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Commissioner	:	Liane Randolph
Admin. Law Judge	:	Pat Tsen
ORA Project Mgr.	:	Mehboob Aslam
Witnesses	:	Mehboob Aslam
		Victor Chan
		Michael Conklin
		Alex Lau
		Hani Moussa
		Jeffrey Roberts

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS: FONTANA WATER COMPANY DIVISION
San Gabriel Valley Water Company
Test Year 2017/2018 General Rate Case

A.16-01-002

(PUBLIC VERSION)

Los Angeles, California
July 25, 2016

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MEMORANDUM

The Office of Ratepayer Advocates ("ORA") of the California Public Utilities Commission ("Commission") prepared this report presenting its analysis and recommendations in the San Gabriel Valley Water Company's ("SGVWC") general rate case ("GRC") A.16-01-002. In this GRC, SGVWC requests rate increases in its two divisions: Los Angeles County Division and Fontana Water Company Division along with its General Office ("GO") allocations. More specifically, SGVWC **requests authorization to increase rates charged for water service in Fontana Water Company Division by $20,607,600, or 38.6%, in July 2017; $1,760,400, or 2.3%, in July 2018; and $2,664,800, or 6.4%, in July 2019**. SGVWC requests using a rate of return on rate base of 8.49%. The Commission adopted these rates in D.13-05-027 in its most recent Cost of Capital application (A.12-05-002).

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

ORA's Legal Counsels for this case are Selina Shek and Paul Angelopulo.

EXECUTIVE SUMMARY

In Application A.16-01-002 filed on January 4, 2016, San Gabriel Water Company ("SGVWC") requests authorization to increase rates charged for water service in Fontana Water Company ("FWC") Division by $20,607,600, or 38.6%, in July 2017; $1,760,400, or 2.3%, in July 2018; and $2,664,800, or 6.4%, in July 2019. SGVWC uses a Fiscal Test Year from July 1, 2017 – June 30, 2018 and the effective date of new rates from this GRC is July 1, 2017. ORA in this report presents its analysis and recommendations that result in an estimated increase of $9,944,454, or 17.2%, in July 2017, $1,081,807, or 1.60%, in July 2018, and an estimated increase of $1,554,850, or 2.26%, in July 2019, for SGVWC's Fontana Water Company Division.

Key Recommendations

1. Chapter 1- ORA recommends a revenue requirement increase of $9,944,454 or 17.20% for Test Year ("TY") 2017/2018.

2. Chapter 2- ORA agrees with SGVWC's estimates for the average number of customers. For the Test Year 2017/2018, the total average number of customers estimated by the company and ORA is 45,450. In addition, ORA's total metered sales forecast is 15,286.3 KCcf while San Gabriel's is 13,641.0 KCcf. ORA's estimated total water supply is 16,991.3 KCcf, while SGVWC's estimates 15,096.9 KCcf. This difference is due to different consumption estimates and water loss as shown on Table 2-3 at the end of Chapter-2.

3. Chapter 3-ORA recommends $28,014,581 as Operations and Maintenance expenses for TY 2017/2018, a reduction of $1,249,584 from SGVWC's request of $29,263,675.

4. Chapter 4- ORA recommends $4,118,343 as Administrative and General expenses for TY 2017/2018, a reduction of $625,230 from SGVWC's request of $4,743,573.

5. Chapter 5- ORA recommends $20,806,155 as Payroll expenses for TY 2017/2018, a reduction of $3,092,188 from SGVWC's request of $23,898,343. ORA recommends disallowing 7 new positions in the FWC Division.

6. Chapter 6- ORA recommends $1,898,959 as Executive Payroll expenses for 2017/2018, a reduction of $1,346,586 from SGVWC's request of $3,245,545. ORA recommends disallowing 2 new positions: Vice President of Regulatory Affairs and Assistant Secretary. ORA also recommends a reduction in executive pay. The adjustment impacts General Office cost allocations to the FWC Division.

7. Chapter 7- SGVWC estimates company funded capital budgets of $2,844,000 in 2016, $16,167,000 in 2017, $24,655,000 in 2018, and $26,597,000 in 2019 for the FWC Division. ORA recommends the company-funded capital budget to be $2,580,000 in 2016, $10,281,000 in 2017, $9,869,000 in 2018, and $5,713,000 in 2019. The primary difference between SGVWC's request for the FWC Division and ORA's recommendation is because ORA's analysis shows there is sufficient existing water supplies to meet customer demand in the FWC system.

8. Chapter 8- SGVWC requests an average depreciation reserve of $92,983,858 in Transition Year 2016/2017, $108,858,629 in T Y 2017/2018 and $117,348,242 in TY 2018/2019. ORA recommends $94,265,837 in Transition Year 2016/2017, $110,576,040 in TY 2017/2018 and $118,823,545 in 2018/2019. The difference is mainly driven by the difference in plant additions discussed in Chapter-7.

9. Chapter-9: SGVWC requests a weighted average rate base of $167,417,828 for Transition Year 2016/2017. ORA's estimate is $155,002,441 for Transition Year 2016/2017. For TY 2017/2018, SGVWC requests $178,351,379 and ORA recommends $148,496,280. For TY 2018/2019 SGVWC requests $195,594,526 and ORA recommends $146, 953,661. The variance is largely due to ORA's recommendations regarding plant additions and the reduction of $2,858,700 in the Construction Work in Progress ("CWIP") account.

10. Chapter 10- In general, ORA agrees with SGVWC's income tax rates and its methodology for determining its ratemaking interest expense. However, ORA recommends the Commission adopt ORA's methodology for forecasting the Domestic Production Activities Deduction and California Corporate Franchise Tax expense deduction from Federal Income Tax. Additionally, ORA recommends that TY 2017/2018 Deferred Income Tax forecasts incorporate the extension of bonus depreciation according to the terms set forth by the Protecting Americans from Tax Hikes Act of 2015 ("PATH").

11. Chapter 11- ORA requests that the Commission adopt its recommendation for SGVWC's Old Age, Survivor, and Disability Insurance ("OASDI") wage limit and its recommendation to remove uncollectibles from gross revenues for local franchise tax forecasting. Any other remaining differences between SGVWC and ORA's ad valorem, payroll, and franchise taxes are due to differences in ORA's plant, expense and payroll forecasts.

12. Chapter 12- ORA recommends that the Commission find SGVWC's customer service to be satisfactory.

13. Chapter 13-Based upon the information SGVWC and DDW provided, SGVWC's water systems in the Fontana Water Company Division have been in compliance with federal and state drinking water standards. Therefore, ORA recommends that the Commission find that SGVWC is in compliance with all applicable federal and state drinking water standards.

14. Chapter 14- ORA recommends disallowing SGVWC's request to change the rate design by modifying the "service charge to quantity charge" revenue ratio from the current 28:72, to 30:70, as the Commission has already addressed the issue in D.10-04-031. In addition, SGVWC is adding one large industrial customer, Niagara Bottling whose projected water demand represents 4% of the total water sales in 2017, 4.6% in 2018, and 6.7% in 2019. However, it is also the biggest revenue generator that represents 2.8% of the overall revenue in 2017, 3.3% in 2018, and 4.8% in 2019. Without Niagara, the lack of this new revenue stream would result in an increase of $2.26 in 2017, $2.67 in 2018 and

$3.93 in 2019 on the monthly bill for the non-California Alternative Rates for Water ("CARW") residential customer with 5/8" meter using 19 Ccf water. ORA's recommends keeping Niagara as a customer. ORA also recommends that the CARW benefit be adjusted to $9 per month for all customers regardless of the meter size. Doing so would allow San Gabriel's CARW benefit to be more aligned with the benefit level provided by other Class-A water companies.

15. Chapter 15- ORA recommends that the Commission should require SGVWC to submit to an earnings test for each of its Divisions before being awarded any Escalation or Attrition Year increases. If SGVWC is over-earning, it should file for the appropriate rate decrease.

Organization of Report		
Chapter Number	**Description**	**Witness**
-	Executive Summary	Mehboob Aslam
1	Summary of Earnings	Mehboob Aslam
2	Water Consumption and Operating Revenues	Victor Chan
3	Operations and Maintenance (O&M) Expenses	Jeffrey Roberts
4	Administrative & General (A&G) Expenses	Jeffrey Roberts
5	Payroll Expense	Jeffrey Roberts
6	Executive Compensation	Jeffrey Roberts
7	Utility Plant In Service	Alex Lau
8	Depreciation Reserve and Depreciation Expense	Alex Lau
9	Rate Base	Alex Lau
10	Income Taxes	Michael Conklin
11	Taxes Other Than Income	Michael Conklin
12	Customer Service	Hani Moussa
13	Water Quality	Hani Moussa
14	Rate Design	Victor Chan
15	Escalation Years and Step Increase	Mehboob Aslam
Appendix A	Qualifications	All

CHAPTER 1 SUMMARY OF EARNINGS

A. INTRODUCTION

This Chapter provides ORA's recommendation for A.16-01-002, San Gabriel Valley Water Company's ("SGVWC") general rate increase request in its Fontana Water Company ("FWC") Division for Test Year 2017/2018 and Escalation Years 2018/2019 and 2019/2020

B. SUMMARY OF RECOMMENDATIONS

The Summary of Earnings shown in Tables 1.1 and 1.2 below compare ORA's estimated summary of earnings against SGVWC's estimated summary of earnings for Test Year 2017/2018, including revenues, expenses, taxes and ratebase.

C. DISCUSSION

The Total revenues requested by SGVWC in its FWC Division are:

Year	Amount of Increase	Percent
Test Year 2017/2018	$20,607,600	38.60%
Escalation Year 2018/2019	$1,760,400	2.30%
Escalation Year 2019/2020	$2,664,800	3.40%

SGVWC estimates that its proposed rates will produce revenues resulting in the rate of return of 8.49% for Test Year 2017/2018.

D. CONCLUSION

ORA recommends a revenue increase for Test Year 2017/2018 and Escalation Year 2018/2019 and 2019/2020 as follows:

Year	Amount of Increase	Percent
Test Year 2017/2018	$9,944,454	17.20%
Escalation Year 2018/2019	$1,081,807	1.60%
Escalation Year 2019/2020	$1,554,850	2.26%

Table 1.1: Summary of Earnings for Test Year 2017/2018
(At Present Rates)

SUMMARY OF EARNINGS					
Test Year 2017-2018					
	ORA	Utility		SGVWC Exceeds ORA	
Item	Present	Present		Amount	Percent
	(A)	(B)			
	(Dollars in Thousands)				
Operating Revenues	$56,498.2	$52,108.1		($4,390.1)	-7.8%
Flat Rate Service (604)	$841.3	$841.3		$0.0	0.0%
Misc. Service Revenue (611 & 61	$1.5	$1.5		($0.0)	-1.1%
Other Water Revenue (614)	$488.6	$472.3		($16.3)	-3.3%
Total Revenue	$57,829.6	$53,423.2		($4,406.4)	-7.6%
Expenses					
Oper. & Maint. Expense	$29,263.7	$28,540.9		($722.9)	-2.5%
A&G Expense	$4,118.3	$4,790.6		$672.3	16.3%
Bank Charges	$65.7	$74.0		$8.3	12.6%
Alloc.Com.Exp.	$5,857.3	$6,993.3		$1,136.0	19.4%
Taxes Other Than Income	$2,336.6	$2,556.7		$220.1	9.4%
Deprec. Exp.(FWC)	$7,431.1	$7,442.5		$11.4	0.2%
CCFT	$243.7	($426.9)		($670.6)	-275.2%
FIT	$1,833.1	($220.0)		($2,053.1)	-112.0%
Total Expenses	$51,149.6	$49,751.0		($1,398.6)	-2.7%
Net Income	$6,680.0	$3,672.1		($3,007.9)	-45.0%
Ratebase	$148,496.3	$178,351.4		$29,855.1	20.1%
Rate of Return	4.50%	2.06%		-2.44%	-54.2%

Table 1.2: Summary of Earnings for Test Year 2017/2018
(At Proposed Rates)

	SUMMARY OF EARNINGS				
	Test Year 2017-2018				
	ORA	Utility		SGVWC Exceeds ORA	
Item	Recommended	Requested		Amount	Percent
	(C)	(D)			
	(Dollars in Thousands)				
Operating Revenues	$66,238.8	$72,414.0		$6,175.2	9.3%
Flat Rate Service (604)	$1,045.1	$1,143.0		$97.9	9.4%
Misc. Service Revenue (611 & 612)	$1.5	$1.5		($0.0)	-1.1%
Other Water Revenue (614)	$488.6	$472.3		($16.3)	-3.3%
Total Revenue	$67,774.0	$74,030.8		$6,256.8	9.2%
Expenses					
Oper. & Maint. Expense	$29,289.3	$28,594.1		($695.3)	-2.4%
A&G Expense	$4,179.9	$4,920.5		$740.6	17.7%
Bank Charges	$65.7	$74.0		$8.3	12.6%
Alloc.Com.Exp.	$5,857.3	$6,993.3		$1,136.0	19.4%
Taxes Other Than Income	$2,336.6	$2,556.7		$220.1	9.4%
Deprec. Exp.(FWC)	$7,431.1	$7,442.5		$11.4	0.2%
CCFT	$1,115.1	$1,378.7		$263.6	23.6%
FIT	$4,888.4	$6,928.5		$2,040.2	41.7%
Total Expenses	$55,163.5	$58,888.4		$3,725.0	6.8%
Net Income	$12,610.6	$15,142.4		$2,531.8	20.1%
Ratebase	$148,496.3	$178,351.4		$29,855.1	20.1%
Rate of Return	8.49%	8.49%		($0.0)	0.0%

CHAPTER 2 : WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This Chapter sets forth ORA's analysis and recommendations regarding the number of customers, water consumption, and operating revenues in the Test Year 2017-2018 for San Gabriel's Fontana Division. ORA reviewed San Gabriel's Report on Operations, supporting workpapers, methods of estimating customer count, water consumption and operating revenues, responses to data requests, and all related direct testimonies.

The area served by San Gabriel includes portions of the cities of Fontana, Ontario, Rancho Cucamonga, and Rialto, as well as adjacent unincorporated areas in San Bernardino County.

B. SUMMARY OF RECOMMENDATIONS

Tables 2-1 through 2-4 at the end of this Chapter show ORA's recommendations and San Gabriel's estimates for the average number of customers, water consumption per customer, total sales and supply, and operating revenues at present rates and at San Gabriel's proposed rates. ORA concurs with San Gabriel's estimates for the average number of customers. For the Test Year 2017-2018, the total average number of customers estimated by the company and ORA is 45,450.

ORA's total metered sales forecast is 15,286.3 KCcf, while San Gabriel's is 13,641.0 Kccf. ORA's unaccounted for water is 9.2% compared to San Gabriel's 9.7% as a result of corrections made by San Gabriel in its workpapers. ORA's estimated total water supply is 16,991.3 KCcf, while San Gabriel estimates 15,096.9 KCcf. This difference is due to different consumption and water loss estimates as shown on Table 2-3 at the end of this chapter.

At utility present rates, ORA's calculated total operating revenues for the Test Year are $57,829,584, and San Gabriel's are $53,423,173. At the utility proposed rates, ORA's calculated revenues are $67,774,038 and San Gabriel's are $74,030,797. The difference in operating revenues estimated by the parties is due to San Gabriel's update of

its workpapers, ORA's adjustment to the miscellaneous service revenues, and different sales forecasts for Test Year 2017-2018.

C. DISCUSSION

D.04-06-018 set forth the revised Rate Case Plan (RCP) standards and procedures for Class A water utilities filing a General Rate Case application. The Commission in D.07-05-062 (R.06-12-016) adopted modifications to the existing Rate Case Plan, but did not modify the methodology that should be applied to develop the forecast average number of customers, water consumption per average customer, and operating revenues.

1. Average Number of Customers

Utilities are required to forecast customer growth using a five-year average of the annual change in the number of customers by customer class. Should an unusual event occur, or be expected to occur, such as the implementation or removal of limitations on the number of customers, then an adjustment to the five-year average will be made.[1]

Except for the Recycled Water class, San Gabriel forecasted customer growth using the average annual rate of growth in customers for each class over the five-year period ending with 2015. For the Recycled Water class, San Gabriel forecasted customer growth based on the existing number of Commercial-Large and Public Authority-Large customers San Gabriel expects to convert to recycled water service in 2016 and 2017. The forecasted number of Commercial and Public Authority customers was adjusted accordingly.

San Gabriel also forecasted the addition of one Large Industrial customer, Niagara Bottling ("Niagara"). San Gabriel expects to begin providing potable water service to Niagara in 2016. ORA's detailed discussion of Niagara is provided in Chapter 14, Rate Design.

[1] D.07-05-062, Revised Rate Case Plan for Class A Water Utilities, Appendix A, p. A-22.

ORA agrees with San Gabriel's forecast on customer growth for each class of the customers. Table 2-2 at the end of this chapter provides a summary of its recommendation for Test Year 2017-2018.

2. Average Water Consumption per Customer

Both San Gabriel and ORA are required to use the "New Committee Method" to forecast per-customer usage in general rate cases, based on the "Standard Practice No. U-25", "Supplement to Standard Practice No. U-25," and the improvements adopted in D.07-05-062, the revised Rate Case Plan.[2]

San Gabriel applied the New Committee Method with the following adjustments:
a) using the recorded monthly sales over the last 10 years, and
b) using the 30-year average for forecast values for temperature and rain.
San Gabriel based its 2017-2018 forecast consumption on the New Committee Method for only the Industrial-Small and Industrial-Large classes. Given the Governor's April 1, 2015, Executive Order B-29-15G imposing restrictions to achieve a 25% statewide reduction in water use and the State Water Resources Control Board's ("Water Board") mandated water use reduction of 28%,
San Gabriel proposed to use the recorded 2013-2014 average consumption, reduced by 28%, to arrive at the Test Year 2017-2018 average consumption for its residential and commercial customers. For the remaining customer classes and individual customers, San Gabriel used historical consumption to arrive at the Test Year forecast.

Below is ORA's detailed discussion of average water consumption for each class of customers.

Table 2-3 at the end of this Chapter provides a comparison of ORA's and San Gabriel's consumption per customer by customer class.

a. Residential Single-Family

San Gabriel's consumption per customer estimate for Residential Single-Family is 182 Ccf for Test Year 2017-2018. This estimate is based on the

[2] D.07-05-062, Revised Rate Case Plan for Class A Water Utilities, Appendix A, p. A-23.

recorded 2013-2014 usage and reduced by 28% as required by the revised RCP during a government mandated drought period.[3]

On May 18, 2016, the State Water Resources Board issued Resolution No. 2016-0029, adopting a statewide water conservation approach that replaced the prior percentage reduction-based water conservation standard. Under this resolution, individual urban water suppliers were required to self-certify by June 22, 2016, the level of available water supplies they have, assuming three additional dry years with the same level of precipitation the state experienced from 2013 to 2015, and a level of water conservation necessary to assure adequate supplies over that time. Urban water suppliers that project supply shortages under the three additional dry years are required to meet a conservation standard equal to the amount of the shortage. For example, if a water agency projects it would have a 10 percent supply shortfall, their mandatory conservation standard would be 10 percent. On June 23, 2016, the Commission issued Resolution W-5103, directing all water utilities under its jurisdiction to comply with Water Board Resolution No. 2016-0029, and to file advice letters to amend their Tariff Schedule 14.1, if necessary, based upon their compliance with Resolution No. 2016-0029.

On June 22, 2016, San Gabriel filed data and information in compliance with the Water Board's Resolution No. 2016-0029, self-certifying in both its Los Angeles County and Fontana Water Company Divisions. In that filing, San Gabriel's data and information show that it will have sufficient available water supplies to meet expected demands, assuming three additional dry years with the same level of precipitation experienced from 2013 to 2015. Because San Gabriel does not project a supply shortage under the three additional dry years, San Gabriel is not required to meet a mandatory

[3] Page A-23 of Appendix A, Revised Rate Case Plan states "*Forecast water sales for all classes of customers for utilities that are under government-mandated production limitations based on that limitation and consideration of unaccounted for water and historical production reserves while under the imposed limitation. Water sales for customer classes other than residential, multifamily, and business (such as industrial, irrigation, public authority, reclaimed, and other) will be forecast on total consumption by class using the best available data.*"

conservation standard under the revised emergency regulation adopted by the Water Board in Resolution No. 2016-0029.

On June 24, San Gabriel filed a Tier -1Advice Letter AL-480, seeking to change the "Current Activated Stage in Schedule Stage in Schedule No. 14.1, Staged Water Shortage Surcharges and Penalties," from Stage 2 mandatory water conservation and drought surcharges, to Stage 1, with voluntary water conservation targets and no drought surcharges. The Commission has not yet issued its decision at the time ORA issues its testimony. ORA recommends that the result from the Commission's decision on this advice letter should be incorporated into the final decision of this proceeding.

Given that the mandatory conservation is no longer necessary as shown by San Gabriel's self-certifying result, ORA believes the level of water consumption by San Gabriel customers would not be reduced as much as that forecasted by San Gabriel. As such, San Gabriel should revert to the "New Committee Method" in forecasting the average water usage for this class of customers.[4] Under this method, ORA derives 198 Ccf for Test Year 2017-2018 as the average consumption for the Residential Single-Family class.

b. Residential Multi-Family - Small

San Gabriel's forecast of 447 Ccf per customer for Test Year 2017-2018 is based on recorded 2013-2014 usage and reduced by 28% as required by the revised RCP during a government mandated drought period. For the same reason discussed for Residential Single-Families above, ORA recommends 527 Ccf as the Test Year average consumption forecasted for this class of customer.

c. Residential Multi-Family - Large

San Gabriel's forecast of 6,260 Ccf per customer for Test Year 2017-2018 is based on recorded 2013-2014 usage and reduced by 28% as required by the revised RCP during

[4] Page A-26 of Appendix A of Revised Rate Case Plan states "*The Utility and DRA shall use the "New Committee Method" to forecast per customer usage for the residential and small commercial customer classes in general rate cases.*"

a government mandated drought period. For the same reason discussed for Residential Single-Families above, ORA recommends 7,361 Ccf as the Test Year average consumption forecasted for this class of customer.

d. Commercial – Small

San Gabriel's forecast of 427 Ccf per customer for Test Year 2017-2018 is based on recorded 2013-2014 usage and reduced by 28% as required by the revised RCP during a government mandated drought period. For the same reason discussed for Residential Single-Families above, ORA recommends 533 Ccf as the Test Year average consumption forecasted for this class of customer.

e. Commercial – Large

San Gabriel's forecast of 3,040 Ccf per customer for Test Year 2017-2018 is based on recorded 2013-2014 usage and reduced by 28% as required by the revised RCP during a government mandated drought period. For the same reason discussed for Residential Single-Families above, ORA recommends 3,731 Ccf as the Test Year average consumption forecasted for this class of customer.

f. Industrial – Small

San Gabriel used the "New Committee Method" to forecast 518 Ccf in 2016 and applied the same result to the Test Year 2017-2018 as the average consumption for the Industrial Small customers. Although the revised RCP does not identify a specific methodology for forecasting average water consumption for this class of customer, San Gabriel did not offer any support as to why it has chosen this methodology instead of other equally valid methodologies. By contrast, ORA recommends 617 Ccf based on the average consumption recorded in 2015. ORA's forecast is more realistic compared to San Gabriel's as it takes into account the latest customer usage as well as the mandatory drought reduction imposed by the Water Board in 2015. Therefore, the Commission should reject San Gabriel's proposal and adopt ORA's recommendation for this class of customer.

g. Industrial – Large

San Gabriel's Industrial - Large customer class includes two large customers, CEMEX and California Steel Industries. Their consumption is estimated separately because of their size, and are also discussed separately below. For the remaining Industrial - Large customers, San Gabriel based its regression analysis on a ten-year span of data ending December 2015, resulting in 8,425 Ccf for Test Year 2017-2018. Although the revised RCP does not identify a specific methodology for forecasting average water consumption for this class of customer, San Gabriel did not offer any support as to why it has chosen this methodology instead of other equally valid methodologies. By contrast, ORA recommends 9,384 Ccf based on the average consumption recorded in 2015. ORA's forecast is more realistic compared to San Gabriel's as it takes into account the latest customer usage as well as the mandatory drought reduction imposed by the Water Board in 2015.

h. Public Authority – Small

San Gabriel's consumption per customer estimate for Public Authority Small is 605 Ccf for 2017-2018. This estimate is based on the recorded 2015 water usage per customer. ORA agrees with this methodology except its forecast of 592 Ccf for Test year 2017-2018 is based on the updated data provided by San Gabriel on May 16, 2016.

i. Public Authority - Large

San Gabriel's consumption per customer estimate for Public Authority Large is 3,892 Ccf for 2017/2018. This estimate is based on the recorded 2015 water usage per customer. ORA agrees with this methodology except its forecast of 3,867 Ccf for Test year 2017/2018 is based on the updated data provided by San Gabriel on May 16, 2016.

j. CEMEX

Cemex is a customer with a sand and gravel operation and is under a special Commission approved contract with San Gabriel. Under this contract, a portion of the

water delivered to Cemex is billed at the special contract rate, with the remaining delivered water billed at San Gabriel's general metered rate. For estimating total water sales, San Gabriel used the annualized weekly average from June 6 to July 31, 2015 to derive the average consumption of 225,173 Ccf for the Test Year 2017-2018. ORA believes San Gabriel's estimate is an inaccurate reflection of Cemex's actual consumption as its estimates are based on less than two months of recorded usage. Instead, ORA forecasts 237,381 Ccf based on the recorded average consumption of 2015. ORA's estimate is more realistic since its methodology has considered the water usage by Cemex in the entire 2015 rather than just two months as proposed by San Gabriel. The Commission should therefore adopt ORA's forecast methodology and its estimate.

k. California Steel Industries, Inc. (CSI)

San Gabriel's consumption per customer estimate for CSI is 30,755 Ccf for 2017-2018. This estimate is based on the recorded 2015 water usage per customer. ORA agrees with this methodology except its forecast of 30,787 Ccf for Test year 2017-2018 is based on the updated data provided by San Gabriel on May 16, 2016.

3. Total Water Sales and Water Supply

Test year total sales are based on the test year forecasted consumption per average customer by customer classification, multiplied by the test year estimated average number of customers per classification.

Total water supply represents the sum of water sales and water loss. To see a comparison of ORA and San Gabriel's Total Sales and Supply refer to Table 2-4 at the end of this Chapter, and Table 2-5 below.

4. Operating Revenue

Operating revenue is calculated by multiplying the number of customers by their applicable water use and applying the current tariff rates for the present revenue to the utility proposed rates for the proposed revenue.

For Test Year 2017-2018, the total operating revenue calculated by ORA is $57,829,400 at present rates, and $80,265,946 at proposed rates. San Gabriel's calculations are $52,101,100 and $74,041,197, respectively. Tables 2-1 shows a comparison of ORA's and San Gabriel's estimated operating revenues at the utility present rates.

5. Water Loss Rate

Water loss is the amount of water used in operations for flushing the system and water lost due to leakage. The loss amount is determined to be the difference between the total amount of water produced and the total amount of water recorded in sales. From 2006 to 2015, San Gabriel's water loss has been fluctuating between 6 and 11 percent but generally trending upward as shown in the following graph. However, the water loss in the past five years, 2011 to 2015, fluctuates and does not show a clear trending direction. Accordingly, ORA believes normalizing the data by averaging the most recent five year data would be the appropriate methodology for forecasting water loss in the test year.

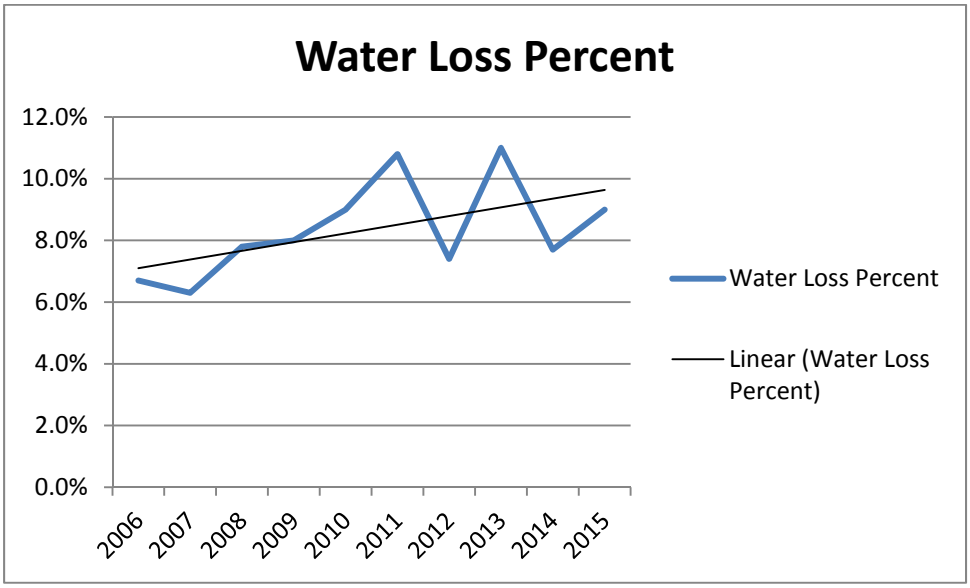
San Gabriel is projecting the water loss rate to be 9.7% based on the historical five year average from 2011 to 2015. ORA agrees with this methodology but recommends 9.2% because San Gabriel made corrections to its workpapers and provided an update to ORA[5]. ORA accepts San Gabriel's revision to its water loss estimate.

Table 2.5: Historical Water Loss Percentage, 2006-2015

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
6.7%	6.3%	7.8%	8.0%	9.0%	10.8%	7.4%	11.0%	7.7%	9.0%

[5] Revised workpaper provided by Dan Dell'Osa of San Gabriel on 4/14/2016.

Figure 2.1: Historic Water Loss



6. Other Revenues

San Gabriel has three accounts for Other Revenues consisting of Misc. Service Revenue (Account 611), Rent from Water Property (Account 612), and Other Water Revenue (Account 614).

a. Misc. Service Revenues (Acct. 611)

San Gabriel estimates Misc. Service Revenues of $227,302 for Test Year 2017-2018, based on an average of the past 5 years, 2011-2015. This account is comprised of three Commission authorized components: 1) re-connection charges to customers, 2) returned check charges, and 3) amortized of deferred revenue for CIAC. ORA agrees with San Gabriel's methodology except it uses inflation adjusted historical numbers to calculate the 5-year average by using the non-labor composite factors as provided in FEX24 of San Gabriel's work papers. This is necessary to adjust the nominal dollar in pace with inflation from year-to-year. This is a standard practice used by both ORA and Utilities when calculating an average number based on historical data. Using this method, ORA recommends $232,178 as the estimate for Misc. Service Revenues in Test Year 2017-2018.

b. Rent from Water Property Revenues (Acct. 612)

San Gabriel estimates Rent from Water Property Revenues of $1,490 for Test Year 2017-2018 based on the average of the past 5 years, 2011-2015. This account is comprised of rental income from a house located on land purchased by San Gabriel for the expansion of Plant F31. ORA agrees with San Gabriel's methodology except it uses inflation adjusted historical numbers to calculate the five-year average by using the non-labor composite factors as provided in FEX24 of San Gabriel's work papers. This is necessary to adjust the nominal dollar in pace with inflation from year-to-year. This is a standard practice used by both ORA and Utilities when calculating an average number based on historical data. Using this method, ORA recommends $1,507 as the estimate for Rent from Rental Property Revenues in Test Year 2017-2018.

c. Other Revenues (Acct. 614)

Other Revenues includes reimbursements from the County of San Bernardino for Operations and Maintenance costs for contamination clean-up at Plant F10. This revenue varies as the costs being reimbursed vary due to the quantities of water produced, carbon change-outs, and maintenance and repair needs. The reimbursements are "revenue neutral," as offsetting expenses must first be incurred, with reimbursements received shortly after. San Gabriel forecasted $244,965 as Other Revenues for Test year 2017-2018 based on an average of the past 5 years, 2011 to 2015. ORA agrees with San Gabriel's methodology except it uses inflation adjusted historical numbers to calculate the 5-year average by using the non-labor composite factors as provided in FEX24 of San Gabriel's work papers. This is necessary to adjust the nominal dollar in pace with inflation from year-to-year. This is a standard practice used by both ORA and Utilities when calculating an average number based on historical data. ORA forecasts $256,407 for Test Year 2017-2018.

D. CONCLUSION

ORA recommends that the Commission adopt its recommendations regarding the number of customers, water consumption, and revenues proposed by SGVWC.

TABLE 2.1			
SAN GABRIEL VALLEY WATER COMPANY			
FONTANA WATER COMPANY DIVISION			
OPERATING REVENUES			
Test Year 2017-2018			
(at Present Rates)			
Item	ORA	Utility	Utility Exceed ORA
			(%)
	(A)	(B)	(C)
	(Dollars in Thousands)		
Metered Service:			
Residential- Singel Family	$33,276.9	$31,499.9	-5.34%
Residential- Multi-Family, Small	$1,728.7	$1,524.6	-11.80%
Residential- Multi-Family, Large	$3,305.1	$2,901.0	-12.23%
Commercial, Small	$4,481.1	$3,857.6	-13.91%
Commercial, Large	$4,632.8	$3,895.1	-15.92%
Industrial-Small	$82.4	$73.8	-10.43%
Industrial-Large	$1,230.3	$1,122.9	-8.73%
Niagara Bottling	$1,491.4	$1,491.4	0.00%
CSI	$311.4	$144.0	-53.77%
Cemex	$533.6	$517.2	-3.08%
Public Auth-Small	$738.4	$748.8	1.41%
Public Auth- Large	$3,601.8	$3,621.7	0.55%
Construction	$727.2	$354.5	-51.25%
Recycled Water	$356.9	$355.6	-0.37%
Subtotal	56,498.2	$52,108.1	-7.77%
Flat Rate Service			
Private Fire Protection	$841.3	$841.3	0.00%
Construction			
Miscellaneous			
Rent of Water Property	$1.5	$1.5	-1.15%
Other Water Revenues	$488.6	$472.3	-3.33%
Total Revenues	$57,829.58	$53,423.2	-7.62%

TABLE 2-2			
SAN GABRIEL VALLEY WATER COMPANY			
FONTANA DIVISION			
AVERAGE SERVICES			
Test Year 2017-2018			
	ORA	Utility	Utility Exceeded ORA
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential- Singel Family	41,071	41,071	0.00%
Residential- Multi-Family, Small	938	938	0.00%
Residential- Multi-Family, Large	135	135	0.00%
Commercial, Small	2,163	2,163	0.00%
Commercial, Large	397	397	0.00%
Industrial-Small	34	34	0.00%
Industrial-Large	42	42	0.00%
Niagara Bottling	1	1	0.00%
CSI	3	3	0.00%
Cemex - contract	1	1	0.00%
Cemex - tariff	N/A	N/A	N/A
Public Auth-Small	295	295	0.00%
Public Auth-Large	292	292	0.00%
Construction	52	52	0.00%
Recycled Water - Contract	21	21	0.00%
Recycled Water - Tariff	5	5	0.00%
Total Metered Service	45,450	45,450	0.00%
Private Fire Service	973	973	0.00%
Public Fire Hydrants	5,219	5,219	0.00%

TABLE 2-3			
SAN GABRIEL VALLEY WATER COMPANY			
FONTANA DIVISION			
AVERAGE CONSUMPTION PER CUSTOMER			
Test Year 2017-2018			
	ORA	Utility	Utility Exceeded ORA
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential- Singel Family	198	182.00	-8.08%
Residential- Multi-Family, Small	527	447	-15.18%
Residential- Multi-Family, Large	7,361	6,260	-14.96%
Commercial, Small	533	427	-19.89%
Commercial, Large	3,731	3,040	-18.52%
Industrial-Small	617	524	-15.07%
Industrial-Large	9,384	8,443	-10.03%
Niagara Bottling	541,406	541,406	0.00%
CSI	30,787	10,258	-66.68%
Cemex - contract	95,522	83,314	-12.78%
Cemex - tariff	141,859	141,859	0.00%
Public Auth-Small	592	605	2.20%
Public Auth-Large	3,867	3,892	0.65%
Construction	5,143	2,507	-51.25%
Recycled Water - Contract	5,601	5,601	0.00%
Recycled Water - Tariff	7,708	7,708	0.00%

TABLE 2-4			
SAN GABRIEL VALLEY WATER COMPANY			
FONTANA DIVISION			
TOTAL CONSUMPTION AND SUPPLY			
(KCCF PER YEAR)			
	ORA	Utility	Utility Exceeded ORA
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential- Single Family	8,150,540	7,474,922	-8.29%
Residential- Multi-Family, Small	494,326	419,286	-15.18%
Residential-Multi-Family, Large	993,735	845,100	-14.96%
Commercial, Small	1,152,879	923,601	-19.89%
Commercial, Large	1,481,207	1,206,880	-18.52%
Industrial-Small	20,978	17,816	-15.07%
Industrial-Large	394,128	354,606	-10.03%
Niagara Bottling	541,406	541,406	0.00%
CSI	92,361	30,775	-66.68%
Cemex - contract	95,522	83,314	-12.78%
Cemex - tariff	141,859	141,859	0.00%
Public Auth-Small	174,640	178,475	2.20%
Public Auth-Large	1,129,164	1,136,464	0.65%
Construction	267,436	130,364	-51.25%
Recycled Water - Contract	117,624	117,624	0.00%
Recycled Water - Tariff	38,539	38,539	0.00%
Potable Water Sales	15,286,344	13,641,031	-10.76%
Water Loss factor	9.2%	9.7%	5.92%
Total Portable Water Supplies	16,835,181	14,940,748	-11.25%
Total Forecasted Conservation			
Total Recycled water	156,163	156,163.0	0.00%
Total Potable Water Saved			
Total Water Production , Ccf	16,991,344	15,096,911	-11.15%

CHAPTER 3 : OPERATIONS AND MAINTENANCE EXPENSES

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for Operations and Maintenance ("O&M") expenses for the Fontana ("FWC") Division.

