated average for miscellaneous pumping,
- 2 • new required testing parameters for Test Year water quality lab
- 3 expenses,
- 4 • a “2015 budget” approach for water treatment supplies and
- 5 uniforms,
- 6 • a 2 year average escalated for dechlorination estimates because of a
- 7 new process with more costly chemicals,
- 8 • a three year escalated amount for data sharing amounts in customer
- 9 operations, and
- 10 • a water use efficiency report for conservation.

11 Therefore, a lot of judgement enters into Park’s estimation of many  
12 expenses.

13 ORA was generally in agreement with many of Park’s judgement calls for  
14 estimating its expenses. Those areas where Park and ORA differ that do not relate  
15 to payroll are: purchased water, leased water rights, Customers other,  
16 uncollectibles, and maintenance other.

17 a) **Purchased water**

18 Purchased water expenses are related to production estimates and rely on  
19 projections of sales and pumping as discussed in Chapter 2. Because ORA  
20 projects lower sales than Park, ORA’s recommends commensurately lower  
21 production expenses related to the lower demand. This amounts to a purchased  
22 water expense of \$97,893 less than Park in 2016. ORA does not take issue with  
23 the estimates for chemicals, purchased power, and replenishment as the pumping  
24 estimates are satisfactory to ORA.

25 b) **Leased water rights**

26 ORA makes a downward adjustment of \$58,760 in the area of leased water  
27 rights. ORA makes no adjustments to the leased volumes and prices of the leases  
28 with signed contracts. ORA, instead, focuses on the leased water rights details of  
29 those amounts not locked down in contracts. In the leased water rights expense

1 workpaper detail<sup>26</sup>, there is a line item for unidentified leased water rights. These  
 2 are the projections of needed leased water rights Park needs to satisfy production  
 3 and sales requirements. The volumes of water rights that are assumed to be  
 4 needed to close the production gap are reasonable. ORA, however, proposes a  
 5 different unit cost for those unsigned water lease volumes.

6 While contract costs in 2015/16 show unit costs of \$140/AF to \$145/AF,  
 7 Park projects \$185/AF for the volumes of leased water rights not currently under  
 8 contract. Similar anomalies between contracted unit costs and those projected for  
 9 non-contracted amounts were equally apparent in subsequent years.

10 As shown in the summary below, the differences between ORA and Park  
 11 are primarily because of the difference in cost per Acre Foot (“AF”) calculated for  
 12 leased water rights.

<i>unidentified</i>		ORA	Park
water year	vol in AF	cost \$/AF	cost \$/AF
2015/16	1,204	150	185
2016/17	1,842	158	205
2017/18	4,004	165	165

13  
 14 While ORA recognizes that some premium might occur to obtain additional  
 15 leased rights, ORA proposes a more modest premium than the one suggested by  
 16 Park. While Park suggests that a good proxy is a deal signed by the city of  
 17 Compton at \$165/AF<sup>27</sup>, it goes on to escalate the number 12% for 2015, 10% for  
 18 2016 and 10% for 2017<sup>28</sup> for the water rights they hope to obtain.

19 Park has provided no basis for why an increase over the Compton amount  
 20 is necessary, nor have they discussed why these high percentage increases are  
 21 valid.

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<sup>26</sup> Parks Revenue Requirement Workpapers, section 1-4, chapter IV, operating expenses 4-30 to 4-31.

<sup>27</sup> Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses page 48.

<sup>28</sup> Park’s Revenue Requirement workpapers section 1-4, chapter IV, operating expenses.

1           ORA proposes a unit cost slightly greater than contracted amounts<sup>29</sup> in  
2 2015/16 and then increases the unit costs by 5% per year. ORA’s projection is  
3 more in line with other contracted amounts<sup>30</sup> and recognizes that some premium  
4 might occur in the marketplace.

5                                   c)       **Customers Other**

6           Overall there is a difference of \$305,329 between Park and ORA for this  
7 category of expenses. The three areas of differences are discussed in the following  
8 sections.

9   i.       **Conservation**

10           Park requests \$585,091 for conservation efforts in the test year. ORA  
11 would limit this account to the escalated 5 year average of \$291,128. Park seeks  
12 \$293,963 greater than the 5 year escalated average for conservation efforts.

13           In its testimony on page 45<sup>31</sup>, Park states that its estimate is based upon a  
14 water use efficiency plan. It does not disclose what that amount is in testimony  
15 and it is buried within the category of “customer other” in summary tables. In  
16 appendix D of the water use efficiency plan, a projected utility cost of \$585,091<sup>32</sup>  
17 for 2016 is included, assuming the 15 measures proposed are adopted.

18           ORA met with the conservation witness to go over the water use efficiency  
19 plan and to obtain some of the supporting documents that went into the creation of  
20 the plan. Overall, it is an evaluation of 3 different program roll outs. Plan A, Parks  
21 preferred plan with the best cost/benefit ratio, encompasses 15 measures that  
22 address: public information, turf removal, weather based irrigation controllers,  
23 rebates, surveys, school incentives, education and training programs, award

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<sup>29</sup> It equals the contracted amount of two leases in the next year.

<sup>30</sup> In 2016/2017 contract amounts range from \$140/AF to \$150/AF; in 2017/18 contract amounts range from \$150/AF to \$155/AF.

<sup>31</sup> Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses.

<sup>32</sup> App D also shows that the customer will bear \$482,264 of the program costs.

1 programs, and direct installation of toilets. There are calculations of estimated  
2 water savings and costs to denote present values of each program option.

3 While the document was a useful starting point, it lacked detail for an  
4 annual work plan, it didn't estimate values for partnership or grant amounts<sup>33</sup> that  
5 might be included, and each program had significant administration/mark up cost  
6 assumptions that were unsubstantiated. Forecasted program costs were not shown  
7 relative to historic costs.

8 Additionally, there is a \$96,620 over-collected balance in the conservation  
9 balancing account<sup>34</sup>, and Park has not spent the amounts agreed to in the last GRC  
10 settlement<sup>35</sup>. Those amounts were in the \$300,000 range. To suggest that Park  
11 could ramp up to \$585,091 without any help from Metropolitan Water District  
12 ("MWD") programs in 2016 seems unreasonable.

13 To date, Park is currently in compliance with the SBX7-7 requirements<sup>36</sup>.  
14 The 2009 legislation set an overall goal of reducing per capita urban water use by  
15 20% by December 31, 2020. It requires utilities to make incremental progress  
16 towards this goal by reducing per capita water use by at least 10% by December  
17 31, 2015.

18 It is also worth noting that Park has done well by reducing usage by 8%,  
19 when other neighboring communities have only shown usage reductions of 1%,  
20 6% and 7%<sup>37</sup>.

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<sup>33</sup> For example: [http://www.mwdh2o.com/mwdh2o/pages/news/press\\_releases/2015-04/Metropolitan\\_allocates\\_supplies.pdf](http://www.mwdh2o.com/mwdh2o/pages/news/press_releases/2015-04/Metropolitan_allocates_supplies.pdf)

\$100 million dollars budgeted to the MWD.

<sup>34</sup> As of April 11, 2015.

<sup>35</sup> Conservation expense settlement amounts: 2013=\$337,995, 2014=\$387,888, 2015=\$399,605.

<sup>36</sup> <http://www.water.ca.gov/wateruseefficiency/sb7/>; email dated April 24, 2015 from Tiffany Thong.

<sup>37</sup>

[http://www.swrcb.ca.gov/waterrights/water\\_issues/programs/drought/docs/emergency\\_regulation/draft\\_usage\\_tiers.pdf](http://www.swrcb.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulation/draft_usage_tiers.pdf); see percentages for Compton (1%), Vernon (6%) and Golden State Norwalk (7%).

1 Park has managed to meet these goals without spending all of its authorized  
2 conservation budget in years 2013 and 2014<sup>38</sup>.

conservation expenses				
year	authorized	actual	difference	
2013	337,995	278,730	59,265	
2014	387,888	362,154	25,734	
		unspent :	<b>84,999</b>	

3  
4 Given the emergency mandates from the Governor for 25% cuts<sup>39</sup>, the  
5 likely penalties that are being discussed in the news media, and programs from  
6 MWD, ORA cannot support Park’s 2016 wish list projections. Customers will  
7 have motivation to conserve to avoid lofty <sup>40</sup>penalties.

8 Instead ORA proposes using the 5 year escalated average conservation  
9 expenses of \$291,139<sup>41</sup> for this program.

10 **ii. Advertising**

11 In its testimony<sup>42</sup>, Park offered up 3 sentences of explanation for this  
12 account (7717.9301.). “Park increased its support of community events with  
13 program advertisement and collateral to establish Park as a community partner,  
14 especially through school events.”

15 A review of the events of the past five years<sup>43</sup> includes the following:

16 Water Awareness Week

17 Norwalk Summer Concerts Community Events (4)

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<sup>38</sup> This chart utilizes information in the settlement agreement of the last GRC plus Park workpapers for account 7717 908. Additionally: In years 2013 and 2014, Park underspent \$29,154 of its authorized conservation public outreach dollars (email dated April 24, 2015 from Tiffany Thong).

<sup>39</sup> <http://gov.ca.gov/news.php?id=18910>.

<sup>40</sup> [http://www.mwdh2o.com/mwdh2o/pages/news/press\\_releases/2015-04/Metropolitan\\_allocates\\_supplies.pdf](http://www.mwdh2o.com/mwdh2o/pages/news/press_releases/2015-04/Metropolitan_allocates_supplies.pdf).

<sup>41</sup> This takes the five year escalated average of \$274,426 in 2014 dollars (from Park workpapers 4-220; spreadsheet CB Expenses 2016rr.xls) and escalates it using the composite factors in the April 2015 ECOS memo.

<sup>42</sup> Parks Exhibit B Revenue Requirement Chapter 4 page 45.

<sup>43</sup> Data request LLK001 q15.

- 1 Norwalk Business Expo.
- 2 WRD Ground Water Festival
- 3 Professional Landscape Class (2)
- 4 California Friendly Gardening Class (2)
- 5 Bellflower Earth Day Event
- 6 Bellflower Utility Fair Event
- 7 Norwalk High School - Rally Towel
- 8 Norwalk High School Fall Calendar
- 9 John Glenn High School - Rally Towel

10

11 The workpapers<sup>44</sup> show the request to be \$9,650 for 2016. As stated in  
12 testimony, Park used a two year average to project this account, suggesting that  
13 the increased efforts in the last two years are reasonable.

14 ORA recommends that a 5 year escalated average number of \$6,254 be  
15 used. The increases in community events and school events should be moderated;  
16 therefore the longer time period should be utilized. Given the increase of CARE  
17 penetration rates to 50% of the customer base because of data sharing with Edison,  
18 it is more reasonable to return to historical levels in terms of public outreach and  
19 managing expenses.

20

**iii. Sales promotion supplies**

21 Park describes this account on page 46 of its testimony. This account  
22 (7762.910) supplies the promotional water bottles, seat cushions, towels, etc. that  
23 Park uses at the outreach events. Park projects an amount 300+% greater than the  
24 5 year average amount. The budget amount of \$8,240 has not been explained or  
25 justified other than to say that the company needs to increase communication  
26 outreach effectiveness. There is no data, customer surveys, or report to show this

---

<sup>44</sup> Park's Revenue Requirement workpaper section 1-4, chapter IV, operating expenses pp. 4-7.

1 need. In discovery<sup>45</sup> ORA sought information on competitive bidding for the  
2 water bottles, but Park does not engage in competitive bidding for water bottles.  
3 The variety and expense of these items ought to be tempered. As noted on page  
4 56 of its testimony, Park was “part of a branding project” in 2012 that sought to  
5 have better information for customers. Park ought to return to long term historical  
6 levels of advertising and sales.

7 Like the companion account above, ORA recommends a 5 year escalated  
8 average number of \$1,853 because a 10 year number isn’t available.

9 **d) Uncollectibles**

10 In its testimony, Park estimates \$207,515 for its uncollectibles in Test Year  
11 2016, whereas ORA estimates \$186,952. Park’s estimate<sup>46</sup> utilizes an estimate of  
12 0.57% of the total revenues to determine the amount of uncollectible expenses.  
13 This is based upon a 5 year average recorded.

uncollectibles	% rate
2009	0.79%
2010	0.68%
2011	0.63%
2012	0.43%
2013	0.33%
5 year average	0.57%

14  
15 ORA accepts the 5 year average factor, although the recent two year  
16 average of 0.38% could also be used since the recession is no longer present. In  
17 the 2012 GRC, a 3 year average percentage was used.

18 While Park applies the factor to operating revenues and miscellaneous  
19 revenue, ORA proposes an alternative. ORA recommends that the uncollectible  
20 factor apply only to those revenues from metered sales. ORA recommends that  
21 the uncollectible rate should not be applied to the Miscellaneous Revenues

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<sup>45</sup> DR LLK002 Q 11.

<sup>46</sup> See revenue requirement workpaper chapter 1-4, page 4-180.

1 because it includes primarily the ratepayers share of the revenues from Park’s  
 2 Non-Tariffied Products and Services contracts, operating contracts for CBMWD’s  
 3 reclaimed water systems, and marketing and billing contracts with HomeServe, a  
 4 provider of service line emergency repairs insurance. Since Park collects this type  
 5 of revenues from entities such as CBMWD, HomeServe etc. entities, which do not  
 6 typically default on their payments, ORA excludes the Miscellaneous Revenue  
 7 from its uncollectible estimate.

8 **3. Administrative and General**

9 Park seeks to recover \$8,471,468 in A&G expenses for test year 2016, and  
 10 \$6,335,745 of this amount is for non-payroll expenses. The General Office  
 11 portion of A&G expenses is approximately 40% or \$3,365,982 of the total A&G  
 12 expenses Park requested.

A&G Expenses	ORA	PARK	Difference
A&G Payroll	1,972,923	2,135,723	162,800
Employee Benefits	1,677,443	1,910,474	233,031
Insurance	737,830	821,149	83,319
Uninsured Property Damage	0	0	
Reg. Commission Expense	145,735	175,027	29,292
Franchise Requirements	126,525	138,343	11,818
Outside Services	204,699	204,699	
A&G- Other	445,514	446,057	543
A&G Transferred Credit	-480,611	(725,986)	(245,375)
Rents	0	0	
General Office Allocation	3,365,982	3,365,982	0
			-
Total A&G Expenses	8,196,042	8,471,468	275,426

13  
 14  
 15 The GO allocation in the above table includes payroll taxes, ad valorem taxes, etc.

16  
 17 For A&G, Park used a variety of estimating tools, including 5 year  
 18 averages. To outside services, Park added the cost of ongoing activities to the 5  
 19 year average, for insurance/medical projections information from brokers/actuaries  
 20 was utilized, and for other items they use a budgeting process and adders.



1 2015 numbers and then a 5% escalation factor to get to 2016. ORA used a similar  
 2 methodology for dental projections. The difference in methodologies results in a  
 3 decrease of \$31,284 for these two expenses. This number was then adjusted  
 4 downward to reflect the vacancy adjustment which created an overall difference of  
 5 \$60,374.

	ORA	Park	Difference
2016 medical	546,481	600,732	54,251
2016 dental	48,681	54,804	6,123
			60,374

6  
 7  
 8 **ii. Group Pension**

9 In Park’s testimony on page 54<sup>50</sup>, Park reveals that this number is  
 10 developed by an actuarial valuation and that a 2015 report is expected<sup>51</sup> (soon.)  
 11 The company offers up one page in its workpapers (WP 4-198) to support the  
 12 \$890,241 request but lacks detail and analysis.

13 Rather than accept this unsupported estimate, ORA proposes using the  
 14 2014 recorded amount of \$737,214 (increased by the use of the January Global  
 15 Insight factors for “benefits”<sup>52</sup>) amount for group pensions. This results in the test  
 16 year amount of \$782,865 or \$107,376 less than Park’s projection.

17 Looking at the five year escalated amount of \$685,357 in this category of  
 18 costs shows that ORA is still projecting an increase. ORA’s methodology is based  
 19 upon recent recorded data and reasonable inflation factors.

20 **iii. Medical elections- comment**

21 Based upon conversations with the company when going over the expense  
 22 workpapers, it was revealed that the workpapers in the application do not reflect

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<sup>50</sup> Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses.

<sup>51</sup> ORA has an outstanding data request to review this document.

<sup>52</sup> The factors used are 1.028 for 2015 and 1.033 for 2016 from Global Insight Jan 2015.

1 the current employee elections of medical plans. Therefore, when a comparison  
2 exhibit is prepared, the workpapers ought to be updated to reflect current elections  
3 for the various medical plans.

4 **iv. Post-Retirement Benefits Other Than**  
5 **Pensions (“PBOPs”)**

6 In looking over the workpaper<sup>53</sup> details for PBOP, there is a dramatic shift  
7 in expenses from 2013 to 2014 and again from 2015 to 2106. As explained in  
8 testimony<sup>54</sup>, there was a policy change in 2013 that reduced funding levels. As  
9 stated in testimony, the 2015 actuarial report is not yet available (that is still  
10 true<sup>55</sup>). For this rate case cycle, ORA accepts Park’s 2016 estimate of \$80,000 as  
11 it is substantially less than the 5 year average of \$180,610.

12 Additionally, ORA acknowledges that Park is now in the process of  
13 reducing the regulatory asset<sup>56</sup> that relates to full recovery of PBOPs expenses.

14 **b) Insurance**

15 There are many forms of insurance for which Park has to purchase. They  
16 include: workers compensation insurance, business insurance (general and  
17 umbrella liability, crime, inland marine, property, commercial bond, directors and  
18 officers, fiduciary, employment practices, contractor, errors and omissions, life)  
19 and transportation insurance.

20 During discovery<sup>57</sup>, ORA found that there were errors in Park’s calculations  
21 of business insurance. Therefore, the \$817,231 overstated the test year amounts  
22 due to errors in its results of operations model. These are now corrected to reflect  
23 the accurate estimate of \$773,894. This corrected number is more consistent with

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<sup>53</sup> Park’s Revenue Requirement workpaper section 1-4, chapter IV, operating expenses p. 4-13.

<sup>54</sup> Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses page 53.

<sup>55</sup> As of April 28, 2015 the report was not available.

<sup>56</sup> The difference each year between the FASB 106 PBOP expense and the allowed tax-deductible ratemaking expense have been recorded as a regulatory asset.

<sup>57</sup> April 1, 2015 email from Tiffany Thong.

1 the five year escalated average of \$725,254. ORA does accept the corrected  
2 amount of insurance expense forecasted for 2016.

3 **c) Regulatory expenses**

4 On pages 56-57<sup>58</sup>, Park describes the estimates it utilizes for test year  
5 purposes. Essentially it utilizes the 2012 Apple Valley litigated GRC estimate and  
6 the 2013 cost of capital proceeding to design the regulatory expenses. From these  
7 numbers, Park escalates the numbers to bring them into 2016 dollars.

8 In addition, Park includes the costs of past reports<sup>59</sup> used in past rate cases.  
9 When annualized over three years, Park seeks to recover \$175,027 in test year  
10 regulatory expenses.

11 Park and ORA have historically agreed to defer and amortize in the Test  
12 Year expenses incurred for current rate case proceedings. While this convention  
13 has been utilized in the past by Park Water Company, the Commission is  
14 correcting this retroactive ratemaking practice with other water companies<sup>60</sup>. This  
15 is the time to correct Park's practice of forecasting regulatory expenses.

16 Since Park's last General Rate Case filed in A.12-01-001, ORA has  
17 recommended, in other GRCs, that the practice of amortizing deferred rate case  
18 expenses be converted to a prospective forecast.

19 In D.12-04-009, the Commission indicated that there are good reasons to  
20 use a forecast because, it provides a limit on costs or at least an incentive to  
21 control costs, whereas amortizing prior costs provides little or no incentive for a  
22 utility (Suburban in that case) to control costs.<sup>61</sup> ORA agrees with the  
23 Commission that forecasting rate case costs provides the best incentive to control  
24 costs. Therefore, ORA recommends that *only* forecasted expenses be included in

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<sup>58</sup> Park's Revenue Requirement Report Exhibit B, chapter IV, operating expenses.

<sup>59</sup> Asset management report, water use efficiency plan.

<sup>60</sup> D 12-04-009, D15-04-007.

<sup>61</sup> D.12-04-009, Section 7.3.

1 Test Year 2016. As a result, ORA recommends \$145,737 in forecasted costs for  
2 Park’s next Cost of Capital proceeding and Park’s General Rate Case for Test  
3 Year 2019.

4 It is also ORA’s position that there is no need to allow Park to have a  
5 “catch up” provision when switching to forecasting rate case expenses from  
6 amortizing the actual incurred cost. Park will continue to recover its rate case  
7 expenses on a prospective basis as long as it continues to file rate cases. The only  
8 way it would not recover its costs, is if Park’s forecast is lower than its recorded  
9 rate case expenses or it ceases to exist as a business entity. Therefore, ORA does  
10 not recommend that Park be allowed a “catch up” provision.

11 However, if the Commission considers granting a “catch up” provision, the  
12 following table shows ORA’s estimate for the forecasted 2016 Regulatory  
13 Expense in order to transition Park from amortizing past rate case costs to a  
14 prospective forecast approach.

15 There are two scenarios regarding the catch-up expenses:

16 1) an amount of \$294,837, if the current rate case can be settled in  
17 its entirety<sup>62</sup>; or

18 2) an amount of \$385,009 if there are litigated issues in the current  
19 GRC.

20 ORA further recommends that if Park is allowed to catch up its deferred  
21 2015 rate case costs, the recovery of the 2015 costs be amortized over six years  
22 rather than three years to ease the transition for Park’s ratepayers.

23

24

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<sup>62</sup> The last two Park GRC’s have been settled.

1

**ORA Recommended Forecast and Optional Catch Up Plan**

	Forecast	Catch Up (full settlement)	Catch Up (Litigated)
2015 GRC Costs	\$0	\$294,837	\$312,813
2018 GRC Costs	\$365,009	\$0	\$0
2015 Cost of Capital Litigation	\$	included	\$72,196
2018 Cost of Capital Litigation	\$72,196	\$0	\$0
Total	\$437,205	\$294,837	\$385,009
	/3	/6 =	/6
	\$145,735	\$49,140	\$64,168

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**i. Forecasted 2018 GRC Expenses**

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ORA recommends \$437,205, subject to escalation, as the regulatory expenses for Park’s next general rate case, which will be filed in 2018. The estimate is based on the actual amount incurred by Park’s subsidiary Apple Valley Ranchos Water Company (“AVR”) in its Test Year 2012 rate case and escalated to the time of its next proceeding, and the removal of the expenses associated with two non-recurring reports.<sup>63</sup> The total forecasted regulatory expenses, including the concurrent Cost of Capital proceeding parallel to the GRC, are \$437,205 or \$145,735<sup>64</sup> for each year during the current rate case cycle.

12

**ii. Catch-Up 2015 Regulatory Expense**

13

14

15

As ORA pointed out earlier, should the Commission allow Park to recover the expenses for the current GRC, ORA recommends two options for the Commission to consider.

<sup>63</sup> the Asset Management Report (\$53,215) and Water Use Efficiency Plan (\$34,660).

<sup>64</sup> \$437,205/3.

1           In Park’s prior GRC, A.12-01-001, Park was authorized \$560,442 for its  
2 regulatory expenses, which includes the assumption that the rate case would be  
3 contentious and an evidentiary hearing would be required. However, as a result of  
4 reaching a full settlement with ORA, Park’s recorded regulatory expenses were  
5 reduced to \$270,493. ORA, therefore, recommends \$294,837 after escalation  
6 from 2013 to 2016, as the regulatory expenses for the current GRC if there is a full  
7 settlement between ORA and Park in this GRC. This amount excludes the cost for  
8 the Asset Management Report (\$53,215) and Water Use Efficiency Plan (\$34,660)  
9 as ORA believes these costs should be included as part of Park’s capital and  
10 conservation budget, and not treated as a regulatory expense.

11           For the second scenario, ORA recommends the regulatory expenses be  
12 based on the most recent AVR GRC expenses, minus the portion relating to its  
13 General Office. As provided in Park’s Regulatory Commission Expense  
14 workpaper, Park proposes \$175,027 for Test Year 2016 as provided in the  
15 following Table:

16           ///

17           ///

18           ///

<b>REGULATORY COMMISSION EXPENSE</b>		
<b>GRC - Excluding Cost of Capital Component</b>		
AVR Actual GRC Expense - Test Year 2012 (Recorded thru 2012)		336,147
sub-total excluding cost of capital		336,147
Escalation Factor for 5 Years (2013 to 2016)	1.09	365,010
<b>Cost of Capital Component</b>		
Cost of Capital 2013 (Recorded thru 2013)	67,112	
Escalation Factor for 3 Years (2013 to 2016)	1.08	72,196
<b>Other Regulatory Proceedings &amp; Reports</b>		
Asset Management Report		53,215
Water Use Efficiency Plan		34,660
		87,875
Total		525,081
Annual Expense		175,027

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ORA agrees with Park to use its AVR GRC as a proxy for the regulatory expenses estimate *if* the current GRC requires evidentiary hearings, but recommends the removal of the cost of the Asset Management Report and Water Use Efficiency Plan for the reasons ORA stated earlier. ORA further recommends the reduction of 14.3% from AVR’s actual GRC expenses as the percentage related to the General Office portion because there is no General Office filing in the current Park Central GRC. The percentage used to adjust the General Office portion of the regulatory expenses is based upon the percentage of the overall General Office Allocated expenses to the overall AVR expenses<sup>65</sup>. As a result of

<sup>65</sup> Park’s workpaper in A.14-01-002; 14.3%=GO expense of \$2,477,759 divided by the overall AVR expenses of \$17,274,611.

1 the adjustment from ORA, Park's regulatory expenses under the second scenario  
2 will be \$385,009, or \$64,168 per year for six years.

3 It is ORA's mission to obtain the lowest possible rate consistent with  
4 reliable and safe service. By forecasting rate case costs, Park will be motivated to  
5 control its costs without violating the Commission's future test year prospective  
6 rate setting policy. The Commission should adopt ORA's recommendation of a  
7 prospective forecast of \$145,735 for Test Year 2016 as it provides ratepayers with  
8 protection from Park's unrestrained regulatory costs.

9 d) **General office allocation**

10 ORA reviewed the general office allocation workpapers. ORA is satisfied  
11 that the calculations reflect the appropriate allocation percentages from the  
12 settlement for Park's portion of general office expenses. When the decision in the  
13 Apple Valley/General Office is made final, the results will be carried into the  
14 summary of earnings calculation and a revised estimate will be presented for  
15 general office allocation. For purposes of estimating 2016 expenses, the general  
16 office allocation to Park is represented as \$3,365,982. (inclusive of payroll taxes,  
17 ad valorem taxes etc)

18 **D. CONCLUSION**

19 ORA recommends that the Commission adopt ORA's lower estimates on  
20 expenses as recommended herein. ORA's recommendations reflect greater usage  
21 of 5 year average data, corrections, lower sales, more moderate leased water rights  
22 projections, lower regulatory expenses, 48 employees, lower bonuses, global  
23 insight information for benefits and group pensions, and more moderate  
24 conservation expenses.

25 ORA does not accept Park's escalation estimates. Rather than updating the  
26 escalation factors each month, ORA proposes utilizing the most current ECSB  
27 memo escalation factors for the comparison exhibit.

28

1                   **CHAPTER 4: RECLASSIFIED AND NEW POSITIONS**

2   **A.     INTRODUCTION**

3           This chapter covers ORA’s discussion of Park’s new positions (job titles)  
4 that Park did not have in its prior GRC due to reorganization. The discussion of  
5 payroll forecast and methodology is being covered by ORA’s Expense witness in  
6 Chapter 3.

7           Since the last GRC, Park has reviewed, evaluated, and analyzed the  
8 Company’s organizational structure, business requirements, and individual work  
9 load requirements. Overall, Park requests 49 regular positions for Test Year 2016  
10 as compared to 52 regular positions last authorized by the Commission in D.13-  
11 09-005 through a combination of organizational restructuring, reassignment of  
12 duties, and increased reliance on technology.

13           ORA applauds Park’s continuous effort to streamline its organization and  
14 operation. ORA does not micro-manage Park’s management in dealing with its  
15 organization and operation, but focuses its review on whether or not such changes  
16 would result in efficiency to the company, result in cost savings, and are  
17 reasonable for its ratepayers to fund.

18   **B.     SUMMARY OF RECOMMENDATIONS**

19           ORA agrees with Park’s reorganization except its request for a higher  
20 salary for the Production Technician 1 position and the new position for the Water  
21 Quality/Operation Engineer. ORA recommends a salary of \$53,402 for the  
22 Production Technician 1 position, an adjustment of \$44,587 per Commission D.  
23 13-09-005. ORA also recommends the disallowance of the Water  
24 Quality/Operation Engineer position because: 1) the new position does not provide  
25 verifiable cost savings; 2) there is not enough additional workload to justify a new  
26 position; and 3) Park’s claim of succession planning is premature and unnecessary.

1 **C. DISCUSSION**

2 The following is a discussion of the new positions (job titles) that Park did  
3 not have at the time of the prior GRC due to reorganization.

4 **1. Customer Support Supervisor**

5 Park replaced the Manager of Customer Service and Conservation with a  
6 Customer Service Supervisor in December 2014. In January 2015, the Supervisor  
7 was promoted to Customer Support Supervisor and has the responsibility of  
8 supervising the Water Conservation Coordinator, Senior Public Affairs Specialist  
9 and seven Customer Service Representatives. Park will realize salary savings of  
10 \$5,263 in Test Year 2016 and ORA finds this organizational change reasonable.

11 **2. Manager of Financial Services**

12 Park replaced the General Accounting Supervisor due to retirement and  
13 replaced it with the Manager of Financial Services. The Manager of Financial  
14 Services is a certified public accountant with more financial, accounting, and  
15 auditing experience compared to the previous General Accounting Supervisor.  
16 Although the change will result in a \$2,279 higher salary for Test Year 2016, ORA  
17 believes this is necessary due to the additional credentials and higher  
18 qualifications of Manager of Financial Services requirement for the Manager of  
19 Financial Services position.

20 **3. Communication Center Foreperson**

21 Park reorganized its dispatch group when the most senior member of the  
22 Communications Center retired in 2014. The Associated Risk Manager position  
23 was eliminated after he became the Communications Center Foreperson. Park  
24 also changed the Control Center Operators job title to Communication Center  
25 Operators. In addition, Park has retained an answering service at a cost of \$2,410  
26 annually to cover some of the shifts in the Communication Center during  
27 weekdays and weekends. This change has resulted in the elimination of one full  
28 time Communication Center Operator position and another that could be filled

1 with a limited-part time position. The Communication Center is now staffed with  
2 two full time and a part time positions compared to five full time positions prior to  
3 the reorganization. Park will realize a total of \$192,923 in salary savings in Test  
4 Year 2016 and ORA agrees with this organizational change.

#### 5 **4. Utility Service Supervisor**

6 Park reorganized the Utility Service and Meter Reading groups by  
7 combining them. When the Field Foreperson of the Utility Service group retired,  
8 Park promoted the Meter Reader Foreperson into a new position called the Utility  
9 Service Supervisor who would be the supervisor of the two groups while the Field  
10 Foreperson position was eliminated. For the past year, Utility Service crews have  
11 been cross-trained in meter reading and Meter Reading staff have been crossed-  
12 trained in utility service duties and allowed them to be flexible and  
13 interchangeable. All Meter readers became Utility Service persons at the end of  
14 2014. Under the new group, the Utility Service Foreperson has two lead positions  
15 under him to handle the workload from utility service and meter reading.

16 Part of the reorganization of this business unit is to increase the salary of  
17 the previous authorized Production Technician 1 from \$53,402 to \$97,989 and the  
18 new Water Quality/Operation Engineer position with a salary of \$159,866. As per  
19 ORA's discussion in this chapter, the disallowance of the increase for the  
20 Production Technician 1 and the elimination of the Water Quality/Operation  
21 Engineer position will allow Park to achieve cost savings of over \$150K  
22 associated with this reorganization. ORA agrees with this reorganization.

#### 23 **5. Production Technician**

24 In the last GRC, the Commission authorized in D.13-09-005 a new  
25 Production Technician 1 at a salary of \$50,375, or \$53,402 with escalation  
26 increase for Test Year 2016. However, Park requests in this GRC \$97,989, an  
27 increase of \$44,587 or 88.5%, in Test Year 2016 to fund this same position  
28 because the position was filled by an internal individual who was earning a salary

1 comparable to a Meter-Reader 3 salary level. Park claimed that the Meter Reader  
2 position was not filled and has been eliminated. ORA opposes such increase  
3 because the Commission authorized only \$53,402 for this position. Park was able  
4 to eliminate the Meter Reader position due to reassignment of duties and the use of  
5 technology, such as Automatic Meter Reader (“AMR”). ORA believes any cost  
6 savings should be passed onto the benefit of Park’s ratepayers rather than funding  
7 another position with higher salary. As such, ORA recommends that the funding  
8 of the Production Technician 1 should remain at \$53,402 per D. 13-09-005.

9 **6. Water Quality/Operation Engineer**

10 Park requests a new position for Water Quality/Operation Engineer. This  
11 position has not previously been authorized by the Commission, but was filled in  
12 January 2015. Park’s primary reason for this position was to address succession  
13 planning and handle new workload. The individual that Park hired brings over 18  
14 years of water industry experience. Park is expected to pay \$155,564 annual  
15 salary for this position.

