

Docket: : A.12-01-001
Exhibit Number : _____
Commissioner : Catherine J.K. Sandoval
Admin. Law Judge : Linda A. Rochester
DRA Project Mgr. : Laura Krannawitter



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

**REPORT ON THE
RESULTS OF OPERATIONS**

**PARK WATER COMPANY
CENTRAL BASIN DIVISION**

**Test Year 2013 and
Escalation Years 2014 and 2015
Application 12-01-001**

For authority to increase water rates located in the
Communities of Compton, Lynwood
and Bellflower, in Los Angeles County

**Los Angeles, California
May 2, 2012**

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1 **MEMORANDUM**

2 The Division of Ratepayer Advocates (“DRA”) of the California Public
3 Utilities Commission (“Commission”) prepared this report in the Park Water
4 Company’s Central Basin Division (“Park” or “PWC”) rate case proceeding A.12-
5 01-001. In this docket, the applicant requests an order for authorization to
6 increase rates charged for water service by \$6,491,200 or 26.16 % in test year
7 2013; by \$1,182,595 or 3.77% in escalation year 2014; and by \$1,801,937 or
8 5.53% in year 2015. The applicant requests to use a rate of return of 9.42% which
9 was adopted in its 2009 rate case proceeding A.09-05-003. DRA presents its
10 analysis and recommendations associated with the Applicant’s request.

11 While DRA has made every effort to comprehensively analyze and provide
12 the Commission with recommendations on each ratemaking and policy aspect
13 presented in Park’s Application, the absence from DRA’s report of any particular
14 issue does not constitute DRA’s endorsement or acceptance of the underlying
15 request, methodology, or policy position related to that issue.

16 Laura Krannawitter serves as DRA’s project coordinator in this proceeding,
17 and is responsible for the overall coordination in the preparation of this report.
18 DRA’s witnesses’ prepared testimonies are contained in the report and Appendix
19 A of this report contains their qualifications.

20 DRA’s legal counsel for this case is Jonathan Knapp.

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EXECUTIVE SUMMARY

Park Water Company requested an increase of 26.16% in Test Year 2013 and 3.77% in Escalation Year 2014, whereas DRA recommends an increase of 18.3% in Test Year 2013 and inflationary increases for the Escalation Years.

Key Recommendations

DRA's recommendations are based on the same estimates of Revenues, lower estimates of Operations and Maintenance expenses, lower estimates of Administrative and General expenses, lower estimates of Conservation Expenses, lower Plant additions, and lower Ratebase. The following tables show the differences between Park and DRA's numbers and DRA's witness responsibilities.

Summary of Differences Test Year 2013

| | PWC Request | DRA Estimate | PWC Exceeds DRA Estimate | PWC Exceeds DRA % |
|--|--------------|--------------|--------------------------|-------------------|
| Revenues | \$31,301,000 | \$29,341,500 | \$1,959,500 | 6.68% |
| O&M Expenses | \$14,236,000 | \$13,835,200 | \$400,800 | 2.90% |
| A&G Expenses | \$8,123,500 | \$7,888,900 | \$234,600 | 2.97% |
| Gross Plant Additions less Retirements | \$9,680,476 | \$6,665,282 | \$3,015,194 | 45.24% |
| Ratebase | \$39,810,004 | \$35,910,700 | \$3,899,304 | 10.86% |
| Conservation Expense | \$372,895 | \$199,833 | \$173,062 | 86.60% |

List of DRA Witnesses and Respective Chapters

| Chapter Number | Description | Witness |
|----------------|---|-----------------------------------|
| - | Executive Summary | Laura Krannawitter |
| 1 | Overview and Summary of Earnings | Laura Krannawitter |
| 2 | Water Consumption and Operating Revenues | Laura Krannawitter |
| 3 | Operations and Maintenance Expenses | Toni Canova Kerrie Evans |
| 4 | Administrative & General Expenses | Herbert Merida Kerrie Evans |
| 5 | Taxes Other Than Income | Herbert Merida |
| 6 | Income Taxes | Herbert Merida |
| 7 | Utility Plant in Service | Patricia Esule |
| 8 | Depreciation Reserve and Depreciation Expense | Patricia Esule |
| 9 | Rate Base | Patricia Esule Raymond Charvez |
| 10 | Conservation | Kerrie Evans |
| 11 | Customer Service | Toni Canova |
| 12 | Rate Design | Laura Krannawitter |
| 13 | Water Quality | Jenny Au |
| 14 | Special Requests | Mehboob Aslam |
| 15 | Step Rate Increase | Laura Krannawitter |
| Appendix A | Qualifications | All |

1 **CHAPTER 1: OVERVIEW AND SUMMARY OF EARNINGS**

2 **A. INTRODUCTION**

3 This report sets forth DRA’s analysis and recommendations for
4 A. 12-01-001, Park’s general rate increase request for Test Year 2013 and
5 Escalation Years 2014 and 2015.

6 **B. SUMMARY OF RECOMMENDATIONS**

7 Tables 1-1 through 1-3 of the Summary of Earnings compare the results of
8 operations for the Test Year 2013 including revenues, expenses, taxes and rate
9 base.

10 **C. DISCUSSION**

11 **1) Escalation Factors**

12 In this application, Park has applied the inflation factors from DRA Energy
13 Cost of Service “Estimates of Non-Labor and Wage Escalation Rates”
14 memorandum dated September 30, 2011.

15 As part of its forecasting methodology, DRA uses the same escalation
16 factors as those used by Park in its Application. This methodology ensures that
17 any recommendations made by DRA can be compared to those presented by Park
18 on the same basis. An update of escalation in this GRC is necessary before a final
19 decision is issued in this proceeding. The Rate Case Plan, D.04-06-018 which
20 subsequently was revised in D.07-05-062 requires that the most recent “Estimates
21 of Non-Labor and Wage Escalation Rates” and “Summary of Compensation Per
22 Hour” should be used as the escalation rates. Therefore, escalation numbers need
23 to be updated on the base year numbers for which the test year forecasts are final.
24 The parties will update the escalation factors when they jointly prepare the
25 comparative exhibits that will be submitted to the ALJ before a Proposed Decision
26 is issued.

1 **2) Revenue Requested**

2 The total revenues requested by Park are as follows:

| 3 | <u>Year</u> | <u>Amount of Increase</u> | <u>Percent</u> |
|---|-------------|---------------------------|----------------|
| 4 | 2013 | \$6,491,200 | 26.16% |
| 5 | 2014 | \$1,182,595 | 3.77% |
| 6 | 2015 | \$1,801,937 | 5.53% |

7 Park estimates that its proposed rates in the Application will produce
8 revenues providing the following returns:

| 9 | <u>Year</u> | <u>Return on Rate Base</u> | <u>Return on Equity</u> |
|----|-------------|----------------------------|-------------------------|
| 10 | 2013 | 9.42% | 10.20% |
| 11 | 2014 | 9.42% | 10.20% |
| 12 | 2015 | 9.42% | 10.20% |

13 **D. CONCLUSION**

14 DRA recommends a revenue increase for the Test Year as follows
15 (Escalation Years 2014 and 2015 are covered in Chapter 15 of this report):

| 16 | <u>Year</u> | <u>Amount of Increase</u> | <u>Percent</u> |
|----|-------------|---------------------------|----------------|
| 17 | 2013 | \$4,531,280 | 18.3% |

18 D.09-12-001 authorized the last general rate increase for Park in
19 A.09-01-001, resulting in a rate of return on rate base of 9.42% in 2010. Present
20 Rates used by DRA in this report are based on Advice Letter No.228-W, which
21 became effective on January 1, 2012.

1 A comparison of DRA and Park estimates for rate of return on rate base for
2 the Test Year 2013 and Escalation Year 2014 at present and the utility's proposed
3 rates is shown below:

4

RATE OF RETURN

5

| | DRA | | PWC | | DIFFERENCE | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------------|-------------|
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Present Rates | 2.24% | 11.58% | 0.14% | 8.02% | 2.10% | 3.56% |
| Utility Proposed Rates | 12.52% | 13.25% | 9.42% | 9.42% | 3.10% | 3.83% |

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TABLE 1-1
PARK WATER COMPANY
SUMMARY OF EARNINGS
TEST YEAR 2013
(AT PRESENT RATES)

| Item | DRA Estimate | PWC Estimate | PWC exceeds DRA Amount | % |
|-----------------------------|-----------------|-----------------|------------------------------|--------|
| (Thousands of \$) | | | | |
| Operating revenues | 24,810.3 | 24,810.3 | 0.0 | 0.0% |
| Operating expenses: | | | | |
| Operations & Maintenance | 13,801.2 | 14,187.9 | 386.7 | 2.8% |
| Administrative & General | 7,870.7 | 8,097.5 | 226.8 | 2.9% |
| Depreciation & Amortization | 1,817.9 | 2,236.8 | 419.0 | 23.0% |
| Taxes other than income | 791.6 | 832.0 | 40.4 | 5.1% |
| State Corp. Franchise Tax | (94.3) | (163.7) | (69.3) | 73.5% |
| Federal Income Tax | (181.4) | (437.5) | (256.0) | 141.1% |
| Total operating exp. | 24,005.7 | 24,753.2 | 747.5 | 3.1% |
| Net operating revenue | 804.6 | 57.1 | (747.5) | -92.9% |
| Rate base | 35,910.7 | 39,810.0 | 3,899.3 | 10.9% |
| Return on rate base | 2.24% | 0.14% | -2.10% | -93.6% |

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TABLE 1-2
PARK WATER COMPANY
SUMMARY OF EARNINGS
TEST YEAR 2013
(AT UTILITY PROPOSED RATES)

| Item | DRA Estimate | PWC Estimate | PWC exceeds DRA | |
|-----------------------------|-----------------|-----------------|--------------------|--------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| Operating revenues | 31,301.0 | 31,301.0 | 0.0 | 0.0% |
| Operating expenses: | | | | |
| Operations & Maintenance | 13,849.9 | 14,236.6 | 386.7 | 2.8% |
| Administrative & General | 7,896.7 | 8,123.5 | 226.8 | 2.9% |
| Depreciation & Amortization | 1,817.9 | 2,236.8 | 419.0 | 23.0% |
| Taxes other than income | 791.6 | 832.0 | 40.4 | 5.1% |
| State Corp. Franchise Tax | 472.87 | 403.6 | (69.3) | -14.7% |
| Federal Income Tax | 1,974.7 | 1,718.8 | (255.9) | -13.0% |
| Total operating exp. | 26,803.6 | 27,551.3 | 747.7 | 2.8% |
| Net operating revenue | 4,497.4 | 3,749.7 | (747.7) | -16.6% |
| Rate base | 35,910.7 | 39,810.0 | 3,899.3 | 10.9% |
| Return on rate base | 12.52% | 9.42% | -3.10% | -24.8% |

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TABLE 1-3
PARK WATER COMPANY
SUMMARY OF EARNINGS
TEST YEAR 2013
(DRA ESTIMATES)

| Item | DRA Est. @ Present Rates | @ Rates Proposed by DRA | Proposed Exceeds Present Amount % | |
|-----------------------------|--------------------------------|-------------------------------|---|---------|
| (Thousands of \$) | | | | |
| Operating revenues | 24,810.3 | 29,341.5 | 4,531.3 | 18.3% |
| Operating expenses: | | | | |
| Operations & Maintenance | 13,801.2 | 13,835.2 | 34.0 | 0.2% |
| Administrative & General | 7,870.7 | 7,888.9 | 18.1 | 0.2% |
| Depreciation & Amortization | 1,817.9 | 1,817.9 | 0.0 | 0.0% |
| Taxes other than income | 791.6 | 791.6 | 0.0 | 0.0% |
| State Corp. Franchise Tax | (94.3) | 301.6 | 396.0 | -419.8% |
| Federal Income Tax | (181.4) | 1,323.6 | 1,505.0 | -829.6% |
| Total operating exp. | 24,005.7 | 25,958.7 | 1,953.0 | 8.1% |
| Net operating revenue | 804.6 | 3,382.9 | 2,578.3 | 320.4% |
| Rate base | 35,910.7 | 35,910.7 | 0.0 | 0.0% |
| Return on rate base | 2.24% | 9.42% | 7.18% | 320.4% |

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

3 **A. INTRODUCTION**

4 This chapter presents DRA’s analysis and recommendations on the average
5 number of customers, water sales per customer, and operating revenues of Park’s
6 Central Basin Division of Park Water Company (“Park”) for Test Year 2013; and
7 Escalation Year 2014. DRA reviewed Park’s Revenue Requirement Report,
8 supporting workpapers, and methods of estimating water consumption and
9 operating revenues. DRA also went on a site tour, reviewed Park’s data request
10 responses and reviewed average consumption projections using a variety of
11 historical time periods. Park’s Central Basin Division service area consists of three
12 separate systems in southeastern Los Angeles County. The total consumption
13 represents the consumption of the three systems combined. DRA’s
14 recommendations and Park’s estimates for the average number of customers,
15 water consumption, and operating revenues are presented in Tables at the end of
16 this chapter

17 **B. SUMMARY OF RECOMMENDATIONS**

18 Tables 2-1 through 2-7 at the end of this chapter show DRA’s
19 recommendations and PWC’s estimates for the average number of customers,
20 water consumption, and operating revenues. For Test Year 2013, the total number
21 of customers estimated by Park and DRA is 27,162¹. Park’s estimated
22 2013 total delivered water supply is 4,945,755 ccf (100 cubic feet)². DRA’s
23 estimated 2013 total delivered water supply is 4,894,600 ccf. The difference is

¹ In the last GRC, Park estimated that there would be 27,591 customers in 2010, but recorded figures show 27,115. The average of the last four years of growth has been -14 customers. The model uses 27,162 for total customers but workpaper CB water Sales Forecast 13r when totaled equates to 27,151 for 2013. This needs to be cleared up.

² See Tables 2-4 to compare DRA with Park. Recorded 2010 production was 4,760,218 ccf and
(continued on next page)

1 due to DRA applying Park's estimated unaccounted-for-water of 2.3%³ for Test
2 Year 2013.

3 Park's calculation of total operating revenues for the Test Year 2013 is
4 \$31,301,000 while DRA's estimated operating revenue for Test Year 2013 is
5 \$29,341,500. The disparity in the estimated operating revenues is attributable to
6 differences in the capital and expense dollars, not on sales forecasts.

7 **C. DISCUSSION**

8 **1) Average Number of Customers**

9 DRA reviewed and generally concurs with Park's estimates for the number
10 of customers for all classes. DRA agrees with the most updated numbers which
11 reflect an increase of projected customers for recorded 2010 and 2011 as
12 compared to the estimates presented in Park's original application⁴. Although the
13 recorded 5-year average customer growth from 2005 to 2010 is negative, Park's
14 updated numbers show either no growth or small growth in each customer sub-
15 segment. Based upon DRA's review of the recorded 2011 numbers⁵, it appears
16 that Park did not update the following figures in its model runs:

- 17 • residential= 25,058 customers;
- 18 • business monthly= 1,672 customers;
- 19 • public authority=56 customers;
- 20 • private fire bi-monthly= 104 customers; and
- 21 • temporary monthly=5 customers.

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(continued from previous page)
sales were 4,754,231ccf.

³ Park's workpapers show 2.3% while its model shows 3.4%; DRA used 2.3% in its model runs.

⁴ Updated projections in Table III-A show more residential, business, public authority, private fire, resale and temporary customers than was shown in the original application.

⁵ Refer to table III-A 13 r

1 DRA needs to discuss this matter with the company in order to determine
2 the final numbers in each of these sub segments.

3 If Park corrects its estimate of the number of customers served during the
4 relevant period to reflect 2011 recorded number, then DRA will accept Park's
5 customer forecasts. Park forecasted 27,162 total customers for Test Year 2013,
6 and 27,168 for Escalation Year 2014 (see Tables 2-1 and 2-2). DRA suspects the
7 corrected numbers will be 27,200 customers for 2013 and 27,206 customers for
8 2014 (see DRA workpapers) but corroboration from the company is required. For
9 the purposes of the model runs and development of expenses, DRA used the Park
10 assumptions for number of customers. The comparison exhibit will reflect the
11 assumptions that have been agreed upon between DRA and Park regarding this
12 matter.

13 **2) Water Sales Per Customer**

14 In D.04-06-018, the Commission adopted a revised Rate Case Plan
15 ("RCP")⁶ for Class A water utilities. In this decision, the Commission adopted the
16 "New Committee Method" to forecast per customer usage for residential and small
17 customer classes in general rate cases. The Commission states that customer
18 consumption is to be calculated by using multiple regression analysis based on the
19 Commission Standard Practice (SP) U-2 and the supplement U-25⁷. Park has
20 provided the results from the New Committee Method, but it is not recommending
21 the use of that output for this rate case⁸. Instead, Park proposes an alternative for

⁶ D.04-06-018, Appendix at 6 D.07-05-062

⁷ SP U-25 limits the regression analysis to three variables: rainfall, temperature, and time.

⁸ Other Class A water utilities have asked the Commission to deviate from the prescribed methodology because they appear to be inaccurate in forecasting consumption during the economic downturn and drought of the past few years; DRA has settled consumption forecasts in each of these GRC. Backcasting with the methodology is showing that consumers are successfully conserving. The unintended consequence; however, is large undercollections occurring every year.

1 the residential customer usage forecast. Park based its consumption estimates for
2 2013 on recorded 2010 consumption. It did not base its per capita consumption
3 estimates on a regression analysis. Park believes that the authorized methodology
4 in the rate case plan does not provide reasonable, reachable or desired results.

5 The goal of conservation rates, budgets, and customer education policies is
6 to lower the consumption.

7 The prescribed methodology is not able to fully capture the near term
8 customer behavior. The Commission, the Governor's office, the Department of
9 Water Resources, The California Urban Water Conservation Council, the State
10 Water Resources Control Board, the utilities and many others⁹ have created a
11 consistent message for conservation and the specific actions people must take to
12 lower their consumption.

13 Although the Commission created accounts to mitigate the volatility of
14 sales forecasting, the Commission is now faced with large undercollections¹⁰.
15 These large imbalances create a lag between the customers who contribute to the
16 undercollections and those that pay for them.

17 DRA reviewed the New Committee Method model results and noted that
18 for business customers, the statistics associated with the regression were poor (R
19 squared of 0.515)¹¹. For residential customers, the R squared was higher, but the

⁹ There are many other entities out there touting the conservation message (i.e. The August 2008 report called, "Cutting Edge Strategies to Make San Diego the World's Most Water-wise Region" by Geoffrey D. Smith and Michael Shames; The 2010 report titled, "Water Conservation: Customer Behavior and Effective Communications" and the March 2012 report called "A Balanced Approach to Water Conservation in Utility Planning" by the Water Research Foundation).

¹⁰ California Water Service had WRAM undercollections get to \$33.3 million in 2011 (per Information-Only Filing #14, March 26, 2012)

¹¹ Shown in Park's workpaper Rev Code 11 regression.xls

1 output was not consistent with the recent trend of downward sales that has
2 occurred in years 2009 and 2010. Based upon the circumstances presented in this
3 case, DRA will accept Park’s proposed ccf/customer/year for each customer class.

4 We seek to understand how long consumer behavior will hold with the
5 conservation messages. As the economy recovers, the consumption behavior will
6 likely increase, but we need more refined tools or complex modifications to the
7 new committee method to assist us in the transition periods between droughts or
8 major economic changes. Changes to the New Committee Method ought to be
9 done in an industry wide proceeding, not on a case by case basis.

10 For the Test Year 2013, the total water sales forecast is 4,777.6 ¹²Kccf.

11

12 **3) Total Water Supply**

13 The total water supply represents the sum of water sales and unaccounted-
14 for water. For Test Year 2013, Park’s and DRA’s estimate is 4,945.75 Kccf¹³.
15 (see Tables at the end of the chapter)

16 Unaccounted for water is the amount of water used in operations for
17 flushing the system, water not billed for, and water lost due to leakage—which is
18 determined to be the difference between the total amount of water produced and
19 the total amount of water recorded for sales.

20 In its filing, Park provides two estimates for unaccounted-for-water loss
21 percentage: 3.4¹⁴% or 2.33%¹⁵ depending upon which workpaper you consult.

¹² In the last GRC, the Park sales forecast for 2010 was 5,926.7 Kccf. This number should get updated after DRA and Park conclude their conversation about number of customers.

¹³ Park projected 6,128.8 kccf for 2010 in the last GRC; DRA proposed 6,047.6 kccf

¹⁴ See revised workpaper identified as 2-4rr. This is an increase from the 2% unaccounted for
(continued on next page)

1 Regardless of the discrepancy¹⁶, both the past five-year average and the estimated
2 going-forward are within the generally accepted industry standard of 10%.
3 Although Park is representing an increased loss percentage as compared to its last
4 GRC, DRA accepts Park's 2.33% unaccounted-for-water estimates and used it in
5 the model runs.

6 It is worth mentioning that Park is exemplary with regard to unaccounted
7 for water losses. For example, following the last GRC, the company examined its
8 accounting and measurement of unaccounted for losses¹⁷ and they discovered a
9 meter issue in its connection with the Metropolitan Water District. The
10 recalibration of the meter increased the unaccounted for water in the Lynwood
11 system.

12 **4) Operating Revenue**

13 Operating revenue is calculated by multiplying the number of customers by
14 their applicable water use and applying the current tariff rates (effective January 1,
15 2009) for the present revenues and the proposed rates for the proposed revenues.

16 For Test Year 2013, the total operating revenues calculated by DRA are
17 \$24,810,300 at present rates, and \$29,341,500 at DRA's proposed revenue
18 requirement based on DRA's proposed capital and expense recommendations.
19 Park's 2013 calculations are \$24,810,300 and \$31,301,000 respectively. (See
20 Tables at the end of the chapter)

(continued from previous page)

water loss figure that was used in the last GRC. Recorded unaccounted for water losses have been 0.13% in 2010, 0.41% in 2009, .03% in 2008, and .68% in 2007.

¹⁵ Company workpaper identified as 13r, shows 2011 unaccounted for water as 2.33% if you perform the calculation from the numbers presented.

¹⁶ This discrepancy should be worked out for the comparison exhibit.

¹⁷ See Park's response to DRA Data Request 17 question 3

1 **D. CONCLUSION**

2 After investigation and analysis, DRA finds that Park’s estimates for the
3 average number of customers are reasonable, provided they are updated with the
4 recorded 2011 updates. For consumption, DRA concurs with Park’s per capita
5 consumption estimates for this rate case cycle. DRA’s revenue estimates are
6 reasonable, and they should be adopted as they reflect a more modest capital and
7 expense budget that balances system improvements against the needs of the
8 consumer.

9

TABLE 2-1
PARK WATER COMPANY
AVERAGE NUMBER OF CUSTOMERS
TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA | |
|-------------------------------------|--------|--------|--------------------|------|
| | | | Amount | % |
| <u>Metered Connections</u> | | | | |
| Residential | 25,032 | 25,032 | 0 | 0.0% |
| Business Bi-Monthly | 1,666 | 1,666 | 0 | 0.0% |
| Business Monthly | 34 | 34 | 0 | 0.0% |
| Industrial Bi-Monthly | 3 | 3 | 0 | 0.0% |
| Industrial Monthly | 2 | 2 | 0 | 0.0% |
| Public Authority Bi-Monthly | 141 | 141 | 0 | 0.0% |
| Public Authority Monthly | 57 | 57 | 0 | 0.0% |
| Private Fire Bi-Monthly | 103 | 103 | 0 | 0.0% |
| Private Fire Monthly | 84 | 84 | 0 | 0.0% |
| Private Fire Hydrants | 11 | 11 | 0 | 0.0% |
| Resale | 0 | 0 | 0 | 0.0% |
| Temporary Bi-Monthly | 2 | 2 | 0 | 0.0% |
| Temporary-Monthly | 1 | 1 | 0 | 0.0% |
| Irrigation-Reclaimed | 26 | 26 | 0 | 0.0% |
| | | | | |
| Total Metered Connections | 27,162 | 27,162 | 0 | 0.0% |
| <u>Total Active Connections</u> | | | | |
| Include Fire Protection | 27,162 | 27,162 | 0 | 0.0% |
| Exclude Fire Protection | 26,964 | 26,964 | 0 | 0.0% |

TABLE 2-2
PARK WATER COMPANY
AVERAGE NUMBER OF CUSTOMERS
ESCALATION YEAR 2014

| Item | DRA | PWC | PWC exceeds DRA | |
|----------------------------------|---------------|---------------|--------------------|-------------|
| | | | Amount | % |
| <u>Metered Connections</u> | | | | |
| Residential | 25,032 | 25,032 | 0 | 0.0% |
| Business Bi-Monthly | 1,666 | 1,666 | 0 | 0.0% |
| Business Monthly | 35 | 35 | 0 | 0.0% |
| Industrial Bi-Monthly | 3 | 3 | 0 | 0.0% |
| Industrial Monthly | 2 | 2 | 0 | 0.0% |
| Public Authority Bi-Monthly | 141 | 141 | 0 | 0.0% |
| Public Authority Monthly | 58 | 58 | 0 | 0.0% |
| Private Fire Bi-Monthly | 103 | 103 | 0 | 0.0% |
| Private Fire Monthly | 88 | 88 | 0 | 0.0% |
| Private Fire Hydrants | 11 | 11 | 0 | 0.0% |
| Resale | 0 | 0 | 0 | 0.0% |
| Temporary Bi-Monthly | 2 | 2 | 0 | 0.0% |
| Temporary-Monthly | 1 | 1 | 0 | 0.0% |
| Irrigation-Reclaimed | 26 | 26 | 0 | 0.0% |
| Total metered connections | 27,168 | 27,168 | 0 | 0.0% |
| <u>Total Active Connections</u> | | | | |
| Include Fire Protection | 27,168 | 27,168 | 0 | 0.0% |
| Exclude Fire Protection | 26,966 | 26,966 | 0 | 0.0% |

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TABLE 2-3

PARK WATER COMPANY

WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA | |
|-----------------------------|----------|----------|--------------------|------|
| | | | Amount | % |
| (CCF/CONN./YR) | | | | |
| Residential | 135.1 | 135.1 | 0.0 | 0.0% |
| Business Bi-Monthly | 519.3 | 519.3 | 0.0 | 0.0% |
| Business Monthly | 7,277.0 | 7,277.0 | 0.0 | 0.0% |
| Industrial Bi-Monthly | 2,456.3 | 2,456.3 | 0.0 | 0.0% |
| Industrial Monthly | 12,912.7 | 12,912.7 | 0.0 | 0.0% |
| Public Authority Bi-Monthly | 507.2 | 507.2 | 0.0 | 0.0% |
| Public Authority Monthly | 3,078.1 | 3,078.1 | 0.0 | 0.0% |
| Private Fire Bi-Monthly | 4.3 | 4.3 | 0.0 | 0.0% |
| Private Fire Monthly | 3.2 | 3.2 | 0.0 | 0.0% |
| Private Fire Hydrants | 0.0 | 0.0 | 0.0 | 0.0% |
| Resale | 0.0 | 0.0 | 0.0 | 0.0% |
| Temporary Bi-Monthly | 254.4 | 254.4 | 0.0 | 0.0% |
| Temporary-Monthly | 1,823.3 | 1,823.3 | 0.0 | 0.0% |
| Irrigation-Reclaimed | 4,359.8 | 4,359.8 | 0.0 | 0.0% |

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TABLE 2-4
PARK WATER COMPANY
TOTAL SALES AND SUPPLY
TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA | |
|-----------------------------|----------|----------|--------------------|-------|
| | | | Amount | % |
| (Kccf per Year) | | | | |
| <u>Metered Sales</u> | | | | |
| Residential | 3,381.8 | 3,381.8 | 0.0 | 0.0% |
| Business Bi-Monthly | 865.2 | 865.2 | 0.0 | 0.0% |
| Business Monthly | 247.4 | 247.4 | 0.0 | 0.0% |
| Industrial Bi-Monthly | 7.4 | 7.4 | 0.0 | 0.0% |
| Industrial Monthly | 25.8 | 25.8 | 0.0 | 0.0% |
| Public Authority Bi-Monthly | 71.5 | 71.5 | 0.0 | 0.0% |
| Public Authority Monthly | 175.5 | 175.5 | 0.0 | 0.0% |
| Private Fire Bi-Monthly | 0.6 | 0.6 | 0.0 | 0.0% |
| Private Fire Monthly | 0.2 | 0.2 | 0.0 | 0.0% |
| Resale | 0.0 | 0.0 | 0.0 | 0.0% |
| Temporary Bi-Monthly | 0.5 | 0.5 | 0.0 | 0.0% |
| Temporary Monthly | 1.8 | 1.8 | 0.0 | 0.0% |
| Subtotal | 4,777.6 | 4,777.6 | 0.0 | 0.00% |
| Unaccounted For Water | 114.0 | 168.2 | 54.2 | 47.5% |
| DRA 2.3% | | | | |
| PWC 3.4% | | | | |
| Total metered sales | 4,891.6 | 4,945.8 | 54.2 | 1.1% |
| Total delivered (Kccf) | 4,891.6 | 4,945.8 | 54.2 | 1.1% |
| Total delivered (AF) | 11,229.5 | 11,353.9 | 124.4 | 1.1% |
| <u>Supply</u> | | | | |
| Pumped Water | 2,800.0 | 2,800.0 | 0.0 | 0.0% |
| Purchased Water | 8,429.5 | 8,553.9 | 124.4 | 1.5% |
| Total production (AF) | 11,229.5 | 11,353.9 | 124.4 | 1.1% |
| Irrigation Reclaimed | 113.4 | 113.4 | 0.0 | 0.0% |

TABLE 2-5
PARK WATER COMPANY
TOTAL SALES AND SUPPLY
ESCALATION YEAR 2014

| Item | DRA | PWC | PWC exceeds DRA | |
|-----------------------------|-----------------|----------|-----------------|-------|
| | | | Amount | % |
| | (Kccf per Year) | | | |
| <u>Metered Sales</u> | | | | |
| Residential | 3,381.8 | 3,381.8 | 0.0 | 0.0% |
| Business Bi-Monthly | 865.2 | 865.2 | 0.0 | 0.0% |
| Business Monthly | 254.7 | 254.7 | 0.0 | 0.0% |
| Industrial Bi-Monthly | 7.4 | 7.4 | 0.0 | 0.0% |
| Industrial Monthly | 25.8 | 25.8 | 0.0 | 0.0% |
| Public Authority Bi-Monthly | 71.5 | 71.5 | 0.0 | 0.0% |
| Public Authority Monthly | 178.5 | 178.5 | 0.0 | 0.0% |
| Private Fire Bi-Monthly | 0.6 | 0.6 | 0.0 | 0.0% |
| Private Fire Monthly | 0.2 | 0.2 | 0.0 | 0.0% |
| Resale | 0.0 | 0.0 | 0.0 | 0.0% |
| Temporary Bi-Monthly | 0.5 | 0.5 | 0.0 | 0.0% |
| Temporary Monthly | 1.8 | 1.8 | 0.0 | 0.0% |
| Subtotal | 4,788.0 | 4,788.0 | 0.0 | 0.0% |
| Unaccounted For Water | 114.2 | 168.5 | 54.3 | 47.5% |
| DRA | 2.3% | | | |
| PWC | 3.4% | | | |
| Total metered sales | 4,902.2 | 4,956.5 | 54.3 | 1.11% |
| Total delivered (Kccf) | 4,902.2 | 4,956.5 | 54.3 | 1.1% |
| Total delivered (AF) | 11,253.8 | 11,378.5 | | |
| <u>Supply</u> | | | | |
| Pumped Water | 3,400.0 | 3,400.0 | 0.0 | 0.0% |
| Purchased Water | 7,853.8 | 7,978.5 | 124.7 | 1.6% |
| Total production (AF) | 11,253.8 | 11,378.5 | 124.7 | 1.1% |
| Irrigation Reclaimed | 113.4 | 113.4 | 0.0 | 0.0% |

TABLE 2-6
PARK WATER COMPANY
OPERATING REVENUES
TEST YEAR 2013
(AT PRESENT RATES)

| Item | DRA | PWC | PWC exceeds DRA | |
|---|----------|----------|--------------------|------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| <u>Metered Revenues</u> | | | | |
| Residential | 17,298.9 | 17,298.9 | 0.0 | 0.0% |
| Business Bi-Monthly | 4,202.7 | 4,202.7 | 0.0 | 0.0% |
| Business Monthly | 1,069.1 | 1,069.1 | 0.0 | 0.0% |
| Industrial Bi-Monthly | 36.1 | 36.1 | 0.0 | 0.0% |
| Industrial Monthly | 102.7 | 102.7 | 0.0 | 0.0% |
| Public Authority Bi-Monthly | 421.3 | 421.3 | 0.0 | 0.0% |
| Public Authority Monthly | 855.2 | 855.2 | 0.0 | 0.0% |
| Temporary Bi-Monthly | 8.0 | 8.0 | 0.0 | 0.0% |
| Temporary Monthly | 9.7 | 9.7 | 0.0 | 0.0% |
| Fire Hydrants | 5.9 | 5.9 | 0.0 | 0.0% |
| Reclaimed Irrigation | 387.3 | 387.3 | 0.0 | 0.0% |
| | | | | |
| Subtotal | 24,396.9 | 24,396.9 | 0.0 | 0.0% |
| | | | | |
| Private Fire Bi-Monthly | 67.4 | 67.4 | 0.0 | 0.0% |
| Private Fire Monthly | 56.7 | 56.7 | 0.0 | 0.0% |
| Misc Revenue | 289.1 | 289.1 | 0.0 | 0.0% |
| Non Tariffed Revenue | 0.0 | 0.0 | 0.0 | 0.0% |
| Subtotal | 413.2 | 413.2 | 0.0 | 0.0% |
| | | | | |
| Deferred Revenues | 0.162 | 0.162 | 0.0 | 0.0% |
| | | | | |
| Total revenues | 24,810.3 | 24,810.3 | 0.0 | 0.0% |
| Total revenues without Misc rev, Non Tariff, Def Revenue | 24,521.0 | 24,521.0 | 0.0 | 0.0% |

TABLE 2-7
PARK WATER COMPANY
OPERATING REVENUES
TEST YEAR 2013
(AT PWC PROPOSED RATES)

| Item | DRA | PWC | PWC exceeds DRA | |
|---|----------|----------|--------------------|------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| <u>Metered Revenues</u> | | | | |
| Residential | 21,838.4 | 21,838.4 | 0.0 | 0.0% |
| Business Bi-Monthly | 5,327.0 | 5,327.0 | 0.0 | 0.0% |
| Business Monthly | 1,375.2 | 1,375.2 | 0.0 | 0.0% |
| Industrial Bi-Monthly | 45.8 | 45.8 | 0.0 | 0.0% |
| Industrial Monthly | 133.6 | 133.6 | 0.0 | 0.0% |
| Public Authority Bi-Monthly | 522.8 | 522.8 | 0.0 | 0.0% |
| Public Authority Monthly | 1,083.5 | 1,083.5 | 0.0 | 0.0% |
| Temporary Bi-Monthly | 9.3 | 9.3 | 0.0 | 0.0% |
| Temporary Monthly | 12.2 | 12.2 | 0.0 | 0.0% |
| Fire Hydrants | 6.2 | 6.2 | 0.0 | 0.0% |
| Reclaimed Irrigation | 526.2 | 526.2 | 0.0 | 0.0% |
| | | | | |
| Subtotal | 30,880.0 | 30,880.0 | 0.0 | 0.0% |
| | | | | |
| Private Fire Bi-Monthly | 71.7 | 71.7 | 0.0 | 0.0% |
| Private Fire Monthly | 60.1 | 60.1 | 0.0 | 0.0% |
| Misc Revenue | 289.1 | 289.1 | 0.0 | 0.0% |
| Non Tariffed Revenue | 0.0 | 0.0 | 0.0 | 0.0% |
| Subtotal | 420.9 | 420.9 | 0.0 | 0.0% |
| | | | | |
| Deferred Revenues | 0.162 | 0.162 | 0.0 | 0.0% |
| | | | | |
| Total revenues | 31,301.0 | 31,301.0 | 0.0 | 0.0% |
| Total revenues without Misc rev, Non Tariff, Def Revenue | 31,011.8 | 31,011.8 | 0.0 | 0.0% |

1 **CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES**

2 **A. INTRODUCTION**

3 This chapter presents DRA’s analysis and recommendations for Operations
4 and Maintenance (“O&M”) expenses, except for conservation expenses which are
5 discussed in Chapter 10. DRA’s review is based on Park’s application, supporting
6 work papers, and Park’s responses to DRA data requests and emails.

7 **B. SUMMARY OF RECOMMENDATIONS**

8 DRA recommends \$13,801,202 in O&M expenses for Test Year 2013
9 compared to Park’s request of \$14,187,889 at present rates. DRA recommends that
10 the Commission adopt DRA’s O&M expense estimates. See Table 3-1 at the end
11 of this chapter for a comparison of DRA’s and Park’s estimates.

12 **C. DISCUSSION**

13 Both DRA and Park applied the various escalation factors established by
14 the DRA Energy Cost of Service Branch (ECSB) and Water Branch found in
15 September 30, 2011 publications to develop the level of expenses requested in
16 Parks application. To avoid comparing differences in DRA’s and Park’s estimates
17 that result solely from the application of escalation factors stated in different
18 ECSB and Water Branch Memoranda, DRA applied the same inflation factors
19 used by Park in deriving Test Year and Escalation Year expense estimates. These
20 factors, based on the most recent ECSB and Water Branch Memorandum’s data
21 available, should be considered when the Joint Comparison Exhibit is prepared.

22 Although, Park’s estimates for O&M expenses are generally based on a
23 five-year average of historic expenses, adjusted for inflation, from 2007 to 2011,
24 the last four months of 2011 were estimated by annualizing eight months of

1 recorded data.¹ On February 17, 2012, Park provided the updated 2011 actual
2 audited recorded expenses.² DRA has incorporated these updated costs in its
3 estimates because using the latest data available provides a more realistic estimate
4 for future cost projections rather than basing 2011 on eight months of annualized
5 data.

6 Park uses a five-year average of inflation-adjusted historical expenses for
7 non-labor costs from 2007 to 2011 for most category sub-accounts, except for
8 purchased water, leased water rights, replenishment, purchased power, chemicals,
9 and un-collectibles.³ Certain expenses vary according to factors other than general
10 non-labor escalation, such as production costs, clearing accounts and laboratory
11 costs.⁴ These expense items are discussed further below.

12 As noted, Table 3-1 at the end of this chapter summarizes the O&M
13 expenses recommended by DRA compared to those requested by Park for Test
14 Year 2013. Each identified expense is discussed below.

15 **1) O&M Payroll Expense**

16 O&M payroll is divided into four payroll categories: Operations,
17 Customers, Maintenance, and Clearings as shown in Table 3-1 at the end of this
18 chapter. Park's payroll estimate for 2012 is based upon the employee's hourly
19 rates in effect at the end of 2011, overtime funds plus any 2012 merit salary
20 adjustments (both company wide at 2%, and for specified individual employees)
21 then escalated by the company's judgment for what the proper Cost Of Living

¹ Park Water Company Revenue Requirement Report Test Year 2013, at 30 (referred to below as "Park's Report").