B. SUMMARY OF RECOMMENDATIONS

ORA's estimate for Test Year 2017-2018 is $29,263,675. SGVWC's estimate is $28,014,581. ORA's estimate exceeds SGVWC's by $1,249,095. Table 3.1 details the differences between ORA & SGVWC.

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Table 3.1: Summary of ORA's Recommendations

Fontana O&M Summary of Recommendations	SGVWC	ORA	Difference in Dollars	ORA as % of SGVWC
Operations				
Purchased Water	$13,592,575	$16,128,044	($2,535,469)	118.65%
Purchased Power	$5,188,993	$4,972,662	$216,332	95.83%
Chemicals	$467,637	$467,637	$0	100.00%
Payroll*	$3,531,184	$3,074,287	$456,897	87.06%
Mat'l Supplies	$188,878	$187,355	$1,523	99.19%
Transportation	$648,723	$648,723	$0	100.00%
Uncollectibles	$136,835	$147,804	($10,969)	108.02%
Outside Services	$273,954	$273,954	$0	100.00%
Utilities & Rents	$67,449	$67,449	$0	100.00%
Misc.	$772,786	$413,852	$358,934	53.55%
Total O	$24,869,014	$26,381,766	($1,512,752)	106.08%
Maintenance				
Payroll*	$1,975,300	$1,719,717	$255,583	87.06%
Mat'l Supplies	$483,756	$475,681	$8,075	98.33%
Transportation	$344,634	$344,634	$0	100.00%
Outside Services	$269,553	$269,553	$0	100.00%
Utilities & Rents	$19,569	$19,569	$0	100.00%
Misc.	$52,754	$52,754	$0	100.00%
Total M	$3,145,566	$2,881,909	$263,657	91.62%
Total O&M	$28,014,581	$29,263,675	($1,249,095)	104.46%

*Denotes discussion in other chapters

C. DISCUSSION

In order to make its recommendations, ORA reviewed SGVWC's application, testimonies, workpapers, methods of estimation, data request responses, and other information provided in meetings and in emails.

Methods of Forecasting

SGVWC forecasted FWC Division's O&M expenses by categorizing expenses according to PUC regulatory accounts, further detailed by displaying the subaccounts within each main account. To arrive at Test Year forecasts, the company used either a five year average of historical expenses or the most recent 2015 recorded expense. The company then adjusted either estimate for inflation using ORA inflation factors to arrive at 2016, 2017, and 2018 forecasted expenses. For Purchased Water, Purchased Power, and conservation expense however; the company relied on an alternate forecasting methodology.

In workpapers filed in the application, ORA was able to review the amounts recorded in each account for the most recent five years to assess the reasonableness of the company's choice of forecasting methods. Save for Conservation expense, ORA did not disagree with the company's use of forecasting methodology. This modification is discussed in more detail in section "(i)" of this chapter.

In addition to the review of the workpapers, ORA also asked for the general ledger accounting detail that comprised the totals in each account.[6] Though substantial disagreement didn't exist with the company's forecasting methods, ORA did remove one-time expenses for forecasting purposes. This chapter highlights those modifications.

Inflation Factors and Escalation

Both ORA and SGVWC apply the various escalation factors, published by the ORA Energy Cost of Service Branch ("ECOS") Memorandum dated April 8, 2016, to forecast expenses.

To avoid comparing differences in ORA and SGVWC estimates that result solely from application of escalation factors from different ECOS Memoranda, ORA applies the same inflation factors used by the company in deriving Test

[6] SGVWC's response to ORA's Data Request JR6-001.

Years and escalation year expense estimates. However, the factors based on the most recent ECOS Memorandum's data available should be considered at the time the Joint Comparison Exhibit is prepared.

1. Operation Expenses

a. Purchased Water and Assessments

SGVWC's estimate for Purchased Water and Assessments expense is $13,592,575 in the Test Year 2017-2018, based upon a company estimate provided in workpapers filed within the application. ORA arrives at an estimate of $13,504,555. The differences between ORA's and San Gabriel's estimates are solely due to modifications to the sales forecast. For a more detailed discussion on the sales forecast please refer to Chapter 2.

For FWC, the company pumps water from the various supply sources available to that Division. In workpapers, the company calculated the purchased water expense using the recorded 2015 costs associated with pumping from those sources. This calculation flowed from the sales worksheets, through to a water costs calculation, then to the FWC Division expenses worksheets. With the accurate unit costs in place, ORA found that the calculation correctly flows through the workpapers.[7] Using the more accurate sales forecast derived from ORA's estimated sales witness, ORA arrived at a more accurate Test Year forecast.

b. Purchased Power

SGVWC's estimate for Purchased Power expense is $5,188,993 for Test Year 2017-2018. This is based upon a company estimate provided in the workpapers filed within the application. ORA agrees with this methodology but arrives at $4,962,766 due to differences in plant recommendations outlined in Chapter 7.

[7] FWC Workpapers UPDATE Tab "Water Cost '16."

The company bases its estimated power costs on the current Southern California Edison electric rates, effective November 24, 2015. Applying those rates to each plant sites' forecasted kWh usage, the company arrived at its forecasted purchased power expense.[8] ORA modified the company's power cost worksheet to reflect the specific recommendations by ORA's plant witness. A more detailed discussion on ORA's plant recommendations can be found in Chapter 7.

Additionally, the company currently operates a full cost balancing account to track the difference between authorized amounts and actual amounts spent. This provides ratepayers protection from large expense deviations.

c. Purchased Chemicals

For Fontana Division, SGVWC forecasted chemical expense using a five year recorded average escalated using ECOS non-labor inflation factors to arrive at the Test Year estimates. ORA makes no adjustment to SGVWC's forecast for chemical expenses.

d. Operation – Payroll

For Payroll Expense, please refer to the Payroll Expense discussion in Chapter 5.

e. Operation – Materials & Supplies – Sub-Account – 02

SGVWC's estimate for Materials & Supplies – Sub-Accounts – 02 for FWC's operational accounts is $188,878, and ORA's is $187,355 for Test Year 2017-2018. SGVWC's estimates are based on an inflation-adjusted five-year average. ORA agrees with the methodology but has made an adjustment in one account.

Upon review of the transactions comprising the recorded year's data for Account – 755 – Transmission & Distribution Customer Installations, ORA found

[8] SG-7 Direct Testimony of Joel Reiker, p. 25.

a one-time expense not suitable for forecasting purposes. In 2011, SGVWC recorded a transaction for "Western Water Works Supply Co." in the amount of $7,708. ORA could not find similar transactions in description or amount in other recorded years. Removing this expense provides a smoother more accurate experience in the Test Year. This is illustrated in the table 3.2 below.

Table 3.2: SGVWC's Historic T&D Customer Installations Expenses & ORA's adjustments

Account 755 T&D Customer Installations	2011	2012	2013	2014	2015	TY Est.
SGVWC Recorded	$11,124	$1,802	$6,066	$1,991	$2,376	$4,958
ORA Modified	$4,046	$1,802	$6,066	$1,991	$2,376	$3,436
					Dollar Difference	$1,523

As detailed in the table, the 2011 expenses are outside the normal range for the nearest four recorded years. The company did not provide additional testimony justifying this five year old expense. With the removal of this single one-time expense, ORA arrives at a more reasonable Test Year estimate.

f. Operations – Transportation – Sub-Account – 04

For FWC Division, SGVWC's estimate for Operations – Transportation – (Sub-Account – 04) expense is $648,723 for Test Year 2017-2018, based upon the recorded year (2015) adjusted for inflation. ORA makes no adjustment at this time to the Transportation expenses.

g. Uncollectibles

For FWC Division, SGVWC forecasts its uncollectibles expense using the historical uncollectible percentage of .2578% multiplied by forecasted revenues less miscellaneous revenues. This calculation was correctly applied in the workpapers. ORA recommends no adjustment to SGVWC's uncollectibles

percentage at this time but a small adjustment in expense is made due to differences in forecasted revenues discussed in Chapter 2.

h. Operations – Outside Services – Sub-Account – 05

For FWC Division, SGVWC's estimate for Operations – Outside Services (Sub-Accounts – 05) expense is $273,954 for Test Year 2017-2018, based on the five year average adjusted for inflation. ORA recommends no adjustment to outside services expenses at this time.

i. Operations – Utilities & Rents – Sub-Account – 06

For Fontana Division, SGVWC's estimate for Operations – Utilities & Rents – (Sub-Account – 06) expense is $67,449 for Test Year 2017-2018, based upon the recorded year (2015) adjusted for inflation. ORA recommends no adjustment to the estimated utilities and rent expense at this time.

j. Operations – Miscellaneous – Sub-Account – 00

SGVWC's estimate for Operations – Miscellaneous (Sub-Accounts – 00) expense is $772,786 for Test Year 2017-2018, based on the five year average adjusted for inflation and a separate forecast for Conservation Expense. ORA agrees with the five year average methodology but recommends an alternate methodology for Conservation expense, as discussed below. ORA arrives at a Test Year estimate of $287,382.

k. Conservation Expense

SGVWC's estimate for Conservation Expense for the FWC Division is $692,200 for Test Year 2017-2018. ORA arrived at $311,741 in the Test Year. The difference is due to differences in forecasting methodology.

In the previous Fontana GRC, SGVWC forecasted an annual expense level of $573,698 to implement various conservation programs, including residential incentive programs, High Efficiency Toilet ("HET") installation program, Commercial / Industrial / Institutional ("CII") save-a-buck program, irrigation controllers, residential retrofit program, water conservation kits, CII audit reports,

and Education / Public Outreach.[9] ORA (named DRA at the time) recommended an annual budget of $145,578. In settlement for that proceeding, both parties agreed to an annual budget of $326,443 subject to a one way balancing account.[10]

In the current GRC, the company supports its request for conservation expense as follows:

> "The water conservation budget for both Los Angeles County and Fontana Water Company Divisions are shown in **Attachment C**, Tables 1 and 2 respectively. The budgets are divided into nine categories for each Division… …The proposed conservation budget for 2017 is… $683,000 for Fontana"[11]

The company details what programs the funds will go towards, including; K-12 School Education Program, Educational / Public Outreach, Gardening Workshops, Outdoor Irrigation Controller & Nozzles Retrofit Program, Conservation Kits, HET Program, CII Audits/Large Landscape, CII Retrofit Program, & Recycled Water On-Site Retro-fit Pilot Program.

ORA reviewed the workpapers to determine the amounts spent as compared to amounts authorized from the previous rate case. The company spent an average of $320,826 over the three year period subsequent to the prior rate case (2012-2014).[12] Thus, the company spent a bit less than the $326,443 authorized in the settlement.

Lastly, ORA reviewed the balancing account by which the company was to track authorized versus spent, with the balance of unspent funds to be returned to ratepayers. In response to ORA's data request, RAC-001, the company provided presentation of the over- or under-collection of conservation costs through general tariff rates. As of December 2015, the company records an over collection of

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[9] A.11-07-005 Direct Testimony of Robert Diprimio, p. 21-23.

[10] A11-07-005 Appendix A Settlement Agreement between DRA & SGVWC, p. 6.

[11] Direct Testimony of Roberts J. DiPrimio SG-5, p. 11.

[12] FWCWorkpapersUPDATE Tab 'FEX5.'

$287,615[13]. Per the settlement agreement from the prior rate case, this amount is due to ratepayers. For more detail on this topic, the conservation balancing account is discussed in Chapter 5 – Memorandum & Balancing accounts, in the General Office report.

While ORA agrees that the authorized amount for FWC came fairly close to the actual cost in 2012-2014, the estimate still came up short when measured against the over collection recorded in the balancing account. Thus even though ORA finds the authorized amount to be a solid basis upon which to build a forecast, the over-collection needs to be captured going forward.

To develop its conservation forecast, ORA first uses the previously authorized amount from the 2012 settlement, then escalates using ORA non-labor composite inflation factors. This calculates to $351,916 in the Test Year. Since the company over-collected in the past and nothing indicates to ORA a different experience in the future, the forecast needs to reflect this over-collection. Thus, this sum is then reduced by the recorded over-collection in the balancing account amortized over three years ($95,872). This methodology produces an estimate of $256,044 for Test Year 2017-2018. This calculation is detailed in Table 3.3 below.

Table 3.3 – Fontana Division Conservation Budget

FWC Division Conservation Budget							
		Overcollection in Balancing Account				-$287,615	
	Non-Labor Composite	0.70%	1.60%	-0.80%	1.50%	3.00%	3.20%
Authorized	**July 2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
FWC Division	$326,443	$328,728	$333,988	$331,316	$336,286	$346,374	$357,458
				FWC Test Year Estimate	$351,916		
				Overcollection Adjustment Over 3 years	-$95,872		
					$256,044	ORA Recommendation	

[13] RAC-001(4) (part 2), p. 19 "Dec Ending Balance."

2. Maintenance Expenses

a. Maintenance – Payroll

For payroll expense, please refer to the payroll expense discussion in Chapter 5.

b. Maintenance – Materials & Supplies – Sub-Account – 02

SGVWC's estimate for Maintenance – Materials & Supplies – (Sub-Account – 02) expense is $483,756 for Test Year 2017-2018 based on a five year average adjusted for inflation. ORA has made one adjustment.

In the general ledger detail for Account 732 – Maintenance of Pumping Equipment, ORA found two transactions not suitable for Test Year forecasting. In 2011, SGVWC recorded expenses with the description "W.A Benjamin Electric Co." in the amounts of $20,253 and $17,277 respectively.[14] ORA could not find any similar transactions in most recent recorded years general ledger details. With the transactions included, the recorded 2011 expense is $94,810. This amount is well over the $56,900 average for the most recent four years recorded data (2012-2015). This discrepancy is detailed in Table 3.4 below.

Table 3.4: SGVWC's Historic Maintenance of Pumping Equip. Expenses & ORA's adjustments

Account 732 Maintenance of Pumping Equipment	2011	2012	2013	2014	2015	TY Est.
SGVWC Recorded	$94,810	$74,951	$54,453	$65,801	$32,344	$68,099
ORA Modified	$57,280	$74,951	$54,453	$65,801	$32,344	$60,024
					Dollar Difference	$8,075

[14] Data Request Response E-mail Attachment "GL Transactions 2014 with AP Detail (filtered to PUC)."

With the removal of these two expenses in sub account 732-02 for forecasting purposes, ORA arrives at a more reasonable Test Year forecast of $475,681 for Miscellaneous Expenses.

c. Maintenance – Transportation – Sub-Account – 04

SGVWC's estimate for Maintenance – Transportation – (Sub-Account – 04) expense is $344,634 for Test Year 2017-2018, based upon the recorded year (2015) adjusted for inflation. ORA accepts SGVWC's estimate.

d. Maintenance – Outside Services – Sub-Account – 05

SGVWC's estimate for Maintenance – Outside Services – (Sub-Account – 05) expense is $269,553 for Test Year 2017-2018, based on a five year average adjusted for inflation (2015). ORA accepts SGVWC's estimate.

e. Maintenance – Utilities & Rents – Sub-Account – 06

SGVWC's estimate for Maintenance – Utilities & Rents – (Sub-Account – 06) expense is $19,569 for Test Year 2017-2018, based upon the recorded year (2015) adjusted for inflation. ORA accepts SGVWC's estimate.

f. Maintenance – Miscellaneous – Sub-Account – 00

SGVWC's estimate for Maintenance – Miscellaneous – (Sub-Account – 00) expense is $52,754 for Test Year 2017-2018, based on a five year average adjusted for inflation. ORA accepts SGVWC's estimate.

D. CONCLUSION

ORA recommends the Commission adopt ORA's O&M expense estimates for the FWC Division, as described above.

CHAPTER 4 : ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This Chapter presents ORA's analysis and recommendations on Administrative and General ("A&G") expenses for the Fontana Water Company ("FWC") Division of SGVWC.

B. SUMMARY OF RECOMMENDATIONS

ORA estimates $4,118,343 for Test Year 2017-2018, while SGVWC estimates total expenses of $4,743,573. SGVWC exceeds ORA by $625,230. The differences are mainly due to allocations from general office, reflecting changes to the new positions requested (discussed in Chapter 5), a reduction in executive compensation (discussed in Chapter 5), and modifications to the regulatory expense forecast. The differences are detailed in table 4.1 below.

Table 4.1: Summary of ORA's Recommendation

Fontana A&G Summary of Recommendations

	SGVWC	ORA	Difference in Dollars	ORA as % of SGVWC
Payroll*	$449,165	$391,047	$58,117	87.06%
Mat'l Supplies	$82,528	$82,528	$0	100.00%
Pension & Benefits*	$3,234,626	$2,520,884	$713,742	77.93%
Transportation	$19,935	$19,935	$0	100.00%
Franchise Fees*	$334,571	$361,390	($26,819)	108.02%
Outside Services	$326,605	$282,044	$44,560	86.36%
Inj. & Damages*	$1,077,580	$1,077,580	$0	100.00%
Regulatory Exp	$635,978	$125,978	$510,000	19.81%
Utility Rents	$19,968	$19,968	$0	100.00%
Misc. Expense	$17,506	$17,506	$0	100.00%
Adm Exp Trans.	($1,454,889)	($780,519)	($674,370)	53.65%
Total	$4,743,573	$4,118,343	$625,230	86.82%

*Denotes discussion in other chapters

C. DISCUSSION

ORA reviewed SGVWC's application, testimonies, workpapers, methods of estimation, data request responses, and other information provided in meetings and in emails.

Methods of Forecasting

SGVWC forecasted A&G expenses by categorizing recorded year data by regulatory account, detailed further by subaccounts within each main account. To arrive at Test Year forecasts for all accounts except the regulatory forecast, the company uses either a five year average of historical expenses or the most recent 2015 recorded expense. SGVWC then adjusts the estimates for inflation using the ORA inflation factors to arrive at 2016, 2017, and 2018 forecasted expenses. SGVWC's regulatory expense forecast is based upon a separate company estimate discussed in section (h) below.

In workpapers filed in the application, ORA was able to review the amounts recorded in each account for the most recent five years to assess the reasonableness of the company's choice of forecasting methods. Save for the regulatory expense forecast and one subaccount within Account 798 – Outside Services, ORA did not disagree with the company's use of either the 2015 recorded expenses or the most recent five years average methodologies. Those two specific modifications are discussed in section (f) & section (h), below.

Inflation Factors and Escalation

Both ORA and SGVWC apply the various escalation factors, published by ORA's Energy Cost of Service Branch ("ECOS") Memorandum dated April 8, 2016, to forecast expenses.

To avoid comparing estimates based solely from application of escalation factors from different ECOS Memoranda, ORA applies the same inflation factors used by the company in deriving Test Years and Escalation Year expense estimates. These factors are based on the most recent ECOS Memorandum's data

available, and should be reconsidered at the time the Joint Comparison Exhibit is prepared.

1. Administrative & General Expenses

a. A&G – Payroll

For Fontana Division Payroll Expense, please refer to the payroll expense discussion in Chapter 5.

b. A&G – Materials & Supplies

For the Fontana Division, SGVWC's estimate for A&G – Materials & Supplies expense is $82,528 for Test Year 2017-2018. SGVWC based this estimate upon a mix of forecasting methods at the sub-account level. The company used either the recorded year (2015) or a five year average adjusted for inflation. ORA accepts SGVWC's estimates for A&G Materials & Supplies.

c. A&G – Transportation

For the Fontana Division, SGVWC's estimate for A&G – Transportation expense is $19,935 for Test Year 2017-2018, based upon the recorded year (2015) adjusted for inflation. ORA accepts SGVWC's estimate for A&G Transportation expense.

d. A&G – Pension & Benefits

ORA derives the A&G Pension & Benefit expense for the Fontana Division at the General Office level and allocates down through a four factor allocation. For a more detailed discussion, please refer to General Office Chapter 2.

e. A&G – Franchise Fees

For the Fontana Division, see discussion on Local Franchise Fees in Chapter 11 – Taxes Other Than Income.

f. A&G – Outside Services

For Fontana Division, SGVWC's estimate for A&G – Outside Services expense is $326,605 for Test Year 2017-2018, based upon the five year average

adjusted for inflation. For one of the sub accounts within this account, ORA instead uses a four year average for a more accurate forecast.

In Account 798 – Miscellaneous, ORA found recorded year 2011 expenses to greatly exceed the average for the most recent four recorded years. For this account, 2011 expenses totaled $413,000, compared to an average of $212,000 for the nearest four years. This is close to double the expense experienced in the more recent recorded data. Upon review of the general ledger transactions comprising the 2011 totals, ORA found nothing that would indicate that this amount would be representative of the experience in the Test or Escalation Years. Moreover, SGVWC did not provide any additional documentation explaining how 2011 would be representative in the Test Year. Because the more recent recorded data provides a more realistic estimate of the expense that will occur in the Test and Escalation Years, ORA uses a four year average to derive the Test Year estimate of $282,044.

g. A&G – Injuries & Damages

ORA derives the A&G Injuries & Damages expense for FWC at the General Office level and allocated down through a four factor allocation. For a more detailed discussion, please refer to General Office Chapter 2.

h. A&G – Regulatory Commission Expense

For the FWC Division, SGVWC's estimate for A&G – Regulatory Commission Expense is $635,978 in Test Year 2017-2018. The company supported this expense by providing a cost estimate for a total rate case of $1,907,000, amortized over a three year period. ORA instead uses a different forecasting methodology to arrive at a $125,978 Test Year estimate.

Similar to the Los Angeles Division Regulatory Commission Expense, the company relies upon blanket language in testimony, then cites to an attachment filed in the application to support its Regulatory Commission Expense estimate, that says:

> "The forecasted rate case costs for the test and escalation years covered by this rate case cycle are presented in detail and included in herein as Attachment A."[15]

In SGVWC's Los Angeles Division request, attachment A included 18 line item expenses including descriptions and an ascribed value to each. The attachment then totaled these individual estimates to arrive at a total cost over the rate case cycle. Unlike that request, the company provided only a single estimate to support its FWC Division estimate of Regulatory Commission Expense. This estimate is without any detail or line item expense descriptions. See Table 4.2 below.

Table 4.2 SGVWC's GRC Estimate of FWC Division Regulatory Commission Expense for FY 2017-2018 through 2019-2020

Fontana Water Company Division					
	Forecasted GRC Costs				$1,907,000
	Total Fontana Water Company Rate Case Costs				$1,907,000

As shown above, the company makes no attempt to elaborate upon this estimate. Even considering the numerous problems that existed with SGVWC's Los Angeles Regulatory Commission Expense estimate, the company at least provided a measure of detail in that request. SGVWC provided nothing similar in testimony or workpapers for the FWC Division.

Pursuant to Public Utilities Code § 454(a), before implementing a rate increase, SGVWC must make a "Showing before the Commission" and the Commission must find that the proposed increase is "justified".

In adopting the revised Rate Case Plan, the Commission further articulated the required showing for a water utility's GRC: "The utility's application for a rate increase must identify, explain, and justify the proposed increase." Specifically, the application must include testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase. As

[15] A.10-07-019 SG-3 Batt, p. 12.

this relates to Regulatory Expense, ORA regards SGVWC's application as wholly deficient in its documentation, as it has failed to describe the components of the regulatory expense.

Also worth considering when developing estimates is the amount spent over the last rate case cycle. In the previous GRC proceeding for Fontana, SGVWC estimated the entire regulatory expense over the rate case cycle to be $1,090,000. ORA (named DRA at the time) accepted that estimate and that amount was split over the three years (2012-2014).[16] To reveal whether or not that expense level was actually incurred, ORA reviewed the workpapers filed in this current rate case. Incredibly, SGVWC spent less than half the amount authorized in that proceeding, or roughly $440,439 of the $1,090,000.[17]

The lackluster documentation supporting this request cannot be relied upon to accurately forecast Regulatory Commission Expense. Additionally, the company spent less than half of the monies authorized from the prior rate case. Because of this, ORA instead uses the estimate from the Los Angeles Division to derive the Test Year estimate. This methodology is reasonable as both Divisions enjoy very similar customer counts--44,999 in Fontana and 47,306 in Los Angeles—thus they should realize very similar regulatory expenses. Further, according to the rate case plan, this is the first time SGVWC has filed a joint rate case to include both the Los Angeles and FWC Divisions.[18] Basic economics dictates that each Division should encounter economies of scale savings. This could potentially result in even lower expense levels than are currently forecasted. Finally, ORA found that the average recorded expenses for the rate case cycle were very similar in amount: $146,813 in Fontana (2012-2014) and $125,701 in Los Angeles (2011-2013).

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[16] A.11-07-005 ORA report on SGVWC Results of Operations, p. 4-10.

[17] FWC workpapers UPDATE Tab 'FEX14.'

[18] D.07-06-092 Appendix A, p. A-18.

There are many similarities between the SGVWC's two Divisions as it relates to regulatory commission expense. Thus, to derive the Test Year estimate for FWC, ORA uses the amount spent in the Los Angeles Division, $124,978, as the basis for its forecast.[19]

i. A&G – Utilities & Rents

For Fontana Division, SGVWC's estimate for A&G – Utilities & Rents expense is $19,968 for Test Year 2017-2018, based upon the recorded year (2015) adjusted for inflation. ORA accepts SGVWC's estimate for Utilities and Rents.

j. A&G – Miscellaneous Expenses

For FWC Division, SGVWC's estimate for A&G – Miscellaneous expense is $17,506 for Test Year 2017-2018, based upon the five year average adjusted for inflation. ORA accepts SGVWC's estimate for A&G Miscellaneous Expenses.

k. A&G Expense Transferred

Administrative expenses that are transferred to construction costs are recorded in Fontana's Administrative Expense Transferred in Account No. 812. FWC's estimate is ($1,454,889) for Test Year 2017-2018. SGVWC calculates this by using the capital overhead percentages applied to the plant additions expected for each year.

ORA's estimate is ($780,519) and the difference between ORA and SGVWC's estimates is solely due to changes ORA is making to plant additions. ORA recommends that the Commission adopt this methodology and that the final estimate for this account be adjusted to reflect the adopted plant additions amount.

D. CONCLUSION

ORA recommends that the Commission adopt ORA's A&G expense estimates for Test Year 2017-2018.

[19] LA workpapers UPDATE Tab 'LEX14.'

CHAPTER 5 : PAYROLL

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for Payroll expenses for San Gabriel's Fontana Water Company ("FWC") Division.

B. SUMMARY OF RECOMMENDATIONS

ORA estimates $20,806,155 for Test Year 2017-2018, while SGVWC estimates total expenses of $23,898,343. SGVWC exceeds ORA by $3,092,188. The differences are mainly due to recommended disallowances of new employees. This is detailed in Table 5.1 and discussed further in the sections below.

Table 5.1: Summary of ORA's Recommendations

	Payroll Summary of Recommendations			
	SGVWC	**ORA**	**Dollar Difference**	**ORA as % of SGVWC**
Total Payroll	$23,898,343	$20,806,155	$3,092,188	87.06%

C. DISCUSSION

SGVWC requests 30 new positions in this GRC. Testimony supporting this request is located in three different places within the application. In Robert DiPrimio's direct testimony, twenty-five positions are discussed across SGVWC's three Divisions (General, Los Angeles, & Fontana). In David M. Batt's direct testimony, four new positions are discussed as it relates to an upgrade of the company's business information systems.[20] Finally, a request for a new executive position, Vice President of Regulatory Affairs, is detailed in Robert R. Nicholson's direct testimony.[21]

[20] Direct Testimony of SG-4 Batt, p. 31.

[21] Prepared Testimony of Robert W. Nicholson Exhibit SG-6.

For comparison purposes, SGVWC currently staffs 261 employees.[22] The company's 30 new positions request is in excess of a 10% overall increase to payroll. This is in contrast to the company's customer growth rate of only 0.3% from five years prior. Putting this into perspective, the company is requesting to increase its headcount by over 10% when the company has only realized a customer increase of 0.3% over the prior five years.

In business negotiation, a tactic exists by which one party attempts to convince another party to comply by making a large request that the other party will most likely turn down. The other party is then more likely to agree to a second, more reasonable request, compared to the same reasonable request made in isolation. ORA evaluated the company's new positions request and found only two positions merited approval. Because the company asked for such a large increase but ORA found no merit for it, the company may be using this tactic as part of its regulatory strategy. As it pertains to this proceeding, if the Commission were to approve new positions in excess of ORA recommendation, it would vindicate this strategy. The commission should not fall victim to such a regulatory strategy and allow more employees than ORA recommends.

This request is unprecedented and may influence other Class A water utilities' future GRC requests if approved in its entirety. If the Commission allows any positions in excess of ORA's recommendation, other IOU's may drastically increase their requests for higher headcounts in future GRCs despite a lack of customer growth. Without real customer growth, there is no adequate reason to grant San Gabriel's outlandish payroll request.

The magnitude of this request cannot be overstated.

1. Request Detail

In its testimony, the company supports its request by individual position, but it is important that each position not be examined in a vacuum. Thus, ORA partitions its

[22] Payroll Workpapers UPDATE.

report into two sections. The first section will highlight the overall issues with the entire position request, and then each position will be discussed separately. ORA's discussion on individual positions will regularly cite to the first section. This request was reviewed very carefully. ORA will demonstrate that the company's filing is devoid of substance to warrant such a drastic increase in headcount.

a. No Positions Hired Between Rate Cases

The commission grants adequate leeway in how IOU's spend funds authorized through rate case proceedings. In fact, utilities routinely cite in their respective GRC's that they are able to spend funds between rate case cycles how they see fit in the name of operational flexibility. Therefore, it is reasonable to assume that if the company saw a sufficient business need to hire an employee, the company would have done so. ORA examined whether SGVWC hired outside the GRC proceeding.

In a data request, ORA asked:

> In the application, SGVWC has requested 29 additional positions, as of February 2016, how many of these positions have been filled?[23]

The company responded:

> San Gabriel has not yet filled any of the requested positions[24]

Because the company hired not a single one of the newly requested positions before the filing of this GRC, it begs the question, how important could these positions really be?

In ORA's past experience, it is not uncommon for a water utility to hire a new position before a GRC proceeding as justification for said position. This was demonstrated in a recent GRC filing for the Suburban Water Company. In that proceeding, the company requested a new position of "Buyer" to add skilled purchasing knowledge for various departments within the company. In that request, the company

[23] Data Request JR6-003 Q1

[24] JR6-003 (Response) Q1

hired the position approximately a year before the GRC filing. The position was needed, so Suburban hired an employee. ORA was very amenable to this request since Suburban demonstrated both initiative and an immediate business need.[25]

Except for the most expensive executive position, discussed in Chapter 6 - Executive Compensation, the company did not hire any of the other 29 positions outside the GRC. Thus, the company did not demonstrate adequate need for the positions. One of the many ways the company could have done so would have been to hire outside the GRC.

b. No Detailed Documentation Provided

Pursuant to Public Utilities Code § 454(a), before implementing a rate increase, SGVWC must make a "[s]howing before the Commission" and the Commission must find that the proposed increase is "justified".

In adopting the revised Rate Case Plan, the Commission further articulated the required showing for a water utility's GRC: "The utility's application for a rate increase must identify, explain, and justify the proposed increase." Specifically, the application must include testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase. ORA found the company's showing before the Commission was seriously deficient. The company failed to provide supporting analysis or detailed documentation to support such a large increase in new positions.

Since no other water utility has recently requested over a 10% increase in payroll, SGVWC should have known this request would require substantial supporting factual documentation. Yet with regard to almost all of the positions requested in the GRC, the company failed to provide detailed documentation or discussion. This could have been provided in the form of:

[25] A.14-02-004 Amended ORA Report Results of Operations, pp. 4-12.

- Cost Benefit Analyses: to determine the cost of hiring a fulltime employee as compared to other labor resources such as part time employees, allocated overtime, contractors, etc.
- Overtime Log Sheets: to demonstrate a pattern of shortage of labor hours and need for a new position.
- Detailed Job Descriptions: to determine the gaps in job duties between current employees and requested employees.
- Employee Turnover Data: to make evident such a demanding work environment whereby employees are quitting in response. Thus a new position would relieve this burden.

Of the possible documentation that could have provided, none could be found in the application. This is especially disconcerting considering the delay in filing afforded the company an additional two years to prepare.

c. Salary Burden on Ratepayers

San Gabriel operates its water company in two districts that have high numbers of ratepayers living below the poverty line. This is demonstrated by the number of ratepayers eligible for CARW benefits: 49.1% for Los Angeles and 55.7% for FWC. The average salary requested across all new positions is roughly [redacted]. It is unreasonable to ask ratepayers in districts with such substantial poverty to fund these new salaries.

d. Company Hired Executive Instead of Employees

In San Gabriel's confidential payroll workpapers filed within the application, ORA learned there was one requested employee hired outside of the rate case cycle. The company requested [redacted] While not authorized in the last rate case, the position was filled in 2015. The company cites an ever increasing regulatory workload as support for this new hire.

To put this in perspective, the company could have hired five of the 29 positions in place of this single salary. Further, if the regulatory workload was too burdensome, the company could have hired three new rate analysts, at top salary, and still have more than $40,000 a year to spare. ORA is currently recommending this position be disallowed in Chapter -6 – Executive Compensation. The manner in which the company chose to

spend ratepayer funds allocated to payroll should demonstrate to the Commission that ORA's recommendation is more reasonable than SGVWC's request.

e. Excess Capacity

Typically an investor owned water utility ("IOU") receives revenue from the provision of water through general rates listed in its tariff. An exception to this is when an IOU recognizes excess capacity in their business such that it is able to provide water related services and earn revenue outside tariff rates. This excess revenue can come in many forms. For example, water IOUs can use the company's billing departments to bill customers for other municipality's services, even fully operate a city's water department. There are specific rules for how an IOU must conduct itself when engaging in business outside regulated activities under excess capacity using resources paid by the captive ratepayers.

In October 2013, SGVWC recognized it had enough excess capacity in its business to enter into a contract to operate the City of Montebello's water system. This operating agreement stipulated the company must operate and monitor the water system on a 24-7 basis,[26] perform daily inspections of all supply sources and operating equipment,[27] purchase materials/labor/services to fulfill the agreement,[28] perform routine gardening and custodial duties,[29] maintain the City's Geographical Information System ("GIS"),[30] etc. Based on the tasks required, the company needed to utilize idle labor capacity in the form of GIS employees, Plant maintenance Men, Water Treatment Operators, Managers and more to complete the terms stipulated in the contract. ORA contends that if the contract were to end, labor hours utilized for this contract would return back to idle workforce. When the contract was not renewed in 2016, this exact situation came to fruition.

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[26] Data Request Response VCC-001(2), Attachment B 1.2.

[27] Data Request Response VCC-001(2), Attachment B 1.4.

[28] Data Request Response VCC-001(2), Attachment B 1.6.

[29] Data Request Response VCC-001(2), Attachment B 1.10.

[30] Data Request Response VCC-001(2), Attachment B 1.12.

Considering the company had enough idle workforce in 2013 to enter into a new non-tariff service agreement, utilized the workforce in the provision of those services, then ceased that service in 2016; one can assume that the idle workforce would return to the company. Thus it is unreasonable to forecast the amount of new positions requested by SGVWC in the Test Year.

f. Lack of Reciprocal Reductions in Expense Workpapers

The company routinely stated in support of the new positions requested in this rate case, that cost savings will be realized when the company no longer has to employ outside contractors. ORA finds the premise reasonable, but the company did not develop a single expense forecast with a reduction of outside services to demonstrate this. Nor did the company provide a cost benefit analysis for any one of the requested positions to showcase the amount that ratepayers could save if the position were hired in place of an outside contractor. Because ORA could not find this data in workpapers or testimony, ORA questions whether the company actually evaluated the costs of outside contractors against the cost of a new position in perpetuity.

g. Fontana Division

i. Water Quality Superintendent

The company currently employs a Water Resources Manager and a Water Quality Specialist. SGWVC requested augmenting this department by one with the addition of a Water Quality Superintendent. The company outlines the water quality responsibilities, in bullet point format, for the entire department. In addition, San Gabriel cites customer growth, new operating facilities, startup of the recycled water project as contributing factors to an increased workload.[31]

The company did not provide documentation supporting its claim that the workload has increased to a point where a new position is warranted. This could have been in the format of citations from regulatory authorities in relation to water quality,

[31] Direct Testimony of Robert DiPrimio, p. 41.

overtime log sheets, documentation showing these duties were subcontracted out, or other documentation showing current water quality tasks are not currently being completed.