16 ORA opposes the Water quality/Operation Engineer position for the  
17 following reasons: 1) the new position does not provide verifiable cost savings; 2)  
18 there is not enough additional workload to justify a new position; and 3) Park’s  
19 claim of succession planning is premature and unnecessary.

20 a) **The new position does not provide verifiable cost**  
21 **savings**

22 One of the most important justifications for the need of any new position is  
23 that the benefit of this position has to be tangible, quantifiable and out-weighs its  
24 costs- a showing that Park has failed to provide. Park could only provide general  
25 statements on the cost savings that this position might be able to generate. In its  
26 response to ORA’s verbal data request on March 12, 2015, Park stated the  
27 following regarding the cost savings:

28 Cost savings will be realized from not having direct charges from the  
29 Corporate Vice President of Water Quality for activities directly

1 related to Central Basin. Operational efficiencies will become more  
2 evident with time as Adam learns about Park's current operations.  
3 Because of his expertise, he may be able to analyze and implement  
4 more cost effective ways of doing things that may also result in cost  
5 savings. For example, Adam has been studying daily, monthly, and  
6 seasonal pumping patterns for each well. Adam may be able to  
7 optimize pumping to reduce energy requirements and minimize low  
8 flow penalties from MWD. There may also be operational  
9 efficiencies in the near future if retirements provide opportunities to  
10 reorganize departments. It is too early to provide detailed cost  
11 savings or operation efficiencies because Adam is still learning the  
12 details about Park's operations.

13 The lack of specifics regarding the savings and operational efficiency of  
14 this position troubles ORA. While the costs of the \$155,564 annual salary plus  
15 benefits are being passed onto ratepayers immediately, the benefit result from this  
16 new position is much more uncertain. As such, it is unfair to ratepayers if this  
17 position is allowed to be filled at this time.

18 **b) Lack of New Workload**

19 Although Park stated that it needs this new position in order to handle the  
20 new workload, the information it provided to ORA did not support its claim.

21 Page 42 of Exhibit B states the person filling this position:

22 will assist the Corporate Vice President of Water Quality in dealing  
23 with water quality requirements for the Central Basin Division,  
24 including all water quality monitoring, testing and compliance,  
25 preparing the annual Consumer Confidence Report, and fulfilling  
26 obligations for the Partnership for Safe Water. The new manager  
27 will supervise the Production Department, assure compliance with  
28 GO 103A, design process and procedures for effective and efficient  
29 operation and maintenance of the system, and work closely with the  
30 Division Superintendent, Utility Service Department, and  
31 Engineering Department to implement best management practices .

32 (underline added)

33 In its response to ORA's verbal data request on March 12, 2015, Park  
34 admitted that none of the above underlined activities is new since the prior GRC.

1 Most of the described activities were being handled by the existing staff, except  
2 the Partnership for Safe Water and the new statewide NPDES permit “for potable  
3 water discharge,” which are new functions and in Park’s estimate, would require  
4 120 hours annually by this individual to perform. In short, most of the workload  
5 the Water Quality/Operations would perform includes the current workload  
6 activities already being handled by existing staff. There is not enough additional  
7 workload to justify the need for this new position.

8 c) **Park’s Claim of Succession Planning is Premature**  
9 **and Unnecessary**

10 Another major justification by Park for this position is the need for  
11 succession planning due to the pending retirement of several key leadership  
12 positions that will likely become vacant in the next year or two. This includes the  
13 Corporate Vice President of Water Quality, the Central Basin Division Assistant  
14 Vice President/Division Superintendent, and the Production Foreperson. Park  
15 does not feel that it has any existing internal staff members that have the  
16 education, skills, certification, and experience to assume either the Vice President  
17 of Water Quality or the Division Superintendent positions. If Park decides to hire  
18 someone from the outside, it would not be able to find a qualified candidate to fill  
19 the position in a timely manner. Park believes the hiring of the Water  
20 Quality/Operation Engineer would allow it to begin the succession process. ORA  
21 disagrees with this assertion.

22 The most important factors in any succession plan is when the certain  
23 individual actually leaves the company and the company being able to find the  
24 talent and expertise in a manner that the company can move forward smoothly. In  
25 Park’s case, ORA believes Park can hire an individual with adequate qualifications  
26 and experience to meet its need without difficulty as evidenced in Park’s search  
27 for a suitable candidate to fill the Water Quality/Operations Engineer. According  
28 to Park’s data request response dated March 20, 2015, Park provided that the job  
29 posting was advertised on Brown and Caldwell’s Water News Job posting site for

1 30 days. It received 46 responses to the job posting of which 10 were selected for  
2 interviews. The final candidate selected for this job was a person with over 18  
3 years of water industry experience in water quality, regulatory compliance, water  
4 supply planning, treatment plant operations and maintenance, strategic planning,  
5 capital improvements, and budgeting. He has California Water Distribution  
6 Operator 5, AWWA Water Quality Analyst Grade 4 Certification, and Water  
7 Treatment Operator 5 certification, is a registered professional civil engineer, and  
8 has an MBA.

9         Given that Park was able to hire such a well-qualified person in a relatively  
10 short period of time with posting on only one job site, ORA believes Park's claim  
11 that it needs to have a new position as part of its succession plan is unfounded.  
12 ORA believes that when such need arises, Park should be able to hire someone  
13 with the qualifications that meet its needs with little difficulty. Having a  
14 succession plan for this position is premature and unnecessary at this time.

15 **D. CONCLUSION**

16         ORA applauds Park's continuous effort to streamline its operations in  
17 order to achieve efficiency and cost savings. ORA agrees with most of the  
18 reorganization that Park is undertaking, except the increased salary for the  
19 Production Technician I and the new position of the Water Quality/Operation  
20 Engineer. ORA believes Park should continue to fund the Production Technician  
21 1 position based on the funding level authorized by D.13-09-005. The Water  
22 Quality/Operation Engineer position should be disallowed at this time.

## CHAPTER 5: UTILITY PLANT IN SERVICE

### A. INTRODUCTION

In developing its recommendations for capital investment in utility plant, the Office of Ratepayers (“ORA”) reviewed and analyzed Park Water Company’s (“Park”) testimony, its application, workpapers, capital project details, emails, and various responses to ORA data requests. ORA also conducted a field investigation of most of the proposed plant additions. During the field investigation ORA noted that Park’s management team and staff were both knowledgeable and open to discuss current operations and future plans for infrastructure improvement.

Upon reviewing Park’s request for utility plant, ORA found that Park’s plans to replace aging infrastructure and add new facilities are in some cases justified. However, the requested increase in the rate of infrastructure replacement and the number of new facilities proposed to be constructed are significantly more ambitious than in past rate cases. For example, in Park’s last General Rate Case (“GRC”), A.12-01-001, ORA determined that the Park’s recorded total plant additions averaged \$2.7 million per year between 2006 and 2011.<sup>66</sup> By contrast, in this General Rate Case (“GRC”), Park seeks to add an average of \$14.8 million gross plant per year for 2015 through 2017<sup>67</sup>. It should also be noted that for its last GRC, Park requested an average of \$11.4 million per year for 2012 through 2014.

Park’s service area is comprised of mostly working-class individuals, with a median household income of \$42,953 for consumers living in the City of Compton, and \$49,637 for consumers living in City of Bellflower.<sup>68</sup> It should be noted that the median income in the State of California was reported as \$61,094

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<sup>66</sup> A.12-01-001, ORA’s Report, p. 7-1.

<sup>67</sup> Park Water Company Application, p. 124.

<sup>68</sup> US Census Bureau, American Fact Finder S1903 Median Income in the Past 12 Months (In 2013 Inflation Adjusted Dollars).

1 for the same period. Therefore, it can be seen that Park’s service territory is  
2 comprised of neighborhoods, which have below average median household  
3 incomes in the state. In addition, the state economy has not fully recovered to the  
4 pre-recession levels. For example, a recent study conducted by a non-profit  
5 organization, California Budget & Policy Center issued a Budget Brief, dated  
6 January 7, 2014 quotes U.S. Bureau of Labor Statistics that the labor market is still  
7 weak despite more than three years of sustained economic growth, with  
8 California’s unemployment rate (8.7 percent in October 2013)<sup>69</sup> remaining higher  
9 than at any point during or following the 2008-2009 Great Recession.<sup>70</sup>

10 Nearly 50% of Park’s customers are under the low-income program. Thus,  
11 affordability of water service is an issue for Park. The Commission in D.14-10-  
12 047 related to rulemaking proceeding, R.11-11-008 that pertains to Water Action  
13 Plan objectives for setting rates that balance investment, conservation, and  
14 affordability address how to measure affordability based on what portion of  
15 household income goes towards paying a water utility bill. In the proceeding one  
16 of the parties argued that the Commission should use 1.5% of household income.  
17 The Commission denied this request. The Commission noted that in the  
18 affordability screening framework, the staff report relies upon the 2.5% threshold  
19 recommended by the California Department of Public Health. The Commission  
20 concluded that to the extent that parties use that framework, which is a  
21 discretionary tool, they should use the 2.5% threshold. Based on Park’s past rate  
22 increases, ORA found out that Park already exceeds the 1.5%, and getting very  
23 close to the 2.5% affordability benchmark<sup>71</sup>.

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<sup>69</sup> Per California State Employment Development Department ([www.labormarketinfo.edd.ca.gov](http://www.labormarketinfo.edd.ca.gov)) the unemployment rates in City of Bellflower, City of Compton, and City Norwalk remain 6.9%, 11.2% and 9.7% respectively in year 2015.

<sup>70</sup> See Attachment-A: A copy of the California Budget & Policy Center’s Budget Brief.

<sup>71</sup> See Attachment-B: Calculations for Park’s average customers’ affordability.

1           Therefore, as the economy has not yet fully recovered to the pre-recession  
2 levels and the majority of Park’s customers have below average income levels,  
3 ORA found it necessary to consider the affordability of Park’s customers and to  
4 carefully balance the needs of the company to replace its aging infrastructure.  
5 ORA’s objective is to recommend plant additions that will allow Park to continue  
6 to provide safe, reliable service at the lowest rate possible.

7       **B.       SUMMARY OF RECOMMENDATIONS**

8           Park has proposed \$15,048,700 in year 2015, \$15,095,700 in year 2016 and  
9 \$15,191,600 in year 2017 for the purpose of company/ratepayer-funded plant  
10 additions. Park also includes the addition of third-party or contributed plant  
11 additions that are not company or ratepayer funded in the amount of \$150,000  
12 annually over the period of 2015-2017. ORA recommends company/ratepayer  
13 funded plant additions of \$9,348,361 in year 2015, \$9,942,824 in test year 2016,  
14 and \$7,454,440 in test year 2017<sup>72</sup>.

15       **C.       DISCUSSION**

16           The following table, Table 5-1 shows a summary of those capital requests  
17 ORA has recommended different amounts than Park’s proposed amounts:

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<sup>72</sup> Pursuant to new Rate Case Plan Decision, D.07-05-062, ware IOUs have two Test Years for the purpose of assessing their ratebase.

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**Table 5-1: Summary of ORA's Capital Plant Adjustment**

Park Water Company - Central Basin Division						
(Dollars in '000)						
Description	2015		2016		2107	
	ORA	PWC	ORA	PWC	ORA	PWC
T&D Reservoir & Booster Station	\$0.00	\$230.00	\$0.00	\$1,600.00	\$0.00	\$1,378.00
T&D Main (New/Replacement)	\$4,000.00	\$6,541.00	\$4,000.00	\$5,656.30	\$4,000.00	\$6,853.30
Replacement Valves	\$76.10	\$100.10	\$76.85	\$101.10	\$77.63	\$102.20
Replacement Hydrants	\$88.10	\$176.20	\$88.97	\$178.00	\$89.87	\$179.70
T&D Land	\$0	\$1,000.00	-	-	-	-
MISC. Pumping Equipment	\$133.88	\$200.00	\$135.21	\$200.00	\$136.57	\$200.00
Well 12C (Drill & Casing)	\$730.39	\$908.00	-	-	-	-
Well 12C (Structure & Equipping)	\$402.20	\$500.00	\$804.40	\$1,000.00	-	-
Compton East Well (Drill & Casing)	-	-	-	-	\$0	\$1,500.00
Misc. Site Improvements	\$38.77	\$100.00	\$39.16	\$100.00	\$39.55	\$100.00
Misc. Treatment Equipment	\$129.19	\$136.30	\$130.28	\$137.00	\$131.79	\$137.70
Water Rights	\$0	\$1,000.00	\$0	\$1,000.00	\$0	\$1,000.00
Land for New Well	\$650.00	\$650.00	-	-	\$0	\$700.00
Misc. Vehicles & Equipment	\$32.60	\$84.50	\$32.60	\$66.30	\$6.90	\$77.60
Cost of Removal	\$452.92	\$888.40	\$452.92	\$874.80	\$452.92	\$393.90

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3

### 1. T&D Reservoir: Compton East Reservoir and Booster Pump Station

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Park requests a total of \$3,128,000 for the purpose of building a new 0.60 million gallon reservoir and associated booster pump station. More specifically, Park proposes spending \$150,000, \$1,600,000, and \$1,378,000 in years 2015, 2016, and 2017, respectively. ORA recommends disallowing this capital project.

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Park justifies its need for the new reservoir based on its increased efforts to utilize more groundwater and to lower the use of purchase water<sup>73</sup>. In addition, Park argues that because of state grants for another well, Well 9D were received under the condition that the Park would pump on average of 900 AF /year from the facility, but due to the low demand it now believes that it cannot pump the water directly to the system and needs the new reservoir for groundwater storage. Additionally, Park also cites the water service reliability risk that exists due to the potential for both planned and emergency interruptions in imported water

<sup>73</sup> Park's application, p. 64

1 deliveries per the Metropolitan Water District (“Metropolitan”) of Southern  
2 California Administrative Code (“SCAC”). The SCAC requires that each  
3 member agency shall have sufficient resources such as local reservoir storage,  
4 ground water capacity, system interconnections or alternate supply to maintain a  
5 seven-day interruption in Metropolitan deliveries from raw and treated water  
6 distribution facilities based on average annual demands of the affected facility.<sup>74</sup>

7 In addition, Park hired an outside consultant, Water Systems Consulting,  
8 Inc. (“WSC”), in order to evaluate best possible alternatives for the situation in the  
9 Compton East Water System. The WSC study indicates that the other alternatives  
10 considered were: 1) an option of a doing nothing; 2) an option of groundwater well  
11 with Variable Frequency Drives (“VFDs”); and 3) the option of connecting the  
12 Compton East to the neighboring Compton West or Bellflower/Norwalk Water  
13 Systems. The study compares these alternatives across a 30-year life cycle cost. In  
14 the end, the study shows that even though constructing a new well will be the  
15 lowest cost option, constructing the new reservoir and booster pump station option  
16 are preferred as the actual water production of the wells (replacement well for the  
17 existing Well 4B and an additional new well) may not be at the assumed levels of  
18 1000 GPM.

19 A careful examination of Park’s application, workpapers and various  
20 pertinent information that was obtained through ORA’s data requests, reveals that  
21 currently there is no immediate need to construct the proposed reservoir and the  
22 booster pump station. For example, on page 3-7 of the WSC study, it indicates  
23 that the water demand in the system is met by the exiting Central Basin  
24 connection. And CB-25 which is a relatively newly constructed Well 9D, and  
25 Well 4B are used to minimize the amount of time that CB-25 operates below 10%  
26 of its capacity to avoid the low flow penalties. The Well 9D was constructed in  
27 1999 and then in 2012 it was equipped with a new wellhead treatment, while the

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<sup>74</sup> Park Application, p. 66.

1 Well 4B is quite old and was constructed in 1967. However, currently Well 4B is  
2 used only as a standby well. In addition, during the low demand periods overnight  
3 when Well 9D is also shut off, the demand still falls below the 10% minimum  
4 flow rate requirement<sup>75</sup>. Therefore, the two existing wells are under-utilized.

5 Apparently the Compton East Water System has been operating with the  
6 Central Basin Connection, CB-25 and combination of well 4B and 9D. Since the  
7 Metropolitan's SCAC requires that each member agency shall have sufficient  
8 resources of supply to maintain a seven-day interruption in Metropolitan  
9 deliveries, but this has not been a priority for Park. ORA finds that no major  
10 changes have taken place that would force Park to adopt measures to comply with  
11 the Metropolitan's SCAC requirements.

12 Similarly, as far as Park finds itself in a conflict with the Proposition 50  
13 grant requirement, which requires Park to utilize Well 9D to at least the level of  
14 900 AF/year, Park demonstrates a lapse in making sure that it would not be able to  
15 meet this requirement. Now Park wants its captive ratepayers to pay for its  
16 inability to meet this provision of the grant. For example, while responding to  
17 ORA's data request, AMX-02 (Question-2b) Park responded:

18 At the time of application in 2006, the water produced in the  
19 Compton East Water System was 2,371 AF and in 2007 it was 2,054  
20 AF. These amounts were used in modeling the optimization of flow  
21 out of Well 9D while minimizing the low-flow penalties from  
22 Cen B-25. The conclusion of this was that we could pump 900 AF  
23 from Well 9D (see email). Beginning in 2008 (1,853 AF) and  
24 continuing through 2010 (1,700 AF for the last full year of data prior  
25 to signing the funding agreement), the water production in this  
26 system had decreased as the demand had decreased. **At that time,**  
27 **Park didn't revisit running its model again to ensure that 900**  
28 **AF could still be pumped.** (Emphasis Added)

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<sup>75</sup> WSC Study, p. 3-7.

1 It is evident that since 2007 to 2010 the water production in the Compton  
 2 East Water System has dropped 28.3%<sup>76</sup>, but Park failed to adjust its estimates for  
 3 the potential production from Well 9D, and still agreed on a production of 900  
 4 AF/year in order to secure the Proposition 50 grant for the Well 9D. Today in  
 5 order to avoid low flow penalties it is not only under-utilizing its two wells in the  
 6 Compton East Water System, but it is also forcing a less than favorable option of  
 7 placing the cost burden of a new reservoir, booster and pump station on its captive  
 8 ratepayers.

9 The following table summarizes the various alternatives Park has  
 10 presented:

11 **Table 5-2: Park’s proposed alternatives for new reservoir**

Alternative Description	Capital Costs	30-year Life Cycle Cost
Base Alternative Range	\$0- \$425,000	\$39,933,000 - \$53,910,000
Alternative #1: Construct a Reservoir	3,778,000	\$37,397,000
Alternative # 2: Drill & Equip Well with VFDS	\$3,343,000	\$36,867,000
Alternative #3: Combine Compton East and Compton West	\$4,535,000	\$38,153,000

12  
 13 It should be noted that the least cost method would be Alternative #2: Drill  
 14 & Equip Well with VFD. However, Park dismisses this least cost alternative on  
 15 the basis of uncertainty associated with the actual production of 1000 gpm of the  
 16 new well due to hydrogeology of the location. Park’s consultant also adds that  
 17 *“the potential for the new well to require wellhead treatment is a risk to the*  
 18 *project budget. The cost of wellhead treatment is highly variable and is dependent*  
 19 *upon the groundwater quality of the proposed well which is unknown; however,*  
 20 *any treatment need would increase the life Cycle cost of this alternative. For*

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<sup>76</sup> (2371 – 1700)/2371 = 28.3%.

1 *instance, the cost to install wellhead treatment at Well 9D was approximately \$2.6*  
2 *million, which is at the high end of the expected range”.*<sup>77</sup>

3 ORA would like to point out that while indicting the possible risk  
4 associated with adding a new well (third well in the system besides the Well 9D  
5 and a new replacement of Well 4B that would be necessary for the new reservoir  
6 to work effectively) , WSC conveniently fails to list the similar risk associated  
7 with the new replacement Well 4B. While Park acknowledges the fact that the  
8 new replacement Well 4B is essentially an integral part of the selected Alternative  
9 #1, but it still insists that it is separate standalone project independent of the  
10 reservoir and booster pump station.<sup>78</sup>

11 ORA points out that Park’s logic is misplaced because the new replacement  
12 Well 4B is not constructed yet and the proposed reservoir will never work without  
13 the water production from Well 4B (currently assumed to be 1000 gpm). Park  
14 requests the new replacement Well 4B as a standalone project starting in 2017  
15 with completion in year 2018. Therefore, Park requests constructing the reservoir  
16 before the replacement of Well 4B; however, this would expose captive ratepayers  
17 to a tremendous risk if Well 4B required the wellhead treatment costing \$2.6  
18 million just as what was needed for Well 9D in the same water system.

19 Park’s current cost/benefit study is flawed as it does not take into account  
20 the level of obvious risk associated with the selected option of constructing a  
21 reservoir and booster pump station. In addition, the cost/benefit study transfers the  
22 costs of Park’s past lapses to its captive ratepayers---this is neither fair nor  
23 reasonable. Under these circumstances, ORA recommends that Park should go  
24 back to conduct further studies on the various project options and re-submit a cost-  
25 effective and fair solution for its Compton East Water System in its next GRC.  
26 ORA would also like to point out that given the cost of Well 4B along with the

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<sup>77</sup> WSC study, p. 5-11.

<sup>78</sup> Park’s response to ORA’s Data Request, AMX-02 (Question-3c).

1 potential cost of wellhead treatment, Alternative# 3: Combine Compton East to  
2 Compton West looks promising. However, as Park puts it, currently there are too  
3 many unknowns to accurately estimate the costs of this pipeline without  
4 completing detailed design<sup>79</sup>. ORA recommends that Park should initiate more  
5 detailed designs under this option and present the results in its next GRC along  
6 with other alternatives, which should adequately capture the costs associated with  
7 their respective risks.

## 8 **2. T&D Water Mains (New and Replacements)**

9 Park has proposed a tremendous budget of \$19,050,600 for the replacement  
10 of old and new installation of its water mains over the next three years. ORA  
11 recommends that the Commission should authorize a total of \$12,000,000 spread  
12 evenly over the period of 2015-2017. Park's requested amount makes up  
13 approximately 42.9%<sup>80</sup> of its total gross plant addition request for the next three  
14 years. This is an overwhelming increase over Park's historic budgets for the same  
15 purpose. For example, in year 2009 through 2011, Park only spent a total of  
16 \$923,413 for the purpose of installing new and replaced water mains.<sup>81</sup> It was  
17 during its last GRC when Park started to request massive amounts for this purpose.  
18 For example, in its last GRC, Park requested a total amount of \$15,556,300 over  
19 years 2012 through 2014, while the Commission authorized only \$13,262,556<sup>82</sup>.  
20 However, Park's response to ORA's Data Request, AMX-04 (Question-1) reveals  
21 that Park has spent a lesser amount of \$11,885,123 for the same period. Park also  
22 responded that out of \$11,885,123, \$3,211,070 (27%) was spent on the two  
23 massive pipeline projects that Park did not specifically request in its last GRC, but

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<sup>79</sup> Park's Application, p. 67.

<sup>80</sup>  $\$19,050,600 / \$44,445,957 = 42.9\%$  (Refer to Park's Application, p. 124 and Park's response to ORA's Data Request, AMX-02, Question-7).

<sup>81</sup> Park's response to ORA's Data Request, AMX-04 (Question-1).

<sup>82</sup> D.13-09-005 (See Settlement Document, p. 41).

1 were constructed due to the City of Compton and LA County’s re-pavements of  
2 street sections which forced Park to relocate its pipes to the lower depths.

3 Responding to ORA’s Data Request, AMX-04 (Question-2a) Park gives an  
4 interesting response for the reasons to its recent surge in the water main  
5 replacement program:

6 There are two primary reasons why Park had not been replacing  
7 pipelines at the appropriate rate for long-term sustainability: 1) **not**  
8 **having knowledge of the appropriate replacement rate;** 2)  
9 financial constraint...in 2011 and prior years Park was a small  
10 (compared to other Class A water companies), family-owned utility  
11 that was not publically traded and had limited access to outside  
12 capital. **The owner of the company was concerned about the**  
13 **ability to raise additional capital for infrastructure replacement**  
14 **especially during the economic recession. As a result, Park**  
15 **refrained from large capital spending to guard against financial**  
16 **uncertainty during the recession.** The acquisition of Park by  
17 Carlyle infrastructure Partners in December 2011 provided enhanced  
18 access to capital and, along with some degree of recovery in the  
19 economy, allowed Park to increase its pipeline replacement rate to  
20 more nearly approximate the appropriate rate. (Emphasis Added)

21 Park’s above response is quite troubling. It is questionable for a Class-A  
22 water company to claim that it had no knowledge of the appropriate replacement  
23 rate. On the other hand, Park has acknowledged that various staff members, such  
24 as Corporate Chief Engineer, Division Chief Engineer, Corporate GIS  
25 Coordinator, Civil Engineer 2, Engineering Technician 3, Division  
26 Superintendent, Production Supervisor, Utility Service Supervisor, Water Quality  
27 Operations Engineer, Utility Serviceperson, 1, 2, and 3, Production Foreperson,  
28 Production Technicians 1, 2, 3, and Corporate Engineering Technician 2 all are  
29 aware of the importance of the assets management.<sup>83</sup>Park’s captive ratepayers are  
30 paying collective salaries of these various staff positions totaling over \$2 million  
31 per year. Therefore, for Park to claim its ignorance toward an appropriate rate of

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<sup>83</sup> Park’s response to ORA Data Request, AMX-04 (Question-2c).

1 replacement of its pipelines is troublesome to say the least. On one hand, Park  
2 claims that at least 75.6% of its pipeline in the Central Basin area is 45 years to 65  
3 years old<sup>84</sup>, and on the other it says that it has no knowledge of the appropriate  
4 replacement rate. Thus, it is beyond comprehension that for 2009-2011, Park has  
5 only replaced a total of 0.62 miles of pipeline with a cost of \$923,143 given that  
6 75.6% of its pipelines have ages between 45 years to 65 years at the rate of less  
7 than 0.21 miles a year.

8 In contrast, currently, Park goes to another extreme and requests replacing  
9 14.92 miles at a cost of \$19,050,600 over the period of 2015-2017---at a rate of  
10 4.97 miles per year and at an annual average cost of \$6,350,200. Unfortunately,  
11 both of these approaches are detrimental to the ratepayers' interest. In its past  
12 approach, Park ignored the fact that one of its crucial assets i.e. pipelines were  
13 deteriorating and requested a replacement rate that was clearly too low and did not  
14 require advanced engineering knowledge to figure out that the replacement rate  
15 was too low. In its current approach, Park is now too ambitious and apparently  
16 shows no concern for the impact on its ratepayers, of which nearly 50% are in the  
17 low-income program. As discussed earlier, Park serves a community that is  
18 mainly comprised of blue-collar workers and a community whose median  
19 household income is less than the state average. Just because Park has recently  
20 found a new owner and access to capital does not necessarily mean that the  
21 company can expand its rate base to play catch up without considering the impact  
22 on captive ratepayers. Clearly, wages have not grown in the communities served  
23 by Park at rate increases enjoyed by Park. For example, based on the rates  
24 adopted in D.13-09-005 the average residential monthly bill increased 17.8%,  
25 while the average weekly wage change in Los Angeles between 2012 and 2013  
26 fourth quarter was a negative 1.9%.<sup>85</sup> Clearly customers in Bellflower and

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<sup>84</sup> Park's Application, p. 70.

<sup>85</sup> <http://www.bls.gov/regions/west/news->

(continued on next page)

1 Compton are still living under the effects of recession. As U.S. Bureau of Labor  
2 Statistics puts it, the labor market in California is still weak despite more than  
3 three years of sustained economic growth, with California’s unemployment rate  
4 (8.7 percent in October 2013) remaining higher than at any point during or  
5 following the 2001 recession.<sup>86</sup>

6 Therefore, an ORA recommendation for main replacement is a reasonable  
7 amount to allow Park in the light of both its aging infrastructure and affordability  
8 for its captive ratepayers. In its last GRC, both ORA and Park settled on  
9 \$13,262,556, which was later approved by the Commission. However, Park’s  
10 documents show that it has actually spent \$11,885,123 of this approved amount  
11 over the last approved period of 2012-2014. ORA Therefore, recommends that the  
12 Commission should authorize an annual budget of \$4,000,000 over the period of  
13 2015-2017 for a total of \$12,000,000. In addition, ORA understands that Park will  
14 need operational flexibility as it does not always strictly follow the individual  
15 pipeline projects, which it identifies as a needed within its GRC application, but  
16 based on leak history, high leak rate, and the age of few specific projects, Park  
17 should prioritize the pipeline projects identified by ORA in Table 3, and complete  
18 these projects within ORA’s recommended budget of \$12,000,000 over the period  
19 of 2015-2017.

20 **Table 5-3: ORA’s recommended pipeline replacement projects**

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(continued from previous page)  
release/CountyEmploymentAndWages\_California.htm#table1.

<sup>86</sup> See Attachment-A: A copy of the California Budget & Policy Center’s Budget Brief.

Pipeline Project Name	Material Replaced	New Material	Miles to be Replaced	Miles to be Installed	Project Cost	Number of Leaks and Breaks	Before Replacement Leak Rate (leaks/mile)	Water System
166th/Arkansas (2017-MR03)	CI	DIP	0.26	0.26	\$388,617	1	3.87	Bellflower/Norwalk
11130171 - Atlantic Ave Mainline Project	STL	DIP	0.39	0.41	\$260,000	3	7.71	Compton East
Rosecrans/Cahita Cairn (2016-MR01)	CI	DIP	0.97	0.92	\$1,502,414	4	4.11	Compton West
Northwood/Tichenor (2016-MR03)	AC & CI	DIP	0.53	0.56	\$783,795	20	37.59	Compton West
McKinley/135th (2017-MR01)	CI, STL & AC	DIP	1.07	0.83	\$1,331,311	10	9.33	Compton West
Clymar/Caswell (2017-MR02)	CI	DIP	0.72	0.73	\$976,523	12	16.72	Compton West
El Segundo/Stanford/McKinley (2017-MR06)	CI	DIP	0.42	0.77	\$1,047,036	5	11.94	Compton West
<b>Total</b>			4.36	4.48	\$6,289,696			

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**3. Water Rights**

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Park requests a total of \$3,000,000 for the purpose of purchasing water rights in the Central Basin. More specifically, Park proposes spending \$1,000,000 per year over the period of 2015 through 2017. ORA recommends disallowing the purchase of water rights.

Park claims that the current drought has increased the importance of groundwater pumping rights in the Central Groundwater Basin. In addition, current increases in the imported water costs also caused the water right costs to increase as well when more utilities are turning to groundwater for their supplies.<sup>87</sup> In addition, Park stated that cost of pumping groundwater has not risen at the same pace of imported water, so the cost savings from pumping groundwater versus purchasing imported water has increased. It is expected that groundwater that is impaired because of water quality issues may be utilized by adding treatment facilities. Park also argues that the cost of pumping and treatment will become more economical than purchasing imported water in the future.<sup>88</sup>

<sup>87</sup> Park Application, p. 83.

<sup>88</sup> Park Application, p. 84.

1 A closer look at the historic records of water production shows that Park's  
 2 claim only reveals half the truth---cost of pumping groundwater had always been  
 3 more economical than the cost of imported water, but Park had been relying more on  
 4 imported water at least since 1980. For example in 1980 Park's water mix was 43%  
 5 ground water and 57% imported water, and in its most recent year-2013, Park's water  
 6 mix was 38% groundwater and 62% imported water.<sup>89</sup>

7 Similarly, in responding to ORA's Data Request, AMX-05 (Question-4b), Park  
 8 submitted a past-12 year analysis of groundwater costs versus imported (purchased)  
 9 water costs, which shows that historically the purchased water cost per Acre Foot  
 10 (AF) were never more economical than the groundwater costs including the revenue  
 11 requirement impact of Park's recent purchasing spree for the water rights.

12 **Table 5-4: Park's historic groundwater cost vs. purchased water cost**

	<b>Cost Per AF</b>	
	<b>Pumped (\$/AF)</b>	<b>Purchased (\$/AF)</b>
2003	\$428.32	\$481.15
2004	\$461.44	\$487.87
2005	\$492.54	\$513.82
2006	\$445.12	\$517.39
2007	\$407.08	\$537.02
2008	\$386.10	\$578.21
2009	\$395.33	\$704.81
2010	\$435.59	\$824.94
2011	\$459.79	\$882.23
2012	\$462.81	\$938.62
2013	\$524.01	\$1,010.79
2014	\$705.74	\$1,069.19

13  
 14 Based on the above facts, it is troubling to know that Park was historically  
 15 relying on the more expensive source of water i.e. imported water than developing  
 16 capabilities with its groundwater sources, such as improving its wells or securing  
 17 water rights. For example, up until its last GRC (year 2012), Park owned only 2.3 AF

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<sup>89</sup> Park's Application, p. 60.

1 of water rights in the Central Basin and it either relied on the leased water rights or  
2 using purchased water. In its last GRC, the Commission authorized a total of  
3 \$3,000,000 over the period of 2012 through 2014 to secure water rights---it turned out  
4 that Park has spent \$8,991,423 on securing the water rights---a whopping **199.71%**  
5 more than the amount authorized. Another key point that has a significant impact on  
6 ratepayers is the fact that water rights are not depreciable, and when included in rate  
7 base Park will earn a full rate of return on those rights into perpetuity, plus the gross  
8 up for income taxes.

9 Here we are beginning to see a pattern that over the past years Park did not  
10 manage its assets in the best interest of its ratepayers whether it was due to the  
11 neglectful mismanagement or lack of necessary capital, the end result was inefficient  
12 cost structures and poorly managed capital assets. We have seen with the less than  
13 reasonable replacement of its main waterlines, and now we see the same neglect in  
14 securing water rights and using the relatively least cost groundwater source. On the  
15 other hand, Park's desperate dash to recover the years of neglect in a few years is also  
16 problematic because Park's captive ratepayers' wages have been stagnant and simply  
17 cannot afford the level of requested rate increases that will result because of these  
18 substantial capital additions. Based on the foregoing discussion and the fact that Park  
19 has already spent approximately 2 times more (approximately \$5,991,423) than the  
20 amount Park was previously authorized for securing additional water rights. The  
21 Commission should not allow any amount in this rate cycle for the purchase of water  
22 rights.

