

Docket: : A.12-07-007
Exhibit Number : _____
Commissioner : Catherine Sandoval
Administrative Law Judge : Robert Mason
DRA Project Coordinators : Yoke Chan; Pat Ma



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

**COMPANY-WIDE REPORT
ON THE RESULTS OF OPERATIONS
OF
CALIFORNIA WATER SERVICE COMPANY**

**General Rate Case Application 12-07-007
Test Year 2014
Escalation Years 2015 and 2016**

**For authority to increase water rates
in the 23 Districts
of California Water Service Company**

**San Francisco, California
March 1, 2013**

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MEMORANDUM

This report is prepared by the *Division of Ratepayer Advocates - Water Branch*. Senior Utilities Engineers Yoke Chan and Pat Ma serve as project coordinators, under the supervision of Program and Project Supervisors Ting Pong-Yuen and Lisa Bilir and Program and Project Manager Danilo Sanchez. Selina Shek and Marian Peleo serve as DRA legal counsels in this general rate case. Below is the list of DRA witnesses and their contributions to this report. Appendix A of this report contains the Qualifications and Prepared Testimony of DRA witnesses.

Chapter	Description	DRA Witness
1	Introduction and Summary	Yoke Chan & Pat Ma
2	Non-Tariffed Products & Services	Michael Conklin
3	Affiliate Transactions	Michael Conklin
4	Audit of Recorded Plant Additions	Praneet Row
5	Taxes Other Than Income	Jose Cabrera
6	Income Taxes	Jose Cabrera
7	Plant – Common Issues	Pat Ma
8	Depreciation	Sung Han
9	Rate Base	Victor Chan
10	Customer Service	Toni Canova
11, 12, 17, 18, 23, 24, 25, 26, 27, 28 & 29	Special Request 1, 2, 7, 8, 13, 14, 15, 16, 17, 18 & 19	Victor Chan
13, 14 & 15	Special Request 3, 4 & 5	Richard Rauschmeier
16, 30 & 31	Special Requests 6, 20 & 21	Inderdeep Atwal
19 & 20	Special Requests 9 & 10	Patrick Hoglund
21 & 22	Special Requests 11 & 12	Tina Miller (Larkin & Assoc.)
Appendix A	Qualifications & Prepared Testimony	All DRA Witnesses

1 **CHAPTER 1: INTRODUCTION & SUMMARY**

2 **A. INTRODUCTION**

3 In this Company-Wide Report on the Results of Operations, the Division of
4 Ratepayer Advocates’ (“DRA”) presents analysis and recommendations on requests
5 made in the General Rate Case Application 12-07-007 (GRC A.12-07-007) filed by the
6 California Water Service Company (“CWS”) in July 2012 for the Test Year 2014 and
7 Escalation Years 2015 and 2016.

8 DRA’s team of engineers, auditors, analysts and consultants¹ reviewed the filing,
9 performed discovery and inspection of the company’s records and facilities, and provided
10 the detailed analysis and recommendations in this Report. This Report together with the
11 following form DRA’s comprehensive response to CWS’s GRC application:

- 12 ◦ Report on the General Office of CWS (GO Report),
- 13 ◦ Report on the Balances on Balancing Accounts & Memorandum Accounts,
- 14 ◦ Report on Conservation Program and Expenses, and
- 15 ◦ Reports on the Results of Operations for each of CWS’s 23 districts
- 16 (District RO Reports).

17 **B. SUMMARY OF RECOMMENDATIONS**

18 In this Company-Wide Report, DRA presents its analysis and recommendations
19 that are common across CWS’s 23 districts and GO, such as plant, depreciation, and
20 taxes. These recommendations are incorporated in the district’s revenue requirement
21 calculations presented in DRA’s District RO Reports.

22 DRA also presents results of its investigation into CWS’s Non-Tariffed Products
23 and Services, Affiliate Transactions, Recorded Plant Additions, and Customer Service.

¹ See Appendix A - Qualifications and Prepared Testimony of DRA Witnesses.