Additionally, ORA wishes to highlight the company's citation of the recycled water project as justification for this position. To provide some background, this specific project was authorized in Commission Resolution W-5079 dated February 11, 2016, in relation to Advice Letter ("AL") 469. In this AL, the company requested modifying its tariff rates to reflect the costs incurred for a new recycled water extension project. This amounted to an annual revenue increase of over $423,000.[32] As this was under the scope and purview of ORA's mission statement, it was reviewed for its effect on ratepayers. During this review period in late 2015, ORA scheduled a meeting with SGVWC to discuss the specifics of the project costs and other regulatory concerns.

One of ORA's main concerns in this advice letter was the company's decision to file it approximately three months prior to the filing of the general rate case. The company could have requested the recycled water extension in this current GRC with little regulatory impact. Additionally, ORA wished to ensure that costs related to this Advice Letter were completely exclusive of the GRC filing. The aim was to account for the total cost of the new project to avoid double counting of expenses, or the inclusion of costs not forecasted between the two separate filings. In an October 2nd meeting between ORA & SGVWC,[33] ORA voiced these concerns and specifically asked if any new positions would be requested in the upcoming GRC related to recycled water main extension. San Gabriel's Water Resources Manager, Dan Arrighi, stated unequivocally "No."

The Commission's Division of Water & Audits (DWA)) & ORA wished to know the exact costs of the project in AL 469 in that filing. The company should have asked for a new position in that Advice letter proceeding so the impact on ratepayers could have been adequately realized. In effect, this new position request would have increased the

[32] Advice Letter 469

[33] E-mail Dated October 1, 2015, RE: San Gabriel AL469-Site Visit.

amount from the advice letter request significantly. These situations are precisely why ORA reviews Advice Letters. Here, ORA would have most likely protested.

The company provided lackluster documentation for this new position request. Additionally, ORA was given an assurance that the company would not use the recycled water extension project as justification for new positions in this current filing. Taking everything into account, ORA recommends denying the company's request for a new Water Quality Superintendent.

2. Serviceman & Field Assistant (2)

In its distribution department, there are four crew leaders, five serviceman, and five field assistants. In this filing, the company requested one serviceman and two additional field assistants. The core reason behind the request is to stay within DDW's recommended practice to exercise each main line valve and fire hydrant valve in a twelve month period. The company currently completes this task within an eighteen month time period. Additionally, the company cites an increase in valves over a thirteen year period from 7,349 to 14,086 valves.

Water distribution has changed over the years. Just fifteen years ago, distribution work crews would receive a list of tasks for the day and log each completed task by hand, on paper, in the field. Needless to say, times have changed. Work crews now have access to real-time data, GIS systems, GPS tracking, and more; all with the goal of managing water distribution more efficiently. While the company is quick to point out the increase in valves, it makes no mention of how technology has reduced labor workload.

In fact, these types of labor efficiencies are one of the core reasons the company implemented a GIS system. On a site visit to the company headquarters in March 2016, the company showcased the GIS system and its many abilities. The GIS system was able to view the status of almost every valve within SGVWC's water system. Over the years, ratepayers paid for many of the company's technological upgrades. Reciprocally, ratepayers should receive the financial benefit. In this case, since the distribution department is more efficient, the company realizes a reduced number of man hours to complete the same tasks as compared to thirteen years ago, which reduces the need for

new positions. Because the company failed to provide any type of cost benefit analysis for the new positions, or a discussion on how technological advancements relate to this request, ORA recommends denying this new position.

The other two positions will be assigned to a new leak detection program. SGVWC states that the benefits that the leak detection program are extensive. Yet besides a cursory discussion of its effect on conservation and operational efficiency, the company doesn't provide a cost benefit analysis as it pertains to ratepayers. More importantly, the percentage water loss, or leak percentage, is a key factor in deciding whether a leak program should be implemented. The company provides no documentation or discussion of this in testimony. ORA's sales witness is currently recommending a decrease to the company's water loss estimate. Therefore, if the company is overestimating its water loss percentage, it is reasonable to assume the company is also overestimating its need for a separate leak detection program. Because there was no specific documentation or support for a separate leak detection program, the company also cannot support the request for two new positions to administer such a program.

Considering the company did not provide adequate documentation or hire even one of the three positions, ORA questions the company's actual need for these positions. Therefore, ORA recommends the Commission deny this request.

3. Plant Maintenance Man "B" (2)

The company supported its request for two Plant Maintenance Man B positions by citing the increased square footage realized by the Fontana Division since 1989.[34] Additionally, the company details new green-energy projects the new positions will be tasked with maintaining.

Square footage of facilities is a relatively arbitrary support factor for new positions. The company also relies on 27 year old data in support of these positions. To provide adequate support for these positions, the company could have cited overtime log

[34] Direct Testimony of Robert DiPrimio, p. 44.

sheets demonstrating a labor shortage in the department, a cost benefit analysis comparing the many other options available to the company to fulfill maintenance tasks, or even hired one of the positions between rate cycles. Further bolstering the case, ORA is currently recommending the green-energy projects requested in this filing be denied. Taking all into account, ORA recommends the commission deny this new position.

4. Meter Reader

The company does not adequately support its request for a new meter reader position. The duties of this job include recording the data from water meters for each service connection. As the company realized a very limited number of new service connections each year, this expected workload should remain steady and predictable. Thus, the company should have provided documentation showing that meter reading duties are not being completed. This could have been in the form of overtime data, turnover data, outstanding job tasks etc. Because the company did not provide support to substantiate this request, ORA recommends the Commission deny this new position.

D. CONCLUSION

The company was willing to hire an executive position in excess of [redacted] but not hire a single one of the other 29 requested positions. To put this in context, that one position could have funded almost half a dozen new employees. This is indicative of the company's mindset towards ratepayers. The company also failed to provide sufficient data, documentation, commentary, records etc. to support a request of this magnitude. This is especially telling because the delay in filing afforded the company an additional two years to prepare. ORA found adequate support for only two of the thirty requested positions. Ratepayers would be harmed if the Commission allows more than the two positions in this proceeding.

CHAPTER 6 : EXECUTIVE COMPENSATION

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for Executive Compensation expenses for the Fontana Division ("FWC") of SGVWC.

B. SUMMARY OF RECOMMENDATIONS

ORA estimates $1,898,959 for Test Year 2017-2018, while SGVWC estimates total expenses of $3,245,545. SGVWC exceeds ORA by $1,346,586 or 41.49%. The differences are mainly due to recommended disallowance of new executive positions and ORA's more reasonable executive salary estimates. This is summarized in Table 6.1 below.

Table 6.1: Summary of ORA's Recommendation

Executive Compensation Estimates			
SGVWC	ORA	$ Diff	ORA as % of SGVWC
$3,245,545	$1,898,959	$1,346,586	58.51%

C. DISCUSSION

1. Forecasting Methodology

The company forecasted its executive salaries relying on SGVWC yearly recorded salary data as of April 2016. SGVWC then escalated this data forward using ORA inflation labor factors to arrive at the Test Year estimate. This is detailed in Table 6.2 below.

Table 6.2 - SGVWC Executive Salary Request by Position

[redacted]

The company's Executive Compensation request is comprised of three separate requests. The first request is for a new executive position titled "Vice President of Regulatory Affairs." The second request is for a new position titled "Assistant Secretary." The third request is for an increase in executive salaries forecasted in the Test Year. ORA will discuss each request separately in this chapter.

2. New Vice President of Regulatory Affairs

The company supported its request for a new Vice President of Regulatory Affairs in Direct Testimony of Robert Nicholson. This position has a forecasted salary of [redacted]. In testimony, the company asserts that "regulatory activity has increased dramatically in the 7 years since last adding to its Rate Department."[35] The company continues to detail the various regulatory obligations including maintaining the balancing and memorandum accounts, preparing advice letter filings, tariff changes, applications, testimony, exhibits and workpapers for GRC filings.[36] Further, the rate department is regularly required to participate in Commission Orders Instituting Investigations ("OIIs") and Orders Instituting Rulemaking ("OIRs"). The company cites this increased regulatory burden as justification for a new Vice President position. Joel M. Reiker was hired in 2015 in this capacity.

[35] Direct Testimony of Robert W. Nicholson, p. 3.

[36] Direct Testimony of Robert W. Nicholson, p. 3.

The company currently staffs a senior regulatory specialist and two analysts in the rate department. For comparison purposes, the senior regulatory specialist drew a 2016 salary [redacted]. This is over double the salary of a rate analyst. The company provides no examples as to why the current level of staffing and allocated payroll is insufficient to meet the regulatory requirements. Moreover, considering the salary of the senior regulatory specialist is near executive compensation levels in many other industries, the company never details why ratepayers should fund two large salaries to fulfill its regulatory obligations.

The company cites increased regulatory burden as the reason for this new position, yet does not offer alternatives for consideration. The company even acknowledges other alternatives exist. SGVWC poses the question in testimony: why didn't the company simply add another rate analyst? The company responds in general terms that the company needs "greater more focused executive-level oversight over the regulatory process."[37] Many other avenues exist by which the company can address this level of regulatory oversight. SGVWC could consider the costs and benefits of those options such as the possibility of hiring an outside firm to streamline the company's regulatory processes. Additionally, the company could have considered the costs and benefits of a temporary staffing agency to administer the company's memorandum and balancing accounts. This would effectively reduce the alleged burden on currently staffed rate analysts. Additionally, the company could have explored other options related to hiring a new regulatory accountant or an additional rate analyst. SGVWC either left these alternative options unexplored or unincorporated in testimony. Considering the other options available, the company's proposal places the most financial burden on its ratepayers.

Putting it altogether, the company hired a single executive position whose salary is double that of the average Goldman Sachs Vice President.[38] Further, the company either

[37] Direct Testimony of Robert W. Nicholson, p. 5.

[38] $169,093 average of 160 salaries for the position of 'Vice President' at Goldman Sachs

(continued on next page)

did not explore or did not document the alternate options available to meet regulatory obligations. The Commission should not authorize SGVWC to create a new Vice President of Regulatory Affairs position. Even if the Commission did authorize this position, it should not be at such a high salary. To illustrate the magnitude of San Gabriel's request, San Gabriel could have hired four new analysts in the rate department and still be left with $20,000 in savings in place of funding this single Vice President position. This salary is unreasonably overinflated. The company ultimately failed to demonstrate the benefit to ratepayers for this position. ORA recommends the Commission deny this new position request.

3. New Assistant Secretary

The company supported its request for the new position of Assistant Secretary as a way to retain the knowledge and experience of the former long-time Chairman of the Board and CEO, Robert H. Nicholson Jr.[39] The Company provides the 2015 proxy statements for American States Water ("ASW") Company and California Water Service Company ("CWS") demonstrating the compensation for non-employee directors. This ranges from $106,371 to $252,958 a year.[40] [redacted]

ORA contends that the company cannot rely upon proxy statements from the CWS or ASW as these two utilities are publicly traded. The duties and responsibilities of non-employee directors for a publicly traded company far exceed those of a privately owned one. Additionally, San Gabriel is significantly smaller than CWS or ASW. This comparison can be viewed in Table 6.5 below. In parlance, this is an apples to oranges comparison and cannot be relied upon for support of a new position.

(continued from previous page)

https://www.glassdoor.com/Salaries/vice-president-salary-SRCH_KO0,14.htm.

[39] Direct Testimony of Robert W. Nicholson, p. 5.

[40] Attachment A, SG-6 Confidential.

Additionally, ratepayers are already paying for valuable executive knowledge. For example, Chairman of the Board Michael Whitehead has progressively risen through the ranks of SGVWC. To compensate that extensive knowledge and experience ratepayers are funding his substantial salary. Since Ratepayers are already funding one salary for substantial knowledge and experience, they should not be asked to redundantly fund another.

Lastly, SGVWC fails to mention the Nicholsons are the current owners of SGVWC. Thus, Robert H. Nicholson is a beneficiary of any earnings, dividends, or cash distributions dispersed from SGVWC. As it applies to this newly requested position, Mr. Nicholson Jr. is in the position where he collects the company's net distributions regardless of whether the Commission allows this position to be forecasted into rates. The only parties affected are ratepayers.

Overall, the company did not demonstrate the benefit to ratepayers for a position with a Test Year effect of almost [redacted] ORA recommends the Commission deny this new position request.

4. Increase in Executive Pay

The company requested total executive compensation of $3,245,545 in the current GRC. The settlement in the prior Los Angeles GRC authorized an executive compensation level of $1,731,972.[41] The company cited this settlement in the most recent Fontana GRC and forecasted $1,714,000 into rates. This is illustrated in Table 6.3 below.

[41] A.10-07-019 Appendix E Settlement Agreement Between ORA & SGVWC p. 40.

Table 6.3

Executive Compensation from Fontana Prior GRC Compared to Current GRC

[redacted]

This 89.35% increase in projected Executive Compensation is supported in the Direct Testimony of Robert W. Nicholson. In attachments provided in the filing, the company argues that executive compensation for SGVWC is significantly lower than other water utilities. In Attachment C, the company creates a spreadsheet detailing the corresponding executive officers salaries at other class A water companies. Those salaries are then averaged and compared to the respective salary at SGVWC. This document, Attachment C, is provided in Table 6.4 below.

Table 6.4 Confidential SG-6 Attachment C

[redacted]

ORA finds many problems with the company's reliance on this attachment to support its hefty increase to executive compensation.

First, SGVWC is comparing its salary's to Class A Water Utilities of much larger size. The company lists Cal Water, American States, San Jose Water Company, and Park Water Company. The approximate customer counts for each utility are shown in Table 6.5.

Table 6.5 Comparison of Utility Size by Service Connections & Revenues

Comparison of Utility Size by Service Connections & Revenues					
	Cal Water	Am States	SJW	Park/AVR	SGVWC
Connections	443,659	168,874	220,729	52,130	92,351
Revenues	$541,794,887	$158,648,983	$259,677,446	$49,833,981	$105,894,326
Average Connections		221,348		SGVWC as % of	41.72%
Average Revenue		$252,488,824		SGVWC as % of	41.94%

**Revenues Data from 2015 Annual Report Operating Revenues Schedule B*
***Connections Data from 2015 Annual Report Schedule D-4*

As shown above, SGVWC is significantly smaller than the average company when comparing against either service connections or revenues. Because the amount of responsibility for an executive rises as a function of how large the company is, ORA contends this attachment is not an accurate basis on which to derive an executive compensation forecast. For example, larger utility executives manage more employees, have larger workloads, and have more responsibility. Thus the compensation packages reflect a different reality.

Second, Cal Water and American States are publicly traded companies. SGVWC is privately owned. Executives of publicly traded companies face much more scrutiny, liability, and regulatory burden. For example, the SEC requires the principle executive and financial officers of a public company to certify their company's annual/quarterly report for accuracy or be subject to civil and criminal enforcement action.[42] No such

[42] SEC Release No. 34-46079.

stipulation exists for officers of private companies. It is unreasonable to compare salaries between the two classifications of water companies as compensation reflects different levels of responsibility.

Another way to look at the relatively higher level of the salary paid to SGVWC's executives is the example of the salary paid for the time spent by Chairman of the Board, and Chief Executive Officer, Mr. M.L. Whitehead on SGVWC when compared to the salary paid by one of its affiliates, Arizona Water Company ("AWC"). The Chairman spent approximately 11.82% in 2014 on managing AWC's affairs. This means that 88.18% of his salary cost is allocated to SGVWC and its ratepayers pay for this. The salary allocation of the Chairman of the Board is an old issue and ORA has repeatedly raised concerns that SGVWC's captive ratepayers are seemingly paying a much higher cost for the similar services they receive from the Chairman of the Board than that are paid by the AWC. For example, based on SGVWC's response to ORA Data Request AMX-003, SGVWC is adamant that Mr. M.L. Whitehead as the Chairman of the Board provides similar services to both SGVWC and AWC.[43]

The Commission in its previous decision, D.08-06-022 noted that the issue of allocation of the Chairman Salary allocations "*should not be readdressed in future proceedings unless new evidence is brought forward for our consideration.*" The decision further noted:

> "DRA, unfamiliar with the functions the Chairman performs and unfamiliar with AWC operations, contends that the allocation of 82.0% of Chairman's time and salary on SGV matters in comparison to 16.5% on AWC matters defies common sense. DRA pointed out that both companies serve approximately the same number of customers, 86,089 versus 72,000, and both are Class A water utilities. DRA also questioned a need for SGV to have both a Chairman and a President position. Based on these concerns, DRA recommended that the number of customers between SGV and AWC be used to allocate the Chairman's direct salary to SGV, resulting in allowing 54.45% of his salary."

[43] See Attachment 6-1: SGVWC's Response to ORA's data request, AMX-003, Q-1.

Based on the data responses provided by SGVWC to ORA's data request, AMX-003, new evidence is now available that can help the Commission to re-evaluate this issue for reasonableness. First, since D.08-06-022, the Commission has issued D. 10-10-019, which sets new standards for the affiliate transaction rules. Secondly, SGVWC now provides necessary information that allows ORA to get familiar with the functions that the Chairman performs for both SGVW and AWC. And finally, ORA now has new information regarding the scope of the AWC's operations and service territories that helps to compare the two utilities.

For example, as discussed earlier, the Chairman performs exactly the identical duties for both SGVWC and AWC. Similarly, the AWC's operations are mainly similar to that of the SGVWC's. For example, while responding to ORA's data request, AXM-003, SGVWC explains:

> "Arizona Water Company is a public service corporation regulated by and subject to the jurisdiction of the Arizona Corporation Commission. Arizona Water serves approximately 87,000 customers in six operating Divisions which include ten individually-tariffed service areas that are comprised of 18 distinct public water systems located up to 330 miles apart. Arizona Water's executives and administrative offices are located in Phoenix, approximately 30 miles from its nearest service area…
>
> San Gabriel is a public utility water company regulated by and subject to the jurisdiction of the California Public Utilities Commission. San Gabriel serves approximately 94,000 customers in two large, complex water systems located approximately 30 miles apart in Southern California…
>
> Although both companies are public utility water companies, their structure and operations are very different---In terms of revenues and utility plant, San Gabriel is significantly larger with $119 million in annual operating revenues and $700 million in utility plant, compared to Arizona Water with $63 million in annual operating revenues and $481 million in utility plant. San Gabriel is also significantly larger in terms of employees, with 257, compared to Arizona Water with 193."

These newly discovered facts make it clear that AWC's operations are basically similar to that of SGVWC's. Both are public water service companies and come under the jurisdiction of their respective state commissions. In fact, AWC's operations are more

complex as it has six operating Divisions as compared to SGVWC which has only two. Similarly, the service territory of AWC is spread over 330 miles apart as compared to that of SGVWC's which is 30 miles apart. However, AWC's ratepayers are paying far less cost for the similar services provided by the same Chairman than the ratepayers of SGVWC. This is hardly reasonable for the captive ratepayers of the SGVWC.

Please note that SGVWC's witness Dave Batt, in his prepared testimony, argues that the affiliates are charged by, and pay SGVWC for the actual charges of San Gabriel's employees' time…Charging actual payroll costs for employees activities chargeable to various accounts is the preferred method.[44] ORA does not dispute that charging actual payroll is a preferred method. However, in light of these new facts, what ORA disputes is whether a salary directly charged to SGVWC's ratepayers for the Chairman of the Board is reasonable when compared to the rates charged to AWC for the same services provided by the same Chairman of the Board. For example, it is unreasonable that SGVWC's ratepayers should pay relatively higher cost of $8.83[45] per customer for the Chairman of the Board salary while the AWC's ratepayers pay a mere $1.28[46] per customer. It should be noted that AWC's customer base is also relatively smaller than that of the SGVWC's number of customers that makes this disparity even more egregious. Therefore, ORA recommends that the Commission order a specific audit to be performed by the Division of Water and Audits to further evaluate the reasonableness of the Chairman of the Board salary and its allocations to both SGVWC and AWC.

Lastly, Attachment C is compiled by the executive of SGVWC who has the most to financially gain by its use. Typically when a company wishes to increase its executive compensation, it would enlist the help of an outside, third party firm. The firm would create a compensation survey based on a number of factors and statistical methods.

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[44] SGVWC's Witness David Batt's Prepared Testimony, SG-4, p. 13.

[45] [redacted]

[46] [redacted]

Additionally, this would ensure that there is no conflict of interest in its results. In SGVWC's case, it is compiled by the Chairman of the Board, Mr. Michael L. Whitehead, the executive currently requesting a salary of [redacted] in the Test Year for this GRC. Thus, ORA cannot rely on his input or conclusions.

Because SGVWC's forecast is unreasonable and cannot be relied upon, ORA developed its own, more accurate forecast. ORA bases its forecast on the previously authorized values from the prior 2010 Los Angeles General Rate Case, and escalates those values forward to arrive at the 2017-2018 Test Year. Since these values were also relied upon in the Fontana GRC workpapers filed in 2011, ORA presents those figures in Table 6.6 below.

Table 6.6 – ORA Executive Compensation Forecast

[redacted]

As shown in the Table 6.6 above, ORA's forecast is escalated over a seven year period from 2011 to 2018. The 2017 and 2018 forecasted salaries are then averaged to arrive at the Test Year. This forecast also reflects adjustments for the Vice President of Regulatory Affairs and the Assistant Secretary discussed in Section (a) & (b) of this report.

B. CONCLUSION

ORAs forecast is lower than the Company's request, but higher than the last authorized amount from the prior rate case. ORA demonstrated that the company's

forecast cannot be relied upon as the foundation has no merit. The [redacted] is a more reasonable forecast that is both fair to executives and financially viable to ratepayers. Thus the commission should use ORA's forecast to estimate Test Year Executive Compensation.

CHAPTER 7 : UTILITY PLANT IN SERVICE

A. INTRODUCTION

This chapter presents ORA's analyses and recommendations for SGVWC's proposed Plant in Service additions in A.16-01-002 for the Fontana Water Company Division (Fontana Division.) ORA reviewed and analyzed SGVWC'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 years 2016, 2017, 2018, and 2019.

B. SUMMARY OF RECOMMENDATIONS

SGVWC estimates company funded capital budgets of $2,844,000 in 2016, $16,167,000 in 2017, $24,655,000 in 2018, and $26,597,000 in 2019 for the Fontana Division. ORA recommends the company-funded capital budget to be $2,580,000 in 2016, $10,281,000 in 2017, $9,869,000 in 2018, and $5,713,000 in 2019. The primary difference between SGVWC's request for the Fontana Division and ORA's recommendation is because ORA's analysis shows there is sufficient existing water supply to meet customers' demand in the Fontana system. Table 7-1 below presents a summary of the capital budgets in SGVWC's application for the Fontana Division compared to ORA's recommendations.

Table 7-1: Company Funded Capital Budgets Comparison Summary ('000s)

	2016		2017		2018		2019	
Project/Account Name	SGVWC	ORA	SGVWC	ORA	SGVWC	ORA	SGVWC	ORA
Capital Improvement Projects								
Plant F10	$30	$30	$1,040	$1,040				
Plant F13					$700	$700		
Plant F15	$70	$0	$3,120	$1,316	$4,350	$0	$4,010	$0
Plant F20					$0	$868	$300	$0
Plant F21			$2,020	$0			$5,620	$0
Plant F23			$200	$0	$1,740	$0	$2,000	$0
Plant F31	$50	$0	$40	$0	$2,890	$0	$4,350	$0
Plant F58			$2,070	$2,070				
Plant F62	$150	$150						
Miscellaneous								
Refurbish 5 wells	$375	$375	$375	$375	$375	$375	$375	$375
Refurbish 6 boosters	$70	$70	$70	$70	$70	$70	$70	$70
SCADA Faceplate Upgrade	$50	$50	$50	$50	$50	$50	$50	$50
Solar Power Generation					$600	$0	$600	$0
Miscellaneous	$255	$255	$635	$635	$1,095	$1,095	$75	$75
GIS/Hydraulic Model/Asset Mgnt.	$170	$170	$420	$420	$420	$420	$420	$420
Other Accounts								
Mains	$500	$510	$2,250	$1,350	$8,700	$4,150	$5,000	$1,580
Services	$100	$100	$2,100	$2,100	$2,200	$2,200	$2,300	$2,300
Meters	$460	$306	$1,234	$312	$984	$318	$909	$325
Fire Hydrants	$90	$90	$94	$94	$98	$98	$102	$102
Structures & Improvements	$25	$25	$25	$25	$25	$25	$25	$25
Office Equipment	$40	$40	$30	$30	$40	$40	$30	$30
Transportation Equipment	$228	$228	$317	$317	$249	$249	$280	$280
Communication Equipment	$55	$55	$35	$35	$35	$35	$35	$35
Tools & Equipment	$126	$126	$42	$42	$44	$44	$46	$46
Total SGVWC Funded Plant Add.	**$2,844**	**$2,580**	**$16,167**	**$10,281**	**$24,665**	**$10,737**	**$26,597**	**$5,713**
					2016-2019 Total :		**$70,273**	**$29,311**
	2016-2019 - Total Difference, SGVWC > ORA :							**$40,962**
	2016-2019, ORA's Recommendation as % of SGVWC's Request :							**42%**

From 2010 to 2015, the annual average increase in Plant-in-Service is **$12.4 million**.[47] In comparison, SGVWC proposes (de)increases of ($1.9 million) in 2016, $17.8 million in 2017, $24.2 million in 2018, and $26.1 million in 2019, for an annual

[47] Calendar year values for "Plant in Service" in Table 8A of SGVWC's workpapers.

average of $16.6 million for 2016-2019, or $22.7 million for 2017-2019 - an increase of 34% and 83%, respectively, over the recorded annual average of $12.4 million.

C. WATER QUALITY

SGVWC operates the Fontana Division under a permit issued by the State Water Resources Control Board's Department of Drinking Water ("DDW"), formerly the California Department of Public Health ("CDPH"). The Fontana Division derives its water supply from the Chino Basin, Rialto Basin, Lytle Basin, No-Man's Land (an unnamed basin between Chino Basin and Rialto Basin), and Lytle Creek.[48] SGVWC also purchases imported State Water Project ("SWP") water from San Bernardino Valley Municipal Water District ("SBVMWD") and Inland Empire Utilities Agency ("IEUA") for the Fontana system.[49] SGVWC's Fontana system consists of five major pressure zones and is interconnected through a series of mains, boosters, and reservoirs. There is also an interconnection with its neighboring Cucamonga County Water District.

Class A water utilities are required to submit information about water quality as part of each utility's GRC application.[50] In accordance with these requirements, SGVWC submitted water quality information in its response to the Minimum Data Requirements (MDR). ORA reviewed SGVWC's testimony, application, workpapers, and the most recent DDW/CDPH inspection report available for SGVWC's Fontana water system. In addition, ORA contacted DDW representatives to obtain updates on the agency's appraisal of SGVWC's water systems. The Commission's Water Division[51] also conducts an independent review of SGVWC's water quality.

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[48] Fontana Water Company Water System Master Plan – 2012 Update, p. 10.

[49] Ibid.

[50] *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).

[51] Formerly the Division of Water and Audits (DWA).

Based on the information submitted by SGVWC, ORA recommends that the Commission find SGVWC's Fontana Division in compliance with applicable state and federal water quality requirements as of July 1, 2016.

D. OVERVIEW – SUPPLY VS. DEMAND ANALYSIS FOR THE FONTANA DIVISION

In this General Rate Case ("GRC"), SGVWC proposes to construct replacement wells at Plants F21, F23, and F31.[52] To evaluate if these requests are necessary, ORA conducted a supply demand analysis for the system, and retrieved the demand trend of the system.

1. Fontana Division Water Supply

According to the system schematic in the 2012 Fontana Master Plan, the Fontana system is separated into five major pressure zones: F19, Highland, Alder, Baseline, and Juniper.[53] Within the F19 pressure zone there are additional subzones: F19 Reduced F46, F46 Reduced, F46 Special Reduced, F47, F48, and F48R.[54] The other pressure zones with subzones are: Highland Reduced subzone in the Highland pressure zone, Alder Reduced subzone in the Alder pressure zone, and Juniper Reduced subzone in the Juniper pressure zone.[55] SGVWC states "San Gabriel analyzes water systems by pressure zones as a whole system that is interconnected in both the Fontana Water Company and Los Angeles County Division."[56] All the pressure zones are interconnected so excess water supply from one pressure zone can supplement a deficit in another zone. This excess supply can gravity flow from higher elevation to lower elevation pressure zones, but SGVWC's system also has sufficient booster capacity to pump water from lower elevation pressure zones to higher ones. Table 7-2 below is a summary of source capacity for the Fontana Division:

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[52] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, pp. 90, 92, and 93.

[53] Fontana Water Company Water System Master Plan – 2012 Update, p. 85, Figure 5-2.

[54] SGVWC's response to DR AL7-007, q. 1, attachment "Copy of AL7-007-ATT-C-Production."

[55] Ibid.

[56] SGVWC's response to DR AL7-007, q. 4.

Table 7-2: Summary of source capacity for the Fontana Division

Well/Connections	Active Well Capacity (gpm)	Other sources (gpm)	Emergency Capacity (gpm)
F19 Pressure Zone			
F27A	226		
F33A	253		
F42A	1,098		
F15A	1,316		
CVWD Connections			3,000
F19 Sub-total	2,893	-	3,000
Highland Pressure Zone			
F4A			2,500
F10B	1,148		
F10C	1,681		
F10D	1,800		
F49A	1,893		
F31A	1,674		
F26A			1,920
F24A			1,887
F28A	1,975		
F29A	2,041		
F34A	1,015		
F13A	1,675		
F13B	1,671		
F36A	1,862		
F40A	1,070		
F32A	1,429		
F54A	2,000		
SBVMWD		3,098	
IEUA		14,870	
Highland Sub-total	22,934	17,968	6,307
Alder Pressure Zone			
F18A			2,400
F44A	2,559		
F44B	2,129		
F44C	2,282		
Alder Sub-total	6,970	-	2,400
Baseline Pressure Zone			
F3A			1,850
F7A	2,396		
F7B	2,442		
F2A	2,373		
F30A	2,036		
F22A			1,921
Baseline Sub-total	9,247	-	3,771
Juniper Pressure Zone			
F23A	2,555		
F21A	1,329		
F21B	2,500		
F17B	2,011		
F17C	2,634		
Juniper Sub-total	11,029	-	-
Fontana System Total	**53,073**	**17,968**	**15,478**

The total active source capacity of wells and imported water combined, excluding emergency capacity, is 71,041 gallons per minute ("gpm"). The well capacities in Table 7-2 are actual pump test values verified by Southern California Edison.[57] The SBVMWD and IEUA source capacity listed under "other sources" is the quantity of water SGVWC states it can receive as untreated water from the two entities under the State Water Project.[58] [59] The two emergency interconnections with Cucamonga Valley Water District ("CVWD") in the F19 zone provide a capacity of 1,500 gpm each.[60] Capacities from Wells F4A, F24A, F26A, F18A, F3A, and F22A are listed under emergency supply. SGVWC states these wells are out of service due to Perchlorate or Nitrate levels,[61] but the water can potentially be blended and used in an emergency situation.

In this GRC, SGVWC requests replacement wells at Plant F21, to replace existing well F21A "due to a casing damage and poor efficiency;"[62] at Plant F23, to replace existing well F18A "due to contamination of both nitrate and perchlorate;"[63] and at Plant F31 to replace existing well F37A "due to contamination of both nitrate and perchlorate."[64] Plant F37, where well F37A is located, is listed as "out of service" on the Fontana Division's water system schematic, therefore its source capacity was not included in Table 7-2.[65] Well F18A, even though listed in Fontana Division's water system schematic, has been "inactive for several years," therefore its well capacity is

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[57] Fontana Water Company Water System Master Plan – 2012 Update, p. 86, Table 5-5.

[58] Fontana Water Company Water System Master Plan – 2012 Update, p. 62: "A portion of FWC's service area is within SBVMWD's service area. FWC can currently receive up to 5,000 AFY of imported untreated SWP water from SBVMWD..."; 5,000 AFY = 3,098 gpm.

[59] Fontana Water Company Water System Master Plan – 2012 Update, pp. 62-63: "FWC can receive up to approximately 24,000 AFY... of untreated imported SWP water from IEUA."; 24,000 AFY = 14,840 gpm.

[60] Fontana Water Company Water System Master Plan – 2012 Update, p. 70 and 90, Table 5-7.

[61] Fontana Water Company Water System Master Plan – 2012 Update, pp.32 and 86, Table 5-5.

[62] SGVWC Exhibit SG-8, Att G, Plant F21, p. 2.

[63] SGVWC Exhibit SG-8, Att G, Plant F23, p. 2.

[64] SGVWC Exhibit SG-8, Att G, Plant F31, p. 3.

[65] Fontana Water Company Water System Master Plan – 2012 Update, p. 85, Figure 5-2.

listed only under emergency capacity and not included as an active source capacity in this analysis.[66] The capacity of well F21A's (1,329 gpm) was also not included in the active source capacity for this analysis. With the capacities of wells F21A, F18A, and F37A removed, the Fontana Division will still have an active well capacity of 51,744 gpm and a total source capacity of 69,712 gpm.

In addition to the available source capacity, the Fontana Division also has a vast network of storage capacity and multiple interconnections with neighboring water systems. According to the Master Plan for the Fontana Division, the system has a rated storage capacity of 41.52 million gallons ("MG").[67] Even if SGVWC used American Water Works Association ("AWWA") freeboard height criteria, (which ORA disagrees with, as the use of this criteria should not be applicable for tanks constructed before AWWA issued its guidelines), the total usable storage capacity is 26.78 MG,[68] which is sufficient for its operations.

2. Fontana Division's Water Demand

SGVWC states the "per customer sales have been declining for some time, and San Gabriel's water conservation efforts, which are expressly designed to permanently reduce per customer water use, as well as the water conservation of other local, regional and state agencies, will continue to drive down per customer sales."[69] SGVWC attributes the system's reduced water use to its customers outstanding response "to the Governor's Executive Order B-29-15 ordering the imposition of restrictions to achieve a 25% statewide reduction in potable urban water use through February 2016,"[70] and "the State Water Resources Control Board's mandated water use reduction percentages for the Los Angeles County and Fontana Water Company Divisions of 16% and 28%, respectively."

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[66] SGVWC Exhibit SG-8, Att. G, Plant F23, p. 2.

[67] Fontana Water Company Water System Master Plan – 2012 Update, p. 152, Table 7-2.

[68] Ibid.

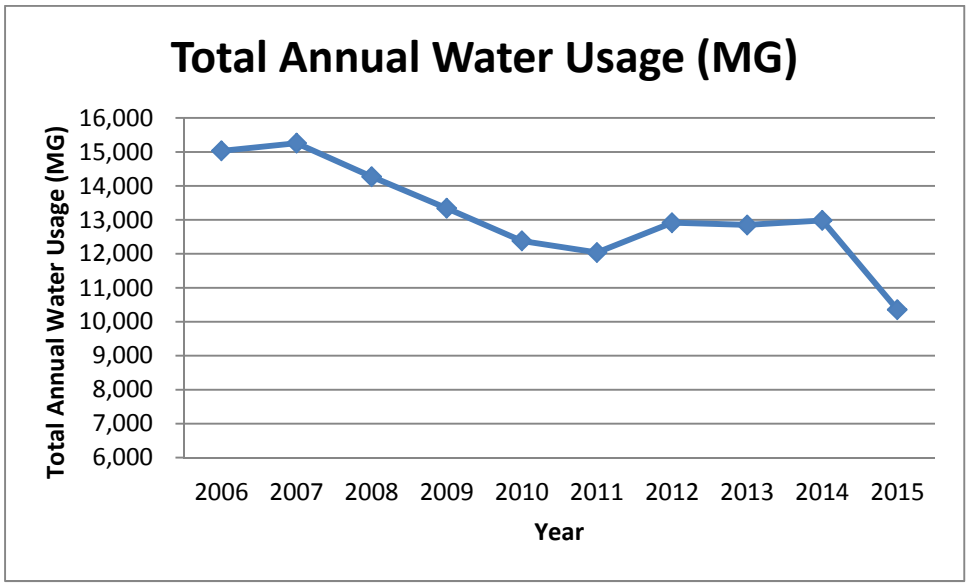
[69] SGVWC Exhibit SG-7, Testimony of Joel M. Reiker, p.16.