² Email from Park Water Company on February 17, 2012 from Ellen Zimbalist, providing updated recorded 2011 expenses.

³ Park's Report, *supra* note, at 30.

⁴ *Ibid*, at 30-31.

1 Adjustment (COLA) should be for 2012, 4.0%. For 2012, Park gives all
2 employees a 6% minimum increase. The 2012 rates include two new additional
3 staff positions. Park's O&M Payroll estimate for 2012 is \$2,400,036.

4 Park derives its Test Year 2013 total payroll estimate in a similar method
5 escalated by Park's judgment for the 2013 COLA, 3.0%, plus Park's scheduled
6 merit increase of 2.0%. Therefore, for 2013, Park estimates a 5% growth in
7 payroll for all employees, a combination of COLA and merit increases. Park's
8 O&M Payroll estimate for Test Year 2013 is \$2,549,643.

9 In addition, one of Park's special requests also impacts payroll by
10 removal of the active employee healthcare expenses and also its retiree health
11 care expenses, (known as PBOP,⁵) from the current mandated Commission rate
12 case plan policy.

13 According to the rate case plan, D. 07-05-062, inflation to the Test Year
14 amount for insurance purposes is limited to the CPI-U value⁶. Park proposes a
15 three-year budget for those specific costs that would apply to the Central basin
16 employees and the Central Basin allocation of the General Office expense for
17 those insurance categories. Park believes this is necessary because health care
18 cost inflation, limited to just the CPI-U, does not reflect the increases incurred in
19 Park's actual health care costs.

20 For the Escalation Year 2014, Park deviates from the Commission's
21 escalation methodology mandated in D.07-05-062 by two components. First, Park
22 proposes to remove both active employee healthcare expenses and retiree health
23 care expense, or PBOP, from its escalation year filings and instead adopt specific
24 expenses for both categories for all years of the rate case cycle, including

⁵ Park accounts for its postretirement health and life benefits (PBOP) in accordance with Accounting Standards Codification 715-60 (ASC 715-60 -- formerly SFAS 106).

⁶ D. 07-05-062, Appendix A, mimeo at 19.

1 escalation years 2014 and 2015. Second, Park escalates its payroll by its 5-year
2 average customer growth escalation factor of 0.020%.

3 DRA employed the same methodology Park used to estimate Test Year
4 2013 O&M payroll, although it does not agree with the values for the COLA, the
5 company-wide merit increases or the inclusion of new positions. In all events, the
6 O&M Payroll values will be adjusted using the most recent escalation factors as
7 discussed in Chapter 1. DRA's removal of Park's COLA and merit increases will
8 reduce Park's payroll for the test year and escalation years by 6%.

9 DRA does not agree with Park's estimated payroll total for 2012 or the
10 COLA increase of 4%. The requested 2.0% merit increase should also be denied
11 as explained below. DRA also removed the payroll costs associated with the two
12 new positions requested, Associate Risk Manager and the Production Technician
13 position. Park states these two new positions are above the employee count last
14 authorized in D.09-12-001. For the Test Year 2013, The Associate Risk Manager
15 annual salary is \$112,675 and the Production Technician position has an annual
16 salary of \$52,366.

17 Park states the requested Associate Risk Manager position, staffed in
18 September 2010, implements the vision of a "sophisticated, well-trained and
19 responsive Communication Center...The Manager is charged with planning,
20 organizing, supervising, and directing the Communications Center
21 Department.....He also manages the Company's Emergency Response Program.⁷

22 DRA received no information to indicate Park's communications
23 operations was deficient before September of 2010 nor that its Emergency
24 Response Program was negligent in its functions due to the lack of an Associate
25 Risk Manager. DRA could not ascertain any activities covered by this new
26 position that was not required and accomplished before the inclusion of this

1 position. Park did not suggest that the “Communications Center Department” was
2 created in September of 2010 when this position was filled. According to the
3 utility, at least since 2005, there have been four staff positions such that
4 communications have been operated by the Control Center.⁸ DRA also notes that
5 Park’s water system is fully built out and growth in new customers is nearly non-
6 existent.

7 The utility has been obligated for health and safety reasons to have an
8 emergency response program before the creation of this position in 2010. DRA is
9 not aware of any violations regarding the lack of such an emergency response
10 program. Therefore, the needs and benefits of such a program were sufficiently
11 covered in rates before creation of the “Associate Risk Manager” position.

12 In addition, the total number of employees between the year 2009 and
13 September 2010, when this position was added, did not change, since company
14 documents show 40 O&M employees in 2009 and 40 employees in 2010.⁹

15 While there was no increase in the number of employees during the time in
16 question (2009 to 2010), there was a reorganization of “new positions [that] do not
17 result in increases in head count of employees from the prior GRC.”¹⁰ Therefore
18 the number of O&M employees DRA considered for including in rates continues
19 to be 50 total employees (40 O&M and 10 A&G)¹¹. DRA attempted to justify this
20 position in terms of other tangible attributes, but the company did not quantify any
21 cost savings created due to this position. DRA’s does not include this position
22 which Park has requested at an annual cost of \$112,675.

(continued from previous page)

⁷ A.12-01-001, Exhibit B, at 29.

⁸ Park’s response to DRA Supplemental Data Request Q. 38, A.12-01-001.

⁹ Ibid.

¹⁰ A.12-01-001, Exhibit B, at 29.

¹¹ Park’s response to DRA Supplemental Data Request Q. 38, A.12-01-001.

1 Park claims the other requested position, the new Production Technician
2 position, is necessary due to the “significant increase in the utility’s workload
3 from the implementation of recent initiatives and expects further increases upon
4 completion of several complex construction projects and other initiatives.”¹² Park
5 requests a total annual salary of \$52,366 to fund this position in rates. The
6 company also states the changes that impact the need for a new position are:
7 Groundwater Well Fluoridation, Revised General Order 103A requirements,
8 supervision of outsourced contractors, operation of the Well 9D Arsenic and
9 Manganese Treatment Plant, the placement of Well 19C into operation,
10 monitoring of additional pressure systems, a new water source (unidentified well)
11 requested in the instant application and for when fellow workers go on vacation.¹³

12 Based on Park’s data request responses, DRA could not ascertain any
13 activities associated with this new position that would require adding a new
14 employee. For example, the projected increase in cost per customer in terms of
15 maintenance expense is projected by the company to be less than 5% (from
16 \$34/customer to \$36/customer.¹⁴ In fact, Park anticipates that the overall proposed
17 O&M expenses will decrease 2.4% from the adopted to the proposed.¹⁵

18 At the time of DRA’s preparation of its Results of Operations report, it is
19 not clear if the new well (Well 19c) will materialize. Further, the Revised General
20 Order 103A requirements have been known for more than three years (although
21 the published date is September 10, 2009) meaning any additional General Order
22 103A activities would have required an additional employee three years ago.

¹² A.12-01-001, Exhibit B, page 27.

¹³ Id., page 27-28.

¹⁴ A.12-01-001, Exhibit F, Section B MDR B1-11: Line 4: Maintenance Expense per Customer, 2013.

¹⁵ Id.; Line 1: O&M Expenses – Adopted vs. % increase / (decrease).

1 Moreover, covering for fellow worker’s vacations and supervising outsourced
2 contractors are activities established long before the instant application.

3 While Park suggests the new position is needed for new projects and other
4 initiatives, Park did not include a “detailed reconciliation of significant changes
5 between the proposed Test Year 2013 expenses and the last adopted and recorded
6 expenses....because Park does not believe that this would provide any useful
7 information.”¹⁶ Presumably if there were significant new projects or initiatives
8 that would significantly increase the workload, Park would have taken the
9 opportunity to discuss them. Instead Park admits there is no such information that
10 would be useful. Therefore, DRA could not reasonably determine any of the
11 suggested new activities were not already being completed or that the possible
12 activities not yet in operation do not constitute enough activities to justify the
13 addition of a new full time employee position. DRA made these cost adjustments
14 by each payroll expense account number via Park’s assistance in identifying the
15 relevant workpapers where the additional costs for new employees were located
16 and how to omit these new expenses. Two employee positions were removed and
17 also the associated salaries at \$165,041.

18 Also for Test Year 2013 estimates, DRA removed the payroll costs
19 associated with the company-wide 2% merit increase, and adjusted the COLA
20 value to 1.5% the ECOS values as discussed above. For 2013, DRA estimates an
21 across the board 1.5% increase, plus any promotions.

22 DRA did not include the requested 2% merit increase. According to
23 DRA’s Wage Escalation Estimates, “Labor escalation is constrained from 2011-
24 2015 by changes in the labor market due to the recession, corporate structural
25 change, outsourcing, and a rise in operating productivity.”¹⁷ Because of this

¹⁶ A.12-01-001, Application, page 3.

¹⁷ DRA Energy Cost of Service Branch; Estimates of Non-labor and Wage Escalation Rates for
(continued on next page)

1 economic outlook for the years of 2013-2015, DRA believes that Park’s current
2 employees will not be in the marketplace for better employment and therefore no
3 merit increases are required to retain its employees. DRA also notes that
4 unemployment levels in Los Angeles County still remains high at nearly 11.9% as
5 measured in March 2012.¹⁸ In addition, DRA’s Wage Escalation Estimates
6 indicate the proper COLA increase should be 1.5%.¹⁹ DRA’s O&M Payroll
7 estimate for Test Year 2013 is \$2,365,520.

8 DRA requested an explanation of what the “merit” increase was for and the
9 company responded “The estimate was based on our judgment after review of CPI
10 data and our historical data.”²⁰ This indicates that the merit increase is for cost of
11 living escalation purposes. According to the Commission’s Rate Case Plan,
12 escalation for CPI values are included, thus DRA followed the Rate Case Plan
13 criteria.²¹ Additionally, the utility’s recorded merit increase for 2009 was zero.²²
14 Therefore even the utility itself has awarded zero merit increases recently within
15 the current economic environment.

16 For Escalation Year 2014, DRA escalated the 2013 payroll by a 1.7%
17 COLA and included the 5-year average customer growth increase escalation of
18 0.020%, as determined by Park, to estimate Escalation Year 2014 O&M payroll at
19 \$2,406,216.

20 A Park special request removes two significant expense items from the
21 Commission’s escalation methodology, by proposing a three-year budget for the

(continued from previous page)
2011 through 2015 from the December 2011 IHS Global Insight U.S. Economic Outlook,
December 31, 2011, page one.

¹⁸ <http://www.calmis.ca.gov/file/1fmonth/countyur-400c.pdf>

¹⁹ Ibid.

²⁰ DRA Data Request No. 6, Q 4a.

²¹ D. 07-05-062, Appendix A, mimeo at page 19.

²² DRA Data Request No. 6, Q 4b.

1 PBOP costs and current medical and dental costs. DRA disagrees with this special
 2 request and implements the proper procedures for the escalation years for these
 3 two items as required in D.07-05-062.²³ This special request represented a
 4 revenue requirement increase of over \$400,000 between the adopted 2012 and the
 5 proposed Test Year 2013. According to the Rate Case Plan, “Escalation year
 6 expenses specifically not addressed in the ORA’s published inflation factors, (such
 7 as insurance) will be escalated based on CPI-U for most recently available 12
 8 months, as provided in the decision.”²⁴

9

10

Table 3-A

11

O&M Payroll for Test Year 2013

| | DRA | Park ²⁵ |
|---------------------|--------------------|--------------------|
| Operations Payroll | \$982,388 | \$1,114,985 |
| Customer Payroll | \$889,110 | \$927,983 |
| Maintenance Payroll | \$360,414 | \$369,392 |
| Clearings Payroll | \$133,608 | \$137,283 |
| Total | \$2,365,520 | \$2,549,643 |

12

13 DRA’s estimates are reasonable and should be adopted. See Table 3-A for
 14 comparison of DRA’s and Park’s O&M payroll estimates.

15

2) Purchased Water – Potable

16

Park requested \$8,039,579 for Test Year 2013. These expenses represent
 17 approximately 56% of Park’s total O&M expenses for Test Year 2013. DRA has

²³ D. 07-05-062, Appendix A, mimeo at page 19.

²⁴ D.04-06-018 mimeo at page 8. Note ORA is identified today as DRA.

²⁵ A.12-01-001, Workpapers, CB Expenses, 2013r.

1 not suggested any changes to Park’s water consumption or operating revenues (see
2 Chapter 2), and thus, DRA agrees with Park’s request and recommends that
3 \$8,039,579 is appropriate for the purchase of water and various water assessments.
4 Potable purchased water costs make up 58 percent of the Total O & M expenses
5 for Test Year 2013.

6 As explained by Park, purchased water consists of four components: 1) Tier
7 1 water purchased from the Central Basin Municipal Water District (“CBMWD”)
8 during the period from January 1, 2012 to June 30, 2012 at the rate of \$915 per
9 acre-foot (“AF”); 2) the Service Charge of \$5,475 per month; 3) the Capacity
10 Reservation charge of \$9,053 per month, and 4) the Minimum Flow Violation of
11 \$915 per AF for approximately 42 AF per year.²⁶ According to Park, CBMWD
12 charges for minimum flow violations. More specifically, when flow through any
13 CBMWD connection falls below 10 percent of the meter’s capacity, CBMWD
14 charges as though the full 10 percent was delivered.²⁷ Further below in this
15 chapter is the discussion on minimum flow violation penalties.

16 Park states that each of these four components of purchased water has
17 increased significantly over the past three years.²⁸ However, Park contends that
18 the cost of pumping groundwater has not risen at the same pace as the cost of
19 purchasing imported water.²⁹ Thus, Park plans to increase its groundwater
20 pumping and purchase more water rights in order to utilize the less costly
21 groundwater.³⁰

²⁶ Ibid, at 36, and Park’s response to Data Request No. DRA-A.12-01-001 PARK-011, Question 1 & 2, Attachment 2, Central Basin Municipal Water District’s Resolution to Adopt Water Rates and Charges Fiscal Year 2011-2012, Resolution No. 06-11-790, June 22, 2011, page 3.

²⁷ Park’s Report, *supra* note 1, at 36.

²⁸ Ibid, at 36.

²⁹ Ibid, at 37.

³⁰ Ibid, at 36-37 (wherein Park provides an additional reason for the company’s decision to
(continued on next page)

1 **3) Purchased Water Penalties**

2 According to the application, Park indicates that “CBMWD [Central Basin
3 Municipal Water District] also charges for minimum flow violations.”³¹ These
4 penalties are in addition to other charges such as the “Monthly Capacity
5 Reservation Charge” and a “Monthly Water Service Charge” and others. Also
6 according to the application, “CBMWD charges Park...about 42 AF [Acre Feet] a
7 year...because of unavoidable operation conditions.”³²

8 DRA requested Park provide data that proves the utility continues its
9 purchase water contract with CBMWD because that is the lowest cost option for
10 purchased water and explain why this was an unavoidable operational condition.

11 DRA requested what other sources of water could be purchased instead of
12 from CBMWD, what the costs are for the other sources of water that could be
13 purchased instead of from CBMWD and also requested that the utility provide
14 documentation that shows Park executed due diligence in negotiations of the cost
15 components for the water purchased from CBMWD.

16 To address the issue of competition, that is, what other sources of water
17 could be purchased instead of from CBMWD; the utility stated that “Park Water
18 Company is in the service area boundary of CBMWD.”³³ Just like a water utility
19 under the jurisdiction of the Commission, where a water utility company’s service
20 territory is protected from competition under monopoly economics, Park stated

(continued from previous page)
increase its groundwater pumping, i.e., its success in obtaining Proposition 50 funding for the construction of an arsenic and manganese treatment facility at Well 9D. As explained by Park, one condition of the grant funding is that the treatment facility must reduce dependency on imported water from the Colorado River.). See also *infra* Section C(6) (for a more detailed discussion of Park’s plans to increase its reliance on leased water rights).

³¹ A.12-01-001, Exhibit B, Page 36.

³² Ibid.

³³ DRA Data Request No. 10, Q. 1a

1 “[w]e are not allowed to purchase wholesale water from any other Metropolitan
2 member agency.”³⁴

3 DRA also requested what efforts were taken to address the costs it now
4 incurs, that is, what efforts the utility executed to show its due diligence in
5 negotiations of the cost components for the water purchased from CBMWD. The
6 utility responded that CBMWD proposes a budget, “and adopts rates and charges
7 in June of each year for the following fiscal year. Park’s General Manager
8 reviews the proposed budget and writes letters in opposition to CBMWD rate
9 increases. She also speaks at the public comment portion of the CBMWD Board
10 meeting.”³⁵ To prove this point, Park also included as part of its answer to DRA’s
11 data request copies of letters sent to CBMWD for the past three years. Park also
12 observed in its data request answer, “Generally, CBMWD does not change their
13 proposed rates based on any comments from their customers.”³⁶

14 Finally, DRA requested an explanation of the “unavoidable operational
15 conditions” that resulted in a penalty charge of about 42 AF per year. Park stated
16 that this type of rate design exists for all three of its “separate water systems in
17 southern Los Angeles County. All three systems have had low flow penalties over
18 the course of the year. The two larger systems (Bellflower-Norwalk and
19 Compton-Willowbrook) have very minimal amounts of low flow penalties.”³⁷

20 Because of the physical structure in Park’s smallest system, the Lynwood /
21 Rancho Dominguez Water System, a particular connection (CenB-25), must be
22 operational at all times.³⁸ Because of the water usage patterns exhibited by

³⁴ Park’s response to DRA Data Request No. 10, Q. 1b

³⁵ Park’s response to DRA Data Request No. 10, Q 1c

³⁶ Park’s response to DRA Data Request No. 10, Q 1c.

³⁷ Ib Park’s response to DRA Data Request No. 10, Q 1d

³⁸ There are 4442 active connections serviced by this structure with 99.5% of its ratepayers being
(continued on next page)

1 residential customers, “they tend to use most water in the mornings, evenings and
2 on the weekends. They use the least amount of water between 11:00pm and
3 5:00am. CenB-25 has a maximum capacity flow of 12.5 cubic feet per
4 second...and supplies fire protection for the system. The flow meter at the
5 connection is a Venturi type meter which is used for CBMWD billing purposes.
6 The only drawback to this type of meter is that they are not very accurate at flows
7 below 10 percent or 1.25 cfs. To accommodate for the inaccuracies of the Venturi
8 meter at low flows, MWD requires all low flow measurements to be estimated at a
9 minimum flow of 10 percent or 1.25 cfs.” With the information in hand, they add
10 together all the low flows, bill at a flat rate of 1.25 cfs and call them Low Flow
11 Penalties.³⁹

12 DRA recognizes this it is incumbent upon Park to endure this system as the
13 current economic system requires the company to purchase its water from this
14 purveyor. While this may sound burdensome or onerous upon Park, the company
15 also stated, “The way they add the penalties to the bill makes it sound worse than
16 it actual is. A large portion of the water involved in the penalties is still being
17 used by the consumer. We are still receiving water through their turnout and
18 meeting all our system demands during any penalty phase. We estimate that we
19 are consuming approximately 60 to 70 % of the water during the penalty time
20 periods during the winter and approximately 80 to 90 % during the summer.”⁴⁰

21 In summation, the utility succinctly stated, “[W]e are unable to make
22 operational changes to avoid the low flow penalties...”⁴¹ DRA’s investigation of
23 this issue reveals the utility does indeed attempt to mitigate the penalties by all

(continued from previous page)
residential.

³⁹ DRA Data Request No. 10, Q. 1d

⁴⁰ Ibid.

⁴¹ Ibid.

1 avenues available, yet at the end of the day, Park must recognize that some form
2 of this expense is unavoidable.

3 **4) Purchased Water – Reclaimed**

4 Park estimates \$139,482 for recycled water in Test Year 2013. This
5 estimate is based on anticipated recycled water sales multiplied by the current tier
6 rate of \$536 per Acre Foot (AF) charged by CBWMD.⁴² DRA agrees with this
7 estimate.

8 **5) Purchased Power**

9 Park requested \$202,721 for Test Year 2013.⁴³ Park purchases power from
10 Southern California Edison Company to power all pumps at its wells and all
11 boosters.⁴⁴ Park estimates the power required at each well and booster based on
12 the quantity of water to be pumped and the three-year average for 2008 through
13 2010 of kilowatt hour (“kWh”) per cubic foot pumped for each well and booster
14 based on the rates in effect as of June 1, 2011.⁴⁵ The average power cost
15 estimated for the test year is approximately \$0.12312 KWh. DRA agrees with
16 this method and recommends that the Commission accept Park’s estimate for
17 Test Year 2013.

18 **6) Replenishment Assessment**

19 The Replenishment Assessment is a tax assessed for pumping water out of
20 the ground paid to the Water Replenishment District of Southern California. DRA
21 reviewed Park’s testimony and work papers for this category of expenses and
22 determined that the company’s requests for \$683,200 for Test Year 2013 and

⁴² Park’s response to Data Request No. DRA-A.12-01-001 PARK-011, Question 1 & 2, Attachment 2, Central Basin Municipal Water District’s Resolution to Adopt Water Rates and Charges Fiscal Year 2011-2012, Resolution No. 06-11-790, June 22, 2011, page 4.

⁴³ Park’s Report, *supra* note 1, at 37.

⁴⁴ *Ibid.*

1 \$829,600 for Escalation Year 2014 are reasonable. The cost in the Escalation Year
2 is larger because Park plans to increase pumping from two wells. Well 9D will be
3 producing in the middle of 2012 due to a new treatment facility. A new well (Well
4 19C) will be on line in April 2012.⁴⁶ This will increase ground water production
5 to 2,800 acre-feet in 2013, and to 3,400 acre-feet in 2014.⁴⁷ Park pays
6 replenishment charges to the Water Replenishment District of Southern California
7 based on the amount pumped at the unit cost rate of \$244 per AF.⁴⁸ DRA agrees
8 with Park’s estimates and recommends that the Commission adopt these estimates.

9 **7) Leased Water Rights**

10 Leased Water Rights are the leased rights purchased by Park from various
11 other water utilities, and or municipalities, for the right to pump a set amount of
12 water for Park’s needs. Central Basin is an adjudicated basin, which means that
13 Park is limited in the amount of water they can pump from the basin, unless Park
14 can lease the rights to pump additional water from another entity with water rights
15 within the basin. Since 2005 Park has been able to negotiate multi-year water lease
16 agreements with California Water Service (“Cal Water”). However, this past year
17 Cal Water only signed a one-year agreement (July 1, 2011 to June 30, 2012)
18 because Cal Water wants to use their water rights for their own groundwater
19 pumping. DRA notes that Park’s workpapers for lease water shows that it
20 continues making lease payments to Cal Water beyond 2012. If the lease is
21 terminated in June 2012, these lease payments should be removed from Park’s
22 2013 test year.

(continued from previous page)

⁴⁵ Ibid.

⁴⁶ Ibid, at 36 – 37.

⁴⁷ Ibid.

⁴⁸ Park’s Revenue Requirement Workpapers, Vol. 1 or 3, Water Production and Expenses table, 4-18r, and Assessment Transmittal Letter, page 4-19A.

1 Park states that as the cost of purchasing imported water increases, more
2 utilities will turn to groundwater for their supplies.⁴⁹ Park also reports that the
3 CBMWD's treated non-interruptible Tier 1 rate has increased at an average of 14
4 percent per year for the last seven years, and significant rate increases are expected
5 to continue.⁵⁰ As noted, Park contends that the cost of pumping groundwater has
6 not risen at the same pace as the cost of purchasing imported water, so the cost
7 savings from pumping have increased.⁵¹ Further, the demand for local
8 groundwater is also expected to increase.⁵² According to Park, these factors make
9 it more difficult to lease groundwater rights and are driving up the cost of
10 purchasing water rights.⁵³ However, with Park's continuing conservation efforts
11 and reductions in demand the company most likely can begin to reduce their
12 purchases of the most expensive water.

13 As noted, Park is using Proposition 50 grant funds to construct a water
14 treatment facility at Well 9-D. In order to meet the requirements of the grant, Park
15 must increase its pumping of groundwater from prior historic levels at this well by
16 an additional 850 AF annually. Therefore, Park must now pump at least 2,350 AF
17 (historic pumping of 1,500 AF plus the additional 850 AF).⁵⁴

18 In analyzing this category of expense, both DRA and Park used the same
19 amount of leased water (2,686 AF in 2013) for the same lease rate of \$160 per AF.
20 DRA has reviewed Park's testimony and work papers for this classification of
21 expenses and has found that the company's request for \$429,760 for 2013 is
22 reasonable.

⁴⁹ Park's Report, *supra* note 1, at 88.

⁵⁰ *Ibid.*

⁵¹ *Ibid.*, at 89.

⁵² *Ibid.*

⁵³ *Ibid.*, at 88-89.

⁵⁴ *Ibid.*, at 89-90.

1 **8) Chemicals**

2 Park has requested \$42,430 for Test Year 2013. DRA agrees with the
3 chemical expense estimate and is recommending that the Commission adopt this
4 estimate.

5 **9) Operations - Other**

6 For the Operations Other Park category of expense, Park requested
7 \$244,027 for Test Year 2013. DRA recommends \$245,900 for Test Year 2013.
8 This difference is due to DRA’s use of Park’s updated 2011 numbers, which are
9 slightly higher than the numbers estimated by Park for 2011 in its original
10 application, and include a few changes to the five-year average.⁵⁵

11 Park uses a five-year average of inflation-adjusted historical expenses to
12 estimate most of the sub-accounts in this expense account category. Several sub-
13 accounts are estimated based on the five-year average plus additional costs, or are
14 estimated by a budgeted cost, such as laboratory testing.

15 Laboratory water testing costs (sub-account 7717-642) are based on the
16 water quality testing that is expected to be required to meet water quality
17 regulations for each year (2012, 2013 and 2014). The estimated costs for each year
18 are budgeted amounts that are then averaged over the three year period. Park
19 estimates \$123,915 for each year in its application. According to Park, laboratory
20 costs have increased because of a modified vulnerability assessments and the
21 imminent implementation of new regulatory requirements that will require the
22 company to do more testing than in previous years.⁵⁶ More specifically, the
23 California Department of Public Health (“CDPH”) has changed Park’s system
24 vulnerability assessment for Synthetic Organic Contaminations because they have

⁵⁵ Park’s email of February 17, 2012, updating 2011 recorded expenses.

⁵⁶ Ibid. at 128.

1 determined that Park’s Central Basin is vulnerable.⁵⁷ Park states that this requires
2 a significant increase in laboratory costs over the next three years.⁵⁸ Further, Park
3 reports that another contributor to increased laboratory costs is the third federal
4 Unregulated Contaminant Monitory Regulation (“UCMR3”), which is scheduled
5 to go into effect in 2013.⁵⁹ Park’s increased laboratory costs to comply with the
6 UCMR3 are also spread out over three years.⁶⁰ DRA agrees with Park’s estimates
7 for its projected costs for laboratory testing.

8 Sub-account 7718.601 - Communication Service-Source of Supply-
9 Operation Other includes costs associated with Park’s Supervisory Control and
10 Data Acquisition system (“SCADA”), such as programming and repair costs. Park
11 has added an additional cost of \$2,000 in 2011 to the five-year average estimate
12 for tree trimming. Park explains that tree trimming is necessary to maintain the
13 line of sight for the SCADA radio communication system.⁶¹ This additional cost
14 was not included in the five-year average except in 2009, where \$1,650 for tree
15 trimming was included in Park’s five-year averaging. DRA has removed this
16 amount from 2009 to correct the five-year average estimate. DRA agrees with
17 adding the tree trimming cost to the five-year average escalated to the Test Year.

18 Park has also added to this sub-account an additional \$10,000 amortized
19 over the three years of the rate cycle for inspection and servicing of the 80 foot
20 radio tower.⁶² Park did not include this cost in the five-year average used to
21 project Test Year Operations – Other category estimates. DRA agrees with the
22 additional costs for this item averaged for the three years. DRA recommends the

⁵⁷ Ibid.

⁵⁸ Ibid, at 128-129.

⁵⁹ Ibid.

⁶⁰ Ibid, at 128-129.

⁶¹ Ibid, at 31.

⁶² Ibid, at 30-31.

1 Commission adopt its estimate of \$245,900 because it incorporates Park’s updated
2 2011 recorded expenses.

3 **10)Customer - Other (Excluding Conservation)**

4 For the accounts that fall under the classification Customer – Other,
5 excluding Conservation, Park requested \$305,400 for Test Year 2013. DRA
6 recommends \$298,800.

7 DRA agrees with Park’s estimates for all sub-accounts in the expense
8 category except for sub-account 7060.1 – Customer Billing and Related expenses
9 which includes postage costs. Park’s estimate for sub-account 7060.1 is based on a
10 five-year average plus ten percent due to anticipated increases in U.S. Postal
11 Service Rates.⁶³ DRA objects to the additional ten percent increase because Park
12 did not provide a justification for the increase nor did they explain how they
13 derived the percentage used in their calculation.

14 DRA requested further information in a data request on why Park chose to
15 increase postage costs by ten percent. Park’s response to this data request question
16 states “Recently, the U. S. Postal Service has announced that its rates will be
17 increased by consumer Price Index (“CPI”) effective January 22, 2012”.⁶⁴ The
18 CPI for January 2012 is 2.133 percent. DRA recommends that only the CPI
19 percent increase of 2.133 percent be added to the five-year escalated average to
20 calculate the postage costs, or that the most recent DRA ECOS non-labor factor be
21 applied when the case is submitted for a final decision. DRA recommends the
22 Commission adopt its estimate of \$298,800 in this expense category.

⁶³ Ibid, at 32.

⁶⁴ Park’s response to Data Request no. DRA A.12-01-001 PARK-011, Question 6.

1 **11) Uncollectible**

2 Park requests a rate of 0.75% for uncollectible expenses in Test Year 2013.
3 Park's uncollectible expenses are estimated to be 0.75% of revenues based on the
4 three-year trend of recorded percentages from 2008 through 2010.⁶⁵ DRA
5 recommends the same rate for uncollectible expense in Test Year 2013. DRA has
6 reviewed the company's work papers and testimony and has found that the
7 company's estimates for its uncollectible rate are reasonable.

8 Park is requesting \$196,077 for uncollectible expenses at present rates in
9 2013. DRA agrees and recommends that the Commission adopt this estimate.

10 **12) Maintenance - Other**

11 For the Maintenance - Other category of expense, Park requested \$616,430
12 for Test Year 2013. DRA recommends \$614,400 for 2013. This difference is the
13 result of DRA's use of updated 2011 recorded numbers.

14 **13) Depreciation – Clearings**

15 For the company's Clearings Depreciation account Park requested
16 \$141,788 for Test Year 2013. DRA recommends \$122,100. The difference is
17 attributed to DRA's plant adjustments which effect depreciation expense. See
18 Chapter 7 for plant adjustments discussion.

19 **14) Clearings - Other**

20 For the Clearings - Other category of expenses, Park requested \$234,432
21 for Test Year 2013. DRA recommends \$231,400. The difference is the result of
22 DRA's use of Park's updated 2011 recorded expenses and some adjustments made
23 by DRA to Park's payroll estimates.

⁶⁵ Park's Report, *supra* note 1, at 35.

1 **15) Conservation Expenses**

2 Discussion on conservation expenses is found in Chapter 10 of this report.

3 **D. CONCLUSION**

4 DRA recommends that the Commission adopt its Operations and
5 Maintenance estimates for Test Year 2013 as shown in Table 3-1.

6

TABLE 3-1
PARK WATER COMPANY
OPERATIONS & MAINTENANCE EXPENSES
TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA | |
|--|-------------------|----------|--------------------|-------|
| | | | Amount | % |
| | (Thousands of \$) | | | |
| <u>At present rates</u> | | | | |
| Operating Revenues | 24,810.3 | 24,810.3 | | |
| Uncollectible rate | 0.75000% | 0.75000% | | |
| Uncollectibles | 186.1 | 186.1 | 0.0 | 0.0% |
| <u>Operations & Maintenance Expenses</u> | | | | |
| Operations Payroll | 982.4 | 1115.0 | 132.6 | 13.5% |
| Operations Other | 245.9 | 244.0 | (1.9) | -0.8% |
| Purchased Water-Potable | 8,039.6 | 8,039.6 | 0.0 | 0.0% |
| Purchased Water-Reclaimed | 139.5 | 139.5 | 0.0 | 0.0% |
| Purchased Power | 202.7 | 202.7 | 0.0 | 0.0% |
| Replenishment Assessment | 683.2 | 683.2 | 0.0 | 0.0% |
| Leased Water Rights | 429.8 | 429.8 | 0.0 | 0.0% |
| Chemicals | 42.4 | 42.4 | 0.0 | 0.0% |
| Customer Accounts Payroll | 889.1 | 928.0 | 38.9 | 4.4% |
| Customer Other (Excluding Conservation) | 298.8 | 305.4 | 6.6 | 2.2% |
| Conservation | 199.8 | 372.9 | 173.1 | 86.6% |
| Maintenance Payroll | 360.4 | 369.4 | 9.0 | 2.5% |
| Maintenance Other | 614.4 | 616.4 | 2.0 | 0.3% |
| Clearings Payroll | 133.6 | 137.3 | 3.7 | 2.8% |
| Clearings Other | 231.4 | 234.4 | 3.0 | 1.3% |
| Uncollectibles | 186.1 | 186.1 | 0.0 | 0.0% |
| Clearings Depreciation | 122.1 | 141.8 | 19.7 | 16.1% |
| Total O & M Expenses | 13,801.2 | 14,187.9 | 386.7 | 2.8% |
| <u>At proposed rates</u> | | | | |
| Operating Revenues | 31,301.0 | 31,301.0 | | |
| Uncollectible rate | 0.75000% | 0.75000% | | |
| Uncollectibles | 234.8 | 234.8 | | |
| Total O & M Expenses (incl uncoll) | 13,849.9 | 14,236.6 | 386.7 | 2.8% |

1 **CHAPTER 4: ADMINISTRATIVE AND GENERAL EXPENSES**

2 **A. INTRODUCTION**

3 This chapter presents DRA’s analysis and recommendations on
4 Administrative and General (“A&G”) expenses, except for payroll and employee
5 benefits, for Park Water Company (“Park”) for Test Year 2013. DRA analyzed
6 the reports, work papers, data responses, and assumptions used by Park in
7 estimating A&G expenses before making its own independent estimates and
8 recommendations.

9 **B. SUMMARY OF RECOMMENDATIONS**

10 DRA recommends \$7,870,740 in A&G expenses for the Test Year 2013
11 compared to Park’s request of \$8,097,515 at present rates. See Table 4-1 for a
12 comparison of DRA’s and Park’s estimates.

13 **C. DISCUSSION**

14 Both DRA and Park applied the various escalation factors established by
15 the DRA Energy Cost of Service Branch (“ECOS”) found in the September 30,
16 2011 publication to develop the level of expenses requested in this application. To
17 avoid comparing differences in DRA and Park estimates that result solely from
18 application of escalation factors from different ECOS Memoranda, DRA applies
19 the same inflation factors used by Park in deriving Test Year and Escalation Year
20 expense estimates. These factors based on the most recent ECOS Memorandum’s
21 data available should be updated at the time the Joint Comparison Exhibit is
22 prepared.

23 **1) A&G PAYROLL**

24 Park’s estimate for its Administrative & General (A&G) Payroll category
25 includes general and administrative personnel, anticipated employee holiday pay,
26 and paid time off costs estimated for 2012, that are based on each employee’s

1 hourly rates in effect at the end of 2011. These values are then escalated by the
2 utility's estimated Cost Of Living Adjustment (COLA) increase of 4.0% for 2012.

3 To derive its Test Year 2013 A&G Payroll estimate of \$2,043,028, Park
4 escalated the 2012 payroll by its estimated 3.0% COLA plus the 5 year average
5 customer growth escalation of 0.020% (0.0002). For the Escalation Year 2014,
6 Park escalates the 2013 payroll by the estimated COLA increase of 3.0%, plus the
7 5 year average customer growth escalation of 0.020% (0.0002), to derive its
8 estimate of \$2,104,739.

9 DRA used this same methodology to estimate A&G payroll estimates.
10 However, the comparison exhibit numbers need to be adjusted using the most
11 recent escalation factors, as discussed in Chapter 1. DRA agrees with the 2011
12 estimated payroll, but not the COLA increase of 4.0% for 2012 or the 3.0% COLA
13 to derive its Test Year 2013 estimates. However, DRA did include the addition of
14 the customer growth escalation of 0.020% (0.0002) to develop the 2014 escalation
15 year estimate. With these adjustments, DRA estimates the 2013 Test Year A&G
16 payroll at \$1,950,266.

17 To derive the Escalation Year 2014 estimates, DRA escalated the 2013
18 administrative payroll, holiday and paid time off estimates by a 1.7% COLA¹.
19 This rate is in line with DRA cost of living increases estimates. According to the
20 Rate Case Plan, "Escalation year labor expenses will be estimated by escalating
21 test year labor expenses by the most recent labor inflation factors as published by
22 the Office of Ratepayer Advocates."² However DRA did include the addition of
23 the customer growth escalation of 0.020% (0.0002). This adjustment led DRA to
24 estimate \$1,983,817 for Escalation Year 2014.

¹ DRA Energy Cost of Service Branch; Estimates of Non-labor and Wage Escalation Rates for 2011 through 2015 from the December 2011 IHS Global Insight U.S. Economic Outlook, published 12/31/11.

² D.04-06-018, mimeo at page 8. NOTE: the Office of Ratepayer Advocates is now the Division of Ratepayer Advocates.

1 The COLA values are based on DRA generated values. However, these
2 values will be adjusted using the most recent escalation factors, as discussed in
3 Chapter 1.

4 The COLA values used here to generate this report come from DRA
5 monthly published document entitled: “Estimates of Non-labor and Wage
6 Escalation Rates for 2011 through 2015 from the December 2011 IHS Global
7 Insight U.S. Economic Outlook.” Since these are DRA generated values, DRA
8 considers them more reasonable than PARK’s estimates. In addition, according to
9 the Rate Case Plan, the inflation factors will come from the specified DRA source,
10 D.04-06-018. The DRA source used for this report was published December 31,
11 2011, but will be updated as discussed above.

12 As explained above in this section, DRA’s estimates are reasonable and
13 should be adopted. See Table 4-1 for comparison of DRA’s and Park’s A&G
14 payroll estimates.

15 **2) EMPLOYEE BENEFITS**

16 Park estimated its expenses associated with total Employee Benefits for
17 Test Year 2013 partly based upon independent actuarial projections and partly on
18 the company’s own analysis³ to be \$1,874,560. For example, the medical and
19 dental insurance benefit expenses for current employees are based on actual rates
20 to be in effect January 1, 2012⁴ consistent with its expected staffing levels for
21 2012.

