Docket:		A.16-01-002
Exhibit Number	:	ORA-
Commissioner	:	Liane Randolph
Admin. Law Judge	:	Pat Tsen
ORA Project Mgr.	:	Mehboob Aslam
ORA Witnesses	:	Mehboob Aslam
	:	Victor Chan
		Michael Conklin
		Laura Krannawitter
		Hani Moussa
		Jeffrey Roberts

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULT OF OPERATIONS
LOS ANGELES 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

TABLE OF CONTENTS

Pages

MEMORANDUM 1

EXECURTIVE SUMMARY 2

CHAPTER 1 SUMMARY OF EARNINGS 1-1

A. INTRODUCTION 1-1

B. SUMMARY OF RECOMMENDATIONS 1-1

C. DISCUSSION 1-1

D. CONCLUSION 1-1

CHAPTER 2 : WATER CONSUMPTION AND OPERATING REVENUES 2-1

A. INTRODUCTION 2-1

B. SUMMARY OF RECOMMENDATIONS 2-1

C. DISCUSSION 2-2

1. Average Number of Customers 2-2

2. Average Water Consumption per Customer 2-4

a. Residential Single Family 2-5

b. Residential Multi-Family Small 2-7

c. Residential Multi-Family Large 2-8

d. Commercial Small 2-8

e. Commercial-Large 2-9

f. Industrial Small 2-10

g. Industrial Large 2-10

h. Public Authority Small 2-10

i. Public Authority Large 2-10

j. Construction 2-11

3. Total Water Sales and Water Supply 2-11

4. Operating Revenue 2-11

5. Water Loss Rate 2-12

6. Other Revenues 2-13

a. Misc. Service Revenues (Acct. 611) 2-13
b. Rent from Water Property Revenues (Acct. 612) 2-14
c. Other Revenues (Acct. 614) 2-14
D. CONCLUSION 2-17

CHAPTER 3 : O&M EXPENSES 3-1
A. INTRODUCTION 3-1
B. SUMMARY OF RECOMMENDATIONS 3-1
C. DISCUSSION 3-2
1. Operation Expenses 3-3
a. Purchased Water and Assessments 3-3
b. Purchased Power 3-3
c. Purchased Chemicals 3-4
d. Operations – Payroll 3-5
e. Operations – Materials & Supplies – Sub-Account – 02 3-5
f. Operations – Transportation – Sub-Account – 04 3-5
g. Uncollectibles 3-6
h. Operations – Outside Services – Sub-Account – 05 3-6
i. Operations – Utilities & Rents – Sub-Account – 06 3-7
j. Operations – Miscellaneous – Sub-Account – 00 3-7
2. MAINTENANCE EXPENSES 3-10
a. Maintenance – Payroll 3-10
b. Maintenance – Materials & Supplies – Sub-Account – 02 3-11
c. Maintenance – Transportation – Sub-Account – 04 3-11
d. Maintenance – Outside Services – Sub-Account – 05 3-11
e. Maintenance – Utilities & Rents – Sub-Account – 06 3-13
f. Maintenance – Miscellaneous – Sub-Account – 00 3-13
D. CONCLUSION 3-13

CHAPTER 4 : ADMINISTRATIVE & GENERAL EXPENSES 4-1
A. INTRODUCTION 4-1
B. SUMMARY OF RECOMMENDATIONS 4-1
C. DISCUSSION 4-2
1. Administrative & General Expenses 4-3

a. A&G – Payroll 4-3
b. A&G – Materials & Supplies 4-3
c. A&G – Transportation 4-3
d. A&G – Pension & Benefits 4-3
e. A&G – Franchise Fees 4-3
f. A&G – Outside Services 4-3
g. A&G – Injuries & Damages 4-4
h. A&G – Regulatory Commission Expense 4-4
i. A&G – Utilities & Rents 4-9
j. A&G – Miscellaneous Expenses 4-9
k. A&G Expense Transferred 4-9
D. CONCLUSION 4-9

CHAPTER 5 : PAYROLL 5-1
A. INTRODUCTION 5-1
B. SUMMARY OF RECOMMENDATIONS 5-1
C. DISCUSSION 5-1
1. Request Detail 5-3
a. No Positions Hired Between Rate Cases 5-3
b. No Detailed Documentation Provided 5-4
c. Salary Burden on Ratepayers 5-5
d. Company Hired Executive Instead of Employees 5-5
e. Excess Capacity 5-6
f. Lack of Reciprocal Reductions in Expense Workpapers 5-7
Los Angeles Division 5-7
g. Servicemen (2) & Field Assistants (2) 5-7
h. Water Treatment Operator IV (2) 5-9
i. Plant Maintenance Man A&B (2) 5-10
j. Safety Specialist 5-10
k. Project Administrator 5-11
D. CONCLUSION 5-13

CHAPTER 6 : EXECUTIVE COMPENSATION 6-1
A. INTRODUCTION 6-1

B. SUMMARY OF RECOMMENDATIONS 6-1
C. DISCUSSION 6-1
D. CONCLUSION 6-12

CHAPTER 7 : UTILITY PLANT IN SERVICE 7-1
A. INTRODUCTION 7-1
B. SUMMARY OF RECOMMENDATIONS 7-1
C. OVERVIEW 7-2
D. DISCUSSION 7-12
1. Mains/Services 7-12
A. Audit Findings 7-13
i. Authorized vs Spent 7-14
ii. Low leak History 7-14
iii. Water Audit Information 7-15
iv. Main Breaks 7-16
v. Historic Main Replacement Activity 7-16
vi. Percent Main Replacements Due To Leaks 7-18
vii. Leak Maps 7-18
viii. Priority 1 Projects 7-18
ix. Other Pipeline Deficiencies (Old Pipes, Hydraulic Deficiencies) 7-21
x. Coordination Opportunities 7-22
xi. Increasing Cost/lineal foot; Increasing Number of Projects 7-22
2. Reservoir 7-24
a. The skewed nature of the request 7-26
b. Faulty accounting of G6 7-27
c. Prior CPUC Approvals Going Back Four GRC's (History From 2001-2010) 7-27
d. Harper and Associates Analysis of the Condition of Existing Reservoirs 7-29
e. Harper and Associates Estimates to Refurbish 6 Reservoirs 7-29
f. Redundancy as the only way to perform maintenance 7-30
g. Questionable Need 7-31

h. Capital Investment Per Customer of This Request 7-35
3. Treatment 7-36
a. Alternatives not Considered 7-36
b. The Sudden Change in the Perchlorate Treatment Facility Construction Trigger 7-38
c. San Gabriel Basin Water Quality Authority - WQA 7-38
d. USEPA 7-40
e. Department of Drinking Water ("DDW") 7-41
f. Underrepresented contributions 7-42
5. Wells 7-44
a. Need Assessment 7-44
b. Prior CPUC Approvals Going Back 3 GRC Cycles 7-45
c. No Investments 7-45
6. Pumping Equipment and Structures 7-46
a. Faulty Cost/Benefit Analysis 7-48
b. Lease options not explored 7-48
C. Costs for Solar are Decreasing 7-49
D. Energy Savings not Reflected in this GRC 7-49
8. Automated Meter Reading 7-50
9. Contribution Estimates 7-50
a. SGVWC Estimate is Too Low 7-51
b. WQA accounting 7-51
D. CONCLUSION 7-52

CHAPTER 8 : DEPRECIATION RESERVE AND DEPRECIATION EXPENSE 8-1
A. INTRODUCTION 8-1
B. SUMMARY OF RECOMMENDATIONS 8-1
C. DISCUSSION 8-1
D. CONCLUSION 8-1

CHAPTER 9 : RATE BASE 9-1
A. INTRODUCTION 9-1
B. SUMMARY OF RECOMMENDATIONS 9-1

C. DISCUSSION 9-1
1. Construction Work in Progress- CWIP 9-2
2. Contributions in Aid of Construction – CIAC 9-3
3. General Office Allocation 9-4
4. Working Cash 9-4
D. CONCLUSION 9-5

CHAPTER 10 : INCOME TAXES 10-1
A. INTRODUCTION 10-1
B. SUMMARY OF RECOMMENDATIONS 10-1
C. DISCUSSION 10-2
1. Income Tax Rates and Ratemaking Interest Expense 10-3
2. Domestic Production Activities Deduction (DPAD) 10-3
3. New IRS Tangible Property Regulations Deduction 10-6
4. Timing of CCFT Expense Deduction 10-7
5. Extension of 168 (k) Bonus Depreciation 10-15
6. Resolution L-411A Memorandum Account 10-16
D. CONCLUSION 10-17

CHAPTER 11 : TAXES OTHER THAN INCOME 11-1
A. INTRODUCTION 11-1
B. SUMMARY OF RECOMMENDATIONS 11-1
C DISCUSSION 11-1
1. Ad Valorem Taxes 11-1
2. Payroll Taxes 11-2
3. Local Franchise Taxes 11-3
D. CONCLUSION 11-3

CHAPTER 12 : CUSTOMER SERVICE 12-1
A. INTRODUCTION 12-1
B. SUMMARY OF RECOMMENDATIONS 12-1
C. DISCUSSION 12-1
1. Data received by the Commission's Consumer Affairs Branch ("CAB") from SGVWC's Customers 12-1
2. Service Complaints 12-2

3. General Order 103-A Reporting Requirements 12-4
4. Customer Calls to SGVWC 12-5
5. Customer Education 12-6
D. CONCLUSION 12-8

CHAPTER 13 : WATER QUALITY 13-1
A. INTRODUCTION 13-1
B. SUMMARY 13-2
C. DISCUSSION 13-2
D. CONCLUSION 13-3

CHAPTER 14 : RATE DESIGN 14-1
A. INTRODUCTION 14-1
B. SAN GABRIEL'S RATE DESIGN AND PROPOSED CHANGES 14-2
1. San Gabriel's Rate Design 14-2
a) Block (tier) water conservation rates are limited to residential classes of consumers; 14-2
2. Construction Tariffs 14-3
3. O&M Reimbursement Mismatch 14-4
4. Low Income ("CARW") Program 14-5
C. CONCLUSION 14-7

CHAPTER 15 : ESCALATION YEARS AND STEP INCREASE 15-1
A. INTRODUCTION 15-1
B. SUMMARY OF RECOMMENDATIONS 15-1
C. DISCUSSION 15-2
D. CONCLUSION 15-3
APPENDIX A – Qualifications of Witnesses

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 Los Angeles County Division by $14,476,800 or 24.8% in July 2017, $3,599,800 or 5.0% in July 2018, and $4,778, 200 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 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 Los Angeles County ('LA") Division by $14,476,800 or 24.8% in July 2017, $3,599,800 or 5.0% in July 2018, and $4,778, 200 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 $4,116,518 or 6.47% in July2017, $1,134,515 or 1.67% in July2018, and $1,135,679, or 1.65% in July 2019 in SGVWC's Los Angeles County Division.

Key Recommendations

1. Chapter 1- ORA recommends revenue requirement increase of $4,116,518 or 6.47% for Test year 2017/2018.

2. Chapter 2- ORA concurs with SGVWC's estimates for the average number of customers except in the Small Residential Multifamily class. For Test Year 2017-2018, ORA forecasts 47,542 average number of metered customers while the company estimated 47,537. In addition, ORA's total metered sales forecast is 12,357.1 Kccf while SGVWC's is 11,429.5 Kccf for Test Year 2017/2018. ORA's estimated total water supply is 14,230.3 KCcf, while San Gabriel estimates 13,293.6 Kccf. The primary difference is due to different average consumption estimates, as shown in Table 2-9 at the end of Chapter-2.

3. Chapter 3- ORA recommends $32,149,976 as O&M expenses for TY 2017/2018, a reduction of $80,480 from SGVWC's request of $32,230,456.

4. Chapter 4- ORA recommends $4,091,886 as A&G expenses for TY 2017/2018, a reduction of $353,351 from SGVWC's request of $4,445,237.

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 10 new positions in the LA Division.

6. Chapter 6- ORA recommends $1,898,959 as Executive Payroll expenses for TY 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 reduction in executive pay. The adjustment impacts General Office cost allocations to the LA Division.

7. Chapter 7- SGVWC requests company-funded gross plant additions totaling $85,182,000 over the period of 2016-2019. By comparison, ORA recommends $40,694,760. The primary difference between SGVWC's request for the LA Division and ORA's recommendation is because ORA's analysis shows there is sufficient existing water supply to meet customers' demand in the LA Division and that there is a lack of adequate support in SGVWC's filing.

8. Chapter 8- SGVWC requests an average depreciation reserve of $93,209,661 in Transition Year 2016/2017, $103,554,304 in TY 2017/2018 and $110,976,799 in TY 2018/19. ORA recommends $94,369,456 in Transition Year 2016/2017, $105,111,917 in 2017/2018 and $112,582,217 in 2018/2019. The difference is mainly driven by the differences in plant additions discussed in Chapter-7.

9. Chapter-9: SGVWC requests a weighted average rate base of $151,079,678 for Transition Year 2016/2017. ORA's estimate is $141,709,218 for Transition Year 2016/2017. For TY 2017/2018, San Gabriel requests $171,992,338 and ORA recommends $144,883,285. For TY 2018/2019, San Gabriel requests $188,072,301 and ORA recommends $144,965,802. The main difference is due to differences in plant additions and the fact that ORA recommends a reduction of $2,741,700 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 estimates.

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 Los Angeles County 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 agrees with San Gabriel that no change is necessary for its conservation rate design in the current proceeding. The current rate design has been in effect during water usage reductions since 2010. In addition, ORA recommends that the low-income California Alternative Rates for Water ("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 other Class-A water companies provide.

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	Operation & Maintenance (O&M) Expenses	Jeffrey Roberts
4	Administration & general (A&G) Expenses	Jeffrey Roberts
5	Payroll Expense	Jeffrey Roberts
6	Executive Pay	Jeffrey Roberts
7	Utility Plan In Service	Laura Krannawitter
8	Depreciation Reserve and Depreciation Expense	Laura Krannawitter
9	Rate Base	Laura Krannawitter
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

1

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 Los Angeles County ("LA") Division for Test Year 2017/2018 and Escalation Year 2018/2019.

B. SUMMARY OF RECOMMENDATIONS

The Summary of Earnings shown in Table 1.1 and 1.2 at the end of this Chapter compares 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 LA Division are:

Year	Amount of Increase	Percent
Test Year 2017/2018	$14,476,800	24.8%
Escalation Year 2018/2019	$3,599,800	5.0%
Escalation Year 2019/2020	$4,778,200	6.4%

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	$4,116,518	6.47%
Escalation Year 2018/2019	$1,134,515	1.67%
Escalation Year 2019/2020	$1,135,679	1.65%

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	$54,682.5	$50,076.0		($4,606.5)	-8.4%
Flat Rate Service (604)	$1,225.1	$1,274.9		$49.8	4.1%
Misc. Service Revenue (611 & 612)	$15.3	$15.2		($0.1)	-0.7%
Other Water Revenue (614)	$7,698.1	$6,939.3		($758.8)	-9.9%
Total Revenue	$63,621.0	$58,305.4		($5,315.6)	-8.4%
Expenses					
Oper. & Maint. Expense	$32,147.6	$31,499.8		($647.7)	-2.0%
A&G Expense	$4,091.9	$4,195.7		$103.8	2.5%
Bank Charges	$62.2	$70.1		$7.9	12.6%
Alloc.Com.Exp.	$5,685.1	$6,623.0		$937.9	16.5%
Taxes Other Than Income	$2,150.6	$2,490.9		$340.3	15.8%
Deprec. Exp.(LA)	$5,474.8	$5,630.8		$156.1	2.9%
CCFT	$735.1	$37.9		($697.2)	-94.8%
FIT	$3,353.0	$1,194.8		($2,158.2)	-64.4%
Total Expenses	$53,700.2	$51,743.0		($1,957.2)	-3.6%
Net Income	$9,920.8	$6,562.4		($3,358.4)	-33.9%
Ratebase	$144,883.3	$171,992.4		$27,109.2	18.7%
Rate of Return	6.85%	3.82%		-3.03%	-44.3%

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	$58,734.4	$64,422.2		$5,687.8	9.7%
Flat Rate Service (604)	$1,289.7	$1,406.2		$116.4	9.0%
Misc. Service Revenue (611 & 612)	$93.2	$15.2		($78.0)	-83.7%
Other Water Revenue (614)	$7,620.2	$6,939.3		($680.9)	-8.9%
Total Revenue	$67,737.5	$72,782.8		$5,045.3	7.4%
Expenses					
Oper. & Maint. Expense	$32,152.2	$31,499.8		($652.3)	-2.0%
A&G Expense	$4,133.1	$4,357.2		$224.2	5.4%
Bank Charges	$62.2	$70.1		$7.9	12.6%
Alloc.Com.Exp.	$5,685.1	$6,623.0		$937.8	16.5%
Taxes Other Than Income	$2,150.6	$2,490.9		$340.3	15.8%
Deprec. Exp.(LA)	$5,474.8	$5,630.8		$156.1	2.9%
CCFT	$1,095.1	$1,303.3		$208.2	19.0%
FIT	$4,687.5	$6,205.5		$1,518.0	32.4%
Total Expenses	$55,440.5	$58,180.8		$2,740.3	4.9%
Net Income	$12,297.0	$14,602.1		$2,305.1	18.7%
Ratebase	$144,883.3	$171,992.4		$27,109.2	18.7%
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 Test Year 2017-2018 for San Gabriel's Los Angeles 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 Los Angeles Division includes portions of the cities of Arcadia, Baldwin Park, El Monte, Industry, Irwindale, La Puente, Montebello, Monterey Park, Pico Rivera, Rosemead, San Gabriel, Santa Fe Springs, South El Monte, West Covina, and Whittier as well as adjacent unincorporated territory in the County of Los Angeles.

B. SUMMARY OF RECOMMENDATIONS

Tables 2-6 through 2-9 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 San Gabriel's proposed rates. ORA concurs with San Gabriel's estimates for the average number of customers except in the Small Residential Multifamily class. For Test Year 2017-2018, ORA forecasts 47,542 as an average number of metered customers while the company estimated 47,537.

ORA's total metered sales forecast is 12,357.1 Kccf while San Gabriel's is 11,429.5 Kccf for Test Year 2017-2018. ORA forecasts 6.02% for unaccounted for water compared to San Gabriel's 6.5%. ORA's estimated total water supply is 14,230.3 KCcf, while San Gabriel estimates 13,293.6 Kccf. The primary difference is due to different average consumption estimates, as shown in Table 2-9.

At utility present rates, ORA's calculated total operating revenues for the Test Year are $63,621,021 and San Gabriel's are $58,305,400. At the utility proposed rates, ORA's calculated revenues are $67,737,530 and San Gabriel's are $72,782,790. The

difference in operating revenues estimated is due to San Gabriel's update of its workpapers, difference in customer and water loss estimates as well as ORA estimating different sales forecasts per customer.

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 limitation on the number of customers, then an adjustment to the five-year average will be made.[1]

With the exception of the Recycled Water class and the Construction class in the Los Angeles Division, 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. ORA agrees with San Gabriel's estimate except for the Small Residential Multi-Family class. For this class of customer, San Gabriel forecasted 2,994 customers based on the average annual growth rate of negative six customers per year.

However, a negative growth rate in this customer class is abnormal because every other class of customers except Small Residential Multi-Family and Construction have either zero or positive average annual growth. For the Construction class, the growth is a loss of two customers per year based on the average five year growth from 2010 to 2015. San Gabriel claimed that such negative annual growth "*does not produce a customer*

count that is representative of the number of Construction customers San Gabriel is likely to serve going forward"[2]. San Gabriel therefore decided to forecast the number of customers for Construction based on the simple 5-year average, rather than 5-year average annual growth as shown in Table 2-1.

Table 2.1: SGVWC's Historic Customer Growth

	2010	2011	2012	2013	2014	2015		5-yr avg growth		5-yr avg
Residential - Multi-Family - Small	3,033	3,001	2,991	2,984	2,977	3,005		-6		2,999
Construction[1]	26	23	22	24	22	16		-2		22

Similar to the rationale San Gabriel used in the Construction class estimate, San Gabriel's forecast for the Small Residential Multi-Family class is not representative of what is likely to be served in the Test year. This is further supported by a study from the Los Angeles Economic Development Corporation ("LAEDC"), a private, non-profit organization that performed an analysis on the economic outlook for the San Gabriel Valley in 2015, which stated that "*with home prices continuing to rise and improving consumer fundamentals, the pace of new home building is expected to gain momentum over the next several years*".[3]

ORA, therefore, recommends 2,999 customers for the Small Residential Multi-Family Class in Test Year 2017-2018 based on 5-year average, as opposed to 2,994 forecasted by San Gabriel.

(continued from previous page)

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

[2] SG-7, pp. 10-11.

[3] San Gabriel Economic Forecast and Regional Overview, April 2015, p. 28.

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-2", Supplement to Standard Practice No. U-25," and the improvements adopted in D.07-05-062, the Revised Rate Case Plan ("RRCP").[4]

San Gabriel applied the New Committee Method with the following improvement: 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 for all customer classes on the New Committee Method, except for the Large Commercial, Small Public Authority, and Construction classes. For Large Commercial class, San Gabriel used the recorded 2013-2014 average consumption, reduced by 16%, to arrive at the Test Year 2017-2018 average consumption. For both Small Public Authority and Construction classes, San Gabriel used 2015 recorded average consumption as the Test Year forecast.

San Gabriel made additional changes to the revised RCP requirement by applying the regression analysis to the two escalation years for the following classes of customers: 1) Residential Single Family, 2) Small Residential Multi-Family, 3) Large Residential Multi-Family, and 4) Small Commercial. San Gabriel believes this departure from the revised RCP requirement is needed because on April 1, 2015, the Governor issued Executive Order B-29-15 imposing restrictions to achieve a 25% statewide reduction in water use. For San Gabriel's Los Angeles Division, the State Water Resources Control Board's ("Water Boards") mandated that the Division must achieve water use reduction by 16%. Given such drought restriction requirement, San Gabriel believes the average customer usage in the above four classes will continue to decline[5]. It therefore has applied the regression analysis to the entire three years of this rate case cycle, as opposed

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

[5] Page 16 of Exhibit SG-7 (Joel Reiker Testimony)

to just the Test Year the revised RCP required. The following Table 2.2 summarizes San Gabriel's forecasting methodology for each class of customers.

Table 2.2: Summary of SGVWC's Forecasting Methodologies

Customer Classes		Forecasting Methology
Residential Single Family		N.C. Method thru 2019/2020
Residential Multi-Family Small		N.C. Method thru 2019/2020
Residential Multi-Family Large		N.C. Method thru 2019/2020
Commercial Small		N.C. Method thru 2019/2020
Commercial Large		Recorded 2013/2014 Sales/Cust. Reduced by 16%
Industrial Small		N.C. Method - 2016 Estimate
Industrial Large		N.C. Method - 2016 Estimate
Public Authority Small		Actual Per Cust. Usage - 12 Mos. Ending Nov. '15

Following are ORA's discussion of average consumption for each class of customers.

a. Residential Single Family

San Gabriel's consumption per customer estimate for Residential Single-Family is 141 ccf for 2017/2018. This estimate is based on the regression analysis or the New Committee Method, using a ten-year span of data ending June 2015, which produced the most reasonable statistical results. San Gabriel also applied the New Committee Method to its forecast for the subsequent two escalation years, 2018/2019, and 2019/2020, stating that "*relying on the regression forecast for each of the Escalation Years, rather than that for the Test Year, to forecast sales in the Escalation Years is consistent with the assumption that per customer sales will continue to decline.*"[6]

While ORA agrees with San Gabriel on the forecasted Test Year average consumption, it disagrees with San Gabriel's methodology of applying the New Committee Method to the subsequent two escalation years. Page A-20, Appendix A, of the revised RCP requires that "*Estimate sales for the escalation years for the residential,*

[6] Page 12-13 of Exhibit SG-7.

multifamily, and business classes by multiplying the number of customers for each escalation year by the test year sales per customer. Use the test year sales for all other customer classes for both escalation year *(underline added)*". The revised RCP is very clear that both the Utilities and ORA need to use the New Committee Method for the test year forecast and apply the same result to the two escalation years. San Gabriel's methodology is inconsistent with the revised RCP.

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

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. San Gabriel's claim that customers will continue to reduce water usage in escalation years is therefore not supported by its compliance filing to Resolution W-5103.

For the above reasons, ORA recommends 141 Ccf average water usage per customer for Test Year 2017/2018, Escalation Years 2018/2019 and 2019/2020 as compared to San Gabriel's 141 Ccf, 134.06 Ccf and 127.35 Ccf, respectively. The Commission should reject San Gabriel's forecast for the escalation years because San Gabriel did not follow the revised RCP's the requirements.

b. Residential Multi-Family Small

San Gabriel's consumption per customer estimate for Residential Multi-Family Small is 459 Ccf for 2017/2018. This estimate is based on the New Committee Method, using ten-year span of data ending June 2015, which produced the most reasonable statistical results. San Gabriel also applied the New Committee Method to its forecast for the subsequent two escalation years, 2018/2019, and 2019/2020, stating that "*relying on the regression forecast for each of the Escalation Years, rather than that for the Test Year, to forecast sales in the Escalation Years is consistent with the assumption that per customer sales will continue to decline.*"[7]

[7] Page 12-13 of Exhibit SG-7.

For the same reasons ORA discussed in Residential Single-Family forecast, ORA recommends 459 Ccf average water usage per customer for Test Year 2017/2018, Escalation Years 2018/2019 and 2019/2020 as compared to San Gabriel's 459 Ccf, 441 Ccf and 423 Ccf, respectively.

c. Residential Multi-Family Large

San Gabriel's consumption per customer estimate for Residential Multi-Family Large is 3,445 Ccf for 2017/2018. This estimate is based on the New Committee Method, using ten-year span of data ending June 2015, which produced the most reasonable statistical results. San Gabriel also applied the New Committee Method to its forecast for the subsequent two escalation years, 2018/2019, and 2019/2020, stating that "*relying on the regression forecast for each of the Escalation Years, rather than that for the Test Year, to forecast sales in the Escalation Years is consistent with the assumption that per customer sales will continue to decline.*"[8]

For the same reasons ORA discussed in Residential Single-Family forecast, ORA recommends 3,445 Ccf average water usage per customer for Test Year 2017/2018, Escalation Years 2018/2019 and 2019/2020 as compared to San Gabriel's 3,445 Ccf, 3,292, Ccf and 3,140 Ccf, respectively.

d. Commercial Small

San Gabriel's consumption per customer estimate for Commercial Small is 221 Ccf for 2017/2018. This estimate is based on the New Committee Method, using a ten-year span of data ending June 2015, which produced the most reasonable statistical results. San Gabriel also applied the New Committee Method to its forecast for the subsequent two escalation years, 2018/2019, and 2019/2020, stating that "*relying on the regression forecast for each of the Escalation Years, rather than that for the Test Year, to*

[8] Page 12-13 of Exhibit SG-7.

forecast sales in the Escalation Years is consistent with the assumption that per customer sales will continue to decline."[9]

For the same reasons ORA discussed in its Residential Single-Family forecast, ORA recommends 221 Ccf average water usage per customer for Test Year 2017/2018, Escalation Years 2018/2019 and 2019/2020 as compared to San Gabriel's 211 Ccf, 211 Ccf and 200 Ccf, respectively.

e. Commercial-Large

San Gabriel's consumption per customer estimate for Commercial Large is 4,294 Ccf for 2017/2018. This estimate is based on a reduction of 16% from its recorded 2013/2014 usage due to the mandatory drought mandate the Water Resources Board imposed in 2015. San Gabriel then applied the Test Year result to both of the escalation years.

ORA disagrees with San Gabriel's forecast methodology for the Test Year 2017/2018. San Gabriel has self-certified and determined that it has enough water supplies by assuming three additional dry years with the same level of precipitation from 2013 to 2015. It is no-longer required to impose mandatory conservation measures on its customers. However, San Gabriel's methodology failed to reflect such recent development.

ORA believes the use of the New Committee method is a more appropriate forecasting methodology because large commercial class customers share similar water consumption characteristics as small commercial class customers. As such, ORA recommends 5,412 Ccf average water usage per customer for Test Year 2017/2018, Escalation Years 2018/2019 and 2019/2020 as compared to San Gabriel's 4,294 Ccf for the same years.

[9] Page 12-13 of Exhibit SG-7.

f. Industrial Small

San Gabriel's consumption per customer estimate for Industrial Small is 517 Ccf for 2017/2018. This estimate is based on the New Committee Method, using a ten-year span of data ending June 2015. ORA forecasts 873.7 Ccf for the Test Year based on the recorded 2015 average usage. San Gabriel offered no support for the use of New Committee Method. As such, the Commission should adopt ORA's method since the recorded 2015 average usage reflects the most recent recorded year of water usage, including the impact of the mandatory drought reduction the Water Resources Board imposed for this class of customers.

g. Industrial Large

San Gabriel's consumption per customer estimate for Industrial Large is 22,855 Ccf for 2017/2018. This estimate is based on the New Committee Method, using a ten-year span of data ending June 2015. ORA forecasts 23,580.3 Ccf for the Test Year based on the recorded 2015 average usage. San Gabriel offered no support for the use of New Committee Method. As such, the Commission should adopt ORA's method since the recorded 2015 average usage reflects the most recent recorded year of water usage, including the impact of the mandatory drought reduction the Water Resources Board imposed for this class of customers.

h. Public Authority Small

San Gabriel's consumption per customer estimate for Public Authority Small is 412 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 409.7 Ccf for Test year 2017/2018 is based on the updated number San Gabriel provided on May 16, 2016 from Joel Riker.

i. Public Authority Large

San Gabriel's consumption per customer estimate for Public Authority Large is 4,092 Ccf for 2017/2018. This estimate is based on the New Committee Method, using a

ten-year span of data ending June 2015. ORA forecasts 6,216.4 Ccf for the Test Year based on the recorded 2015 average usage. San Gabriel offered no support for the use of New Committee Method. As such, the Commission should adopt ORA's method since the recorded 2015 average usage reflects the most recent recorded year of water usage.

j. Construction

San Gabriel's consumption per customer estimate for Construction is 574 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 550.6 Ccf for Test Year 2017/2018, which is based on the updated number San Gabriel provided on May 16, 2016 from Joel Riker.

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 2-9 at the end of this Chapter.

4. Operating Revenue

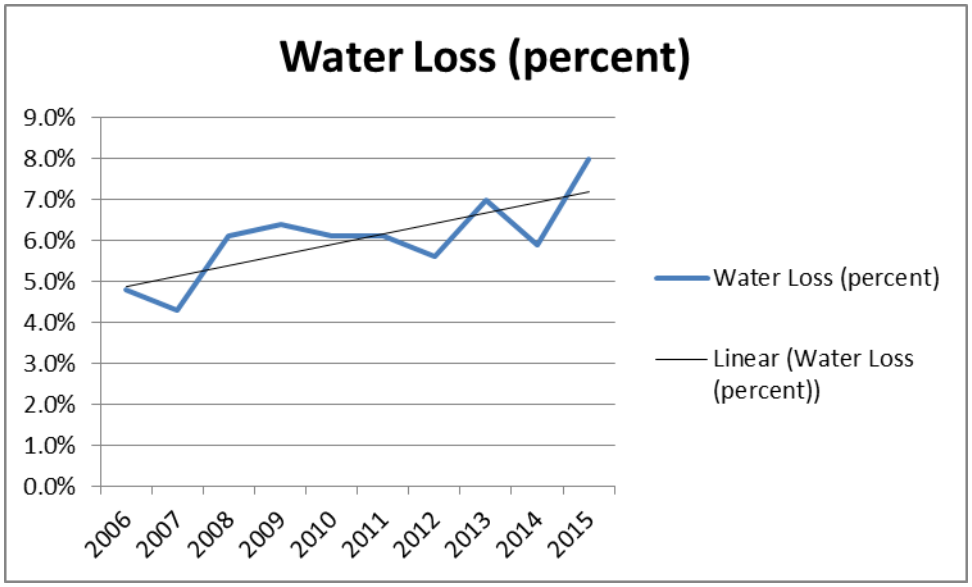
Operating revenue is calculated by multiplying the number of customers by their applicable water use and applying the current tariff rates for the present revenue and to the utility proposed rates for the proposed revenue.

