Docket:	:	A.15-07-001
Exhibit Number	:	ORA - _____
Commissioner	:	Catherine J.K. Sandoval
Administrative Law Judge	:	Gerald F. Kelly
ORA Witnesses	:	Michael Conklin Lisa Bilir Alex Lau Pat Ma Wenli Wei Sung Han

ORA
OFFICE OF RATEPAYER ADVOCATES

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on
The Results of Operations
Great Oaks Water Company
Fiscal Test Year 2016/2017 General Rate Case
A.15-07-001

San Francisco, California
October 19, 2015

Memorandum

This report was prepared by the Office of Ratepayer Advocates (ORA) of the California Public Utilities Commission (Commission) in proceeding A.15-07-001. In this application, Great Oaks Water Company (GOWC) requests authorization to increase rates by $1,442,313, or 8.5% in Fiscal Test Year (FTY) 2016/2017[1], by $1,051,887, or 5.71% in Escalation Year (EY) 2017/2018, and by $683,236, or 3.51% in EY 2018/2019. GOWC bases its requests on its currently authorized rate of return on rate base of 9.1% as established in D.13-05-027.

Michael Conklin serves as ORA's Project Manager in this proceeding and is responsible for the overall coordination of this report, which was prepared under the general supervision of Program & Project Manager Danilo Sanchez and Program & Project Supervisor Lisa Bilir. ORA's witnesses' Statements of Qualifications are contained in Appendix A to this report. Shanna Foley serves as ORA legal counsel.

[1] GOWC is on a 14-month schedule for processing GRCs. GOWC's requested rate increase would take effect beginning July 1, 2016 through June 30, 2017, and so forth for escalation years.

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Chapter 1. EXECUTIVE SUMMARY

A. INTRODUCTION

In this Report on the Results of Operations the Office of Ratepayer Advocates (ORA) presents its analyses and recommendations on the requests made in the General Rate Case Application 15-07-001 (GRC A.15-07-001) filed by Great Oaks Water Company (GOWC) for its FTY 2016/2017. GOWC's Application requests an increase of 8.5% in FTY 2016/2017 and increases of 5.71 % and 3.51% in the EYs 2017/2018 and 2018/2019, respectively. ORA recommends a decrease of 12.63% in FTY 2016/2017, an increase of 3.15% in EY 2017/2018, and an increase of 2.7% in 2018/2019.

ORA reviewed GOWC's application, performed in-depth discovery, performed on-site inspections, and conducted interviews with utility personnel in order to develop its recommendations for GOWC's FTY 2016/2017. ORA's recommendations are incorporated into ORA's revenue requirement calculations for GOWC which are presented in ORA's Results of Operations tables contained in Appendix F of this report.[2] ORA's recommendations are explained in detail throughout the seventeen chapters of this report, organized in the following chapters:

[2] Appendix F to this report includes EY 2017/2018 and 2018/2019 comparison tables for illustrative purposes.

Chapter	Subject Matter	ORA Witness
1	Executive Summary	Michael Conklin
2	Summary of Earnings	Michael Conklin
3	Water Consumption and Operating Revenues	Michael Conklin
4	Operations and Maintenance Expense	Wenli Wei, Michael Conklin
5	Administrative and General Expense	Wenli Wei
6	Payroll Expense	Michael Conklin
7	Income Taxes	Sung Han
8	Taxes Other Than Income	Sung Han
9	Utility Plant in Service	Alex Lau
10	Rate Base	Alex Lau, Michael Conklin
11	Customer Service	Michael Conklin
12	Water Quality	Alex Lau
13	Affiliate Transactions & Non-Tariffed Products and Services	Michael Conklin
14	Escalation and Attrition Filings	Michael Conklin
15	Balancing and Memorandum Accounts	Lisa Bilir
16	Low-Income Customer Assistance Program & Memo Account	Pat Ma, Lisa Bilir
17	Santa Clara Valley Water District Memorandum Account	Michael Conklin
Appendix A-H	Multiple	Multiple

The remainder of this report is organized in the following manner: A summary of ORA's Key Recommendations, followed by an overview of ORA's summary of earnings and then individual chapters detailing the main individual areas of GOWC's application reviewed by ORA. This report will conclude with Appendices containing ORA's Results of Operations Tables, witnesses' qualifications and supplemental material referenced in ORA's testimony.

B. KEY RECOMMENDATIONS

The following are ORA's key recommendations which make up the majority of the difference between GOWC's and ORA's forecasts:

1) Adopt ORA's weighted pump-tax rate of $679.12 per Acre Foot for FTY 2016/2017 and a ratio of 60.06% for Zone W-2 and 39.94% for Zone W-5 for the entire rate case cycle, because ORA's methodology is based on the tax rates

actually imposed on GOWC's water production and not based on maximum well production capacity.

2) Deny GOWC's requests for three additional wells and for the Coyote Valley Storage Tank due to existing sufficient water supply and the inclusion of land that is not to be placed in service during this GRC cycle.

3) Approve GOWC's capital addition requests for the Santa Teresa Area Pressure Sustaining Valve and for the Santa Teresa Area Booster Station.

4) Adopt ORA's methodology to forecast payroll expense, using recorded 2013/2014 data as a base year and escalated to FTY 2016/2017 using labor inflation factors published by ORA Energy Cost of Service (ECOS) and Water Branch.

5) Adopt ORA's methodology to forecast GOWC's Pension expense which is based on the amount specified in the Settlement Agreement adopted by D.13-05-020.

6) Adopt ORA's recommendation for GOWC's Deferred Income Tax and Investment Tax Credits balances, based on GOWC's updated information.

7) Deny GOWC's request for $200,000 annually to expand its WaterSmart software program, but allow GOWC to submit the results of the pilot program in its next GRC for evaluation.

8) Adopt GOWC's Water Sales forecasts for FTY 2016/2017 for all customer classes with the exception of the Business/Commercial customer class.

9) Require GOWC to implement a post-test year ratemaking mechanism for 2017/2018 and 2018/2019 whether GOWC is over-or under-earning.

10) Require GOWC to properly share revenues from its non-tariffed products and services with ratepayers in accordance with D.11-10-034, Rule X.C.6.

11) Authorize GOWC to amortize ORA's adjusted memorandum and balancing account balances as of June 30, 2015 as well as residual balances remaining at the time the final decision is issued in this GRC. ORA estimates the combined account balances and residuals as of June 30, 2015 to be ($283,895.20). Additionally, the Commission should require GOWC to file an Advice Letter to close memorandum and balancing accounts that are no longer necessary.

12) Disallow GOWC's calculated Low Income Customer Assistance Program (LICAP) overhead expense allocation amounts (and associated interest expense) because GOWC has not shown that these are incremental costs not already covered in rates.

13) Deny GOWC's request to remove the $100,000 cap on the Santa Clara Valley Water District Litigation Memorandum Account.

Whenever appropriate, ORA's recommendations have been incorporated into ORA's revenue requirement calculations, presented in ORA's Results of Operations tables.[3]

For ORA's recommendations that necessitated forecasting the effects of inflation, ORA's report generally used the labor, non-labor and compensation-per-hour inflation factors appearing in the June, 2015 Memorandum published by ORA ECOS and Water Branches. ORA recommends that these factors be updated to reflect the most recent inflation forecasts when GOWC's FTY 2016/2017 revenue requirement is adopted by the Commission.

[3] See Appendix F and Chapter 2, Tables 2-C and 2-D.

While the majority of ORA's discovery was performed through ORA Data Requests (DR), additional methods used to obtain information included but are not limited to email communications, telephone conversations, on-site inspection and interviews of GOWC personnel.[4]

ORA's silence on any particular matter does not indicate endorsement of GOWC's practices, policies, or methodologies.

[4] See Appendix H (GOWC Responses to ORA's Data Requests).

Chapter 2: OVERVIEW AND SUMMARY OF EARNINGS

A. INTRODUCTION

In Application 15-07-001, GOWC is requesting increases of $1,442,313, or 8.5% in FTY 2016/2017, $1,051,887, or 5.71% in EY 2017/2018, and $683,236, or 3.51% in EY 2018/2019. As shown in **Table 2-A** below, ORA is recommending a decrease from present rates of $2,158,900, or 12.63%, in FTY 2016/2017 followed by increases of $470,800, or 3.15% in EY 2017/2018 and $416,000, or 2.7% in 2018/2019.

Table 2-A: Comparison of Forecasted Increases (Decreases)

Year	GOWC Requested ($) Increase	GOWC Requested Increase %	ORA Recommended ($) Increase/ (Decrease)	ORA Recommended % Increase/ (Decrease)
2016/2017	$1,442,313	8.50%	($2,158,900)	(-12.63%)
2017/2018	$1,051,887	5.71%	$470,800	3.15%
2018/2019	$686,236	3.51%	$416,000	2.70%

GOWC's last GRC was authorized by D.13-05-020 which adopted a settlement that resulted in an increase of $1,045,213, or 7.73% in FTY 2013/2014. The increase granted by D.13-05-020 resulted in overall revenues of $14,561,442 for FTY 2013/2014.[5]

<u>Effect of Pump Tax Surcharges on Present Rates</u>

In the years since D.13-05-020, a sizable proportion of GOWC's overall revenue has become presently recoverable through surcharges implemented to recover the annual increases to the pump tax[6] levied by the Santa Clara Valley Water District.[7]

For FTY 2016/2017 proposed rates, ORA and GOWC both forecast pump tax expense based on the most recent pump tax rates, which incorporate the revenue requirement effect of the current surcharges.[8] As a result, in order to facilitate a meaningful comparison when comparing revenues at present rates with revenues at proposed rates, the revenues at present rates <u>must</u> include the amount recovered through the current pump tax surcharges. **Table 2-B** below illustrates the significance of this methodology:

[5] D.13-05-020, CoL 4.
[6] Pump-tax expenses are also commonly referred to as "groundwater charges".
[7] See GOWC Advice Letters AL 231-W, AL 241-W, and AL 246-W.
[8] See Chapter 4 Operations and Maintenance Expenses for detailed discussion of ORA's and GOWC's pump tax expense forecasting methodologies.

Table 2-B: Effect of Pump Tax Surcharges on GOWC's Revenue Comparison[9]

GOWC revenue at present rates	$14,251,420	(a)	Not including surcharge revenue
Present surcharge revenues	$2,719,074	(b)	Separate pump tax surcharges
Total revenue at present rates (a+b)	$16,970,494	(c)	Combined present revenues
Revenue at proposed rates	$18,412,807	(d)	Surcharges embedded in rates
Proposed GOWC increase: (if surcharge revenue not included)	**29.20%**		% Increase from (a) to (d)
Proposed GOWC increase:	**8.50%**		% Increase from (c) to (d)

As seen in **Table 2-B**, excluding the current pump tax surcharge revenue from the comparison would result in a distortion of the requested increase and would appear that GOWC is proposing a 29.2% increase. This is because approximately $2,719,074 that is currently being recovered through the surcharges in 2015/2016 will become embedded in rates beginning in FTY 2016/2017 and the surcharges will cease. Therefore to avoid this distortion, including pump tax surcharges when calculating revenue at present rates is necessary to be comparable with proposed rates because proposed rates include surcharge revenue within the forecast.

<u>Effect of Depreciation Expense Work Paper Error</u>

ORA became aware of what appears to be an error in GOWC's depreciation expense work paper.[10] GOWC's formula appears to understate depreciation expense by not properly

[9] Source: GOWC Exhibit E, tab "WP2a- Revn at Curr Rates".
[10] GOWC Exhibit E, tab WP22- Depreciation Calc Detail, column AX.

accounting for the depreciation expense for FTY 2016/2017 new plant additions. Because ORA used GOWC's work paper as the basis for its calculation, the error is also in ORA's calculation resulting in ORA's depreciation expense forecast to be the same as GOWC's.[11] ORA recommends that this potential error in depreciation expense and any related flow-through effects on other ratemaking areas be corrected in the final decision of this GRC.

B. RESULTS OF OPERATIONS

The following **Tables 2-C and 2-D** compare GOWC's and ORA's estimates on the results of operations for FTY 2016/2017 under present rates and under proposed rates. As recommended by ORA, the total revenue from present rates that will allow GOWC to recover forecasted expenses and have the opportunity to earn its authorized rate of return on investment results in a decrease of 12.63% from present rates in FTY 2016/2017.[12] For the purpose of calculating revenue requirements, ORA used the rate of return of 9.1% as authorized for GOWC by the Commission in D.13-05-027.

[11] See Tables 2-C and 2-D.
[12] [(Total Revenue at Proposed Rates)/(Total Revenues at Present Rates)-1]

Table 2-C: Summary of Earnings at Present Rates

Great Oaks Water Company
A.15-07-001
Summary of Earnings
Fiscal Test Year 2016/2017

(At Present Rates)

Item	ORA	GOWC	GOWC Exceeds ORA Amount	GOWC Exceeds ORA %
	(Dollars in Thousands)			
Operating Revenues:				
Metered Water Service Revenues	17,009.1	16,889.7	-119.4	-0.7%
Fire Protection Revenue	80.7	80.7	0.0	0.0%
Other Revenues	0.0	0.0	0.0	0.0%
Total Operating Revenues	17,089.8	16,970.4	-119.4	-0.7%
Expenses				
O&M and A&G (O/T Payroll)	10,007.3	12,593.8	2,586.5	20.5%
Payroll Expenses	1,826.1	1,975.2	149.1	7.6%
Depreciation Expenses	1,092.8	1,092.8	0.0	0.0%
Taxes Other Than Income	341.2	381.5	40.3	10.6%
CCFT	297.6	36.3	-261.3	-719.0%
FIT	472.6	155.1	-317.5	-204.8%
Total Expenses	14,037.6	16,234.7	2,197.1	13.5%
Net Income	3,052.2	735.7	-2,316.5	-314.9%
Ratebase	12,586.9	17,620.4	5,033.5	28.6%
Rate of Return	24.25%	4.18%		

Table 2-D: Summary of Earnings at Proposed Rates

Great Oaks Water Company
A.15-07-001
Summary of Earnings
Fiscal Test Year 2016/2017

(At Proposed Rates)

Item	ORA	GOWC	GOWC Exceeds ORA Amount	%
	(Dollars in Thousands)			
Operating Revenues:				
Metered Water Service Revenues	14,850.2	18,332.1	3,481.9	19.0%
Fire Protection Revenue	80.7	80.7	0.0	0.0%
Other Revenues	0.0	0.0	0.0	0.0%
Total Operating Revenues	14,930.9	18,412.8	3,481.9	18.9%
Expenses				
O&M and A&G (O/T Payroll)	10,003.2	12,593.8	2,590.7	20.6%
Payroll Expenses	1,826.1	1,975.2	149.1	7.6%
Depreciation Expenses	1,092.8	1,092.8	0.0	0.0%
Taxes Other Than Income	341.2	381.5	40.3	10.6%
CCFT	107.2	163.8	56.6	34.6%
FIT	415.2	602.1	186.9	31.0%
Total Expenses	13,785.5	16,809.2	3,023.7	18.0%
Net Income	1,145.4	1,603.6	458.2	28.6%
Ratebase	12,586.9	17,620.4	5,033.5	28.6%
Rate of Return	9.10%	9.10%		

Chapter 3: WATER CONSUMPTION, REVENUE & RATE DESIGN

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for the forecasted water consumption and operating revenues of GOWC. ORA performed a review of GOWC's consultant's testimony, supporting work papers, and its method for estimating water consumption and operating revenue. In D.04-06-018 (the Rate Case Plan), the Commission requires that water utilities and ORA use the "New Committee Method" in determining forecasted sales for residential and business customers.[13] The New Committee Method provides the following direction:

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

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

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

4) Water sales for customer classes other than residential, multifamily and business (such as industrial, irrigation, public authority, reclaimed, and other) will be forecasted on total consumption by class using the best available data.

[13] D.04-06-018, Appendix A, Sales and Customers.

Because the Commission requires the use of the New Committee Method, ORA reviewed GOWC's methodology with the above guidance in mind.

B. SUMMARY OF RECOMMENDATIONS

1) The Commission should adopt GOWC's forecasts for number of customers.
2) Adopt GOWC's consumption per customer FTY 2016/2017 forecasts for single- and multi-family residential, industrial, public authority, schools, and private landscaping customer classes.
3) Adopt ORA's forecasted consumption per Business customer for FTY 2016/2017 and EY 2017/2018.
4) Adopt GOWC's Unaccounted for Water ratio of 3.4%.
5) The Commission should continue its practice of adopting a three-tier increasing block rate design for GOWC for the rates set in this GRC.

C. DISCUSSION

For A.15-07-001, GOWC's sales forecast testimony is sponsored by its consultant Wendy Illingworth, of Economic Insights.[14] To forecast sales in this GRC, GOWC's consultant performed a regression analysis to forecast per customer usage for the single- and multi-family residential customer classes and used recorded data and/or averaging to forecast the remaining customer classes. Consistent with the New Committee Method, GOWC's regression analysis used five years of consumption data for its residential customers and ten years of consumption data for its multi-family residential customers. In addition, GOWC's regression for residential customers used 30 years of weather data from the San Jose, California weather station, a location that is consistent with the location of GOWC's service area and supply wells. While performing

[14] GOWC Exhibit D, Chapter 4.

its analysis, ORA reviewed GOWC's residential and multi-family regression testimony, consumption forecasts, and the underlying data obtained by ORA through discovery.[15]

Number of Customers

To forecast a Class A Water Utility's number of customers, the Rate Case Plan provides the following direction: "Customers will be forecasted using a five-year average of the change in the number of customers by customer class."[16] However, with the exception of single-family residential customers, GOWC simply used the 2013/2014 recorded number of customers to forecast its number of customers for every year of the GRC.[17] GOWC's explanation for its methodology is that "the number of customers in each category has been very stable over the years and all known new customers are included in the projections. Using a five-year average would not have produced more accurate projections."[18]

ORA examined GOWC's workpapers and recommends that the Commission adopt GOWC's forecasted number of customers for classes other than single-family residential. Although GOWC did not use the rate plan method, ORA agrees that the result is the same and for this reason does not object to GOWC's forecasts.

For single-family residential customers, GOWC used the recorded 2013/2014 number of customers but included a hard-coded addition of 320 customers beginning in 2015/2016 and continuing through EY 2018/2019.[19] GOWC explained "The one large area being developed in Great Oaks' service area is expected to have an additional 320 residential customers beginning in TY 2015/2016."[20] Additionally, the development is located "East of Cottle Road, between

[15] GOWC response to DR MC8-004, q. 1.
[16] D.04-06-018, Appendix A p. 6.
[17] GOWC Exhibit E, tab WP11-Customers.
[18] GOWC response to DR MC8-004, q. 4.
[19] GOWC Exhibit E, tab WP11-Customers, cell J12.
[20] GOWC response to DR MC8-004, q. 3.

Highway 85 and Great Oaks Boulevard, San José, California."[21] As a result, ORA recommends adopting GOWC's number of customers forecast for single-family residential class.

California Drought Effects on GOWC's Water Consumption Forecast

Due to the ongoing and severe drought facing California, in January 2014 Governor Brown declared a state of emergency and asked Californians to reduce water consumption by 20%.[22] In February 2014, the Santa Clara Valley Water District followed suit.[23] In April 2015, Governor Brown issued an Executive Order calling for a 25% reduction in statewide water use from 2013 levels.[24] According to GOWC, its customers reduced their water consumption in 2014 in response to these measures and it expects a further reduction in 2015.[25] **Table 3-A** below shows GOWC's customers' achieved 2014 drought conservation according to GOWC, alongside forecasted percentage reductions for 2015 and 2016.

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[21] GOWC response to DR MC8-008, q. 5.a
[22] Web (http://www.water.ca.gov/waterconditions/declaration.cfm) retrieved 8/20/15.
[23] Web (http://www.scvwd.dst.ca.us/EKcontent.aspx?id=10989) retrieved 8/20/15.
[24] Web (http://gov.ca.gov/docs/4.1.15_Executive_Order.pdf) retrieved 8/20/15.
[25] GOWC Exhibit D, Chapter 4, p. 3.

Table 3-A: GOWC's Estimated Drought Reduction Percentages[26]

GOWC Estimated Drought Conservation Calendar Year			
Customer Class	Reduction Achieved 2014	Forecast 2015	Forecast 2016
Single Family Residential	18%	28%	18%
Multi-Family Residential	10%	15%	10%
Business	6%	10%	6%
Industrial	19%	28%	19%
Public Authority	13%	19%	13%
Schools	16%	24%	16%
Private Irrigation	9%	13%	9%

As seen on **Table 3-A** above, GOWC forecasts an increased drought conservation effect in 2015, and assumes a lingering drought effect in the first half of FTY 2016/2017 which will move conservation effects back to 2014 levels in calendar year 2016. The result is that GOWC forecasts 2016/2017 sales to gradually increase over 2015 drought levels. GOWC notes that its forecast is probably biased high because "it assumes a normal rainfall year in all of the forecast

[26] Ibid.

years which may be optimistic."[27] GOWC incorporated the above forecasted drought effects into its models, the results of which can be seen in the **Table 3-B** below for each customer class:

Table 3-B: GOWC's Forecasted Sales per Customer Class

GOWC forecasted sales (Ccf)				
Customer Class	2015/2016	TY 2016/2017	EY 2017/2018	EY 2018/2019
Residential Use per Customer	123.6	131.8	140	148.2
Multi-Family Use per Customer	1,318	1,340	1,351	1,353
Business Use Per Customer	972.5	793.2	804.4	815.6
Industrial Sales	79,057	86,081	93,105	100,129
Public Authority Sales	176,213	186,212	196,211	206,210
Schools	167,604	176,928	186,251	195,575
Private Landscapes	272,338	278,927	285,517	292,106

Escalation Year Forecasting Discussion:

For escalation year estimation, the Rate Case Plan adopted in D.07-05-062, Section VII.9 directs utilities to:

> "Estimate sales for the escalation years for the residential, multifamily, and, business classes by multiplying the number of customers for each

[27] Ibid.

> escalation year by the test year sales per customer. Use the test year sales for all other customer classes for both escalation years."[28]

GOWC's sales forecasting methodology for its escalation years diverges from the Rate Case Plan by developing its own forecasts for sales per customer for each escalation year instead of using Test Year sales per customer as directed by the Rate Case Plan. However, due to the extreme nature of the ongoing drought and the Governor's Executive Order, ORA accepts GOWC's escalation year sales forecasts for all customer classes with the exception of business use customers, as discussed later in this chapter.

Water Consumption Forecasts by Customer Class

1) Water Consumption- Single-Family Residential Customers

To forecast FTY 2016/2017 single-family residential customer sales GOWC uses a five-year regression. ORA reviewed GOWC's regression analysis and recommends adopting GOWC's FTY 2016/2017 forecast of 131.8 Ccf consumption per single-family residential customer. In addition, ORA accepts GOWC's drought-adjusted forecasts for EY 2017/2018 and 2018/2019.

2) Water Consumption- Multi-Family Residential Customers

To forecast FTY 2016/2017 sales for multi-family residential customers, GOWC used a 10-year regression, consistent with the directives of the New Committee Method. ORA reviewed GOWC's regression analysis and recommends adopting GOWC's FTY 2016/2017 forecast of 1,339.6 Ccf per multi-family residential customer. In addition, ORA accepts GOWC's drought-adjusted forecasts for EY 2017/2018 and 2018/2019.

3) Water Consumption- Business Customers

To forecast FTY 2016/2017 sales for business customers, instead of using a five-year or ten-year regression as directed by the New Committee Method, GOWC used a three-year average which

[28] D.07-05-062, Appendix A, p. A-20.

resulted in a forecast of 793.2 Ccf per business customer. ORA disagrees with GOWC's methodology and recommends a FTY 2016/2017 sales forecast of 957.8 Ccf per business customer.

According to GOWC, it used a three-year average instead of a ten-year or five-year regression to forecast business customer sales because its examination of the historic data showed a large decrease on the level of consumption beginning in 2011.[29] ORA examined GOWC's historic sales data for business customers and disagrees that the 2011 decrease justifies using a three-year average and consequently GOWC's FTY 2016/2017 793.2 Ccf use per business customer forecast is not supported. **Table 3-C** below shows the relative magnitude of the 2011 decrease, followed by a significant rebound beginning in 2012:[30]

Table 3-C: GOWC Business Customer Sales History and Forecast

GOWC Business Customer Sales History and Test Year 2016/2017 Forecast (Ccf)								
Customer Class	Recorded 2009/2010	Recorded 2010/2011	Recorded 2011/2012	Recorded 2012/2013	Recorded 2013/2014	Recorded 2014/2015	3-year avg 2011-2013	Forecast 2016/2017
Business Use Per Customer	1,178.0	1,133.1	987.6	1,029.5	1,026.5	928.9	1,014.5	**793.2**
% increase/decrease		-3.8%	-12.8%	4.2%	-0.3%	-9.5%		

As can be seen from the **Table 3-C**, the 12.8% drop in GOWC's 2011/2012 recorded sales quickly recovered 4.2% in 2012/2013 and held steady in 2013/2014. One sizeable drop in 2011 is not a sufficient reason to diverge from the New Committee Method. In addition, ORA points

[29] GOWC Exhibit D, Chapter 4, p. 6.
[30] Data compiled from GOWC Exhibit D, Chapter 4, Table 1.

out that recorded 2014/2015 sales of 928.9 Ccf recently made available by GOWC[31] shows a predictable downward adjustment presumably due to the statewide drought mandate. However, by applying GOWC's own drought reduction percentages from **Table 3-A**, 2016/2017 should be *rebounding* from 2015 levels and not *declining* an additional 18.4% to 793.2 Ccf. In fact, as seen in Forecasted Customer Sales **Table 3-B**, Business customer class is the only customer class where GOWC forecasts a decline in sales in 2016/2017 from 2015 levels. Every other customer class consistently reflects the forecasted rebound in 2016/2017.

GOWC's FTY 2016/2017 forecast of 793.2 Ccf is also far lower than the three-year average GOWC alleges it is based on, even when including the 6% downward drought conservation adjustment discussed earlier.[32] The three-year (2011/2012- 2013/2014) recorded average is 1014.5 Ccf. Including a 6% drought conservation adjustment results in a forecast of approximately 953.6 Ccf and *not* 793.2 Ccf.

The Commission should not adopt GOWC's forecasting methodology for business use per customer because the 12.8% sales decline in 2011 does not justify diverging from the New Committee Method, and it results in an unreasonably low forecast of 793.2 Ccf. Moreover, the forecasted result of GOWC's stated drought-adjusted three-year average methodology does not reconcile with the actual three-year average with the stated adjustment.

At ORA's request, GOWC's witness also provided an alternative forecast that was produced by the regression model.[33] The alternative forecast for business customers resulted in a Test Year 2016/2017 sales forecast of 957.8 Ccf use per customer.[34] ORA recommends adopting a forecast of 957.8 Ccf business use per customer for FTY 2016/2017 because it results in a more

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[31] GOWC's response to DR MC8-008, q6: (288,901 sales / 311 business customers).
[32] See Table 3-A above for GOWC's drought conservation adjustments.
[33] GOWC response to DR MC8-004, q6.
[34] Ibid.

reasonable forecast, and was produced by GOWC's regression model and is thus more consistent with the New Committee Method. ORA also recommends forecasting sales of 957.8 Ccf for each business use per customer in EY 2017/2018 and 2018/2019, consistent with the New Committee Method.

4) Water Consumption- Industrial Customers

For industrial customers, GOWC forecasted sales using recorded total sales data. GOWC chose to use an average of the last three years of recorded sales based on its assertion that sales "have declined steadily through the years, and then flattened in the last four years."[35] However, data in GOWC's recorded sales workpaper conflicts with historic data shown in GOWC's consultant's Exhibit D, Water Sales Forecast.

GOWC's Exhibit E, Application workpapers show a 19% increase in industrial sales in 2012/2013 while GOWC's Exhibit D, Water Sales Forecast shows only a 5% industrial Sales increase in 2012/2013. GOWC cited an error in its workpapers as the cause of the discrepancy, explaining, "The values in Exhibit D, Chapter 4, Water Sales Forecast, are correct. The error on page WP-3 of Exhibit E, GRC Workpapers, is an error and is of no consequence to the Water Sales Forecast or requested rates, as the forecasted amounts in Chapter 4 are used for ratemaking purposes."[36] ORA accepts GOWC's explanation and recommends adopting GOWC's FTY 2016/2017 forecast of 86,081 Ccf for the industrial customer class. In addition, ORA accepts GOWC's drought-adjusted forecasts for EY 2017/2018 and 2018/2019.

5) Water Consumption- Public Authority

For forecasting public authority customers, GOWC uses recorded total sales data. According to GOWC, because public authority sales have been increasing over the last three years, the most

[35] GOWC Exhibit D, Chapter 4, p. 10.
[36] GOWC response to DR MC8-008, q. 4.

recent recorded year's sales was chosen for the FTY 2016/2017 forecast.[37] ORA agrees with GOWC's methodology.

6) Water Consumption- Schools

To forecast water sales for schools, GOWC uses recorded total sales data. According to GOWC, because sales have dropped in recent years but have increased in the past year, the most recent recorded year was chosen for its forecast.[38] ORA agrees with GOWC's methodology.

7) Water Consumption- Private Landscaping

To forecast private landscaping, GOWC uses recorded total sales data. According to GOWC, private landscaping was on a downward trend from 2006-2010 and has experienced a correction, increasing over the past few years. Due to this pattern, GOWC chose to use the most recent year's recorded sales for its forecast. ORA agrees with GOWC's methodology.

8) Total Water Consumption

The formula for total consumption of water is the sum of total metered sales and unaccounted for water. The forecasted total consumption and supply are reflected in ORA's Summary of Earnings **Tables 2-C and 2-D** in Chapter 2. As discussed above, GOWC generally used the New Committee Method to forecast customer demand for Residential and Multi-family customers while using recorded data and averages to forecast the remaining customer classes, including business commercial classes. GOWC forecasts an additional downward adjustment to account for lingering effects of Governor Brown's 2015 drought mandate.

9) Operating Revenues

GOWC's revenues at present rates for water sales are based on current rates according to: "General Metered Service" (Schedule No. 1), "Irrigation Service" (Schedule No. 3M), "Private Fire Protection Service" (Schedule No. 4), and "Contract Resale Service" (Schedule No. 6),

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[37] Ibid.
[38] GOWC Exhibit D, Chapter 4, p. 11.

effective July 1, 2014 by Advice Letter (AL) No. 240-W. ORA's Summary of Earnings **Table 2-C** in Chapter 2 shows GOWC's operating revenues and ORA's recommended revenues based on the same present rates effective July 1, 2014 to allow comparison.[39] ORA's Summary of Earnings **Table 2-D** in Chapter 2 shows ORA's and GOWC's operating revenues at ORA's and GOWC's proposed rates. ORA recommends FTY 2016/2017 revenues of $ 14,930,900. This is 18.91% less than GOWC's requested FTY revenues of $18,412,800.

10) Unaccounted for Water

GOWC's forecast for FTY 2016/2017 Unaccounted for Water is 3.4%. It is important for a utility to control Unaccounted for Water because water that is lost between the supply source and delivery to customers remains subject to pass-through supply costs such as groundwater charges and purchased power expense. As such, a relatively low Unaccounted for Water rate is beneficial for the utility and its ratepayers.

To support its 3.4% forecast, GOWC submitted the results of an audit report prepared using free audit software developed by the American Water Works Association.[40] ORA reviewed GOWC's audit report results and accepts the 3.4% result. ORA also calculated the five-year average of Unaccounted for Water to be 5.35%. However, as explained by GOWC, the recent decrease in Unaccounted for Water rate may be due in part to its "Meter Replacement Program that will be completed before the Test Year for this general rate case begins, and water losses are expected to remain below historic levels."[41] As a result, ORA recommends adopting GOWC's forecast of 3.4%.

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[39] As discussed in Chapter 2, present rate revenue includes current pump tax surcharge revenue.
[40] GOWC Exhibit 8-1.
[41] GOWC Exhibit D, Chapter 8, p. 2.

11) **Rate Design**

Beginning with D.10-11-034, GOWC has implemented an increasing block rate design for single-family residential customers in order to help promote water conservation. In this Application, GOWC includes workpapers detailing a three-tier increasing block rate design, implemented on a bi-monthly billing cycle beginning with its last GRC.[42] GOWC does not propose any changes to the tier rate design. ORA recommends continuing the three-tier increasing block rate design for GOWC for the rates set in this GRC, beginning in FTY 2016/2017.

In addition, GOWC currently has a Monterey-style WRAM account that tracks the difference between the revenue GOWC *actually* receives based on increasing block conservation rates charged to single-family residential customers and the revenue GOWC *would have* received if those same customers had been charged at the uniform general metered service quantity charges. GOWC's Monterey-Style WRAM is set to be amortized via a surcharge when the balance exceeds 2% of GOWC's total authorized revenues. In this GRC, GOWC is requesting to modify Monterey-style WRAM account so that the amortization occurs when the balance in the account exceeds 2% of residential revenues instead of total revenues. For further details and ORA's recommendation for this special request, see Chapter 15, Balancing and Memorandum Accounts.

D. **CONCLUSION**

This chapter detailed ORA's analysis and recommendations regarding GOWC's Sales, Revenue and Rate design. ORA agrees with a number of GOWC's forecasts in this area, including downward adjustments for drought conservation effects. However, ORA respectfully requests that the Commission adopt ORA's methodology for forecasting Business Use Per Customer

[42] D.13-05-020, CoL 19, p. 28.

because it results in a more reasonable forecast that is also consistent with the New Committee Method.

Chapter 4: OPERATIONS AND MAINTENANCE EXPENSE

A. INTRODUCTION:

ORA has reviewed GOWC's GRC application materials and conducted analysis to ascertain the reasonableness of GOWC's requested dollar amounts for Operations and Maintenance expense for FTY 2016/2017. ORA concluded that GOWC's requested dollar amounts should be adjusted based on the analysis.

B. SUMMARY OF RECOMMENDATIONS:

The table below summarizes the differences between GOWC's forecasts and ORA's recommendations:

Table 4-A: Operations and Maintenance Expense Summary

	ORA	GOWC	GOWC Exceed ORA	
Item	**Estimates**	**Estimates**	**Amount**	**Percent**
	($)	($)	($)	(%)
Operating Expenses Other than Payroll:				
Acct 700 - Groundwater Charges	7,035,292	8,551,176	1,515,884	22%
Acct 726 - Purchased Power	818,304	911,561	93,257	11%
Total Volume Related Expenses	7,853,596	9,462,737	1,609,141	20%
Maintenance Expenses:				
Acct 702 - Operation Labor & Expenses	12,365	18,139	5,774	47%
Acct 711 - Maint. of Wells	4,658	4,433	(225)	-5%
Acct 725 - Misc. Pump Expense	9,070	9,070	-	0%
Acct 732 - Maint. Of Pump Equipment	920	920	-	0%
Acct 744 - Chemicals & Filtering	22,657	39,813	17,156	76%
Acct 754 - Meter Expense	1,955	1,955	-	0%
Acct 756 - T&D Misc Expenses	9,070	9,070	-	0%
Acct 761 - Maint of T&D Mains	24,896	103,645	78,749	316%
Acct 763 - Maint of Services	23,612	62,039	38,427	163%
Acct 765 - Maint of Hydrants	8,292	7,628	(664)	-8%
Acct 772 - Meter Reading Expenses	18,208	18,330	122	1%
Acct 773 - Customer Records & Collection	149,196	156,273	7,077	5%
Acct 775 - Uncollectible Accounts	34,984	51,438	16,454	47%
Total O&M Expenses	8,173,478	9,945,489	1,772,011	22%

C. DISCUSSION:

Prior to making its recommendations, ORA analyzed GOWC's reports, supporting work papers, responses to data requests, and GOWC's methods of estimating Operations and Maintenance (O&M) expenses. To estimate its Operations and Maintenance Expenses for the forecast years 2016/2017 through 2018/2019, GOWC applied a variety of estimating approaches, including but not limited to *annualiz*ing 2014/2015 recorded data for a nine month period from July 2014 to March 2015 as the baseline value and escalating this baseline value to FTY 2016/2017 projection. For some expense accounts, GOWC further adjusted those baseline estimates with additional costs to reflect its expected or requested changes in operating expenses. In its response to ORA's Data Request WW2-001 (1.c), asking for an explanation of why GOWC relies on this forecasting methodology rather than applying the ORA escalation factors to average historical data, GOWC stated:

> "[A]ccuracy. Great Oaks did not file for an escalation year increase for the 2014/15-rate year and the values provided are not based upon an escalation year methodology. Using actual data is significantly more accurate."

However, this statement does not seem to reconcile with GOWC's Advice Letter 240-W filed on May 16, 2014, "[t]o increase the revenue requirement by the agreed upon amount of $101,403 (0.70%) as specified by D.13-05-020." [43]

ORA disagrees with GOWC's approach; taking only nine months of actual data could be biased, and a small sample size (9 months) will not be a good indicator for future expense forecasting purposes. Consumer demand for water fluctuates with the seasons; as a result, nine months out of a whole year's data would not provide a reliable basis to predict future annual expenses because using only nine months of data misses a whole season. In addition, the demand

[43] GOWC filed AL 240-W, p. 2.

fluctuates from year to year as well. Therefore, ORA recommends using the recorded five-year average for 2009/2010 to 2013/2014 adjusted with annual escalation factors from ORA's ECOS and Water Branch Memo to arrive at year 2013/2014 expenses as the base year estimate, where possible. Furthermore, ORA applies the most recent escalation rates from ORA's ECOS and Water Branch June 2015 Memo to escalate the base year amount to arrive at the test year 2016/2017 expense projection.

ORA reviewed GOWC's recorded data, estimating methodologies, and requests for additional expenses. Where appropriate, ORA changed the estimating methodology to reflect recorded trends and/or expected operating needs, adjusted for identified errors, and removed expenses that do not appear to be normal and recurring. The remainder of this chapter consists of detailed discussions of each of ORA's recommendations, organized by Account.

1. Groundwater Charges, Account 700

GOWC utilized Account 700 to record the Groundwater Charges (or pump tax), which is imposed by the Santa Clara Valley Water District (SCVWD) on water-producing real property owners, including GOWC. GOWC is forecasting $8,551,176 for pump tax expense in FTY 2016/2017 while ORA is recommending $7,035,292. The difference between ORA's and GOWC's pump tax expense forecasts is due to different methodologies used to calculate a blended, or "weighted" pump tax rate applied to forecasted water production. **Table 4-B** below demonstrates the dollar difference between ORA and GOWC's forecasts, as well as 2014/2015 adopted and recorded amounts:

Table 4-B: Summary of ORA and GOWC Pump Tax Expense Forecasts

(in $)				
Adopted 2014/2015	Recorded 2014/2015	GOWC Forecast TY 2016/2017	ORA Forecast TY 2016/2017	$ Difference ORA < GOWC
$6,435,086	$5,752,996	$8,551,176	$7,035,292	$1,515,884

As shown in **Table 4-B** above, in 2014/2015 rates included $6,435,086 in pump tax expense while GOWC actually incurred only $5,752,996, meaning that rates overestimated pump tax by $682,090.[44] In addition to the amount adopted in rates, during 2014/2015 GOWC also recovered surcharge revenue for increases in the pump tax rate of approximately $1.24 million.[45] This means that GOWC actually recovered approximately $7,675,000 in pump tax from ratepayers in 2014/2015 while only paying out $5,752,996.

As discussed in Chapter 15, GOWC also maintains pump tax incremental cost balancing accounts (ICBA) that capture the difference between the annual increase it pays in pump tax and the surcharge it collects from ratepayers for that increase. As a result, GOWC is protected from any increase in the pump tax rate. However, the ICBA does not capture the difference between *adopted* pump tax expense in rates and what GOWC actually incurs, leaving ratepayers unprotected from overestimates. Therefore, it is extremely important the Commission adopts a pump tax rate that closely mirrors what GOWC will actually incur.

For ratemaking purposes, the Commission treats pump tax expense as one of the variable operating expenses factored into rates charged for water service. The SCVWD charges GOWC pump tax based on two different zones and two different usage types. Zone W-2 is located in the North and is charged a higher pump tax rate, while Zone W-5 is located in the South and is charged a lower pump tax rate. The two usage types are Non-Agricultural[46] and Agricultural. GOWC currently has 16 wells located in Zone W-2, and three wells in Zone W-5. Because Agricultural pump tax rates are the same for Zone W-2 and Zone W-5, ORA's discussion will focus solely on GOWC's Non-Agricultural pump tax forecast.