22 For Test Year 2013 Park includes a rate increase for medical and dental
23 based on an independent actuarial report, “The rate increases for 2013 are based
24 on the projected increase in medical used by Park’s outside actuaries for

³ Response to DRA DR #24 Q.8a: “[T]he Company requested an actuarial estimate of the funding level from the same firm (AON) that has prepared the PBOP actuarial valuation reports for the past several years. AON ... estimated PBOP expense at \$236,000 for the Test Year...The Company did an independent estimate based on actual changes in the funding levels from 2006 through 2011.”

⁴ A.12-01-001, Workpapers, CB Payroll, 2013r.

1 calculation of Park’s Postretirement Health and Life Benefits.”⁵ Accordingly, the
2 2013 medical increase is shown at 8%⁶ and the dental increase is set at 5.5%.⁷

3 For escalation year 2014, Park used an increase of 7.5% for medical and
4 5.25% for dental. In contrast, DRA used value of 1.7% for the CPI-U value.⁸
5 This is the method currently authorized in the Rate Case Plan and any changes to
6 this plan should have occurred in Phase II of Rulemaking 03-09-005 (see below).

7 As discussed elsewhere in this report, the escalation value will be updated
8 using the most recent escalation factors as discussed in Chapter 1.

9 According to the interim Rate Case Plan, D.04-06-018 (Rulemaking 03-09-
10 005, Filed September 4, 2003:

11 Several parties object to using inflation-based escalation rates for
12 liability insurance, medical insurance, and pensions. These parties,
13 including Park Water, San Gabriel, and Cal Am, contend that these
14 three items are increasing at rates in excess of inflation and that
15 item specific escalation rates should be used. Park and Cal Water
16 Association contend that such rates may be available from the U.S.
17 Bureau of Labor Statistics.⁹ The U.S. Bureau of Labor Statistics
18 rates, however, have not been thoroughly vetted in this proceeding
19 thus far. Any party that wishes to propose a specific index for our

⁵ A.12-01-001, Exhibit B, page 39.

⁶ A.12-01-001, Workpapers, CB Payroll, 2013r, Cell U9.

⁷ A.12-01-001, Workpapers, CB Expense, 2013r, See calculation, medical benefits, Account 6650, subsidiary 10: “ROUND(M529*1.075,0)”

⁸ DRA Energy Cost of Service Branch; Estimates of Non-labor and Wage Escalation Rates for 2011 through 2015 from the December 2011 IHS Global Insight U.S. Economic Outlook, published 12/31/11.

⁹ Park also states that actuarial studies could derive appropriate escalation rates. Such studies, however, are actual cost projections for a specific applicant, more in the nature of a test year forecasts than a well-known and understood index.

1 consideration should do so in Phase II of this proceeding. Pending
 2 such an alternative, we will retain the inflation-based index.¹⁰

3 DRA also applied escalation factors to Post Benefit Other than Pension
 4 account.

5 Table 4-A provides the item detail and comparison of Park and DRA
 6 projections for Employee Benefits.

7 Table 4-A Employee Benefits

| Benefits | TY 2013 | | TY 2014 | |
|---------------------------|----------------|----------------|----------------|----------------|
| | PARK | DRA | PARK | DRA |
| Medical Insurance | 558,300 | 493,200 | 600,173 | 501,584 |
| Dental Insurance | 45,156 | 40,944 | 47,527 | 41,640 |
| Life Insurance | 16,193 | 15,153 | 16,682 | 15,414 |
| Accident D & D Insurance | 2,440 | 2,284 | 2,513 | 2,323 |
| Disability-Long Term | 18,253 | 17,086 | 18,804 | 17,380 |
| 401 (k) Plan | 97,558 | 93,251 | 100,504 | 94,855 |
| Group Pension | 853,500 | 853,500 | 879,281 | 868,183 |
| PBOP | 242,051 | 242,051 | 260,205 | 246,166 |
| Service Awards | 2,931 | 2,863 | 3,020 | 2,912 |
| Educational Assistance | 3,498 | 3,418 | 3,604 | 3,477 |
| EAP/Wellness Program | 6,514 | 6,419 | 6,711 | 6,529 |
| Defined Contribution-401A | 58,847 | 57,990 | 60,625 | 58,988 |
| Exp | | | | |
| Other | 30,857 | 30,144 | 31,789 | 30,663 |
| Payroll Burden Off-set | 0 | 0 | 0 | 0 |
| Payroll Burden | 0 | 0 | 0 | 0 |
| Net Benefits Adjustment | (61,537) | (46,360) | (63,396) | (47,157) |
| Total Benefits | 1,874,560 | 1,811,943 | 1,968,042 | 1,842,957 |

8

9 **3) INSURANCE**

10 Park's Insurance expense consists of Workmen's Compensation and other
 11 business liability policies, such as auto insurance, that are based on annual
 12 premiums and estimated premium increases anticipated by the utility's insurance
 13 broker. Workmen's Compensation premiums are also tied to estimated overall

¹⁰ D.04-06-018, mimeo at page 31.

1 payroll. Park arrived at its Test Year estimate by starting with the current
2 annualized premiums and factoring in any change in insurance rates forecasted by
3 the company's insurance broker. Also, where appropriate, Park adjusted the Test
4 Year estimate by factoring in payroll changes that are consistent with the test year
5 estimates made by the company to estimate \$897,074 for insurance expense. The
6 forecasted increases in insurance rates are based on Park's insurance broker's
7 recommendations.

8 DRA finds that Park's method is reasonable but adjusted the forecasted
9 amount to include the payroll estimates recommended in the O&M and A&G
10 payroll sections of this report and reduced the Crime Insurance rate from 6% to
11 5% as a result of Park's insurance broker's rates provided in the response to Data
12 Response 12 which showed the rate to be lower. As a result, DRA estimates
13 \$868,201 for Test Year 2013. DRA asserts that its estimates are reasonable and
14 should be adopted by the Commission.

15 **4) REGULATORY COMMISSION EXPENSE**

16 Park's Regulatory expense estimate is \$196,489 for Test Year 2013. Park's
17 estimate of Regulatory Commission Expense reflects the additional expense of a
18 separate Cost of Capital proceeding. Park's estimate of Regulatory Commission
19 Expense is based on the actual amount incurred by Park's subsidiary Apple Valley
20 Ranchos Water Company ("AVR") in its Test Year 2012 rate case escalated to the
21 test period. Park's estimate also includes asset management related consulting
22 costs incurred for GRC support. Added to this amount is the expense associated
23 with the previous cost of capital proceeding (A.09-05-003 filed May 1, 2009 for
24 Test Year 2010) escalated to the test period. The total is then amortized over three
25 years.

26 DRA found Park's projected cost method to be reasonable but used the
27 recorded 2011 amount provided in the company's response to Data Request 12, to
28 estimate the GRC expense. Also, DRA removed the amount of \$15,000 from the

1 category of estimated remaining costs since the amount proposed by Park was
2 based on the company's judgment, as stated by Park in its response to Data
3 Request 19, and not on actual calculations. DRA's calculated Regulatory
4 Commission expense for Park is \$192,551 for Test Year 2013.

5 **5) FRANCHISE REQUIREMENTS**

6 Park's Franchise Requirements estimate is \$99,241 for Test Year 2013.
7 Franchise Fees are estimated at 0.40% of gross revenues based on the 5-year
8 average of recorded percentages from 2006 through 2010. DRA finds that Park's
9 estimate is reasonable.

10 **6) OUTSIDE SERVICES**

11 Park based its Outside Services expense on the five-year average of
12 recorded expenses for the period 2007 through 2011 (excluding Safety Consulting,
13 Public Relations Consulting, and Other General Consulting) escalated to result in
14 the Test Year 2013 amount of \$205,543. Regarding Safety Consulting, Park
15 proposes to conduct an Arc Flash Hazard Assessment, a Vulnerability/Mitigation
16 Study for Natural Disasters, an Update of their Standby Power Capabilities, Audit
17 Emergency Preparedness Plans ("ERRP"), and an Audit of Central Basin's Health
18 and Safety Program. In terms of Public Relations Consulting, Park plans to utilize
19 public relations consultants for message development and outreach tools to
20 enhance its public relations program with the customers and the cities that it
21 serves. For Other General Consulting, in addition to the five year average, Park
22 proposes to conduct 360 degree Leadership Feedback Reviews for Central Basin
23 Division supervisors/foremen and the Public Health Goal ("PHG") report that is
24 required by the California Department of Public Health ("CDPH") once every
25 three years.

26 DRA utilized the same methodology as Park except that the recorded 2011
27 amount was used instead of an estimate and the Safety Consulting, Public
28 Relations Consulting, and the 360 degree Leadership Feedback Reviews portion of

1 Other General Consulting requests proposed by Park were removed to arrive at the
2 Test Year 2013 amount of \$176,742. The items removed from DRA's
3 calculations are neither urgent nor necessary at the present time, especially in light
4 of the current economic climate. Taking the Safety Consulting category as an
5 example, there are no current nor expired terrorism alerts from the U.S.
6 Department of Homeland Security's National Terrorism Advisory System and no
7 level change in over five years.¹¹ Also, using the data from the Southern
8 California Earthquake Center's Uniform California Earthquake Rupture Forecast,
9 the probability of an earthquake of magnitude 6.7 or larger occurring in the Los
10 Angeles area is just 6.7% over the next three years.¹² Regarding Public Relations
11 Consulting, corporate image enhancement does not provide any value to
12 ratepayers. These are just three examples to take into account. DRA asserts that
13 its estimates are reasonable and should be adopted by the Commission.

14 **7) A&G - OTHER**

15 Park used a five-year escalated average of recorded dollar expenses for the
16 period 2007 through 2011 for all line items, with the exception of four categories
17 of expenses, to estimate the Test Year 2013 expense of \$521,636. Park did not use
18 the five-year escalated average of recorded dollar expenses for the following line
19 items: (1) Telemetry; (2) Company Membership; (3) Regular Postage Costs; and
20 (4) the Corporate A&G Allocation.

21 DRA used the same five-year escalated average of recorded dollar expenses
22 methodology for all line items other than the four categories of expenses identified
23 above, except that the recorded 2011 amount was used instead of an estimate.

¹¹ See the U.S. Department of Homeland Security's website on the National Terrorism Advisory System (<http://www.dhs.gov/files/programs/ntas.shtm>) and history of the Homeland Security Advisory System (http://www.dhs.gov/xabout/history/editorial_0844.shtm).

¹² See the Southern California Earthquake Center's website regarding the Uniform California Earthquake Rupture Forecast (<http://www.scec.org/ucerf/>).

1 Regarding Telemetry, DRA used a five-year escalated average based upon
2 DRA’s determination that the additional communication lines are not necessary
3 given that there have been no security breaches to the proposed sites. *See* Park’s
4 response to Data Request 12 response 7.

5 Concerning Company Membership, DRA removed from its calculations
6 payments to Community Based Organizations such as the Downey and Norwalk
7 Chambers of Commerce, the Southern California Minority Business Development
8 Council, and the Climate Registry for years 2010 to 2013 since the Commission
9 does not allow rate recovery of dues to chambers of commerce, and Park has not
10 shown that its membership payments to the other referenced organizations benefit
11 ratepayers.¹³

12 In terms of Regular Postage Costs, DRA used a five-year escalated average
13 plus a 2.133% increase in U.S. Postal Service rates as a result of Park’s response
14 to Data Request 19 response 2. For the Corporate A&G Allocation, DRA applied
15 the ratio of what DRA proposed for the Corporate A&G Allocation (\$348,157)
16 divided by what AVR proposed (\$359,181) in its last GRC, A.11-01-001, to
17 Park’s Direct Payroll from General Office multiplied by Park’s A&G Allocation
18 Factor. DRA applied these adjustments to arrive at the Test Year 2013 amount of
19 \$498,892 for A&G-Other. DRA asserts that its estimates are reasonable and
20 should be adopted by the Commission.

21 **8) A&G TRANSFERRED**

22 Park’s A&G Transferred estimate is \$523,546 for Test Year 2013. DRA’s
23 Transferred estimate, due to changes in capital budget as recommended in the

¹³ *See e.g.* D.04-07-022, at 199 (*citing Pacific Tel. & Tel. Co. v. Public Util. Comm.* (1965) 62 Cal.2d 634, 669) (stating the Commission’s “long-standing policy not to allow recovery in rates of dues to chambers of commerce and service clubs,” and, further, explaining that in order to receive Commission approval for rate recovery of any membership dues a utility must “meet its burden of proof in demonstrating how these organizations relate to the utility’s business and offer ratepayer benefits.”).

1 Utility Plant in Service Chapter of this report, is \$366,871 for Test Year 2013.
2 DRA asserts that its estimate is reasonable and should be adopted by the
3 Commission.

4 **9) GENERAL OFFICE ALLOCATION**

5 Park's General Office expenses are allocated to Central Basin according to
6 allocation factors developed in accordance with the Commission's Four-Factor
7 Method to arrive at the Test Year 2013 amount of \$2,783,489.

8 DRA used the same methodology as Park except that the General Office
9 expenses proposed by DRA in AVR's last GRC, A.11-01-001, were used to arrive
10 at the Test Year 2013 amount of \$2,639,775. DRA asserts that its estimate is
11 reasonable and should be adopted by the Commission.

12 **D. CONCLUSION**

13 DRA recommends that the Commission adopt its A&G expense estimates
14 and recommendations as described above.

15

TABLE 4-1
PARK WATER COMPANY
ADMINISTRATIVE & GENERAL EXPENSES
TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA | |
|--|----------|----------|--------------------|-------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| <u>AT PRESENT RATES</u> | | | | |
| Oper. Rev. plus def. rev. & misc. rev. | 24,810.3 | 24,810.3 | 0.0 | 0.0% |
| Fran. Tax rate | 0.40% | 0.40% | 0.0 | 0.0% |
| Payroll | 1,950.3 | 2,043.0 | 92.8 | 4.8% |
| Other | 498.9 | 521.6 | 22.8 | 4.6% |
| Injuries & Damages/Insurance | 868.2 | 897.1 | 28.9 | 3.3% |
| Uninsured Property Damage | 0.0 | 0.0 | 0.0 | 0.0% |
| Employee Benefits | 1,811.9 | 1,874.6 | 62.6 | 3.5% |
| Regulatory Commission Expense | 192.6 | 196.5 | 3.9 | 2.0% |
| A&G Transferred | (366.9) | (523.5) | -156.7 | 42.7% |
| Outside Services | 176.7 | 205.5 | 28.8 | 16.3% |
| Rents | 0.0 | 0.0 | 0.0 | 0.0% |
| General Office Allocation | 2,639.8 | 2,783.5 | 143.7 | 5.4% |
| Franchise Requirements | 99.2 | 99.2 | 0.0 | 0.0% |
| Total A & G Expenses | 7,870.7 | 8,097.5 | 226.8 | 2.9% |
| <u>AT PROPOSED RATES</u> | | | | |
| Franchise Requirements | 125.2 | 125.2 | 0.0 | 0.0% |
| Other Expenses Total | 7,771.5 | 7,998.3 | 226.8 | 2.9% |
| 1 Total A & G Expenses | 7,896.7 | 8,123.5 | 226.8 | 2.9% |
| 2 | | | | |
| 3 | | | | |

1 **CHAPTER 5: TAXES OTHER THAN INCOME**

2 **A. INTRODUCTION**

3 This chapter presents DRA’s analysis and recommendations on Taxes
4 Other Than Income for the Park Water Company (“Park”) General Rate Case Test
5 Year 2013. The category of Taxes Other Than Income is comprised of ad valorem
6 tax (property taxes), and payroll taxes.

7 **B. SUMMARY OF RECOMMENDATIONS**

8 Differences between Park’s and DRA’s estimates for Taxes Other Than
9 Income are primarily due to differences in net plant in service and estimated
10 payroll expenses. The methodologies used by Park in estimating future taxes and
11 fees are detailed below. A comparison of DRA’s and Park’s Taxes Other Than
12 Income are shown in Table 5-1.

13 **C. DISCUSSION**

14 **1) AD VALOREM TAXES**

15 Park estimates future ad valorem taxes based on the assessed ad valorem
16 taxes for the 2010-2011 tax year by the Los Angeles County Assessor's Office and
17 the ad valorem tax rates currently in effect. The Test Year 2013 estimates of the
18 assessed value are calculated based on the estimated plant additions, depreciation
19 reserve, deferred taxes, advances, contributions, Construction Work in Progress
20 (“CWIP”), and Materials and Supplies (“M&S”) using the same assessment
21 methodology actually employed by the Los Angeles County Assessor’s Office.
22 DRA accepts this methodology and notes that differences between Park’s and
23 DRA’s estimates are due to differences in estimations of future plant.

24 **2) PAYROLL TAXES**

25 Payroll taxes include three components: (1) Federal Insurance Contribution
26 Act (“FICA”) tax consisting of Social Security Tax and Medicare, (2) Federal
27 Unemployment Insurance (“FUI”), and (3) State Unemployment Insurance

1 (“SUI”). All three components have statutory limits governing the maximum
 2 percentage that can be collected from employers (see table, below).

| PAYROLL TAXES | | 2012 MAXIMUM | EXPLANATORY NOTES |
|---------------|---------------------|--------------|--|
| FICA | Social Security Tax | 6.20% | Social Security Tax is 6.2% applied to only the first \$110,100 of an employee’s salary. |
| | Medicare Tax | 1.45% | No salary limitations. |
| FUI Tax | | 0.80% | Federal Unemployment Tax is 6.2% reduced by an offset credit of up to 5.4% for a total of 0.8% on the first \$7,000 of employee wages (\$56 per employee). |
| SUI Tax (CA) | | 2.50% | State Unemployment Taxes vary by company from 1.5% to 6.2% plus an Employment Training Tax Rate of 0.1% for a maximum tax percentage of 6.3%. |

3
 4 Park estimated future payroll taxes using the rates and limits projected for
 5 Test Year 2013. Payroll tax recharges are estimated for 2012 according to Central
 6 Basin’s budget and the portions recharged out to CWIP and in from Park’s
 7 General Office are escalated for Test Year 2013 using the labor escalation factor.
 8 Park estimated the application of the Social Security Tax only on the first
 9 \$117,900 of an employee’s salary.

10 DRA used DRA’s estimated Test Year 2013 payroll (as stated in Chapter 4
 11 of this report) to calculate payroll taxes by applying the tax percentages, as shown
 12 in table above, to the DRA estimated 2013 payroll. DRA used the U.S. Office of
 13 Retirement and Disability Policy’s information of the Social Security Tax for 2012
 14 to be applied only on the first \$110,100 of an employee’s salary.¹ The \$110,100 is
 15 the correct limit to use since it’s the government’s current actual amount and
 16 Park’s limit of \$117,900 is based on an estimate made by the utility at the time of

¹ See the Office of Retirement and Disability Policy’s Social Security website
http://www.ssa.gov/policy/docs/quickfacts/prog_highlights/index.html.

1 filing their application. Differences between Park's estimated payroll taxes and
2 DRA's estimated payroll taxes are the result of differences in the estimates of
3 2013 payroll.

4 **D. CONCLUSION**

5 DRA recommends Commission adoption of DRA's estimates of Taxes
6 Other Than Income that are presented in Table 5-1.

7

TABLE 5-1

PARK WATER COMPANY

TAXES OTHER THAN INCOME AND TAX DEDUCTIONS

TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA | |
|-----------------------------------|---------|---------|--------------------|--------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| Payroll Taxes | | | | |
| Central Basin | 295.1 | 316.3 | 21.3 | 7.2% |
| General Office Allocation | 89.9 | 91.7 | 1.8 | 2.0% |
| Ad Valorem taxes | | | | |
| Central Basin | 397.8 | 415.2 | 17.4 | 4.4% |
| General Office Allocation | 8.8 | 8.8 | 0.0 | 0.0% |
| Other | 0.0 | 0.0 | 0.0 | 0.0% |
| <hr/> | | | | |
| Taxes other than income | 791.6 | 832.0 | 40.4 | 5.1% |
| California Tax Depreciation | 2,251.7 | 2,261.5 | 9.8 | 0.4% |
| Federal Tax Depreciation | 1,800.2 | 1,856.8 | 56.6 | 3.1% |
| State Income Tax | (94.3) | (163.7) | (69.3) | 73.5% |
| Investment Tax Credit | (6.4) | (6.4) | 0.0 | 0.0% |
| <hr/> | | | | |
| Fed. Tax Deduct.(pres rates) | 1,699.5 | 1,686.8 | (12.7) | -0.7% |
| Fed. Tax Deduct.(prop rates) | 1,699.5 | 1,686.8 | (12.7) | -0.7% |
| Qualified Prod Ded (pres rates) | (6.0) | (14.9) | (8.8) | 146.2% |
| 1 Qualified Prod Ded (prop rates) | 68.4 | 59.6 | (8.8) | -12.9% |

2

1 **CHAPTER 6: INCOME TAXES**

2 **A. INTRODUCTION**

3 This chapter presents DRA’s analysis and recommendations on Income
4 Taxes for Park Water Company (“Park”) Test Year 2013. In developing its
5 recommendations, DRA reviewed Park’s Revenue Requirement Report,
6 application workpapers, data request responses, and other information obtained
7 from the California Franchise Tax Board and the Internal Revenue Service
8 (“IRS”). DRA’s and Park’s tax estimates and tax deductions for Test Year 2013
9 are compared in Tables 6-1 and 6-2.

10 **B. SUMMARY OF RECOMMENDATIONS**

11 The differences between Park’s and DRA’s estimates are due primarily to
12 the differences in estimated revenues, expenses, and ratebase. DRA agrees with
13 the methods Park used to calculate its Income Taxes.

14 DRA recommends that Park be required to submit a Tier 3 advice letter to
15 reflect the impact of the accumulated amounts tracked in the bonus depreciation
16 accounts when the final amounts are known for 2012.

17 DRA recommends that Park be required to reflect the impact in rates the
18 recent changes to Sections 1.263 (a)-0 through 1.263(a)-3(h)(2) of the Treasury
19 Regulations relating to the capitalization of certain repairs and replacement of
20 plant property.

21
22
23

1 **C. DISCUSSION**

2 **1) California Corporate Franchise Tax (“CCFT”) and**
3 **Federal Income Tax (“FIT”) Deductions.**

4 Tax deductions and credits in this proceeding were calculated by Park in
5 accordance with the normalization requirements of the Economic Recovery Tax
6 Act of 1981 (“ERTA”). Further, Park applied the provisions of the Tax Equity
7 and Fiscal Responsibility Act of 1982 (“TEFRA”) to arrive at its tax deduction
8 estimates. Finally, Park also applied the provisions of the Tax Reform Act of
9 1986 (“TRA 86”) in its calculations in accordance with the requirements of
10 Commission Decision (D.) 87-09-026, dated September 10, 1987, D.87-12-028,
11 dated December 9, 1987 and D.88-01-061, dated January 28, 1988.

12 Some of the provisions of TRA 86 have been incorporated into California
13 Corporation Franchise Tax (“CCFT”) law in the California Bank and Corporation
14 Tax Fairness, Simplification and Conformity Act of 1987 (“State Tax Act of
15 1987”). Park applied CCFT law, including the TRA 86 provisions incorporated by
16 the State Tax Act of 1987, in its CCFT calculations for this GRC.

17 CCFT and federal income tax (“FIT”) are calculated using estimated
18 present and proposed revenues, estimated tax-deductible expenses, interest, and
19 tax depreciation. Both DRA and Park use a tax rate of 8.84% to calculate the state
20 income tax, and a tax rate of 34% to calculate the federal income tax.

21 For the Test Year 2013, Park used the Test Year CCFT at present rates as a
22 deduction from the calculation of Test Year FIT. For the Escalation Year 2014,
23 Park used the Test Year 2013 CCFT at proposed rates as the deduction for the FIT
24 calculation. DRA agrees with this methodology. See Tables 6-1 and 6-2 for
25 comparison of DRA and Park’s tax estimates.

26

1 **2) Tax Depreciation**

2 The federal and state tax depreciation for plant of vintage prior to 1956 is
3 calculated using the straight-line method. Except for an area in the City of
4 Compton in Los Angeles County that was formerly served by the Uehling Water
5 Company known as the “Uehling Area,”⁹⁷ the federal and state tax depreciation
6 for plant installed between 1957 and 1980 is calculated using the double declining
7 balance method. By contrast, for plant located in the Uehling Area, the federal
8 and state tax depreciation for all plant of vintage prior to 1980 is calculated using
9 the straight-line method.

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

14 Park’s state and federal tax depreciation deductions are allocated to Central
15 Basin using the allocation factor described in Park’s Report on the General Office
16 in Chapter II.

17 DRA agrees with Park’s method to estimate depreciation for estimated
18 income tax calculations. Tables 6-1 and 6-2 compare DRA and Park’s estimates.

19 **3) Interest Expense Deduction**

20 Park states that the ratemaking interest expense deduction is calculated as
21 the authorized weighted cost of long-term debt from Central Basin’s capital
22 structure multiplied by the rate base. DRA agrees with this method. Park and
23 DRA’s interest expense deduction estimates are shown on Tables 6-1 and 6-2.

24

⁹⁷ Park purchased the Uehling Water Company and consolidated it into Park’s Central Basin Division under the authority granted by D.87-09-079.

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**4) Qualified Production Deduction (“QPD”) or
Domestic Production Activities Deduction
 (“DPAD”)**

Beginning in 2010, Section 199 of the Internal Revenue Code, as enacted as part of the American Jobs Creation Act of 2004, allows the applicable rate of 9% to calculate the Qualified Production Deduction (“QPD”), also referred to as the Domestic Production Activities Deduction (“DPAD”). Park states that the tax deduction for the QPD is estimated by taking 9% of the production related portion of Park’s federal taxable income prior to the state tax deduction. The percentage that Park uses as the production related portion, or Qualified Production Activities Income (“QPAI”), is 12.90%. Park states that the percentage of taxable income that is production-related, 12.90%, is calculated using a percentage developed by Park’s outside accountants in the preparation of Park’s federal tax return.

Park used the methodology that was agreed upon in the settlement agreement for the AVR GRC, A.11-01-001. Park calculated this income tax deduction based upon the methodology used for preparing Park’s most recent federal tax return (including percentages) to determine applicable revenues and deductions. Park estimated the QPD tax deduction by taking 9% of the production-related portion (12.90%) of Park’s Federal Taxable Income prior to the state tax deduction (Federal Taxable Income less state tax deduction) x 0.129 x 0.09).

DRA agrees with Park’s method of calculating the QPAI percentage and the QPAD estimate.

1 **5) Bonus Depreciation Effects**

2 Park has established a memorandum account to track the bonus
3 depreciation (CPUC Tariff sheets 1071-W and 1072-W), pursuant to Resolution
4 L-411-W.⁹⁸ The accumulated amount in the memorandum account along with the
5 additional accumulated balance for 2012 should be refunded through a tier 3
6 advice letter when the final amount for 2012 is known. The additional
7 accumulated amount for 2012 would not be known until Park files its final Federal
8 Income tax for 2012 in the Spring of 2013.

9 **6) Accumulated Deferred Income Taxes – Repairs**
10 **Deductions**

11 In TURN’s February 20, 2012 testimony in the Golden State General Rate
12 Case (A.11-07-017), it describes in detail recent changes to Section 1.263(a)-0
13 through Section 1.263(a)-3(h)(2) of the Treasury Regulations relating to the
14 capitalization of certain repairs and replacements of plant property. The effect of
15 these proposed regulations are to increase the current income tax deduction for
16 repair and replacement costs instead of requiring those costs to be capitalized and
17 deducted for income tax purposes over the life of the asset as required under the
18 current regulations. TURN also describes how the Internal Revenue Service (IRS)
19 issuance of Revenue Procedure 2009-39 allows taxpayers who comply with
20 certain procedural rules to implement the change in accounting method on their
21 federal income tax returns without obtaining prior IRS approval and also that these
22 changes could be material and significant, especially when including the catch-up
23 adjustment under Section 481(a) of the Internal Revenue Code.

24

⁹⁸ <http://www.parkwater.com/docs/extra-documents/park-prelim-1-5-12-1-.pdf?sfvrsn=0>

1 DRA agrees with TURN’s analysis and TURN’s recommendations should
2 also apply to Park Water Company. Specifically because Park may implement
3 these tax changes within the next three years, it should normalize the increased
4 repair deductions for ratemaking and the resulting increase in deferred income
5 taxes, including deferring the tax effect of the catch-up deduction at the time it is
6 taken, should be recognized as a rate base deduction.

7 **D. CONCLUSION**

8 DRA recommends Commission Adoption of DRA’s estimates of Income
9 Taxes that have been calculated and presented in Tables 6-1 and 6-2.

10

TABLE 6-1
PARK WATER COMPANY
TAXES BASED ON INCOME
TEST YEAR 2013
(PRESENT RATES)

| Item | DRA | PWC | PWC exceeds DRA | |
|-----------------------------------|-----------|-----------|--------------------|--------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| Operating revenues | 24,810.3 | 24,810.3 | 0.0 | 0.0% |
| Deductions: | | | | |
| O & M expenses | 13,679.1 | 14,046.1 | 367.0 | 2.7% |
| A & G expenses | 7,870.7 | 8,097.5 | 226.8 | 2.9% |
| Taxes not on Income | 791.6 | 832.0 | 40.4 | 5.1% |
| Interest | 1,293.9 | 1,434.3 | 140.4 | 10.8% |
| Meals Adjustment | (9.9) | (9.9) | 0.0 | 0.0% |
| Income before taxes | 1,184.9 | 410.3 | (774.6) | -65.4% |
| <u>Calif. Corp. Franchise Tax</u> | | | | |
| State Tax Deductions | (2,251.7) | (2,261.5) | -9.8 | 0.4% |
| Taxable income for CCFT | (1,066.9) | (1,851.3) | (784.4) | 73.5% |
| CCFT Rate | 8.84% | 8.84% | | |
| CCFT | (94.3) | (163.7) | (69.3) | 73.5% |
| <u>Federal Income Tax</u> | | | | |
| Tax Depreciation | 1,800.2 | 1,856.8 | 56.6 | 3.1% |
| State Corp Franch Tax | (94.3) | (163.7) | (69.3) | 73.5% |
| Qualified Production Deduction | (6.0) | (14.9) | (8.8) | 146.2% |
| Taxable income for FIT | (514.9) | (1,268.0) | (753.0) | 146.2% |
| FIT Rate | 34.00% | 34.00% | | |
| FIT | (175.1) | (431.1) | (256.0) | 146.2% |
| Investment Tax Credit | (6.4) | (6.4) | 0.0 | 0.0% |
| Net Federal Income Tax | (181.4) | (437.5) | (256.0) | 141.1% |
| 1 Total FIT & CCFT | (450.8) | (1,032.2) | (581.4) | 129.0% |

2

TABLE 6-2
PARK WATER COMPANY
TAXES BASED ON INCOME
TEST YEAR 2013
(PWC PROPOSED RATES)

| Item | DRA | PWC | PWC exceeds DRA | |
|-----------------------------------|-----------|-----------|--------------------|--------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| Operating revenues | 31,301.0 | 31,301.0 | 0.0 | 0.0% |
| Deductions: | | | | |
| O & M expenses | 13,727.8 | 14,094.8 | 367.0 | 2.7% |
| A & G expenses | 7,896.7 | 8,123.5 | 226.8 | 2.9% |
| Taxes not on Income | 791.6 | 832.0 | 40.4 | 5.1% |
| Interest | 1,293.9 | 1,434.3 | 140.4 | 10.8% |
| Meals adjustment | (9.9) | (9.9) | 0.0 | 0.0% |
| Income before taxes | 7,601.0 | 6,826.4 | (774.6) | -10.2% |
| <u>Calif. Corp. Franchise Tax</u> | | | | |
| State Tax Deductions | (2,251.7) | (2,261.5) | -9.8 | 0.4% |
| Taxable income for CCFT | 5,349.3 | 4,565.3 | (784.0) | -14.7% |
| CCFT Rate | 8.84% | 8.84% | | |
| CCFT | 472.9 | 403.6 | (69.3) | -14.7% |
| <u>Federal Income Tax</u> | | | | |
| Tax Depreciation | 1,800.2 | 1,856.8 | 56.6 | 3.1% |
| State Corp Franch Tax | (94.3) | (163.7) | -69.3 | 73.5% |
| Qualified Production Deduction | 68.4 | 59.6 | (8.8) | -12.9% |
| Taxable income for FIT | 5,826.7 | 5,074.1 | (752.6) | -12.9% |
| FIT Rate | 34.00% | 34.00% | | |
| FIT | 1,981.1 | 1,725.2 | (255.9) | -12.9% |
| Investment Tax Credit | (6.4) | (6.4) | 0.0 | 0.0% |
| Net Federal Income Tax | 1,974.7 | 1,718.8 | (255.9) | -13.0% |
| 1 Total FIT & CCFT | 4,428.7 | 3,847.6 | (581.1) | -13.1% |

1 **CHAPTER 7: UTILITY PLANT IN SERVICE**

2 **A. INTRODUCTION**

3 In developing its recommendations for capital investment in utility plant,
4 DRA reviewed and analyzed the testimony of Park Water Company (“Park”), its
5 application, work papers, capital project details, estimating methods, emails, and
6 responses to DRA data requests. DRA also conducted a field investigation of
7 most of the proposed plant additions. During the field investigation DRA noted
8 that Park’s management team and staff were both knowledgeable and open to
9 discuss current operations and future plans for infrastructure improvement. Park’s
10 main office and plant sites were found to be operationally efficient.

11 Upon reviewing Park’s request for utility plant, DRA found that Park’s
12 plans to replace aging infrastructure and add new facilities are in some cases
13 justified. However, the increase in the rate of infrastructure replacement and the
14 amount of new facilities proposed to be constructed is significantly more
15 ambitious than in past rate cases. For example, Park’s recorded total plant
16 additions averaged \$2.7 million per year between 2006 and 2011.⁹⁹ By contrast, in
17 this General Rate Case (“GRC”), Park seeks to add an average of \$11.4 million
18 per year for the years 2012 through 2014.¹⁰⁰ DRA is aware of the recent sale of
19 Park to The Carlyle Group in December 2011 and urges the Commission to
20 carefully consider how the sale of the company to an investment firm may have
21 influenced Park’s capital investment request.

22 Park serves an area that is mostly working-class, with a median household
23 income of \$43,728 for consumers living in the City of Compton and \$54,565 for

⁹⁹ Park Water Company GRC Update, worksheet CB RATEBASE 13rrr/Additions, p. 6-1rr.

¹⁰⁰ *Id.*

1 consumers living in Bellflower-Norwalk.¹⁰¹ Because the economy has not yet
2 rebounded from the recession that began in 2008, DRA found it necessary to
3 consider affordability and to carefully balance the needs of the company to replace
4 aging infrastructure with DRA's objective to recommend plant additions that will
5 allow Park to continue to provide safe, reliable service at the lowest rate possible.

6 **B. SUMMARY OF RECOMMENDATIONS**

7 Park has proposed the following company/ratepayer funded plant additions:
8 \$8,886,100 for estimated year 2012, \$10,756,456 for Test Year 2013, and
9 \$12,086,700 for Escalation Year 2014. Park also includes the addition of third-
10 party or contributed plant additions that are not company or ratepayer funded of
11 \$2,826,368 for 2012, \$198,000 for Test Year 2013, and \$28,000 for Escalation
12 Year 2014. DRA's recommended company/ratepayer funded plant additions are
13 \$7,486,668 for 2012, \$7,466,300 for Test Year 2013, and \$5,529,384 for Test
14 Year 2014. DRA accepts and makes no changes to the contributed plant additions.
15 Not included in DRA's recommended 2012 plant additions is \$1,215,000, of
16 which \$1,085,000 is for construction of a new well (Well 19C) and \$130,000 is for
17 the purchase of an emergency generator for Well 19C. Due to delays in permitting
18 for construction of the well, DRA recommends Advice Letter treatment for both
19 Well 19C and the generator to be used at Well 19C.

20 **C. DISCUSSION**

21 Table 7-A shows a categorized breakdown and comparison of Park's
22 proposed capital investments with DRA's recommendations. Following Table 7-
23 A, DRA provides its discussion on recommended adjustments to Park's request for
24 specific projects and budget items.

¹⁰¹ US Census Bureau, American FactFinder S1903 Median Income in the Past 12 Months (In 2010 Inflation Adjusted Dollars).

| Description | 2012 | | 2013 | | 2014 | |
|-----------------------------|------------------|------------------|------------------|-------------------|------------------|-------------------|
| | DRA | PWC | DRA | PWC | DRA | PWC |
| T&D Main Extensions | \$250.0 | \$250.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| T&D Main Replacement | \$4,025.4 | \$4,025.4 | \$3,028.0 | \$4,971.3 | \$1,389.0 | \$6,310.0 |
| Sample Stations Replacement | \$3.3 | \$3.3 | \$3.4 | \$3.4 | \$3.5 | \$3.5 |
| New Hydrants | \$22.0 | \$22.0 | \$22.6 | \$22.6 | \$23.3 | \$23.3 |
| Hydrant Replacements | \$69.2 | \$96.9 | \$71.3 | \$99.8 | \$73.4 | \$102.8 |
| New Valves | \$48.5 | \$55.0 | \$49.9 | \$56.6 | \$51.4 | \$58.3 |
| Replacement Valves | \$80.1 | \$100.1 | \$82.5 | \$103.1 | \$84.9 | \$106.2 |
| Replacement Blow-offs | \$22.1 | \$44.2 | \$22.8 | \$45.5 | \$23.4 | \$46.9 |
| Services | \$198.6 | \$258.1 | \$312.6 | \$373.9 | \$210.7 | \$273.9 |
| Meters (AMR & Large) | \$380.2 | \$398.8 | \$363.8 | \$382.9 | \$431.5 | \$451.1 |
| Production | \$1,233.4 | \$2,348.4 | \$2,742.8 | \$2,772.8 | \$2,697.0 | \$2,697.0 |
| General Plant | \$495.2 | \$625.2 | \$336.9 | \$1,232.9 | \$462.5 | \$1,392.5 |
| Cost of Removal | \$658.7 | \$658.7 | \$429.8 | \$691.7 | \$78.7 | \$621.2 |
| Totals | \$7,486.7 | \$8,886.1 | \$7,466.3 | \$10,756.5 | \$5,529.3 | \$12,086.7 |

2

3 **1) T&D Main Extensions**

4 Park proposes to spend \$250,000 to complete installation of 4,150 linear
5 feet of 12-inch transmission water main in Mapledale Street from Elain Avenue to
6 Bloomfield Avenue in the Bellflower-Norwalk system. The Commission
7 authorized construction of this project in Park's last GRC for completion in
8 2010.¹⁰² Park explained to DRA that the project was delayed due to permitting
9 requirements. DRA reviewed cost estimates for completion of the project and
10 agrees with Park's request.

¹⁰² DRA agreed with the installation of the main in Mapledale Avenue in 2001 in DRA's Report on the Results of Operation in A.0901001, issued April 9, 2009, p.7-2. Funding for this project is reflected in D.1212001, Attachment D.