For Test Year 2017-2018, the total operating revenues ORA calculated are $63,621,012 at present rates, and $76,813,119 at utility's proposed rates. San Gabriel calculations are $58,305,941 and $72,782,790, respectively. Table 2-6 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. The following graph shows the historical water loss for the past 10 years.

Figure 2.1: SGVWC's Historic Water Loss



In this application, San Gabriel projects 5.9% as the water loss rate in Test Year 2017-2018. It later revised this number to 6.5% after correcting its errors on the water usage numbers. San Gabriel's water loss percentage is based on the historical 5-year average, 2011 to 2015. ORA agrees with San Gabriel's methodology, but disagrees with the 2013 and 2015 water loss percentages that it used to calculate the average. Both 2013 and 2015 numbers are abnormal and are not consistent with the historical water loss San Gabriel experienced. Table 2.3 provides the annual water loss percentage from 2006 to 2011.

Table 2.3: SGVWC's Historic Water Loss Percentage

Year		Water Loss %
2006		4.8
2007		4.3
2008		6.1
2009		6.4
2010		6.1
2011		6.1
2012		5.6
2013		7
2014		5.9
2015		8

5-yr avg (11-15) 6.5 (San Gabriel proposed)
5-yr avg (09, 10, 11, 12, 14) 6.02 (ORA proposed)

The 10-year historical water loss percentage for San Gabriel has been fluctuating between 4.3% in 2007 to 8% in 2015. Every year except 2007, 2013 and 2015 have been in the range of 5 and 6%, which is a good representation of the water loss for San Gabriel's Water system. As such, ORA excluded the 2013 and 2015 numbers as outliers, substituted them with 2009 and 2010 data, to arrive at 6.02% as the water loss percentage using the 5-year average methodology.

6. Other Revenues

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

a. Misc. Service Revenues (Acct. 611)

San Gabriel estimates the Misc. Service Revenues of $76,970 for Test Year 2017-2018, based on 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 LEX24 of San Gabriel's work paper. This is necessary to adjust the nominal dollar in pace with inflation from year-to-year and is a standard practice ORA and Utilities both used when calculating an average number based on historical data. Using this method, ORA recommends $77,912 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 $15,179 for Test Year 2017-2018 based on the average of past 5 years, 2011-2015. This account is comprised of rental income from several structures located on land San Gabriel purchased. 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 LEX24 of San Gabriel's work paper. This is necessary to adjust the nominal dollar in pace with inflation from year-to-year and is a standard practice ORA and Utilities use when calculating an average number based on historical data. Using this method, ORA recommends $15,302 as the estimate for Rent from Rental Property Revenues in Test Year 2017-2018.

c. Other Revenues (Acct. 614)

Other Revenues include third party reimbursements during the recorded years for Operating and Maintenance costs for treatments at Plants No. 8, G4, B5, B6, 11, B11, B7, and Whittier Narrows Operable Unit. The third party reimbursements are "revenue neutral," as offsetting expenses must first be incurred, with reimbursements received shortly after. Additionally, Account 614 also comprised of four revenue sources not related to contamination clean-up. These funds are: 1) Amarillo Mutual Water Company that contracts San Gabriel for performing water quality monitoring; 2) a non-tariff products and services ("NTP&S") offering through the City of Montebello operating agreement; 3) the Upper San Gabriel Valley Municipal Water District pays San Gabriel $15 per acre-foot of recycled water San Gabriel delivers to its customers as compensation

for monitoring and managing the recycled water mains serving San Gabriel's customers; and 4) reimbursement from U.S. EPA and the California Department of Toxic Substances Control ("DTSC") for temporarily operating the Whittier Narrows Groundwater Extraction Treatment System.

San Gabriel forecasted $7,523,606 as Other Revenues for Test year 2017-2018 based on the 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 LEX24 of San Gabriel's work paper. This is necessary to adjust the nominal dollar in pace with inflation from year-to-year and is a standard practice ORA and Utilities used when calculating an average number based on historical data. ORA's methodology results in $7,620,160 for Other Revenues in the test year.

Also, ORA disagrees with San Gabriel's methodology for the sharing of its revenue from the City of Montebello operating agreement. The City of Montebello contract was first signed on August 14, 2013, for one year which allowed San Gabriel to operate and maintain the City's water system that serves about 1,650 customers. The City pays San Gabriel an annual fee of $473,067. Subsequent to the original agreement, the City renewed the operating agreement at the same annual fee for two additional years, which ends on September 30, 2016. Under the Commission's Non-Tariff Products and Services ("NTP&S") rules adopted in D.10-10-019, San Gabriel has been sharing the proceeds under the 90/10 percent ratio between itself and ratepayers, with 90% going to shareholders and the remaining 10% to ratepayers.

In addition to the annual fee, the City of Montebello also paid San Gabriel for repairs made that cost more than $500. For each repair, San Gabriel included a 20% margin in addition to all direct and indirect costs.[10] The 20% margin was then shared 10% with ratepayers and 90% with shareholders. The following Table 2.4 provides the

[10] Direct and indirect costs include all direct costs associated with the repair, fringe benefit and overhead.

gross revenue San Gabriel received from the City for the annual fee and repair reimbursement.

[redacted]

San Gabriel's sharing of its repair reimbursement between its shareholders and ratepayers is wrong. Rule X.C., adopted in Decision D.10-10-019 requires that "*Gross revenues from NTP&S projects shall be shared between the utility's shareholders and its ratepayers (underlined added)*". The rule further stated that the sharing should be 90% with shareholders and 10% with ratepayers for active NTP&S projects. San Gabriel shares only 10% of the margin, rather than sharing 10% of the gross amount of the repair reimbursement with ratepayers which violates Rule X.C. As such, ORA recommends that the 10% sharing with ratepayers should be applied to the gross amount that San Gabriel received from the City in a given year. The following Table 2.5 shows a comparison between San Gabriel's proposed revenue sharing with ratepayers and those ORA recommended under Rule X.C.

Table 2-5: Comparison of Sharing of Gross Revenues---
SGVWC v. ORA

	2013		2014		2015	
	SG	ORA	SG	ORA	SG	ORA
Montebello Contract Fee	$11,827	$11,827	$47,306	$47,306	$47,306	$47,306
Repair Cost Sharing	$736	$4,419	$2,182	$13,098	$3,349	$20,095
Total	$12,563	$16,246	$49,488	$60,404	$50,655	$67,401

D. CONCLUSION

Upon investigating and analyzing San Gabriel's requests for the number of customers, water consumption, and revenues, ORA recommends that the Commission adopt ORA's recommendations.

Table 2.6			
SAN GABRIEL VALLEY WATER COMPANY			
OPERATING REVENUES			
Test Year 2017-2018			
(at Present Rates)			
Item	ORA	Utility	ORA (%)
	(A)	(B)	(C)
	(Dollars in Thousands)		
Metered Service:			
Residential- Singel Family	$26,236.8	$23,901.1	-8.90%
Residential- Multi-Family, Small	$5,387.8	$5,452.5	1.20%
Residential- Multi-Family, Large	$2,813.9	$2,808.8	-0.18%
Commercial, Small	$5,683.1	$5,815.4	2.33%
Commercial, Large	$6,418.2	$5,561.2	-13.35%
Industrial-Small	$33.5	$25.8	-23.09%
Industrial-Large	$2,362.4	$2,268.1	-3.99%
Public Auth-Small	$652.1	$669.8	2.72%
Public Auth- Large	$2,793.1	$1,264.6	-54.72%
Construction	$33.2	$34.6	4.25%
Recycled Water	$2,268.3	$2,274.7	0.28%
Subtotal	$54,682.5	$50,076.6	-8.42%
Flat Rate Service			
Private Fire Protection	$1,225.1	$1,274.9	4.06%
Construction			
Miscellaneous			
Rent of Water Property	$15.3	$15.2	-0.80%
Other Water Revenues	$7,698.1	$6,939.3	-9.86%
Total Revenues	$63,621.01	$58,305.9	-8.35%

TABLE 2-7			
SAN GABRIEL VALLEY WATER COMPANY			
LOS ANGELES COUNTY DIVISION			
AVERAGE SERVICES			
Test Year 2017-2018			
	ORA	Utility	Utility Exceeded ORA
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential- Single Family	38,761	38,761	0.0%
Residential- Multi-Family, Small	2,999	2,994	-0.2%
Residential- Multi-Family, Large	228	228	0.0%
Commercial, Small	4,670	4,670	0.0%
Commercial, Large	362	362	0.0%
Industrial-Small	9	9	0.0%
Industrial-Large	34	34	0.0%
Public Auth-Small	273	273	0.0%
Public Auth-Large	131	131	0.0%
Construction	22	22	0.0%
Recycled Water	53	53	0.0%
Total Metered Service	47,542	47,537	-0.01%
Private Fire Service	1,204	1,204	0.0%
Public Fire Hydrants	4,053	4,053	0.0%

TABLE 2-8			
SAN GABRIEL VALLEY WATER COMPANY			
LOS ANGELES COUNTY DIVISION			
AVERAGE CONSUMPTION PER CUSTOMER			
Test Year 2017-2018			
	ORA	Utility	Utility Exceeded ORA
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential- Singel Family	141	141.37	0.4%
Residential- Multi-Family, Small	459	459	0.0%
Residential- Multi-Family, Large	3,445	3,388	-1.7%
Commercial, Small	221	221	0.0%
Commercial, Large	5,412	4,500	-16.9%
Industrial-Small	874	538	-38.4%
Industrial-Large	23,580	22,488	-4.6%
Public Auth-Small	410	412	0.5%
Public Auth-Large	6,216	1,890	-69.6%
Construction	551	574	4.2%
Recycled Water			
Nursery Contracts	2,374	2,374	0.0%
Rose Hills	0	0	0.0%
LACP&R	657,190	657,190	0.0%
Golf Course	240,451	240,451	0.0%
Tariff	4,427	4,427	0.0%

1

TABLE 2-9			
SAN GABRIEL VALLEY WATER COMPANY			
LOS ANGELES COUNTY DIVISION			
TOTAL CONSUMPTION AND SUPPLY			
(KCCF PER YEAR)			
	ORA	Utility	Utility Exceeded ORA
Item			%
	(A)	(B)	(C)
Metered Service:			
Residential- Single Family	5,455,998	5,479,643	0.4%
Residential- Multi-Family, Small	1,376,541	1,374,246	-0.2%
Residential-Multi-Family, Large	785,460	772,464	-1.7%
Commercial, Small	1,032,070	1,032,070	0.0%
Commercial, Large	1,959,144	1,629,000	-16.9%
Industrial-Small	7,863	4,842	-38.4%
Industrial-Large	801,730	764,592	-4.6%
Public Auth-Small	111,848	112,476	0.6%
Public Auth-Large	814,348	247,590	-69.6%
Construction	12,113	12,628	4.3%
Portable Water Sales	12,357,115	11,429,551	-7.5%
Water Loss factor	6.1%	6.5%	6.4%
Total Portable Water Supplies	13,159,867	12,223,107	-7.1%
Total Forecasted Conservation			
Total Recycled water	1,070,487	1,070,487	0.0%
Total Potable Water Saved			
Total Water Production , Ccf	14,230,354	13,293,594	-6.6%

1

CHAPTER 3 : O&M EXPENSES

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for Operation and Maintenance ("O&M") expenses for the Los Angeles ("LA") Division.

B. SUMMARY OF RECOMMENDATIONS

ORA's estimate for Test Year 2017-2018 is $32,149,976. SGVWC's estimate is $32,230,456. SGVWC's estimate exceeds ORA's by $80,480 or 0.25%. Table 3.1 details the differences between ORA & SGVWC.

Table 3.1: Summary of ORA's Recommendations

Los Angeles O&M Summary of Recommendations				
	SGVWC	ORA	Difference in Dollars	ORA as % of SGVWC
Operations				
Purchased Water	$13,295,709	$14,660,414	($1,364,705)	110.26%
Purchased Power	$3,504,437	$3,341,930	$162,508	95.36%
Chemicals	$3,916,195	$3,689,771	$226,425	94.22%
Payroll*	$4,108,715	$3,577,091	$531,623	87.06%
Mat'l Supplies	$611,751	$611,751	$0	100.00%
Transportation	$468,055	$468,055	$0	100.00%
Uncollectibles	$60,890	$63,099	($2,208)	103.63%
Outside Services	$1,057,941	$1,053,755	$4,186	99.60%
Utilities & Rents	$1,366,137	$1,366,137	$0	100.00%
Misc.	$1,185,409	$875,351	$310,058	73.84%
Total O	$29,575,239	$29,707,353	($132,114)	100.45%
Maintenance				
Payroll*	$1,385,218	$1,205,986	$179,232	87.06%
Mat'l Supplies	$470,004	$470,004	$0	100.00%
Transportation	$374,444	$374,444	$0	100.00%
Outside Services	$363,836	$330,474	$33,361	90.83%
Utilities & Rents	$3,208	$3,208	$0	100.00%
Misc.	$58,507	$58,507	$0	100.00%
Total M	$2,655,217	$2,442,623	$212,594	91.99%
Total O&M	$32,230,456	$32,149,976	$80,480	99.75%

*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 Los Angeles 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 for most O&M accounts, the company used either a five year average of historical expenses or the most recent 2015 recorded expense. San Gabriel then adjusts 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 reviewed the amounts recorded in each account for the most recent five years to assess the reasonableness of the company's choice of forecasting methods. ORA did not disagree with the company's use of forecasting methodology except for Conservation expense and one subaccount within Account 748-Maintenance of Water Treatment Equipment. The two specific modifications are discussed in more detail in section "2(d)" & "(f)" of this chapter.

In addition reviewing the workpapers, ORA also asked for the general ledger accounting detail that comprised the totals in each account.[11] Though substantial disagreement did not exist with company's forecasting methods, ORA did remove one-time expenses for forecasting purposes. This chapter highlights those modifications.

[11] Response to Data Request JR6-001.

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 & SGVWC estimates that result solely from application of escalation factors from different ECOS Memoranda, ORA applies the same inflation factors company used in deriving Test Years and escalation year expense estimates. These 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 $13,295,709 in Test Year 2017-2018 based upon a company estimate provided in workpapers filed within the application. ORA estimates $14,660,414. ORA agrees with the forecasting methodology, but arrives at a different estimate due to modifications to the sales forecast. For a more detailed discussion on the sales forecast please refer to Chapter 2.

For the Los Angeles district, the company pumps water from either the Main San Gabriel Basin, or the Central Basin. In workpapers, the company calculated the purchased water expense using the known 2015 costs associated from pumping in those districts. This calculation flowed from the sales worksheets, through to a water costs calculation, then to the Los Angeles expenses worksheets. ORA found the calculation to flow through the workpapers correctly with accurate unit costs in place.[12] 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 $3,504,437 in Test Year 2017-2018. This is based upon a company estimate provided in workpapers filed within

the application. ORA agrees with this methodology but arrives at $3,341,930 due to differences in plant recommendations outlined in Chapter 7.

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.[13] 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 memorandum account to track the difference between authorized amounts and actual spent. This provides ratepayers protection from large expense deviations.

c. Purchased Chemicals

SGVWC forecasted chemical expense using a five year recorded average, with a $217,000 addition in 2016, and used inflation factors to arrive at the test year estimate.

In the previous Los Angeles GRC, ORA had taken issue with the company's forecasting methodology; SGVWC had used a three year average of recorded year's data instead of the ORA recommendation of five year average.[14] Since this account observes fluctuation in expenses from year to year, ORA had previously argued that in order to capture this volatility, a five year average be used. Because SGVWC relied upon the five-year average to derive the test year, ORA does not recommend an adjustment at this time.

While the period over which the test year forecast is uncontested, ORA recommends the $217,000 additional expense in 2016 be removed from the test year forecast.

The company supports this expense in testimony with:

(continued from previous page)

[12] LAWorkpapersUPDATE Tab "Water Cost '16".

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

[14] A1007019 Report on the Results of Operations of SGVWC LA Division, p. 3-7.

> Forecasted Chemicals Expenses also reflects additional chemicals that will be required by proposed future plant additions occurring through the Test Year.[15]

SGVWC did not provide detail in testimony or workpapers as to how the $217,000 was derived. The company could have easily provided a spreadsheet of what specific chemicals/costs would be or even have provided an invoice from a chemical supplier. Neither is found in supplied testimony or attachments. The company cites in vague terms that this increase is due to plant additions without mention of the specific projects being referred to. Also relevant to this expense, ORA recommends that many of SGVWC's plant additions be disallowed in this GRC. For the specific plant recommendations, please see Chapter 7.

Considering the vague testimony provided, the plant disallowances recommended, and the lack of documentation for how the company arrived at this 2016 estimate, ORA removes the $217,000 to more accurately forecast the Test Year.

d. Operations – Payroll

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

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

SGVWC's estimate for Operations – Materials a& Supplies – (Sub-Account – 02) expense is $611,751 in the Test Year 2017-2018 based upon the five year average adjusted for inflation. ORA makes no adjustment at this time to the Materials and supply expenses.

f. Operations – Transportation – Sub-Account – 04

SGVWC's estimate for Operations – Transportation – (Sub-Account – 04) expense is $468,055 in Test Year 2017-2018 based upon the recorded year (2015) adjusted for inflation. ORA makes no adjustment at this time to the Transportation expenses.

[15] SG 7 (Reiker). p. 26.

g. Uncollectibles

SGVWC forecasted its uncollectibles expense using the historical uncollectible percentage multiplied by forecasted revenues less miscellaneous revenues. ORA reviewed the workpapers filed within this application and found that this formula was accurately applied. 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

SGVWC's estimate for Operations – Outside Services (Sub-Accounts – 05) expense is $1,057,941 in Test Year 2017-2018 based on the five year average adjusted for inflation. ORA agrees with this methodology, but found one-time expenses in the recorded data not suitable for Test Year forecasting.

In response to data request JR6-002, SGVWC provided the general ledger transactions for the prior five years. For sub-account 725 Pumping Misc. Expense, ORA found three transactions in 2012 that were not similar in amount or description to expenses recorded in any other year. The specific expenses of $5,350, $6,000, and $6,560 with description "CLEAR WIP TO EXPENSE"[16] were removed from the recorded 2012 total to provide a more accurate Test Year forecast of $1,053,755. This is illustrated in table 3.2 below.

[16] Data Request Response Email Attachment "GL Transactions 2012 with AP Detail (filtered to PUC)".

Table 3.2: SGVWC's Historic Pumping Misc. Expenses & ORA's adjustments

Account 725 Pumping Miscellaneous Expense						
	2011	**2012**	**2013**	**2014**	**2015**	**TY Est.**
SGVWC Recorded	$16,531	$35,957	$21,679	$19,414	$14,308	$24,759
ORA Modified	$16,531	$17,957	$21,679	$19,414	$14,308	$20,572
Dollar Difference						$4,186

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

SGVWC's estimate for Operations – Utilities & Rents – (Sub-Account – 06) expense is $1,366,137 in 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 – Outside Services (Sub-Accounts – 05) expense is $1,185,409 in Test Year 2017-2018 based on the five year average adjusted for inflation. ORA agrees with the five year average methodology but recommends an alternate methodology for Conservation expense. ORA arrives at a Test Year estimate of $875,351.

Conservation Expense

SGVWC's estimate for Conservation Expense for the Los Angeles division is $700,000 in Test Year 2017-2018 supported by a company estimate included in its testimony. ORA arrived at $311,741 in the Test Year. The difference is due to differences in forecasting methodology.

In the previous GRC, the company outlined its conservation program priorities in a similar manner. The company had requested forecasted expenses to account for regional rebate programs, local high efficiency toilet distribution ("HET"), conservation kits, single-family residential audits, large landscape audits, Commercial / Industrial / Institutional ("CII") conservation programs, school conservation education program,

education/public outreach and miscellaneous promotional items.[17] The total request in that case amounted to $2.1 million over the three year rate case cycle.

ORA reviewed the request in that case and found that the company spent approximately one third of its authorized amount in the prior rate case.[18] Instead of the $677,147 request by SGVWC, ORA recommended a Test Year budget of $232,150 citing insufficient justification for the proposed programs.[19] In settlement, both parties agreed to an authorized amount of $382,600 with portions of the program subject to spending caps.[20] Additionally, the company ultimately agreed with ORA's recommendation to subject the authorized funds to be tracked in a one-way balancing account, with unspent funds to be returned to ratepayers.[21]

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

> 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 $700,000 for Los Angeles[22]

As stated above, the company requests $700,000 for this Division. 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.

[17] A.10-07-019 Direct Testimony of Daniel Arrighi SG-4, p. 28-33.

[18] A.10-07-019 Report on the Results of the operations of SGVWC LA division, p. 5-1.

[19] A.10-07-019 Report on the Results of the operations of SGVWC LA division, p. 5-21.

[20] A.10-07-019 Appendix E Settlement Agreement between DRA&SGVWC, p. 14.

[21] A.10-07-019 Appendix E Settlement Agreement between DRA&SGVWC, p. 15.

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

ORA reviewed the workpapers to determine the amounts spent compared to amounts authorized from the previous rate case. The company spent an average of $327,900 over the three year period following to prior rate case.[23] This is compared to the $382,600 authorized in the settlement. Thus, the company did not fully spend the authorized amount.

ORA also takes into consideration recent developments related to State- wide water conservation. In early 2015, California drought conditions reached a severity that obligated the Governor's Office to proclaim a State of Emergency. This action mandated statewide water reduction of 25%. As it relates to SGVWC, the order included actions that would save water, increase enforcement to prevent wasteful water use.[24] More recently though on May 9, 2016, the Governor's Office lifted some of the more stringent water conservation measures imposed in the early 2015 executive order, including the mandatory 25% reduction.[25] This should translate into 2015 conservation efforts that were more cost intensive as compared to any other prior year. But in SGVWC's case, the opposite was true. Whereas the spending level for conservation was $525,000 in 2014, SGVWC cut this amount approximately in half to total spending in 2015 to $228,000.

Taken as a whole, Californians are finally enjoying some relief from the worst drought in the State's recent history. Yet during 2015, when conservation initiatives were most needed, the company spent the least.

Lastly, ORA reviewed the balancing account where the company tracked the authorized amount against the actual spent. In data request response RAC-001, the company provided a presentation of the over or undercollection of conservation costs through general tariff rates. As of June 30, 2015 the company records an overcollection

[23] LAWorkpapersUPDATE Tab 'LEX5'.

[24] Executive Order B-29-15.

[25] Executive Order B-37-16.

of $326,709.[26] This amount is due to ratepayers overpaying pursuant to the settlement agreement from the prior rate case.

SGVWC underspent the total authorized from the prior rate case and the company did not spend the authorized amount during the worst period within the worst drought in California's history. Thus, the company estimate of $700,000 cannot be relied upon to forecast the test year.

ORA instead uses the authorized amount from the prior Los Angeles GRC and escalated forward using ORA inflation factors. This calculation results in $418,642 for Test Year 2017-2018. Then citing the lack of spending during the severe drought period, ORA reduces the estimate by the amount tracked in the balancing account. This amount is then amortized over the three year rate case cycle. This methodology will take into account the actual expense level the company will likely incur in the test year. Using this forecasting methodology ORA arrives at a $319,145 for the Test Year. This calculation is demonstrated in Table 3.3

Table 3.3 – LA Division Conservation Budget

LA Division Conservation Budget									
					Overcollection in Balancing Account	-$298,491			
		Non-Labor Composite	1.50%	0.70%	1.60%	-0.80%	1.50%	3.00%	3.20%
Authorized		**July 2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
LA Division		$382,600	$388,339	$391,057	$397,314	$394,136	$400,048	$412,049	$425,235
					LA Test Year Estimate	$418,642			
					Overcollection Adjustment Over 3 years	-$99,497			
						$319,145	ORA Reccomendation		

2. Maintenance Expenses

a. Maintenance – Payroll

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

[26] RAC-001 (4) (part1), p. 23 or RAC-002 e-Attachment A Cell 'E13'.

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

SGVWC's estimate for Maintenance – Materials & Supplies – (Sub-Account – 02) expense is $470,004 in Test Year 2017-2018 based on the five year average adjusted for inflation. ORA makes no adjustment at this time to the Materials and Supplies expenses.

c. Maintenance – Transportation – Sub-Account – 04

SGVWC's estimate for Maintenance – Transportation – (Sub-Account – 04) expense is $374,444 in Test Year 2017-2018 based upon the recorded year (2015) adjusted for inflation. ORA makes no adjustment at this time to the Transportation expenses.

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

SGVWC's estimate for Maintenance – Outside Services – (Sub-Account – 06) expense is $363,836 in the Test Year 2017-2018 based on five year average adjusted for inflation. ORA makes adjustments in forecasting methodology for Account 748 – Maintenance of Water Treatment Equipment and removes one-time expenses in Account 732 – Maintenance of Pumping Equipment and Account 765 – Maintenance of Hydrants for a more accurate test year forecast.

Upon review of the general ledger transactions for Account 732 provided in data request response JR6-002, ORA found four transactions in 2014 that were not similar in amounts or frequency to any other recorded year. San Gabriel removed for forecasting purposes transactions with description "Affordable Generator Services" of $4,820, $6,006, and transactions with description "Water Well Supply, Inc." of $4,309, $2,480[27]. These irregular transactions resulted in 2014 becoming an outlier year for this sub-account. The expenses totaled in 2014 were over $42,000 as compared to 2011, 2012, 2013, 2015 and none exceeding $20,000. By removing these outlier transactions, ORA arrives at a more accurate Test Year forecast. This is outlined in Table 3.4 below.

[27] Data Request Response Email Attachment "GL Transactions 2014 with AP Detail (filtered to PUC)".

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	$18,560	$19,012	$4,319	$42,564	$14,942	$24,759
ORA Modified	$18,560	$19,012	$4,319	$24,949	$14,942	$18,686
					Dollar Difference	$6,072

In Account 748 – Maintenance of Water Treatment Equipment, ORA found recorded year 2011 expenses to vastly exceed the amounts recorded in the most recent four recorded years. ORA found in the general ledger detail large "CLEAR WIP TO EXPENSE" transactions that were not present in other recorded years. Also the 2011 total recorded expense was almost $144,000. Comparatively, the nearest four years had a recorded average expense of only $44,000. The recorded data for 2011 exceeds the average by $100,000. No testimony is provided for this sub account supporting the use of recorded data that's five years old. ORA finds the expenses recorded in the most recent four years provide a more accurate basis for a Test Year estimate. Therefore, instead of SGVWC's five year estimate, ORA recommends a four year estimate be used in the forecast for Outside Services - Account 748 – Maintenance of Water Treatment Equipment. This is outlined in Table 3.5 below.

Table 3.5: SGVWC's Historic Maintenance of Water Treatment Equip. Expenses & ORA's adjustments

Account 748 - Maintenance of Water Treatment Equipment	2011	2012	2013	2014	2015	TY Est.
SGVWC Recorded	$143,779	$46,735	$29,688	$61,877	$37,734	$74,107
ORA Modified	~~$143,779~~	$46,735	$29,688	$61,877	$37,734	$49,706
					Dollar Difference	$24,401

In Account 765 – Maintenance of Hydrants, the company recorded two anomalous transactions in recorded years 2012 and 2013: "G.M. Sager Construction Co." for

$17,974.60, and "Robert Brkich Const. Corp." Similar to Account 732 discussed above, these transactions produced two years of recorded data ($33,295 & $21,873) well above the average of for recorded years 2011, 2014, and 2015($9,018). Also, no similar transaction amounts or descriptions were found in recorded data for other years. By removing these two transactions from the recorded data, ORA arrives at a more reasonable Test Year forecast. This is detailed in Table 3.6 below.

Table 3.6: SGVWC's Historic Maintenance of Hydrants Expenses & ORA's adjustments

Account 765 - Maintenance of Hydrants						
	2011	**2012**	**2013**	**2014**	**2015**	**TY Est.**
SGVWC Recorded	$5,981	$33,295	$21,873	$10,950	$10,124	$18,858
ORA Modified	$5,981	$15,321	$18,244	$10,950	$10,124	$13,843
					Dollar Difference	$5,015

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

SGVWC's estimate for Maintenance – Utilities & Rents – (Sub-Account – 06) expense is $3,208 in 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.

f. Maintenance – Miscellaneous – Sub-Account – 00

SGVWC's estimate for Maintenance – Miscellaneous – (Sub-Account – 00) expense is $58,507 in Test Year 2017-2018 based on the five year average adjusted for inflation. ORA recommends no adjustment to the estimated miscellaneous expense at this time.

D. CONCLUSION

ORA recommends the Commission adopt ORA's O&M expense estimates for the Los Angeles Division.

CHAPTER 4 : ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for Administrative and General ("A&G") expenses for the Los Angeles ("LA") division.

B. SUMMARY OF RECOMMENDATIONS

ORA estimates $4,091,886 for Test Year 2017-2018 while SGVWC estimates total expenses of $4,445,237. SGVWC exceeds ORA by $353,351. The differences are mainly due to the allocations from General Office where ORA recommends denial of the new position requests (discussed in Chapter 5), reduction in executive compensation, and modifications to the regulatory expense forecasts. Table 4.1 details the differences between ORA & SGVWC.

Table 4.1: Summary of ORA's Recommendation

Los Angeles A&G Summary of Recommendations				
	SGVWC	**ORA**	**Difference in Dollars**	**ORA as % of SGVWC**
Payroll*	$181,133	$157,696	$23,437	87.06%
Mat'l Supplies	$52,560	$52,560	$0	100.00%
Transportation	($320)	($320)	$0	100.00%
Pensions & Benefits*	$3,334,769	$2,529,646	$805,123	75.86%
Franchise Fees*	$615,668	$636,210	($20,542)	103.34%
Outside Services	$175,227	$175,227	$0	100.00%
Inj. & Damages*	$1,075,139	$1,075,139	$0	100.00%
Regulatory Exp	$300,332	$125,998	$174,333	41.95%
Utility Rents	$19,667	$19,667	$0	100.00%
Misc. Expense	$17,730	$17,730	$0	100.00%
Adm Exp Trans.	($1,326,667)	($697,667)	($629,000)	52.59%
Total	$4,445,237	$4,091,886	$353,351	92.05%

*Denotes discussion in other chapters

C. DISCUSSION

ORA reviewed SGVWC's application, testimony, 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 most A&G accounts, 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 ORA inflation factors to arrive at 2016, 2017, and 2018 forecasted expenses. The Regulatory Commission Expense forecast is based upon a separate company estimate discussed in section (h).

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. ORA did not disagree with the company's use of either the 2015 recorded expenses or the most recent five year average methodologies, but provided an alternate forecasting methodology for Regulatory Commission Expense. This modification is discussed in 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 differences in ORA & SGVWC's estimates that result solely from application of escalations factor from different ECOS Memoranda, ORA applies the same inflation factors the company uses in deriving Test Years and escalation year expense estimates. These factors based on the most recent ECOS Memorandum's data available should be considered at the time the Joint Comparison Exhibit is prepared.

1. Administrative & General Expenses

a. A&G – Payroll

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

b. A&G – Materials & Supplies

SGVWC's estimate for A&G – Materials & Supplies expense is $52,560 in the Test Year 2017-2018 based upon a mix of forecasting methods at the sub-account level. The company used either the recorded year (2015) adjusted for inflation or a five year average adjusted for inflation. ORA accepts SGVWC's estimates for A&G Materials & Supplies.

c. A&G – Transportation

SGVWC's estimate for A&G – Transportation expense is ($320) in 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 derived the A&G Pension & Benefit expense for the Los Angeles district is derived 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.

e. A&G – Franchise Fees

See discussion on Local Franchise Fees in Chapter 11 – Taxes Other Than Income.

f. A&G – Outside Services

SGVWC's estimate for A&G – Outside Services expense is $175,227 in the Test Year 2017-2018 based upon the five year average adjusted for inflation. ORA accepts SGVWC's estimate for A&G Outside Services expense.

g. A&G – Injuries & Damages

The A&G Injuries & Damages expense for the Los Angeles division is derived 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

SGVWC's estimate for A&G – Regulatory Commission Expense is $300,332 in Test Year 2017-2018 based upon a cost estimate provided in the application. ORA recommends an estimate of $125,666 for the Test Year. This difference is due to an alternative forecasting methodology.