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[44] Recorded 2014/2015 data obtained from GOWC 45-day update Exhibit E, tab WP14- Pump Tax Expense.
[45] GOWC Exhibit E, tab WP2a- Revn At Curr Rates, lines 41 and 42. AL 231-W and AL 241-W approved approximately $1.24 million in surcharge revenue.
[46] Non-Agricultural is sometimes referred to as "Municipal and Industrial".

Table 4-C below shows the different pump tax rates per Acre Foot (AF) charged by the SCVWD according to Zone and usage type:

Table 4-C: SCVWD Pump Tax Rates, July 1, 2015-June 30, 2016[47]

Zone W-2	Non-Agricultural	$894.00/Acre Foot
	Agricultural	$21.36/Acre Foot
Zone W-5	Non-Agricultural	$356.00/Acre Foot
	Agricultural	$21.36/Acre Foot

GOWC calculated its FTY 2016/2017 forecast of $8.55 million by multiplying a weighted pump tax rate of $825.46 per AF by 10,359 AF forecasted production.[48] As shown in **Table 4-D** below, GOWC derived the weighted pump tax rate of $825.46 per AF based on the production *capacity* of its wells in the two Zones which results in an allocation of 87.26% capacity for Zone W-2 and 12.74% for Zone W-5:[49]

[47] Source: http://www.valleywater.org/Services/WaterCharges.aspx. Web. Retrieved 10/5/2015. GOWC implementation Advice Letter 246-W.
[48] GOWC Exhibit E, tab WP14- Pump Tax Expense, cell K12.
[49] GOWC response to Data Request WW2-005, q. 2. i-iv.

Table 4-D: GOWC's Weighted Pump Tax Rate (per AF)

Zone	Zone Well Production Capacity		Zone Rate per AF		Weighted Amounts
W-2	87.26%	x	$894	=	$780.10
W-5	12.74%	x	$356	=	$45.35
			Weighted Rate per AF:		$825.46

GOWC also submitted well capacity information showing that as a percentage of total system Gallons Per Minute (GPM), wells in Zone W-2 have the capacity for 87.26% of total GPM, while its wells in Zone W-5 have the capacity to pump 12.74% of total system GPM.[50] However, SCVWD assesses its pump tax based on *actual* water AF production and not on a water producer's production *capacity*, as described below. As a result, GOWC's methodology vastly overestimates the amount of pump tax it will pay in FTY 2016/2017.

In its response to ORA's Data Request MC8-002, q.7(b), GOWC submitted its historical well production from 2009 to 2015. As the trend in **Table 4-E** below shows, in the past five years, GOWC's actual well production in the two Zones bears little resemblance to its well GPM production capacity:

[50] GOWC response to DR MC8-002, q. 7. (b), tab "Pump Cap."

Table 4-E: Actual Well Production Ratio by Zone 2009-2014

Zone	2009	2010	2011	2012	2013	2014	5 Yr Avg
W-2	44.0%	41.3%	50.4%	59.8%	64.9%	63.1%	55.9%
W-5	56.0%	58.7%	49.6%	40.2%	35.1%	36.9%	44.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

As seen in **Table 4-E**, the five-year average Zone production ratio is 55.9% for Zone W-2 and 44.1% for Zone W-5, which is considerably different than the 87.26% to 12.74% production capacity ratio GOWC used in its forecasting methodology.[51]

Importantly, during ORA's field visit on August 26, 2015, ORA obtained GOWC's June 2015 water production statement that the company submitted to the SCVWD.[52] It is clear from this document, attached here in Appendix C, that SCVWD assesses the pump tax and GOWC pays the pump tax based on the actual water quantities produced from each Zone, and not by well GPM production capacity. In fact, each Zone even has its own separate billing statement from SCVWD, with each Zone's actual AF production quantity multiplied by the Zone's assessed tax rate per AF for the month.[53]

GOWC's Zone W-2 water production statement shows 517.560 AF production multiplied by $747 per AF resulting in $386,617 pump tax in June 2015.[54] The Zone W-5 water production statement shows 332.870 AF production multiplied by $319 per AF resulting in $106,187 Zone

[51] See Table 4-D above.
[52] See ORA Report Appendix C, pp. 2-4.
[53] See Appendix C, bottom of pages 3 and 4.
[54] Ibid.

W-5 pump tax.[55] The combined Zones' water production statements resulted in a total $492,803 pump tax for GOWC in June 2015. However, using GOWC's methodology under the same water production would produce an estimate of $588,900, inflating the amount by $96,097.[56] **Table 4-F** below provides a comparison between the actual pump tax assessed for June 2015 and the pump tax that GOWC's methodology would have estimated given the same water production.

Table 4-F: June 2015 Pump Tax Comparison, Actual vs. GOWC's Methodology

Methodology	Zone	Jun-15 Production (AF) (a)		Production Ratio (b)	Zone Tax Rate per AF (c)		Pump Tax Amounts (a) x (c)
June 2015 SCVWD Water Production Statement (Appendix C)	W-2	517.56		60.86%	$747		$386,617
	W-5	332.87		39.14%	$319		$106,186
	Total AF production:	850.43		100.00%	**June 2015 Pump Tax:**		**$492,803**
June 2015 Water Production GOWC's Pump Tax Methodology		(a)		(b)	(c)		(b) x (c)
	W-2	517.56	x	87.26%	$747	=	$651.83
	W-5	332.87	x	12.74%	$319	=	$40.64
					GOWC weighted rate per AF:		$692.47
		(a)			(c)		(a) x (c)
	Total AF production:	850.43	x		$692.47	=	**$588,900**
	GOWC's methodology <u>overestimates</u> June 2015 Pump Tax:						**$96,097**

ORA also examined GOWC's recently recorded water production workpapers from July 2014 through June 2015 and found that the 2014/2015 annual Zone production ratio for its wells was

[55] Ibid.
[56] See Table 4-F.

60.06% for Zone W-2 and 39.94% for Zone W-5.[57] **Table 4-G** below shows ORA's calculation of GOWC's actual Zone production ratio in the most recently recorded annual period:

Table 4-G: GOWC Actual Zone Production Ratio 2014/2015

Great Oaks' Recorded 2014/2015 Well Production (AF) (July 2014 - June 2015)													
Zone	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	AF Totals
W-2	859.8	812.8	688.9	622.7	388.4	297.9	329.4	248.9	387.3	411.9	432.3	517.6	5997.7
W-5	326.3	335.2	328.8	334.1	319.5	284.9	301.4	340.8	367.8	354.5	362.9	332.9	3989.1
	1186.2	1148.0	1017.6	956.8	707.9	582.8	630.7	589.7	755.1	766.4	795.2	850.4	9986.8
													Avg .Ratio
W-2	72.5%	70.8%	67.7%	65.1%	54.9%	51.1%	52.2%	42.2%	51.3%	53.7%	54.4%	60.9%	60.06%
W-5	27.5%	29.2%	32.3%	34.9%	45.1%	48.9%	47.8%	57.8%	48.7%	46.3%	45.6%	39.1%	39.94%

As **Table 4-G** shows, GOWC's 2014/2015 average Zone production ratio continues the historic five-year trend shown earlier in **Table 4-G.** Conversely, GOWC's system capacity ratio of 87.26% for Zone W-2 and 12.74% for Zone W-5 has little bearing on actual water production or on the pump tax ultimately assessed by SCVWD.

The financial significance of GOWC's methodology is that a far higher weighting (87.26% instead of 60.06%) is placed on the Zone W-2 higher tax rate resulting in a weighted rate per AF that is far higher than actually incurred and has no basis in actual expected pump tax charges. The end result of using GOWC's methodology to forecast pump tax can be seen in the discrepancy between the $5,752,814 that GOWC *recorded* for pump tax in 2014/2015 and the

[57] GOWC pump tax workpapers attachment Appendix E.

$6,435,086 that was adopted in rates.[58] It is worth noting that even GOWC's own workpapers detailing monthly 2014/2015 pump tax calculations calculate pump tax amounts based on actual water production in each Zone, and not by total pumping capacity.[59]

In summary, the SCVWD charges pump tax based on how much water the wells in each Zone actually produce, not how much water the wells are able to produce if pumping at full capacity. GOWC also pays pump tax based on how much water the wells in each Zone actually produced, not on how much water the wells are able to produce if pumping at full capacity. It is not reasonable for ratepayers to pay a weighted pump tax rate based on well production if pumping at full capacity. Therefore, GOWC's methodology should be rejected.

ORA's methodology uses the actual Zone production ratio of the most recent recorded year 2014/2015, multiplied by the SCVWD's most recent pump tax rates to calculate the weighted pump tax rate. As shown in **Table 4-H** below, ORA's methodology results in a blended/weighted rate per AF of $679.12:

Table 4-H: ORA's Weighted Pump Tax Rate (per AF)

Zone	Recorded 2014/2015 Production Ratio		Zone Rate per AF		Weighted Amounts
W-2	60.06%	x	$894	=	$536.94
W-5	39.94%	x	$356	=	$142.19
			Weighted Rate per AF:		$679.12

[58] See Table 4-B above for GOWC 2014/2015 adopted and GOWC 2014/2015 recorded data.
[59] Appendix C, p. 1.

ORA notes that if it were to recommend using the average Zone production ratio from 2009 through 2014 (55.9% to 44.1% between Zone W-2 and W-5[60]), the weighted pump tax rate would fall below $679.12 per Acre Foot.[61] However, to forecast FTY 2016/2017, ORA recommends using the 2014/2015 recorded year's Zone production ratio shown in **Table 4-H** as it provides a more recent indication of the actual production mix from GOWC's wells.

As a result of ORA's methodology described herein, ORA recommends the Commission adopt a weighted pump tax rate of $679.12 per AF for GOWC's FTY 2016/2017. ORA's recommendation results in $7,035,292 for Groundwater Charges, Account 700 which is a reduction of $1,515,884 from GOWC's forecasted amount.[62] The Commission should also adopt ORA's ratio of 60.06% for Zone W-2 and 39.94% for Zone W-5 for the entire rate case cycle and GOWC should use this ratio when calculating its pump tax offset Advice Letters until the Commission adopts a new ratio in the next GRC.[63]

In addition, as detailed in Chapter Nine of ORA's report, in this GRC GOWC requested three additional wells in the Zone W-5 region. ORA recommends that if any of GOWC's requested wells are approved in this GRC, the forecasted production ratio for calculating the weighted pump tax rate should take into account the additional production in Zone W-5. Any increased production forecasted in Zone W-5 would decrease the weighted pump tax rate because of the lower assessed tax rate in Zone W-5. Finally, because pump tax expense is dependent upon water production quantities, ORA's forecasted pump tax expense dollar amount as presented in

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[60] See Table 4-E above.

[61] The five-year production average 55.9% to Zone W-2 and 44.1% to Zone W-5 yields a $657.28 per AF weighted pump tax rate.

[62] ORA's forecasted pump tax expense final dollar FTY 2016/2017 amount will reflect ORA's recommended water sales forecast contained in Chapter 3 of this report.

[63] GOWC generally files an annual advice letter to implement a surcharge when SCVWD increases the pump tax rate. GOWC calculates the surcharge based on production capacity. GOWC and the Commission should use 60.06% for Zone W-2 and 39.94% for Zone W-5 to calculate the surcharge. See GOWC AL 246-W for reference.

the Results of Operations tables will reflect ORA's recommended water sales forecast contained in Chapter 3 of this report.

2. Operation Labor and Expense, Account 702

GOWC Requested TY 2016/17 Col 1	5 Yr Adj Ave (2009/10-2013/14) Col 2	ORA Recommended TY 2016/17 Col 3	Proposed Increase/(Decrease) Col 3 - Col 1
$18,139	$11,974	$12,365	$(5,774)

Account 702 should include the cost of labor and of material used and expenses incurred in the operation of the source of supply plant.[64] In GOWC's response to ORA's Data Request WW2-001, GOWC stated that the amount recorded in this account was allocated from Account 903, Transportation Expenses - Clearing, representing 20% of the total recorded amount for that account.[65] GOWC requested $18,139 in the FTY 2016/2017, while ORA recommends $12,365 based on an inflation-adjusted five year average of $11,974 and escalation factors in ORA's ECOS and Water Branch Memo from June 2015 for the reasons ORA explained earlier.

3. Maintenance of Wells, Account 711

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 2	Proposed Increase /(Decrease) Col 2 - Col 1
$4,433	$4,658	$225

Account 711 includes the cost of materials used and expenses incurred in the maintenance of wells and springs.[66] In this account, GOWC is requesting $4,433 in FTY 2016/2017 based on

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[64] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 95.
[65] GOWC response to DR WW2-001, q. 1. iii. a.
[66] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 98.

escalating its annualized 2014/15 data of $4,165.[67] GOWC's reported actual expenses for 2014/15 in its 45-day update was $4,582.[68] As the costs to maintain the wells is more closely related to the condition of the wells, using the most recent recorded data would be appropriate. ORA recommends escalating the most recent recorded annual data of $4,582, the projection forecast for FTY 2016/2017 is $4,658. [69]

4. Miscellaneous Pump Expenses, Account 725

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 2	Proposed Increase/(Decrease) Col 2 - Col 1
$9,070	$9,070	$0

In Account 725, Miscellaneous Pump Expenses, GOWC is requesting $9,070 in Test Year 2016/2017. According to the USOA, Account 725 includes the cost of labor and of materials used and expenses incurred which are not specifically provided for or are not readily assignable to other pumping expense accounts.[70] Expenses booked in this account were allocated from Account 903, Transportation Expenses – Clearing, according the response to ORA's Data Request WW2-001, question 1. ORA accepts GOWC's estimate of $9,070.

[67] GOWC Exhibit E, Original Application Excel File, Tab WP4-O&M Expense (June 26, 2015 file).
[68] GOWC Exhibit E, 45-days Updated Excel File, Tab WP4-O&M Expense (August 17, 2015 file).
[69] $4,582*99.56%(2015/16)*102.1%(2016/17) = $4,658, GOWC used 2.95% and 2.89% as escalation factors instead in its 45 days updated Exhibit E, thus the amount GOWC got was $4,856.
[70] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 101

5. Purchased Power, Account 726

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 2	Proposed Increase /(Decrease) Col 2 - Col 1
$911,561	$818,304	$(93,257)

In Account 726, Purchased Power, GOWC is requesting $911,561 in its FTY 2016/2017. Account 726 includes the cost of fuel or power used directly in the operation of pumps.[71] ORA inquired about how GOWC developed the purchased power rate of $0.176/kwh in Data Request WW2-005 (1), GOWC responded on August 4, 2015, stating that there was an inadvertent error to be corrected on or before August 15. GOWC submitted a 45-day update on August 17, 2015, that reduced the purchased power rate from $0.176/kwh in the July 1, 2015 application filing to $0.15799/kwh. This decrease in the purchased power rate resulted in a reduction of $93,257 in Purchased Power expenses. ORA verified the total Purchased Power forecast using this new rate, and recommends the Commission adopt $818,304 for Purchased Power expenses in FTY 2016/2017.

6. Maintenance of Pumping Equipment, Account 732

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 2	Proposed Increase /(Decrease) Col 2 - Col 1
$920	$920	$0

[71] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 102.

In Account 732, Maintenance of Pumping Equipment, GOWC is requesting $920 in FTY 2016/2017. According to the USOA, Account 732 includes the cost of labor and of material used and expenses incurred in the maintenance of pumping equipment. ORA accepts GOWC's estimate of $920.

7. Chemical and Filtering Materials, Account 744

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 2	Proposed Increase /(Decrease) Col 2 - Col 1
$39,813	$22,657	$(17,156)

According to the USOA, Account 744 consists of the cost of all chemicals and filtering materials used in the treatment of water. It also includes the entire cost of any chemicals manufactured by the utility[72]. GOWC is requesting $39,813 for chemical expenses in its FTY 2016/2017, which is much higher than its near zero historical costs for the past five years. [73] GOWC explained that the higher cost projection was due to the positive coliform samples found in its recent testing.[74] According to GOWC, the lower levels of groundwater caused by the drought and the Santa Clara Valley Water District's inadequate recharge may be to blame for the positive coliform samples.[75] It is uncertain if this level of chemical expenses will be recurring expenses. ORA requested the actual invoices from year 2014/15 to verify and assess the reasonableness of expenses, and GOWC submitted invoices from February 2015 to June 2015,[76] which totaled $9,287 for the five month period. Although the historical annual chemicals costs was near zero, there is a need to address the possibility of recurring positive coliform samples, ORA recommends using the

[72] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 105
[73] GOWC Exhibit E, tabWP4-O&M Expense.
[74] GOWC GRC Application, Chapter 3, p. 5, Section 23.
[75] GOWC GRC Application, Chapter 3, p. 5, Section 23.
[76] GOWC Supplemental Response to DR WW2-004, q. 2. i.

annualized costs for chemical expenses in this case based on the available five months of recorded data with corresponding escalation factors applied. ORA estimates $22,657[77] for FTY 2016/2017.

8. Meter Expense, Account 754

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 2	Proposed Increase /(Decrease) Col 2 - Col 1
$1,955	$1,955	$0

In Account 754, Meter Expense, GOWC is requesting $1,955 in FTY 2016/2017. According to the USOA, Account 754 consists of the cost of labor and the materials used and expenses incurred in the operation of customer meters and associated equipment.[78] However, GOWC does not include labor expenses in the account. ORA accepts GOWC's estimate of $1,955 in FTY 2016/2017.

9. Miscellaneous Expenses, Account 756

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 3	Proposed Increase /(Decrease) Col 3 - Col 1
$9,070	$9,070	$0

In Account 756, Miscellaneous Expenses, GOWC requests $9,070 in FTY 2016/2017. Account 756 includes the cost of labor and of materials used and expenses incurred in transmission and

[77] $9,287/5*12=$22,289; $22,289*99.56% (2015/16) *102.1% (2016/17) =$22,657.
[78] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 108.

distribution system operation not provided for elsewhere.[79] According to GOWC's response to ORA's Data Request WW2-001, question 1, the amount booked in this account was allocated and reclassified from Account 903, Transportation Expenses - Clearing. ORA accepts GOWC's forecast of $9,070 for the FTY 2016/2017.

10. Maintenance of Transmission & Distribution Mains, Account 761

GOWC Requested TY 2016/17 Col 1	5 Yr Adj Ave (2009/10-2013/14) Col 2	ORA Recommended TY 2016/17 Col 3	Proposed Increase /(Decrease) Col 3 - Col 1
$103,645	$24,110	$24,896	$(78,749)

In Account 761, Maintenance of Transmission and Distribution Mains, GOWC is requesting $103,645 in FTY 2016/2017. According to the USOA, Account 761 consists of the cost of labor and materials used and expenses incurred in the maintenance of mains.[80] However, GOWC does not include labor expenses in the account. GOWC's request is high compared to its past years historical data. The five-year adjusted average cost was only $24,110.[81] ORA asked the company for further explanation why there was a huge variance between its past GRC adopted amount ($37,612) and its projected amount ($97,374) for year 2014/15. GOWC's response only cited its previous expense projection.[82] This is not persuasive because it does not provide any reasons the projection would be so high relative to recorded and previously adopted levels. ORA

[79] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 109.
[80] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 111.
[81] A.15-07-001, p. 4. states that this is due to the aging water system.
[82] GOWC Response to ORA DR WW2-001 (1.v), GOWC stated "The adopted amount ($37,612) for the 2014/2015-rate year proved to be very inaccurate when compared to actual costs. For example, recorded costs for Account 761 for the 2013/2014-rate year were $59,944, as compared to adopted costs of $36,709. The annualized costs for the same account for the 2014/2015-rate year projected to $73,030, as compared to the adopted costs of $37,612. The variance is due to the use of the escalation percentage for the 2014/2015-rate year as compared to actual expenses. The amounts will be updated as permitted under D.07-05-062."

recommends using the adjusted five-year average cost with escalation factors applied, and the recommended projection for FTY 2016/2017 is $24,896, a reduction of $78,749 from GOWC requested amount.

11. Maintenance of Services, Account 763

GOWC Requested TY 2016/17 Col 1	5 Yr Adj Ave (2009/10-2013/14) Col 2	ORA Recommended TY 2016/17 Col 3	Proposed Increase /(Decrease) Col 3 - Col 1
$62,039	$22,866	$23,612	$(38,427)

In Account 763, Maintenance of Services, GOWC is requesting $62,039 in FTY 2016/2017. According to the USOA, Account 763 consists of the costs of materials used and expenses incurred in the maintenance of services.[83] The requested amount is significantly higher than GOWC's adjusted five-year average of $22,866.[84] With no justification from the company for this significant increase,[85] ORA recommends adopting the adjusted five-year average with proper escalation factors applied, which would make the forecasted amount for FTY 2016/2017 $23,612, a reduction of $38,427 from GOWC's requested amount.

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[83] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 111

[84] A.15-07-001, p. 4 states that the increase is due to the aging water system. ORA asked GOWC for further explanation of why and the company did not give any specific details.

[85] GOWC Response to ORA DR WW2-001, q. 1. vi.

12. Maintenance of Hydrants, Account 765

GOWC Requested TY 2016/17 Col 1	5 Yr Adj Ave (2009/10-2013/14) Col 2	ORA Recommended TY 2016/17 Col 3	Proposed Increase /(Decrease) Col 3 - Col 1
$7,628	$8,030	$8,292	$664

In Account 765, Maintenance of Hydrants, GOWC is requesting $7,628 in Test Year 2016/2017. Account 765 includes the cost of labor and of materials used and expenses incurred in the maintenance of fire hydrants and associated equipment, book cost of which is includible in Account 348, Hydrants, and of similar property leased from others.[86] ORA recommends using a five-year adjusted average cost plus escalation factors, which equals $8,292 for Test Year 2016/2017.

13. Meter Reading Expenses, Account 772

GOWC Requested TY 2016/17 Col 1	5 Yr Adj Ave (2009/10-2013/14) Col 2	ORA Recommended TY 2016/17 Col 3	Proposed Increase /(Decrease) Col 3 - Col 1
$18,330	$17,633	$18,208	$(122)

In Account 772, Meter Reading Expenses, GOWC is requesting $18,330 in FTY 2016/2017. According to the USOA, Account 772 includes the cost of labor and of materials used and

[86] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 112.

expenses incurred in reading customer meters, and determining consumption when performed by employees engaged in reading meters.[87] According to GOWC's response to ORA's Data Request WW2-001, question 1, the amount recorded in this account was also allocated and reclassified from Account 903, Transportation Expenses-Clearing. ORA recommends using the five-year adjusted recorded average costs with proper escalation factors applied, the amount ORA recommends is $18,208 in FTY 2016/2017, a reduction of $122 from GOWC's original application.

14. Customer Records and Collection Expenses, Account 773

GOWC Requested TY 2016/17 Col 1	5 Yr Adj Ave (2009/10-2013/14) Col 2	ORA Recommended TY 2016/17 Col 3	Proposed Increase /(Decrease) Col 3 - Col 1
$156,273	$144,486	$149,196	$(7,077)

In Account 773, Customer Records and Collection Expenses, GOWC is requesting $156,273 in FTY 2016/2017. According to the USOA, Account 773 includes the cost of labor and of materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections, and complaints.[88] According to GOWC's response to ORA's Data Request WW2-001, question 1, a portion of the amount booked in this account was allocated and reclassified from Account 903, Transportation Expenses-Clearing. Using the five-year adjusted average with escalation factors applied, ORA recommends $149,196 for FTY 2016/2017, a reduction of $7,077 from GOWC's original application request.

[87] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 113.
[88] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 114.

15. Uncollectible Accounts, Account 775

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 3	Proposed Increase /(Decrease) Col 3 - Col 1
$51,438	$34,984	$16,454

In Account 775, Uncollectible Accounts, GOWC is requesting $51,438 in FTY 2016/2017. This account records the amount of total operating revenue that the company is unable to collect from its customers. In GOWC's GRC work paper WP-4, O&M Expense, GOWC indicated a rate of uncollectible expenses of 0.28% of total forecasted revenues.[89]

In its August 7, 2015 response to ORA Data Request WW2-007, question 1, GOWC revised this ratio from 0.28% to 0.25% based on the past five years' recorded average of bad debt over total operating revenue with the last recorded year being 2014/15. However, the bad debts and total operating revenue figures GOWC cited in response to ORA Data Request WW2-007, question 1, did not match the data shown in GOWC's GRC application Exhibit E work paper WP2-Revenue Requirement and WP4-O&M Expenses.

ORA agrees with GOWC's five-year average methodology, but not with the data GOWC used. ORA calculated an uncollectible ratio of 0.19% based on the recorded information from GOWC's GRC Exhibit E work paper WP2-Revenue Requirement, Total Operating Revenue, and WP4-O&M Expenses, Acct 775, Uncollectible Accts. For 2014/15 data, ORA used recorded data from GOWC's 45 day update submitted on 8/17/2015. **Table 4-I** below presents five years' recorded data resulting in an average uncollectible ratio of 0.19%:

[89] GOWC Exhibit E, Work Paper "WP4-O&M Expense" line 46.

Table 4-I: ORA Calculation of 5-Year Average Uncollectible Percentage

Year >>	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	5 yr ave%
Bad Debt (a)	39,528	18,503	24,105	20,102	26,700	<WP4>
Total Op. Rev. (b)	12,025,723	12,731,092	14,798,405	16,578,051	15,324,105	<WP2>
Ratio (a/b)	0.33%	0.15%	0.16%	0.12%	0.17%	**0.19%**

Based on the five year average ratio of 0.19% shown in the table above as well as GOWC's proposed operating revenue, ORA recommends the uncollectible expense of $34,984[90] for FTY 2016/17. The final recommended amount will be updated based on the discussion of total operating revenue projection in Chapter 2 of this report.

D. CONCLUSION:

ORA reviewed and analyzed GOWC's work papers, testimony, and GOWC's responses to ORA's data requests, e-mail and other inquiries. ORA recommends that GOWC's requested dollar amounts for Operations and Maintenance expenses be revised as summarized at the beginning of this chapter.

[90] Total Uncollectibles = Total Operating Revenue on WP2->$18,412,807x0.19% =$34,984.

Chapter 5: ADMINISTRATIVE AND GENERAL EXPENSE

A. INTRODUCTION

This chapter sets forth ORA's analysis and recommendations for GOWC's Administrative and General Expenses (A&G). ORA analyzed GOWC's reports, supporting work papers, responses to data requests, and information provided in meetings and emails. ORA also researched other water utility practices and participated in a field visit to GOWC (August 4, 2015 and August 26, 2015) before making its recommendations.

Increases in Regulatory Commission Expenses (Acct 797) and Miscellaneous General (Acct 799) represent the largest percentage increases to GOWC's proposed A&G expenses over last authorized amount for 2013/2014. ORA's A&G estimate is less than GOWC's due to differences in forecasting methodologies as well as differences in how the pension/benefits projections and the CPUC fees are treated in the ratemaking process.

B. SUMMARY OF RECOMMENDATIONS

In this GRC, GOWC is requesting \$2,648,365 for A&G expenses.[91] For comparison, GOWC requested \$3,175,389 in its last GRC and was authorized \$2,248,685 for 2013/2014 A&G expenses. GOWC's FTY 2016/2017 request is 17.8% higher than the amount authorized in its last GRC. The following **Table 5-A** summarizes ORA's recommended forecast in Administrative and General Expenses for FTY 2016/17:

[91] A.15-07-001, Exhibit E, tab WP6-A&G Expense, file created on June 26, 2015.

Table 5-A: Administrative & General Expense Summary

	ORA	GOWC	GOWC Exceed ORA	
Item	**Estimates**	**Estimates**	**Amount**	**Percent**
	($)	**($)**	**($)**	**(%)**
Acct 792 - Office Expenses	53,174	48,786	(4,388)	-8%
Acct 793 - Insurance	74,725	79,922	5,197	7%
Acct 794 - Injuries & Damages	40,056	45,101	5,045	13%
Acct 795 - Employee Pension&Benefits	781,428	1,053,990	272,562	35%
Acct 796 - Franchise Req.	256,962	283,694	26,732	10%
Acct 797 - Reg. Comm. Exp	4,725	233,997	229,272	4852%
Acct 798 - Outside Services	179,744	403,418	223,674	124%
Acct 799 - Misc General Exp	72,819	173,544	100,725	138%
Acct 805 - Maint. Gen Plant	80,626	107,396	26,770	33%
Acct 811 - Rents	204,176	218,516	14,340	7%
Acct 903 - Transportation Exp	-	-	-	n/a
Total A&G Expenses	1,748,435	2,648,365	899,930	51%

For Account 903, Transportation Expenses, GOWC reclassified all of the transportation costs to Accounts 702, 725, 756, 772,773, and 805.[92] Thus, the Account 903 balance was cleared. This account will be further discussed at the end of the chapter.

The remaining expense accounts are discussed in greater detail in the following section:

C. DISCUSSION

1. Account 792 – Office Expense

GOWC Requested TY 2016/17 Col 1	GOWC 5 Yr Adj Ave (2009-2013) Col 2	ORA Recommended TY 2016/17 Col 3	ORA Increase/ (Decrease) Col 3 - Col 1
$48,786	$51,495	$53,174	$4,388

[92] GOWC response to DR WW2-001, q. i. iv.

Account 792 shall include "office supplies and other expenses incurred in connection with the general administration of the utility's operation which are assignable to specific administrative or general departments and are not specifically provided for in other accounts."[93] GOWC forecasted its Office Expenses for FTY 2016/2017 by applying escalation factors of 2.5% and 3.17%[94] to its annualized 2014/2015 recorded amount. However, annualizing nine months of recorded data to develop an estimate for a twelve month period does not provide a good estimate for the year due to fluctuations; in addition, expenses fluctuate from year to year. Therefore, ORA generally recommends using a five year adjusted average to smooth out the fluctuation in expenses, and then applying the escalation factors published in ORA's ECOS and Water Branch Memo from June 2015. ORA estimates $53,174 for Office Expense in FTY 2016/2017, an increase of $4,388 from GOWC's original request.

2. Account 793 – Property Insurance

GOWC Requested TY 2016/17 Col 1	GOWC 5 Yr Adj Ave (2009-2013) Col 2	ORA Recommended TY 2016/17 Col 3	ORA Increase/ (Decrease) Col 3 - Col 1
$79,922	$72,366	$74,725	$(5,197)

Account 793 shall include "the costs of insurance or reserve accruals to protect the utility against losses and damages to owned or leased property used in its utility operations."[95] GOWC is requesting $79,922 in this account for its FTY 2016/2017. GOWC made its estimates based on a hard coded amount of $75,577.32. GOWC further escalated this annual property insurance premium by 2.5% and 3.17% to get to its FTY 2016/17 forecast.

[93] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 119.
[94] GOWC Exhibit E, tab WP6-A&G Expense, Line 14.
[95] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 119.

GOWC's historical data (2009/10 to 2014/15) in this account demonstrated no particular trend, it swung from $30,523 (2010/11) to $88,430 (2012/13), with the remaining four years in the $70,000 range. To smooth out the expense fluctuation in forecasting, ORA recommends using GOWC's past five years adjusted, averaged actual recorded expenses as the baseline, then applying the escalation factors published in ORA's ECOS and Water Branch Memo from June 2015 to the baseline value. ORA projected $74,725 using this methodology. ORA's approach smooths out the expense fluctuation over a longer period. ORA recommends the Commission adopt ORA's projection of $74,725 for the FTY 2016/17.

3. Account 794 - Injuries & Damages

GOWC Requested TY 2016/17 Col 1	GOWC 5 Yr Adj Ave (2009-2013) Col 2	ORA Recommended TY 2016/17 Col 3	ORA Increase/ (Decrease) Col 3 - Col 1
$45,101	$38,791	$40,056	$(5,045)

Account 794 includes "the costs of insurance or reserve accruals to protect the utility against injuries and damages claims of employees or others, losses of such character not covered by insurance, and expenses incurred in settlement of injuries and damages claims."[96] In this account, GOWC is requesting $45,101 for FTY 2016/17. GOWC's estimate for FTY 2016/17 was based on a hard input formula ($35,399+$3,625x2) for base year 2014/15, then escalated twice by 2.5% and 3.17% to arrive at the FTY 2016/17 forecast.[97]

The historical data in this account demonstrates a decreasing trend from $39,373 in 2009/10 to $32,280 in 2012/13, the costs increased in 2013/14 and 2014/15. Because of this historical

[96] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 120.
[97] GOWC, Exhibit E, tab WP6-A&G Expense, Line 15.

pattern, ORA recommends taking the adjusted average from the past five years' historical data, then applying the escalation factors from ORA's ECOS and Water Branch Memo for June 2015 to smooth out the fluctuation over a longer time period. ORA estimates $40,056 for FTY 2016/2017, a reduction of $5,045 from GOWC's request.

4. Account 795 – Employee Pensions & Benefits

GOWC's list of company provided benefits includes the following: pensions, paid bereavement leave, holidays, vacation, sick leave, medical, vision, dental, life insurance, accidental death and dismemberment insurance (AD&D), health savings account (HSA), and paid water service for employees residing in GOWC's service area.

Pension Expense Forecast

GOWC has a noncontributory defined benefit pension plan covering all of its employees with one or more years of service,[98] where all contributions to the pension fund are made solely by the employer. The plan's investments are held by GOWC's financial advisor company, Waddell & Reed, with 2% in cash, money funds and bank deposits, and 98% invested in mutual funds as of June 30, 2015 according to its Waddell & Reed monthly broker account statement. [99]

In the last GRC, ORA and GOWC settled on the following terms for the pension account:

> The Parties agreed upon a seven-year schedule for increased employer contribution to both pension and benefits with updated assumptions in the actuarial modeling, for the employer contributions, as follows: $680,000 per year beginning in Test Year 2013/14 through rate year 2020/2021. The agreed upon seven-year transition schedule for the increased employer contributions to both pension and benefits results in $992,431

[98] A.12-07-005, ORA Amended Report, Page 4-4, also confirmed during ORA's field visit on 8/4/2015.
[99] GOWC Supplemental Response to WW2-008 attachment labeled GOWC SR WW2-008(6).

> ($680,000+$312,431), for Test Year 2013/2014, a savings to ratepayers of $909,000, or 47.8%, in Test Year 2013/2014 when compared to Great Oaks' original request. (See Appendix A, Table 7-1.) The Parties also agreed that the terms of the employee pension plan would be revised so that retirement benefits increase from a current maximum of 1.9% of average monthly compensation per year of participation (maximum 32 years participation) to a maximum of 2.6% of average monthly compensation per year of participation (maximum 32 years participation) over the seven-year transition schedule agreed upon by the Parties.[100]

The Commission adopted the settlement in D.13-05-020 and stated in Conclusion of Law 8 that "[a] seven-year schedule, with updated assumptions in the actuarial modeling for the employer contributions, as follows: $680,000 per year beginning in Test Year 2013/2014 through rate year 2020/2021 is reasonable." Additionally, the Commission stated "the agreed-upon result is a more gradual increase in pension funding than what was originally proposed by Great Oaks. The proposed settlement reduces the potential rate shock to ratepayers from augmented funding of the pension plan."[101]

GOWC Pension Proposal

While GOWC proposes no changes to the pension plan's retirement benefits, GOWC does propose modifying the plan's funding schedule:

> [t]he Company will continue the funding plan for retirement benefits adopted in D.13-05-020 based upon the financial requirements necessary to achieve the 110% funding by the end of each particular year. However, due to changes in Company personnel (retirement and resignation of more senior employees and the hiring of new and younger employees) and investment rates of return, the amounts needed to maintain funding at the same

[100] Appendix A to D.13-05-020, Settlement Agreement, March 2013, p. 7.
[101] D.13-05-020, p. 9.

> 110% level have changed. To ensure necessary funding of the plan, the Company is proposing to revise the schedule of funding (as shown in Exhibit E, GRC Workpapers, A&G Expenses, p. WP-6) and request the addition of a balancing account to ensure that the plan is neither over- or under- funded and that the expenses associated with such funding are neither over- nor under- collected through rates.[102] [Emphasis added.]

GOWC further states that:

> the revised funding schedule maintains (at present rates and employee composition) the original funding concept that provides the necessary level of funding required in the event of a withdrawal from the plan by a retiring employee, or by an employee leaving the employment of the Company and withdrawing his or her vested benefits. As shown of Exhibit 5-3 to this Report, the proposed contributions result in the end-of-year required funding level of 110%.[103]

Funding the pension liability at 110% was not agreed to or required in the settlement. GOWC's unacknowledged modification to the settlement terms in order to achieve 110% funding would change its projected pension contribution from the agreed upon $680,000 to $860,432 in FTY 2016/2017. According to GOWC, its projected pension contribution[104] is $860,432 in FTY 2016/2017, $1,086,929 in EY 2017/2018 and $1,147,048 in 2018/2019. GOWC's pension expense balancing account request is addressed in Chapter 15 of this report.

Pension Discussion

Funding GOWC's pension plan at 110% was not a condition adopted in GOWC's last GRC Decision (D.13-05-020) or settlement. In fact, the 110% level or concept was not mentioned anywhere in the decision or settlement. The settlement was for $680,000 in employer pension

[102] GOWC Exhibit D, Chapter 5, Paragraph 24, p. 26.
[103] GOWC Exhibit D, Chapter 5, Paragraph 25, p. 26.
[104] GOWC Exhibit 5-3.

contributions each year from 2013/2014 until 2020/2021.[105] Furthermore, GOWC's projected pension liability calculations that are used to develop GOWC's pension contribution estimates are also unverified.[106]

The Commission's settlement is binding on both GOWC and ORA. GOWC's proposal to increase estimated pension contributions included in rates is not consistent with the settlement. The settlement specified a fixed amount of annual pension contribution, not a variable amount based on a fixed percentage (110%) of funding to the pension plan. Therefore, GOWC's proposal is unsupported by the Commission's decision and would modify the settlement.

The settlement amount of $680,000 per year exceeds GOWC's reported pension contribution in the past two years on a combined basis. For FTY 2013/2014, GOWC's reported pension contribution was only $516,409[107] according to GOWC's general ledger. This is a difference of $163,591, or 24% less than authorized. GOWC reported that it contributed $741,458 to the pension fund in year 2014/2015, according to GOWC's 45-day update. However, on the whole for the years 2013/2014 – 2014/2015, rates included $102,133 more in pension contributions than the actual payments made by GOWC to its pension fund.

The settlement amount of $680,000 per year for GOWC's pension plan far exceeds GOWC's actuary's projections for annual pension expense. GOWC's actuary projected pension expense in Fiscal Year Ending 2011 through 2014 of $187,223, $247,925, $326,328, and $324,573, respectively.[108] The details of the actuary's projection are explained further below.

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[105] Appendix A to D.13-05-020, Settlement Agreement, March 2013, p. 7.
[106] GOWC did not provide any work paper supporting pension liability projection calculations. As a result, ORA was unable to verify the accuracy and validity of the calculations.
[107] Contribution of ($388,000+$644,817)/2=$516,409,
[108] GOWC Response to DR WW2-013(1), Statement of Financial Accounting Standards 87 Actuarial Reports (Standard Retirement Services, Inc.)

Pension expense for a "defined contribution plan" equals the amount contributed to the pension fund. However, for a "defined benefits plan", which GOWC sponsors, annual pension expense does not equal its annual pension contribution. A company's annual pension expense, or Net Periodic Pension Costs (or Net Periodic Benefit Costs, NPBC, as used by GOWC's actuary, Standard Retirement Services, Inc.) may consist of several components: *service cost*, which shall be "determined as the actuarial present value of benefits attributed by the pension benefit formula to employee service during the period" [109]; *interest cost*, which shall be "determined as the increase in the projected benefit obligation due to the passage of time" [110]; *expected return on plan asset*, which shall be "determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets" [111]; *amortization of unrecognized prior service cost*, and *amortization of unrecognized gains and losses*.

ORA assembled the following summary **Table 5-B** showing the information from GOWC's Statement of Financial Accounting Standards (SFAS) 87 reports each year beginning in 2012.[112]

[109] Statement of Financial Accounting Standard (SFAS) No. 87, Paragraph 21 on p. 12.
[110] Statement of Financial Accounting Standard (SFAS) No. 87, Paragraph 22 on p. 12 and 13.
[111] Statement of Financial Accounting Standard (SFAS) No. 87, Paragraph 30 on p. 14.