1 **2) T&D Main Replacements**

2 Park proposed several main replacement projects totaling \$4,025,400 for
3 2012, \$4,971,256 for Test Year 2013, and \$6,310,000 for Test Year 2014. The
4 Park Central Basin service area consists of three separate systems known as the
5 Compton West System, Compton East System, and Bellflower-Norwalk System.
6 The three systems combined consist of 257 miles of water pipeline. Park
7 completed an asset management review of its water mains, examining variables
8 including, but not limited to, age of existing pipe, existing pipeline material, and
9 statistical analysis of leak data. According to Park’s report “Asset Management for
10 Water Mains”, pipeline material consists of cast iron pipe (68%), asbestos cement
11 pipe (18%), and the remainder material made up of steel, polyvinyl, and ductile
12 iron pipe (14%).¹⁰³ The report also shows that a majority of the pipelines were
13 installed in the 1940s and 50s. A discussion of the number of leaks by year for
14 each system since 1995, and the number of leaks by material of pipe, is
15 included.¹⁰⁴ According to the report, Park averaged 50 leaks per year for the entire
16 Central Basin system over the last five years (2006 through 2010). The number of
17 leaks per year has actually decreased over time. DRA found that for the five year
18 period 2001 through 2005, the Central Basin system recorded an average 62 leaks
19 per year.

20 Listed below is a breakdown of the average number of leaks per year for
21 each of the individual systems that make up the Central Basin service area.

22

¹⁰³ Park Water Company, Revenue Requirements Workpapers, Volume 3 of 3, Tab 11, p. 3.

¹⁰⁴ *Id.* (see “Asset Management for Water Mains” Section 2 - Water Main Data).

Table 7-B
Central Basin Service Area
System Average Leaks Per Year

| | |
|------------------------------|-----------|
| Bellflower-Norwalk | 3 |
| Compton West | 17 |
| Compton East | 30 |
| Central Basin Average | 50 |

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Due to the age, material, and number of leaks in much of the existing pipeline, especially in the Compton East and Compton West systems, Park concludes that "...an increased rate of main replacements is required to sustain its water systems and avoid unreasonable rates of main replacements in the not too distant future."¹⁰⁵ Park proposes to increase pipeline replacement up to 4 miles per year as follows: 2.4 miles in 2012, 3.0 miles in 2013, and 4.0 miles in 2014. This equates to an average of 3.2 miles per year during this rate cycle. DRA acknowledges the increased focus on water asset management and infrastructure replacement. DRA also appreciates Park's detailed asset management plan as it provides a pretty thorough analysis of the system. However, the rate of replacement proposed by Park is ambitious especially in an economic climate that is still recovering from what has been termed the worst recession since the Great Depression. DRA is concerned that allowing a rapid increase in pipeline replacement, such as that proposed by Park, will overburden struggling ratepayers. Unemployment in Los Angeles County is still very high at 11.8%, as reported in the LA Business Journal in April 2012. According to the LA Business Journal, "LA County's number remains worse than the state's and the country's."¹⁰⁶

¹⁰⁵ Park Water Company, Revenue Requirements Report, Test Year 2013, at 51.

¹⁰⁶ www.labusinessjournal.com/news/2012/apr/20

1 Historically, Park has replaced an average of 1 mile of pipe per year over
2 the past 10 years. If Park had unlimited financial resources or if Park had no other
3 infrastructure needs than to replace aging pipelines, DRA might agree that
4 stepping up pipeline replacement to 4 miles per year is acceptable. However, Park
5 depends on ratepayers with limited financial resources to recover investment in
6 infrastructure and operation expenses. Therefore, DRA examined each proposed
7 project to determine which mains require more immediate replacement. In doing
8 so, DRA considered system leak data, historical leaks or breaks in specific
9 sections of main, and the reliability of the system based on past service
10 interruptions. Additionally, although Park's Central Basin system averages 50
11 leaks per year, the average water loss of approximately 3.4% is extremely low
12 based on AWWA's standard of system average loss of 10%.¹⁰⁷ Although Park has
13 an aging system with some problem areas, the total amount of supply lost through
14 leaks is very low, reducing the urgency to expedite pipeline replacement. As noted
15 previously, the number of leaks per year has decreased from 62 leaks per year to
16 50 leaks per year. Park has experienced a 19% reduction in leaks with Park
17 replacing an average of 1 mile of pipe per year. Taking all of the above into
18 consideration, DRA proposes a more modest replacement rate of 1.9 miles in
19 2013, and approximately 1 mile in 2014.

20 DRA agrees with the proposed pipeline projects for 2012. After examining
21 Park system leak maps and the number of leaks in the mains and service lines that
22 are targeted for replacement, DRA found that Park's focus in 2012 is to repair the
23 most troubling sections of pipe in the Compton East system. The projects
24 proposed for 2012 are shown as follows:

¹⁰⁷ *Id.* at 36. Notably, during DRA's tour of Park's Central Basin system, Park explained that the low water loss is due to the company's rapid response to repair leaks when they occur.

- 1 • Cookacre, White Castlegate, Butler and San Luis - Phase 1, to install
2 1,790ft of 12-inch ductile iron pipe, 19 services and 5 fire hydrants.
3 Park's Phase 1 estimate is \$574,300.
- 4 • Cookacre, White Castlegate, Butler - Phase 2, to install 1,840ft of 8-
5 inch ductile iron pipe, 77 services and 6 fire hydrants. Park's Phase
6 2 estimate is \$610,700.
- 7 • Cookacre, White, Castlegate, Butler – Phase 3, to install 1,840ft of
8 8-inch ductile iron main, 77 services and 6 fire hydrants. Park's
9 Phase 3 estimate is \$580,700.
- 10 • Compton, Harris, San Vicente – to install 2,627ft of 8-inch ductile
11 iron main, 62 services, 13 services located under concrete, and 1 fire
12 hydrant. Park's estimate \$750,400.
- 13 • San Luis, Frailey, & Lime – Phase 1, to install 1,300ft of 12-inch
14 ductile iron main, 42 services, 4 fire hydrants. Park's Phase 1
15 estimate is \$430,300.
- 16 • San Luis, Frailey, & Lime – Phase 2, to install 1,790ft of 8-inch
17 ductile iron main, 84 services and 6 fire hydrants. Park's Phase 2
18 estimate is \$585,400.
- 19 • Wilbarn – to install 1,720ft of 12 inch ductile iron main, 3 2-inch
20 water services, 32 1-inch water services and 5 fire hydrants. Park's
21 estimate is \$493,600.

22 The projects referenced above will replace aged and leaky water mains and
23 services currently located in backyards and alleys. Historical leak data supports the
24 need for replacement of these lines. The estimated costs for each project are based
25 on the unit cost for specific sized pipe, services, hydrants and other materials
26 based on historical information. DRA reviewed the cost estimates and found them
27 reasonable.

1 Table 7-C below lists the pipeline replacement projects proposed for Test Years
 2 2013 and 2014, and DRA's recommendations.

**Table 7-C
 Main Replacement Projects
 Test Year 2013, 2014**

| | Description | 2013 | | 2014 | |
|----|---|--------------------|--------------------|--------------------|--------------------|
| | | DRA | PWC | DRA | PWC |
| 1 | Rosecrans-Lime-Frailey-Williams | \$0 | \$763,700 | | |
| 2 | Lime-Saunders to Pixley | \$0 | \$504,000 | | |
| 3 | Atlantic N/Rosecrans W/Atlantic | \$0 | \$373,800 | | |
| 4 | Rosecrans-Cookacre t Butler | \$0 | \$301,800 | | |
| 5 | Tichenor E/Alondra | \$670,300 | \$670,300 | | |
| 6 | Elva - 121st - W/S Central | \$891,000 | \$891,000 | | |
| 7 | Hillford - Tichenor-Northwood-Harlan-Tajata | \$890,100 | \$890,100 | | |
| 8 | Central S/Alondra | \$178,100 | \$178,100 | | |
| 9 | Elva - 121st - 125th | \$398,456 | \$398,456 | | |
| | Total 2013 Projects | \$3,027,956 | \$4,971,256 | | |
| 10 | Thorson-Josephine | | | \$0 | \$571,500 |
| 11 | Stoneacre-Caldwell | | | \$284,800 | \$284,800 |
| 12 | Arbutus | | | \$323,900 | \$323,900 |
| 13 | Compton-Coydon | | | \$0 | \$526,100 |
| 14 | Amantha-Compton-Keene | | | \$0 | \$404,300 |
| 15 | Harris-McMillan to Olanda | | | \$0 | \$404,300 |
| 16 | 153rd-154th-keene-156th | | | \$0 | \$975,900 |
| 17 | Raymond-Reeve | | | \$780,300 | \$780,300 |
| 18 | Central-El Segundo-132nd | | | \$0 | \$387,800 |
| 19 | Claude Nestor | | | \$0 | \$613,500 |
| 20 | Thorson-Agnes | | | \$0 | \$541,500 |
| 21 | Corydon-152nd | | | \$0 | \$496,100 |
| | Total 2014 Projects | | | \$1,389,000 | \$6,310,000 |

3
 4 DRA reviewed leak maps provided by Park in its work papers and
 5 additional leak information obtained in discovery. DRA found that the projects
 6 listed in Table 7-C above are located in the Compton East and Compton West
 7 systems. According to the leak information reviewed by DRA, the projects that
 8 DRA recommends the Commission disallow during this rate cycle had 0 or 1 leak
 9 recorded within the most recent five-year period. Most of the projects proposed by
 10 Park involve the relocation of services from backyards and mains currently located
 11 in alleys to front streets. Since the existing pipes show no urgent need to be

1 replaced or relocated, DRA recommends that these projects be delayed until a
2 future rate cycle.

3 **3) Routine Facility Installations and Replacements**

4 Included in routine facilities are sample stations, water services, hydrants,
5 and blow-offs. Park seeks to increase its rate of installing new, or replacing
6 existing facilities. In estimating the cost to install and replace facilities, Park used
7 the historical unit cost for materials with a 3% inflation factor. DRA reviewed and
8 accepts Park's methodology for estimating the cost per unit. In determining the
9 Test Year installation and replacement rate, DRA examined the historical
10 installation and replacement rates. DRA agrees with Park's proposed installation
11 and replacement of facilities for the following items because the proposed number
12 is within the historical five-year average:

- 13 • New Hydrants – Install 3 per year at \$21,985 for 2012, \$22,645 for
14 Test Year 2013 and \$23,324 for 2014
- 15 • Sample Stations – Replace 2 per year at \$3,255 for 2012, \$3,352 for
16 Test Year 2013 and \$3,453 for 2014
- 17 • New Water Services – Install 30 per year at \$63,932 for 2012,
18 \$65,850 for Test Year 2013 and \$67,826 for 2014
- 19 • Water Services – Replace 43 per year at \$75,160 for 2012, \$77,415
20 for Test Year 2013 and \$79,737 for 2014
- 21 • Area 18 Services – Replace 60 water services on 2-inch water main
22 at \$108,000 in Test Year 2013

23 DRA disagrees with the number of new installations and replacement of
24 other routine facilities as shown in Table 7-D below. DRA adopts Park's unit cost
25 and calculates the recommended expenditure based on DRA's recommended
26 number of units. Discussion of each item follows Table 7-D.

27

Table 7-D
Installation/Replacement of Facilities

| Description | Units Per Year | | | 2012 | | 2013 | | 2014 | |
|------------------|----------------|-----|-----|-----------|----------|-----------|----------|-----------|----------|
| | 5-yr Avg | PWC | DRA | PWC | DRA | PWC | DRA | PWC | DRA |
| Valves New | 15 | 17 | 15 | \$54,929 | \$48,467 | \$56,577 | \$49,921 | \$58,274 | \$51,418 |
| Valves Replace | 18 | 25 | 20 | \$100,065 | \$80,052 | \$103,066 | \$82,453 | \$106,158 | \$84,927 |
| Blow Offs | 1 | 10 | 5 | \$44,197 | \$22,099 | \$45,523 | \$22,762 | \$46,889 | \$23,444 |
| Hydrants Replace | 7 | 14 | 10 | \$96,888 | \$69,206 | \$99,795 | \$71,282 | \$102,788 | \$73,420 |
| Services Large | 2 | 6 | 3 | \$119,021 | \$59,510 | \$122,591 | \$61,296 | \$126,269 | \$63,134 |
| Large Meters | | 6 | 3 | \$37,080 | \$18,540 | \$38,192 | \$19,096 | \$39,338 | \$20,259 |

(a) Valves - New and Replacement

Park states in its Revenue Requirements Report that it installs an average of 17 new valves per year and replaces an average of 40 per year.¹⁰⁸ A review of Park’s work paper 6-44 shows a five-year average rate for installation of new valves of approximately 15 per year and a five-year average rate for replacement of valves of approximately 18 per year. DRA recommends new valve installations of 15 per year and valve replacements of 20 per year. Park presented no evidence supporting the need to significantly increase the rates of installation or replacement of valves.

(b) Blow-Offs

Park states that some of its customers are provided water service through dead-end mains, typically located on cul-de-sacs. All of the dead-end mains terminate into a blow-off. In order to maintain water quality for customers served off the dead-end mains, Park flushes the mains through the blow-offs. Park has approximately 61 blow-offs in its system. Historically, Park replaces 1 per year and now seeks to increase the rate of replacement 10-fold. DRA proposes an increase to 5 per year to maintain water quality. Park provided no support for the assumption that water quality has been diminished or cannot be maintained

¹⁰⁸ Park Water Company, Revenue Requirements Report, Test Year 2013, at 55.

1 through regular flushing of the mains and a more gradual replacement of blow-
2 offs. Neither did Park provide support to escalate replacement of blow-offs from 1
3 per year to 10. DRA’s recommended rate of replacing 5 per year would result in
4 total replacement over a 12 year period, a significant improvement over the 61
5 years it would take by replacing 1 per year.

6 (c) Hydrant Replacement

7 Historically, Park replaces 7 fire hydrants per year. During this rate cycle,
8 Park proposes to double its rate of replacement to 14 per year. According to Park’s
9 Revenue Requirements Report, Park has 1,667 fire hydrants in its water systems.
10 By exercising the hydrants, Park identifies irreparable hydrants that should be
11 replaced. Since 2004, Park has replaced no more than 8 hydrants in any one
12 year.¹⁰⁹ Park has provided no evidence from its hydrant exercise program which
13 demonstrates that the number of hydrants requiring replacement is more than the 7
14 or 8 that are actually replaced per year. Park’s desire to increase the replacement
15 of hydrants to 14 per year is not supported by the historical record. DRA
16 recommends a more modest increase – the replacement of 10 hydrants per year.

17 (d) Large Services and Large Meters

18 Park seeks to increase the number of large services located in underground
19 vaults, apartment buildings, and large businesses and their corresponding large
20 meters to 6 each per year. Over the last five years, Park has, on average, replaced 2
21 large services per year. DRA recommends a more modest increase of 3 large
22 services per year due to the large capital outlay required to replace the
23 underground vault and install new valves and piping. As such, DRA recommends

¹⁰⁹ Park Revenue Requirements Workpapers, Volume 2 of 3, at 6-44.

1 replacing 3 large meters per year, which is consistent with the number of large
2 services replaced over the course of the past five years.

3 **4) Meters - Automated Meter Reading Project**

4 Park continues to convert all of its water meters to the Automated Meter
5 Reading (“AMR”) system. As of September 2011, Park had completed 50% of this
6 project with the expectation that all meters will be converted by 2018. DRA
7 accepts Park’s proposal for converting standard meters to AMR meters as
8 submitted. The only difference in the amount shown in Table 7-A for meters is the
9 difference in DRA’s recommendation for Large Meter replacements as mentioned
10 previously.

11 **5) Production Facilities**

12 Production facilities include, but are not limited to, infrastructure associated
13 with production and supply, including pumps, pumping equipment, wells,
14 treatment, boosters, SCADA and security equipment. Park’s request and DRA’s
15 recommendation for investment in production facilities are shown below.

| 2012 | | 2013 | | 2014 | |
|-------------|-------------|-------------|-------------|-------------|-------------|
| PWC | DRA | PWC | DRA | PWC | DRA |
| \$2,348,400 | \$1,233,400 | \$2,772,800 | \$2,742,800 | \$2,697,000 | \$2,697,000 |

16
17 Projects and facilities comprising production facilities are as follows:

18 (a) Wells

19 Park purchases most of its supply from the Central Basin Municipal Water
20 District (“CBMWD”) but is moving toward pumping more groundwater since the
21 cost of pumping groundwater has not risen at the same pace as the cost of
22 purchased water. Park currently has 6 active wells capable of pumping up to 4,924
23 gallons per minute (“GPM”) and 5 standby wells. The three systems that make up
24 the Central Basin System are not interconnected. Bellflower-Norwalk has 4 active

1 wells and 3 standby wells, Compton East has 1 active well and 1 standby well and
2 Compton West has 1 standby well.

3 Park requests \$1,085,000 for 2012 to complete construction of Well 19C in
4 the Compton West system. Well 19C was authorized in Park's last GRC for
5 completion in 2009. In the last GRC, DRA recommended Advice Letter treatment
6 for Well 19C due to permitting problems.¹¹⁰ According to Park's response to
7 Minimum Data Request D-5, construction of Well 19C was not completed as
8 planned due to delayed approval from Los Angeles County. During DRA's field
9 visit to Park on March 8, 2012, Park indicated that it is still experiencing delays in
10 obtaining final permits to complete this project. DRA again recommends Advice
11 Letter treatment capped at \$1,085,000 for this project because of its uncertainty.

12 Park also requests \$100,000 for 2012 for the design of a replacement well
13 in the Compton West system. Park proposes to abandon standby Well 13C and
14 construct a new well (Well 13D) on the same site. Well 13C, constructed in 1948,
15 is the sole standby well in the Compton West system and is currently inactive due
16 to contamination by trichloroethylene ("TCE"). Water from Well 13C cannot be
17 used in the system due to the contamination. For 2013, Park requests \$725,000 to
18 construct and install a 750 foot below ground surface well casing and screens.
19 Park based construction estimates on bids it received for a similar project at Well
20 19C in 2009. Park escalates the 2009 bid of \$540,444 by 5% Consumer Cost Index
21 ("CCI") to bring the estimate to 2013 dollars, and includes an additional 5% for
22 overhead costs. Also for 2013, Park requests \$250,000 to construct a new multi-
23 roomed concrete block pump house at the new well site for Well 13D.

24 For 2014, Park requests \$862,000 to complete construction of Well 13D,
25 which includes equipping the well with pumping equipment, seepage pits, bowls,
26 landscaping, SCADA, chlorination equipment, and security equipment. DRA
27 reviewed Park's evaluation of its existing wells and cost estimates, which are

1 based on unit costs and historical data for similar projects. DRA agrees with
2 Park's request for design and construction of Well 13D. Total estimated costs for
3 design and construction of Well 13D and the multi-room pump house are
4 \$1,937,000.

5 (b) Water Rights

6 Park requests \$1,000,000 for Test Year 2013 and 2014 for the purchase of
7 water rights. As stated previously in Chapter 3 of this report, Park plans to begin
8 pumping more groundwater as it is less costly than purchased water. Further,
9 imported water supplies have become less reliable due to statewide hydrologic
10 conditions and environmental regulations that can restrict supply.

11 Park is also required to use more groundwater as a condition of the
12 Proposition 50 grant it received to construct an arsenic and manganese treatment
13 facility at Well 9D. As noted previously, since 2005 Park has been able to
14 negotiate multi-year water lease agreements with California Water Service ("Cal
15 Water"). However, this past year Cal Water only signed a one-year agreement
16 (July 1, 2011 to June 30, 2012) because Cal Water wants to use their water rights
17 for their own groundwater pumping.

18 Park proposes to purchase water rights equal to 114 acre-feet ("AF") in
19 2013 and 111 AF in 2014. The purchase price of \$1,000,000 is based on 2010 data
20 from the Los Angeles County Assessor's Office showing the purchase price of
21 \$8,000/AF. Park escalates the 2010 price by 3% annual CCI. DRA agrees that
22 increasing groundwater pumping will provide Park with a more reliable, less
23 costly supply and recommends that the purchase of water rights be authorized and
24 that Park increase groundwater pumping.

(continued from previous page)

190 A.0901001 DRA Report on Results of Operations dated April 9, 2009, at 7-5.

1 (c) Supervisory Control and Data Acquisition (SCADA)

2 Park plans to continue to upgrade and maintain its Supervisory Control and
3 Data Acquisition (“SCADA”) system with an investment of \$195,000 in 2012,
4 \$200,000 in Test Year 2013, and \$215,000 in 2014. By installing broadband
5 radios, security cameras and monitoring equipment at all of its sites including
6 standby wells, Park will have the ability to visually monitor all of its wells and its
7 main office from its control center 24 hours per day. Park will also implement
8 enhanced data logging, data sharing and report generation with the installation of
9 new software. The Commission authorized this project in the last GRC but it was
10 delayed due to permitting problems. Park will replace other SCADA equipment
11 and parts that have reached the end of their useful life, including Programmable
12 Logic Controller (“PLC”) processors, input modules, pressure transducers or level
13 sensors.

14 DRA reviewed Park’s work papers and cost estimates against historical
15 records including work orders and invoices and found that Park’s estimates are
16 based on unit costs for similar purchases and projects completed in the past. DRA
17 recommends that this project be authorized.

18 (d) Design of Pressure Relief Facilities and Wells and Reservoir 9B

19 Park requests \$10,000 to design Pressure Relief facilities at Wells 4B, 19C,
20 40D, 41A, and 46C. Pressure Relief facilities will prevent pressure surges known
21 as fluid or water hammers that may result in damage to water systems or customer
22 facilities systems should a power failure cause a sudden shut down. The facility at
23 Well 19C will be designed to cover such an event at the adjacent Reservoir 19B.
24 DRA recommends that this project be authorized.

25 (e) Pump Houses

26 For 2012, Park requests \$125,000 to replace a plywood shed that has
27 reached the end of its useful life at Well 4B. Park proposes to construct a new

1 pump house with steel sound-attenuated walls that will reduce noise impacts to
2 adjacent customers. The estimated cost is based on the historical unit cost for
3 construction of a similar structure at Park's Well 46C that was completed in 2004.

4 For 2013, Park requests \$125,000 to replace the corrugated metal shed at
5 Well 12B that has reached the end of its useful life. The wood support beams,
6 walls and ceiling on the existing structure have deteriorated. The replacement
7 pump house will be identical to that constructed at Well 4B. DRA recommends
8 that this project be authorized.

9 (f) Security Equipment – New and Replacement Equipment for Field
10 Facilities

11 Park requests \$152,000 for 2012 to install new security cameras at its 3
12 standby wells and 6 underground purchase water connections at \$120,000. Park
13 will install remote access controls at 4 well sites to secure keyless access to the
14 plant at a cost of \$20,000. The remote access control system will eliminate key
15 control issues by the use of access control cards that can be quickly deactivated if
16 lost or stolen. Existing security cameras at other sites that have become unusable
17 will be replaced and miscellaneous improvements made at an estimated cost of
18 \$12,000.

19 For Test Year 2013 and 2014, Park requests \$29,000 and \$30,000,
20 respectively, to continue installing remote control access at 4 plant sites each year
21 (approximately \$20,000 per year) and replace old, unusable security cameras
22 (approximately \$10,000 per year). DRA visited Park's control center and viewed
23 a demonstration of the security cameras focused on various plant sites to protect
24 the equipment and supply. DRA also reviewed Park's basis to estimate the cost of
25 equipment and installation and found that Park uses historical unit costs to forecast
26 the estimated investment for security. DRA finds that the security program is
27 beneficial and that the costs are reasonable.

1 (g) Fencing

2 For 2012, Park requests \$15,000 to replace fencing at Well 4B and
3 Reservoir 16A. Existing fencing was installed in 1952 and 1947 respectively and
4 has reached the end of its useful life.

5 For Test Year 2013, Park requests \$15,000 to replace portions of fencing at
6 additional sites that have also reached the end of their useful life. DRA reviewed
7 vendor quotes obtained by Park in 2011 for fencing and finds that these amounts
8 are reasonable.

9 (h) Well Site Improvements

10 Park requests \$45,000 for 2012 and \$30,000 for Test Year 2013 and 2014
11 for routine well site improvements. Park's estimates are based on miscellaneous
12 historical expenditures for such improvements. DRA takes no issue with these
13 requests.

14 (i) Interconnection

15 Park requests \$60,000 for 2012 to construct an interconnection with the
16 Municipal Water System of the neighboring City of Norwalk ("Norwalk").
17 Norwalk proposes to sell water to Park at a lower cost than CBMWD. Park will be
18 able to use this source of supply if outages occur in existing supply. DRA agrees
19 that the additional source will add to Park's ability to provide reliable service.
20 DRA finds this request to be reasonable.

21 (j) Reservoir 19B

22 For 2012, Park requests \$260,000 to replace two 40-year old natural gas
23 powered engines with electric variable speed motors. This project was authorized
24 in the 2009 GRC but delayed due to the permitting process of the Los Angeles
25 County Department of Regional Planning. Final permitting required additional
26 landscaping, lighting, fencing, and building materials, which delayed the
27 completion of the final design in 2011. Park put this project out to bid in

1 December of 2011. DRA has reviewed Park's bid information and construction
2 cost estimates and accepts Parks estimate for this project.

3 (k) Installation of Pressure Relief Facilities at Wells and Reservoirs

4 Park requests \$250,000 in Test Year 2013 to install pressure relief facilities
5 at Wells 4B, 40D, 41A, 46C and the new Well 19C. The facilities at Well 19C will
6 be designed to cover an event at the adjacent Reservoir 19B at the same site. As
7 noted, pressure relief facilities will prevent water hammers that may damage water
8 system mains, as well as, customer facilities. Park's estimate is based on historical
9 unit costs. DRA accepts Park's request.

10 (l) Pumping Equipment

11 For 2012, Park requests \$45,000 for replacement of miscellaneous pumping
12 equipment including sump pumps, motors, and analyzers. For Test Year 2013 and
13 2014, Park estimates \$30,000 per year for routine replacement of pumping
14 equipment. Park's estimates are based on historical spending. DRA accepts Park's
15 requests.

16 (m) Chlorination Equipment

17 For 2012, Park requests \$57,400 to replace two chlorine analyzers that have
18 reached the end of their useful lives. These analyzers ensure the optimal doses of
19 disinfectant in the water supply. Park will also replace chlorination equipment at
20 Well 46C.

21 For Test Year 2013, Park requests \$48,800 to install a MicroChlor Unit at
22 Well 12B to replace an existing hypochlorite chlorination system with a sodium
23 chloride chlorination system. The sodium chloride chlorination system will
24 improve operator safety and has lower operational expense than the hypochlorite
25 chlorination system. Park's estimate for chlorination equipment is based on
26 historical unit cost incurred in 2011. DRA accepts Park's request.

1 (n) Chlorine Shed

2 For 2013, Park requests \$30,000 to construct a concrete slab and PVC
3 storage shed to house chlorination equipment at Well 12B. Park's estimate is
4 based on historical costs. DRA accepts Park's request.

5 (o) Chlorine Analyzers

6 For 2014, Park requests \$30,000 to replace six chlorine analyzers that have
7 reached the end of their useful lives. Park's estimate is based on historical costs.
8 DRA accepts Park's request.

9 (p) CenB-27 Cla-Val Installation

10 For 2012, Park will install an additional set of Cla-Val pressure reducing
11 valves on the discharge side of its Metropolitan Water District ("MWD") purchase
12 water connection CenB-27. The pressure reducing valves will reduce MWD's 195
13 pounds per square inch ("psi") operating pressure down to Park's 70-90 psi system
14 operating pressure. This project will reduce the risk of damage to mains, service
15 lines, and customer equipment. Park has completed this project at all of its other
16 MWD purchase water connections. The cost estimate of \$125,000 is based on
17 historical unit costs. DRA accepts Park's estimate.

18 (q) Remote Water System Analyzers

19 Park requests \$30,000 for 2012 and for Test Year 2013 for the installation
20 of remote electronic monitoring equipment to monitor water quality at its
21 distribution systems. Park provided no analysis to show that existing SCADA, and
22 water quality monitoring equipment is insufficient to ensure good quality water.
23 DRA recommends that the Commission disallow this project.

24 (r) Pressure Relief Valves

25 Park requests \$22,000 for 2012 to replace pressure relief valves located in
26 Areas 12-1 and 18-1 of its distribution systems. The existing valves have reached
27 the end of their useful lives. The cost estimate is based on vendor quotes and
28 historical unit costs. DRA accepts Park's request.

1 (s) Automatic Control Valves

2 Park requests \$22,000 in 2012 to replace automatic relief valves at Wells
3 12B and 46C that eliminate the risk of water hammer events during the start up
4 and shut down of a well. Existing valves are at the end of their useful lives. Park
5 based its estimate on vendor quotes for replacement of the valves. DRA accepts
6 Park's request.

7 (t) Land for New Well

8 Park's Compton East system's average daily demand is 1,134 GPM with a
9 maximum daily demand of 1,957 GPM. Park currently has one well (Well 9D)
10 estimated for completion in June of 2012 that is estimated to provide 1,250 GPM,
11 one stand-by well (Well 4B) that produces approximately 720 GPM, and one
12 purchase water connection (CB-25) that provides a maximum flow of 5,625 GPM.
13 Due to the age (60 years) and location of Well 4B, Park determined that a new
14 well in Compton East system would provide needed backup for Well 9D. Because
15 Park does not have any land that can accommodate construction of a new well in
16 Compton East, the Commission authorized the purchase of land for a new
17 groundwater well in the last GRC. Due to delays in construction of Well 19C in
18 the Compton West system, the purchase of land and construction of the well in
19 Compton East system was postponed until 2014.

20 Park provided copies of list prices for residences in the area that range from
21 \$102,000 to \$300,000. Because potential locations for the well are fully
22 developed, Park's estimate for the land is based on purchasing a residential
23 structure plus costs to demolish existing structures. DRA accepts Park's request to
24 postpone this project until 2014.

25 **6) General Plant**

26 General Plant includes purchase of furniture, equipment, vehicles,
27 communication equipment and computers, building improvements, and various
28 tools.

1 (a) Furniture & Office Equipment

2 For 2012, Park requests \$39,500 for furniture & office equipment. Park will
3 replace aging office furniture and equipment for the Central Basin division and the
4 corporate office. Park requests another \$5,100 for 2012 to replace conference
5 room chairs. For Test Year 2013 and 2014, Park estimates \$30,400 and \$31,200
6 respectively. Park's estimates are based on the historical expenditure of
7 approximately \$45,000 per year. DRA accepts Park's estimates.

8 (b) Building Improvements

9 Park requests \$20,000 per year for routine building improvements at its
10 main office. Park's estimate is based on historical expenditures. DRA accepts
11 Park's request.

12 (c) Control Center Improvements

13 Park utilizes its control center to monitor SCADA, and visual security
14 monitors at its plant sites 24 hours per day seven days per week. For 2012, Park
15 requests \$10,000 to complete installation of additional monitors, alarms and data
16 switches. Park's estimate is based on vendor quotes. DRA accepts Park's request.

17 (d) Replace Hallway Lighting & Ceiling Tiles

18 For 2012, Park requests \$31,900 to replace the hallway lighting fixtures and
19 ceiling tiles at its main office with energy efficient high visibility fixtures. Existing
20 lighting fixtures and tiles were installed in 1970. Park's estimate is based on
21 vendor quotes. DRA accepts Park's requests.

22 (e) Main Office Remodel (IT and Accounting)

23 For 2012, Park requests a total of \$97,300 to remodel the Information
24 Technology ("IT") department to accommodate personnel by replacing large
25 individual offices with a partitioned cubical system. At present, one IT person is
26 located in an office in an area separate from the remaining IT personnel. The

1 remodel will add one additional work space and a small conference area. The extra
2 work space will allow all IT personnel to work together in the same area and
3 provide a small conference area for use by IT staff as well as other staff. Removal
4 of walls, electrical and data service, lighting and carpeting work is estimated at
5 \$37,500 and the purchase and installation of cubicle workstations, counters and
6 storage is estimated at \$59,800. DRA reviewed the cost estimates based on unit
7 cost and vendor quotes and found the costs reasonable.

8 For 2013, Park requests \$70,000 to remodel the accounting department
9 (\$40,000 for structural work and \$30,000 for cubicles, counters and storage). Park
10 proposes to reconfigure the accounting area by replacing individual offices and
11 installing a partitioned cubicle system. Park explained during DRA's field visit
12 that the proposed change is to accommodate additional personnel that Park hopes
13 to add in its next GRC for the General Office.

14 Since the request for the additional staff is not subject to review in this
15 GRC and the need for additional staff has not been established, it is premature to
16 authorize additional space to accommodate additional staff. DRA recommends
17 that the Commission disallow this project.

18 (f) Air conditioner Replacement

19 For Test Year 2013 and 2014, Park requests \$11,000 to replace two air
20 conditioning units at its main office. Park's estimate is based on vendor quotes.
21 DRA accepts Park's request.

22 (g) Install Slab and Replacement Storage Containers

23 Park requests \$25,000 for 2012, Test Year 2013 and 2014 to replace its
24 storage bins used to store its vital records. The storage containers are to be
25 installed on concrete slabs and buried. The existing containers installed 20 years
26 ago were buried in native earth and have deteriorated due to runoff from
27 rainstorms pooling underneath them. Park proposes to purchase two replacement
28 cargo containers each year and install them in graded concrete slabs that will drain

1 storm runoff. Park's estimate is based on vendor quotes. DRA accepts Park's
2 request.

3 (h) Security Gate and Security Improvements

4 For 2012, Park requests \$20,000 to replace the security gate at the main
5 office. The existing gate was installed in the late 1980s and is in disrepair. Park's
6 estimate for installing a new gate is based on vendor quotes.

7 Park also requests \$25,000 for miscellaneous security cameras, motion
8 detectors, and access control points at the main office and yard. Park's estimate is
9 based on the five-year historical average expenditure for security. DRA accepts
10 Park's request.

11 (i) Solar Project

12 Park requests to invest \$826,000 in 2013 and 2014 for a total of
13 \$1,652,000 to construct a 244.6 kW AC photovoltaic generation system at
14 its main office facility. PWC was approached by Grid Solar, LLC in 2010 to
15 construct solar panels on the roof of Park's main office building and on the
16 carport roof structure. Grid Solar's proposal estimates annual production
17 of 421,328 kWh in year 1 (2014) with an annual degradation of 4%. Energy
18 produced by the solar panels is meant to replace approximately 67% of
19 Park's energy consumption generating a 77% savings in year 1 (2014).
20 Savings are assumed based on an annual escalation in energy costs of 5.4%
21 per year. Analysis provided by Grid Solar to Park includes a Net Present
22 Value ("NPV") of \$247,427 over 25 years.

23 DRA recommends that the Commission disallow this project for the
24 following reasons. First, the annual energy escalation rate of 5.4% is
25 exaggerated. The 5.4% annual increase in electric rate projected by Grid
26 Solar is based on Cumulative Annual Growth Rate ("CAGR") of California

1 energy rates from 1970 to 2006. CAGR is an investment formula to smooth
 2 out the growth rate of investments over a period of time giving the
 3 impression of a stable return throughout the life of the investment. DRA
 4 reviewed commercial energy rates per kWh for the state of California from
 5 1990 to 2010 and found an average annual increase in commercial electric
 6 rates of 1.8% with the most recent five-year average at only 2%.¹¹¹

Table 7-E

Commercial Electricity Rates in California

| Year | Rate kWh | Percent Inc/Dec | Average Rate/kWh | | |
|------|-------------|--------------------|-------------------------|------------|-----------|
| | | | 20 Yr Avg. | 10 Yr Avg. | 5 Yr Avg. |
| 1990 | \$ 0.095 | | \$ 0.113 | \$ 0.126 | \$0.129 |
| 1991 | \$ 0.100 | 6% | Average Annual Increase | | |
| 1992 | \$ 0.103 | 3% | 20 Yr Avg. | 10 Yr Avg. | 5 Yr Avg. |
| 1993 | \$ 0.105 | 1% | 1.8% | 2.8% | 2.0% |
| 1994 | \$ 0.109 | 4% | | | |
| 1995 | \$ 0.105 | -4% | | | |
| 1996 | \$ 0.098 | -6% | | | |
| 1997 | \$ 0.100 | 2% | | | |
| 1998 | \$ 0.097 | -3% | | | |
| 1999 | \$ 0.094 | -2% | | | |
| 2000 | \$ 0.103 | 9% | | | |
| 2001 | \$ 0.122 | 19% | | | |
| 2002 | \$ 0.134 | 10% | | | |
| 2003 | \$ 0.125 | -7% | | | |
| 2004 | \$ 0.116 | -7% | | | |
| 2005 | \$ 0.119 | 2% | | | |
| 2006 | \$ 0.129 | 8% | | | |
| 2007 | \$ 0.128 | -1% | | | |
| 2008 | \$ 0.125 | -2% | | | |
| 2009 | \$ 0.134 | 7% | | | |
| 2010 | \$ 0.131 | -2% | | | |

7
8

¹¹¹ US Energy Information Administration (<http://www.eia.doe.gov/electricity/data.cfm#sales>) Detailed Historical Data, average price by state by provider back to 1990 (form EIA 861).

1 The actual rates paid by Park for energy over the past five years is
 2 consistent with the data shown in Table 7-E. According to monthly bills for
 3 service provided by Southern California Edison Company, Park’s energy
 4 costs for the main office over the most recent five years is \$.123
 5 cents/kWh.¹¹² Table 7-F below shows Parks annual average electric costs
 6 for the main office.

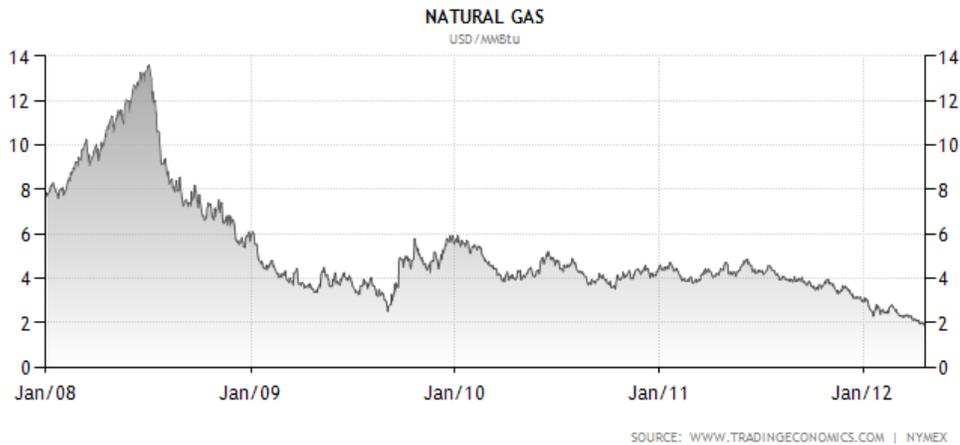
Table 7-F
 Park Water Main Office
 Historical Electric Costs

| Year | kWh | Bill Amount | Cost/kWh |
|---------|---------|-------------|----------|
| 2007 | 636,080 | \$ 78,168 | 0.123 |
| 2008 | 669,920 | \$ 81,040 | 0.121 |
| 2009 | 652,960 | \$ 79,837 | 0.122 |
| 2010 | 624,040 | \$ 79,659 | 0.128 |
| 2011 | 627,507 | \$ 77,291 | 0.123 |
| Average | 642,101 | \$ 79,199 | 0.123 |

7
 8
 9 Other factors that can influence and impact the price of electricity in
 10 California is the price of natural gas. Clean-burning natural gas is used by
 11 electric power plants to generate 38% of the electricity used in California.
 12 ¹¹³ DRA points out that the price of natural gas has since collapsed from
 13 its peak in the summer of 2008 (from over \$13/MBTU to less than
 14 \$2/MBTU) and shows no signs of returning to earlier highs in the current
 15 deflationary economic environment.