In its testimony, the company supports its request by claiming:

> 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. Rate case costs are comprised of outside legal fees, outside expert witness fees, outside document scanning and reproduction costs, newspaper publishing costs, travel costs, shipping costs, and other miscellaneous costs that San Gabriel forecasts will be incurred by the company for the filing and processing of general rate cases and other regulatory proceedings where the resulting expense falls in the test and escalation years covered during this rate case. No employee salaries or other regularly incurred costs are included.[28]

While the company's position is reasonable regarding the type of expenses that should be recovered in a GRC, the estimates are not. The company supports its regulatory expense request with a cost breakdown attachment provided in the application.[29] This details each expense with a description and an ascribed value; totaling $900,000 for the entire GRC cycle. This total is then divided by three (Test Year, & two Escalation Years) to arrive at the Test Year estimate. ORA found many issues with this methodology. The specific concerns that ORA has with the company's Regulatory Commission Expense

[28] SG-4 Batt, p. 3.

[29] SG-4 Attachments A through M, p. 2.

forecast are outlined below. Table 4.2 shows SGVWC's cost breakdown forecasting methodology.

Table 4.2: SGVWC's Forecast breakdown for Regulatory Expense

LA GRC Forecast Cost Description	SGVWC
Stetson Engineers Inc. - Outside Expert Witness Fees	$ 50,000
Stetson Engineers Inc. - Water System Master Plan	$ 200,000
Stetson Engineers Inc. - Urban Water Management Plan	$ 26,000
Outside Consultant - Req'd to Complete the PA & App 100hr@$130	$ 13,000
Copying+Binding - PA Documents	$ 20,000
Copying+Binding - Application Documents	$ 20,000
Internal Copying (60k pgs. @$.10/pg. Drawing @ 25c/ft) - PA Docs	$ 7,000
Duplication of engineering plans	$ 3,000
Travel 12 people @ $1667 X 7 Trips	$ 70,000
Printing of 2 Notices @ $2500	$ 5,000
Hearing Transcripts	$ 20,000
Photos	$ 2,000
Newpaper Notices 2 @$500 in 1 Newspapers	$ 1,000
Fedex 20 @ $50	$ 1,000
Travel & Parking at CPUC Los Angeles	$ 2,000
Miscellaneous costs	$ 10,000
Outside Consultants/Witnesses	$ 50,000
Outside Legal Fees	$ 400,000
	$ 900,000

ORA found some of the less cost prohibitive portions of the company's estimate to be reasonable, including the urban water management plan, outside consultant for the Proposed Application ("PA") & Application, internal copying expense, duplication of engineering plans, printing of notices, and FedEx expenses. The company provided details in the description of how it arrived at the estimate or the costs appeared to be in line with the expected cost would be over the rate case cycle. The other expenses required further documentation or appeared too cost prohibitive as detailed below.

Stetson Engineers

For Stetson Engineers to provide expert witness services and develop a water system master plan, SGVWC provided a ballpark estimate of $50,000 & $200,000, respectively. Typically to derive an estimate for these services, a company would source

bids from competing firms then provide invoices showing the dollar amount. Reviewing testimony and attachments, ORA could find neither. The company either did not go through the process or did not provide the bids. Thus, these numbers cannot be relied upon for forecasting purposes.

Copying & Binding

The copying and binding expense for both the Proposed Application and the Application is estimated at $40,000. Similar to the "Stetson Engineers" section in this report, the company has not provided bids or invoices to support its estimate. This should be easier, as the company could have provided the printing costs from the prior rate case. ORA could not find any supplemental documentation in the application or workpapers.

Travel

The company provides a travel cost expense by estimating twelve persons, at a cost of $1,667 per person, with a total of seven estimated trips. The company failed to provide a list of the twelve persons with name, title, description of duties for each trip, and the location of the seven trips. Additionally, no cost breakdown could be found in the application or workpapers for the $1,667 estimate.

Hearing Transcripts, Travel/Parking in LA, & Newspaper Notices

ORA could not find any detail as to how the company arrives at the estimate for expenses related to hearing transcripts, travel/parking in Los Angeles or newspaper notices. If the company incurred this expense in the prior rate case, it would be in the recorded expenses. Thus it would be expected that the company would provide this in its application as support; the company did not. Similarly, the company has posted newspaper notices for prior proceedings, this could have been provided to support the $1,000 estimate. As for travel/parking for the Los Angeles offices, SGVWC's headquarters is approximately 16 miles from the CPUC offices in Downtown Los Angeles and parking can be found for less than $11 a day. Considering these variables,

SGVWC's estimate appears high. Due to the lack of supporting documentation for these items, the Commission cannot rely on the company estimates.

Miscellaneous Costs

SGVWC estimated miscellaneous costs over the GRC cycle at $20,000. Similar to the other estimates in this attachment, no support is provided. Thus, the Commission cannot rely upon the forecast.

Outside Consultants/Witnesses & Legal Fees

By far the largest estimate provided in the attachment, which makes up to half of the dollar amount for this request, is $50,000 for outside consultants/witnesses and $400,000 for outside legal fees. Continuing the theme from other categories, no support was provided for these expenses. As these two categories comprise the bulk of this request, ORA is dismayed at the lack of documentation provided. As evidenced through review of the general ledger, the company has previously hired the law firm "Nossaman, LP" in the prior regulatory matters.[30] A simple quote request for services in this GRC would have shown the company's willingness to provide an accurate estimate. ORA could find nothing of that nature in the application.

ORA did find a peculiar instance as it relates to the prior Los Angeles rate case. When asked in the current GRC, have you forecasted any costs not incurred in previous general rate cases? The company answered:

> Yes. In past general rate cases, San Gabriel has not included additional outside attorneys services, but for this general rate case which, for the first time, includes both the Los Angeles County, Fontana Water Company, and General Office divisions, I have forecasted an additional $350,000 - $150,000 in the Los Angeles County division and $200,000 in the Fontana Water Company division - for this general rate case.[31]

The above testimony clearly states that costs for outside attorney services were not included in prior rate cases. Yet when ORA reviewed the filing for the previous Los

[30] Data request Response JR6-002 "GL transactions 2012 with AP detail(filtered to PUC)".

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

Angeles GRC, the company says the opposite. In response to the question, "Please describe the method used to forecast the costs in account 797 associated with processing rate cases in this rate case cycle", the 2010 testimony reads:

> The forecasted costs of this rate case are presented in detail on page 39 of the work papers and included herein as Attachment D. Rate case costs are comprised of outside legal fees…[32]

ORA reviewed the attachment filed in that GRC and found the company had in fact forecasted $505,000 in outside legal fees.[33]

This is not a new issue. The problems surrounding regulatory forecasting have been dealt with in the previous Los Angeles GRC. In that GRC case regarding regulatory commission expense in that report, DRA states:

> San Gabriel requests 229% more than the recorded rate case expense for the last Los Angeles Division GRC filed in A.07-07-003.[34]

In that report, ORA recommended the inflation adjusted recorded costs from the prior two rate cases be used as the basis for the Test Year estimate. Ultimately, both parties agreed in settlement upon a compromise estimate of $485,000 amortized over the three year rate cycle.[35] But upon review of the company workpapers filed in the current GRC, the actual amount spent over the three year rate cycle (2011-2013) only totaled $377,102. The company still fell short of the authorized settlement amount. As this expense was collected through general tariff revenues, it indirectly profited shareholders at ratepayers' expense.

Taken as a whole, SGVWC's estimate cannot be relied upon as the company estimates are without merit. Additionally, when ORA and SGVWC arrived at a compromised amount from the prior rate case, the company still underspent that amount.

---

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

[33] Attachment D SG-5 Batt.

[34] A1007019 Report on the Results of Operations of SGVWC LA Division, p. 4-8.

[35] A1007019 Appendix E Settlement Agreement Between DRA & SGVWC, p. 12.

Therefore, ORA uses the actual total recorded costs from the prior Los Angeles rate case amortized over three years to arrive at a Test Year estimate. This estimate will provide the most accurate Test Year forecast.

i. A&G – Utilities & Rents

SGVWC's estimate for A&G – Utilities & Rents expense is $19,667 in 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

SGVWC's estimate for A&G – Miscellaneous expense is $17,730 in 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 LA's Administrative Charges Transferred in Account No. 812. LA's estimate is ($1,326,667) for Test Year 2017-2018. This is calculated by using the capital overhead percentages applied to the plant additions expected for each year.

ORA agrees with this methodology but ORA's estimate is ($697,667) due to changes ORA makes to plant additions. ORA recommends 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.

CHAPTER 5 : PAYROLL

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for Payroll expenses for San Gabriel's Los Angeles ("LA") 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 in 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.[36] Finally, a request for a new executive position, Vice President of Regulatory Affairs, is detailed in Robert R. Nicholson's direct testimony.[37]

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

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

For comparison purposes, the company currently staffs 261 employees.[38] 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 requests increasing 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 validate this strategy by default. The commission should not fall victim for 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.

[38] Payroll Work papers UPDATE.

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 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?[39]

The company responded:

> San Gabriel has not yet filled any of the requested positions[40]

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?

[39] Data Request JR6-003, Q1.

[40] JR6-003 (Response), Q1.

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 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.[41]

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 "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. 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 recently has requested over a 10% increase in payroll, SGVWC's should have known this request would require substantial factual documentation in support of this request. Yet with almost all of the positions requested

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

in the GRC, the company failed to provide detailed documentation or discussion. This could have been provided in the form of:

- 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 company had an additional two years to prepare its filing.

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. The number of ratepayers eligible for CARW benefits demonstrate this: 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, a water IOU 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,[42] perform daily inspections of all supply sources and operating equipment,[43] purchase materials/labor/services to fulfill the agreement,[44] perform routine gardening and custodial duties,[45] maintain the City's Geographical Information System ("GIS"),[46] 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

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

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

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

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

return back to idle workforce. When the contract was not renewed in 2016, this exact situation came to fruition.

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.

Los Angeles Division

g. Servicemen (2) & Field Assistants (2)

Currently the company has five crew trucks in the LA system. Two of these trucks are valve trucks used to exercise water valves on an annual basis. Currently in LA, one serviceman and one field assistant will be assigned to either a valve truck or a leak detection crew. The company says this level of proper staffing will ensure safety.

ORA already addresses blanket safety concerns with the recommended authorization of safety specialist discussed in section (r) in this chapter. This position will

---

(continued from previous page)

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

bring specialized knowledge of safety. Continuing this theme, the company supports its request by saying the "additional serviceman and Field assistant are needed for safety when working..."[47] deductive logic raises the question: if these positions are needed for safety, are adequate safety protocols currently being met? ORA and the Commission alike take safety very seriously. If SGVWC views safety in the same light, it would have already hired these positions when the need became immediately apparently and not wait five years to request it in a rate case filing. If the company has continued concerns regarding safety, the Commission should order the company to conduct a safety audit-the results of which be reported back to both the Commission and ORA.

The other two positions will be assigned to a new leak detection program. SGVWC states that the benefits that the leak detection program provides are extensive.[48] 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 these positions. 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 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.

Putting it all together, the company has not demonstrated a substantive need for these four positions. Therefore, ORA recommends that the Commission disallow these four positions.

[47] Direct Testimony of Robert DiPrimio, p. 35.

[48] Direct Testimony of Robert DiPrimio, p. 36.

h. Water Treatment Operator IV (2)

The company provides a list of facilities added since 2009 to support its request for two new Water Treatment Operator IV's ("WTO"). Yet while the list provides some insight, it does not provide the detail of the specific man hours required for these additional facilities. Additionally, since many of these facilities have been in operation for over six years, the company should have already absorbed the extra workload. At the very least, overtime log sheets of the current WTO's could have been provided to demonstrate a labor shortage; this was not provided in the filing.

In addition to the new facilities, the company cites vacation leave as a contributing factor in this request. The company states that with 20 WTO's the annual vacation realized is 370 days or 1.5 men per day, excluding sick, jury duty, disability, and family leave.[49] Thus, the two new positions will increase efficiency. ORA views this argument skeptically. Because vacation is calculated as percentage of hours worked, essentially this calculation follows a sliding scale. In this case, the company is using this argument to increase headcounts from 20 to 22, but hypothetically this argument could also be used to increase payroll from 40 to 44. Essentially this is a strawman argument detracting from a discussion of the actual man hours required of the current facilities.

Expanding upon this, the company should have provided workload calculations or a time motion study detailing the actual man hours required for each of the facilities. This is especially disconcerting considering the company had an additional two years to provide this data. It is also worth noting that the company did not mention the workload changes associated with the termination of the Montebello excess capacity contract. There could be a reduced overall workload now that SGVWC is no longer providing service to this contract, but the company did not discuss this in testimony.

Also worth noting, the company requested these positions in the most senior classification, which is coincidentally the most costly to ratepayers. No discussion of why the company needs to hire the most senior positions or whether lower cost options exist.

[49] Direct Testimony of Robert DiPrimio, p. 38.

A cost benefit analysis showing the classification required for specific tasks would have provided more substantive support for these two positions. San Gabriel did not provide this in the application. Altogether, the company's support for these two positions is seriously lacking. This necessitates the denial of this request.

i. Plant Maintenance Man A&B (2)

In support for the request for the two Plant Maintenance Man positions, the company detailed the additional workload required of facilities added since 2004. This includes: 40 hours per month of routine maintenance at various plant sites, 20 hours per month of landscaping, and 72 hours per month of water treatment maintenance.[50] This breakdown is helpful for ORA's analysis. Yet ORA questions how the company was able to absorb or defer this amount of man hours over a twelve year period. If these numbers were accurate, the company would have thousands of hours of deferred maintenance resulting in a plethora of other problems. This would be in the form of, rundown buildings, unkempt properties, citizen complaints, dilapidated facilities etc. or the company would have had to engage outside contractors, authorize excessive overtime hours, or outright hire a new positions outside the GRC cycle; none of this was demonstrated in the filing or on site visits.

In addition, the company has many avenues at its disposal to absorb this additional workload. The company could have hired outside contractors, or subcontracted some of these tasks to a firm specializing in landscaping or plant maintenance. At the very least, these avenues could have been explored, and then detailed in a cost benefit analysis in support of the two positions. There is also no mention of how the termination of the excess capacity contract affects the workload required of these positions. The lack of discussion and documentation necessitates the denial of this request.

j. Safety Specialist

SGVWC currently staffs a Safety Specialist in FWC Division, and a Safety Coordinator with duties across both divisions. The company requested a Safety Specialist

[50] Direct Testimony of Robert DiPrimio, p. 39.

in LA Division to deal with constantly changing and increasingly stringent safety regulations. The addition of this new position will provide an equal and comprehensive safety program across each division.[51]

While the company did not provide detailed documentation of this claim, it is not correct to have a specialist for only one of the divisions. The current configuration is inadequate to address the safety priorities across both divisions. Thus ORA is in agreement with the company and recommends the new position of Safety Specialist for the LA Division.

The company cites safety as a core reason justifying many new positions in this filing. Specifically, the company listed safety as support for the position of Field Engineer in the General Division; two Serviceman, two Field Assistants, two Water Treatment Operators, & two Plant Maintenance Men in the LA Division; and two Plant maintenance Men in the FWC Division. The benefits of allowing this request are twofold. Increasing safety staff from two positions to three, across all divisions, should address SGVWC's safety concerns. This newly augmented department will be able to create effective safety protocols for all positions within the company thereby diminishing the need for additional positions. This is especially important as many of the requested positions will not have the expertise in safety that this newly hired specialist will.

ORA recommends the Commission allow SGVWC to hire a Safety Specialist in the Los Angeles Division.

k. Project Administrator

The company requests a new position of project administrator for the LA division. Citing the inundation of clerical duties upon superintendents and managers within the company, this new position would alleviate this burden.[52] In regards to specific projects, the company states:

[51] Direct Testimony of Robert DiPrimio, p. 39-40

[52] Direct Testimony of Robert DiPrimio, p. 40.

These projects include extending the existing recycle water system, expanding treatment systems, and constructing or rehabilitating water supply wells.

ORA wishes to highlight the company's use of the specific recycled water extension program as support for this position. This specific project was authorized in Commission's Division of Water and Audits Advice Letter ("AL") 469 mailed September 16, 2015. 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.[53] 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. Presumably, 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,[54] ORA voiced these concerns and specifically asked if any new positions would be requested in the upcoming GRC related to recycled water main extension. Water Resources manager for the company, Dan Arrighi, stated unequivocally "No."

DWA & ORA wished to know the exact costs of the project in AL 469 with a filing in late 2015. The company should have asked for a new position in that Advice

[53] Advice Letter 469.

[54] Email Dated October 1, 2015 RE: San Gabriel AL469-Site Visit.

letter proceeding so the impact on ratepayers could have been adequately realized. In effect, this new position request would have increased that advice letter request approximately 20%, from $423,000 to $503,000. This is a significant difference. These situations are precisely why ORA reviews Advice Letters. In this specific case, ORA would have most likely protested.

ORA recommends a Project Administrator be allowed in General Division. This is discussed in section (k) of this report. As the duties for that position span both LA and Fontana Divisions, ORA contends that the newly forecasted position will alleviate the burden on superintendents and managers in the LA Division. While SGVWC demonstrated a need for one project administrator, it was not able to demonstrate a need for two in one rate case filing. Based on aforementioned facts, ORA recommends denying this new position request.

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 two positions.

CHAPTER 6 : EXECUTIVE COMPENSATION

A. INTRODUCTION

This chapter presents ORA's analysis and recommendations for Executive Compensation expenses for the Los Angeles ("LA") Division 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

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

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.

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."[55] 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.[56] Further, the rate department is regularly required to participate in Commission's Order 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.

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

[56] 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."[57] 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 have effectively reduced burdens 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 its 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.[58] Further, the company either

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

[58] $169,093 average of 160 salaries for the position of 'Vice President' at Goldman Sachs https://www.glassdoor.com/Salaries/vice-president-salary-SRCH_KO0,14.htm.

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 inflated. The company ultimately failed to demonstrate the benefit to ratepayers for this position. ORA recommends the Commission deny this new position request.

New Assistant Secretary

The company supported its request for the new position of Assistant Secretary as a way to retain the invaluable knowledge and experience of the former long-time Chairman of the Board and CEO Robert H. Nicholson Jr.[59] 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.[60] [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, the San Gabriel is significantly smaller than CWS or ASW. This comparison can be viewed in Table 6.5 below. This is an apples to oranges comparison and cannot be relied upon as support for this new position.

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

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

[60] Attachment A SG-6 Confidential.

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.

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.[61] 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.

[61] A1007019 Appendix E Settlement Agreement Between ORA & SGVWC, p. 40.

Table 6.3 – Executive Compensation from Fontana Prior GRC Compared to Current GRC

This 89.35% increase in projected Executive Compensation is supported in 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

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.[62] No such 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 spends 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 much higher costs for similar services they receive from the Chairman of the Board that are paid by the AWC. For example, based on SGVWC's response to ORA Data Request AMX-003,

[62] SEC Release No. 34-46079.

SGVWC is adamant that Mr. M.L. Whitehead as the Chairman of the Board provides similar services to both SGVWC and AWC.[63]

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.

Based on the data responses provided by SGVWC against 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 the 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 scope of the AWC's operations and service territories that helps to compare the two utilities.

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:

[63] See Attachment 6-1: SGVWC's Response to ORA's data request, AMX-003, Q1.

> 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 jurisdiction of their respective State commissions. In fact, AWC's operations are bit 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 costs 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.[64] ORA does not dispute that charging actual payroll is a preferred method. However, under the light of these new facts, what ORA disputes is whether 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 a relatively higher cost of $8.83[65] per customer for the Chairman of the Board salary while the AWC's ratepayers pay a mere $1.28[66] 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. Additionally, this would ensure that there is no conflict of interest in its results. In SGVWC's case, the Chairman of the Board Mr. Michael L. Whitehead, the executive currently requesting a salary of [redacted] in the Test Year for this GRC is the one compiling the compensation survey. Thus, ORA cannot rely on its inputs or conclusions.

Because SGVWC's forecast is unreasonable and cannot be relied upon, ORA develops 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

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

[65] [redacted]

[66] [redacted]

(continued on next page)

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

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.

D. CONCLUSION

ORA's 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 because its foundation is without 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.

(continued from previous page)

[redacted].

CHAPTER 7 : UTILITY PLANT IN SERVICE

A. INTRODUCTION

This chapter sets forth the analyses and recommendations for San Gabriel's requested capital plant projects for its Los Angeles Division during 2016-2019.

ORA performed an on-site inspection of the Los Angeles Division facilities[67], spot audited three accounts[68], verified receipt of contributions from the Water Quality Authority (WQA)[69], reviewed San Gabriel's ("SGVWC") application and work papers, researched low income concerns in El Monte and unincorporated Los Angeles, and prepared formal and informal discovery over many months to form the basis for the plant recommendations included within this chapter. While ORA commends SGVWC for its generally good response time for discovery, ORA's ability to review their filing was slowed by SGVWC's errors[70] and omissions of key explanations.

B. SUMMARY OF RECOMMENDATIONS

For 2016-2019, SGVWC requests company-funded[71] gross plant additions for the Los Angeles Division totaling $85,182,000. By comparison, ORA recommends $40,694,760[72].

ORA's recommendations include adjustments to the following:

- Eliminating the amounts for treatment equipment and structures at Plant 8 and Plant W6 = ($14 million);

[67] March 9, 2016.

[68] Accounts 306 in year 2012; account 332 in year 2011; account 343 in years 2013 and 2014.

[69] Mary Saenz Director of Finance at WQA June 6, 2016 email.

[70] Errors were found in the master plan tables (SG-8 attachment F); the storage discussion in the SG-8 testimony did not adequately discuss freeboard heights (new since the last master plan update) and equalization (DR 29); the treatment discussion in SG-8 did not adequately discuss USEPA views on perchlorate and 1,4 Dioxane treatment and blending; the testimony in SG-8 did not disclose that the cost benefit analysis of the solar installation only pertained to the Fontana district; the well and reservoir testimony in SG-8 did not reveal that some project requests originated over 10+ years ago; the testimony in SG-8 did not highlight the low water loss situation at SGVWC's Los Angeles division; the accounting for G6 doesn't corroborate with information in other filings, etc.

[71] SG-8, attachment A, LA tab shows only $650,000 in contributions (projects 7 and 8).

[72] LA workpapers Tabs: LP3, LP4. LP5, and LP6.

- Reducing the request for main projects = ($7.1 million);
- Reducing the request for several reservoirs = ($10.28 million);
- Eliminating amount for water rights = ($5.5 million)
- Capping the dollar amounts for a replacement well = ($1.1 million);
- Reducing amounts for pumping[73] = ($3.4 million)
- Eliminating the solar installation for the Los Angeles Division = ($1.2 million)
- Eliminating automated meter reading (AMR) = ($2.111 million)

Secondary proposal:

- IF the CPUC approves treatment facilities at Plants 8 and W6, then the amounts for WQA contributions should be increased by at least $ 5.534 million.

C. OVERVIEW

The capital project amounts San Gabriel requests for the Los Angeles Division are substantial and represent an approximately 67%[74] higher capital budget request than its last LA GRC. In the last LA GRC, the annual average request was $16.97 million, whereas in this case, SGVWC seeks $21.46 million a year on average; this is a 26% increase. SGVWC's Los Angeles capital budget request does not adequately consider low customer growth in Los Angeles (1.3%[75] since 2009), the decreasing per capita consumption patterns (43% since 2007), or the significant increase in customers receiving low income discounted rates (49% CARE).

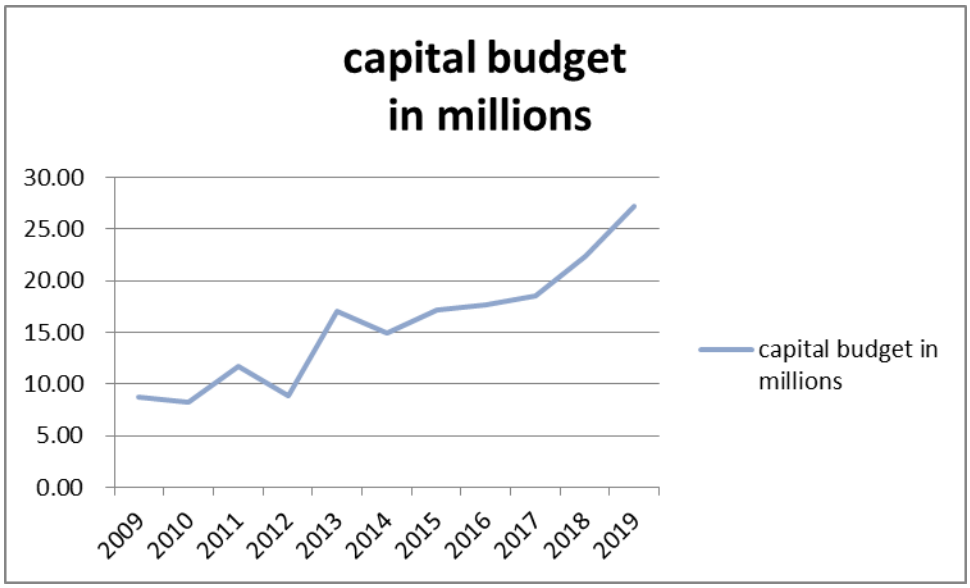
Here is the forecasted proposal in visual form presented along with historical levels of capital budgets. Note the huge increases for 2018-2019.

[73] Capping Plants 1 and 11.

[74] (85-51)/51= 67%- taken from Table 8B in this application and A.10-07-019.

[75] 2015 customers = 48,531 (tab LRV1 of workpapers); 2009 customers= 47,885 (A. 10-07-019 page 4-2 of application).

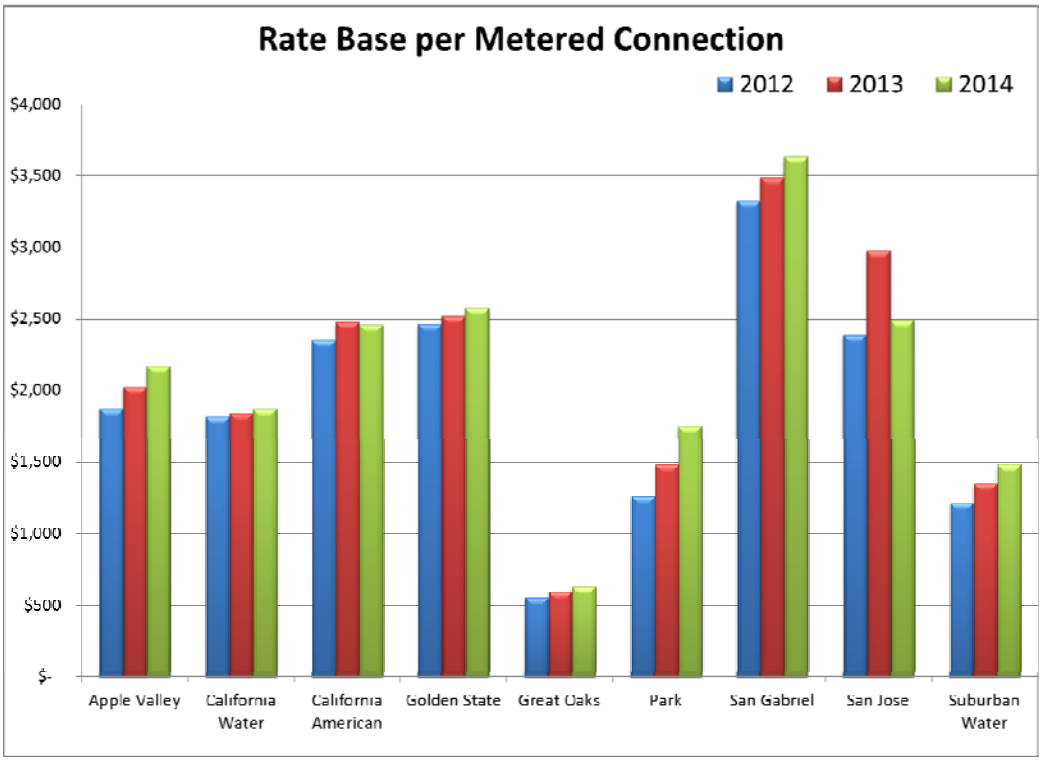
Figure 7.1: SGVWC's Capital Budget Request (Plant Additions)



Source: recorded info (2009-2015) from the supplemental data request; forecast information from Table 8B.

This is an impressive request and illustrates how SGVWC became the utility with the highest ratebase per connection among all other Class-A water utilities in the State. In reviewing the recent rate base per customer statistics for the Class A water utilities regulated by the CPUC, it is clear that the capital investments of this utility really stand out. It should be clarified that the chart below represents SGVWC rate base for both the LA and Fontana Divisions combined.

Figure 7.2: Class-A Rate Base per Metered Connections



Source: November 16, 2015 ORA report, "A Study of Class A Water Utility Performance Metrics"

In this proceeding, San Gabriel seeks over $85,182,000[76] in capital improvements for the Los Angeles Division alone for years 2016-2019. By comparison, in the last GRC, SGVWC requested over $60 million for 2010-2013, and settled with ORA on an amount 19.8% less.

A breakdown of the current request for Los Angeles (versus the last LA GRC request) is as follows:

[76] To give context, SGVWD asked for $51 million in the prior GRC (A.10-07-019); and $49.8 million in GRC A.07-03-003 and $13.5 million in GRC A.04-09-005.

Table 7.1: Comparison of SGVWC's Capital Budget Request

(Current GRC v. Last GRC)

Categories	Current GRC	Last GRC
	(in millions)	
Mains and Services	31.8	25.79
Treatment Facilities	13.79	5.75
Reservoirs	13.54	11.39
Pumping	10.49	12.36
Land and Water Rights	5.5	0.8
Meters	3.21	1.32
Wells	2.46	1.45
Structure	2.29	0.1
Others	2.1	1.42
Total	**$ 85.18**	**$ 60.38**
Treatment: Accts. 331 and 332		
Pumping: Accts. 321 and 324		
Source: Workpapers, tab LP1		

These requested amounts represent increases in every category except pumping. The proposed increases in capital improvements would bring its Average Utility Plant to $361,894,000[77] by 2018/19. Considering that the 2007 average plant in service amount (pre-financial crisis timeframe) was $214 million,[78] SGVWC is seeking to increase the plant in service by 69%. Over this same time period, the number of customers increased by only 2% and per capita consumption decreased significantly. Therefore, the proposed capital investment per customer would be increasing at an alarming rate.

The burden on the 47,000 customers in the Los Angeles Division is heavy, and it is exacerbated for those customers already shouldering the increasing subsidies of low income discounts. The Commission needs to recognize the outcome of the successful enrollment of the low income community[79] into discounted rates and the resultant rate

[77] MDR section D, Q.1, Attachment 5, pp 2 of 3.

[78] Data from the MDR in the last general rate case suggests that the 2007 average utility plant in service number is $214 million while the 2007 annual report schedule A-1a for account 100.1 Utility Plant In Service states an end of year (EOY) plant in service of $223 million.

[79] In LA district, the CARW eligible communities are in El Monte and the unincorporated LA county

(continued on next page)

burdens. Since the last GRC, there has been a mandatory data sharing[80] effort with electric utilities (for SGVWC it is with Southern California Edison). This collaboration of energy and water utilities has allowed low income eligible customers on discounted energy rates to be easily enrolled into discounted water rates. This has ***significantly*** increased the participation rate of eligible customers into the discounted rates. As a corollary, those not on the discounted rate must increasingly subsidize those who are less fortunate.

The customer base of the Los Angeles Division is almost **50%** low income rate/CARW[81] eligible. By comparison, in the last GRC, rates were designed assuming a much more modest penetration rate for low income discounts. The growing burden on the remaining 24,000 customers *must* be addressed, in part by prudently limiting the capital budget[82] approvals. In addition, with the expected continuing declines in per customer usage[83], it makes more sense to weigh each capital investment against a stricter standard of review, not the status quo. Ratepayer impacts of projects and choosing projects that meet critical needs should guide the selection of projects and determine budget levels.