[112] GOWC response to DR WW2-013, q. 1.

Table 5-B: Summary of GOWC's SFAS 87 Disclosure (by Standard Retirement Services, Inc.)

	Fiscal Year End				
	2011	2012	2013	2014	2015
Net Periodic Benefit Cost					
Service Cost	$ 137,073	$ 180,892	$ 244,590	$ 236,388	
Interest Cost	104,582	111,821	120,212	146,912	
Expected Return on Plan Assets	(83,967)	(83,808)	(91,240)	(109,798)	
Amortization of Prior Service Cost	35,712	35,712	35,712	51,071	
Amortization of (Gain)/Loss	(6,177)	3,308	17,054		
Net Periodic Benefit Cost (NPBC)	**$ 187,223**	**$ 247,925**	**$ 326,328**	**$ 324,573**	
Employer Contributions	$ 139,000	$ 60,257	$ 135,600	$ 388,000	$ 644,817
Expected Plan Contributions	n/a	n/a	$ 188,000	$ 188,000	$ 420,000
Authorized Contribution			$ 680,000	$ 680,000	$ 680,000
Key Assumptions					
Discount Rate for Net Periodic Benefit Cost	5.75%	4.50%	4.00%	4.75%	
Salary Scale for Net Periodic Benefit Cost	3.50%	2.50%	2.50%	3.00%	
Expected Return on Plan Assets	6.50%	6.50%	6.50%	6.50%	
Discount Rate for 12/31 Disclosure Obligations	4.50%	4.00%	4.75%	4.00%	
Salary Scale for 12/31 Disclosure Obligations	2.50%	2.50%	3.00%	3.50%	

As shown in **Table 5-B**, the settlement adopted in D.13-05-020 authorizing $680,000 per year for GOWC's pension plan far exceeds GOWC's actuary's projections for annual pension expense, and pension contribution.

Key assumptions used by the actuary company were provided by GOWC, which could greatly change the result of these projections. All of these assumptions hit the bottom line as to how much annual pension expenses would be. Even with GOWC's assumptions as provided to its actuary, the settlement amount of pension contribution of $680,000 exceeds the actuary's projection of both pension expense and contribution. Key assumptions should be reviewed in future rate cases when the settlement no longer applies.

Excess pension funding beyond 100% of the pension liability is treated as prefunding balance that could be used to reduce future minimum pension contribution requirements. However, the prefunding balance is the company's prepaid pension expense, and thus is an asset, not an expense for pension accounting purposes according to Generally Accepted Accounting Principles (GAAP).[113] Thus, going forward, GOWC should be required to abide by the terms of the settlement adopted in D.13-05-020, which specifies pension funding of $680,000 annually. If there is excess funding within the $680,000 per year, this should be used as a prefunding balance and used to lower GOWC's future pension expenses.

ORA Pension Recommendation

The Commission's settlement described above is binding on both GOWC and ORA. GOWC's proposal to increase pension contributions is not consistent with the settlement. The settlement amount of $680,000 per year is more than enough to keep GOWC's pension plan well-funded. The Commission should require GOWC to:

a) Abide by the terms of the settlement adopted in D.13-05-020 which specifies pension contribution of $680,000 annually until 2020/21; and

b) Use any excess funding to the plan within the $680,000 per year to lower GOWC's future pension expenses through the return on the plan asset.

Table 5-C is a summary comparing GOWC and ORA's Pension recommendations:

Table 5-C: Summary of Pension Recommendations

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 2	ORA Increase/ (Decrease) Col 2-Col 1
$ 860,432	$ 680,000	$ (180,432)

[113] SFAS No. 87: Employers' Accounting for Pensions, p. 4.

Benefits other than Pension:

GOWC projected its FTY 2016/17 benefit expenses based on its 2014/15 expense estimates. Most of the 2014/15 estimates were either hard input numbers, or hard input formulas based on recorded 2013/14 year expense escalated to 2014/15 year, with the exception of Employee Water Reimbursement. Employee Water Reimbursement was forecasted by annualizing actual expenses from July 2014 to March 2015. GOWC applied various escalation factors to different types of benefits offered. The following **Table 5-D** is a summary of the escalation factors proposed by GOWC according to its GRC WP-7, Employee Benefits Work Paper:

Table 5-D: GOWC Escalation Factors for Employee Benefits

Escalation Factors (2015/16, 2016/17)	Benefit Types
0.00%, 0.00%	HSA (employer)
2.26%, 2.46%	Employee Water Reimbursements, All Miscellaneous Other Items [114]
5.00%, 5.00%	Bereavement, Dental, AD&D, Life, Vision, Holiday, Vacation, Sick Leave
15.0%, 15.0%	Medical

To simplify this discussion, ORA focuses this chapter on the largest expense items (in terms of dollar amounts), namely Medical, HSA, Vision and Dental, AD&D, and Life insurance expenses. ORA uses the updated recorded data GOWC provided in its 45-day update to forecast Bereavement, Employee Water Reimbursements, Holiday, Vacation, Sick Leave, and All Miscellaneous Other Items.

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[114] For our discussion, All Miscellaneous Other Items include Annual Administration Fee, Bank Charges, Employee Retirement Income Security Act of 1974 (ERISA) Bond, Other, Pension Benefits Guaranty Corporation (PBGC) premium, Retiree Maintenance, Statement of Financial Accounting Standard (SFAS) 87 Report fee.

GOWC based its insurance cost projections for medical, dental, and vision insurance escalation factors on Exhibit 5-2 “Communications with Insurance Broker.” The insurance broker provided a range of projections for each category and GOWC selected the high end of each of the insurance broker’s ranges. According to the email communication with the broker, these estimated percentage increases were “based on historical trends and information we are gathering from industry sources” without reference to any particular source. However, the percentage increase projection does not reflect GOWC’s own historical trends in medical insurance premiums.

While ORA requested GOWC’s past five-years of medical renewal notices, GOWC provided the past three years.[115] To be consistent across the health-related insurance cost estimates, ORA used the average of the most recent three years as the basis for its estimates.

Table 5-E – Annual Percentage Increases In GOWC’s Premiums[116]

	2011	2012	2013	2014	2015	5 yr Average	3 yr Average
VSP							
Single	0.00%	0.00%	0.00%	4.81%	3.67%	**1.70%**	**2.83%**
2	0.00%	0.00%	0.00%	4.97%	3.55%	**1.70%**	**2.84%**
3 or more	0.00%	0.00%	0.00%	5.19%	3.17%	**1.67%**	**2.78%**
Dental							
Employee	2.40%	5.01%	5.00%	5.00%	5.00%	**4.48%**	**5.00%**
Employee+Spouse	2.40%	5.00%	5.00%	5.00%	5.00%	**4.48%**	**5.00%**
Employee+Children	2.40%	5.00%	5.00%	5.00%	5.00%	**4.48%**	**5.00%**
Family	2.40%	5.00%	5.00%	5.00%	5.00%	**4.48%**	**5.00%**
Medical							
Employee	n/a	n/a	8.13%	1.26%	8.00%	**N/A**	**5.80%**
Dependent	n/a	n/a	8.16%	1.24%	8.00%	**N/A**	**5.80%**

[115] GOWC’s Vice President’s 8/27/15 email response stated that “we sent you cost information for the insurance program because we can’t locate the renewal notices you’ve requested. If renewal notices from several years ago are an issue in this GRC, please tell me why.”

[116] Data is from GOWC Data Request response to WW2-001(3.iv.f).

Vision & Dental

Based on ORA's research and review of GOWC's actual renewal notices for Dental (plus AD&D and Life) and Vision insurance, ORA accepts GOWC's proposed 5% increase for Dental (plus AD&D and Life) and Vision insurance plans but recommends using a three year adjusted average expense as the base year amount for escalation. GOWC requests $43,434 for Dental, AD&D, and Life insurance, and $5,495 for its Vision plan for FTY 2016/2017. ORA used a three year adjusted average to develop the 2014/2015 base year value and escalated this by 5% per year to bring it to the FTY 2016/2017 projection. As such, ORA recommends $38,674 for Dental, AD&D and Life insurance, and $5,163 for Vision insurance.

Medical Insurance & Health Savings Account (HSA)

For GOWC's medical insurance benefits offering, both the employer and employees contributed a portion to the medical insurance premium for the company as a whole.[117] In addition, GOWC also contributed to a Health Savings Account for its employees, which could be used for co-pays, deductibles, prescription drugs, etc., but could not be used to pay for premiums. The maximum contribution limit is set by the Internal Revenue Services (IRS) each year, and it does not increase at the pace of inflation. GOWC projects 0% increase in this account. ORA developed its forecast using the updated recorded data in GOWC's 45-day update which equals $83,738.[118] In the past three years, GOWC contributed similar amounts to its employees' HSA account and medical insurance premiums as medical benefits.

GOWC submitted a motion on September 16, 2015 for permission to update its medical insurance premium increase estimate from 15% to 18.1% for FTY 2016/2017.

However, the documents GOWC submitted to ORA regarding this premium increase do not support GOWC's claim that the medical insurance premium will increase by 18.1%. GOWC's

[117] GOWC response to DR WW2-012, q. 4. b.
[118] GOWC Exhibit E, WP7-Employee Benefit, August 17, 2015.

support for the 18.1% is shown on page 25 of the Kaiser Renewal documents.[119] The 18.1% increase is based on an existing medical plan with a monthly premium of $12,024 for a Bronze HSA 3500/30 with Child Dental option in 2015 increasing to $14,196 per month effective December 1, 2015. ORA requested the prior year's Kaiser Renewal Notice and noted that for the comparable plan in 2014, the Kaiser's Renewal Notice indicated the premium would increase by 22.2% (from GOWC's 2013 rate of $10,858 to the 2014 rate of $13,266).[120] However, based on another Kaiser Renewal Notification GOWC submitted to ORA, the 2014 premium increase would be only 8%,[121] which turned out to be the actual premium increase. According to this "actual" renewal notification, the monthly premium of $10,858 for 2013 would rise to $11,723 effective December 2014. ORA verified the actual monthly premium amounts of $10,858 and $11,723 against GOWC's monthly transaction details. [122]

GOWC's proposed premium increase of 18.1% is only one possible option for the premium increase should the employer and employees select that option. In this case, if the same information had been used to forecast the premium increase for the prior year of 2014, the 22.2% forecasted would have been much higher than the actual increase of 8%. The Kaiser Renewal Notice[123] does not identify the exact percentage of premium increase for the employer, and merely provides a number of possible health plan options for employees. Without the selections being made, it is premature for the company to claim the premium increase will be 18.1%. According to GOWC, employees have until November 25, 2015 to make their medical insurance plan selections, and GOWC has until December 1, 2015 to submit the employee selections to

[119] Kaiser Renewal Part 3, p. 5 of the PDF document, and GOWC Responses to ORA Data Request WW2-012, (1.b and 1.c)

[120] GOWC response to DR WW2-012, q. 7, Part 2, p. 5 of the PDF document.

[121] GOWC response to DR WW2-001, q. 3.iv.f, p. 1.

[122] GOWC response to DR WW2-012, q. 6, entries with "Kaiser Permanente – employees" show monthly premium of $10,858 and $11,723.

[123] Kaiser Renewal Part 1 Redacted.pdf, p. 1 states "This is an estimate based on current enrollment. This amount may change depending on the individuals who actually enroll in the plan."

Kaiser. GOWC's recorded premium increases provide a better indicator for forecasting consideration.

An examination of the recent trends for medical insurance is warranted in order to understand why GOWC's projections are not reasonable. The following summarizes recent industry trends on medical insurance premiums. According to the Commonwealth Fund's[124] December 2014 Issue Brief[125] findings, in the three years following the passage of the Affordable Care Act (ACA) (2011 – 2013), the rate of growth in health premiums slowed to 4.1% per year.[126] The Issue Brief reports that the ACA required health insurers to spend at least 80% or 85% of premiums on medical costs for small and large employer health plans, or pay rebates to employers and covered employees. The Issue Brief finds that this provision of the ACA had a mild decreasing effect on premiums.

Another article published on November 17, 2014 by the Society of Human Resource Management[127] provides a cost projection from Mercer's annual National Survey of Employer-Sponsored Health Plans, which is reported to include 2,569 public and private employers with 10 or more employees. In this survey employers predict that health benefit costs per employee will increase by 4.6% on average in 2015 if the employer made changes to reduce costs. The same paper reports that Aon Hewitt found that employers are taking actions to reduce their medical costs. The approaches include reducing subsidies for covered dependents, adding surcharges for

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[124] The Commonwealth Fund is a private foundation that aims to promote a high performing health care system that achieves better access, improved quality, and greater efficiency, particularly for society's most vulnerable, including low-income people, the uninsured, minority Americans, young children and elderly adults. The Fund supports independent research on health care issues and making grants to improve health care practice and policy. http://www.commonwealthfund.org/about-us, accessed 9/23/15.

[125] Commonwealth Fund December 2014 Issue Brief, by Sara R. Collins, David C. Radley, Cathy Schoen, and Sophie Beutel, p. 2 on www.commonwealthfund.org.

[126] Commonwealth Fund December 2014 Issue Brief, by Sara R. Collins, David C. Radley, Cathy Schoen, and Sophie Beutel, p. 2 on www.commonwealthfund.org.

[127] The Society of Human Resource Management is the world's largest Human Resource membership organization devoted to human resource management: http://www.shrm.org/about/pages/default.aspx, accessed 9/23/15.

adult dependents with access to other health coverage, charging employees by covered persons, not individual versus family, etc.

According to this research on national health insurance trends, GOWC's average increase of 5.8% over the past three years is in line with the national health care cost trends. ORA recommends using this 5.8% annual health insurance increase to forecast the years 2015/16 and FTY 2016/17. GOWC has the option to provide more expensive medical benefits to its employees relative to historical levels. However, GOWC should seek other funding sources, such as employee contributions to fund any expanded medical benefits.

ORA recommends a forecast of medical insurance for FTY 2016/2017 of $96,767 based on GOWC's last three years' average recorded expense with the ORA ECOS and Water Branch inflation factors applied for the 2014/2015 base year value of $86,448 and then applied the escalation adjustment factor of 5.8% to escalate to 2015/2016 and then to FTY 2016/2017.

Table 5-F below summarizes ORA's approach in arriving at this medical insurance premium estimate:

Table 5-F: ORA's Medical Insurance Premium Projection (Employer Portion)

GOWC Recorded[128]				**ORA Forecast**
2012/13	**2013/14**	**2014/15**	**3 Yr Adj Ave**	**2016/17**
$77,228	$95,844	$82,959	$86,448	$96,767

The following table summarizes the discussion on Benefits other than Pension:

[128] GOWC 45-day update, 8/17/15.

Table 5-G: Benefits other than Pensions for Test Year 2016/2017

	GOWC Forecast ($)	ORA Recommended ($)	ORA Increase/ (Decrease) ($)
Dental, AD&D, Life	43,434	38,674	(4,760)
Vision	5,495	5,163	(333)
HSA (Employer)	85,899	83,738 [*]	(11,560)
Medical	146,792[129]	96,767	(50,025)
Bereavement	1,968	340	(1,628)
Employee Water Reimbursement	4,638	4,446	(192)
Holiday, Vacation and Sick Leave	52,017	34,219	(17,799)
All Misc. Other	8,350	7,856	(494)
Less: Capitalized Payroll Benefits	(155,036)	(169,775)[*]	(14,739)
Total Benefits (excl Pension)	193,558	101,428	(92,130)

[*] Note: The figures shown here will be updated based on review of payroll Discussed in Chapter 6 of this report.

[129] GOWC updated its application request shown here to include 18.1% instead of 15% premium increase for 2016/2017.

5. Account 796 - Franchise Requirements

GOWC Requested TY 2016/17 Col 1	GOWC 5 Yr Adj Ave (2009-2013) Col 2	ORA Recommended TY 2016/17 Col 3	ORA Increase/ (Decrease) Col 3 - Col 1
$283,694	$248,849	$256,962	$(26,732)

Account 796 shall include "payments to municipal or other governmental authorities, and the cost of materials, supplies and services furnished such authorities without reimbursement in compliance with franchise, ordinance, or similar requirements; provided, however, that the utility may charge to this account at regular tariff rates, instead of cost, service furnished without charge under provisions of franchises."[130]

GOWC input a series of hard coded amount in a formula, appearing to be one year's expense, as the basis for projection, which added up to $274,977.[131] In its 45-day update, GOWC revised this amount to $271,706 as the actual recorded amount for 2014/15. However, for this account, one year's expense should not be used for forecasting when historical data shows fluctuations.[132] Instead the historical data should be used to smooth out the fluctuations from the forecast. ORA has taken GOWC's past five years' adjusted average and applied ORA's ECOS and Water Branch Memo for June 2015 to this average. ORA forecasted $256,962 using this methodology, a reduction of $26,732 from GOWC's request.

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[130] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 122.
[131] GOWC Exhibit E, tab WP6-A&G Expense, cell I17.

[132] GOWC Exhibit E, tab WP6-A&G Expense, line 17.

6. Account 797 – Regulatory Commission Expenses

GOWC Requested TY 2016/17 Col 1	GOWC 5 Yr Adj Ave (2009-2013) Col 2	ORA Recommended TY 2016/17 Col 3	ORA Increase/ (Decrease) Col 3-Col 1
$233,997	$4,576	$4,725	$(229,272)

Account 797 shall include "all expenses (except pay of regular employees only incidentally engaged in such work) properly includible in operating expenses, incurred by the utility in connection with formal cases before regulatory commissions, or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the accounting utility for pay and expenses of such commission, its officers, agents, and employees."[133]

ORA discovered through data request DR WW2-001[134] that GOWC has booked three types of expenses in this account, the most significant of which was CPUC fees. CPUC fees constitute neither revenue nor expense, but rather are a pass through fee. CPUC fees are charged separately on customer bills, and the utility company then collected the fees from the customers. Although it is appropriate to book the CPUC fees to Account 797, the fees must be excluded for ratemaking purposes. It would be double counting to include CPUC fees in the rates, therefore, these fees should be removed from Account 797 for the purposes of developing the expense forecast. GOWC submitted the subaccounts summary in its response to DR WW2-001 (q. 3.i) as follows:

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[133] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 122.
[134] GOWC response to DR WW2-001, q. 3.i.

Table 5-H: Subaccount Summary for Account 797

	2009/10	2010/11	2011/12	2012/13	2013/14
CPUC Fees	$171,196	$176,263	$184,273	$211,006	$235,950
Advice Letter Costs	-	-	$5,998	$2,459	$3,769
GRC Costs	$9,510	-	-	-	-
Total	$180,706	$176,263	$190,271	$213,465	$239,719

Based on this summary, ORA calculated the adjusted five year average costs incurred in handling Advice Letters and GRC proceedings, which was $4,576. After applying escalation factors for the period from 2013/2014 to FTY 2016/2017, ORA projects a Regulatory Commission expense for FTY 2016/2017 of $4,725. ORA recommends the Commission adopt this amount of $4,725, which is a reduction of $229,272 from GOWC's request.

7. Account 798 - Outside Services

Account 798 "shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts". Account 798 should also include "the pay and expenses of persons engaged for a special or temporary administrative or general purpose in circumstances where the person so engaged is not considered an employee of the utility".[135] For FTY 2016/2017, GOWC forecasts $403,418 for outside services, while ORA forecasts $179,738, a difference of $223,680.

[135] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, pp. 122 - 123.

Water Quality Compliance Expenses

GOWC projected the following water quality compliance expenses in Account 798 in Test Year 2016/17:[136] $65,638 for Title 22 Monitoring, $109,862 for a Bacteriological Monitoring contract with California Water Service[137], and $25,000 for NPDES consulting fees. **Table 5-I** below summarizes water quality compliance expense forecast portion of Account 798:

Table 5-I: Water Quality Compliance Expenses

-	GOWC Requested TY 2016/17	ORA Recommended TY 2016/17
Title 22 Monitoring	$65,638	$25,608
Bacteriological Monitoring	$109,862	$109,862
NPDES	$25,000	$8,112
UCMR 4 and Lead & Copper	$0	$0
Total	$200,500	$143,582

Title 22 Monitoring Expenses

According to GOWC, Title 22 Monitoring costs were projected based on its historical costs from years 2012/13 ($65,638), 2013/14 ($10,187) and 2014/15 ($1,000).[138] The projection follows a three-year cycle, where the majority of the testing cost is incurred in the first year of the cycle. During ORA's field visit on August 26, 2015, GOWC's CEO confirmed that generally wells will be tested every three years. Since the wells were placed in service in different years, testing for each well will not be done in the same year. As a result, ORA recommends using the average

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[136] GOWC Exhibit D, Chapter 3, pp. 5-6.
[137] GOWC Exhibit 3-9, Contract for Drinking Water Analysis.
[138] A.15-07-001, GOWC Declaration of Michael A. Carey in Support of GOWC Response to ALJ RFI, pp. 2-3.

historical cost for the past three years in the amount of $25,608[139] for the FTY 2016/2017 forecast, as the amount of $65,638 is not an annually recurring expense.

Bacteriological Monitoring Expenses

For Bacteriological Monitoring costs, GOWC stated that a higher level of costs are projected "due to recent experience with positive total coliform samples and the prevailing belief that the lowering of the water table from the drought and the failure of SCVWD to properly recharge the groundwater basin will continue to cause water quality issues that will be remedied with appropriate measures."[140] On June 1, 2015, GOWC entered into a contract with California Water Service[141] to provide analysis of drinking water samples for an estimated amount of $109,862 per year. This **estimated total** is based on a **projected number** of samples per year multiplied by a contract rate for each specific sample type.[142] GOWC states that "[s]hould water quality conditions dictate, treatment will be necessary for health and safety reasons."[143] ORA accepts the bacteriological monitoring amount GOWC projected.

National Pollutant Discharge Elimination System Expenses

To substantiate its National Pollutant Discharge Elimination System (NPDES) costs, GOWC presented a contract proposal[144] for $18,150 with an independent contractor who has experience in NPDES permit compliance work. According to the contract proposal, the contractor will conduct:

> . . . a site visit to determine the scope of operations and discharge types. This will include a sample groundwater well operations, flushing activities (if possible), review of existing procedures to determine areas that need improvement, develop

[139] ($65,638 + $10,187 + $1,000)/3 = $25,608.
[140] GOWC Exhibit D, Chapter 3, Paragraph 23, p. 5.
[141] GOWC Exhibit 3-9.
[142] GOWC Exhibit 3-9.
[143] GOWC Exhibit D, Chapter 3, Paragraph 25, p. 6.
[144] GOWC's Supplemental Response to ORA Data Request WW2-004, Email Request q. 4.ii. file name "GOWC SR WW2-004(NPDES)," dated September 3, 2015.

> a monitoring plan based on site visit, develop a manual for best management practices and logs per regulatory requirement, and conduct two half day training sessions to all the necessary personnel and shifts.

The tasks covered in the proposal appear to be one-time implementation costs that do not recur annually. Thus, ORA recommends spreading the $18,150 evenly over the three year period covered by this GRC. For NPDES costs, ORA forecasts the amount of $6,050 per year,[145] plus the annual NPDES permit of $2,062 per year,[146] for a total of $8,112 for FTY 2016/17.

Unregulated Contaminant Monitoring Rule 4 and Lead & Copper Expenses

GOWC does not anticipate Unregulated Contaminant Monitoring Rule 4 (UCMR 4) or Lead & Copper costs in FTY 2016/2017, and ORA takes no issue with that. In GOWC's response to the ALJ's ruling, GOWC stated that this GRC covers the time period from July 1, 2016 through June 30, 2019, and estimated that United States Environmental Protect Agency (EPA) may establish UCMR 4 testing criteria under the Safe Drinking Water Act by May 2017. Thus GOWC projected UCMR 4 testing and compliance expenses of $32,600 for escalation year 2018/2019 based on its experience with UCMR 1, 2, and 3. Should GOWC incur UCMR 4 testing and compliance costs in 2017 to 2019, the costs would be recorded in historical data to be considered in the expense forecast in GOWC's next GRC.

WaterSmart Expenses

In addition to water quality expenses, GOWC added a hard-coded amount of $200,000 per year to Account 798 starting in FTY 2016/2017. According to GOWC, the "$200,000 hard-coded

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[145] $18,150/3 = $6,050.

[146] A.15-07-001, Declaration of Michael A. Carey in Support of GOWC Response to ALJ RFI, Paragraph 18 on p. 5.

amount represents projected expenses for WaterSmart Software."[147] ORA recommends that the Commission deny GOWC's requested additional $200,000 annual expense.

GOWC explains that in March 2015 it initiated a two-year pilot program[148] "with WaterSmart Software that provides customizable Home Water Reports for single-family residential customers. The initial cost for 10,000 customers is shared between the Company and the Santa Clara Valley Water District."[149] ORA examined GOWC's Conservation Memorandum account and found related entries showing $120,000 initial expense for the WaterSmart pilot program and a credit for $60,000 representing the share from the Santa Clara Valley Water District's amount. Both GOWC and the SCVWD have paid $60,000 for the cost of the two-year WaterSmart pilot program, which ends in February 2017.

According to GOWC, for the pilot program itself, 10,000 customers would try to use the WaterSmart software for water conservation purposes. The WaterSmart software tracks a customer's water usage, provides statistics of how the customer's usage compares with its own historical data as well as its neighbors' usage, and shares tips on what the customers could do to conserve water. GOWC also asserts that "Additional water savings of up to six percent (6%) are projected with the participating customers."[150]

When ORA asked for a cost-benefit analysis during its site visit on August 4, 2015, GOWC stated that the program had not been in effect long enough to conduct such analysis. Furthermore, GOWC stated that because the Governor's Executive Order for water reduction was implemented (Schedule 14.1), it would be hard to show what conservation benefits were due to WaterSmart.

Because the two-year pilot program ends in February 2017, the pilot program expenses (that are already captured in the Conservation Memorandum account) cover half of GOWC's FTY

[147] GOWC response to DR WW2-001, q. 3.ii.a, and GOWC Application, Item I.4.(e), p. 4.
[148] GOWC Exhibit D, Chapter 9, pp 1-2.
[149] A.15-07-001, Application Item I.4.(e), p. 4.
[150] GOWC, Exhibit D, Chapter 9, p. 2.

2016/2017. Allowing an additional $200,000 TY 2016/2017 to fund the full program in rates would constitute double-recovery of the program costs in FTY 2016/2017. Most importantly, the main purpose of a pilot program should be to assess the effectiveness of a program and not to simply act as a precursor to assumed full implementation as GOWC forecasts. Analysis and assessment of WaterSmart's benefits is necessary before the Commission approves ratepayer funding of the program. Therefore, ORA recommends that for FTY 2016/2017 the Commission deny the $200,000 funding for WaterSmart. ORA also recommends GOWC submit a detailed assessment[151] of the WaterSmart pilot program in its next GRC, at which time the Commission should reconsider GOWC's request. GOWC should continue negotiations with SCVWD to see if further cost-sharing could be available to fund either an extension of the pilot program or expansion of the program. If preliminary results of the pilot are available prior to GOWC's next GRC and the pilot program is shown to be cost effective and reasonable, GOWC has the option of booking additional costs to the Conservation Memorandum account for later review by the Commission.

Account 798 Overall Recommendations

There has been significant discrepancy among the amount forecasted, adopted and the amount GOWC actually spent in this account for the past two years. For example, in 2014/2015, the company requested $429,463, the adopted amount was $329,463,[152] and actual expenses were $153,292.[153] In 2013/2014, the company requested $380,842, the adopted amount was also $380,842,[154] and the amount actually spent was $115,061.[155] This pattern indicates that GOWC has consistently overestimated its needs in this account.

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[151] WaterSmart claims "We are fanatical about data quality and we deliver measurable results" therefore GOWC's assessment of the effectiveness of the WaterSmart pilot program in its next GRC or memorandum account should contain measurable results. http://www.watersmart.com/measurable-results/, Web. Retrieved 9/14/15.

[152] A.12-07-005, Appendix A, Settlement Agreement, Comparison Exhibit.

[153] A.15-07-001, GOWC Updated and Corrected Exhibit E, WP6-A&G Expense, August 17, 2015

[154] A.12-07-005, Appendix A, Settlement Agreement, Comparison Exhibit.

Overall for account 798, ORA's analysis supports $143,582 for water quality compliance expenses in FTY 2016/2017. Given the importance of water quality in assuring ratepayer health and safety, ORA recommends applying appropriate escalation factors to the five year adjusted average of $174,069 to get to a FTY 2016/2017 amount of $179,744. This recommendation accounts for unexpected changes in water quality spending and is in accordance with the past five years of recorded spending in this category. The following is a summary table of ORA's recommendation:

Table 5-J: Comparison Summary of Outside Service Recommendation

GOWC Requested TY 2016/17 Col 1	GOWC 5 Yr Adj Ave (2009-2013) Col 2	ORA Recommended TY 2016/17 Col 3	ORA Increase/ (Decrease) Col 3-Col 1
$403,418	$174,069	$179,744	$ (223,674)

8. Account 799 – Miscellaneous General Expenses

GOWC Requested TY 2016/17 Col 1	GOWC 5 Yr Adj Ave (2009-2013) Col 2	ORA Recommended TY 2016/17 Col 3	ORA Increase/ (Decrease) Col 3-Col 1
$173,544	$70,520	$72,819	$(100,725)

Account 799 shall include "the costs of labor and expenses incurred in connection with the general management of the utility not provided for elsewhere."[156] In projecting Miscellaneous General Expenses for FTY 2016/2017, GOWC applied 2.5% and 3.17%[157] inflation factors to its recorded nine month annualized year 2014/2015 amount to get to FTY 2016/2017, and added a

[155] A.15-07-001, GOWC Updated and Corrected Exhibit E, WP6-A&G Expense, August 17, 2015
[156] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 123.
[157] GOWC Exhibit E, tab WP6-A&G Expense.

hard coded amount of $75,188, which was for membership dues to join California Water Association, according to GOWC.[158]

GOWC claimed that in order

> [t]o stay abreast of developments and requirements imposed upon the Company by the Commission, the State Water Resources Control Board, and the legislature, the Company plans to rejoin the California Water Association (CWA) **beginning in Test Year 2016/17**. This expense will eliminate the requirement to add one or two administrative/regulatory employees at a significantly lower annual cost. Annual dues are based upon Company revenues and are included in Account 799 Miscellaneous General Expenses per the Commission's Uniform System of Accounts[159] [Emphasis added].

However, there is no evidence that GOWC will follow-through on joining CWA. During ORA's field visit on August 26, 2015, ORA asked if GOWC had joined the association, the owner explained that he had been talking about it with the counsel, however, the owner feels that CWA dues just keep rising. Due to the uncertainty of whether GOWC will actually join the CWA, ORA is excluding this association dues from its estimate. Should GOWC join the CWA, GOWC may come back to the Commission in GOWC's next GRC to request rate recovery with the paid CWA invoices. It is also noted that because a portion of the CWA dues are allocated to lobbying activities, at least 30% of the dues would not be recoverable through rates even if the request were supported.

ORA recommends taking the adjusted average of the past five years' historical data and applying the escalation factors from ORA's ECOS and Water Branch June 2015 Memo. ORA estimates $72,819 for Account 799 in FTY 2016/2017.

[158] GOWC response to DR WW2-001, q. 3. iii. a.
[159] GOWC Exhibit D, Chapter 5, pp. 27-28.

9. Account 805 - Maintenance of General Plant

GOWC Requested TY 2016/17 Col 1	5 Yr Adj Ave (2009/10-2013/14) Col 2	ORA Recommended TY 2016/17 Col 3	ORA Increase/ (Decrease) Col 3 - Col 1
$107,396	$78,081	$80,626	$(26,770)

In Account 805, Maintenance of General Plant, GOWC is requesting $107,396 in FTY 2016/17. According to the USOA, Account 805 includes the cost assignable to customer's accounts, sales, administrative and general functions of labor and materials used, and expenses incurred in the maintenance of property.[160]

About 60 to 70% of total expenses recorded in this account represents tools and supplies GOWC purchased from various vendors, such as OSH, Lowe's, Costco. Approximately 20% represents transportation expenses allocated from Account 903, Transportation Expenses – Clearing and the remaining balance in the account were expenses paid for uniforms and boots for its employees. Expenses for uniforms and boots range from $7,000 in 2011/2012 to $12,700 in 2013/2014. Total expenses recorded by GOWC in this account increased steadily from $41,350 in 2009/2010 to $104,472 in 2013/2014.

ORA proposes to use adjusted five-year historical data to forecast this account with annual escalation factors from ORA's ECOS and Water Branch June 2015 Memo applied to bring the amount up to FTY 2016/2017. ORA recommends $80,626 for FTY 2016/2017, a reduction of $26,770 from GOWC's request.

[160] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 123.

10. Account 811- Rents

GOWC Requested TY 2016/17 Col 1	ORA Recommended TY 2016/17 Col 2	ORA Increase/ (Decrease) Col 2 - Col 1
$218,516	$204,176	$(14,340)

Account 811 shall include "rents properly includible in utility operating expenses for the property of others used, occupied, or operated except (a) minor amounts paid for occasional or infrequent use of any property or equipment and (b) rents chargeable to clearing accounts."[161]

In May 2008, GOWC established a wholly owned affiliate Great Oaks Water, LLC (GOW, LLC) to purchase an office building.[162] GOWC and GOW, LLC entered into a lease agreement on January 1, 2009, and the lease agreement was signed on September 9, 2009.[163] According to the lease agreement, GOWC would pay GOW, LLC $13,870 per month effective January 1, 2009 for approximately 8,669 rentable square feet, and adjusted 3% upward annually for a five year term.[164]

According to the company, on September 17, 2014, the building was sold to Menlo Land and Capital IV, LLC, an unrelated party.[165] GOW, LLC was dissolved on December 31, 2014.

When the new landlord bought the building, existing tenants got to keep their leases according to the building purchase contract.[166]

ORA reviewed GOWC's current rental agreement with the new landlord Menlo Land and Capital IV, LLC who honored the rental rate through a lease amendment. GOWC is requesting $218,516 for FTY 2016/17 and the same fixed amount for the two subsequent escalation years.

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[161] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 124.
[162] GOWC GRC Exhibit D, Chapter 3, p. 10, Section B-9.
[163] GOWC response to DR WW2-002, q. 1.iii, GOWC Lease Agreement with GOW LLC, p. 30.
[164] GOWC response to DR WW2-002, q.1.iii, GOWC Lease Agreement with GOW LLC, p. 7, Paragraph 4.4.
[165] GOWC Exhibit D, Chapter 3, p. 10, Section B.9
[166] GOWC response to DR WW2-004 q. 4.iv.d, Real Estate Purchase Contract, p. 1.

During ORA's August 4, 2015 field visit, GOWC's CFO Ron Ceolla explained that the lease agreement amendment will be effective for 10 years till the end of 2024, so the company calculated the future value of the 10-year rental by the end of 2024, then divided the future value of the lease evenly into 10 annual payments to generate GOWC's Test Year estimate of $218,516.

GOWC's approach is not acceptable, as its calculation would require current ratepayers to pay for the future value of GOWC's rental. Monthly rent is specified in the lease amendment for the period from July 1, 2015 to June 30, 2024. For the FTY 2016/2017, the lease amendment states that the monthly rent will be $17,014.65[167] , versus the hard coded amount of $18, 209.67[168] in GOWC's work paper WP6- A&G, Acct 811. Because the test year is escalated using the method described in the rate case plan, if GOWC meets the earnings test, it will receive inflation increases to cover increases in rent expenses during the two escalation years of the rate case cycle.[169]

ORA recommends using the current amended monthly lease amount of $17,014.65, or $204,176 for FTY 2016/2017.

11. Account 903- Transportation Expenses - Clearing

Account 903 "shall include the cost of supervision, labor and expenses incurred in the operation and maintenance of the general transportation equipment of the utility including direct taxes and depreciation on transportation equipment. This account shall be cleared by apportionment to operating expenses, utility plant or other accounts on a basis which will distribute the expenses equitably. Credits to this account shall be made in such details as to permit ready analysis thereof". [170]

[167] GOWC Response to DR WW2-002 (1.iii.), p. 38, Section 4.4
[168] A.15-07-001, Exhibit E, WP6-A&G Expense, cell K23.
[169] Decision 04-06-018, p. 14, escalation rate for rents is the CPI-U from the previous 12 months.
[170] Uniform System of Accounts for Water Utilities Class A, California Public Utilities Commission, p. 126.

GOWC recorded a net expense of $101,740 in 2013/2014, which included $56,477 fuel purchases, $31,521 maintenance, $5,375 DMV license fee, $7,339 labor fee, and $2,279 GPS tracking fee. ORA vouched some invoices from the account, and found that the owner charged $500 to the maintenance account for what appeared to be a partial payment for a 2004 Porsche Cayenne Turbo in Houston, Texas and provided a craigslist advertisement for a set of brand new tires as the invoice for $1,300 charged to maintenance account as well. Further review also indicated that the owner charged various airplane tickets, airport parking fees and car rentals in Account 799, Miscellaneous General Expenses, for trips outside of California, where the company is located.

Table 5-K: Account 903- Transportation Expenses Selected Invoices

Acct #	Date of Trans	Amount	Vendor	Description
903	12/31/2013	$ 1,300.00	Craigslist Seller in TX	BN Tires
903	7/29/2013	$ 500.00	KBB Best Motors, Inc in TX	2004 Porsche Cayenne
799	6/9/2013	$ 270.80	US Airways	SJ-Forth Worth
792	6/11/2013	$ 216.00	DFW Airport	Parking
799	12/18/2013	$ 381.80	US Airways	Fort Worth-Phoenix-Seattle
799	12/22/2013	$ 331.05	Payless Car Rental SEATAC	Car Rental in WA
799	12/29/2013	$ 267.90	Alaska Air	Seattle-SJ
	Total	**$ 3,267.55**		

Expenses of a personal nature should not be reported under the ratemaking application or forecast into rates. To the extent that these amounts are included in recorded data used to develop FTY 2016/2017 forecasts, the Commission should require GOWC to exclude these and any other personal costs.

D. CONCLUSION:

ORA reviewed and analyzed GOWC's work papers, testimony, and GOWC's responses to ORA's data requests, e-mail and other inquiries. ORA recommends that the Commission adopt its recommendations for the reasons contained in this chapter and as summarized in **Table 5-A** at the beginning of this chapter.

Chapter 6: PAYROLL EXPENSES

A. INTRODUCTION

This chapter sets forth the results of ORA's analysis of GOWC's Employee Salary (Payroll) expense for FTY 2016/2017. GOWC is forecasting $2,315,890 in employee salaries before capitalizing a portion, while ORA is recommending $2,042,604 before capitalization, a difference of $273,286. The reasons for the difference between ORA and GOWC are the use of different base year methodologies to forecast salaries and the use of different labor inflation factors to forecast FTY 2016/2017. **Table 6-A** below summarizes the difference between GOWC's FTY 2016/2017 forecast and ORA's recommendation.

Table 6-A: Comparison of GOWC and ORA Salary Expense Forecasts

GOWC's Forecasted TY 2016/2017	ORA's Forecasted TY 2016/2017	ORA % decrease from GOWC's TY Forecast	ORA $ decrease from GOWC's TY Forecast
$2,315,890	$2,042,604	-11.80%	($273,286)

B. SUMMARY OF RECOMMENDATIONS

1) Use GOWC's recorded 2013/2014 employee salaries as a base year amount to forecast GOWC's 2016/2017 employee salary amounts.

2) Inflate the base year 2013/2014 salary amounts to reach TY 2016/2017 levels by applying the most recent forecasted labor inflation factors from the monthly Memorandum published by ORA's ECOS and Water branches.

3) For GOWC's capitalized payroll, use 10.6% of total forecasted payroll and remove GOWC's calculation that double-capitalizes field service employee payroll.

C. DISCUSSION

GOWC begins its employee salary forecast for FTY 2016/2017 by first calculating a Projected Base Year amount for each 2014/2015 position, and then inflating this base amount by factors that range between 2% and 10% annually depending on the employee position, to reach a 2016/2017 salary level amount for each employee.[171] **Table 6-B** below provides a comparison of GOWC's FTY 2016/2017 forecast with its 2013/2014 recorded and adopted amounts.