#### 23 **4. Groundwater Well Compton West (Well 12C)**

24 Park requests a total of \$2,408,000 for a new well in its Compton West Water  
25 System. More specifically, Park requests \$1,408,000 in 2015 and \$1,000,000 in 2016.  
26 ORA recommends a total cost of \$1,937,000 for this project.

27 Park claims that the Commission authorized this new well in its last GRC  
28 (D.13-09-005) as Well 13D, but due to Park's hydrogeologist's concerns about the  
29 potential low yield of water supply at the location previously selected, this forced

1 Park to search a new suitable location. However, there were extensive delays in  
2 purchasing the additional property for this facility and completing the City of  
3 Compton's Architectural Review Board process.<sup>90</sup>

4 A closer look at Park's record reveals that the Commission has authorized a  
5 total of \$1,937,000 for this well. More specifically the Commission authorized  
6 \$100,000, \$975,000, and \$862,000 in year 2012, 2013, and 2014, respectively.  
7 Currently, Park requests \$2,408,000 for the same project, but fails to provide any  
8 justification in its application for the increased cost of \$471,000<sup>91</sup>. Please note that  
9 Park's workpaper 6-D-1 through 6-D-10 shows cost breakdowns that compare the  
10 cost data for Well 12C to that of Well 19C, which Park has constructed in the year  
11 2013 in Compton Wets Water System.

12 ORA believes that the more appropriate starting point for Park is not Well  
13 19D, but its costs estimates for the Well 13D, which Park requested in its last GRC  
14 and the Commission subsequently approved. And more importantly, the Commission  
15 needs to know why Park's ratepayers should pay \$471,000 more for the Well 12C  
16 today which was apparently delayed due to the Park's hydrogeologist's judgment  
17 error. In its last GRC while justifying the need and costs of Well 13D (predecessor of  
18 Well 12C), Park stated the following:

19 Due to the lack of supply in meeting maximum day demands, the  
20 age of one of the runner wells, the northerly location of the Well  
21 19C, the lack of another adequate producing well to serve as back-up  
22 for a Well 19C, we believe it is prudent to install another  
23 groundwater well in our Compton West Water Systems. **We are**  
24 **proposing to abandon Well 13C and to construct a new**  
25 **groundwater well on the same site.** Fortunately, the site is large  
26 enough to maintain the Hydrogeologist recommended 25-foot  
27 clearance from existing Well 13C's location. We believe a new well  
28 could be drilled into a deeper aquifer that is not expected to have  
29 TCE contamination. For 2012, we propose hiring Richard Slade &

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<sup>90</sup> Park's Application, p. 80.

<sup>91</sup> \$2,408,000 – 1,937,000 = \$471,000.

1 Associates to perform hydrogeologic services related to the design  
2 including proving technical specifications for the construction of  
3 new municipal Well 13D. **The estimated cost for these services (a**  
4 **copy of Slade’s proposal and their hydrogeological report are**  
5 **included in the workpapers)** including Park’s in-house payroll for  
6 engineering and bid services is \$100,000. (Emphasis Added).

7 The above excerpt from the Park’s GRC application, A.12-01-001, p. 69 shows  
8 that Park has selected the old site for the Well 13D under the advisement of its  
9 Hydrogeologist, Richard Slade & Associates as according to Park it has submitted  
10 “...their hydrogeological report” in 2012. It should also be noted that this  
11 Hydrogeologist, Richard Slade & Associates is the same consultant who has prepared  
12 the report titled “HYDROGEOLOGICAL EVALUATION OF EXISTING  
13 MUNICIPAL- SUPPLY WATER WELLS IN THE PARK WATER COMPANY  
14 SERVICE AREAS LOS ANGELES COUNTY, CALIFORNIA” for Park Water  
15 Company in 2005, and thus is intimately familiar with the Park’s water wells and its  
16 various well-site hydrogeology. Therefore, it is unfair and unreasonable to subject  
17 Park’s captive ratepayers to the cost increase of \$471,000 for the new Well 12C. ORA  
18 recommends that the Commission should allow a hard-cap on the cost of Well 12C  
19 that should not increase above \$1,937,000 that the Commission authorized in its  
20 D.13-09-005 for the same well.

21 Please note that ORA describes the term “hard-cap” as the authorized amount  
22 that would become the part of the Park’s final rate base (Plant + CWIP). This is an  
23 important distinction as in general practice, utilities would calculate the rates based on  
24 the authorized value of a specific project, but in its subsequent GRC, the utility’s  
25 recorded rate base account would include an actual amount spent on the same project  
26 that may be more than the authorized amount---this historic rate base that is then used  
27 as a base amount for any subsequent plant additions thus making the increased capital  
28 expenditure above the authorized amount a permanent part of the utility’s rates. For  
29 example, as previously addressed in Park’s water rights discussion, the Commission  
30 authorized \$3,000,000 in its previous GRC-and the rates were set based on the

1 authorized amount of \$3,000,000. However, subsequently, Park actually spent  
2 \$8,991,423 on securing the water rights. This actual amount of \$8,991,423 and not  
3 the authorized amount of \$3,000,000 is now built into Park's historic rate base  
4 starting in Test Year 2016 for the purpose of the current GRC, and the future rates  
5 will be based on the amount of \$8,991,423 instead of \$3,000,000. Placing a hard-cap  
6 will avoid such unwarranted inclusions into the utility's rate base.

7 **5. Bellflower/Norwalk Replacement Groundwater**

8 Park requests \$3,750,000 to replace an old well in its Bellflower/Norwalk  
9 Water System. More specifically, Park requests \$650,000 in year 2015 for the  
10 purchase of land, \$1,550,000 in year 2016 for drilling and casing, and \$1,550,000 in  
11 year 2017 for structure and equipment for the new well. ORA agrees with Park's  
12 justifications and cost estimations for this capital project.

13 Park has hired an outside consultant, Richard Slade & Associates LLC in 2005  
14 to perform hydrogeological evaluation of Park's water system. According to findings  
15 of the study, all of Park's wells are quite old and are beyond their normal life  
16 expectancy. The consultant recommended that due to the high probability that many  
17 of Park's wells could fail within the next few years, Park should embark on an  
18 aggressive program of replacing each of its old wells.<sup>92</sup>

19 ORA is in general agreement that Park needs to replace its old well, but the  
20 rate of replacement needs to be reasonable to accommodate ratepayer service  
21 affordability as well. Park has recently constructed a few new wells: Well 9D was  
22 constructed in 1999 in its Compton East Water System; Well 19C was constructed in  
23 2012 in its Compton West Water System, and ORA recommends construction of  
24 another new Well 12C in year 2016 in its Compton West Water System. ORA  
25 believes that at this time Park's Bellflower Water System also get a new well.  
26 However, ORA stresses the point that in the interim, Park must follow a proactive  
27 asset management practice to its remaining old wells and new wells. Park must take

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<sup>92</sup> Park's Well Study, p. 21 (Park's workpapers Section 10-16, 10r).

1 on a proactive well maintenance program and rehabilitate the existing wells whenever  
2 it is feasible and advantageous rather than building new replacement wells. For  
3 example, in responding to ORA's Data Request, AMX-01 (Question-4c), Park  
4 acknowledged the fact that in the past rehabilitation of the old wells has been quite  
5 cost-effective and it has gained approximately 4,617 gpm production rate through  
6 well rehabilitations.<sup>93</sup>

7 ORA has evaluated the reasonableness of the total cost of \$3,750,000 for the  
8 new well and noticed that Park has based its estimates on the costs of its recently  
9 constructed wells: Well 9D and Well 19C. Park has escalated the past costs and added  
10 an extra amount for anticipated cost increases due to the increased backlogs for  
11 drillers. Park has added a 10% contingency and 5% overhead rate as well.<sup>94</sup> ORA  
12 finds Park's estimates reasonable, but ORA recommends a hard-cap of the total cost  
13 of \$3,750,000 i.e. if the cost of well and the associated land increases above the  
14 requested cost amount of \$3,750,000, the ratepayers will only be subject to the impact  
15 of \$3,750,000 in their future water rates.

## 16 **6. Building Remodel**

17 Park requests \$2,600,000 for remodeling its existing office building. More  
18 specifically Park requests \$1,300,000 in year 2015 and \$1,300,000 in year 2016  
19 for this purpose. ORA agrees with Park's justifications and cost estimates for this  
20 capital project.

21 Park states that its Central Basin operational crew and its corporate staff  
22 share offices at the existing building. The main office building was constructed in  
23 the early 1970s and is made of reinforced brick single-story abutting on two sides  
24 with a two-story concrete tilt-up. Originally, the single-story building included  
25 offices along the building perimeter with open bay office space in the middle. The

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<sup>93</sup> Includes 1180 gpm for Well 46C that was reported separately on Park's Application, p. 89).

<sup>94</sup> Park's workpapers, Section 5-9, p. 6-D-5.

1 two-story tilt-up was a warehouse for the local operating division’s construction  
2 equipment and materials.<sup>25</sup>

3 Please note that Park has remodeled the existing building over the past year  
4 as well. For example, in 1991 as Park’s staff outgrew its office building, Park  
5 installed a triple wide trailer on the property to house its senior management at a  
6 cost of \$91,770.<sup>26</sup> In 1994, to accommodate the changing work environment for  
7 tits staff, Park began a series of office improvements including a customer lobby  
8 reconfiguration, customer payment processing room, and a partial second floor  
9 office installation in what was the two-story high construction warehouse. In  
10 1997, Park evaluated the building’s resistance to seismic forces and found out that  
11 structural reinforcement was necessary to comply with the essential Services  
12 Building Seismic Safety Act of 1986. Park spent \$154,655 to replace the roof of  
13 the building and seismic retrofit the office building. More recently, Park had to  
14 accommodate the growth in its customer service department and reconfigured its  
15 office space into an open working area. In addition, Park’s information technology  
16 staff was consolidated into one central area to improve work productivity. Park  
17 reports that from 1970 to 2014, it has approximately spent \$4,798,045 for its office  
18 building and has either retired or depreciated \$2,630,821 which leaves an  
19 approximately \$2,167,223 in its current rate base.<sup>27</sup>

20 Park also claims that over the past few years each piecemeal building  
21 modification was made to address staffing increases or new technology. Park  
22 states that it has encountered challenges related to originally installed  
23 infrastructure, including heating-ventilation-air-conditioning (“HAVC”), cabling,  
24 structural, and electrical. Park further claims that infrastructure such as old  
25 plumbing system, electrical wiring and circuitry, lighting system, old phone and

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<sup>25</sup> Park’s Application, p. 91.

<sup>26</sup> Park’s Response to ORA’s Data Request, AMX-03 (Question 1d).

<sup>27</sup> Park’s Response to ORA’s Data Request, AMX-03 (Question 2).

1 paging system etc. in Park’s building is reaching the end of its useful life. In  
2 addition, the concerns for non-compliance with the American Disability Act, 42  
3 U.S.C. §12101 et seq. requirements for public building are also among the reasons  
4 that in November, 2012 Park issued a Request for Proposal (‘RFP’) to hire an  
5 architectural firm, KDG Architecture and Planning (“KDG”).<sup>98</sup>

6 KDG has prepared the Office Building Renovation (“OBR”) Report on  
7 June 20, 2013. In this OBR report, KDG has identified various design elements for  
8 the first floor and the second floor such as occupancy for the Park’s staff, fire  
9 protection, means of egress, accessibility, architectural building systems, and  
10 sustainability and LEED (leadership in Energy and Environmental Design)  
11 considerations. The KDG estimated a probable construction cost of \$2,221,075,  
12 soft cost of \$450,000, and cost of \$176,000 for optional items such as relocation of  
13 communication center and installment of solar panels.<sup>99</sup>

14 In addition, Park also submitted a cost/benefit study that compares various  
15 alternatives and their respective cumulative effect on revenue requirement over the  
16 next 50 years. The alternatives include options such as leasing a new building for  
17 only office staff, leasing office space for Park’s office staff and field personnel,  
18 construction of new building at the same property and construction of new  
19 building at a different location. Park was able to demonstrate that the option of  
20 remodeling the existing building was more cost-effective among the available  
21 alternatives.<sup>100</sup>

22 Based on foregoing facts, ORA believes that Park has reasonably justified  
23 the need of remodeling its existing building. However, ORA has few concerns  
24 regarding the cost estimates and the cost of the existing building still remains in  
25 ratebase. For example, Park’s workpapers, Section 5-9, tab Er, page. 6-E-3

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<sup>98</sup> Park’s Application, pp. 92-93.

<sup>99</sup> KDG report, p. 35.

<sup>100</sup> Park’s workpapers, Section 10-16, tab 14r, p. 1.

1 presents a cost of \$2,952,047 for the purpose of renovating the existing building.  
2 The note on the same page explains that these costs are preliminary costs and are  
3 NOT based on specific designs, but rather based on current industry unit costs  
4 consistent with this type of building. Park further states that typically soft costs  
5 are based on percentages of the proposed construction costs and these costs may  
6 fluctuate up or down depending on established programming requirements that  
7 have not yet been established.

8 However, as stated earlier, Park has not only hired KDG to establish its  
9 design concept, but it also hired another architectural firm, Montalba Architects  
10 Inc. (“Montalba”) on January 10, 2014 to assist Park to further refine its need  
11 based on the KDG report’s findings. More specifically, Montalba would help Park  
12 to increase “open office” area and supporting team cubicles area, reconfiguration  
13 and modernization of exiting interior square footage, including private offices,  
14 open offices, kitchen(s), storage areas, conference room(s), restrooms, and  
15 additional program to be determined, flexible outdoor space for meeting, relaxing  
16 and dining, new furniture throughout.<sup>101</sup> Park paid KDG a total of \$22,280 and  
17 has paid Montalba so far \$119,706.<sup>102</sup> Park has also requested \$450,000 for new  
18 office furniture and equipment based on Montalba’s interior designs. Therefore,  
19 ORA believes that Park’s estimates for the building are no longer a high level  
20 estimate as Park has spent a total of \$141,986 to get a clear idea about the design  
21 and what is entailed to accomplish the proposed renovations. ORA recommends  
22 that the Commission should place a “hard cap” on the requested amount of  
23 \$2,600,000 for the building remodel.

24 In addition, Park acknowledges that currently \$2,167,223 of undepreciated  
25 costs of all past renovations are included in the rate base. The massive remodeling  
26 will invariably render a good portion of these un-depreciated costs un-useful; thus

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<sup>101</sup> Park-Montalba Agreement, p. 1 (Park’s response to ORA Data Request, AMX-03 , Question 6c).

<sup>102</sup> Park’s response to ORA Data Request, AMX-03, Questions 4 & 6.

1 there is need to adjust rate base to reflect these retirements. Similarly, Park has  
2 requested \$450,000 for new office furniture and equipment due to the remodeling  
3 per its agreement with Montalba, and thus it is reasonable for past furniture costs  
4 be removed from rate base. Park’s workpapers show it has estimated \$522,000 in  
5 year 2016. However, later during the discovery, Park realized that the correct  
6 amount for retirement is \$1,452,000 for 2016 and has agreed to correct its  
7 workpapers. Please note that the correction will have no impact on rates as a  
8 parallel and equal adjustment in Park’s depreciation reserve would neutralize the  
9 impact of the increased retirement on rate base.<sup>103</sup>

10 **7. Furniture and Office Equipment**

11 Park requests \$200,000 in year 2015, \$250,000 in year 2016 and \$5,000 in  
12 year 2017 for the purpose of purchasing office furniture. Park stated that this  
13 office purchase is needed in conjunction with the building remodel as discussed  
14 earlier. ORA agrees with Park’s justification and cost estimation of this capital  
15 project, but just as with building remodeling, ORA recommends that the  
16 Commission should place a “hard cap” on the total requested amount of \$455,000.

17 **8. Vehicles and Equipment**

18 Park requests \$84,500 in year 2015, \$66,300 in year 2016, and \$77,600 in  
19 year 2017 for purchasing vehicles and related equipment. ORA recommends  
20 \$32,600 in 2015 and 2016, and \$6,900 for year 2017.

21 Park’s vehicle replacement criterion is to replace vehicles and trucks at 10  
22 years and/or 100,000 miles.<sup>104</sup> Park will also purchase 6 light-emitting diode  
23 (“LED”) light bars to increase the visibility of company vehicles. ORA reviewed  
24 Park’s estimates, which are based on 2014 average unit costs that have been

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<sup>103</sup> An email from Eric Wright dated April 9, 2015.

<sup>104</sup> Park’s Application, p. 101. (Please also note that the 8 year vehicle replacement criteria as depicted in the Table 4 above is due to an error. Park’s Division Chief Engineer, James Elliot acknowledged that Park’s actual vehicle replacement criteria is 10 year and/or 100,000 mile as reported in Park’s report, p. 101)

1 escalated by a 5-year average Construction Index to 2015, 2016, and 2017  
 2 replacement unit costs for the particular vehicles and the light bars. The following  
 3 table shows the summary of Park’s various vehicle replacement requests along  
 4 with the projected mileage on the day of replacement according to Park’s policy of  
 5 replacement at 10 year and /or 100,000 miles:-

6 **Table 5-5: Park’s Vehicle Replacement request per its workpapers**

Vehicle Type	Year of Purchase	Over 8 Years Old?	Mileage at Date of 1/1/13	Mileage at Date of 7/31/13	Over 100K Miles?	Average Mileage Per Month during Year	Projected 2015 Year End Mileage	Projected 2016 Year End Mileage	Projected 2017 Year End Mileage
F350 Pick-up	2001	Yes	105,696	108,264	Yes	367	114,501		
F250 Pick-up	1999	Yes	90,914	96,920	No	858	111,506	121,802	
F350 Utility Bed	2002	Yes	125,800	129,185	Yes	484	137,406		
F350 Utility Bed	2006	Yes	80,209	85,838	No	804	99,508	109,158	118,808
F150 Pick-up	2003	Yes	91,262	96,500	No	748	109,221	118,200	127,180
F150 Pick-up	2004	Yes	96,989	101,629	Yes	663	112,898	120,852	

7  
 8  
 9 Park claims that it has found that its maintenance costs start to exceed the  
 10 replacement value of the depreciated asset.<sup>105</sup> However, Park does not provide  
 11 any such study to back its claim regarding the maintenance cost exceeding the  
 12 replacement value at the given vehicle replacement criteria. ORA on the other  
 13 hand relied on the well-established State of California Department of General  
 14 Services’ (“DGS”) Vehicle Replacement Guidelines, which states as follows:

- 15 1. Sedan, station wagons, vans and light duty trucks or  
 16 vehicles having a gross vehicle weight rating (GVWR)  
 17 of 8,500 pounds or less at 120,000 miles.

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<sup>105</sup> Ibid.

- 1                                   2. Heavy duty trucks or vehicles (Class 3 and under)  
2                                   having a gross vehicle weight rating (GVWR) of 8,501  
3                                   or more at 150,000 miles.<sup>106</sup>

4                   According to the above DGS vehicle replacement criteria which has been  
5 applied by the Commission toward GRCs of sometimes, none of Park’s vehicles  
6 qualifies for replacement, except a Ford 150 Pick-up in 2016 and in 2017. Please  
7 note that the Ford 150 Pick-up has GVWR of 6,900 pounds and hence under DGS’  
8 vehicle replacement criteria it should be replaced at 120,000 miles. The current  
9 Market Suggested Retail Price (“MSRP”) of a Ford 150 Pick-up is listed as  
10 \$25,800 at Ford Motor Company website.<sup>107</sup> Therefore, ORA recommends  
11 replacement of only one Ford 150 Pick-up in year 2016 and 2017. On the other  
12 hand, ORA agrees with the requested \$6,800 for year 2015 and 2106, and \$6,900  
13 for year 2017 for the LED lights.

14                   **9. Water System Valves**

15                   Park requests \$100,100 in year 2015, \$101,100 in 2016, and \$102,200 in  
16 2017 for the purpose of replacing old valves. Park also requests \$56,300 in 2015,  
17 \$56,800 in 2016, and \$57,400 in 2017 for the purpose of installing new valves.  
18 ORA recommends \$76,095 for 2015, \$76,855 for 2016, and \$77,634 for 2017 for  
19 the purpose of replacing old valves. For the installation of new valves, ORA finds  
20 Park’s request to be reasonable.

21                   Park claims that it has 5,121 valves in its water systems and it exercises the  
22 hydrant and water system valves in accordance with General Order 103-A. Park’s  
23 valve exercise program helps identify irreparable valves that must be replaced. In  
24 addition, Park also reviews its water system maps to determine the placement of  
25 new valves to minimize customer water outages during water system repairs and

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<sup>106</sup> State of California Fleet Handbook, p. 4  
(<http://www.documents.dgs.ca.gov/ofa/handbook.pdf>).

<sup>107</sup>[http://www.ford.com/trucks/fl150/?searchid=199279626|11841765906|13125562&ef\\_id=VSRNowAAAV647FRI:20150407213531:s](http://www.ford.com/trucks/fl150/?searchid=199279626|11841765906|13125562&ef_id=VSRNowAAAV647FRI:20150407213531:s).

1 shutdowns. Park acknowledges that historically it has replaced 19 valves per year,  
2 but claims currently there is a backlog of 40 valves and requests to replace 25  
3 valves per year instead. Park claims that it has used 2014 normalized average unit  
4 cost that is escalated by a 5-year average Construction Cost Index to a 2015  
5 average replacement unit cost of \$4,005 per valve. In addition, Park claims that it  
6 has installed an average of 14 new valves per year. Park estimates unit costs of  
7 \$4,018 for the installment of new valves.<sup>108</sup>

8 ORA notes that even though Park claims that it has a backlog of 40 valves,  
9 it failed to provide any supporting documents or cite any particular reasons for the  
10 backlog. It is also questionable that implementation of the valve exercise program  
11 has contributed in an increase of the irreparable numbers of valves as the program  
12 has been in place for some years now per General Order 103-A requirements.  
13 Therefore, ORA recommends that Park should maintain the historic average rate  
14 of replacement of 19 valves per year and average 14 new valves per year. ORA  
15 agrees with Park's unit cost estimates for both old and new valves. ORA  
16 recommends \$76,095 for 2015, \$76,855 for 2016, and \$77,634 for 2017 for the  
17 replacement of 19 old valves per year.

#### 18 **10. Water System Fire Hydrants**

19 Park requests \$176,200 in 2015, \$178,000 in 2016, and \$179,700 in 2017  
20 for the purpose of replacing old fire hydrants. Park also requests \$30,900 in 2015,  
21 \$31,200 in 2016, and \$31,600 in 2017 for the purpose of installing new fire  
22 hydrants. ORA recommends \$88,099 for 2015, \$88,979 for 2016, and \$89,870 for  
23 2017 for the replacement of 11 old fire hydrants per year. For the installation of  
24 new fire hydrants, ORA finds Park's request to be reasonable and accepts the  
25 company's estimate.

26 Park claims that it has 1,782 fire hydrants in its water systems and each  
27 hydrant is tested at least once every year. This exercise program helps identify

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<sup>108</sup> Park's Application, p. 75.

1 irreparable hydrants. In addition, Park also installs 4 new fire hydrants per year.  
2 Park acknowledges that historically it has replaced 11 fire hydrants per year, but  
3 claims that due to the number of fire hydrants that are undersized and reaching the  
4 end of their useful life, it considers it is prudent to increase the replacements to 22  
5 fire hydrants per year. Park also claims that it has used 2014 normalized average  
6 unit costs that are escalated by a 5-year average Construction Cost Index to a 2015  
7 average replacement unit cost of \$8,009 per fire hydrant. In addition, Park claims  
8 that it has installed an average of 4 new fire hydrants per year. Park estimates unit  
9 costs of \$7,734 for the installment of new fire hydrants.<sup>109</sup>

10 ORA notes that Park does not provide any supporting documents to justify  
11 doubling the number of fire hydrant replacements from 11 to 22 per year. In  
12 addition, as discussed earlier, the affordability of Park’s customers must be taken  
13 into account while considering increases in capital additions. Therefore, absence  
14 any needed support that can justify this accelerated rate of replacement, ORA  
15 recommends that Park should maintain the historic average rate of replacement of  
16 11 old fire hydrants per year and 4 new fire hydrants per year. ORA agrees with  
17 Park’s unit cost estimates for both old and new fire hydrants. ORA recommends  
18 \$88,099 for 2015, \$88,979 for 2016, and \$89,870 for 2017 for the replacement of  
19 11 old fire hydrants per year.

### 20 **11. Automated Meter Reading (“AMR”) Project**

21 Park requests \$238,600 in 2015, \$262,300 in 2016, and \$266,100 in 2017  
22 for the purpose of replacing old water meters with that of newer AMR meters that  
23 can be read with the help of handheld electronic device from close proximity with  
24 the water meters. Park claims that due to the large capital outlay for this project,  
25 the program was implemented over a number of years. As of September 2014,  
26 Park had about 24,089 AMR meters in its system which represents 85% of its  
27 customers. Park plans to complete its conversion program in 2017. As part of this

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<sup>109</sup> Park’s Application, pp. 75, 76.

1 program, Park would continue to replace the old and damaged meters with the  
2 newer AMR meters.<sup>110</sup> ORA finds Park’s request and associated costs reasonable.

3 **12. Pumping Equipment**

4 Park requests \$200,000 annually in 2015, 2016 and 2017 for the various  
5 pumping equipment, such as vertical turbine pumps, motors, motor controllers,  
6 and pump control valves. ORA recommends \$133,880 in 2015, \$135,219 in 2016,  
7 and \$136,571 in year 2017.

8 Park claims that now that it has increased its pumping, the wear and tear on  
9 its facilities, both old and new is increasing. Park the arbitrarily selects \$200,000  
10 per year for its pumping equipment capital budget.<sup>111</sup>

11 ORA notes that Park already has started using more groundwater and has at  
12 least two new wells in operations. Therefore, any increase in the related pumping  
13 equipment capital expenditures is duly captured in its historic expenditures. In  
14 addition, the new facilities will not require the level of replacements experienced  
15 in older facilities. For example, Table-5 shows Park’s 5-year historic amount for  
16 the expenditures for pumping equipment. As the cost data shows, the most recent  
17 amounts are \$21,906, \$75,576, and \$78,423 in years 2014, 2013 and 2012,  
18 respectively. The recorded amount for year 2014 was \$21,906<sup>112</sup> as of September  
19 30, 2014, which ORA annualized as \$29,208.

20 **Table 5-6: Park’s historic capital expenditure for Pumping Equipment**

Pumping Equipment					Normalized
2010	2011	2012	2013	2014	Average
\$ 203,464	\$ 251,114	\$ 78,423	\$ 75,576	\$ 29,208	\$ 131,788

21 <sup>110</sup> Park’s Application, p. 79.

22 <sup>111</sup> Park’s workpapers, Section 5-9, Tab-Br, p. 6-B-1r.

<sup>112</sup> Ibid.

1 The 5-year normalized historic average amount is \$131,788. Therefore,  
2 based on the recent history Park's estimates of \$200,000 is quite excessive. ORA  
3 on the other hand, used 5-year historic expenditure levels and normalized the  
4 historic costs to base year 2014 and then escalated these normalized 2014 costs  
5 using Park's proposed 5-year average Construction Cost Index to recommend an  
6 estimate of \$133,880, \$135,219, and 136,571 for 2015, 2016, and 2017,  
7 respectively.

### 8 **13. Miscellaneous Site Improvements**

9 Park requests \$100,000 annually for 2015, 2016 and 2017 for the various  
10 site structures such as seepage pits, vault lids, doors, and roofs etc. ORA  
11 recommends \$38,775 in 2015, \$39,163 in 2016, and \$39,554 in 2017.

12 Park claims that now that it has increased its pumping, the wear and tear on  
13 its facilities, both old and new is increasing. Park arbitrarily selects \$100,000 per  
14 year for miscellaneous site improvement costs.<sup>113</sup>

15 ORA notes that Park has already started using more ground water, and it  
16 has at least two new wells in operations. Therefore, any increase in the related site  
17 improvements capital expenditure is duly captured in its historic expenditures. In  
18 addition, the new facilities will not require the level of replacements experienced  
19 in older facilities. For example, Table-6 shows Park's 5-year historic amount for  
20 the expenditures for site improvements. Table-6 shows that the most recent  
21 amounts are \$12,576 and \$1,521 for the 2014 and 2013, respectively. Over the  
22 last 5 years except for 2012, the expenditure remained under \$19,000 per year.  
23 The recorded amount for 2014 was \$9,432<sup>114</sup> as of September 30, 2014, which  
24 ORA annualized as \$12,576.

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<sup>113</sup> Park's workpapers, Section 5-9, Tab-Br, p. 6-B-1r.

<sup>114</sup> Ibid.

**Table 5-7: Park’s historic capital expenditure for Site Improvements**

Miscellaneous Site Improvements					
2010	2011	2012	2013	2014	Normalized Average
\$ 15,538	\$ 18,260	\$ 138,524	\$ 1,521	\$ 12,576	\$ 38,147

As shown in Table-7, the 5-year normalized historic average is \$38,147. Therefore, based on the recent history Park’s estimate of \$100,000 is quite excessive. ORA on the other hand, used 5-year historic expenditure levels and normalized the historic costs to base year 2014, and then escalated these normalized 2014 cost using Park’s proposed 5-year average Construction Cost Index to recommend an estimate t of \$38,725, \$39,163, and \$39,554, in 2015, 2016, and 2017 respectively.

**14. Water Treatment**

Park requests \$136,300 in 2015, \$137,000 in 2016, and \$137,700 in 2017 for the various water treatment equipment, such as chlorine generation, Microclor cell upgrades, miscellaneous analyzers and other water treatment equipment. ORA recommends \$129,194 in 2015, \$130,486 in 2016, and \$131,791 in 2017.

Park claims that now that it has increased its pumping, because the wear and tear on its facilities, both old and new is increasing. In addition, Park states that the historic 10-year average for miscellaneous treatment equipment is \$70,179.<sup>115</sup>

ORA notes that Park has already started using more ground water, and it has at least two new wells in operations. Therefore, any increase in the capital expenditures related to water treatment equipment is duly captured in its historic expenditures. In addition, the new facilities will not require the level of replacements experienced in older facilities. For example, Table-7 shows Park’s 5-year historic amount for the expenditures for miscellaneous water treatment

<sup>115</sup> Park’s Application, p. 81.

1 equipment. Please notice that whereas Park cites the 10-year historic average,  
 2 ORA believes that most recent 5-year average is more appropriate to use as it  
 3 reflects the most recent trend in Park’s capital expenditures for this category. The  
 4 5-year normalized average amount is \$127,121 per year. Please also note that the  
 5 recorded amount for year 2014 was \$13,248<sup>116</sup> as of September 30, 2014, which  
 6 ORA annualized as \$17,664.

7 **Table 5-8: Park’s Historic Capital Expenditure**  
 8 **for Water Treatment Equipment**

<b>Water Treatment</b>					
2010	2011	2012	2013	2014	<b>Normalized Average</b>
\$ 58,610	\$ 199,653	\$ 39,057	\$ 309,216	\$ 17,664	<b>\$ 127,121</b>

9  
 10 ORA used the most recent 5-year historic expenditure levels and  
 11 normalized the historic costs to the base year 2014, and then escalated these  
 12 normalized 2014 costs using Park’s proposed 5-year average Construction Cost  
 13 Index to estimate the future amounts of \$129,194, \$130,486, and 131,791, in 2015,  
 14 2016, and 2017, respectively.

15 **15. Land Purchase**

16 As discussed earlier under new well section, Park has requested various  
 17 land purchases for its new and replacement wells. More specifically, Park  
 18 requests \$1,000,000 in 2015 for the purchase of land for its Compton East  
 19 reservoir and booster station and replacement well, \$650,000 in 2015 for the  
 20 purchase of land for the new well in Bellflower/Norwalk Water System, and  
 21 \$700,000 for a potential new or replacement well that Park has not requested in  
 22 this application. The total cost for land purchases requested by Park is  
 23 \$2,350,000.

24 ORA has already discussed the Compton East reservoir and booster station  
 25 and Park’s request for a new well in Bellflower/Norwalk Water System. More

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<sup>116</sup> Ibid.

1 specifically ORA recommends that the Commission should not allow the reservoir  
2 and booster station project along with the new well in Park's Compton East Water  
3 System. On the other hand, ORA agrees with Park's request for the new well in  
4 its Bellflower/ Norwalk Water System. Therefore, accordingly ORA recommends  
5 that the Commission disallow the requested \$1,000,000 worth of land purchase in  
6 Park's Compton East Water System, but agrees with \$650,000 worth of land  
7 purchase in Park's Bellflower/Norwalk Water System.

8 ORA also recommends that the Commission should disallow Park's request  
9 for \$700,000 worth of land purchase in 2017 for a new/replacement well that Park  
10 has not requested in this GRC application. It is not only pre-mature at this stage to  
11 request funds to purchase land for a future well, but it also lacks the necessary  
12 justifications for the future well in the light of the fact that Park will be building  
13 two new wells in its systems which ORA currently agrees and recommends. Park  
14 needs to justify the need for future wells given the impact of the new wells it has  
15 requested in this GRC application, and which ORA has also agreed and  
16 recommends. Because no such justification is presented in this GRC application,  
17 ORA recommends that the Commission should disallow Park's request for land  
18 purchases associated with the presumed new or replacement well.