¹¹² PWC response to DRA data request PE 009.

¹¹³ http://www.iepa.com/video/IEPA_Power_of_California.pdf, Section I, Executive Summary.



1
2

3 Neither Grid Solar nor Park provided any evidence to support the
4 assertion that electric costs will increase at a rate of 5.4% annually. Use of
5 the CAGR, an investment formula, overstates the increase in electric rates.
6 Historical records show a much lower average increase in rates of about
7 2% per year. By using an inflated annual rate of increase, Grid Solar was
8 able to inflate the expected savings Park would receive.

9 Second, the analysis provided to Park from Grid Solar includes a
10 cost-benefit analysis that is performed solely from a company shareholder
11 perspective. The analysis provided only accounts for the capital cost as an
12 investment over 25 years that would be paid by shareholders to finance the
13 project. In reality, this project would be added to rate base and depreciated
14 over a period of up to 30 years, paid for by ratepayers. Grid Solar's
15 analysis disregards the rate of return and taxes that ratepayers would be
16 required to pay over a 30 year depreciation schedule. Grid Solar's analysis
17 results in a free cash flow of \$1,250,551 and a positive NPV of \$247,427
18 because it ignores the substantial revenue requirements for this project that
19 will be paid by ratepayers each year.

1 DRA performed a similar analysis but included the rate of return
2 (9.42%) and net to gross multiplier (1.757) assumed by Park in its work
3 papers. DRA arrived at a significantly lower free cash flow and a negative
4 NPV as shown in the following table.

Cash Flow and Net Present Value

| Year | Cash Flow | NPV |
|-------------|------------------|-------------|
| 0 | (\$226,752) | (\$226,752) |
| 10 | (\$87,375) | (\$653,197) |
| 20 | (\$24,968) | (\$976,182) |
| 30 | \$31,600 | (\$961,080) |

5
6
7 With a negative NPV and insufficient reliable data available from other Class A
8 water utility solar panel installations to assess benefits that would flow to Park’s
9 ratepayers during this current economic environment, and with uncertainty
10 whether the project would improve Park’s ability to provide quality and reliable
11 water service, DRA does not support this project. The solar project proposed for
12 the 2013 Test Year cycle should not be adopted at this time. As such, DRA gives
13 greater weight to capital investments in water supply and reliability for this GRC
14 cycle.

15 To consider placing these types of projects in rate base the utility must
16 demonstrate that it provides a net benefit to water ratepayers over the useful life of
17 the asset. DRA’s analysis proves that Park’s ratepayers will receive no net
18 benefits and will be cross-subsidizing the solar industry. It is not necessary for
19 Park to install solar panels on its office building to provide safe and reliable water
20 service to its customers. Considering the high rate increase (over 26%) Park is
21 seeking in this rate case, there are other measures Park can seek to reduce its
22 energy usage for providing water service. For example, this may include
23 operational improvements, electric rate modifications, electrical demand
24 management, pump modifications, efficient lighting fixtures, distribution system

1 pressure management, and well efficiency improvements.¹¹⁴ According to the
2 Environmental Protection Agency (“EPA”) Region 9 Pilot Project Energy and
3 Water Assessments at Water and Wastewater Utilities, “Energy costs are a major
4 concern for water and wastewater utilities across the U.S. who spend almost \$4
5 billion annually on energy to run their facilities. In California, the production,
6 distribution, treatment, discharge, heating and other end uses of water consumes
7 approximately 19% of the state’s electricity and 30% of its natural gas.” Please
8 refer to Attachment A, following this chapter, for an overview of energy
9 conservation opportunities identified by the EPA related to water and wastewater
10 utilities. Instead of installing solar which have a high capital cost and long pay-
11 back periods, through these measures listed in Attachment A, Park can capture the
12 embedded energy savings in producing and delivering water to its customers.

13 DRA also notes that Park’s project installation cost equates to \$6,754 per
14 kW ($\$1,652,000 \text{ installation} / 244.6 \text{ kW} = \$6,754$), which is over 60% higher than
15 PG&E’s Solar PV Program (SPVP) cost of \$4,200 per kW, including land and
16 contingency.¹¹⁵ Due to the high cost of this project and the over inflated estimate
17 of future energy costs, it is unrealistic to expect the amount of savings claimed by
18 Park based on the analysis provided to support this project. For the foregoing
19 reasons, DRA recommends that this project be disallowed.

20 (j) Vehicles and Equipment

21 Park requests \$69,400 for 2012, \$71,500 for Test Year 2013, and \$86,300
22 for 2014. DRA agrees with the requests for 2012 and 2013 but recommends
23 \$36,300 for 2014. Park’s vehicle replacement criterion is to replace vehicles and
24 trucks at 8 years and/or 100,000 miles.

¹¹⁴ See Attachment A for complete list of EPA suggested Energy Conservation Opportunities.

¹¹⁵ D.10-04-052, Adopting a Photovoltaic for Pacific Gas and Electric Company. p. 22.

1 In 2012, Park will replace vehicle Unit No. 25, originally purchased in
2 2001 with a 2012 year end mileage projection of 98,288 miles, and vehicle Unit
3 No. 52, originally purchased in 2002 with a 2012 year end mileage projection of
4 128,251 miles. Park will also purchase 5 light-emitting diode (“LED”) light bars to
5 increase the visibility of company vehicles. DRA reviewed Park’s estimates,
6 which are based on historical purchases and vendor quotes, and accepts Park’s
7 requests for the LED light bars and vehicle Unit Nos. 25 and 52.

8 In 2013, Park will replace vehicle Unit No. 38, originally purchased in
9 1993 with a 2013 year end projected mileage of 90,153 miles, and Unit No 103,
10 originally purchased in 1992 with a 2013 year end mileage projection of 88,208.
11 Park will also purchase 5 LED light bars. DRA accepts Park’s requests for 2013.

12 In 2014, Park seeks to replace vehicle Unit No. 40, originally purchased in
13 1993 with a 2014 year end mileage projection of 90,194 miles. Park also seeks to
14 replace vehicle Unit No. 22. According to Park’s budget request, Unit No. 22 was
15 purchased in 2005 with a 2014 year end projected mileage of 74,114. Work papers
16 provided by Park show that Unit No. 22 was purchased in 2008, and thus, the
17 vehicle will only be 6 years old in 2014. DRA recommends that this vehicle
18 purchase be delayed until such time as it reaches the 8 years or 100,000 miles
19 threshold. DRA reduced the 2014 budget by \$50,000 based on dealer quotes for a
20 Ford F450 pickup found on the Ford Motor website. Please refer to Attachment B
21 following this chapter for Ford Motor price quote information.¹¹⁶

22 (k) Shop tools and Equipment

23 Park requests \$13,000 for 2012 and \$10,000 for Test Years 2013 and 2014
24 for miscellaneous tools and hose fitting reel. Park’s estimates are based on
25 historical unit costs. DRA accepts Park’s requests.

¹¹⁶ <http://www.ford.com/commercial-trucks/superduty-commercial/trim/?trim=f450xl>

1 (l) Communication Equipment

2 Park requests \$8,000 for 2012, \$18,000 for Test Year 2013 and \$47,000 for
3 2014 for various communications equipment in the office and yard.

4 In 2012, Park will purchase and replace equipment including staff cellular
5 phones. Park's estimate is based on historical expenditures. DRA accepts Park's
6 request for 2012.

7 In 2013, Park will purchase cellular phones and replace security equipment
8 at an estimated cost of \$15,000. Park will also begin to install cameras in its
9 service trucks at an estimated cost of \$3,000 to monitor employee interaction with
10 customers and provide security out in the field.

11 In 2014, Park will continue its replacement of cellular phones and
12 miscellaneous security equipment. Park will also continue its pilot program and
13 install cameras in 13 service trucks at an estimated cost of \$32,000.

14 DRA reviewed Park's estimates for communication equipment and found
15 that the proposed budget for replacing cellular phones and security equipment is
16 based on historical expenditures over the past 10 years. Park's estimate for
17 installing cameras in its vehicles is based on a vendor quote. DRA accepts Park's
18 requests.

19 (m) Power Operated Equipment

20 For 2012, Park requests \$209,000 for the purchase of large and small
21 generators. Park will purchase two small portable electric generators to be used in
22 the field to power electric hand tools at a cost of \$3,000. Park's request is based on
23 unit cost.

24 Park also requests to purchase a 250 kW portable generator to be used at
25 well sites at a cost of \$76,000, and to purchase a 450 kW generator and trailer for
26 use at its new Well 19C at a cost of \$130,000. Due to the distance between active
27 and inactive wells, DRA agrees with the purchase of a 250kW portable generator
28 that can be used at various sites during an emergency. DRA recommends that the

1 purchase of the 450 kW generator and trailer be treated as an advice letter capped
2 at \$130,000 since it is specific to Well 19C which is not complete and remains
3 uncertain due to permitting delays.

4 For Test Year 2013, Park requests a small 150 kW portable emergency
5 generator to be used at active and inactive well sites at a cost of \$78,000. Park's
6 cost estimate is based on vendor quotes. DRA agrees with Park's request for Test
7 Year 2013.

8 For Test Year 2014, Park requests \$284,000 to purchase a 450 kW
9 generator to be used at the site of its new Well 13D at a cost of \$150,000 and to
10 purchase a portable 200 kW generator to be used at various active well sites at a
11 cost of \$134,000. Park's estimate for the 450 kW generator is based on unit cost
12 provided by the vendor. Park's estimate for the 200 kW generator of \$134,000 is
13 \$50,000 higher than the similar sized portable generator to be purchased in 2012
14 and 2013. Escalating the cost of the 250 kW generator purchased in 2013 would
15 result in a cost of approximately \$80,000 using the 3% inflation factor used by
16 Park to escalate costs. Therefore, DRA reduced the budget from \$134,000 to
17 \$80,000 for the 200 kW generator. Documentation included in Park's work papers
18 shows the unit cost for the 200 kW portable generator is \$65,800 in 2011.¹¹⁷

19 (n) Computer Equipment and Mapping

20 Park requests \$25,000 for each year to improve its existing Geographical
21 Information System ("GIS"). Park's existing GIS servers run on Windows Server
22 2003 versions for all office and field applications. Park has been informed that the
23 software developer will be upgrading server software and it will only be
24 compatible with Windows Server 2008 or higher. Park contends that if it fails to

¹¹⁷ Park Water Revenue Requirements work papers Volume 2 of 3, at 6-99r, dated August 19, 2011 shows the quoted price of \$54,280.00 plus options that add \$11,510.00 for a total of \$65,790.

1 upgrade its system with the newer version of the software, its field practices will
2 be detrimentally impacted. Therefore, Park plans to begin upgrading its system.

3 Park will also purchase the Los Angeles County Tax Roll Parcel Update.
4 This update will provide more accurate information on property owners for
5 notifications, to maintain land use descriptions, for water use tracking, for legal
6 descriptions of properties and other company uses.

7 In 2013, Park will continue to make improvements to its existing GIS by
8 upgrading its field applications. More specifically, Park will migrate from Filed
9 Mapplet to I-Water applications. The I-Water applications will be used for
10 Underground Service Alerts, redlining water atlas maps, and GIS mapping.

11 In 2014, Park will purchase an updated set of aerial photography that will
12 reflect the changes in Park's service area since 2009. In addition, Park will
13 purchase Global Positioning System ("GPS") software updates and hardware that
14 will include ArcPAD that will work directly with Park's ArcGIS software. These
15 upgrades will improve efficiency in locating facilities to merge them with existing
16 GIS and Asset Management databases.

17 DRA reviewed Park's project estimates and found that they are based on
18 vendor quotes. DRA accepts Park's requests.

19 (o) Cost of Removal

20 Cost of Removals includes removal of miscellaneous production items,
21 including galvanized and plastic service lines and other equipment such as water
22 mains, and other miscellaneous items. This category also includes the installation
23 of "houselines" for the water main projects proposed for each year (2012 through
24 2014). The table below compares the Cost of Removal requested by Park versus
25 the amount recommended by DRA. DRA's recommendation for Test Years 2013
26 and 2014 is lower than Park's request due to DRA's recommendation of fewer
27 transmission and distribution main replacement projects in 2013 and 2014.

28

COST OF REMOVAL

| | 2012 | | 2013 | | 2014 | |
|---|-----------|-----------|-----------|-----------|-----------|----------|
| | PWC | DRA | PWC | DRA | PWC | DRA |
| 1 | \$658,700 | \$658,700 | \$691,700 | \$429,834 | \$621,200 | \$78,672 |

2

3 **D. CONCLUSION**

4 DRA's recommendations have been incorporated into the calculations for
5 DRA's recommended Plant in Service as shown in Tables 7-1 and 7-2.

6

7

8

TABLE 7-1
PARK WATER COMPANY
PLANT IN SERVICE
TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA Amount | % |
|----------------------------|-------------------|----------------|------------------------------|-------|
| | (Thousands of \$) | | | |
| Plant in Service - BOY | 65,856.5 | 67,533.5 | 1,677.0 | 2.5% |
| Gross Additions | 7,274.5 | 10,302.8 | 3,028.3 | 41.6% |
| Retirements | <u>(609.2)</u> | <u>(622.3)</u> | <u>(13.1)</u> | 2.1% |
| Net Additions | 6,665.3 | 9,680.5 | 3,015.2 | 45.2% |
| Plant in Service - EOY | 72,521.8 | 77,214.0 | 4,692.2 | 6.5% |
| Weighting Factor | 50.00% | 50.00% | | |
| Wtd. Avg. Plant in Service | 69,189.2 | 72,373.8 | 3,184.6 | 4.6% |

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TABLE 7-2
PARK WATER COMPANY
PLANT IN SERVICE
ESCALATION YEAR 2014

| Item | DRA | PWC | PWC exceeds DRA Amount | % |
|----------------------------|----------------|----------------|------------------------------|--------|
| (Thousands of \$) | | | | |
| Plant in Service - BOY | 72,521.8 | 77,214.0 | 4,692.2 | 6.5% |
| Gross Additions | 5,221.2 | 11,236.0 | 6,014.8 | 115.2% |
| Retirements | <u>(627.5)</u> | <u>(640.9)</u> | <u>(13.5)</u> | 2.1% |
| Net Additions | 4,593.8 | 10,595.1 | 6001.3 | 130.6% |
| Plant in Service - EOY | 77,115.6 | 87,809.0 | 10,693.5 | 13.9% |
| Weighting Factor | 50.00% | 50.00% | | |
| Wtd. Avg. Plant in Service | 74,818.7 | 82,511.5 | 7,692.8 | 10.3% |

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EPA Region 9 Pilot Project: Energy and Water Assessments at Water and Wastewater Utilities (DRAFT)

BACKGROUND:

Energy costs are a major concern for water and wastewater utilities across the U.S. who spend almost \$4 billion annually on energy to run their facilities. In California, the production, distribution, treatment, discharge, heating, and other end uses of water consumes approximately 19% of the state's electricity and 30% of its natural gas. Energy represents the largest controllable cost of providing water or wastewater services to the public. Although interest is high in pursuing opportunities to save energy and money at water and wastewater utilities, many of them are challenged to identify cost-effective energy and water efficiency projects and the funding to implement them.

To help address these issues, U.S. EPA Region 9 (EPA) has been committed to helping water and wastewater utilities improve their energy and water management, and decrease their operating budgets, by concentrating our efforts on initiating and implementing on-the-ground energy efficiency, water efficiency, and renewable energy projects. We've developed a process (detailed on our website at <http://www.epa.gov/region9/waterinfrastructure/index.html>) that encourages water and wastewater utilities to first identify cost-effective (or high return on investment) projects by conducting energy and/or water assessments. As follow-up, we work with water and wastewater utilities to implement the assessment recommendations by helping identify funding opportunities, providing a comprehensive 12-part energy management seminar series, and/or other assistance.

SUMMARY OF PILOT PROJECT:

In order to determine the effectiveness of this approach, EPA established a contract using one-time American Recovery and Reinvestment Act (ARRA) funding to conduct 15 energy and 2 water assessments at water and wastewater utilities throughout CA, AZ, NV, and HI on projects that had received ARRA funding. Due to the time constraints of ARRA funding, the utilities were not targeted in any way other than being in receipt of ARRA funding with a willingness to conduct an assessment (e.g., we did not target inefficient facilities). We found it critical to use an energy assessor with extensive experience in the water sector and the energy sector to conduct the assessments. The levels of energy assessments conducted for this project were equivalent to ASHRAE Level II/III. The water assessments followed American Water Works Association's Manual M36 guidelines. The energy assessments cost approximately \$20K, including travel and report preparation.

Under this project, 5 water utilities and 10 wastewater utilities received energy assessments, and two water utilities received water assessments. A comprehensive review of the energy assessment results is included in Table 1 below.

Using only recommendations with a 7.5 year payback or less, the 15 energy assessments identified:

- ✓ 6,900 megawatt hours per year (MWh/yr) of potential energy reductions
- ✓ 1,700 MWh/yr of potential energy demand reductions
- ✓ \$1.4 million per year of potential cost savings with a 4.6 year payback, or a 16% return on investment (ROI)
- ✓ 6.9 million pounds per year of reduced greenhouse gas emissions
- ✓ 15 recommendations with <1 year payback period (>100% ROI) and a cost savings of \$190K per year
- ✓ 25 million gallons of potential annual water savings at 3 wastewater facilities

The water assessments identified over 3 billion gallons per year of real losses that could be most cost-effectively addressed by leak detection coupled with long-term capital improvement investments.

Given these encouraging results, we will continue coordinating resources to assist water and wastewater utilities in conducting energy and water assessments and implementing the results.

TABLE 1. Review of Energy Conservation Opportunities Identified in 15 Energy Assessments of Water and Wastewater Utilities conducted through this project.

| Energy Conservation Opportunities (total # identified during Pilot Project) | Payback Period (yrs.) | Costs (Implementation) | Annual Savings (\$) | Annual Energy Cost Savings* | MWh/Year Savings |
|---|------------------------------|-------------------------------|----------------------------|------------------------------------|-------------------------|
| Electric Rate Modifications (2): modifying rate schedules to be most efficient during peak and non-peak hours | avg = 0.12 0.1 to 0.14 | \$500 | \$3,600 - \$10,000 | 13 - 48% | N/A |
| Electrical Demand Management (5): monitoring total energy use/demand with installation of electrical metering, maximizing off-peak operations | avg = 0.2 0 to 1 | \$0 - \$75,000 | \$1,000 - \$115,800 | 0.7 - 7.3% | N/A |
| Operational Improvements (11): Noncapital improvements to optimize treatment | avg = 1.7 4.7 to 5 | \$0 - \$220,000 | \$100 - \$35,700 | 0.1 - 26.5% | 1 - 284 |
| Pump Modification (6): adjusting effluent pumping, inline flow meters in collection/distribution systems, and pump controls | avg = 4.1 0 to 10.7 | \$0 - \$35,600 | \$250 - \$7,000 | 0.5 - 7.2% | 2 - 26 |
| Motor Efficiency Upgrades (4): replacing inefficient motors with high efficiency motors | avg = 4.9 0.7 to 8.2 | \$3,100 - \$175,000 | \$2,800 - \$44,300 | 1.3 - 7.6% | 9.6 - 136.4 |
| Component System Upgrades (5): Capital and operational improvements on UV, process water, scrubber, and compressed air systems | avg = 5.1 4 to 6.3 | \$130,000 - \$500,000 | \$20,500 - \$98,000 | 2.2 - 28.3% | 105.7 - 441.5 |
| Efficient Lighting Fixtures (5): implementation of more efficient lighting; includes reduced use and sensors | avg = 6.6 2.6 to 11.2 | \$7,000 - \$154,000 | \$2,650 - \$24,700 | 0.5 - 2.9% | 9.1 - 122.1 |
| Variable Frequency Drive Installation (3) | avg = 7.2 2.4 to 12 | \$15,700 - 126,500 | \$1,620 - \$51,600 | 0.4 - 4.2% | 15.4 - 482 |
| Aeration Control/Improvements (4): smaller blower installation, operation changes, better control with meter installation | avg = 8.3 4.7 to 13.3 | \$5,000 - \$244,000 | \$760 - \$24,400 | 1.6 - 26.9% | 6 - 200 |

* "Annual Energy Cost Savings" was calculated by determining the percentage of the estimated annual cost savings (\$) for a given Energy Conservation Opportunity of the total annual energy cost for the utility receiving the energy assessment.

Please contact Eric Byous at (415)972-3531 or byous.eric@epa.gov if you'd like to discuss this Pilot Project or are interested in pursuing energy or water management projects at your utility or municipality.

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1 **CHAPTER 8: DEPRECIATION RESERVE AND**
2 **DEPRECIATION EXPENSE**

3 **A. INTRODUCTION**

4 This Chapter sets forth DRA’s analyses and recommendations regarding
5 depreciation reserve and depreciation expense for Park Water Company (“Park”).
6 Tables 8-1 and 8-2 at the end of this chapter provide DRA’s and Park’s estimates
7 for depreciation reserve and depreciation expense for Test Year 2013 and
8 Escalation Year 2014.

9 **B. SUMMARY OF RECOMMENDATIONS**

10 DRA reviewed and agrees with the methods used by Park to calculate
11 depreciation reserve and depreciation expense for Test Year 2013 and Escalation
12 Year 2014. Discrepancies between DRA’s calculations and the numbers provided
13 by Park are attributable to differences in plant estimates and DRA’s use of updated
14 data.

15 **C. DISCUSSION**

16 DRA compared the values reported in Park’s application with the
17 company’s annual report for 2010 to track the beginning of year depreciation
18 reserves. Park’s proposed depreciation rates stated in the application are based on
19 a new remaining life study performed by Park. Park’s proposed rates were
20 calculated in accordance with a straight-line remaining life curve using Standard
21 Practice U-4 and reserve balances as of January 1, 2011. Depreciation accruals for
22 Test Year 2013 and Escalation Year 2014 are based on the proposed depreciation
23 rates applied to the average respective estimated annual plant balances.

24 **D. CONCLUSION**

25 DRA reviewed and accepts Park’s methodology and depreciation rate.
26 Differences in DRA and Park proposed depreciation reserves and accruals are due
27 to differences in plant additions.

1

TABLE 8-1
PARK WATER COMPANY
DEPRECIATION RESERVE & EXPENSE
TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA | |
|---------------------------------|----------|----------|--------------------|--------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| Depreciation Reserve - BOY | 19,313.4 | 19,333.5 | 20.1 | 0.1% |
| Accruals | | | | |
| Clearing Accounts | 122.1 | 112.3 | (9.8) | -8.0% |
| Contribution | 305.4 | 256.2 | (49.2) | -16.1% |
| Depreciation Expense | 1,746.6 | 1,895.8 | 149.2 | 8.5% |
| Other | 0.0 | 0.0 | 0.0 | 0.0% |
| Total Accruals | 2,174.1 | 2,264.2 | 90.1 | 4.1% |
| Retirements | (609.2) | (622.3) | (13.1) | 2.1% |
| Adjustments | (38.6) | (39.0) | | |
| Depreciation Reserve - EOY | 20,839.7 | 20,936.5 | 96.8 | 0.5% |
| Weighting Factor | 50.00% | 50.00% | | |
| Wtd. Avg. Depr. Reserve | 20,076.5 | 20,135.0 | 58.5 | 0.3% |
| General Office Depreciation Exp | 128.2 | 128.2 | 0.0 | 0.0% |
| Common Plant Adjustment | 58.1 | 63.5 | 5.4 | 9.3% |
| Amortization-Limited Term Plant | 1.2 | 1.2 | 0.0 | 0.0% |

2

3

4

TABLE 8-2
PARK WATER COMPANY
DEPRECIATION RESERVE & EXPENSE
ESCALATION YEAR 2014

| Item | DRA | PWC | PWC exceeds DRA | |
|---------------------------------|----------|----------|--------------------|--------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| Depreciation Reserve - BOY | 20,839.7 | 20,936.5 | 96.8 | 0.5% |
| Accruals | | | | |
| Clearing Accounts | 133.1 | 119.9 | (13.2) | -9.9% |
| Contribution | 307.0 | 258.7 | (48.3) | -15.7% |
| Depreciation Expense | 1,868.7 | 2,136.8 | 268.1 | 14.3% |
| Other | 0.0 | 0.0 | 0.0 | 0.0% |
| Total Accruals | 2,308.8 | 2,515.4 | 206.6 | 8.9% |
| Retirements | (627.5) | (640.9) | (13.5) | 2.1% |
| Adjustments | (39.8) | (40.2) | (0.4) | 1.0% |
| Depreciation Reserve - EOY | 22,481.2 | 22,770.7 | 289.5 | 1.3% |
| Weighting Factor | 50.00% | 50.00% | | |
| Wtd. Avg. Depr. Reserve | 21,660.4 | 21,853.6 | 193.1 | 0.9% |
| General Office Depreciation Exp | 134.5 | 134.5 | 0.0 | 0.0% |
| Common Plant Adjustment | 59.2 | 78.4 | 19.2 | 32.4% |
| Amortization-Limited Term Plant | 1.2 | 1.2 | 0.0 | 0.0% |

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1 **CHAPTER 9: RATEBASE**

2 **A. INTRODUCTION**

3 This Chapter sets forth DRA’s analysis and recommendations for Park’s
4 rate base.

5 **B. SUMMARY OF RECOMMENDATIONS**

6 Differences in Rate Base are mainly due to differences in Park’s requested
7 capital investment in plant and DRA’s recommended level of capital investment.
8 DRA recommends a weighted average rate base for Park as shown in Table 9-A
9 below:

10

| Test Year | DRA | Park |
|-----------|------------|------------|
| 2013 | \$35,910.7 | \$39,810.0 |
| 2014 | \$40,321.3 | \$48,034.4 |

11 *(Dollars in Thousands)*

12
13 Tables 9-1 and 9-2 at the end of this Chapter provide a summary of DRA’s
14 and Park’s weighted average depreciated ratebase.

15 **C. DISCUSSION**

16 **1) Working Cash**

17 Working Cash is a component of Rate Base on which a utility is allowed to
18 earn its authorized rate of return. The calculation of working cash is an iterative
19 calculation that will change depending upon estimated revenue requirements,
20 which in turn will be influenced by working cash needs. The DRA’s estimate for
21 2013 is \$2,389,807 and the 2014 estimate is \$2,406,861 to working cash. DRA’s
22 estimate is approximately 89.3% of the total \$2,675,990 that Park requested for
23 working cash for test year 2013 and approximately 87.8% of the total \$2,740,588
24 that Park requested for working cash for test year 2014.

1 Working cash is the additional amount of capital that is required to fund
2 ongoing operations and bridge the gap between the time expenditures are made
3 and the time collections are received. Working cash capital can be positive or
4 negative and consists of several different components. The operational cash
5 component is made up of working funds in the form of cash, special deposits and
6 other current assets which the investor is required to supply to the utility in order
7 for it to perform its day-to-day operational requirements efficiently and
8 economically. The operational cash component should also include deductions for
9 sources of funds available to the utility that have not been supplied by investors,
10 like customers deposits, which represent interest-free sources of capital.

11
12 The second component of working cash is the working cash estimate of
13 investor funds that might be required to cover any timing differences between cash
14 expenditures and revenue collections. The amount is usually calculated through
15 the use of a lead-lag study. DRA has reviewed the lead-lag study submitted by
16 Park and has made several adjustments.

17
18 First, DRA has made an adjustment to decrease Park's estimate of Purchase
19 Power, Purchase Water, and Replenishment. The basis for these adjustments is
20 because these costs are included in Park's Water Revenue Adjustment
21 Mechanism/Modified Cost Balancing Account, which is interest bearing (see
22 D.08-02-036, Ordering Paragraph 1 adopting settlement between DRA and Park-
23 section 9.2.b). Per Standard Practice U-16, balances that are interest bearing, such
24 as customer deposits (see U-16 page 1-8) and balancing or memorandum accounts
25 should not be included in the lead lag calculation since these balancing accounts
26 accrue interest which already accounts for the time value of money.

27
28 Second, DRA has removed depreciation expense from the lead-lag study.
29 Working cash is supposed to be to meet the actual needs of Parks' ongoing
30 operations. Noncash items should not be included in either the operational cash

1 component nor the lead-lag working cash component of working cash capital.
2 Park does not have a minimum bank balance therefore DRA excluded it from
3 working cash.

4
5 Thirdly, DRA includes in the calculation of expense lag days the actual
6 cash payment of debt interest expense which Park excludes from the lead-lag
7 study. Park appears to have the common misunderstanding that Standard Practice
8 U-16W requires interest payments expense to be excluded from the entire working
9 cash. A careful reading of the Standard Practice reveals that debt interest expense
10 cannot be included in the operational cash component of working cash, but most
11 certainly should be included amongst the other cash expenses when performing
12 the lead-lag study. Elaborating upon what can and cannot be included in the
13 operational cash component, Standard Practice U-16 reads (emphasis added):

14
15 *“In determining the cash requirement, the only amounts which*
16 *should be considered are the required minimum bank deposits that must be*
17 *maintained and reasonable amounts of working funds. The determination*
18 *of the amount of money required to pay expenses in advance of receipt of*
19 *revenues is made by the lag study. If funds were to be allowed in the cash*
20 *requirement, over and above the minimum bank deposits for payment of*
21 *certain operating expenses, it would have the effect of providing for*
22 *payments of the same cost twice, once as determined in the lag study and*
23 *once again in determining the operational requirement. It must be*
24 *remembered that the cash requirement is not a measure of funds that the*
25 *utility maintains for all purposes, such as for construction or for payment*
26 *of dividends and interest. It is the amount that must be maintained for day-*
27 *to-day operations. When the ratepayer pays his bill, he has compensated*
28 *the investor for the interest on construction funds and a return on the*

1 *investor's capital; therefore construction cash, interest and dividends are*
2 *not included in the cash requirement."*

3
4 As previously stated, Park's lead-lag study and working cash calculations
5 did not include a lag for the payment of interest expense. The costs to pay the
6 interest expense on the long term debt are collected from Park's customers in the
7 revenues generated. The interest expense on long term debt is paid on a semi-
8 annual basis. Between the time Park receives revenues from its customers and the
9 time it is required to make a disbursement of funds to pay the interest on the long
10 term, funds are available for use by Park.

11
12 Although interest expense should not be included in the operational cash
13 component, the lag days related to interest expense must be considered in a lead-
14 lag study, like any other cash expense, to arrive at an appropriate total for working
15 cash. DRA includes expense lag days of 91.3 (average service period for semi-
16 annual payments = $365/45$) and the total annual interest expense of \$1,246,100 for
17 2013 and \$1,453,700 for 2014 provided by Park.

18

19 **3) Deferred Income Taxes**

20 The difference in Deferred Taxes is attributable to differences in plant
21 estimates.

22 **4) Interest Expense**

23 The difference in Interest Expense is also attributable to differences in plant
24 estimates.

25 **D. CONCLUSION**

26 Tables 9-1 and 9-2 compare DRA's and Park's estimates for the Weighted
27 Average Depreciation Rate Base.

28

TABLE 9-1
PARK WATER COMPANY
WEIGHTED AVERAGE DEPRECIATED RATE BASE
TEST YEAR 2013

| Item | DRA | PWC | PWC exceeds DRA | |
|--|-----------------------|-----------------------|--------------------|---------------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| Wtd.Avg. Plant in Serv. less Common Plant | 69,189.2 (2,496.6) | 72,373.8 (2,783.4) | 3184.6 (286.7) | 4.6% 11.5% |
| Work in Progress | 0.0 | 0.0 | 0.0 | 0.0% |
| Materials & Supplies | 137.7 | 137.7 | 0.0 | 0.0% |
| Working Cash - Lead-Lag | 1,285.3 | 1,571.3 | 286.0 | 22.3% |
| Working Cash Fixed Portion | | | | |
| PWC | 1,059.9 | 1,059.9 | 0.0 | 0.0% |
| Main Office | 44.6 | 44.7 | 0.1 | 0.3% |
| Wtd. Avg. Depr. Res. | (20,076.5) | (20,135.0) | (58.5) | 0.3% |
| Wtd. Avg. Dep. Res., ComPlant | 665.2 | 696.0 | 30.8 | 4.6% |
| Advances | (1,313.5) | (1,331.3) | (17.9) | 1.4% |
| Contributions | (6,233.7) | (4,741.3) | 1,492.4 | -23.9% |
| Unamortized ITC | (54.0) | (54.0) | 0.0 | 0.0% |
| Deferred Income Taxes | (7,063.0) | (7,794.7) | (731.7) | 10.4% |
| Method 5 Adjustment | 8.2 | 8.2 | 0.0 | 0.0% |
| Main Office Allocation | 758.1 | 758.1 | 0.0 | 0.0% |
| | | | | |
| Average Rate Base | 35,910.7 | 39,810.0 | 3,899.3 | 10.9% |
| Interest Calculation: | | | | |
| Avg Rate Base | 35,910.7 | 39,810.0 | 3,899.3 | 10.9% |
| x Weighted Cost of Debt | 3.60% | 3.60% | 0.0 | 0% |
| | | | | |
| Interest Expense | 1,292.8 | 1,433.2 | 140.4 | 10.9% |
| add Interest Ded for Adv | 1.1 | 1.1 | | |
| Net Interest Expense | 1,293.9 | 1,434.3 | 140.4 | 10.8% |

TABLE 9-2
PARK WATER COMPANY
WEIGHTED AVERAGE DEPRECIATED RATE BASE
ESCALATION YEAR 2014

| Item | DRA | PWC | PWC exceeds DRA | |
|-------------------------------|------------|------------|--------------------|--------|
| | | | Amount | % |
| (Thousands of \$) | | | | |
| Wtd.Avg. Plant in Service | 74,818.7 | 82,511.5 | 7692.8 | 10.3% |
| less Common Plant | (2,529.3) | (3,417.7) | -888.4 | 35.1% |
| Work in Progress | 148.8 | 148.8 | 0.0 | 0.0% |
| Material & Supplies | 143.2 | 143.2 | 0.0 | 0.0% |
| Working Cash - Lead-Lag | 1,519.4 | 1,852.9 | 333.5 | 21.9% |
| Working Cash Fixed Portion | | | | |
| PWC | 850.6 | 850.6 | 0.0 | 0.0% |
| Main Office | 36.8 | 37.0 | 0.2 | 0.6% |
| Wtd. Avg. Depr. Reserve | (21,660.4) | (21,853.6) | (193.1) | 0.9% |
| Wtd. Avg. Dep. Res., ComPlant | 703.5 | 757.9 | 54.4 | 7.7% |
| Advances | (1,320.1) | (1,337.5) | (17.4) | 1.3% |
| Contributions | (6,040.5) | (4,596.9) | 1,443.6 | -23.9% |
| Unamortized ITC | (47.0) | (47.0) | 0.0 | 0.0% |
| Deferred Income Taxes | (7,035.0) | (7,747.5) | (712.5) | 10.1% |
| Method 5 Adjustment | 6.1 | 6.1 | 0.0 | 0.0% |
| Main Office Allocation | 726.6 | 726.6 | 0.0 | 0.0% |
| | | | | |
| Average Rate Base | 40,321.3 | 48,034.4 | 7,713.1 | 19.1% |
| | | | | |
| Interest Calculation: | | | | |
| Avg Rate Base | 40,321.3 | 48,034.4 | 7,713.1 | 19.1% |
| x Weighted Cost of Debt | 3.60% | 3.60% | 0.0 | 0.0% |
| | | | | |
| Interest Expense | 1,451.6 | 1,729.2 | 277.7 | 19.1% |
| add Interest Ded for Adv | 1.9 | 1.9 | | |
| Net Interest Expense | 1,453.4 | 1,731.1 | 277.7 | 19.1% |

1 **CHAPTER 10: CONSERVATION**

2 **A. INTRODUCTION**

3 This chapter presents DRA’s analysis and recommendations on Park’s
4 conservation expenses for Test Year 2013 and Escalation Years 2014 and 2015.
5 Park has requested conservation budgets of \$372,895, \$387,888 and \$399,605¹ for
6 2013, 2014 and 2015, respectively. Park’s request for funding its conservation
7 programs breaks into the following categories for Test Year 2013 as compared to
8 Test Year 2010 of the prior GRC (“GRC”):

9 Table 10-1 Park’s Requested Budgets Test Years 2010 versus 2013

| Program Components | 2010 | 2013 |
|---|------------------|------------------|
| Public Outreach | \$24,960 | \$30,637 |
| WaterSmart Rebate Program Residential | \$34,913 | \$74,920 |
| Retrofit Program – Low Income Residential | \$49,920 | \$60,200 |
| Retrofit Program – All Residential | \$49,920 | n/a |
| WaterSmart Rebate Program (CII) | \$15,050 | |
| Toilet Direct Program, Single Family | n/a | \$117,208 |
| Retrofit Program – Commercial, Industrial & Institutional (CII) | \$25,070 | n/a |
| Retrofit Program – <i>Multi-Family</i> , Commercial, Industrial & Institutional (CII) | n/a | \$60,300 |
| Large Landscape Survey/Irrigation Retrofit Programs (LL) | n/a | \$20,250 |
| MWD Save-A-Buck Rebate Program (CII) | n/a | \$9,380 |
| TOTALS | \$199,833 | \$372,895 |

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¹A.12-01-001 Workpapers, CB-Expenses-2013r.xls, Obj. Acct. 7717, Other Conservation.