Percentage of Customers on Discounted Rates		
Last GRC	Current GRC	Percentage Increase
12.50%	49.10%	292.80%

To highlight the implications on the non-CARW customer base, we need only look at a recent advice letter filing. On September 2015, SGVWC submitted AL 468 to

(continued from previous page)

customers (DR LLK31, Q.1).

[80] D.11-05-020 ordered data sharing.

[81] See Advice Letter 468, CARW = California Affordable Rates for Water.

[82] In the last Park water rate case A. 15-01-001, penetration rates went from recorded 8% to projected 49.6% (2016) because of the SCE data sharing exercise. So this is a phenomenon of growing concern to ORA.

[83] http://drought.ca.gov/topstory/top-story-56.html.

implement a 12 month surcharge because there was a $3 million undercollection in the CARW balancing account. This problem alone will increase the average monthly residential customer bill by $3.32 for 12 months[84].

And as recently as March 21, 2016, SGVWC filed advice letter AL 476 to harmonize the low income programs of LA with the Fontana Division. While this sounds like a logical evolution, it required a 41.5% increase[85] in the surcharge placed on the LA non-CARW customers to fund the program. Therefore, the non-CARW customers will have two surcharges to bear until the aforementioned undercollection is paid in full[86].

With more and more water companies successfully increasing their enrollments into discounted rates, it is reasonable that a much higher level of sensitivity should be shown towards resultant rates and rate increases. Because the rate burdens on customers are increasing due to large capital investments, larger subsidies to those less fortunate and undercollections in balancing accounts (conservation and expense fluctuation true ups), the Commission should feel a sense of urgency and raise the importance of affordability to all the customers. To start the process, the Commission must make responsible and leaner decisions about capital budgets now.

In reviewing the Commission's Water Action Plan of 2010, we can ascertain that there are co-equal goals regarding rates. Specifically, it states as one goal

> Set rates that balance investment, conservation, and affordability. The CPUC will ensure that the established rates will provide for recovery of reasonable and prudently incurred costs and a fair and equitable return to shareholders. The CPUC will develop rates and ratemaking mechanisms to further the above goals of affordability, conservation, and investment in necessary infrastructure.

[84] Advice Letter 468, pp. 2-3.

[85] Advice Letter 476, p. 2.

[86] See tariff page Schedule LA-1 general metered service, special conditions 2 an 3.

When discussing affordability,[87] one needs to acknowledge the high cost burdens faced by those residing in such high cost areas as Los Angeles and San Francisco. The resultant decisions regarding prudent infrastructure investments should be revisited. Affordability for ALL (1) those in need *and* 2) those who subsidize the low income customers) has to rise in importance for all Class A water utilities, and for SGVWC in particular.

While the average rate base per metered connection for the nine Class A Water Utilities was $2,116 in 2014[88] it was $3,633 for SGVWC's on a total company basis in 2014. Let's look at the LA portion specifically. In its filing, SGVWC shows a $2,851 ratebase /customer for the LA Division in 2014 in its responses to the Master Data Request. However, a calculation using their 2014 annual report data for LA would suggest a much higher $3,164[89] ratebase /customer for 2014. The Commission should not treat lightly any misinformation presented by a utility in an application and the supporting documents. It is disconcerting for a company to misstate the burdens of a customer. SGVWC has not accurately shown what its ratepayers bear in terms of a rate base burden. In either case, LA is egregiously above average in terms of rate base per customer compared to other Class A water utilities. This should sound an alarm bell. SGVWC is not the only CPUC regulated utility with a water supply in the superfund site[90].

[87] Pacific Institute paper on "Assessing water affordability" dated August 2013 uses 2% of median household income as the water affordability threshold. El Monte barely meets this test, and if you factor in the unaffordable housing burden (http://articles.latimes.com/2013/oct/10/business/la-fi-median-home-buyer-20131010), the rising unaffordability of water in LA is of great concern.

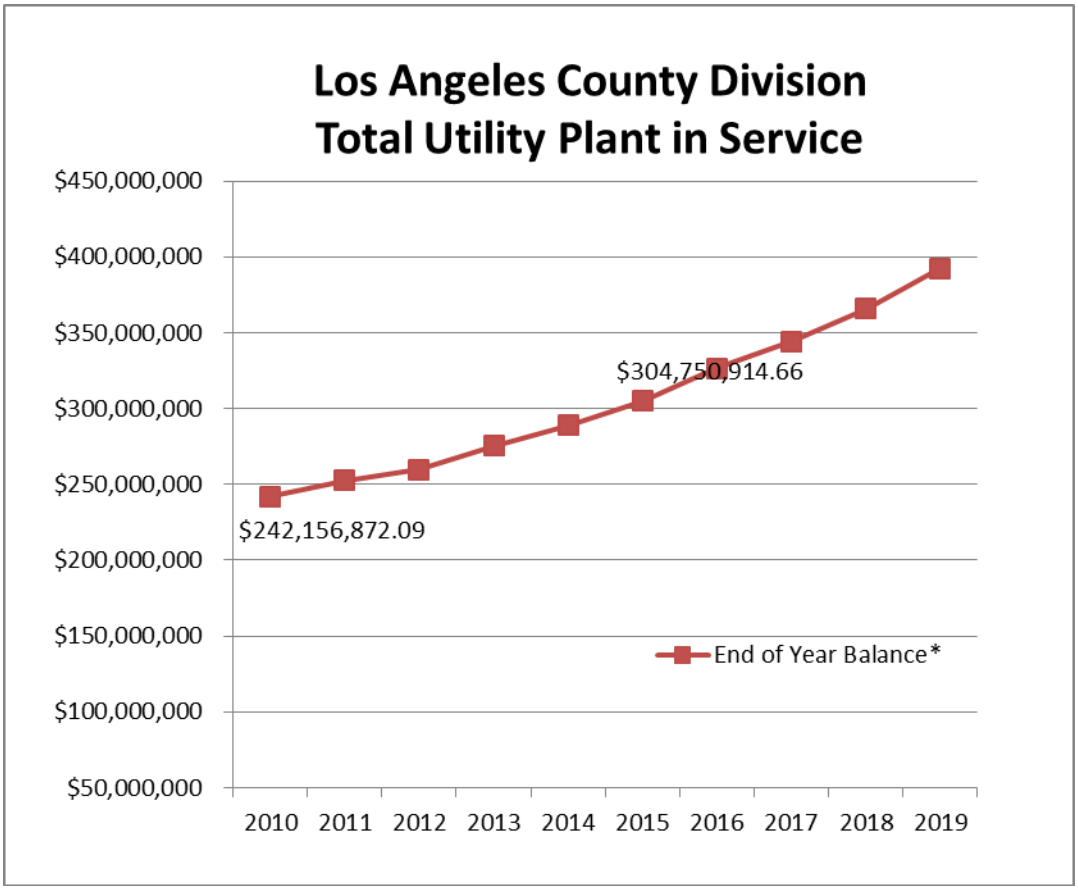
[88] From November 16, 2015 ORA report, "A Study of Class A Water Utility Performance Metrics"

[89] $ 149,190,917/47140

[90] Golden State and Suburban also receive funds from the Water Quality Authority (LLK-009, Q.11)

Figure 7.3: SGVWC's Los Angeles Division Capital Budget

(EY Plant Addition)



Source: recorded info from DR LLK-23 Attachment A; forecast information from Table 8C

The entirety of the capital budget is very important because it asks for an ever increasing burden on customers relative to the past since we now know that nearly 50% of the customer base is low income eligible.

There is another reason to review SGVWC's capital budget request with a critical eye. There is almost double the amount of water supply capacity in SGVWC's system to meet demand. Therefore, there is no need for additional wells or water rights, and treatment should be rejected as premature.

Supply and Demand Outlook

When totaling the current capacity of all the wells listed in Table 5-2 in the 2012 Master Plan, the available supply adds up to 82,913 gallons per minute ("GPM") capacity. Add to this the 1200 gpm from the City of Industry and there is a resultant supply of 84,113 gpm.

In discovery[91], SGVWC revealed that the 2015 average day demand ("ADD") for LA was 19,088 gpm. ORA, calculated[92] the maximum daily demand ("MDD") and peak day demand ("PDD") amounts as follows:

Table 7.2: SGVWC's Water Demand

Zones	ADD (gpm)	MDD (gpm)	PHD (gpm)	Fireflow (gpm)	MDD + Fireflow (gpm)
	AL7005			Table 7-4	
		ADD*1.5	MDD*1.5		
west				4,500	
east				4,500	
south				4,500	
Total	**19,088**	**28,632**	**42,948**	**13,500**	**42,132**

While based in the SGVWC's Master Plan for Los Angeles Division, the supply sources are as follows:

[91] DR AL&-005, Attachment A tab for LA.

[92] California Code of Regulations Title 22 section 64554 states MDD is 1.5 times ADD and PDD is 1.5 times MDD. SGVWC uses a higher factor than 1.5 for these calculations.

Table 7.3: SGVWC's Water Supply

Well/Connections	Active Well Capacity (gpm)	Other sources (gpm)	Emergency Capacity (gpm)
plant 1	11,409		
plant 2	7,983		
plant 8	13,466		
plant 11	6,169		
plant b5	9,402		
plant B6	4,000		
plant b7	2,952		
plant b9	742		
plant b11	2,608		
plant b24	6,045		
plant b25	4,754		
plant b26	2,661		
plant g4	993		
plant w1	3,952		
plant w6	5,777		
COI		1,200	
LA	**82,913**	1,200	-

With a water supply capacity of 82,913 GPM and the water demand at 42,132 GPM, the supply is far in excess of demand; therefore, justifications for additional supply ought to be rejected.

In that context, we now discuss the particulars of the request but we order them in terms of topics: Mains/Services, treatment, reservoirs, pumping and well related, land/water rights, meters, wells, and structures.

Table 7.4: Comparison Summary---Company Funded Capital Budget

Company Funded Capital Budget---Comparison Summary ($000)								
Items	**2016**		**2017**		**2018**		**2019**	
	SGVWC	ORA	SGVWC	ORA	SGVWC	ORA	SGVWC	ORA
Land/Water Rights	2,500	0	1000	0	1000	0	1000	0
Wells	910	910	1250	150	150	150	150	150
Pump Structure	2,730	1150	2800	2330	160	160	1255	955
Pump Equipment	1,538	1538	570	570	1270	220	170	170
Treatment Structure	-	-	-	-	3710	-	5980	-
Treatment Equipment	-	-	-	-	-	-	4100	-
Reservoirs	1,370	1350	2110	-	5700	1910	4360	-
Mains	5,500	3743	5700	3930	5900	4117	6100	4304
Services	2,000	2000	2100	2100	2200	2200	2300	2300
Meters	405	267	1095	272	851	278	861	283
Hydrants	120	120	125	125	130	130	135	135
Structures	255	255	955	355	990	390	90	90
Office Equipment	135	135	125	125	135	135	45	45
Transportation	161	161	300	300	107	107	293	293
Communications	45	45	35	35	35	35	45	45
Tools	30	30	31	31	32	32	33	33
Total	17,699	11,704	18,196	10,323	22,370	9,864	26,917	8,803
2016-2019 Total							85,182	40,694
Difference								**44,488**
ORA Recommendation as % of SGVWC Request								**52%**

D. DISCUSSION

The top three highest capital investment areas are mains/services, treatment, and reservoirs. ORA will address this first.

1. Mains/Services

For this rate case, SGVWC requests $23.2 million for mains and $8.6 million for services over the 2016-2019 timeframe. ORA recommends $16.094 million for mains and does not take issue with the $8.6 million for services.

In terms of dollars requested, the project areas of mains contain the most substantial increases and a large percentage increase (**42%** relative to the 2014 annual report). Shown below is a presentation of the forecast request and the most recent recorded totals, along with the 7 year average annual spending amount over 2009-2014.

Table 7.5: SGVWC's Request for Water Mains & Service lines---Comparison Historic Average v. Current Request

Year	Request of Water Mains (in millions)	Request of Water Service lines (in millions)
2016	5.5	2
2017	5.7	2.1
2018	5.9	2.2
2019	6.1	2.3
Total	**23.2**	**8.6**
Recorded Data[1]		
2009	3.3	2.3
2010	3.6	1.9
2011	3.1	2.1
2012	1.2	1.9
2013	7.7	2.7
2014	7.9	2.4
2015	3.5	2.9
7-year Average	**4.3**	**2.3**
1/ from supplemental data request provided with application per rate case plan		

Because SGVWC's request for services is lower than the 7 year historical annual average, ORA will not object to its proposed capital budget request for services. It is a rational proposal given the low projection of customer growth, and the fact that SGVWC spent 87% of what they budgeted for "services" (account 345) in the last GRC.

A. Audit Findings

During the audit of account 343, mains, ORA sought to better understand why 2013 and 2014 bookings were so large. What ORA learned was that the "underspending[93]" of years 2010-2012 created the substantial overspending in 2013. SGVWC had caught up to the total dollar amounts authorized for mains at some point in 2013. After SGVWC "caught up" on plant investment for mains they did not stop spending. Instead, SGVWC continued the high level of investment of main replacements in 2014. Therefore, 2014 spending should not be considered as a base for future levels of

[93] Underspending is relative to what was authorized in the last GRC decision D.11-10-18.

expenditure. Nevertheless, ORA included it in the 7 year average annual calculation above. It should be noted that recorded 2015 levels of $3.5 million are less than half of 2014 spending levels and more consistent with what the CPUC authorized for years 2012-2103.

i. Authorized vs Spent

The table below shows what the Commission authorized for Mains in the last GRC versus what SGVWC spent for years 2010-2013. SGVWC provided this sheet to ORA on March 30, 2016.

Table 7.6: Water Main Capital Expenditure Comparison---Authorized v. Actual

	2010	2011	2012	**2013**	Total	Average
CPUC Authorized	4.85	1.99	3.75	**3.00**	13.59	3.40
Actual Spent	3.57	3.00	1.19	**7.72**	15.48	3.87
Actual Spent(%)	74%	151%	32%	**257%**	114%	114%

In other words, the utility caught up to total authorized amounts for mains during 2013 and kept spending through 2014. Therefore, the recorded levels of 2013 and 2014 are not representative years and should not be seen as the new normal. Therefore, it is more reasonable to look at historical averages over a longer period of time (i.e. $4 million), since SGVWC had low years and high years.

Having said that, let's discuss some additional parameters that support a more modest main replacement budget than what SGVWC proposed.

ii. Low leak History

It should be highlighted that the LA Division has unaccounted for water at 5.6 %[94] and a historic average annual water loss rate of 5.3.%[95] This low percentage rate is well

[94] See MDR, section E, Q.2.

[95] See master plan update Table 3-5 (SG-8 Attachment F, p. 52).

below the industry target of 10% for losses (AWWA best practice[96]). As such, there is no sense of urgency to inflate the main replacement budget to address water losses.

To further enumerate this, ORA reviewed the annual water audits information

iii. Water Audit Information

In reviewing the water audit information from 2011-2015[97], ORA found encouraging information. With regard to real losses[98] on the system, SGVWC has lost between 2-4% of its water supply due to leakage, which is still significantly lower than the industry target of 10%.

Table 7.7: Historic Water Loss

Year	Real Losses per year in million gallons	% of Water supplied that year
2011	269.02	2%
2012	374.2	3%
2014	476.82	4%
2015	335.31	3%
2015	409.71	4%

While the amounts are increasing, when viewed in the context of the amount of water supplied, the losses are neither alarming nor cause for ramping up main replacements due to leakage. In terms of the number of leaks per year, there is also little cause for alarm. SGVWC's responses to ORA's data request[99] information reveals the following:

[96] AWWA 1991 best practice standard requires water utilities to have less than 10% unaccounted for water. Note: improvements to the standard are underway, but no new benchmark has been defined since the 10%.

[97] DR LLK 001, Q.7, tabs on water balance

[98] Defined as leakage on the transmission/distribution mains, storage, and service connection.

[99] DR LLK -024, Q.8 supplemental information attachment 4, DR LLk-003, Q.9a, Attachment B.

Table 7.8: Historic Numbers of Leaks

Year	Number of Leaks
2008	93
2009	64
2010	70
2011	60
2012	65
2013	73
2014	66
2015	58
Average	69

This information, coupled with information from the Master Plan[100] which shows annual water main breaks from 1982-2011 shows 1) a decrease in annual leaks since 2008, and 2) SGVWC doing very well in recent history from its annual average of 69 leaks a year to the most recent 58 leaks in the year 2015.

iv. Main Breaks

On page 213 of the Master Plan update, SGVWC discusses its water main break history. It concluded that SGVWC has a main break rate of about 17 breaks per 100 miles per year. Further in the discussion, the Master Plan cites AWWA research which concludes that a reasonable goal for main breaks per 100 miles per year in North America is 25-30 main breaks per 100 miles per year.

SGVWC is considerably below the AWWA "reasonable goal for main breaks". This is very good news about the LA system. Now let's review what they have been doing.

v. Historic Main Replacement Activity[101]

SGVWC has historically replaced 1.99 miles of mains per year[102]. This represents about 0.344% of their total system. The data for the past 7 years is as follows:

[100] Figure 7-18, p. 215 in SG-8, Attachment F.

[101] DR LLK 24 Q 5; DR LLK 26, Q.6, Attachment J.

[102] Similar historic data show a 7 year average of 1.17 miles being dedicated to new pipe construction. Accounting for the negligible customer growth figures in this GRC cycle, ORA does not consider new

(continued on next page)

Table 7.9: Historic Average of Pipeline Replacement

Year	Miles of Pipe Replaced	% of Total Pipeline
2009	1.77	0.3
2010	3.05	0.5
2011	0.49	0.08
2012	0.34	0.06
2013	2.67	0.47
2014	3.7	0.66
2015	1.92	0.34
Average	**1.99**	**0.34**

In 7 years, SGVWC has replaced a total of 13.94 miles of mains, but SGVWC is asking to replace 13.47 miles of main in this one GRC cycle. Specifically, SGVWC proposes installing as much pipe in 4 years as it had the prior 7 years.

Table 7.10: Proposed Average of Pipeline Replacement

Year	Proposed Miles to Install	% of Total Pipeline
2016	2.45	0.39
2017	3.31	0.67
2018	3.65	0.62
2019	4.06	0.88
Average	**3.37**	**0.64**

Based on the history of leaks and breakage, SGVWC's increase in total miles of main replacements is not warranted.

ORA seeks to lower the main replacement budgets for all four proposed years on the grounds that they are 1) excessive in the context of past history and 2) the need to contain capital costs is paramount.

(continued from previous page)

miles of pipe to be relevant for its analysis.

vi. Percent Main Replacements Due To Leaks

In discovery, ORA sought to better understand the significance of main replacements due to leaks. ORA learned that for the Los Angeles Division, 63% of the pipelines replaced are due to leaks on average. In other words, because main replacements were largely due to leaks in the past and there is no largely perceived problem with leaks for the future (i.e. see the master plan), a small or average sized main budget would be reasonable.

vii. Leak Maps

SGVWC provided a helpful color coded map of areas within the system that experienced the most number of leaks over the past 5 years[103]. They also provided the summary of the hydraulic analysis of the projects marked as Priority 1 (see next section) projects.[104] From this information, ORA concludes that 2 projects in 2016, 2 projects in 2017, 3 projects in 2018, and 11 projects in 2019 relate to water leaks. It is important to note the small number of proposed mains that are designed to address water leaks.

viii. Priority 1 Projects

SGVWC performs hydraulic modeling under multiple scenarios (see SG-8 attachment F (Master Plan Update Appendix G page 7), from this hydraulic modeling SGVWC prioritizes its pipeline segments that have a history of leakage[105] and are vulnerable to damage. ORA is mainly concerned with those projects San Gabriel identified as Priority 1 projects in this GRC.

Due to limited discovery time, ORA was not able to delve further into the criteria put into the hydraulic model that determined the Priority 1 projects. In the Master Plan Appendix I, there is a list of parameters and the criteria used to run the model. They include velocity, head loss, roughness factors, pressure, pipe diameter, age, and fire flow. In future cases, ORA will ask for Priority 1 results with different criteria settings.

---

[103] DR LLK 026, Q1b, Attachment B.

[104] DR LLK 026, Q2a, Attachment D.

[105] DR LLK -024 Q 8 supplemental information attachment 4 plus DR LLk-003 Q 9a attachment B show the past history of leaks in the last 5 years .

Nevertheless, of the 76 proposed projects in this GRC, only 36[106] are identified as Priority 1. Reviewing the data from the company shows that there is $5.1 million in Priority 1 main replacement projects. ORA utilized the data SGVWC provided to extract only the costs for mains (not services) and found the following cost information for Priority 1 projects. Although the time frames are different between the Master Plan update and the GRC filing, ORA only seeks to capture the costs of the 36 Priority 1[107] projects San Gabriel proposed.

The Table 7.11 below lists the 36 projects identified by SGVWC in discovery[108] that are Priority1 projects (from the Master Plan) that are also included in this application. The list includes the vicinity of the pipe, the original year of installation, the length of pipe in feet, and the pipeline cost. The total length of pipe replaced for Priority 1 projects is 7.13 miles[109] of pipeline replacement.

Since the average yearly pipeline replacement is 1.99 miles of pipe, over 4 years, they could replace 8 miles of pipe. By addressing the Priority 1 projects first, SGVWC will still have 0.87 miles of pipe or, 4,590 feet of main pipe to replace for other hydraulic or coordination purposes under ORA's recommendation.

[106] LLK-003, Q7b, Attachment A.

[107] The 18 projects with leaks per hydraulics analysis are included in these 42 Priority 1 Projects.

[108] DR LLK-003, Q 7b, Attachment A. SGVWC's response was misleading as 5 mainline projects are not in the application: Herb, Belgreen, Gemwood, Marland, and Domo.

[109] 37,650 feet, which is also 7.13 miles.

Revised Table 7.11: List of SGVWC's Priority 1 Mainline Projects

Vicinity	Year Installed	Length (ft)	Water Main Pipeline Cost
Crossvale	1950	300	$ 37,500
Walnut Gr	1971	1,200	$ 150,000
Granada	1932	450	$ 56,250
Als	1953	600	$ 75,000
Factorial	1955	650	$ 97,500
Lambert	1970	300	$ 45,000
Kerrwood	1945	600	$ 90,000
Bannister	1947	600	$ 90,000
Covina	1945	1300	$ 162,500
Rama	1956	750	$ 93,750
Dillerdale x	1955	800	$ 100,000
Stichman	1954	1900	$ 285,000
Le Borgne	1954	1500	$ 225,000
Flanner	1954	800	$ 120,000
Sauder	1954	300	$ 45,000
Bromley	1956	800	$ 120,000
Ardilla	1956	1750	$ 262,500
Steddom Easement		300	$ 37,500
Pollock	1959	600	$ 75,000
Bonwood	1951	750	$ 93,750
Bunker	1949	950	$ 118,750
Delco	1950	350	$ 43,750
Cogswell	1949	1350	$ 168,750
Channelwo	1959	700	$ 105,000
Tamar	1959	2200	$ 275,000
Meeker	1959	2200	$ 275,000
Sandspring	1956	2200	$ 275,000
Sandia	1956	1800	$ 225,000
Croton	1956	2200	$ 330,000
Balmoral	1956	1150	$ 143,750
Lampson	1956	1200	$ 150,000
Rideau	1956	1150	$ 143,750
Noyes	1956	1000	$ 125,000
Springland	NA	500	$ 125,000
Yoder	1956	200	$ 30,000
Elford	1956	950	$ 142,500
Galemont	1989	1300	$ 195,000
total length of pipe		37650	feet
36 projects		7.13	miles
DR LLK- 003 Q 7b Attachment A			$ 5,132,500

Revised Table 7.12: SGVWC' s Proposed Budget for Priority 1 Projects

Year[1]	SGVWC's Proposed Budget for Priority 1 Main Replacement Project
2016	$803,370
2017	$1,363,750
2018	$1,080,000
2019	$1,885,000
Total	$5,132,120
1/ Time fames are different between the SGVWC's Master Plans Update and its GRC Filing	

Therefore, ORA recommends an overall budget of $16 million over the next four years (2016-2019) consistent with historical spending levels. This budget would provide sufficient operational flexibility for SGVWC a) to adequately address its Priority 1 projects, b) include the 18 projects that were identified with leaks, and c) address other service quality related projects.

ix. Other Pipeline Deficiencies (Old Pipes, Hydraulic Deficiencies)

SGVWC makes the assertion that mains that are beyond their "useful life" need to be replaced, but presents no analysis of its own pipes to show that vintage mains are more susceptible to breakage. Age alone should not be the only factor determining replacement[110].

SGVWC identifies 24 projects in this GRC cycle that replace old pipes[111]. ORA's proposed budget should allow for the inclusion of some of these replacements.

SGVWC also identifies numerous projects in this GRC cycle that address "hydraulic deficiencies." These deficiencies could be due to high velocity flows, high friction head losses and inadequate fire flows. The Master Plan Update[112] defines the

[110] For example, the material used, the soil corrosive conditions, and the number of leaks ought to be considered.

[111] LLK 026, Q2a, Attachment D; old leaky pipes are not included in the count.

[112] Appendix I.

criteria for determining a hydraulic deficiency and the numerical values used to identify system deficiencies. Undersized pipe is often the reason behind a hydraulic deficiency[113] so most of the projects increase pipeline diameter.[114] SGVWC should focus on Priority 1 projects first and address hydraulic issues as the budget allows.

x. Coordination Opportunities

SGVWC asserts that main replacement costs can be reduced when the work can be coordinated with road construction projects (SG-8 page 65), but there is no analytic support for this. While it is intuitive that sharing the costs of trenching could lower costs, there is no explanation of the shared cost of trenching or specifically how the costs would be reduced. Furthermore, SGVWC has not shown that costs are reduced. SGVWC has not shown how including a project with City/County coordination versus a higher priority project was reasonable. SGVWC did not address questions such as whether deferring a project of greater need makes sense, or how costs are saved on a project that might otherwise be done in a much later GRC cycle. A more balanced approach would be to set aside a certain portion of the main replacement budget for coordination projects so that the highest priority projects are done first.

In this case, SGVWC includes only 1 project[115] in 2016 to coordinate with public works. This adds $830,000 to the main replacement budget, an amount that can be absorbed by ORA's recommended budget.

xi. Increasing Cost/lineal foot; Increasing Number of Projects

ORA performed an analysis of the 76 proposed main replacement projects to determine a general cost per lineal foot for each project to check for projects with high unit costs. To summarize the findings in annual terms it shows that:

[113] DR LLK032, Q.3c shows 25% of pipelines replaced in 2016 are undersized; 94% in 2017; 49% in 2018 and 36% in 2019.

[114] One project in 2018 decreases in pipe diameter; and one project in 2019 keeps the same pipe diameter.

[115] Norwalk Blvd S/Holbrook Street.

The 2016 main replacement budget proposal had an average cost of $359/LF

The 2017 main replacement budget proposal had an average cost of $282/LF

The 2018 main replacement budget proposal had an average cost of $258/LF[116]

The 2019 main replacement budget had an average cost of $483/LF[117]

To compare with historical, in 2010 the average cost per lineal foot was $217/LF[118]. Using escalation[119] from SGVWC workpapers, that brings the number to $233/LF in 2016. Projects with high unit costs increase these averages and they propose an excessive number of projects in later years.

In 2016, SGVWC proposes 11 main replacement projects

In 2017, SGVWC proposes 16 main replacement projects

In 2018, SGVWC proposes 18 main replacement projects

In 2019, SGVWC proposes 28 main replacement projects

This calls into question why SGVWC increased activity and budgets in years 2018 and 2019.

When evaluating the annual main replacement project budget proposals against the average annual amount actually spent in the last 7 years, the SGVWC's requested budget for 2016, 2017, 2018, and 2019 is 4%, 8%, 13% and 17% above the 7 year average, respectively.

[116] Two projects drove this up: one project at $7000/LF and another project with $513/LF.

[117] One project at $2727/LF drove the average unit cost up.

[118] SOURCE: LLK 26, Q.6, Attachment J and supplemental data request information attachment 74e.

[119] From tab LEX24 of LA workpapers using the non-labor composite factors.

This is not the appropriate time for SGVWC to propose such increases.

Recommendation for main replacement budget

ORA recommends that the Commission adopt a budget proposal for main replacement that is more consistent with historical averages. With customer growth at low levels (0.2 % for years 2010-2015), per customer usage decreasing (43% from year 2007 to 2016), leak issues abating, and very high percentages of low income customers, SGVWC should not be trying to increase capital budgets. This shouldn't be difficult since during 2015, SGVWC booked $3.5 million or $ 804,000 less than the 7 year average for main replacement projects.

To get annual budgets, ORA utilized the same percentage of average recorded amounts that the services budget proposal had. The resultant amounts are consistent with historical main replacement investment levels. ORA proposes[120] the following main replacement budgets which total $16.094 million:

Years	2016	2017	2018	2019	Total
ORA Recommendation (in millions)	$3.743	$3.93	$4.12	$4.30	$16.094

SGVWC did not justify its relatively higher budget for main replacement that far exceeds its 7-year average capital expenditure. Based on aforementioned facts and findings, ORA recommends that an overall budget of $16.09 million is reasonable which is 30% lower than SGVWC's request of $23.2 million for mains.

2. Reservoir

In this GRC, SGVWC requests $13.54 million for reservoirs while ORA recommends $3.26 million for the sole purpose of refurbishing its existing reservoirs.

Relative to the recorded plant figures of the 2014 annual report, the biggest percentage increase comes from the proposed reservoir projects. In this case, SGVWC

[120] 7 year average for mains= $4.34 million; 2016 =86% average; 2017= 90% average; 2018=94.7% average; 2019= 99% average (based upon what occurred with the services budget).

seeks to construct/retrofit 10 reservoirs at 7 sites in four years, thereby increasing reservoirs in service by 87% (again, relative to the numbers in the 2014 annual report).

Table 7.13: SGVWC's Request for Reservoirs

Year	SGVWC's Request
2016	1 Reservoir at Plant G6
2017	2 Reservoirs at Plant M4
2018	4 Reservoirs at Plant 1 (2), and Plant 14 and Plant B14
2019	3 Reservoirs at Plant 13 and B15 (2)

This is an extremely aggressive wish list that has little consideration for the customer base that has to shoulder these increases and the current adequacy of capacity.

Not only that, it is extremely unrealistic, given SGVWC's past 6 year history shown in the graph below. More recently, in the last GRC, SGVWC asked to build/replace 9 reservoirs for $11.389 million and recoat 8[121] reservoirs adding another $2 million to the request. However, recorded amounts in the reservoir account show that SGVWC only booked $3 million (or 22%) in the reservoir account for all reservoir investments. For this amount, San Gabriel built three reservoirs at sites B6, G3 and G6 and 1 reservoir was recoated[122] during 2010-2015.

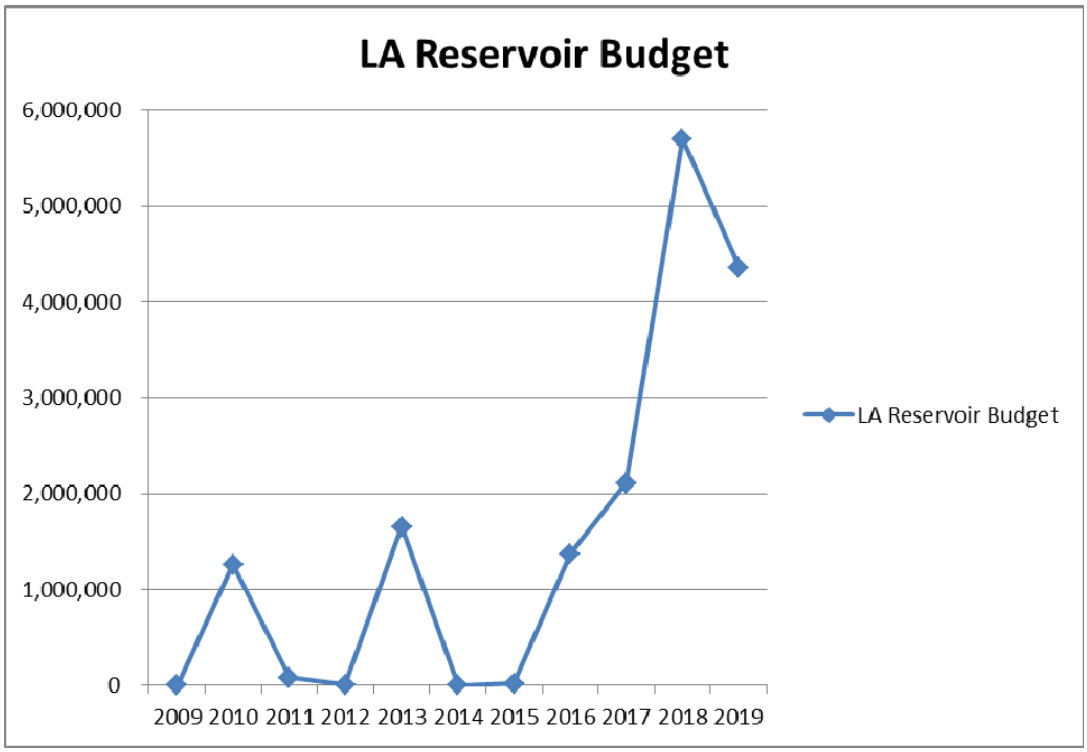
Let's take a look at the proposed budget for reservoirs against historical levels from 2009 through 2015. The graph really indicates the significance of SGVWC's proposals.