## 19 **16. Cost of Removal**

20 Parks requests \$2,157,100 for replacing houselines, servicelines, and other  
21 building facilities associated with the building renovation. More specifically, Park  
22 requests \$888,400 in 2015, \$874,800 in 2016, and \$393,900 in 2017. ORA  
23 recommends \$1,358,760 that should be spread evenly over 2015-2017. ORA's  
24 annual recommended amount is \$452,920.

25 A closer look at Park's request reveals that a majority of these capital  
26 expenses are for the houselines and servicelines that are associated with the Park's  
27 requests for its main pipeline replacements. These houselines re-connect the  
28 existing customers to the new water main lines that are being replaced. Therefore,  
29 as ORA recommends scaling back Park's current water main replacement capital

1 budget mainly due to the affordability concerns of Park’s captive ratepayers, the  
2 associated houselines/servicelines should also be reduced to maintain an  
3 appropriate ratio.

4 Park requests \$19,050,600 for the installation of new and replacement of  
5 the exiting water mains and its request for the houselines/servicelines replacement  
6 is \$2,157,100. ORA recommends \$12,000,000 for the installation of new and  
7 replacement of the exiting water mains. Therefore, in order to maintain the same  
8 ratio of the new houselines/servicelines replacement to that of the recommended  
9 amount of \$12,000,000 for the installation of new and replacement of the exiting  
10 water mains, ORA recommends that the Commission should allow \$1,358,670<sup>117</sup>  
11 that should be evenly spread over 2015-2017 or \$452,920 per year.

12 **17. Public Participation Hearing**

13 During the public participation hearing at the City of Bellflower on April  
14 29, 2015, ORA learned that one of the wells owned by the City of Bellflower has  
15 excess capacity that could be available to Park. ORA inquired Park about this  
16 possibility and Park provided the following response on May 4, 2015 by e-mail,

17 Park met with the City of Bellflower in late 2012 and 2013 to  
18 discuss excess capacity in a new well they had developed. The City  
19 had about 2,200 AFY of excess pumping capacity. However, not all  
20 of the capacity was available to benefit Park’s customers for two  
21 main reasons:

22 Hydraulic constraints. The City had a consultant run a hydraulic  
23 analysis on the flows that might be available to Park after the City  
24 and Bellflower-Somerset Mutual Water Company satisfied their  
25 demands . The amount of well water available in the summer was  
26 only 400 gpm and at low pressures (less than 49 psi).

27 Water rights. The City had only 680 AFY of unused water rights  
28 available to supply Park. If Park were to take more than 680 AFY,  
29 Park would need to pay for lease water rights in addition to the other

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<sup>117</sup> \$12,000,000 x (\$2,157,100 / \$19,050,700) = \$1,358,760.

1 project costs. It made more economic sense to use our own wells for  
2 pumping leased rights.

3

4 Park prepared a cost estimate of the facilities needed to take water  
5 from the City's well. We would use existing property to locate a  
6 booster pump station to increase the pressure (around 40 psi) to  
7 match the pressures in Park's system (80 to 90 psi). We estimated  
8 the cost of the following items to make the project work:

9 1300 ft of 12-inch ductile iron (DI) pipe to reduce the bottleneck  
10 from the well site. This would be an improvement to the City of  
11 Bellflower water system funded by Park.

12 700 ft of 12-inch DI from Mapledale/McNab to Park's property.

13 Booster pump station equipment

14 Fluoridation equipment

15

16 The total expense was estimated at about \$1.32 million for 680  
17 AFY.

18

19 Park also had concerns about contract conditions. The City wanted  
20 to enter into a 10 year contract for the water. Park requested 20 to  
21 25 years. We would have stranded assets if the City pulled out of  
22 the contract after 10 years. The other unknown was the wheeling  
23 charge from Bellflower-Somerset Mutual. In order to move the  
24 water from the well to Park's water system, we would have to pay  
25 the Mutual a wheeling charge of \$70/AF (2013 price). Future price  
26 increases for the wheeling charge were unknown and could become  
27 cost prohibitive. Park did not want to have to create another  
28 agreement with the Mutual for wheeling charges. Park wanted to  
29 only deal with the City and have the City work with the Mutual on  
30 the wheeling charge since they already had a working relationship  
31 with them. For these various reasons, Park declined to enter into an  
32 agreement with the City at that time. It is more cost effective for  
33 Park to replace wells in its Bellflower-Norwalk system.

1           ORA accepts Park’s response at this time. However, ORA encourages Park  
2 to continue negotiating with the City of Bellflower in order to achieve a more  
3 economical agreement to obtain this excess capacity. Park should report to the  
4 Commission in its next GRC about the result of any further negotiations with the  
5 City of Bellflower.

6       **D.     CONCLUSION**

7           Upon reviewing Park’s request for utility plant, ORA found that Park’s  
8 plans to replace aging infrastructure and add new facilities are in some cases  
9 justified. However, the requested increase in the rate of infrastructure replacement  
10 and the amount of new facilities proposed to be constructed is significantly more  
11 ambitious than in past rate cases. Park’s service area is comprised of mostly  
12 working-class individuals, with a median household income of \$42,953 for  
13 consumers living in the City of Compton, and \$49,637 for consumers living in  
14 City of Bellflower. These income levels are lower than the median income of  
15 \$61,094 in the State of Californian reported for the same period.<sup>118</sup> In addition,  
16 the state economy has not fully recovered to the pre-recession levels. For example,  
17 a recent study conducted by a non-profit organization, California Budget & Policy  
18 Center issued a Budget Brief, dated January 7, 2014 quotes U.S. Bureau of Labor  
19 Statistics that the labor market is still weak despite more than three years of  
20 sustained economic growth, with California’s unemployment rate (8.7 percent in  
21 October 2013) remaining higher than at any point during or following the 2001  
22 recession. In addition, the rate affordability levels of Park’s customers are near  
23 the 2.5% of average household income set as guideline by the Commission.

24           ORA found it necessary to consider the service affordability and level of  
25 low income customers served by Park and to carefully balance the needs of the  
26 company to replace its aging infrastructure. ORA’s objective is to recommend

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<sup>118</sup> US Census Bureau, American Fact Finder S1903 Median Income in the Past 12 Months (In 2013 Inflation Adjusted Dollars).

1 plant additions that will allow Park to continue to provide safe, reliable service at  
 2 the lowest rate possible. ORA's recommendations have been incorporated into the  
 3 calculations for ORA's recommended Plant in Service as shown in Tables 5-9 and  
 4 5-10 below:

5

<b>TABLE 5-9</b>				
<b>PARK WATER COMPANY</b>				
<b>DEPRECIATION RESERVE &amp; DEPRECIATION EXPENSE</b>				
<b>TEST YEAR 2016</b>				
<b>Item</b>	<b>ORA</b>	<b>PARK</b>	<b>PARK exceeds ORA</b>	
			<b>Amount</b>	<b>Percentage</b>
Plant in Service-(BOY)	\$ 92,483,123	\$ 98,791,686	\$ 6,308,563	6.82%
Utility Plant Additions During Year	12,962,215	16,403,351	\$ 3,441,136	26.55%
Less Retirement	2,054,888	1,124,888	\$ (930,000)	-45.26%
Net Plant-in-Service (EOY)	103,390,450	114,070,149	\$0,679,699	10.33%
Weighting factor	0.5	0.5	-	-
Wtd. Avg. Plant in Service	\$ 97,936,787	\$ 106,430,918	\$ 8,494,131	8.67%

6

<b>TABLE 5-10</b>				
<b>PARK WATER COMPANY</b>				
<b>DEPRECIATION RESERVE &amp; DEPRECIATION EXPENSE</b>				
<b>TEST YEAR 2017</b>				
<b>Item</b>	<b>ORA</b>	<b>PARK</b>	<b>PARK exceeds ORA</b>	
			<b>Amount</b>	<b>Percentage</b>
Plant in Service-(BOY)	\$ 103,390,450	\$ 114,070,149	\$10,679,699	10.33%
Utility Plant Additions During Year	7,151,520	16,547,700	9,396,180	131.39%
Less Retirement	623,803	623,803	-	0.00%
Net Plant-in-Service (EOY)	109,918,167	129,994,046	20,075,879	18.26%
Weighting factor	0.5	0.5	-	-
Wtd. Avg. Plant in Service	\$ 106,654,309	\$ 122,032,098	\$15,377,789	14.42%

7

8



# budget brief

JANUARY 7, 2014

## POVERTY IN THE GOLDEN STATE: WHERE CALIFORNIA STANDS 50 YEARS SINCE THE WAR ON POVERTY BEGAN

**J**anuary 8, 2014 marks the 50th anniversary of President Lyndon B. Johnson's declaration of an unconditional War on Poverty, made during his 1964 State of the Union address. Although poverty remains a reality for millions of Californians, the last half-century has shown the key role that public policies can play in reducing poverty and fostering economic security. With state policymakers set to begin crafting a new state budget, this *Budget Brief* looks at poverty in the Golden State and discusses some ways that policymakers can help reduce economic hardship and expand pathways to opportunity and advancement.

### Public Policies Can Reduce Poverty and Address Its Impacts

Over the last 50 years, efforts to strengthen the "social safety net" – the public services and benefits that help provide a basic level of subsistence – have helped combat poverty and have alleviated economic hardship for millions of individuals and families. By one estimate, safety-net policies helped reduce the national poverty rate from 26 percent in 1967 to 16 percent in 2012 – a decline of more than one-third.<sup>1</sup>

In California, the social safety net comprises individual programs that fight poverty on a number of fronts. Some programs provide in-kind assistance that helps families obtain food or afford housing. For example, the federal Supplemental Nutrition Assistance Program (SNAP) – known as CalFresh in California – provides food assistance to low-income families. The Public Policy Institute of California estimates that CalFresh helped 800,000 individuals, including 380,000 children, escape poverty in 2011.<sup>2</sup>

Other programs provide modest cash assistance to low-income Californians. One such program, California Work Opportunity

and Responsibility to Kids (CalWORKs), helped lift approximately 470,000 Californians – about half of them children – out of poverty in 2011. Other safety-net programs include tax credits for working families and programs that increase access to affordable health care.<sup>3</sup>

The social safety net plays a critical role in keeping Californians out of poverty. According to the US Census Bureau, safety-net programs on average kept nearly 4 million Californians, including 1 million children, out of poverty between 2009 and 2011.<sup>4</sup>

### Many Californians Still Struggle in the Aftermath of the Great Recession

Although the social safety net has proven to be a vital tool in the fight against poverty, many Californians nonetheless are struggling in the aftermath of the Great Recession, the worst economic downturn in generations. The labor market is still weak despite more than three years of sustained economic growth, with California's unemployment rate (8.7 percent in October 2013) remaining higher than at any point during or following the 2001 recession.<sup>5</sup> The official federal poverty measure shows that:

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- **Poverty in California is nearly one-third higher now than before the Great Recession.** Nearly 16 percent of Californians – more than 6 million people – had incomes below the federal poverty line in 2012, compared to 12.2 percent in 2006, the last year before the recession began.<sup>6</sup>
- **Poverty is more common among children than for the population as a whole.** In 2012, 22.5 percent of the state's children – 2.1 million – were living in poverty, according to the official measure (Figure 1). This child poverty rate is nearly seven percentage points higher than California's overall poverty rate of 15.9 percent.

Unfortunately, the official poverty measure *understates* the extent of economic hardship in California. Newer, alternative measures of poverty more accurately estimate economic well-being, because they not only factor in cash income and other resources provided by public programs, but also account for the costs of housing, medical expenses, and other necessities.

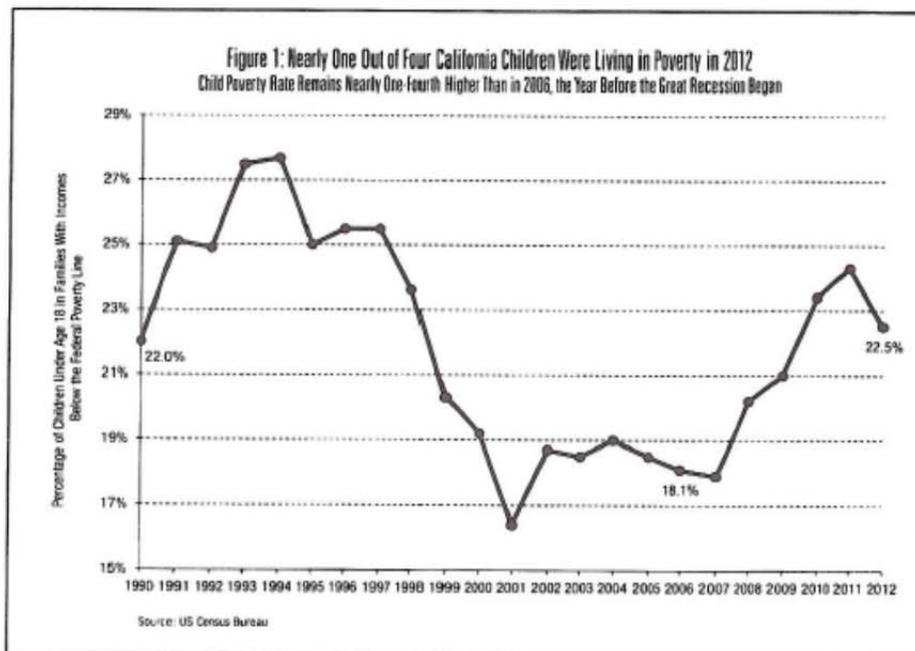
California's high cost of living means that more people struggle to make ends meet than the official measure estimates, even after accounting for the poverty-reducing effect of public programs. One alternative poverty measure – the US Census Bureau's Supplemental Poverty Measure – shows that, on average, 23.8

percent of Californians lived in poverty between 2010 and 2012, well above the official poverty rate for these three years – 16.5 percent.<sup>7</sup>

## Continuing the War on Poverty in California

Fifty years since the War on Poverty began, there is clearly much more to be done. As President Johnson said in his 1964 address, while poverty is a national problem, "this attack, to be effective, must also be organized at the state and the local level and it must be supported and directed by state and local efforts." California's leaders can reduce poverty by making budget and policy choices that extend the reach of public programs and provide the necessary investments in people and the state's future. State lawmakers can:

- **Ensure that public programs and services that help reduce poverty and alleviate economic hardship reach those who need them most.** For example, only 55 percent of Californians who were eligible for SNAP/CalFresh received this food assistance in 2010 – the lowest SNAP participation rate in the nation.<sup>8</sup> Boosting participation in CalFresh – and in other critical programs for low-income individuals in California – would help families make ends meet and reduce economic hardship.



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## ATTACHMENT B

### Current Authorized Residential Rates

	Service Rates per Tariff Sheets April 2015 as reported on PWC's website	Adopted Settlement- Average Consumption Per Residential Customer (Ccf)		
Tier I	\$ 4.79	10.0	\$	47.90
Tier II	\$ 5.51	1.3	\$	6.93
Average Quantity Bill			\$	54.83
Meter Charge (5/8 -inch)			\$	20.22
<b>Average Monthly Bill</b>			<b>\$</b>	<b>75.05</b>
<b>Average Yearly Bill</b>			<b>\$</b>	<b>900.64</b>

	Average Household Income	1.5% Threshold	2.5% Threshold	Current Threshold
Compton	\$ 42,953	\$ 644	\$ 1,074	2.10%
Bellflower	\$ 49,373	\$ 741	\$ 1,234	1.82%

3

1  
2 **CHAPTER 6: DEPRECIATION RESERVE AND DEPRECIATION**  
3 **EXPENSES**

4 **A. INTRODUCTION**

5 This chapter presents the ORA's analyses and recommendations regarding  
6 the depreciation reserve and depreciation expense. Table 6-1 and Table 6-2 at the  
7 end of this chapter provide ORA and Park's estimates for depreciation reserve and  
8 depreciation expenses for Test Years 2016 and Escalation Year 2017.

9 **B. SUMMARY OF RECOMMENDATIONS**

10 ORA carefully reviewed Park's application for its methodology used for  
11 calculating depreciation reserve and depreciation expenses for Test Years 2016  
12 and 2017 and found it reasonable. The differences between ORA's  
13 recommendations and Park's proposed amounts are caused mainly due to ORA's  
14 different recommendations for Park's plant addition which were discussed in  
15 preceding chapter.

16 **C. DISCUSSION**

17 Park has calculated depreciation rates for the Test Year 2016 in accordance  
18 with the Commission's Standard Practice U-4. Park used its plant and reserved  
19 balances as of January 2014 and determined the revised depreciation rates through  
20 use of the appropriate Iowa Type Remaining Life Curves contained in the  
21 Commission's Standard Practice U-4. Park has revised remaining life  
22 assumptions for few of its assets as well. For example, the service life assumption  
23 for a well was increased from 40 to 50 years and for water mains from 50 to 60  
24 years.<sup>119</sup>

25 Similarly, the depreciation accruals for 2014 and 2015 are based on the  
26 currently authorized depreciation rates, which were applied to the respective  
27 average plant balances. The accruals for 2016 and 2017 are based on the proposed

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<sup>119</sup> Park's Application, p. 125.

1 depreciation rates. Park also made few adjustments. For example, adjustments to  
2 the accrual account were made for the depreciation that was charged to the  
3 clearing accounts and the contribution accounts. Adjustments for the allocated  
4 plant common to the Central Basin Division were also made.<sup>120</sup>

5 **D. CONCLUSION**

6 ORA reviewed Park's methodology and found it in accordance with the  
7 Commission's Practice and Standards. The differences in ORA and Park's  
8 proposed depreciation reserves and accruals are mainly due to the differences in  
9 the plant addition.

10

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<sup>120</sup> Park's Application, p. 126

**TABLE 6-1**  
**PARK WATER COMPANY**  
**DEPRECIATION RESERVE & DEPRECIATION EXPENSE**  
**TEST YEAR 2016**

Item	ORA	PARK	PARK exceeds ORA	
			Amount	Percentage
Accum. Depreciation (BOY)	\$ 21,067,835	\$ 21,920,314	\$ 852,479	4.05%
Annual Accrual Charged to				
Clearing Accounts	\$ 110,541	\$ 109,324	\$ (1,217)	-1.10%
Contributions	299,675	300,175	500	0.17%
Depreciation Expenses	2,058,176	2,139,342	81,166	3.94%
Total Accrual	\$ 2,468,392	\$ 2,548,841	\$ 80,449	3.26%
Less:				
Retirements	\$ 2,054,888	\$ 1,124,888	\$ (930,000)	-45.26%
Adjustment	166,761	73,761	(93,000)	-55.77%
Total	\$ 2,221,649	\$ 1,198,649	\$ (1,023,000)	-46.05%
Depreciation Reserve (EOY)	\$ 21,314,578	\$ 23,270,506	\$ 1,955,928	9.18%
Avg. Accumulated Deprec.	\$21,191,207	\$22,595,410	\$ 1,404,204	6.63%

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<b>TABLE 6-2</b>				
<b>PARK WATER COMPANY</b>				
<b>DEPRECIATION RESERVE &amp; DEPRECIATION EXPENSE</b>				
<b>TEST YEAR 2017</b>				
<b>Item</b>	<b>ORA</b>	<b>PARK</b>	<b>PARK exceeds ORA</b>	
			<b>Amount</b>	<b>Percentage</b>
Accum. Depreciation (BOY)	\$ 21,314,578	\$ 23,270,506	\$1,955,928	9.18%
Annual Accrual Charged to				
Clearing Accounts	\$ 111,954	\$ 112,391	\$ 437	0.39%
Contributions	301,170	301,669	499	0.17%
Depreciation Expenses	2,373,499	2,620,743	247,244	10.42%
Total Accrual	\$ 2,786,623	\$ 3,034,803	\$ 248,180	8.91%
Less:				
Retirements	\$ 623,803	\$ 623,803	0	0.00%
Adjustment	6,908	6,908	0	0.00%
Total	\$ 630,711	\$ 630,711	0	0.00%
Depreciation Reserve (EOY)	\$ 23,470,490	\$ 25,674,598	\$ 2,204,108	9.39%
Avg. Accumulated Deprec.	\$ 22,392,534	\$ 24,472,552	\$ 2,080,018	9.29%

1

## CHAPTER 7: RATEBASE

### A. INTRODUCTION

This chapter presents the ORA's analysis and recommendations regarding Park's ratebase.

### B. SUMMARY OF RECOMMENDATIONS

Differences in ratebase are mainly due to differences in Park's requested capital plant addition and ORA's recommendations as discussed in preceding chapter. ORA recommends a weighted average ratebase of \$65,681,644 in year 2016 and \$71,143,177 in year 2017.

Table 7-1 and 7-2 at the end of this Chapter provide a summary of ORA's and Park's weighted Average Depreciated ratebase.

### C. DISCUSSION

#### 1. Working Cash

Working Cash is a component of rate base and it is comprised of cash provided by the investors for the purpose of enabling the utility to perform its day-to-day operations. These cash needs are measured in a lead-lag study. A lead-lag study measures the time between the services provided to the utility customers and the collection of revenues for these services, and the time between the provision of services by the utility and its disbursement of payments to its employees and its various vendors for the related cost of these services. Typically, a "lead" is associated with the expenses and a "lag" is related to the revenues. Thus, the need for investors to provide the needed revenues to pay for the utilities expenses before the associated revenue can be collected from the customers.

Park claims that it has followed the Commission's Standard Practice U-16. The method has two parts: 1) the lead-lag study; and 2) the Operational Cash

1 Requirement and reduction to it, which are derived from the average of monthly  
2 balances in certain balance sheet accounts.<sup>121</sup>

3 Park states that traditionally, it has calculated a revenue lag for use in the  
4 lead-lag Study, by assuming that the full amount of the revenue would be billed  
5 and collected in the same year. However, Park claims that based on its recent  
6 experience the significant portion of the revenue requirement is not billed or  
7 received in that year, but is instead captured in the Water Revenue Adjustment  
8 Mechanism (“WRAM”) account and billed and received much later in the form of  
9 surcharges. Park therefore, anticipates that a portion of the commodity revenue for  
10 2017 will not be billed or received in that year. Park requests increasing this late  
11 received commodity rate revenue amount by 1.5%. In addition, Park also includes  
12 a provision that when the revenue is later billed and received through surcharge,  
13 the amount of revenue will be reduced by the associated production cost  
14 savings.<sup>122</sup> ORA has reviewed Park’s Lead-Lag study and made a few  
15 adjustments:

16 First, ORA notes that any adjustments for the revenues that are captured in  
17 WRAM accounts are not warranted as Park’s WRAM account is an interest  
18 bearing account and pursuant to the Commission’s Standard Practice U-16W,  
19 balances that are interest bearing, such as customer deposits and balancing or  
20 memorandum accounts should not be included in the lead-lag calculations since  
21 these balancing accounts accrue interests which compensate investors for the time  
22 value of money. Similarly, expenses, such as Purchased Power, Purchase Water  
23 and Replenishment expenses are all included in Park’s WRAM/Modified Cost  
24 Balancing Account, which are interest bearing accounts<sup>123</sup>. Therefore, ORA

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<sup>121</sup> Park’s Application, p. 131.

<sup>122</sup> Park’s Application, p. 132.

<sup>123</sup> The Commission Decision, D.08-02-036, Ordering Paragraph 1, adopted ORA and Park’s settlement regarding WRAM.

1 recommends excluding these expenses from the Working Cash calculations which  
2 are not consistent with Standard Practice U-16W.

3 Secondly, ORA recommends removing the depreciation expense from  
4 Park's lead-lag Study. Since the purpose of Working Cash is to compensate  
5 investors for the amount of cash they make available for the expenses of the  
6 utility's day-to-day operations, the depreciation expense inherently is a non-cash  
7 expense in that no cash is needed from investors to make available for this  
8 expense. Therefore, the inclusion of depreciation expense in the lead-lag Study is  
9 grossly unreasonable. In the past, Park has claimed that using depreciation  
10 expense in the lead-lag Study is warranted by the Commission's Standard Practice  
11 U-16W.

12 However, ORA argues that the Commission's Standard Practice may have  
13 created an undesirable effect when it stated that "Since book depreciation expense  
14 is occurring uniformly day by day and accumulated depreciation is deducted from  
15 the rate base, the practice is to include depreciation provisions at zero lag days"  
16 (Standard Practice U-16W, p. 1-15). ORA would like to point out that by  
17 including depreciation expense provision at "zero lag days" does not neutralize the  
18 impact of inclusion of depreciation expense on the Working Cash. For example,  
19 for 2016, Park's overall net revenue lag days of 13.19 is calculated by assuming  
20 zero lag days of the depreciation expense, but in the end this net revenue lag day is  
21 multiplied with the total expenses that are deemed necessary for the Park's day-to-  
22 day operation. And as depreciation expense is included in these operational  
23 expenses, Park thus effectively collects Working Cash for the provision of the  
24 depreciation expenses. This goes against the fundamental principle of the Working  
25 Cash allowance. The bottom line is depreciation expense is a non-cash expense  
26 and no payment is required by the investors on a day-to-day basis. Therefore,  
27 depreciation expense needs to be excluded from the Working Cash calculations all  
28 together.

1 It should also be noted that when investors made the funds available for the  
 2 purchase of depreciable assets, they are duly compensated with a rate of return that  
 3 is assessed on the un-depreciable plant and the recovery of their investment in the  
 4 form of depreciation expense. Therefore, including depreciation expenses in the  
 5 Working Cash calculation compensates investors twice.

6 **D. CONCLUSION**

7 Table 7-1 and 7-2 compare ORA's and Park's estimates for the Weighted  
 8 Average Depreciation Ratebase.

<b>TABLE 7-1</b>				
<b>PARK WATER COMPANY</b>				
<b>WEIGHTED AVERAGE DEPRECIATED RATE BASE</b>				
<b>TEST YEAR 2016</b>				
<b>Item</b>	<b>ORA</b>	<b>PARK</b>	<b>PARK exceeds ORA</b>	
			<b>Amount</b>	<b>Percentage</b>
Average Utility Plant in Service	\$ 95,134,549	\$ 103,413,202	\$ 8,278,653	8.70%
Average Construction Work In Progress	1,661,155	2,616,226	955,071	57.49%
Average Materials and Supplies	194,248	196,210	1,962	1.01%
Working Cash	2,212,412	2,474,564	262,152	11.85%
Total Additions to Rate Base	\$ 99,202,364	\$ 108,700,202	\$ 9,497,838	9.57%
Less Deduction from Ratebase:				
Reserve for Depreciation	\$ 20,981,548	\$ 22,120,695	\$ 1,139,147	5.43%
Advances for Construction	1,315,896	1,271,779	(44,117)	-3.35%
Contributions	6,440,562	6,437,929	(2,633)	-0.04%
Unamortized ITC	32,945	32,945	0	0.00%
Deferred Income Taxes	6,773,971	6,866,281	92,310	1.36%
Subtotal	\$ 35,544,922	\$ 36,729,629	\$ 1,184,707	3.33%
Plus				
Method 5 Adjustment	\$ 3,878	\$ 3,878	0	0.00%
Resources Adjustment	0	0	0	0.00%
General Office Allocation	\$ 2,014,655	\$ 2,014,655	0	0.00%
Total Average Rate Base	\$ 65,681,644	\$ 73,989,106	\$ 8,307,462	12.65%

**TABLE 7-2**  
**PARK WATER COMPANY**  
**WEIGHTED AVERAGE DEPRECIATED RATE BASE**  
**TEST YEAR 2017**

Item	ORA	PARK	PARK exceeds ORA	
			Amount	Percentage
Average Utility Plant in Service	\$ 103,453,642	\$ 118,383,298	\$ 14,929,656	14.43%
Average Construction Work In Progress	0	800000	\$ 800,000	-
Average Materials and Supplies	200076	202097	\$ 2,021	1.01%
Working Cash	1956374	4141888	\$ 2,185,514	111.71%
Total Additions to Rate Base	\$ 105,610,092	\$ 123,527,283	\$ 17,917,191	16.97%
Less Deduction from Ratebase:				
Reserve for Depreciation	\$ 22,358,898	\$ 24,036,777	\$ 1,677,879	7.50%
Advances for Construction	1381748	1338735	\$ (43,013)	-3.11%
Contributions	6190140	6187006	\$ (3,134)	-0.05%
Unamortized ITC	25913	25913	0	0.00%
Deferred Income Taxes	6984247	7186687	\$ 202,440	2.90%
Subtotal	\$ 36,940,946	\$ 38,775,118	\$ 1,834,172	4.97%
Plus				
Method 5 Adjustment	\$ 3,687	\$ 3,687	0	0.00%
Resources Adjustment	0	0	0	0.00%
General Office Allocation	\$ 2,462,159	\$ 2,462,159	0	0.00%
Total Average Rate Base	\$ 71,143,177	\$ 87,218,011	\$ 16,074,834	22.60%

1

1                   **CHAPTER 8: TAXES OTHER THAN INCOME**

2  
3           **A.     INTRODUCTION**

4           This chapter presents ORA’s analysis and recommendations on Taxes  
5 Other Than Income for the Park General Rate Case Test Year 2016. The category  
6 of Taxes Other Than Income is comprised of ad valorem tax (property taxes), and  
7 payroll taxes.

8           **B.     SUMMARY OF RECOMMENDATIONS**

9           Differences between Park and ORA’s estimates for Taxes Other Than  
10 Income are primarily due to differences in net plant in service, estimated payroll  
11 expenses and use of the current applicable cap for the Social Security Tax. The  
12 methodologies Park used in estimating future taxes and fees are detailed below. A  
13 comparison of ORA and Park’s Taxes Other Than Income are shown in Table 8-1.

14           **C.     DISCUSSION**

15               **1.     Ad Valorem Taxes**

16           Park estimates future ad valorem taxes based on the estimated assessed  
17 value placed on Park’s property for the Test Year by the Los Angeles County  
18 Assessor’s Office and the ad valorem tax rates currently in effect. The estimates  
19 of the assessed value are calculated based on the estimated plant additions,  
20 retirements, advances, contributions, Construction Work in Progress (“CWIP”),  
21 and Materials and Supplies (“M&S”) using the same assessment percentage of  
22 1.25% by the Los Angeles County Assessor’s Office. ORA accepts this  
23 methodology and notes that differences between Park and ORA estimates are due  
24 to differences in estimates of future plant. ORA’s plant estimate is less than  
25 Park’s plant estimate. Thus, ORA’s tax estimate is lower.

26               **2.     PAYROLL TAXES**

27           Payroll taxes include three components: (1) Federal Insurance Contribution  
28 Act (“FICA”) tax consisting of Old Age Benefits (Social Security Tax) and

1 Medicare, (2) Federal Unemployment Insurance (“FUI”), and (3) State  
 2 Unemployment Insurance (“SUI”). All three components have statutory limits  
 3 governing the maximum percentage that can be collected from employers (*see*  
 4 *table, below*).

PAYROLL TAXES		RATE	EXPLANATORY NOTES
FICA	Social Security Tax	6.20%	Social Security Tax is 6.2% applied to only the first \$118,500 of an employee’s salary. Maximum per employee is \$7347.
	Medicare Tax	1.45%	No salary limitations.
FUI Tax		0.60%	This amount is deducted from the amount of employee federal unemployment taxes you owe. Federal Unemployment Tax is 6.0% reduced by an offset credit of up to 5.4% for a total of 0.6% on the first \$7,000 of employee wages (\$42 per employee).
SUI Tax (CA)		4.30%	State Unemployment Taxes vary by company from 1.5% to 6.2% plus an Employment Training Tax Rate of 0.1% for a maximum tax percentage of 6.3%.

5  
 6 Payroll taxes are estimated using the rates and limits applicable in Test  
 7 Year 2016. For Social Security Tax, Park estimates \$123,600 as the maximum

1 applicable cap per employee based on an average annual increase of \$3,300 from  
 2 \$117,000 that was applicable in 2014. However, the most recent update for 2015  
 3 by the Social Security Administration shows that the cap is being set at \$118,500  
 4 and there is no indication that this cap will change in the near future. ORA applies  
 5 this cap when calculating its estimate for payroll tax.

6 ORA used its estimated Test Year 2016 payroll (as stated in Chapter 4 of  
 7 this report) to calculate payroll taxes by applying the tax percentages, as shown in  
 8 the table above, to the ORA estimated 2016 payroll. Differences between Park’s  
 9 estimated payroll taxes and ORA’s estimated payroll taxes are the result of  
 10 differences in the estimates of 2016 payroll and the use of the current applicable  
 11 cap for the Social Security Tax.

12 **D. CONCLUSION**

13 ORA recommends the Commission adopt ORA’s estimates of Taxes Other  
 14 Than Income presented in Table 8-1.

Table 8-1				
PARK WATER COMPANY				
TAXES OTHER THAN INCOME				
2016 @ PROPOSED RATES				
Item	ORA Analysis (A)	Park Estimated (B)	Park Exceeded ORA Amount	Percent
(Dollars in Thousands)				
Ad Valorem Tax- Central Basin	719,594	741,334	21,740	3.0%
Ad Valorem Tax- G.O. Allocated	12,713	12,713	0	0.0%
Subtotal Ad Valorem Tax	732,307	754,047	21,740	3.0%
FICA- Central Basin	281,727	313,422	31,695	11.3%
FICA-G.O. Allocated	92,471	92,471	0	0.0%
FUTA- Central Basin	2,016	2,058	42	2.1%
FUTA- G.O. Allocated	591	591	0	0.0%
SUI- Central Basin	14,448	14,749	301	2.1%
SUI- G.O. Allocated	4,240	4,240	0	0.0%
Subtotal FICA, FUI, and SUI Taxes	395,493	427,531	32,038	8.1%
Total Taxes Other Than Income	1,115,087	1,181,578	66,491	6.0%

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16

1 **CHAPTER 9: INCOME TAXES**

2 **A. INTRODUCTION**

3 This chapter presents the results of the Office of Ratepayer Advocate’s  
4 analysis of Park’s Income Taxes related to its General Rate Case (“GRC”)   
5 Application 15-01-001. Income Taxes are comprised of the Federal Income Tax  
6 (“FIT”) and California State Income Tax, referred to as the California Corporate  
7 Franchise Tax (“CCFT”). Accordingly, this chapter also contains ORA’s Income  
8 Tax expense recommendations for Test Year (“TY”) 2016.