1 **B. SUMMARY OF RECOMMENDATIONS**

2 DRA acknowledges that Park’s compliance with SBX7-7² has already
3 been met since the threshold under which additional conservation efforts are
4 mandatory does not apply to Park. Thus, further efforts, at this time, to achieve
5 additional conservation at the cost of almost doubling - 87% more - the current
6 conservation expenses and the corresponding rate increases to pay for it may not
7 accrue further benefits for its ratepayers.³ DRA also observes in the above Table
8 10-1 of the changing focus where Park intends to target its conservation efforts –
9 for instance, the Toilet Direct program; the Multi-Family, Commercial, Industrial
10 & Institutional retrofit program; and the Large Landscape Survey/Irrigation
11 retrofit program. These are programs that were not included in the previously
12 requested conservation budget. While it is encouraging that Park is looking into
13 different areas for implementing conservation, DRA is not convinced that further
14 conservation efforts at almost doubling the current conservation budget at the
15 expense of additional rate increases are appropriate at this time given that Park has
16 already met the 20X2020 requirement. Thus, DRA recommends that Park be
17 given the flexibility to change its targeted conservation areas as Park has indicated
18 but with the funding levels it is currently authorized. By the Commission
19 authorizing the same conservation funding levels as it is currently authorized, Park
20 should at least be able to maintain its current conservation efforts and stay within
21 compliance of the “20x2020” requirement. Any change in compliance with
22 20x2020 can be reviewed in Park’s next GRC to be filed on January 2015. Giving
23 Park the flexibility to target new conservation areas also provides the benefit of

² Park is exempt from the compliance because it does not sell enough water to meet enforcement criteria. See Section 10608.20 of the California Water Code requiring urban retail water suppliers’ reduction to be no less than 5% of base daily per capita water use, however this section does not apply to such suppliers if the use is at or below 100 gallons per capita per day. Park fits the criteria for the exemption.

³ Park Water Company Water Use Efficiency Plan – FINAL; Kennedy/Jenks Consultants, Oxnard, CA 93036, December 2011, p. 3-12.

1 leveraging the conservation experience/efforts Park has already achieved into
2 furtherance of conservation without the need of additional expense. As Park
3 found the categories for conservation expenditures set forth in the Commission's
4 decision did not necessarily produce the desired results, flexibility will allow Park
5 to align expenditures in areas that would produce the desired results.

6 DRA recommends for Park's Conservation program expenses a total of
7 \$199,833 for Test Year of 2013, the same level as authorized in the D.09-12-001.⁴
8 See Table 10-6 at the end of this chapter for a comparison between Park's
9 requested budget and DRA's recommended budget.

10 The Conservation total of \$199,833 includes \$24,960 for its Public
11 Outreach Programs and \$174,873 for all remaining programs. In addition, Park
12 should continue with past reporting requirements as discussed below but with the
13 one way balancing account closed out on a yearly basis instead of the rate case
14 cycle of three years.

15 In summary, Park should be authorized the following amounts: for Test
16 Year 2013, \$199,833, for its first escalation year, 2014, \$208,346 and finally for
17 2015, \$217,221. In addition, Park should continue its One-Way Balancing
18 Accounts, but with yearly recovery; and continue its Third Party Performance
19 Verification and Annual Reporting Requirements as authorized in D.09-12-001.

20 **C. DISCUSSION**

21 **1) INTRODUCTION**

22 Park's conduct in this most recent GRC cycle indicates great improvements
23 in terms of addressing its conservation obligations. In addition, DRA recognizes

⁴ D.09-12-001, Settlement Agreement Section 3.14

1 the continual shifting focus that is required for the utility to take advantage of the
2 various conservation programs offered and what its ratepayers desire.

3 **2) BACKGROUND, BUDGET REQUEST, TEST**
4 **YEAR 2010 of Prior GRC**

5 In DRA's Report on the Results of Operations (Report) for Park's last year
6 GRC, Test Year 2010, DRA stated: "[w]ithout detailed documentation to serve as
7 justification, DRA cannot support the magnitude of [Park]'s requested
8 conservation budgets."⁵ As a result, DRA recommended 2010 Test Year
9 conservation expenditures at \$113,820, a significant reduction from the company
10 requested \$199,833. However, DRA agreed during settlement discussions "to
11 include Park Water's forecast of Conservation Program Expenses totaling
12 \$199,833 for 2010."⁶

13 In its report, DRA also observed that Park's spending levels on
14 Conservation programs were significantly under-spent from the available
15 conservation funds. DRA acknowledged in its report that Park had "not
16 demonstrated ability and capacity to implement cost-effective conservation
17 measures at this time. With the additional conservation funding in [Park]'s last
18 General Rate Case (GRC), it still was not able to demonstrate ratepayer actual
19 benefit."⁷

20 DRA has reviewed Park's activities over 2010 and 2011 to ascertain the
21 company's conduct regarding implementation of conservation measures that
22 demonstrate actual benefits to ratepayers. Analysis of the spending for these years
23 is shown below.

⁵ DRA Report on Results of Operations, Park Water Company, Central Basin, April 9, 2009, page 3-13.

⁶ D. 09-12-001 *mimeo* at 10.

⁷ DRA Report on Results of Operations, Park Water Company, Central Basin, April 9, 2009, page 3-14.

1 **3) SOURCE REVIEW, BUDGET REQUEST, TEST**
2 **YEAR 2013**

3 In order to determine Park’s support of its conservation programs for the
4 instant application, A.12-01-001, DRA reviewed various A.12-01-001 documents,
5 including but not limited to, spreadsheets and several exhibits: the company’s
6 water demand management measures shown in the “Final 2010 Park Water
7 Company Urban Water Management Plan”⁸ (“Plan”), its Minimum Data
8 Requirements⁹ and responses to DRA data requests. Park has already met its
9 SBX7-7 requirements (popularly known as the 20x2020 program, Senate Bill 7 of
10 Special Extended Session 7 or “SBX7-7” was passed by the legislature and signed
11 into law as the Water Conservation Bill of 2009. It is the Water Conservation Bill
12 of 2009 that provides the regulatory framework to support the statewide reduction
13 in urban per capita water use that is described in “20% by 2020 Water
14 Conservation Plan” published in February of 2010)¹⁰.

15 For the Park Water Company, the Water Code relevant for compliance with
16 its “20x2020” requirements is Section 10608.22¹¹ Since Park Water has never
17 gotten above 100 gallons per capita per day, the company is exempt from these
18 requirements. In other word, its obligation to comply with the requirement under
19 SBX7-7 has already been met. Therefore the priority at this time is for Park to
20 maintain this level of compliance through 2020.

⁸ A.12-01-001, Exhibit D, Section 7, p. 7-1 through 7-10.

⁹ A.12-01-001, Exhibit F, Section Fr.

¹⁰ <http://www.water.ca.gov/wateruseefficiency/sb7/docs/20x2020plan.pdf>

¹¹ “Notwithstanding ... an urban retailer suppliers’ per capita daily water used reduction shall be no less than 5 % of base daily per capita water use...does not apply to an urban retail water supplier with a base daily per capita water use at or below 100 gallons per capita per day. From California Water Code Section 10608.22:

1 According to SBX7-7, which established numeric water conservation
2 targets of a 20 percent reduction in gallons per capita daily by 2020 requires that
3 those targets be reviewed every five years, beginning in 2012.

4 The Commission has also addressed the issue of water conservation. The
5 Commission had a two phase proceeding on water conservation, Application 07-03-
6 019 with Phase I and Phase II decisions. In Phase I, D.08-02-036 the Commission
7 discussed achieving 1-2% annual reduction in consumption for Class A water utilities.
8 According to the Phase II decision, D.11-05-004, “The Commission established a
9 tentative conservation goal of a 1-2% annual reduction in consumption in D.08-02-
10 036.”¹² D.11-05-004 discusses the conservation goal as “tentative” and is neither a
11 requirement with any consequences nor any requirement to show this has been
12 achieved since actual metrics to ascertain that reductions are due to conservation
13 policy have not been determined.

14 In addition, the Commission’s codified its “Water Action Plan”¹³ which
15 committed the Commission to working with the CUWCC to evaluate the
16 effectiveness of the BMPs.¹⁴ The BMPs are not required to be met by the Class A
17 water utilities.

18 Therefore the only compliance issue mandated by law for Park, SBX7-7, is
19 met. In the last report on the results of operations, DRA conducted a cost-benefit
20 analysis in relation to its water savings calculation. This type of metric was made
21 a mandatory reporting requirement in the Commission’s conservation Phase II
22 decision, D.11-05-004¹⁵.

¹² D.11-05-004 mimeo at page 7.

¹³ California Public Utilities Code Section 2714.5.

¹⁴ October 2010 Water Action Plan, at 18.

¹⁵ D.11-05-004, Attachment 1: Amendment to Schedule E-3 of the Commission’s Annual Report.

1 In the instant proceeding, DRA requested and received from Park the new
2 reporting requirements that involve an analysis of the costs and benefits of each
3 water utility’s conservation programs. That analysis for Park is found at the end
4 of this chapter as Table 10-5.¹⁶

5 **(a) Consistency and Veracity of Park’s Submitted**
6 **Exhibits**

7 Various components of Park’s application, for example, the Plan and the
8 application’s relevant conservation spreadsheet, do not appear to be consistent.
9 For example, the instant GRC application spreadsheet, CB Conservation Programs
10 13r, shows the company intends to supply 370 rebates for High-Efficiency Clothes
11 Washing Machines (“HECW”) at a cost of \$74,000 (\$200 apiece) for Test Year
12 2013. The Plan states that in order to catch up on meeting a BMP (that incentives
13 be provided to ten percent of single-family customers over 10 years), “Park is
14 confident that it can provide 150 HECW incentives per year...”¹⁷ However,
15 according to Park’s response to a DRA data request, the number of HECW units
16 moved in 2011 was 92 at a cost of \$125 per unit,¹⁸ not the 370 units nor the \$200/
17 unit requested in the application.

18 In 2008, CUWCC revamped the identification numbers for the BMPs with
19 two broad categories. The two categories are the “Foundational BMPs” that
20 signatories (like Park) are expected to implement as a matter of their regular
21 course of business and the second category covers the “Programmatic BMPs.”¹⁹

¹⁶Park’s response to DRA Data Request No. 14, Attachment 2a.

¹⁷ A.12-01-001, Exhibit D, Section 7 p. 7-7.

¹⁸ Park’s response to DRA Data Request No. 14, Attachment 2b - Recorded 2011.

¹⁹ Park Water Company Water Use Efficiency Plan – FINAL; Kennedy/Jenks Consultants, Oxnard, CA 93036, December 2011, Table 3-2, p. 3-4

1 The Foundational BMPs include, for example, metering (*former* BMP 4),
2 water loss control (*former* BMP 3), and the conservation coordinator. The
3 Programmatic BMPs are the residential (*former* BMP 6), commercial and
4 landscape programs implemented to produce water savings. The utility’s
5 application included data for both sets of BMP identification numbering systems
6 to show compliance.

7 According to submission of Park’s Minimum Data Requirements
8 (“MDRs”), 14 of CUWCC’s BMPs are discussed. The BMPs discussed in the
9 MDRs, are based on a 2007-2008 reporting period, i.e., the *former* identification
10 system for the BMPs. Park included data on these former BMPs for the instant
11 application in section MDR F-1.

12 Per this data, Park has complied or is on track to comply with four of them,
13 but DRA doubts the veracity of this assertion. Park reports that it is in compliance
14 with the requirement (*former* BMP 4) that its system’s connections be 100%
15 metered. However, Park’s own data raises questions about its compliance efforts
16 concerning one of the other three BMPs that the company claims to be on track to
17 comply with, BMP 6. BMP 6 requires Park to satisfy two conditions: (1) offer
18 incentives for certain high-efficiency washers; and, (2) have a prorated percentage
19 coverage goal based on an implementation period of less than 4 years. According
20 to data supplied by Park, the test for the second condition referenced above states,
21 “% of coverage goal is:?”²⁰ DRA finds it disconcerting that the company states it
22 is on track to meet BMP 6 conditions when its own data shows fulfillment is a
23 question mark.

24 Yet the issue is further exacerbated with the new numbering system. For
25 example, DRA also discovered that according to the Plan, which registers
26 compliance with the CUWCC BMPs by the revamped identification numbers,

²⁰ A.12-01-001, Exhibit F, Section Fr, “BMP 6 Coverage Requirement Status.”

1 Park is in compliance with seven of the BMPs, exempt from two of them,
2 implementing two of them and is only in the planning stage for the remaining
3 two.²¹ Continuing with the above example of *former* BMP 6, (the company must
4 offer incentives for certain high-efficiency washers; and have a prorated
5 percentage coverage goal) the new system lists this item as Programmatic BMP
6 3.1 in which Park now states its implementation status is “Cost-effectiveness
7 exemption.”²² Comparison of the two sets of BMP data offers a glimpse into
8 inconsistencies in reporting program results.

9 DRA believes this is due in part to the Park’s low level of attention to this
10 portion of its water business, but also the inchoate condition of the conservation
11 programs the state and thus the Commission is attempting to implement.

12 Another telling indication that Park’s conservation programs appear to lack
13 leadership or dedicated implementation is the assigned witness for this portion of
14 the instant application. Since 2007, the company has identified, as full time, a
15 “Water Conservation Coordinator” who is identified as employee position 370.
16 However, the assigned witness for Park’s water conservation program is not the
17 “Water Conservation Coordinator” but the company’s Director of Revenue
18 Requirements. In other words, the water conservation coordinator did not submit
19 any testimony in the case.

20 During the current investigation, DRA spoke with several different Park
21 employees about its conservation program, yet none of them were identified as the
22 Water Conservation Coordinator. The Water Conservation Coordinator for Park
23 was employed as an “Administrative Assistant 2” the year before being designated
24 as the Water Conservation Coordinator.

²¹ Park Water Company Water Use Efficiency Plan – FINAL; Kennedy/Jenks Consultants, Oxnard, CA 93036, December 2011, Table 3-2, p. 3-6.

²² Id.

1 DRA’s past concern regarding Park’s commitment to comply with its legal
2 conservation requirements²³ appears to have been, at least in part, confirmed by
3 the company’s outside consultant, Kennedy/Jenks Consultants. As discussed
4 above, compliance with SBX7-7 has been accomplished. This consultant
5 “recommended that Park consider developing a database to assist in tracking water
6 use and programs, identify water consumption and program participation patterns,
7 track expenditures, and provide analytic tools to measure program success.”²⁴
8 These comments suggest that Park has yet to create basic analytic tools for its
9 conservation programs.

10 This is the exact type of activity the Water Conservation Coordinator is to
11 perform; the Water Conservation Coordinator should assist in determining where
12 and how to spend conservation funds. According to the CUWCC, the Water
13 Conservation Coordinator’s job acts as the “conservation coordinator for program
14 management, tracking, planning, and reporting on BMP implementation.”²⁵ In
15 fact, to have completed this portion of the BMP, the company must “Staff and
16 maintain the position of trained conservation coordinator, or equivalent consulting
17 support, and provide that function with the necessary resources to implement
18 BMPs.”²⁶

²³ For an example of the legal conservation requirements, see SBX7-7, passed in 2010, which establishes a numeric water conservation target of 20% reduction in Gallons Per Capita Per Day statewide by 2020; or AB 1420, chaptered in 2007, which changes the funding eligibility requirements for Water Code Section 10631, the Urban Water Management Planning Act.

²⁴ Park Water Company Water Use Efficiency Plan,– FINAL; Kennedy/Jenks Consultants, Oxnard, CA 93036, December 2011, p. 3-13.

²⁵ <http://www.cuwcc.org/WorkArea/showcontent.aspx?id=12976>.

²⁶ *Id.*

1 **(b) Adopted Balancing Accounts**

2 Park currently maintains two capped one-way balancing accounts for
3 conservation expenses which were adopted in D.09-12-001. Each of these
4 balancing accounts covers the general rate case period, from 2010 to 2012. One
5 balancing account covers costs associated with public information programs,
6 capped at approximately \$75,000, for 2010 through 2012. The other balancing
7 account covers all other conservation programs, capped at approximately
8 \$525,000, for 2010 through 2012. These balancing accounts track the difference
9 between the authorized forecasts and the actual amounts Park spends from 2010
10 to 2012.

11 These caps require that Park refund its customers any shortfall to the
12 stipulated amounts in this general rate case. However, since 2012 is not yet over,
13 DRA cannot address this issue at this time. The “one-way” nature of these
14 balancing accounts does not allow Park to recover any excess spending over the
15 stipulated amounts. Under these circumstances, if Park’s actual expenses exceed
16 the authorized amount, then no subsequent action is necessary, *i.e.*, a surcharge is
17 not imposed on customers to collect that additional amount; only a surcredit if the
18 company falls short of authorized funding.

19 The adopted amounts from D. 09-12-001 are: \$199,833 (2010); \$208,346
20 (2011); 217,221 (2012).²⁷ DRA addresses this balancing account system below
21 which relates to the requirements of the capped amounts of \$75,000 for the public
22 information programs and the balance of \$525,000 for the remaining activities.

23 **(c) Audit for the years 2010-2011**

24 DRA requested and received Park’s accounting for the conservation funds
25 it spent in 2010 and 2011, complete with paid receipts. The conditions placed on

²⁷ A.09-01-001, DRA Report of Operations, page 3-8

1 the two capped one-way balancing accounts for conservation expenses span the
2 entire general rate case period, 2010 to 2012. As noted, it is not currently possible
3 for DRA to ascertain whether Park will ultimately be required to refund any
4 portion of its conservation funds since 2012 is part of the current rate case cycle.
5 However, review of the first two years of this rate case cycle indicates Park’s
6 efforts to date. DRA recommends that Park submit a Tier II advice letter filing at
7 the end of 2012 to show the final accounting in its conservation balancing account
8 and whether they need to refund and unspent funds.

9 **(i) Calculation of appropriate 2011 and 2010**
10 **expenditures**

11 While the adopted 2011 funds for total programs is \$208,346, the company
12 claims the actual spending was \$180,681 -- including CBMWD rebates of over
13 \$71,300.²⁸ Therefore, per the company’s data, the fund was “under spent” by
14 \$27,665. DRA’s accounting of the receipts supplied show the expenditures to be
15 \$162,924. In addition, the utility claims that forty thousand of these conservation
16 dollars were for a consulting firm that neither provided relevant incentives nor
17 supplied any support for actual conservation programs and was not authorized as it
18 is not a program that saves water (a Programmatic BMP) nor does it provide
19 operational or educational programs (a Foundational BMP). In all events, since
20 Park became a signatory of the CUWCC’s Memorandum of Understanding
21 (“MOU”), all Foundational BMPs are expected to be implemented as a matter of
22 their regular course of business.²⁹

23

²⁸ Park’s Response to DRA Data Request No. 13, Attachment 2a 1& 2.

²⁹ Park Water Company Water Use Efficiency Plan – FINAL; Kennedy/Jenks Consultants, Oxnard, CA 93036, December 2011, p. 3-4.

1 Therefore DRA finds that for 2011 the appropriate conservation spending
2 amount is \$122,924. There is approximately \$100 more that was not appropriate
3 as it was for food at various summer concerts. Appropriate conservation expenses
4 eligible for recovery could only be those spent for the purpose of water
5 conservation. For 2010, Park claims expenses at \$240,673. DRA’s analysis of the
6 funds spent in 2010 was \$230,056.

7
8 **(ii) Audit Results**

9 The company’s recorded data appear to be inconsistent with the claimed
10 expenses. Based on these figures, DRA finds actual expenses are under adopted
11 values by over \$50,000. The company does not agree with this finding and due to
12 the nature of these “one-way” balancing accounts, no consensus can be made at
13 this time as the expenses are based on the rate case cycle, not a yearly finding.

14 **Table 10-2 Park vs. DRA Recorded Expenses 2010 and 2011**

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| YEAR | Adopted | DRA | PARK |
|--------------|----------------|----------------|----------------|
| | \$ | \$ | \$ |
| 2010 | 199,833 | 230,056 | 240,673 |
| 2011 | 208,346 | 122,924 | 180,618 |
| TOTAL | 408,179 | 352,980 | 421,291 |

18 For 2010, the company’s records show of the \$230,056 (71%) expensed,
19 \$163,910 of this amount was spent in the last thirty days of the year, December of
20 2010. For 2011, the company’s records show \$234,224 expended. Of this
21 amount, 62%, or \$146,484, was spent in the last thirty days of the year, in
22 December of 2011. DRA is concerned about the timing of these expenditures
23 since the majority of the spending occurred when water consumption is at its
24 lowest instead of spending the bulk of the dollars in the late spring and summer.

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(iii) Analysis of the Major Conservation Categories

DRA reviewed the major categories of Education/Public Outreach, Residential and Commercial, Industrial and Institutional to ascertain if the company was in compliance with the findings in the Commission’s decision in its last GRC, D.09-12-001. DRA found it difficult to analyze Park’s efforts to comply with the conservation requirements in D.09-12-001 since the company felt compelled to find other, albeit “unauthorized” methods to spend its conservation money. Park explains that the categories for conservation expenditures set forth in the Commission’s decision did not necessarily produce the desired results. According to Jeanne-Marie Bruno, General Manager/Senior Vice President, “We found that our customers were not participating in programs as we had originally estimated. For example, Park provided additional rebates on top of those offered by the Metropolitan Water District of Southern California. We had proposed to spend \$35,000 in 2010, but our customers only participated in rebates of \$6,709.”³⁰

To reiterate, DRA also found that it was difficult to track Park’s compliance with the CUWCC’s BMP’s as the BMPs have been scrapped and re-assigned into two main categories: Foundational BMPs and Programmatic BMPs. In addition, compliance is now replete with optional paths: “Signatories have the option of implementing each BMP ...or implementing measures identified in the Flex Track Menu alternative included in each Programmatic.”³¹ Per the new categories, Park has chosen to implement a “combination of BMP and Flex Track approach to MOU compliance.”³² However, it is not clear whether a company is

³⁰ Email correspondence to DRA’s, Evans, from Park’s General Manager, Bruno, Tue 4/3/2012 3:57 PM.

³¹ http://www.cuwcc.org/bmps.aspx?ekmense=b86195de_24_0_7794_2.

³² Park Water Company Water Use Efficiency Plan – FINAL; Kennedy/Jenks Consultants, Oxnard, CA
(continued on next page)

1 permitted to use a combination of the two methods to satisfy their compliance
2 obligations. Again this can be traced back to the fact that Signatories, such as
3 Park have optional avenues to fulfill compliance.

4 To help identify what path Park is pursuing for compliance with its BMPs,
5 DRA looked for the compliance requirements for the “loss leak rate” at the utility,
6 formerly BMP 3.³³ If the utility is pumping water into the ground instead of
7 delivering it to its ratepayers, conservation measures are warranted. The goal of
8 former BMP 3 was a loss leak rate of less than 10%.

9 BMP 3 is now identified as 1.2 Water Loss Control (*formerly* BMP 3) as
10 amended by the CUWCC in 2009. According to the CUWCC, the targeted
11 savings for BMP 1.2: is no longer a static value such as 3%, rather this BMP now
12 has as its targeted Water Savings Assumptions a value that is “To Be
13 Determined.”³⁴

14 While this means the targeted savings can be customized to capture various
15 creative criteria, it also means implementation of conservation policy continues to
16 be a moving target.

17 As an example of the changing landscape, Park has not complied with the
18 old or the new BMP regarding its loss leak rate: “To maintain compliance [Park]
19 must...report the American Water Works Association (AWWA) Water Audit
20 results per M36 manual for the Water Loss Control BMP...”³⁵

(continued from previous page)
93036, December 2011, p. 3-5.

³³ “CUWCC's BMP 3, ‘Water Loss, System Water Audits, Leak Detection and Repair,’ to determine whether unaccounted water loss in the system exceeds 10%” D.07-05-062, *mimeo* at 26.

³⁴ <http://www.cuwcc.org/mou/bmp1-utility-operations-programs.aspx>.

³⁵ Park Water Company Water Use Efficiency Plan – FINAL; Kennedy/Jenks Consultants, Oxnard, CA 93036, December 2011, p. 3-6.

1 Attempting to put a value on how much water is actually saved is not an
2 easy target to determine per the experts, however, the Commission created a
3 set of conservation metrics in D.11-05-004, dated May 5, 2011 for purposes of
4 creating Cost-Benefit Analysis.

5 DRA's last report on the results of operations suggested a Cost-
6 Benefit Analysis for Park's 2010 Conservation Programs to reach a total of
7 392 AF in lifetime savings. The company suggested 692 AF.³⁶ The
8 recorded value, per the metrics mandated in D.11-05-004, suggest that value
9 is 1,236 AF.

10 (iv) Conservation Budget Maturation

11 During the last GRC, Park believed it was too soon to perform any cost-
12 benefit analysis because the Best Management Practices ("BMPs") of the
13 CUWCC were still being finalized. "[Park] explained that 'it is premature to
14 attempt to perform a cost-benefit analysis because the BMPs are still in flux.'³⁷
15 DRA agrees the BMPs underwent revisions in 2008 and that CUWCC is still
16 finalizing these revisions,³⁸ but the basic purpose of cost-effective water
17 conservation of the original BMPs remains.

18 DRA has discovered, to date, that the CUWCC BMPs continue to be in flux
19 and therefore DRA recognizes the changing landscape for conservation
20 compliance. In addition, the latest Commission decision on conservation, D.11-
21 05-004, requires new reporting conditions that do not become fully operational
22 until the current year, 2012. Therefore, with the many new policies yet to be fully
23 implemented at several state level organizations, DRA believes that Park should

³⁶ DRA Report on the Results of Operations, Park Water Company, Application 09-01-001, Table 3-C, page 3-12.

³⁷ *Id.* at p.3-13.

³⁸ <http://www.cuwcc.org/exhibit-1-bmp-definition-schedules-and-requirements.aspx>.

1 be given the flexibility to implement new requirements during the current GRC
2 cycle. But, given that Park’s compliance with the SBX7-7 mandated conservation
3 goal has already been accomplished, further efforts, at this time, to achieve
4 additional conservation at the cost of almost doubling the current conservation
5 expenses (at 87% more) and the corresponding rate increases to pay for it may not
6 be appropriate. . Thus, DRA recommends that Park be given the flexibility to
7 change its targeted conservation areas as Park has indicated but with the funding
8 levels it is currently authorized.

9 Another reason in favor of a flexible compliance approach is found in the
10 2010 Park Water Company Urban Water Management Plan. According to this
11 document, Park is a signatory to the Memorandum of Understanding with the
12 CUWCC with a firm commitment to implement the CUWCC’s BMPs by
13 developing a Conservation Action Plan with the five published major goals.
14 While each Conservation Action Plan goal is supported by specific measurable
15 outcomes to track progress, Park also recognizes that its Conservation Action Plan
16 “is a living document...to reflect changes to Park’s service area, the Best
17 Management Practices, conservation programs and available rebates among other
18 things.”³⁹

19 An example of Park’s living document philosophy, *i.e.*, use of flexibility, is
20 shown below. DRA questioned Park’s Conservation budget expenditures of the
21 past three years in regards to why some categories lacked any dedicated
22 expenditures, while other areas were above what was envisioned:

23 “In the prior rate case, [Park] prepared our best estimate of how
24 to distribute funds for different conservation programs. We
25 found that our customers were not participating in programs as
26 we had originally estimated. For example, Park provided
27 additional rebates on top of those offered by the Metropolitan
28 Water District of Southern California. We had proposed to spend

³⁹ A.12-01-001, Exhibit D, at 7-1.

1 \$35,000 in 2010, but our customers only participated in rebates
2 of \$6,709.

3 As a result, we looked for different programs to reach our
4 customers and provide the water savings we needed to achieve
5 the best management practices. We developed the Toilet Direct
6 Program to deliver high efficiency toilets directly to our
7 customers and provide significant water savings. Through post
8 card advertising, we first targeted low income and disabled
9 customers. We then expanded the program to advertise to all
10 customers. It has been a very popular program. As a result, we
11 reallocated funds from unsuccessful programs to the popular
12 programs with measurable water savings.”⁴⁰

13
14 DRA finds this type of pro-activity an important result of promoting flexibility for
15 pursuing conservation objectives.

16 DRA also attempted to evaluate Park’s activities in terms of the funds spent
17 per the one-way balancing accounts to ascertain if the utility’s spending for
18 conservation purposes was proper.

19 **(v) Public Outreach/Education**

20 The balancing account associated with public information programs is
21 capped at approximately \$75,000 (Test Year 2010 at \$24,960 with adopted
22 amounts for escalation years 2011 and 2012). For 2011, the company landscaped
23 a section of lawn around its headquarters and claimed this was for educational
24 purposes. This cost about \$25,000.

25 The \$25,000 lawn has recently been installed. While it is possible that a
26 ratepayer visiting the company’s headquarters could take the time to visit its new
27 landscaping, to state that this is public outreach and educational is suspect.

⁴⁰ Email to DRA’s K. Evans, from Park’s General Manager, M. Bruno, Tue 4/3/2012 3:57 PM.

1 According to the company’s analysis of the water savings for the new lawns, the
2 utility estimates the lifetime annual measured savings for the lawn is zero.⁴¹

3 In addition, according to the company’s response to a DRA data request for
4 recorded expenditures for 2011, the company also states it spent \$128 for four
5 “community events” -- at a per unit cost of \$32.⁴² In assessing expenses, DRA
6 discovered a category in which the company spent \$128, but not in increments of
7 \$32. This category was mainly for pizza, at the free “Norwalk summer concert
8 series” which could be considered “community events.”⁴³ How this involves
9 Park’s conservation programs is not clear. Park may have provided a booth with
10 information on its conservation programs, but the utility did not indicate what the
11 expense provided other than food. As DRA has already indicated, appropriate
12 conservation expenses eligible for recovery could only be those spent for the
13 purpose of water conservation, certainly not food.

14 In 2012, the utility is hoping to distribute 3,500 leak detection tablets at a
15 cost of eight cents per tablet. This appears to have real value as the estimated
16 lifetime measured savings for leak detection tablets is 25 acre-feet (“AF”). DRA
17 wonders why such a low cost device with real measurable results was not
18 implemented in 2011 as their data shows zero tablets distributed.

19 **(vi) Residential - WaterSmart Rebate Program**

20 For the rate case cycle, 2010 through 2012, over a hundred thousand has
21 been allocated, yet the company states only about a quarter of this will be spent.
22 The recorded amounts show only \$18,000 has been spent to date for the years

⁴¹ Data Request No. 14, Attachment 2b – 2011.

⁴² Data Request No. 14, Attachment 2b - Recorded 2011.

⁴³ See www.ci.norwalk.ca.us (announcing Summer Concert Series, “Free concerts are offered each Wednesday from 7:00 p.m. to 9:00 p.m. during the months of July and August on the Civic Center Lawn,
(continued on next page)

1 2010 through 2011. This confirms what the utility has stated on a number of
2 occasions - what works has not yet been established.

3 **(vii) Commercial, Industrial and Institutional (CII)**

4 For compliance to the BMP regarding Commercial, Industrial and
5 Institutional (“CII”) ratepayers, Park includes its multi-family residential users as
6 part of this classification. It is understandable that the company has chosen to
7 include residential ratepayers in this classification. The BMP requires 370AF in
8 10 years or 37 AF per year. According to the Plan, “Park estimates that it has
9 saved about 9.4 AFY from the multi-family High Efficiency Toilet (HET)
10 incentive programs to date.”⁴⁴

11 Park must reduce CII water by 81 AF by 2018. In terms of a cost-benefit
12 analysis, the estimated cost for meeting the BMP is relatively low, under \$7,000.⁴⁵

13 There is a program offered through the Central Basin Municipal Water
14 District (“CBWMD”) called “Save-A-Buck Regional Rebate Program for CII
15 customers” and in the application Park requests \$9,380 in 2013 for this program.
16 According to the Plan report regarding this CII program, “To date Park customers
17 have not been successful at qualifying in time to receive rebates.”

18 **(d) Legislative Compliance**

19 The Water Conservation Bill of 2009 (SBX7-7) provides the regulatory
20 framework to support the statewide reduction in urban per capita water use as

(continued from previous page)

12700 Norwalk Boulevard. Bring blankets, chairs and your picnic basket. A variety of different music styles are offered each summer.”).

⁴⁴ A.12-01-001, Exhibit D, Section 7, at 7-9.

⁴⁵ Park Water Company Water Use Efficiency Plan – FINAL; Kennedy/Jenks Consultants, Oxnard, CA 93036, December 2011, p. 3-10.

1 described in the *20 by 2020 Water Conservation Plan*. Park in is compliance with
2 SBX7-7 due to the small size of the utility. The SBX7-7 requirements are defined
3 in the law by California Water Code Section 10608.22, which states that an urban
4 retail water supplier’s per capita daily water use reduction shall be no less than 5%
5 of base daily per capita water use.

6 At this time, Park is exempt from this requirement as Section10608.22 does
7 not apply to an urban retail supplier with a daily per capita water use at or below
8 100 gallons per capita per day. “With a Base Daily Per Capita Water Use of 98
9 gallons per capita per day, Park has achieved its SBX7-7 requirements.”⁴⁶ Park
10 peaked at 98 gallons per capita per day in 2006.⁴⁷ The economic downturn has
11 significantly impacted daily per capita use, which now stands at 76 gallons per
12 capita daily per the company’s 2010 records. Park’s 2010 usage of 76 gallons per
13 capita daily is well within compliance with SBX7-7.⁴⁸

14 Park is also subject to AB 1420, the Urban Water Management Planning
15 Act, in addition to its commitment of compliance with the CUWCC BMPs. As
16 shown, the revamped BMPs counsel in favor of flexible compliance approaches to
17 provide retail water agencies such as Park with more flexibility in meeting the
18 evolving requirements.

19 **D. CONTINUE PAST CONSERVATION POLICIES**

20 **1) Continue One-Way Balancing Accounts with Yearly** 21 **recovery**

22 The balancing accounts are subject to refund; any unspent funds are to be
23 returned to ratepayers. This should be changed to a yearly amount instead of the

⁴⁶ *Id.* at 3-12.

⁴⁷ *Id.*

⁴⁸ *Id.*

1 GRC cycle. Considering the utility did not spend the majority of the funds
2 collected in 2010 and 2011 until the last thirty days of the year, and the fact that as
3 a signatory of the CUWCC MOU, Park is expected to implement the
4 “Foundational BMPs” as a “matter of their regular course of business”⁴⁹ these
5 expenditures should be recorded for recovery on a yearly basis. Like other
6 balancing accounts, an advice letter process should be required on a yearly basis to
7 determine if the assigned expenses are germane and correctly applied. With
8 yearly advice letter filings, both the Division of Water and Audits (“DWA”) and
9 DRA will be able to review the expenses and determine if any surcredit will need
10 to be implemented.

11 **2) Third Party Performance Verification**

12 The Commission should continue to require Park to furnish records
13 verifying that all devices and rebates provided through the conservation budget
14 authorized in this application went to only the customers of Park’s Central Basin
15 Division. Furthermore, Park should pay third party service providers, *e.g.*,
16 CBMWD, on a “pay-as-you-go” basis for services rendered.

17 **3) Annual Reporting Requirements**

18 DRA recommends that Park continue to be required to file with the
19 Commission and DRA annual summary reports each year showing actual
20 expenses, justification, and results for each conservation program. The report
21 should include descriptive accounts of the programs and expenses and state much
22 funding Park provided to each third party and on what basis. This yearly
23 Conservation Summary Report should be sent to the Commission, with a copy to
24 DRA, by April 1 of 2013, 2014, and 2015. This requirement can easily be folded

⁴⁹ A.12-01-001, Exhibit D, page 7-1.

1 into the advice letter filing for recovery of the balancing accounts, *i.e.*, possible
2 surcredits.

3 The Conservation Summary Report will provide a comprehensive review of
4 all water conservation activities performed by Park or by a third party on Park's
5 behalf as further described below:

- 6 • Park's actual expenditures on conservation budgets, broken down by
7 major category (Residential, Rebate Programs, CII Rebate Programs,
8 LL Programs and Education and Public information Programs) and then
9 the specific program within each of these. Funds collected from
10 partners such as the CBMWD must also be listed to ascertain what
11 funds were paid out by Park and what funds were supplied by others, so
12 that Park's net costs per program can easily be identified;
- 13 • Actual number of rebates or equipment provided, and the amount of
14 incentive payments for each type of device, organized by program
15 name;
- 16 • Estimated water savings in Ccfs and dollars based on number of rebates
17 or equipment installed (including cost per Ccf and AF or AFY);
- 18 • Names of the organizations that Park received grant funding from and
19 the amounts received and a full accounting of how the funds were spent
20 and the results achieved (including cost per Ccf and AF or AFY);
- 21 • Actual administrative costs incurred by program with justification;
- 22 • Actual advertising expenses with justification.
- 23 • Level of compliance with each of the CUWCC's BMPs and estimated
24 needs and timeframes to be in compliance for each BMP not already
25 met.

1 In addition, Park’s Conservation Summary Report must be filed with a
2 copy of agreements with Central Basin Municipal Water District (“CBWMD”) *or*
3 *any other third party service provider, community based organization or other*
4 *entity*. This provision requires Park to justify its use of the funds and ensure that
5 the programs provided by third party service providers remain within the purview
6 of the Commission’s supervision because oversight is needed since ratepayer
7 funds are at risk.

8 **4) Legislative Compliance**

9 The current economic climate has greatly assisted Park in meeting
10 legislative requirements. However, Park must be diligent in maintaining
11 awareness of any changes in compliance. The BMP requirement of a Water
12 Conservation Coordinator must be taken seriously by the utility; Park must
13 provide the proper resources and implement the position as CUWCC’s BMP
14 requires and ongoing conservation efforts as approved by the Commission.

15 **E. CONCLUSION**

16 First, the company must not consider multi-family as part of the CII
17 programs. While DRA understands Park’s desire to meet BMP requirements,
18 even the utility’s consultant stated “[t]o effectively track program activities and
19 maintain compliance [... Park must] differentiate between its classification of
20 multi-family and Commercial accounts.”⁵⁰

21 DRA recommends the total annual conservation budgets of \$199,833,
22 \$208,346 and \$217,221 for 2013, 2014 and 2015, respectively be authorized with
23 the understanding that while spending flexibility in the specific categories should
24 be allowed, the amounts should be expended on a yearly basis instead of the GRC

⁵⁰ Park Water Company Water Use Efficiency Plan – FINAL; Kennedy/Jenks Consultants, Oxnard, CA 93036, December 2011, p. 3-13.

1 cycle. The utility should also look to spend funds based on the cost-benefit ratio
2 of the programs pursued, and the benefits accrued towards compliance with
3 BMPs.

4 **1) Tables**

5 DRA includes three tables below. These tables show Park’s progress
6 compared to the last GRC cycle in terms of the cost-benefit ratio of its various
7 programs and the actual water savings. The third table shows the utility’s intended
8 spending. As DRA discovered in this analysis, the spending can change based on
9 various external advantages that can occur. At the same time, DRA reminds Park
10 that the programs pursued must benefit the stated purposes of water conservation
11 programs.

12 **(a) Cost-Benefit Analysis of Park’s Conservation Programs**
13 **2013**

14 DRA calculated the 2013 unit cost of purchased water to be \$977/acre-feet
15 (“AF”)⁵¹ based on Park’s 2013 estimated water sales of 13,606 AF and purchased
16 water cost of \$8,039,579. The water savings per device data⁵² has as its source
17 the Metropolitan Water District of Southern California (“MWD-SC”).

18 Using this data and the unit cost of \$977/AF for water, DRA calculated
19 benefit-cost ratios of the Park programs for 2013. Table 10-3 shows the cost-
20 benefit calculations.