Table 6-B: GOWC's 2016/2017 Salary Forecast Comparison to Recorded and Adopted

GOWC's Forecasted TY 2016/2017	Recorded Salaries 2013/2014	Adopted Salaries 2013/2014	% Increase over adopted 2013/2014	% Increase over recorded 2013/2014
$2,315,890	$1,936,867	$2,020,465	14.62%	19.57%

ORA also calculates a Base Year amount for each position, using recorded 2013/2014 amounts when possible[172], then inflates this base salary amount using the latest forecasted labor inflation factors as published monthly by ECOS and ORA Water branches and makes a specific adjustment to add an employee to the forecast that was adopted for TY 2013/2014, but not hired until the 2014/2015 period as explained below. **Table 6-C** below provides a similar comparison

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[171] For two employees starting in 2015/2016, GOWC hard-coded their projected salaries.
[172] For six employees with incomplete 2013/2014 recorded amounts, ORA used GOWC's projected 2014/2015base year and for the Billing Systems Manager ORA used the 2013/2014 *adopted* amount because the position had not yet been filled in that year.

showing ORA's FTY 2016/2017 forecast with GOWC's 2013/2014 recorded and adopted amounts.

Table 6-C: ORA's 2016/2017 Salary Forecast Comparison to Recorded and Adopted

ORA's Forecasted TY 2016/2017	Recorded Salaries 2013/2014	Adopted Salaries 2013/2014	% Increase over adopted 2013/2014	% Increase over recorded 2013/2014
$2,042,604	$1,936,867	$2,020,465	1.10%	5.46%

Projected Base Year

GOWC explains that to calculate each employee's 2014/2015 Projected Base Year, it "used actual salary expenses for the July 2014 through April 2015 time period and added estimated salaries for the next two months (May and June, 2015) together with any reported overtime."[173] ORA examined GOWC's workpaper calculations in the context of its explanation and finds a number of GOWC's 2014/2015 reported salary increases over the 2013/2014 adopted or recorded data to be unreasonable. For example, GOWC begins its forecast for its "Billing/Systems Manager" with a Projected Base Year 2014/2015 salary of $95,911, despite the position being newly adopted in the previous GRC with a 2013/2014 salary of $85,000.[174] This 12.8% annual increase over the adopted amount is an unreasonable starting point to forecast the FTY 2016/2017 salary.

Other GOWC positions also exhibit unreasonable Projected Base Year 2014/2015 forecasts, based on their recorded 2013/2014 salaries. In another example, the VP-Operations/Director of Construction/Chief Water System Operator increases from $116,539 recorded in 2013/2014 to a

[173] GOWC response to DR MC8-003, q. 5.
[174] GOWC Exhibit E, tab WP-10 Employees & Salaries, line 18.

projected Base Year 2014/2015 amount of $132,038, an annual increase of 13.2%.[175] In addition, GOWC's explanation that its Projected Base years include "any reported overtime" suggests that overtime is included in GOWC's salary forecasts, yet GOWC is separately forecasting $34,975 for FTY 2016/2017 overtime expense.[176]

In addition to GOWC's unreasonable Projected Base Year increase amounts, ORA found that GOWC's employee salary workpapers contain numerous adjustments to recorded data that make it difficult to conduct a reliable long-term trend analysis. Furthermore, ORA performed a comparison between GOWC's recorded data as presented in this GRC with the recorded data for the same time periods presented in its previous GRC and found that GOWC's recorded data for identical time periods did not match. GOWC's explanation for this discrepancy was that it "appears the data from the 2012 rate case contains errors most likely resulting from overtime pay and data entry"[177] and that "2015 data is accurate data to the best of my knowledge."[178] For the reasons described above, GOWC's base year methodology is unreliable and should not be used to forecast FTY 2016/2017.

ORA's methodology begins by using the recorded twelve months 2013/2014 employee salaries according to GOWC's application workpapers[179] as a base year, and then applies labor inflation factors as published by ORA's ECOS and Water branch June 2015 Memorandum to arrive at FTY 2016/2017 levels.[180] In order to forecast the most accurate FTY 2016/2017 salary amount, ORA's methodology makes a specific adjustment to add an employee to the forecast that was adopted for TY 2013/2014, but not hired until the 2014/2015 period.[181] ORA also made

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[175] GOWC Exhibit E , Tab WP-10 Employees & Salaries, line 24.
[176] GOWC Exhibit E, tab WP10-Employees & Salaries, cells K20 and K40.
[177] GOWC response to DR MC8-007, q. 1.a.
[178] GOWC response to DR MC8-007, q. 1.b.
[179] GOWC Exhibit E, tab WP10-Employees & Salaries.
[180] ORA used the ECOS/Water branch Memorandum published for June 2015.
[181] D.13-05-020 adopted a new hire of a Regulatory/Legal Specialist in 2013/2014, but according to GOWC's response to DR MC8-003, q. 1.a. the position was not filled until 2014/2015, and its title was changed to Billing Systems/Senior Analyst.

adjustments to account for employees who either worked a partial year in 2013/2014 or left GOWC after 2013/2014 and were replaced by others. ORA's use of a 2013/2014 base year for forecasting is a more reliable method than using GOWC's 2014/2015 estimated projections because it relies on more accurate expense data incurred under controlled circumstances. Because the Commission previously authorized GOWC a specific amount, which it found reasonable for employee salaries in 2013/2014 rates, during that time GOWC had a strong incentive to control its employee salary costs. Indeed, comparing GOWC's 2013/2014 adopted salary amount $2,020,465 with its recorded 2013/2014 amount of $1,936,867 shows that GOWC was able to spend $83,598 less on employee salaries in its Test Year 2013/2014 than what the Commission authorized in rates.

As demonstrated by its recent history, GOWC is capable of reigning in its salary expenses with the right incentive to control costs. Ratepayers should be afforded the expectation of this type of cost control to be maintained continuously. Using 2013/2014 recorded salary data as a baseline to forecast GOWC salaries satisfies this expectation and provides a reasonable amount of salary expense in rates consistent with GOWC's provision of safe and reliable service. Using recorded 2013/2014 data as a base year is also preferable because the expenses were incurred subject to amounts reviewed and approved by the Commission in D.13-05-020, unlike GOWC's base year, which includes salary increases and estimates that have not been previously authorized.

Labor Inflation Factors

Once GOWC calculates its Projected Base Year 2014/2015 salary amounts, GOWC uses annual inflation factors between the range of 2% and 10%, depending on employee position, to arrive at FTY 2016/2017 salary amounts. To illustrate, **Table 6-D** below shows GOWC's annual inflation factors applied to forecast FTY 2016/2017 salaries by position:[182]

[182] Table 6-D source: GOWC Exhibit E, tab "WP10- Employees & Salaries."

Table 6-D: GOWC Annual Salary Increases By Position

Position	GOWC Annual Salary Increases
Office/Cust. Service Manager	5%
Cust. Serv. Super.	2%
Cust.Serv./Field Liason	2%
Billing/Systems Manager	5%
Billing/Systems Senior Analyst (Regulatory/Legal Specialist)	5%
VP - Operations/Dir. Construction/Chief Wat. Sys. Op.	10%
Water Quality Manager	5%
Water System Supervisor	3%
Water System Supervisor	6%
Water System Op. IV	6%
Water System Op. II	3%
Water System Op. I	10%
Water System Op. I	3%
Water System Op. I	3%
Water System Op. I	5%
Water system Op. I	5%
Chief Executive Officer	5%
Chief Financial Officer	10%
General Counsel	5%

ORA asked GOWC to explain how it determined its annual labor inflation factors for each position and GOWC provided the following explanation: "Projected 2015/2016 data is simply the 2014/2015 data escalated by the projected increase for each individual employee. New employees and promoted employees have hard-coded data, if known. Projected 2016/2017 data is provided using the same methodology. "[183] GOWC's explanation does nothing to explain how

[183] GOWC response to DR MC8-003, q. 6.

the labor inflation factors shown in **Table 6-D** above were arrived at other than to explain the factors are "the projected increase for each individual employee." Consequently, GOWC's salary inflation factors should be disregarded.

ORA's inflation methodology takes GOWC's base 2013/2014 recorded salaries and to arrive at FTY 2016/2017 levels applies the labor inflation factors as published by ORA's ECOS and Water branches for June 2015. ORA's method is more reliable because it uses well-established labor inflation factors that the Commission and other Class A Water Utilities rely on when filing for escalation year labor increases. Moreover, ORA's methodology applies these well-established labor inflation factors consistently across all of GOWC's employees, including management.

The Commission should adopt ORA's methodology for estimating payroll in the test year because it provides reasonable salary increases and the appropriate incentive for GOWC to control its salary expenses during a time with no increase to employee headcount. ORA's methodology results in a reasonable 5.73% increase over GOWC's recorded 2013/2014 amount, while GOWC's method results in a 19.6% increase over its 2013/2014 recorded amount, despite lower forecasted sales in FTY 2016/2017 and no increase to employee headcount.

Capitalized Payroll

Capitalized payroll represents the amount of employee salaries that is attributed to capital projects, and thus provides benefits into the future and is not immediately expensed. For example, the labor hours spent by an engineer designing a well instead of being expensed may be capitalized and depreciated over time as part of the well's plant in service balance. Because capitalized labor is added to the plant in service balance and earns a return from ratepayers, it is essential the amount is forecasted appropriately.

GOWC's methodology for forecasting FTY 2016/2017 total capitalized payroll is comprised of two main calculations. First, GOWC capitalizes field service payroll using a 10.57% ratio of its $900,379 forecasted field service payroll to arrive at $95,171 capitalized field service payroll for

FTY 2016/2017. GOWC adds this $95,171 amount to FTY 2016/2017 plant in service labeled as “Capitalized Direct Labor.”[184]

The second part of GOWC’s methodology applies a hard-coded ratio of 10.6% to GOWC’s $2,315,890 total forecasted payroll. This calculation results in $245,484 additional capitalized company payroll in FTY 2016/2017. GOWC adds this $245,484 amount to FTY 2016/2017 plant in service labeled as “Capitalized Allocated Payroll”[185] Combining GOWC’s $245,484 Capitalized Allocated Payroll with its $95,171 Capitalized Direct Labor results in total capitalized labor of $340,656 which is equivalent to a 14.71% capitalized labor ratio.[186]

ORA disagrees with GOWC’s methodology because it double-counts field service capitalization. To illustrate, GOWC first capitalizes $97,103 of field service, and then capitalizes 10.6% of total company payroll, including field service payroll. **Table 6-E** below illustrates GOWC’s methodology in arriving at its total capitalized labor amount:

Table 6-E: GOWC Forecasted Capitalized Labor Calculation[187]

Payroll Type	Gross Amount ($)	Capitalized %	Totals ($)
Field Service Salaries	$900,379	10.57%	$95,171
Total Company Salaries (Includes Field Service)	$2,315,890	10.60%	$245,485
GOWC Total Capitalized Labor:			$340,656

[184] GOWC Exhibit E, tab WP15- Plnt in Svc Add Retr Sm, line 22.
[185] GOWC Exhibit E, tab WP15- Plnt in Svc Add Retr Sm, line 23.
[186] ($340,656 capitalized/$2,315,890 total payroll= 14.71%).
[187] Source of data: GOWC Exhibit E, tab WP10- Employees and Salaries.

When ORA asked GOWC to explain its derivation of the 10.57% field service capitalization, GOWC's response did not address the calculation of the 10.57% contained in GOWC's workpapers:

> Objection. This data request assumes a fact that is not true. The data request is also argumentative. Without waiving these objections, **Great Oaks responds and states that it utilizes the Commission-authorized 10.6% capitalized payroll allocation.** This percentage has been in use for multiple Great Oaks rate case cycles and was most recently approved in Great Oaks' 2012 general rate case. See D.13-05-020; see also Appendix A to D.13-05-020 (Settlement Agreement in which Great Oaks and ORA agreed to the 10.6% capitalized payroll percentage).[188][Emphasis added.]

Despite GOWC's assertion, its workpapers clearly show an *additional* 10.57% of field service labor capitalized on top of the 10.6% of total labor already capitalized which is equivalent to 14.71% total capitalized labor.[189] As previously mentioned, the 10.57% of capitalized field service labor is added to GOWC's plant in service balance in a line item labeled "Capitalized Direct Labor."[190] However, the 10.6% of total labor (including field service labor) is already added to plant in service under the line item "Capitalized Allocated Payroll (10.6%)."[191] As a result, GOWC's methodology improperly capitalizes field service labor twice.

Capitalizing field service labor twice improperly inflates GOWC's plant in service balance and results in an overall capitalized payroll ratio of approximately 14.71%. ORA recommends that for FTY 2016/2017 the Commission adopt a labor capitalization ratio of 10.6% of total

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[188] GOWC response to DR AL7-008, q. 6.
[189] GOWC Exhibit E, tab WP10- Employees & Salaries, lines 71-74.
[190] GOWC Exhibit E, tab WP15-Plnt in Svc Add Retr Sm, line 22.

[191] GOWC Exhibit E, tab WP15-Plnt in Svc Add Retr Sm, line 23.

forecasted payroll, consistent with GOWC's own assertion and the 10.6% ratio adopted in GOWC's recent decisions.[192]

D. CONCLUSION

The recorded 2013/2014 salary amount should be used as a base year to forecast GOWC's employee salaries because it provides a solid, measurable foundation during a time period where GOWC had the strongest incentive to control costs. In addition, ORA recommends that the Commission adopt ORA's labor inflation factors because they are based on recently developed forecasted CPI-U increases and are applied evenly to each employee's base year regardless of the employee's position. Finally, the Commission should adopt a capitalized labor ratio of 10.6% of total payroll and remove GOWC's double-capitalization of field service payroll.

[192] D.13-05-020, D.10-11-034 and D.11-02-003 all adopted a capitalized payroll of 10.6% for GOWC.

Chapter 7: INCOME TAXES

A. INTRODUCTION

This chapter presents ORA's analysis of Income Taxes for GOWC. ORA forecasts both California Corporate Franchise Tax (CCFT) and Federal Income Tax (FIT). The Summary of Earnings tables in Chapter 2 contain ORA and GOWC's tax deductions and income tax estimates for FTY 2016/2017 in detail.

B. SUMMARY OF RECOMMENDATIONS

1) If GOWC decides to utilize the Tangible Property Regulation deduction, the Commission should require GOWC to implement a memorandum account to capture the benefit for its ratepayers.
2) The Commission's final decision should reflect GOWC's revision to restore its deferred income taxes and deferred investment tax credits as reflected in its August 17, 2015 45-day update.
3) GOWC should use a 7.5% weighted cost of debt when calculating its interest expense income tax deduction to be consistent with GOWC's most recent cost of capital decision, D.12-07-009.

C. DISCUSSION

Basis for Regulated Tax Expenses

The tax deductions and credits in this proceeding were calculated in accordance with the normalization requirements of the Economic Recovery Act of 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates. Finally, the provisions of the Tax Reform Act of

1986 (TRA 86) have been estimated and included in the general rate case in accordance with the requirements of Decision 87-09-026, Decision 87-12-028, and D.88-01-061.

Some of the provisions of TRA 86 have been incorporated into CCFT law in the California Bank and Corporation Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987). The provisions have been estimated and integrated into the CCFT calculations for this general rate case.

Both ORA and GOWC's estimates of CCFT and FIT are calculated using estimated present and proposed revenues, estimated tax-deductible expenses, interest, and tax depreciation.

Domestic Production Activities Deduction (DPAD)

Section 199 of the Internal Revenue Service (IRS) Code was added to the Code by Section 102 of the American Jobs Creation Act of 2004, and amended by Section 403(a) of the Gulf Opportunity Zone Act of 2005 and Section 514 of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). On June 1, 2006, the IRS and the Treasury Department published the final regulations under Section 199. Section 199 of the Code specifies the details of the DPAD.

Beginning taxable year 2009, Section 199 allows a deduction equal to 9% of the lesser of (a) the qualified production activities income (QPAI) of the taxpayer for the taxable year, or (b) taxable income (determined without regard to Section 199) for the taxable year.

In the current GRC, GOWC computed the DPAD for Test Year 2016/2017 and Escalation Year 2017/2018 by applying 9% to the imputed QPAI for Year 2016/2017. At this time, ORA does not take issue with GOWC's methodology and any differences in the DPAD amount are attributable to the differences in revenues, expenses and other tax deductions.

Tangible Property Regulation

On September 24, 2013, the Treasury Department (Treasury) and IRS issued the final TPR (T.D. 9689). The new final regulations consider the dichotomy between the Internal Revenue Code (IRC) Sec. 263(a) which requires capitalization of amounts paid to "*acquire, produce, or* *improve tangible property*" and IRC Sec. 162 which allows deductions for all ordinary and necessary expenses paid or incurred during taxable year in carrying on any trade or business, including costs of certain supplies, repairs, and maintenance. The final TPR regulations attempt to provide a framework for distinguishing capital expenditures from supplies, repairs, maintenance, and other deductible business expenses.

TPR deduction is optional and could allow GOWC to reclassify the current capitalized maintenance expenditures from capital expenditures to tax deductible maintenance expenses for income tax purposes if the expenditures: 1) are replacement of the existing properties, 2) are less than 10% of the unit of property, and 3) are not new construction for new customers.

TPR provides the definition of the unit of property for network assets such as water mains and the unit of property is determined by the taxpayer's particular facts and circumstances. IRS' guidance in Revenue Procedure (Rev. Proc.) 2011-27 for wireline network assets, Rev. Proc. 2011-28 for wireless networks assets, and Rev. Proc. 2011-43 for electric transmission and distribution property provide the guideline to determine the unit of property that is essential in determining maintenance expenditures that are deductible for income tax purposes. The nature of the industry and the characteristics of a circuit and wire center are similar to a water utility property's pressure zone, and thus GOWC could consider the unit of property rationale is applicable by analogy. For water utilities, the term pressure zone refers to a subzone that has its own water intake facility and is able to provide a consistent range of hydraulic pressure. Thus, a pressure zone is a unit of property. For the replacement of water company network assets such as water mains, the 10% replacement percentage threshold of Rev. Proc. 2011-43 provides guidance as approved by the IRS for use in a similar industry.

TPR also allows a "catch up" deduction referred to as the Section 481(a) adjustment resulting from the retroactive application of the regulation to prior years as well as annual repair deductions for future years. GOWC could take advantage of this catch up provision of maintenance deductions related to 2013 and prior years to maximize its tax deductions for 2013 and prior years.

ORA sent Data Request SBH-001, which requested clarification regarding GOWC's TPR position. In its response to Data Request SBH-001, GOWC states that it does not believe TPR is applicable for its expenses based upon its understanding of the requirements for TPR. Tangible Property Regulation (TPR) allows GOWC to expense a large portion of its main and other plant replacements instead of capitalizing them for income tax purposes. Regarding the treatment of TPR for ratemaking, GOWC has not adopted TPR. Depending on the taxable income amount, GOWC could lower its income taxes substantially by adopting TPR, and, by normalizing the income tax benefits, GOWC could lower its rates without affecting GOWC's earnings. The implementation of TPR could also provide cash flow necessary for plant improvements. Most other Class A water utilities including California Water Service Company, San Jose Water Company, Golden State Water Company and California American Water Company have implemented TPR to take advantage of the tax benefits for the ratepayers and the utilities.

TPR is an optional tax rule. However, if GOWC decides to utilize the TPR deduction, the Commission should require GOWC to implement a memorandum account to capture the benefit for the ratepayers. GOWC should accumulate the FIT and CCFT savings in the TPR income tax memorandum account and file an Advice Letter (AL) within 30 days after GOWC completes its income tax filings to pass the revenue requirement reductions resulting from the increase in the deferred income taxes to ratepayers.

Deferred Income Taxes and Investment Tax

Deferred Income Taxes and Deferred Investment Tax Credits represent income taxes advanced by ratepayers, thus the accumulated deferred tax balances and deferred investment tax credits are deducted from rate base to offset the income tax paid in advance by the ratepayers. For ratemaking purposes, these deductions from rate base benefit ratepayers because they reduce the return on rate base portion of the revenue requirement.

GOWC's workpaper, WP-28 shows <u>zero balances</u> for the recorded Calendar Years (CY) 2013, 2014 and the projected year 2014/2015 for Deferred Income Tax, Deferred Investment Tax Credits and Deferred Income Taxes - Advances For Construction. However, the adopted numbers for years 2013/2014 and 2014/2015 are $1,896,085 and $2,018,378 for Deferred Income Taxes, $30,859, and $25,466 for Deferred Investment Tax credits, and $897,852 and $847,682 Deferred Taxes - Advances for Construction, respectively. For TY 2016/2017, GOWC's Deferred Income Tax balance is $177,012, despite a CY 2012 recorded amount of $1,724,093 and 2013/2014 adopted amount of $1,896,085.[193]

In response to ORA Data Request SBH-002, q.1 which requested that GOWC explain the differences between the adopted amounts and the recorded deferred income tax, GOWC states that:

> In 2013, Great Oaks filed an election to be taxed as an S Corporation. The election was temporary and was related to the reorganization that became the subject of A.14-04-035 and was approved in D.15-03-006. Effective January 1, 2016, Great Oaks is reverting to C Corporation status. For tax purposes, when the tax status of an entity changes from a C Corporation to an S Corporation, the deferred income taxes are removed from the balance sheet, as are investment tax credits. When the C Corporation status is reestablished, the deferred income taxes and investment tax credits are reinstated to the balance sheet.[194]

Although GOWC plans to revert back to C Corporation status in 2016, GOWC's application did not restore its previous deferred income tax balances in its FTY 2016/2017 rate base estimates. The deferred income taxes and the deferred investment tax credits represent income taxes advanced by ratepayers, thus the accumulated deferred tax balances and deferred investment tax credits are deducted from rate base to offset the income tax paid in advance by the ratepayers. Therefore, eliminating the deferred income taxes and the deferred investment tax credit would increase the rates in the future by increasing the amount of rate base to set rates, and would be detrimental to the ratepayers. The reorganization decision, D.15-03-006, does not direct GOWC to eliminate the deferred income tax balances, or the deferred investment tax credit balances. In

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[193] GOWC Exhibit E, tab WP-28, line 21.
[194] GOWC response to DR SBH-002, q. 1.

fact, the reorganization decision specifically requires that the reorganization must not adversely affect the public interest, but rather serve the public interest without any cost or detriment to ratepayers or water service provided by GOWC.[195]

After ORA's inquiry about the elimination of the deferred taxes, GOWC restored the deferred taxes and income tax credits in its August 17, 2015 update. Therefore, the final decision on GOWC's rate case should reflect the restored balances for the deferred taxes and income tax credits.

Extension of Bonus Depreciation

Prior to December 16, 2014, the most recent iteration of Section 168(k) of the IRC allowed a business to take 50% bonus depreciation for certain qualifying business property placed in service before January 1, 2014. The legislative goal for this policy was to incentivize businesses to increase capital investment and promote economic activities by allowing the business to claim a greater than normal portion of the capital investment as an immediate expense, thus reducing the business's current tax liability.

On December 16, 2014, Congress voted to retroactively extend the 50% bonus depreciation for qualifying property placed in service throughout 2014. Both GOWC and ORA used the recorded year-end 2014 tax depreciation as the basis for the tax depreciation and the deferred taxes.

Interest Expense Deduction

To calculate the interest expense deduction, GOWC used its rate base multiplied by the weighted cost of debt of 6.5%. The decision in GOWC's most recent cost of capital proceeding, D.12-07-009, adopted 7.5% as GOWC's weighted average cost of debt, making GOWC's use of 6.5% inconsistent with D.12-07-009. To be consistent D.12-07-009, ORA used 7.5% for the weighted average cost of debt. After ORA's inquiry about the discrepancy of the interest rate used to

[195] D.15-03-006, p. 4.

calculate the interest expenses for the income tax calculations, GOWC used 7.5% for its cost of debt in its 45-Day Update.[196]

Income Tax Rates

ORA and GOWC use a tax rate of 8.84% to calculate the CCFT. Similarly, ORA and GOWC both use a tax rate of 35% to calculate the federal income taxes. The remaining differences in TY 2016/2017 estimates for federal and state income taxes between ORA and GOWC are due to differences in estimates for revenues, expenses, and rate base.

D. CONCLUSION

ORA recommends that the Commission adopt its estimates for Income Tax expense as shown in the Summary of Earnings tables in Chapter 2 and adopt ORA's recommendations set forth in this chapter.

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[196] GOWC response to DR SBH-003, q. 1.

Chapter 8: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter sets forth ORA's analysis and recommendations regarding Taxes Other Than Income for GOWC for the FTY 2016/2017. Taxes Other Than Income consists of Ad Valorem tax (property tax) and payroll taxes. ORA and GOWC's estimate of Taxes Other Than Income for FTY 2016/2017 are included in the Summary of Earnings tables in Chapter 2.

B. SUMMARY OF RECOMMENDATIONS

ORA's estimates for Taxes Other Than Income are different from those estimated by GOWC. The differences are due primarily to the differences in estimated plant and payroll expenses.

C. DISCUSSION

Ad Valorem Taxes

GOWC's Property Taxes estimates are based on the estimated assessed value placed on GOWC's utility plant in service (UPIS) for FTY 2016/2017 and the recorded year 2014/2015 Ad Valorem tax rate of 1.26%. The estimates of the assessed values of plant in service for FTY 2016/2017 are based on 2014/2015 assessed values plus new plant additions and the expected increase in the assessed values of existing properties. The differences in estimated Ad Valorem Taxes between ORA and GOWC are attributable to the differences in estimates for UPIS.

Payroll Taxes

Payroll taxes consist of Federal Insurance Contribution Act (FICA), Federal Unemployment Insurance (FUI) and State Unemployment Insurance (SUI). Payroll taxes were estimated using estimated applicable FUI, and SUI tax rates, and each employee's forecasted payroll.

Differences between ORA and GOWC's estimates for the FTY 2016/2017 are attributable to the differences in payroll estimates.

FUI Taxes

GOWC's estimates for the FUI taxes for FTY 2016/2017 are based on the number of employees in the respective years multiplied by the estimated FUI tax rate of 0.60% per employee up to $6,000.

ORA uses the same methodology, and the differences in FUI tax estimates are due to the differences in the estimated payroll expenses

SUI Taxes

GOWC uses the same methodology in computing SUI taxes as in computing FUI taxes. Likewise, ORA uses the same methodology for SUI taxes as in FUI taxes.

The primary differences in SUI tax estimates are due to the differences in estimated payroll expenses.

FICA Taxes

There are two components of FICA taxes – FICA-Social Security (6.2% of gross earnings with maximum taxable earnings of $120,750 for TY 2016/2017) and FICA-Medicare (1.45% of gross earnings without limitation). The FICA tax rates have been consistent since 2003, with maximum taxable earnings on FICA-Social Security gradually increasing each year. In any given year since 2003, the maximum total FICA tax rates (i.e., for both FICA-Social Security and FICA-Medicare) have not exceeded 7.65% (6.2% for FICA-Social Security plus 1.45% for FICA-Medicare).

The primary differences in FICA tax estimates are due to the differences in estimated payroll expenses. Payroll expenses are discussed in the Payroll Expense chapter of ORA's report.

D. CONCLUSION

ORA recommends that the Commission adopt its estimates for GOWC's Taxes Other Than Income as shown in the Summary of Earnings tables in Chapter 2.

Chapter 9: UTILITY PLANT IN SERVICE (CAPITAL ADDITIONS)

A. INTRODUCTION

This chapter presents ORA's analyses and recommendations for GOWC's proposed Plant in Service additions in A.15-07-001. ORA reviewed and analyzed GOWC's application, capital project justifications, workpapers, estimating methods, and responses to ORA's data requests. ORA also conducted a field investigation of major proposed plant additions. ORA's findings are reflected in its capital budgets recommendation and include cost estimates for 2015/2016, FTY 2016/2017, and EY 2017/2018.

B. SUMMARY OF RECOMMENDATIONS

1) Adopt ORA's contingency calculation because ORA's methodology more accurately reflects a 10% contingency rate.
2) Approve GOWC's requests for the Santa Teresa Area Pressure Sustaining Valve and for the Santa Teresa Area Booster Station.
3) Deny GOWC's request for three new wells (well 23A, well 24A, well 25).
4) Deny GOWC's request for the Coyote Valley Storage Tank due to existing sufficient water supply and the inclusion of additional land that is not to be used and useful during this GRC cycle.
5) Adopt ORA's adjusted budget for the installation of 10 chlorination ports instead of for the 12 requested by GOWC.

C. DISCUSSION

GOWC estimates a plant in service addition of $1,078,152 in 2015/2016, $3,616,786 in FTY 2016/2017, and $2,056,132 in escalation year 2017/2018. The recorded five-year average plant in service addition was $1,018,261 in Calendar Year (CY) 2010-2014. GOWC's plant in service addition request is 106% in 2015/2016, 355% in 2016/2017, and 202% in 2017/2018 of the recorded five- year average of plant in service additions.

ORA is recommending plant in service additions of $1,078,152 in 2015/2016, $1,397,574 in FTY 2016/2017, and $707,893 in escalation year 2017/2018. The primary difference between GOWC's request and ORA's recommendation are due to contingency calculation and disallowance of several capital projects in the Coyote Valley area proposed by GOWC in this GRC. **Table 9-A** below presents a summary of the capital budgets in GOWC's requests in its application compared to ORA's recommendations:

Table 9-A: Capital Budget Comparison Summary

	2015/2016		2016/2017		2017/2018	
Project/Account Name	GOWC	ORA	GOWC	ORA	GOWC	ORA
Source of Supply						
Reservoir and Tanks	$55,884	$55,884				
Well 23A			$484,000	$0		
Well 24A			$396,000	$0		
Well 25			$798,500	$0		
Water Treatment Plant						
Chlorine Ports at Well Sites			$70,000	$58,300		
Transmission and Distribution						
Transmission and Distribution	$401,568	$401,568				
Omira Dr. to Lean Ave. Tie-In			$35,800	$35,600		
Brookmere Dr. to Manila Dr. Tie-In			$100,100	$99,400		
Via Romero to Via Barranca Tie-In			$68,700	$68,000		
Service Bypass for Booster Pump			$34,200	$33,900		
Country View Dr. Main Extension			$334,000	$0		
Rahway Dr. Main Relocation			$324,800	$323,200		
Santa Teresa Pressure Sustaining Valve					$86,400	$85,600
Santa Teresa Booster Station					$167,800	$165,900
Coyote Valley Storage Tank					$1,123,000	$0
Valve Installation on Hassinger Rd.			$14,700	$14,600		
Fire Mains	$890	$890				
Service Installations	$24,796	$24,796	$30,000	$30,000	$30,000	$30,000
Meter Replacement	$40,000	$40,000	$40,000	$40,000	$40,000	$40,000
Valve Replacement	$0	$0	$0	$0	$0	$0
Hydrant Replacement	$8,302	$8,302	$40,000	$40,000	$40,000	$40,000
General Plant Additions						
Comp./Office Equip.	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Communication Equip. - Tel. System			$8,594	$8,594		
SCADA System Repla. and Upgrade			$232,700	$229,700		
Hydraulic Modeling Software			$51,000	$50,600		
Trans. Equip. - Replace. Serv. Veh.	$69,000	$69,000	$48,000	$48,000	$24,000	$24,000
Power Operated Equipment	$2,722	$2,722				
Tool, Shop, & Garage Equipment	$1,331	$1,331				
Plant Sub-Total	**$614,493**	**$614,493**	**$3,121,094**	**$1,089,894**	**$1,521,200**	**$395,500**
Capitalized Labor						
Capitalized Direct Labor	$90,171	$90,171	$95,171	$0	$97,103	$0
Cap. 10.6% Management Labor Alloc.	$229,911	$229,911	$245,484	$216,516	$250,468	$220,413
Cap. Fringe Benefits Alloc.	$143,577	$143,577	$155,036	$91,164	$187,361	$91,980
Cap. Labor and Benefits Total	**$463,659**	**$463,659**	**$495,691**	**$307,680**	**$534,932**	**$312,393**
Total Plant in Service Addition	**$1,078,152**	**$1,078,152**	**$3,616,785**	**$1,397,574**	**$2,056,132**	**$707,893**
				3-YEAR Total :	**$6,751,069**	**$3,183,619**
				3-YEAR Total Difference, GOWC > ORA :		**$3,567,450**
				3-YEAR, ORA's Recommendation as % of GOWC's Request :		**47%**

In the following sections, ORA presents its recommended adjustments to GOWC's budget and specific project requests.

1. Contingency

GOWC states that it applies a contingency rate of approximately 10% on the total project cost for all its specific project requests.[197] However, ORA noticed in many cases GOWC's contingency methodology results in a contingency amount greater than 10%. To illustrate GOWC's calculations, the Santa Teresa Booster Station has a total project cost of $167,800, the project cost estimate (including labor, equipment, property, engineering, and permit) is $150,800, while the contingency is $17,000, which is 11.2% of the project cost estimate.[198]

ORA disagrees with GOWC's calculation because it results in an improperly inflated plant amount. Instead, ORA recommends a 10% contingency rate be applied consistently on the estimated project cost before the application of any contingency amount. Under ORA's calculation, a 10% contingency on the project cost estimate of $150,800 yields a contingency of $15,080 with a total project cost of $165,900, which is $1.9k less than GOWC's cost for the same project. ORA's method of contingency calculation is reflected in ORA's recommended specific project budget estimates for all projects with contingency.

ORA recommends that the Commission reject GOWC's contingency calculations and adopt ORA's contingency calculations because ORA's methodology more accurately reflects a 10% contingency rate.

2. Coyote Valley Area Project Requests

In this GRC, GOWC proposes to construct three wells, one tank, one booster station, and one pressure sustaining valve related to the Coyote Valley Area located at the southeast portion of its

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[197] GOWC response to DR AL7-008, q. 1.
[198] GOWC Exhibit G, p. 10.

water system.[199] Out of these six projects, ORA recommends that the Commission approve two of the projects: the Santa Teresa Pressure Sustaining Valve and the Santa Teresa Booster Station. The Commission should reject four of the projects: well 23A, well 24A, well 25, and the Coyote Valley Storage Tank.

Currently GOWC's source of supply comes from 19 wells. Sixteen wells are located in the Santa Teresa Sub-Basin in the Northwest portion of the system, and three are located in the Coyote Valley Sub-Basin in the Southeast portion of the system.[200] Both of these sub-basins are part of the greater Santa Clara groundwater basin regulated by the Santa Clara Valley Water District (SCVWD).[201] The Santa Teresa Sub-Basin area is where the majority of GOWC's customers and service connections are located. For the purpose of this chapter this area shall be identified as the Santa Teresa Area. The Coyote Valley Sub-Basin area currently has 37 total service connections and shall be identified as the Coyote Valley Area.[202]

GOWC's system currently does not have separate pressure zones for the two areas but the Coyote Valley Area is at a hydraulic grade line (HGL) of more than 400 ft. while the Santa Teresa Area is at a HGL of approximately 320 ft.[203] Currently, excess water supply from the Coyote Valley Area flows freely to the lower HGL Santa Teresa Area.[204]

In this GRC, GOWC proposes the Santa Teresa Pressure Sustaining Valve project and the Santa Teresa Booster Station project to construct a pressure sustaining valve and booster station between the Santa Teresa Area and the Coyote Valley Area along an existing 20-inch ductile

[199] GOWC Exhibit G (Capital Projects and Justifications), pp. 1-3, and pp. 9-11.
[200] GOWC Exhibit 8-3 (2015 GOWC Infrastructure and Facilities Master Plan), p. 4.
[201] SCVWD's 2013 Annual Groundwater Report, p. 1: SCVWD's groundwater management responsibilities includes recharge groundwater basins, conserve, manage and store water for beneficial and useful purposes, increase water supply, protect surface water and groundwater from contamination, prevent waste or diminution of the District's water supply, and do any and every lawful act necessary to ensure sufficient water is available for present and future beneficial uses.
[202] GOWC response to DR AL7-006, q. 8.
[203] GOWC response to DR AL7-006, q. 10. (c) and (d).
[204] GOWC response to DR AL7-006, q. 11. e.

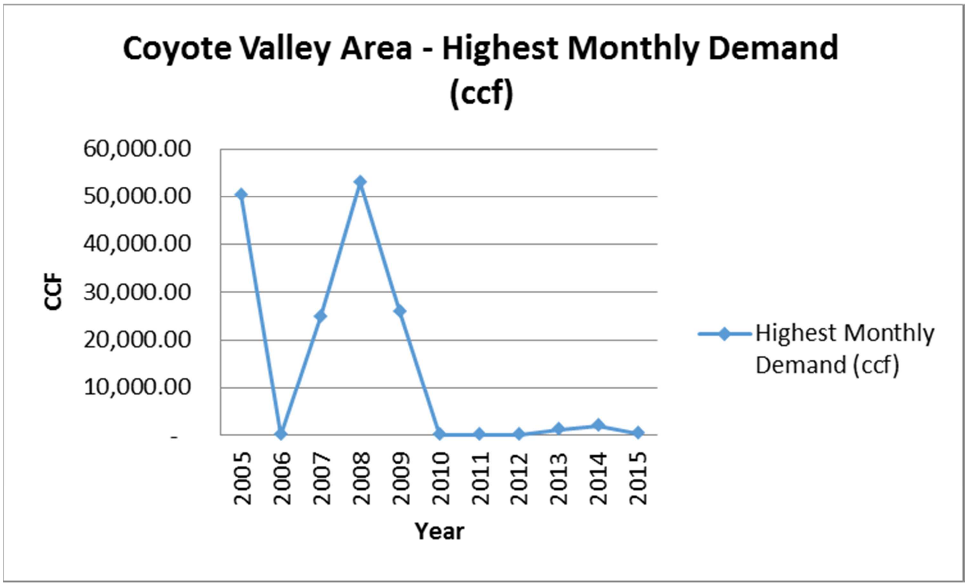
iron transmission main that runs down Santa Teresa Boulevard.[205] GOWC states that installing the pressure sustaining valve can isolate the two areas with different HGL, provide a higher and more even pressure for the Coyote Valley Area,[206] and surplus water in the Coyote Valley Area can be released to the lower pressure zone Santa Teresa Area.[207] In the proposed Santa Teresa Booster Station project, GOWC plans to install one to three pumps totaling 3,000 to 4,000 gallons per minute (gpm).[208] Installing the booster station will allow the system to pump water from the Santa Teresa Area into the higher HGL Coyote Valley Area if demand in the Coyote Valley Area is greater than what the wells can supply.[209]

Coyote Valley Area System Demand

Currently there are only 37 connections in the Coyote Valley Area and demand has dropped off significantly from the highest monthly demand recorded in the past 10 years (2005 - 2015 (data available through June 2015)). The highest monthly demand occurred in May 2008 at 53,026 ccf [Average Daily Demand (ADD) = 889 gpm, Maximum Daily Demand (MDD) = 1,333 gpm, Peak Hour Demand (PHD) = 1,999 gpm].[210] In 2014 the highest monthly demand recorded for the year occurred in June at 2,064 ccf (ADD = 36 gpm, MDD = 54 gpm, PHD = 81 gpm).[211] **Figure 1** illustrates the yearly trend of the highest monthly demand for the past 10 years in the Coyote Valley Area:

[205] GOWC Exhibit G, pp. 9-10.
[206] GOWC Exhibit G, p. 9.
[207] GOWC response to DR AL7-006, q. 11. c.
[208] GOWC response to DR AL7-006, q. 11. d.
[209] GOWC response to DR AL7-006, q. 11. b.
[210] GOWC response to DR AL7-006, q. 8, Attachment "GOWC Response to ORA Data Request AL7-006(8)."
[211] Ibid.