9 ORA’s recommendations are based on an analysis of Park’s application  
10 testimony, workpapers, and responses to data requests (“DR”). Furthermore, ORA  
11 reviewed previous Commission rulings, information contained within the Internal  
12 Revenue Service (“IRS”) Internal Revenue Code (“IRC”), and information from  
13 the California Franchise Tax Board when appropriate. The remainder of this  
14 chapter consists of a summary of ORA’s recommendations followed by a  
15 discussion section that includes the background and rationale for each  
16 recommendation.

17 **B. SUMMARY OF RECOMMENDATIONS**

18 Generally, ORA agrees with Park’s methodology for calculating FIT and  
19 agrees with the tax rates Park uses. In the interest of ensuring and capturing the  
20 possible ratepayer tax benefits, ORA recommends that Park be required to track  
21 the revenue requirement impact of the repair deduction under IRC Sec. 481(a)  
22 accounting change adjustment in its Tangible Property Regulations Consequences  
23 Memorandum Account. Any remaining differences between ORA and Park for  
24 Income Tax Expense will be due to differences in recommended revenues,  
25 expenses and rate base.

26 **C. DISCUSSION**

27 Park is a subsidiary of Western Water Holdings LLC, and is consolidated  
28 along with Western Water Holdings’ other subsidiaries on the Federal Income Tax

1 return. For ratemaking purposes Park’s FIT liability is calculated as if it were an  
2 unconsolidated California corporation, and any accelerated depreciation is  
3 “normalized” in accordance with the IRC provisions governing the treatment of  
4 depreciable assets of public utilities.

5 Depreciation expense for ratemaking FIT under the normalization method  
6 is calculated using straight-line book value, instead of using an accelerated  
7 depreciation schedule. The difference between straight-line book depreciation and  
8 the accelerated depreciation taken by Park on its Federal Income Tax return gives  
9 rise to a balance in Accumulated Deferred Federal Income Taxes (“ADFIT”). For  
10 ratemaking purposes, the ADFIT balance acts as a reduction from the rate base  
11 that benefits ratepayers, while outside of ratemaking the utility benefits due to its  
12 realization of either a reduced real-world tax liability, or in some cases a refund. It  
13 should be noted that ORA’s silence on any particular issue does not imply ORA’s  
14 endorsement of any of Park’s methodologies or assertions.

15 **1. Tax Depreciation**

16 The federal and state tax depreciation for plant of vintage prior to 1956 is  
17 calculated using the straight-line method. Except for an area in the City of  
18 Compton in Los Angeles County that was formerly served by the Uehling Water  
19 Company known as the “Uehling Area,” the federal and state tax depreciation for  
20 plant installed between 1957 and 1980 is calculated using the double declining  
21 balance method. By contrast, for plant located in the Uehling Area, the federal and  
22 state tax depreciation for all plant of vintage prior to 1980 is calculated using the  
23 straight-line method.

24 For plant of vintage of 1981 and later, Park properly used the double  
25 declining method to estimate its state depreciation and applied the straight-line  
26 remaining life or “book” depreciation rates to the tax basis plant additions to  
27 estimate the federal tax depreciation.

28 Park’s state and federal tax depreciation deductions are allocated to Central  
29 Basin using the allocation factor from the General Office, which has been settled

1 between ORA and Park in the most recent Apple Valley rate case. It should also  
2 be noted that the settlement is currently pending before the Commission

3 **2. Income Tax Rates**

4 Park calculates its TY 2016 Income Tax Expense using rates of 8.84% and  
5 35% for CCFT and FIT, respectively. ORA concurs with Park’s tax rates and any  
6 differences between Park and ORA’s Income Tax Expenses for TY 2016 are due  
7 to differences in revenues, expenses, and rate base recommendations.

8 **3. Ratemaking Interest**

9 Park calculated its Ratemaking Interest Expense for CCFT and FIT by  
10 multiplying its Weighted Cost of Debt by its Weighted Average Rate Base. Park  
11 determined its Weighted Cost of Debt using the factors adopted by the  
12 Commission in D.13-05-027. ORA used the same methodology as Park; thus any  
13 recommended difference in Ratemaking Interest is due to recommended  
14 differences by ORA plant witnesses in Weighted Average Rate Base.

15 **4. Domestic Production Activities Deduction**  
16 **(“DPAD”)**

17 The American Jobs Creation Act of 2004 established IRC Sec. 199 which  
18 contains the instructions for a taxpayer applying the DPAD. Since 2009, the  
19 DPAD has generally been equivalent to 9% of the lesser of Qualified Production  
20 Activities Income (“QPAI”), or taxable income. In this GRC, Park has forecasted  
21 13.42% as the percentage of its taxable income that is production-related.

22 Park based its TY 2016 DPAD forecast on its estimated 2013 DPAD  
23 amount. However, ORA requested Park to update the calculation of DPAD using  
24 the recorded 2014 figures available, which provided 15.41% as the production  
25 related taxable income percentage. The revised TY 2016 amount for DPAD is  
26 \$79,039, compared to \$82,789 included in the application.

1           **5.     168 (k) Bonus Depreciation Extension**

2           Section 168(k) of the IRC allows a business to take a 50% bonus  
3 depreciation for certain qualifying business property placed in service before  
4 January 1, 2014.<sup>124</sup> The goal of this allowance is to incentivize business toward  
5 increased capital investment during a sluggish economy by letting a business  
6 claim a greater portion of the capital investment as an expense, and thus reduce the  
7 business’s current tax liability. As previously discussed, according to the IRC  
8 normalization rules for depreciation expense, any accelerated depreciation for tax  
9 purposes, including bonus depreciation, results in an increase to Accumulated  
10 Deferred Federal Income Taxes (“ADFIT”), which is quantified as a reduction  
11 from rate base. Thus, by taking Sec.168(k) bonus depreciation, the utility gains a  
12 benefit from having a lower real-world tax liability, while the ratepayer benefits  
13 from the reduction from rate base through ADFIT.

14           ORA has learned from Park that it has elected not to take the 50% bonus  
15 depreciation for 2014 due to the substantial net operating loss it would have  
16 incurred for tax purposes. Furthermore, the review of the applicable Internal  
17 Revenue Code provisions as of April 5, 2015 indicated that the extension of the  
18 50% bonus depreciation only applies to plants constructed to January 1, 2015.  
19 There is no assurance that Congress will extend the benefit of this regulation  
20 beyond 2015. ORA, therefore, accepts Park’s rationale to not include the effect  
21 of the bonus depreciation in the forecasted FIT calculation.

22           **6.     IRC Sec. 481 (a) Adjustment for T.D. 9636**

23           On September 19, 2013 the IRS released T.D. 9636 which provides for the  
24 final regulations (and removes the various temporary regulations) governing the  
25 application of IRC Sections 162(a) and 263(a) and the related dollar amounts paid  
26 to acquire, produce, or improve tangible property. T.D. 9636 seeks to clarify for  
27 taxpayers whether an expenditure for repairs to qualifying property should be

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<sup>124</sup> IRC §168(k)(1)(A).

1 either expensed, or capitalized and depreciated for tax purposes. T.D. 9636 also  
2 allows for a business to “look back” at its previous accounting methodology for  
3 repairs expenses and file for an IRC Sec.481(a) “catch-up” adjustment for change  
4 in accounting method. For certain taxpayers, the Sec.481(a) adjustment could  
5 result in a substantial tax refund for previous tax years, and for ratepayers a  
6 substantial increase in ADFIT.

7 Prior to T.D.9636, the IRS released temporary guidance for the new  
8 regulations and allowed taxpayers to change their tax accounting methodology  
9 immediately based on the temporary guidelines. When a taxpayer files for a  
10 Sec.481(a) catch-up adjustment, they file an IRS Form 3115. Park stated that the  
11 calculations for the 481(a) catch-up adjustments pertaining to the Repair  
12 Regulations change in tax accounting methodology is still in progress. It is Park’s  
13 intent that it will be filing the changes with or prior to filing the 2014 federal tax  
14 return, which Park will be filing by September 15, 2015, after obtaining a five-  
15 month extension.<sup>125</sup>

16 To the extent the IRS final repairs expense deduction rules provided for in  
17 T.D. 9636 cause Park to file for a Sec. 481(a) adjustment, or to file a Form 3115,  
18 ORA recommends treating the associated ADFIT on a normalized basis. If Park is  
19 not able to capture the benefit of this rule change in this GRC, Park should record  
20 such benefit in its Tangible Property Regulations Consequences Memorandum  
21 Account to be amortized at a later date.

#### 22 **D. CONCLUSION**

23 Based on the above discussion, ORA requests that the Commission adopt  
24 the recommendations pertaining to income taxes contained within this chapter.  
25 ORA’s recommended income taxes for Test year 2016 is provided in Table 9-1 at  
26 the end of this chapter.

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<sup>125</sup> Park response to DR ORA-A.1501001.VCC-003.

Table 9-1				
PARK WATER COMPANY				
Income Tax				
Test year 2016				
Item	ORA	Utility	ORA	Utility
	Present Rates		Recommended Rates	
	(A)	(B)	(E)	(F)
(Dollars in Thousands)				
Operating Revenues:				
Total Taxable Operating Revenue	33,296,161	33,487,338	33,917,631	36,406,138
Expenses				
Operations and Maintenance	13,930,814	14,729,782	13,930,814	14,729,782
Uncollectibles	186,952	190,878	190,494	207,515
Administrative & General	7,814,186	8,085,226	7,814,186	8,085,226
Franchise Requirements	126,525	127,252	128,887	138,343
Property Taxes	732,307	754,047	732,307	754,047
Taxes-Others	61,773	61,773	61,773	61,773
Payroll Taxes	<b>395,493</b>	<b>427,531</b>	<b>395,493</b>	427,531
Meals Adjustment	-7,487	-7,487	-7,487	-7,487
Total	23,240,563	24,369,002	23,246,467	24,396,730
Income Before Taxes	10,055,598	9,118,336	10,671,164	12,009,408
<u>CA Corp Franchise Tax (CCFT)</u>				
CA Tax Depreciation	3,020,270	3,020,270	3,020,270	3,020,270
Interest	2,294,662	2,584,593	2,294,662	2,584,593
Total	5,314,932	5,604,863	5,314,932	5,604,863
Taxable Income from CCFT	4,740,666	3,513,473	5,356,232	6,404,545
CCFT Rate	8.84%	8.84%	8.84%	8.84%
California Income Tax	419,075	310,591	473,491	566,162
<u>Federal Income Tax</u>				
Fed. Tax Depreciation	2,285,886	2,285,886	2,285,886	2,285,886
CA Tax	419,075	310,591	419,075	310,591
Interest	2,294,662	2,584,593	2,294,662	2,584,593
Qualified Production Deduction	70,121	47,554	78,659	82,473
Total	5,069,744	5,228,624	5,078,281	5,263,543
FIT Taxable Income	4,985,854	3,889,712	5,592,883	6,745,865
FIT Rate	35.0%	35.0%	35.0%	35.0%
Federal Income Tax	1,745,049	1,361,399	1,957,509	2,361,053
Investment Tax Credit	7,032	7,032	7,032	7,032
Net Federal Income Tax	1,738,017	1,354,367	1,950,477	2,354,021

1  
2

1           **CHAPTER 10: CUSTOMER SERVICES AND WATER QUALITY**

2           **A.     INTRODUCTION**

3           This chapter provides ORA’s analysis and recommendations regarding the  
4 customer service processes and procedures and water quality regarding Park Water  
5 Company.

6           **B.     SUMMARY OF RECOMMENDATIONS**

7           ORA reviewed Park’s application, responses to ORA data requests, and  
8 data obtained from the Commission’s Consumer Affairs Branch (“CAB”) to  
9 evaluate customer service. Based upon this review ORA found Park’s customer  
10 service efforts to be acceptable. Notably, as explained in more detail below, Park’s  
11 records show that the company and CAB received a low number of service  
12 complaints in 2012, 2013 and 2014 relative to the number of customers served in  
13 those years.

14           ORA has also reviewed Park’s water quality and based upon the  
15 information Park and Department of Drinking Water (“DDW”) provided, the  
16 water systems in the Central Basin Division are currently in compliance with the  
17 requirements established by DDW, applicable federal drinking water  
18 requirements, and General Order 103-A.

19           **C.     DISCUSSION**

20           **1.     Customer Services**

21                   a)     **Data received by the Commission’s Consumer Affairs**  
22                               **Branch (“CAB”) from Park’s Customers**

23           ORA evaluated data received from CAB’s Consumer Information  
24 Management System (“CIMS”) database for the past three years. The CIMS data  
25 includes the following Case Types:

- 26           1. Complaints - Denote written consumer contacts in which the  
27 consumer is protesting or expressing dissatisfaction with an action or  
28 practice of the CPUC, or a regulated or non-regulated utility. These

1 include issues that may be outside the purview of CAB to investigate  
2 or outside the regulatory authority of the Commission. These issues  
3 are not forwarded to the utility company for resolution but handled as  
4 a referral to the appropriate utility, CPUC division, entity, or closed  
5 outright with the appropriate letter of explanation.

6 2. Informal Complaints (IC) - Denote written consumer contacts  
7 expressing dissatisfaction with, or a dispute with a utility regarding  
8 issues within the regulatory authority of the CPUC. These issues are  
9 forwarded to the utility company for investigation and response.

10 3. Phone Contacts - Denote all consumer calls in reference to concerns,  
11 questions, and complaints related to utility companies. These  
12 contacts are no longer coded as complaints, inquiries, etc.

13 4. Inquiries - Denote written consumer contacts requesting facts and  
14 information for a situation.

15

16 The table below presents a summary of Park's customer service complaints,  
17 calls, and inquiries received by the Commission's CAB from 2012 through 2014.

18 The majority of the customer data received by the Commission's CAB involved  
19 billing. The table also provides the total number of customer service complaints,  
20 calls, and inquiries expressed as a percentage of total number of customers for each  
21 year.

22

	<u>CIMS Database</u>		
<u>Case Type</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
23 Complaints	145	63	5
24 Informal Complaints	0	50	109
25 Phone Contacts	0	13	40
26 Inquiries	8	7	0
27 Total	153	133	154
28 No. of customers	27,210	27,261	27,292

29

1 Total as % of customers 0.56% 0.49% 0.56%

2 **b) Informal Complaints**

3 According to Park, customer informal complaints referred by the  
4 Commission's CAB to Park for resolution in the past three years are low  
5 compared to the number of customers.<sup>126</sup> The majority of these complaints were  
6 regarding high water usage, reconnection charges, or meter accuracy.

7 Complaints referred to Park by CAB<sup>127</sup>

	<u>2012</u>	<u>2013</u>	<u>2014</u>
8 Informal Complaints	22	8	25
9 No. of customers	27,210	27,261	27,292
10 Total as % of customers	0.08%	0.03%	0.09%

11

12 A few complaints referenced city taxes and surcharges. Park states that for  
13 the informal complaints that the Commission has ruled on, it has ruled in Park's  
14 favor.<sup>128</sup> The low numbers of complaints Park cited and the Commission's CAB  
15 received indicate that Park provides reasonable customer service, and its customer  
16 service processes and procedures are responsive to customer needs.

17 **c) General Order 103-A Reporting Requirements**

18 The Commission's General Order 103-A (GO 103-A) has standardized  
19 reporting requirements so that the Commission can monitor service quality and  
20 changes in utility customer service performance. GO 103-A, Appendix E, outlines  
21 performance standards for telephone inquiries, billing, meter reading, work  
22 completion, and response to customers and regulatory complaints. A utility is  
23 required to meet the performance standards and to report the performance results  
24 annually following the performance standards outlined in Appendix E.

---

<sup>126</sup> Park Water Company's Revenue Requirements Report TY2016, at 13.

<sup>127</sup> Ibid, at 13.

<sup>128</sup> Ibid. at 13.

1 In January 2010 Park began tracking customer phone calls regarding billing  
2 and meter reading performance standards, such as misapplied payments, scheduled  
3 appointments made and kept, misread meters, and bills skipped or not mailed  
4 within 7 days. Park provided the statistics for 2012, 2013, and 2014 that Park used  
5 to report its annual performance required by GO 103-A and Appendix E.<sup>129</sup> ORA  
6 reviewed these reported performance measures and Park's data used to report  
7 compliance with the required performance standards.<sup>130</sup> (See Table 10-1) ORA  
8 concludes that Park has met the customer service performance standards for all  
9 service quality areas as required by GO 103-A.

10 Listed below is a summary of the Performance Standards required by  
11 General Order 103-A<sup>131</sup>, Appendix E – Customer Service & Reporting Standards  
12 for Class A and B Water Utilities:

13 1. Telephone – (a) percentage of calls reaching a utility representative  
14 within 30 seconds must be greater than or equal to 80%; (b) percentage of  
15 calls abandoned before reaching a utility representative must be less than or  
16 equal to 5%.

17 2. Billing performance measure – (a) percentage of bills rendered within  
18 seven days must be greater than or equal to 99%; (b) percentage of  
19 inaccurate bills must be less than or equal to 3%; (c) percentage of posting  
20 errors must be less than or equal to 1%.

21 3. Meter Reading – percentage of meter readings skipped per meter reading  
22 schedule must be less than or equal to 3%.

---

<sup>129</sup> Park's response to ORA's data request ORA-A.15-01-001 HSM-001, Question 2.

<sup>130</sup> Ibid.

<sup>131</sup> General Order 103-A of the Public Utilities Commission of the State of California, effective September 10, 2009, Rules Governing Water Service, Including Minimum Standards for Operation, Maintenance, Design and Construct, Chapter VIII, Customer Service and Reporting Standards for Water and Wastewater Utilities, Appendix E – Customer Service and Reporting Standards for Class A and B Utilities.

1 4. Work completion – (a) percentage of scheduled appointments missed  
2 must be less than or equal to 5%; (b) percentage of customer requested  
3 work not completed on or before the scheduled date must be less than or  
4 equal to 5%.

5 5. Response to Customer and Regulatory Complaints – percentage of  
6 complaints reported annually to CAB per total number of customers must  
7 be less than or equal to 0.1%.

8 d) **Customer Calls to Park Water**

9 Park tracked the customer calls that generated service orders for meter re-  
10 reads related to high water bills. In 2012, customer calls regarding high water bills  
11 generated 2,135 special read service orders. In 2013, customer calls generated  
12 2,318 special read service orders. Customer calls in 2014 generated 2,733 special  
13 read service orders.<sup>132</sup>

14 All customer inquiries and complaints for all Central Basin Division’s  
15 customers are handled by Park’s Customer Service Representatives (“CSR”) at  
16 Park’s main office in Downey, California. Most inquires concern high water  
17 usage and bills. According to Park, when a customer calls with a high water bill  
18 inquiry, the CSRs utilize the following procedures:<sup>133</sup> 1) review previous water  
19 usage to compare current to past usage, 2) find out if the customer inadvertently  
20 left water running during the billing period, and 3) ask if the customer had any  
21 plumbing repairs recently that could account for higher than normal usage. If this  
22 line of questioning does not identify the source of the higher than normal usage,  
23 then a service order is generated for the meter to be reread, which usually occurs  
24 the next business day after the inquiry. The customer is then notified of the results  
25 of the reread.

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<sup>132</sup> Park’s response to Supplemental Data Request, Item 28, at 10.

<sup>133</sup> Ibid, at 9.

1 If the reread of the meter proves to be correct and the customer still has a  
2 problem, Park may suggest that the customer check their property for water leaks.  
3 A meter reader will explain to the customer how to read their water meter and how  
4 to check for leaks. If a leak is detected it is recommended that the leak be repaired.  
5 If the customer still has a problem, the meter is re-checked and may be removed  
6 and tested for accuracy as the final step to resolve any questions regarding the  
7 accuracy of the meter. Park states that meter reading department personnel work  
8 with the customer to eliminate the customer's concerns and resolve any issues  
9 regarding their water use.<sup>134</sup>

10 e) **Customer Education**

11 In the last three years, Park has implemented several measures to try to  
12 inform and educate its customers about interactive voice response payment  
13 arrangements, conservation efforts, website, and other general information.<sup>135</sup>

- 14 1. Interactive Voice Response (“IVR”) Arrangements - Park has enhanced  
15 its IVR phone system to now offer payment arrangements without the  
16 need for a customer to request it through a customer service  
17 representative. Park offers its customers many convenient options to  
18 pay their bills. Credit Cards/Electronic Checks, through a third party  
19 vendor, are accepted through the IVR phone system and through the  
20 Company's website. Park utilizes a third party vendor, PayNearMe, to  
21 allow customers to pay their bills in cash at any 7-Eleven store. Park  
22 also offers Easy Pay for customers who would like the option of having  
23 their payments withdrawn automatically from their checking accounts.  
24
- 25 2. Conservation Efforts - Park has increased its conservation efforts by  
26 offering many different programs. Park offers a home water audit to  
27 help residents take steps to reduce their water consumption. In 2014,  
28 Park held a conservation event, where the Company invited members  
29 of the community to come tour Park's conservation garden and become  
30 better educated about the need to conserve water, as well as steps they  
31 can take in their own homes to reduce water use. If any of the

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<sup>134</sup> Ibid, at 9.

<sup>135</sup> Park Water Company's Revenue Requirements Report TY2016, at 14.

1 Company's residential customers encounter a leak on their property,  
2 the Company offers a courtesy leak adjustment once the customer  
3 provides proof that the repairs have been made.

4  
5 3. Website - Park's website is available to provide customer account  
6 information electronically as well as information about the Company.  
7 Park continually take steps to improve its website to provide customers  
8 with the most current and important information.

9  
10 4. New Customer Welcome Brochure - Park has developed a new  
11 customer information brochure for each new customer. This brochure  
12 gives new customers information regarding their water service and  
13 other information about the Company.

## 14 15 2. **Water Quality**

16 Park's Central Basin Division consists of three separate water systems in  
17 southeastern Los Angeles County: the Compton System, the Bellflower/Norwalk  
18 System, and the Lynwood System. Park's purchased water source is from  
19 imported water supplier Metropolitan Water District of Southern California  
20 ("MWD-SC") through the wholesaler Central Basin Municipal Water District  
21 ("CBMWD"). Park operates three water systems under permits from the State  
22 Water Resources Division of Drinking Water ("DDW"), formerly referred to as  
23 the California Department of Public Health ("CDPH"). Park's water supply  
24 comes from groundwater wells and purchased treated water.

25 Investor-owned water utilities are required to submit information about  
26 water quality as part of each utility's General Rate Case ("GRC") application.<sup>136</sup>  
27 In accordance with these requirements, Park submitted water quality information  
28 in its response to Minimum Data Requirements ("MDR"). In developing its

---

<sup>136</sup> See D.04-06-018 (adopting revised Rate Case Plan ("RCP")); see also D.07-05-062, (adopting changes to the RCP including improved oversight of water quality data through the use of Minimum Data Requirements ("MDR") pertaining to water quality that must be completed by the utility as part of its GRC testimony and cost of capital testimony).

1 recommendation for water quality, ORA reviewed Park’s testimony, application,  
2 work papers, and the most recent DDW inspection reports available for Park’s  
3 water systems.

4 The following table lists the systems in the Central Basin Division with the  
5 corresponding information on the most recent inspection reports available to ORA  
6 and citations by DDW, if any. Where appropriate, ORA discussed the nature of  
7 each DDW citation.

8

<b>System</b>	<b>DDW Inspection Report</b>	<b>DDW Citation</b>
Compton	2014	None
Bellflower/Norwalk	2012	None
Lynwood	2014	None

9

10 Based upon ORA’s review of the information Park and DDW provided, Park  
11 did not exceed any drinking water regulations since the last GRC. There have  
12 been no violations of any Maximum Contaminant Levels (“MCLs”), Action  
13 Levels (“ALs”) or Treatment Techniques (“TTs”). However, there was one minor  
14 Tier 3 monitoring violation that was reported to customers in the 2013/2014  
15 Lynwood system Consumer Confidence Report.<sup>137</sup> On September 27, 2013, DDW  
16 (formerly known as CDPH) issued a Fluoridation Distribution Monitoring and  
17 Reporting Violation due to the failure to monitor the daily distribution fluoride  
18 level at the Lynwood System on August 1, 2013.<sup>138</sup> Based upon SCADA data,  
19 Park was in compliance with the fluoridation regulations, but failed to collect the  
20 daily distribution system fluoride reporting information.

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<sup>137</sup> Park’s MDR, Section G.

<sup>138</sup> Park’s MDR, Section G-5, Page 1-15.

1 **D. CONCLUSION**

2 Based on ORA's analysis of the CAB complaint data, and Park's  
3 information on customer complaint tracking and service, ORA recommends that  
4 the Commission find Park's customer service to be satisfactory.

5 For water quality, Park's water systems in the Central Basin Division have  
6 been in compliance with federal and state drinking water standards between 2012  
7 and 2014. Therefore, ORA recommends that the Commission find that Park is in  
8 compliance with all applicable federal and state drinking water standards,  
9 including GO-103A.

10

11

TABLE 10-1

**2012**

<b>GO 103-A - Performance Standards</b>	<b>(%)</b>	<b>Total</b>
Percentage of Bills Rendered Within 7 Days	99.88%	194.00
Percentage of Inaccurate Bills	0.10%	167.00
Percentage of Bills Skipped	0.33%	538.00
Percentage of Calls Meeting Service Level	86.00%	44606.00
Percentage of Abandoned Calls	1.50%	786.00
Percentage of Scheduled Appointments Not Kept	2.00%	3.00
Percentage of Pending Service Orders at Month End	0.39%	19.00
Percentage of Misapplied Payments	0.02%	29.00

**2013**

<b>GO 103-A - Performance Standards</b>	<b>(%)</b>	<b>Total</b>
Percentage of Bills Rendered Within 7 Days	99.94%	108.00
Percentage of Inaccurate Bills	0.07%	111.00
Percentage of Bills Skipped	0.33%	509.00
Percentage of Calls Meeting Service Level	83.00%	42289.00
Percentage of Abandoned Calls	2.00%	1106.00
Percentage of Scheduled Appointments Not Kept	2.00%	3.00
Percentage of Pending Service Orders at Month End	0.69%	35.00
Percentage of Misapplied Payments	0.02%	32.00

**2014**

<b>GO 103-A - Performance Standards</b>	<b>(%)</b>	<b>Total</b>
Percentage of Bills Rendered Within 7 Days	99.95%	75.00
Percentage of Inaccurate Bills	0.07%	33.00
Percentage of Bills Skipped	0.19%	131.00
Percentage of Calls Meeting Service Level	80.00%	44108.00
Percentage of Abandoned Calls	2.50%	1527.00
Percentage of Scheduled Appointments Not Kept	2.00%	6.00
Percentage of Pending Service Orders at Month End	0.41%	29.00
Percentage of Misapplied Payments	0.02%	48.00



1           ORA recommends that Park’s request to terminate this account as of  
2 January 1, 2016 and to apply a surcharge to recover the under-collection, be  
3 approved.

4           (4) 2014 Water Conservation Memorandum Account.

5           ORA recommends approving Park’s request to continue this account.

6           (5) Credit Card Memorandum Account.

7           ORA recommends approving Park’s request to terminate this account as of  
8 January 1, 2016, and to refund to customers the over-collection.

9           (6) Military Family Relief Program (“MFRP”) Memorandum Account.

10          ORA recommends closing this memorandum account even though it is not  
11 part of Park’s specific request in this filing. There has been no activity since  
12 inception (4/6/2006), and ORA is not aware of any circumstances or facts existing  
13 that are commensurate to the original terms, conditions and purpose under which  
14 the memorandum account was originally established under.

15       **C.   DISCUSSION**

16           **1.   Background on Memorandum Accounts**

17          Memorandum accounts track items not contained in the revenue  
18 requirement. Memorandum accounts are usually not used to track ongoing normal  
19 business expenses, such as maintenance and other categories of operating  
20 expenses. In terms of Commission policy, memorandum accounts are used to  
21 track items where recovery is not assured, in whole or in part. This could be  
22 because the nature of the issue has not yet been fully explored or understood and  
23 its regulatory treatment undecided. Yet, it is necessary to “leave the issue open”  
24 for future rate recovery so as to avoid retroactive ratemaking. Therefore, a  
25 memorandum account differs from a balancing account in that it leaves the issue  
26 open for eventual resolution plus an opportunity to track associated costs for  
27 possible future rate recovery.

1 While a memorandum account is not a part of a utility’s financial reporting  
2 system, or books of account, it is a tool which facilitates the accumulation of costs  
3 related to a specific activity. The purpose of this “off-book” accounting record is  
4 to preserve the right to recover the accumulate costs in a future period. Without  
5 the memorandum account, the accumulated costs could not be recovered because  
6 of the doctrine of retroactive ratemaking. Thus, a pre-approved memorandum  
7 account is required to avoid unlawful retroactive ratemaking.<sup>139</sup> Unlike a  
8 Balancing Account a memorandum account is used to record costs for tracking  
9 purposes and to allow a utility an opportunity to meet its burden of proof for the  
10 recovery of the recorded costs.<sup>140</sup> Recovery of the accumulated costs is not  
11 automatic, and recovery of costs must be found just and reasonable by the  
12 Commission.

13 **2. Memorandum and Balancing Accounts in Park’s**  
14 **Application**

15 a) **Tangible Property Regulations Consequences**  
16 **Memorandum Account**

17 Park proposes closing this memorandum account as of January 1, 2016, the  
18 effective date of the 2016 Test Year, and refunding customers the over-collection  
19 estimated to be \$14,000 as of December 31, 2014. At this time, Park does not  
20 know if the refund will be through a one-time surcredit or amortized over a period  
21 of time. This decision will depend on the final amount to be refunded at the end of  
22 2015. If relatively immaterial, Park should use a one-time surcredit.<sup>141</sup>

23 The amounts booked or tracked in the memorandum account are  
24 commensurate to the original terms, conditions and purpose under which the  
25 memorandum account was originally established under.

---

<sup>139</sup> See D.06-01-018, January 12, 2006, page 3.

<sup>140</sup> Authorized Balancing Accounts have an associated expectation of recovery and the recorded amounts are subject to a reasonableness review.

<sup>141</sup> Park response to ORA Data Request JRC-001, Q.VII (5).

1 This memorandum account was established by approval of Advice Letter  
2 245-W-A, and was effective January 1, 2014. The purpose of the memorandum  
3 account is to track the revenue requirement of the tax effects resulting from  
4 implementing the Internal Revenue Service (“IRS”) guidelines for the water  
5 industry for determining which costs for maintaining, replacing, or improving  
6 property may be expensed and which costs must be capitalized. The account  
7 tracks the benefit to customers resulting from Park getting a deferral of income tax  
8 payments (deferred income taxes). The memorandum account will not be needed  
9 beginning in the Test Year as the impact of these regulations has been  
10 incorporated in the requested revenue requirements in this GRC.<sup>142</sup>

11 As provided in Park’s response to ORA Data Request VCC-3, Park is still  
12 in the process of calculating the Section 481(a) catch-up adjustment(s) pertaining  
13 to the Repair Regulations change in tax accounting methodology. Park plans to  
14 file the change with or prior to filing the 2014 federal income tax return by  
15 September 15, 2015 after obtaining a five month extension to file. To the extent  
16 that Park is not able to capture the benefit of this rule change in this GRC, Park  
17 should record such benefits in this memorandum account to be amortized at a later  
18 date. ORA recommends that this account remain open.

19 **b) Income Tax Repair Regulations Implementation**  
20 **Memorandum Account**

21 Park proposes closing the memorandum account as of January 1, 2016, the  
22 effective date of the Test Year, and apply a surcharge to customers to recover the  
23 under -collection estimated to be \$61,000 as of December 31, 2014. Park does not  
24 know when in 2016 it will file an Advice Letter to implement the proposed  
25 surcharge. It is likely, however, that the Advice Letter will combine the  
26 unrecovered costs of this memorandum account with the over-collected costs of

---

<sup>142</sup> Park’s response to ORA Data Request JRC-001, Q.VII.

1 the Tangible Property Regulations Consequences Memorandum account  
2 (discussed above).<sup>143</sup>

3 The amounts booked or tracked in the memorandum account are  
4 commensurate to the original terms, conditions and purpose under which the  
5 memorandum account was originally established under.