[121] G3, G6, 1,2,7A,B18A, B17, and B15.

[122] G3 original large tank, DR llk-34, q 1c.

Figure 7.4: Comparison of Los Angeles Division's Reservoirs:

Historic v. Current request



Note: In 2010 two reservoirs were constructed at G3 and B6[123], in 2013 G6 was booked.
G6[124] wasn't used and useful until May 2014 according to PTM dated December 31, 2015, so the booking is perplexing.

a. The skewed nature of the request

Proposing to build 7 reservoir projects in the 2018-2019 is unreasonable, and building 10 reservoirs in 4 years is ludicrous. In the recent past, there were no entries in the reservoir account for 2014 and 2015. Looking at the past history, it is more feasible and reasonable to build one reservoir in a GRC cycle.

[123] According to Table 5-17 in the Master Plan SG-8, Attachment F.

[124] DR LLK 34, Q. 2 says construction and booking of costs for G6 was in 2013 versus a Dec. 31, 2015 Petition to Modify D.11-11-018 which suggests that G6 was completed in May of 2014.

The average annual spending, (using 2009-2015 recorded data), would be $604,132. Multiplying this annual average by 4 years, we reach a $2.4 million spending level as a guide to what is a possible cap on spending on reservoirs.

The proposed reservoir construction binging is neither reasonable nor considerate of affordability concerns.

b. Faulty accounting of G6

Advice Letter 456 and the December 31, 2015 Petition to Modify ("PTM") D.11-11-018 states that San Gabriel completed reservoir G6 in May 2014. This does not reconcile with the 2013 bookings to the reservoir account 342. Therefore the recorded 2013 year of booking G6 into rate base is erroneous and must be corrected to exclude an extra year of return that is not earned.

Furthermore, the amount booked for G6 is too high. SGVWC's PTM states that the total cost of the project was $1.63 million. This is the amount San Gabriel recorded in 2013, but the settlement indicates an agreed amount of $1.47[125] million for this project.

Therefore, the amounts booked in 2013 related to G6 must be eliminated and the $1.47 million cap should be reflected in 2014, to more accurately reflect the date the reservoir became used and useful at the dollar amounts ORA agreed to permit in rate base.

c. Prior CPUC Approvals Going Back Four GRC's (History From 2001-2010)

SGVWC has an interesting history with reservoirs. Let's take a look at the history of SGVWC's requests for reservoirs over the last decade, with emphasis on a reservoir request at Plant 1.

In the GRC application from 2001, A.01-10-028, ORA agreed to 3 reservoirs[126] to be included in the capital budget and three reservoirs at Plants 1 and B14 for advice letter treatment if constructed.[127] None were built during 2001-2003.

[125] Adjusting the settlement amount to exclude the recoating = $1.47 million.

In the next GRC application from 2004, A.04-09-005, ORA agreed to 3 reservoirs[128] getting rate base treatment and three reservoirs at Plant 1 and Plant B24 to come in by advice letter filing if constructed. San Gabriel built only three of the six reservoirs they requested: M2, B12 and B 24.

In the following GRC application in 2007, A.07-07-003, ORA agreed to one reservoir, B6,[129] getting rate base treatment and four reservoirs at sites: 1, G3, B14, and G6 should be added through the advice letters if they were constructed (and bound by the cost estimates in D.05-07-044.) San Gabriel Reservoir B5 and B6. Specifically with regard to the reservoir at 1, ORA and SGVWC agreed that construction of a well 1F *and* the reservoir at Plant 1 would be capped at $1.455 million.

In the last GRC from 2010, A.10-07-019, the settlement approved 3 reservoirs[130] for rate base treatment and a reservoir and well (1F) at Plant 1 and a reservoir at G6 for advice letter treatment. The reservoirs at sites G3, B6 and G6 were constructed. Reviewing the details of the settlement shows that ORA and SGVWC agreed that the projects at Plant 1 would be capped at $1.9 million.

To summarize, the reservoir request at Plant 1 has been going on since 2001 (research couldn't go back further). This time around, however, the request for projects at Plant 1 is $5.07 million! Had the reservoir and well work been done years ago, we would not be looking at such an inflated request to build TWO reservoirs at this site along with a growing budget of site improvements to appease the City.

It is time for the Commission to limit the ability of a utility asking for the same project over and over and /or impose hard caps on the amount of dollars that can be booked to rate base when the project is ultimately completed.

(continued from previous page)

[126] At plants B12 and B24 (see D.02-10-058).

[127] D.02-10-058.

[128] At plants B12 and M2 (see D.05-07-044).

[129] See D.08-06-022, Appendix A (settlement agreement) plant B6.

[130] See D.11-11-018, Appendix E, p. 17 of the settlement agreement, plants B6, G3 and M3.

It is also time to recognize that although SGVWC and ORA have agreed to a number of reservoir projects (both for rate base purposes and for advice letter treatment) over the past years, SGVWC has built only a small portion of them.

d. Harper and Associates Analysis of the Condition of Existing Reservoirs

The qualifications of Harper and Associates[131] are sound. On their website, they state the importance of proper maintenance of reservoirs to increase the lifespan of a structure and how it will decrease overall expenses. Nowhere in the condition assessment reports provided in the workpapers was a report card on SGVWC's maintenance of its reservoirs. Instead, there was an overwhelming series of statements about the very poor condition of reservoirs.

Many of the reservoirs[132] had never received recoating of their interiors since they had been constructed[133]. Although ORA was unable to locate a formalized AWWA standard for recoating frequency, AWWA recommends evaluations every 3 years. This AWWA recommendation to evaluate conditions, understandably, was highlighted on the Harper website[134] (it supports their business plan). On the same webpage, Harper offers its services to prioritize facility repairs. ORA couldn't agree more with Harper and Associates, that prioritization of work is in order. Rather than spend $13.5 million in the next three years, SGVWC needs to spend $3.26 million to refurbish its reservoirs.

e. Harper and Associates Estimates to Refurbish 6 Reservoirs

Buried within the workpapers for each reservoir, was an estimate by Harper and Associates for refurbishing the reservoirs. Below ORA presents the total amounts, by plant site, for performing coating/painting, safety and health modifications and

---

[131] http://www.harpereng.com/#!rehabilitation/c1a4a .

[132] Reservoirs: 1, 2 large, 7, 12, 13, b5 large, b6 large, b12 large and small, B15 large, B18, B19, B24, G3, G6, M2, M3, M4, W1 large, W6 large. Some are too new to recoat. (source is the revised table 5-17 from the Master Plan update; DR LLK25, Q.1, Attachment F).

[133] Some have gone as long as 50-60 years without interior coating (#1, 7, M3, M4, B17, G6).

[134] http://www.harpereng.com/#!coating-inspection/c24al .

structural/seismic improvements. ORA excluded optional modification costs and purposely excluded the reservoir at Plant B14 because it had good interior and exterior condition ratings in the Master Plan Appendix F.

Plant 1 estimate = $346,800
Plant 14 estimate = $384,100
Plant M4 estimate = $606,100
Plant B15 estimate = $1.22 million
Plant 13 estimate = $376,600
Plant G6 estimate = $415,300
Grand total= $3,348,900

f. Redundancy as the only way to perform maintenance

ORA reviewed table 5-17 in the Master Plan to study the intervals between interior coatings and discovered that SGVWC has, in the past, been able to perform interior coating without the building of redundant facilities.

In discovery,[135] SGVWC discusses how it was able to alter operations in order to accommodate the need to recoat interiors. More of this kind of activity needs to be planned especially given the fact that, according to SGVWC's own claim[136], the water systems in both the LA and Fontana Divisions are completely interconnected. The cheaper alternatives, such as temporary reservoirs, also need to be pursued before SGVWC spends tens of millions on redundant facilities for maintenance work. An informal inquiry of other CPUC regulated water utilities suggests that there are cheaper alternatives to accomplishing interior maintenance[137].

[135] LLK025 Q 1 c, d, and e.

[136] AL7-007, Q.4; also confirmed in a phone call conversation between M. Yucelen, M. Aslam and A. Lau.

[137] Temporary portable plastic or fiberglass storage options, interconnections, and extensive work-arounds.

Currently, SGVWC has two reservoirs per site at 12 plant sites. With this application they seek to increase that percentage of plants with two reservoirs from 46% to 62%.

In the next GRC, SGVWC should present a better analysis of utilizing storage and facilities within the system to perform maintenance work. The Commission needs to redirect SGVWC's attention towards cheaper alternatives.

g. Questionable Need

In Table 7-6 of the 2012 Master Plan update, SGVWC presents its analysis on the need for new storage. Included in this analysis are substantial assumption changes from the last Master Plan (2009) with regard to the equalization calculation, fire and the operating capacity.

Table 7.14: Comparison of SGVWC's Storage Estimates---
2009 Master Plan v. 2012 Master Plan

Item	2009 Master Plan	2012 Master Plan	ORA
2015 Equalization	16.05 MG	13.74 MG	7.88 MG
2015 Fire Suppression	1.89 MG	3.24 MG	1.62 MG
2015 Emergency	7.55 MG	6.34 MG	6.3 MG
2015 Rated Capacity	41.01 MG	42.6 MG	42.6 MG
2015 Operating Capacity[1]	34.86 MG	29.74 MG	36.71 MG
System Surplus	9.37 MG	6.69 MG	20.92 MG
Average Day Demand (ADD)	37.8 MGD	31.7 MGD	
Maximum Day Demand (MDD)	64.2 MGD	53.9 MGD	
(MG= Million Gallons)			
(MGD= Million Gallons per Day)			
1/There was a change in methodology for calculating operating capacity			

Equalization storage is described in the Master Plan as the storage required to make up the difference between the peak demands and the rate of supply produced from the water source. AWWA has recommendations with regard to equalization that relate to

25% of the average day demand ("ADD")[138]. However, SGVWC utilized the higher maximum day demand ("MDD") to determine the equalization requirement. The utility suggests that cost savings are achievable through reduced pumping rates with the greater storage volume, but fails to provide in its application any proof, or cost/benefit analysis for the quantification of reduced power costs and other savings.

During discovery[139], SGVWC was asked to provide the cost/benefit analysis. Interestingly, SGVWC partially responded to this data request with 21 days of delay.[140] Furthermore, the cost/benefit analysis utilized MDD assumptions instead of ADD for the assessment of its equalization storage requirement. This creates an overstated amount for equalization storage needs. For example, SGVWC used an average peak hour electric rate of $0.7719 during the summer days based on the operation period of 3 p.m. to 6 p.m. However, the peak demand for the water consumption does not match the peak hour rate period (3 p.m. to 6 p.m.) for the electricity consumption. For example, while responding to ORA's data request[141], SGVWC stated that in its Los Angeles Division, the peak hour demand occurred between the hours of 9 p.m. through 10 p.m. for its Main San Gabriel Basin, and between the hours of 10 a.m. through 11 a.m. for its Central Basin. Adjusting the electric rates for the peak hours for water consumption shows that the cost/benefit analysis favors not having the new reservoirs.[142]

Another disconcerting assumption is fire suppression. Fire suppression estimates in this GRC are based upon 4500 gpm for 4 hours. SGVWC does not explain in its original testimony why the fire flow standards were changed from 3,500 gpm for 3 hours

---

[138] AWWA "equalization storage generally makes up one half the total storage required and about 20-25% of the average day demand (ADD)." Source: DR LLK 37 Q 1a Attachment A page 45. AWWA also mentions that excess pumping and piping capacity can decrease the amount of equalization storage…. and that some combination of pumping, piping and storage would produce the most economical combination.

[139] DR LLK 037, Q.1c subpart 2.

[140] Response to LLK-037 was due on May 6, 2016; SGVWC did not respond until May 27, 2016.

[141] SGVWC's response to ORA's data request, AMX-004, Q1.

[142] See Attachment A for the adjusted cost/benefit analysis at the end of this chapter.

in the last GRC to the higher requirement of 4,500 gpm for 4 hours in this case. In discovery, ORA asked that a run be performed whereby 4500 gpm was sustainable for 2 hours. In discovery, SGVWC explained that at the time of updating its Master Plans during 2012, the Los Angeles County Regulation # 8 (regarding fire flow) was in effect which requires 4,500 gpm for 4 hours for the buildings having floor area between 30,000 to 34,999 square feet. SGVWC also explained that structures of a wide range of sizes are present in San Gabriel's system. Therefore, San Gabriel sizes its fire suppression storage based on **the highest** typical fire flow requirement, representing a worst case scenario. In San Gabriel's experience, 4,500 gpm for a 4-hour duration is typically the highest fire flow required for the larger commercial, industrial and public facility structures.

Nevertheless, SGVWC's response remains insufficient since SGVWC did not provide the specific building sizes with respect to its various water systems within its Los Angeles Division[143] to warrant the use of over-arching fire flow of 4,500 gpm for 4 hours. ORA recommends that in its future application, SGVWC should include aforementioned specific information about its larger customers in its application and specifically, SGVWC should keep track of the actual structure type and related fire flow requirements in each of its subsystems within its Los Angeles County Division[144].

Emergency storage is designed to the AWWA requirement of 20% of the ADD. ORA did not adjust this.

The area of operating capacity is of great interest since it defines the capacity currently in the system. In the prior Master Plan of 2009, the storage operating capacity would be estimated to be 85% of the rated capacity. Under that prior methodology, the three reservoirs that have been built since the last Master Plan should increase the operating capacity. SGVWC does not show this increase in capacity because of a new way of characterizing the operating capacity. SGVWC is currently characterizing the operating capacity very differently. The 2012 Master Plan Appendix E shows that there

[143] LLK 37, Q.2a subpart 1, 3, 4 and 5.

[144] SGVWC has subsystems titled West, East, and South (Master plan Figures 7-1a, 1b, 1c).

is a 10.24 MG loss of capacity due to this "difference". For example, the calculation for the amount of "free board" feet you must have at the top of the reservoir has changed. In the past, this "free board" amount was defined as 0.5 feet, and now it's a complicated formula[145] that now requires between 3.36 feet to 9.03 feet. SGVWC states that there are new AWWA standards[146] that require this earthquake related "loss of storage" that relates to sloshing.

The overnight adoption of the earthquake related freeboard requirement by SGVWC is overly ambitious. SGVWC has neither allowed for the grandfathering of the current reservoirs from the new AWWA requirement nor allowed for a reasonable transition into compliance. In many AWWA standards, they consider the cost implications of their rules (i.e. water loss) so why would this be any different.

It is not shown or discussed whether the consultants considered secondary containment options or other options in its analysis as an alternative to additional "freeboard". For example, according to an Emergency Preparedness & Disaster Response Pre-Conference Seminar by Pacific Northwest Section of AWWA ("PNWS-AWWA"), the participants presented at least three other alternatives: 1) raise the roof; 2) Design and retrofit roof connections for forces applied to roof by sloshing waves in the case of insufficient freeboard; and 3) Accept the risk of insufficient freeboard---not likely to cause catastrophic failure of the reservoir---more likely to cause only local roof damage.[147]

In addition, it is not clear if Harper and Associates stands to win additional business with SGVWC for recommending larger capital intensive projects versus lower cost alternatives. According to their website, Harper and Associates performs construction management services. A conflict of interest with regards to winning construction management approval of final projects cannot be ruled out.

---

[145] Wave periods, sloshing wave formulas, and other acceleration calculations are included in the development of the free board calculation (See LLK 036, Q.11, Attachment __).

[146] AWWA D-100-11.

[147] Presentation by Lance Stevens, P.E. and Myron Basden, P.E. on April 29, 2015.

Nevertheless, the storage shortage scenario presented in the Master Plan is unduly pessimistic in terms of defining capacity and other assumptions. Instead, ORA asked that a revised calculation[148] be performed so that a more realistic picture of need could emerge. The results of the revised calculation demonstrate that new reservoirs are not needed in this GRC cycle.

In conclusion, ORA objects to using of three distinct assumptions SGVWC has on its assessment of storage capacity: 1) the use of MDD for assessing Equalization Storage; 2) the use of a high fire flow requirement on the total system; and 3) the use of the new free boarding requirement to reduce the existing storage capacity in its Los Angeles Division. It should be noted that by removing the free boarding requirements for the existing reservoirs alone, the need for the additional reservoirs is eliminated.

h. Capital Investment Per Customer of This Request

In this case, SGVWC seeks to build/replace 10 reservoirs at a cost of $13.54 million. Ignoring the implications of the subsidies for low income, for simplicity sake, the reservoir request alone, would have 49,000 customers each pay over $300[149] plus amounts for taxes, depreciation, and the cost of capital for these infrastructure investments alone. When taken together with the other substantial capital requests, this is an area that the Commission must scrutinize closely.

Recommendation for the reservoir capital budget

The average annual spending for reservoirs over the past 7 years has been $604,000/year and yet SGVWC seeks $1.37 million, $2.11 million, $5.7 million and $4.36 million in 2016 through 2019, respectively. ORA's aforementioned analysis shows that SGVWC's has ample storage supply; however, according to its consultant, a few of its existing reservoirs are in need of repair and maintenance. Therefore, ORA recommends that the Commission allow a total of $3.26 million for reservoir

[148] DR LLK 029 Q 2 provided as Attachment B at the end of this chapter.

[149] ($13.54 million/49,000 customers * 1.0849 ROR).

refurbishment over the 4 years 2016-2019. SGVWC should prioritize how it would spend $3.26 million over the years 2016-2019 in fixing those reservoirs its consultants deemed most in need[150].

ORA also asks the Commission to limit the ability of a utility asking for the same project over and over again and /or impose hard caps on the dollar amounts that can be booked to rate base when construction actually occurs. The 15 year request for a reservoir (and well) at Plant 1 is a prime example of why this is necessary.

3. Treatment

In this GRC, SGVWC requests $13.79 million for treatment and related structures. ORA recommends $0.

SGVWC seeks more than double the amount it requested for treatment plants in the last GRC. Looking at the request another way, from 2007 to 2014, the actual investment in treatment was $5 million,[151] yet SGVWC proposes increases of nearly $14 million in this one GRC cycle. SGVWC has not proven need for these expenditures.

SGVWC requests a perchlorate treatment for Plant 8,[152] which it had requested in its last GRC application, but this time, it doubles the request to include an additional $4.8 million for 1,4 Dioxane treatment.[153] SGVWC has not shown the reasonableness of constructing the treatment projects at Plant 8 (perchlorate and 1, 4 Dioxane) and W6 (1,4 Dioxane), nor have they demonstrated why they are not pursing cheaper mitigation options.

a. Alternatives not Considered

It is very disconcerting that SGVWC has not explored or discuss in their testimony such alternatives as blending. In a basin (designated as SEMOU-South El Monte Operable Unit by USEPA) where 1) other water purveyors have had their perchlorate

[150] See Appendix F of SGVWC's Master Plan-Los Angeles Division and Attachment C of this chapter.

[151] See annual reports for 2007 and 2014 Schedule A-1a for water treatment plant in service amounts.

[152] SGVWC also asked for perchlorate treatment facilities in A.10-07-019.

[153] Workpapers show this as UV treatment.

treatment facilities shut off from nondetection of contaminants, and 2) others have been granted approval to blend water, it is unreasonable for SGVWC to rule out other alternatives such as temporary treatment facilities or blending.

Blending has been written off as a viable solution because SGVWC asserts "USEPA's minimum pumping requirements---adding the production of the cleaner wells for blending would produce excess water that cannot be utilized in the distribution system.[154]"

ORA sought to follow up on the rebuttal testimony given in the last GRC against blending. Specifically, ORA asked for the citations from documents SGVWC provided: a) the cooperative agreement with USEPA; and b) sections of the Main San Gabriel basin Watermaster's Section 28 rules and regulations[155]. While SGVWC highlights the documents' verbiage related to minimum pumping, they do NOT preclude blending. SGVWC's main argument is that blending is not a viable option or that it has drawbacks[156]. ORA disagrees. SGVWC has not fully explored the blending option or how the "problematic" excess water supply could be rerouted to the distribution system, especially given the fact that its LA subsystems are completely interconnected[157]. Perhaps blending would eliminate the need for new wells as well. Plant 8 is in the Western operational system,[158] which is part of a schematic showing 15 reservoirs plus interconnections to the Eastern and Southern distribution systems. SGVWC should conduct more hydraulic analysis before blending is ruled out. ORA notes that Monterey Park (also within the SEMOU) utilized blending at Well 5 to combat perchlorate.

[154] DR LLk-009, Q.3.

[155] DRLLK-009, Q.2.

[156] DR LLK 009, Q.3.

[157] Master Plan figure 7-1a, plus figures 7-3a, b and c.

[158] Master plan figure 7-1a.

b. The Sudden Change in the Perchlorate Treatment Facility Construction Trigger

The treatment facility construction trigger is that point at which a company should construct a treatment plant relative to a contaminant's maximum contaminant level ("MCL").[159] The maximum contaminant levels are set by the federal United States Environmental Protection Agency (USEPA) and/or by the State Water Resources Control Board ("SWRCB").[160]

In the last GRC, the construction trigger occurred when the lab samples consistently reached or exceeded 70% of the MCL of 6 µg/L, which would be 4.2 µg/L.

Since the last GRC, a big change in the construction trigger took place for perchlorate in the location where Plant 8 resides. Instead of constructing treatment when consistent well samples exceed 70% of the MCL, the new trigger occurs when well sampling consistently exceeds 50% of the MCL, which would be 3 µg/L. ORA did not find a similar trigger adjustment in any other superfund operable unit. It is highly irregular to have one unit receive such a uniquely stringent requirement from the San Gabriel Basin Water Quality Authority (WQA.) Although the SWRCB is considering changes to standards and MCL levels for a variety of contaminants, no changes to the perchlorate MCL have occurred.[161]

c. San Gabriel Basin Water Quality Authority - WQA

The WQA is the body that is tasked with protecting and rapidly cleaning the San Gabriel Basin at the least cost to local customers.[162] WQA selects projects that will accelerate and advance cleanup activities to ensure clean water for the San Gabriel Valley community. They seek to prevent the movement of contamination. WQA sponsored

---

[159] The MCL for perchlorate is currently 6 µg/L; the public health goal (PHG) , not a regulatory standard, is 1 µg/L.

[160] The Department of drinking water (DDW) within the SWRCB.

[161] http://www.waterboards.ca.gov/drinking_water/certlic/drinkingwater/MCLReview2016.shtml talks about the review of the perchlorate MCL including cost concerns; there is no mention of 1, 4 Dioxane.

[162] WQA mission statement in annual report.

projects maximize the use of existing wells and pipelines to save money, and also treat water in areas where it can then be productively used. They purport to seek to minimize cost impacts on local customers. Because they aggressively seek funding from the responsible contaminating parties as well as federal and state governments, they disburse funds to the various units within the San Gabriel basin.

For this GRC, SGVWC justifies its construction of a $4 million perchlorate treatment facility based upon evidence it says shows that the new, lower 50% trigger has occurred. ORA reviewed documents and meeting notes from the WQA in search of the history and origin of the marked change in the construction trigger from 70% to 50% for the treatment of perchlorate in SEMOU. ORA does not have strong confidence in the dramatic change in the construction trigger for building a treatment facilities sooner because 1) there is no documentation in WQA business meeting notes about the change nor 2) is there any analytic support to demonstrate why one subunit in the superfund site should get a more aggressive construction standard for perchlorate.[163] To date, ORA's email request on April 6, 2016, to two different WQA employees[164] requesting an explanation of this construction trigger change have gone unanswered.

Recent water sample readings[165] suggest that perchlorate is not even consistently at the 50% trigger.

It is instructive that in 2010 the WQA withdrew over $2 million in awards to SGVWC for the perchlorate treatment at Plant 8. The caveat that they MIGHT reinstate the monies at a later date can be found in the March 16, 2010 WQA meeting notes.[166] It appears that even the WQA has reservations about the timing of perchlorate treatment. The latest WQA meeting notes from a regular meeting dating April 20, 2016 show no

[163] Other operating units have higher measurement of perchlorate levels; i.e. Baldwin Park.

[164] Randy Schoellerman and Ken Manning.

[165] DR LLK 09, Q.15.

[166] LLK 009, Q.8.

capital disbursements for the SGVWC Plant 8 in years 2014-2017 and there are no references for Plant W6 disbursements.

ORA reached out to the WQA, via email and phone, to better understand the process and meaning of the withdrawal of award monies. ORA only learned anecdotally that a few "others" have had this happen to them. The letter SGVWC received from the WQA about the withdrawal of over $2 million in contributions did not explain 89% reduction to the award amount or what caused the change of heart.

For comparison, SGVWC's Plants B5 and B6, in an entirely different operable unit called Baldwin Park, with perchlorate treatment facilities in operation, have registered perchlorate levels in the 9-61 µg/L range[167]; meanwhile Plant 8 has had random readings in the non-detect- 1.2 µg/L[168] range. Therefore, the plants with high perchlorate readings received substantial contributions from WQA to fix the problem (i.e. B5 and B6). The lower perchlorate readings at Plant 8, the withdrawal of contributions from WQA, and the closure of other perchlorate facilities all suggest that construction at Plant 8 is premature.

It should be noted that SGVWC executive, Mr. Whitehead (Chief Executive Officer of SGVWC and member of the Board of Directors for SGVWC), also sits on the board of the WQA. His position on the WQA indicates a possible problem with an insufficient arm's length space between the regulator and the regulated.

d. USEPA

In its research, ORA read documents from the USEPA that related to the applicable superfund site. The research left off with USEPA "continuing to evaluate the perchlorate and 1, 4 Dioxane situations". No decisions or directives have been made.

[167] See the 2014 Annual Performance Evaluation Report- Volume 2 Baldwin Park operable unit, June 15, 2015.

[168] DR LLK-09, Q.15.

Therefore, it seems premature to take such costly action at this time. This is particularly true since recent samples show non-detect levels[169].

While SGVWC gives little heed to EPA,[170] ORA finds the deliberative process of USEPA refreshing. In the Nov 10, 2005 Explanation of Significant Differences ("ESD") to the 2000 interim record of decision for the South El Monte operable unit, EPA states that "perchlorate… may require treatment…. EPA is currently evaluating the need for 1, 4 Dioxane treatment and containment." No other record of decision has been found. Further, the 2005 ESD states, on page 5, "In some cases where the perchlorate concentration in water purveyor wells is just slightly above the State drinking water advisory level, water purveyors may be able to ***blend*** perchlorate contaminated water with clean water to meet Safe drinking water advisory level."

This same document goes on to say that the need for containment of 1, 4 Dioxane detected above State drinking water advisory level in the shallow aquifer is currently being evaluated. Treatment for the 1, 4 Dioxane in the intermediate aquifer was not included as part of a remedy as of 2005. USEPA and the California Department of Drinking Water ("DDW") are both considering what monitoring is appropriate for this emerging contaminant.

An email from USEPA[171] dated May 9, 2016 confirms that 1,4-dioxane is not currently part of the EPA's remedy and that perchlorate levels of Monterey Park and Golden State are currently below the MCL.

e. Department of Drinking Water ("DDW")

ORA sought to retrieve written guidelines from the Department of Drinking Water on regulations related to the blending of water to treat perchlorate and/or temporary treatment. DDW does not have a link on their website where rules about dealing with

[169] A claim by Mr. Arrighi when asked on audit day of March 30, 2016 – also in the presence of Mehboob Aslam.

[170] DR LLK 0 Q5 "irrespective of EPA's review…".

[171] Rachelle Thompson.

contaminants can be found.[172] Absent clear regulation, it seems that blending is reviewed on a case by case basis, and has been approved in the past for Golden State and the City of Monterey Park.

f. Underrepresented contributions

In the application workpapers for investments in Plant 8, there is information on the company funded portions and information on contributions from other entities to help defray the cost. In the last GRC, SGVWC estimated contributions totaling $1.625 million for treatment; and in this case, they only show $650,000[173] for contributions.

It is unreasonable to represent such a small contribution amount when WQA may reinstate[174] the $2.467 million in awards when construction begins. While ORA agrees that WQA is correct to withdraw official financial support at present, if the Commission adopts SGVWC's proposal to include the UV and perchlorate treatments, one must also impute a contribution amount of $5.534 million. This imputed amount of contributions is derived from doubling the original 2006 award amount of $2.767 million for treatment at Plant 8 in 2006. This is a proxy of the minimum contribution amounts SGVWC should be seeking for Plant 8 and Plant W6 treatment facilities. In 2015, SGVWC received $5.881[175] million from WQA for treatment facilities constructed at B6. This recorded amount shows that ORA's contribution amount is reasonable. As further support for the contribution estimate, ORA points out other awards SGVWC received from WQA:

- Plant B5 received $ 9.369 million and
- Plant B6 received $8.636 million [176]

Therefore the company's estimated $650,000 in contributions is unduly low.

---

[172] March 16, 2016 email from Cindy Forbes, Deputy Director of Division of Drinking Water at SWRCB.

[173] See tab LP4 and LP6 in the SG-2 LA workpapers.

[174] See March 16, 2010 WQA meeting notes , page 3 under section "Discussion/Action regarding FFPA Proposed Allocations".

[175] DR LLK 32, Q.6.

[176] DR LLK 09, Q.11.

Recommendation for the water treatment capital budget

ORA recommends that no dollar amounts be placed in the calculation of this GRC's revenue requirement for the purpose of water treatment. Instead, ORA recommends SGVWC file an application with the Commission when the USEPA issues a decision document related to conclusive guidance on perchlorate and 1,4 Dioxane for South El Monte. Furthermore, the filing(s) should include an analysis of: 1) blending and temporary/mobile treatment facilities alternatives, 2) comparative cost data from other perchlorate or 1, 4 Dioxane facilities in the same superfund site 3) strong efforts on SGVWC's part to secure additional contributions from the WQA, and 4) a clear accounting of the contributions from the WQA.

1. Land and Water Rights Purchases

In this GRC, SGVWC requests $5.85 million for the acquisition of water rights. ORA recommends disallowing this request.[177]

The minimal increases in customers, the conservation efforts, excess supply and the rate burdens negates the need for additional supply. Furthermore, SGVWC's discussion[178] on the need and reasonableness of this request is lacking and it does not provide adequate support for the budget request.

SGVWC asserts that fewer rights are available for lease,[179] but ORA could not find any information in the application that supports SGVWC's assertion. SGVWC provided no statistics in testimony to show what was available historically and how the past availability compared to the availability of water rights in 2015. Without this kind of support, it is difficult to grasp the "imperative nature" of a large water rights budget. In a data request response[180], ORA learned that the amount of AF of water rights purchased in 2013 and 2015 was significantly greater than amounts purchased in the prior 7 years, so

[177] DRA did not adjust the $350,000 contribution amount.

[178] See SG-6 pages 48-49.

[179] Ibid, page 49 line 11.

[180] DR LLK -41 Q 1.

this alone does not substantiate the lack of supply. Furthermore, it is also not yet clear how the recent acquisition of the assets of the City of Montebello will affect their system needs, nor is it defined what might become of the water rights of the City of Montebello. The price and availability of the Montebello water rights should be monitored carefully.

Furthermore, there was no context given for the current $5.8 million request. In fact, no explanation was provided as to the reasonableness of the water rights purchases in 2013 and 2015, nor was it explained why the costs increased significantly (relative to purchases in 2010 and 2011) and how the benefits outweighed the increased costs.