Figure 1 – Coyote Valley Area-Highest Monthly Demand per Year (2005- 2015)



<u>Santa Teresa Area System Demand</u>

For the Santa Teresa Area, the highest ADD of the past 10 years (2005-2014) occurred in 2007 at 7,426 gpm.[212] Using the procedures from Title 22 of the California Code of Regulations (CCR) ORA calculates the Santa Teresa Area MDD at 11,139 gpm,[213] and PHD at 16,709 gpm.[214]

<u>Coyote Valley Area System Current Source of Supply</u>

Static water level data from GOWC shows groundwater levels have dropped since January 2014 in the Coyote Valley Sub-Basin where existing wells 22, 23, and 24 are located.[215] GOWC

[212] GOWC response to AL7-001, q. 1, Attachment "GOWC Response to ORA Data Request AL7-001 (1)."; 7,842 gpm (System 2007 ADD) – 416 gpm (Coyote Valley Area 2007 ADD) = 7,426 (Santa Teresa 2007 ADD).
[213] MDD = ADD x 1.5 = 7,426 gpm x 1.5 = 11,139 gpm.
[214] PHD = MDD x 1.5 = 11,139 gpm x 1.5 = 16,708 gpm.
[215] GOWC Exhibit G, p. 1.

states the groundwater aquifers are naturally and artificially recharged and attributes the drop of groundwater levels to SCVWD's failure to meaningfully artificially recharge the Coyote Valley Sub-Basin and divert the recharge water to SCVWD's water treatment plant.[216]

In 2013 SCVWD recharged the Santa Clara Valley Coyote Valley Sub-Basin with 13,000 AF of surface water and natural recharge was at 500 AF, as a result the groundwater level was only 1% lower than the 2008-2012 five year average.[217] SCVWD's 2013 Annual Groundwater Report had warned that "[g]roundwater levels and storage will continue to decline as dry conditions persist and little surface water is available for managed recharge."[218] In 2014 SCVWD recharged the Coyote Valley Sub-Basin with 7,000 AF of water, or 54% of the five year average, and the lowest water level for the year was approximately 37 feet, or 15 feet lower than the 1987 Dry Year level of 22 feet.[219] As of end of August 2015 SCVWD recharged the Coyote Valley Sub-Basin with 4,300 AF of water, and the August groundwater level is one foot lower than the August 2014 recorded level of 37 feet.[220] Judging from the groundwater replenishment rates of 2014 and 2015, as long as the drought persists SCVWD may not have sufficient surface water to artificially replenish the Coyote Valley Sub-Basin at the same rate water is withdrawn.

GOWC's Coyote Valley Area has three existing wells: 22, 23, and 24,[221] and no existing storage tank. Well 22 was constructed in 2005 and has a capacity of 95 gpm, but GOWC claims the top perforation in its casing is at 90 feet below ground and the pumping water level is at 93 feet below ground so the casing's top perforation is exposed and the well draws air.[222] Well 23 was

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[216] GOWC Exhibit G, p. 1.
[217] http://www.valleywater.org/services/GroundwaterQuality.aspx; SCVWD 2013 Annual Groundwater Report, p. iii, Table ES-1.
[218] Id, p. v.
[219] http://www.valleywater.org/Services/GroundwaterMonitoring.aspx; SCVWD January 2015 Groundwater Condition Report, p. 1 and 8.
[220] Ibid.
[221] GOWC response to DR AL7-006, q. 1, Attachment "GOWC Response to ORA Data Request AL7-006(1)."
[222] Ibid.

also constructed in 2005 and has a capacity of 850 gpm, with its casing's top perforation at 110 feet below ground and pumping water level at 109.5 feet, according to GOWC it too draws air.[223] Well 24 was constructed in 2008 and has a capacity of 1,250 gpm, with its casing's top perforation at 150 feet below ground and pumping water level at 95 feet.[224] In summary, according to GOWC, wells 23 and 24 together are capable of producing 2,100 gpm of water and well 22 can provide an additional 95 gpm depending on the water level.[225] With GOWC's proposed Santa Teresa Booster Station project, the Coyote Valley Area could be supplied with an additional 3,000 gpm to 4,000 gpm if needed.[226]

It is possible that wells 22 and 23 will improve performance with GOWC's well management strategies. Casing perforations are permanent to the well but there are ways to manage the air being drawn in wells 22 and 23. For example, during ORA's site visit to GOWC, its CEO stated that inflatable packing can be used to seal the top section of the casing perforation of well 23 since there are multiple sections of perforation that the well can still draw water from.[227] Additionally, GOWC has made several attempts in the past to increase the yield of well 22 and stated that it has noticed that groundwater levels may rise after a period of time of not using the well.[228]

Santa Teresa Area System Current Source of Supply

There are currently 16 wells located in the Santa Teresa Sub-Basin. Of the 16 wells, GOWC states there are 12 active wells with a combined source of supply capacity of 9,395 gpm.[229] The

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[223] Ibid.
[224] Ibid.
[225] GOWC response to DR AL7-006, q. 1, Attachment "GOWC Response to ORA Data Request AL7-006(1)."
[226] GOWC response to DR AL7-006, q. 11. d.
[227] ORA site visit to GOWC system on August 4th 2015.
[228] Ibid.
[229] GOWC response to DR AL7-006, q.1, Attachment "GOWC Response to ORA Data Request AL7-006(1)."

remaining four wells are in "Standby" status with a standby capacity of 5,050 gpm.[230] The total Santa Teresa Area active source capacity combined with standby capacity is 14,445 gpm.

The Santa Teresa Area currently has six storage tanks with a total combined capacity of 6.22 million gallons.[231] Approved as an advice letter project in the 2013 GRC, the Country View Tank is expected to add another 100,000 gallons to the system storage capacity.

Coyote Valley Area Water Capacity Versus Demand

With a source of supply capacity of 2,100 gpm from wells 23 and 24 and 2014 MDD of 54 gpm, there will be an excess source of supply capacity in the Coyote Valley Area of 2,046 gpm. The system source of supply in the Coyote Valley Area is more than adequate even if the MDD and PHD reverts back to 2008 levels of 1,333 gpm and 1,999 gpm, respectively. In addition, well 22 may produce 95 gpm of water depending on the sub-basin water level.

The proposed Santa Teresa Booster Station will provide an additional 3,000 to 4,000 gpm redundancy in case any one of the wells in the Coyote Valley Area needs to be taken offline for repairs and to meet any fire flow demand in the area.

Santa Teresa Area Water Capacity Versus Demand

GOWC's current system is capable of meeting the needs of the Santa Teresa Area. The MDD for the area in the past 10 years occurred in 2007 at 11,139 gpm, and the total combined source of supply capacity is 14,445 gpm (9,395 gpm from 12 active wells and 5,050 gpm from four standby wells).[232] Furthermore, in both the existing system setup and future system configuration (with the Santa Teresa booster station and pressure sustaining valve) excess water from the Coyote Valley Area is allowed to flow into the Santa Teresa Area. Therefore the existing active source of supply, excluding all standby wells and well 22, of 11,441 gpm from

[230] Ibid.
[231] GOWC response to DR AL7-006, q. 2.
[232] GOWC response to DR AL7-006, q.1, Attachment "GOWC Response to ORA Data Request AL7-006(1)."

both areas (9,395 gpm from Santa Teresa Area Active Wells + 2,046 gpm from Coyote Valley wells 23, and 24 = 11,441 gpm) can meet the 2007 MDD of 11,139 gpm, the highest MDD of the past 10 years.

The PHD of the Santa Teresa Area can be easily met with the existing 6.22 million gallons of tank capacity. The peak PHD for the Santa Teresa Area of the past 10 years (2005-2014) is 16,709 gpm. The active source capacity for the area (excluding wells 22, 23, and 24 from the Coyote Valley Area) is 9,395 gpm, therefore the residual demand from the system is 1,755,120 gallons (16,709 gpm – 9,395 gpm = 7,314 gpm; 7,314 gpm x 4 hours PHD x 60 mins/hr = 1,755,360 gallons).

3. Wells 23A and 24A (GOWC Proposed Additions: $484,000 and $396,000)

GOWC requests a budget of $484,000 in 2016/2017 to construct well 23A adjacent to the existing well 23, and $396,000 in 2016/2017 to construct well 24A, adjacent to the existing well 24.[233] GOWC states this project is needed: "[d]ue to the lowering of the water table, the pumping drawdown causes air to be drawn into the water because the tops of the well casing perforations are above the pumping water levels."[234]

GOWC acknowledges that water levels will continue to decrease "absent unusually and unexpectedly high natural recharge,"[235] and that there is no guarantee that the water levels in the new wells will remain sufficient in the future.[236] Considering that well 23 was installed in 2005 and well 24 was installed in 2008 (a relatively young age for wells), it is possible the water levels will continue to decrease, rendering any new wells ineffective within 10 years again.[237] More importantly, as shown in the above analysis, there already exists sufficient water supply in the

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[233] GOWC Exhibit G, p. 2.
[234] GOWC Exhibit G, p. 1.
[235] GOWC response to DR AL7-002, q. 7.
[236] GOWC response to ORA Data Request AL7-002, Question 9.
[237] GOWC response to ORA Data Request AL7-002, Question 3, Attachment "GOWC Response to ORA Data Request AL7-002(3)"

system. As a result, ORA recommends that the Commission deny GOWC's request for wells 23A and 24A.

4. Well 25 (GOWC Proposed Addition: $798,500)

GOWC is proposing this $798,500 project in 2016/2017 to construct well 25 as a replacement for well 22. GOWC states that well 22 is "suffering the same problems [as wells 23 and 24] stemming from the District's discontinuance of its normal artificial recharge operations in the Coyote Creek area…" and has declining production since it was put into service in May 2005.[238] ORA recommends that the Commission deny GOWC's request for well 25 project because of sufficient existing water supply in the system as discussed in the in the analysis above.

5. Coyote Valley Storage Tank (GOWC Proposed Addition: $1,123,000)

GOWC is requesting to add $1,123,000 to plant additions in 2017/2018 to construct a 500,000 gallon storage tank in the Coyote Valley service area and acquire a parcel of land large enough to hold the tank and possibly a second, similar tank in the future. GOWC states that a "storage tank built on the southwest foothills will provide constant pressure and more dependable fire protection for all customers in this portion of the Company's service area."[239]

ORA recommends that the Commission deny GOWC's request for this storage tank project based on sufficient system water supply within the Coyote Valley Area as discussed above and because GOWC's request involves purchasing land for a future tank that will not be used and useful in this GRC cycle.

6. Country View Drive Main Extension (GOWC Proposed Addition: $334,000)

GOWC requests $334,000 in 2016/2017 to abandon in place an 8-inch main running down a hill along an easement between two private parcels of land and construct a new 1,300 foot, 8-inch

[238] GOWC Exhibit G, p. 2.
[239] GOWC Exhibit G, p. 10.

main extension along Country View Drive.[240] GOWC is currently using pressure reducers at the main and states ductile iron mains in the area installed by the previous owner have already experienced several leaks.[241] GOWC also states that there is a potential for landslides resulting in property damage that will be both difficult and expensive to repair.[242]

ORA recommends that the Commission reject this project based on the leak record of the existing main segment and the location of this main.

ORA requested leak records for this main extension project specifically and GOWC returned eight leak records dating back to 2001 of various leaks found in the surrounding area but none of the leaks are specific to the main segment requesting to be replaced.[243] This is a strong indicator that the main segment proposed is not at the end of its useful life.

GOWC states that leaks on the existing main can potentially lead to landslides and property damage.[244] On August 4, 2015, ORA conducted a site visit at the location of the existing 8-inch main. Although the main indeed runs down a hill, existing infrastructures such as pressure reducer are already in place to minimize the effect of the high pressured water due to the elevation drop of the main. In addition, as indicated in the pictures below taken at the site, the land downstream of the existing pipe does not currently have any land improvements in close proximity to the main. In the unlikely event that breakage occurs before any signs of leak can be detected at the main segment of concern, property damage and potential liability to GOWC appears to be minimal.

[240] GOWC Exhibit G, p. 7.
[241] Ibid.
[242] Ibid.
[243] GOWC response to ORA Data Request AL7-004, Question 5.
[244] GOWC Exhibit G, p. 7.

The following image was taken on August 4, 2015 of the land parcel downstream of the existing 8-inch main requested to be abandoned in place. The area shown in **Figure 2** is presumably where GOWC asserts property damage may occur if the existing main breaks.

Figure 2 – Location downstream of the proposed main to abandon in place.

Figure 3 – Location of the existing 8-inch main requested to be abandoned in place.

The road shown in the picture above leads to sparsely occupied land similar to that seen in **Figure 2** and to approximately ten private residences up the hill. ORA recommends that the Commission reject this project request based on the leak record and the lack of surrounding improvements that the existing pipe may pose a risk to.

7. Chlorine Ports at Well Sites (GOWC Proposed Addition: $70,000)

GOWC is requesting $70,000 in 2016/2017 to install 12 chlorine ports at all well sites drilled and completed in the past sixteen years. GOWC states that the State Water Resources Control Board (SWRCB) approved GOWC's emergency chlorination plan and that seven of the wells already have chlorination ports.[245] This project will allow the GOWC to chlorinate its water supply in the event of contamination such as bacteria level exceedance.[246,247]

ORA's discovery and cross referencing with GOWC's response to the SWRCB's Department of Drinking Water for GOWC's March 2015 MCL violation, shows that two of the 12 sites proposed already have chlorination ports (wells 2 and 8).[248,249]

ORA recommends that the Commission approve this project at the adjusted budget for the installation of 10 chlorination ports instead of the 12 requested by GOWC. The following is a project cost recalculation based on the 10 chlorination ports:

Table 9-B: ORA Forecasted Costs for Chlorine Ports

Labor and Equipment (10 sites at $5,000 per site)	$50,000
Engineering	$3,000
Contingency	$5,300
Total	$58,300

[245] GOWC Exhibit G, p. 3.
[246] GOWC response to DR AL7-010, q. 5 (b) and (c).
[247] GOWC response to DR AL7-010, q. 6. a.
[248] GOWC Exhibit 3-6, GOWC letter to DDW "Citation Number 02-17-15C-014 Corrected Action Plan," dated May 12, 2015.
[249] GOWC response to DR AL7-010, q. 6. a.

D. CONCLUSION

ORA recommends that the Commission adopt ORA's adjustments presented above since they are consistent with the Commission's Water Action Plan principles for water utilities providing safe, high quality water, reliable water supplies, and efficient use of water at reasonable rates.

Chapter 10: RATE BASE

A. INTRODUCTION

This chapter sets forth ORA's analyses and recommendations regarding rate base for GOWC. Rate base is a highly significant factor in the ratemaking process because it represents the value of property upon which GOWC is permitted the opportunity to earn an authorized rate of return. Rate base generally represents the value of property used by GOWC in providing water service to its customers. For ratemaking purposes, rate base includes the value of prudent capital investment, working cash, and materials and supplies, with reductions for accumulated depreciation reserves, contributions in aid of construction (CIAC), customer advances for construction (AFC), accumulated deferred income taxes (ADFIT), and deferred investment tax credit (ITC).

B. SUMMARY OF RECOMMENDATIONS

1) The Commission should adopt ORA's methodology for forecasting GOWC's rate base. ORA's methodology uses the average of Beginning of Year and End of Year plant in service (and other rate base items) to forecast GOWC's rate base.
2) The Commission should adopt ORA's adjustments to rate base to appropriately account for GOWC's Working Cash, Depreciation Reserve, ADFIT and ITC.

C. DISCUSSION

Rate Base Calculation

GOWC's ratemaking Test Year spans from July 1st of the first calendar year to June 30th of the second calendar year and the first Fiscal Test Year of GOWC's current rate case cycle is FTY 2016/2017. GOWC's methodology for calculating FTY 2016/2017 rate base begins with its End of Year (EOY) plant in service balance for 2016/2017 and reduces this balance by EOY balances for 2016/2017 in Accumulated Depreciation Reserve, CIAC, and AFC.[250] ORA disagrees with GOWC's methodology because the use of EOY balances improperly allows GOWC to earn a return on plant in service that has not necessarily been placed in service. Instead, rate base should be calculated using the weighted averages of its components, not the EOY balances.

For example, GOWC's FTY 2016/2017 beginning of year (BOY) plant in service is $43,076,288. Net requested plant additions are $3,590,890,[251] which results in EOY 2016/2017 plant in service balance of $46,667,179. GOWC's rate base methodology uses EOY $46,667,179 plant in service to begin the 2016/2017 rate base calculation and assumes that GOWC's $3,590,890 net plant additions in 2016/2017 were all placed in service on the first day of the Test Year.[252] GOWC's methodology should be disregarded because it improperly inflates rate base by using EOY plant balances to earn a return for the entire year, regardless of when the plant addition was actually placed in service. To clarify, GOWC's methodology earns a full annual return on a plant item placed in service on the last day of the year.

Instead, the Commission should require GOWC to use a simplified average to calculate rate base. ORA recommends taking the average of BOY plant in service and EOY plant in service to forecast GOWC's rate base. To be consistent, the Commission should also require GOWC to apply this same averaging methodology for the other rate base items that GOWC used EOY balances for.[253] Using the above example, ORA's method would use $44,871,734 plant balance to begin the 2016/2017 rate base calculation.[254] ORA's methodology is more appropriate than

[250] GOWC also makes rate base additions for Working Cash and CWIP.
[251] $3,616,786 requested additions minus $25,896 retirements.
[252] July 1, 2016.
[253] GOWC's Accumulated Depreciation Reserve, CIAC and AFC should be averaged for consistency.
[254] ((BOY $43,076,288 + EOY $46,667,179) /2)= $44,871,734.

GOWC's because it is consistent with Commission practice,[255] it evenly distributes plant additions (and other rate base components) throughout the FTY, and it does not assume that all plant additions are placed in service on the first day of the FTY.

Accumulated Deferred Federal Income Tax and Investment Tax Credit

GOWC's application workpapers originally removed most of the ADFIT and ITC from its rate base calculation. Because ADFIT and ITC reduce the rate base amount, GOWC's removal of a significant amount of ADFIT improperly inflated rate base and was a detriment to GOWC's ratepayers. As discussed in ORA's Chapter Seven on Income Taxes, ORA recommends including the ADFIT and ITC corrected amounts that appear in GOWC's 45-day update workpapers.[256]

Working Cash

Working cash allowance is an estimate representing the funds provided by the company for its day-to-day operational cash needs while covering the timing difference between utility cash expenditures and cash collections. For ratemaking purposes, a positive working cash allowance is an addition to rate base, allowing the utility to earn a return on the amount.

The method of determining the working cash allowance varies with the size, nature and the operations of the utility for practical reasons. The Commission's Standard Practice U-16 for the determination of working cash allowance requires that the detailed method, also called a "lead-lag" study, must be used for major utilities. However, because it requires substantial work to develop a detailed lead-lag working cash analysis, Standard Practice U-16 allows small utilities

[255] The following recent Commission Decisions use an average of plant when adopting rate base: Golden State Water Company GRC, D.13-05-011, starting at p. 13, Park Water GRC D.13-09-005, p. 58, Cal Water GRC D.14-08-011, settlement starting at p. 445, Cal Am GRC, D.15-04-007, starting at p. 551.

[256] GOWC's A.15-07-001 Exhibit E workpapers originally forecasted $177,012 ADFIT (reduction to rate base) while GOWC's 45-day update workpapers correct ADFIT to $2,265,597(reduction to rate base).

to use the simplified method. Because GOWC is the smallest Class A water utility with approximately 20,500 customers, GOWC uses the simplified method to estimate the working cash allowance. ORA considers it acceptable for GOWC to use the simplified method for its working cash calculation.

GOWC's estimated working cash allowance for Test Year 2016/2017 is $2,300,150. ORA used the same simplified method for its working cash calculation. The difference between ORA's and GOWC's total working cash allowance is shown on the Results of Operations Tables and is due to the differences in operational and administrative expenses which are discussed in Chapters 4 and 5 of this report.

Accumulated Depreciation Reserve

As mentioned in the introduction to this chapter, the accumulated depreciation reserve is subtracted from the plant balance when calculating rate base. Differences between GOWC's and ORA's accumulated depreciation reserve estimate is primarily due to ORA's recommended plant additions and balances. See Plant in Service Chapter Nine of this report.

D. CONCLUSION

ORA recommends that the Commission adopt ORA's methodology for the rate base calculation because it evenly distributes plant additions and other components throughout the TY. The overall difference between ORA's and GOWC's rate base estimates is due to the difference in the rate base calculation discussed in this chapter as well as differences in recommended plant additions and deferred income tax estimates as presented in Chapter 9 and Chapter 7, respectively.

Chapter 11: CUSTOMER SERVICE

A. INTRODUCTION

This chapter presents the results of ORA's analysis and recommendations of GOWC's customer service during proceeding A.15-07-001. ORA reviewed GOWC's customer service testimony, GOWC's responses to ORA data requests, and information obtained from the Commission's Consumer Affairs Branch (CAB). ORA also performed an on-site visual inspection of GOWC's customer service department and reviewed GOWC's compliance with Commission General Order (GO) 103-A, in addition to GOWC's compliance with past Commission decisions.

B. SUMMARY OF RECOMMENDATIONS

1) The Commission should require GOWC to comply with Tariff Rule No. 5 and include language that is missing from its customer bills and Discontinuance of Service notices.
2) The Commission should find that GOWC meets the performance standard set forth in General Order 103-A for customer complaints filed with the Consumer Affairs Branch.

C. DISCUSSION

Great Oaks Water Company is located at 20 Great Oaks Boulevard in San Jose, CA and provides water service to approximately 20,500 customers, the vast majority of which are residential customers. Residential customers are on a bi-monthly billing cycle, while non-residential customers on billed at the end of each month. GOWC's customer service mainly consists of a walk-in counter and a call center, both of which are housed at the main office in San Jose. GOWC's customer service staff consists of a customer service manager, a customer service supervisor, and two customer service representatives in order to serve its 20,500 customers.

GOWC's customer service representatives provide bilingual service in English and Spanish, and are available Monday through Friday from 8:00 a.m. to 5:00 p.m. For customer service needs that arise after-hours, GOWC employs an answering service that notifies an on-call GOWC service representative of the customer's information in order for GOWC to respond.

Improvements to GOWC's billing and database software that were authorized by the Commission and implemented by GOWC over the past two GRCs have enhanced access to customer account information. Enhancements include a more efficient and granular retrieval of historical data related to water consumption, billing data, and payment records. Customers can now access their account information either by calling GOWC's customer service number directly, or by submitting a request through GOWC's website. According to GOWC, customer website requests have a typical turnaround time of an hour.[257] In addition to account information, GOWC's customers can use the website request format for any other inquiries, or they can call the customer service number directly. In addition, GOWC's enhanced billing system now accommodates a more flexible rate design accommodating increasing block rates, whereas prior to the 2009 GRC, this feature was unavailable.

ORA also reviewed the bill payment methods that are available to GOWC's customers. Great Oaks' customers can pay their bills by mail (directly or through their banks), in person at the walk-in counter, or by using the automated-payment program SurePay. As of December 31, 2014, Great Oaks' customer enrollment in SurePay stood at 4,485, or approximately 22% of GOWC's 20,500 service connections. Although SurePay allows customers to take advantage of automated-payment, GOWC's customers still receive a paper bill and therefore do not realize

[257] GOWC response to DR MC8-005, q. 1.b.

any postage savings. According to GOWC, the company does not currently have the infrastructure to implement a paperless billing option for its customers.[258]

According to GOWC, the company is also in the process of implementing customer debit/credit card payment options pursuant to the authority of Commission Resolution W-4979 (Resolution), dated October 16, 2014.[259] Among other items, the Resolution's findings include the following parameters for GOWC's implementation of this program:

- It is reasonable for customers to pay a per transaction fee of $1.95 to pay their water bills using credit or debit cards or ACH/electronic checks.
- It is reasonable for customers to pay a convenience fee of $2.95 per transaction for Customer Service Representative-assisted payments of water bills.
- Customers who do not elect to use the Proposed Payment Options will not be charged for any costs related to providing this service.
- FISERV's proposed contract requires a payment of $1,000 for program implementation and setup and minimum of $700 per month in revenues for offering the services.
- Great Oaks' shareholders, upon approval of its proposal, will pay the one time implementation fees and makeup any shortfall in the monthly revenues generated from the service.
- It is reasonable for Great Oaks to track all costs associated with the proposed offering in a memorandum account. Great Oaks shall file a memorandum advice letter within 30 days of Resolution W-4979.

ORA observed that a memorandum account related to the Resolution was not listed in GOWC's list of its memorandum accounts.[260] GOWC explained that the provider company mentioned in the Resolution, FISERV, withdrew its proposal and would not honor the prices stated in the Resolution. However, on September 30, 2015, GOWC filed AL 247-W stating that it "has now

[258] GOWC response to DR MC8-005, q. 3.b.
[259] GOWC response to DR MC8-005, q. 4.
[260] GOWC response to DR MC8-001, q. 1.a.

reached an agreement with a different third party vendor willing to provide the service under the same terms as approved by the Commission in Resolution W-4979.[261] As a result, ORA plans to review any items implemented as a result of AL 247-W in GOWC's next GRC.

ORA also reviewed GOWC's customer billing and late payment and disconnection policies and procedures. In accordance with GOWC's Tariff Rule No. 5, GOWC customer bills state they will be considered past-due if not received within 19 days of the billing date. However, GOWC's Tariff Rule No.5.B also states each bill will contain the following language:

> Should the amount of this bill be questioned, an explanation should be requested from the utility. If a satisfactory explanation to the customer is not made by the utility and the bill is still questioned, the customer may deposit with the California Public Utilities Commission, Consumer Affairs Branch, 505 Van Ness Avenue, Room 2003, San Francisco, California 94102, telephone numbers are (public) (415) 703-1170 and (hearing impaired - TDD) (415) 703-2032*, the amount of the bill to avoid discontinuance of service.
>
> Make remittance payable to 'California Public Utilities Commission' and attach the bill and a statement setting forth the basis for the dispute of the amount of the bill. The Commission will review the basis of the billed amount and disburse the deposit in accordance with its findings.[262]

ORA examined copies of GOWC customer bills and did not find the above language included on GOWC's customer bills.[263] As a result, ORA recommends that the Commission require GOWC to comply with its Tariff Rule No. 5 and include the aforementioned language on each customer bill.

If GOWC does not receive payment within 19 days of the billing date, a bill is considered past-due and customers are notified that they have 17 days to make payment to avoid disconnection.

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[261] GOWC AL 247-W, p. 2.
[262] GOWC Tariff Rule No.5.B, Adopted by Resolution W-3770, effective 10/26/93.
[263] GOWC response to DR MC8-006, q. 6.c.

According to GOWC, if payment is still not made, a GOWC employee will deliver a notice to the customer on a Thursday that the following Monday service will be disconnected. Customers can then make payment or arrange payment at the GOWC office. If payment is still not made by that Monday morning, termination of service is not performed until the following Wednesday after verification that payment has not been received as of 9:00 a.m. that morning.[264]

ORA reviewed GOWC's discontinuance of service notices and verified that GOWC's notices follow the timeline set forth above.[265] However, GOWC's discontinuance of service notices appear to be missing the following language that is required to comply with Tariff Rule No. 5.D[266]

- The procedure by which the customer may initiate a complaint or request an investigation concerning service or charges.
- The procedure by which the customer may request amortization of the unpaid charges.
- The procedure for the customer to obtain information on the availability of financial assistance, including private, local, state, or federal sources, if applicable.
- The telephone number of the Commission (Consumer Affairs Branch) to which inquiries by the customer may be directed. For water utilities operating in Northern California, the number of Consumer Affairs Branch is (415) 703-1170 (public) or (415) 703-2032 (hearing impaired - TDD).[267]

ORA recommends that the Commission require GOWC to comply with Tariff Rule No. 5.D and include the language stated in the four bullet points above on each of GOWC's discontinuance of service notices.

[264] GOWC response to DR MC8-005, q. 8.
[265] GOWC response to DR MC8-009, q. 1.b.
[266] Ibid.
[267] GOWC Tariff Rule No.5.D, Adopted by Resolution W-3770, effective 10/26/93.

For delivery of urgent disconnection notices, GOWC asserts it makes "a reasonable attempt to personally contact an adult person on the customer's premises with the urgent notice"[268] and that "If there is nobody home, or if there is no adult at home, the notice is left in a conspicuous place at the service address."[269] As adopted in D.10-11-034, GOWC's fees to reconnect disconnected water service are currently $25 for reconnections during business hours and $40 for after-hours.[270] Between 2012 and 2014, GOWC averaged 370 customer disconnections annually and collected $9,233 in reconnection fees.[271] In the example provided by GOWC, once the customer was disconnected, in order to have water service restored the customer was required to pay the $84.57 balance due, a $25 reconnection fee, plus an additional $94.00 "security deposit" for a total of $203.57 to have service restored.[272]

ORA also reviewed the GOWC customer complaints to the Commission's Consumers Affairs Branch (CAB) between 2012 and 2015 in order to ensure GOWC meets the benchmark set forth in Commission General Order 103-A (GO 103-A). GO 103-A, Appendix E, Section 5(A) contains a general benchmark for customer complaints that water utilities should meet:

> Rate of complaints to the Commission's Consumer Affairs Branch (CAB): Percentage of customers who file complaints with the Commission's CAB.
>
> Performance shall be calculated as follows:
>
> [Number of complaints reported annually to the utility by the CAB/Total number of customers]
>
> Performance measure: **less than or equal to 0.1%**

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[268] GOWC response to DR MC8-009, q. 2.b.
[269] GOWC response to DR MC8-009, q. 2.c.
[270] D.10-11-034, p. 19.
[271] GOWC response to DR MC8-009, q. 4.
[272] GOWC response to DR MC8-009, q. 1.

Source of data: Data shall be obtained from the quarterly reports provided by the Commission to the utility from the Commission's Consumer Affairs Tracking System.[273][Emphasis added.]

To verify whether Great Oaks has met the above 0.1% criteria, ORA reviewed 2012-2015 customer complaint data collected by CAB and provided to ORA.[274] As GOWC's approximate number of customers is 20,500, the threshold is 20.5 complaints annually. **Table 11-A** below shows the GOWC customer complaints to CAB since 2012:

Table 11-A: Annual CAB Customer Complaints since 2012

Case Num	Case Type	Utility Code	Utility Name	Source	Receipt Date	Category	Subcategory
238021	COMPLAINT	WTA162	Great Oaks Water Company	WEB	08-21-2012	Billing	High Bill
242803	COMPLAINT	WTA162	Great Oaks Water Company	LETTER	09-25-2012	Billing	High Bill
245292	COMPLAINT	WTA162	Great Oaks Water Company	WEB	10-11-2012	Billing	Deposits
285398	COMPLAINT	WTA162	Great Oaks Water Company	WEB	07-23-2013	Billing	Disputed Bill
286628	COMPLAINT	WTA162	Great Oaks Water Company	WEB	08-01-2013	Billing	Disputed Bill
290931	COMPLAINT	WTA162	Great Oaks Water Company	WEB	08-29-2013	Service	Quality of Service
320636	INFORMAL COMPLAINT	WTA162	Great Oaks Water Company	WEB	05-22-2014	Billing	High Bill
326359	COMPLAINT	WTA162	Great Oaks Water Company	WEB	07-26-2014	Rates	Rate Protest
331333	INFORMAL COMPLAINT	WTA162	Great Oaks Water Company	WEB	09-10-2014	Billing	High Bill

As the data from CAB shows, GOWC's annual ratio of three complaints to 20,500 customers is .014%. Therefore GOWC meets the customer complaint performance standard presented by GO 103-A. Relatedly, GOWC's testimony specifically requests "that the Commission find that its service quality is in accordance with the standard performance measure set by the Commission for complaints filed with the Consumer Affairs Branch."[275] While ORA finds that the number of GOWC customer complaints to CAB meets the performance standard set forth in

[273] GO 103-A, Appendix E, Section 5(A).
[274] CAB's response to ORA Data Request (email from Jessica Allison dated 8/17/15).
[275] GOWC Exhibit D, Ch3, p. 8.

GO 103-A, it does not recommend the Commission use the term “service quality” as the term is too broad. Instead, ORA recommends the Commission make a finding that GOWC has met the customer complaints performance standard set forth in GO 103-A.

D. CONCLUSION

ORA’s review of GOWC’s customer service policies and procedures shows that GOWC maintains adequate customer service. ORA also reviewed GOWC customer complaint data and found that GOWC has met the GO 103-A customer complaint performance measure. In keeping with GOWC’s request, ORA recommends that the Commission find that GOWC has met the customer complaints performance standard set forth in GO 103-A.

Chapter 12: WATER QUALITY

A. INTRODUCTION:

This chapter presents ORA's analysis and recommendations on water quality for GOWC's water system. GOWC's source of supply consists solely of groundwater drawn from two sub-basins: the Santa Teresa sub-basin and the Coyote sub-basin. Both sub-basins belong to the greater Santa Clara groundwater basin.[276] GOWC's system consists of distribution pipelines, 19 wells, five storage tanks, and three pump stations. GOWC currently supplies untreated ground water from its wells to each service connection.

Investor-owned water utilities are required to submit information about water quality as part of each GRC application.[277] In accordance with these requirements, GOWC submitted water quality information in its response to the Minimum Data Requirements (MDRs). ORA reviewed GOWC's testimony, application, workpapers, and the most recent Department of Drinking Water (DDW) inspection report available for GOWC's water system in order to develop its recommendation for GOWC's water quality. In addition, ORA contacted DDW representatives to obtain updates on the agency's appraisal of GOWC's water systems. The Commission's Division of Water and Audits (DWA) also conducts an independent review of GOWC's water quality.

[276] GOWC Exhibit 8-3, p. 4.

[277] *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).

B. SUMMARY OF RECOMMENDATIONS:

1) Based on information submitted by GOWC and provided by the DDW, ORA recommends that the Commission find GOWC in compliance with applicable state and federal water quality requirements as of July 21, 2015.[278]

2) The Commission should approve GOWC's request to install chlorine ports only at the remaining 10 well sites that lack such equipment (instead of the 12 requested by GOWC), so the water supply can be disinfected should the system become contaminated.[279]

C. DISCUSSION:

ORA contacted the DDW and received confirmation that there have been two separate instances of water quality violations by GOWC since 2012. One violation occurred in September 2013 and the other in March 2015.[280]

In September 2013, water samples collected in GOWC's water system exceeded the monthly maximum contaminant level (MCL) for total coliform, a violation of Section 64426.1, Title 22 of the California Code of Regulation (Total Coliform Rule).[281] The Total Coliform Rule states that a public water system that collects at least 40 samples per month violates the total coliform MCL when more than 5% of the samples collected during a month test positive.[282] In September 2013, eight out of 140 routine samples taken, or 5.7%, tested positive for total coliform.[283] As a result, on October 14, 2013, the DDW issued a citation to GOWC for violating the Total Coliform Rule.

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[278] Email from Jose Lozano IV, P.E., DDW's Associate Sanitary Engineer, to Alex Lau of ORA (July 21, 2015).
[279] GOWC Exhibit G, p. 3.
[280] Email from Jose Lozano IV, P.E., DDW's Associate Sanitary Engineer, to Alex Lau of ORA (July 21, 2015).
[281] GOWC Exhibit 3-6, CDPH letter to GOWC (Water System No. 4310022), Citation No. 02-17-13C-017 – Citation for Noncompliance Maximum Contaminant Level – Total Coliform Bacteria, dated October 14, 2013, p. 1.
[282] Title 22 CCR § 64426.1
[283] GOWC Exhibit 3-6, CDPH letter to GOWC (Water System No. 4310022), Citation No. 02-17-13C-017 – Citation for Noncompliance Maximum Contaminant Level – Total Coliform Bacteria, dated October 14, 2013, p. 2.

None of the samples collected during September 2013 tested positive for E. Coli. To remedy the September 2013 violation, GOWC chlorinated sample sites number 9 and 12 and flushed water mains in the affected area until the water was clear and without odor. Subsequent samples tested negative for total coliform.[284] According to the DDW, GOWC initiated public notification of its violation on October 1, 2013.[285]

On April 23, 2015, the DDW issued another citation to GOWC for violating the Total Coliform Rule.[286] In March 2015, water samples collected in the water system exceeded the monthly maximum contaminant level (MCL) for total coliform. During March 2015, 19 out of 182 water samples, or 10.4%, tested positive for total coliform, although no samples tested positive for E. Coli.[287] GOWC cites lower customer demand (reduced water flow), rising water temperatures in summer months that increased bacteria growth, its cut back on main flushes due to conservation reduced system cleanouts, and dropping aquifer levels, as potential contributors to the rise in bacteria.[288]

To remedy the March 2015 violation, GOWC flushed the mains in the affected area and installed a chlorinator at Well #8. Subsequent samples tested negative for total coliform.[289] GOWC initiated public notification of its violation on April 10, 2015.[290]

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[284] GOWC Exhibit 3-6, GOWC Proof of Notification for Citation Number 02-17-13C-017, dated November 12, 2013.
[285] GOWC Exhibit 3-6, CDPH letter to GOWC (Water System No. 4310022), Citation No. 02-17-13C-017 – Citation for Noncompliance Maximum Contaminant Level – Total Coliform Bacteria, dated October 14, 2013, p. 3.
[286] GOWC Exhibit 3-6, DDW letter to GOWC - Citation No. 02-17-15C-014 – Citation for Violation of California Code of Regulations, Title 22, Section 64426.1(b)(1) – Water System No. 4310022, dated April 23, 2015, p. 1.
[287] Id., p. 5.
[288] GOWC Exhibit 3-6, GOWC Corrective Action Plan for Citation Number 02-17-15C-014, dated May 12, 2015.
[289] Ibid.
[290] GOWC Exhibit 3-6, GOWC's Notice to Customers titled "In the Month of March 2015, Great Oaks Water Co. Had Levels of Coliform Bacteria Above the Drinking Water Standard," dated April 10, 2015.

The DDW confirmed that the latest inspection report for GOWC is the report dated April 12, 2013 and the next complete system inspection is scheduled for 2016.[291] The 2013 DDW Inspection Report recommended that GOWC update its Emergency Disinfection Plan and recommended a list of items that GOWC should include in its updated plan.[292] GOWC updated its Emergency Disinfection Plan in February 2015.[293]

GOWC has 19 total active wells in its system and in this GRC. GOWC is requesting to install 12 chlorine ports to completely equip all wells with chlorination equipment.[294] The 2013 DDW Inspection Report also recommends that GOWC equip all wells "with the necessary connections that allow the rapid connection of disinfection facilities."[295] The 2013 DDW Inspection Report also states that GOWC "currently maintains chlorination equipment at Wells 15 and 18. In addition, Wells 20, 21, 22, 23, and 24 have injection ports that can be used to provide disinfection."[296] Therefore at the time that the 2013 DDW Inspection Report was written, GOWC had a total of seven wells with chlorination ports. Based on this alone, GOWC's current GRC request to install 12 more chlorine ports at its remaining wells seems reasonable. However, GOWC's Corrective Action Plan to the DDW following the March 2015 MCL violation provided that "Great Oaks Water installed a chlorinator at Well #8 on Lean Ave. near Chynoweth and started emergency chlorination."[297] In addition to the installation of a chlorinator port at Well #8, GOWC also installed a chlorinator port at Well #2 in 2015.[298]

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[291] Email from Jose Lozano IV, P.E., DDW's Associate Sanitary Engineer, to Alex Lau of ORA (July 21, 2015).
[292] GOWC Exhibit 3-8, DDW 2013 Sanitary Survey, dated April 12, 2013, p. 6.
[293] GOWC Supplemental Response to ORA Data Request AL7-004, Question 3, Attachment "GOWC SR AL7-004(3)."
[294] GOWC Exhibit G, p. 3.
[295] GOWC Exhibit 3-8, DDW 2013 Sanitary Survey, dated April 12, 2013, p. 6.
[296] Ibid.
[297] GOWC Exhibit 3-6, GOWC Corrective Action Plan for Citation Number 02-17-15C-014, dated May 12, 2015.
[298] GOWC response to ORA Data Request AL7-010, Question 6 (a).

Because nine of GOWC's 19 well sites have existing chlorination ports, ORA recommends that GOWC be approved to add 10 additional chlorination ports instead of the 12 requested.[299]

D. CONCLUSION:

Because the DDW has indicated that GOWC's water system is in compliance with the drinking water standards as of July 2015, ORA recommends that the Commission find GOWC to be in compliance with applicable state and federal water quality requirements. In addition, ORA recommends that the Commission approve 10 of the 12 chlorine ports that GOWC is requesting in this GRC.

[299] GOWC Exhibit G, p. 3.