1 Table 1-A below presents estimated revenue increases proposed by CWS and by
 2 DRA for CWS's 23 districts.

3 **Table 1-A. Comparison of Revenue Increases.**

Line	District	DRA				CWS				CWS > DRA			
		2014 Increase (\$000)	2014 Incr. (%)	2015 Incr. (%)	2016 Incr. (%)	2014 Increase (\$000)	2014 Incr. (%)	2015 Incr. (%)	2016 Incr. (%)	2014 Increase (\$000)	2014 Incr. (%)	2015 Incr. (%)	2016 Incr. (%)
1	Antelope Valley	501	28.2%	0.7%	0.7%	1,157	59.7%	2.4%	2.3%	656	31.5%	1.7%	1.6%
2	Bayshore	1,222	2.0%	0.8%	0.8%	10,436	17.3%	4.4%	4.2%	9,214	15.3%	3.6%	3.4%
3	Bakersfield	1,035	1.6%	1.8%	1.7%	12,931	20.4%	2.6%	2.5%	11,896	18.8%	0.8%	0.8%
4	Bear Gulch	754	2.1%	1.6%	1.6%	5,556	15.9%	4.6%	4.4%	4,802	13.8%	3.0%	2.8%
5	Chico	1,300	7.2%	1.3%	1.2%	4,725	26.4%	2.6%	2.5%	3,425	19.2%	1.3%	1.3%
6	Dixon	715	34.3%	0.8%	0.8%	1,182	56.7%	4.3%	4.1%	467	22.4%	3.5%	3.3%
7	Dominguez					6,425	12.0%	3.6%	3.4%				
8	East Los Angeles					4,633	16.2%	3.5%	3.3%				
9	Hermosa Redondo					4,339	17.6%	1.6%	1.5%				
10	Kern River Valley	1,016	19.5%	4.0%	2.0%	1,694	33.5%	4.8%	3.7%	678	14.0%	0.8%	1.7%
11	King City	534	20.4%	0.9%	0.8%	1,018	38.3%	2.4%	2.3%	484	17.9%	1.5%	1.5%
12	Livermore	937	5.2%	1.2%	1.1%	3,759	21.3%	3.2%	3.1%	2,822	16.1%	2.0%	2.0%
13	Los Altos	1,100	4.6%	0.8%	0.8%	3,357	14.1%	1.5%	1.5%	2,257	9.5%	0.7%	0.7%
14	Marysville	412	14.1%	0.2%	0.2%	1,011	34.9%	0.8%	0.8%	599	20.8%	0.6%	0.6%
15	Oroville	599	16.1%	0.5%	0.5%	992	26.3%	0.5%	0.5%	393	10.2%	0.0%	0.0%
16	Palos Verdes					6,252	18.2%	2.4%	2.3%				
17a	RWV-Coast Springs	66	15.5%	-0.5%	-3.3%	137	33.1%	-2.8%	-5.4%	71	17.6%	-2.3%	-2.1%
17b	RWV-Lucerne	674	46.1%	-1.1%	-3.8%	818	57.0%	2.2%	-1.2%	144	10.9%	3.3%	2.6%
17c	RWV-United	205	35.9%	1.1%	-1.3%	284	50.3%	-0.2%	-2.5%	79	14.4%	-1.3%	-1.2%
18	Salinas	1,204	5.0%	1.6%	1.5%	6,342	25.7%	5.0%	4.8%	5,138	20.7%	3.4%	3.3%
19	Selma	205	4.7%	0.1%	0.1%	987	23.0%	0.8%	0.8%	782	18.3%	0.7%	0.7%
20	Stockton	1,317	4.3%	1.9%	1.8%	4,963	15.8%	2.5%	2.4%	3,646	11.5%	0.6%	0.6%
21	Visalia	1,025	4.5%	2.6%	2.6%	5,369	23.7%	2.3%	2.3%	4,344	19.2%	-0.3%	-0.3%
22	Westlake	805	5.2%	0.3%	0.3%	3,979	27.8%	-0.3%	-0.3%	3,174	22.6%	-0.6%	-0.6%
23	Willows	(24)	-1.2%	-0.4%	-0.4%	417	20.9%	2.7%	2.6%	441	22.1%	3.1%	3.0%
24	TOTAL COMPANY					92,347	19.4%	3.0%	2.9%				