[70] Id, p. 15.

SGVWC further states it is "not reasonable to expect per customer sales to return to pre-drought levels in the future," and the "per capita water consumption is expected to continue to decline into the foreseeable future."[71] SGVWC lists two major studies and an economist's finding to support declining residential water usage even at the national level and to prove the point that reduced consumption is here to stay.[72]

Although SGVWC believes so firmly in the continued future decline in water usage, ORA must verify and ensure the system has adequate safe capacity to meet the demands of ratepayers. Indeed, data provided by SGVWC indicates the water demand of the Fontana system has declined significantly over the past ten years (2006-2015). Figure 7-A illustrates Fontana system's total annual water usage in the past ten years:

Figure 7-A: Total Annual Water Usage (2006-2015)[73]



SGVWC states the highest monthly demand over the past ten years (2006-2015) occurred in August 2006 with an average day demand ("ADD") of 39,054 gpm.[74] The

[71] SGVWC Exhibit SG-7, Testimony of Joel M. Reiker, p.16.

[72] SGVWC Exhibit SG-7, Testimony of Joel M. Reiker, pp.18-20.

[73] Data from SGVWC's response to DR AL7-005, q. 1, attachment "ATTACHMENT A - System-Demand."

[74] SGVWC's response to DR AL7-007, q. 1, attachment "Copy of AL7-007-ATT-A-FWC-W-Demands."

most recent ten year data shows that SGVWC's findings are correct. Water usage in the Fontana Division continues to decline. Even though under the California Code of Regulations, ("CCR") Title 22 § 64554, a system is required to have enough source capacity to handle a system's demand based on the highest maximum day demand ("MDD") of the most recent ten years.[75] ORA agrees with SGVWC that it is logical to use this lower demand as the system baseline for its capital planning and other Commission requests. So far, SGVWC has not received any notice of violation for not meeting this CCR Title 22 requirement, and even if it does in the future, SGVWC can apply for an exemption from this MDD rule with the Department of Drinking Water ("DDW") of the State Water Resources Control Board.[76]

Therefore, for this demand analysis, ORA analyzed demand data from the most recent five years (2011-2015). Even though the 2015 demand shows a trend of further decline, ORA, to be more conservative, used the highest ADD of the past five years or 2014 data as the demand baseline. In 2014, the recorded ADD for the Fontana systems was 24,703 gpm.[77] Additionally, 4 hours of 4,500 gpm of fire flow protection is recommended in the Fontana Division's master plan in all five pressure zones in the Fontana system.[78] Since SGVWC keeps "a monthly record of water usage …"[79] according to CCR Title 22, the calculated MDD is 1.5 times ADD, and peak hour demand ("PHD") is 1.5 times the MDD, the results are as follows:[80]

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[75] Title 22 CCR § 64554

[76] Title 22 CCR § 64551.100.

[77] SGVWC's response to DR AL7-007, q. 1, attachment "Copy of AL7-007-ATT-A-FWC-W-Demands."

[78] Fontana Water Company Water System Master Plan – 2012 Update, p. 153, Table 7-4.

[79] SGVWC's response to DR AL7-007, q. 6.

[80] Title 22 CCR § 64554.

Table 7-3: Summary of System Demand for the Fontana Division[81] [82] [83] [84]

Zones	ADD (gpm)	MDD (gpm)	PHD (gpm)	Fireflow (gpm)	MDD + Fireflow (gpm)
F19	3,075	4,612	6,918	4,500	9,112
Highland	4,080	6,120	9,179	4,500	10,620
Alder	7,868	11,802	17,702	4,500	16,302
Baseline	2,095	3,142	4,713	4,500	7,642
Juniper	7,586	11,379	17,068	4,500	15,879
Total	**24,703**	**37,054**	**55,581**	**22,500**	**59,554**

MDD plus fire flow is not a requirement of Title 22, but ORA calculated this to present a conservative case scenario.

2. Fontana Division Water Supply vs. Demand

According to CCR Title 22: "At all times, a public water system's water source(s) shall have the capacity to meet the system's maximum day demand (MDD)."[85] The following table illustrates the overall source supply and MDD for the Fontana system:

[81] ADD data from SGVWC's response to DR AL7-007, q. 1, attachment "Copy of AL7-007-ATT-A-FWC-W-Demands."

[82] MDD = 1.5 x ADD; Title 22 CCR § 64554(a)(2)(C).

[83] PHD = 1.5 x MDD; Title 22 CCR § 64554(a)(2)(D).

[84] Fire flow from Fontana Water Company Water System Master Plan – 2012 Update, p. 153, Table 7-4.

[85] Title 22 CCR § 64554(a).

Table 7-4: Summary of Source Capacity vs. MDD for the Fontana Division

Pressure Zones	Active Well Capacity (gpm)	Other Source Capacity (gpm)	Total Source Capacity (gpm)	MDD (gpm)
F19	2,893		2,893	4,612
Highland	22,934	17,968	40,902	6,120
Alder	6,970		6,970	11,802
Baseline	9,247		9,247	3,142
Juniper	11,029		11,029	11,379
Total	**53,073**	**17,968**	**71,041**	**37,054**

The total active source capacity of the Fontana system is 192% of the MDD (71,041 gpm vs. 37,054 gpm). In fact, the active well capacity alone is more than adequate to meet the MDD of the Fontana system (53,073 gpm vs. 37,054 gpm).

In addition, a system should have sufficient combined source capacity, storage capacity, and/or emergency source connection capacity to meet four hours of peak demand.[86] As discussed earlier, SGVWC is able to analyze its water system not by pressure zones but as a whole system because all pressure zones are interconnected and the system has adequate booster capacity between each zone to distribute excess water supply to any zone. Since the calculated demand for MDD plus fire flow is higher than the PHD of the system, for conservative analysis purposes, ORA will use MDD plus fire flow in the supply demand analysis. The following table illustrates the system's supply capacity at MDD plus fire flow:

[86] Title 22 CCR § 64554(a)(1): "For systems with 1,000 or more service connections, the system shall be able to meet four hours of peak hourly demand (PHD) with source capacity, storage capacity, and/or emergency source connections."

Table 7-5: Summary of Total System Capacity (excluding Storage Capacity) vs. MDD plus Fire Flow for the Fontana Division

Pressure Zones	Active Well Capacity (gpm)	Other Source Capacity (gpm)	Interconnection Capacity (gpm)	Total System Capacity, excluding Storage Capacity (gpm)	MDD + Fireflow (gpm)
F19	2,893		3,000	5,893	9,112
Highland	22,934	17,968		40,902	10,620
Alder	6,970			6,970	16,302
Baseline	9,247			9,247	7,642
Juniper	11,029			11,029	15,879
Total	**53,073**	**17,968**	**3,000**	**74,041**	**59,554**

The analysis shows the Fontana Division's source plus interconnection capacity is 124% of the MDD plus fire flow (74,041 gpm vs. 59,554 gpm). Note the source capacity above already excludes wells F18A, F21A, F37A, all other well capacities listed as emergency supply, and excludes all existing storage. The existing storage capacity of the Fontana system is more than 41 MG.

Finally, Table 7-6 below shows that even with just the existing active well capacity, (excluding wells F18A, F21A, and F37A) plus SGVWC's suggested AWWA existing storage capacity (at the reduced capacity of 26.8 MG), but not including any of the system's interconnections, that the system is still capable of handling MDD plus fire flow:

Table 7-6: Summary of Well plus AWWA Reduced Storage Capacity vs. MDD plus Fire Flow for the Fontana Division[87]

Pressure Zones	Well Capacity (gpm)	MDD + Fireflow (gpm)	Surplus/ (Deficit), (gpm)	Storage Required over 4 hrs (gallons)	Existing Storage Capacity (gallons)	Residual Storage Capacity (gallons)
F19	2,893	9,112	(6,219)	(1,492,576.32)	7,060,000	5,567,423.68
Highland	22,934	10,620	12,314	2,955,457.63	8,550,000	11,505,457.63
Alder	6,970	16,302	(9,332)	(2,239,577.91)	710,000	(1,529,577.91)
Baseline	9,247	7,642	1,605	385,177.28	2,030,000	2,415,177.28
Juniper	11,029	15,879	(4,850)	(1,163,924.29)	8,420,000	7,256,075.71
Total	**53,073**	**59,554**	**(6,481)**	**(1,555,444)**	**26,770,000**	**25,214,556**

No matter how one analyzes the Fontana system as a whole, its capacity is vastly over-built, and the system has adequate supply to meet all current and near term demand scenarios. Therefore, requests to replace lost capacity of existing wells or storage should be rejected by the Commission.

E. DISCUSSION

1. Plant F15 (SGVWC proposes $11,550,000)

SGVWC is requesting $70,000 in 2016, $3,120,000 in 2017, $4,350,000 in 2018, and $4,010,000 in 2019 to construct two water storage reservoirs, to replace an existing concrete reservoir and to construct a concrete masonry booster station building at Plant F15.[88] SGVWC states the reservoir was constructed in 1878 and has long passed its expected life span and that the reservoir is located near several earthquake fault zones, but does not comply with modern seismic design.[89] The existing reservoir currently serves over 1,700 customers in the F19 pressure zone and 7,800 customers in the Highland Pressure Zone.[90]

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[87] Existing Storage Capacity from Fontana Water Company Water System Master Plan – 2012 Update, p. 153, Table 7-2.

[88] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 87.

[89] Ibid.

[90] Id, p. 88.

ORA recommends that the Commission reject the construction of two new water storage tanks and instead approve $1,316,000 in 2017 to rehabilitate the existing reservoir and to construct a bypass pipeline.

SGVWC states that the reservoir was constructed in 1878, that a new layer of concrete was added to the original concrete in 1956, and that the reservoir has long passed its expected lifespan.[91] Yet, in the tank inspection report produced in January 2013, the consultant states that the reservoir was constructed in 1956.[92] The 2012 Fontana Master Plan, produced by a consultant, also estimates the reservoir to have a remaining service life of approximately 22 years.[93] Nonetheless, assuming SGVWC is correct, just because a reservoir has passed its estimated useful life span does not mean it needs to be replaced. The most important attribute is the actual physical condition of the tank. The following is a summary of the tank's condition from the latest tank inspection report:[94]

Exterior roof and appurtenances:	Fair.
Above grade wall and screening:	Fair.
Interior wood roof structure:	Good.
Interior wall and appurtenances:	Good.
Interior walls below water:	Fair.
Interior column penetration:	Fair to poor.
Interior bottom of tank:	Good.

The tank inspection report did not include any recommendation for SGVWC to abandon the existing concrete reservoir. Considering the latest repair or rehabilitation recorded for the existing tank was more than 20 years ago, a roof repair in 1995, the tank

[91] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p 87.

[92] SGVWC's response to ORA DR AL7-004, q.2 , attachment "AL7-004 ATTACHMENT A" – Tank Inspection Report by Harper & Associates Engineering, Inc., dated January 2013, p. 1.

[93] Fontana Water Company Water System Master Plan – 2012 Update, p. 100, Table 5-14.

[94] SGVWC's response to ORA DR AL7-004, q.2 , attachment "AL7-004 ATTACHMENT A" – Tank Inspection Report by Harper & Associates Engineering, Inc., dated January 2013, p. 4-6.

has held up phenomenally well. Both the 2012 Fontana Master Plan and the 2013 Tank Inspection Report recommend regular cleaning, inspection, and repair cycles every two to three years for each reservoir.[95] [96] The tank inspection report states that coatings (which typically have a 20 to 25 year life expectancy), paint, and sealants are deteriorated past their expected life.[97] These findings of the tank inspection suggest that SGVWC have been neglecting maintenance on this critical asset paid for by the ratepayers.

SGVWC states that the tank is in "close proximity to several earthquake fault zones", and SGVWC "is very concerned with the integrity of the reservoir and potential for a sudden collapse and failure that could occur during earthquake."[98] These concerns are unfounded, and not supported by the Structural Engineer's Report in section II of the latest tank inspection report for the existing concrete tank at Plant F15. The section states the following (with emphasis added by ORA):

> "Results of Review
>
> A. Roof
>
> Photos of the tank roof shows that the roof deck and framing appear in **good condition** except for some local failure. Wood supports around the perimeter provide minimum shear resistance for seismic loads. However, it appears that **embedded anchor bolts have been installed around the perimeter to stabilize the roof against seismic shear**. Pipe columns as used in this tank have **performed well in seismic events and are expected to do so here**…
>
> B. Wall
>
> A comparison of the static and dynamic pressure have been included in this report and shows that the combined static and hydrodynamic wall tension stress for the reduced water level (greater freeboard) is a maximum of 21.71% greater than the hydrostatic stress alone. **This is within the 1/3**

[95] Fontana Water Company Water System Master Plan – 2012 Update, p. 111.

[96] SGVWC's response to ORA DR AL7-004, q.2 , attachment "AL7-004 ATTACHMENT A" – Tank Inspection Report by Harper & Associates Engineering, Inc., dated January 2013, p. 8.

[97] SGVWC's response to ORA DR AL7-004, q.2 , attachment "AL7-004 ATTACHMENT A" – Tank Inspection Report by Harper & Associates Engineering, Inc., dated January 2013, pp. 4-6.

[98] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 87.

increase permitted by the AWWA D110-04 standard and is considered acceptable…

Observations

A. Roof

The embedded bolts in the top of the wall act to stabilize the roof against seismic shear. The bolts can resist a relatively large seismic event… **If seismic shear exceeds the anchor resistance, a roof failure, if it occurs, is not considered catastrophic.**

B. Wall

Since the tank has a very low profile and essentially buried, **any damage to the wall or pipe connections will not result in a catastrophic release of water**…

C. Piping and Manholes

The tank profile is relatively low and there is no uplift on the wall. **Any pipe connection failure below the wall line will not trigger a catastrophic event.**

D. Foundation

The reservoir wall is buried to a depth of 14'+/-. With the required freeboard, the water is completely below the ground surface. Ground saturation was not reported. However, if the owner is aware of the loss of water from the reservoir further investigation may be required. A saturated foundation will act to reduce the strength of the wall support and could make the foundation prone to failure.

V. Recommendations**:**

b**. Owner should monitor the tank for loss of water and/or ground saturation at regular maintenance intervals**."[99]

Contrary to SGVWC's concern for "sudden collapse and failure that could occur during earthquake," the latest inspection report suggests that the existing concrete tank is structurally sound and any failure resulting from an earthquake will not be catastrophic.[100] SGVWC's concern that "[t]the 137-year-old storage reservoir is especially vulnerable to the forces resulting from an earthquake because it does not

[99] SGVWC's response to ORA DR AL7-004, q.2 , attachment "AL7-004 ATTACHMENT A" – Tank Inspection Report by Harper & Associates Engineering, Inc., dated January 2013, p. II-2 to II-3.

[100] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 87.

comply with modern seismic design and building standards," is also unfounded.[101] The tank inspection report specifically states that the concrete tank complies with the AWWA D-110-04 standard, which is the latest standard in evaluating pre-stressed concrete water tanks published by the AWWA.[102] The report recommends SGVWC monitor the tank for loss of water at regular maintenance intervals.[103] ORA suggests that SGVWC set a regular maintenance/inspection schedule for the reservoir, if it does not have one, and to follow the recommendations of the tank inspection report.

Finally, SGVWC states that "Plant F15 is a critical source of storage for customers in the northwest region of Fontana Water's service area," and that the "F15 reservoir cannot be removed from service for **any** length of time to perform needed maintenance and retrofits."[104] Below is a snapshot of the system schematics at the F15 plant:

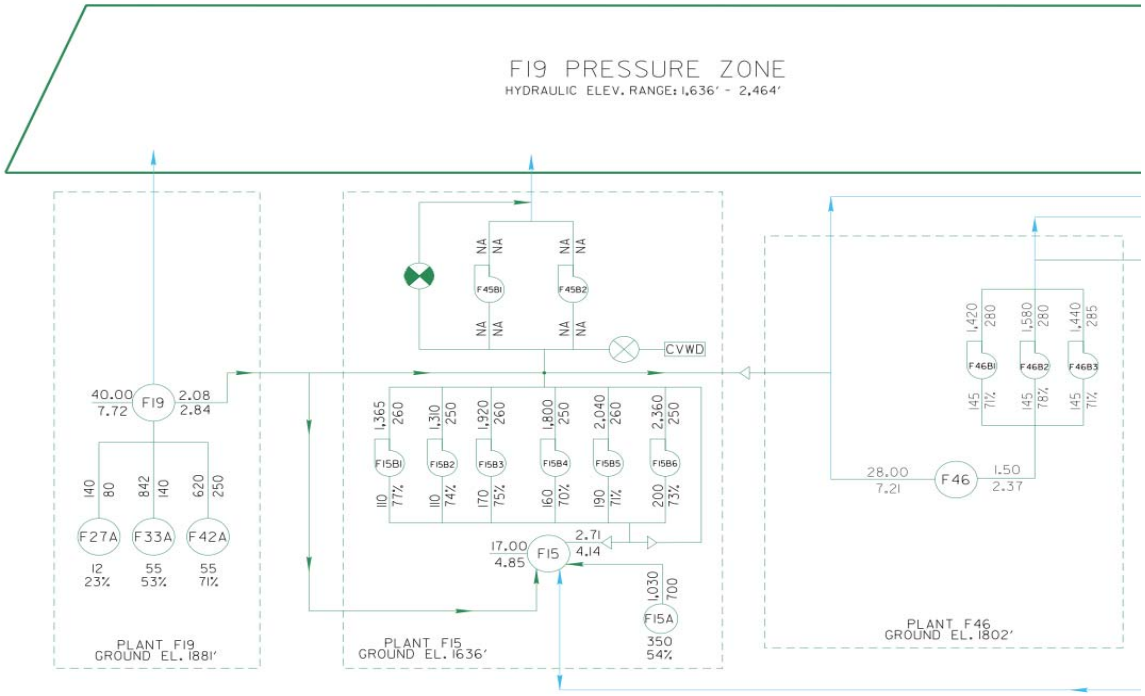
[101] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 87.

[102] SGVWC's response to ORA DR AL7-004, q.2 , attachment "AL7-004 ATTACHMENT A" – Tank Inspection Report by Harper & Associates Engineering, Inc., dated January 2013, p. II-2.

[103] SGVWC's response to ORA DR AL7-004, q.2 , attachment "AL7-004 ATTACHMENT A" – Tank Inspection Report by Harper & Associates Engineering, Inc., dated January 2013, p. II-3. [Emphasis added.]

[104] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 87.

Figure 7-B: System Schematic at F15 Concrete Tank [105]



The blue arrow coming from the center of the F15 reservoir leads to the highland pressure zone where 12 boosters with a total capacity of 27,220 gpm from Plants F16 and F13, can potentially supply water to the F19 pressure zone. The supply from the Highland pressure zone is currently routed to the existing F15 reservoir, as is Well F15A. From the system schematic, it is clear that additional pipelines can be installed to bypass the existing F15 reservoir to allow the reservoir to be taken offline for maintenance. The supply versus demand analysis presented earlier shows, with just active wells and existing storage reservoirs alone, and after satisfying MDD plus fire flow, a residual capacity of 5,567,423 gallons exists at the F19 pressure zone. The existing reduced tank capacity of F15 adjusted for AWWA's freeboard height is 2,710,000 gallons.[106] Therefore, with the F15 reservoir taken offline for maintenance there will still be an excess capacity of 2,857,423 gallons for the F19 zone. Keep in mind that the existing

[105] SGVWC's response to ORA DR AL7-002, q.1a, attachment "AL7-002 (1.a)."

[106] Fontana Water Company Water System Master Plan – 2012 Update, p. 92, Table 5-9.

3,000 gpm emergency connection with CVWD was not even included in the supply demand analysis. Maintenance can be done during winter months, during which system demand is significantly less.

Moreover, in this GRC, SGVWC proposes a $4,000,000 main project that will allow up to 8,000 gpm of water to be delivered from Plant F14 to the F19 pressure zone via Plant F19.[107] [108] As the demand analysis shows, the F19 zone's MDD is only 4,612 gpm, and the new pipeline is more than adequate to meet the demand of the zone. Any residual demand can be met with the remaining existing wells and reservoirs.

ORA does not find a need to construct a new building for the existing boosters and electrical at Plant F15. Since no new construction is recommended, SGVWC does not have to comply with the new requirements from the City of Fontana's conditional use permit. SGVWC can continue to operate the existing Plant F15 with its existing permit.

SGVWC presented no evidence that support SGVWC's concern of "vandalism, damage, and theft of equipment" at the existing electrical and boosters site.[109] SGVWC claims that "[s]ince the properties to the west and south are zoned residential-planned community (RP-C), the allowable exterior noise limit is 65 decibels at the projects boundaries. This limit is exceeded under current conditions."[110] SGVWC states Plant F15 was constructed in 1878. Adjacent neighbors were fully aware of the noise level coming from the plant before their own construction began. Additionally, there are no known noise complaints from the neighbors. Moreover, currently the nearest neighbor to Plant F15 is the school located across Citrus Ave., which is more than 90 feet away from the site and more than 350 feet from the existing boosters. Under this distance, any noise

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[107] SGVWC Exhibit SG-8, Att H, 2018, Plant F58 to Plant F19 Pipeline, "Project Justification," p. 1-2.

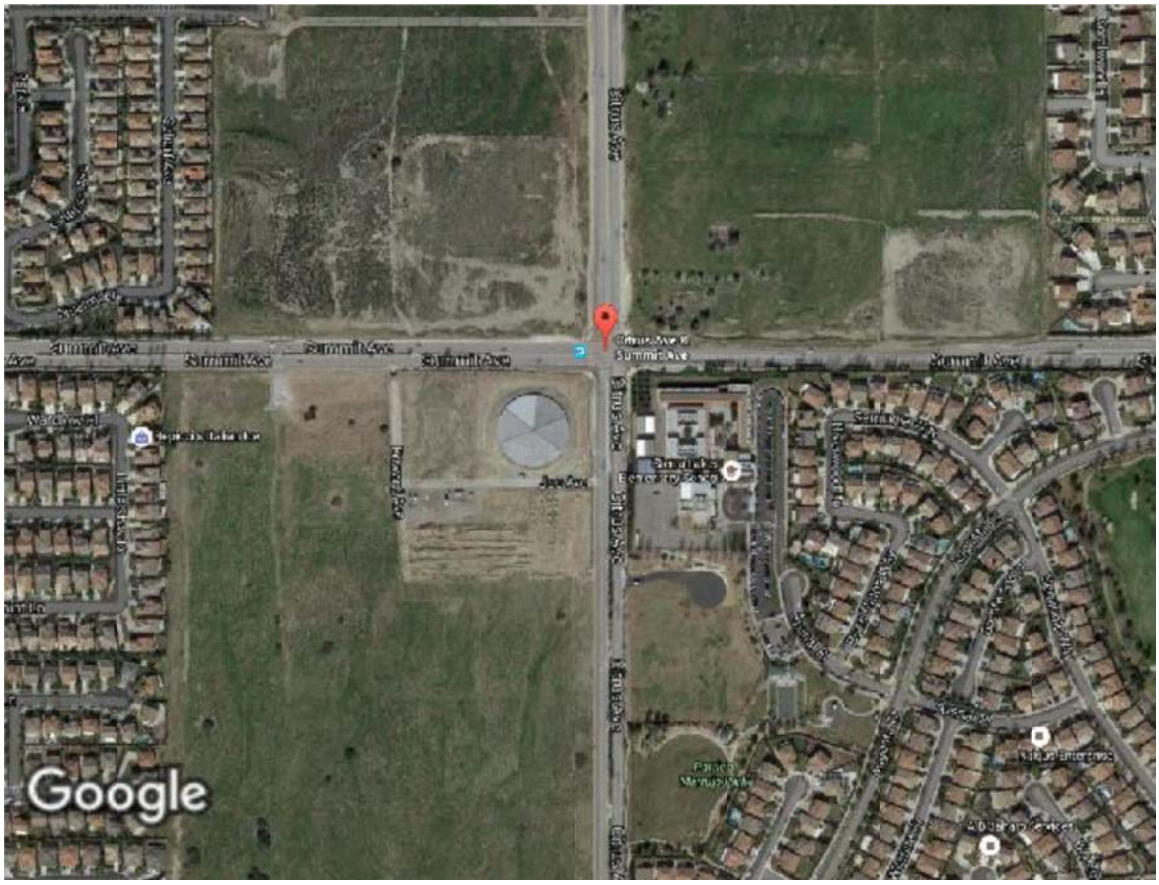
[108] SGVWC Exhibit SG-8, Att H, 2018, Plant F58 to Plant F19 Pipeline, Att 4 - C-B Analysis, "Energy Losses."

[109] SGVWC's response to ORA DR AL7-004, p. 43.

[110] SGVWC Exhibit SG-8, Att G, Plant F15, "Plant F15 Description," p. 4.

emitted by the plant should be well below the 65 decibel required by the City of Fontana. The following is a satellite photo showing the vicinity of the existing plant:

Figure 7-C: Aerial Photo of Plant F15 Vicinity[111]



ORA recommends rehabilitating the existing concrete reservoir rather than constructing two new ones. An estimated cost to rehabilitate the reservoir is readily provided in the tank inspection report by Harper & Associates Engineering, Inc. The report estimates the rehabilitation cost to be $777,600.[112] ORA used this cost estimate and added other project cost adders found in SGVWC's cost estimate for this project to come up with the rehabilitation cost as follows:

[111] Image obtained from Google Maps, dated 2016-06-05.

[112] SGVWC Exhibit SG-8, Att. G, Plant F15, Att. 9 – Cost Estimate, "Plant F15 Cost Estimate," p. 2.

Table 7-7: Concrete Tank Rehabilitation Cost at Plant F15[113]

Rehab Cost Recommended by Harper and Asscociates:		$777,600.00
Engineering and Design	10%	$77,760
Inspection and Testing	5%	$38,880
Construction Management	7%	$54,432
Administrative Overhead	7%	$54,432
Contingency	10%	$77,760
Total Cost		**$1,080,864.00**

In SGVWC's cost estimate, the construction cost of each item is calculated first. Then, based on a sub-total engineering and design cost of 10%, inspection and testing cost of 5%, construction management cost of 7%, administrative overhead cost of 7%, and finally a contingency cost of 10% are added to the construction cost to estimate the total project cost.[114] SGVWC states these percentages are derived from historical spending on these categories based on projects of similar type, complexity, and scale.[115]

To estimate the construction cost of the bypass that ORA recommends, ORA uses SGVWC's proposed pipeline cost for the West Reservoir at Plant F15. Note that the use of this cost estimate is conservative because actual pipe lengths for the bypass should be significantly less than the 1,089 feet of pipes proposed in SGVWC's West Reservoir piping project. This budget will also allow the installation of control valves or any other necessary supplemental equipment. The estimated bypass piping cost is as follows:

[113] Adders and percentage in addition to Harper & Associates Engineering, Inc.'s rehabilitation cost was derived from: SGVWC Exhibit SG-8, Att. G, Plant F15, Att. 9 – Cost Estimate, "Plant F15 Cost Estimate," p. 2.

[114] SGVWC Exhibit SG-8, Att. G, Plant F15, Att. 9 – Cost Estimate, "Plant F15 Cost Estimate," p. 2.

[115] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 11.

Table 7-8: ORA proposed bypass pipeline cost at Plant F15[116]

West Reservoir Piping		$182,090.00
Engineering and Design	10%	$18,209
Inspection and Testing	5%	$9,105
Construction Management	7%	$12,746
Administrative Overhead	7%	$12,746
Contingency	10%	$18,209
Total Cost		**$253,105.10**

Again, it is surprising that SGVWC has chosen to defer maintenance of the F15 reservoir for so many years, when a simple bypass at the existing site would have solved the problem. SGVWC has an obligation to properly and continuously maintain all of its assets to maximize the lifespan of each. Also, SGVWC is a Class A utility and should be capable of and expected to propose lower cost alternatives than its proposal of simply constructing new tanks. SGVWC's reasoning, that "the existing reservoir at Plant F15 cannot be taken out of service without jeopardizing the supply of water to more than a fifth of Fontana Water's customers"[117] is simply misleading and shows poor planning and a lack of motivation to seek lower cost options.

ORA recommends that the Commission reject SGVWC's proposal to construct two new replacement reservoirs and instead allow a total budget of $1,333,969 for the Plant F15 reservoir rehabilitation and bypass construction.

2. Plant F20

SGVWC is requesting $300,000 in 2019 to acquire a 0.87 acre parcel to construct an additional reservoir at Plant F20.[118] SGVWC states "[b]y building a second portable storage reservoir at Plant F20, Fontana Water can perform needed maintenance and extend the life of the existing reservoir, and can also improve the reliability of the water

[116] SGVWC Exhibit SG-8, Att. G, Plant F15, Att. 8 – Cost Estimate, "Plant F15 Cost Estimate."

[117] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 87.

[118] SGVWC Exhibit SG-8, Att. G, Plant F20, "Plant F20 Description," p. 1.

system in the Juniper Pressure Zone."[119] SGVWC also states the reservoir was "last coated when it was placed in service more than 29 years ago. The existing paint is chipped in many places, and corrosion is evident on the tank shell…the tank cannot be removed from service for any length of time… supplies water to more than 8,000 homes and is the sole source of fire protection and emergency storage for these homes."[120] This is not the first time SGVWC has proposed this project.[121] It did so in its previous GRC, but it was opposed by the City of Fontana and ORA due to sufficient existing storage in the pressure zone. [122] In settlement, ORA agreed to allow $300,000 for land purchase. [123] This allowance was rejected by D.14-05-001 on the basis that the land in question was owned by the City of Fontana. The City opposed the project, and did not agree to sell the parcel.[124] In this GRC, SGVWC is proposing to purchase another parcel of land owned by a private party to construct the additional reservoir proposed. [125]

ORA recommends that the Commission reject SGVWC's request to acquire land for construction of a second tank at Plant F20, but to instead allow a budget for SGVWC to rehabilitate its existing tank.

SGVWC proposes purchasing land for an additional reservoir, stating that it cannot currently take the existing reservoir offline for maintenance purposes. ORA's system analysis indicates there is an excess capacity of 7,256,076 gallons of storage in the Juniper Pressure Zone. With the exclusion of Plant F20 reservoir's capacity of 3,780,000 gallons, the pressure zone will still have excess storage capacity of 3,476,076

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[119] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 89.

[120] Ibid.

[121] SGVWC Exhibit SG-8, Att G, Plant F20, "Plant F20 Description," p. 1.

[122] Fontana 2011 GRC, Testimony of Michael P. Thornton on behalf of the City of Fontana, dated November 3, 2011, p. 18. Fontana 2011 GRC, Testimony of ORA, dated November 3, 2011, pp. 7-17 to 7-18.

[123] D.14-05-001, Att. 1, "Fontana 2011 GRC, Settlement Agreement Between the Division of Ratepayer Advocates and San Gabriel Valley Water Company", dated July 1st 2011, p.15.

[124] D.14-05-001, p. 9 and p. 24.

[125] SGVWC Exhibit SG-8, Att G, Plant F20, "Plant F20 Description," pp. 1-3.

gallons after MDD plus fire flow scenarios. And as stated earlier, the system demand for the past ten years has been declining. In fact, this was a major reason why the City of Fontana opposed a similar project request by SGVWC in the Fontana 2011 GRC.[126] The City of Fontana also found similar excess capacity at the Juniper Pressure Zone, and stated: "[i]t is estimated that the required improvements could be completed within 4 to 8 weeks. The proposed interior recoating does not require construction of a new facility. Furthermore, since the Juniper zone is the lowest zone, flows could be transferred from upper zones should an emergency occur."[127]

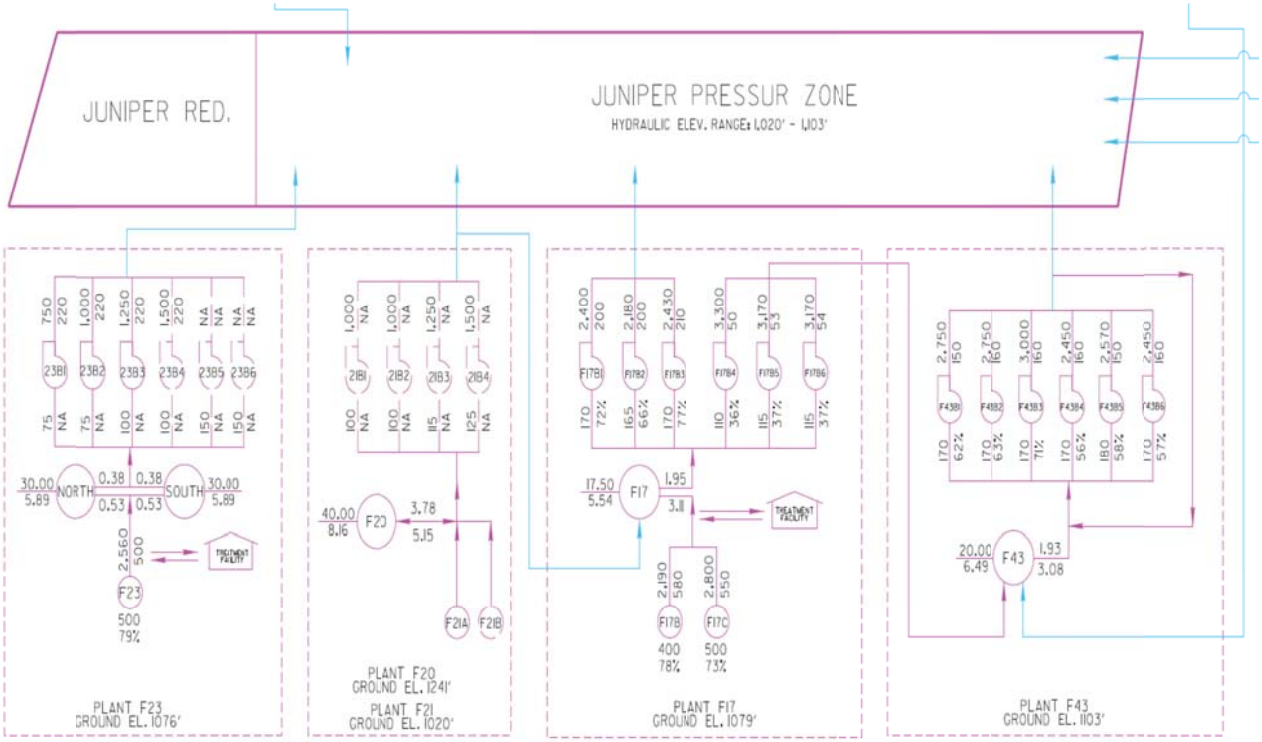
Based on ORA's analysis and SGVWC's system schematics, it is clear to see that the existing Plant F20 reservoir is not, as SGVWC claims, the "sole source of fire protection and emergency storage" for the 8,000 homes in the Juniper Pressure Zone[128]:

[126] Fontana 2011 GRC, Testimony of Michael P. Thornton on behalf of the City of Fontana, dated November 3, 2011, p. 18.

[127] Ibid.

[128] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 89.

Figure 7-D: System Schematic for the Juniper Pressure Zone[129]



The figure above shows there are additional storage tanks at Plants F23, F17, and F43. Wells F21A and F21B can also directly feed the pressure zone via boosters, bypassing the existing F20 reservoir. Additionally, as the City of Fontana stated in the 2011 GRC, the Juniper Pressure Zone is at the lowest elevation of the Fontana system and any excess capacity (ORA's current supply demand analysis at the beginning of this chapter also shows there is ample capacity) will flow from the higher elevation zone into the Juniper Pressure Zone.

The latest tank inspection by Harper & Associates Engineering, Inc. finds that both the interior and exterior roof condition is in "fair" condition and other safety upgrades are required. SGVWC also states there is paint chipped in many places with corrosion evident on the tank shell suggesting that recoating is needed.[130] In fact,

[129] SGVWC's response to ORA DR AL7-002, q.1a, attachment "AL7-002 (1.a)."

[130] Fontana Water Company Water System Master Plan – 2012 Update, Appendix D, p. 2.

SGVWC cited deteriorating conditions at the F20 reservoir in two past rate cases, or eight years ago. In its Fontana 2008 GRC application, SGVWC states: "[t]he existing paint is chipped in many places and corrosion is visible, rendering the tank unsightly. If not corrected, corrosion could threaten the structural integrity of the tank."[131] Yet, again, SGVWC chose to let the tank further deteriorate and potentially shorten the lifespan of this asset paid for by the ratepayers. It is unacceptable for SGVWC to continuously make similar requests to build an additional reservoir at the same plant, GRC after GRC, and defer the necessary maintenance and repairs of its existing tank.