As to what the ratepayers are getting for $4 million for miscellaneous water rights, SGVWC did not show what acre-foot of water would be purchased with the proposed budget. While testimony asserts that a 2015 purchase was the basis for the projected amounts, there was no workpaper to show the price or amounts assumed for years 2016-2019 to achieve the $5.8 million budget. In fact, company workpapers[181] only showed hardwired budget numbers. This is entirely inadequate support for ORA to review. Without better support, ORA can only recommend an amount of $0 million (plus the acknowledged $350,000 in contributions). Granting the request of SGVWC is akin to giving the company a blank check.

5. Wells

In this GRC, SGVWC requests $2.46 million for two wells, ORA recommends $1.36 million for a well refurbishment or replacement.

a. Need Assessment

Given the decreasing customer growth, excess supply and decreasing usage per customer, the request for wells at sites 1 and 11 is suspect.

Curiously, one justification SGVWC gave in the past against blending options for perchlorate treatment at Plant 8 was that blending would add volumes of water to the

[181] See Tab LP2 in SG-8 attachment A.

supply mix that could not be consumed[182]. If that is the case, is not clear why SGVWC is proposing new well production.

b. Prior CPUC Approvals Going Back 3 GRC Cycles

As discussed in the section on reservoirs, investments at Plant 1 have been approved for years. Specifically, a well at Plant 1 (1F) was approved for advice letter treatment for the past **ten years**. Beginning with D.05-07-044, the CPUC has allowed SGVWC to file an advice letter once the utility constructed a well at Plant 1. In the last two rate case cycles, the Commission imposed cost caps on Plant 1 projects. Cost caps are arguably more relevant today. Even though the settlement in D.08-06-022 allowed $610,000 for well 1F, SGVWC now requests $2.09[183] million for well 1F in this GRC. That's a 166% increase in cost at the same time as inflation ran 9.3%[184] over the same time horizon.

Similarly, two wells were approved at Plant 11 three GRC's ago in D.05-07-044. Subsequent GRC's only approved 1 well at Plant 11. No new wells were built at Plant 11 between 2005 and 2008.[185] In the last GRC settlement, $575,000 was allowed for one well at Plant 11. In this GRC, SGVWC requests $1.065 million for well 11D. That is an 85% increase from the prior request for the same well.

c. No Investments

As shown by the graph depicting past investments in wells below, the construction of wells was zero for many years even though SGVWC was asking for wells 1 and 11 over and over again. Only as recently as 2014 was a well (B24C) built; and it was not at site 1 or 11.

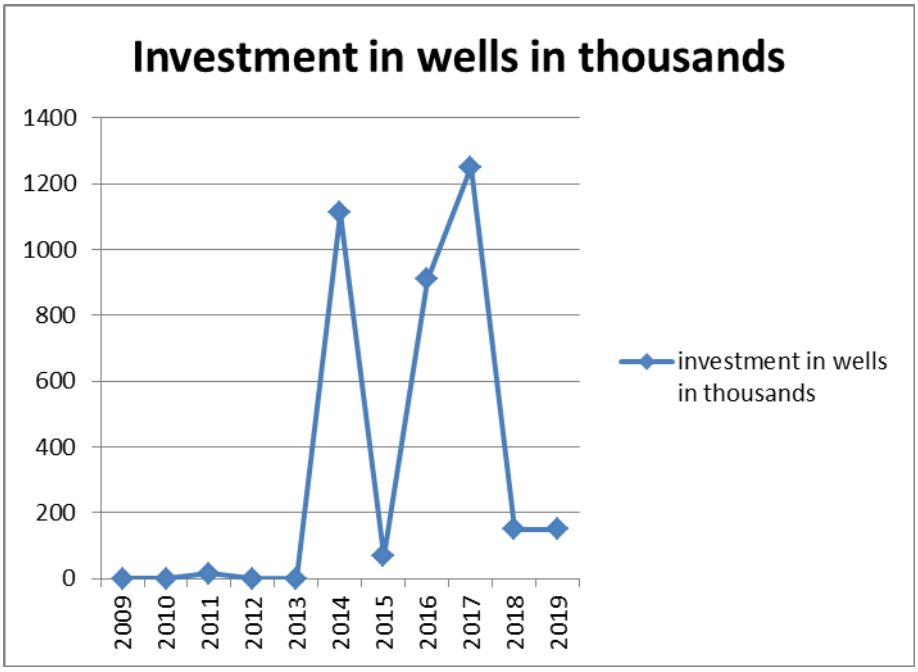
[182] Rebuttal testimony SG-17 in A.10-07-019.

[183] Money for well drilling and well equipment.

[184] From 2008 to 2016, composite inflation rates are: -1.4%, 3.2%, 4.2%, 1.5%, 0.7%, 1.6%, -0.5%, -0.3%.

[185] DR LLK 38, Q.1a.

Figure 7.5: Comparison of Los Angles Division's Wells
Historic Capital Budget v. Current Request



Well B24C (2500 GPM) was built since the last GRC (source: SG-8, page 61 lines 9-10)

Recommendation for the wells capital budget

ORA recommends a cap of $1.36 million for well refurbishment or replacement projects for 2016-2019. This cap is equal to the dollar amounts approved in the last settlement for wells 1F and 11D. SGVWC has successfully met customer demand for 10 years without constructing these two wells. Ample system-wide supply coupled with negligible customer growth would demonstrate that the need for these two wells is less than it was 10 years ago.

6. Pumping Equipment and Structures

When these two categories are viewed together, SGVWC requests $10.49 million for well equipment, related piping and electrical requirements, boosters and the related

electrical and piping, starters, SCADA, an air conditioner, a nitrate treatment building (slotted as pumping equipment), and site improvements.[186]

Table7.15: Summary of SGVWC's Request for Pumping Equip. & Structure

Year	Account 324	Account 321	Acct.324 & 321
	(in millions)		
2016	1.54	2.73	4.27
2017	0.57	2.80	3.37
2018	1.27	0.17	1.44
2019	0.17	1.26	1.43
Total	3.55	6.96	10.50
Average	0.89	1.74	2.63

For those accounts 321 and 324 items associated specifically with wells 1F and 11D, ORA sought to represent only an allowance of capital dollars capped at $1.36 million. Therefore ORA limited the dollars for the related pumping construction at Plant 1 and 11. ORA accepted all other pumping related forecasts. To summarize the recommendation is as follows:

Table 7.16: Comparison of Pumping Equip. & Structure

SGVWC v. ORA

Year	SGVWC	ORA
	(in millions)	
2016	4.27	2.69
2017	3.37	2.90
2018	1.43	0.38
2019	1.43	1.13
Total	10.49	7.09

7. Solar Installation[187]

In this GRC, SGVWC asks for $1.2 million towards a solar installation for the Los Angeles Division. ORA recommends $0.

[186] Well buildings, hillside stabilization, permitting, demolition, fencing, retaining walls, grading, landscaping, and recoating fences.

[187] Booked within account 371 structures and improvements.

SGVWC asks to install a solar powered generating system for the headquarters in El Monte. There will be numerous photovoltaic panels installed on the building rooftop and carports. The stated goal is to reduce daytime electrical consumption from Southern California Edison. Although SGVWC purports that this system will save $75,000 per year, SGVWC does not include the estimated $75,000 a year in energy savings from this proposed investment in the application.

These panels, along with charging stations for electric vehicles, promote SGVWC's brand as a company willing to invest in sustainability. In the filing, SGVWC presents information about the specifications on the selected panels, but there is no information on the analysis regarding the options available.

a. Faulty Cost/Benefit Analysis

ORA's data requests[188] revealed that the cost benefit analysis[189] for a solar installation was for a much bigger 2011 installation at the Fontana Division[190], not Los Angeles. Thus, SGVWC did not provide a cost benefit analysis for the Los Angeles Division. For the cost benefit analysis, SGVWC provided one for the Fontana Division. Please refer to ORA's plant chapter for Fontana Division Report, Chapter 4 to review ORA's analysis of the flaws in SGVWC's cost benefit analysis.

b. Lease options not explored

In reviewing the three buy options evaluated by the company, which proposes to design and construct the facilities, there was no mention of a leasing option. In the current solar friendly environment, a lack of consideration for a leased facilities option is unreasonable. There are companies out there that offer solar financing options and they compare the different cash flows and returns. Unlike the firm SGVWC utilized, that presented only buy options, other consultants determine the right financing strategy. To

[188] One informal data request response dated February 4, 2016 from Joel Reiker and DR LLK 21, Q.3.

[189] Performed by Chow Engineering.

[190] See ORA report on Capital projects for Fontana Division (Alex Lau) Chapter 4.

summarize, the analysis presented in support for the Los Angeles installation is irrelevant, outdated, and not comprehensive.

The cost/benefit analysis for solar should include the most current net energy metering arrangements available, should include the low financing options in the marketplace, and have a reasonable payback period. None of these were shown in the analysis used to justify the solar installation.

C. Costs for Solar are Decreasing

It is generally understood that solar costs are decreasing. (See ORA report[191]) Therefore, the October 2011 analysis used as a basis for the solar project are not an accurate reflection of the true costs or the true benefits for a 2017 solar installation[192].

Moreover, time of use rate changes, required of new net metering customers,[193] ought to be included in an updated cost/benefit analysis.

Furthermore, the ISO has disclosed that the supply of solar is dramatically increasing[194]. While it is speculative how the regulators will address this, SGVWC should be ready to take advantage of any low cost solar options.

D. Energy Savings not Reflected in this GRC

One of the main justifications for the solar installation is the possibility for electric expenses to decrease. SGVWC states in its response to ORA's data request, DR LLK 021 Q2 that SGVWC did not decrease any electricity costs in this GRC's workpapers. It is disingenuous to claim benefits of an investment without including the savings in the rate calculation. A new analysis with appropriate time of use rates is in order.

---

[191] http://www.dra.ca.gov/general.aspx?id=1600 "California Solar PV Paradox Oct 2010- declining California solar initiative process" In this report, DRA analysis found that global solar PV prices have fallen since 2008.

[192] http://cleantechnica.com/2013/06/19/forecast-cost-of-pv-panels-to-drop-to-0-36watt-by-2017/.

[193] See D.16-010-44.

[194] http://www.utilitydive.com/news/california-iso-generated-8-gw-of-solar-topping-last-years-record-by-2-gw/422766/.

Recommendation for the solar installation capital budget

SGVWC presented an unsatisfactory showing of the solar installation in LA Division for $1.2 million. Therefore, ORA recommends $0 for this project in the Los Angeles Division.

8. Automated Meter Reading

In this GRC, SGVWC seeks $2,582,000 in the LA division (through account 346)[195] for advanced meters. This is out of a total proposed meter budget of $3.212 million. Instead, ORA recommends a meter budget for manual read meters of $1.101 million.

As discussed in the ORA's report for Fontana Division, Chapter 4, ORA found serious erroneous assumptions in the cost/benefit analysis for advanced meters. ORA used actual 2014 cost data and consistent escalation factors for both types of meters and the result favored use of current manual meters. With proper assumptions utilized in the cost/benefit analysis, the results show that AMR should not be implemented. Please refer to ORA's Fontana Division Report, Chapter 4 for more detailed discussion. ORA then calculated a reasonable budget for standard manual meters.

Table 7.17: ORA's Recommendations for Manual Meters in LA Div.

Year	LA Div. Meter Replacement
2016	267069
2017	272,410
2018	277,859
2019	283416
Total	$ 1,100,754

9. Contribution Estimates

In this GRC, SGVWC represents that $650,000 of the nearly $86 million capital budget request will come in as "contributions" (contributions in aid of construction-CIAC) from other parties to offset the company's burden for capital projects. ORA rejects this estimate as perversely understated and instead recommend $2,398,354.

[195] See SG-5, p. 2-11.

a. SGVWC Estimate is Too Low

In the last GRC, SGVWC estimated $5.8 million in contributions over the 2010-2013 time horizon. The contribution estimate was 8.7% of the four year capital budget. In this proceeding, SGVWC suggests a contribution estimate of 0.75%. This is categorically low. Contributions can come from developers and from other sources[196].

Let's take a look at historical levels of contributions:

Table 7.18: SGVWC's Historic CIAC

Year	Los Angeles Div. CIAC (in thousands)
2011	$ 3,590.170
2012	$ 221.076
2013	$ 1,129.038
2014	$ 1,168.589
2015	$ 5,882.900
Average	$ 2,398.354

The Water Quality Authority (WQA) is one entity that has historically given money to SGVWC for a variety of water quality treatment facilities in the Los Angeles Division. By extrapolation, SGVWC should be showing $7.4 million in contributions if the 8.7% contribution figure from the last GRC were utilized.

b. WQA accounting

In data requests and separate inquiries to the WQA, ORA sought to better understand the historical disbursements of funds to SGVWC. While ORA didn't find a perfect match between company responses and those from WQA[197] it did show that the WQA has given SGVWC over $86 million for capital and operations since 2006[198]. This represents both capital and expense reimbursements for groundwater treatment and does

[196] Mutual water companies; SCE rebates; proposition 84 monies; federal ARRA funds, WQA, etc.

[197] DR LLK 09, Q.11 and 6/6/16 Spreadsheet from Director of Finance at WQA.

[198] SG-4, Attachment Q shows that SGVWC has received over $126 million in capital and operations since 2003; $60.75 million for capital alone (this equates to over $4.6 million a year on average.).

not include contributions the company would receive from other entities for mains/services, storage, etc.

With regard to Plant B6, where a perchlorate ion exchange system currently exists, WQA contributions represent 70% of the total project costs[199]. Therefore, the estimated $300,000 in contributions towards the proposed $13.79 million of treatment facilities in SGVWC's proposal is absurdly low.

Recommendation for the estimates of contributions for the capital budget

If the Commission accepts the company's premature proposals for perchlorate and 1, 4 Dioxane treatment, larger contribution estimates of $5.88 million ought to be factored into the revenue requirement calculation. This amount is based upon the 2015 recorded. If the Commission rejects SGVWC's proposal for perchlorate and1,4 Dioxane treatment plant then annual historical average amount of $2.398 million based on 5-year average should be represented for rate calculations.

D. CONCLUSION

Overall, ORA recommends a capital additions budget of $43.045 million for 2016-2019. This is 54% of the company-funded capital budget request[200] and represents a more reasonable capital budget. Consideration of low customer growth, the large low income customer base, and affordability issues reinforce ORA's recommendation.

Most of SGVWC's proposals are premised on capital increasing assumptions (i.e. building main projects beyond priority 1 ratings, aggressively reducing current storage facilities' capacity, building storage redundancy for maintenance purposes, premature construction of treatment facilities, repeated requests for facilities, etc.) ORA strongly recommends that the Commission observe the capital trends of this company and revise their requests to better reflect a more reasonable request given the company and their customers' circumstances.

[199] DR LLK 28, Q.1b, Attachment D.

[200] $85,182,000.

ORA suggests that the estimates SGVWC put forth for contributions of developers and WQA are too low. However, because ORA recommends $0 dollars for treatment at this time, the impact of WQA contributions won't be significant until SGVWC files for recovery of perchlorate and 1,4 Dioxane. If the Commission approves treatment for perchlorate and 1, 4 Dioxane at Plants 8 and W6, larger contribution estimates of $5.534 million ought to be factored into the revenue requirement.

More globally, as the IOU water utilities begin reporting their higher enrollment percentages of eligible low income customers into discounted water rates, and as successive drought years add up, another update to the CPUC's water action plan or an Order Instituting Rulemaking ("OIR") may be warranted to explore the necessity of making affordability a higher priority for ratemaking proceedings.

ATTACHMENT A

San Gabriel Valley Water Company
Los Angeles County Division
LLK-037 / ATTACHMENT D
Cost-Benefit Analysis

	Scenario 1 (With Additional Reservoir Capacity)	Scenario 2 (Without Additional Reservoir Capacity)
Proposed Additional Reservoir Capacity	2.51 MG	0 MG
4 Hours of Peak Hour Demand		2.51 MG
Peak Hour Demand		10,460 gpm
Hours of Well Pumping during PHD		4 hours
Total Dynamic Head		340 feet
Annual Energy Consumption during Warmer Months (Assume 120 Days)		432,500 kilowatt hours
Average Additional Energy Rate		0.752306 $ per kWh
Additional Energy Costs		$325,400 per year
Capital Improvement	New Reservoirs 2.51 MG Capacity	
Capital Cost	$4,920,000	
Recoating Cost	$300,000	
Initial Service Life (Chapter 5 of Master Plan)	50 years	
Capital Cost / Energy Cost	**$104,400 per year**	**$325,400 per year**
Energy Cost Savings	**$325,400 per year**	
Net Savings (Energy Savings - Capital Cost)	**$221,000 per year**	

SGVWC

Notes

Total Dynamic Head is based on the total head requirement groundwater wells. The TDH is based on an average groundwater pumping depth of 300 feet plus a lifting head of 40 feet above ground.

Energy Rates based on average of SCE Rate Schedule TOU-PA-3-RTP (see "Energy Rates" Sheet)

"Average Additional Energy Rate" is based on difference between higher average energy summer rates (between 3 pm and 6 pm) and lower average energy summer rates (between 2 am and 5 am).

1

Southern California Edison
Schedule TOU-PA-RTP

Energy Rates

Non Peak Energy Rate

Degrees	>95	91 - 94	85 - 90	81 -84
2:00 AM	$ 0.0298	$ 0.0234	$ 0.0201	$ 0.0191
3:00 AM	$ 0.0252	$ 0.0193	$ 0.0166	$ 0.0156
4:00 AM	$ 0.0223	$ 0.0161	$ 0.0151	$ 0.0142
5:00 AM	$ 0.0230	$ 0.0195	$ 0.0174	$ 0.0157

Average 0.019643 **($ per kw h)**

Peak Energy Rate

Degrees	>95	91 - 94	85 - 90	81 -84
3:00 PM	$ 1.5973	$ 0.7006	$ 0.2887	$ 0.0590
4:00 PM	$ 2.2437	$ 0.9040	$ 0.3755	$ 0.0760
5:00 PM	$ 2.2446	$ 0.8298	$ 0.3818	$ 0.0691
6:00 PM	$ 1.6592	$ 0.6287	$ 0.2405	$ 0.0526

Average $ 0.7719 **($ per kw h)**

Hourly UG Rate
TYPE OF DAY (WEEKDAY OR WEEKEND) AND APPLICABLE TEMPERATURE [1]

HOUR[2] ENDING @ PST	EXTREMELY HOT SUMMER WEEKDAY (>=95)	VERY HOT SUMMER WEEKDAY (91-94)	HOT SUMMER WEEKDAY (85-90)	MODERATE SUMMER WEEKDAY (81-84)	MILD SUMMER WEEKDAY (<=80)	HIGH COST WINTER WEEKDAY (>90)	LOW COST WINTER WEEKDAY (<=90)	HIGH COST WEEKEND (>=78)	LOW COST WEEKEND (<78)
1 a.m.	0.03413 (R)	0.02760 (R)	0.02388 (R)	0.02242 (R)	0.02137 (R)	0.03722 (R)	0.02769 (R)	0.02900 (R)	0.02609 (R)
2 a.m.	0.02976 (R)	0.02340 (R)	0.02007 (R)	0.01908 (R)	0.01861 (R)	0.03479 (R)	0.02473 (R)	0.02553 (R)	0.02250 (R)
3 a.m.	0.02517 (R)	0.01933 (R)	0.01658 (R)	0.01558 (R)	0.01608 (R)	0.02985 (R)	0.02296 (R)	0.02268 (R)	0.02070 (R)
4 a.m.	0.02228 (R)	0.01808 (R)	0.01514 (R)	0.01421 (R)	0.01444 (R)	0.03214 (R)	0.02273 (R)	0.02135 (R)	0.01851 (R)
5 a.m.	0.02300 (R)	0.01947 (R)	0.01741 (R)	0.01572 (R)	0.01596 (R)	0.03432 (R)	0.02485 (R)	0.02122 (R)	0.01967 (R)
6 a.m.	0.03135 (R)	0.02509 (R)	0.02153 (R)	0.02001 (R)	0.02004 (R)	0.04286 (R)	0.03081 (R)	0.02262 (R)	0.02038 (R)
7 a.m.	0.03234 (R)	0.02682 (R)	0.02405 (R)	0.02183 (R)	0.02180 (R)	0.04986 (R)	0.03554 (R)	0.02141 (R)	0.01861 (R)
8 a.m.	0.03487 (R)	0.03003 (R)	0.02747 (R)	0.02512 (R)	0.02491 (R)	0.05155 (R)	0.03797 (R)	0.02365 (R)	0.02000 (R)
9 a.m.	0.03930 (R)	0.04291 (R)	0.03028 (R)	0.02897 (R)	0.02858 (R)	0.04943 (R)	0.03805 (R)	0.02793 (R)	0.02514 (R)
10 a.m.	0.07435 (R)	0.06564 (R)	0.03397 (R)	0.03376 (R)	0.03280 (R)	0.05683 (R)	0.03905 (R)	0.03186 (R)	0.02826 (R)
11 a.m.	0.17450 (R)	0.14246 (R)	0.04551 (R)	0.03708 (R)	0.03583 (R)	0.08223 (R)	0.04035 (R)	0.03472 (R)	0.03148 (R)
12 noon	0.38633 (R)	0.22832 (R)	0.05198 (R)	0.03911 (R)	0.03740 (R)	0.10593 (R)	0.04041 (R)	0.03695 (R)	0.03255 (R)
1 p.m.	0.63167 (R)	0.33391 (R)	0.07048 (R)	0.04067 (R)	0.03890 (R)	0.12947 (R)	0.03972 (R)	0.03734 (R)	0.03172 (R)
2 p.m.	1.10290 (R)	0.54113 (R)	0.17845 (R)	0.04565 (R)	0.04070 (R)	0.18001 (R)	0.03978 (R)	0.03816 (R)	0.03024 (R)
3 p.m.	1.59733 (R)	0.70061 (R)	0.28872 (R)	0.05903 (R)	0.04476 (R)	0.22557 (R)	0.03934 (R)	0.04050 (R)	0.03059 (R)
4 p.m.	2.24369 (R)	0.90398 (R)	0.37552 (R)	0.07604 (R)	0.04871 (R)	0.25784 (R)	0.03927 (R)	0.04212 (R)	0.03103 (R)
5 p.m.	2.24457 (R)	0.82979 (R)	0.38182 (R)	0.06911 (R)	0.04764 (R)	0.21880 (R)	0.03999 (R)	0.04592 (R)	0.03240 (R)
6 p.m.	1.65921 (R)	0.62868 (R)	0.24047 (R)	0.05260 (R)	0.04125 (R)	0.14101 (R)	0.04269 (R)	0.04865 (R)	0.03445 (R)
7 p.m.	1.03790 (R)	0.31809 (R)	0.13222 (R)	0.04710 (R)	0.03917 (R)	0.12057 (R)	0.04441 (R)	0.04696 (R)	0.03529 (R)
8 p.m.	0.73016 (R)	0.21372 (R)	0.08954 (R)	0.03944 (R)	0.03695 (R)	0.12387 (R)	0.04455 (R)	0.04624 (R)	0.03741 (R)
9 p.m.	0.80600 (R)	0.34886 (R)	0.08947 (R)	0.04109 (R)	0.03880 (R)	0.12615 (R)	0.04277 (R)	0.05099 (R)	0.03863 (R)
10 p.m.	0.15921 (R)	0.13388 (R)	0.04566 (R)	0.03769 (R)	0.03596 (R)	0.06389 (R)	0.03949 (R)	0.04114 (R)	0.03578 (R)
11 p.m.	0.04244 (R)	0.05531 (R)	0.03366 (R)	0.03330 (R)	0.03285 (R)	0.04467 (R)	0.03578 (R)	0.03511 (R)	0.03104 (R)
Midnight[3]	0.03744 (R)	0.03203 (R)	0.02883 (R)	0.02756 (R)	0.02647 (R)	0.04125 (R)	0.03034 (R)	0.02999 (R)	0.02592 (R)

San Gabriel Valley Water Company
Los Angeles County Division
LLK-037 / ATTACHMENT D
Cost-Benefit Analysis

	Scenario 1 (With Additional Reservoir Capacity)	Scenario 2 (Without Additional Reservoir Capacity)
Proposed Additional Reservoir Capacity	2.51 MG	0 MG
4 Hours of Peak Hour Demand		2.51 MG
Peak Hour Demand		10,460 gpm
Hours of Well Pumping during PHD		4 hours
Total Dynamic Head		340 feet
Annual Energy Consumption during Warmer Months (Assume 120 Days)		432,500 kilowatt hours
Average Additional Energy Rate		0.121721 $ per kWh
Additional Energy Costs		$52,600 per year
Capital Improvement	New Reservoirs 2.51 MG Capacity	
Capital Cost	$4,920,000	
Recoating Cost	$300,000	
Initial Service Life (Chapter 5 of Master Plan)	50 years	
Capital Cost / Energy Cost	**$104,400 per year**	**$52,600 per year**
Energy Cost Savings	**$52,600 per year**	
Net Savings (Energy Savings - Capital Cost)	**($51,800) per year** ← ORA	

Notes

Total Dynamic Head is based on the total head requirement groundwater wells. The TDH is based on an average groundwater pumping depth of 300 feet plus a lifting head of 40 feet above ground.

Energy Rates based on average of SCE Rate Schedule TOU-PA-3-RTP (see "Energy Rates" Sheet)

"Average Additional Energy Rate" is based on difference between higher average energy summer rates (between 3 pm and 6 pm) and lower average energy summer rates (between 2 am and 5 am).

1

Southern California Edison
Schedule TOU-PA-RTP

Energy Rates

Non Peak Energy Rate

Degrees	>95	91 - 94	85 - 90	81 -84
2:00 AM	$ 0.0298	$ 0.0234	$ 0.0201	$ 0.0191
3:00 AM	$ 0.0252	$ 0.0193	$ 0.0166	$ 0.0156
4:00 AM	$ 0.0223	$ 0.0181	$ 0.0151	$ 0.0142
5:00 AM	$ 0.0230	$ 0.0195	$ 0.0174	$ 0.0157

Average **$ 0.0196** **($ per kw h)**

Peak Energy Rate

Degrees	>95	91 - 94	85 - 90	81 -84
[redacted]				

ORA

Average **$ 0.1414** **($ per kw h)**

Hourly UG Rate

TYPE OF DAY (WEEKDAY OR WEEKEND) AND APPLICABLE TEMPERATURE [1]

HOUR[2] ENDING @ PST	EXTREMELY HOT SUMMER WEEKDAY (>=95)	VERY HOT SUMMER WEEKDAY (91-94)	HOT SUMMER WEEKDAY (85-90)	MODERATE SUMMER WEEKDAY (81-84)	MILD SUMMER WEEKDAY (<=80)	HIGH COST WINTER WEEKDAY (>90)	LOW COST WINTER WEEKDAY (<=90)	HIGH COST WEEKEND (>=78)	LOW COST WEEKEND (<78)
1 a.m.	0.03413 (R)	0.02760 (R)	0.02388 (R)	0.02242 (R)	0.02137 (R)	0.03722 (R)	0.02769 (R)	0.02900 (R)	0.02609 (R)
2 a.m.	0.02976 (R)	0.02340 (R)	0.02007 (R)	0.01908 (R)	0.01861 (R)	0.03479 (R)	0.02473 (R)	0.02553 (R)	0.02250 (R)
3 a.m.	0.02517 (R)	0.01933 (R)	0.01658 (R)	0.01558 (R)	0.01608 (R)	0.02985 (R)	0.02296 (R)	0.02268 (R)	0.02070 (R)
4 a.m.	0.02228 (R)	0.01808 (R)	0.01514 (R)	0.01421 (R)	0.01444 (R)	0.03214 (R)	0.02273 (R)	0.02135 (R)	0.01851 (R)
5 a.m.	0.02300 (R)	0.01947 (R)	0.01741 (R)	0.01572 (R)	0.01596 (R)	0.03432 (R)	0.02485 (R)	0.02122 (R)	0.01867 (R)
6 a.m.	0.03135 (R)	0.02509 (R)	0.02153 (R)	0.02001 (R)	0.02004 (R)	0.04286 (R)	0.03081 (R)	0.02262 (R)	0.02039 (R)
7 a.m.	0.03234 (R)	0.02682 (R)	0.02405 (R)	0.02183 (R)	0.02180 (R)	0.04986 (R)	0.03554 (R)	0.02141 (R)	0.01861 (R)
8 a.m.	0.03487 (R)	0.03003 (R)	0.02747 (R)	0.02512 (R)	0.02491 (R)	0.05155 (R)	0.03797 (R)	0.02365 (R)	0.02000 (R)
9 a.m.	0.03930 (R)	0.04291 (R)	0.03028 (R)	0.02897 (R)	0.02858 (R)	0.04943 (R)	0.03805 (R)	0.02793 (R)	0.02514 (R)
10 a.m.	0.07435 (R)	0.06564 (R)	0.03397 (R)	0.03376 (R)	0.03280 (R)	0.05683 (R)	0.03905 (R)	0.03186 (R)	0.02826 (R)
11 a.m.	0.17450 (R)	0.14246 (R)	0.04551 (R)	0.03708 (R)	0.03583 (R)	0.08223 (R)	0.04035 (R)	0.03472 (R)	0.03148 (R)
12 noon	0.38633 (R)	0.22832 (R)	0.05198 (R)	0.03911 (R)	0.03740 (R)	0.10593 (R)	0.04041 (R)	0.03695 (R)	0.03255 (R)
1 p.m.	0.63167 (R)	0.33391 (R)	0.07048 (R)	0.04067 (R)	0.03890 (R)	0.12947 (R)	0.03972 (R)	0.03734 (R)	0.03172 (R)
2 p.m.	1.10290 (R)	0.54113 (R)	0.17845 (R)	0.04565 (R)	0.04070 (R)	0.18001 (R)	0.03978 (R)	0.03816 (R)	0.03024 (R)
3 p.m.	1.59733 (R)	0.70061 (R)	0.28872 (R)	0.05903 (R)	0.04476 (R)	0.22557 (R)	0.03934 (R)	0.04050 (R)	0.03059 (R)
4 p.m.	2.24369 (R)	0.90398 (R)	0.37552 (R)	0.07604 (R)	0.04871 (R)	0.25784 (R)	0.03927 (R)	0.04212 (R)	0.03103 (R)
5 p.m.	2.24457 (R)	0.82979 (R)	0.38182 (R)	0.06911 (R)	0.04764 (R)	0.21880 (R)	0.03999 (R)	0.04592 (R)	0.03240 (R)
6 p.m.	1.65921 (R)	0.62868 (R)	0.24047 (R)	0.05260 (R)	0.04125 (R)	0.14101 (R)	0.04269 (R)	0.04865 (R)	0.03445 (R)
7 p.m.	1.03790 (R)	0.31809 (R)	0.13222 (R)	0.04710 (R)	0.03917 (R)	0.12057 (R)	0.04441 (R)	0.04696 (R)	0.03529 (R)
8 p.m.	0.73016 (R)	0.21372 (R)	0.08954 (R)	0.03944 (R)	0.03695 (R)	0.12387 (R)	0.04455 (R)	0.04624 (R)	0.03741 (R)
9 p.m.	0.80600 (R)	0.34886 (R)	0.08947 (R)	0.04109 (R)	0.03880 (R)	0.12615 (R)	0.04277 (R)	0.05099 (R)	0.03863 (R)
10 p.m.	0.15921 (R)	0.13388 (R)	0.04566 (R)	0.03769 (R)	0.03596 (R)	0.06389 (R)	0.03949 (R)	0.04114 (R)	0.03578 (R)
11 p.m.	0.04244 (R)	0.05531 (R)	0.03366 (R)	0.03330 (R)	0.03285 (R)	0.04467 (R)	0.03578 (R)	0.03511 (R)	0.03104 (R)
Midnight[3]	0.03744 (R)	0.03203 (R)	0.02883 (R)	0.02756 (R)	0.02647 (R)	0.04125 (R)	0.03034 (R)	0.02999 (R)	0.02592 (R)

SAN GABRIEL VALLEY WATER COMPANY

June 20, 2016

Mehboob Aslam
ORA/Water Branch
California Public Utilities Commission
320 West 4th Street, Suite 500
Los Angeles, CA 90013

by e-mail only

Subject: **Response to Data Request AMX-004 (Reservoirs)**

Dear Mr. Aslam:

In response to your data request dated June 3, 2016, San Gabriel Valley Water Company responds as follows:

1. **REQUEST:** In responding to ORA's data request, LLK-037, SGVWC provided an Attachment -D (Excel spreadsheet). On tab, Energy Rates, SGVWC presented an electric rates schedule of its electric purveyor, Southern California Edison for non-peak hours (2:00 AM through 5:00 AM) and Peak-hours (3:00PM through 6:00 PM). Please provide the most recent annual records for the hours of the peak water consumption in both Los Angeles and Fontana Water Company Divisions.