Chapter 13: AFFILIATE TRANSACTIONS & NON-TARIFFED PRODUCTS AND SERVICES

A. INTRODUCTION

The following chapter presents ORA's analysis and recommendations related to GOWC's affiliate transactions and unregulated activities, or non-tariffed products and services (NTP&S). ORA reviewed GOWC's application workpapers and testimony, performed discovery, and analyzed GOWC Commission filings while preparing this report. ORA performed its analysis using the Affiliate Transaction Rule (ATR) guidance set forth by the Commission in D.11-10-034, which governs Class A and B Water Utility (Water Utility) affiliate transactions and the provision of NTP&S.[300] The remainder of this chapter contains a summary of ORA's recommendations, followed by a discussion addressing GOWC's state of compliance with D.11-10-034.

B. SUMMARY OF RECOMMENDATIONS

1) The Commission should require GOWC to comply with ATR X.C.6, which holds that for utilities with annual Other Operating Revenue below $100,000, ratepayers shall accrue all benefits.
2) The Commission should require GOWC to comply with ATR X.E regarding annual reporting of NTP&S Projects to the Commission.
3) The Commission should require GOWC to comply with ATR X.G governing the provision of new NTP&S, related to its 2013 contract with HomeServe, USA.

[300] D.10-10-019 was subsequently modified by D.11-10-034 and D.12-01-042. The text of this chapter refers to the governing decision as D.11-10-034.

C. DISCUSSION

In general, NTP&S are revenue-generating services offered by utilities on the open market that require use of an unused portion, or "the excess capacity" of the utility's assets. In order to ensure that ratepayers are not adversely impacted by the provision of NTP&S, the Commission adopted D.11-10-034, which sets forth rules governing both the affiliate transactions and the provision of NTP&S by Water Utilities.[301]

D.11-10-034 includes a number of rules for NTP&S that Water Utilities must comply with, including cost allocation rules, revenue sharing rules, and rules governing the disclosure and reporting of NTP&S activities.[302] GOWC is a Class A Water Utility and is therefore subject to the ATRs established in D.11-10-034. In the current GRC, ORA based its review of GOWC's NTP&S activities on the ATRs set forth by D.11-10-034 and found GOWC to be non-compliant in the three areas discussed below:

Revenue Sharing Rule X.C

D.11-10-034 provides that "gross revenues shall be shared between the utility's shareholders and its ratepayers. In each general rate case, NTP&S revenues shall be determined and shared as follows:

1: Active NTP&S projects: 90% shareholder and 10% ratepayer.

2: Passive NTP&S projects: 70% shareholder and 30% ratepayer."[303]

Furthermore, NTP&S Rule X.C.6 provides that for the first $100,000 of a utility's NTP&S revenues, "there shall be no sharing threshold and ratepayers shall accrue all benefits for non-

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[301] D.11-10-034, Appendix A lists the specific rules that Class A and B Water Utilities are required to comply with.
[302] Rules specific to NTP&S activity are contained in D.11-10-034, Appendix A, Rule X.
[303] D.11-10-034, Appendix A, pp. A-12- A-13.

tariffed products and services."[304] Therefore, according to the NTP&S Rules, if GOWC is forecasted to earn gross NTP&S revenues of under $100,000 in this GRC, <u>the entire amount</u> should be allocated to benefit ratepayers in FTY 2016/2017.

According to GOWC's 2014 Annual Report to the Commission (Annual Report) GOWC received NTP&S revenues of $59,684 from leasing land to three telecommunications providers for cell tower placement.[305] However, in GOWC's Application workpapers, ORA found that GOWC did not forecast sharing any of these revenues with ratepayers. GOWC explained that "Great Oaks inadvertently omitted the data described and will supplement its General Rate Case submission and this response as soon as practicable."[306] On August 17, 2015, GOWC filed its 45-day Application update containing a forecasted FTY 2016/2017 credit to ratepayers for $22,130.[307]

ORA disagrees with GOWC's $22,130 credit to ratepayers because it uses a flawed methodology that is non-compliant with D.11-10-034 Rule X.C.6. GOWC's methodology in its 45-day update workpapers credits 30% of the annual revenues for its two remaining antenna lease agreements,[308] and 30% of its annual revenue from GOWC's contract with water line insurance provider HomeServe, USA. According to GOWC's 45-day update workpapers, total forecasted gross revenue <u>before sharing</u> 30% with ratepayers is $73,768.[309] ORA examined the contracts underlying GOWC's forecasted gross revenue amount and agrees with $73,768 gross revenues. However, because GOWC's gross amount of revenues is less than the $100,000 threshold set by

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[304] D.11-10-034, Appendix A, Rule X.C.6.
[305] GOWC 2014 Annual Report to the Commission, p. 11 of 60.
[306] GOWC response to DR WW2-002, q. 2.i
[307] GOWC 45-Day update, tab WP6 -A&G Expense, line 25.
[308] GOWC response to DR WW2-002, q. 2.ii: GOWC's contract with Metro PCS terminated as of July 2014; contracts with Clear Wireless LLC and T-Mobile West Corporation remain in effect.
[309] GOWC 45-Day update, tab WP6 -A&G Expense, cell K25 (formula).

D.11-10-034 Rule X.C.6, ORA recommends that the entire $73,768 accrue to the benefit of ratepayers.

Notification of Provision of New NTP&S

In 2013, GOWC entered into a NTP&S contract with customer water line insurance provider HomeServe, USA Corporation (HomeServe), and in 2014 began generating revenues from as a result of the contract.[310] D.11-10-034 ATRs X.F and X.G govern the initiation of new NTP&S activities by Water Utilities. Rule X.F specifies:

> When a utility initiates the offering of NTP&S that are designated as active or passive in the table below, the utility shall provide notice of such activity by letter to the Director of the Division of Water and Audits and the Program Manager of the Division of Ratepayer Advocates-Water Branch, within 30 days of instituting such activity.[311] [Emphasis added.]

ORA requested a copy of the notice that GOWC provided to the Commission regarding its new NTP&S contract with HomeServe, pursuant to ATR X.F. GOWC responded "Objection. This data request incorrectly assumes that the services provided by HomeServe USA Corp. are listed in the 'table' referenced in D.11-10-034, when that is not the case."[312] However, ATR X.G also provides direction for utilities to follow when initiating new NTP&S activities that do not appear on the "table" referred to by ATR X.F:

> Any water or sewer utility that proposes to engage in the provision of new NTP&S not included in the table below, using the excess capacity of assets or resources reflected in the utility's revenue requirement, and which are proposed to be classified as active as described herein, shall file a Tier 3 advice

[310] GOWC response to DR WW2-009, q. 4.
[311] D.11-10-034, Appendix A, p. A-16 contains a table classifying various types of NTP&S offerings as either "active" or "passive".
[312] GOWC response to DR WW2-010, q. 5.i.

letter (see Resolution ALJ-202) with the Director of the Division of Water and Audits seeking Commission approval.[313] [Emphasis added.]

ORA examined GOWC's Advice Letter filings and was unable to find an Advice Letter that provided the information required by NTP&S Rule X.G. As a result, it appears that at the time of this report, GOWC has yet to formally disclose the provision of its new NTP&S contract with HomeServe to the Commission other than as a line item on page 44 of its Annual Report.[314] One possibility is that GOWC is asserting that HomeServe NTP&S is not included in the "table" referenced in ATR X.F and is a "passive" activity and therefore is not required to comply with the reporting requirements of either ATR X.E or X.F. However, GOWC's original premise that the services provided by HomeServe are not listed on the table referenced in D.11-10-034 is incorrect. An examination of the table shows that HomeServe, a company that provides customer water line insurance, should fall under "Customer Ancillary Services" and thus be classified as an *active* NTP&S.

Consequently, ORA recommends that the Commission require GOWC to file Tier 3 AL notifying the Commission of its NTP&S contract with HomeServe in accordance with ATR X.F. ORA's recommendation is based on the premise that GOWC's contract with HomeServe should be considered a customer ancillary service and thus be classified as an *active* NTP&S on the table referred to by rule X.F.

Annual Reporting of NTP&S Activities

The Commission's ATRs also provide direction for Water Utility's annual reporting of NTP&S activities. According to Rule X.E:

> Each utility shall include information regarding its NTP&S projects in its Annual Reports, including but not be limited to the following:

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[313] D.11-10-034, Appendix A, p. A-14.
[314] See Annual Report discussion below.

1. A detailed description of each NTP&S activity;
2. Whether and why it is classified active or passive;
3. Gross revenue received;
4. Revenue allocated to ratepayers and to shareholders, as established in the company's current general rate case;
5. A complete identification of all regulated assets used in the transaction;
6. A complete list of all employees (by position) that participated in providing the non-tariffed service, with amount of time spent on provision of the service;
7. If the NTP&S has been classified as active through advice letter submission, provide the number of the advice letter and the authorizing Resolution; and
8. If the NTP&S did not require approval through advice letter, provide the date notice was given to the Commission.[315]

ORA reviewed GOWC's 2013 and 2014 Annual Reports to the Commission and found that GOWC's contract with HomeServe was not reported along with GOWC's other NTP&S contracts under Excess Capacity and Non-Tariffed Services.[316] ORA asked GOWC why it failed to report its HomeServe activity under Excess Capacity and Non-Tariffed Services. In response, GOWC stated that "Great Oaks had no 'contracted activities' with HomeServe USA Corp. in 2013. For 2014, see Great Oaks' Annual Report, Schedule B-7, page 44."[317]

Although GOWC's explanation fails to explain *why* it did not report HomeServe under Excess Capacity and Non-Tariffed Services, GOWC's 2014 Annual Report indeed contains a listing for "HomeServe Commissions" with revenues of $19,744 on schedule B-7 Miscellaneous Non-operating Revenue.[318] However, it is inappropriate for GOWC to list its HomeServe, NTP&S

[315] D.11-10-034, Appendix A, pp. A-13-A-14.
[316] GOWC's 2014 Annual Report to the Commission p. 11 "Excess Capacity and Non-Tariffed Services" only lists three contracts with telecommunications providers.
[317] GOWC response to DR WW2-010, q. 1.
[318] GOWC 2014 Annual Report to the Commission, p. 44.

contract activity under Miscellaneous Non-operating Revenue because it does not reflect the NTP&S nature of the activity and does not otherwise comply with Rule X.E.

Therefore, in accordance with ATR X.E, ORA recommends that the Commission require GOWC to report its NTP&S contract with HomeServe under its Excess Capacity and Non-Tariffed Services beginning with its 2015 Annual Report to the Commission.

Affiliate Transactions

On April 22, 2014, GOWC filed A.14-04-035 requesting approval for Great Oaks Water Corporation to acquire and control GOWC as part of an overall corporate reorganization. On October 14, 2014 GOWC and ORA filed a joint motion for the adoption of a Settlement Agreement relating to the matters brought forth in A.14-04-035. The Commission subsequently adopted the Settlement Agreement in D.15-03-006. Provisions addressed by the Settlement Agreement include (but are not limited to):

> 1. The Reorganization is in the public interest… and will simplify reporting to and regulation of GOWC by the Commission, all without any cost or detriment to ratepayers or water service provided by GOWC.
>
> 2. The Commission's Affiliate Transaction Rules (as adopted in Decision (D.) 10-10-019) and Resolution W-4984 apply, and that GOWC and Corporation are required to comply with such rules
>
> 3. The Parties expressly agree that **an independent audit shall be performed and a report on such audit shall be submitted to the Commission's Division of Water and Audits and to ORA on or before September 30, 2015.** The audit report shall include financial information on the acquisition and reorganization and compliance with the Affiliate Transaction Rules…[319][Emphasis added.]

[319] D.15-03-006, p. 4.

As mentioned above, the Settlement Agreement provides for an independent audit to be performed and submitted to ORA on or before September 30, 2015. However, on September 22, 2015 GOWC requested an extension for the audit submission until June 1, 2016 and the Commission granted GOWC's request.[320] As a result, ORA will be unable to review the audit report before it files its testimony in the current GRC.

Nevertheless, because it agreed the reorganization is to be "all without any cost or detriment to ratepayers or water service provided by GOWC"[321], GOWC should take the necessary steps to ensure that the expenses related to this audit are not recovered from ratepayers either in its next GRC, or by any other mechanism.

D. CONCLUSION

In D.11-10-034, the Commission set forth rules for all Class A Water Utilities to follow regarding NTP&S. These ATRs became effective July 1, 2011, allowing GOWC more than enough time to have adequate procedures implemented in order to comply. Nevertheless, ORA's analysis has found three circumstances where GOWC has failed to properly comply with the ATRs. As a result, ORA recommends that the Commission require GOWC to comply with reporting and disclosure ATRs X.F and X.E and to accrue the entirety of its NTP&S revenues under $100,000 to its ratepayers, in accordance with ATR X.C.6.

[320] GOWC response to DR MC8-010, q. 1.
[321] D.15-03-006, p. 4.

Chapter 14: ESCALATION AND ATTRITION FILINGS

A. INTRODUCTION

This chapter includes ORA's recommendation for GOWC's post-test year revenue requirement mechanism. For escalation and attrition filings, in conformance with General Order 96-B, Class A Water Utilities should file a Tier 1 Advice Letter proposing new revenue requirements. Advice Letters should follow the escalation procedures set forth in the Rate Case Plan for Class A Water Utilities adopted in Decision 07-05-062 and must include supporting workpapers. The Commission should require GOWC to implement a post-test year revenue requirement mechanism to adjust the escalation years 2017/2018 and 2018/2019 revenue requirement whether GOWC is over- or under-earning.

B. SUMMARY OF RECOMMENDATIONS

1) For GOWC's 2017/2018 and 2018/2019 escalation/attrition year filings, the Commission should require GOWC to file an Advice Letter proposing new revenue requirements and corresponding revised tariff schedules whether the filing results in an increase or decrease in tariff rates.
2) ORA recommends that the final decision on GOWC's Application include an Ordering Paragraph containing the following language:

> For escalation years 2017/2018 and 2018/2019, GOWC shall file Tier 2 advice letters in conformance with General Order 96-B proposing a new revenue requirement and corresponding revised tariff schedule. GOWC's filings shall include rate procedures set forth in the Commission's Rate Case Plan[322] for Class

[322] D.07-05-062, Appendix A.

> A Water Utilities and shall include appropriate supporting workpapers. The revised tariff schedules shall take effect no earlier than July 1, 2017 and July 1, 2018, respectively, and shall apply to service rendered on and after their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits (DWA). DWA shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.

C. DISCUSSION

Mandatory New Revenue Requirements for Escalation/Attrition Years 2017/2018 and 2018/2019

Neither the rate case plan nor the revised rate case plan require Class A Water Utilities to file escalation advice letters to revise revenue requirements and tariff schedules in between the Test Years of a GRC.[323] If the decision for this GRC Application does not require GOWC to file escalation/attrition year revisions, GOWC may choose to file escalation advice letters only during the years when it is under-earning, while choosing not to file attrition advice letters during the years in which it is over-earning, thereby avoiding any rate decrease regardless of how much, or how often it is over-earning. Moreover, GOWC may be able to seek and obtain escalation year increases even during the years when it is dramatically over-earning.

For instance, pursuant to the authority granted to GOWC in its last GRC, through the settlement adopted by D.13-05-020, GOWC only filed an advice letter to increase its revenue requirement, but never filed for a decrease. On May 16, 2014, GOWC filed AL 240-W "to increase the revenue requirement by the agreed upon amount of $101,403 (0.70%) as specified by D.13-05-020."[324] GOWC further describes its request was "to implement already-approved rates for the

[323] Adopted in D.04-06-018, and D.07-05-062, respectively.
[324] AL 240-W, p. 2.

year beginning July 1, 2014 and ending June 30, 2015, the second of the three years encompassed by the Settlement Agreement and D.13-05-020."[325]

Instead of submitting to an earnings test to support its requested increase as described in the Rate Case Plan, GOWC cited to the D.13-05-020 Settlement Agreement's Comparison Exhibit showing an TY 2013/2014 adopted revenue amount of $14,561,442 and an Escalation Year 2014/2015 adopted revenue amount of $14,663,436, based mainly on escalating the adopted TY 2013/2014 expenses.[326] AL 240-W also contained workpapers supporting a $101,403 revenue increase for 2014/2015, based mainly on escalated data shown in the Comparison Exhibit.[327]

However, going forward the Commission should require GOWC to submit to an earnings test before being awarded any Escalation or Attrition Year increases. The reason is a utility could be vastly over-earning during the Escalation Year or Attrition Year and submitting to an earnings test can prevent a utility being awarded an undue increase.

For example, ORA points out that for the 2013/2014 recorded year, a year that was close to concluding in May 2014 as GOWC filed for its $101,403 increase via Advice Letter 240-W, GOWC actually *recorded* $16,487,099 in revenues while earning a 21.63% rate of return.[328] Although this recorded information was not available in full when GOWC filed Advice Letter 240-W, an earnings test included in the calculations for Advice Letter 240-W for the available data during the pro-forma period would likely have revealed over-earning. ORA did not protest Advice Letter 240-W and acknowledges that it is too late to correct past years. However, requiring GOWC to file 2017/2018 and 2018/2019 escalation Advice Letter filings in accordance

[325] Ibid.
[326] AL 240-W, Exhibit A, Comparison Exhibit, Settlement Agreement.
[327] AL 240-W, Exhibit B, workpapers, tab Summary of Earnings, columns H and I.
[328] GOWC Exhibit E, tab WP1- Summary of Earnings.

with the procedures set forth in Decision 07-05-062, including an earnings test, will help prevent GOWC from again receiving revenue increases when it is already over-earning in the future.

The Commission has the authority to require downward adjustments if the utility is over-earning. The Commission's decision for California-American Water Company's 2012 GRC included such a requirement, stating in Ordering Paragraph 7:

> For escalation years 2013 and 2014, California American Water Company shall file Tier 2 advice letters in conformance with General Order 96-B proposing a new revenue requirement and corresponding revised tariff schedules for each district. The filings shall include rate procedures set forth in the Commission's Rate Case Plan (D.07-05-062) for Class A Water Utilities and shall include appropriate supporting workpapers. The revised tariff schedules shall take effect no earlier than January 1, 2013 and January 1, 2014, respectively, and shall apply to service rendered on and after their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits (DWA). DWA shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.[329]

ORA recommends that similar language be included in the Commission's decision for GOWC's current Application.

D. CONCLUSION

Consistent with the Rate Case Plan and D.12-06-016, the Commission should adopt the post-test year ratemaking mechanism recommended by ORA because it ensures the appropriate rate increase or decrease in GOWC's revenue requirement in 2017/2018 and 2018/2019 regardless of whether GOWC is over-or under-earning.

[329] D.12-06-016, Ordering Paragraph 7.

Chapter 15: BALANCING AND MEMORANDUM ACCOUNTS

A. INTRODUCTION

Great Oaks Water Company's (GOWC) application A.15-07-001 requests continuation of its existing balancing and memorandum accounts, with three exceptions listed below, as well as the establishment of a Defined Benefit Plan Balancing Account.

1) GOWC requests authorization to incorporate discounts and expenses associated with its Low Income Customer Assistance Program into a surcharge and establish a balancing account to record over-and under-collections of such discounts and expenses.[330] ORA addresses this request in Chapter 16.

2) GOWC requests to modify the Monterey-Style WRAM account to " . . . permit amortization of the over- or under-collection in the WRAM account when the balance exceed two percent (2%) of the Company's authorized revenue requirement for single-family residential customers."[331] ORA addresses this request below in section C.5.ii.

3) GOWC requests to modify the Santa Clara Valley Water District Memorandum Account to " . . . remove the cap on expenses recoverable and to permit disposition of the proceeds of litigation, if any, on an equal basis between the Company and its ratepayers."[332] ORA addresses this request in Chapter 17.

GOWC also requests to amortize and combine five balancing accounts as follows:

[330] A.15-07-001, p. 5.
[331] A.15-07-001, p. 5.
[332] A.15-07-001, p. 6.

> . . . authority to amortize the combined balances in the following balancing accounts as of July 1, 2016. (1) AL 225-W-A Audit Cost Balancing Account; (2) Purchased Power Balancing Account; (3) Pump Tax, Non-Ag; (4) Pump Tax, Ag.; and (5) AL 236-W Recovery of GRC Rehearing Settlement. The Company will present the combined balances in these accounts for amortization, with a date of the balances being May 31, 2016, upon authorization from the Commission in this proceeding.[333]

Because GOWC filed its application on July 1, 2015, ORA reviewed account balances through June 30, 2015. Only balances subject to review in this rate case (i.e., as of June 30, 2015) are eligible to receive Commission authorization for amortization in this proceeding.

ORA reviewed each memorandum and balancing account individually and recommends against combining account balances for amortization. This will help keep the accounting of the balances separate and be more transparent and understandable for CPUC staff and customers. ORA addresses each of the memorandum and balancing accounts separately below.

GOWC also requests continuation of the Water Cost of Capital Mechanism, which is a trigger mechanism that is shown in GOWC' Tariff Preliminary Statement K.[334] Although this is not a balancing account, since GOWC grouped its request to continue the mechanism together with memorandum and balancing accounts, ORA addresses it here. The Commission should take no action on the Water Cost of Capital Mechanism for GOWC.

B. KEY RECOMMENDATIONS

Memorandum Accounts

[333] A.15-07-001, p. 8.
[334] A.15-01-007, p. 9.

GOWC has 13 memorandum accounts with a balance of negative $2,975,223.98, or ($2,975,223.98), as of June 30, 2015.[335] The memorandum account with the largest balance reported by GOWC is the Santa Clara Valley Water District Memorandum Account with a June 30, 2015 reported balance of ($2,568,399.26). Memorandum account balances other than the Santa Clara Valley Water District Memorandum Account amount to ($406,824.72) as of June 30, 2015. The Santa Clara Valley Water District Memorandum Account is addressed separately in Chapter 17 and the Low Income Customer Assistance Program Memorandum account is addressed separately in Chapter 16.

The Commission should require GOWC to close the following eight memorandum accounts as these are no longer necessary:

1) Military Family Relief Program Memorandum Account
2) City of San Jose Litigation Cost Memorandum Account
3) 2011 Certified Public Accountant Audit Cost Memorandum Account
4) 2012 Certified Public Accountant Audit Cost Memorandum Account
5) 2010 Tax Act Memorandum Account
6) Employee Health Insurance Memorandum Account
7) Debt Issuance Memorandum Account
8) CDPH Chromium-6 Compliance Memorandum Account

These eight accounts have $0 balances except for the City of San Jose Litigation Cost Memorandum Account with a balance of ($877.13) that should be amortized and the account closed.

For the remaining three memorandum accounts ORA recommends the following:

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[335] Santa Clara Valley Water District Memorandum Account, Military Family Relief Program Memorandum Account, Low Income Customer Assistance Program Memorandum Account, City of San Jose Litigation Cost Memorandum Account, 2011 Certified Public Accountant Audit Cost Memorandum Account, 2012 Certified Public Accountant Audit Cost Memorandum Account, 2010 Tax Act Memorandum Account, Contamination Proceeds Memorandum Account, Employee Health Insurance Memorandum Account, Debt Issuance Memorandum Account, CDPH Chromium-6 Compliance Memorandum Account, Catastrophic Event Memorandum Account, Conservation Lost Revenue and Expense Memorandum Account.

1) The Catastrophic Event Memorandum Account has a $0 balance and should remain open.
2) The Conservation Lost Revenue and Expense Memorandum Account should remain open and the entire balance should be reviewed for reasonableness at the end of the drought consistent with Tariff Preliminary Statement S and Resolution W-4976. Further, the Commission should direct GOWC to remove account entries for labor costs already included in rates and discontinue such entries to the account going forward.
3) The Contamination Proceeds Memorandum Account balance of $657,007.29 as of June 30, 2015 should be credited to customers as soon as possible.

Balancing Accounts

GOWC has 12 balancing accounts with ($275,990.62) balance as of June 30, 2015.[336] Of this total reported balance in these 12 balancing accounts, only ($44,336.84) or 16% is new balances not composed of residual under- or over- collected balances from previously authorized surcharges/surcredits.

The Commission should require GOWC to file an Advice Letter to close the following balancing accounts:

1) "True Up Interim Rates to Final Rates" this account has a $0 balance.
2) "Recovery of Multiple Over (Under) Collected" this account has a $0 balance.

The Commission should require GOWC to file an Advice Letter to amortize and close the following balancing accounts and remove them from GOWC's Tariff Preliminary Statement, where applicable. ORA does not have any adjustments to GOWC's reported residual account balances for these five accounts:

[336] Purchased Water Balancing Account, Purchased Power Balancing Account, Pump Tax Non-Agricultural Service Balancing Account, Pump Tax Agricultural Service Balancing Account, Three balancing accounts to recover previously approved M-WRAM balances for the following time periods: M-WRAM – Recover 5/9/11 to 2/11/12 – Surcharge 5/13/12 to 5/12/13, M-WRAM – Recover 4/16/12 to 1/7/13 – Surcharge 1/15/13 to 1/14/14, and M-WRAM – Recover 1/10/13 to 8/8/14 – Surcharge 9/2/14 to 9/1/15, M-WRAM "Memorandum" that tracks balances from 7/14/14 forward, as well as four other accounts listed on tab "1-A-1" of "GOWC Supplemental Response to ORA Data Request MC8-001(1).xls" provided to ORA on September 11, 2015: 1) "2009 & 2010 Audits," 2) "True Up Interim Rates To Final Rates," 3) "Recovery of Multiple Over (Under) Collected," 4) "Recovery: Multiple Balancing & Memorandum Accounts Over (Under) Collection."

1) M-WRAM – Recover 5/9/11 to 2/11/12 – Surcharge: 5/13/12 to 5/12/13
2) M-WRAM – Recover 4/16/12 to 1/7/13 – Surcharge: 1/15/13 to 1/14/14
3) M-WRAM – Recover 1/10/13 to 8/8/14 – Surcharge: 9/2/14 to 9/1/15
4) 2009 & 2010 Audits
5) Recovery: Multiple Balancing & Memorandum Accounts Over (Under) Collection

The following balancing accounts should remain open and the account balances amortized or adjusted and amortized, as summarized below for each account:

1) Purchased Water Balancing Account – ORA does not dispute the reported balance of N/A and the account should remain open in the event that GOWC purchases water in the future.
2) Purchased Power Balancing Account – The Commission should require GOWC to file an Advice Letter to amortize the June 30, 2015 balance in the account.
3) Pump Tax Non-Agricultural Service Balancing Account – The Commission should require GOWC to correct two errors in GOWC's calculation of surcharge revenue and file an Advice Letter to amortize the adjusted June 30, 2015 balance of $379,853.40 in the account.
4) Pump Tax Ag Service Balancing Account - The Commission should require GOWC to correct two errors in GOWC's calculation of surcharge revenue and file an Advice Letter to amortize the adjusted June 30, 2015 balance of $1,697.89 in the account.
5) M-WRAM Balancing Account – The Commission should take no action on GOWC's M-WRAM Balancing Account and ORA reserves the right to review and protest the June 30, 2015 account balance of ($150,255.31) when GOWC files an Advice Letter to recover the balance.

Additionally, the Commission should require GOWC to use the adopted Weighted Rate methodology for pump tax offset Advice Letters, and require GOWC to explain and correct billing discrepancies for surcharges from Advice Letters 210-W and 227-W in July and August, 2013.

The summary **Table 15-A** below shows the June 30, 2015 account balances for each balancing and memorandum account as well as a summary of ORA's recommendation for each account.

Table 15-A Summary of Memorandum and Balancing Account Balances

	Over(Under) collection as of 6/30/15	ORA recommendation
Military Family Relief Program Memorandum Account	$ -	close
City of San Jose Litigation Cost Memorandum	$ (877.13)	amortize and close
Monterey-Style Water Revenue Adjustment Mechanism Account		
M-WRAM - Recover 5/9/11 to 2/11/12 - Surcharge: 5/13/12 to 5/12/13	$ (28,729.90)	amortize and close
M-WRAM 2/11/12 to 4/16/12 M-WRAM gap	N/A	N/A
M-WRAM - Recover: 4/16/12 to 1/7/2013 - Surcharge 1/15/13 to 1/14/14	$ (15,864.02)	amortize and close
M-WRAM - Recover 1/10/13 to 8/8/14 - Surcharge 9/2/14 to 9/1/15	$ (152,532.34)	amortize and close
M-WRAM Memorandum	$ (150,255.31)	no action, keep open and review for reasonableness in Advice Letter
Certified Public Accountant Audit Cost Memorandum Account		
2009 & 2010 Audits	$ 11,181.67	amortize and close
2011 Audit Cost Memorandum	$ -	close
2012 Audit Cost Memorandum	$ -	close
2010 Tax Act Memorandum Account	$ -	close
Contamination Proceeds Memorandum	$ 657,007.29	amortize and keep open
Employee Health Insurance Memorandum Account	$ -	close
Debt Issuance Memorandum Account	Not included in GOWC's workpaper in response to ORA Data Request MC8-001.	close
CDPH Chromium-6 Compliance Memorandum Account	$ -	close
A.09-09-001 Limited Rehearing Under-Collection Balancing Account	$ (13,938.91)	amortize and close
Catastrophic Event Memorandum Account	$ -	keep open
Conservation Lost Revenue and Expense Memorandum Account	$ (675,216.41)	keep open, direct GOWC to only book costs to the account that are incremental to rates.
Purchased Water	N/A	N/A
Purchased Power	$ (149,230.53)	($149,230.53), keep open
Groundwater other than Ag	$ 253,951.31	$379,853.40, keep open
Groundwater Ag irrigation	$ 1,197.69	$1,697.89, keep open
True-up interim rates to final rates	$ -	close
Multiple Accounts Recovery		
Recovery of multiple over (under) collected	$ -	close
Recovery: Multiple Balancing & Memorandum account over (under) collection	$ (20,588.61)	amortize and close
TOTAL	**$ (283,895.20)**	**$ (157,492.91)**

C. DISCUSSION

This discussion addresses all GOWC's memorandum and balancing accounts in the following order:

- GOWC's memorandum and balancing account balances specified in its Tariff Preliminary Statement Sections F through S:
    1) Santa Clara Valley Water District Memorandum Account (Preliminary Statement F) See Chapter 17.
    2) Military Family Relief Program Memorandum Account (Preliminary Statement G)
    3) Low-Income Customer Assistance Program Memorandum Account (Preliminary Statement H) See Chapter 16.
    4) City of San Jose Litigation Memorandum Account (Preliminary Statement I)
    5) Monterey-Style Water Revenue Adjustment Mechanism Account (Preliminary Statement J) and related accounts
        - Discussion of GOWC's Request to Modify the Monterey-Style Water Revenue Adjustment Mechanism
    6) Water Cost of Capital Adjustment Mechanism (Preliminary Statement K)
    7) Certified Public Accountant Audit Cost Memorandum Account (Preliminary Statement L) and related accounts
    8) 2010 Tax Act Memorandum Account (Preliminary Statement M)
    9) Contamination Proceeds Memorandum Account (Preliminary Statement N)
    10) Employee Health Insurance Memorandum Account (Preliminary Statement O)
    11) Debt Issuance Memorandum Account (Preliminary Statement P)
    12) A.09-09-001 Limited Rehearing Under-Collection Balancing Account (Preliminary Statement Q)
    13) CDPH Chromium-6 Compliance Memorandum Account (Preliminary Statement Q – duplicate)
    14) Catastrophic Event Memorandum Account (Preliminary Statement R)
    15) Conservation Lost Revenue and Expense Memorandum Account (Preliminary Statement S)
- GOWC's proposal to establish a Pension Balancing Account, (section 16) and
- GOWC's off-tariff accounts :

17) Purchased Power Balancing Account
18) Pump Tax, Non-Agricultural Service and Agricultural Service (two separate accounts)
19) True-up Interim Rates to Final Rates
20) Multiple Accounts Recovery (two separate accounts)

1. Santa Clara Valley Water District (SCVWD) Memorandum Account (Preliminary Statement F)

See Chapter 17 for ORA's discussion and recommendation for this account.

2. Military Family Relief Program (MFRP) Memorandum Account (Preliminary Statement G)

The Military Family Relief Program (MFRP) Memorandum Account, authorized via Advice Letter 175-W in 2005, was established to record Military Family Relief Program cost and uncollectible amounts resulting from compliance with the California Military Families Financial Relief Act of 2005 as described Rule No. 23 of GOWC's tariff. Rule 23 provides water utility service shutoff protection for a 180-day period to families of service members who are called to active duty. GOWC states that there are no entries and therefore no balance in the MFRP Memorandum Account as of June 30, 2015.[337] GOWC requests the continuation of this account stating that the basis for establishing the account has not changed.[338]

While GOWC may be correct that the impetus to establish the account has not changed, the fact that the account has not had a single entry in the nearly ten years since it was established suggests the lack of need for the account. ORA recommends the Commission order GOWC to close the account and remove all references to the account from the Preliminary Statement G.

[337] GOWC Supplemental Response to DR MC8-001, question 1, September 11, 2015.
[338] A.15-07-001, p. 9

3. Low-Income Customer Assistance Program Memorandum Account (Preliminary Statement H)

See Chapter 16 addressing ORA's discussion and recommendations on the Low-Income Customer Assistance Program and related requests.

4. City of San Jose Litigation Memorandum Account (Preliminary Statement I)

This account discussion is included in Appendix G due to the inclusion of some information that GOWC designated as confidential.

5. Monterey-Style Water Revenue Adjustment Mechanism Account (Preliminary Statement J)

i. GOWC should amortize the residual account balances and the Commission should take no action on the new balance in the account through 6/30/15

GOWC has a Monterey-style Water Revenue Adjustment Mechanism (WRAM) balancing account that tracks quantity rate revenues collected under Tariff Schedule No. 1 General Metered Service Tiered Rates against revenues that would have been collected under uniform quantity rates. This revenue is from conservation rates charged to single-family (SF) residential customers.[339] Revenues recovered through service charges are not tracked or recovered through this account.[340] The account is described in GOWC's Tariff Preliminary Statement J.

The Monterey-Style Water Revenue Adjustment Mechanism Preliminary Statement refers to the account as a memorandum account. However the Commission should require GOWC to correct this tariff to state that the Monterey-Style Water Revenue Adjustment Mechanism is a balancing account. This is because D.10-11-034 authorizing the account was clear that it was modeling the

[339] Application 15-07-001, Exhibit D, Chapter 6, p. 4.
[340] GOWC Tariff Preliminary Statement J.1.

account on previously adopted Monterey-style WRAM account in Cal Am's Monterey District, which was a balancing account.[341]

GOWC provided the following background on the account:

> Great Oaks' Monterey-style WRAM (M-WRAM) account was authorized in D.10-11-034 and was implemented through the filing of Advice Letter 202-W. When Great Oaks first attempted to amortize the balance in the M-WRAM through its Advice Letter 217-W, flaws in the design of Great Oaks' conservation rates and the M-WRAM were revealed. See, e.g., Advice Letters 217-W – 218-W and Resolution W-4910. The Commission determined that the terms of the M-WRAM required modification and the terms were modified through the filing of Advice Letters 221-W and 222-W. It is believed that there was a gap in the authorization for the M-WRAM during this period of time when the terms of the M-WRAM were in flux.[342]

Since that time, GOWC has successfully requested and been authorized three surcharge recoveries through the M-WRAM account. **Table 15-B** summarizes the balances in the M-WRAM and three surcharges that the Commission has authorized to date that are being recovered in three separate balancing accounts.[343]

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[341] Monterey-Style WRAM adopted for Cal Am's Monterey district was a balancing account. See Decision 96-12-005 Ordering Paragraph 9, which states "Cal-Am is authorized to establish a new balancing account to record the variations in revenue incurred under the Water Revenue Adjustment Mechanism, with any balance to accrue interest at the 90-day commercial paper rate. Cal-Am is further authorized to file an advice letter to amortize any such balance at any time the balance exceeds 5% of gross annual revenues and is anticipated to exceed 5% of gross annual revenues within the following six months for the Monterey District."

[342] GOWC response to DR MC8-006, q. 7.a.iii.

[343] In ORA's Data Request LWA-001, question 9.a., ORA asked regarding the Monterey-style WRAM surcharges "[p]lease identify which balancing account these amounts are collected and recorded?" GOWC's response indicates in part that "[i]f ORA were to examine the spreadsheet pages associated with these described accounts (respectively, pages WP 2-A-11 RC, WP 2-A-19 RC, and WP 2-A-25 RC), ORA would see the balancing accounts where the M-

Table 15-B Monterey-Style Water Revenue Adjustment Mechanism Account (balances rounded to nearest dollar)

	6/30/2015 Balance[344]	Advice Letter	Amount Authorized in AL	Surcharge/ccf for SF Residential	ORA Recommendation
M-WRAM - Recover 5/9/11 to 2/11/12 - Surcharge: 5/13/12 to 5/12/13	($28,729.90) residual balance	223-W	($337,211)	$0.1013	Amortize residual balance and close
M-WRAM 2/11/12 to 4/16/12 gap	N/A	N/A	N/A	N/A	N/A
M-WRAM - Recover: 4/16/12 to 1/7/2013 - Surcharge 1/15/13 to 1/14/14	($15,864.02) residual balance	229-W-A	($278,075)	$0.0836	Amortize residual balance and close
M-WRAM - Recover 1/10/13 to 8/8/14 - Surcharge 9/2/14 to 9/1/15	($152,532.34) residual balance	242-W	($317,818)	$0.1059	Amortize residual balance and close
M-WRAM Memorandum (7/14/14 – 6/30/15)	($150,255.31)	N/A	N/A	N/A	Review for Reasonableness in Advice Letter

WRAM authorized surcharges collected are recorded." For this reason, ORA assumes the three authorized balances are each being amortized in three separate balancing accounts.

[344] "GOWC Supplemental Response to DR MC8-001(1).xls" provided to ORA September 11, 2015.

ORA verified the surcharge recoveries for each of the three surcharges:

1) Surcharge effective 5/13/12 to 5/12/13. ORA compared the “billings” shown in tab “2-A-11 RC” of “GOWC Supplemental Response to ORA Data Request MC8-001(1)” provided to ORA on September 11, 2015 to the billing data GOWC provided in response to ORA Data Request LWA-001, question 9 and did not find any discrepancies.[345]
2) Surcharge effective 1/15/13 to 1/14/14. ORA compared the “billings” shown in tab “2-A-19 RC” of “GOWC Supplemental Response to ORA Data Request MC8-001(1)” to the billing data GOWC provided in response to ORA Data Request LWA-001, question 9 and did not find any discrepancies.[346]
3) Surcharge effective 9/2/14 to 9/1/15. ORA compared the “billings” shown in tab “2-A-25 RC” of “GOWC Supplemental Response to ORA Data Request MC8-001(1)” to the billing data GOWC provided in response to ORA Data Request LWA-001, question 9 and did not find any discrepancies.[347]

The Commission should require GOWC to amortize each of the residual balances in the M-WRAM balancing accounts and implement surcharges to recover those residuals.

Regarding the account balance in the M-WRAM Memorandum, ORA requested supporting documentation in Data Request MC8-006, question 7.a.i. and 7.a.ii, which stated:

> “The following questions are regarding the file GOWC Response to MC8-001, tab “2-A-15-RCM-WRAM Memo” for the time period 7/14/2014 – 12/29/2014.
>
> i. Provide all calculations and supporting documentation behind the

[345] To verify the surcharge revenue ORA summed the 2012 surcharge 3 revenue of $191,567.41 shown in the file “GOWC Response to ORA Data Request LWA-001 (9d2)” and added that to the 2013 surcharge revenue from surcharge 3 of $117,150.50 shown in the file “GOWC Response to ORA Data Request LWA-001 (9d3).” ORA found a difference of $158.4.
[346] To verify the surcharge revenue ORA summed the 2013 surcharge 7 revenue of $230,854.46 shown in the file “GOWC Response to ORA Data Request LWA-001 (9d3)” and added that to the surcharge 7 revenue of $31,700.17 shown in the file “GOWC Response to ORA Data Request LWA-001 (9d4).”
[347] To verify the surcharge revenue ORA summed the 2014 surcharge 13 revenue from September through December 2014 of $60,978.59 shown in the file “GOWC Response to ORA Data Request LWA-001 (9d4)” and added that to the January – June surcharge revenue from surcharge 13 of $104,607.43 shown in the file “GOWC Response to ORA Data Request LWA-001 (9d5).”

> calculation of the "Actual Billed Tiered" column (including tariff sheets, actual sales volumes, billing data, and other relevant documentation).
> ii. Provide all calculations and supporting documentation behind the calculation of the "Projected Billed Uniform" (including tariff sheets, actual sales volumes, and other relevant documentation)."