SGVWC states that the cost to rehabilitate the existing reservoir is $868,043, which consists of $534,180, as recommended by Harper & Associates Engineering, Inc., plus an additional cost of 25% for contingency, 30% for planning, permitting, surveying, geotechnical engineer, construction management, inspection, and testing.[132]

As in the case of the Plant F15 reservoir, SGVWC has been negligent in maintaining this asset paid for by the ratepayers, and as in the case of many of SGVWC's other reservoir requests, it is seeking dual reservoirs at the same plant simply for maintenance purposes.

ORA recommends that the Commission reject SGVWC's request to build an additional tank at Plant F20, and instead grant SGVWC $868,043 in 2018 to rehabilitate the deteriorated reservoir. In addition, since the poor condition of the existing tank is due to SGVWC's tardiness in maintaining a ratepayer paid asset, ORA recommends that the Commission require SGVWC to contribute 15 percent of the project cost to share the burden of rehabilitation. The $868,043 recommended budget includes a 25% contingency, (which is unreasonably high, as typically, a well-planned project normally requires a 5 to 10 percent contingency. Since many of SGVWC's projects have final expenditures higher than the estimated costs it has previously presented to the

[131] San Gabriel Fontana 2008 GRC, Exhibit SG-7, Testimony of Frank A. LoGuidice, dated July 2008, p. 19.

[132] Fontana Water Company Water System Master Plan – 2012 Update, Appendix D, p. 5.

Commission, a 15 percent of project cost contribution by SGVWC will provide a real incentive to keep its final project costs lower.[133]

3. Plant F21 (SGVWC proposes $7,640,000)

SGVWC is requesting $2,020,000 in 2017 and $5,620,000 in 2019 to drill and equip a new well at Plant F21 and to construct a perchlorate removal treatment system at the plant.[134] SGVWC states the new well F21C is to replace the existing contaminated well F21A, and perchlorate levels at well F21A have been detected to be above 50% of the MCL.[135]

ORA's supply-demand analysis overview earlier excludes the capacity of well F21A and still shows there is more than adequate existing source supply and existing storage capacity to handle demand.

ORA recommends that the Commission reject this project request.

4. Plant F23 (SGVWC proposes $3,940,000)

SGVWC is requesting $200,000 in 2017, $1,740,000 in 2018, and $2,000,000 in 2019 to drill and equip a new well and expand perchlorate treatment capacity at Plant F23.[136] SGVWC states the new well F23B is to replace the inactive, contaminated well F18A and to construct an expanded treatment system due to high perchlorate levels detected at the existing well F23A.[137]

The current well capacity of F23A is 2,680 gpm.[138] SGVWC first requested the well F23A project at a budget of $2,600,000 in company funds plus $480,000 in contributions (total $3,080,000) in the 2008 Fontana GRC.[139] In D.09-06-027 a settlement agreement was adopted approving the project as advice letter treatment, even

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[133] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 78.

[134] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 90.

[135] Ibid.

[136] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 92.

[137] Ibid.

[138] Fontana Water Company Water System Master Plan – 2012 Update, p. 166.

[139] 2008 SGVWC GRC, Exhibit SG-7, Testimony of Frank A. LoGuidice, p. 22.

1 though there was opposition the Fontana Unified School District citing adequate capacity
2 in the Juniper Pressure Zone.[140] But in the 2011 Fontana GRC, SGVWC requested the
3 same project at a higher budget of $3,435,000 in company funds and $1,500,000 in
4 contributions (total $4,935,000).[141] SGVWC stated delays were attributed to the lengthy
5 process in obtaining a conditional use permit from the City of Fontana, and SGVWC's
6 engineering department's focus on various other complex projects.[142] Also the $835,000
7 increase in budget from the 2008 GRC was due to extra items required by the City of
8 Fontana's conditional use permit requirements, which the City of Fontana contested.[143]
9 In D.14-05-001 the Commission rejected the bilateral agreement between ORA and
10 SGVWC that included $3,435,000 to install perchlorate treatment facilities and to fund
11 amenities required by the City of Fontana.[144] Instead D.14-05-001 allows SGVWC to
12 establish: (i) a Memorandum Account to track costs required by the Condition Use
13 Permit for Plant F23, and (ii) a balancing account to track the actual costs of perchlorate
14 treatment facilities.[145] The decision also allows SGVWC to recover the perchlorate
15 treatment facilities' costs recorded in the balancing account in its next GRC
16 (this GRC) where it must show by a preponderance of the evidence that these
17 expenditures were reasonably incurred.[146] SGVWC states by the time the proposed
18 decision for A.11-07-005 was issued, the facilities at F23 were substantially completed,
19 so it went ahead and finished well F23A and associated facilities.[147] On October 1st 2013,
20 well F23A, an ion exchange facility (to remove perchlorate), two reservoirs, and a

[140] D.09-06-007, p. 25-26.

[141] 2011 SGVWC GRC, Exhibit SG-12, Testimony of Matt Y. Yucelen, p. 21.

[142] 2011 SGVWC GRC, Exhibit SG-12, Testimony of Matt Y. Yucelen, p. 21.

[143] 2011 SGVWC GRC, Exhibit SG-12, Testimony of Matt Y. Yucelen, p. 21-22.

[144] D.14-05-001, p. 9.

[145] D.14-05-001, p. 10.

[146] D.14-05-001, p. 10.

[147] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 83.

booster station were placed in service at a cost of $5,724,891 in company funds and $1,548,262 in contributions (total $7,273,153).[148]

ORA's supply-demand analysis presented earlier excludes the capacity of well F18A and still shows there is more than adequate existing source supply and storage capacity to meet expected demand. ORA recommends that the Commission reject this project request.

5. Plant F31 (SGVWC proposes $7,330,000)

SGVWC is requesting $50,000 in 2016, $40,000 in 2017, $2,890,000 in 2018, and $4,350,000 in 2019 to purchase land, drill and equip a new well, construct a booster station, and construct two new reservoirs at Plant F31.[149] SGVWC states the new well F31B is to replace the lost capacity from inactive and contaminated well F37A.[150]

ORA's supply-demand analysis presented earlier excludes the capacity of well F37A and still shows there is more than adequate existing source supply and storage capacity to handle demand.

ORA recommends that the Commission reject this project request.

6. Acct 343 - Mains (SGVWC proposes $16,450,000)

SGVWC is requesting $500,000 in 2016, $2,250,000 in 2017, $8,700,000 in 2018, and $5,000,000 in 2019 to relocate and replace distribution mains and to install a transmission main from the proposed Plant F58 to the existing Plant F19 ($4,000,000 in 2018).[151] In addition to the age of its mains, SGVWC states some of its steel mains are unlined, leading to a higher corrosion rate, lower roughness coefficient or higher friction, and lower pressure ratings than standard pipes.[152] SGVWC also states its asbestos

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[148] SGVWC response to ORA DR AL7-016, q. 1,9 and 10, pp.1 and 6.

[149] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 93.

[150] Ibid.

[151] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 110.

[152] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, Att. H, Project Justifications for all main replacements.

cement pipelines are most vulnerable to leaks and breakage from age and invasive tree roots, which are hazardous, and perform most poorly in earthquakes.[153]

SGVWC's concerns for its steel and asbestos pipes were presented without support or reference. In addition, some projects such as the San Bernardino Ave. West of Beech Ave. in 2018 were claimed to reduce water loss, but no leak history was provided for this project.[154] SGVWC states its unlined steel mains have a higher corrosion rate, but there is no evidence to indicate that this is the case for steel pipelines in the Fontana system. Many of the existing pipelines proposed to be replaced by SGVWC are more than 80 years old but have no or a low number of leaks. This indicates that these unlined steel mains have held up well in the Fontana system. In fact, there are many other factors affecting the lifespan of a pipe such as different manufacturing processes, loading conditions, soil type, temperature fluctuation, and installation methods.

Furthermore, contrary to SGVWC's claim, asbestos-cement pipe usually performs well in an earthquake due to rubber gasket joints that typically allows movement.[155] This was evident in the 1994 Northridge earthquake "where asbestos cement pipe performed better than ductile iron pipe or cast iron pipe."[156] A background document used in developing the WHO's Guidelines for Drinking-Water Quality states that "[t]here is therefore no consistent, convincing evidence that ingested asbestos is hazardous to health, and it is concluded that there is no need to establish a guideline for asbestos in drinking-water."[157]

SGVWC performed Water Loss Audits for its LA and Fontana systems using the American Water Works Association's (AWWA) Water Loss Audit Software and

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[153] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, Att. H, 2018, Whittram Ave W of Cottonwood Ave, "Project Justification."

[154] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, Att. H, 2018, San Bernardino Ave W of Beech Ave, "Project Justification."

[155] U.S. Geological Survey Professional Paper, Issue 1552, p. A93.

[156] Seismic Fragility Formulations for Water Systems by ASCE, Part 2 – Appendices, dated, April 2001, p. 29.

[157] Asbestos in Drinking-water by WHO, 2003, p. 3.

1 submitted the information in the application.[158] The results from the Water Loss Audit
2 can help determine if the water loss percentage is above or below the AWWA Leak
3 Detection and Accountability Committee's recommended 10% benchmark.[159] This data
4 can help determine a reasonable level of pipeline replacements in a given system. The
5 Water Loss Audit provides the Infrastructure Leak Index (ILI) for each system. This
6 index is a performance indicator developed by the International Water Association Water
7 Loss Task Force and used by over 50 countries worldwide.[160] The ILI is the ratio of the
8 Current Annual Real Losses (CARL) to the Unavoidable Annual Real Losses (UARL) in
9 a water system.[161] The UARL is the minimum expected amount of leakage for a well-
10 managed and well maintained water system.[162] A system with a lower ILI indicates a
11 lower amount of leakage and a lower amount of real losses for the system.[163] Therefore,
12 an "ILI close to "1" indicates the system's real losses are close to the UARL and further
13 reductions in real water losses might be unattainable or uneconomical."[164] According to
14 the World Bank Institute's grading system, a water system with an ILI of "2" and below
15 has low leakage losses[165] and is considered to have "world class" leakage management.[166]
16 The table below provides an international standard of ILI benchmarks and assessment.[167]

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[158] SGVWC's response to Minimum Data Requirement, q. E.3, Attachment 10 – AWWA Water Audits, "Attachment 10 - AWWA Water Audits."

[159] AWWA's Committee Report: Water Accountability, dated July 1996, p. 109.

[160] "What is the Infrastructure Leakage Index (ILI) and How did Waitakere City Council Manage to Achieve an ILI of 1.0?" by Richard Taylor, Assets and Network Manager, EcoWater, Waitakere City Council.

[161] Water Research Foundation Report #4372a, Real Loss Component Analysis: A Tool for Economic Water Loss Control, p. 17.

[162] Ibid.

[163] AWWA's Free Water Audit Software, tab "Loss Control Planning."

[164] Georgia Water System Audits and Water Loss Control Manual, p. 10.

[165] Water Research Foundation Report #4372a, Real Loss Component Analysis: A Tool for Economic Water Loss Control, p. 12.

[166] University of Arizona's Technology and Research on Infrastructure Leakage Index (ILI) as a Regulatory and Provider Tool by David Michael Delgado, p. 9.

[167] 14 Years Experience of using International Water Association Best Practice Water Balance and Water Loss Performance Indicators in Europe, p. 20.

Table 11: Sub-Division of World Bank Institute Bands (2010)

Low and Middle Income Countries	High Income Countries	BAND	General description of Real Loss Management Performance Categories (WBI Band limits for ILI for Low and Middle Income Countries are double those for High Income Countries)
ILI range	ILI range		
Less than 3	< 1.5	A1	Further loss reduction may be uneconomic unless there are shortages; careful analysis needed to identify cost-effective improvement
3 to < 4	1.5 to < 2	A2	
4 to < 6	2 to < 3	B1	Potential for marked improvements; consider pressure management, better active leakage control practices, and better network maintenance
6 to < 8	3 to < 4	B2	
8 to < 12	4 to < 6	C1	Poor leakage record; tolerable only if water is plentiful and cheap; even then, analyze level and nature of leakage and intensify leakage reduction efforts
12 to < 16	6 to < 8	C2	
16 to < 24	8 to <12	D1	Very inefficient use of resources; leakage reduction programs imperative and high priority
24 or more	12 or more	D2	

The ILI for the LA Division is 1.34 and Fontana divison is 1.39.[168] As shown in the benchmark above (high income countries), an ILI below 1.5 places SGVWC's systems in the lowest water loss group, where "further loss reduction may be uneconomic[al] unless there are shortages." Rather than replacing its mains, SGVWC should consider leak reduction options, including pressure management, active leakage control practices and network maintenance.

The AWWA warns that replacing lines that appear to be in good condition with no history of leaks is not "cost-efficient." Specifically, AWWA offers the following observation:

[168] SGVWC's response to Minimum Data Requirement, q. E.3, Attachment 10 – AWWA Water Audits, "Attachment 10 - AWWA Water Audits," p. 2 and 4.

> As pipe assets age, they tend to break more frequently. **But it is not cost-effective to replace most pipes before, or even after, the first break.** Like the old family car, it is cost-efficient for the utilities to endure some number of breaks before funding complete replacement of their pipes.[169] [Emphasis added.]

ORA analyzed all main replacement projects requested in this GRC, excluding the Plant F58 to F19 pipeline project. SGVWC presents 49 different pipeline replacement projects.[170] Of these 49 projects, only 29 had any recorded leaks, and only 13 had leak history of 3 times or more.[171] ORA recommends the approval of these 13 main replacement projects.[172]

ORA recommends that the Commission approve $510,000 in 2016, $1,350,000 in 2017, $4,150,000 in 2018, and $1,580,000 in 2019 for mains in the Fontana system.

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[169] Dawn of the Replacement Era by AWWA, dated May 2001, p. 13.

[170] 2 projects in 2016, 10 projects in 2017, 20 projects in 2018, and 17 projects in 2019.

[171] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, Att H, Project Justifications for all main replacements.

[172] The number of leaks cited for each project was obtained from the project description of each in: SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, Att H, Project Justifications for all main replacements.

2016 Cypress Ave. South of Baseline Ave. - $110,000 - 24 leaks;

2016 Cypress Ave. South of Montgomery Court - $400,000 - 10 leaks;

2017 Merrill Ave E of Cypress Ave. - $70,000 - 4 leaks;

2017 Marygold Ave W of Linden Ave. - $560,000 - 4 leaks;

2017 Linden Ave S of Grove Pl. – $90,000 - 3 leaks;

2017 Laurel Ave S of Hawthorne Ave. – $310,000 - 6 leaks;

2017 Ceres Ave E. of Chantry Ave. –$90,000 - 3 leaks;

2017 Calabash Avenue South of Valley Boulevard – $230,000 - 9 leaks;

2018 Rosena Ave S of Valencia Ave. – $150,000 - 4 leaks;

2019 Arrow Rt W of Cherry Ave. – $570,000 - 3 leaks;

2019 Citron Ave. E Alder Ave. – $260,000 - 7 leaks;

2019 Iris Dr. E of Calabash Ave. – $230,000 - 3 leaks;

2019 Randall Ave E of Cherry Ave. – $520,000 - 5 leaks

7. Solar Power Generating System (SGVWC proposes $1,200,000)

SGVWC is requesting a budget of $600,000 in 2018 and $600,000 in 2019 to construct a solar power generating system for its headquarter and maintenance facility.[173] SGVWC states that with this project, the headquarter and maintenance facility will be "effectively a self-sustaining facility with a capacity to generate up to 220 kilowatts…with approximately 280 sunny days per year…would have the potential to save Fontana Water up to $75,000 annually."[174]

ORA recommends that the Commission reject this project. SGVWC's inaccurate cost benefit analysis, once corrected, shows thatthis project will actually result in $80,091 in annual losses for ratepayers per year fo 30 years.

SGVWC states that "a cost-benefit analysis" was provided in Attachment I of its application,[175] but ORA could not locate this document in its original application. Instead, ORA found a letter from "Chow Engineering, Inc." that states the photo voltaic ("PV") plant size has been revised to 220 KW at a construction cost of $990,000, including a 10% contingency.[176]

ORA requested a cost benefit analysis for this project from SGVWC, and found that the cost benefit analysis was completed assuming a PV plant size of 650 KW, at a cost of $1,861,000, after a 30% reimbursement under the federal program.[177] The scenarios presented in the analysis vastly differ from what SGVWC is proposing in this GRC, and SGVWC's claim of potential savings of $75,000 per year is misleading. The Chow Engineering analysis also assumed that SGVWC will be allowed a credit of $0.145 per KW-hr of electricity that the PV panels would generate. This was the average cost of

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[173] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 99.

[174] Ibid.

[175] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 100.

[176] SGVWC Exhibit SG-8, Att I, Acct 371 - Structures and Improvements, Att 1 - Solar Panel Design Concept, "SGV Wtr SolarPlt."

[177] SGVWC response to ORA DR LLK-021, q. 3, "ATTACHMENT A - Chow-Solar," p. 1.

electricity SGVWC paid from 08/2010 to 07/2011.[178] To calculate the $163,802 potential revenue per year generated by the PV plant, the analysis assumed a plant size of 650 KW, at 89% efficiency, at 5.35 hours of daylight per day, and 365 days per year.[179] To calculate the net profit of the PV plant per year, the total cost of the system, including debt servicing and operations and maintenance was deducted from the total yearly potential revenue. Of the five cost scenarios presented in the analysis, the lowest cost option was for the PV plant to be financed with a 3% note over a 30 year term at a cost of $106,152 per year.[180] Under this best case scenario in the cost benefit analysis, the system can potentially generate savings of $57, 650 per year ($163,802 - $106,152 = $57,650).[181]

There are three major assumptions that materially affect the results of this analysis. First, the final PV plant size proposed by SGVWC is 220 KW at a project cost of $1,200,000, versus 650kW at $1,861,000 in the cost benefit analysis.[182] Second, the analysis assumes 365 days of daylight compared to SGVWC's claim of 280 days of daylight per year for its service area.[183] Third, and the most important factor in this analysis, SGVWC's allowed rate of return was 8.49%, versus the 3% assumed in the analysis.[184] SGVWC's application therefore presents an inaccurate cost benefit analysis and erroneously claims yearly savings of $75,000.

ORA conducted a cost benefit analysis using the same method as presented in the cost benefit analysis by Chow Engineering, presented in SGVWC's application, but with corrected assumptions as presented above. The results indicate that this project would

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[178] SGVWC response to ORA DR LLK-021, q. 3, "ATTACHMENT A - Chow-Solar," p. 5.

[179] SGVWC response to ORA DR LLK-021, q. 3, "ATTACHMENT A - Chow-Solar," p. 5; $163,802 = $0.145 x (650KW x 0.89 efficiency x 5.35 hr/day x 365 day/year).

[180] SGVWC response to ORA DR LLK-021, q. 3, "ATTACHMENT A - Chow-Solar," p. 6; $106,152 = $94,152 cost of debt per year + $12,000 O&M per year = $106,152.

[181] SGVWC response to ORA DR LLK-021, q. 3, "ATTACHMENT A - Chow-Solar," p. 6.

[182] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 99.

[183] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 99.

[184] D.13-05-027.

actually cost the ratepayers a total of $80,091 per year in the next 30 years instead of the annual benefit of $75,000 as claimed by SGVWC. Assuming a plant size of 220 KW, $0.145 KW-hr electricity cost, 89% efficiency, 5.35 hours of daylight per day, and 280 sunny days per year, the calculated potential revenue per year generated by the solar panels is $42,530.[185] Assuming $1,200,000 to be the project cost at 8.49% rate of return, and $12,000 per year O&M cost, the yearly cost of the PV plant including debt servicing and O&M cost is $122,621.[186] This results in a net loss of $80,091 per year, or a total of $2,402,730 (in nominal dollars) over 30 years ..[187]

ORA recommends that the Commission reject this PV plant project request due to the faulty assumptions presented in SGVWC's cost benefit analysis, and because of SGVWC's misrepresentation of annual cost savings to ratepayers.

8. Automated Meter Reading (SGVWC proposes $2,728,000 in Fontana Division, $2,582,000 in LA Division)

SGVWC is requesting a budget of $1.8 million in 2017, $1.75 million in 2018, and $1.76 million in 2019, to fully implement the Automated Meter Reading ("AMR") system companywide, in both the Fontana and Los Angeles Divisions, with 51.36% of the cost allocated to the Fontana Division.[188] SGVWC states it has "completed a feasibility and year-long pilot study evaluating the costs and benefits of the five AMR deployment scenarios…concludes that continued installation of manual read meters is no longer cost effective… the 12-year AMR deployment scenario was selected as most beneficial to customers of the Company."[189] SGVWC's AMR Feasibility and Pilot Study states: "AMR meters transmit data to a mobile device or laptop computer as the meter reader drives through the service area."[190] Currently manual read meters are "read on a

[185] $42,530 per year = $0.145 energy cost x (220KW x 0.89 efficiency x 5.35 hr/day x 280 day/year).

[186] $122,621 per year = $110,621 cost of debt + $12,000 O&M per year; Cost of debt = $9218.46/month = $110,621.52/year.

[187] -$122,621 + $42,530 = -$80,091 per year.

[188] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 115.

[189] SGVWC Exhibit SG-5, Testimony of Robert J. DiPrimio, p. 2.

[190] SGVWC Exhibit SG-5, Attachment A - AMR Feasibility and Pilot Study, "Attachment A AMR

(continued on next page)

monthly basis utilizing hand held micro-computers to record meter reads read by Meter Readers as they walk their meter routes in the company's service area." Meter readers also monitor SGVWC's water system by "initiating routines to cover conditions found while reading water meters which need immediate or additional attention."[191]

ORA reviewed SGVWC's cost benefit analysis for this project and discovered SGVWC used an erroneous average cost per manual read meter in its cost benefit analysis. Changing this input alone makes the AMR savings negative in the analysis. ORA also changed the escalation factor for AMR meters in its analysis.

SGVWC used $116 as the average cost per manual read meter in its analysis. To arrive at this cost, SGVWC multiplied $729,865, its 2013-2014 average annual cost of manual read meter replacement for both LA and Fontana Division, by 15 (the number of years SGVWC assumes it will take to replace all the meters in its system), and divided by 94,493, the total number of meters in both Divisions.[192] The problem with using $729,865 to forecast the average annual cost of meter replacement in its analysis is that SGVWC replaced more meters in those two years than its normalized meter replacement rate.[193] In 2013-2014 SGVWC replaced 7,050 meters per year, or 750 more meters than the normalized rate of 6,300 meters per year.[194] Using the 2013-2014 average annual replacement cost to forecast the yearly replacement cost unfairly skews SGVWC's cost benefit analysis in favor of AMR meters. Additionally, compared to the normalized replacement rate for each meter size in SGVWC's system, more large sized meters were replaced in those two years, thus further increasing the forecasted annual cost of manual

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Feasibility and Pilot Study," p. 7.

[191] SGVWC Exhibit SG-5, Attachment F – Personnel Requirements, "Attachment F Personnel Requirements Support Documents", p. 23.

[192] SGVWC Exhibit SG-5, Attachment A - AMR Feasibility and Pilot Study, worksheet titled "Table 1_2_3_Feasibility Study_ Meter Counts_Manual Read Costs_AMR Costs," cell F44, F28, and F45.

[193] 6,300 meters per year = 94,493 total number of meters in both Division / replaced every 15 years.

[194] 2013-2014 average number of meters replaced = 7,050 meters per year = (5,589 meters replaced in 2013 + 8,511 meters replaced in 2014) /2 years

read meters in SGVWC's analysis (larger meters have a higher cost per meter). The use of 2013-2014 average annual cost to forecast for future annual yearly replacement cost by SGVWC is arbitrary. SGVWC could have used the average annual cost of any two consecutive years in its analysis and the forecasted annual manual read meter's replacement cost can subsequently be higher or lower. Under SGVWC's current calculation, the company will be replacing 105,750 meters over the course of 15 years, more than 94,493, the actual number meters in both Divisions combined. As shown, the method in which SGVWC calculates its manual read meter cost replacement is arbitrary and fluctuates depending on the average replacement rate during any two years that the company chooses.

On the other hand, SGVWC's 2014 actual cost per meter by size is readily provided in the cost benefit analysis and can be used to calculate the total cost of manual read meters if all 94,493 meters were to be replaced over 15 years. Then this total cost can be broken down to the average cost per meter regardless of size to be used in SGVWC's cost benefit analysis. This approach is more accurate because: 1) the 2014 actual cost is the most recent cost data provided by the same analysis that SGVWC is using; 2) this cost data is representative of the actual number of meters in SGVWC's water system; and 3) this cost data is representative of the existing size of meters installed in the system. Using the 2014 average recorded cost by meter size, ORA calculated the average replacement cost of manual read meter broken down by size:

Table 7-9: 2014 Average Cost Per Meter Replacement by Meter Size[195]

2014			
Meter Size	**No. of Meters**	**Cost**	**Cost per meter**
5/8"	4,901	$249,934	$51.00
3/4"	60	$5,193	$86.55
1"	3,096	$414,820	$133.99
1-1/2"	61	$16,945	$277.79
2"	393	$153,572	$390.77
TOTAL	**8,511**	**$840,464**	

From the actual cost, ORA calculated the total replacement cost of all 94,493 meters in both LA and Fontana Divisions:

Table 7-10: Total Replacement Cost by Meter Size – LA Division[196]

Los Angeles County Division			
Meter Size	**Number of meters by size**	**2014 Actual cost per meter**	**Cost to replace by size**
5/8"	35,939	$51.00	$1,832,762.29
3/4"	3,217	$86.55	$278,427.60
1"	6,705	$133.99	$898,375.16
1.5"	1,003	$277.79	$278,625.84
2"	1,636	$390.77	$639,295.14
	48,500		**$3,927,486.02**

[195] SGVWC Exhibit SG-5, Attachment A - AMR Feasibility and Pilot Study, worksheet titled "Table 1_2_3_Feasibility Study_ Meter Counts_Manual Read Costs_AMR Costs."

[196] SGVWC Exhibit SG-5, Attachment A - AMR Feasibility and Pilot Study, worksheet titled "Table 1_2_3_Feasibility Study_ Meter Counts_Manual Read Costs_AMR Costs."

Table 7-11: Total Replacement Cost by Meter Size – Fontana Division[197]

Fontana Division			
Meter Size	**Number of meters by size**	**2014 Actual cost per meter**	**Cost to replace by size**
5/8"	25,122	$51.00	$1,281,133.42
3/4"	71	$86.55	$6,144.97
1"	18,501	$133.99	$2,478,872.32
1.5"	712	$277.79	$197,788.23
2"	1,587	$390.77	$620,147.55
	45,993		**$4,584,086.49**

The total replacement cost, based on 2014 cost data, for the existing 94,493 meters in both Divisions is $8,511,573.[198] ORA calculated an average replacement cost of $90.08 per manual read meter (versus SGVWC's $116 per meter) based on the total replacement cost and ORA used this figure in the cost benefit analysis spreadsheet provided by SGVWC.[199] As a result, the $1.2 million savings for using AMR meters originally forecasted in SGVWC's cost benefit analysis turns to a loss of $472,592 under the 12-year replacement scenario, and a loss of $438,339 under the 15-year scenario.[200]

Further skewing its analysis, SGVWC used a 1.0% escalation factor for AMR meters, and a 2.0% escalation factor for manual read meters. This assumption is unsupported and unfairly assumes that the cost of manual read meters will rise twice as fast as the cost of AMR meters in the next 15 years. ORA assumes the cost of both types of meter will rise at the same rate, and therefore uses 2% as the escalation factor for both types of meters. With this meter cost escalation assumption, SGWVC's cost benefit analysis worksheet shows by switching to AMR meters, the loss increases to $1,391, 937

[197] SGVWC Exhibit SG-5, Attachment A - AMR Feasibility and Pilot Study, worksheet titled "Table 1_2_3_Feasibility Study_ Meter Counts_Manual Read Costs_AMR Costs."

[198] $8,511,573 = $3,927,486 (2014 cost to replace all LA meters) + $4,584,086.49 (2014 cost to replace all Fontana meters).

[199] $8,511,573 / 94,493 meters = $90.08 per meter.

[200] ORA replaced cell G29 with $90.08 in: SGVWC Exhibit SG-5, Attachment A - AMR Feasibility and Pilot Study, worksheet titled "Appendix A 2017_2031 AMR Cost-Benefit Analysis."

under the 12 year scenario, and $1,416,628 under the 15 year scenario.[201] Therefore, with ORA's more reasonable assumptions used, SGVWC's cost benefit analysis indicates that the AMR program should not be implemented for both Divisions.

Moreover, SGVWC's cost benefit analysis itself is incomplete. SGWVC states $140,000 was proposed in the General Division Office for "recover costs associated with computer programming services needed for integration of AMR data with the Company's billing system and development of databases to store and retrieve metering data."[202] These costs were not included in SGVWC's AMR meter cost benefit analysis. SGVWC analysis does not take into account the potential costs of implementation, security, initial software, system maintenance, potential computer hardware, consultant fees for continual data analysis, coordination efforts by the company, and any other necessary consultant expertise.

SGVWC's AMR request does not take into account potential impacts of the one-year Advanced Meter Infrastructure pilot program that the company is implementing with Southern California Gas Company.[203] The company may potentially have to coordinate and implement three different kinds of meter reading technologies in the future.

In light of the above, a budget for manual read meter replacements should be calculated to allow SGVWC to continue to switch out existing meters that have reached their useful lives. As in ORA's calculation for the average cost per meter above, ORA uses the recorded 2014 replacement cost by meter size, multiplied by the number of meters of each size in each Division to get the total replacement cost for all existing meters by size. This total was then divided by the estimated average lifespan of each meter, 15 years, to arrive at the annual meter replacement cost. This calculation takes into account the most recent recorded cost available from SGVWC's cost benefit analysis, the total number of meters in each Division by size, and the estimated lifespan

[201] ORA replaced cell I38 with 2.0% in: SGVWC Exhibit SG-5, Attachment A - AMR Feasibility and Pilot Study, worksheet titled "Appendix A 2017_2031 AMR Cost-Benefit Analysis."

[202] SGVWC Exhibit SG-5, Testimony of Robert J. DiPrimio, p. 2.

[203] SGVWC Exhibit SG-5, Testimony of Robert J. DiPrimio, p. 2.

of each meter. SGVWC's 2% escalation factor used in its AMR cost benefit analysis, was applied to this annual meter replacement cost to come up with the recommendations in subsequent years:

Table 7-12: Total Replacement for Meter Replacements[204]

Yearly Budget for Meter Replacements		
Year	LA Budget	Fontana Budget
2015	$261,832.40	$305,605.77
2016	$267,069.05	$311,717.89
2017	$272,410.43	$317,952.24
2018	$277,858.64	$324,311.29
2019	$283,415.81	$330,797.51

ORA recommends that the Commission reject SGVWC's AMR project request and instead allow a yearly budget for SGVWC's manual read meter replacement as shown in the table above. Correspondingly, ORA recommends that the Commission reject SGVWC's requested expense of $140,000 for AMR integration (in GO Administrative and General Expenses).

9. Plant F10 East (SGVWC recorded $495,925)

SGVWC has recorded $495,925 in its rate base for site acquisition of a future reservoir.[205] SGVWC states the additional storage is needed to cover storage shortages as a result of reduced maximum operating levels to comply with AWWA's freeboard height criteria.[206]

ORA's supply-demand analysis presented earlier shows that, even at the freeboard-adjusted reservoir capacity, SGVWC's Fontana system has more than adequate

[204] 2015 LA Division Budget = $261,832.40 = $3,927,486 (total cost to replace all meters in the Fontana System) / 15 years (average life expectancy of meters); 2015 Fontana Division Budget = $305,605.77 = $4,584,086 (total cost to replace all meters in the Fontana System) / 15 years (average life expectancy of meters).

[205] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 81-82.

[206] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 82.

existing source supply and storage capacity to handle demand. Therefore, ratepayers should not have to pay for the land acquisition of an unnecessary project.

ORA recommends that the Commission reject this project request and require SGVWC to remove $495,925 from its rate base.

10. Plant F10 West/Plant F56 project in the A.11-07-005 (SGVWC recorded $3,263,365)

SGVWC has recorded $3,263,365 in its rate base for a new well, water storage reservoir, booster station, and related grading, site, street, fence and wall, and landscaping improvements at Plant F10 West.[207] This was previously called the Plant F56 project in SGVWC's A.11-07-005 application and was proposed as a $3,070,000 project. [208]

This project was previously rejected by the City of Fontana based on the decreasing demand in Fontana, the water at the proposed site for the well was likely contaminated, and because the proposed project lacked a treatment facility.[209] The City recommended deferring this project until future demand requires this production and for future projects to include a cost benefit analysis with the needed treatment included.[210] SGVWC in settlement agreed to a reduced scope of the project and for the new F56A well to be drilled and equipped at a reduced cost of $1,000,000.[211] This project was later rejected by D.14-05-001 stating that partial approval of the project makes no sense, and questioned the cost-benefit and contamination of the project.[212] SGVWC states that by

[207] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 81-82.

[208] 2011 SGVWC GRC, Exhibit SG-12, Testimony of Matt Y. Yucelen, p. 19.

[209] Fontana 2011 GRC, Testimony of Michael P. Thornton on behalf of the City of Fontana, dated November 3, 2011, p. 19.

[210] Fontana 2011 GRC, Testimony of Michael P. Thornton on behalf of the City of Fontana, dated November 3, 2011, p. 19.

[211] D.14-05-001, Att 1, Settlement Agreement Between the Division of Ratepayer Advocates and San Gabriel Valley Water Company on Issues Presented in the Present General Rate Case, p. 18.

[212] D.14-05-001, p. 11.

the time the Proposed Decision came out, the facilities were substantially completed so SGVWC continued to finish the project.[213]

Even if SGVWC's claims were true in substantially completing the project by the time the Proposed Decision came out, the completed project itself was a blatant disregard of the project scope and cap set out in the settlement agreement with ORA (which was not entirely adopted.) Again, in the settlement agreement, SGVWC agreed to a project cap of $1,000,000 to drill the well and equip it. But in the completed project SGVWC continued to construction a full plant similar to what it proposed in its application and spent $3,263,365 for the final completed project.

Moreover, ORA's supply-demand analysis overview earlier excludes the capacity of well F56A and new reservoir at Plant F56 but still shows there is more than adequate existing source supply and existing storage capacity to handle demand.

ORA recommends the Commission reject SGVWC's inclusion of Project F10 West's $3,263,365 from rate base, because such inclusion is not in accordance with both the Commission's decision or the spirit of settlement.

F. CONCLUSION

ORA recommends that the Commission adopt ORA's adjustments presented above. They are more consistent with the Commission's Water Action Plan principles for water utilities, apply more reliable data, and are better aimed at providing safe, high quality water, reliable water supplies, and efficient use of water, at reasonable rates, than those proposed by SGVWC.

[213] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 82.

CHAPTER 8 : DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This chapter presents ORA's analyses and recommendations on depreciation. Table 8-1 shows the weighted average accumulated depreciation and amortization for Fiscal Year 2016, Test Year 2017-2018, and Escalation Year 2018-2019.

B. SUMMARY OF RECOMMENDATIONS

San Gabriel requests[214] an average depreciation reserve of $92,983,858 in Year 2016, $108,858,629 in Test Year 2017/18 and $117,348,242 in Escalation Year 2018/19. ORA recommends $94,265,837 in 2016, $110,576,040 in 2017/18 and $118,823,545 in 2018/19.

C. DISCUSSION

ORA has determined the depreciation rates used by the Company are appropriate and have applied those rates to ORA's recommended Plant in determining depreciation expense.

D. CONCLUSION

ORA's depreciation recommendation shown in Table 8-1 has been incorporated in the calculation for ORA's recommended rate base in Table 9-1.

[214] See Table 9B in FWC workpapers (per SGVWC's Initial filing).