   RESPONSE: Based on data obtained from its SCADA system, San Gabriel has determined the peak hour of demand during 2015 to be:

   -Fontana Water Company division: July 2, 2015, between 8pm and 9pm.

   -L.A. division (Main San Gabriel Basin): August 18, 2015, between 9pm and 10pm.

   -L.A. division (Central Basin): August 6, 2015, between 10am and 11am.

   Please also see the attachments **FWC Peak Day & Hour**\ and **L.A. County Peak Day & Hour**\.

1
2

ATTACHMENT B

System	Estimated Storage Requirement				Existing Storage Useable Capacity (Without Freeboard)	Surplus (+)/ Shortage (-)
	Equalization	Fire Suppression	Emergency	Total		
Year 2012						
West System	3.94	0.54	3.15	7.63	11.04	3.41
East System	2.91	0.54	2.33	5.78	18.63	12.85
South System	1.02	0.54	0.82	2.38	7.04	4.66
Total	7.88	1.62	6.30	15.80	36.71	20.92
Year 2015						
West System	3.96	0.54	3.17	7.67	11.04	3.37
East System	2.93	0.54	2.35	5.82	18.63	12.81
South System	1.03	0.54	0.82	2.39	7.04	4.65
Total	7.93	1.62	6.34	15.89	36.71	20.83
Year 2020						
West System	4.96	0.54	3.97	9.47	11.04	1.57
East System	3.67	0.54	2.94	7.15	18.63	11.48
South System	1.29	0.54	1.03	2.86	7.04	4.18
Total	9.93	1.62	7.94	19.49	36.71	17.23
Year 2025						
West System	5.10	0.54	4.08	9.72	11.04	1.32
East System	3.77	0.54	3.02	7.33	18.63	11.30
South System	1.33	0.54	1.06	2.93	7.04	4.11
Total	10.20	1.62	8.16	19.98	36.71	16.73
Year 2030						
West System	5.24	0.54	4.19	9.97	11.04	1.07
East System	3.88	0.54	3.10	7.52	18.63	11.11
South System	1.36	0.54	1.09	2.99	7.04	4.05
Total	10.48	1.62	8.38	20.48	36.71	16.24
Year 2035						
West System	5.38	0.54	4.30	10.22	11.04	0.82
East System	3.98	0.54	3.18	7.70	18.63	10.93
South System	1.40	0.54	1.12	3.06	7.04	3.98
Total	10.75	1.62	8.60	20.97	36.71	15.74

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 Test Years 2016 and 2017.

B. SUMMARY OF RECOMMENDATIONS

San Gabriel requests[201] average depreciation reserve of $93,209,661 in Year 2016, $103,554,304 in Test Year 2017/18 and $110,976,799 in Test year 2018/19. ORA recommends $94,369,456 in 2016, $105,111,917 in 2017/18 and $112,582,217 in 2018/19.

C. DISCUSSION

San Gabriel followed the straight line remaining life methodology to determine depreciation accruals and reserves in accordance with Standard Practice U-4. ORA has determined that the depreciation rates the Company uses are appropriate and consistent with the depreciation rates used in the last GRC.

The differences between ORA and San Gabriel's depreciation amounts are due to ORA's differing plant additions recommendation. Please refer to ORA's Chapter 7 on Plant Additions for greater detail on the $42.787 million difference.

D. CONCLUSION

ORA recommends the Commission to adopt its recommendation of Depreciation as shown in Table 8-1.

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

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

SAN GABRIEL VALLEY WATER COMPANY						
LOS ANGELES COUNTY 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	$94,369.5	$93,209.7	$105,111.9	$103,554.3	$112,582.2	$110,976.8
Accruals During Year:						
Clearing Account	$279.8	$279.8	$292.9	$289.2	$300.1	$298.7
Contributions	$2,411.3	$2,411.3	$2,411.3	$2,262.0	$2,411.3	$2,264.5
Depreciation Expense	$5,120.5	$5,161.7	$5,474.8	$5,630.8	$5,673.5	$6,091.4
Subtotal	$7,811.6	$7,852.8	$8,179.0	$8,181.9	$8,384.9	$8,654.6
Less:						
Retirements	$708.7	$759.5	$708.7	$759.5	$708.7	$759.5
Net Additions	$7,102.9	$7,093.3	$7,470.3	$7,422.5	$7,676.2	$7,895.1
End-of-Year Balance	$101,472.4	$100,303.0	$112,582.2	$110,976.7	$120,258.4	$118,871.9
Ratemaking Adjustments		$0.0		$0.0		$0.0
Adjusted EOY Balance	$101,472.4	$100,303.0	$112,582.2	$110,976.8	$120,258.4	$118,871.9
Amortization Reserve						
Beginning-of-Year Balance	$1.1	$1.1	$1.3	$1.3	$1.3	$0.9
Accrual Charges to Expenses	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
End-of-Year Balance	$1.2	$1.2	$1.4	$1.4	$1.4	$1.0
Total Reserves						
Beginning-of-Year Balance	$94,370.6	$93,210.8	$105,113.2	$103,555.6	$112,583.5	$110,977.7
Net Additions	$7,103.0	$7,093.4	$7,470.4	$7,422.6	$7,676.3	$7,895.2
End-of-Year Balance	$101,473.6	$100,304.2	$112,583.6	$110,978.1	$120,259.8	$118,872.9
Use of EOY Reserve as TY Average				($105.0)		($130.8)
Average Reserve Balance	$97,922.0	$96,590.37	$108,848.4	$107,161.85	$116,421.7	$114,230.49
Total Depreciation and Amortization Exp.	$5,120.6	$5,161.7	$5,474.8	$5,630.7	$5,872.2	$6,091.5

CHAPTER 9 : RATE BASE

A. INTRODUCTION

This chapter sets forth ORA's analyses and recommendations regarding rate base. Table 9-1 compares ORA's and San Gabriel's estimates. Differences between ORA recommended amounts and those San Gabriel proposed are due to different estimates of plant additions, depreciation, construction work in progress ("CWIP"), contributions in aid of construction ("CIAC"), and general office allocation adjustments. Please read ORA Chapter 7 for the details on Los Angeles plant additions; ORA Chapter 8 for depreciation and the ORA General Office report regarding details of ratebase allocations. The CWIP and CIAC adjustments are discussed below

B. SUMMARY OF RECOMMENDATIONS

San Gabriel requests a weighted average rate base of $151,079,678[202] for Transition Year 2016. ORA's estimate is $141,709,218 for Transition Year 2016. For Test Year 2017/18, San Gabriel requests $171,992,338 and ORA recommends $144,883,285. For Test Year 2018/19, San Gabriel requests $188,072,301 and ORA recommends $144,965,802.

C. DISCUSSION

Differences in rate base are attributed to differences in plant additions (discussed in Chapter 7), depreciation (discussed in Chapter 8), general office allocation, construction work in progress ("CWIP") and contributions in aid of construction ("CIAC"). ORA agrees with San Gabriel's methodology of rate base calculation. ORA also agrees with San Gabriel's calculation of working cash, which complies with Standard Practice U-16.

[202] From Table 10D of Los Angeles workpapers (Per SGVWC's Initial filing).

1. Construction Work in Progress- CWIP

- ORA recommends that the Commission cut off projects in CWIP that are more than three years old

San Gabriel requests CWIP treatment for the Los Angeles Division on projects that are as old as 1977.[203] Continuing to harbor such costs within CWIP, and ultimately rate base, when the underlying project has not become used or useful is not in keeping with the spirit of CWIP for water utilities.

In a 1982 staff memorandum to the Commission,[204] it was recognized that water utilities are distinct from electric utilities in the time it takes to construct a project. This May 11, 1982 memo discusses the rationale for including CWIP in rate base for water utilities. It argues that excluding CWIP from rate base has minimal benefits, but only reaches that conclusion assuming that the construction times for projects is a year or less.

While ORA could argue for a one year cut off, to be generous, ORA recommends a three year cut off for CWIP. SGVWC's CWIP contains past projects and associated dollars residing in the CWIP balance that should not be there. See Table 9-2 (at the end of this chapter) for the list of projects that were in CWIP for more than three years. These older projects 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 TY 2018-2019 CWIP balances. As a result ORA recommends a downward adjustment of $2,741,700 from SGVWC's proposed CWIP amount of $5,088,620 for Los Angeles County Division.

[203] See DR AL7-006, Attachment A.

[204] See Figure 9-1 at the end of this Chapter.

2. Contributions in Aid of Construction – CIAC

ORA recommends that the Commission utilize historical amounts of CIAC for determining test year CIAC levels.

Table 9.1: San Gabriel requests CIAC levels for the Los Angeles Division

		CIAC
2016		-
2017/18		$175,000
2018/19		$150,000
5-year Average		$2,398,022
(Revised Table 10A)		

In SG-2, Chapter 10, SGVWC presents Table 10A, which includes some recorded information about CIAC. ORA sought detailed CIAC recorded information through 2015 in discovery. Therefore, ORA utilizes the 5 year annual average[205] of CIAC using 2015 data and uses this amount to represent CIAC amounts to be received in years 2016-2019.

ORA did not find any explanations offered in SG-2 for its extremely reduced level of projected contributions.

For context, ORA points out that in the last GRC, SGVWC represented an average of $1.46 million per year[206] in projected contributions for years 2010-2013; therefore the paltry estimates of $650,000 for CIAC for years 2016-2019 are unreasonable. ORA recommends $2,398,022 based on the 5-years historic average amount for CIAC (see Table 9-3 at the end of this chapter).

[205] ORA updated the 2015 amount from $101,700 to $5.881 million recorded in CIAC (DR LLK-32 Q 6 attachment G); note, of this amount $3.677 million was for Plant B6 (LLK 28, Attachment D).

[206] In 2010, the company represented $2.29 million in contributions; for 2011, $1.31 million; for 2012, 520 thousand, and for 2013 $1.725 million. The average of the 4 years is $1.46 million.

3. General Office Allocation

In SG-2, Chapter 10, SGVWC presents Table 10D which includes a line item for Net Common Plant Allocation. The ORA report on General Office discusses the adjustments made to IT and AMR meters that result in a lower allocation from the general office to the Los Angeles Division. Please refer to ORA's general office report for the discussion of these changes.

4. Working Cash

The following section on working cash is prepared by ORA's witness for Income Tax expenses, 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.[207]

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."[208] 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.

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

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

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

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.

Based on its review, at this time ORA is not recommending an adjustment to SGVWC’s working cash methodology. However, ORA recommends the Commission adopt its amount for Los Angeles working cash based on ORA’s recommendations for TY 2017/2018 revenues and expenses.

D. CONCLUSION

San Gabriel’s requested rate base and ORA’s recommendation are summarized in Table 9-1. ORA recommends the Commission to adopt its recommendation for rate base

Table 9-1 SGVWC – Los Angeles Division – ORA Recommended Average Depreciated Ratebase

SAN GABRIEL VALLEY WATER COMPANY						
LOS ANGELES COUNTY 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	$313,739.4	$314,219.0	$327,716.3	$340,360.3	$336,795.0	$361,894.2
Depreciation Reserve	$97,900.4	$96,595.3	$108,751.5	$107,127.7	$116,290.0	$114,694.3
Net Utility Plant	$215,839.0	$217,623.6	$218,964.8	$233,232.4	$220,505.0	$247,199.9
Add:						
Materials and Supplies	$994.8	$1,035.7	$1,085.4	$1,179.7	$1,147.4	$1,297.3
Operational Cash Req.	$30.0	$30.0	$15.0	$15.0	$15.0	$15.0
Working Cash Allowance	$2,618.9	$2,618.9	$4,246.8	$4,569.5	$4,183.7	$4,761.1
Tax on Advances and Contributions	$496.9	$496.9	$475.2	$475.2	$460.7	$460.7
Net Common Plant Allocation	$9,223.6	$9,178.3	$9,138.7	$10,051.7	$8,956.3	$10,811.4
Subtotal	$13,364.3	$13,359.9	$14,961.1	$16,291.2	$14,763.2	$17,345.5
Less:						
Advances for Construction	$2,607.0	$2,606.0	$2,424.3	$2,438.8	$2,302.5	$2,327.3
Contributions	$54,959.9	$49,252.0	$53,916.3	$46,121.5	$53,903.4	$44,020.7
Accum. Defer. Income Taxes	$29,745.3	$27,864.0	$32,532.0	$28,801.1	$33,938.2	$29,967.1
Deferred I.T.C.	$181.8	$181.8	$170.0	$170.0	$158.3	$158.3
Average Rate Base	$141,709.2	$151,079.7	$144,883.3	$171,992.3	$144,965.8	$188,072.3

Table 9-2 - List of Projects in CWIP for more than three years[209]

Division	Open Yr.	Job# / Work Order #	Part#	Plant#	Project Name / Description	Responsible Party Name	Total
LA	1997	LT0811			EMERGENCY HOOK-UP	HEMLOCK MUTUAL WATER COMPANY	1,231.01
	1998	LT0821			IRRIGATION SERVICE - LONG TERM TEMP	CALTRANS	1,189.43
		LT0822			IRRIGATION SERVICE - LONG TERM TEMP	CALTRANS	1,237.95
		LT0823			IRRIGATION SERVICE - LONG TERM TEMP	CALTRANS	2,059.47
	2000	LT0910			IRRIGATION SERVICE	CITY OF PICO RIVERA	262.14
		LT0911			IRRIGATION SERVICE	CITY OF PICO RIVERA	239.35
		LT0941			IRRIGATION SERVICE	STATE OF CALIFORNIA(CALTRANS)	702.51
		LT0894			IRRIGATION SERVICE	CITY OF EL MONTE	343.01
		LT0914			IRRIGATION SERVICE	MARCO CRANE & RIGGING CO	118.24
		LT0895			IRRIGATION SERVICE	COUNTY OF LOS ANGELES	483.35
		LT0886			IRRIGATION SERVICE INSTALLED 12-15-99	L.A COUNTY-DEPT OF PUBLIC WKS	450.22
		LT0946			IRRIGATION SERVICE	STATE OF CALIFORNIA(CALTRANS)	2,972.83
		LT0947			IRRIGATION SERVICE	STATE OF CALIFORNIA(CALTRANS)	1,450.60
		LT0898			IRRIGATION SERVICE	COUNTY OF LOS ANGELES	336.66
		LT0909			IRRIGATION SERVICE	CITY OF PICO RIVERA	321.07
	2001	LT0972			IRRIGATION SERVICE	STATE OF CALIFORNIA(CALTRANS)	2,450.10
		LT0973			IRRIGATION SERVICE	STATE OF CALIFORNIA(CALTRANS)	6,450.16
		LT0964			1" IRRIGATION SERVICE	CITY OF EL MONTE	652.71
		LT0974			IRRIGATION SERVICE	STATE OF CALIFORNIA(CALTRANS)	5,903.83
		LT0966			IRRIGATION SERVICE	CITY OF BALDWIN PARK	325.33
	2002	LT1002			IRRIGATION SERVICE	CITY OF EL MONTE	280.74
		LT1003			IRRIGATION SERVICE	CITY OF EL MONTE	280.74
		LT1045			IRRIGATION	COUNTY OF LOS ANGELES	550.98
		LT1046			IRRIGATION	COUNTY OF LOS ANGELES	388.55
		LT1007			IRRIGATION	STATE OF CALIFORNIA(CALTRANS)	496.25
	2003	LT1093			TO SERVICE REST AREA TO RIVER ENTRANCE	CITY OF SOUTH EL MONTE	245.82
		LT1136			SERVICE INSTALLED 10/7/2003	CALTRANS D07	348.88
		LT1059			2" IRRIGATION SERVICE	CALTRANS D07	2,504.76
	2004	LT1154			IRRIGATION SERVICE	CITY OF EL MONTE	720.18
		LT1138			2" IRRIGATION SERVICE	CALTRANS D07	485.92
		LT1148			IRRIGATION SERVICE	CALTRANS D07	2,512.67
	2005	LT1180			UTILITY EXCAVATION WITHIN ROAD RIGHT OF WAY	CASCADE SPRINKLERS INC	2,110.25
		LT1175			IRRIGATION	CITY OF EL MONTE	221.66
		LT1176			IRRIGATION SERVICE	CITY OF EL MONTE	208.77
		LT1177			IRRIGATION SERVICE	CITY OF EL MONTE	773.13
	2006	7188L	6		INSTALL 1 - 8" FIRE SERVICE	SGV WATER COMPANY	2,534.68
		7417L	1		INSTALL 200' OF 6-5/8" GWMR	SGV WATER COMPANY	1,567.02
			2		INSTALL 2 - 1" COPPER SERVICES	SGV WATER COMPANY	118.23
		7451L	1		INSTALL 418' OF 17-3/8" GWMR	SGV WATER COMPANY	729.30
		7489L	1	8	INSTALL MOTOR ON WELL 8F	SGV WATER COMPANY	720.00
	2007	7582L	2		INSTALL 1 - 8" DOUBLE DETECTOR CK VALVE ASSEMBLY	EL MONTE UNION HIGH SCHOOL	12,086.62
			3		INSTALL 1 - 2" COPPER SERVICE	EL MONTE UNION HIGH SCHOOL	1,134.59
			5		INSTALL 1 - 8" DOUBLE DETECTOR CK VALVE ASSEMBLY	EL MONTE UNION HIGH SCHOOL	12,113.20
		7599L	1	11	DRILL WELL 11D	SGV WATER COMPANY	216,526.67
		7602L	1		INSTALL 1 - 10" DOUBLE DETECTOR CHECK VALVE ASSY	RR & C DEVELOPMENT COMPANY	36,610.06
			2		INSTALL 1 - 6" FIRE HYDRANT #3670E	RR & C DEVELOPMENT COMPANY	4,862.93
			3		INSTALL 1 - 4" MANIFOLD SERVICE WITH 2-2" METERS	RR & C DEVELOPMENT COMPANY	7,821.79
			5		INSTALL 4 - 2" COPPER SERVICES TO FIT 1-1/2"	RR & C DEVELOPMENT COMPANY	11,556.20
			6		INSTALL 2 - 2" COPPER LANDSCAPE SERVICES	RR & C DEVELOPMENT COMPANY	4,013.47
		7603L	1		INSTALL 1 - 6" SERVICE WITH 2 - 4" TURBINE	'MONTEBELLO HILLS PROJECT	182.37
		7630L	1		PROVIDE RECYCLED AND DOMESTIC SERVICE TO GRANT REA	SGV WATER COMPANY	42,623.98
		7635L	1		'MONTEBELLO HILLS - OUTSIDE SERVICES	'MONTEBELLO HILLS PROJECT	32,048.01
	2008	7599L	2	11	EQUIP WELL 11D	SGV WATER COMPANY	8,625.47
			3	11	WELL 11D - INSTALL PIPING	SGV WATER COMPANY	4,276.46
		7661L	1	1	RESERVIOR SITE PREPARATION	SGV WATER COMPANY	53,486.88
			2	1	CONSTRUCT RESERVOIR NO. 1 (L)	SGV WATER COMPANY	9,941.06
			3	1	INSTALL RESERVOIR PIPING	SGV WATER COMPANY	467.86
		7698L	1		INSTALL 740' OF 12-3/4" GWBR	SGV WATER COMPANY	53,587.29
			2		INSTALL 215' OF 12-3/4" GWBG	SGV WATER COMPANY	19,678.88
		7707L	2		INSTALL 521' OF 8-5/8" GWBR	RIO HONDO COMMUNITY COLLEGE	48,241.47
		7733L	1		INSTALL 2763' OF 12-3/4" GWBR	SGV WATER COMPANY	29,020.38
		7734L	1		INSTALL 2,740' OF 12-3/4' GWBR	SGV WATER COMPANY	26,322.02

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

Table 9-2 Cont.' - List of Projects in CWIP for more than three years[210]

Division	Open Yr.	Job# / Work Order #	Part#	Plant#	Project Name / Description	Responsible Party Name	Total
LA	2009	7661L	5	1	DRILL WELL 1F	SGV WATER COMPANY	14,644.13
			6	1	EQUIP WELL 1F	SGV WATER COMPANY	200.46
			7	1	INSTALL PIPING TO WELL 1F	SGV WATER COMPANY	250.58
		7777L	1		INSTALL 1 - 6" DOUBLE DETECTOR CHECK VALVE	RIO HONDO COMMUNITY COLLEGE	13,418.40
			2		INSTALL 1 - 6" FIRE HYDRANT #3764E	RIO HONDO COMMUNITY COLLEGE	5,627.58
			3		INSTALL 1 - 4" SERVICE LATERAL	RIO HONDO COMMUNITY COLLEGE	2,873.48
		7816L	1	8	CONSTRUCT ION EXCHANGE TREATMENT SYSTEM	SGV WATER COMPANY	53,714.29
	2010	7661L	10	1	OBTAIN PERMITS AND REGULATORY APPROVALS	SGV WATER COMPANY	100,595.60
			11	1	INSTALL ASPHALT PAVEMENT	SGV WATER COMPANY	548.54
		7708L	14		INSTALL 1 - 6" FIRE HYDRANT	SGV WATER COMPANY	14,174.73
			18		INSTALL 1 - 6" FIRE HYDRANT	SGV WATER COMPANY	3,757.15
		7734L	3		INSTALL 14 - 2" COPPER SERVICES	STATE OF CALIFORNIA	27.89
		7861L	1		INSTALL 1 - 4" DOUBLE DETECTOR CHECK VALVE	SGV WATER COMPANY	6,784.93
		7881L	1	B27	SITE PREPARATION	SGV WATER COMPANY	26,788.45
			2	B27	PERMITTING & RELATED WORK	SGV WATER COMPANY	31,876.03
			3	B27	GRADE SITE	SGV WATER COMPANY	82,811.21
			4	B27	SITE PAVING	SGV WATER COMPANY	6,235.68
			5	B27	INSTALL DRAINAGE	SGV WATER COMPANY	3,790.57
			6	B27	LANDSCAPE SITE	SGV WATER COMPANY	6,369.74
			7	B27	INSTALL BOOSTER PIPING	SGV WATER COMPANY	134,240.41
			8	B27	INSTALL BOOSTER PUMPS B1, B2, B3	SGV WATER COMPANY	145,766.27
			9	B27	INSTALL 400 AMP SWITCHBOARD & MOTOR CONTROL CENTER	SGV WATER COMPANY	100,879.75
			10	B27	INSTALL TELEMETRY	SGV WATER COMPANY	1,418.84
			11	B27	CONSTRUCT PERIMETER FENCE AND WALL	SGV WATER COMPANY	22,842.64
		7899L	1		INSTALL 1 - 6" FIRE HYDRANT	SGV WATER COMPANY	8,710.22
		7902L	1		INSTALL 1 - 6" DOUBLE DETECTOR CHECK VALVE	RIO HONDO COMMUNITY COLLEGE	15,708.82
			2		INSTALL 1 - 4" LATERAL	RIO HONDO COMMUNITY COLLEGE	2,227.58
			5		INSTALL 346' OF 8-5/8" GWBR	RIO HONDO COMMUNITY COLLEGE	40,137.06
			7		INSTALL 1 - 6" FIRE HYDRANT	RIO HONDO COMMUNITY COLLEGE	4,649.36
			9		INSTALL 1 - 8" DOUBLE DETECTOR CHECK VALVE	RIO HONDO COMMUNITY COLLEGE	19,132.62
			10		INSTALL 1 - 4" LATERAL	RIO HONDO COMMUNITY COLLEGE	2,231.93
			11		INSTALL 1 - 6" FIRE HYDRANT	RIO HONDO COMMUNITY COLLEGE	7,116.00
		7938L	1		INSTALL 1115' OF 8 5/8" GWBR	SGV WATER COMPANY	8,237.26
			2		INSTALL SERVICES	SGV WATER COMPANY	62.17
			3		INSTALL 2 - 6" FIRE HYDRANTS	SGV WATER COMPANY	62.17
	2011	7599L	7	11	INSTALL BOWL ASSEMBLY TO WELL 11C	SGV WATER COMPANY	392.73
		7635L	2		MONTEBELLO HILLS - OUTSIDE SERVICES	MONTEBELLO HILLS PROJECT	138,000.00
		7661L	12	1	CONSTRUCT LANDSCAPING	SGV WATER COMPANY	494.97
		7707L	3		INSTALL 139' OF 8-5/8" GWBR	RIO HONDO COMMUNITY COLLEGE	21,167.66
			4		INSTALL 1 - 8" LATERAL FOR FUTURE FIRE SERVICE	RIO HONDO COMMUNITY COLLEGE	9,931.75
			5		INSTALL 69' OF 8-5/8" GWBR	RIO HONDO COMMUNITY COLLEGE	16,386.80
			6		INSTALL 1 - 8" LATERAL FOR FUTURE FIRE SERVICE	RIO HONDO COMMUNITY COLLEGE	7,035.83
		7708L	20		INSTALL 1 - 12" BUTTERFLY VALVE	SANITATION DISTRICT OF LA	6,819.29
			22		INSTALL 117' OF 12-3/4" GWBR	SANITATION DISTRICT OF LA	712.94
		7816L	2	8	CONSTRUCT FENCE	SGV WATER COMPANY	984.15
			3	8	SITE GRADING	SGV WATER COMPANY	14,798.62
			4	8	SITE IMPROVEMENTS	SGV WATER COMPANY	1,834.26
			5	8	CONSTRUCT LANDSCAPING	SGV WATER COMPANY	679.95
		7944L	1	14	ACQUIRE LAND PARCEL	SGV WATER COMPANY	90,528.46
		7953L	1	M4	ACQUIRE LAND PARCEL FOR NEW RESERVOIR	SGV WATER COMPANY	12,424.13
			2	M4	OBTAIN PERMITS	SGV WATER COMPANY	30,853.05
			3	M4	CONSTRUCT PAVING, CURB AND GUTTER	SGV WATER COMPANY	16,176.17
			4	M4	CONSTRUCT FENCE AND WALL	SGV WATER COMPANY	19,303.63
			5	M4	INSTALL AIR CONDITIONER	SGV WATER COMPANY	747.30
			6	M4	INSTALL ALTITUDE VALVE	SGV WATER COMPANY	1,900.00
			8	M4	CONSTRUCT RESERVOIR M4B (1.0MG)	SGV WATER COMPANY	65,426.97
			9	M4	INSTALL PIPING FOR RESERVOIR M4B	SGV WATER COMPANY	16,386.73
			10	M4	INSTALL TELEMETRY FOR RESERVOIR M4B	SGV WATER COMPANY	360.00
			12	M4	RECOAT RESERVOIR M4A	SGV WATER COMPANY	62.63
		7956L	1	B2	CONSTRUCT CHAIN LINK FENCE	SGV WATER COMPANY	1,437.02
		7966L	1		INSTALL 870' OF 8-5/8"GWBR-MOUNTAIN VIEW S/ELLIOTT	SGV WATER COMPANY	19,597.53
			2		INSTALL SERVICES	SGV WATER COMPANY	7,263.68
		7970L	1		INSTALL SERVICES	SGV WATER COMPANY	4,241.95
		8010L	1		PREPARE SYSTEM WIDE INFRASTRUCTURE SECURITY REPORT	SGV WATER COMPANY	61,417.49
		8014L	1		INSTALL 1 - 6" FIRE SERVICE	RIO HONDO COMMUNITY COLLEGE	17,982.35
			2		INSTALL 1 - 4" SERVICE LATERAL	RIO HONDO COMMUNITY COLLEGE	1,825.34
		8027L	1		INSTALL 735' OF 8-5/8" GWBR	SGV WATER COMPANY	3,018.31
			2		INSTALL SERVICES	SGV WATER COMPANY	131.49
		8028L	1	B18	SLOPE STABILIZATION AND DRAINAGE	SGV WATER COMPANY	477.48

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

Table 9-2 Cont.' - List of Projects in CWIP for more than three years[211]

Division	Open Yr.	Job# / Work Order #	Part#	Plant#	Project Name / Description	Responsible Party Name	Total
LA	2012	7635L	3		MONTEBELLO HILLS - OUTSIDE SERVICES	MONTEBELLO HILLS PROJECT	36,000.00
		7944L	2	14	CONSTRUCT RESERVOIR	SGV WATER COMPANY	34,443.90
		8047L	1		INSTALL 114 - 1" SHORT SIDE SERVICES	SGV WATER COMPANY	8,933.76
		8052L	1	B1	PERMITTING & RELATED WORK	SGV WATER COMPANY	4,939.41
			2	B1	SITE GRADING	SGV WATER COMPANY	9,377.86
		8053L	1	W6	PERMITTING & RELATED WORK	SGV WATER COMPANY	3,664.87
			2	W6	INSTALL DRAINAGE SYSTEM	SGV WATER COMPANY	10,298.68
			3	W6	CONSTRUCT CURB	SGV WATER COMPANY	2,657.38
		8057L	1	7	ACQUIRE LAND PARCEL FOR NEW RESERVOIR	SGV WATER COMPANY	26.19
		8059L	1		INSTALL MAIN 3000' OF 8-5/8"GWBR(PLANT B18 TO B14)	SGV WATER COMPANY	1,772.76
		8073L	1	B6	BOOSTER BUILDING MODIFICATIONS	SGV WATER COMPANY	85.50
		8083L	1		INSTALL 1 - 4" FIRE SERVICE	SGV WATER COMPANY	37,975.14
			2		INSTALL SERVICES	SGV WATER COMPANY	15,395.60
			5		INSTALL 3' OF 10-3/4" GWBR	SGV WATER COMPANY	2,509.43
		8103L	1	B15	CONSTRUCT FENCE	SGV WATER COMPANY	69,352.40
			2	B15	UPGRADE EXISTING BOOSTER BUILDING	SGV WATER COMPANY	58.46
			3	B15	INSTALL DRAINAGE SYSTEM	SGV WATER COMPANY	8,197.09
			4	B15	PLACE ASPHALT PAVEMENT	SGV WATER COMPANY	1,943.76
		8110L	1		INSTALL 1,192' OF 17-3/8" GWBR	SGV WATER COMPANY	137,933.24
		8115L	1		DESIGN AND IMPLEMENTATION OF TREATMENT FACILITIES	SGV WATER COMPANY	28.71
		8140L	1	13	RETROFIT EXISTING RESERVOIR 13A	SGV WATER COMPANY	9,541.81
		8142L	1		INSTALL 1 - 6" FIRE HYDRANT	ROBERT GARCIA/BARBARA GARCIA	701.21
		8149L	1		INSTALL 14 - 1" SHORT SIDE SERVICES	SGV WATER COMPANY	5,264.40
		8153L	1		INSTALL 1 - 4" DOUBLE DETECTOR CHECK VALVE	CHAD ALDAWOOD	17,435.51
		8156L	1		INSPECT INTERIOR OF RESERVOIRS	SGV WATER COMPANY	140,934.88
	1977	LT0384			IRRIGATION SERVICE	CITY OF MONTEBELLO	139.96
		LT0385			IRRIGATION SERVICE	CITY OF MONTEBELLO	232.60
		LT0465			IRRIGATION SERVICE	CITY OF SANTA FE SPRINGS	130.34
		LT0466			IRRIGATION SERVICE	CITY OF MONTEBELLO	110.05
	1978	LT0420			LANDSCAPE - IRRIGATION SERVICE	ROGER R. WHITE	215.24
	1980	LT0478			LANDSCAPING	INDUSTRY URBAN DEVELOPMENT	283.96
		LT0483			IRRIGATION	INDUSTRY URBAN-DEVELOPMENT	605.61
		LT0484			IRRIGATION	INDUSTRY URBAN DEVELOPMENT	281.87
	1982	LT0522			LANDSCAPING SERVICE	VALLEY CREST LANDSCAPE, INC.	1,203.04
		LT0523			LANDSCAPING SERVICE	VALLEY CREST LANDSCAPE, INC.	1,200.30
		LT0528			LANDSCAPING	INDUSTRY URBAN DEVELOPMENT	803.68
		LT0530			LANDSCAPING	INDUSTRY URBAN DEVELOPMENT	586.11
		LT0532			LANDSCAPING	INDUSTRY URBAN DEVELOPMENT	522.63
		LT0533			LANDSCAPING	INDUSTRY URBAN DEVELOPMENT	603.22
	1983	LT0539			605 FREEWAY LANDSCAPING	CITY OF BALDWIN PARK	180.93
		LT0545			IRRIGATION SERVICE	CITY OF ROSEMEAD	291.81
		LT0546			IRRIGATION SERVICE	CITY OF ROSEMEAD	821.39
	1984	LT0570			LANDSCAPING	JAVAID ENTERPRISES, INC.	432.52
		LT0567			IRRIGATION SERVICE	CALTRANS	196.08
		LT0568			IRRIGATION SERVICE	STATE OF CALIFORNIA(CALTRANS)	534.61
		LT0569			IRRIGATION SERVICE	STATE OF CALIFORNIA(CALTRANS)	1,766.10
	1985	LT0581			IRRIGATION SERVICE	COUNTY OF LOS ANGELES MECH BCH	1,156.58
	1986	LT0599			IRRIGATION	CO.OF L.A./DEPT.OF PUB. WORKS	520.95
		LT0611			STANDBY CONNECTION	CITY OF EL MONTE	7,936.09
	1976	LT0376			IRRIGATION SERVICE	CITY OF BALDWIN PARK	230.33
	1981	LT0516			IRRIGATION SERVICE	CITY OF BALDWIN PARK	323.32
LA Total							2,741,700.63

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

Table 9-3 – CIAC adjustment to SGVWC's workpaper Table 10B

TABLE 10B			
San Gabriel Valley Water Company			
Los Angeles County Division			
ADJUSTMENTS TO UTILITY PLANT			
(Dollars in Thousands)			
	Estimated 2016	**Test Year 2017-2018**	**Test Year 2018-2019**
Advances for Construction			
Beginning-of-Year Balance	$2,667.9	$2,485.19	$2,363.4
Net Additions	$0.0	$0.0	$0.0
Refunds	($121.8)	($121.8)	($121.8)
End-of-Year Balance	$2,546.1	$2,363.4	$2,241.6
Average Balance	$2,607.0	$2,424.3	$2,302.5
Contributions in Aid of Construction			
Beginning-of-Year Balance	$54,966.3	$53,922.79	$53,909.9
Additions	$2,398.4	$2,398.35	$2,398.35
Depreciation Accrual	($2,411.3)	($2,411.3)	($2,411.3)
End-of-Year Balance	$54,953.4	$53,909.9	$53,897.0
Average Balance	$54,959.9	$53,916.3	$53,903.4

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

1

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.