In response GOWC stated "For subparts i and ii, see data submitted with Great Oaks Advice Letter 242- W. If you do not have access to or cannot find this data, please contact Great Oaks and a data disk will be sent to you with more than 11 MB of data."

ORA reviewed the data submitted with GOWC's Advice Letter 242-W, which contained information through June 27, 2014. However, this did not provide support for GOWC's balances from 7/14/14 through 12/29/14. The Commission should take no action on this account and ORA reserves the right to review and protest the account balance of ($150,255.31) when GOWC requests recovery of the balance through an Advice Letter.

ii. GOWC's Request to Modify the Monterey-Style WRAM to Trigger When Balance Reaches 2% of Single-Family Residential Revenues Instead of Total Revenues Should Be Denied

In Resolution W-4910, the Commission stated the following in regards to Advice Letter 217-W requesting to amortize the M-WRAM:

> GOWC calculates the two percent threshold for amortizing the Monterey-style WRAM using only the single-family residential revenue requirement. This is not consistent with what the Commission has allowed other utilities to do, which is to use total revenues, and not just single-family revenues, to calculate whether the two percent threshold is met [footnote omitted].[348]

[348] Resolution W-4910, P.6.

As a result, the Commission ordered GOWC to file a Tier 2 Advice Letter to clarify in GOWC's tariff that the two percent threshold is based on total authorized revenues.[349]

GOWC states that:

> [a]mortization of the balance in the WRAM account is triggered when the balance exceeds two percent (2%) of the Company's authorized total revenue requirement, even though the conservation rates only apply to single-family residential customers. The Company requests a modification to the terms of the WRAM account so as to permit amortization of the over- or under-collection in the WRAM account when the balance exceeds two percent (2%) of the Company's authorized revenue requirement for single-family residential customers.[350]

GOWC's rationale behind this request is two-fold:

> 1) It will result in more frequent amortization of the balance in the account thereby avoiding rate shock resulting from the higher surcharges that result when the higher amount (2% of the total revenue requirement) is amortized; and
> 2) It more closely tailors the amortization point of the account balance to the portions of the Company revenue that is affected by the Monterey-Style WRAM account (i.e., single-family residential customer revenues).[351]

ORA is not persuaded that rate shock is resulting from the current surcharges. The three surcharges to date have been between 8 and 11 cents per ccf. However, during the time period from January 15, 2013 through May 12, 2013 two M-WRAM surcharges were in effect

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[349] Resolution W-4910, Ordering Paragraph 2.
[350] Application 15-07-001, P. 5.
[351] Application 15-07-001, Exhibit D, Chapter 6, p. 4.

concurrently for a total surcharge of $0.1849.[352] Over the course of these three M-WRAM surcharges, an average customer using 10 ccf per month[353] has paid between $0.84 and $1.85[354] per month for M-WRAM surcharges, which is 2.2-4.9% of the average bill.[355]

Under GOWC's proposal, the customers would still have to pay the bulk of these charges. Thus, rate shock would not be affected, if it is experienced at all. If the surcharges rise to a level greater than 5% of the authorized revenue, the Commission's Standard Practice allows those balances to be recovered over a longer period of time which will reduce the impact on customer bills.[356] Notably the largest M-WRAM surcharge customers experienced was during January 15, 2013 through May 12, 2013 when two M-WRAM surcharges overlapped. Overlapping surcharges are more likely to occur if the account is amortized more frequently and this will not reduce rate shock. Also while using single-family residential customer revenues to calculate the 2% threshold is linked to the customer class that is affected by the Monterey-Style WRAM account, implementing this policy is not simple because the Commission does not adopt revenue requirements by customer class. Determining the single-family customer revenue requirement will involve estimation and judgment when GOWC submits its Advice Letter for amortization. This will make a simple Advice Letter filing to amortize the balance more complex and difficult to verify.

The Commission should reaffirm its direction from Resolution W-4910 that the two-percent threshold should be based on total authorized revenues and deny GOWC's request to trigger the

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[352] $0.0836/ccf for the surcharge approved in Advice Letter 229-W-A + $0.1013 for the surcharge approved in Advice Letter 223-W.
[353] 10 ccf per month is the average usage from Application 15-07-001, Exhibit C, Proposed Customer Notice.
[354] ($0.836 per ccf x 10 ccf per month) = $0.84 per month and ($0.1849 per ccf x 10 ccf per month) = $1.85 per month.
[355] Calculation is based upon the average 2015/2016 bill listed in A.15-07-001, Exhibit C, Proposed Customer Notice in the Bill Comparison table, excluding the CPUC Fee and City Utility Tax. This bill amount is $74.82 for two months, which equals $37.41. $0.84/$37.41 x 100 = 2.2% and $1.85/$37.41x 100 = 4.9%.
[356] Standard Practice U-27-W, Item 64.

amortization when the balance reaches 2% of authorized revenues for single-family residential customers.

6. Water Cost of Capital Adjustment Mechanism (Preliminary Statement K)

GOWC states that it requests the continuation of this account, that the purpose is to provide an automatic adjustment (up or down) to the Company's adopted return on equity, and that the reasons and basis for establishing the account have not changed.[357]

The Water Cost of Capital Adjustment Mechanism is not a balancing or memorandum account. It is a trigger mechanism that provides an adjustment to the adopted return on equity. Since the Water Cost of Capital Adjustment Mechanism was authorized in the cost of capital proceeding for the period ending June 30, 2016,[358] any changes to the mechanism or extensions of the mechanism need to be addressed in Great Oaks' next cost of capital application scheduled to be filed in 2017 and effective July 1, 2017.[359] The mechanism has benchmarks that change each year. Determining what the benchmarks should be as well as the reasonableness and appropriateness of the mechanism itself needs to be examined in the context of the cost of capital review.

Since the Water Cost of Capital Adjustment Mechanism is not a balancing or memorandum account and since it is a cost of capital issue, it is not appropriate to make recommendations on the mechanism in this GRC. The Commission should take no action on the Water Cost of Capital Adjustment Mechanism for GOWC.

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[357] A.15-01-007, p. 9.
[358] D.13-05-027.
[359] Letter granting extension with conditions from Timothy Sullivan, Executive Director, CPUC, January 8, 2015, and Response letter accepting conditions from California-American Water Company, California Water Service Company, Golden State Water Company and San Jose Water Company, January 20, 2015.

7. Certified Public Accountant Audit Cost Memorandum Account (Preliminary Statement L)

The purpose of the Certified Public Accountant Audit Cost Memorandum Account is to record and track expenses incurred by the utility in complying with Commission Decision 10-12-057, Ordering Paragraphs 5 – 10.[360] Those Ordering Paragraphs state:

> 5. Great Oaks Water Company must engage an independent Certified Public Accountant, with utility client experience, to perform a full and complete audit of the company beginning with all transactions as of January 1, 2009. Great Oaks Water Company must continue to have annual audits unless this requirement is rescinded by a future Commission decision.
>
> 6. Great Oaks Water Company must comply with the following minimum requirements in choosing a Certified Public Accountant for an annual audit required by the preceding Ordering Paragraph:
>
> > a. Great Oaks Water Company must solicit audit proposals from multiple Certified Public Accountants who are experienced in auditing regulated public utilities in California.
> >
> > b. Great Oaks Water Company must submit its request and copies of all bids to the Director of the Commission's Division of Water and Audits within 10 days of issuance or receipt, respectively.
> >
> > c. Great Oaks Water Company must prepare and submit to the Director of the Division of Water and Audits a written summary of its evaluation of the proposals and all the criteria applied to the selection process within 21 days of selecting a Certified Public Accountant.

[360] GOWC Preliminary Statement L. 1.

d. Following preapproval, Great Oaks Water Company must submit a copy of an executed engagement letter to the Director of the Division of Water and Audits within 10 days of its execution. These documents shall all be confidential pursuant to General Order 66-C.

7. Great Oaks Water Company must file a Tier 2 advice letter for preapproval of its selection process for engaging its selected Certified Public Accountant. Great Oaks Water Company may solicit and retain a Certified Public Accountant for multiple annual audits; the required preapproval sought by advice letter may cover that multi-year period. The advice letter must include the following information:

a. The audit proposal and copies of all bids;

b. The written summary of its evaluation of the proposals and all the criteria applied to the selection process;

c. Any other justifications for the proposed selection;

d. The scope of the audit engagement;

e. The draft engagement letter; and

f. The cost of the audit engagement.

These documents shall all be confidential pursuant to General Order 66-C.

8. Great Oaks Water Company must submit all annual audited financial statements, the related disclosures and the attest opinion of the Certified Public Accountant to the Division of Water and Audits (or successor organization) annually on or before March 31 of the subsequent year beginning on March 31, 2012 for calendar year 2011. The 2009 and 2010 audited financial statements must be completed and submitted on or before October 31, 2011. The audited financial statements must be filed concurrent with filing the Annual Report required by General Order 104-A.

> 9. Great Oaks Water Company may file a Tier 1 advice letter to establish a Certified Public Accountant Audit Cost Memorandum Account which shall accrue interest using 1/12 of the most recent month's interest rate on Commercial Paper (prime, three months), published in the Federal Reserve Statistical Release, G.13.
>
> 10. Great Oaks Water Company may file a Tier 3 advice letter to amortize reasonable costs recorded in the Certified Public Accountant Audit Cost Memorandum Account concurrent with other balancing accounts' or memorandum accounts' recovery on an annual basis.

GOWC's workpaper shows three line items related to this account: "2009 & 2010 Audits," which is listed as a balancing/reserve account, "2011 Audit Cost Memorandum," and "2012 Audit Cost Memorandum" that are listed as memorandum accounts.[361]

GOWC requests to combine the balance in the "AL 225-W-A Audit Cost Balancing Account" with the balance in four balancing accounts and amortize the combined balance.[362]

"2009 & 2010 Audits"

Resolution W-4928, dated August 2, 2012, resolved GOWC's request in Advice Letter 225-W to recover the balance in the account of ($139,261.26) as of January 3, 2012 for the 2009 and 2010 audits. The surcharge approved via this resolution was for a 12 month period and it ended in August 2013. The residual remaining in the account is a credit to customers of $11,173.19. This amount should not be combined with other balances but should simply be amortized and returned to customers.

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[361] See "GOWC Supplemental Response to ORA Data Request MC8-001(1).xls," tab "1-A-1."
[362] A.15-07-001, p. 8.

"2011 Audit Cost Memorandum" and "2012 Audit Cost Memorandum"

Resolution W-4973 approved GOWC's request to recover ($48,586) for the 2011 audit cost and ($46,014) for the 2012 audit cost.[363] GOWC has not conducted any further audits since 2012.[364] These balances have been fully amortized and the account balances are $0 as of June 30, 2015.[365] The Commission should require GOWC to close the Certified Public Accountant Audit Cost Memorandum Account.

Results of Most Recent Audit Report

ORA examined the most recent audit report from 2012 and notes that the independent auditor did not find any instances of improper accounting in GOWC's financial statements. The opinion of the auditor was that "In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great Oaks Water Company as of December 31, 2012, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America."[366]

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[363] Resolution W-4973, Finding and Conclusion 2, and p. 4.
[364] GOWC Response to DR LWA-002, q. 8. a.
[365] See "GOWC Supplemental Response to ORA Data Request MC8-001(1).xls," tab "1-A-1."
[366] GOWC Response to ORA Data Request LWA-2, question 9, attachment "GOWC Response to ORA Data Request LWA-002(9).

8. 2010 Tax Act Memorandum Account (Preliminary Statement M)

GOWC requests continuation of this account and states that the reasons and basis for establishing the account have not changed.[367] The purpose of the account is to track on a CPUC-jurisdictional, revenue-requirement basis the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act) not otherwise reflected in rates from April 14, 2011 until the effective date of the revenue requirement changes in the Utility's next General Rate Case.[368] GOWC established this account in accordance with Resolution L-411A. GOWC reports that the balance in this account is $0 because there are no entries in the account.[369]

ORA asked GOWC in Data Request LWA-002, question 10.a.: "Does any of the business property GOWC placed in service after September 8, 2010 through December 31, 2014 qualify for bonus depreciation under Section 168(k) of the IRC?" GOWC responded on September 17, 2015 that "Great Oaks has requested information on this data request from its tax preparer and will provide a supplemental response as soon as possible." As of October 19 when publishing this report, GOWC still has not responded to this question.

Given GOWC's response to ORA's questions regarding Bonus Depreciation, ORA does not know whether GOWC has any qualifying property.

The reasons and basis for establishing the account have changed and the federal government has not extended the bonus depreciation tax benefit beyond 2014. Furthermore, since GOWC has not noted any benefit from the Tax Relief Act since 2010 when it was enacted, it is unlikely that GOWC will experience a benefit going forward and the memorandum account is unnecessary.

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[367] A.15-07-001, p. 9.
[368] GOWC Tariff Preliminary Statement M.
[369] GOWC Supplemental Response to DR MC8-001, July 17, 2015.

The memorandum account should close and be removed from GOWC's preliminary statement tariff.

9. Contamination Proceeds Memorandum Account (Preliminary Statement N)

GOWC requests continuation of this memorandum account and states that the reasons and basis for establishing the account have not changed.[370] The purpose of the Contamination Proceeds Memorandum Account is established in accordance with D.10-10-018 to account for funds received by the Utility in the form of damage awards and settlements from parties responsible or allegedly responsible for contamination of the Company's water supply and/or plant in service.[371]

GOWC received a settlement payment of $654,800.07 due to a 2003 MTBE contamination and credited the account when it was first opened in September 2012 via Advice Letter 228-W-A. Since that time the account balance had not earned interest in GOWC's workpaper provided in response to ORA MC8-001, question 1.a. According to GOWC, this is because it is not required to earn interest under the authorization for the account.[372] It is unusual for a memorandum or balancing account not to earn interest and GOWC records interest for every other memorandum and balancing account that GOWC has. Furthermore, interest is required to be tracked in accordance with Standard Practice U-27-W.[373] GOWC included a calculation of interest in its September 11, 2015 Supplemental response to MC8-001. Interest from September 2012 through June 30, 2015 is $2,207.22.

GOWC has not spent any money on replacement or remediation due to the 2003 MTBE contamination as of September 4, 2015.[374] GOWC states that its "[r]eplacement or remediation

[370] A.15-07-001, p. 9.
[371] GOWC Tariff Preliminary Statement N.
[372] GOWC response to DR MC8-006 q. 5.a.ii.
[373] See Item 54.
[374] GOWC response to DR LWA-001, q. 7.a.

needs due to the 2003 MTBE contamination are presently unknown. See Advice Letter 228-W-A."[375]

The Commission should require GOWC to amortize the balance in the account $657,007.29 as of June 30, 2015 in a credit to customers distributed as soon as possible. ORA agrees with GOWC that the account should remain open for any future contamination damage awards or settlements.

10. Employee Health Insurance Memorandum Account (Preliminary Statement O)

The Company requests continuation of this memorandum account and states that the reasons and basis for establishing the account have not changed.[376] The account records incremental increases in employee health insurance expenses resulting from the Patient Protection and Affordable Care Act (ACA).[377] This account was established in D.13-05-020 adopting a settlement between ORA and GOWC.

However, since the account was established, there have been no entries into the account and the balance in the account is $0.[378] The account should be closed. The ACA was signed into law on March 23, 2010 and implemented health care insurance changes primarily from 2010 through 2014.[379] Although there are still changes occurring in 2015 and beyond, the key features of the law have been implemented.[380] The effects of the law on GOWC's costs should be captured in recorded numbers and there is no need for this memorandum account going forward. Since the balance in the account is $0 and there have not been any entries during the years the key features of the ACA were implemented, this provides further support that there is no need to continue the Employee Health Insurance Memorandum Account going forward.

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[375] GOWC response to DR LWA-001, q. 8.b.
[376] A.15-07-001, p. 10.
[377] GOWC Tariff Preliminary Statement O.
[378] GOWC's Supplemental Response to DR MC8-001, July 17, 2015.
[379] http://www.hhs.gov/healthcare/facts/timeline/timeline-text.html, accessed September 2, 2015.
[380] http://www.hhs.gov/healthcare/facts/timeline/timeline-text.html, accessed September 2, 2015.

11. Debt Issuance Memorandum Account (Preliminary Statement P)

The Debt Issuance Memorandum Account was established pursuant to D.13-05-027 adopting a settlement between ORA and GOWC.[381] The purpose of the memorandum account is to record additional costs, including, but not limited to outside legal counsel and consulting services, business reorganization, audit, accounting, and tax preparation, associated with issuing debt during the period of time from July 1, 2013 through June 30, 2016.[382] GOWC does not mention in its application any proposal for this account.

On October 10, 2014 GOWC did issue $4,000,000 in long term debt[383] to John Roeder.[384] Nevertheless, since the account was established, GOWC reports that there have been no entries into the account and the balance in the account is $0.[385]

D.13-05-027 authorized this account through June 30, 2016. Within 30 days of June 30, 2016, GOWC should be authorized to file a Tier 3 Advice Letter to amortize any balance in the account and close the account and remove it from the preliminary statement tariff. If there is no balance in the account as of June 30, 2016, GOWC should be required to submit a Tier 1 Advice Letter to close the account and remove it from the preliminary statement tariff.

12. A.09-09-001 Limited Rehearing Under-Collection Balancing Account (Preliminary Statement Q)

The A.09-09-001 Limited Rehearing Under-Collection Balancing Account [386] was authorized by Decision 13-11-009 adopting a settlement between ORA and GOWC for a surcharge to recover

[381] GOWC Tariff Preliminary Statement P.
[382] GOWC Tariff Preliminary Statement P.
[383] GOWC Annual Report, Schedule A-26.
[384] D.14-09-006 Attachment A Settlement Agreement Section 2.
[385] GOWC's Supplemental Response to DR MC8-001, July 17, 2015
[386] This account is also referred to in GOWC's workpaper as the "Settle 2009 GRC DPAD Calc & Mgmt Lbr Alloc To Non Utility Activities." GOWC confirmed that this is the same account in response to ORA Data Request MC8-006

$276,351 to be spread over test year 2013/2014 adopted sales forecast resulting in a surcharge of $0.0576 per ccf for a 12 month period. The account had an under-collected balance of ($13,938.91) on June 30, 2015.[387] The amount in this account is a residual from a surcharge that did not recover the full amount of under-collection. The Commission should require GOWC to file an Advice Letter to amortize the June 30, 2015 residual balance in the account and close the account and remove it from GOWC's Tariff Preliminary Statement.

13. CDPH Chromium-6 Compliance Memorandum Account (Preliminary Statement Q - duplicate)

GOWC requests continuation of this memorandum account and states that the reasons and basis for establishing the account have not changed.[388] The purpose of this account is to track expenditures (capital and operating costs) due to compliance with the final Chromium-6 Maximum Contaminant Level or drinking water standard adopted by the California Department of Public Health.[389] GOWC's tariff states that this memorandum account is to be closed as part of this GRC pursuant to a reasonableness review.[390]

ALJ Kelly's 8/5/15 ruling states:

> Resolution W-4965 provides Great Oaks the authority to track costs associated with complying with the adopted chromium-6 MCL. Resolution W-4965 determined that the CDPH Chromium-6 Memorandum Account should be reviewed and closed as part of this general rate case proceeding.
>
> Chromium 6 was last sampled in 2014 and the results were at 7.7 parts per billion (ppb) (E-mail from Water Board staff on July 28, 2015). The highest chromium 6 level sampled in 2013 was 8.3 ppb. These results are lower than the chromium 6 MCL of 10 ppb.

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[387] "GOWC Supplemental Response to ORA Data Request MC8-001(1)," provided to ORA on September 11, 2015.
[388] A.15-01-007, p. 10.
[389] GOWC Tariff Preliminary Statement Q (duplicate), item 1.
[390] GOWC Tariff Preliminary Statement Q (duplicate), item 2.

> Since the samples are less than 10 ppb, the monitoring requirements provide future monitoring on an annual basis.
>
> Consistent with the recent monitoring results it does not appear that Great Oaks' will incur treatment costs for chromium-6 in the next three years that would necessitate keeping the Memorandum Account for Chromium VI. Within 20 days of this ruling Great Oaks shall provide evidence as to why any future treatment costs which may be required cannot be addressed in a Tier 2 AL.

In its August 24, 2015 response to the ALJ's Ruling, GOWC stated:

> Great Oaks does not dispute that, so far, chromium-6 sampling has produced results below the MCL established for compliance purposes. Great Oaks requests that it be provided with all communications on this subject, including the "Email from Water Board staff on July 28, 2015" referenced in the ALJ Ruling. With those communications, Great Oaks will be better able to understand the process behind the information request on this subject. Upon receipt of the requested communications, Great Oaks will agree not to pursue its request continuation of the CDPH Chromium-6 Compliance Memorandum Account and will recover any associated costs through other Commission procedures.

Since the CDPH Chromium-6 Compliance Memorandum account was established on December 5, 2013,[391] there have been no entries into the account and the balance in the account is $0.[392] The Commission should require GOWC to submit an Advice Letter closing the account and removing it from GOWC's preliminary statement tariff.

[391] See Resolution W-4965.
[392] "GOWC Supplemental Response to ORA Data Request MC8-001(1)," provided to ORA on September 11, 2015.

14. Catastrophic Event Memorandum Account (Preliminary Statement R)

GOWC requests continuation of this account and states that the reasons and basis for establishing the account have not changed.[393] The Catastrophic Event Memorandum Account was authorized by CPUC Resolution E-3238, dated July 24, 1991. The purpose of the Catastrophic Event Memorandum Account is to record and recover the costs associated with the restoration of service and utility facilities affected by a catastrophic event declared to be a disaster or state of emergency by competent federal or state authorities.[394]

There have been no entries into the account and the account balance is $0 as of June 30, 2015.[395] The Commission should authorize this account to continue in case of a catastrophic event declared to be a disaster or state of emergency.

15. Conservation Lost Revenue and Expense Memorandum Account (Preliminary Statement S)

The purpose of the Conservation Lost Revenue and Expense Memorandum Account, as stated in GOWC's Preliminary Statement S is "to remove the financial disincentive to conserve under the policy of the California Public Utilities Commission (CPUC), and promote conservation consistent with the Governor's Emergency Drought Declaration of January 17, 2014." The account has a balance of ($675,216.41) as of June 30, 2015. The Conservation Lost Revenue and Expense Memorandum Account was established in accordance with Resolution W-4976, adopting drought procedures for water conservation, rationing and service connection moratoria, dated February 27, 2014.

It would be inappropriate to amortize the balance in this GRC as of June 30, 2015 because the Tariff Preliminary Statement S and Resolution W-4976 explain that as part of the procedure for

[393] A.15-01-007, p. 10.
[394] GOWC Tariff Preliminary Statement R.
[395] "GOWC Supplemental Response to ORA Data Request MC8-001(1)," provided to ORA on September 11, 2015.

recovery of the account balance "the balance shall be reduced by an amount equal to a 20-basis point reduction in the most recently adopted return on equity for the utility. Then, if necessary, the utility shall further reduce the balance in the Memorandum Account to a level sufficient to ensure that such recovery does not cause the utility to exceed its authorized rate of return for the period covered by the Memorandum Account."[396] The drought is still ongoing and thus the calculation has not been applied to the account balance yet for the time period covered by the Memorandum Account. GOWC should continue to track the balance in the account until the end of the drought and then amortize the balance in accordance with Tariff Preliminary Statement S and Resolution W-4976.

However, ORA examined the account entries in the column of GOWC's workpaper labeled "Conservation Expenses Not Already Included In Rates."[397] One adjustment should be made to the running account balance now and further adjustments may be warranted once the Commission conducts the full reasonableness review of the account balance.

It is clear that the account is intended to track costs incremental to those costs already included in rates.[398] However, GOWC booked into the account 50 email replies at 15 minutes each, 45 individual letters including the labor to develop each letter. All of this work was conducted by Tim Guster,[399] whose salary and benefits are covered by ratepayer-funded rates and for this reason these costs are not incremental to costs already included in rates.

When ORA asked GOWC to provide supporting documentation to show that the salaries and benefits of the employee(s) or person(s) who provided the 50 email replies at 15 minutes each

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[396] Preliminary Statement S Section 4.d.
[397] GOWC Supplemental Response to ORA Data Request MC8-001(1), Tab "2-A-24 RC Conservation Memo," column K.
[398] Under the accounting procedures portion of GOWC's Tariff Preliminary Statement S, it states in part that "the following entries shall be recorded monthly in the Memorandum Account . . . Expenses of the utility associated with conservation not already included in rates."
[399] GOWC response to DR MC8-006, question 4. d.

and the labor for the 45 individual letters are not otherwise included in rates, GOWC declined and instead asserted that "[t]he conservation programs did not exist at the time salaries and benefits for Great Oaks were authorized in D.13-05-020. All actions of employees related to additional conservation actions are incremental additional costs and are in addition to actions for which salaries and benefits were authorized in D.13-05-020."[1] This explanation is not credible as Great Oaks does not experience additional costs when one of its executives spends a few hours to communicate with customers regarding drought messaging and ratepayers should not shoulder additional dollars for this work. Booking labor costs already in rates in the Conservation Lost Revenue and Expense Memorandum Account is not consistent with the Tariff Preliminary Statement S or Resolution W-4976 that require costs booked to the account to be incremental to those costs already included in rates. The Commission should direct GOWC to remove this entry and other similar entries to the memorandum account and to discontinue such entries to the account going forward.

16. GOWC Request for a Pension Expense Balancing Account

GOWC requests a pension expense balancing account and provides the following explanation:

> . . . due to changes in Company personnel (retirement and resignation of more senior employees and the hiring of new and younger employees) and investment rates of return, the amounts needed to maintain funding at the same 110% level have changed. To ensure necessary funding of the plan, the Company is proposing to revise the schedule of funding (as shown in Exhibit E, GRC Workpapers, A&G Expenses, p. WP-6) and request the addition of a balancing account to ensure that the plan is neither over- or under- funded and that the expenses associated with such funding are neither over- nor under-collected through rates.[400]

[400] A.15-07-001, Exhibit D, Report on Results of Operations, Chapter 5 Operating Expenses, Section I.C.24.

As explained in Chapter 5 regarding pension expenses, the settlement adopted in D.13-05-020 is binding on both GOWC and ORA. Specifically, D.13-05-020 stated in Conclusion of Law 8 that "[a] seven-year schedule, with updated assumptions in the actuarial modeling for the employer contributions, as follows: $680,000 per year beginning in Test Year 2013/2014 through rate year 2020/2021 is reasonable." Thus, D.13-05-020 adopted a seven-year schedule of funding for pension expenses with no balancing account. It would be inappropriate to disrupt the settlement by modifying the funding schedule for pensions (as addressed in Chapter 5 of this report) or to add a balancing account.

17. Purchased Power Balancing Account:

GOWC requests that it be authorized to maintain its Purchased Power balancing account. The account tracks the difference between adopted power rates and actual power rates multiplied by actual kilowatts used per the applicable rate schedule.[401] The June 30, 2015 balance in the account is ($149,230.53).[402]ORA reviewed GOWC's purchased power invoices for the sample month of June 2014 and did not note any discrepancies. GOWC should be authorized to continue to maintain the Purchased Power balancing account and amortize the balance as of June 30, 2015.

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[401] A.15-07-001, p. 7.
[402] "GOWC Supplemental Response to ORA Data Request MC8-001(1)," provided to ORA on September 11, 2015.

18. Pump Tax – Non-Agricultural Service and Agricultural Service

GOWC has two Incremental Cost Balancing Accounts for pump tax; one for non-agricultural service pump tax and one for agricultural service pump tax.[403] GOWC states that each account tracks "[o]ver-collections and under-collections of pump tax pass-through costs resulting only from administrative and other delays, not from changes to or elimination of the pump tax rate."[404]

Based on its review of information related to GOWC's pump tax balancing accounts, ORA recommends the following:

a. The Commission should require GOWC to use the adopted Weighted Rate methodology for pump tax offset Advice Letters.
b. The Commission should require correction of two errors in GOWC's calculation of surcharge revenue.
c. The Commission should require GOWC to explain and correct billing discrepancies for surcharges from Advice Letters 210-W and 227-W in July and August 2013.

1. The Commission Should Require GOWC to Use the Adopted Weighted Rate Methodology for Pump Tax Offset Advice Letters

Consistent with ORA's recommendation for calculation of groundwater charges in Account 700 (see Chapter 4), GOWC should use the adopted Weighted Rate for pump tax to calculate GOWC's pump tax offset Advice Letters. As discussed in Chapter 4, the Commission should adopt a Weighted Rate for the pump tax methodology based on each Zone's actual water production ratio for 2014/2015 multiplied by the most recent pump tax rates.

2. The Commission Should Require Correction of Two Errors in GOWC's Calculation of Surcharge Revenue

ORA identified two errors in GOWC's calculation of pump tax surcharge revenue (the errors affect both the non-agricultural and agricultural service accounts) and recommend correction to

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[403] A.15-07-001, p. 7.
[404] A.15-07-001, p. 7.

these errors. The first error GOWC agreed to and submitted a revised calculation to ORA (herein referred to as Error 1). The second error, to which GOWC did not agree, involves the same concept and ORA separately made the correction in its workpaper (herein referred to Error 2).

<u>Correction of Error 1, to which GOWC agreed</u> – Both errors mentioned above relate to the calculation of revenue billed during the two months after implementing or stopping a new surcharge. Since GOWC has a two-month billing cycle, it takes two months for the billing to all customers to fully transition to a new rate (such as a new surcharge rate). During the two-month period after a new surcharge is implemented, customer bills (which GOWC prepares and sends out each week) are pro-rated to bill some of the total water usage without the new surcharge and the (supposed) balance of the usage with the new surcharge. This time period is the "revenue lag" period. However, existing pump tax surcharges from the prior years' pump tax cost increases should be unaffected by the current year's "revenue lag" period.[405]

On 7/1/2014, GOWC received approval for a new pump tax surcharge (via Advice Letter 241-W) and the months of July and August 2014 make up the two-month "revenue lag" period. GOWC's revenue lag calculation was correct during those two months. However, GOWC's calculation of the balancing account revenue during July and August of 2014 did not include surcharge revenue associated with the existing surcharge that was also effective during July and August 2014.[406] Because that existing pump tax surcharge was in effect and GOWC was recovering revenue from it during July and August 2014, revenue from the surcharge should be included in the revenue calculation.

[405] Because pump tax rates can change annually, there may be more than one surcharge in between GRCs.
[406] GOWC response to DR MC8-001, tab "2-A-2 JR-3" cells E136 and E137 and tab "2-A-3 JR-3" cells E135 and E136. Those cells show only the revenue associated with the new surcharge, however the old surcharge of $0.1192 was still ongoing during that time and should not be excluded.

GOWC corrected this calculation and reflected the correction in its file "GOWC Supplemental Response to ORA Data Request MC8-001(1)" sent to ORA on September 11, 2014. ORA accepts the corrected calculation during these two months. The effects of this correction on the revenue component of the non-agricultural and agricultural pump tax balancing accounts are shown in the following tables. The revenue component is the revenue into the pump tax balancing accounts excluding the effect of interest.

Table 15-C: Effect of Correcting Error 1 on Revenue Component of Non-Agricultural Service Pump Tax Balancing Account.

Month/Year	Revenue Component[407]	Corrected Revenue Component[408]	Difference
July 2014	$38,488.38	$100,939.26	$62,450.88
August 2014	$52,982.00	$113,064.53	$60,082.53
Total	$91,470.38	$214,003.79	$122,533.41

Table 15-D: Effect of Correcting Error 1 on Revenue Component of Agricultural Service Pump Tax Balancing Account.

Month/Year	Revenue Component[409]	Corrected Revenue Component[410]	Difference
July 2014	$93.48	$309.48	$216.00
August 2014	$182.46	$389.38	$206.92
Total	$275.94	$698.86	$422.92

[407] GOWC response to DR MC8-001, tab "2-A-2 JR-3" cells F136 and F137.
[408] GOWC Supplemental Response to DR MC8-001(1), provided to ORA on 9/11/15.
[409] GOWC response to DR MC8-001, tab "2-A-3 JR-3" cells F135 and F136.
[410] GOWC Supplemental Response to DR MC8-001(1), provided to ORA on 9/11/15 tab "2-A-3 JR-3" cells F135 and F136.

The tables above show that correcting Error 1 results in an increase of $122,533.41 to the revenue component for the non-agricultural service pump tax balancing account and $422.92 for the agricultural service pump tax balancing account, for a total of $122,956.33. This increase to the revenue component in turn increases the account balance by a total of $122,956.33 plus interest to be refunded to ratepayers.

<u>Correction of Error 2, to which GOWC did not agree</u> - The second error also relates to revenue lag associated with stopping a surcharge or existing rate. When a surcharge expires, similar to when a surcharge is implemented, customer bills sent out each week are pro-rated to reflect and approximate the portion of total water usage that occurred while the existing surcharge was in effect and the corresponding surcharge. For example, if a surcharge expires mid-way through a customer's 60-day billing cycle, only usage for the first 30 out of the 60 days (approximated by simple proration based on number of days) would be subject to the existing surcharge.

On July 1, 2013, GOWC stopped two existing surcharge rates and implemented a new surcharge rate in accordance with Advice Letter 232-W which states that surcharges from Advice Letters 210-W and AL 227-W expire on July 1, 2013. However, GOWC's calculation of surcharge revenue did not model the revenue impacts of stopping the surcharges on that date.[411] GOWC's calculation assumes that $0 revenue associated with the stopped surcharge would be recovered after July 1, 2013.

To confirm that GOWC recovered revenue from the surcharges from Advice Letters 210-W and 227-W after July 1, 2013 during the revenue lag period, ORA examined sample bills from each billing period during July and August 2013. Those bills confirmed that bills from July and August 2013 were still billing usage from prior to July 1, 2013 and that usage was billed at the

[411] GOWC response to DR MC8-001, tab "2-A-2 JR-3" cells E113, E114, and E115 for Non-Agricultural Service and tab "2-A-2 JR-3" cells E113 and E114 for Agricultural Service.

Advice Letters 210-W and 227-W surcharge rates. (See summary **Table 15-E** below for more detail on the exact amounts billed).

ORA corrected this in its surcharge revenue calculation workpaper using GOWC's revenue lag calculation that it used in July/August 2014. The effect of this correction is shown in the tables below.

Table 15-E: Effect of Correcting Error 2 on Revenue Component of Non-Agricultural Service Pump Tax Balancing Account.

Month/Year	Revenue Component[412]	ORA-Corrected Revenue Component	Difference
July 2013	$26,304.72	$118,427.25	$92,122.53
August 2013	$50,454.70	$83,910.32	$33,455.62
Total	$76,759.42	$202,337.57	$125,578.15

Table 15-F: Effect of Correcting Error 2 on Revenue Component of Agricultural Service Pump Tax Balancing Account.

Month/Year	Revenue Component[413]	ORA-Corrected Revenue Component	Difference
July 2013	$7.00	$19.82	$12.82
August 2013	$1,401.17	$1,887.33	$486.16
Total	$1,408.17	$1,907.15	$498.98

The tables above show that the effect of correcting Error 2 is an adjustment to the revenue component of the account of $125,578.15 for the non-agricultural service balancing account and

[412] GOWC response to DR MC8-001, tab "2-A-2 JR-3" cells F113 through F 115.
[413] GOWC response to DR MC8-001, tab "2-A-3 JR-3" cells F113 and F114.

$498.98 for the agricultural service balancing account. This $126,077.13 combined adjustment to the revenue component in turn increases the balance in the pump tax accounts by $126,077.13 plus interest to be refunded to ratepayers.

ORA updated the calculations for both the Non-Agricultural and Agricultural pump tax balancing accounts to correct errors in the revenue component and the resulting balancing account balances are as shown below. The impact of the Error 2 adjustment to the balances is an increase of $126,402.29 ($125,902.09 + $500.20 shown in **Table 15-G** below) to be refunded to ratepayers.

Table 15-G: Adjusted Balances for Non-Agricultural and Agricultural Pump Tax Balancing Accounts

June 30, 2015 balance	**Non-Agricultural**	**Agricultural**
GOWC[414]	$253,951.31	$1,197.69
ORA	$379,853.40	$1,697.89
Difference	$125,902.09	$500.20

3. The Commission should require GOWC to Explain and Correct Billing Discrepancies For Surcharges from Advice Letters 210-W and 227-W in July and August 2013.

To verify the revenue lag in July and August 2013, ORA examined example customer bills for each billing cycle in July and August 2013.[415] **Table 15-H**: below summarizes information from those example bills:

[414] GOWC Supplemental Response to DR MC8-001(q. 1), provided to ORA on 9/11/15.
[415] GOWC response to DR LWA-002, q. 12.

Table 15-H: Pump Tax Surcharges From Example Customer Bills For Each Billing Cycle in July and August 2013.

					CCF Quantity Billed at Each Pump Tax Surcharge		
Bill #	Service Dates	Total Usage, Ccf (a)	Usage before July 1, 2013, Ccf (b)	Usage July 1, 2013 forward, Ccf (c)	Advice Letter (AL) 210-W Surcharge $0.1010/Ccf (d)	AL 227-W Surcharge $0.1087/Ccf (e)	AL 232-W Surcharge $0.1192/Ccf (f)
1	4/23/13 - 7/2/13	52	51.26	0.74	52	52	0.74
2	4/30/13 - 7/9/13	19	16.83	2.17	19	19	2.17
3	5/7/13 - 7/16/13	47	36.93	10.07	36.26	36.26	10.07
4	5/14/13 - 7/23/13	44	30.17	13.83	29.54	29.54	13.83
5	6/20/13 - 8/21/13	32	10.06	21.94	9.14	9.14	21.94
6	5/28/13 - 8/6/13	21	10.2	10.8	9.9	9.9	10.8
7	6/4/13 - 9/10/13	21	8.1	12.9	7.8	7.8	12.9
8	6/11/13 - 8/20/13	25	7.14	17.86	6.79	6.79	17.86
9	7/25/13 - 8/22/13	33	0	33	0	0	33

All the data from **Table 15-H** is from the bills GOWC provided in GOWC's response to ORA Data Request LWA-002, question 12. The nine example bills summarized in Table 15-H show that bills issued after July 1, 2013 still have usage billed at the surcharge rates approved in ALs 210-W and 227-W (old surcharge rates) for water used prior to July 1, 2013.

While GOWC applies the Advice Letter 232-W surcharge rate effective July 1, 2013 (new surcharge rate) to the proper usage amount from July 1, 2013 forward, GOWC in some instances applied the old surcharge rates to incorrect usage amounts. The correct usage amounts for the old surcharges would be for usage prior to July 1, 2013. However, in Bills #1 and #2, GOWC applied the old surcharge rates to usage amounts that are greater than the correct usage amounts, and in Bills #7 and #8, GOWC applied the old surcharge rates to amounts that are less than the correct usage amounts. Another way of looking at this is because the older and newer surcharges do not overlap, the columns (d) and (f), or columns (e) and (f), should add up to the total usage in column (a); however, for the bills just mentioned, they do not add up.[416]

ORA recommends that the Commission require GOWC to provide an explanation for each bill during July and August 2013 where the volume of water billed at the Advice Letters 210-W and 227-W surcharge rates are different than the volume of water used before July 1, 2013 as reported on the customer's bill. GOWC should file a Tier 3 Advice Letter identifying each of the bills during July and August 2013 where there is a similar discrepancy and providing an explanation for each as well as a correction to the billing amount, where appropriate.

19. True Up Interim Rates to Final Rates

The True Up Interim Rates to Final Rates account has a balance of $0 as of June 30, 2015.[417] GOWC's workpaper shows that this account is for the recovery of a memorandum account balance requested through Advice Letter 215-W for recovery from September 2009 to March 7, 2011.[418]

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[416] Bill #1, for example, has the older surcharge rates applied to 52.00 Ccf and new surcharge rate applied to 0.74 Ccf. These two usage amounts add up to 52.74 Ccf, which is greater than the total usage for this bill.

[417] "GOWC Supplemental Response to DR MC8-001(q. 1)," provided to ORA on September 11, 2015.

[418] "GOWC Supplemental Response to DR MC8-001(q. 1)," provided to ORA on September 11, 2015, Tab "2-A-9 RC."

20. Multiple Accounts Recovery (2 accounts)

GOWC's workpaper shows two accounts to recover multiple over (under) collected amounts. Neither account is shown on the Tariff Preliminary Statement.