Table 8-1: SGVWC - Fontana Division – Depreciation Reserve and Expense

SAN GABRIEL VALLEY WATER COMPANY						
FONTANA WATER COMPANY DIVISION						
ACCUMULATED DEPRECIATION AND EXPENSE						
Test Year 2017-2018 and Escalation year 2018-2019						
	ORA	Utility	ORA	Utility	ORA	Utility
Item	EY 2016		TY 2017-2018		TY 2018-2019	
	(A)	(B)	(C)	(D)	(E)	(F)
	(Dollars in Thousands)					
Depreciation Reserve						
Beginning-of-Year balance	$94,265.8	$92,983.9	$110,576.0	$108,858.6	$118,823.5	$117,348.2
Accruals During Year:						
Clearing Account	$372.6	$372.5	$396.4	$396.4	$410.0	$410.0
Contributions	$815.4	$847.6	$887.7	$887.7	$900.5	$900.5
Depreciation Expense	$7,144.5	$6,903.9	$7,431.1	$7,442.6	$7,639.3	$7,981.9
Subtotal	$8,332.5	$8,123.9	$8,715.2	$8,726.6	$8,949.8	$9,292.4
Less:						
Retirements	$467.7	$467.7	$467.7	$467.7	$467.7	$467.7
Net Additions	$7,864.8	$7,656.2	$8,247.5	$8,258.9	$8,482.1	$8,824.8
End-of-Year Balance	$102,130.6	$100,640.0	$118,823.5	$117,117.4	$127,305.7	$126,173.1
Ratemaking Adjustments	($229.3)	($229.3)		$0.0	($88.7)	($88.7)
Error in Cell C17 of Workpaper FP7	$4,620.5	$4,620.5				
Adjusted EOY Balance	$106,521.8	$104,870.1	$118,823.5	$117,117.5	$127,217.0	$126,084.4
Amortization Reserve						
Beginning-of-Year Balance	$1.2	$1.2	$1.4	$1.4	$1.5	$1.5
Accrual Charges to Expenses	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
End-of-Year Balance	$1.3	$1.3	$1.5	$1.5	$1.6	$1.5
Total Reserves						
Beginning-of-Year Balance	$94,265.8	$92,985.1	$110,577.5	$108,860.0	$118,825.0	$117,349.7
Net Additions	$12,256.0	$11,886.4	$8,476.9	$8,717.6	$8,482.1	$8,736.2
End-of-Year Balance	$106,521.8	$104,871.4	$118,825.0	$117,348.2	$127,307.1	$126,085.9
Use of EOY Reserve as TY Average				($246.7)		($337.5)
Average Reserve Balance	$100,393.8	$98,928.2	$114,701.2	$112,847.41	$123,016.07	$121,380.3
Total Depreciation and Amortization Exp.	$7,144.6	$6,903.9	$7,431.2	$7,442.5	$7,639.4	$7,981.8

CHAPTER 9 : RATEBASE

A. INTRODUCTION

This chapter sets forth ORA's analyses and recommendations regarding rate base. Table 9-1 compares ORA's and SGVWC's estimates. Differences between ORA's recommended amounts and SGVWC's proposed amounts are due to differences in Utility Plant-in-Service additions (Chapter 7), depreciation (Chapter 8), contributions in aid of construction ("CIAC"), and Construction Work in Progress ("CWIP").

B. SUMMARY OF RECOMMENDATIONS

SGVWC requests a weighted average rate base of $167,417,828 for Fiscal Test Year 2016. ORA's estimate is $155,002,441 for Fiscal Test Year 2016. For Test Year 2017-2018 SGVWC requests $178,351,379 and ORA recommends $148,496,280. For Escalation Year 2018-2019 SGVWC requests $195,594,526 and ORA recommends $146,953,661.

C. DISCUSSION

1. Construction Work In Progress - CWIP

SGVWC requests $9,157,600 in Fiscal Year 2016, TY 2017-2018, and Escalation 2018-2019 for CWIP.[215] The five year average of recorded CWIP is $9,186,100.[216] ORA recommends $6,298,900 in Fiscal Year 2016, TY 2017-2018, and Escalation Year 2018-2019. The difference between ORA's and SGVWC's estimates of weighted average CWIP balance is due to ORA's removal of projects that have resided in CWIP for more than three years in the 2015 CWIP balance.

SGVWC's estimate of CWIP for ratemaking purposes is not based on the proposed capital projects in the rate case. Rather SGVWC uses the historic 2015 CWIP balance with ratemaking adjustments.[217]

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[215] SGVWC 2016 GRC Application Update, spreadsheet titled "Copy of FWCworkpapersUPDATE," "Table 8C."

[216] SGVWC 2016 GRC Application Update, spreadsheet titled "Copy of FWCworkpapersUPDATE," "Table 8A."

[217] SGVWC 2016 GRC Application Update, spreadsheet titled "Copy of

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To verify the composition of the 2015 CWIP balance, ORA requested an aging report of the balance from SGVWC.[218] In the aging report, ORA found that there is a significant amount of aged CWIP included in the year-end 2015 CWIP balance. CWIP balances went as far back as 1997 for the Fontana Division.[219] This balance included CWIP that are either more than three years old, cancelled, or deferred projects.[220]

In the past, the Commission has typically allowed water utilities to forecast a CWIP amount to include in rate base. This has been the practice for many years, and follows the recommendation of Commission staff in a May 11, 1982 policy memorandum, that supported the inclusion of CWIP in rate base for water utilities (Staffs' Memorandum on CWIP – included in Figure 9-1, at the end of this chapter). Staff's recommendation was based on CWIP studies that showed water utilities' capital projects require an average of four (4) months to complete. As cited in Staffs' memorandum, the study also revealed that company funded CWIP amounts carried over into a succeeding year represented about 0.4%. Allowing a CWIP forecast in rate base for California's water utilities has therefore been premised upon the short duration of most capital projects undertaken by water companies, and upon the resultant expectation that the amount of CWIP carried over from one year to the next, and the interest earned prior to placing the plant in service, are relatively small.

However, as discussed below, SGVWC's CWIP forecasting is to a certain extent not based on this premise, and accordingly must be adjusted. ORA finds no policy or other justification for permitting SGVWC to carry over the identified projects from CWIP, and SGVWC has offered none.

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FWCworkpapersUPDATE," "Table 8C," cell B36.

[218] ORA DR AL7-006, p. 3.

[219] SGVWC's response to ORA's DR AL7-006, q. 3, "AL7-006 Supplemental ATTACHMENT A."

[220] SGVWC's response to ORA's DR AL7-006, q. 3, "AL7-006 Supplemental ATTACHMENT A." tab "PIVOT."

SGVWC's CWIP contains past projects and associated dollars residing in the CWIP balance that should not be there, in the amount of $2,858,663 or 24.2% of the total 2015 CWIP balance of $11,811,459.[221] See Table 9-2 (at the end of this chapter) for the list of projects that were in CWIP for more than three years. The 2014 and older carryover CWIP balances amounts to $9,505,856 or 2.7% of the 2015 recorded utility plant.[222] These amounts are in rate base and earning the company a return, for a much longer time than envisioned in the above studies. To resolve this issue and to be more consistent with the spirit of CWIP, as outlined in the Staff's Memorandum, ORA removes items aged more than three years from the 2015 CWIP balance in estimating Fiscal Year 2016, TY 2017-2018, and Escalation Year 2018-2019 CWIP balances. ORA's adjustment reduces SGVWC's proposed weighted average CWIP amounts by $2,858,663 per fiscal year.[223] ORA's three year CWIP balance does however, take into consideration SGVWC's long term complex projects' needs.

Based on the above analysis, ORA recommends that the Commission approve a CWIP balance of $6,298,937 in Fiscal Year 2016, TY 2017-2018, and Escalation Year 2018-2019 (see Table 9-3 at the end of this chapter for adjustment to SGVWC's workpaper highlighted in orange).[224]

2. Contributions In Aid of Construction - CIAC

SGVWC proposes $3,310,000 in Fiscal Year 2016, $1,150,000 in TY 2017-2018, and $100,000 in Escalation Year 2018-2019 as the CIAC additions.[225] This estimate is based on secured funding from developers that the Company

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[221] SGVWC's response to ORA's DR AL7-006, q. 3, "AL7-006 Supplemental ATTACHMENT A.," tab "PIVOT."

[222] 2.7% = $9,505,856 (2014 or older CWIP) / $350,380,200 (2015 recorded utility plant).

[223] SGVWC's response to ORA's DR AL7-006, q. 3, "AL7-006 Supplemental ATTACHMENT A.," tab "PIVOT."

[224] $6,298,937 = $9,157,600 (SGVWC's proposed CWIP balance) - $2,858,663 (ORA's recommended adjustment).

[225] SGVWC 2016 GRC Application Update, spreadsheet titled "Copy of FWCworkpapersUPDATE," "Table 10B."

knows it will receive, and only includes $100,000 per year for unanticipated or yet to be secured contribution for the forecasted years.[226]

ORA recommends CIAC additions of $3,729,900 in Fiscal Year 2016, TY 2017-2018, and Escalation Year 2018-2019, based on the five year average of CIAC additions between 2011-2015.[227]

SGVWC's estimate of contributions is too conservative and only forecasts unsecured contributions of $100,000 per year from potential developers. Even the lowest recorded CIAC of $364,300 was higher than SGVWC's forecast for unsecured contributions. This is especially true when SGVWC is anticipating continual development and growth in its Renaissance area service territory. SGVWC states that "[l]and developers are funding construction of new reservoirs, grading and site improvements as contributions because these plant facilities are needed to serve numerous planned Renaissance area developments."[228] The Renaissance Rialto project is expecting to add 505,000 square feet of retail development and 4,000,000 square feet of industrial and warehouse development to the area,[229] and this project is expected to continue until 2030s.[230] Therefore it is unreasonable for SGVWC to forecast such a low CIAC addition in this GRC. SGVWC's proposed $100,000 CIAC addition in 2018-2019 is not even supported by the lowest recorded CIAC addition of the past five years,) which was $364,300 in 2013.[231] In fact, the 2014 CIAC addition quickly rose to $2,749,400, and

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[226] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 96 and 105. $3,210,000 in 2016 for F58 reservoir. $2,100,000 in 2017 for transmission pipeline from Plant F53 to Plant F58.

[227] SGVWC 2016 GRC Application Update, spreadsheet titled "Copy of FWCworkpapersUPDATE," "Table 10A."

[228] SGVWC Exhibit SG-8, Testimony of Matt Y. Yucelen, p. 84.

[229] City of Rialto's "◦Renaissance Specific Plan FAQ's – 2016," http://yourrialto.com/wp-content/uploads/2016/07/FAQ.pdf.

[230] Article by the Daily Bulletin, "How the former Rialto Airport will be developed", dated 2/7/2016, http://www.dailybulletin.com/business/20160207/how-the-former-rialto-airport-will-be-developed.

[231] SGVWC 2016 GRC Application Update, spreadsheet titled "Copy of FWCworkpapersUPDATE," "Table 10A."

subsequently in 2015 to $14,644,800.[232] ORA's use of the five year average to forecast CIAC additions takes into account both years of low growth and accounts for the future development of the Renaissance area in the Fontana Division.

ORA recommends that the Commission approve a CIAC addition of $3,729,900 in Fiscal Year 2016, TY 2017-2018, and Escalation Year 2018-2019 for the Fontana Division (see Table 9-4 at the end of this chapter for adjustment to SGVWC's workpaper highlighted in orange).

3. Working Cash

The following section is prepared by ORA's Income Tax expense witness, Michael Conklin.

To formulate its recommendation, ORA reviewed SGVWC's witness testimony, the related lead-lag study, workpapers and the Commission's Standard Practice U-16W (SP U-16W). SP U-16W describes current practices and serves as a guide to Commission staff in determining the working cash allowance. ORA also conducted limited invoice sampling during the discovery process to substantiate certain elements of SGVWC's lead-lag study.[233]

According to SP U-16W, Working Cash is an allowable component of rate base with the stated purpose of compensating investors "for funds provided by them which are permanently committed to the business for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers and in order to maintain minimum bank balances."[234] For ratemaking purposes, a positive working cash allowance is an addition to rate base, allowing the utility to earn a return on the amount which compensates investors, as directed by SP U-16W.

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[232] SGVWC 2016 GRC Application Update, spreadsheet titled "Copy of FWCworkpapersUPDATE," "Table 10A."

[233] SGVWC's response to Data Request MC8-004.

[234] Standard Practice U-16W, p. 2.

SP U-16W sets forth two different methods for determining working cash allowance depending on the size, nature and operations of the utility: A simplified basis, and a detailed basis. Moreover, SP U-16W states that the detailed basis method, based on a "lead-lag study" should be used for major utilities. As a result, SGVWC submitted details of its lead-lag study used to forecast its TY 2017/2018 working cash allowance.

During its review, ORA noticed what appeared to be an outlier on SGVWC's expense lag workpaper where forecasted water purchases from the San Bernardino Valley Municipal Water District (SBVMWD) were listed as having (800.6) expense lead-lag days. Because the lead-lag days were so high, the impact on working cash appeared to be disproportionate to the overall expense amount.

When ORA requested an explanation for this outlier, SGVWC admitted in its response that "[t]he more appropriate lead-lag days would be the 45.9 lead days."[235] As a result, ORA recommends the Commission adopt 45.9 lead days for forecasted water purchases from the SBVMWD. The impact of this adjustment has the effect of decreasing SGVWC's original application amount for Fontana Division's working cash allowance by $145,900.

D. CONCLUSION

ORA recommends that the Commission adopt the rate base shown in Table 9-1 below, as it reflects ORA's analyses and findings in this report.

[235] SGVWC's response to Data Request MC8-004, p. 3. a.

Table 9-1 SGVWC - Fontana Division – ORA Recommended Average Depreciated Ratebase:

SAN GABRIEL VALLEY WATER COMPANY						
FONTANA WATER COMPANY DIVISION						
Average Depreciated Ratebase						
Test Year 2017-2018 and Escalation year 2018-2019						
	ORA	Utility	ORA	Utility	ORA	Utility
Item	EY 2016		TY 2017-2018		TY 2018-2019	
	(A)	(B)	(C)	(D)	(E)	(F)
	(Dollars in Thousands)					
Utility Plant	$349,333.6	$344,061.6	$360,197.6	$367,877.4	$370,447.2	$392,112.0
Depreciation Reserve	$100,393.8	$98,928.2	$114,630.3	$112,847.1	$123,016.8	$121,358.6
Net Utility Plant	$248,939.8	$245,133.4	$245,567.4	$255,030.3	$247,430.4	$270,753.3
Add:						
Materials and Supplies	$926.7	$941.9	$1,015.3	$1,073.9	$1,068.9	$1,181.7
Operational Cash Req.	$28.0	$28.0	$15.0	$15.0	$15.0	$15.0
Working Cash Allowance	$1,600.0	$1,600.0	$2,426.6	$2,835.7	$2,305.3	$3,039.1
Tax on Advances and Contributions	$1,694.1	$1,694.1	$1,601.6	$1,601.6	$1,539.4	$1,539.4
Water Entitlements - Fontana Union	$2,575.6	$2,575.6	$2,575.6	$2,575.6	$2,575.6	$2,575.6
Net Common Plant Allocation	$9,746.8	$9,702.5	$9,661.5	$10,624.8	$9,478.0	$11,427.0
Subtotal	$16,571.2	$16,542.1	$17,295.6	$18,726.6	$16,982.1	$19,777.9
Less:						
Advances for Construction	$34,689.9	$33,372.1	$32,700.8	$31,610.5	$31,374.8	$30,436.1
Contributions	$39,629.6	$25,434.4	$43,169.9	$27,426.5	$46,005.8	$27,125.2
Accum. Defer. Income Taxes	$35,872.1	$35,134.3	$38,150.2	$36,022.7	$39,713.4	$37,010.5
Deferred I.T.C.	$316.9	$316.9	$345.7	$345.7	$364.9	$364.9
Average Rate Base	$155,002.4	$167,417.8	$148,496.3	$178,351.4	$146,953.7	$195,594.5

Table 9-2 - List of Projects in CWIP for more than three years[236]

Division	Open Yr.	Job# / Work Order #	Part#	Plant#	Project Name / Description	Responsible Party Name	Total
Fontana	1997	4154F	1		INSTALL 1926' OF 8-5/8" GWBR	CITY OF FONTANA	315.52
	2000	FT1591			1-12" DIAMETER METER CONNECTION	CEMEX USA	42,771.00
	2004	4915F	1	F17	INSTALL 130' OF 19-3/8" GWBR	SGV WATER COMPANY	1,267.81
		4931F	1		FONTANA WATER SUPPLY ASSESSMENT	SGV WATER COMPANY	2,386.53
		FT1966			INSTALLATION OF 1" SERVCE	BENIGO CERANO	1,278.54
	2005	4981F	1		INSTALL 92' OF 8-5/8" GWMR	LEWIS INVESTMENT COMPANY, LLC	7,103.68
		5054F	1		FONTANA WATER SUPPLY ASSESSMENT	SGV WATER COMPANY	14,047.48
		J373.00F			TRANSPORTATION EQUIPMENT	SGV WATER COMPANY	35,891.20
	2006	FT2227			CONSTRUCTION	DOUGLAS E BERNHART INC	98.98
	2007	5288F	1		INSTALL 6' OF 21-3/8" GWBR	SGV WATER COMPANY	41,403.84
	2008	5227F	13		INSTALL 840' OF 12-3/4" GWBR	CITY OF FONTANA	97,217.63
			14		INSTALL 2 - 6" FIRE HYDRANTS	CITY OF FONTANA	11,395.69
		5309F	1	F7	SITE IMPROVEMENTS	SGV WATER COMPANY	5,423.34
		5312F	1	F15	CONSTRUCT RESERVOIR F15B	SGV WATER COMPANY	206,346.56
			2	F15	RESERVOIR SITE PREPARATION	SGV WATER COMPANY	165,931.78
			3	F15	INSTALL RESERVOIR PIPING	SGV WATER COMPANY	4,327.44
			6	F15	INSTALL BOOSTER PIPING	SGV WATER COMPANY	221.32
			8	F15	CONSTRUCT BOOSTER BUILDING	SGV WATER COMPANY	10,748.98
			9	F15	INSTALL PLANT F15 TELEMETRY	SGV WATER COMPANY	21.46
			11	F15	CONSTRUCT BLOCK WALL	SGV WATER COMPANY	42,940.06
			12	F15	SITE WORK INCLUDING NEW CURB AND GUTTER, ASPHALT	SGV WATER COMPANY	85,166.83
		5354F	1		INSTALL 1396' OF 12-3/4" GWBR (JURUPA AVE.	SP U.S.OPPORTUNITY 5 JURUPA,LP	127,662.90
			2		INSTALL 4 - 6" FIRE HYDRANTS (JURUPA AVE. E/	SP U.S.OPPORTUNITY 5 JURUPA,LP	20,363.78
			3		INSTALL 1 - 2" COPPER SERVICE (JURUPA AVE. W/BEECH	SP U.S.OPPORTUNITY 5 JURUPA,LP	1,318.87
			4		INSTALL 2 - 2" COPPER LANDSCAPE SERVICES, 1 WITH	SP U.S.OPPORTUNITY 5 JURUPA,LP	2,590.64
			5		INSTALL 1 - 10" DOUBLE DETECTOR CHECK VALVE	SP U.S.OPPORTUNITY 5 JURUPA,LP	17,365.10
			6		UPGRADE 3 - 6" FIRE HYDRANTS #'S 3637F, 3638F	SP U.S.OPPORTUNITY 5 JURUPA,LP	8,076.95
			7		INSTALL 829' OF 12-3/4" GWBR (BEECH AVE. N/ JURUPA	SP U.S.OPPORTUNITY 5 JURUPA,LP	56,036.31
			8		INSTALL 1 - 10" DOUBLE DETECTOR CHECK VALVE	SP U.S.OPPORTUNITY 5 JURUPA,LP	15,189.15
			10		INSTALL 1244' OF 12-3/4" GWBR(BEECH AVE.N/JURUPA)	SP U.S.OPPORTUNITY 5 JURUPA,LP	86,264.32
			11		INSTALL 1 - 10" DOUBLE DETECTOR CHECK VALVE	SP U.S.OPPORTUNITY 5 JURUPA,LP	29,544.12
			12		INSTALL 4 - 6" FIRE HYDRANTS	SP U.S.OPPORTUNITY 5 JURUPA,LP	27,882.68
			13		INSTALL 1 - 2" COPPER SERVICE (JURUPA AVE. W/ELM	SP U.S.OPPORTUNITY 5 JURUPA,LP	1,224.65
			14		INSTALL 2 - 2" COPPER LANDSCAPE SERVICES, 1 WITH	SP U.S.OPPORTUNITY 5 JURUPA,LP	7,916.02
			15		UPGRADE EXISTING 2 - 6" FIRE HYDRANTS #'S 3043F	SP U.S.OPPORTUNITY 5 JURUPA,LP	4,808.47
			17		INSTALL 1 - 10" DOUBLE DETECTOR CHECK VALVE	SP U.S.OPPORTUNITY 5 JURUPA,LP	15,787.87
			18		INSTALL 4 - 6" FIRE HYDRANTS (JURUPA AVE. E/ ELM	SP U.S.OPPORTUNITY 5 JURUPA,LP	24,992.97
			19		INSTALL 1 - 2" COPPER SERVICE (JURUPA AVE. W/	SP U.S.OPPORTUNITY 5 JURUPA,LP	1,928.10
			20		INSTALL 2 - 2" COPPER LANDSCAPE SERVICES, 1 WITH	SP U.S.OPPORTUNITY 5 JURUPA,LP	2,459.69
			21		INSTALL 1 - 10" DOUBLE DETECTOR CHECK VALVE	SP U.S.OPPORTUNITY 5 JURUPA,LP	15,359.65
			22		UPGRADE EXISTING 2 - 6" FIRE HYDRANTS #'S 3041F	SP U.S.OPPORTUNITY 5 JURUPA,LP	4,588.39
			24		INSTALL 1254' OF 12-3/4" GWBR	SP U.S.OPPORTUNITY 5 JURUPA,LP	81,704.77
		FT2499			TEMPORARY SERVICE DUE TO CITY OF FONTANA CYPRESS	CITY OF FONTANA	824.18
	2009	5408F	1		PREPARE WATER ASSESSMENT	CITY OF FONTANA	13,891.76
	2010	5454F	1	F14	INSTALL DISCHARGE STORM DRAIN	SGV WATER COMPANY	390.00
			2	F14	CONSTRUCT BLOCK WALL	SGV WATER COMPANY	1,053.75
		5505F	1		ENGINEERING EVALUATION AND REPORT ON WATER SYSTEM	LEWIS-HILLWOOD RIALTO CO LLC	76,771.61
	2011	5407F	19	F23	INSTALL 1 - 6" FIRE HYDRANT	SGV WATER COMPANY	4,689.88
		5515F	13		INSTALL 1 - 2" COPPER LANDSCAPE SERVICE	CITY OF FONTANA	4,036.75
			14		INSTALL 1 - 2" COPPER LANDSCAPE SERVICE	CALTRANS	3,085.79
		5554F	3	F54	CONSTRUCT WELL BUILDING	SGV WATER COMPANY	18,521.02
			5	F54	INSTALL PIPING - WELL F54A	SGV WATER COMPANY	9,937.24
			6	F54	INSTALL ELECTRICAL - WELL 54A	SGV WATER COMPANY	289,768.99
			7	F54	INSTALL RTU AND CONNECT TO SCADA SYSTEM	SGV WATER COMPANY	581.54
		5555F	8	F10	CONSTRUCT SITE IMPROVEMENTS	SGV WATER COMPANY	24,448.67
			9	F10	CONSTRUCT LANDSCAPING	SGV WATER COMPANY	5,797.59
			10	F10	CONSTRUCT STREET IMPROVEMENTS	SGV WATER COMPANY	135,006.57
		5575F	1	F14	CONSTRUCT DRIVEWAY	SGV WATER COMPANY	3,261.62
		5577F	1	F20	ACQUISITION OF LAND PARCEL	SGV WATER COMPANY	6,492.72
		5578F	3	F53	GRADE SITE	SGV WATER COMPANY	242,232.18
		5611F	2	F59	SITE PREPARATION	SGV WATER COMPANY	130,903.57
			3	F59	GRADE SITE	SGV WATER COMPANY	14,855.17
		5614F	1		PREPARE SYSTEM WIDE INFRASTRUCTURE SECURITY REPORT	SGV WATER COMPANY	94,459.47
	2012	5616F	2	F58	PERMITTING & RELATED WORK	SGV WATER COMPANY	37,803.91
		5659F	1	F26	INSTALL BOWL ASSEMBLY TO WELL F26A	SGV WATER COMPANY	15,134.88
		5678F	1		INSTALL 1950' OF 17-3/8" GWBR	LOCUST & LINDEN FUND IX, LLC	183,871.23
			3		INSTALL 2 - 10" DOUBLE DETECTOR CHECK VALVE	LOCUST & LINDEN FUND IX, LLC	37,237.67
			4		INSTALL 8 - 6" FIRE HYDRANTS #5654F, 5655F, 5656F,	LOCUST & LINDEN FUND IX, LLC	56,268.59
			6		INSTALL 1 - 2" COPPER LANDSCAPE SERVICE	LOCUST & LINDEN FUND IX, LLC	1,208.09
			8		INSTALL 1 - 2" COPPER LANDSCAPE SERVICE WITH	LOCUST & LINDEN FUND IX, LLC	1,188.50
		5679F	1	F49	DESIGN PERCHLORATE TREATMENT FACILITIES	SGV WATER COMPANY	14,664.36
		5686F	1		INSPECT INTERIOR OF 16 WATER STORAGE RESERVOIRS	SGV WATER COMPANY	98,787.48
		5697F	1		INSTALL MAIN	REALTY ASSOCIATES FUND IX LP	186.67
		FT2698			TEMPORARY IRRIGATION SERVICE	CRAWFORD CANYON MUTUAL WTR CO	1,930.32
Fontana Total							2,858,662.84

[236] SGVWC's response to ORA's DR AL7-006, q. 3, "AL7-006 Supplemental ATTACHMENT A.," tab "PIVOT."

Table 9-3 – CWIP adjustment to SGVWC's workpaper Table 8C

	TABLE 8C			
	San Gabriel Valley Water Company			
	Fontana Water Company			
	UTILITY PLANT			
	(Dollars in Thousands)			
	Forecasted Year-End Balances			
Plant Account	**2016**	**2017**	**2018**	**2019**
301 - Organization	$2.3	$2.3	$2.3	$2.3
302 - Franchises	$2.1	$2.1	$2.1	$2.1
303 - Water Rights	$0.0	$0.0	$0.0	$0.0
306 - Land and Land Rights	$6,113.6	$6,112.4	$6,111.3	$6,110.1
315 - Wells	$7,509.5	$7,868.5	$8,227.5	$8,586.6
321 - Pumping Structures	$10,709.7	$11,131.3	$11,112.9	$11,094.5
324 - Pumping Equipment	$39,367.9	$41,447.8	$41,457.7	$41,467.6
331 - Treatment Structures	$4,406.0	$4,521.8	$4,637.6	$4,753.4
332 - Treatment Equipment	$35,127.1	$35,118.1	$35,109.1	$35,100.1
342 - Reservoirs	$17,369.6	$19,334.4	$20,933.2	$20,964.0
343 - Mains	$138,914.8	$142,280.5	$146,346.3	$147,842.1
344 - Fire Mains	$0.8	$0.8	$0.8	$0.8
345 - Services	$40,308.6	$42,233.8	$44,258.9	$46,384.1
345A- Fire Services	$10,912.4	$10,912.4	$10,912.4	$10,912.4
346 - Meters	$312.0	$630.0	$955.0	$1,286.0
348 - Fire Hydrants	$10,527.7	$10,714.9	$10,906.0	$11,101.2
371 - Structures & Improvements	$13,145.9	$13,684.7	$14,683.4	$14,662.2
372 - Office Equipment	$2,693.7	$3,132.0	$3,580.4	$4,018.7
373 - Transportation Equipment	$3,185.0	$3,323.1	$3,393.3	$3,494.4
376 - Communication Equipment	$204.8	$238.3	$271.9	$305.4
378 - Tools & Equipment	$1,174.7	$1,209.5	$1,246.3	$1,285.1
Total Plant in Service	$341,988.2	$353,898.8	$364,148.4	$369,373.0
Construction Work in Progress	$6,298.9	$6,298.9	$6,298.9	$6,298.9
Total	$348,287.0	$360,197.6	$370,447.2	$375,671.8
Additions	($2,093.2)	$11,910.6	$10,249.6	$5,224.6
	Forecasted Average Mid Year Balances			
	Estimated	**Test Year**	**Test Year**	
	2016	**2017**	**2018**	**2019**
Total	$349,333.6	$354,242.3	$365,322.4	$373,059.5
	2015-2016	**2016-2017**	**2017-2018**	**2018-2019**
Additions	$9,110.613	$4,908.705	$11,080.104	$7,737.104

Table 9-4 – CIAC adjustment to SGVWC's workpaper Table 10B

	TABLE 10B		
	San Gabriel Valley Water Company		
	Fontana Water Company		
	ADJUSTMENTS TO UTILITY PLANT		
	(Dollars in Thousands)		
	Estimated 2016	**Test Year 2017-2018**	**Test Year 2018-2019**
Advances for Construction			
Beginning-of-Year Balance	$35,352.9	$33,363.84	$32,037.8
Net Additions	$0.0	$0.0	$0.0
Refunds	($1,326.0)	($1,326.0)	($1,326.0)
End-of-Year Balance	$34,026.9	$32,037.8	$30,711.8
Average Balance	$34,689.9	$32,700.8	$31,374.8
Contributions in Aid of Construction			
Beginning-of-Year Balance	$38,172.4	$41,748.8	$44,591.0
Additions	$3,729.9	$3,729.9	$3,729.9
Depreciation Accrual	($815.4)	($887.7)	($900.5)
End-of-Year Balance	$41,086.9	$44,591.0	$47,420.5
Average Balance	$39,629.6	$43,169.9	$46,005.8

Figure 9-1: Commission Staff's May 11, 1982 Memorandum re. Policy for Including CWIP in Rate Base for Water Utilities

State of California

M E M O R A N D U M

Date : May 11, 1982
(For June 2 Conference)

To : THE COMMISSION

From : M. Abramson, Acting Director, Revenue Requirements Div.
W. R. Ahern, Director, Util. Div.
B. Barkovich, Director, Policy Div.

Subject: Policy for Including CWIP in Rate Base for Water Utilities

RECOMMENDATION: It is recommended that the current policy of including construction work in progress (CWIP) in rate base for water utilities be continued. This should not lead the Commission to endorse a similar policy for energy and telecommunications utilities where construction time often exceeds one year.

SUMMARY: Water utility construction projects require on the average about 4 months to complete. This is a considerably shorter period of time than comparable energy utilities. Approximately 69% of new construction is company funded. New construction approximates 6% of the total plant in service and the amount of company funded CWIP, carried into a succeeding year, is only about 0.4%. Thus the perceived disbenefits of CWIP for ratepayers of (1) reduction in utility risk and thus management efficiency, and (2) intertemporal equity shifts, are minimized for water utilities. The financial benefit of disallowing CWIP in rate base is very small, and would, in the long run, be reduced and made even smaller, by the offsetting revenue requirement increase associated with the interest charges.

DISCUSSION: There are nearly 400 water jurisdictions (companies and districts) under regulation. Because of the inherent difficulty of studying a large number of districts, it was decided that to analyze typical construction projects, a few districts would be chosen as representative of the many systems throughout California. The data came from eight water districts representing

five water companies (see below). The data is from 1980 company records. Our choice was based on readily available data and a desire to include districts of various sizes, water sources and geographical locations.

Name	No. of Customers	County
Asuza Valley Water	15,467	Los Angeles
California American Water Monterey	33,090	Monterey
California Water Service		
East Los Angeles	27,618	Los Angeles
Oroville	3,724	Butte
Selma	3,550	Fresno
South San Francisco	15,395	San Mateo
San Jose Water	187,195	Santa Clara
Southern California Water Calipatria - Niland	1,030	Imperial

Water Utility Construction

Water projects with significant construction periods fall into five major categories: 1) miscellaneous structures, 2) tanks and reservoirs, 3) transmission and distribution mains, 4) treatment facilities and 5) wells. Transmission and distribution mains represent the largest on-going construction projects. Treatment facilities are usually major projects but are infrequently constructed and as a result the dollar impact in any given year is minimal. The average construction time and project costs for 1980 as a percentage of total plant by categories are:

Category	Construction Time	% of Plant
Miscellaneous Structures	3.1 months	1.2%
Tanks and Reservoirs	6.2	.2
Trans. and Distribution Mains	3.9	4.0
Treatment Facilities	8.3	.5
Wells	2.5	.1

2

It should be noted that for each category of plant that: 1) the actual construction time is well under a year and 2) the relative cost when compared to total plant is small. The inference here is that the amount of CWIP carried over from one year to the next and the interest earned prior to placing the plant in service are both relatively small. These points are examined later in the discussion.

Plant additions as a percent of total plant averaged 6% for the eight districts. The amount of contributions-in-aid-of-construction as a percentage of plant additions was 9% and the amount of advances for construction represented 22% of plant additions. Therefore, on the average, the companies funded 69% of the plant additions for the year.

The amount of CWIP at year end as a percentage of total plant additions for the year averaged 10%. Viewed another way, the amount of CWIP at year end was about 0.6% of total plant. It is reasonable to assume that the percentage of year-end CWIP that is company funded would approximate the 69% mentioned previously for plant additions in general. Therefore, any company funded CWIP carry-over into a succeeding year would be about 0.4% (69%x 0.6% = 0.4% approx.) of total plant.

Small Water Utilities Compared to Large Water Utilities

Although this study focuses primarily on Class A water utilities, the results also apply to CWIP inclusion into rate base for the smaller Class B, C and D water utilities. This follows because the types of construction, discussed earlier, are the same for all classes of water utilities. However, the average time to complete construction projects for smaller water utilities would be less, because the projects are smaller. As previously discussed, CWIP carry-over into a succeeding year, the major concern for ratemaking, is minimal for Class A's and would be less for Class B's, C's and D's. A further consideration is the lack of sophistication of many of the smaller water utilities; the burden of adding interest to projects as they are being constructed (i.e., keeping AFUDC accounts), would overwhelm many of them. Therefore, it is concluded that this study applies equally well to all water utilities.

2

Water Utilities Compared With Energy Utilities

To put water utility CWIP in perspective a comparison with energy utility CWIP is useful. Based on 1980 recorded information for the three largest combination electric and gas utilities the most significant fact is that on the average, CWIP carried over from one year to the next approximates 37% of total plant. This compares with the previously mentioned 0.4% for water utilities. This large year to year carry-over for energy utilities is principally due to the tremendous costs and construction times for electric generation facilities. It is the source of widespread concern (and the basis for current Commission policy disallowing CWIP in rate base for other utilities) that placing CWIP in rate base both (1) reduces utility risk and therefore the incentive to minimize costs, and (2) creates intertemporal equity problems (i.e., current ratepayers pay for plant that benefits later ratepayers).

It is interesting to note that even with the large CWIP carry-over, the average plant additions as a percent of total plant for energy utilities is 7% versus the 6% for water. For the gas operations only, the CWIP carry-over approximates 1.7%, a figure more in line with that for water utilities. This similarity is as expected since both use similar plant such as pumping, storage and transmission facilities.

If the Commission continues to allow CWIP in rate base for water utilities it should make clear that this situation does not lead the Commission to endorse a similar policy for energy and telecommunications utilities.

Commission Policy on Water Utility CWIP

An exhaustive search of past Commission decisions on water utility CWIP in rate base yielded very little in the way of a guide on the subject. The few decisions that were found tended to support traditional thinking, which is based on the argument that the short construction times coupled with relatively small amounts in CWIP for most water construction projects does away with the need for interest during construction. Hence, water utility CWIP has and is being placed directly into rate base for ratemaking.

Although interest bearing CWIP is not allowed in the ratemaking rate base, California American Water Company, Citizen Utilities Company, CP National and Pacific Gas and Electric Company at times have booked interest for major construction projects. These projects were not considered for ratemaking until placed into service. Though all of these water utilities have been in for rate increases in the last 5 years, CWIP in rate base has not been an issue.

2

Impact of Denying CWIP

To determine the financial impact of denying CWIP in rate base, two recent rate decisions for California Water Service (Bear Gulch and Hermosa-Redondo) were analyzed. In water utility rate proceedings, rates are designed for 3 years (two test years and an attrition year). Because the analysis herein requires a full summary of earnings, only the two test years were analyzed. The attrition year was not examined because no forecast is made of its summary of earnings. However, the result in the attrition year should approximate that of the second test year. The assumptions used in the analysis were: simple interest at 10% per annum on all company funded construction projects, an average construction time of 4 months per project, and the amount of CWIP funded by the company is 69%.

In the Bear Gulch proceeding, D.93845, dated December 15, 1981, the Commission authorized amounts of $462,600 (or 9.6%) in 1982 and $268,400 (or 5.0%) in 1983. A recalculation of the adopted results, to reflect the denial of CWIP in rate base yields a reduction in gross revenue requirement of $43,600 (or 0.9%) in 1982 and $43,600 (or 0.8%) in 1983.

In the Hermosa-Redondo proceeding, D.820151, dated January 5, 1982, the Commission authorized amounts of $599,500 (or 12.4%) in 1982 and $207,700 (or 3.8%) in 1983. A recalculation of the adopted results to reflect the denial of CWIP in rate base yields a reduction in gross revenue requirements of $25,700 (or 0.5%) in 1982 and $21,800 (or 0.4%) in 1983.

In these two districts, the impact of removing CWIP from the rate base results in an insignificant reduction, less than 1%, in gross revenues for each of the two test years 1982 and 1983. It is understood that the results are unique to these districts. However, given the short duration of the typical water project and the dollar amounts actually financed by the utility it is reasonable to conclude that similar results would be obtained in most water jurisdictions.