6 This memorandum account was established by approval of Advice Letter  
7 245-W-A, and was effective January 1, 2014. The purpose of the memorandum  
8 account is to track the implementation costs related to the IRS guidelines for the  
9 water industry for determining which costs for maintaining, replacing, or  
10 improving property may be expensed and which costs must be capitalized.  
11 Pursuant to these “Repair Regulations,” certain capital expenditures for book  
12 purposes can be deducted as repair expense for income tax purposes. This  
13 memorandum account allows tracking of all costs associated with the initial  
14 implementation of the Repair Regulations, including outside implementation  
15 service fees and required accounting system changes. The total recorded in this  
16 memorandum account as of February 28, 2015 is \$38,242 (under-collection) and  
17 represents fees paid to outside accounting firms to conduct studies over what may  
18 be deducted as repair expense.<sup>144</sup> The memorandum account will not be needed  
19 beginning in the Test Year because Park estimates that all implementation costs  
20 will have been incurred by January 1, 2016.<sup>145</sup>

21 c) **Low-Income Customer Data Sharing Cost**  
22 **Memorandum Account**

23 Park proposes filing an Advice Letter in the future in order to implement a  
24 surcharge to amortize the under-collected balance as of December 31, 2014 of  
25 \$17,989. The Advice Letter would be filed after a Commission decision is issued

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<sup>143</sup> Park response to ORA Data Request JRC-001, Q.VI (4).

<sup>144</sup> Park response to ORA Data Request JRC-001, Q. VI (2).

<sup>145</sup> Park’s Application A.15-01-001, Memorandum Accounts, Section 2.

1 in this GRC authorizing amortization of the balance recorded in the memorandum  
2 account.<sup>146</sup> Park further proposes closing the account after 2015, effective January  
3 1, 2016, the effective date of the Test Year.<sup>147</sup>

4 The amounts booked or tracked in the memorandum account are  
5 commensurate to the original terms, conditions and purpose under which the  
6 memorandum account was originally established under.

7 This memorandum account was authorized by D.11-05-020, dated May 10,  
8 2011, and the memorandum account established July 11, 2011. The purpose of the  
9 memorandum account is to track the costs associated with data sharing between  
10 the energy and water utilities in order to implement their respective Low Income  
11 Programs.

12 The memorandum account will not be needed beginning in the 2016 Test  
13 Year as the impact of the ongoing costs associated with the low-income data  
14 sharing activities have been incorporated into the requested revenue requirements  
15 estimates for 2016 in this GRC.<sup>148</sup>

16 d) **2014 Water Conservation Memorandum Account**

17 Park proposes continuation of this memorandum account in the current rate  
18 case cycle (2016-2018) until the ongoing California drought emergency is  
19 declared over by the Governor's office. Park's Advice Letter 254-W was  
20 approved allowing continuation of this memorandum account until the drought  
21 emergency situation is lifted.

22 The amounts booked or tracked in the memorandum account are  
23 commensurate to the original terms, conditions and purpose under which the  
24 memorandum account was originally established under.

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<sup>146</sup> Park response to ORA Data Request JRC-001, Q.III (3).

<sup>147</sup> Park response to ORA Data Request JRC-001, Q.III (1).

<sup>148</sup> Ibid.

1 The memorandum account was authorized by Commission Resolution W-  
2 4976, dated February 27, 2014. The account was effective March 25, 2014, and at  
3 December 31, 2014 had a balance of \$21,926. The purpose of the memorandum  
4 account is to track the incremental expenses incurred by Park to activate Rule 14.1  
5 voluntary conservation, Schedule 14.1 mandatory rationing efforts, and other  
6 activities associated with the Governor's Drought Emergency Declaration dated  
7 January 17, 2014, and Executive Order dated April 25, 2014.

8 On April 1, 2015, California Governor Jerry Brown ordered mandatory  
9 water restrictions for the first time in California history, declaring that the State's  
10 drought had reached near-crisis proportions after a winter that brought record-low  
11 snowfalls.<sup>149</sup> It is uncontroversial that the current drought crisis conditions justify  
12 continuation of this memorandum account.

13 e) **Credit Card Memorandum Account**

14 Park proposes refunding customers the over-collection in this memorandum  
15 account, estimated to be \$5,183 at December 31, 2015. The balance at December  
16 31, 2014 was an over-collection of \$4,853. Park proposes implementing the  
17 refund through a one-time surcredit, based on the rationale provided in Standard  
18 Practice U-27-W.<sup>150</sup> Park intends to file an Advice Letter to implement the  
19 surcredit after a Commission decision in this GRC authorizing the refund of the  
20 balance.

21 The amounts booked or tracked in this memorandum account are  
22 commensurate to the original terms, conditions and purpose under which the  
23 memorandum account was originally established under.

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<sup>149</sup> New York Times Breaking News Alert dated April 1, 2015. Governor Brown, in an executive order, directed the State Water Resources Control Board to work with local agencies to come up with ways to reduce water use by 25 percent and to enforce what he described as an onerous reduction in use.

<sup>150</sup> Park response to ORA Data Request JRC-001, Q.V (2). Also see Standard Practice U-27-W, Section H-Recovery Periods.

1 This memorandum account was authorized by Commission Resolution W-  
2 4936, dated January 10, 2013. The purpose of the memorandum account is to  
3 track costs and savings associated with providing the credit/debit card payment  
4 services to Park's customers.

5 The memorandum account will not be needed at beginning in the Test Year  
6 because Resolution W-4936 requires disposition of the amounts recorded in the  
7 account in this GRC proceeding.<sup>151</sup>

8 f) **Conservation Expense One-Way Balancing**  
9 **Account**

10 Park believes the audit of the conservation balancing account at this time is  
11 premature because it covers the entire rate cycle (2013-2015).

12 Park proposes that ORA conduct its audit of the account after the  
13 completion of the 2013-2015 rate cycle when Park files for resolution of the  
14 account authorized for the period. Park anticipates that this will occur during the  
15 first quarter of 2016. The recorded balance as of December 31, 2014 is an over  
16 collection of \$96,620.

17 ORA does not oppose Park's request since we currently have only two  
18 years of recorded expenses for three years of the rate cycle (2013-2015). Park  
19 proposes filing an advice letter to amortize the over-collected balance recorded  
20 (2013, 2014, and 2015) in Park's One-Way Conservation Balancing Account on  
21 April 30, 2016. At that time, ORA will conduct an audit of the recorded expenses  
22 for all three years.

23 g) **California Alternative Rates for Water (CARW)**  
24 **Revenue Reallocation Balancing Account**

25 Park requests that the Commission review its California Alternative Rates  
26 for Water (CARW) Revenue Reallocation Balancing Account for approval and  
27 amortization through a surcharge to customers (excluding those customers

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<sup>151</sup> Park's Application 15-01-001, Section C (5).

1 enrolled in the in the CARW program) on December 31, 2014. Additionally, Park  
2 requests continuing the CARW Revenue Reallocation Balance Account for this  
3 rate case cycle. The recorded balance as of December 31, 2013 was an under  
4 collection of \$622,217 and the ending balance on December 31, 2014 was an  
5 under-collection of \$526,141. The ending balances for both 2013 and 2014 also  
6 include accrued interest at the 90 day commercial paper rate.

7 ORA's examination, scope and procedures included verifying the accuracy  
8 of Park's outstanding balance by sampling several months of CARW discounts,  
9 surcharges, surcredits and interest recorded in this balancing account in 2014.

10 ORA does not oppose Park's request to amortize the CARW balancing account  
11 through a surcharge to customers excluding its customers enrolled in the CARW  
12 program.

### 13 **3. Memorandum Accounts Not in Park's Application**

14 The following memorandum accounts are not part of any request in this  
15 GRC proceeding but were reviewed by ORA:

#### 16 **a) Military Family Relief Program ("MFRP")** 17 **Memorandum Account**

18 The account was authorized by approval of Advice Letter 190-W, and  
19 established April 6, 2006. It was opened during the Iraq/Afghanistan war to help  
20 service people to provide assistance with their water bills. The program provides  
21 assistance to military families, including a 180-day shut off protection for the  
22 family/dependents of military personnel. Extended payment terms also are  
23 available to assist military families due to the reduced income from a call to active  
24 duty military service. The purpose of the account is to record uncollectibles and  
25 program related expenses for the implementation and administration of the MFRP,  
26 such as printing, publishing and mailing related notices.<sup>152</sup>

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<sup>152</sup> Park's response to ORA Data Request JRC-001, Q. I.

1           There have been no activities or entries in the account since inception. In  
2 response to ORA’s data request, Park asserted that the reasons/purpose of  
3 establishing the memorandum account still exists, and no circumstances have  
4 changed to support discontinuing of the account. Park asserts that the account  
5 should not be closed.<sup>153</sup> Park did not describe what current circumstances exist to  
6 support continuation of this memorandum account.

7           ORA recommends closing this memorandum account. There has been no  
8 activity since inception, and ORA is not aware of any circumstances or facts  
9 existing that are commensurate to the original terms, conditions and purpose under  
10 which the memorandum account was originally established under.

11                           **b)     California Urban Conservation Council Best**  
12                           **Management Practice Memorandum Account**

13           This memorandum account was authorized by Commission decision D.08-  
14 02-036 and was established September 15, 2008. As of December 31, 2014, the  
15 account had a balance of \$4,782 (under-collection). The purpose of the  
16 memorandum account is to track the costs of conservation programs that are  
17 consistent with and based upon Best Management Practices. It is Park’s intention  
18 to close this memorandum account when the under-collected balance is fully  
19 amortized.<sup>154</sup>

20           The amounts booked or tracked in the memorandum account are  
21 commensurate to the original terms, conditions and purpose under which the  
22 memorandum account was originally established under. The Division of Water  
23 and Audits (“DWA”) reviewed and approved costs booked in this account and  
24 Resolution W-4961 authorized a 12-month surcharge effective March 19, 2014.<sup>155</sup>

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<sup>153</sup> Park’s response to ORA Data Request JRC-001, Q. I

<sup>154</sup> Park’s response to ORA Data Request JRC-001, Q. I.

<sup>155</sup> Park’s response to ORA Data Request JRC-001, Q. I.

1                   **c) Conservation Proceeding Memorandum Account**

2           This memorandum account was authorized by Commission decision D.10-  
3 04-001 and was established May 6, 2010. As of December 31, 2014, the account  
4 had a balance of \$39,768 (under-collection). The purpose of the account is to  
5 track the legal and regulatory expenses associated with participation in I.07-01-  
6 022 (Commission Conservation Proceeding). It is Park’s intention to close this  
7 memorandum account when the under-collected balance is fully amortized.<sup>156</sup>

8           The amounts booked or tracked in the memorandum account are  
9 commensurate to the original terms, conditions and purpose under which the  
10 memorandum account was originally established under. DWA reviewed and  
11 approved the costs booked in this account and Resolution W-4961 authorized a 12-  
12 month surcharge effective March 19, 2014.<sup>157</sup>

13                   **d) 2010 Tax Act Memorandum Account**

14           Resolution L-411A authorized Park to establish a one-way memorandum  
15 account to track the impacts of the Tax Relief, Unemployment Insurance  
16 Reauthorization, and Job Creation Act of 2010 (“Tax Act”). The Commission  
17 required creation of the Bonus Depreciation Memorandum Account as a result of  
18 the 2010 Tax Act relating to Bonus Depreciation to track ratepayer benefits  
19 associated with Bonus Depreciation. The purpose of the memorandum account is  
20 to track the impacts of the Tax Act. It is Park’s intention to close this  
21 memorandum account after the over-collected balance is fully refunded to its  
22 customers, as it will no longer be needed.<sup>158</sup>

23           The amounts booked or tracked in the memorandum account are  
24 commensurate to the original terms, conditions and purpose under which the  
25 memorandum account was originally established under.

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<sup>156</sup> Park’s response to ORA Data Request JRC-001, Q. I.

<sup>157</sup> Ibid.

<sup>158</sup> Park response to ORA Data Request JRC-001, Q.I and II.

1 Park filed Advice Letter 257-W on February 4, 2015 in which it proposes  
2 refunding to all customers the entire over-collection of \$81,803 through a one-time  
3 surcredit.<sup>159</sup> ORA reviewed Park’s Advice Letter filing, and underlying  
4 workpapers, including the calculation of the over-collection. ORA did not take  
5 issue with the Advice Letter, and the methodology and calculations appeared well  
6 supported and reasonable.<sup>160</sup>

7 **e) Interim Rates (“IRMA”) Memorandum Account**

8 This memorandum account was authorized by Commission decision D.13-  
9 09-005<sup>161</sup> and was established January 1, 2013. As of December 31, 2014, the  
10 account had a balance of \$2,005,231 (under-collection). The purpose of the  
11 account is to track the difference between the interim rates and the final rates  
12 adopted by the Commission in D.13-09-005. It is Park’s intention to close this  
13 memorandum account when the under-collected balance is fully amortized.<sup>162</sup>

14 The amounts booked or tracked in the memorandum account are  
15 commensurate to the original terms, conditions and purpose under which the  
16 memorandum account was originally established under. Further, DWA reviewed  
17 and approved the revenue recorded in this account for recovery by approval of  
18 Advice Letter 250-W, effective May 22, 2014.<sup>163</sup>

19 **f) Conservation implementation Costs memorandum**  
20 **Account**

21 This memorandum account was authorized by Commission decision D.08-  
22 02-036 and was established on September 15, 2008. As of December 31, 2014,

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<sup>159</sup> Advice Letter 257-W is currently under review by DWA.

<sup>160</sup> On February 18, 2015 Park had a meeting with DWA, and ORA’s Water Branch management to review the Advice Letter calculations. During the meeting, ORA expressed satisfaction with the calculations used to determine the balance at the end of 2014, and ORA decided not to protest Advice Letter 257-W. See Park response to ORA Data Request JRC-001, Q. II (4).

<sup>161</sup> ALJ’s Ruling in Application A.12-01-001.

<sup>162</sup> Park’s response to ORA Data Request JRC-001, Q. I.

<sup>163</sup> Park’s response to ORA Data Request JRC-001, Q. I...

1 the account had a balance of \$9,337.44 (under-collection). The purpose of the  
2 memorandum account is to track the costs associated with implementation of  
3 increasing block rates and data collection, and monitoring costs.

4 The amounts booked or tracked in the memorandum account are  
5 commensurate to the original terms, conditions and purpose under which the  
6 memorandum account was originally established under. On February 6, 2014,  
7 Park filed an Advice Letter AL-238-W with Division of Water and Audits  
8 (“DWA”) seeking recovery of the under-collection balance in the account through  
9 a surcharge. The DWA reviewed and approved costs booked in this account and  
10 Resolution W-4961 authorized 12-month surcharge, effective March 19, 2014.

11 ORA recommends that this memorandum account be closed upon Park’s  
12 full recovery of the under-collection balance.

13 **g) Cost of Capital Memorandum Account**

14 This memorandum account was authorized by Commission decision D.09-  
15 07-038 and was established July 30, 2009. As of December 31, 2014, the account  
16 had a balance of \$28,093 (under-collection).<sup>164</sup> The purpose of the account is to  
17 track the difference between the (current) rates authorized in 2010 and the new  
18 2010 rates adopted in D.09-07-038. It is Park’s intention to close this  
19 memorandum account when the under-collected balance is fully amortized.<sup>165</sup>

20 The amounts booked or tracked in the memorandum account are  
21 commensurate to the original terms, conditions and purpose under which the  
22 memorandum account was originally established under. Further, DWA reviewed  
23 and approved the revenue recorded in this memorandum account for recovery by  
24 approval of Advice Letter 233-W, effective May 22, 2014.<sup>166</sup>

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<sup>164</sup> The balance shown recorded through 12/31/2014 is the remaining balance of the 2010 Cost of Capital Proceeding.

<sup>165</sup> Park’s response to ORA Data Request JRC-001, Q. I.

<sup>166</sup> Ibid.

1 **D. CONCLUSION**

2 Park's memorandum accounts appear to be reasonable. Most of the  
3 accounts reviewed in this GRC will be closed after amortization, and Advice  
4 Letters filed with DWA to implement their respective surcharges and surcredits.  
5 ORA recommends that all advice letter filings relating to these memorandum  
6 accounts by Tier 3 Advice Letters with DWA.

7

1 **CHAPTER 12: SPECIAL REQUESTS**

2 **A. INTRODUCTION**

3 This Chapter provides ORA’s analyses and recommendations for Park’s  
4 Special Requests which include:

- 5 • Level Payment Plan
- 6 • Low Income Assistance Program (CARW)
- 7 • Perchlorate Memorandum Account
- 8 • Include of Subsequent Offsets prior to the Final Decision
- 9 • Sales Reconciliation Mechanism for Escalation years
- 10 • Modification to WRAM/MCBA
- 11 • Employee and Retiree Healthcare Balancing Account
- 12 • Group Pension Balancing Account
- 13 • Phase-In of Test Year Increases

14 **B. SUMMARY OF RECOMMENDATION**

15 Following are ORA’s recommendations for each of the special requests:

- 16 • Level payment plan- disallowed due to lack of  
17 justification and support
- 18 • Low Income Assistance Program- CARW benefit to  
19 remain at \$6.65 as compared to Park’s request of \$8.02
- 20 • Perchlorate Memorandum Account- the request is  
21 premature and uncertain
- 22 • Subsequent Offsets prior to Final Decision- ORA agrees  
23 with this request in order to streamline the regulatory  
24 process, improve customer service and save both Park and  
25 Commission staff’s time and resources.
- 26 • Sales Reconciliation Mechanism for Escalation Years-  
27 disallowed because such request deviates from the general  
28 rate case process and ORA has concern over verification  
29 and accountability of the rate increases.
- 30 • Modification to WRAM/MCBA- ORA recommends that  
31 reclaimed water remain outside of WRAM and therefore  
32 costs associated with reclaimed water be excluded from

1 the MCBA. ORA also recommends leased water rights be  
2 excluded from the MVBA but allow chemical costs to be  
3 included.

- 4 • Employee and Retiree Healthcare Balancing Account-  
5 disallowed due to lack of support and justification.
- 6 • Group Pension Balancing Account- Disallowed due to  
7 lack of support and justification.
- 8 • Phase-In of Test Year Increase – Disallowed because  
9 Park’s increase does not meet the Commission guideline  
10 and it is not in the interest of the ratepayers.

## 11 C. DISCUSSION

### 12 1. Level Payment Plan

13 Park proposes offering a level payment plan option to allow customers to  
14 pay for water service in equal bi-monthly payments based on their last 12 months  
15 average bill, or a representative bill if their consumption history is shorter than 60  
16 days. At the end of the 12-month period, customers would receive a settlement  
17 bill with payment due or a credit balance.

18 Park’s testimony describes the level payment plan as another payment  
19 option to help its customers pay and manage their water bills. The plan would  
20 allow its eligible customers the opportunity to pay for their water bills in equal bi-  
21 monthly payments based on their last 12 months average bill, with either a balance  
22 due or credit at the end of the 12 month period. Because Park’s residential  
23 customers pay their bills on a bi-monthly basis, the level payment plan would  
24 allow the customers to pay for their annual water service across five equal (bi-  
25 monthly) payments.

26 The level payment plan does not change the total amount paid for water  
27 service but enables the customers to split the costs into equal payments throughout  
28 the year. The level payment plan is a 12-month program, and the first month  
29 participating in the program is “month one.” The month a customer receives the  
30 settlement bill is “month twelve.” To determine the amount of payments in  
31 month one through month ten, the water use for the previous twelve months is

1 totaled. The total is then divided by ten to calculate the bi-monthly base payment  
2 amount for the next 10 months. At the 12<sup>th</sup> month, the customer will receive a  
3 settlement bill, which will be either an amount due or a credit balance. To justify  
4 the offer of the level payment plan, Park stated that it has heard from its customers  
5 inquiring about this payment option that is similar to the programs approved by  
6 the Commission for Southern California Edison (“SCE”), Southern California Gas  
7 Company (“The Gas Company”) or California Water Service (“Cal Water”).

8 ORA believes Park’s request for the balanced payment plan has not been  
9 adequately supported and well thought-out. Park fails to answer some of the most  
10 basic questions of the program and what impact this program may have on its  
11 ratepayers. At this time, ORA recommends that the Commission should not grant  
12 Park such a program until it can provide more justification.

13 In its filing, Park fails to support the need and provide the rationale that it  
14 needs a level payment plan. The testimony Park provided in its testimony  
15 describes the mechanics of the level payment plan and how it works. There is not  
16 a single word mentioned to justify why this plan is needed, how it would impact  
17 its ratepayers, what are the costs of the program, consequences this payment plan  
18 may have on its operation or what signals, if any, would send to its customers on  
19 water conservation. This information was not provided until ORA issued a data  
20 request. Even then, Park’s response was general in nature and far from being  
21 adequate.

22 In Data Request ORA-A.1501001.VCC001, ORA requested Park to  
23 provide support for the need of a balanced payment plan. In its response, Park  
24 provided “*Park has received numerous inquiries from customers asking about a  
25 level pay plan. Many customers have asked why Park doesn’t offer a level pay  
26 plan similar to what their other utilities (Southern California Edison, Gas  
27 Company) offer. Additionally, Park has been asked by many local officials (city,  
28 county, state) in its service area, why it doesn’t offer a level pay plan to their  
29 constituents. These officials have stated that a program of this nature would*

1 *benefit their communities especially those customers who struggle with utility*  
2 *bills”.*

3 Park further stated, “ *In the Water Action Plan, the Commission recognized*  
4 *the low-income customers often struggle with payments for basic monthly water*  
5 *service. Coupled with its low-income ratepayer assistance program (Park’s*  
6 *CARW program), Park believes that the proposed Level Payment Plan would*  
7 *provide relief to low-income customers”.*

8 Park’s data request response above provided only a general picture of why  
9 the level payment plan is needed. Simply put, its customers and city officials  
10 requested it. However, the more appropriate and relevant determining factors for  
11 the Commission should be the number of customers, city officials and the  
12 frequency of their requests. A large number of requests certainly support the need  
13 of this program more so than a smaller numbers. Basic information such as a  
14 customer survey should have been documented and submitted to the Commission  
15 as part of the justification for its request. Park did not do so.

16 When Park was asked about the impact this program might have on 1) call  
17 volume, 2) service turn-off, 3) uncollectible, 4) working cash, 5) conservation, and  
18 any other.

19 Park’s response was “*Because Park has never offered this type of program*  
20 *before, it does not have any way of predicting enrollment rates or the program’s*  
21 *influence on customer behavior other than the above general statements. Prior to*  
22 *the start of the program Park does not have data with which to measure, and Park*  
23 *believes that it is premature to estimate (with any degree of specificity), the*  
24 *impacts of the program on call volume, service turn-off, uncollectible, working*  
25 *cash, and conservation”.* Park’s response that it does not know what or how  
26 much impact this program may have is simply not acceptable given the fact that it  
27 is modeling its program after SCE and The Gas Company, who have implemented  
28 this program for a number of years. At a minimum, Park could have provided  
29 some projecting numbers based on the experience of those utilities with the

1 balanced payment option. Evaluating the potential water demand behavior of  
2 residential customers under this type of program is very important considering that  
3 California is in a severe drought, and customers must have the right price signals  
4 to conserve water. Once again Park did not do so.

5 One of Park's primary justifications for the balanced payment option is that  
6 when coupled with its CARW program, the plan would provide relief to its low  
7 income customers who struggle with their utility bills. ORA disagrees with Park's  
8 characterization of this program because the balanced payment plan does not  
9 reduce the amount shown on customer's billings, rather, it merely shifted the  
10 amount of the high bills during the summer months to the lower bills in winter  
11 months, with the final reconciliation bill due at the end of the 12-month bill  
12 period. Customers would pay the same amount for their water service during the  
13 same 12-month period regardless they are in the program or not.

14 ORA believes there are other means Park can do to achieve similar results  
15 for its struggling customers. The purpose of the level payment plan is to spread  
16 the water cost evenly over a 12-month period and therefore allows those customers  
17 to better manage their bills. However, unlike customers in SCE, The Gas  
18 Company or Cal Water who are mostly on monthly billing, Park's residential  
19 customers are on a bi-monthly billing plan whose billing amount would be about  
20 twice as large compared to the amount if they were billed monthly. For example,  
21 Park's average residential bi-monthly bill in 2016 is \$143.30 based on its proposed  
22 filing in A.15-01-001. If the goal for Park is to spread out evenly the cost over a  
23 12-month period so that its customers can better manage their bills, Park could  
24 have requested the Commission to allow it to switch to monthly billings so the  
25 amount is smaller. The smaller amount would make it easier for its low income  
26 customers to manage their bills, and therefore, achieve a similar result from using  
27 the level payment plan. With monthly billing, Park's customers will also be able  
28 to better manage their water use, which becomes even more important given the  
29 drought measures that are expected to be implemented in 2015-2016 by the

1 California State Water Resources Control Board. There are fundamental  
2 differences between Park and those utilities that currently have the level payment  
3 plan. What is appropriate for the other utilities are not the same for Park in this  
4 case. ORA believes Park should first consider a monthly billing option before  
5 requesting the level payment plan.

6 Finally, there are costs associated with the implementation of the level  
7 payment plan. As provided in Data Request Response ORA-A.1501001, Park  
8 estimated “*that it will take about \$10,000 total (\$6,500 in outside consulting and  
9 \$3,500 internal payroll) for the programming, testing, and training required to  
10 implement the program. These costs would be capitalized and charged to a  
11 General Office capital project. Park does not anticipate any significant ongoing  
12 expenses for the maintenance of the program after implementation*”. However,  
13 ORA believes that Park has not fully accounted for the full costs of implementing  
14 this program and thus underestimated its total cost. When California Water  
15 Service requested authorization to implement a similar level payment plan  
16 program in A.12-07-007, it provided estimates that there will be \$57,600 for  
17 development and support in the first year and \$41,600 per year for on-going  
18 support thereafter. Additionally, there will be about \$7,000 for the first mailing by  
19 bill insert and \$500 for providing posters in each of Cal Water’s customer centers.  
20 ORA recognizes that Cal Water is a bigger company with many more customers  
21 than Park. Nonetheless, the type of costs such as mailing, bill inserts or on-going  
22 program costs should be common to both. Unfortunately, none of these costs were  
23 provided in Park’s overall cost estimates. It is impossible for the Commission to  
24 make an informed decision if such information was not fully accounted for and  
25 presented in Park’s request. Given that many of Park’s customers are low income  
26 and nearly half of them are on the CARW program, any program that potentially  
27 increases ratepayers’ financial burden should be minimized unless the benefit of  
28 such program far out-weighs the cost, which Park once again failed to demonstrate  
29 in this case.

1 ORA recommends that the request for implementing a level payment plan  
2 at this time until Park can provide the needed data and information to support this  
3 program.

4 **2. Low Income Assistance Program (“CARW”)**

5 Both the CPUC and ORA have recognized the importance of mandating  
6 the provision of water service at an affordable cost. This mindset is not only  
7 engrained in our organizations, but also outlined in our mission statement. One  
8 method of attaining this mandate is through subsidies provided to low-income  
9 ratepayers. Park had previously instituted a low-income program named California  
10 Alternative Rates for Water (“CARW”). This program provides a direct subsidy to  
11 benefit low-income ratepayers funded by a surcharge on ineligible ratepayers in  
12 the company’s service districts.

13 Park is asking to raise the CARW benefit amount to increase as a  
14 percentage of the overall rate increase granted in this proceeding. As the number  
15 of enrolled participants in CARW has increased fivefold over the prior three years,  
16 concerns over the affordability of this program are the focus of ORA’s testimony.

17 Considering the feasibility of Park’s service areas to adequately afford the  
18 costs associated with this benefit, ORA finds that the subsidy credit provided to  
19 eligible customers should remain the same level. Therefore, ORA recommends the  
20 CARW monthly bill credit remain constant at \$6.65. Table 12-1 displays the  
21 difference between Park and ORA’s figures.

Table 12-1 CARW Benefit Recommendation Comparison			
<b>Park</b>	<b>ORA</b>	<b>Amt Change</b>	<b>% Difference</b>
\$8.02	\$6.65	\$1.37	20.60%

22  
23 The CPUC first recognized the need for low-income ratepayer programs  
24 over two decades ago. In a 1992 proceeding, the Commission enacted into code  
25 “Access to an adequate supply of healthful water is a basic necessity of human  
26 life, and shall be made available to all residents of California at an affordable

1 cost.”<sup>167</sup> In the second provision of this codified directive, it gave the Commission  
2 the authority to implement programs to provide rate relief for low-income  
3 ratepayers.<sup>168</sup> Building on this, Class A investor owned water utilities began  
4 implementing low-income programs in subsequent general rate cases.

5 In a 2006 proceeding, Park initiated their low-income program with a 25%  
6 service charge discount for eligible customers.<sup>169</sup> During this time period the  
7 program had a small number of enrollees and a benefit less than five dollars a  
8 month. As awareness and customer interest piqued, the number of program  
9 enrollees began to increase. Meanwhile, a program was being implemented  
10 designed to reduce the inefficiencies of low-income enrollment programs between  
11 investor owned electric utilities and water utilities.

12 In a 2011 decision, the Commission adopted rules and guidelines regarding  
13 the sharing of utility data pertaining to low-income ratepayers. Specifically, the  
14 decision outlined a need for investor owned utilities in overlapping service  
15 territories to share data regarding enrollment of low-income customers.<sup>170</sup> This  
16 data sharing initiative had a substantial impact on Park’s number of enrollees in  
17 the CARW program. In testimony, the company contended that its enrollment  
18 before this initiative stood at 2,084 customers and has since jumped to over  
19 11,000, with a customer base of 26,847 in 2013.<sup>171</sup>

20 Parks current service districts have a high number of low-income  
21 customers and it raises questions as to the feasibility of the community to support  
22 such an initiative. Currently Park is forecasting 13,351 enrollees in test year  
23 2016<sup>172</sup> compared with a total customer base of 26,938 in 2016; this yields a

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<sup>167</sup> Cal. Pub. Util. Code §739.8. Section a.

<sup>168</sup> Cal. Pub. Util. Code §739.8. Section b.

<sup>169</sup> D.06-10-036 Opinion granting relief for low-income ratepayers.

<sup>170</sup> D.11-05.020 section 4.1.3.

<sup>171</sup> Table III-1 Historical & Projected Number of Customers by class in Exhibit-B.

<sup>172</sup> Response to JR6-002 1b.

1 participation rate of 49.6%. While the benefits of this program are undeniable to  
2 those enrolled, it is funded by those who are in ineligible, which creates a financial  
3 burden as the number of participants increase. Through data requests, ORA found  
4 that the current surcharge placed on ineligible customers was not an insignificant  
5 one; standing at 7.11% of the total bi-monthly bill.<sup>173</sup> Park has also stated that  
6 customers in its service districts have become increasingly disgruntled with the  
7 rising costs of funding this CARW program.<sup>174</sup>

8 Park is in a unique situation. When decisions were made regarding the  
9 policy and implementation of low-income ratepayer programs and data sharing, it  
10 wasn't conceived that a water system would have a high enough enrollment that it  
11 would place a serious burden on those who were not enrolled. Other class A water  
12 utilities have participation rates in the 10-20% range and have a larger customer  
13 base over which to spread the cost of the program; consequently avoiding a  
14 significant financial burden on ineligible ratepayers. Due to Park's small customer  
15 base over which to spread the cost of the CARW program, the significant increase  
16 in residential customers participating CARW places a higher cost burden on  
17 Park's non-low income residential customers. The higher funding cost could lead  
18 to affordability issues for those residential customers that may not qualify for  
19 CARW. Therefore, in Park's case a CARW program must be developed that  
20 meets the needs of all ratepayers in the service district.

21 Ideally, a statewide program would be implemented to apply to low-  
22 income ratepayers across California. This would reduce the cost variance  
23 experienced by the many different water districts across the state, and result in a  
24 lower funding cost on a per customer basis. Currently AB 401 introduced on the  
25 California state assembly floor for the 2015-2016 legislative session, proposes just  
26 that; a state-wide low-income rate assistance program. Unfortunately within the

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<sup>173</sup> Data request response JR6-002 4.

<sup>174</sup> Data request response JR6-002 3.

1 scope of this GRC proceeding, even if the bill were timely enacted into  
2 Government code, it wouldn't take effect until early 2017<sup>175</sup>. As such, a statewide  
3 program cannot be reasonably expected to be in place by the 2016 test year.  
4 Overall ORA would generally be in support of such a program.

5 The PUC code gives the Commission the flexibility to modify these  
6 programs based on factors including, geography, climate, and most importantly,  
7 the ability for the communities to support these programs.<sup>176</sup> ORA has analyzed  
8 the CARW program and found that an increase in the benefit amount to enrollees  
9 would place a more tenuous financial burden on those not enrolled. ORA  
10 disagrees with Park's request to raise the CARW benefit amount as a percentage  
11 of the overall rate increase decided in this GRC. ORA instead recommends that  
12 the benefit amount remain the same \$6.65.

13 Balancing the voice of ratepayers expressing discontent with the costs of  
14 funding the surcharge, the affordability of the CARW program in Park's service  
15 districts, and a focus on providing safe, reliable, and affordable water service,  
16 ORA believes that maintaining the current level of CARW benefit, balances all of  
17 the above interests. Thus ORA recommends that the Commission keep the benefit  
18 at the current level.

### 19 **3. Perchlorate Memorandum Account request**

20 Park requests that the Commission authorize a new memorandum account  
21 for the costs of potential treatment requirements of its wells to comply with new  
22 regulations associated with perchlorate.

23 On February 27, 2015, The California EPA Office of Environmental Health  
24 Hazard Assessment ("OEHHA") published an updated public health goal ("PHG")  
25 of 1 part per billion ("ppb") for perchlorate in drinking water. The new goal  
26 updates the previous PHG for perchlorate, which was set at 6 ppb in 2004. The

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<sup>175</sup> Assembly Bill 401 'Legislative Counsels Digest' paragraph 3.

<sup>176</sup> Cal. Pub. Util. Code §739.8. Section d.