1

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.

1

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

1

CHAPTER 10 : INCOME TAXES

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 Los Angeles 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 Los Angeles region'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 Section 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 Federal Income Tax 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 the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) provides; and

6) SGVWC should close the Resolution L-411A Memorandum Account with no harm to ratepayers.

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.[212] For this reason, there are circumstances where CCFT income tax treatments have been subject to normalization treatment.[213]

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

[213] 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.

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 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,[214] 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.[215] 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 tax benefit to ratepayers.

In A.16-01-002, SGVWC forecasts $220,500 total company-wide DPAD deduction for TY 2017/2018 with a $104,738 deduction allocated to the Los Angeles Division.[216] Because the Federal Income Tax rate is 35%, this deduction provides an

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

[215] IRC Sec.199(a).

[216] SGVWC workpaper "LAWorkpaper, tab LEX20".

economic benefit to ratepayers of $36,658.[217] 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 $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.[218]

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."[219] 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.[220] 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 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:

[217] $104,738* 35% = $36,658.

[218] Ibid.

[219] SGVWC response to Data Request MC8-001, q. 5.

[220] SGVWC workpaper "LAWorkpaper" tab LEX20, line 19.

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

	SGVWC (w/incorrect 35%)	ORA correction (35% removed)
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
Company-wide DPAD	$220,500	$630,000
Los Angeles Division DPAD (47.5%)	$104,738	$299,250
Ratepayer Tax Dollar Savings (35%)	**$36,658**	**$104,738**

As **Table 10.1** above shows, SGVWC's method leaves Los Angeles with a $104,738 deduction with an overall tax dollar savings of $36,658. Even taking 9% of SGVWC's $7 million QPAI amount from 2013 should result in a DPAD deduction of $299,250 for Los Angeles with a tax savings of $104,738. But SGVWC reduces the $104,738 to 35% of its actual value.

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.[221]

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

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

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."[222] 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 $314,800 for TY 2017/2018.[223]

3. New IRS Tangible Property Regulations Deduction

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

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 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

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

[223] 2013 DPAD amount $299,250 from Table 10-A multiplied by inflation factor 1.0521.

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 forecast using a "flow-through" methodology, one-time tax adjustments (and related benefits) the utility implemented 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."[224] [Emphasis added.] However, according to SGVWC testimony, it did not normalize the Sec. 481(a) one-time adjustment for CCFT.[225] For this reason, ORA recommends 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.

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

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

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

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 is the proper method to determine that amount.[226])

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.[227] Because this is an issue that has been considered by the Commission at various times at least as far back as the 1980s[228], 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 disregarded for Federal Income Tax purposes and the taxpayer shall accrue the tax as if the acceleration did not occur.[229] 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

[226] See detailed discussion in next section below.

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

[228] See D.89-11-058.

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

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.**[230] [Emphasis added.]

As a result, it can be conclude 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 poses 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, SGVWC filed its GRC application for a TY 2017/2018 rate increase in January of 2016, when 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.[231]

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 deduction.[232] SGVWC's 2016 revenue estimate is based on a forecasted 2016 number of customers and sales quantities at the present rates, while the corresponding operating expense deductions are

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

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

[232] SGVWC Application workpaper "LAWorkpaper", tab 7C-1.

based on internally generated estimates for 2016. SGVWC's methodology results in a TY 2017/2018 FIT expense deduction of $414,900 CCFT for the Los Angeles region.

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.[233] 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 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 operation under today. Indeed, prior to 2004, the RCP had no mandatory rate case filing 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."[234]

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

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

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

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."[235] 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.

More importantly, although D.10-11-035 ultimately ruled in favor of Golden State, the Commission was clear that its reasoning was due to the necessity of consistency between Golden States 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.[236]

Interestingly, although the Commission was constrained to rule in favor of Golden State in D.10-11-035, it took the time to mention the value of ORA's 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."[237] ORA's position in D.10-11-035 is similar ORA's recommendation makes herein, because ORA relies on some actual expense figures (as appear in 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.

---

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

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

[237] Ibid.

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 the type of additional unnecessary work the 2004 revised RCP was addressing when it instituted a single Test Year. 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. 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. Moreover, SGVWC's methodology ignores the fact that 2016 adopted rates include amounts for CCFT expense. For example, Los Angeles' currently adopted rates SGVWC used to generate its 2016 CCFT estimate were adopted in Advice Letter (AL) 450-B and includes $1,090,900 in the revenue requirement for CCFT expense.[238]

[238] SGVWC AL 466-A, AL 454, and AL 450-B all request supply cost increases and are based on the rates adopted in D.11-11-018. The D.11-11-018 Settlement Agreement, Attachment A, Page 1, Summary of Earnings shows settled Stage Income Tax expense amount of $1,090,900.

The **Table 10.2** below demonstrates the difference in tax benefits between the amount of CCFT SGVWC is proposing to use as a deduction for the Los Angeles Division and ORA use of the adopted amount of prior year CCFT already in rates.

Table 10.2: Comparison of SGVWC's Estimate Vs. Adopted CCFT Expense

SGVWC's Los Angeles CCFT Expense Deduction		ORA's Los Angeles CCFT Expense Deduction	
SGVWC's 2016 Estimated CCFT Expense:	$418,000	AL 450-B Adopted CCFT Expense:	$1,090,900
Federal Income Tax Rate:	35%	Federal Income Tax Rate:	35%
SGVWC 2017/2018 Forecasted Ratepayer Benefit (Detriment):	**$146,300**	ORA 2017/2018 Forecasted Ratepayer Tax Benefit:	**$381,815**

As **Table 10.2** above shows, SGVWC's currently adopted rates in the Los Angeles region include $1,090,900 for CCFT expense. This amount produces a deduction yielding a FIT tax benefit of $381,815 for the Los Angeles region. However, SGVWC's method (using 2016 estimated data) only results in a tax benefit for Los Angeles of $146,300.

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.[239] [Emphasis added.]

[239] D.89-11-058, Conclusion of Law #1.

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 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 amount 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. In contrast, 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 further illustrate this concept, SGVWC's estimate forecasts a tax *refund* in 2016 of $334,400 for the Fontana Division. SGVWC's use of this CCFT refund actually *increases* Fontana's FIT expense in TY 2017/2018, yet

this refund has never flowed through to ratepayers. On the contrary, Fontana ratepayers funded $1,067,700 in CCFT expense in the prior year.[240]

Because ORA determined the correct CCFT deduction for ratepayer funded FIT expense 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 most recent revenue requirement before adopting new rates. It would be inappropriate for the Commission to adopt SGVWC's estimated 2016 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 $1,090,900 for Los Angeles in TY 2017/2018.

5. Extension of 168 (k) Bonus Depreciation

On Dec. 18, 2015, Congress passed the Protecting Americans from Tax Hikes Act of 2015 (PATH), 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.[241] On June

[240] AL 440-C and AL 452.

[241] SGVWC's response to ORA Data Request MC8-002, q. 4.

13, 2016 SGVWC provided updated workpapers reflecting the extension of PATH Act bonus depreciation.[242]

ORA recommends incorporating the normalization effects of the extension of bonus depreciation resulting from the PATH Act in SGVWC's current GRC.

6. Resolution L-411A Memorandum Account

Due to the uncertain nature of Federal tax policy enactment and because GRCs encompass three years, there have been times where a possibility exists that potential ratepayer benefits resulting from extensions of IRS allowed bonus depreciation might not be captured in rates. In 2011, the Commission recognized this possibility and issued Resolution L-411A (Resolution), where it directed utilities to establish a one-way memorandum account (Memo Account) to "track the impacts of Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act)"[243] The Tax Relief Act provided 100% bonus depreciation for property placed in service from September 8, 2010 and before January 1, 2012 and then 50% bonus depreciation for property placed in service from January 1, 2012 and through December 31, 2012.

Because SGVWC's Los Angeles region was in between GRCs and unable to reflect the effects of the Tax Relief Act in rates, it was required to comply with the Resolution and track ratepayer benefits in a the Memo Account.[244] In addition, the Memo Account was established to be a one-way Memo Account. Indeed, the Resolution states that "If, at the end of the period covered by the memorandum account, the account reflects a net revenue requirement increase, the memorandum account shall be terminated without any impact on rates."[245] A net revenue requirement increase could occur for a

[242] June 13, 2016 email from Dan Dell'Osa.

[243] Resolution L-411A, p. 1.

[244] According to SGVWC, its Fontana region incorporated the effects of the New Tax Law in its 2011 GRC.

[245] Resolution L-411A, pp. 5-6.

few reasons, the most common being the utility's purchase of additional qualifying infrastructure above the amount adopted in rates.

During discovery, SGVWC provided workpapers detailing the maintenance of the Memo Account through 2017 and because of additional spending on qualifying infrastructure, demonstrated a net revenue requirement increase.[246] Therefore, ORA recommends SGVWC close the L-411A Memo Account, with no harm to ratepayers.

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 EY 2018/2019 DIT forecasts incorporate the extension of bonus depreciation according to the terms set forth by the PATH Act. Finally, SGVWC should close its Resolution L-411A Memorandum Account with no harm to ratepayers. Any remaining differences between SGVWC and ORA for CCFT or FIT expenses are due to differences in recommended revenues, expenses, and rate base.

[246] SGVWC's supplemental response to ORA Data Request MC8-002, q. 1. a.

CHAPTER 11 : TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter presents the results of ORA's analysis of SGVWC's forecast for Taxes Other Than Income for the Los Angeles 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 and its application testimony and workpapers evaluated against suitable 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 1.32% 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 a more recent five-year average percentage increase;
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 Los Angeles Division by taking its recorded 2015 ad valorem amount and dividing that amount by its calculated "ad valorem tax base" to arrive at 1.291% ratio for 2015. SGVWC then increases this ratio by a 1% multiplier annually to arrive at a weighted average ratio of approximately 1.32% 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 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[247]
- 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

SGVWC applies an OASDI wage cap equal to the first $124,350 of an employee's wages instead of the 2016 amount of $118,500[248]. SGVWC explains that "Because 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".[249]

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.[250] ORA recommends beginning with the $118,500 known amount for 2016 and increasing it

[247] SGVWC General Division Exhibit SG-1, p. 5.1.

[248] https://www.ssa.gov/oact/cola/cbb.html, Web. retrieved 2/25/16.

[249] SGVWC Testimony of Joel Reiker, SG-7, p. 37.

[250] https://www.ssa.gov/oact/cola/cbb.html, Web. retrieved 2/25/16.

by $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.

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 of gross revenues (excluding miscellaneous revenues) from 2011-2015. This method results in a forecasted local franchise rate of 1% for Los Angeles. SGVWC applies these corresponding tax rates to the forecasted amount of 2016 gross revenues (minus miscellaneous revenues) for each area. 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."[251] 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 .1102% of gross revenues for Los Angeles.

Any other remaining differences between SGVWC's and ORA's local franchise taxes are due to differences in forecasted revenues.

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

[251] California Public Utilities Code § 6231(c).

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 the San Gabriel Valley Water Company's ("SGVWC") Los Angeles Division employs.

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 from 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 where the consumer protests or expresses 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 CAB received involved billing. The table also provides the total number of customer service complaints, calls, and inquiries 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	3	10	2	0	2
Informal Complaints	0	0	0	2	2
Phone Contacts	0	0	5	9	6
Inquiries	0	1	1	0	0
Total	3	11	8	11	10
No. of customers	46,883	46,920	47,057	47,140	47,346
Total as % of customers	0.01%	0.02%	0.02%	0.02%	0.02%

2. Service Complaints

SGVWC's service complaint records, as presented in Table 12.2 below, show a significant increase in the total number of service complaints for 2012 and 2013.[252] The majority of these complaints were regarding billing and leaks.

[252] SG-2 - LA Division TY2017, at 12-3.

Table 12.2: Historic Number of Customer Complaints[253]

Service Complaints	2011	2012	2013	2014	2015
Taste &Odor	7	7	7	10	8
Turbidity	15	1	1	1	0
Pressure (High or Low)	101	91	117	73	55
Sand	0	0	0	0	1
Air-Milky-Cloudy	0	0	0	0	2
Bill Inquiries	557	829	884[254]	481	488
Leaks, Mains	58	62	73	67	50
Leaks, Services	505	690	788	612	539
Leaks, Hydrants	79	91	17	85	66
Misc. Other Complaints	5	5	16	42	12
TOTAL	1327	1776	1993	1371	1221

The increase in bill inquiries in 2012 and 2013 were directly attributable to increases in water rates, service charges and surcharges beginning in 2012, which prompted an increase in the number of high water bill calls. 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.[255]

[253] SGVWC's response to ORA's data request ORA-A.16-01-002: HSM-001, Question 4.

[254] SGVWC's response to ORA's data request ORA-A.16-01-002: HSM-001, Question 3.

[255] Ibid.

For Leaks-Services there is no concrete explanation for the increase. Service leaks are unpredictable and can occur at any time with numerous leaks in one area and very few leaks in other areas. If a number of leaks occur in one area of the service territory, the area is monitored more closely so that repairs can be fixed promptly.[256]

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.[257] ORA reviewed these reported performance measures and SGVWC's data used to report compliance with the required performance standards.[258] ORA concludes that SGVWC has met the customer service performance standards for all service quality areas GO 103-A requires.

Listed below is a summary of the Performance Standards General Order 103-A[259] requires, Appendix E – Customer Service & Reporting Standards for Class A and B Water Utilities:

---

[256] Ibid.

[257] SGVWC's response to ORA's data request ORA-A.16-01-002: HSM-001, Question 1.

[258] Ibid.

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

1. Telephone – (a) percentage of calls reaching a utility representative within 30 seconds must be greater than or equal to 80%; (b) percentage 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 a water bill, quality of water, or service rendered in general, a Customer Service Representative ("CSR") will speak to the customer to learn about the problem. 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) 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.[260]

[260] SG-2 - LA 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 representative 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.[261]

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) Recycled Water; (b) Low-Flow Plumbing Fixtures Rebates; (c) Large Landscape Irrigation Efficiency; (d) Commercial, Industrial, and Institutional (CII) Water Use Audit; (e) CII Retrofit; (f) High Efficiency Toilets (HET) Distribution; (g) Water Conservation Kits; (h) Single-Family Residential Audits; (i) School Conversation Education; and (j) Education/Public outreach.[262]

(a). Recycled Water – SGVWC has partnered with Upper San Gabriel Valley Municipal Water District ("Upper District") and Central Basin Municipal Water District ("Central Basin") to deliver approximately 6% of the Company's total supply of recycled water to various customers for non-potable landscape irrigation in place of limited drinking water supplies.

(b). Low-Flow Plumbing Fixture Rebates – The Company offers its residential customers a rebate on high efficiency clothes washers, landscape rotating nozzles and weather-based irrigation controllers. The Company offers its commercial, industrial, and institutional ("CII") customers a rebate on large rotary nozzles, high efficiency

[261] Ibid at 12-4.

[262] SGVWC's response to ORA's data request ORA-A.16-01-002: HSM-001, Question 2.

toilet, zero water urinals, pH-cooling tower conductivity controllers, dry vacuum pumps, connectionless food steamers, and ice-making machines.

(c). Large Landscape Irrigation Efficiency - The Company facilitates installation of wireless irrigation management systems to assist large landscape customers with monitoring water usage and reducing their irrigation demands.

(d). 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.

(e). 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.

(f). HET Distribution - The Company hired Eco'Tech Services, Inc. to deliver High Efficiency Toilets ("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.

(g). 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 1 GPM 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.

(h). 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.

(i). School Conservation Education - The Company contracted with the National Theatre for Children ("NTC") to provide educational presentations in schools within its Los Angeles County division service area. NTC provides all required instructional assistance, educational materials and classroom presentations.

(j). Education/Public Outreach - The Company participated 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 San Gabriel Valley Water Company's ("SGVWC") Los Angeles County division. The Los Angeles County division is served through two interconnected systems: El Monte/Whittier System and Montebello System.

SGVWC's Los Angeles County division water supply is 94% groundwater from the two adjudicated groundwater basins. The Main San Gabriel Basin supplies 93% of the total ground water produced, with the remaining 1% produced from Central Basin groundwater sources. The remaining 6% is recycled water for landscape irrigation.

SGVWC produces groundwater from the Main San Gabriel Basin and the Central Basin pursuant to adjudicated water rights under two separate judgments with continuing jurisdiction and oversight from the Superior Court of the State of California for the County of Los Angeles. Each judgment provides for water management of the Basins by a Court-appointed Watermaster who is required to conserve local storm flows and, when necessary, secure supplemental water for groundwater replenishment.

In the Main San Gabriel Basin ("Main Basin"), replacement water is obtained by the Main Basin Watermaster from the Upper San Gabriel Valley Municipal Water District ("Upper District"), a local member agency of the Metropolitan Water District of Southern California ("MWD"). In the Central Basin, San Gabriel obtains its replacement water from the Water Replenishment District of Southern California ("WRD") from MWD's member agency, Central Basin Municipal Water District.[263]

SGVWC operates its El Monte/Whittier and Montebello water systems 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.

[263] SG-5 – Direct testimony of Robert J. DiPrimio, pp. 47-48.

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 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 El Monte, Industry, and Whittier 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.[264] 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 the DDW established and all applicable federal and state drinking water standards.

C. DISCUSSION

The following table lists the systems in the Los Angeles County division with the corresponding information on the most recent inspection reports available to ORA and

[264] *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).

citations by DDW, if any. Where appropriate, ORA discussed the nature of each DDW citation.

Table 13.1: Most Recent DDW Citation for Los Angeles Divisions

System	DDW Inspection Report	DDW Citation
El Monte/Whittier	2014	None
Montebello	2014	None

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 Los Angeles County 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. 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 1st block (tier) is typically tied to a customer's necessity level of indoor consumption. The 2nd block is designed to capture the customer's reasonable outdoor water consumption. The 3rd block often is a penalty block. Usage above the 2nd block is considered to be wasteful based on reasonable water used given the customer's characteristics.[265] Increasing block rates, in which rates increase with usage, provide a financial incentive for customers to reduce water consumption.[266] 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.

D.10-04-031 authorized a pilot two-tier increasing block water conservation rate design for the San Gabriel Valley Water Company's Los Angeles and Fontana Divisions, effective July 1, 2010.[267] This Chapter presents ORA's analysis and recommendations on San Gabriel's rate design.

---

[265] 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.

[266] California Public Utilities Commission, Water Action Plan, December 15, 2005.

[267] D.10-04-031, Decision Authorizing Changes in Rate Design and Ratesetting Mechanisms, and Denying Motion for Establishment of a Memorandum Account, April 8, 2010.

B. SAN GABRIEL'S RATE DESIGN AND PROPOSED CHANGES

1. 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 13 Ccf: Tier 1 (0-13 Ccf per month) and Tier 2 (over 13 Ccf per month);

d) The service charge is designed to recover 35.4% of the total revenue requirement and the quantity-rate is designed to recover 64.6% of the total revenue requirement;

Additionally, D.16-03-021 provides a discount of $8 for 5/8" meter, $10 for 3/4" meter, and $20 for 1" meter for San Gabriel's low income 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, for San Gabriel's direct-metered residential customers, excluding apartments, trailer parks and any other facility in which residential customers receive service through a master meter. 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.

Table 14-1
San Gabriel's Current Adopted Rate Design

Service Charge	
Residential Meter	
Meter Sizes	To be Determined
Low Income	
Meter Sizes	50% Discount
Quantity Charge	
Number of Tiers	2
Break ccf	0-13/≥14
Percentage Difference	15%
Ratio	
Service Charge	35.4% of Revenue Requirement
Quantity Charge	64.6% of Revenue Requirement

ORA agrees with San Gabriel that no change is necessary for its current conservation rate design in the current proceeding. The current rate design has been in effect during a time of water usage reduction since 2010.

2. Construction Tariffs

San Gabriel currently maintains two construction tariffs for the Los Angeles Division. These tariffs consist of LA 9C and LA 9CL applicable to temporary water service furnished for construction purpose and 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 also do not promote water conservation because the rates charged to customers are not based on the quantity usage. San Gabriel proposes using Condition 3 of Schedule LA 9C that authorizes it to either estimate or meter the actual water the contractor used and charges the applicable General Metered Service quantity rate for water sold. San Gabriel also would like to eliminate LA-9CL for service to tract house

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 recommends the Commission approve San Gabriel's proposal.

3. O&M Reimbursement Mismatch

The Balwin Park Operating Unit Settlement Agreement provides for Water Quality Authority, on behalf of the polluters, to disburse funds reimbursing San Gabriel for O&M costs incurred to operate treatment facilities at Plants B5 and B6 for at least 15 years and reimbursement for treatment facility O&M costs at Plant B4 until treatment at Plant B5 has reached full water production. The O&M reimbursements for Plants B4, B5 and B6 have been credited to Other Water Revenue, Account 614, which are revenue neutral as offsetting expenses are first incurred with reimbursement received shortly thereafter. San Gabriel estimates the O&M costs and reimbursement to be approximately $5 to $6 million per year in this GRC.

When San Gabriel files for its escalation year attrition step increase, reimbursement is included in the pro-forma on a recorded basis while the expense to generate such revenue is included in the pro-forma based on adopted expense. San Gabriel identified a hypothetical situation where if the reimbursable O&M expenses increase, its recorded revenue would be higher but the adopted expenses would not include the additional expenses needed to generate this additional revenue. This is a mismatch that would unfairly punish San Gabriel. San Gabriel requests the Commission to make an exception and allow it to use adopted revenue in Account 614, rather than the recorded revenue, when it calculates the pro-forma in the escalation year step increase.

San Gabriel's request is unnecessary. San Gabriel's rate of return for the escalation years have never been aversely punished due to the mismatch from the recorded revenue and adopted expense used in attrition filings. In its response to ORA Data Request VCC-004, San Gabriel acknowledged by stating "*Mr. Batt's comment on*

Page 47 of Exhibit SG-4 is theoretical identifying an exception that may be possible to Account 614 being revenue neutral". Since San Gabriel's issue is hypothetical only, there is no need for the Commission to make a decision at this time.

4. 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 receives $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.

On August 24, 2015, San Gabriel filed application A.15-08-022 requesting that the CARW rate design adopted in D.14-05-001 for its Fontana Division in A.11-07-005 also be applied to its Los Angeles Division. At the time of its GRC filing, the decision on this application was still pending before the Commission. However, San Gabriel filed its GRC application assuming that A.15-08-022 would be approved as filed.

On March 17, 2016, the Commission issued a decision D.16-03-021, in application A.15-08-022, approving San Gabriel to recover under-collection in its CARW Balancing Account through the volumetric surcharge. It also authorized San Gabriel to change the CARW benefits from a 50 percent discount on monthly service charges to the design it uses in its Fontana Division- i.e., a flat dollar amount based upon the size of the customer's meter, which currently is $8 for a 5/8" x ¾" meter, $10 for a ¾" meter, and $20 for the 1" meter. In this GRC, San Gabriel is proposing to increase the smallest benefit from $8 to $10, with a goal of eventually merging the three amounts to a single CARW benefit pursuant to the settlement it reached with ORA in San Gabriel's previous Fontana Division GRC, A.11-07-005 and the Commission adopted in D.14-05-001.

ORA continues to support San Gabriel's goal of making a gradual transition for implementing a uniform CARW surcredit amount regardless of customer's meter size. Many Class-A water companies serving in the Los Angeles area are already doing the same. Table 14.2 below provides a survey of what other Class-A water companies are currently offering for their qualified low income customers.

Table 14.2: Summary of Benefits Provided by other Class-A Water Utilities

	Low Income Monthly Subsidy Amount	Note
San Gabriel Water	$8- 5/8", $10-3/4", $20-1"	adopted in D.16-03-021
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 its 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 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 in Southern California. In this GRC, San Gabriel proposes offering a subsidy of $10 for the ¾-inch meter, $10 for the 5/8-inch, and $20 for the 1-inch and will gradually transition to a single uniform rate in future GRC's.

The survey results in the table also show 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 higher benefit for larger size meters. San Gabriel should reduce the subsidy amount, particularly for those of the larger size meters, in order to be more in line with other water companies.

Currently, the participation level in the CARW program has reached 18,666, or 49.1% of the total single residential customers as of June 2015. San Gabriel projects this number to increase slightly to 18,751, or 48.3% in the Test Year 2017/2018. Given nearly 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 $2,455,320. Each non-CARW customer will be paying a surcharge of $0.2484 per Ccf of water usage, an increase of $0.063 or 34% over the current surcharge of $0.1851 per Ccf. Such a dramatic increase in the CARW surcharge is a big financial burden to the ratepayers. The Commission must strike a balance between affordability of the low income customers and the cost of funding the program by the remaining 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 $430,320 in Test Year 2017-2018. ORA's recommendation will 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.

C. 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[268] 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

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

their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits (DWA). DWA shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.

C. DISCUSSION

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.[269] 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 each of 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

[269] Adopted in D.04-06-018, and D.07-05-062, respectively.

1, 2014, respectively, and shall apply to service rendered on and after their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits (DWA). DWA shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.[270]

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. The Table 15.1 at the end of this chapter 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.

[270] 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			
LOS ANGELES COUNTY DIVISION			
SUMMARY OF EARNINGS (Escalation Year) FOR ILLUSTRATION ONLY			
	ORA		ORA
Item	2018-2019		2019-2020
	(A)		(B)
	(Dollars in Thousands)		
Operating Revenues	58,734.4		60,967.4
Flat Rate Service (604)	1,289.7		1,327.0
Misc. Service Revenue (611 & 612)	93.2		93.2
Other Water Revenue (614)	7,620.2		7,620.2
Total Revenue	67,737.5		70,007.7
Expenses			
Oper. & Maint. Expense	32,152.2		33,252.2
A&G Expense	4,133.1		4,420.5
Bank Charges [1]	62.2		-
Alloc.Com.Exp.	5,685.1		6,064.6
Taxes Other Than Income	2,150.6		2,241.2
Deprec. Exp.(LA)	5,474.8		5,872.2
CCFT	1,095.1		1,144.0
FIT	4,687.5		4,706.6
Total Expenses	55,440.5		57,701.3
Net Income	12,297.0		12,306.4
Ratebase	144,883.3		144,965.8
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 safe use of the plant and workforce. I Performed engineering reviews, and conducted incident investigations for both gas and electric utilities. I have also helped resolve customers' complaints.

From 2002 through present, I have been working for Division of Ratepayer Advocates in its Water Branch; mostly dealing with Class-A water utilities. I have performed evaluations of public utility plant and properties, regulation of utility tariffs and rates, studies of cost of service, and studies

of the utility's operating practices to enforce the rules and regulations relating to ratemaking. I have presented my findings and recommendations as an expert witness at public hearings before the Commission. I have also been actively involved with few of Commission's OIR/OII proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am 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 Senior Utilities Engineer Specialist, in the Water Branch of the Office of Ratepayer Advocates.

Q.2. Please summarize your education 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 Chapter 2, Water Consumption and Operating Revenue, and Chapter 14, Rate Design in the ORA testimony for both 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 LA/FWC report & Chapter 2 of GO report) and Executive Compensation (Chapter 6).

Q.4. Does this conclude your prepared direct testimony?

A.4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
LAURA KRANNAWITTER

Q.1. Please state your name and business address.

A.1. My name is Laura Krannawitter. 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 Senior Utilities Engineer, specialist.

Q.3. Please briefly describe your educational background and work experience.

A.3. I graduated from San Francisco State University with a Bachelor of Science Degree in Engineering with honors, and a Master of Business Administration, with an emphasis in international business. I have a Professional Engineering license in mechanical engineering (#M27421) I have been employed by the CPUC since 1987. Over the 24 plus years, I have worked on Electric, Gas, Telecommunications, Transportation, and Water matters. I have worked predominantly as a ratepayer advocate on energy matters, but I have also worked in an advisory capacity to the Administrative Law Judge Division in the energy division (formerly known as CACD), and as an advisor to three Commissioners (Duque(energy/transportation), Kennedy(energy/transportation), and Bohn (water)). I have written resolutions for advice letters, alternate decisions for Commissioners and advocacy testimony for DRA as well as suggested language for various OIR's. As of September 2010, I concluded my most recent advisor work and returned to DRA, where I work on energy and water matters.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the following Chapters: 7, 8 and 9 for the Los Angeles District of San Gabriel Valley Water Company. These cover the areas of Plant, Depreciation and Rate Base.

Q.5. Does this conclude your prepared testimony?

A.5. 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 education 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, **SGVWC GRC A.16-01-002**?

A.3. I sponsor testimony on Chapter 10- Income Taxes, Chapter 11- Taxes Other Than Income, Chapter 12- Working Cash. I also sponsor testimony on the Income Tax Repairs Regulation Implementation Memorandum Account and CWA and NAWC dues for ORA's report on General Office, Chapter 6 and Chapter 2 respectively.

Q.4. Does this conclude your prepared direct testimony?

A.4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
HANI MOUSSA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Hani Moussa and my business address is 320 West 4th Street, Suite 500, Los Angeles, California. I am a Program and Project Supervisor in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at San Diego, with a Bachelor of Science Degree in Electrical Engineering. I am a registered electrical engineer in the State of California.

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 and Water Quality.

Q.5. Does this conclude your prepared direct testimony?

A.5. Yes, it does.