One consideration which we cannot, at this time, give a hard figure for, is the long-term impact of the build-up in interest charges if CWIP is disallowed in rate base for ratemaking. This interest will definitely cause the rate base to be larger than it would be if CWIP is allowed. The revenue requirements for this increase in rate base would tend to reduce the already small benefit of disallowing CWIP in rate base.

WF:wp

2

CHAPTER 10 : INCOME TAXES – FONTANA

A. INTRODUCTION

This chapter presents the results of ORA's analysis of SGVWC's Income Tax expenses related to GRC A.16-01-002 for the Fontana Division. For ratemaking purposes, Income Tax expenses consist of the Federal Income Tax (FIT) and California State Income Tax, also referred to as the California Corporate Franchise Tax (CCFT). Income Tax expenses are part of a utility's normal Cost of Service and thus are funded by its ratepayers. Accordingly, this chapter contains ORA's recommendations for the Fontana Division's TY 2017/2018 Income Tax expenses.

ORA's recommendations are based on an analysis of SGVWC's application, testimony, workpapers, and responses to ORA's discovery requests. In addition, ORA reviewed previous Commission rulings, information contained within the IRS Internal Revenue Code (IRC), and information from the California Franchise Tax Board (FTB) when appropriate. The remainder of this chapter consists of a summary of ORA's recommendations, followed by a discussion section that includes the background and rationale for each recommendation.

B. SUMMARY OF RECOMMENDATIONS

ORA recommends the following:

1) Adopt SGVWC's Income Tax rates and its ratemaking interest expense deduction method for calculating TY 2017/2018 Income Tax expense.

2) Adopt ORA's methodology for calculating the IRC Sec. 199 Domestic Production Activities Deduction;

3) Adopt SGVWC's workpaper methodology for implementing the new IRS Tangible Property Regulations (TPR) beginning in TY 2017/2018.

4) Adopt ORA's methodology for forecasting the CCFT expense deduction from FIT in order to calculate FIT expense for TY 2017/2018.

5) Update SGVWC's Deferred Income Tax balances to reflect the extensions of bonus depreciation provided by the Protecting Americans from Tax Hikes Act of 2015 (PATH Act).

C. DISCUSSION

For ratemaking purposes, the Commission's standard methodology for forecasting Federal Income Tax expense is known as "normalization," which entails forecasting depreciation expense for FIT using the straight-line book value method, instead of using an accelerated depreciation schedule. The difference between straight-line book depreciation and real-world accelerated tax depreciation, including any bonus depreciation, gives rise to a balance in Deferred Income Taxes (DIT). For ratemaking purposes, the DIT balance reduces rate base which benefits ratepayers, while outside of ratemaking the utility benefits due to its realization of either a reduced real-world tax liability, or in some cases a refund.

The Commission's standard methodology for forecasting CCFT expense is known as "flow-through," which attempts to forecast the actual real-world CCFT depreciation expense deduction, and thus the tax benefit of the CCFT depreciation expense deduction should "flow-through" straight to ratepayers in the form of reduced CCFT tax expense in the Test Year. Accordingly, CCFT depreciation does not usually result in a DIT balance because there is no material difference between real-world CCFT depreciation and ratemaking CCFT depreciation.

This CCFT flow-through treatment can be contrasted with the "normalization" method for FIT which uses the DIT balance resulting from the difference in depreciation schedules between real-world and ratemaking to capture ratepayer benefits. It is worth noting that despite the intent of the CCFT "flow-through" methodology, it may still be troublesome to capture ratepayer benefits for certain CCFT tax changes when a utility implements them in between rate

cases.[237] For this reason, there are circumstances where CCFT income tax treatments have been subject to normalization treatment.[238]

1. Income Tax Rates and Ratemaking Interest Expense

SGVWC calculates its TY 2017/2018 Income Tax Expense using rates of 8.84% and 35% for CCFT and FIT, respectively. ORA recommends using these rates to forecast Income Tax Expense for TY 2017/2018.

SGVWC calculated a Ratemaking Interest Expense deduction for CCFT and FIT by multiplying the Authorized Weighted Cost of Debt, (based on the most recent Cost of Capital proceeding[239]) by SGVWC's forecasted Weighted Average Rate Base. ORA does not disagree with SGVWC's methodology and any recommended difference in Ratemaking Interest Expense is due to recommended differences by ORA's plant witnesses for forecasted Weighted Average Rate Base.

2. Domestic Production Activities Deduction (DPAD)

The American Jobs Creation Act of 2004 established IRC Section 199, which allows business taxpayers to deduct a certain percentage of qualifying income from taxable income. IRC Section 199 also contains the instructions for the taxpayer applying the DPAD deduction. Since 2009, the DPAD deduction has allowed a deduction amount equivalent to 9% of the lesser of the Qualified Production Activities Income (QPAI) of the taxpayer for the taxable year, or taxable income for the taxable year.[240] The DPAD deduction provides a benefit to utilities and ratepayers in that it reduces taxable income and therefore FIT expense. As a result, the larger the DPAD deduction amount forecasted into rates, the greater the benefit to ratepayers.

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[237] See discussion on New IRS Tangible Property Regulations deduction below.

[238] In GRC A.14-07-006, Golden State Water Company provided workpapers detailing the normalization of CCFT tax treatments for new IRS Tangible Property Repairs Regulations.

[239] D.13-05-027, p. 2, re: SGVWC's A.12-05-001 Cost of Capital Application.

[240] IRC Sec. 199(a).

In A.16-01-002, SGVWC forecasts $220,500 total company-wide DPAD deduction for TY 2017/2018 with an $115,763 deduction allocated to the Fontana Division.[241] Because the Federal Income Tax rate is 35%, this deduction provides an economic benefit to ratepayers of $40,517.[242] SGVWC bases the TY 2017/2018 DPAD deduction forecast on a hard- coded QPAI amount of $7,000,000 multiplied by 9% which should initially result in a companywide $630,000 total DPAD deduction. But SGVWC then multiplies $630,000 by an additional 35% to arrive at $220,500 total company-wide DPAD deduction.[243]

SGVWC provided workpapers to support its $7,000,000 QPAI amount and explained that it "based its estimate of $7,000,000 on the calculated QPAI used in the 2013 U.S. Federal Income Tax Return."[244] However, ORA disagrees with SGVWC's methodology because it contains an inappropriate and unsupported reduction to only 35% of the stated DPAD deduction value.

SGVWC's DPAD methodology is inappropriate because its calculation contains a multiplier that reduces the value of the DPAD deduction to only 35% of the calculated DPAD deduction amount.[245] SGVWC's method of multiplying the DPAD deduction value by 35% quantifies the overall tax dollar savings value of the DPAD deduction, but SGVWC incorrectly uses that dollar savings amount as the DPAD deduction amount itself.

For ratemaking purposes, SGVWC's tax savings value calculation is not useful. The tax savings from the DPAD are only recognized after the *full DPAD deduction amount* reduces the amount of taxable income. Once taxable income is known, only then is the 35% multiplier applied to taxable income in order to forecast the Test Year Income Tax expense. SGVWC applies the 35% multiplier

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[241] SGVWC workpaper "FWCworkpaper, tab FEX20."

[242] $115,763 *35% = $40,517.

[243] Ibid.

[244] SGVWC response to Data Request MC8-001, p. 5.

[245] SGVWC workpaper "FWCWorkpaper" tab FEX20, line 19.

to the DPAD itself before reducing taxable income, which inappropriately reduces the value of the deduction to 35% of its actual value. Table 10.1 below uses SGVWC's QPAI amount to demonstrate the impact of ORA's correction removing the additional 35% multiplier:

TABLE 10.1: Effect of SGVWC's Incorrect Application of 35% Multiplier

	SGVWC (w/incorrect 35%)	SGVWC (w/ORA correction)
Qualified Production Activities Income (QPAI)	$7,000,000	$7,000,000
Percentage of Metered Sales	100.00%	100.00%
Qualified Production Activities Income	$7,000,000	$7,000,000
Applicable Percentage	9%	9%
Federal Income Tax Rate	**35.00%**	**N/A**
Projected Tax Deduction	$220,500	$630,000
Fontana Division DPAD (52.5%)	$115,763	$330,750
Ratepayer Tax Dollar Savings (35%)	**$40,517**	**$115,763**

As Table 10.1 shows, SGVWC's method leaves Fontana with a $115,763 DPAD deduction, with an overall tax dollar savings of $40,517. Even taking 9% of SGVWC's QPAI amount from 2013 should at least result in a DPAD deduction of $330,750 for Fontana, with a tax dollar savings of $115,763.

SGVWC attempted to explain its reduction to 35% of the DPAD value by claiming:

> "Workpapers FEX20 and LEX20 calculate the tax benefit of $220,500. The tax rate paid by San Gabriel is 35% because taxable income exceeds $10,000,000. The 35% does not reduce DPAD but must be used to calculate the income tax benefit."[246]

However, the calculation of $220,500 on workpapers FEX20 and LEX20 is clearly labeled as the "Projected Tax Deduction" and is linked directly to the DPAD deduction amounts on Federal Income Tax expense workpaper 7C-1 and

[246] SGVWC's response to ORA Data Request MC8-002, p. 2. c.

7C-2 that SGVWC uses to determine its revenue requirement. It is entirely incorrect to use a calculated tax benefit amount of a deduction as the amount of the deduction itself when calculating Federal Income Tax expense. The full DPAD deduction amount should be deducted from revenues along with all other deductions and expenses when calculating taxable income.

In addition, it would likely be more accurate to base the DPAD on TY 2017/2018 forecasted revenues and expenses and not 2013 data. However, ORA requested updated TY 2017/2018 DPAD workpapers from SGVWC, and SGVWC responded that "Available forecasted data is insufficient to prepare an accurate forecast of 2017/2018 DPAD."[247] As a result, ORA recommends removing SGVWC's additional 35% factor and applying a composite inflation factor to the 2013 DPAD amount to arrive at $347,982 for TY 2017/2018.[248]

3. New IRS Tangible Property Regulations Deduction

On September 24, 2013, the Treasury Department (Treasury) and IRS issued the final Tangible Property Regulations (TPR) (T.D. 9689). The new 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 a 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.

In this GRC, SGVWC presented testimony and workpapers supporting the implementation of the new TPRs. SGVWC engaged the consulting firm Grant Thornton, LLP to provide the guidance needed to implement the new TPRs and

[247] SGVWC's response to ORA Data Request MC8-002, p. 2. b.

[248] 2013 DPAD amount $330,750 from Table 10-A multiplied by inflation factor 1.0521.

for SGVWC to prepare its federal income tax returns. For ratemaking purposes, implementation of the TPRs should provide two distinct benefits to ratepayers:

1. A one-time retroactive adjustment, known as a Sec. 481(a) adjustment; and

2. Going forward, additional repair items will be tax-expensed, increasing future DIT under normalization rules.

Because under normalization both TPR implementation adjustments increase federal tax depreciation as compared to book depreciation, ratepayers should benefit from the increased balance in the DIT account.

The State of California also recognizes the IRS TPRs and similarly allows for a one-time retroactive Sec. 481(a) adjustment. However, because CCFT expense is normally forecast using a "flow-through" methodology, one-time tax adjustments (and related benefits) implemented by the utility in between GRCs might not be recognized by ratepayers without a specific mechanism in place.

The Commission put the appropriate mechanism in place when it issued Resolution W-4945 directing SGVWC to "fully normalize the effects of the anticipated net tax benefits as they are realized in accordance with the normalization requirements of the Internal Revenue Code."[249] [Emphasis added.] However, according to SGVWC testimony, it did not normalize the Sec. 481(a) one-time adjustment for CCFT.[250] For this reason, ORA is recommending the Commission deny SGVWC recovery of the implementation fees accumulated in the memorandum account authorized by Resolution W-4945. See ORA's discussion on the Tax Repairs Implementation Memorandum Account for more detail. Other than the Sec. 481(a) adjustment for CCFT mentioned above, ORA accepts SGVWC's forecasted implementation of the TPRs.

[249] Resolution W-4945 Finding and Conclusion 5.

[250] SGVWC Testimony of David Batt, p. 23.

4. Timing of CCFT Expense Deduction

The IRS allows a taxpayer to deduct state income tax (CCFT) when calculating its Federal Income Tax liability. At issue in this GRC is the correct determination of the CCFT deduction when forecasting FIT expense in Test Year rates. Because CCFT is a deductible expense for FIT purposes, there is a direct relationship between the deduction and the ratepayer benefit, meaning the smaller the CCFT deduction, the smaller the benefit to ratepayers, and vice versa. The ratemaking question becomes what method should be used to arrive at the correct calculation to forecast the CCFT deduction.

At the crux of the issue is the proper *timing* of the CCFT deduction. There are two main approaches to consider when calculating the proper CCFT expense deduction amount for FIT:

1) Use the currently forecasted Test Year's CCFT amount, or
2) Use a prior-year's CCFT amount (and if it is the prior-year's amount, what the proper method is to determine that amount.[251])

Over recent years, both the "current-year method" and the "prior-year method" have been applied by various entities, including Class A Water Utilities, ORA and the Commission.[252] Because this is an issue that has been considered by the Commission at various times at least as far back as the 1980s[253], the instant proceeding presents an opportunity for the Commission to put the matter to rest.

ORA's research traces the origin of the uncertainty as far back as the 1960s when many states were passing laws to accelerate their income tax collection from early in the year to late in the preceding year. This had the effect of a one-time double deduction for Federal Income Tax purposes, causing Congress to respond by enacting IRC Sec. 461(d) which provides that any action taken by a state taxing jurisdiction after December 31, 1960 to accelerate the accrual of any tax is to be

[251] See detailed discussion in next section below.

[252] For example, D.12-04-009 adopted the current-year method before the matter was allowed a re-hearing and ultimately settled.

[253] D.89-11-058 still stands as the pivotal decision.

disregarded for Federal Income Tax purposes and the taxpayer shall accrue the tax as if the acceleration did not occur.[254] Therefore, when California amended its corporate franchise tax rules in 1972 to accelerate the collection of franchise taxes, according to IRC 461(d), the change (and any subsequent state change) is to be disregarded for federal income tax purposes. The IRS apparently realized clarification was in order for California corporate taxpayers when it issued a Revenue Ruling in 2003:

> "For taxable years on or after January 1, 2000, a taxpayer that uses an accrual method of accounting **incurs a liability for California franchise tax for federal income tax purposes in the taxable year following the taxable year in which the California franchise tax is incurred**."[255] [Emphasis added.]

As a result, it can be concluded that the correct method to forecast the CCFT deduction for TY FIT expense is to use the prior years' CCFT amount.

Determining the Prior Year's CCFT Dollar Amount

Unfortunately, using the prior year's CCFT amount can pose a problem for future Test Year normalized ratemaking since the prior year's CCFT amount may not yet be available when GRC applications are filed and rates are being forecast. For example, when SGVWC filed its GRC application for a TY 2017/2018 rate increase in January of 2016, its Prior Year (2016/2017) CCFT was still uncertain. This uncertainty exists because SGVWC's escalation Advice Letters, where the Commission adopts inflation-based rate increases, wouldn't normally be filed until May 2016, long after the GRC Application is filed.[256]

SGVWC's Methodology

In the current GRC, SGVWC uses a modified prior year method (using 2016). However SGVWC's methodology *uses an internally generated estimate* of a prior year's (2016) CCFT amount to calculate TY 2017/2018 FIT expense

[254] IRC 461(d)(1).

[255] IRS Rev. Rul. 2003-90. http://www.irs.gov/2003-33_IRB/ar10.html.

[256] Under certain circumstances SGVWC may not file for an escalation increase at all.

deduction.[257] SGVWC's 2016 revenue estimate is based on the forecasted 2016 number of customers and sales quantities at the present rates, while the corresponding operating expense deductions are based on internally generated estimates for 2016.

SGVWC's methodology results in a forecasted 2016 CCFT tax refund in Fontana of $334,400 which, instead of a deduction, *actually serves to increase* SGVWC's TY 2017/2018 taxable income and forecasted FIT expense. This is because a CCFT refund is treated as income for Federal Income Tax purposes. However, Fontana ratepayers will not experience a CCFT refund in 2016 because 2016 rates are already adopted and have substantial amounts of CCFT expense (not a refund) forecasted in 2016. SGVWC's method would have ratepayers funding substantial CCFT in 2016 current rates, while then paying Federal Income Tax in 2017/2018 on a refund that ratepayers never received. As discussed in detail below, this is one of several reasons SGVWC's CCFT estimating methodology is inappropriate for forecasting.

SGVWC's justification for its use of an *estimated* 2016 CCFT is a Commission Memorandum dated May 10, 1990 (1990 Memo), and an excerpt from D.10-11-035 regarding a Golden State Water Company (Golden State) GRC.[258] Although the 1990 Memo provided by SGWVC provides an interpretation of how to comply with D.89-11-058, SGWVC's own methodology doesn't even conform to that contained in the 1990 Memo. For example, the 1990 Memo calculates its CCFT based on adopted expenses, while SGVWC uses a prior-year internal forecast of expenses.

More importantly, the 1990 Memo's interpretation of D.89-11-058 is of limited use today because in 1990 the Commission was setting rates under a substantially different Rate Case Plan (RCP) than Class A Water utilities operate under today. Indeed, prior to 2004, the RCP had no mandatory rate case filing

[257] SGVWC Application workpaper "FWCworkpaper," tab 7C-1.

[258] SGVWC's response to ORA Data Request MC8-002, p. 3 A.

cycle, and required two separate and distinct test years for expenses as well as for rate base.

In 2004 the Commission revised the RCP, introducing two major process changes:

1) A requirement for Class A Water Utilities to file general rate case applications every three years, and

2) A single test year and replaced "the second test year, with its account-by-account revenue requirement review, with an inflation-based escalation formula."[259]

In the past, with no set GRC schedule and a different Test Year methodology, a different CCFT deduction methodology may have been more appropriate. Since 2004, Commission-adopted data is easily accessible and relevant, thanks to the three-year imposed filing schedule. In addition, the two escalation year increase filings also provide valuable updates to adopted data that can be used to easily determine the prior year's CCFT ratemaking amount. As a result, for purposes of calculating the modern TY CCFT deduction, the 2004 revised Rate Case Plan has effectively rendered the direction provided by the 1990 Memo obsolete.

SGVWC also provided an excerpt of D.10-11-035 that does little to support its prior-year's CCFT estimation methodology. According to D.10-11-035, Golden State "calculated its anticipated revenues by multiplying its forecasted 2010 water sales by then-current, 2008 tariff rates."[260] First, SGVWC's estimating method does not use forecasted Test Year sales like Golden State, but instead uses estimated 2016 customers, multiplied by 2017/2018 sales quantity per customer, multiplied by currently adopted rates to estimate revenues.

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[259] D.04-06-018, p. 5.

[260] SGVWC's response to ORA Data Request MC8-002, p. 3. A.

More importantly, although D.10-11-035 ultimately ruled in favor of Golden State, the Commission was clear that its reasoning was only due to the necessity of consistency between Golden State's multiple regions":

> "because this proceeding involves only two of Golden State's regions, any changes to the current tax calculation methodology would result in inconsistent treatment among the regions. For that reason we adopt Golden State's Region II CCFT figure of $630,400 for 2010, and negative $210,000 for Region III, but require that this issue be explored in Golden State's upcoming statewide GRC due to be filed in 2011."[261]

Interestingly, although the Commission was constrained to rule in favor of Golden State, it took the time to mention the value of ORA's (DRA) position:

> "[a]n estimate using some actual expense figures is more accurate than a total approximation and therefore we find merit in DRA's position."[262]

ORA's position in D.10-11-035 is similar to the recommendation ORA makes herein, because ORA relies on some actual expense figures (as adopted in recent Advice Letter filings) and this approach is supported by the Commission language cited above. As a result, the Commission should not lend any weight to D.10-11-035 as support for SGVWC's methodology.

SGVWC's methodology is also inappropriate when judged entirely on its own merits. First, SGVWC's calculation of an estimated prior year CCFT requires the presentation of another entire summary of earnings, (in this case for 2016/2017) in addition to the Test Year and Escalation Years required by the Rate Case Plan. This means an additional summary of earnings must be analyzed and vetted by Commission staff in order to determine a single CCFT deduction number in a GRC. This is precisely the type of additional and unnecessary work the 2004 revised RCP was addressing when it instituted a single Test Year.

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[261] D.10-11-035, p. 47. (Not included in SGVWC's excerpt.)

[262] D.10-11-035, p. 47. (Not included in SGVWC's excerpt.)

SGVWC's method effectively tasks the Commission with analyzing two test years and two escalation years for expenses.

SGVWC's estimate also understates revenues by failing to include any surcharge revenues. For example, SGVWC estimates revenues with adopted rates but estimates increased water production expense amounts for 2016. This treatment understates revenue (and taxable income) because water production increases are captured and amortized through a surcharge from SGVWC's water production balancing account.[263] This understated revenue (and taxable income) results in a lower estimated 2016 CCFT deduction amount and an unfairly reduced benefit for ratepayers in TY 2017/2018.

An additional flaw in SGVWC's methodology lies in its inconsistent approach to estimating 2016 revenues and expenses. Although SGVWC estimates 2016 revenues using currently adopted rates, it does not use the 2016 adopted expense amounts that generated those same currently adopted rates. SGVWC's methodology ignores the fact that 2016 adopted rates include amounts for CCFT expense. For example, Fontana's currently adopted rates used by SGVWC to generate its 2016 CCFT estimate were adopted in Advice Letter (AL) 452 (based on the 2014/2015 Escalation Year AL 440-C.)

AL 440-C clearly shows the 2014/2015 Fontana revenue requirement calculation includes $1,067,700 for CCFT expense.[264] Table 10.2 below demonstrates the difference in tax benefits between the amount SGVWC is proposing to use as a deduction for the Fontana Division and ORA's use of the adopted amount of prior year CCFT already in rates.

[263] For example, SGVWC AL 461implements a $.1257 per Ccf surcharge to amortize a $3.9 million undercollection in the Water Production Balancing Account.

[264] SGVWC Advice Letter 440-C, Table 2.

Table 10.2: Comparison of SGVWC's Estimate Vs. Adopted CCFT Expense

SGVWC's Fontana CCFT Expense Deduction		ORA's Fontana CCFT Expense Deduction	
SGVWC's 2016 Estimated CCFT **Refund:**	$334,400	AL 440-C Adopted CCFT Expense:	$1,067,700
Federal Income Tax Rate:	35%	Federal Income Tax Rate	35%
SGVWC 2017/2018 Forecasted Ratepayer Benefit (Detriment):	**$ (117,040)**	ORA 2017/2018 Forecasted Ratepayer Tax Benefit:	**$373,695**

As Table 10.2 above shows, SGVWC's adopted Fontana rates include adopted dollar amounts for CCFT expense. These amounts should produce deductions yielding FIT benefits of $373,695 in Fontana. However, SGVWC's current method results in a FIT *expense increase* (a detriment to ratepayers) in Fontana of $117,040.

ORA Recommended Methodology

ORA recommends basing the CCFT deduction amount on the most recent Commission adopted CCFT amounts. ORA relies on the guidance the Commission set forth in D.89-11-058 which makes clear the CCFT deduction should be based on the most recent Commission adopted amount and not an estimate:

> "The Commission concludes that **ratemaking should reflect the value of the CCFT deduction.** Since the prior-year's CCFT ratemaking amount is now readily available from the **recent Commission adopted records**, flow-through treatment for the CCFT deduction shall be used in setting rates."[265] [Emphasis added.]

From a ratemaking standpoint, the value of the prior year CCFT deduction is best reflected by the most recently adopted CCFT amount, a concept the Commission acknowledged in D.89-11-058. The most recently adopted CCFT amount is the CCFT amount that was used when determining the currently

[265] D.89-11-058, Conclusion of Law #1.

adopted revenue requirement, normally found in a utility's escalation or attrition advice letter filing. This is also the CCFT amount that ratepayers will be funding during the prior year before new rates are adopted. Thus, the most recently adopted CCFT amount is the prior year's CCFT.

SGVWC's prior year's revenue requirement is based on the current 2016/2017 rates that have been adopted through escalation advice letter filings and contain specific CCFT expense amounts. The CCFT expense amounts used to develop SGVWC's 2016/2017 rates and revenue requirement should be the prior year CCFT amounts used to develop the TY 2017/2018 Federal Income Tax CCFT deduction.

ORA's methodology is necessary because it reflects a consistency that SGVWC's estimate lacks. When forecasting ratepayer funded FIT expense for a Test Year, consistency demands that the prior year CCFT deduction also be the ratepayer funded amount. Otherwise SGVWC's ratepayers are unduly burdened by having funded larger amounts of CCFT expense in rates without ever being allowed the benefit of the deduction.

ORA's methodology is also consistent with flow-through treatment of CCFT because the prior-year's adopted amounts were calculated on a flow-through basis. Using this adopted prior year amount appropriately flows through the detriments (in the adopted prior year) as well as the matching deduction benefit (in the TY) of the allowable CCFT deduction.

SGVWC's methodology is inconsistent with flow-through treatment of CCFT because its prior year estimate is based on non-adopted data that has never flowed-through to ratepayers. To illustrate, SGVWC's CCFT estimate forecasts a tax *refund* in 2016 of $334,400 for Fontana. SGVWC's use of this CCFT refund actually increases Fontana's FIT expense in TY 2017/2018, yet no refund has flowed through to ratepayers. On the contrary, Fontana ratepayers funded $1,067,700 in CCFT expense in the prior year.[266]

[266] See AL 440-C and AL 452 for current rates CCFT expense amount.

Because the correct CCFT deduction for ratepayer funded FIT expense is determined to be the prior year's CCFT amount, the correct CCFT deduction in a Test Year should be based on the amount of ratepayer funded CCFT in the prior year. Ratepayer funded CCFT is the amount of CCFT most recently adopted when determining the prior year revenue requirement. It would be inappropriate for the Commission to adopt SGVWC's estimated prior year's CCFT expense amount for ratemaking purposes when the Commission has already adopted (and ratepayers are currently funding) a prior year's CCFT expense amount in rates. Therefore, ORA recommends the Commission adopt its methodology, resulting in a CCFT deduction for FIT expense of $1,067,700 for Fontana in TY 2017/2018.

1. Extension of 168 (k) Bonus Depreciation

On Dec. 18, 2015, Congress passed the Protecting Americans from Tax Hikes (PATH) Act of 2015, which modifies or extends several depreciation-related provisions including bonus depreciation. The PATH Act extends bonus depreciation for property acquired and placed in service during 2015 through 2019. The bonus depreciation percentage is 50 percent for property placed in service during 2015, 2016, and 2017, but then phases down to 40 percent in 2018 and 30 percent in 2019.

Consistent with the Commission's policy of normalizing federal income tax expense, any accelerated depreciation for tax purposes, including bonus depreciation, results in an increase to DIT, which is quantified as a reduction from rate base. As a result, ORA requested that SGVWC update its workpapers to reflect the extension of PATH Act bonus depreciation on DIT. SGVWC responded that it would reflect the extension of PATH bonus depreciation in its April 2016 updated workpapers.[267] On June 14, 2016 SGVWC provided updated workpapers reflecting the extension of PATH Act bonus depreciation.[268]

[267] SGVWC's response to ORA Data Request MC8-002, p. 4.

[268] June 14, 2016 email from Dan Dell'Osa.

ORA recommends incorporating the normalization effects of the extension of bonus depreciation resulting from the PATH Act in SGVWC's current GRC.

D. CONCLUSION

In general, ORA agrees with SGVWC's income tax rates and its methodology for determining its ratemaking interest expense. However, ORA recommends the Commission adopt ORA's methodology for forecasting the DPAD deduction and CCFT expense deduction from FIT. Additionally, ORA recommends that TY 2017/2018 and TY 2018/2019 DIT forecasts incorporate the extension of bonus depreciation according to the terms set forth by the PATH Act. Any remaining differences between SGVWC and ORA for CCFT or FIT expenses are due to differences in recommended revenues, expenses, and rate base.

CHAPTER 11 : TAXES OTHER THAN INCOME- FONTANA

A. INTRODUCTION

This chapter presents the results of ORA's analysis of SGVWCs forecast for Taxes Other Than Income for the Fontana Division contained within SGVWC's GRC A.16-01-002. Taxes Other Than Income consist of Ad Valorem Tax (property tax), Payroll Taxes, and Local Franchise Taxes. ORA's TY 2017/2018 recommendations for Taxes Other Than Income are primarily based on ORA's analysis of SGVWC's responses to data requests, its application testimony, and workpapers that were evaluated against pertinent criteria imposed by statute. When necessary, ORA consulted local taxing authorities as well as the Social Security Administration (SSA).

B. SUMMARY OF RECOMMENDATIONS

ORA recommends the following:

1. Adopt SGVWC's methodology for forecasting ad valorem tax expense, which results in 1.3% of its ad valorem tax base, with additional adjustments made by ORA's plant and rate base witnesses.
2. Adopt ORA's forecast for an Old Age, Survivor, and Disability Insurance (OASDI) wage limit based on more recent updated information from the Social Security Administration.
3. Adopt ORA's recommendation to forecast local franchise taxes net of uncollectibles.

C. DISCUSSION

1. Ad Valorem Taxes

SGVWC estimates its TY 2017/2018 ad valorem tax expense for its Fontana Division by taking its recorded 2015 ad valorem amount and dividing that amount by its calculated "ad valorem tax base" to arrive at 1.267% ratio for 2015. SGVWC then increases this ratio by a 1% multiplier annually to arrive at a weighted average ratio of approximately 1.3% of its ad valorem tax base to forecast its ad valorem tax expense in TY 2017/2018. ORA examined SGVWC's historic trends in the context of its current methodology and does not take issue with its methodology at this time. As such, any

differences in ad valorem tax expenses between SGVWC and ORA are due to differences in forecasted ad valorem tax base items including plant in service and deferred taxes.

2. Payroll Taxes

SGVWC calculates payroll taxes based on forecasted payroll expenses and with one exception, ORA generally agrees with SGVWC's methodology. Payroll taxes consist of Federal Insurance Contribution Act (FICA), Federal Unemployment Tax (FUTA), and State Unemployment Insurance (SUI). FICA taxes include two separate components, Social Security (OASDI) and Medicare. The OASDI, FUTA, and SUI taxes are subject to wage caps, while the Medicare tax rate is applied to total wages. In A.16-01-002, SGVWC uses the following tax rates for its payroll tax calculations:

- OASDI – 6.20% up to the first $124,350 of wages for 2017/2018[269]
- Medicare – 1.45% - applied to all wages
- FUTA – 2.1% up to the first $7,000 of wages
- SUI – 3.3% up to the first $7,000 of wages

For TY 2017/2018, SGVWC applies an OASDI wage cap equal to the first $124,350 of an employee's wages. However, the correct amount for 2016 should be $118,500[270]. SGVWC explains that "[b]ecause the maximum taxable limit for FICA-SSI has increased by an average of $2,340 annually over the last five years, San Gabriel forecasted FICA-SSI taxable limits of $120,840 in 2016, $123,180 in 2017 and $125,520 in 2018.[271]

ORA disagrees with SGVWC's forecast because it predicts a $120,840 wage limit in 2016, when the SSA has already shown the 2016 amount remained at $118,500. ORA recommends beginning with the $118,500 known amount for 2016 and increasing it by

[269] SGVWC General Division Exhibit SG-1, p. 5.1.

[270] https://www.ssa.gov/oact/cola/cbb.html, Web. retrieved 2/25/16.

[271] SGVWC Testimony of Joel Reiker, SG-7, p. 37.

$2,340 annually to reach an average TY 2017/2018 OASDI wage limit amount of $122,020.

Any remaining differences between SGVWC's and ORA's recommended Payroll Tax expense for TY 2017/2018 are due to differences in payroll expense forecasts (see Chapters 5 and 6).

3. Local Franchise Taxes

SGVWC forecasts its local franchise taxes by dividing the sum of five-years of recorded local franchise taxes by the sum of five-years of recorded gross revenues (excluding miscellaneous revenues) from 2011-2015. This method results in a forecasted local franchise rate of 0.6303% for Fontana. SGVWC applies these corresponding tax rates to the forecasted amount of 2016 gross revenues (minus miscellaneous revenues). ORA disagrees with SGVWC's methodology because it does not make an adjustment to reflect uncollected revenues.

ORA recommends applying SGVWC's average local franchise tax rates to gross *revenues (excluding miscellaneous revenues) net of uncollectibles*. ORA's basis for its recommendation is California Public Utilities Code Section 6231(c), which states that payments to municipalities shall be based on "gross annual receipts."[272] Uncollectibles by their nature are not receipts and as such should be removed from the calculation determining local franchise taxes. As a result, for purposes of forecasting local franchise taxes, ORA's methodology removes the dollar amounts from gross revenues associated with SGVWC's uncollectibles, using SGVWC's rate of .2582% of gross revenues for Fontana.

Any other remaining differences between SGVWC's and ORA's local franchise taxes are due to differences in forecasted revenues (see Chapter 2).

[272] California Public Utilities Code § 6231(c).

D. CONCLUSION

ORA requests that the Commission adopt its recommendation for SGVWC's OASDI wage limit and its recommendation to remove uncollectibles from gross revenues for local franchise tax forecasting. Any other remaining differences between SGVWC and ORA's ad valorem, payroll, and franchise taxes are due to difference in recommendations attributable to ORA's plant, expense and payroll witnesses.

CHAPTER 12 : CUSTOMER SERVICE

A. INTRODUCTION

This section provides ORA's analysis and recommendations regarding the customer service processes and procedures employed by the Fontana Division of San Gabriel Valley Water Company ("SGVWC").

B. SUMMARY OF RECOMMENDATIONS

ORA reviewed SGVWC's application, responses to ORA data requests, and data obtained from the Commission's Consumer Affairs Branch ("CAB") to evaluate customer service. Based upon this review ORA found SGVWC's customer service efforts to be acceptable. Notably, as explained in more detail below, SGVWC's records show that the company and CAB received a low number of service complaints in years 2011 – 2015 relative to the number of customers served in those years.

C. DISCUSSION

1. Data received by the Commission's Consumer Affairs Branch ("CAB") from SGVWC's Customers

ORA evaluated data received from CAB's Consumer Information Management System ("CIMS") database for the past five years. The CIMS database includes the following Case Types:

1. Complaints – Include written consumer contacts in which the consumer is protesting or expressing dissatisfaction with an action or practice of the CPUC, or a regulated or non-regulated utility. These include issues that may be outside the purview of CAB to investigate or outside the regulatory authority of the Commission. These issues are not forwarded to the utility company for resolution but handled as a referral to the appropriate utility, CPUC Division, entity, or closed outright with the appropriate letter of explanation.
2. Informal Complaints (IC) – Include written consumer contacts expressing dissatisfaction with, or a dispute with a utility regarding issues within the regulatory authority of the CPUC. These issues are forwarded to the utility company for investigation and response.
3. Phone Contacts – Include all consumer calls in reference to concerns, questions, and complaints related to utility companies. These contacts are no longer coded as complaints, inquiries, etc.

4. Inquiries – Include written consumer contacts requesting facts and information for a situation.

Table 12-1 below presents a summary of SGVWC's customer service complaints, calls, and inquiries received by the Commission's CAB from 2011 through 2015. The majority of the customer data received by the Commission's CAB involved billing. The table also provides the total number of customer service complaints, calls, and inquires expressed as a percentage of total number of customers for each year.

Table 12.1: Summary of SGVWC's Customer Complaints

Case Type	2011	2012	2013	2014	2015
Complaints	24	20	9	2	0
Informal Complaints	0	0	3	3	8
Phone Contacts	0	0	3	7	20
Inquiries	7	0	3	0	1
Total	31	20	18	12	29
No. of customers	44,075	44,156	44,476	44,733	44,999
Total as % of customers	0.07%	0.05%	0.04%	0.03%	0.06%

2. Service Complaints

SGVWC's service complaint records, as presented in Table 12-2, show a significant increase in the total number of service complaints for 2011 and 2015.[273] The majority of these complaints were regarding billing and leaks.

[273] SG-3 – Fontana Division TY2017, at 12-3.

Table 12.2: Historic Number of Customer Complaints[274]

Service Complaints	2011	2012	2013	2014	2015
Taste &Odor	0	0	0	0	0
Turbidity	0	0	0	0	0
Pressure (High or Low)	127	170	113	114	81
Water Quality	17	24	49	52	37
Sand	0	0	0	0	0
Air-Milky-Cloudy	0	0	0	0	0
Bill Inquiries	1798	613	557	883	3370
Leaks, Mains	32	42	62	132	128
Leaks, Services	61	80	60	53	63
Leaks, Hydrants	20	14	24	24	28
Misc. Other Complaints	17	18	22	16	11
TOTAL	2072	961	887	1274	3718

The increase in bill inquiries in 2011 and 2015 was directly attributable to increases in rates/surcharges. When a customer calls with a high bill complaint, SGVWC routinely offers to send a customer service representative to investigate for any leaks and check the customer's meter for accuracy if necessary. In addition, customer service personnel are instructed to educate customers on water conservation measures that can be implemented to reduce their monthly bills.[275]

[274] SGVWC's response to ORA's data request ORA-A.16-01-002: HSM-001, Question 4.