1 updated PHG is lower than the previous goal because it incorporates new research  
2 about the effects of perchlorate on infants. Like the previous PHG, the updated  
3 PHG takes into account exposure from all sources of perchlorate including food.  
4 The lowering of the PHG does not suggest any food is unsafe or that the public  
5 should change its dietary habits.<sup>177</sup>

6 A PHG is not an enforceable regulatory standard. Its purpose is to provide  
7 scientific guidance to the State Water Resources Control Board’s Division of  
8 Drinking Water (“DDW”) in reviewing the existing state drinking water standard  
9 for perchlorate. There is no current federal standard for perchlorate in drinking  
10 water. The current State standard, officially known as a maximum contaminant  
11 level (“MCL”), is set at 6 ppb.<sup>178</sup>

12 Park currently has two wells with perchlorate levels detected above 1 ppb  
13 (Wells 28B and 46C) in the Bellflower/Norwalk system. According to Park, a  
14 new State MCL for perchlorate could lead to millions of dollars in required  
15 treatment or loss of groundwater resources, and it is not reasonable to predict  
16 potential costs for Park to comply with a range of hypothetical MCLs. Park, in its  
17 application, requests that the Commission approve a new memorandum account  
18 for perchlorate to track the costs associated with compliance with DDW  
19 regulations for perchlorate.<sup>179</sup> Park also states in its application that a final rule for  
20 perchlorate is expected to occur late enough that it will not impact Park during this  
21 rate case cycle.<sup>180</sup>

22 Based upon the information Park provided, ORA recommends that the  
23 Commission authorize Park to address this matter in the next GRC or file a Tier 3  
24 advice letter to establish a memorandum account track the costs associated with

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<sup>177</sup> OEHHA Adopts Updated PHG for Perchlorate – February 27, 2015.

<sup>178</sup> Ibid.

<sup>179</sup> Park Water Company’s Revenue Requirements Report TY2016, at 144.

<sup>180</sup> Ibid, at 143.

1 compliance with DDW regulations for perchlorate, if they are adopted prior to  
2 Park's next GRC.

3 **4. Include of Subsequent Offsets prior the Final**  
4 **Decision**

5 Park anticipates filing purchased water/replenishment offset advice letters  
6 subsequent to the filing of this application, but prior to the test year. Park  
7 proposes that the Commission recognize any subsequent offsets prior to the  
8 issuance of a final decision in this GRC. A final decision in this proceeding should  
9 reflect the change in revenue requirement caused by any expense offset advice  
10 letters. Offsettable expense price changes are not forecasted in a GRC. Park's  
11 proposal would alleviate any potential customer confusion from repeated customer  
12 notices and additional workload for Commission staff and Park that would result  
13 from Park having to repeat advice letter filings to implement the expense offset  
14 increases.<sup>181</sup>

15 Park's request to reflect the offsettable expenses into the current GRC  
16 proceeding is consistent with Commission's goal of streamlining the regulatory  
17 process, improving customer service and saving both Park and Commission staff's  
18 time and resources. Therefore, ORA agrees with Park that the final decision  
19 should reflect offsettable expenses to the extent that they have been resolved,  
20 updated, and approved by the Commission. However, ORA is concerned that the  
21 inclusion of offsettable expenses could potentially lead to the perception of a  
22 higher revenue requirement than what Park has requested in its application. ORA  
23 recommends Park notify its customers explaining the resulting increase and the  
24 reason for the increase after the Commission's final decision as a condition for the  
25 approval of this request. ORA also recommends that the final decision,  
26 specifically note the impact of the offsets in the final rate increase adopted. This  
27 was similarly done in the GSWC rate case in D.10-11-035.

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<sup>181</sup> Park Water Company's Application TY2016, at 14.

1           **5. Sales Reconciliation Mechanism for Escalation**  
2           **Years**

3           Park requests use of a regulatory mechanism to adjust the adopted sales  
4 forecast in the two escalation years following the Test Year. This would include a  
5 stipulation that it would only be implemented if the total sales for the prior year  
6 are more than 5% above or below the adopted Test Year. This contrivance, aptly  
7 termed, the Sales Reconciliation Mechanism (“SRM”), would provide an  
8 adjustment of 50% of the difference. The company extrapolates the effect of this  
9 mechanism in the example; “if sales are 6% below adopted, escalation year rates  
10 would be reset based upon a 3% downward adjustment in the sales forecast.”<sup>182</sup>

11           ORA strongly opposes this special rate adjustment mechanism and  
12 therefore recommends the Commission deny this special request.

13           Park is essentially asking for a mechanism to adjust rates between test  
14 years. This deviates from Commission precedent and would undermine the  
15 principles of the general rate case process outlined in the revised rate case plan for  
16 Class A Water Utilities.<sup>183</sup> Apple Valley Rancho’s (“AVR”) also requested this  
17 mechanism in its recent General Rate Case (“GRC”) Proceeding A.14-01-002.  
18 Park cites this revenue requirement report as the basis for the request.<sup>184</sup>

19           In AVR’s prior GRC, ORA filed testimony recommending the Sales  
20 Reconciliation Mechanism special request be denied.<sup>185</sup> In addition to the  
21 mechanism’s ability to implement rate increases outside of the standardized GRC  
22 process, concerns over verification and accountability of the rate increases were  
23 cited as a major issue in the granting of the request.<sup>186</sup> Overall, ORA had  
24 contended that “When customers’ general rates are allowed to change increasingly

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<sup>182</sup> Exhibit B – Park Water Company Revenue Requirements Report p154.

<sup>183</sup> D.07-05-062, Opinion Adopting Revised Rate Case Plan for Class A Water Utilities.

<sup>184</sup> Exhibit B – Park Water Company Revenue Requirements Report p154.

<sup>185</sup> A.14-01-002 Chapter 15 Special Request 7.

<sup>186</sup> A.14-01-002 Chapter 15 Special Request 7 Paragraph ‘b’.

1 more outside of the general rate case process through numerous ratemaking  
2 vehicles, both the Commission and customers are seriously disadvantaged in  
3 knowing the actual and cumulative rate impacts that will result.”<sup>187</sup>

4 The Commission has issued a proposed decision (“PD”) in AVR’s general  
5 rate case that directly addresses this issue. The PD provides commentary on the  
6 special requests benefit to reduce WRAM surcharges associated with a GRC, but  
7 ultimately agrees with ORA that the request should be denied. It adds further that  
8 a revision to the rate making process should be addressed in an industry-wide  
9 proceeding rather than for a single utility.<sup>188</sup>

10 The Commission also disallowed a similar request in the most recent  
11 California American Water Company (“Cal-Am”) GRC. In that proceeding, Cal-  
12 Am had requested a consumption adjustment mechanism modeled after the SRM.  
13 Cal-Am’s request was based upon the approval of a SRM granted in a separate  
14 California Water (“Cal Water”) GRC proceeding. The Commission decided in  
15 D.15-04-007 that Cal Water’s SRM had been granted on a trial basis—to allow for  
16 review of the mechanisms efficacy—and denied Cal Am’s request.<sup>189</sup>

17 In keeping with recent Commission precedent, ORA recommends that this  
18 special request be denied.

19 Carefully considering the commission’s prior decisions authorizing the use  
20 of sales reconciliation mechanisms, it can be reasonably surmised that the  
21 authorization of a SRM in this GRC proceeding would both go against  
22 commission precedent, and have the capacity to harm ratepayers. Therefore, ORA  
23 recommends the commission deny this special request.

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<sup>187</sup> A.14-01-002 Chapter 15 Special Request 7 Paragraph ‘b).

<sup>188</sup> Proposed Decision A.1407002 ‘Disputed Issues Resolved by this Decision 5.6.

<sup>189</sup> D.15-04-007 Page 20.

1           **6.       Modification to WRAM/MCBA**

2           Park’s Water Revenue Adjustment Mechanism (“WRAM”) and Modified  
3 Water Cost Balancing Account (“MCBA”) were adopted in D.08-02-036. This  
4 regulatory instrument was developed to sever the relationship between sales and  
5 revenues by removing the disincentive associated with implementing water  
6 conservation measures. Park is currently requesting that reclaimed water sales be  
7 included in WRAM, and reciprocally include the reclaimed water costs in the  
8 MCBA. The company further requests that both costs related to leased water rights  
9 and chemicals be included in the MCBA.

10           ORA recommends that reclaimed water remain outside of WRAM and  
11 therefore costs associated with reclaimed water be excluded from the MCBA.  
12 Additionally, ORA also recommends leased water rights be excluded from the  
13 MCBA but allow chemical costs to be included. Following are ORA’s detailed  
14 discussion on this request:

15                   **a)       Including Reclaimed Water in WRAM/MCBA**

16           Park supports its request to add reclaimed water revenues to WRAM with  
17 minimal testimony: “Additionally, Park proposes to add the commodity revenues  
18 for the Reclaimed water customer group to the WRAM balancing account”<sup>190</sup>

19           The two party settlement adopted in D.08-02-036 authorized Park to  
20 decouple sales from revenue via the WRAM mechanism. More specifically, it  
21 included language excluding reclaimed water:

22           The WRAMs will exclude revenue from fire service, unmetered  
23 service, reclaimed water metered service, and fees (Park)<sup>191</sup>

24           As discussed in the introduction portion of this chapter, the WRAM was  
25 implemented as a method of encouraging water conservation. While no

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<sup>190</sup> Exhibit B-Park Water Company Revenue Requirements Report p.150

<sup>191</sup> Footnote 24 D.08-02-036 p.26 Authority to Implement a WRAM

1 commentary was provided in this decision that expanded in detail upon this  
2 specific exclusion, it is reasonable to suspect reclaimed water was omitted for  
3 conservation reasons.

4 In 2010, The State Water Resources Control Board released the 20% by  
5 2020 Water Conservation Plan with an overall aim of augmenting conservation  
6 efforts in the State of California. Contained within this document are goals,  
7 guidelines, methodologies, strategies, procedures, policies, and best practices for  
8 water conservation. In regards to recycled/reclaimed water, the plan specifically  
9 recommends:

10 recycling as a means to reduce use of potable supplies; this approach  
11 counts recycling as a means to achieve a 20 percent reduction in  
12 potable use and provides encouragement for recycled water use<sup>192</sup>

13 In an ardent summation of this view, the section concludes with: “It is  
14 essential for California to expand the use of recycled water.”<sup>193</sup>

15 In this instance, by including recycled water in WRAM it removes the  
16 financial incentive for the company to increase the sales of Recycled Water,  
17 therefore impeding overall water conservation efforts. Due to the lack of testimony  
18 provided with this request and the Commission’s preference for the promotion of  
19 water conservation, ORA recommends this request be denied.

20 **b) Leased Water Rights in MCBA**

21 The Modified Cost Balancing Account is designed to capture variations in  
22 production costs due to changes to pricing or consumption. Park requests that in  
23 addition to purchased power, purchased water, and pump tax; that leased water  
24 rights be included for tracking in the balancing account. The company details this

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<sup>192</sup> 20x2020 Water Conservation Plan p.45.

<sup>193</sup> 20x2020 Water Conservation Plan p.45.

1 request in testimony by citing the possibility that the denial of this request could  
2 lead to unintended incentives for Park, or disincentives for ratepayers.<sup>194</sup>

3 The production of leased water rights Park refers to in testimony is the  
4 costs of purchasing the rights to pump a certain allotment of acre feet of water  
5 from the Central Basin. In its workpapers, the company calculates the total cost of  
6 leased water by multiplying the acre foot costs by the amount projected to be  
7 pumped<sup>195</sup>. The specific price paid per acre foot is negotiated in contracts with  
8 third parties. These deals include large water rights holders, such as Cal Water and  
9 smaller rights holders such as school districts & cemeteries.

10 One of the most influential variables in calculating the costs of leased water  
11 rights is the price paid per acre foot. This amount is determined through privately  
12 negotiated deals in which the price paid is the price willing to be paid by the free  
13 market. Since the MCBA permits recovery or credit of differences between  
14 forecasted and actually incurred expenses, approving this request could diminish  
15 the incentive for the company to negotiate the lowest possible price paid for leased  
16 water rights. In other words, approving this request could adversely affect  
17 ratepayers. Therefore ORA recommends that the request to add lease water rights  
18 to the MCBA be denied.

19 **c) Chemicals in MCBA**

20 In similar language contained within the testimony for the leased water  
21 rights request above, the company requests that variable costs associated with  
22 chemicals be added to the MCBA.

23 ORA has previously advocated against the inclusion of chemicals in the  
24 Modified Cost Balancing Account. In a recent Golden State Water Company  
25 (“GSWC”) general rate case proceeding, the company argued a similar special

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<sup>194</sup> Exhibit B-Park water Company Revenue Requirements Report p 150.

<sup>195</sup> CB Leased Water Rights 2014-2017-r.xlsx.

1 request to include chemicals in the MCBA<sup>196</sup>. ORA argued against capturing the  
2 difference in recorded and actual costs, because the incentive to competitively  
3 source chemicals would be eliminated. Therefore, without this incentive to lower  
4 chemical costs, it would adversely affect ratepayers. This request was withdrawn  
5 from settlement by GSWC without prejudice.

6 In a similar, more recent, general rate case proceeding, Park's subsidiary  
7 Apple Valley Ranchos ("AVR"), had also requested that chemicals be included in  
8 the MCBA. ORA had again advocated denial of this request citing concerns over  
9 whether the immaterial amounts being tracked would ever reach the recovery  
10 threshold. This argument was in conjunction with concerns over de-incentivizing  
11 companies to affordably source chemical costs.<sup>197</sup> However, the proposed decision  
12 for AVR's GRC includes language specifically granting this request<sup>198</sup>.

13 In keeping with Commission precedent, ORA recommends Park's request  
14 to include chemical costs in the MCBA be approved on the condition that the  
15 proposed decision becomes final.

16 The requests of the company, the needs of the ratepayers, and prior  
17 precedence set by the Commission are properly considered in the  
18 recommendations set forth in above discussion. Thus the Commission should  
19 adopt ORA's recommendations in regards to Park's request to modify the  
20 WRAM/MCBA.

## 21 **7. Employee and Retiree Healthcare Balancing** 22 **Account**

23 Park requests that the Commission authorize a new balancing account to  
24 track the difference between authorized employee and retiree healthcare expenses  
25 included in rates in this proceeding and the costs actually incurred. Park seeks this

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<sup>196</sup> A.11-07-017 Special Request #7.

<sup>197</sup> Standard Practice U-27-W, p. 8.

<sup>198</sup> A.14-001-002 Finding of Fact #27.

1 because of the substantial sum of the expense, the volatility of the expense, and the  
2 fact that the expense is outside of Park’s control. Additionally, Park seeks similar  
3 treatment previously afforded to other water utilities.

4 ORA does not believe Park has justified its request for an Employee and  
5 Retiree balancing account: It has not provided the following support:

- 6 1. An increase in projected expense does not in itself justify a need  
7 for balancing account treatment. In setting test year revenue  
8 requirements, there are always some expenses above test year  
9 forecasted expense and some below the forecasts
- 10 2. Park requests similar treatment that was accorded to other water  
11 utilities. Park has identified two utilities which have received  
12 similar types of balancing accounts. The Employee and Retiree  
13 balancing account for one of the utilities resulted from a  
14 settlement, which does not provide any precedential value. And  
15 just because the other utility received a similar balancing through  
16 litigating its request does not mean Park should not have to  
17 justify its own request at this time.
- 18 3. Circumstances have changed since Apple Valley Water  
19 Company’s test year 2012 GRC. Park’s 2016 test year forecast  
20 for employee and retiree healthcare has a significant lower  
21 escalation factor than what Apple Valley used in its test year  
22 2012. Apple Valley requested a 23% increase increase in medical  
23 costs for 2011 and a further 8.5% increase for 2012. Similarly, it  
24 escalates dental in 2012 by 5%, compared to Parks request  
25 requests of 7.0% for medical for test year 2016 and its dental  
26 request is 4.75% for 2016.

27 **8. Group Pension Balancing Account request**

28 Park requests that the Commission authorize a new balancing account to  
29 track the difference between adopted pension expenses included in rates in this  
30 proceeding and the actual expenses incurred. Park states that it is seeking this  
31 account because of the projected increase in pension expense and that market  
32 conditions are outside Park’s control, which impact actual asset returns and the  
33 appropriate discount factor used by actuaries in determining the pension expenses.  
34 Lastly, Park seeks similar treatment previously afforded to other water and energy  
35 utilities the Commission regulates.

1           ORA does not believe Park has justified its request for a group pension  
2 balancing account. It has not provided support for the following:

- 3           1 An increase in a projected expense does not justify the need for  
4 balancing account treatment. In setting test year revenue  
5 requirements, there are always some expenses above test  
6 forecasted expense and some below the forecasts.
- 7           2 Park’s request for similar treatment that was accorded to other  
8 water utilities - Park has identified four water utilities which have  
9 pension balancing accounts. Two of the utilities received a  
10 pension balancing account by settlement, which does not have  
11 any precedential value. Additionally, just because two other  
12 utilities received pension balancing accounts through litigating  
13 their requests does not mean Park should not have to justify its  
14 own request at this time. Park has provided no evidence to  
15 justify a need for balancing account.
- 16           3 Circumstances have changed since those utilities received  
17 pension balancing accounts for test years 2010-2012. The  
18 market was in a deep recession at that time. For the month of  
19 June 2010 the average for the Dow Jones was 9,774. In February  
20 2015, the Dow Jones hit an all-time high of 18,132. This is an  
21 increase of over 8,358 points or 85% since June 2010.

22           **9. Phase-In of Test year Increase**

23           Park proposes that the Commission give consideration to the phasing-in of  
24 the rate increase authorized for the Test Year in this proceeding, providing that  
25 any portion of the adopted revenue requirement for 2016 for which recovery is  
26 deferred to a subsequent year of the rate case cycle will be recoverable in that year  
27 and will accrue interest at the adopted rate of return. Park makes this proposal so  
28 that the Commission can consider a mechanism that would “level out” the rate  
29 increases over the rate case cycle which, due to the methodologies adopted in the  
30 RCP, are typically much larger for the test year than the escalation years.<sup>199</sup>

31           Generally, rate phase-ins should be used for the purpose of avoiding a  
32 sudden increase in rates to avoid rate shock. While ORA supports the concept of

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<sup>199</sup> Park Water Company’s Revenue Requirements Report TY2016, at 161.

1 assisting economically challenged customers, ORA notes that Park has the  
2 California Alternative Rates for Water (“CARW”) program that offers low-income  
3 customers individual water bill subsidies to make their bills more affordable. A  
4 rate phase-in is merely a payment plan for rate increases. Using rate phase-ins for  
5 the purpose of providing support to economically challenged customers may mask  
6 the true effectiveness of affordability programs, and would result in higher rates  
7 since Park would earn a rate of return on the portion of revenues that is deferred.

8         ORA is not opposed to applying a rate phase-in for customers that are  
9 facing a significant rate increase that would result in rate shock. The Commission  
10 has previously recognized the usefulness of rate phase-ins when a large rate  
11 increase is adopted. For example, in 1983 the Commission issued a memorandum  
12 describing its CAPS (deferral of a portion of a general rate increase) policy (See  
13 Attachment A at the end of this chapter). In essence this provided a policy  
14 (guideline) by which a revenue requirement increase of greater than 50% for Class  
15 A water utilities could be phased-in with a cap on revenue requirement increases  
16 of 50% per year for up to three years.<sup>200</sup> Park’s request for this GRC is a 2016  
17 increase of 8.72%, and the final adopted increase is likely to be lower than Park’s  
18 request.

19         Rate phase-ins have traditionally been used to mitigate a sudden increase in  
20 rates.<sup>201</sup> Rate phase-ins are appropriate where substantial rate increases may result  
21 in a dramatic increase in rates for customers. However, customers ultimately pay  
22 the full cost of the adopted rate increase plus interest at the authorized rate of  
23 return on any initially deferred rate increase. This usually results in higher  
24 increase to customers than adopted due to compensating the utility at the rate of  
25 return on the deferred portion of the revenue requirement not included in rates.

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<sup>200</sup> Memorandum – February 22, 1983 - CAPS Standard Procedure, at 1.

<sup>201</sup> Ibid, at 1.

1           Due to the proposed rate increase by Park in this GRC, a phase-in is not  
2 appropriate. Also, based upon ORA's recommended revenue requirement which  
3 is significant less than the 50% Class A benchmark, the Commission should  
4 disallow Park's request to phase-in the test year increase.

5 **D. CONCLUSION**

6           For reasons discussed in each Special Request, the Commission should find  
7 ORA's discussion reasonable and adopt its recommendation.

8

**ATTACHMENT A**

*CAPS Standard Procedure*

1

2

3

## Memorandum

date : February 22, 1983

To : Professional Staff

From : **Public Utilities Commission — San Francisco** -- W. R. Ahern, Director, Utilities Division  
B. A. Davis, Director, Revenue Requirements Div. *WRC*

File No.:

Subject: CAPS Standard Procedure

### Purpose

The purpose of this memorandum is to provide the Commission staff and interested parties with a standardized procedure to implement the Commission's adopted policy on CAPS (deferral of a portion of a general rate increase) for water utilities.

### Background

At the Commission Conference on February 4, 1982, the Commission approved a staff recommended policy limiting rate increases for water utilities (Attachment No. 1). This policy provided for deferral of that portion of general rate increases in excess of 50% for large water utilities and 100% for the smaller water utilities. This policy was adopted to mitigate the impact of a large rate increase on the utility's customers.

At the Commission Conference on August 18, 1982, the Commission approved a staff recommended policy on CAPS that the rates be reduced to the adopted level as soon as the deferred revenues are provided to the utilities (Attachment No. 2). This modification of the CAPS policy insures that the rates to recover the deferred revenues plus interest would be above the adopted level for the minimum period of time.

Citizens Utilities Company petitioned for a rehearing on the method of computation of interest on the deferred revenues contending that the monthly compounding method should be used instead of the simple annual method. The Commission in Decision 82-11-054, dated November 17, 1982, affirmed the simple annual method of compensation shown on Appendix E of the following decisions: 82-03-023, 82-04-009, 82-04-017, 82-05-038, and 82-05-076.

The recommended standard procedures to implement CAPS were distributed for analysis, review, and comments. The following standard procedure is a consensus of the reviewing Commission staff.

Criteria/Ground Rules

The following basic criteria (or ground rules) shall be used for rate increases in excess of 50% for large (Class A) water utilities or 100% for small water utilities. The procedures in this Memorandum are equally applicable to smaller (Class B, C, and D) water utilities by substituting 100% where the text reads 50%.

1. The initial increase shall not exceed 50% except: (1) in the case where the total deferred revenue including interest cannot be recovered in three years with the 50% limitation, and (2) in the case where the 50% limit would be insufficient to meet operating expenses. In the first case, approximately equal percentage increases should be used for the initial increase and the succeeding annual step increases. In the second case, the increase should be sufficient to eliminate a negative return. In all cases, the recovery should occur in three years to permit filing for further relief as prescribed in the Water Regulatory Lag Plan.
2. Step rates for both deferred revenues and attrition shall be authorized at 12-month intervals effective on the first of the month following the anniversary date of the decision authorizing the rate increase. This deviation from the present policy of attrition step rates being effective on January 1 shall only be applicable where there is a CAP on the amount of the annual rate increase.

3. Interest on the deferred rate increase (deferred revenues) shall be computed as simple interest on an annual basis. The annual interest rate shall be the authorized rate of return on rate base or such other rate as the Commission finds as reasonable in the decision authorizing the rate increase.
4. In cases with multiple test years, any attrition allowance (step rate increases) shall be included in the CAP of 50% in any one year. However, any increase in gross annual revenues associated with adopted levels of customer growth shall be excluded in the CAP of 50% in any one year.
5. The deferred rate increase revenues including interest shall be recovered in the first step rate increase, provided that the gross increase does not exceed 50%; otherwise, the balance of the deferred revenue plus interest will extend into a second step (year).
6. The decision shall provide for a final step to reduce the rates to the level of the adopted gross revenues for the latest test year.
7. The incremental rates (deferred revenue including interest) that are greater than the adopted revenues shall not be used in the summary of earnings filed with advice letter filings for attrition step rate increases.

Sample Computations

Sample computations for some typical rate case situations are shown on Attachments Nos. 3, 4, and 5. These examples are not meant to be all inclusive. Each rate case, where the 50% CAP is implemented, will ultimately be handled on a case-by-case basis using the criteria and ground rules contained herein.

Attachment No. 3 shows an example of the Appendix to Commission decisions for the following conditions:

1. Single test year
2. No attrition
3. No adopted customer growth
4. Two-year deferred revenue recovery period.

Attachment No. 4 shows an example of the Appendix to Commission decisions for the following conditions:

1. Three test years
2. Attrition step rates
3. Adopted customer growth in second and third test years
4. Two-year deferred revenue recovery period

Attachment No. 5 shows an example of the Appendix to Commission decisions for the following conditions:

1. Very large (123.5%) increase for Class A utility
2. Single test year
3. No attrition
4. No adopted customer growth
5. Three-year deferred revenue recovery period

RHB:KL

Attachments

**Memorandum**

January 28, 1982  
(For February 4 Conference)

COMMISSIONERS

To : J. E. Bryson, President  
R. D. Gravelle  
L. M. Grimes  
V. Galvo  
P. C. Grew

J. E. Kerr, General Counsel  
I. R. Alderson, Chief ALJ  
W. R. Ahern, Director, Util. Div.  
B. A. Davis, Director, Rev. Req. Div.  
B. Barkovich, Director, Policy Div.

From : Public Utilities Commission -- San Francisco --

File No.: 076

Subject: "Caps" for water Utility Rate Increases (for Commission consideration at the February 4, 1982 Conference)

RECOMMENDATIONS: The following policy be established as a guideline to staff in water utility rate proceedings:

1. For the large utilities that regularly file for rate relief, the staff will recommend that relief be granted with step increases for recommended increases in excess of 50%.
2. For the smaller utilities that file infrequently for rate relief, a cap of 100% should be used, with deviations granted in accordance with criteria specified below.

DISCUSSION: In response to a discussion at the conference of January 5, 1982, staff indicated that it would provide the Commission with a recommendation on "caps" for water company increases.

The primary advantage of a cap is that the burden placed on consumers in any year would be limited and rate increases would occur in a more orderly manner. Consumers would thereby be better able to budget for utility increases during this period of rapid inflation. The main disadvantage of an imposed cap is the question of fairness and proper notice, especially since such a cap would inflict the greatest hardship on the smaller water companies. Another disadvantage is the possibility that the smaller companies would react by seeking rate increases at shorter time intervals and more frequent rate cases would increase the staff workload to levels that may be difficult to manage and impose higher average rates to consumers.

To determine the extent of the problem, rate increase requests over the last two years were reviewed. The larger water utilities filed 26 applications for rate increases, of which 7 were authorized increases in excess of 50%. Six of these were applications by PG&E for a 1980 test year, and rate relief was authorized as step increases in view of the lengthy period since the prior filings. The other was the increase authorized for Park Water Company for one of its small districts in November 1981.

The smaller water companies filed 63 advice letters for general rate increases, of which only 1 in excess of 100% was granted. Spring Crest Water and Power Company, which serves 15 customers near Palm Desert, Riverside County, was authorized a rate increase of 233% on October 8, 1980. However, this increase produced only \$2,520 in additional revenue and still resulted in a negative rate of return. It should also be noted that 9 companies were authorized increases of 100% and that some of these were influenced by the staff to temper their requests.

- 2 -

In view of the potential problems if the Commission issued a notice prescribing a cap for water increases, we recommend that the Commission establish the following policy.

Except for unusual circumstances which will be completely documented, staff will recommend step increases for the larger utilities for any rate requests in excess of 50%. Any attrition allowance will be subject to this cap of 50% in any one year.

For the smaller utilities filing advice letters or formal applications for general rate increases, staff will not recommend increases in excess of 100% unless:

1. A larger increase would be required to eliminate a negative rate of return or out of pocket loss.
2. A large increase is based on large investment for new facilities primarily to improve service.

EJT/WRA.st

cc: J. E. Bodovitz  
Division Directors

# Memorandum

Date : Conference of August 18, 1982

To : President Bryson  
Commissioner Gravelle  
Commissioner Grimes  
Commissioner Calvo  
Commissioner Grew

From : Public Utilities Commission—San Francisco -- J. E. Kerr, General Counsel  
W. R. Abern, Director, Utilities Div.  
B. A. Davis, Director, Rev. Req. Div.  
B. Barkovich, Director, Policy Div.

File No.:

Subject: Implementation of "Caps" for Water Utility Rate Increases (for Commission Consideration at the August 18, 1982 Conference)

**RECOMMENDATION:** The staff recommends that rates for water utilities subject to a cap be reduced to the adopted level as soon as the revenues deferred due to the cap are provided to the utilities.

**DISCUSSION:** At the February 4, 1982 Conference, the Commission approved a general policy limiting annual rate increases to 50% for large water utilities and 100% for small water utilities. The Commission further indicated that any deferred revenues would be provided to the utilities with interest. In attempting to implement this policy, a pivotal issue emerged. After the deferred revenues are returned to a utility, should the rates be reduced back to the adopted level or be allowed to remain at the level set to provide the deferred revenues and interest (authorized level). The attachment presents a graphical representation of the two methods.

The advantage of the staff method is that the rates would be above the proper adopted level for the shortest time. The disadvantage would be the possibility of rate instability if the deferred revenues are repaid in year 2, rates are reduced to the adopted level in year 3 and the utility files for and receives another rate increase beginning in year 4. If the utility does not file for a rate increase in year 3, however, and the higher rates are not reduced after the revenues are returned, the customers would be paying an unauthorized rate increase beginning in year 4. Utilities do not automatically file for rate increases every three years, and they might have an incentive not to file if the authorized revenues were larger than the proposed increases. This would be another advantage of the staff method.

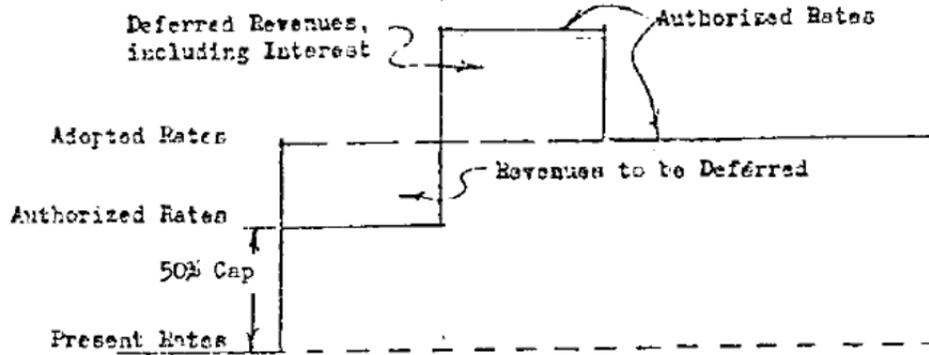
**ALTERNATIVE:** The initial decision draft in Application No. 60253 used the staff recommended method in ordering the recovery of deferred revenues in one year and then reducing the rates to the adopted level in year 3. However, at the conference of May 18, 1982, the Commission, in issuing Decision No. 82-05-076 in that proceeding, selected the alternative method of spreading the deferred revenues equally over years 2 and 3 and keeping the rates at this higher level for year 4. This results in more stable rates for those years, assuming that the utility receives a rate increase in the fourth year.

EJT:KN  
Attachment

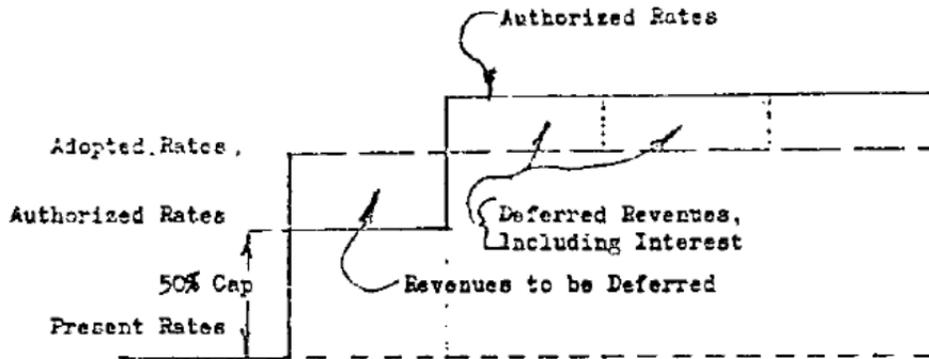
cc: J. D. Reader  
M. J. Purcell  
W. E. Franklin

Test Year      Year 2      Year 3      Year 4

Recommended Method



Alternate Method



Authorized level represents the adopted revenues plus the deferred revenues, including interest in Year 2 and Year 3.