4
 5 *Notes: Values for Total Company and the Dominguez, East Los Angeles, Hermosa Redondo and Palos*
 6 *Verdes districts will be provided concurrent with DRA's March 15, 2013 issuance of its Reports on the*
 7 *Results of Operations for those four districts.*

1 **C. KEY RECOMMENDATIONS**

2 Rate of Return: DRA applies the authorized rate of return of 7.94% for Test Year 2014,²
3 whereas CWS uses 8.24%, the rate that was effective at the time of its GRC application
4 filing. DRA does not expect this to be a contentious issue.

5 Plant Investment: DRA's estimates for plant additions are significantly lower than
6 requested by CWS. District specific adjustments are presented in Chapter 7 – Plant In
7 Service of the District RO Reports. General adjustments are presented in Chapter 7 –
8 Plant Common Issues of this Report. DRA recommends additional adjustments to
9 recorded plant additions in Chapter 3 – Affiliate Transactions and Chapter 4 – Audit of
10 Recorded Plant Additions.

11 Conservation Expenses: DRA in its Report on Conservation Program and Expenses
12 recommends a much lower conservation budget, approximately \$3,827,847 of the
13 \$10,089,868 requested by CWS. DRA supports maintaining ongoing conservation
14 efforts and the State's water conservation goals, however, these goals can be achieved at
15 DRA's lower cost estimates.

16 General Office Expenses & Rate Base: DRA's Report on the General Office examined
17 expenses and capital investments of the CWS's general office operations and
18 recommends substantial adjustments that include among other things: disallowance of 20
19 of CWS's new employee requests, 35 requested vehicles and related transportation
20 expenses, removal of the costs included in the pension component for the Supplemental
21 Executive Retirement Plan and exclusion of those costs from the pension balancing
22 account beginning in January 2014, and removal of expense included by CWS in
23 Administrative and General salaries for stock awards granted to executive officers.

24 Income Taxes: In addition to the adjustments to correspond to other results of operations
25 estimates (such as revenues, expenses and plant), DRA's tax calculations more accurately

² Advice Letter 2085.

1 reflect the Repair Cost and the extension of the Bonus Depreciation to 2013. DRA
2 worked cooperatively with CWS to incorporate these recent tax law changes in its
3 estimates and does not expect this to be a controversial issue.

4 Depreciation: For main and service depreciation expenses, DRA uses lower depreciation
5 rates for that reflect no cost of removal.

6 Rate Base: DRA adjusts a number of components, in addition to plant balances, that
7 make up the weighted average rate base on which the company can earn a return. These
8 include contributions in aid of construction, materials and supplies and average lead/lag
9 days.

10 Operating Expenses: DRA estimates lower total Operating & Maintenance, and
11 Administrative & General expenses reflecting reductions in Source of Supply, Contracted
12 Maintenance and Employee Benefits.

13 Sales: DRA estimates different sales for residential and non-residential customers and
14 lower unaccounted for water rate in selected districts.

15 Rate Design: DRA plans to work collaboratively with CWS and other parties during
16 settlement to reach agreement on rate designs for CWS to implement during this GRC
17 cycle.

18 Special Requests: CWS submitted a total of 21 Special Requests in this GRC. DRA
19 addresses those requests in Chapters 11 through 31. Special Requests 11 and 12 on
20 existing balancing accounts and memorandum accounts are addressed in DRA's Report
21 on the Balances in the Balancing Accounts and Memorandum Accounts of CWS. The
22 following Table 1-B summarizes DRA's recommendations on CWS's Special Requests.