[275] Ibid.

The increase in Leaks-Main was attributed to a distribution main located on Cypress Avenue south of Baseline, which experienced a significant number of breaks/leaks in the last two years, and is now budgeted to be replaced.[276]

3. General Order 103-A Reporting Requirements

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

SGVWC provided the statistics for 2011, 2012, 2013, 2014 and 2015 that SGVWC used to report its annual performance required by GO 103-A and Appendix E.[277] ORA reviewed these reported performance measures and SGVWC's data used to report compliance with the required performance standards.[278] ORA concludes that SGVWC has met the customer service performance standards for all service quality areas as required by GO 103-A.

Listed below is a summary of the Performance Standards required by General Order 103-A[279], Appendix E – Customer Service & Reporting Standards for Class A and B Water Utilities:

1. Telephone – (a) percentage of calls reaching a utility representative within 30 seconds must be greater than or equal to 80%; (b) percentage

[276] Ibid.

[277] SGVWC's response to ORA's data request ORA-A.16-01-002: HSM-001, Question 1.

[278] Ibid

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

of calls abandoned before reaching a utility representative must be less than or equal to 5%.

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

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

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

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

4. Customer Calls to SGVWC

When customers call SGVWC to express a concern with the amount of the water bill, quality of water, or service rendered in general, a Customer Service Representative (CSR) will speak to the customer to ascertain the nature of the concern. Often, the CSR will be able to satisfy the customer over the phone. If the CSR is unable to resolve the matter over the phone, the CSR will schedule an appointment for a Customer Service person to go to the customer's premises to try to understand and resolve the customer's complaint. The Customer Service person goes through a checklist of questions and actions specific to the nature of the complaint (i.e. taste and odor, low pressure, high bill etc.) to determine the cause of the problem. If the cause is determined to be within the company's control, the Customer Service person will initiate action to remedy the situation. Usually, the Customer Service person is able to resolve the customers concern either by a response or by action by the company. In any event, the Customer Service Superintendent or Foreman always follow-up by phone to make sure the customer is satisfied.[280]

[280] SG-3 – Fontana Division TY2017, at 12-3.

The company remains committed to minimizing and continuing to lower the overall number of customer complaints. For example, the company has a proactive water main and service connection replacement program to help prevent leaks and improve water pressure. Also, the company regularly trains its employees in customer service techniques. This is in the form of outside seminars, internal training, and circulated training material. The company's Customer Service representatives have been trained to perform indoor and outdoor Water Audits, including how to advise customers about conserving water and making effective and more efficient use of water both indoors and outdoors.[281]

5. Customer Education

In the last five years, SGVWC has implemented several measures to try to inform and educate its customers about water conservation: (a) High Efficiency Toilets ("HET") Direct Installation for California Alternative Rate for Water Customers; (b) HET Distribution; (c) Commercial, Industrial, and Institutional (CII) Water Use Audit; (d) CII Retrofit; (e) Water Conservation Kits; (f) Single-Family Residential Audits; (g) Gardening Workshop; (h) Single-Family Transformation Pilot Program; and (i) Education/Public outreach.[282]

1. HET Direct Installation for California Alternative Rate for Water Customers – The Company works with Eco'Tech Services Inc. to provide and install a maximum of two HETs to eligible California Alternative Rates for Water Customers.

2. HET Distribution - The Company hired Eco'Tech Services, Inc. to deliver HET to residential customers. Each residential customer is eligible to receive a maximum of two HETs per household and have them installed within one month. After a month, participants of the program are subject to a random inspection.

[281] Ibid at 12-4.

[282] SGVWC's response to ORA's data request ORA-A.16-01-002: HSM-001, Question 2.

3. CII Water Use Audit - The Company offers its CII customers a water audit to identify inefficient indoor water fixtures and outdoor irrigation systems that need to be retrofitted or replaced. Each customer receives a report that describes the needed improvements and resulting estimated water savings.

4. CII Retrofit -- The Company provides financial assistance to CII customers to help offset the cost of implementing the improvements recommended in the CII Audit Reports.

5. Water Conservation Kits - Water conservation kits include 1.5 gallons per minute ("GPM") showerhead, a 1.5 GPM flow dual spray kitchen aerator, and a 1GPM aerator. The kits are distributed to residential and CII customers at the Company's commercial offices, during conservation events and after completion of a residential water audit conducted at the customer's home.

6. Single-Family Residential Audits - The Company offers free water conservation surveys to assist residential customers who are interested in reducing their indoor and outdoor water usage.

7. Gardening Workshop – The Company offers gardening workshops to provide customers with helpful information about efficient landscaping and water use. Participants receive a gardening magazine, irrigation controller, positive shut-off hose nozzles, brochures on water saving tips for outdoor use and information on native California plants.

8. Single-Family Transformation Pilot Program – The Company works in cooperation with Inland Empire Utilities Agency to convert turf area into water efficient landscape in front yards with a minimum 500 square foot and maximum 1000 square foot.

9. Education/Public Outreach - The Company participates in numerous local public events by providing water conservation materials and helping customers become more water efficient.

D. CONCLUSION

ORA recommends that the Commission find SGVWC's customer service to be satisfactory.

CHAPTER 13 :WATER QUALITY

A. INTRODUCTION

This section presents ORA's analysis and recommendations on water quality for the Fontana Water Company Division of San Gabriel Valley Water Company ("SGVWC"). The Fontana Water Company Division serves a population of approximately 45,000 metered service connections in sections of the cities of Fontana, Rancho Cucamonga, Rialto and unincorporated San Bernardino County.

Fontana Water Company's principal source of supply is groundwater produced from thirty-four active wells, including 17 in the Chino Basin, 4 in the Rialto Basin, 10 in the Lytle Basin, and 3 in No Man's Land Basin. The Chino Basin is Fontana Water Company's long-term most reliable source of supply.

Other principal supply sources include local surface water from Lytle Creek, when available, and untreated State Water Project ("SWP") water purchased from the Inland Empire Utilities Agency and San Bernardino Valley Municipal Water District. Local surface water and untreated SWP water are treated at the company's Sandhill Water Treatment Plant ("Sandhill Plant"). Emergency water purchases from Cucamonga Valley Water District are delivered through two existing interconnections.[283]

SGVWC operates its Fontana water system under permits from the State Water Resources Division of Drinking Water ("DDW"), formerly referred to as the California Department of Public Health ("CDPH"). SGVWC's water supply primarily comes from groundwater wells.

In compliance with California Health and Safety Code section 116470, each year SGVWC distributes an annual Water Quality Report, also referred to as a Consumer Confidence Report, to its customers. The report includes information about the source and the quality of the drinking water they received from SGVWC during the previous calendar year. The water quality report also contains information about the previous

[283] SG-5 – Direct testimony of Robert J. DiPrimio, Page 58.

year's water quality monitoring, sample analysis and findings, and other relevant information about the quality of water delivered to customers. Each year SGVWC certifies to the DDW that the Water Quality Report was mailed to all customers of record. SGVWC's Water Quality Reports are posted to their website and also distributed in the lobby of its Fontana commercial offices.

Investor-owned water utilities are required to submit information about water quality as part of each utility's General Rate Case ("GRC") application.[284] In accordance with these requirements, SGVWC submitted water quality information in its response to Minimum Data Requirements ("MDR"). In developing its recommendation for water quality, ORA reviewed SGVWC's testimony, application, work papers, and the most recent DDW inspection reports available for SGVWC's water systems.

B. SUMMARY

Based upon the information SGVWC and DDW provided, the water systems are currently in compliance with the requirements established by DDW and all applicable federal and state drinking water standards.

C. DISCUSSION

The following table lists the systems in the Fontana Water Company Division with the corresponding information on the most recent inspection reports available to ORA and citations by DDW, if any. Where appropriate, ORA discussed the nature of each DDW citation.

Table 13-1: Most Recent DDW Citation for Fontana Divisions

System	DDW Inspection Report	DDW Citation
Fontana	2014	None

[284] *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).

Based upon ORA's review of the information SGVWC and DDW provided, SGVWC did not violate any drinking water regulations since the last GRC. There have been no violations of any Maximum Contaminant Levels ("MCLs"), Action Levels ("ALs") or Treatment Techniques ("TTs").

D. CONCLUSION

Based upon the information SGVWC and DDW provided, SGVWC's water systems in the Fontana Water Company Division have been in compliance with federal and state drinking water standards. Therefore, ORA recommends that the Commission find that SGVWC is in compliance with all applicable federal and state drinking water standards.

CHAPTER 14 : RATE DESIGN

A. INTRODUCTION

Monthly water bills are made up of two parts, the service charge and the volumetric consumption or "quantity charge." The service charge component of the bill remains the same regardless of consumption level, while the "quantity charge" changes based on the amount of water the customer consumes.

Water rate structures play an important role in communicating the value of water to customers and sending the right conservation signals. Water rates set price incentives that promote indoor and outdoor water conservation. The most common conservation rate design is normally comprised of an inclining block or tier rate structure where the per unit price increases as consumption goes up.

In a tier rate structure, the first block (tier) is typically tied to a customer's necessity level of indoor consumption. The second block is designed to capture the customer's reasonable outdoor water consumption. The third block often is a penalty block. Usage above the second block is considered to be wasteful based on reasonable water consumption given the customer's characteristics.[285] Increasing block rates, in which rates increase with usage, provide a financial incentive for customers to reduce water consumption.[286] In other words, customers who use low or average volumes of water are charged a reasonable unit rate, but those using significantly higher volumes pay higher unit prices.

San Gabriel's rate design proposals are based on D.10-04-031, that authorized a pilot two-tier increasing block water conservation rate design for its Fontana and Los Angeles County Divisions effective July 1, 2010.[287] This Chapter presents ORA's analysis and recommendations on San Gabriel's rate design.

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[285] Scott Rubin, National Regulatory Research Institute, What Does Water Really Cost? Rate Design principles for an Era of Supply Shortages, Infrastructure Upgrades, and Enhanced Water Conservation, July 2010.

[286] California Public Utilities, Water Action Plan, December 15, 2005.

[287] D.10-04-031, Decision Authorizing Changes in Rate Design and Rate setting Mechanisms, and

(continued on next page)

1. San Gabriel's Rate Design and Proposed Changes

a. San Gabriel's Rate Design

D.10-04-031, authorized a two-tier water conservation rate design with the following components:

a) Block (tier) water conservation rates are limited to residential classes of consumers;

b) The quantity rate consists of two tiers (without seasonal rates) with a 15% differential between tiers;

c) Quantity rates are calculated with the break point between the tiers at 16 Ccf: Tier 1 (0-16 Ccf per month) and Tier 2 (over 16 Ccf per month);

d) The service charge is designed to recover 27.97% of the total revenue requirement and the quantity-rate is designed to recover 72.03% of the total revenue requirement;

e) A discount of $8 for 5/8" meter, $10 for ¾" meter, and $20 for 1" meter is provided for customers that qualify for the low income program.

For San Gabriel's direct-metered residential customers, D.10-04-031 adopted a two-tier conservation rate design without seasonal rates, with a 15% differential between tiers, as shown in Table 14-1 below. Apartments, trailer parks and any other facility in which residential customers receive service through a master meter are not "direct-metered residential customers." San Gabriel's two-tier rate design was established based on median winter water use, which is an estimate in residential settings of indoor water use that tends to be less discretionary than outdoor water use. This simply means that usage within Tier 2 has larger potential for reduction than Tier 1 in response to a higher price signal.

(continued from previous page)

Denying Motion for Establishment of a Memorandum Account, April 8, 2010.

Table 14-1
San Gabriel's Current Adopted Rate Design

Service Charge	
Residential Meter	
Meter Sizes	To be Determined
Low Income	
Meter Sizes	$8, $10, $20 Discount based on meter size
Quantity Charge	
Number of Tiers	2
Break ccf	0-16/≥17
Percentage Difference	15%
Ratio	
Service Charge	27.97% of Revenue Requirement
Quantity Charge	72.03% of Revenue Requirement

San Gabriel proposes to reduce the proportion of the revenue requirement allocated to quantity rates from the current 72.03%, approved in D.14-05-001, to 70%. San Gabriel's justification for this change is that the Commission (in Phase2 of R.11-11-008) and the California Urban Water Conservation Council ("CUWCC") have been reviewing the 70% target to possibly bring it more in line with actual variable cost ratios. San Gabriel acknowledged that the outcomes of these reviews have not yet been completed but it nevertheless is requesting in this GRC to lower the rate design target to 70%, and has designed its proposed rates accordingly.

ORA disagrees with San Gabriel as its request to change the service charge to quantity charge ratio from the current 28:72 to 30:70 is simply rearguing a decision already made in D.10-04-031. In that decision, the Commission found that San Gabriel's proposed steps toward the minimum CUWCC revenue ratio of 30:70 to be too modest. The Commission further stated that "*the 28:72 ratio, slightly surpassing the CUWCC 30:70 threshold, is "reasonably achievable in one step and will further the water*

conservation objectives of the Commission."[288] The Commission is clear that the use of 28:72 is more appropriate than the 30:70 ratio in San Gabriel's conservation rate design. Equally important, keeping a higher quantity rate ratio is appropriate during today's severe drought situation as it sends a stronger price signal for higher water consumption.

Since the Commission is currently reviewing the modification of the service charge to quantity charge ratio in Phase 2 of R.11-11-008, as is the CUWCC, San Gabriel's proposed change is premature and unnecessary at this time. Accordingly, ORA recommends that San Gabriel maintain and continue to use the current ratio of 28:72, as adopted in D.10-04-031, in order to meet the Commission's water conservation objectives.

b. Allocation of Revenue Shortfall Due to Conservation Rates

In this application, San Gabriel proposes to reallocate any revenue shortfall resulting from the application of conservation rates to all rate schedules, instead of only to the conservation rate schedule FO-1C. Currently, 72.03% of the revenue requirement is allocated to commodity rates as per D.14-05-001. When this revenue falls below the target percentage, the revenue shortfall is reallocated to only the conservation rate Monthly Service Charges provided on rate schedule FO-1C. This results in two different sets of monthly service charges: the conservation rate schedule FO-1C, and the non-conservation rate schedule FO-1. San Gabriel claims that this complicates the rate design process and causes confusion in the billing procedure. Under the proposed procedure, there will be only a single set of monthly service charges applied to both conservation rates and non-conservation rates.

ORA agrees with San Gabriel's proposal to allocate any revenue shortfall resulting from the application of conservation rates to all rate schedules as part of an effort to streamline the rate design process. This change does not have an impact on the revenue requirement.

[288] Page 27 of D.10-04-031

c. Construction Tariffs

San Gabriel currently maintains two construction tariffs for the Fontana Division. These tariffs consist of FO 9C, applicable to temporary water service furnished for construction purposes, and FO 9CL, for water delivered to tank trucks from fire hydrants or other outlets. These schedules contain many fixed charges (e.g., per 100 lineal feet of street curb construction, etc.) which are no longer charged by San Gabriel. These fixed charges do not promote water conservation because the rate charged to customers is not based on the quantity usage. San Gabriel proposes to use Condition 3 of Schedule FO 9C that authorizes it to either estimate or meter the actual water used by the contractor and charge the applicable General Metered Service quantity rate for water sold. San Gabriel also would like to eliminate FO-9CL for service to tract houses during construction and replace it with the same quantity rate language from Condition 3 of Schedule 9C.

San Gabriel's proposal to eliminate both the fixed charges on Schedule 9C and Schedule 9CL with the language from Condition 3 of Schedule 9C will promote water conservation during construction activities. ORA agrees and urges the Commission to approve San Gabriel's proposal.

d. Niagara Bottling Plant

In this GRC, San Gabriel is forecasting the addition of one large industrial customer, Niagara Bottling ("Niagara"). The Niagara facility will consist of a 600,000 square feet bottling and distribution center located in the City of Rialto. Based on Niagara's projected water supply needs, San Gabriel forecasts that water sales to Niagara will be approximately 433,125 Ccf in Estimated Year 2016, and 541,406 Ccf in Test year 2017-2018.

On January 4, 2016, the Fontana Unified School District ("School District") filed a protest to San Gabriel's application, opposing its request for rate increases. Among the issues the School District protested was the addition of Niagara as a customer that would be exporting San Gabriel's precious water resources through its bottled water sales during a time when ratepayers are being asked to conserve water usage. The School District further stated that residential and public institution customers are required to conserve

water while businesses are not. Therefore, it recommends a plan be developed during this proceeding that would limit the use of this shrinking resource so that the commercial customers would share the same responsibility to conserve water as do other ratepayers.

ORA shares the School District's concerns and has investigated what, if any, impact the Niagara addition would have on other San Gabriel ratepayers. What follows is ORA's discussion and findings regarding Niagara.

1. Niagara has paid approximately $4.3 million for the cost of water distribution system infrastructure that includes any offsite facilities required to serve the Niagara facility.

2. Niagara is required to pay a drought surcharge similar to those required by residential, commercial and public authority customers. Unlike residential customers who are exempted from paying a drought surcharge in the first 20 Ccf water usage, all non-residential customers are required to pay a drought surcharge equivalent to 10% of the regular quantity rate for all their water usage. For Niagara, it will be paying approximately $264,000 annual surcharge at full production capacity.

3. The Water Shortage Contingency Plan approved by the Commission and adopted by San Gabriel states that during a drought period, water usage for public health and safety, sanitation, fire protection, and economic purpose should be given high priority. Niagara provides an economic benefit to the community by employing over 100 people and generates tax revenue to the local government.

4. Niagara will be the biggest water user in the San Gabriel service area when it reaches full production capacity. Its water consumption represents 4% of the total water sales in 2017, 4.6% in 2018, and 6.7% in 2019. However, it is also the biggest revenue generator that represents 2.8% of the overall revenue in 2017, 3.3% in 2018, and 4.8% in 2019. Without Niagara as a customer, the revenue requirement would be reduced by $920,100 in Test Year 2017, $1,093,800 in 2018, and $1,556,500 in 2019. The lack of this new revenue stream would result in an increase of $2.26 in 2017, $2.67 in 2018 and $3.93 in 2019 on the monthly bill for the non-CARW residential customer with 5/8" meter using 19 Ccf water.

5. On May 18, 2016, the State Water Resources Board adopted a statewide water conservation approach. It replaced the prior percentage reduction-based water conservation standard with a localized "stress test." This mandates that urban water suppliers ensure they have at least a three year water supply under drought conditions, that are similar to those experienced from 2012 to 2015. Under this mandate, water agencies that would face shortages under three additional dry years will be required to meet a conservation standard equal to the amount of shortages. San Gabriel has performed the "stress test" and has determined that the Water Board's mandatory drought reduction of 28% from the 2013 level is no longer necessary. San Gabriel has adequate water supply to meet its projected water demands based on the stress test requirement[289].

ORA believes the addition of Niagara as a customer in San Gabriel's service area is a net benefit to the other ratepayers based on the reasons discussed above. However, ORA urges San Gabriel to work with Niagara to ensure that it employs best management practices for water conservation at the water bottling facility. If the current drought situation persists for a long period or worsen, the Commission can revisit the issue and determine whether Niagara should be required to have a separate or different rate design due to the nature of its business.

e. Facilities Fees

San Gabriel proposes to increase its facilities fees collected from developers, from the current $5,000 to $7,000 for the 5/8 x 3/4-inch meter. The fee is to pay for additional capacity needed to serve new customers, so that existing customers are not being burdened by the cost of new development. The fee is applicable to all applicants for installation of service connections by the utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises at the customer's request. All fees collected will be recorded in a memorandum account and be credited to Contribution in Aide of Construction (CIAC) at the time the fees are

[289] Joel Riker's email dated May 24, 2016.

spent for additional plants. The current facilities fees have not increased since they were adopted eight years ago in D.07-04-046.

In support of the increase, San Gabriel prepared a study by comparing the Company's current facilities fees applied to standard meter sizes ranging from ¾-inch up to 10-inch, with those from three neighboring water agencies, including private fire service connections. Table 14-2 provides the result of San Gabriel's study.

Table 14-2: Summary of Results of SGVWC's Study---Facilities Fee

Meter Size	City of Rialto	WVWD	CVWD	Avg	San Gabriel Current
3/4"	$7,626	$7,009	$9,116	$7,917	$5,000
1"	$12,622	$11,915	$15,193	$13,243	$6,650
1.5"	$25,244	$23,130	$30,385	$26,253	$10,000
2"	$39,970	$37,150	$48,616	$41,912	$13,350
3"	$76,259	$82,005	$91,156	$83,140	$20,000
4"	$126,221	$140,180	$151,926	$139,442	$26,650
6"	$252,442	$292,275	$303,853	$282,857	$40,000
8"	$399,701	$420,540	$486,164	$435,468	$53,350
10"	N/A	N/A	$729,246	N/A	$66,650
12"	N/A	N/A	N/A	N/A	$80,000
14"	N/A	N/A	N/A	N/A	$93,350
CWVWD= West Valley Water District					
CVWD- Cucamonaga Valley Water District					

Based on the survey of the three neighboring water suppliers, San Gabriel proposes its facilities fees be increased to $7,000 for new service connection of both 5/8-inch and 3/4-inch meters. The facilities fees for the larger size meters will be based on the 5/8 x 3/4-inch meter fee, multiply by the ratios provided by the Commission's Water and Audit Division as adopted in D.07-04-046.

ORA agrees with San Gabriel's request to increase the facilities except the amount should be $8,000, not $7,000 for the 5/8-inch and 3/4 -inch meters based on the average fees charged by three neighboring water suppliers, which is $7,917, as shown in Table 14-3, below. ORA agrees with San Gabriel to use the same ratios in calculating the fees for the larger size meters. The following table provides a comparison of the facilities fees proposed by San Gabriel and those recommended by ORA.

Table 14-3: Comparison for Facilities Fee---SGVWC v. ORA

Service Connection	Current Facilities Fees	Ratio	San Gabriel Proposed Facilities Fees	ORA Proposed Facilities Fees
5/8 x 3/4-inch	$5,000	1	$7,000	$8,000
3/4-inch	$5,000	1	$7,000	$8,000
1-inch	$6,650	1.33	$9,310	$10,640
1.5-inch	$10,000	2	$14,000	$16,000
2-inch	$13,350	2.67	$18,690	$21,360
3-inch	$20,000	4	$28,000	$32,000
4-inch	$26,650	5.33	$37,310	$42,640
6-inch	$40,000	8	$56,000	$64,000
8-inch	$53,350	10.67	$74,690	$85,360
10-inch	$66,650	13.33	$93,310	$106,640
12-inch	$80,000	16	$112,000	$128,000
14-inch	$93,350	18.67	$130,690	$149,360

f. Low Income (CARW) Program

San Gabriel currently provides qualifying CARW customers a fixed amount of subsidy based on the size of the meter. Qualifying Customers with 5/8 x 3/4-inch meter receive an $8 subsidy, $10 for a 3/4 -inch meter, and $20 for a 1-inch meter. The costs associated with the CARW discounts are recovered through the volumetric surcharge to the non-CARW customers. In this GRC, San Gabriel is proposing to increase the smallest benefit from $8 to $10 for the 5/8-inch meter, with a goal of eventually merging the three amounts to a single CARW benefit pursuant to the settlement it reached with ORA in its previous Fontana Division GRC, A.11-07-005, and adopted by the Commission in D.14-05-001.

ORA supports San Gabriel's goal of transitioning from the current benefit based on meter size to a single uniform benefit. Many Class-A water companies serving the Los Angeles area are already doing the same. Table 14-4 below provides a survey of the benefit to the eligible customers offered by other Class-A water companies.

Table 14-4: Summary of Benefits Provided by other Class-A Water Utilities

	Low Income Subsidy Amount	Note
San Gabriel Water	$8- 5/8", $10-3/4", $20-1"	
Suburban Water	$6.50	flat fee regardless of meter size
Golden State Water (Reg 3)	$8.00	flat fee regardless of meter size
Cal Water	$9.75	50% discount on 5/8" service charge
Park Water	$7.06	flat fee regardless of meter size
Cal Am Water (Balwin Hills)	$7.30	20% discount on first 11 ccf water usage regardless of meter size

All water companies in the survey except San Gabriel are currently offering their low income customers a single benefit regardless of meter size. The exception is California Water (Cal Water) where qualifying customers regardless of meter sizes can receive a subsidy equal to 50% of the 5/8" meter service charge, not to exceed $18. As such, San Gabriel's goal of offering a single uniform subsidy regardless of meter size is consistent with the low income programs of other Class A water companies serving Southern California.

The survey result in Table 14-4 also shows San Gabriel's current subsidy amount is relatively generous compared to the other Class-A water companies. Suburban Water Company offers the lowest benefit of $6.50 to its qualifying customers regardless of the meter size. By contrast, the lowest benefit San Gabriel offers to its qualifying customer is $8 for the 5/8-inch meter, with a higher benefit for larger size meters. ORA believes San Gabriel should reduce the subsidy amount, particularly those of the larger size meters, in order to be more in line with other water companies low-income programs.

Currently, the participation level in the CARW program has reached 22,461, or 55.7% of the total single residential customers as of June 2015. San Gabriel is projecting this number to increase slightly to 22,502, or 54.8% in the Test Year 2017/2018. Given

more than half of the customers are eligible to receive the CARW subsidy, the cost of funding the CARW program by the non-CARW customers will be substantial. At San Gabriel's proposed subsidy amount of $10 for 5/8-inch meter, $10 for 3/4-inch, and $20 for 1-inch, the total CARW program cost for Test year 2017/2018 will be $3,581,160. Each non-CARW customer will be paying a surcharge of $0.3476 per Ccf of water usage, an increase of $0.2179 or 168% over the current surcharge of $0.1297 per Ccf. Such a dramatic increase in CARW surcharges is a financial burden to the existing non-CARW residential ratepayers. The Commission must strike a balance between affordability of the low income customers and the cost of funding the program by the remaining non-CARW customers.

For the reasons stated above, ORA recommends that the CARW benefit be adjusted to $9 for all customers regardless of the meter size. Doing so would allow San Gabriel's CARW benefit to be more aligned with the benefit level provided by other Class-A water companies, and at the same time, reduce the cost of the program by $1,150,944 in Test Year 2017/2018. ORA's recommendation also transition San Gabriel's CARW benefit from the current three surcredits based on meter size to one uniform surcredit regardless of meter size pursuant to its settlement with ORA in D.14-05-001.

D. CONCLUSION

For the reasons stated above, ORA recommends that the Commission adopt its recommendations.

CHAPTER 15 : ESCALATION YEARS AND STEP INCREASE

A. INTRODUCTION

This chapter includes ORA's recommendation for SGVWC'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 SGVWC to implement a post-test year revenue requirement mechanism to adjust the escalation years 2018/2019 and 2019/2020 revenue requirement whether SGVWC is over- or under-earning.

B. SUMMARY OF RECOMMENDATIONS

1) For SGVWC's 2018/2019 and 2019/2020 escalation/attrition year filings, the Commission should require SGVWC 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 SGVWC's Application include an Ordering Paragraph containing the following language:

> For escalation years 2018/2019 and 2019/2020, SGVWC shall file Tier 2 advice letters in conformance with General Order 96-B proposing a new revenue requirement and corresponding revised tariff schedule. SGVWC's filings shall include rate procedures set forth in the Commission's Rate Case Plan[290] for Class A Water Utilities and shall include appropriate supporting workpapers. The revised tariff schedules shall take effect no earlier than July 1, 2018 and July 1, 2019, 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

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

> 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

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.[291] However, if the decision for this GRC Application does not require SGVWC to file escalation/attrition year revisions, SGVWC 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. Conceivably, SGVWC may also be able to seek and obtain an escalation year increase only for a Division that is under-earning, while SGVWC taken as a whole might actually be over-earning.

Going forward the Commission should require SGVWC to submit to an earnings test for each of its Divisions before being awarded any Escalation or Attrition Year increases. If SGVWC is over-earning, it should file for the appropriate rate decrease.

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

[291] Adopted in D.04-06-018, and D.07-05-062, respectively.

rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.[292]

ORA recommends that similar language be included in the Commission's decision for SGVWC'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 SGVWC's revenue requirement in 2018/2019 and 2019/2020 regardless of whether SGVWC is over-or under-earning. Table 15-1 below shows the Summaries of Earnings for Escalation Years 2018/2019 and 2019/2020 per ORA's estimates for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letters for step increase.

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

Table 15-1: ORA's Proposed Summaries of Earnings for Escalation Years

Table 15.1			
SAN GABRIEL VALLEY WATER COMPANY			
FONTANA WATER COMPANY DIVISION			
SUMMARY OF EARNINGS (Escalation Year) FOR ILLUSTRATION ONLY			
	ORA		ORA
Item	2018-2019		2019-2020
	(A)		(B)
	(Dollars in Thousands)		
Operating Revenues	66,238.8		68,844.3
Flat Rate Service (604)	1,045.1		1,076.3
Misc. Service Revenue (611 & 61	1.5		488.6
Other Water Revenue (614)	488.6		1.5
Total Revenue	67,774.0		70,410.7
Expenses			
Oper. & Maint. Expense	29,289.3		30,962.9
A&G Expense	4,179.9		4,475.7
Bank Charges [1]	65.7		-
Alloc.Com.Exp.	5,857.3		6,273.6
Taxes Other Than Income	2,336.6		2,398.1
Deprec. Exp.(FWC)	7,431.1		7,847.6
CCFT	1,115.1		1,160.1
FIT	4,888.4		4,819.5
Total Expenses	55,163.5		57,937.4
Net Income	12,610.6		12,473.2
Ratebase	148,496.3		146,953.7
Rate of Return	8.49%		8.49%
1/ Bank Charges for 2019/20 Incl. in Alloc. Com.Exp.			

APPENDIX-A

QUALIFICATIONS OF WITNESSES

QUALIFICATIONS AND PREPARED TESTIMONY
OF
MEHBOOB ASLAM

Q.1. Please state your name and business address.

A.1. My name is Mehboob Aslam. My business address is 320 west 4th Street, Suite 500, Los Angeles, CA 90013.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Utility Engineer.

Q.3. Please briefly describe your educational background and work experience.

A.3. I graduated from the University of Engineering & Technology, Lahore, Pakistan with a Bachelor of Science Degree in Mechanical Engineering, and also graduated from Western Kentucky University with a Master of Science Degree, in Business Administration with an emphasis in Accounting and Finance.

I have been employed by the CPUC since 2001. From 2001 through 2002, I was a member of the Consumer Protection and Safety Division, where I studied energy utilities' operating practices to enforce the rules and regulations relating to the safe use of plant and workforce. I performed engineering reviews and conducted incident investigations for both gas and electric utilities. I have also helped resolve customers' complaints.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am the Project Lead in the San Gabriel Valley Water Company GRC. I am also responsible for evaluating San Gabriel Valley Water Company's Special Request, Chapter 6 in ORA's General Office Report.

Q.5. Does this conclude your prepared testimony?

A.5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
VICTOR CHAN

Q.1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1. My name is Victor Chan and my business address is 320 West 4th Street, Suite 500, Los Angeles, California. I am a Senior Utilities Engineer Specialist in the Water Branch of the Office of Ratepayer Advocates.

Q.2. Please summarize your educational background.

A.2. I graduated from Cal Poly, Pomona with a Bachelor of Science in Mechanical Engineering. I am a registered mechanical engineer with the State of California.

Q.3. Briefly describe your professional experience.

A.3. I have been employed by the Commission since August 1996. From 1996 to 2003, I worked as an utilities engineer for the Transportation and Utility Safety Enforcement Division where I performed safety audits on various gas, electric, telephone and cable utilities. From 2003 to present, I have been working as a Senior Utilities Engineer for the Water Branch of ORA and served as a project manager for general rate cases of various water companies in California.

Q.4. What is your responsibility in this proceeding?

A.4. I am sponsoring testimony in Chapter 2, Water Consumption and Operating Revenue, and Chapter 14, Rate Design, in ORA's Report on the Los Angeles and Fontana Divisions.

Q.5. Does this conclude your prepared direct testimony?

A.5. Yes, it does.

QUALIFICATION AND PREPARED TESTIMONY
OF
JEFFREY ROBERTS

Q.1. Please state your name, business address, and position with the California Public Utilities Commission ("Commission").

A.1. My name is Jeffrey Roberts and my business address is 320 W 4th Street, Los Angeles, CA 90028. I am a Public Utilities Regulatory Analyst (PURA) in the Water Branch of the Office of Ratepayer Advocates (ORA).

Q.2. Please summarize your educational background and professional experience.

A.2. I received a Bachelor of Science Degree in Finance from the Richard Stockton College of New Jersey in 2011. In April of 2013 I joined the Commission, where I worked as a Regulatory Analyst on a variety of assignments including advice letters, application filings, and general rate case proceedings. My experience includes duties as project coordinator for Great Oaks Water Company application for debt issuance (A.14-01-023), analyzing portions of A&G expenses and payroll for the Cal-Am GRC (A.13-07-002), review of payroll, income taxes, and memorandum accounts for the Suburban GRC (A.14-02-004), and the review of sales, revenues, and rate design for the Park Water GRC (A.15-01-001). Prior to my role at the commission; I worked as an analyst preparing investment prospectuses for an early-stage green energy company.

Q.3. What is your responsibility in this proceeding?

A.3. I am responsible for O&M Expenses (Chapter 3); A&G Expenses (Chapter 4); Payroll Forecast (Chapter 5); and Executive Compensation (Chapter 6).

Q.4. Does this conclude your prepared direct testimony?

A.4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
ALEX LAU

Q1. Please state your name, business address, and position with the California Public Utilities Commission ("Commission").

A1. My name is Alex Lau and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Utilities Engineer in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your educational background and professional experience.

A2. I received a Bachelor of Science Degree in Civil and Materials Engineering from the University of California, Davis. I am also a licensed Professional Engineer in Civil Engineering in the State of California.

Prior to joining the Commission, I worked as a project engineer in various structural engineering companies. I joined the Office of Ratepayer Advocates - Water Branch as a Utilities Engineer in February 2013. My experience at the Commission includes sponsoring the report on Safety and Security in proceeding A.12-01-003, Plant in Service in proceeding A.13-07-002, Plant in Service in proceeding A.14-07-006, and Plant in Service in proceeding A.15-07-001.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 7 – Plant in Service; Chapter 8 – Depreciation; and Chapter 9 – Rate base for the Fontana Water Company Division Report.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
MICHAEL CONKLIN

Q.1. Please state your name, business address, and position with the California Public Utilities Commission ("Commission").

A.1. My name is Michael Conklin and my business address is 320 West 4th Street, Los Angeles, California 90013. I am a Financial Examiner IV in the Water Branch of the Office of Ratepayer Advocates.

Q.2. Please summarize your educational background and professional experience.

A.2. I received a Bachelor of Science Degree in Accounting from the City University of New York, Hunter College, graduating with high honors. I also received a Master of Science in Accountancy from San Francisco State University. I am also a licensed CPA in the State of California.

Prior to joining the Commission, I worked as an operations manager on the equity trading floor for Citigroup Global Markets in New York. I joined the Office of Ratepayer Advocates - Water Branch as an Auditor in July 2012. My experience at the Commission includes responsibility for the reports on Affiliate Transactions and Non-Tariffed Products & Services during proceeding A.12-07-007; Taxes and A&G expenses for proceeding A.13-01-003; and General Office and Taxes for proceedings A.13-07-002 and A.14-07-006. I also served as the project coordinator on the General Rate Case A.15-07-001.

Q.3. What is your responsibility in this proceeding?

A.3. I sponsor testimony on Chapter 10- Income Taxes; Chapter 11- Taxes Other Than Income; and Chapter 12- Working Cash. I also sponsor testimony on the Income Tax Repairs Regulation Implementation Memorandum Account.

Q.4. Does this conclude your prepared direct testimony?

A.4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
HANI MOUSSA

Q.1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1. My name is Hani Moussa and my business address is 320 West 4th Street, Suite 500, Los Angeles, California. I am a Program and Project Supervisor in the Water Branch of the Office of Ratepayer Advocates.

Q.2. Please summarize your educational background.

A.2. I graduated from the University of California at San Diego, with a Bachelor of Science Degree in Electrical Engineering. I am a registered electrical engineer in the State of California.

Q.3. Briefly describe your professional experience.

A.3. I have been employed by the Commission for many years and have testified and worked on many proceedings. I have been employed in the ORA Water Branch since 2005.

Q.4. What is your responsibility in this proceeding?

A.4. I am responsible for Customer Service, Chapter 12, and Water Quality, Chapter 13.

Q.5. Does this conclude your prepared direct testimony?

A.5. Yes, it does.