⁵¹ Park’s estimated 2013 purchased water is \$8,039,579. Park’s purchased water represents 75% of its total water supply. Projected 2013 water sales are 10,967.9 AF (from CB UnaccountedWater 13r in work papers submitted by Park). The unit cost of water (without any additional treatment) is approximately \$977 (Purchase water costs divided by Purchased Water, or \$8,039,579 / (10,967.9 AF * Purchased Water Factor or 75%)).

⁵². From DRA DR #14, 2a.

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(b) Park’s Annual Conservation Budget Request (2013)

Park proposes to allocate the Test Year 2013 requested \$372,895 in designated categories as shown in Table 10-4.

(c) Park’s Conservation Lifetime Measured Water Savings, 2012

Park’s Conservation Lifetime measured water savings for the year 2012 is shown in Table 10-5 per the requirements of Attachment One in D.11-05-004.

1 Table 10-3 Cost-Benefit Analysis of Park's Conservation Programs 2013

2

| 3 | Park Water Co. - Central Basin Division Conservation Programs Cost Benefit Calculation 2013 | Cost per unit | Savings per device (AF) | Life Span of the device years | Life Span Water Savings per Device (b) * (c) | Life Span Water Savings per Device (d) * \$977/AF | Benefit-Cost Ratio (e) / (a) |
|---|---|------------------|-------------------------------|---|--|--|---------------------------------|
| | | (a) | (b) | (c) | (d) | (e) | (f) |
| | Public Outreach | | | | | | |
| | Conservation kits | \$12 | 0.012 | 5 | 0.06 | \$59 | 4.885 |
| | Leak detection kits | \$0.57 | 0.00715 | 1 | 0.00715 | \$6.99 | 12.25535 |
| | Water Awareness Week (\$/day) | \$113 | | | | | |
| | Landscape workshops/garden (\$/day) | \$678 | | | | | |
| | Newsletter (Splash) - Three per year | \$2,035 | | | | | |
| | Total | | | | | | |
| | WaterSmart Rebate Program | | | | | | |
| | HECW | \$200 | 0.031 | 14 | 0.434 | \$424 | 2.12009 |
| | Rotary nozzles | \$4 | 0.0044 | 5 | 0.022 | \$21 | 5.3735 |
| | Total | | | | | | |
| | Retrofit Program - Low Income Customers | \$301 | 0.03 | 20 | 0.6 | \$586 | 1.947508 |
| | Toilet Direct Program- Single-Family Customers | \$196 | 0.032 | 20 | 0.64 | \$625 | 3.190204 |
| | Retrofit Program - Multi-Family Customers | \$201 | 0.03 | 20 | 0.6 | \$586 | 2.916418 |
| | Commercial, Industrial, Intuitional (CII) | | | | | | |
| | Large Landscape Survey/Irrigation Retrofit (CII) | | | | | | |
| | Elementary School/Middle School | \$8,500 | | | | | |
| | High School | \$11,750 | | | | | |
| | Total | | | | | | |
| | MWD Save-A-Buck Rebate Program - (CII) | | | | | | |
| | HET | \$150 | 0.0246 | 20 | 0.492 | \$481 | 3.20456 |
| | ULWU/ZWU | \$200 | 0.069 | 20 | 1.38 | \$1,348 | 6.7413 |
| | ULWU/ZWU Upgrade/New Construction | \$60 | 0.069 | 20 | 1.38 | \$1,348 | 22.471 |
| | Rotating Nozzles For Pop-up Spray Head Retrofits | \$3 | 0.0044 | 5 | 0.022 | \$21 | 7.164667 |
| | Large Rotary Nozzles | \$13 | 0.044 | 5 | 0.22 | \$215 | 16.53385 |
| | Waterbrooms | \$80 | | | | | |

Table 10-4: Park's Annual Conservation Budget Request (2013)

| Programs | Annual Budget (Qty *per unit \$) | |
|--|---|------------------|
| Public Outreach | | |
| Conservation kits | \$17,520 | (1,460*\$12) |
| Leak detection kits | \$570 | (1,000*\$0.57) |
| Water Awareness Week (\$/day) | \$339 | (3*\$113) |
| Landscape workshops/garden (\$/day) | \$4,068 | (6*\$678) |
| Newsletter (Splash) - 3 per year | \$2,035 | (4*\$2,035) |
| Public Outreach Total | | \$30,637 |
| WaterSmart Rebate Program | | |
| HECW | \$74,000 | (370*\$200) |
| Rotary nozzles | \$920 | (230*\$4) |
| WaterSmart Rebate Program | | \$74,920 |
| Retrofit Program – Low Income | \$60,200 | (200*\$301) |
| Retrofit Program – Low Income Total | | \$60,200 |
| Toilet Direct Program Single-Family | \$117,208 | (598*\$196) |
| Toilet Direct Program Single-Family Total | | \$117,208 |
| Retrofit Program – Multi-Family Commercial, Industrial, & Institutional (CII) | \$60,300 | (300*\$201) |
| Retrofit Program–Multi-Family Commercial, Industrial, & Institutional (CII) Total | | \$60,300 |
| Large Landscape Survey/Irrigation Retrofit Programs (LL) | | |
| Elementary School/Middle School | \$8,500 | (1*\$8,500) |
| High School | \$11,750 | (1*\$11,750) |
| Large Landscape Survey/Irrigation Retrofit Programs (LL) Total | | \$20,250 |
| MWD Save-A-Buck Rebate Program (CII) | | |
| HET | \$2,550 | (17*\$150) |
| ULWU/ZWU | \$4,000 | (20*\$200) |
| ULWU/ZWU Upgrade/New Construction | \$780 | (13*\$60) |
| Rotating Nozzles - Pop-up Sprayhead Retrofits | \$600 | (200*\$3) |
| Large Rotary Nozzles | \$650 | (50*\$13) |
| Waterbrooms | \$800 | (10*\$80) |
| MWD Save-A-Buck Rebate Program (CII) Total | | \$9,380 |
| Grand Total | | \$372,895 |

Table 10-5: Park's Conservation Lifetime measured water savings -2012

| Park Water Central Basin 2012 Conservation Program Benefit-Cost Analysis | | | | | | | | | |
|---|---|---------------|--|-----------------------------|------------------------|--|-------------------|-----------------------------------|--|
| Name of measure, as listed in Decision or Settlement* | Description of measure | Authorize \$ | # of units / activities purchased, provided, performed | \$ per unit, activity, etc. | Total \$ spent (E x F) | Designated water savings/ unit/ year** | Unit life-span ** | Estimated Annual measure savings* | Estimated Lifetime Annual measure savings ** |
| | | | (E) | (F) | (H) | (I) | (J) | AFY (E x H) | (AF) (J x I) |
| Education Public Info | | | | | | | | | |
| Conservation Devices | | 15,656 | 1200 | 11 | 13,200 | 0.012 | 5 | 14.40 | 72.00 |
| Leak Detection Tablets | | 429 | 3500 | 0 | 280 | 0.00715 | 1 | 25.03 | 25.03 |
| Water Awareness Wk (\$/day) | | 536 | | | | | | | |
| Landscape workshops | | 2,571 | 2 | 802 | 1,604 | | | 0.00 | 0.00 |
| Conservation Ads Brochures | | 0 | 4 | 600 | 2,400 | | | 0.00 | 0.00 |
| Newsletter | | 6,536 | 3 | 1,300 | 3,900 | | | 0.00 | 0.00 |
| Community events | | 0 | 4 | 300 | 1,200 | | | 0.00 | 0.00 |
| Conservation Garden | | 0 | 4 | 804 | 3,216 | | | 0.00 | 0.00 |
| Total | | 25,728 | 4717 | 3,817 | 25,800 | | | 39.43 | 97.03 |
| Residential Rebate Programs - WaterSmart | | | | | | | | | |
| HET | | 21,614 | 0 | 0 | 0 | | | | |
| High Efficiency Clothes Washer (HECW) | Rebate SoCal Water Smart Rebate Program, CBMWD & MWD | 13,418 | 65 | 150 | 9,750 | 0.031 | 20 | 2.02 | 40.40 |
| Rotary nozzles | | 986 | 62 | 4 | 248 | 0.0044 | 5 | 0.27 | 1.35 |
| Total | | 36,018 | 127 | | 9,998 | | | 2.29 | 41.75 |
| Residential Toilet Programs | | | | | | | | | |
| HET Toilet Distribution | | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 |
| Total | | | | | | | | | |
| Retrofit Programs | | | | | | | | | |
| All Customers | Immediate response to customer demands: target low-income/disabled. participates. phone/internet. | 51,455 | 743 | 195 | 144,885 | 0.032 | 20 | 23.78 | 475.60 |
| Total | | 51,455 | 743 | | 144,885 | | | 23.78 | 475.60 |

Table 10-5: PARK's Conservation Lifetime measured water savings -2012 (cont.)

| Park Water Central Basin 2012 Conservation Program (cont) | | | | | | | | | |
|--|--|----------------|--|-----------------------------|------------------------|--|-------------------|------------------------------------|---|
| Benefit-Cost Analysis | | | | | | | | | |
| Name of measure, as listed in Decision or Settlement* | Description of measure | Authorized \$ | # of units activities purchase provided, perform | \$ per unit, activity, etc. | Total \$ spent (E x F) | Designated water savings/ unit/ year** | Unit life-span ** | Estimate Annual measure savings ** | Estimate Lifetime Annual measure savings ** |
| | | | (E) | (F) | (H) | (I) | (J) | AFY (E x H) | (AF) (J x I) |
| HET (High Efficiency Toilets 1.3 gal/flush) CII Retrofit Programs | Installation 113 HETs to multi-family homeowners free of charge. | 25,728 | 130 | 115 | 14,950 | 0.03 | 20 | 3.90 | 78.00 |
| Commercial, Industrial and Institutional (CII) Rebate Programs | Save-A-Buck Regional Rebate Program (CII), CBMWD w/ Park & MWD rebates - WaterSense devices. | 15,437 | | | | | | | |
| HE Urinal | | | 8 | 200 | 1,600 | 0.069 | 20 | 0.55 | 11.00 |
| ULV Urinal | | | 8 | 200 | 1,600 | 0.081 | 20 | 0.65 | 13.00 |
| 0 water Urinal | | | 9 | 200 | 1,800 | 0.092 | 20 | 0.83 | 16.60 |
| Total | | 15,437 | 25 | 600 | 5,000 | | | 2.03 | 40.60 |
| High Efficiency Toilets (HET) Retrofit Programs - Low Income Customers | Install HET low-income program (CARW) w/ CBMWD | 51,455 | 200 | 195 | 39,000 | 0.03 | 20 | 6.00 | 120.00 |
| School Audit Programs | School Audit program identify retrofit water saving devices | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 |
| CBMWD Rebates | Member Agency allocation approved conservation programs. | | 600 | (50) | (30,000) | | | | |
| Difference authorized D.09-12-001, & submitted DRA DR #14 2a | | 2,525 | | | | | | | |
| TOTALS | | 208,346 | 6,412 | | 209,633 | | | 73.53 | 774.98 |

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1 **Table 10-6: PARK’s Requested Budget’s vs. DRA’s Proposed Budgets**

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| Programs | Park’s Requested Budgets | | | DRA’s Proposed Budgets | | |
|--|--------------------------|-----------|---------|------------------------|-----------|-----------|
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| Public Outreach | \$30,637 | \$31,868 | 32,831 | \$24,960 | \$26,023 | \$27,132 |
| WaterSmart Rebate Program | \$74,920 | \$77,932 | 80,286 | \$49,963 | \$52,091 | \$54,311 |
| Retrofit Program – Low Income Total | \$60,200 | \$62,621 | 64,512 | \$49,920 | \$52,047 | \$54,264 |
| Toilet Direct Program Single-Family Total | \$117,208 | \$121,921 | 125,603 | n/a | n/a | n/a |
| Retrofit Program–Multi-Family Commercial, Industrial, & Institutional (CII) Total | \$60,300 | \$62,724 | 64,619 | \$74,990 | \$78,185 | \$81,515 |
| Large Landscape Survey/Irrigation Retrofit Programs (LL) | \$20,250 | 21,064 | 21,702 | n/a | n/a | n/a |
| MWD Save-A-Buck Rebate Program (CII) | \$9,380 | \$9,758 | 10,052 | n/a | n/a | n/a |
| Grand Total | \$372,895 | 387,888 | 399,605 | \$199,833 | \$208,346 | \$217,221 |

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1 **CHAPTER 11: CUSTOMER SERVICE**

2 **A. INTRODUCTION**

3 This chapter provides DRA’s analysis and recommendations regarding the
4 customer service processes and procedures employed by Park Water Company
5 (“Park”).

6 **B. SUMMARY OF RECOMMENDATIONS**

7 DRA reviewed Park’s application, responses to DRA data requests, and
8 data obtained from the Commission’s Consumer Affairs Branch (“CAB”) to
9 evaluate customer service. Based upon this review DRA finds Park’s customer
10 service efforts to be acceptable. Notably, as explained in more detail below, Park’s
11 records show that the company and CAB received a low numbers of service
12 complaints in 2009, 2010 and 2011 relative to the number of customers served in
13 those years.

14 **C. DISCUSSION**

15 **1) Calls received by the Commission’s Consumer**
16 **Affairs Branch (“CAB”) from Park’s Customers**

17 DRA evaluated call the data received from CAB’s Consumer Information
18 Management System (“CIMS”) database for the past three years. The CIMS data
19 includes both phone calls and written informal complaints.¹ The table below
20 presents a summary of Park’s customer service calls and inquiries received by the
21 Commission’s CAB from 2009 through 2011.- A majority of the customer calls
22 categorized as complaints by the Commission’s CAB involved high water bills,
23 disconnects, or payment arrangements. A few of these calls (6 in 2009, 7 in 2010

¹ CAB defines a complaint as a charge by any person or group against a utility company under CPUC jurisdiction that has violated an order, regulation, or rule of the commission and may be either formal or informal. An inquiry is defined as a request for facts and information for a situation, but is not necessarily a complaint.”

1 and 3 in 2011) concerned other issues, such as water rationing, Park’s low income
 2 program, surcharges, rate design, and rate protests. The table also provides the
 3 number of calls and inquires expressed as a percentage of total number of
 4 customers for each year.

5 Calls Received by CAB

| 6 <u>Type of call</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|----------------------------|-------------|-------------|-------------|
| 7 Complaint | 22 | 30 | 31 |
| 8 Inquiries | 6 | 4 | 3 |
| 9 Total | 28 | 34 | 34 |
| 10 No. of customers | 26,883 | 26,916 | 26,931 |
| 11 Total as % of customers | 0.10% | 0.13% | 0.13% |

12 **2) Informal Complaints**

13 According to Park, customer informal complaints referred by the
 14 Commission’s CAB to Park for resolution in the past three years are low
 15 compared to the number of customers.² The majority of these complaints were
 16 regarding high water usage, reconnection charges, or customer deposits.

17 Complaints referred to Park by CAB³

| 18 | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|----------------------------|-------------|-------------|-------------|
| 19 Informal Complaint | 10 | 7 | 13 |
| 20 No. of customers | 26,883 | 26,916 | 26,931 |
| 21 Total as % of customers | 0.04% | 0.03% | 0.05% |

² Park Water Company’s Revenue Requirements Report TY2013, at 12.

³ Ibid, and Park’s response to Data Request No. DRA-A.12-01-001 PARK-002, Question #3.

1 A few complaints were regarding disconnection of service or poor service.
2 Park states that for the informal complaints that the Commission has ruled on, it
3 has ruled in Park's favor.⁴ The low numbers of complaints cited by Park and
4 received by the Commission's CAB indicate that Park is providing reasonable
5 customer service, and its customer service processes and procedures are
6 responsive to customer needs.

7 **3) General Order 103-A Reporting Requirements**

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

15 In January 2010 Park began tracking customer phone calls regarding billing
16 and meter reading performance standards, such as misapplied payments, scheduled
17 appointments made and kept, misread meters, and bills skipped or not mailed
18 within 7 days.⁵ Park provided the statistics for 2010 and 2011 that Park used to
19 report its annual performance required by GO 103-A and Appendix E.⁵ DRA
20 reviewed these reported performance measures and Park's data used to report
21 compliance with the required performance standards.⁶ DRA concludes that Park
22 has met the customer service performance standards for all service quality areas as
23 required by GO 103-A.

⁴ Ibid. at 12.

⁵ Park's response to DRA's data request DRA-A,12-01-001 PARK-002, Question 1.

⁶ Ibid

1 Listed below is a summary of the Performance Standards required by
2 General Order 103-A⁷, Appendix E – Customer Service & Reporting Standards
3 for Class A and B Water Utilities:

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

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

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

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

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

⁷ General Order 103-A of the Public Utilities Commission of the State of California, effective September 10, 2009, Rules Governing Water Service, Including Minimum Standards for Operation, Maintenance, Design and Construct, Chapter VIII, Customer Service and Reporting Standards for Water and Wastewater Utilities, Appendix E – Customer Service and Reporting Standards for Class A and B Utilities.

1 **4) Customer Calls to Park Water**

2 Park tracked the customer calls that generated service orders for meter re-
3 reads related to high water bills and customer requests for water audit.⁸ In 2009,
4 customer calls regarding high water bills generated 2,019 special read service
5 orders and the corresponding water audits were performed. In 2010 customer calls
6 generated 1,619 special read service orders/water audits. Customer calls in 2011
7 generated 1,812 special read service orders/water audits.⁹

8 All customer inquiries and complaints for all Central Basin Division’s
9 customers are handled by Park’s Customer Service Representatives (“CSR”) at
10 Park’s main office in Downey, California. Most inquires concern high water usage
11 and high water bills, and some involve reconnection charges or customer deposits.
12 According to Park when a customer calls with a high water bill inquiry, the CSR’s
13 utilize the follow procedures:¹⁰ 1) they review previous water usage to compare
14 current to past usage, 2) they find out if the customer inadvertently left water
15 running during the billing period, and 3) they ask if the customer had any
16 plumbing repairs recently that could account for higher than normal usage. If this
17 line of questioning does not identify the source of the higher than normal usage,
18 then a service order is generated for the meter to be reread, which usually occurs
19 the next business day after the inquiry. The customer is then notified of the results
20 of the reread.

21 If the reread of the meter proves to be correct and the customer still has a
22 problem, Park may suggest that the customer check their property for water leaks.
23 A meter reader will explain to the customer how to read their water meter and how

⁸ Park’s response to DRA’s data request DRA-A.12-01-001 PARK-002, Question 2.

⁹ Ibid.

¹⁰ Park’s response to Supplemental Data Request, Item 28, at 10.

1 to check for leaks. If a leak is detected it is recommended that the leak be repaired.
2 If the customer still has a problem, the meter is re-checked and may be removed
3 and tested for accuracy as the final step to resolve any questions regarding the
4 accuracy of the meter. Park states that meter reading department personnel work
5 with the customer to eliminate the customer's concerns and resolve any issues
6 regarding their water use.¹¹

7 **D. CONCLUSION**

8 DRA recommends that the Commission finds Park's customer service to be
9 satisfactory.

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¹¹ Ibid, at 11.

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CHAPTER 12: RATE DESIGN

A. INTRODUCTION

This chapter presents DRA’s analysis and recommendations on Park’s proposed rate design. Park requests authorization to continue the conservation rate design trial program that was started in September of 2008.

B. SUMMARY OF RECOMMENDATIONS

DRA has reviewed Park’s current conservation rate design and the proposed modifications to rates for the residential and the non-residential sectors. DRA finds Park’s proposed rate design changes/updates acceptable. DRA agrees with the proposed rate changes for reclaimed water users, and Schedule No. 4 Fire Services. DRA agrees with the proposed revenues from miscellaneous revenues and non-tariffed products and services. DRA does not recommend that the Commission approve of Park’s request for phasing of the rate increase authorized for the Test Year in this proceeding. With regard to escalation year calculation concerns, DRA recommends the continued use of the current practice¹ With regard to Park’s request to “catch up” on revenues not collected from its last General Rate Case (GRC) and escalation years, DRA recommends denial and suggests the utility make use of the waiver and changes protocols for modifying the Rate Case Plan.

Go to chapter 14 for DRA recommendations on fire flow test charges, restoration of service charges, and the appropriate interest rate charges in customer deposits.

¹ D.04-06-018 defined the escalation year and attrition year requirements, The revised Rate Case Plan D. 07-05-062 page A-19 and A-20 reaffirmed this practice.

1 **C. DISCUSSION**

2 With regard to Park’s rate design, in this GRC the company proposes to:

- 3 • update the residential tier 1 break points for 2010 usage patterns,
- 4 • retain the single quantity conservation rate for non-residential²
- 5 customers,
- 6 • retain the same service charges by meter size regardless of whether
- 7 or not the customer is residential or non-residential,
- 8 • continue to recover 75% of the revenue through the quantity charge,
- 9 • update the rate proposed for reclaimed water,
- 10 • increase monthly charges for schedule no 4 fire service
- 11 • Add a charge for fire flow tests (addressed in Chapter 14)
- 12 • Add a charge for the restoration of service (addressed in Chapter 14)
- 13 • Change the deposit required for temporary meter service on a 3 inch
- 14 meter (addressed in Chapter 14)
- 15 • Increase the charge on a second meter test from \$50 to \$100
- 16 (addressed in Chapter 14)
- 17 • Revise the interest charge on customer deposits (addressed in
- 18 Chapter 14)

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20 Other proposed changes in their rate design chapter include:

- 21 ○ Miscellaneous revenue
- 22 ○ Non-tariffed revenues (per D.10-10-019)

² Non-residential customers include multifamily dwellings as well as business and industrial customers. Private fire service and reclaimed customers are not subject to the same rate schedule as the other non-residential customers.

- 1 ○ Phase-in of test year increases, while being made whole for
- 2 the revenue requirement
- 3 ○ Escalation year changes that reflect actual sales, not test year
- 4 sales assumptions and raises the concern about the assumed
- 5 growth
- 6 ○ The ability to catch up on revenues not collected from the last
- 7 GRC and escalation years

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9 PARK currently provides service under the following tariff schedules:

| 10 | Schedule | Name |
|----|----------|--|
| 11 | PR-1-R | Residential Metered Service |
| 12 | PR-1-NR | Non-Residential Metered Service |
| 13 | PR-4F | Non-Metered Fire Sprinkler Service |
| 14 | PR-6 | Reclaimed Water Service |
| 15 | PR-9CM | Construction and Other Temporary Metered Service |
| 16 | LC | Late Payment Charge |
| 17 | UF | Reimbursement Fee |
| 18 | CARW | California Alternative Rates for Water |
| 19 | CARW-SC | California Alternative Rates for Water Surcharge |

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21 **1. Park’s Trial Conservation Rate Design Program**

22 DRA recommends that the Commission adopt Park’s proposed

23 conservation rate design principles for the Test Year 2013 rate case cycle, but

24 using the revised revenue requirement proposal of DRA.

25 According to Park, its current rate design is based on the trial conservation

26 rate design contained in the settlement agreement between Park and DRA dated

27 June 15, 2007, which was filed in the Conservation OII (I.07-01-022), and

28 authorized by the Commission in D.08-02-036 dated February 28, 2008. The

29 conservation rate design trial program, which was implemented on September 15,

30 2008, includes increasing block rates for residential customers only and is

31 designed to promote water conservation. The program has now been in place for

32 over three years.

1 Unfortunately, the impact of the trial conservation rate design on customer
2 usage cannot be analyzed in a vacuum; therefore, the isolation of the impacts of
3 conservation rates cannot, at this time, be separated from the larger economic
4 conditions of foreclosure, financial bailouts, and job trends.

5 Ordering Paragraph #6 in D.08-02-036 required Park to provide
6 information in its next general rate case. The information requirements were: 1)
7 provide monthly or bimonthly (depending on billing cycle) per customer, or
8 service connection, changes in consumption separated by meter size and customer
9 class, following the implementation of the conservation rate design trial programs;
10 2) provide surcredits or surcharges by customer class implemented in amortizing
11 WRAMs and/or WRAMs/MCBAs; 3) provide increases or decreases in
12 disconnecting low-income program participants for nonpayment after adoption of
13 conservation rate designs; 4) provide increases or decreases in low-income
14 program participation after adoption of conservation rate designs; 5) provide
15 increases or decreases in residential disconnections for nonpayment after adoption
16 of conservation rate designs; 6) provide identification of any weather or supply
17 interruption that might contribute to consumption changes; and any other specific
18 factor that might contribute to consumption changes.

19 In the last GRC, A.09-01-001, the case settled. Therefore, it would make
20 sense to pose this requirement again for the next GRC so that we might glean a
21 better understanding of the success or failure of the rate design in more “normal”
22 economic circumstances.

23 In data request inquiries, Park provided some conservation price elasticity
24 information from the National Regulatory Research Institute (NRRI) paper
25 entitled, *Revenue Effects of Water Conservation and Conservation pricing; Issues*

1 *and practices*³; it would be helpful to examine the price elasticity of the customer
2 groups.

3 It is interesting to note that since that paper, NRRI has had seminars titled,
4 “Water Rate Design Principles in an Era of Supply Shortages, Infrastructure
5 Upgrades, and Increased Water Conservation⁴,” and organizations like the Water
6 Education Foundation have sought to create reports and venues for water industry
7 participants can converge to discuss sustainability and costs. Increased awareness
8 is generating new ideas for more efficient uses of water and water rates⁵. Climate
9 change implications and supply shortages have also served to refocus our efforts
10 on better utilizing supply, and how to encourage changes in customer behavior. In
11 this GRC; however, we are asked to look at the rate design proposal of Park.

12 **2) Residential Customers**

13 According to Park, the recently implemented conservation rate design trial
14 program will continue to apply to residential customers but with some
15 adjustments.

³ The most likely range for elasticity of residential demand is -0.2 to 0.4; the price elasticity for commercial and industrial demand is -0.5 to -0.8.

⁴ In the executive summary of the report underlying the seminars, NRRI postulates that among other things, “care must be taken to develop customer classes that have similar demand and consumption characteristics; and rates should be designed based upon the differences in the cost of serving customers who contribute to the systems peak demand.”

⁵ “San Diego’s Challenge of the Century: Cutting edge strategies to make San Diego the worlds most water-wise region;”
<http://www.cfbf.com/news/showPR.cfm?PRID=391&rec=5A4B25AAED25C2EE1B74DE72DC03C14E>; July 2010 CWA summary report on the differences in rates for water utilities;
<http://www.watersmartinnovations.com/posters-sessions/2008/PDFs/1030-%20Tom%20Ash-%20Water%20Budget%20Rate%20Structures%20Come%20of%20Age.pdf>.

1 (a) The Origin of the Conservation Rate Design

2 Park's current trial program includes increasing block rates in two tiers,
3 which charge higher volumetric rates for increased water usage. The increasing
4 block rates, or tiers, were based on Park's consumption patterns and seasonal use
5 from 2005 recorded customer bills. The Tier 1 rate block was based on the
6 approximate average winter usage, which was the midpoint between the median
7 and the average winter water consumption. This winter consumption level
8 approximates the level of average indoor use. Tier 2 includes all usage beyond
9 Tier 1. Volumetric rates for Tier 1 and Tier 2 were set with a price differential of
10 10%. The conservation rate design recovered more of the fixed costs in the
11 volumetric charge⁶ than in the fixed service charges. Before conservation rates
12 began in 2008, more of the fixed costs were recovered in the service charges.

13 (b) Rate Design Changes In Park's Last GRC

14 The proposed rate design in the prior case adjusted the consumption
15 breakpoint between Tier 1 and Tier 2, and increased the differential between the
16 volumetric rates using updated information (ie.2007 bill tabulations.) These
17 adjustments changed the breakpoint between Tier 1 and Tier 2 from 10 to 12 ccf
18 (100 cubic feet) per month. Park also changed the volumetric price differential
19 between the tiered rates from 10% to 15%. DRA agreed with Park's methodology
20 and it was adopted.

21

⁶The settlement rate design resulted in 75% of the revenue coming from the quantity charge.

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Residential Conservation Rate Design

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| | Conserve Rate Design Monthly | current Monthly | This GRC Monthly |
|---|---------------------------------|----------------------------|---------------------------|
| Tier 1 | 0 – 10 ccf \$2.931/ccf | 1 – 12 ccf \$3.449/ccf | 1-12 ccf \$4.476/ccf |
| Tier 2 | over 10 ccf \$3.209/ccf | Over 12 ccf \$3.947/ccf | Over 12ccf \$5.147/ccf |
| Price differential between the tiered rates | 10 % | 15% | 15% |

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(i) Park’s Proposed Rate Design Changes in This GRC

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Park proposals in the current case are more moderate. The company’s proposals reflect updated usage information (recorded 2010 data). Park is not proposing to change the 75% factor for percentage of recovery through the quantity charge. Given the revenue requirement proposal; however, a 5/8” x 3/4 inch meter charge will increase from \$16.97 to \$18.94.

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A bill impact analysis of Park’s proposal shows that a residential customer with a 5/8 inch by 3/4inch meter who uses 20ccf for two months, would see their bill increase from \$102.92/bi-month to \$127.39/bi-month with the revenue requirement proposal of Park⁷.

⁷Data Request 25 question 3.

1 DRA reviewed the bill impacts of increasing the service charges, but this
2 did not alleviate rate shock. At this time, it makes sense to update the tier breaks
3 for the evolving usage behavior and stay the course of conservation rates.

4 **3) Non-Residential Customers**

5 Park proposes to retain the single quantity rate concept for non-residential
6 customers in its service area. Park states that developing increasing block rates is
7 not currently feasible, but it will propose increasing block rates for non-residential
8 customer classes in its next GRC pursuant to D.08-08-030. DRA concurs with this
9 proposal, which is consistent with D.08-08-030. DRA also notes that given the
10 recorded decreases in this customer segment, an argument could be made for not
11 adopting tiered rates for this segment because they may have responded to
12 conservation messages. As noted, it's not possible to determine the extent to
13 which decreased usage was attributable to economic factors or conservation
14 messaging. This segment has apartment buildings, mobile home parks, and
15 commercial populations. DRA suggests that exploration of further segmenting to
16 identify homogenous demand characteristics might be fruitful.

17 In response to DRA's Data Request 20, question 1, which explored
18 historical business consumption from 2006 to 2011, Park provided a graph that
19 identifies changes in consumption behavior by business customers with small,
20 mid-size and large meters. As shown in the graph, customers with meter sizes of 1
21 and 2" didn't change behavior much, but the largest meter sizes (6-8") changed
22 their behavior significantly. The mid-sized meters (3-4") either decreased or
23 increased usage mildly.

24 DRA is not objecting to Park's proposed rate design construction, but
25 prefers to use its revenue requirement projection. While Park proposes a quantity
26 rate change from \$3.661/ccf to \$4.821/ccf; DRA would update the rate to
27 \$4.565/ccf

1 **4) IRRIGATION/RECLAIMED WATER CUSTOMERS⁸**

2 DRA’s Data Request 20 question 1 also explored the historical usage of
3 irrigation/reclaimed water customers from 2006-2011. In response, Park provided
4 a graph that identifies changes in consumption behavior by customers with small
5 and large meters. Similar to the results observed for business customers, Park’s
6 graph for this customer segment shows that customers with small meters didn’t
7 modify their water consumption behavior, while customers with larger meter sizes
8 modified their behavior significantly. A loss of a customer in 2009 would affect
9 the interpretation of the graph provided in the data request, but it does suggest
10 there is some elasticity of demand. Park states that the commodity charge
11 proposed for Reclaimed Water Service (Schedule No. PR-6) is based on the rate
12 differential between the Metropolitan Water District treated water rate and the
13 Central Basin Municipal Water District recycled water rate. DRA does not oppose
14 the methodology. With the proposed Park increases, the quantity rate changes
15 from \$2.798⁹/ccf to \$3.951/ccf, but for DRA numbers it increases to \$3.695/ccf

16 **5) Non-Metered Fire Sprinkler Service¹⁰**

17 Park proposes to increase the service charges for non-metered fire sprinkler
18 service commensurate with the general average percentage increase in the rate
19 case. DRA does not oppose this recommendation.

20 **6) Other Rates, Fees and Revenues**

21 The miscellaneous proposed revenues in rates for the Test Year 2013 total
22 \$289,077¹¹, which include \$106,988¹² from reconnection fees and late fees,

⁸ Order Instituting Rulemaking on the Commission’s own Motion to Consider a Comprehensive Policy Framework for Recycled Water, November 19, 2010 (R.10-11-014)

⁹ Tariff schedule PR-6

¹⁰ Tariff schedule PR-4F

1 \$23,988¹³ from non-tariffed revenues from Park's operating contract for
2 CBMWD's reclaimed water system, \$2,000 from non-sufficient funds or bank
3 returned check fees, and <\$454> deferred revenues.

4 Of note, D.00-07-018 ordered the 90/10 sharing between shareholders and
5 ratepayers for non-tariffed products and services. D10-10-019¹⁴ ordered
6 refinements to the sharing mechanism by creating a bandwidth around which the
7 revenues go 100% to the ratepayers.

8 DRA's Data request 15 question 4 requested historical revenue data for
9 miscellaneous fees and revenues from non-tariffed products and services. Based
10 upon recorded information, DRA supports Park's requests and does not take issue
11 with the company's estimates.

12 DRA does not take issue with PARK estimates.

13 **7) Data Sharing R.09-12-017/ D.11-05-020**

14 Park did not present testimony regarding the company's progress in
15 working with the electric utilities to share customer data in order to identify
16 eligible low income customers for the California Alternative Rates for Water
17 (CARW) program. The implication of sharing CARW eligibility data between
18 utilities is that more customers will receive CARW rates. This may lead to higher
19 penetration of customers receiving the discount. Higher participation in the
20 CARW due to data sharing will likely cause an increase in the surcharge to non-
21 CARW customers.

(continued from previous page)

¹¹ In the last GRC, this number was estimated to be \$245,008 for test year 2010

¹² In the last GRC, this was estimated to be \$217,554 for test year 2010

¹³ In the last GRC, this was estimated to be \$25,000 for test year 2010

¹⁴ See Rule X.C.5

1 In Park's response to DRA's data request 18, response 5c, Park suggests
2 that DRA work with the utility and the Division of Water and Audits to more fully
3 develop the numerical calculation for the surcharge. This is a reasonable
4 suggestion. Implementation issues are still being worked out. Therefore the exact
5 rate implications and penetration rate improvements cannot be ascertained or
6 forecasted at this time.

7 **8) Phasing-In of Rates**

8 Park proposes to phase in the rates as long as they recover the deferred
9 portions at the adopted rate of return. The Commission has addressed this in the
10 past.¹⁵ DRA recommends that PARK's suggestion not be considered at this time
11 since the rate increases are not greater than 50%.

12 **9) Escalation Year Calculation concerns**

13 Park proposes changes to its escalation year calculations that would not
14 comply with the requirements set forth in the Rate Case Plan requirements. First,
15 Park questions the use of the test year sales for both escalation years.
16 Additionally, Park questions the automatic use of customer growth assumptions
17 given their circumstance. While the few paragraphs of testimony (146-147)
18 comment on these concerns, and allude to changes, there is insufficient support in
19 defense of a unilateral change to the rate case plan maxims for escalation years
20 that were created in 2004 and affirmed in 2007. While DRA is sympathetic to
21 Park, this is not the time and place to make the change. DRA recommends that the
22 authorized escalation year practice be used.

¹⁵ February 23, 1983 Memorandum, William R. Ahern, Director Utilities Division,
Commission's Adopted Policy on CAPS – Partial Deferral of General Rate Increases

1 **10) Catch up**

2 Park proposes to put a portion of the “catch up” increase for 2013 back into
3 the escalation years 2011 and 2012 in order to level out the test year increases.
4 They recognize this violated retroactive ratemaking principles and the Rate Case
5 Plan.

6 Park points out that the authorized methodology that was used in the last
7 GRC resulted in rates that did not fully generate the adopted revenue requirement.

8 Cognizant of this result, Park created a test year rate increase that recovers
9 the company’s proposed increases in the revenue requirement, AND that generates
10 it at the expected level of sales, not the adopted sales.

11 DRA recommends traditional test year and escalation year methodologies
12 at this time. Park failed to sufficiently explain the mechanics of their
13 recommendation. Park did not adequately defend the deviation from past practice.
14 DRA suggests that Park utilize the Commission’s existing protocols for obtaining
15 waivers and changes to the Rate Case Plan. This would provide an opportunity for
16 Park’s proposal to be properly vetted.

17 **D. CONCLUSION**

18 DRA recommends that the Commission adopt Park’s proposed
19 conservation rate design principles for the Test Year 2013 rate case cycle,
20 provided that the company uses DRA’s revenue requirement. DRA also supports
21 Park proposals for updating the reclaimed water charges, increasing schedule #4
22 fire service charges, miscellaneous revenue projections and estimates for non-
23 tariffed services revenue. Park is requesting a 26.16% increase in rates for 2013
24 while DRA is proposing an 18% increase for 2013. Park is proposing a 3.77%
25 increase in 2014 and 5.53 % increase for 2015; DRA increases are 1.47% and
26 4.68% respectively.

1 DRA would like the Commission to reinstate the requirements of Ordering
2 Paragraph #6 in D.08-02-036 and ask Park to file this information with the next
3 general rate case.

4 DRA rejects Park proposals for phasing in, escalation and catching up.

5

1 **CHAPTER 13: WATER QUALITY**

2 **A. INTRODUCTION**

3 This Chapter presents DRA’s analysis and recommendations on water
4 quality for Park Water Company (“Park”). Park’s Central Basin Division consists
5 of three separate water systems in southeastern Los Angeles County: the Compton
6 System, the Bellflower/Norwalk System, and the Lynwood System. Park’s source
7 of purchased water is from imported water supplier Metropolitan Water District of
8 Southern California (“MWD-SC”) through wholesaler Central Basin Municipal
9 Water District (“CBMWD”). Park has 12 groundwater wells. Purchased water
10 from MWD-SC, which makes up over 70% of Park’s source of supply, comes
11 from the Colorado River Aqueduct and the Sacramento-San Joaquin Delta. Park’s
12 six active wells and six standby wells produce the remaining supply in the system.
13 Water supplied by Park is disinfected and fluoridated prior to distribution.

14 Investor owned water utilities are required to submit information about
15 water quality as part of each utility’s General Rate Case (“GRC”) application.¹ In
16 accordance with these requirements, Park submitted water quality information in
17 its Minimum Data Requirements (“MDR”). In developing its recommendation for
18 water quality, DRA reviewed Park’s testimony, application, working papers, and
19 the most recent California Department of Public Health (“CDPH”) inspection
20 reports available for each of Park’s water systems. DRA also contacted CDPH
21 representatives for the agency’s appraisal of Park’s water systems.

¹ See D.04-06-018 (adopting revised Rate Case Plan (“RCP”)); see also D.07-05-062, (adopting changes to the RCP including improved oversight of water quality data through the use of Minimum Data Requirements (“MDR”) pertaining to water quality that must be completed by the utility as part of its GRC testimony and cost of capital testimony).