The first account has a $0 balance and is labeled "Recovery of Multiple Over (Under) Collected."[419] GOWC's workpaper shows that this balancing account is to recover the balances approved in Advice Letter 224-W.[420] The Commission should require GOWC to file an Advice Letter to close this balancing account.

The second account is labeled "Recovery: Multiple Balancing & Memorandum Accounts Over (Under) Collection."[421] This account has a residual balance of ($20,588.61) as of June 30, 2015from a previously approved balance via Advice Letter 234-W. The Commission should authorize GOWC to file an Advice Letter to amortize the residual balance in this account and close the account.

D. CONCLUSION

The Commission should require GOWC to file an Advice Letter to close eight memorandum accounts, amortize and close one additional memorandum account and keep three memorandum accounts open. The Commission should require GOWC to file an Advice Letter to close two balancing accounts, to amortize and close five additional balancing accounts, and amortize ORA's recommended balances and keep the five remaining balancing accounts open.

[419] "GOWC Supplemental Response to DR MC8-001(1)," provided to ORA on September 11, 2015, Tab "1-A-1."
[420] "GOWC Supplemental Response to DR MC8-001(1)," provided to ORA on September 11, 2015, Tab "2-A-13 RC."
[421] "GOWC Supplemental Response to DR MC8-001(1)," provided to ORA on September 11, 2015, Tab "1-A-1."

Chapter 16: LOW-INCOME CUSTOMER ASSISTANCE PROGRAM & RELATED MEMORANDUM ACCOUNT

(Tariff Preliminary Statement H)

A. INTRODUCTION

This chapter presents ORA's review and recommendations on GOWC's Low Income Customer Assistance Program (LICAP) and the related LICAP Memorandum Account (LICAPMA).

In 2006, the Commission authorized GOWC to establish the LICAP,[422] via Resolution W-4594, as described in GOWC's Rule No. 22. The program's objective is to provide a 50% reduction to the bi-monthly service charge to qualified low-income customers. The Commission also authorized a related LICAPMA to record, as specified in GOWC Tariff Preliminary Statement H: 1) the LICAP credits on customer bills and the costs of publishing related notices and applications plus interest, and 2) the amounts recovered through authorized surcharge collections plus interest. The cost of the LICAP is funded by GOWC's customers via a surcharge on quantity rates.

In this application, GOWC requests continuation of the LICAPMA until a decision has been made on its request to include estimated LICAP discounts and expenses in an annual surcharge, at which time the Company will request authority to amortize any remaining balance in the

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[422] Also identified as "Low Income Lost Revenue Memorandum Account" (e.g., in GOWC's Annual Reports and in Commission Resolution W-4973).

existing LICAPMA.[423] GOWC proposes to establish a LICAP Balancing Account to record actual LICAP expenses and revenues from the surcharge.[424]

B. SUMMARY OF RECOMMENDATIONS

ORA's recommendations are as follows:

1) ORA recommends adjustments to the LICAPMA balance as of June 30, 2015 (covering March 1, 2015 through June 30, 2015). Specifically, ORA recommends disallowing GOWC's calculated LICAP overhead expense allocation amounts (and associated interest expense) because GOWC has not shown that these are incremental costs not already covered in rates and also the authorized LICAPMA does not allow these calculated overhead expenses.
2) ORA recommends that GOWC be required to refrain from recording expenses in the LICAP Memorandum or Balancing Account other than those specified in the Preliminary Statement H and to provide more detailed justification for LICAP overhead expense allocation amounts going forward.
3) ORA recommends a number of action items to ensure that LICAP discounts are provided to qualified residential customers.
4) ORA does not oppose GOWC's request to modify the LICAP funding and tracking mechanism if implemented in accordance with the above recommendations.
5) ORA recommends that the LICAP surcharge be applied to non-LICAP customers only.
6) The Commission should adopt the specific LICAP surcharge adopted in the final decision in this proceeding based upon the final adopted sales forecast and the actual mix of LICAP meter services.

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[423] A.15-07-001, pp. 7-8.
[424] A.15-07-001, Exhibit D, pp. 2-4.

C. DISCUSSION

LICAPMA balances

This section presents ORA's review of the LICAPMA balances, with special focus on the overhead expenses charged to this account as they constitute a significant portion of the program expenses. **Table 16-A** below shows that for the 2008-2014 period, GOWC charged a total of $699,599.08 to the LICAPMA, of which $281,498.40 or 40% of the total charged was for overhead expenses.

Table 16-A: LICAP Credits and Overhead Expenses Charged to LICAPMA[425]

Year	LICAP credit	Overhead expenses	Total	Overhead as % of total
2008	$7,572.05	$21,240.00	$28,812.05	74%
2009	$9,054.59	$21,240.00	$30,294.59	70%
2010	$12,977.11	$36,480.00	$49,457.11	74%
2011	$15,552.81	$37,780.00	$53,332.81	71%
2012	$33,202.00	$37,719.80	$70,921.80	53%
2013	$129,361.67	$54,233.40	$183,595.07	30%
2014	$210,380.45	$72,805.20	$283,185.65	26%
Total	**$418,100.68**	**$281,498.40**	**$699,599.08**	**40%**

LICAP balances - overhead expenses

In response to ORA's inquiry regarding overhead expense amounts charged to the LICAPMA, GOWC explained that for the years 2008-2010 it estimated overhead expenses assuming customer service employees spending two hours/year/LICAP customer at a rate of $60/hour,

[425] GOWC's response to DR MC8-001.

which is equivalent to $10/month/LICAP customer, to process LICAP documentation, including annual renewal applications.[426] For calendar year 2011 through September 2012, GOWC's LICAP overhead charge is also equivalent to $10/month/LICAP customer.[427] GOWC explained that starting in October 2012, the company reduced its overhead charge to $1.95/month/LICAP customer as a result of the implementation of low-income customer data sharing with energy utilities authorized in D.11-05-020.[428]

As shown in **Table 16-A** above, for 2014 GOWC reported a total program costs of approximately $283,000, 26% of which is attributed to what GOWC described as "overhead allocation." At the per-customer level, GOWC is charging its customer base $1.95/month/LICAP customer to provide a LICAP customer a discount of as little as $4.91 per month (50% off of the current monthly service charge of $9.81 with a 5/8 x 3/4-inch service connection).[429] In other words, on a monthly basis, it costs nearly $2 to administer a $5 discount.

When asked by ORA to describe the work involved in the overhead expenses charged to the LICAPMA (i.e., the $1.95/month/LICAP customer rate), GOWC provided the following explanation:

> The "work" includes the following (Note: This is not intended to be an all-inclusive list under all circumstances. Additional work is required under different or changing circumstances.): Data transfers, analysis of data transferred, review of customer accounts, record-keeping for customer accounts, correspondence with customers, processing of opt-out letters, applications, and renewal applications, data entry, accounting, postage, compliance with Commission requirements pertaining to low income programs, periodic reporting on low income programs, responding to information requests on low income programs, communications

[426] GOWC response to DR MC8-006, q. 2.c.
[427] GOWC response to DR MC8-006, q. 2.
[428] GOWC response to DR MC8-006, q.2.e.i, and Resolution W-4973, p. 3.
[429] Application 15-07-011, Exhibit B, Present Rate Schedules, Schedule No. 1, General Metered Service.

> with PG&E representatives regarding data transfers, and communications with low income customers inquiring about the LICAP program.[430]

GOWC also explained that the work described above is conducted by its Customer Service employees, including the Customer Service Manager, Billing Systems Manager, Billing Systems Senior Analyst, Vice President and General Counsel, and Chief Financial Officer.[431]

Based on GOWC's description of the "work" involved in the overhead expenses charged to the LICAPMA, it is clear that the overhead expense rate of $1.95/month/LICAP customer is not the result of the publishing costs allowed to be tracked in the LICAPMA. In fact, GOWC confirmed that it has not incurred any LICAP-related publishing costs in its response to ORA's inquiry, stating that "Great Oaks has not been required to publish notices regarding LICAP recently, so no charges for publishing notices are being tracked in the account at present."[432]

GOWC is only authorized to track in its LICAPMA specific expenses as described in its Preliminary Statement H. Those expenses are: LICAP credits on customer bills (i.e., lost revenue due to discount provided to LICAP customers); costs of publishing related notices and applications; and interest on the balance. Because the overhead expense rate of $1.95/month/LICAP customer is not for LICAP-related publishing costs, the LICAPMA is not authorized to record these costs (calculated using the $1.95 rate) and it is inappropriate to track such costs going forward in the LICAPMA. Although Resolutions W-4973 and W-5043 authorized recovery of overhead expenses, and although ORA did not protest these resolutions, the resolutions did not authorize a change to the LICAPMA account itself. The oversight of allowing overhead expenses to be tracked in the LICAPMA should not be continued going forward.

[430] GOWC response to DR MC8-006, q. 2.f.
[431] GOWC response to DR MC8-006, q. 2.g.
[432] GOWC response to DR MC8-006, q. 2.m.

ORA also asked GOWC to provide documentation to show that the employee salaries and benefits covered in the overhead allocation for this account are not otherwise included in rates (e.g. service charges and quantity rates). Instead of providing documentation showing where adjustments have been made in the application workpapers, GOWC simply responded that its overhead calculation has not been previously challenged. GOWC's response is as follows:

> See, e.g., D.05-05-015. When the Commission authorized LICAP for Great Oaks in Resolution W-4594, the Commission specifically referenced D.05-05-015 when instructing how to record costs of the Program in the authorized memorandum account. The Commission and ORA have reviewed Great Oaks' procedures and LICAP memorandum accounts on multiple occasions and found no discrepancies. See, e.g., Resolution W-4973 and Resolution W-5047. [433]

ORA reviewed the Commission resolutions cited by GOWC above and found no supporting documentation that employee salaries and benefits covered in the overhead allocation for this account are not otherwise included in rates. ORA asked GOWC to supplement its response with all available supporting documentation. As part of its response, GOWC gave specific citations to Resolutions W-4973, and W-5047, where the Commission approved recoveries of costs booked to this memorandum account.

Although there is no evidence employee salaries and benefits covered in the overhead allocation for this account are not otherwise included in rates, the resolutions cited show that the Commission authorized recovery of the costs booked to the account through February 28, 2015. ORA's recommendations apply solely to the time period after February 28, 2015 that is not covered by these resolutions. Further background on recent resolutions regarding GOWC's LICAPMA is below:

[433] GOWC response to DR MC8-006, q. 2.h (emphasis added).

Resolution W-4594, issued on May 11, 2006. This resolution authorized GOWC to establish its LICAP and related LICAPMA. GOWC represented that "[w]hen the Commission authorized LICAP for Great Oaks in Resolution W-4594, the Commission specifically referenced D.05-05-015 when instructing how to record costs of the Program in the authorized memorandum account." In fact however, the resolution simply states:

> Great Oaks has proposed to give a 50% reduction in the bimonthly service charge to low income customers and establish a memorandum account to track expenses and the rebate provided under this program. Great Oaks's [sic] proposal is in conformance with the last Commission decision addressing this issue (D.05-05-015, dated May 5, 2005, San Gabriel Water Company).

Resolution W-4594 simply refers to D.05-05-015 as a basis to approve GOWC's proposal. GOWC's proposal is reflected in its Advice Letter 177-W, filed in compliance with Resolution W-4594 and adding Preliminary Statement H.[434] Preliminary Statement H describes the LICAPMA and specifies the credit and debit allowed to be tracked in this account. Those originally authorized credit and debit specifications are still effective today and must be observed.

Resolution W-4973, issued on February 28, 2014. This resolution approved a surcharge to amortize a combined balance from three memorandum accounts and five balancing accounts. One of the memorandum accounts was the LICAPMA. This resolution did not change the authorized LICAPMA credit and debit specifications in GOWC's Preliminary Statement H. The resolution does include the following Finding and Conclusion 14: "The costs requested in the three Memorandum and five Balancing accounts are not covered by other authorized rates." There is no further explanation in the resolution of how the Commission reached this Finding and Conclusion.

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[434] Advice Letter 177-W became effective on July 1, 2006.

<u>Resolution W-5047, issued on July 1, 2015</u>. This resolution approved a LICAP-specific surcharge to amortize the balance of the LICAPMA <u>as of February 28, 2015</u>.[435] This resolution also did not change the authorized LICAPMA credit and debit specifications in GOWC's Preliminary Statement H.

While Resolutions W-4973 and W-5047 accepted GOWC's calculations for overhead expenses, and Resolution W-4973 even found that the costs requested in the memorandum account were not covered by other authorized rates, neither resolution modified GOWC's Preliminary Statement H to allow the type of expenses purportedly supporting the $1.95 overhead rate. These resolutions' acceptance of GOWC's calculated overhead expenses does not constitute a formal or permanent modification of the original authority granted via Commission's approval of Advice Letter 177-W. These past acceptances were likely regulatory oversights that should be corrected going forward and not perpetuated. The burden still rests on GOWC to justify that all credit and debit amounts recorded in the LICAPMA are in compliance with the adopted and currently effective Preliminary Statement H.

Moreover, *even if* these "overhead expenses" are specifically allowed for LICAPMA tracking purposes, GOWC has not shown that they are expenses not already recovered through rates (i.e., already part of the adopted or proposed revenue requirement based on which rates are developed). ORA cannot locate in GOWC's application workpapers any adjustments (reductions) to recorded or estimated expenses (e.g., payroll and related expenses associated with the various positions GOWC claimed to be involved in the administering the LICAP) to reflect the fact that the purported LICAP overhead expenses are removed and separately tracked for eventual recovery through the LICAPMA mechanism.

Even with GOWC's overreaching interpretation that it should be allowed to mirror San Gabriel Valley Water Company's (San Gabriel's) expense tracking, GOWC would still not be in

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[435] Resolution W-5047, p. 5.

compliance. This is because the Commission only approved San Gabriel's proposal to record, among other things, "program costs for <u>incremental activities</u> associated with the [low-income customer assistance] program."[436] GOWC has not shown that the costs embedded in the overhead rate of $1.95/month/LICAP customer results from <u>incremental</u> activities and that those costs are not already covered through rates paid for by GOWC's general ratepayer body. Allowing GOWC to charge this $1.95 overhead rate will in effect allow GOWC to charge its ratepayers for these "expenses" twice – once through service charges/quantity rates, and again through the LICAP surcharge.

GOWC even acknowledged in its application that the "LICAP Memorandum Account tracks charges consisting of LICAP credits on customer bills and costs of publishing related notices and applications plus interest consistent with Commission Memorandum Account Procedures."[437] Yet, GOWC booked into the account expenses that are beyond these explicitly specified costs. ORA recommends that the LICAPMA balance eligible for amortization and recovery exclude all amounts based on the overhead rate of $1.95/month/LICAP customer, as well as the interest expense associated with the excluded amounts.

Because Resolution W-5047 already authorized a surcharge to cover the LICAPMA balance as of February 28, 2015, ORA's review in this proceeding only covers the period between March 1, 2015 and June 30, 2015 balances. **Table 16-B** below shows the re-calculated LICAPMA balances excluding the overhead and associated interest expense discussed above. For the purpose of this presentation, ORA presents the "Lost Revenue" amounts as reported by GOWC. However, because of ORA's findings and concerns regarding the reported Lost Revenue amounts, discussed in the next subsection, ORA cannot endorse these "Lost Revenue" amounts as accurate and reasonable at this time.

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[436] D.05-05-015, p. 5 (emphasis added).
[437] A.15-07-001, Exhibit D, Chapter 6, Section B, p. 2.

Table 16-B: ORA-calculated LICAPMA balances for 3/1/2015 through 6/30/2015

Month	Lost Revenue a	Overhead expense allocation b	Total cost of program c=a+b	Commercial paper interest rate d	Interest e	Balance f
3/1/2015 balance forward (reset to zero due to Resolution W-5047's authorization of recovery of balance as of February 28, 2015)						$0.00
March 2015	$15,158.09	$0.00	$15,158.09	0.14%	$1.77	($15,159.86)
April 2015	$12,377.40	$0.00	$12,377.40	0.13%	$2.98	($27,540.24)
May 2015	$15,271.93	$0.00	$15,271.93	0.15%	$5.35	($42,817.52)
June 2015	$12,452.20	$0.00	$12,452.20	0.18%	$8.29	($55,278.01)

Notes:

a. From GOWC supplemental 9/11/15 response to MC8-001.
b. Adjusted to equal to zero per ORA's recommendation.
d. From GOWC supplemental 9/11/15 response to MC8-001.
e. Interest = (sum of prior month's balance & current month's total) x (interest rate/12).
f. Current month's balance = prior month's balance & current month's total including interest.

Additionally, the Commission should explicitly direct GOWC to refrain from recording expenses in the LICAP Memorandum Account (or LICAP Balancing Account) other than those specified in the Preliminary Statement H, and to provide detailed supporting documentation of the "costs of publishing related notices and applications" each time GOWC requests amortization and recovery of its LICAPMA balance.

<u>LICAPMA balances – actions are needed to ensure LICAP discounts or "lost revenues" are provided to qualified residential customers</u>

As discussed earlier, the Commission referenced D.05-05-015 (granting rate relief for San Gabriel's low-income ratepayers) when approving GOWC's proposed LICAP. The decision describes San Gabriel's approved low-income assistance program as follows:

> The program will be available to applicants (1) in a residential water classification, (2) living in a single family dwelling or duplex, (3) being served through a 1-inch or smaller meter, and (4) meeting the income criteria established each year by the Commission.[438]

As part of its review, ORA requested and was provided LICAP customer billing entries for May 2014 and June 2014 (LICAP billing sample).[439] Because GOWC bills bi-monthly, LICAP billing data from a two-month period (May-June 2014) provides a reasonable view of the total LICAP accounts. As discussed further below, ORA noted some irregularities in the billing data and recommends further investigation and/or action.

The purpose of GOWC's LICAP program, as defined in its Tariff Rule No. 22, is "to provide qualifying residential applicants with reduced water service charges." Rule No. 22 further states the LICAP discount would be made available to any residential customer entitled to PG&E's California Alternative Rates for Energy (CARE) program discount. ORA's review of the LICAP billing sample however reveals three accounts that GOWC classified as "business," not residential as specified in Rule No. 22.[440] Business accounts are not expressly covered under GOWC's LICAP described in its Rule No. 22.

It is possible that these customers' accounts were qualified through PG&E's CARE program which also extends to, in addition to qualified residential single-family customers, four other customer groups: (1) Tenants of Sub-Metered Residential Facilities, (2) Qualified Non-Profit Group Living Facilities; (3) Agricultural Employee Housing Facilities; (4) Migrant Farm Worker

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[438] D.05-05-015, p. 2 (emphasis added).
[439] GOWC response to DR MC6-006, q. 2.j, and GOWC response to DR LWA-003, q. 1 and 2.
[440] To protect the confidentiality of the customer information while providing the needed specificity to its findings, ORA is providing the relevant locations of these three account entries in the Excel spreadsheet "GOWC Response to ORA Data Request LWA-003(1)" -- Tab "5-28-2015" lines 5, 6 and 10 and Tab "6-27-2014" lines 5, 6 and 9. ORA also notes that the account name in Tab "6-16-2014" line 182 shows what appear to be a business, but GOWC's classification for that account is coded as "residential."

Housing Facilities.[441] However, ORA reviewed the PG&E's CARE customer data lists and cannot locate in these lists the customer names associated with the aforementioned three accounts.[442]

Moreover, two of the three business accounts in question have the same account name (same organization). ORA inquired about this irregularity, and in response GOWC explained that in addition to its commercial and fire protection accounts, the same organization has a residential account providing water service to residential customers residing at the service address.[443] When ORA asked for the annual renewal documentation for this customer, GOWC stated in part that upon information and belief the customer was renewed in the program through the PG&E data exchange.[444] GOWC's explanation is inconsistent with the data from the LICAP billing sample which shows both accounts under this same organization name as "business," not "residential." Further, as ORA explained above, ORA did not locate this customer or organization name in the PG&E's CARE data files provided by GOWC in response to ORA's data request.[445]

ORA asked and GOWC declined to specify the period of time the organization had been receiving LICAP rebates. ORA also asked if GOWC routinely checks whether customers are residential customers during the annual renewal process for LICAP, GOWC responded:

> It is difficult to characterize anything related to customer service as 'routine,' since each customer makes individual demands upon customer service or otherwise requires individualized attention. Generally, however, when a customer enrolls in LICAP or has LICAP participation

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[441] http://www.pge.com/en/myhome/saveenergymoney/financialassistance/care/nonprofit/index.page?, accessed on October 8, 2015.

[442] GOWC response to DR LWA-003, q. 3 which asked GOWC to "provide all documents received from 2013 through 2015 to date from PG&E that contains the low-income customer data that GOWC used to identify/confirm its LICAP customers' eligibility." ORA performed word searches for and cannot locate the customer names in any of the PG&E CARE files provided by GOWC.

[443] GOWC response to DR LWA-002, q. 2.a.

[444] GOWC response to DR LWA-002, q. 2.c.

[445] GOWC response to DR LWA-003, q. 3.

> renewed, either in-person or through the Commission-directed data exchange process, residential customer status is checked.[446]

ORA also found a significant proportion of the entries in the LICAP billing sample appear to have discounts that are greater than 50% of the accounts' respective service charge. Of the 2,573 entries in the sample, about 6% appear to receive LICAP discount greater than 50% of their respective service charge.[447] ORA considered the possibility of a change to a larger meter size (upsize) mid-billing cycle as a possible explanation. However, GOWC's response only indicated two instances where the upsizing occurred,[448] and it is also unlikely that 6% of the LICAP pool would up-size the meter within one billing cycle.

For all of the above reasons, ORA is concerned that GOWC may be providing LICAP discounts in a manner that is inconsistent with its low-income assistance program as specified in Rule No. 22. Lost revenues from discounts provided to unqualified LICAP accounts should not be borne by GOWC's other customers. ORA recommends that GOWC be required to take the following actions to ensure that the program is implemented as intended and does not incur unnecessary program costs:

1) Investigate the non-residential LICAP customer accounts identified by ORA above and discontinue their LICAP discounts if in fact they are not "qualifying residential" customers.
2) If GOWC identifies accounts that are non-residential or non-qualifying LICAP customers, discontinue the discounts and obtain reimbursements of past discounts in accordance with following customer declaration in GOWC's Application for Low-Income Customer Assistance Program (included as Appendix B of this report):

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[446] GOWC response to DR LWA-001, q. 2.f.
[447] GOWC indicated meter size change mid-cycle for only two of these entries.
[448] GOWC response to DR LWA-003, q. 1 and 2, (entries in Tab "05-05-2014).

> I state that the information I have provided in this Application is true and correct. I agree to provide proof of income if requested. I agree to inform Great Oaks Water Company (Great Oaks) if I no longer qualify to receive the LICAP discount. I understand that if I receive the discount without qualifying for it, <u>I may be required to pay back the discount I received</u>. I understand that <u>Great Oaks can share my information with other utilities</u> or their agents to enroll me in their assistance programs.[449]

3) If GOWC identifies accounts that are non-residential or non-qualifying LICAP customers, share such findings with the appropriate energy utility, in accordance with information presented in Item 2) above.

4) Determine what changes to GOWC's administration of the LICAP are needed to prevent providing LICAP discount to non-qualifying customers.

5) Propose modification to the Tariff Rule No. 22 if GOWC determines that its Tariff Rule No. 22 is not consistent with PG&E's low-income customer program and shared data with regards to eligibility,

6) Provide a report on steps taken in accordance with each of the above action items, and associated results when GOWC files for its next LICAP cost recovery or in GOWC's next General Rate Case, whichever is sooner.

<u>GOWC's Request to Modify the LICAP Tracking and Funding Mechanism.</u>

GOWC requests to modify the accounting of LICAP costs and revenues by replacing the current mechanism with a forward-looking LICAP surcharge and a balancing account to track costs and surcharge revenues associated with the program.[450] GOWC reasons that it is appropriate to establish a surcharge based on estimated costs, since the costs associated with the LICAP are

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[449] GOWC's Application for Low-Income Customer Assistance Program provided in GOWC response to DR MC8-006, q. 2.k.i. (Emphasis added.)
[450] Application Exhibit D, Chapter 6, Section B, pp. 2-4.

well established, regular, and significant and the accompanying balancing account would protect customers and the company from over- and under-collections. Under GOWC's proposal, the existing memorandum account would be closed and amortized when the proposed balancing account becomes effective.[451]

ORA does not generally object to GOWC's proposal to change the LICAP surcharge mechanism (based on recorded, authorized balance) to a forward-looking surcharge (based on forecasted balance), and to establish an associated balancing account. This mechanism is similar to what is in place at other Class A water utilities such as California Water Service Company. However, the LICAP charges and credits to be tracked in the balancing account must continue to conform to the limitations established in the existing Preliminary Statement H regarding allowable credit and debit entries, and subject to the safeguards and recommendations presented by ORA herein.

LICAP Surcharge Should Be Applied to Non-LICAP Customers Only

The LICAP surcharge of $0.06792 per one hundred cubic feet ($0.06792/ccf) currently in effect is added to GOWC's quantity rates for all water delivered in a twelve-month period starting July 1, 2015.[452] Thus, all customers including LICAP customers pay for the cost of the program through that surcharge. A LICAP customer using 13 ccf/month (top of Tier 1), for example, would incur $0.88/month in LICAP surcharge. For a residential customer with a 5/8 x ¾" meter service, the surcharge reduces that customer's effective LICAP discount from $4.91/month to $4.03/month.[453] This is an equivalent LICAP discount of only 41%, which is less than the 50% service charge discount envisioned in Resolution W-4594 that authorized the establishment of

[451] GOWC response to DR MC8-006, q. 2.p.
[452] GOWC Tariff Schedule 1, Special Condition No. 6.
[453] $4.91 discount = 50% x $9.81; $4.03 = $4.92 discount less $0.88 surcharge. $9.81 is the monthly residential service charge for 5/8 x 3/4-inch meter, effective July 1, 2014.

the low income customer assistance program.[454] At 32 ccf/month usage (top of Tier 2), the effective service charge discount percentage is 28%.[455]

As mentioned earlier, in other Class A customers such as California Water Service Company, the cost of the low-income assistance program is borne by non-participants to the program (non-LICAP customers).[456] ORA recommends that GOWC's LICAP funding be modified to follow this policy. This means that LICAP surcharge should be calculated to equal the (estimated) total LICAP expense divided by the total non-LICAP sales (in ccf). Holding everything else the same, this policy change would increase the program's surcharge rate (to non-LICAP customers), but allow the implementation of a full, effective 50% service charge discount to LICAP customers. An estimate of GOWC's and ORA's surcharges is shown in the next section.

LICAP surcharge calculation and estimates

Despite proposing to implement a dedicated surcharge to fund the LICAP program going forward, GOWC in its application does not propose a specific surcharge level, nor the estimated program costs needed to develop such a surcharge. GOWC simply states that the surcharge is to be "based upon projected credits and charges and projected water sales" and "current LICAP customer numbers," and "calculated upon final determination of Test Year meter service charges."[457] ORA requested that GOWC provide a calculation of the LICAP surcharge based on GOWC's application assumptions.[458] GOWC at first declined to provide the requested

[454] Resolution W-4594, p. 6; 41% effective discount = ($4.91 discount – (13 ccf x $0.06792/ccf surcharge))/ $9.81 service charge.
[455] 28% effective discount = ($4.91 discount – (32 ccf x $0.06792/ccf surcharge))/ $9.81 service charge.
[456] https://www.calwater.com/docs/rates/rates_tariffs/all/Low-Income_Ratepayer_Assistance_(LIRA).pdf, accessed 9/28/15.
[457] Application Exhibit D, Chapter 6, Section B, p. 4.
[458] ORA DR MC8-006, q. 2.r.

calculation stating that it is premature since there has not been a final determination of Test Year meter service charges.[459]

When asked again to calculate a projected LICAP surcharge, GOWC responded in part with the following:

> If it is assumed that rates as reflected in A1507001 Updated and Corrected GRC Workpapers, August 17, 2015, are adopted, that LICAP customers have ¾" meters, that water sales as projected are adopted, and that there are 2,190 LICAP customers in the program (based upon the March 2015 data exchange figures), Great Oaks estimates an annual surcharge on all water delivered will be $0.0496/ccf, which is calculated as follows:

2,190 X $6.27 (LICAP Discount) X 12 months =	$164,775.60
2,190 X $1.95 (Overhead) X 12 months =	$51,246.00
Total	$216,021.60
Divided by Projected Water Sales (4,358,930 ccf) =	$0.0496/ccf.[460]

Holding GOWC's assumptions constant and changing only the applicability of the surcharge to non-LICAP customers as well as the exclusion of overhead costs, ORA calculates a surcharge of $0.0402/ccf as follows:

[459] GOWC response to DR MC8-006, q. 2.r.
[460] GOWC Response to DR LWA-001, q. 5.a, as corrected via email from Tim Guster on September 22, 2015.

Assuming each LICAP customer uses 10 ccf per month,[461] LICAP water sales in the Test Year would equal 10 ccf x 12 months x 2,190 customers = 262,800 ccf.

2,190 X $6.27 (LICAP Discount[462]) X 12 months =	$164,775.60
2,190 X $0 (Overhead) X 12 months =	$0.00
Total	$164,775.60

Divided by Projected Non-LICAP Water Sales (4,096,130 ccf[463]) = $0.0402/ccf

Implementing the surcharge to non-LICAP customers only will be more equitable, ensure that LICAP customers effectively receive their full discount and will increase the surcharge for remaining customers by less than one penny per ccf ($0.0094/ccf). This approach is also consistent with how other Class A water utilities apply their low-income program surcharge.

It is important to show the surcharge calculation so that the Commission can consider the bill impacts and the assumptions can be vetted during the GRC proceeding. The Commission should adopt the specific LICAP surcharge in the final decision in this proceeding based upon the final adopted sales forecast. The assumption that all LICAP accounts are ¾" meter services in estimating lost revenues should also be revised in the final surcharge calculation adopted in this proceeding, as only 17.7% of LICAP accounts have ¾" meter services.[464] A vast majority of LICAP accounts are 5/8 x ¾" meter services – 81.8%; the remaining 0.5% of LICAP accounts have larger-than-¾" meter services.[465] Thus, the estimated lost revenues should reflect the actual

[461] Application Exhibit C, Proposed Customer Notice lists average use of 10 ccf of water per month by a single family residential customer with a 5/8x3/4" meter.

[462] As explained later, ORA does not necessarily agree that using the discount amount for ¾" meter services is an reasonable assumption in this calculation.

[463] 4,358,930 ccf – 262,800 ccf = 4,096,130 ccf.

[464] Percentages calculated using data from the 2,573 LICAP billing entries for May 2014 and June 2014 provided in response to ORA Data Request LWA-003(1).

[465] Percentages calculated using data from the 2,573 LICAP billing entries for May 2014 and June 2014 provided in response to ORA Data Request LWA-003(1).

mix of meter services and their corresponding service charges. Because the ¾” meter service charge is 50% higher than the 5/8 x ¾” meter service charge, assuming all LICAP accounts are ¾” meter service would significantly overestimate the expected LICAP lost revenues, and consequently the LICAP surcharge.

D. CONCLUSION

GOWC’s LICAP is designed to provide rate relief to its low-income ratepayers and should continue. The Commission should adopt ORA’s recommendations to ensure that the program only serves the intended population, that the program costs are reasonable, and that only authorized costs be tracked for recovery via LICAP surcharges on non-LICAP customers.

Chapter 17: SANTA CLARA VALLEY WATER DISTRICT LITIGATION EXPENSE MEMORANDUM ACCOUNT

A. INTRODUCTION

In 2005, the Commission approved GOWC's request for a capped memorandum account (SCVWD Memo Account) to track the expenses of GOWC's lawsuit against the Santa Clara Valley Water District, where ratepayers would be at risk for up to $100,000 of the related legal expenses.[466] As of February 2015 the SCVWD Memo Account has accumulated $2,542,517 in litigation expenses. In the current GRC, GOWC is requesting to remove the $100,000 cap on expenses recoverable from its ratepayers and to share proceeds from the litigation, if any, on an equal basis with its ratepayers.[467]

B. SUMMARY OF RECOMMENDATIONS

1) GOWC's request to change the terms of the SCVWD Memo Account should be denied because it negates GOWC's justifications that the Commission relied upon when approving the account in the first place.

C. DISCUSSION

On May 5, 2005, the Commission adopted Resolution W-4534 approving GOWC's Advice Letter 169-W requesting a capped memorandum account to "track the expenses of a lawsuit against the Santa Clara Valley Water District to stop its practice of levying a "northern zone" pump tax upon the utility that is then passed through to utility customers"[468] The terms of the

[466] Resolution W-4534
[467] A.15-07-001, Application, p. 6.
[468] Resolution W-4534, p. 2.

SCVWD Memo Account include that "in the event the utility loses the suit, the ratepayers would pick-up up to $100,000 of the legal costs (about $5.00 per customer)."[469] Consequently, ratepayers are (and have been) at risk for up to the capped amount of $100,000 of legal expenses for GOWC's lawsuit.

In its current GRC, GOWC is requesting "that this memorandum account be modified to remove the cap on expenses recoverable and to permit disposition of the proceeds of litigation, if any, on an equal basis between the Company and its ratepayers."[470] ORA has evaluated GOWC's request and recommends that the Commission deny GOWC's proposed modifications to the SCVWD Memo Account.

One of GOWC's reasons to modify the SCVWD Memo account refers to a "delay experienced in the court system"[471] that was not within GOWC's control and which has caused expenses to accumulate. GOWC further states:

> Had the court system delay not occurred, the first case would have been decided by now and the outcome of the subsequent cases would be clear. The Company requests that the cap on expenses in this memorandum account be removed, as the delay is well beyond the Company's control and should not serve as a basis to deny the Company reimbursement if that becomes appropriate.[472]

ORA requested an explanation of this delay from GOWC. GOWC's response states that the lead case "was filed on <u>November 22, 2005.</u> Judgement was entered in the trial court on <u>February 3, 2010.</u> SCVWD appealed that judgement. It is now <u>August 2015</u> and no final determination has been issued by the court of appeal."[473][Emphasis added.] GOWC's response also referred ORA to its Exhibit I- Litigation Summary, page 1. However, neither GOWC's explanation, nor its

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469 Resolution W-4534, p. 3.
470 A.15-07-001, Application, p. 6.
471 A.15-07-001, Application, p. 8.
472 Ibid, p. 9.
473 GOWC response to DR MC8-006, q. 8.b.

Exhibit I describe a *specific delay experienced* in the court system. Instead, GOWC lists the dates of the normal filings, judgements and resulting appeals process that GOWC experienced by *choosing* to take on the lawsuit. Simply because the litigation initiated by GOWC is taking longer to resolve than it originally may have anticipated, does not mean it experienced a delay in the court system that merits removing the cap on the SCVWD Memo Account.

ORA reviewed the current balance in the SCVWD Memo Account while evaluating GOWC's request and found that according to GOWC, the balance as of February 2015 is $2,542,517, an amount many times more than the $100,000 cap.[474] Furthermore, although GOWC cites the "delay experienced in the court system"[475] as the reason for the expense accumulation, in fact the vast majority of the current balance was incurred during 2008-2009, when, according to GOWC the lawsuit "finally went to trial."[476] **Table 17-A** below shows the amounts incurred by year that comprise the balance in the SCVWD Memo Account:

Table 17-A: SCVWD Memo Account Litigation Expenses by Year

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SCVWD Annual Litigation Expenses	$5,575	$161,590	$268,885	$857,764	$693,514	$351,091	$137,372	$7,378	$6,464	$1,900

As seen in **Table 17-A** above, the large majority of legal expenses comprising the current balance in the SCVWD Memo Account are not due to any court system delay as asserted by GOWC, but instead were simply incurred during the period when the trial was taking place. GOWC's claim of an uncontrollable court system delay lacks merit and is not a reason to expose ratepayers to millions of dollars of risk.

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[474] GOWC response to DR MC8-001, q. 1, tab "SCVWD". (Balance includes interest).
[475] A.15-07-001, Application, p. 8.
[476] GOWC Exhibit D, Chapter 5, p. 28.

ORA also examined GOWC's additional claim that because of the "delay," legal expenses keep growing each year.[477] GOWC asserts this claim because the contested SCVWD pump tax charge is an annual charge, thus requiring a new lawsuit to be filed annually in order to consider getting rebates on that year's amounts. Indeed, according to GOWC, "the Company has now filed ten lawsuits."[478] However, GOWC's Advice Letter 169-W requesting the SCVWD Memo Account never informs the Commission that it would be necessary to file a new lawsuit every year to recover any future pump tax expenses.[479] Instead, when requesting approval for the SCVWD Memo Account, GOWC only mentioned there were opportunities for rebates and forward-looking savings[480] while simultaneously stressing:

> **The cap means that if the Company loses** and the cost of litigation should exceed $100,000, the Company will bear the expense over $100,000, not ratepayers.[481]
>
> And;
>
> If the litigation is successful the regular Commission practice is to permit recapture of the expense of litigation-- subject to reasonableness review-- with the net proceeds going 100% to ratepayers, which is exactly what the Company intends.[482]

On April 8, 2005, further supporting its capped amount, GOWC submitted a letter to ORA attached to AL 169-W, certifying that "counsel had agreed to the $100,000 cap on attorney's fee expense" and that "We have told her that her commitment would be communicated to the Commission."[483]

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[477] GOWC Exhibit D, Chapter 5, p. 29.
[478] Ibid.

[479] GOWC Advice Letter 169-W, (see attachment Appendix D.)
[480] GOWC Advice Letter 169-W, p. 2, (see attachment Appendix D.)
[481] GOWC Advice Letter 169-W, p. 4, (see attachment Appendix D.)
[482] Ibid.
[483] GOWC Advice Letter 169-W, p. 6, (see attachment Appendix D.)

In addition to removing the $100,000 cap, GOWC is also requesting to modify the SCVWD Memo Account to net potential proceeds with the accumulated expenses and "allow any remaining proceeds to be distributed on an equal basis between the Company and its ratepayers in recognition of the risk taken by the Company in this litigation."[484] GOWC also states that "the Company has incurred all of the risk of the litigation (while ratepayers have incurred none of the risk) and should, at a minimum, share in the proceeds, if any."[485]

Contrary to GOWC's assertion, its ratepayers have incurred risk. Ratepayers have assumed $100,000 of the risk of the litigation, which at one time was actually *all* of the risk, using GOWC's 2005 workpaper evidence that the lawsuit would cost $100,000 as a metric. Moreover, GOWC's request to share in any proceeds because ratepayers have no assumed risk is entirely incompatible with its request to remove the $100,000 cap on the account, a request that shifts potentially all of the risk to the ratepayers.

GOWC's request to now share in ratepayer proceeds is also in stark contrast to GOWC's language when requesting approval for the SCVWD Memo Account "[b]ecause the pump tax is a pass through expense, the Company's view is any money recovered should belong to the ratepayers."[486] Because the Commission relied on GOWC's representation when approving the SCVWD Memo Account despite GOWC having now changed its view, this request should be denied.

D. CONCLUSION

It is important to recognize that the change since the Commission adopted W-4534 is that GOWC has incurred more legal expenses than it predicted when it chose to initiate the first of its ten lawsuits against the SCVWD in 2005. However, protecting ratepayers against the

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[484] GOWC Exhibit D, Chapter 5, p. 29.
[485] A.15-07-001, Application, p. 9.
[486] Advice Letter 169-W, p. 3, (see attachment Appendix D.)

uncertainty of litigation is precisely the reason why the $100,000 cap was put in place. The Commission's language adopting the SCVWD Memo Account shows that the cap itself is the main reason the SCVWD Memo Account was approved:

> ORA did not protest this advice letter. Consequently, and **because spreading of the $100,000 across Great Oak's approximately 20,000 service connections could be considered de minimus,** Water Division recommends the Commission approve the memorandum account.[487][Emphasis added.]

It is clear that GOWC's requested modifications to the SCVWD Memo Account expose ratepayers to millions of dollars of unwarranted risk and disregard GOWC's original justifications the Commission relied on when approving AL 169-W in the first place. As a result, ORA recommends that the Commission deny GOWC's request to modify the terms of the SCVWD Memo Account.

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[487] Resolution W-4534, p. 7.