NO ATTRITION - SINGLE TEST YEAR  
 DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983  
 (Dollars in Thousands)

	<u>Adopted</u>	<u>Adjustment</u>	<u>CAPS</u>
<u>1983</u>	Effective Date - April 1, 1983		
Present	\$438.5		\$ 438.5
Adopted	787.9		657.8
Increase	349.4	79.7%	219.3 50%
<u>1984</u>	Effective Date - April 1, 1984		
Present	787.9		657.8
Adopted	787.9	[ \$130.1 + \$15.6 ]	933.6
Increase	-		275.8 41.9%
<u>1985</u>	Effective Date - April 1, 1985		
Present	787.9		933.6
Adopted	787.9		787.9
Increase (Decrease)	-		(145.7)(15.6%)

COMPUTATIONS

Deferred Amount

$$\$349.4 - \$219.3 = \$130.1$$

Interest

$$\$130.1 \times (12.0\%) = \$15.6$$

Accumulated Revenues

	<u>Adopted</u>	<u>CAPS</u>	<u>Difference</u>
1983-85	\$2,363.7	\$2,379.3	\$15.6

## ATTRITION - THREE TEST YEARS

DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983  
(Dollars in Thousands)

	<u>Adopted</u>	<u>Adjustment</u>	<u>CAPS</u>
<u>1983</u> Effective Date - April 1, 1983			
Present	\$438.5		\$438.5
Adopted	787.9		657.8
Increase	349.4 79.7%		219.3 50%
<u>1984</u> Effective Date - April 1, 1984			
Present	791.2 *		660.2 *
Adopted	842.8 **	130.1 + 15.6	988.5
Increase	51.6 6.5%		328.3 49.7%
<u>1985</u> Effective Date - April 1, 1985			
Present	847.8 *		992.1
Adopted	902.8 **		902.8
Increase/(Decrease)	55.0 6.5%		(89.3) (9.0%)

\* The following increases results from customer growth:

<u>Year</u>	<u>Adopted</u>	<u>Distribution</u>
1984	\$3.3	\$2.4
1985	\$5.0	\$3.6

\*\* The following increases results from attrition:

<u>Year</u>	<u>Attrition</u>	
1984	\$51.6	(\$842.8 - \$791.2)
1985	\$55.0	(\$902.8 - \$847.8)

COMPUTATIONSDeferred Amount

$$\$349.4 - \$219.3 = \$130.1$$

Interest

$$\$130.1 \times (12.0\%) = \$15.6$$

Accumulated Revenues

	<u>Adopted</u>	<u>CAPS</u>	<u>Difference</u>
1983-1985	\$2,533.5	\$2,549.1	\$15.6

Note: Note that the total dollar amount of deferred revenue and payback (interest) are not affected by customer growth and attrition. However, the percentage amount of the annual increases are changed. (See Attachment No. 3).

## NO ATTRITION - SINGLE TEST YEAR

DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983  
(Dollars in Thousands)

	<u>Adopted</u>	<u>Adjustment</u>	<u>CAPS</u>
<u>1983</u> Effective Date - April 1, 1983			
Present	\$170.0		\$170.0
Adopted	380.0		255.0
Increase	210.0	123.5%	85.0--50%
<u>1984</u> Effective Date - April 1, 1984			
Present	380.0		255.0
Adopted	380.0	$\sqrt{2.2 + 0.3}$	382.5
Increase	-		127.5--50% $\frac{1}{2}$
<u>1985</u> Effective Date - April 1, 1985			
Present	380.0		382.5
Adopted	380.0	$\sqrt{122.8 + 29.5}$	532.3
Increase	-		149.8--39.2%
<u>1986</u> Effective Date - April 1, 1986			
Present	380.0		532.3
Adopted	380.0		380.0
Increase/(Decrease)	-		(152.3)--(28.6%)

COMPUTATIONSDeferred Amount

$$\$210 - \$85.0 = \$125.0$$

Distribution

$$1984 - \$ (255.0 \times 1.5 - 380.0) + 1.12^{\frac{2}{1}} = \$2.2$$

$$1985 - \$ 125.0 - 2.2 = \$122.8$$

Interest

$$1984 - 2.2 \times 12\% = \$0.3$$

$$1985 - 122.8 \times 12\% \times 2 \text{ yrs.} = \$29.5$$

Accumulated Revenues

	<u>Adopted</u>	<u>CAPS</u>	<u>Difference</u>
1983-1986	\$1,520.0	\$1,549.8	\$29.8

$\frac{1}{2}$  Note that the 50% CAP for Test Year 1984 requires that the deferred revenue is recovered in Test Year 1985.

$\frac{2}{2}$  The factor 1.12 is a combination of principal (1.0) plus interest (12.0%).

1 **CHAPTER 13: MISCELLANEOUS REVENUE**

2 **A. INTRODUCTION**

3 Included in Park’s request for this GRC is the forecasted miscellaneous  
4 revenue in Test Year 2016. This other miscellaneous revenue consists of revenue  
5 from NTP&S contracts, reconnection fees, and late fees and are earned through  
6 means other than the production and sale of tariffed rates for water service.

7 **B. SUMMARY OF RECOMMENDATIONS**

8 The inclusion of a new NTP&S contract, removal of incremental costs  
9 associated with all NTP&S contracts, and adjustment to late fee forecasting  
10 methodology leads ORA to recommend a Test Year 2016 forecast for  
11 miscellaneous revenues of \$497,631. The difference between Park & ORA is  
12 outlined in the table 13-1.

Table 13-1 Miscellaneous Revenue Recommendation Comparison			
Park	ORA	Amt Change	% Difference
\$390,674	\$497,631	\$106,957	27.38%

13 **C. DISCUSSION**

14 In workpapers, Park provided the recorded revenues for the prior five years  
15 for late fee payments and reconnection fees. Reconnection fees are forecasted  
16 based on annualized revenues from data recorded from the beginning of 2014  
17 through August of the same year.<sup>202</sup> Late fee revenue is forecasted based upon a  
18 five-year average of recorded numbers.

19 Also included in Parks workpapers is the excess capacity forecast that  
20 outlines specific contracts the company has entered into in the provision of  
21 miscellaneous services. These services include contracts to operate other water  
22 systems and the facilitation of marketing services for an insurance company. Park

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<sup>202</sup> CB Miscellaneous revenues 16rr Cell ‘J7’.

1 estimates the ratepayer’s share of revenues using the rules outlined in D.11-10-034  
2 regarding Non-Tariffed Utility Services.

3 **ORA Review**

4 Through a thorough review of the workpapers, discussions with Park  
5 employees, email exchanges, & data requests, ORA provides a comprehensive  
6 review in the following sections of the Miscellaneous Revenues.

7 **1. Late Payment Fees**

8 Park forecasted late payment fees into the test year by averaging the prior  
9 five years of recorded data. It contends that this five year average takes into  
10 account data that could be less representative than what will actually be  
11 experienced in the test year. In Park’s case, the revenues from late payment fees  
12 have been steadily increasing starting in 2011. Further review of the updated  
13 workpapers, demonstrated that the revenues from these fees increased even further  
14 in 2014. It is ORA’s recommendation that revenues from over four years ago  
15 should not be used when calculating a reasonable estimate into the test year. Thus,  
16 ORA instead recommends a three year average of 2012-2014 recorded revenues  
17 to forecast test year 2016 late payment fees. The 3-year average provides a more  
18 representative trend of the steady increase in late payment fees. Park forecasts  
19 \$120,700 into the test year as compared to ORA’s forecast of \$133,500. The  
20 difference between forecasts is approximately \$12,800.

21 **2. Changes to Excess Capacity Forecast**

22 **a) Inclusion of Incremental Costs**

23 Park asserts that the costs associated with the service of NTP&S contracts  
24 should be deducted from the revenues received from the performance of said  
25 contracts. In testimony the company asserts:

26 *“With the issuance of the Excess Capacity Rules, Park started to*  
27 *allocate 10% of the revenues to ratepayers, but did not change the*  
28 *allocation of the expenses to eliminate the reduction to utility*  
29 *expense or establish the \$100,000 sharing threshold. Ratepayers*



1 for the operation & maintenance of their ‘Century System’. This contract was  
2 renewed as of March 23, 2015 with projected revenues of \$282,000 in 2016.<sup>204</sup>  
3 ORA also included this in the NTP&S calculation forecast with an effect on the  
4 test year of approximately \$28,000.

5 **c) Forecasting Methodology**

6 Park developed its excess capacity forecast, also known as Non-Tariffed  
7 Products & Services (“NTP&S”), through a series of steps outlined in workpapers  
8 filed within this application. The company forecasts five NTP&S contracts into the  
9 test year. These contracts specify the finite dollar amounts received for each year  
10 that Park renders its services. In workpapers, each contract is presented with the  
11 amounts to be received each year over a four year period (2015-2018). By  
12 summing the yearly revenues for each contract, the company arrives at a total  
13 amount for each year. The totals for years 2016-2018 are then averaged to arrive  
14 at Park’s test year estimate; or a three year forecasting methodology.

15 ORA generally disagrees with the use of Park’s three year average  
16 forecasting methodology. Due to the finite & predictable nature of the contracts  
17 Park has entered into, revenues can be accurately forecasted into the test year.  
18 Also the use of a three year average projects an amount lower than what is  
19 purported to be received. With the inclusion of the additional contracts and  
20 exclusion of the incremental expenses to calculate the test year forecast; Park  
21 projects the ratepayer share of excess capacity in 2016 to be \$148,000. ORA  
22 instead recommends that the actual revenues to be received from the five contracts  
23 in 2016, be the basis of the test year forecast; or a ratepayer share of \$186,000.  
24 This recommendation has an effect on the test year of approximately \$38,000.

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<sup>204</sup> See Email Exchange Between ORA & Rate Analyst Tiffany Thong “RE: Park GRC 2016 – Miscellaneous Revenues” Dated April 20, 2015.

1           **3.     Reconnection Fees**

2           In the initial application workpapers, Park had forecasted the test year  
3 reconnection fees by annualizing eight months of data from 2014. Applying this  
4 most recent data to test year 2016 resulted in an estimate of \$183,242.<sup>205</sup> Upon  
5 following up with a rate analyst employed with Park, she provided updated 2014  
6 recorded data via email.<sup>206</sup> Reconnection fee revenue in 2014 was slightly higher  
7 than initially forecasted in the workpapers. Park had explained that the company  
8 used the most recent recorded year to determine the test year due to the  
9 implementation of a reconnection fee increase in mid-2013. Overall, ORA does  
10 not disagree with this methodology. However, ORA recommends that the more  
11 recent recorded data available for 2014 be used to calculate the forecast. The effect  
12 on test year 2016 is a revenue reduction of approximately \$5,200.

13       **D.     CONCLUSION**

14           ORA thoroughly reviewed the estimates and calculations provided for  
15 miscellaneous revenues. Working with a counterpart at Park, a highly reliable  
16 forecast was created that accurately portray the revenues likely to be experienced  
17 in the test year. Considering the above, ORA recommends that the Commission  
18 adopt ORA’s estimates for miscellaneous revenues.

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<sup>205</sup> ‘CB Miscellaneous Revenues 16’ Cell L7.

<sup>206</sup> See Email Exchange Between ORA & Rate Analyst Tiffany Thong “Park GRC 2016 – Miscellaneous Revenues” Dated February 24, 2015.

1 **CHAPTER 14: RATE DESIGN**

2 **A. INTRODUCTION**

3 This chapter presents ORA’s analysis and recommendations on Park’s  
4 proposed rate design. This includes a request to continue its conservation rate  
5 design program. Additionally, the company requests updating the breakpoint  
6 delineation between Tier 1 and Tier 2 for residential metered service. The monthly  
7 breakpoint currently stands at 10ccf, and Park requests this be updated to the lower  
8 9ccf to reflect current consumption levels.

9 Park currently provides service under the following tariff schedules:

10	<b>Schedule No.</b>	<b>Name</b>
11	PR-1-R	Residential Metered Service
12	PR-1-NR	Nonresidential Metered Service
13	PR-4F	Non-Metered Fire Sprinkler Service
14	PR-5	Fire-Flow Testing Charge
15	PR-6	Reclaimed Water Service
16	PR-9CM	Construction and Other Temporary Meter Service
17	LC	Late Payment Charge
18	UF	Public Utilities Commission Reimbursement Fee
19	CARW	California Alternative Rates for Water
20	CARW-SC	California Alternative Rates for Water Surcharge

21 **B. SUMMARY OF RECOMMENDATIONS**

22 For the residential tariff, ORA agrees that the current conservation rate  
23 design in place achieves desired conservation goals. ORA recommends that this  
24 rate design remain in place. Additionally, Park requested updating the monthly  
25 breakpoint between tier 1 and tier 2. ORA contends that this request is reasonable  
26 and does not contest the change of breakpoint from 10ccf to 9ccf monthly.

1 For the non-residential tariff, Park contends that an increasing block rate  
2 design would not send appropriate price signals to customers due to variations in  
3 usage. Therefore, Park recommends that the single quantity rate design be  
4 continued.

5 ORA generally agrees that the rate design methodology developed by Park  
6 is reasonable, however the exact quantity rate for each tariff needs to be updated to  
7 reflect the revenue requirement determined in this proceeding.

## 8 **C. DISCUSSION**

### 9 **1. Residential Customers**

10 Park currently provides water service under the residential customer tariff  
11 using an increasing block rate design. This design includes two blocks, or tiers, to  
12 promote conservation. Specifically, the two tiers are implemented based on  
13 seasonal consumption patterns. The Tier 1 rate block is based on the approximate  
14 winter usage. The use of this dataset during this time period demonstrates indoor  
15 water use as it typically does not include lawn and garden applications. The Tier 2  
16 block rate includes all consumption above this level, usually consisting of outdoor  
17 water usage. Currently the two tiers are set with a price differential of 15%.  
18 These two tiers comprise the quantity charge that is set such that it amounts to  
19 75% of the revenue for each bill. This practice satisfactorily applies the best  
20 management practices outlined by the California Urban Water Conservation  
21 Council.<sup>207</sup> The company asserts that this rate design methodology adequately  
22 results in promoting conservation measures while refraining from being punitive  
23 in nature.

24 Park is currently requesting that the general rate design methodology  
25 remain the same, but the numerical tier breakpoint be updated. As conservation  
26 efforts have driven total consumption downward, it requests that the breakpoint be

---

<sup>207</sup> CUWCC BMP II.

1 updated to more recent 2013 data. This midpoint according to workpapers in  
2 monthly usage is 9.16ccf<sup>208</sup> after adjusting for outdoor water use. Park asks that  
3 this tariff be updated to a rounded 9ccf monthly in the tariff. This is compared  
4 with the current breakpoint of 10ccf.

5 Overall, the current rate design in place has satisfactorily promoted  
6 conservation efforts. The company has seen a dramatic reduction in water  
7 consumption since this rate design methodology has been implemented in the last  
8 quarter of 2008.<sup>209</sup> Since implementation it has led to an approximate decrease of  
9 18.6%<sup>210</sup> in total water consumption by the residential customer class. ORA  
10 reviewed the most recent Department of Drinking Water's regulatory framework  
11 tiers to implement Governor Jerry Brown's April 1, 2015 Executive Order for  
12 mandatory 25% urban water use reductions.<sup>211</sup> Park's residential Gallons Per  
13 Capita Per Day (GPCD) for the June 2014-February 2015 period stands at 55.6  
14 GPCD. At this level of consumption, Park falls in Tier 2 at which DDW has set a  
15 Conservation Standard of 8%. Park's achieved conservation from the 2013 base  
16 level to 2014-2015 is at 8%.<sup>212</sup> This means that Park is not required to cut back  
17 any further, but must maintain this level of reduction and not exceed it during the  
18 mandatory conservation period which would end in February 2016, unless  
19 extended<sup>213</sup>. Therefore, ORA believes that maintaining the same rate design  
20 methodology will continue to produce the desired conservation effects.

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<sup>208</sup> CB Bill Tabulation 16-r.

<sup>209</sup> Conservation OII (I.07-01-022).

<sup>210</sup> Central\_Basin\_Forecast\_oct15 (Final) '3) Res Forecast' Cell F2 as reference point.

<sup>211</sup> Urban Water Suppliers and Proposed Regulatory Framework Tiers to Achieve 25% Use Reduction.

<sup>212</sup> It's ORA's understanding that this reduction was calculated by DDW based on Park's total water production (gallons) from 2013/2014 (Jun-Feb) and 2014/2015 (Jun to Feb). These reductions would capture all customer classes and unaccounted for water.

<sup>213</sup> Proposed Text of Emergency Regulation Article 22.5 Sec. 865 Mandatory Actions by Water Suppliers paragraph (c)(3).

1           When consumption levels decrease, it is necessary to modify the tariff to  
 2 reflect this change. As a result of conservation efforts, the midpoint in winter  
 3 consumption has fallen, so it is reasonable to investigate updating the breakpoint  
 4 between the two tiers. The workpapers supporting Park’s request provided water  
 5 use per bill on a monthly basis. Based on this data, the calculation used in arriving  
 6 at the breakpoint average was an accurate 18.32ccf *bi-monthly* (9.16ccf monthly).  
 7 ORA does not contest Park’s update of the breakpoint between Tier 1 and Tier 2  
 8 volumetric rates. The result of this recommendation is outlined in Table 14-1.

<b>Table 14-1</b>			
<b>PR-1-R Residential Metered Service Comparison</b>			
	<b>Current Tariff</b>	<b>Park</b>	<b>ORA</b>
<b>Tier 1</b>	0-10 ccf \$4.787	0-9 ccf \$5.310	0-9 ccf \$5.310
<b>Tier 2</b>	Over 10 ccf \$5.505	Over 9 ccf \$6.107	Over 9 ccf \$6.107
<b>Price Differential</b>	15%	15%	15%

9           **2. Non-Residential Rate Design**

10           Park proposes retaining a single quantity rate for non-residential customers  
 11 in its service areas because developing increasing block rates is not currently  
 12 feasible.<sup>214</sup> It is further added that to adequately implement a block rate design  
 13 would likely require customer reclassification coupled with other intricate rate  
 14 design methodologies. The company continues to assert that by setting the  
 15 quantity rate at 75% of the total bill, as is currently the case, it sends adequate  
 16 price signal to promote conservation. The service charges for meter size are  
 17 currently the same as the residential tariff.

18           ORA evaluated the total consumption for this customer class to  
 19 demonstrate conservation. Workpapers demonstrated that this rate design did

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<sup>214</sup> Exhibit B Revenue Requirements Report p.157.

1 satisfactorily encourage conservation with an approximate reduction of 14%<sup>215</sup>  
2 over a five year period for Bi-monthly users, and a 44%<sup>216</sup> reduction for monthly  
3 water users. It is generally agreed that this rate design methodology has created the  
4 desired conservation effect. ORA does not contest Park's rate design  
5 methodology for the non-residential rate tariff.

### 6 **3. Other Rate Tariffs**

7 The Reclaimed water tariff is determined by calculating the differential  
8 between MWDSC treated water and CBMWD recycled water rates. In effect, this  
9 applies the same rate design methodology as the non-residential tariff, but the  
10 savings between the two water classifications are passed onto ratepayers.

11 For tariff schedule fire service, Park proposes increasing the monthly  
12 charges as a percentage of the overall rate increase granted in this GRC.

13 ORA does not contest either the reclaimed water tariff nor the fire service  
14 tariff rate design methodology.

### 15 **D. CONCLUSION**

16 With an overall aim of meeting water conservation targets, and  
17 considerations given to the overall affordability of water service across all  
18 customer classes; the rate design recommendations outlined above are both  
19 sensible and practical. Thus it is recommended that the commission adopt ORA's  
20 recommendations for rate design.

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<sup>215</sup> Central\_Basin\_Forecast\_oct15 (Final) '4) Comm Bi-monthly Forecast' Cell F2 as reference point.

<sup>216</sup> Central\_Basin\_Forecast\_oct15 (Final) '5) Comm monthly Forecast' Cell F2 as reference point.

1                   **CHAPTER 15: ESCALATION YEARS INCREASE**

2   **A.     FIRST ESCALATION YEAR**

3                   As required in the Rate Case Plan, Park is required to file its Escalation  
4   Years 1 and 2 rate increase by requesting by Tier 1 advice letter no later than 45  
5   days prior to the first of the escalation year.<sup>217</sup> The advice letter filing should  
6   include all calculations and documentation necessary to support the requested rate  
7   change.<sup>218</sup> The requested rate increase should be subject to the pro forma earnings  
8   test, as specified in D.04-06-018.<sup>219 220</sup>

9                   The Commission’s Water Division and Audits (“DWA”) will review the  
10   requested step rates to determine their conformity with the decision in this GRC.  
11   These rates will go into effect upon DWA’s determination of compliance. DWA  
12   will inform the Commission if it finds that the proposed rates are not in accord  
13   with the GRC decision. The Commission may then modify the increase. The  
14   effective date of the revised tariff schedule should be no earlier than January 1,  
15   2016. The revised schedules should apply to service rendered on and after their  
16   effective date. Should a rate decrease be in order, the rates should become  
17   effective on the filing date.

18   **B.     SECOND ESCALATION YEAR**

19                   For the second year, the Commission will grant an attrition adjustment for  
20   the revenue requirement increases attributable for the expense increases due to  
21   inflation and rate base increases that are not offset by the increases in revenues.  
22   The revenue change shall be calculated by multiplying ORA’s forecasted inflation

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<sup>217</sup> D.07-05-062, Appendix A, page 19.

<sup>218</sup> Id.

<sup>219</sup> Id.

<sup>220</sup> D.04-06-018 on page 14 states: “The escalation year increase shall be decreased to the extent the pro-forma rate of return exceeds the authorized rate of return for the 12-months ending in September for January filers and in April for July filers prior to the escalation year.”

1 rate and operational attrition plus financial attrition times adopted rate base in  
2 2017 times the net-to-gross multiplier.

3 **C. ESCALATION YEARS' REVENUE REQUIREMENTS**

4 Table 15-1 below shows the Summaries of Earnings for Escalation Years  
5 2016 and 2017. To obtain the increases in these years, D.04-06-018 and  
6 D.07-05-062 require water utilities to file an Advice Letter 45 days prior to the  
7 start of the year showing all calculations supporting their requested increases.

8 The revenues shown in Table 15-1 are for illustration purposes and the  
9 actual increases would be authorized only after approval of the utility's advice  
10 letter.

11

Table 15-1			
PARK WATER COMPANY			
SUMMARY OF EARNINGS (Escalation Years @ Proposed Rates)			
	ORA		ORA
Item	2016		2017
	(A)		(B)
(Dollars in Thousands)			
<b>Operating Revenues</b>			
Total Metered Water Svs. Revenue excluding PUC Fee	34,180.0		34,770.0
Total Other Water revenue	497.6		497.6
<b>Total Operating Revenue</b>	<b>34,677.6</b>		<b>35,267.6</b>
<b>Expenses</b>			
Operation & Maintenance	14,108.7		13,615.3
Administrative and General	8,322.8		8,591.5
Depreciation Expense	2,514.9		2,514.9
Taxes Other Than Income	63.7		63.7
Taxes Other Than Income	1,195.9		1,272.0
CCFT	445.9		493.9
FIT	1,570.1		1,767.5
<b>Total Expenses</b>	<b>28,222.0</b>		<b>28,318.8</b>
<b>Net Income</b>	<b>6,455.6</b>		<b>6,948.8</b>
<b>Ratebase</b>	<b>71,143.2</b>		<b>76,604.7</b>
<b>Rate of Return</b>	<b>9.07%</b>		<b>9.07%</b>

1

**APPENDIX A**  
**QUALIFICATIONS OF WITNESSES**

1 **QUALIFICATIONS AND PREPARED TESTIMONY**  
2 **OF**  
3 **VICTOR CHAN**  
4

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

7 A1. My name is Victor Chan and my business address is 320 West 4<sup>th</sup> Street, Suite  
8 500, Los Angeles, California. I am Senior Utilities Engineer Specialist, in the  
9 Water Branch of the Office of Ratepayer Advocates.

10 Q2. Please summarize your education background.

11 A2. I graduated from Cal Poly, Pomona with a Bachelor of Science in Mechanical  
12 Engineering. I am a registered mechanical engineer with the State of California.

13 Q3. Briefly describe your professional experience.

14 A3. I have been employed by the Commission since August 1996. From 1996 to 2003,  
15 I worked as an utilities engineer for the Transportation and Utility Safety  
16 Enforcement Division where I performed safety audits on various gas, electric,  
17 telephone and cable utilities. From 2003 to present, I have been working as a  
18 Senior Utilities Engineer for the Water Branch of ORA and served as a project  
19 manager for general rate cases of various water companies in California.

20 Q4. What is your responsibility in this proceeding?

21 A4. I am the project lead in the Park GRC. I am also sponsoring the Memorandum,  
22 Executive Summary, Chapter 1- Summary of Earnings, Chapter 4- New Positions,  
23 Chapter 8- Taxes Other than Income, Chapter 9-Income Taxes, Chapter 12-  
24 Special Requests (Level Payment Plan), and Chapter 15- Step Rate Increase.

25 Q5. Does this conclude your prepared direct testimony?

26 A5. Yes, it does.  
27

1 **QUALIFICATION AND PREPARED TESTIMONY**  
2 **OF**  
3 **JEFFREY ROBERTS**

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

6 A1. My name is Jeffrey Roberts and my business address is 320 W 4<sup>th</sup> Street, Los  
7 Angeles, CA 90028. I am a Public Utilities Regulatory Analyst (PURA) in the  
8 Water Branch of the Office of Ratepayer Advocates (ORA).

9 Q2. Please summarize your educational background and professional experience.

10 A2. I received a Bachelor of Science Degree in Finance from the Richard Stockton  
11 College of New Jersey in 2011. In April of 2013 I joined the Commission, where I  
12 worked as a Regulatory Analyst on a variety of assignments including advice  
13 letters, application filings, and general rate case proceedings. My experience  
14 includes duties as project coordinator for Great Oaks Water Company application  
15 for debt issuance (A.14-01-023), analyzing portions of A&G expenses and payroll  
16 for the Cal-Am GRC (A.13-07-002), and review of payroll, income taxes, and  
17 memorandum accounts for the Suburban GRC (A.14-02-004). Prior to my role at  
18 the commission; I worked as an analyst preparing investment prospectuses for an  
19 early-stage green energy company.

20 Q3. What is your responsibility in this proceeding?

21 A3. I am responsible for Chapter 2- Water Consumption and Operating Revenue,  
22 Chapter 12- Special Requests (Low Income Assistance Program, Sales  
23 Reconciliation Mechanism for Escalation Years, Modifications to  
24 WRAM/MCBA), Chapter 13- Miscellaneous Revenue, and Chapter 14- Rate  
25 Design.

26 Q4. Does this conclude your prepared direct testimony?

27 A4. Yes, it does.

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

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

6 A.1. My name is Laura Krannawitter. My business address is 320 West 4<sup>th</sup> Street, Suite  
7 500, Los Angeles, CA 90013.

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

9 A. 2. I am employed by the California Public Utilities Commission as a Senior Utilities  
10 Engineer, specialist.

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

12 A. 3. I graduated from San Francisco State University with a Bachelor of Science  
13 Degree in Engineering with honors, and a Master of Business Administration, with  
14 an emphasis in international business. I have a Professional Engineering license in  
15 mechanical engineering (#M27421)

16 I have been employed by the CPUC since 1987. Over the 27 plus years, I have  
17 worked on Electric, Gas, Telecommunications, Transportation, and Water matters.

18 I have worked predominantly as a ratepayer advocate on energy matters, but I  
19 have also worked in an advisory capacity to the Administrative Law Judge

20 Division in the energy division (formerly known as CACD), and as an advisor to  
21 three Commissioners (Duque(energy/transportation),

22 Kennedy(energy/transportation), and Bohn (water)). I have written resolutions for  
23 advice letters, alternate decisions for Commissioners and advocacy testimony for

24 DRA/ORAs as well as suggested language for various OIR's. As of September

25 2010, I, work on energy, telecommunications and water matters for the Office of  
26 Ratepayer Advocates.

27 Q. 4. What is your area of responsibility in this proceeding?

28 A. 4. I am responsible for the Chapter 3- Operations & Maintenance, Administrative &  
29 General Expenses.

1 Q. 5. Does this conclude your prepared testimony?

2 A. 5. Yes, it does.

3

4

1 **QUALIFICATIONS AND PREPARED TESTIMONY**  
2 **OF**  
3 **MEHBOOB ASLAM**  
4

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

6 A.1. My name is Mehboob Aslam. My business address is 320 west 4<sup>th</sup> Street, Suite 500,  
7 Los Angeles, CA 90013.

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

9 A. 2. I am employed by the California Public Utilities Commission as a Utility Engineer.

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

11 A. 3. I graduated from the University of Engineering & Technology, Lahore, Pakistan  
12 with a Bachelor of Science Degree in Mechanical Engineering, and also graduated  
13 from Western Kentucky University with a Master of Science Degree, in Business  
14 Administration with an emphasis in Accounting and Finance.

15 I have been employed by the CPUC since 2001. From 2001 through 2002, I was a  
16 member of the Consumer Protection and Safety Division, where I studied energy  
17 utilities' operating practices to enforce the rules and regulations relating to safe use  
18 of the plant and workforce. I Performed engineering reviews, and conducted  
19 incident investigations for both gas and electric utilities. I have also helped resolve  
20 customers' complaints.

21 From 2002 through present, I have been working for Office of Ratepayer  
22 Advocates in its Water Branch; mostly dealing with Class-A water utilities. I have  
23 performed evaluations of public utility plant and properties, regulation of utility  
24 tariffs and rates, studies of cost of service, and studies of the utility's operating  
25 practices to enforce the rules and regulations relating to ratemaking. I have  
26 presented my findings and recommendations as an expert witness at public hearings  
27 before the Commission. I have also been actively involved with few of  
28 Commission's OIR/OII proceedings.

29  
30 Q. 4. What is your area of responsibility in this proceeding?

1 A. 4. I am responsible for Chapter 5- Utility Plant in Service, Chapter 6- Depreciation  
2 Reserve and Depreciation Expenses, and Chapter 7- Ratebase.

3 Q. 5. Does this conclude your prepared testimony?

4 A. 5. Yes, it does.

5

1 **QUALIFICATIONS AND PREPARED TESTIMONY**  
2 **OF**  
3 **HANI MOUSSA**  
4

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

7 A1. My name is Hani Moussa and my business address is 320 West 4<sup>th</sup> Street, Suite  
8 500, Los Angeles, California. I am a Program and Project Supervisor in the Water  
9 Branch of the Office of Ratepayer Advocates.

10 Q2. Please summarize your education background.

11 A2. I graduated from the University of California at San Diego, with a Bachelor of  
12 Science Degree in Electrical Engineering. I am a registered electrical engineer in  
13 the State of California.

14 Q3. Briefly describe your professional experience.

15 A3. I have been employed by the Commission for many years and have testified and  
16 worked on many proceedings. I have been employed in the ORA Water Branch  
17 since 2005.

18 Q4. What is your responsibility in this proceeding?

19 A4. I am responsible for Chapter 10- Water Quality and Customer Service, Chapter  
20 12- Special Requests (Perchlorate Memo Account Request, Include of Subsequent  
21 Offset, and Phase-In of Test Year Increase).

22 Q5. Does this conclude your prepared direct testimony?

23 A5. Yes, it does.  
24  
25

1 **QUALIFICATIONS AND PREPARED TESTIMONY**  
2 **OF**  
3 **JOSE R. CABRERA**  
4

5 Q.1 Please state your name and address.

6 A.1 My name is Jose R. Cabrera. My business address is 505 Van Ness Avenue, 3<sup>rd</sup>  
7 floor, San Francisco, California 94102.

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

9 A.2 I am employed by the California Public Utilities Commission as a Public Utilities  
10 Regulatory Analyst V in the Office of Ratepayer Advocates' Water Branch.

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

12 A.3 I am a graduate of California State University, Sacramento, with a Bachelor of  
13 Science Degree in Accounting. I also hold a Master of Science Degree in  
14 Taxation from Golden Gate University, San Francisco. Prior to the Commission, I  
15 worked for the Department of the Treasury, Internal Revenue Service, for 5-1/2  
16 years as an Internal Revenue Agent, and in public accounting with a certified  
17 public accountancy firm.

18 I joined the Commission in 1985, and participated in financial and compliance  
19 examinations as well as performed a variety of financial analysis and advisory  
20 work in the former Commission Advisory and Compliance Division for three  
21 years. From 1988 to 1992 I was a part-time Lecturer of Accounting in the  
22 Department of Accounting, School of Business, at California State University, San  
23 Francisco. I joined ORA in 1988 and since then have worked on a variety of  
24 water, telecommunication and energy matters in general rate cases and other  
25 formal proceedings. I have served as the sole lead regulatory tax witness  
26 responsible for federal & state income forecasts and tax policy recommendations  
27 in general rate cases, advocated regulatory tax policy in other proceedings, as well  
28 as provided a variety of advisory work for other divisions within the Commission  
29 on matters related to Commission regulatory tax policy. I have been in the Water  
30 Branch since 2006, and participate in the analysis of test year expense forecasts

1 and policy issues in general rate cases, policy issues in merger and acquisition  
2 applications, and a variety of other matters of Class A Water Companies.

3 Q.4 What is your area of responsibility in this proceeding?

4 A.4 I am responsible for the preparation of Chapter 11- Memorandum and Balancing  
5 Accounts.

6 Q.5 Does that complete your prepared testimony?

7 A.5 Yes, it does.

8

1 **QUALIFICATIONS AND PREPARED TESTIMONY**  
2 **OF**  
3 **RAYMOND CHARVEZ**  
4  
5

6 Q.1. Please state your name, business address, and position with the California Public  
7 Utilities Commission (Commission).

8 A1. My name is Raymond Charvez. My business address is 505 Van Ness Avenue,  
9 San Francisco, CA 94102, I am employed as a retired Annuitant in the Water  
10 Branch of the Office of Ratepayer Advocates.

11 Q2. Please summarize your education background.

12 A2. I graduated from Armstrong College of Business Administration in 1971 with a  
13 Bachelor of Science degree in Accounting and have completed subsequent  
14 graduate studies in business administration.

15 Q3. Briefly describe your professional experience.

16 A3. Since joining the Commission staff in 1971, I have worked on formal matters  
17 involving electric, gas, telephone, and water utilities.

18 Q4. What is your responsibility in this proceeding?

19 A4. I am sponsoring Chapter 12-Special Requests (Employee and Retiree Healthcare  
20 Balancing Account and Group Pension Balancing Account).

21 Q5. Does this conclude your prepared direct testimony?

22 A5. Yes.