1 **B. SUMMARY**

2 Based upon the information provided by Park and CDPH, it appears that
3 Park’s three water systems are currently in compliance with CDPH water quality
4 regulations, all applicable federal drinking water requirements, and General Order
5 103-A.

6 **C. DISCUSSION**

7 Although Park received three citations from CDPH since its last GRC, between
8 2009 and 2011, none of these violations resulted in a significant impact to water
9 quality and each one was appropriately addressed by Park. The following table
10 identifies the most recent inspection reports and citations issued by CDPH for each
11 of Park’s three water systems.

| System | CDPH Inspection Report | CDPH Citation |
|--------------------------|-------------------------------|-------------------------------|
| Lynwood/Rancho Dominguez | November 2010 | None |
| Compton/Willowbrook | April 2012 | Total Coliform Rule |
| | | Disinfection Residuals |
| Bellflower/Norwalk | April 2012 | Disinfection Residuals |

12 Each of the referenced CDPH citations will be addressed in turn.

13 **1) Compton/Willowbrook**

14 On April 28, 2009, CDPH issued a Total Coliform Rule Monitoring Violation to
15 Park for failing to collect repeat samples at the correct sampling location in the
16 Compton/Willowbrook System on March 3, 2009 when there was a positive
17 detection of total coliform bacteria. According to Park’s approved Bacteriological
18 Sample Siting Plan (“BSSP”), Park is required to collect 12 routine samples per
19 week from approved locations throughout its distribution system and five repeat
20 samples when a routine sample tests positive for total coliform. When Park was

1 notified by its laboratory of the positive result on March 4, 2009, Park's operator
2 collected the required repeat samples from a different location than the one which
3 exhibited the positive total coliform result. However, other water samples
4 collected in March of 2009 in the Compton/Willowbrook system did not show any
5 additional positive total coliform results. Park took corrective actions and
6 conducted Tier 2 public notification, as required by CDPH.

7 On September 16, 2011, CDPH notified Park of its failure to measure the chlorine
8 residual level at a sampling location on August 2, 2011. According to Park's
9 BSSP, Park was required to collect 60 chlorine residual samples in August of
10 2011. However, Park's operator only collected 59 samples. As required by
11 CDPH, Park will provide public notification regarding this violation in its 2011
12 Consumer Confidence Report to its customers.

13 **2) Bellflower/Norwalk System**

14 On September 16, 2009, CDPH issued a Notice of Violation to Park for its failure
15 to measure the chlorine residual levels while collecting repeat samples following a
16 total coliform positive sample on August 9, 2011. When Park's operator collected
17 five repeat samples for a positive total coliform sample in August of 2011, he
18 failed to collect the samples for chlorine residual measurement at the same time.
19 According to CDPH, Park violated the monitoring requirement of Section
20 64534.4(a) of Title 22. As required by CDPH, Park will provide public
21 notification regarding this violation in its 2011 Consumer Confidence Report to its
22 customers.

23 In summary, Park was cited for its failure to collect follow-up samples and
24 additional chlorine residual readings but Park has already appropriately addressed
25 these violations, or will do so shortly. CDPH requires that Park notify the public
26 of these violations – no other corrective action is required. Park has already either
27 provided the required public notification or states that it will provide such

1 notification in its 2011 Consumer Confidence Report. None of these violations
2 pose a significant risk to public safety.

3 **3) Customer Complaints regarding Water Quality**

4 Park received 21, 33, and 28 complaints regarding water quality in 2009, 2010,
5 and 2011, respectively. Park followed up on all complaints by contacting the
6 customers, visiting customers' residence, and collecting water samples if needed.
7 Between 2009 and 2011, Park collected a total of 52 additional water samples as a
8 result of customer complaints. The additional waters samples tested do not show a
9 water quality problem in Park's water systems.² Park provides information and
10 guidance to its customers on taste and odor problem on its website, at
11 [13 **4\) Fluoridation and Treatment**](http://www.parkwater.com/customer-service/water-quality/taste-and-odor-
12 <u>problems.</u></p></div><div data-bbox=)

14 Water produced from Park's wells does not contain fluoride at a level that is
15 deemed beneficial to dental health. In 2010, Park installed fluoridation facilities at
16 all of its well sites with funding from the First 5 LA Commission through the Oral
17 Health Community Development Project. Purchased water from MWD-SC
18 already contains fluoride at the required level. Currently, all water provided by
19 Park from its three systems is fluoridated at optimal levels for dental health.

20 Using Proposition 50 funding, Park installed a treatment system at Well 9D in its
21 Lynwood System to treat for arsenic and manganese. Park plans to return this
22 well to operation in July 2012, following CDPH's approval.

² Park's Response to DRA's Data Request No. DRA-A.12-01-001 Park - 026

1 **D. CONCLUSION**

2 Based upon the information provided by Park and CDPH, it appears that
3 Park’s Central Basin Division is in compliance with federal and state drinking
4 water standards between 2009 and 2011. The low number and general nature of
5 the violations do not indicate a pattern of water quality problems in Park’s water
6 systems. Therefore, DRA recommends that the Commission find that Park is in
7 compliance with all applicable federal and state drinking water standards,
8 including GO-103A.

9 In accordance with the revised Rate Case Plan for Class A Water Utilities,
10 the assigned ALJ requested an independent review of Park’s compliance with
11 water quality regulations. The Division of Water and Audit provided an
12 independent review of Park’s water quality information and issued a memo to the
13 assigned ALJ on January 18, 2012. At the publishing of this report, DRA has not
14 seen the content of the memo, its findings, conclusions, and recommendations.
15

1 **CHAPTER 14: SPECIAL REQUESTS**

2 **A. INTRODUCTION**

3 This chapter presents Division of Ratepayer Advocates (“DRA”)’s analysis
4 and recommendations regarding the special requests made by Park Water
5 Company (“Park”) in its application. More specifically, Park has requested
6 authorization for a memorandum account to track the costs, expenses, and capital
7 costs associated with what it describes as cost-effective “green” or pro-
8 environment projects. Park has also requested a deviation from the requirements
9 set forth in Commission Decision (“D.”) 07-05-062 for forecasting health
10 insurance expenses for employees and retirees. Further, Park has requested the
11 implementation of three new tariff charges – for fire-flow tests, restoration of
12 service requests, and non-emergency, voluntary disconnection after hours. In
13 addition, Park has requested to change the current interest rate on customer
14 deposits under Rule No.7 from 7% per annum to the average monthly 90-day
15 Commercial paper rate. Finally, Park has requested that the Commission’s final
16 decision in the current GRC take into consideration any subsequent offsets which
17 may result from advice letter filings that Park intends to submit for purchased
18 water/replenishment during this proceeding.

19 DRA has closely evaluated these special requests for reasonableness in
20 light of the utility’s history, for conformity with Commission requirements and
21 precedent, and for anticipated ratemaking impact.

22 **B. SUMMARY OF RECOMMENDATIONS**

23 Based on DRA’s evaluation of Park’s proposals, DRA finds that most of
24 Park’s special requests have little merit, and therefore, should be denied. For
25 example, Park’s request to establish a memorandum account for “green” projects
26 fails to sufficiently detail the costs of these potential projects and fails to
27 demonstrate that these projects are suitable or feasible. Moreover, Park’s request

1 fails to acknowledge that its proposed “green” solutions, at least in part, have
2 already been developed in the industry and are currently available. Thus,
3 implementation of these projects does not require extensive research and/or
4 development efforts, nor are the costs and benefits attainable by such projects too
5 uncertain to forecast at this time. Similarly, Park’s request to deviate from the
6 Commission’s established requirements for forecasting health insurance estimates
7 is unwarranted and should be denied.

8 **C. DISCUSSION**

9 **1- Park’s Request for a Memorandum Account for “Green” Projects Should**
10 **be Denied.**

11 Park has requested authorization for a memorandum account to track the
12 costs, expenses, and capital costs associated with what it describes as cost-
13 effective “green” or pro-environment projects. For example, Park suggests
14 projects involving Pressure Reducing Valves (“PRV”), “to investigate the
15 possibility of recovering wasted electrical energy while at the same time
16 optimizing water system pressures and the flow of water in the distribution system
17 through the use of modern electrical regenerative flow control valve technology.”¹
18 According to Park, “the costs for this project are not currently known with any
19 certain[ty]”, and thus, cannot be forecasted in this GRC.²

20 DRA objects to the establishment of this memorandum account. The
21 electric regenerative energy technology at issue is not new. More specifically,
22 these electric regenerative valves combined with the use of Variable Frequency
23 Drive (“VFD”) pumps are currently utilized to regulate flow in water distribution
24 systems in the industry. For example, various other utilities have already requested

¹ Park Water Company, Revenue Requirements Report, Test Year 2013, at 138.

² *Id.* at 138-139.

1 these type of capital projects in their GRC forecasts, such as San Jose Water
2 Company, San Gabriel Water Company, and California American. Therefore, it is
3 unreasonable to assume that the costs of implementing such technology cannot be
4 forecasted with sufficient certainty in a rate case.

5 Contrary to Park’s contention, Park is capable of providing cost/benefit
6 analysis, preliminary costs data, and an assessment of the suitability/feasibility of
7 using the PRV technology with its systems. More specifically, the company could
8 have included estimates for its costs/benefit analysis for such a project, or could
9 have requested a pilot project, which, at a minimum, would provide preliminary
10 cost estimates and enable Park to track operational performance, and, ultimately,
11 perform a cost/benefit evaluation. Similarly, Park could have performed
12 preliminary research concerning the relevant PRV technology at no or minimal
13 cost by inquiring of manufacturers regarding the suitability/feasibility of using
14 such technology with its systems. However, Park failed to provide any of this
15 information, and instead, erroneously contends that the cost of implementing a
16 PRV demonstration project cannot currently be determined with sufficient
17 certainty.

18 Moreover, the scope of the requested memorandum account is too broad; it
19 requests the tracking of all “costs, expenses, and capital costs”. Without any
20 preliminary costs breakdown and cost/benefit analysis by project type, the
21 approval of the requested memorandum account is unreasonable.

22 In addition, on February 21, 2012, in response to one of DRA’s data
23 requests, Park stated that it is also investigating hydro generation using a turbine to
24 generate electric energy, and that the associated costs will be tracked in the
25 requested memorandum account.³ This is, of course, a different project than the

³ Park’s response to DRA’s Data Request, AMX-007.

1 PRV demonstration project identified in Park’s Revenue Requirements Report.
2 Predictably, the contemplated hydro turbine project raises a different set of
3 concerns, *e.g.*, what is the level of funding and effort that would be required for
4 such a project? And whether these projects are currently deemed reasonable for a
5 water utility? More importantly, should a water utility whose core business is
6 providing water service, should be allowed in the business of generating electricity
7 or should the water utility enter this market through a separate affiliate and have
8 shareholders assume this risk, not the water customers.

9 Notably, the Commission has rejected similar hydro turbine projects
10 proposed by other water utilities. For example, in D.09-11-032, the Commission
11 rejected comparable projects that had been proposed by San Jose Water Company
12 (“SJWC”), explaining that the utility had failed to show that the contemplated
13 hydro turbine projects would provide direct benefits to SJWC and its ratepayers,
14 and further, stated that the water utility is not in the business of producing and
15 marketing power.⁴

16 In D.09-11-032, the Commission approved one of three hydro turbine
17 projects proposed by SJWC, the Cox project, and explained its reason for doing so
18 as follows:

19 Cox has a number of pumps with time of use metering
20 systems that enable SJWC to participate in a net
21 energy metering price for power produced by a hydro-
22 turbine installed system at that location. *This hydro-*
23 *turbine project would directly benefit SJWC and its*
24 *ratepayers by enabling SJWC to use its own produced*
25 *energy to run its Cox facilities.* The project will also
26 assist SJWC in providing reliable water service to its
27 ratepayers during peak purchased power demands,

⁴D.09-11-032 at 22.

1 curtailments and revolving outages, while reducing its
2 purchased power needs.⁵
3

4 By contrast, the Commission rejected the two other proposed hydro turbine
5 projects, the Alum Rock and Hostetter projects, explaining:

6 *Unlike the Cox project, the Alum Rock and Hostetter*
7 *projects would not provide a direct benefit to SJWC*
8 *and its ratepayers. Neither Alum Rock nor Hostetter*
9 *has wells or pumps at their locations. Therefore, any*
10 *power generated at these locations must be sold back*
11 *to [Pacific Gas & Electric (“PG&E”)] under a power*
12 *purchase agreement. Indirect benefits would result*
13 *because these projects would improve PG&E’s energy*
14 *reliability during peak demand times, reduce SJWC’s*
15 *carbon footprint, and reduce SJWC’s operating*
16 *expenses with any revenues received from selling*
17 *power generated from these projects. These kinds of*
18 *projects ought to be considered in a joint application*
19 *with PG&E or another joint venture partner or*
20 *partners.*⁶
21

22 In the instant case, Park has stated that any energy which could be
23 generated by the proposed hydro turbine projects could not be used to offset on-
24 site load at its facilities.⁷ Thus, it appears that Park’s proposed hydro turbine
25 projects would not satisfy the criterion of providing a direct benefit to the water
26 utility and its ratepayers set forth in D.09-11-032.⁸ This means that Park’s

⁵ *Id.* at 21 (emphasis added).

⁶ *Id.* at 22 (emphasis added).

⁷ Park’s response to DRA’s Data Request, AMX-007, Question-1.

⁸ D.09-11-032 at 22 (stating, “hydro-turbine projects that directly benefit SJWC and its ratepayers in providing quality and reliable water service while reducing its purchased power consumption should be given priority over hydro-turbine projects that do not. . . . SJWC is encouraged to proposed additional hydro-turbine projects that meet this criterion in its next GRC.”).

1 objective is mainly to enter the electric generation market for purposes of selling
2 this energy to Southern California Edison.

3 Park has offered very little detail regarding the nature, costs, cost/benefit,
4 and scope of its proposed “green” projects for which it requests to book costs into
5 a new memorandum account. Further, Park’s most recent suggestion that it plans
6 to pursue hydro turbine projects is problematic and perhaps fatally flawed. As
7 explained, under the criterion stated in D.09-11-032, such electrical generation
8 projects would not provide a direct benefit to Park and its ratepayers insofar as it
9 appears that such projects could not be used to offset the onsite load of Park’s own
10 water treatment and well facilities. Further, the proposed power generating
11 activities will inevitably divert company resources away from the provision of
12 water service, resulting in potential harm to captive ratepayers as electric
13 generation is not Park’s core competency. Therefore, for all the reasons discussed
14 above, DRA recommends that Park’s request to establish this memorandum
15 account should be denied.

16 **2- Park’s Request to Remove Health Insurance Expenses from the**
17 **Current Escalation Methodology Should be Denied.**

18 Park proposes to remove employee health insurance and retiree health
19 insurance expenses from the escalation methodology provided in the Rate Case
20 Plan (“RCP”), as revised in D.04-06-018 and subsequently updated in D.07-05-
21 062. Park contends that its actual health insurance costs are consistently higher
22 than the escalations which are allowed under the Consumer Price Index (“CPI”).

23 Contrary to Park’s assertions, water utilities can forecast insurance
24 expenses for test years at a higher level using the existing methodology, as
25 compared to using only CPI escalation factors. Once escalation rates are set higher
26 than the CPI escalation rates for Test Years, the subsequent attrition years’
27 expenses are then estimated by use of CPI escalation factors. Therefore, the

1 Commission’s currently approved methodology is adequate and reasonable. If
2 Park believes that its insurance expenses for attrition years estimated using the
3 existing methodology are consistently below the appropriate level, then Park could
4 seek to build any potential increases into its Test Year estimates so that it can be
5 compensated for these differences. Park could then make its case for higher Test
6 Year estimates with adequate testimony and supporting documents.

7 Instead, however, Park chooses to criticize the Commission’s existing
8 methodology. The current escalation methodology provided in the RCP was the
9 result of an extensive, collective industry-wide effort. More specifically, all major
10 Class-A water utilities, including Park, were ordered to participate in Commission
11 Rulemaking (“R.”) proceeding 03-09-005 which sought to update the RCP
12 adopted in 1990. Park actively participated in R.03-09-005, and further, raised
13 similar concerns regarding the use of CPI escalation factors for estimating various
14 expenses, including insurance expenses.⁹ Ultimately, the Commission rejected
15 Park’s proposal and issued D.04-06-018, requiring use of the existing escalation
16 methodology. Subsequently, to conclude phase 2 of the Rulemaking the
17 Commission issued D.07-05-062, affirming the existing methodology for the use
18 of CPI escalation factors to estimate insurance expenses.

19 Park should not be permitted to deviate from the escalation methodology
20 set forth in the RCP which applies to all Class A water utilities. Accordingly,

⁹ See Park’s Opening Comments filed in response to the Commission’s Proposed Decision in R.03-09-005, wherein Park states: “[t]he table on page 8 inappropriately applies escalation rates to certain categories of expense based on the ‘Estimate of Non-labor and Wage Escalation Rates published by ORA’s Energy Cost of Service Branch (‘ECSB’). ECSB’s document specifically states, ‘The non-labor factors are not applicable to plant, contracted services, loans, insurance, rents, pension and other utility employee benefits.’ (emphasis added) This comment specifically pertains to table categories Pension and Benefits and certain components of expenses included under the general heading of Other O&M and A&G . . . The final decision needs to recognize that plant and many of the expenses not captured in the ECSB provided report can ‘escalate’ at significantly different rates than in the report. As such, the Final Decision must allow for a reasonable ratemaking methodology that will allow a utility to recover its realistic rate base and expense levels.”

1 DRA recommends that the Commission deny Park’s current request. Park’s
2 insurance expenses for the attrition year must be developed in accordance with the
3 Commission’s existing methodology, as stated in the RCP, which requires that
4 Test Year insurance estimates are escalated out for attrition years by use of CPI-U
5 labor factors.

6 **3- Park’s Request for Three new tariff charges – for Fire-Flow Tests,**
7 **Restoration of Service Requests, and Non-Emergency, Voluntary**
8 **Disconnections – Should be Granted in Part and Denied in Part.**

9 Park requests the Commission’s authorization for three new tariff charges –
10 for fire-flow tests, restoration of service requests and non-emergency, voluntary
11 disconnection after hours.¹⁰ Park argues that only customers who request these
12 services benefit from them and therefore they should be required to pay the
13 associated costs. These charges are currently included in regular operations and
14 maintenance costs, and, as such, are allocated to all customers in the form of
15 general rates.

16 DRA agrees that there is no harm in charging those customers for fire-flow
17 tests, restoration of service requests and non-emergency, voluntary disconnections
18 who actually request these services. However, DRA notes that Park only included
19 the estimated revenue that the company anticipates collecting for fire-tests, and
20 has not included estimated revenue for charges for restoration of service requests
21 or non-emergency, voluntary disconnections. Therefore, approval of tariff charges
22 for restoration of service requests or for non-emergency, voluntary disconnections

¹⁰ Upon DRA’s inquiry, Park explained that in its application the company inadvertently requested tariffs for the three identified services, as performed during regular working hours, however, Park only intended to request the new tariff charges for services performed after hours. Park further explained that it plans to file a clarifying errata statement regarding this matter at a later date.

1 will harm customers as they will pay for these services but the associated revenues
2 will not be reflected in the general rates.

3 In response to DRA's data request, Park provided historic cost data for two
4 out of three of the services at issue, service restoration and voluntary
5 disconnection. The following table, Table-1, shows the historic cost of service
6 restoration following a voluntary disconnection, and thus, provides historic cost
7 data for both service restoration and voluntary disconnection.¹¹

8

TABLE-1

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------|-----------|-----------|-----------|-----------|-----------|
| 9 After Hours | 43,241.52 | 42,453.18 | 42,205.30 | 38,728.59 | 34,526.09 |

10

11 Thus, it appears that Park has historic cost data for after-hour service
12 restorations and voluntary disconnections but did not include any estimates for
13 revenues that it claimed would be equal to the cost of providing these services.
14 Therefore, as Park has not included associated revenues for after-hours service
15 restoration and voluntary disconnection for the purpose of ratemaking, DRA
16 recommends that the Commission deny the implementation of tariff charges for
17 these services. By contrast, since Park has provided the estimated revenue that the
18 company anticipates collecting for fire-tests, DRA recommends that the
19 Commission grant Park's request for a customer tariff charge for this service.

20 **4- Park's Request to Change the Interest Rate Applied to Customer**
21 **Deposits Under Tariff Rule No.7 Should be Granted.**

¹¹ Park's response to DRA's Data Request, AMX-007, Question-3(a).

1 Park proposes to change the interest rate on customer deposits under tariff
2 Rule No. 7 from 7% per annum to the average monthly 90-day commercial paper
3 rate. Park states that the current requirement of 7% is outdated and does not reflect
4 current market conditions. These advanced deposits are required from customers
5 with insufficient credit in order to obtain water service from Park. After 12
6 consecutive months, Park returns these customer deposits with interest. The
7 deposit and interest is also returned if a customer wishes to discontinue their
8 service prior to the end of the 12-month period.

9 In response to a DRA inquiry, Park clarified that these deposits and the
10 interest earned on such deposits are neither part of rate recovery nor the associated
11 ratemaking methodology, such as revenue/expense estimates and working cash
12 forecasts.¹² Thus, given that Park's request has no impact on ratemaking, and that
13 the 7% interest rate prescribed by tariff rule No.7 does not reflect current market
14 conditions, DRA agrees with Park and recommends that the 7% rate should be
15 changed to the more appropriate 90-day commercial paper rate.

16 **5- Park's Request that the Current GRC Include Consideration of Any**
17 **Subsequent Offsets From Advice Letter Filings for Purchased**
18 **Water/Replenishment Submitted During this Proceeding Should be**
19 **Granted to the Extent Park Complies with the Requirements of the**
20 **DRA/Park Settlement Approved by the Commission in D.08-02-036.**

21 Park states that it anticipates filing purchased water/replenishment offset
22 advice letters during this GRC proceeding, *i.e.*, in 2013. Park requests that in order
23 to avoid customer confusion over potential back-to-back rate increases that might
24 result if the requested offsets are granted, the Commission should incorporate any

¹² *Id.*, Question 4(e).

1 additional revenue recovery that results from these advice letters in it decision
2 regarding the company’s current application.

3 DRA objects to this request. Under the settlement between DRA and Park
4 that was approved by the Commission in D.08-02-036,¹³ any over/under
5 collection in it Water Revenue Adjusting Mechanism (“WRAM”) accounts and
6 Modified Cost Balancing Account (“MCBA”) should be recovered only if the
7 combined over/under collection of both WRAM and MCBA exceeds 2% of prior
8 year revenue requirements. As stated by the Commission in D.08-02-036,

9 The goals for both CalWater’s and Park’s WRAMs
10 and MCBAs are to sever the relationship between sales
11 and revenue to remove the disincentive to implement
12 conservation rates and conservation programs, to
13 ensure cost savings are passed on to ratepayers, and to
14 reduce overall water consumption. The parties agree
15 that the WRAMs and MCBAs are designed to ensure
16 that the utilities and ratepayers are proportionally
17 affected when conservation rates are implemented, so
18 that neither party is harmed nor benefits. The MCBAs
19 will replace existing cost balancing accounts for
20 purchased power, purchased water, and pump tax. The
21 WRAMs will track the difference between adopted
22 revenue and actual revenue and will ensure recovery of
23 fixed costs that are recovered through the quantity
24 charge and variable costs that are not included in the
25 MCBAs. The MCBAs will track the difference
26 between actual variable costs and adopted variable
27 costs for purchased water, purchased power, and pump
28 tax. MCBAs track all changes in those costs due to
29 consumption, including changes in unit price.
30 Annually the revenue over- or under-collection tracked
31 in the WRAMs and the difference between adopted
32 and actual costs tracked in the MCBAs will be

¹³ D.08-02-036, at 5 (wherein the Commission approved a settlement between Park Water Company and the Division of Ratepayer Advocates concerning three issues: conservation rate design, WRAM, and MCBA).

1 reported to the Commission’s Water Division. ***If the***
2 ***combined over- or under-collection exceeds 2% of***
3 ***Park’s and 2.5% of CalWater’s prior year revenue***
4 ***requirement, the combined balance of the accounts***
5 ***will be amortized.*** Combined under-collections will be
6 passed through as surcharges on volumetric charges;
7 combined over-collections will be passed through as
8 surcredits on volumetric charges. Park and CalWater
9 commit to maintaining a least cost water mix.¹⁴

10

11 Accordingly, the usual intermittent offsets are no longer applicable.

12 On the other hand, during the discovery phase of this GRC, DRA had
13 multiple discussions with Park regarding this issue. Park contends that in
14 accordance with the Commission’s Standard Practice for Processing Rate Offsets
15 and Establishing and Amortizing Memorandum Accounts, Standard Practice U-
16 27-W (“Standard Practice U-27-W”), Park is allowed to file intermittent purchased
17 water/replenishment offset advice letters each time the offsettable expenses or
18 group expenses that are aggregated together result in an annual revenue
19 requirement change of over 1%. The Commission’s Standard Practice U-27-W
20 provides, in part:

21 When a utility incurs or will incur changes in its
22 offsettable expenses resulting in an annual revenue
23 requirement change of over 1%, or if a group of
24 expenses change that, when added together, will
25 exceed 1% in a calendar year, it shall submit a Tier 1
26 advice letter requesting an offset surcharges to account
27 for those changes and associated changes to other
28 expenses such as franchise tax (see Appendix A). The
29 surcharge(s) shall be established as a special condition
30 to each applicable tariff for each offsettable expense.

¹⁴ *Id.* at 25-27 (footnotes omitted, emphasis and bold text added).

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Park asserts that its anticipated purchased water/replenishment offset advice letters will be filed pursuant to the Standard Practice U-27-W.

However, DRA disagrees. As noted, the settlement reached between Park and DRA that was approved by the Commission in D.08-02-036 provides different filing standards and requirements for WRAM and MCBA offsets. In addition, on April 30, 2012 the Commission adopted D.12-04-048, where it further clarified and modified the WRAM/MCBA amortization guidelines as set out in its previous decision i.e. D.08-02-036. Park was also a party to the proceedings that resulted in D.12-04-048. D.12-04-048 establishes specific guidelines for WRAM/MCBA amortization and revises the D.08-02-036 for Park in its accompanied Appendix E as follows:

Appendix E: Modifications to Decision (D.) 08-02-036

- I. The text of Section 7.2 on page 26 is modified as follows:

If the combined over-or under-collections ... is 2% or more of Park's or CalWater's last authorized revenue requirement, the combined balance of the accounts will be amortized. Each utility also will have the discretion to amortize combined balances of less than 2% if it chooses to do so. Combined undercollections will be passed through as surcharges on volumetric charges; combined over-collections will be passed through as surcredits on ... monthly service charges.

- II. Add the following Finding of Fact:

29. Revisions to certain procedures related to the recovery and refund of CalWater's and Park's WRAM and MCBA accounts were subsequently adopted in A.10-09-017.

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III. Revise Conclusion of Law 2 to read:

2. The proposed settlements generally are reasonable in light of the whole record, consistent with the law, and in the public interest, but certain procedures related to the recovery and refund of WRAM and MCBA accounts should be revised.

IV. Revise Ordering Paragraph 1 to read:

Subject to revisions to certain procedures related to the recovery and refund of certain WRAM and MCBA accounts authorized in A.10-09-017, the following settlement agreements are approved and adopted...

It is quite evident that the Commission has already worked diligently with Park in developing adequate and reasonable mechanism regarding amortization of WRAM/MCBA balances. DRA recommends that Park must comply with the requirements that it agreed to in the settlement pursuant to D.08-02-036 and the subsequent modifications as directed in D.12-04-048.

D. CONCLUSION

DRA has thoroughly evaluated Park’s proposed special requests and has presented detailed analysis in light of the utility’s records and Commission requirements and precedent. The Commission should adopt DRA’s recommendations.

1 **CHAPTER 15: STEP RATE INCREASE**

2 **A. FIRST ESCALATION YEAR**

3 On or after November 1, 2013, Park should be authorized to file in a Tier 1
4 Advice Letter, with appropriate supporting workpapers, to request the step rate
5 increase for 2014 authorized by the Commission, or to file a lesser increase in the
6 event that the rate of return on rate base, adjusted to reflect the rates then in effect
7 and normal ratemaking adjustments for the 12 months ending September 30, 2013,
8 exceeds the lesser of (a) the rate of return found reasonable by the Commission for
9 Park for the corresponding period in the most recent rate decision, or (b) the rate
10 of return found reasonable in this case. This filing should comply with General
11 Order 96-B. The requested step rates should be reviewed by the Commission’s
12 Division of Water and Audits (Division) to determine their conformity with this
13 order, and should go into effect upon the Division’s determination of compliance.
14 The Division should inform the Commission if it finds that the proposed rates are
15 not in accord with this decision, and the Commission may then modify the
16 increase. The effective date of the revised tariff schedule should be no earlier than
17 January 1, 2014. The revised schedules should apply to service rendered on and
18 after their effective date. Should a rate decrease be in order, the rates should
19 become effective on the filing date.

20 **B. SECOND ESCALATION YEAR**

21 For the second year an attrition adjustment should be granted for the
22 revenue requirement increases attributable for the expense increases due to
23 inflation and rate base increases that are not offset by the increases in revenues,
24 with the revenue change to be calculated by multiplying forecasted inflation rate
25 by DRA and operational attrition plus financial attrition times adopted rate base in
26 2014 times the net-to-gross multiplier.

1 **C. ESCALATION YEARS INCREASES**

2 Table 15-1 below shows the Summaries of Earnings for Escalation Years
3 2014 and 2015. To obtain the increases in these years, D.04-06-018 and D.07-05-
4 062 require water utilities to file an Advice Letter 45 days prior to the start of the
5 year showing all calculations supporting their requested increases.

6 The revenues shown in Table 15-1 are for illustration purposes and the
7 actual increases would be authorized only after approval of the utility’s advice
8 letter based on the escalation factors in effect at that time.

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Table 15-1

SUMMARIES OF EARNINGS

PARK WATER COMPANY

| Item | DRA | DRA | % increase |
|-----------------------------|-------------------|----------|------------|
| | 2014 | 2015 | |
| | (Thousands of \$) | | |
| Operating revenues | 29,833.8 | 31,294.7 | 4.90% |
| Operations & Maintenance | 13,669.2 | 14,079.3 | |
| Administrative & General | 8,167.5 | 8,412.5 | |
| Depreciation & Amortization | 1,945.2 | 2,003.5 | |
| Taxes other than income | 854.0 | 879.6 | |
| State Corp. Franchise Tax | 286.8 | 350.6 | |
| Federal Income Tax | 1,112.9 | 1,355.4 | |
| Total operating expense | 26,035.6 | 27,081.0 | |
| Net operating revenue | 3,798.3 | 4,213.8 | |
| Rate base | 40,321.3 | 44,732.0 | |
| Return on rate base | 9.42% | 9.42% | |

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APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

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: Executive Summary; Overview and Policy; Water Consumption and Operating Revenues; Rate Design; and Step Rate Increase, for the general rate case of Park Water Company.

Q. 5. Does this conclude your prepared testimony?

A. 5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
PATRICIA ESULE**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Patricia Esule. My business address is 320 W. 4th Street, Los Angeles, CA. My job title is Public Utilities Regulatory Analyst IV (PURA IV). I am currently employed in the Division of Ratepayer Advocates (DRA).

Q2. Please summarize your education background and professional experience.

A2. I have a 2 year degree in Liberal Arts from College of the Sequoias, Visalia CA. Prior to coming to the Commission in 1989; I was employed by AT&T Communications as a Billing Specialist and Sales Representative. Training includes NARUC Utility Rate School, The Financial Accounting Institute's seminar on Utility Finance & Accounting, the Arizona Well Maintenance workshop, California Utility Water Conservation Council (CUWCC) conservation workshop.

I have represented DRA in several general rate case proceedings concerning Class-A water utilities including; San Gabriel Valley Water Company, Golden State Water Company, Valencia Water Company, Suburban Water Company, Great Oaks Water Company, and San Jose Water Company. I have provided testimony in general rate cases on sales forecast and revenues, capital improvements, rate base, depreciation,

conservation rate design, administrative and general expenses, and low income programs.

Q3. What is your responsibility in this proceeding?

A2. On behalf of DRA, I investigated Park Water Company's request for capital investment in Plant, Depreciation, and Rate Base.

Q.4. Does this conclude your prepared testimony?

A.4. Yes, it does

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
MEHBOOB ASLAM**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Mehboob Aslam. My business address is 320 W. 4th Street, Los Angeles, California. My job title is Public Utilities Regulatory Analyst V (PURA-V). I am currently employed in the Division of Ratepayer Advocates (“DRA”).

Q2. Please summarize your education background and professional experience.

A2. I have BSME undergraduate degree in Mechanical Engineering from one of the prestigious engineering universities of Pakistan, University of Engineering & Technology (“UET”) Lahore, Pakistan. I also have an MBA, postgraduate degree in business management with added emphasis on accounting and finance from Western Kentucky University, USA. In 2001 I joined the Commission’s Consumer Protection and Safety Division (“CPSD”), Safety Branch as a Utilities Engineer. I conducted various gas and electric utilities audits pursuant to the Commission’s General Orders: GO 95, GO 112E, and GO 128. In 2002, I transferred to DRA in its Water Branch. In this capacity, I have performed numerous complex economic, financial, and policy research analyses. I have represented DRA in several general rate case proceedings concerning Class-A water utilities including; San Gabriel Valley Water Company, Golden State Water Company, Valencia Water Company, Suburban Water Company, and San Jose Water Company. I have also performed in the capacity of Lead Analyst on more than one occasion while working on complex ratemaking issues such as Affiliate Transaction Rules Order Instituting Rulemaking (“OIR”), Advance Metering Infrastructure (“AMI”) use for water utilities, General Office Cost Allocations, Mega IT projects, and Major Water Treatment Plants and Infrastructure costing in

excess of \$10 million. I have lead DRA efforts in the recent Commission OIR regarding Affiliate Transactions Rules for the water utility industry.

Q3. What is your responsibility in this proceeding?

A3. I am DRA's witness for Park's Special Requests.

Q.4. Does this conclude your prepared testimony?

A.4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
HERBERT R. MERIDA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Herbert Merida and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Public Utilities Regulatory Analyst in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from San Francisco State University, with a Bachelor of Science Degree in International Business Management, a minor in Economics, and a Master of Business Administration Degree. Regarding my professional experience, I have been employed by the Commission for more than four years and have worked on many general rate case proceedings. Also, I have held a variety of positions at Levi Strauss & Co., Siemens A.G., the Employment Development Department, the State Compensation Insurance Fund, and most recently the Commission.

Q3. What is your responsibility in this proceeding?

A3. As an expert witness for DRA in A.12-01-001, I am responsible for Administrative and General Expenses (except for Payroll and Employee Benefits), Taxes Other Than Income, Income Taxes and the Result of Operations Tables.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
KERRIE K. EVANS**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Kerrie Evans and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your educational background.

A2. I graduated from the University of California at Davis, with a Bachelor of Science Degree in Civil Engineering.

Q3. Briefly describe your professional experience.

A3. My employment at the Commission includes various water utility general rate case proceedings, offset rate filings, transfer and compliance matters of Class A-D water utilities. I have also worked on rate design in GRC proceedings and development of resources for various energy utilities. I also spent several years working in the Safety Branch of the Commission inspecting various energy and telecommunication systems for among other health and safety issues, compliance with Commission General Orders.

Q4. What is your responsibility in this proceeding?

A4. I am the analyst for labor costs, new position requests, conservation, and PBOP expenses.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Public Utility Regulatory Analyst in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for nine years. I have testified before the Commission in General Rate Cases involving several Class A water utilities including California Water Service Company and Park Water Company. Previously, I was employed by the State of Washington's Department of Ecology for eight years.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 3 – Operations and Maintenance Expenses (excluding payroll and conservation), and Chapter 11 – Customer Service.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY

OF

Jenny M. Au

Q.1. Please state your name and business address.

A.1. My name is Jenny M. Au. My business address is 320 W. 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 Utilities Engineer.

Q. 3. Please briefly describe your educational background and work experience.

A. 3. I graduated from the Cal Poly Pomona with a Bachelor of Science Degree in Civil Engineering. I have been employed by the CPUC since 2007. I am a licensed professional Civil Engineer. I have been employed by the California Public Utilities Commission since April 2007. My current assignment is in the Water Branch of the *Division of Ratepayer Advocates (DRA)*, where I participate in various GRCs. I prepared testimonies on Capital Projects, Sales Forecasting, and Water Quality in various Class A water utilities GRCs including Suburban, Golden States, Great Oaks, San Gabriel, Apple Valley Rancho, San Jose, and Cal Am. From December 2006 through March 2007, I was a Hazardous Substance Engineer at the *Department of Toxic Substances Control's School Program*. The School Program assists school districts in the assessment of environmental conditions at school properties. As a project manager, I oversaw the assessment, investigation, and cleanup of proposed school sites to certify that the sites are safe for the students and teachers who will attend the schools. From January 1993 through November 2006, I was a Water Resource Control Engineer at the *Los*

Angeles Regional Water Control Board's Site Cleanup Unit. The Site Cleanup Program staff oversees the site investigation and corrective action at contaminated sites. I managed over 100 complex soil and groundwater cleanup projects involving a multiple of contaminants such as petroleum hydrocarbons, volatile organic compounds (PCE, TCE, etc.), emerging chemicals (perchlorate, 1,4 dioxane, chromium VI), and inorganics (metals, nitrate). My projects ranged from small industrial sites (e.g. dry cleaners) to multi-acre Department of Defense (DOD) sites. I reviewed and provided comments on site assessment and remediation plans and reports to ensure that the extent of soil and groundwater contamination is adequately defined and properly remediated to levels which do not pose a risk to human health and the environment. I also prepared NPDES permits and Waste Discharge Requirements for cleanup projects.

Q. 4. What is your area of responsibility in this proceeding?

A. 4. I am responsible for the chapter on Water Quality in DRA's testimony.

Q. 5. Does this conclude your prepared testimony?

A. 5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
RAYMOND CHARVEZ**

Q1. STATE YOUR NAME AND BUSINESS ADDRESS.

A1. My name is Raymond Charvez. My business address is 505 Van Ness Avenue, San Francisco, CA 94102.

Q2. WHAT IS YOUR PRESENT POSITION?

A2. I am a retired annuitant employed as a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q3. DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A3. I graduated from Armstrong College of Business Administration in 1971 with a Bachelor of Science degree in Accounting and I have completed subsequent graduate studies in business administration. Since joining the Commission staff in 1971, I have worked on formal matters involving electric, gas, telephone, and water utilities.

Q4. WHAT IS YOUR RESPONSIBILITY IN THIS PROCEEDING?

A4. I am responsible for Working Cash which is a component of Rate Base. The discussion and DRA's recommendation regarding of Working Cash is in Chapter 9, of DRA's Report "Report On Results Of Operations Park Water Company Central Basin Division".

Q5. DOES THAT COMPLETE YOUR TESTIMONY?

A5. Yes.