1 **Table 1-B. Summary of CWS’s Special Requests and DRA’s Recommendations**

Special Request Number	CWS’s Special Request	DRA’s Recommendation
1	Additional Rate Design Phase	Allow
2	Coordination with Open Proceedings	Allow with condition
3	Rate Design Pilot	Allow with clarification
4	Sales Reconciliation Mechanism	Disallow
5	Expand Rate Stabilization Mechanism	Allow with modifications
6	Phase-in of Rates in 14 Districts	Disallow
7	Waiver of Notice for Escalation Years	Disallow
8	Subsequent Offset Increases	Allow with condition
9	Apply Salinas Tariff to Buena Vista	Allow
10	Apply Kernville Tariff to James Water	Allow
11	Closing Balancing Accounts and Memorandum Accounts	See Report on the Balances of Memorandum and Balancing Accounts
12	Continuing Balancing Accounts and Memorandum Accounts	See Report on the Balances of Memorandum and Balancing Accounts
13	Health Cost Balancing Account (New)	Disallow
14	Water Quality Findings	See each Water Quality chapter in DRA’s Report on Results of Operations for each district.
15	Customer Service Rule Change	Disallow
16	Balanced Payment Plan	Allow with conditions
17	Credit Card Program	Disallow
18	Chromium 6 Memo Account (New)	Disallow
19	Cross-Connection Rule 16 Change	Allow with reporting
20	Lot and Transmission Fee Modifications	Allow
21	Tariff For Residential Fire Service	Disallow

1 **CHAPTER 2: NON-TARIFFED PRODUCTS & SERVICES**

2 **A. INTRODUCTION**

3 This chapter presents the results of the examination done by the Division of
4 Ratepayer Advocates (“DRA”) on the Non-Tariffed Products and Services (“NTP&S”)
5 provided by Cal Water (“CWS”) during historical year 2011 and provides DRA’s
6 recommendations for the Test Year 2014. DRA examined CWS’s Report on Unregulated
7 Activities, CWS’s responses to the Minimum Data Requirements (“MDR”) and to
8 additional data requests, CWS’s supporting work papers, and general information relayed
9 during meetings between DRA and CWS. In addition, DRA reviewed the terms of
10 CWS’s active NTP&S contracts in order to ensure compliance with Commission-
11 mandated revenue-sharing guidelines and to provide an accurate Test Year forecast.

12 **B. SUMMARY OF RECOMMENDATIONS**

13 DRA’s estimate of net revenue sharing to ratepayers across all districts from
14 CWS’s NTP&S for Test Year 2014 is \$2,406,764. This is \$224,667 greater than CWS’s
15 proposed amount of \$2,182,097. The reasons for DRA’s adjustment are:

- 16 1) DRA’s estimation of the impact of the Commission’s new
17 revenue sharing rules (effective July 1, 2011) has the effect of
18 annualizing a number of contracts.
- 19 2) DRA’s estimation of Test Year 2014 base revenue sharing
20 includes a recommendation reflecting the proposed settlement
21 agreement between CWS and DRA in proceeding A.08-05-019³
22 regarding CWS’s “Home Service USA” non-tariffed service.
- 23 3) DRA’s addition of two new NTP&S Antenna Leases that CWS
24 entered into in the Bakersfield district in 2012, resulting in an
25 annual revenue sharing increase to Bakersfield ratepayers.

³ Final decision was issued on February 28, 2013, but decision number is not available as of the published date of this report.

1 4) DRA’s application of standard composite escalation rates to Test
2 Year and escalation Year forecasts.

3 5) DRA’s concurrence with CWS’s unregulated expense allocation
4 treatment of district NTP&S contracts.

5 **C. DISCUSSION**

6 Prior to July 1, 2011, when new rules governing NTP&S activities prescribed by
7 D.10-10-019 became effective, Class A Water Utilities generally used one of two
8 different methods to compensate ratepayers for use of regulated assets in generating
9 NTP&S revenues. The “revenue-sharing” method required a percentage of gross
10 revenues generated from the activity to be allocated back to the ratepayer in the form of
11 an equivalent reduction to a regulated expense. This method also traced incremental
12 expenses incurred and charged them directly to the NTP&S contract. In contrast, the
13 “full-cost allocation” method did not engage in gross revenue sharing with ratepayers but
14 instead, for ratemaking purposes, compensated ratepayers by allocating a greater portion
15 of all expenses to the unregulated contract than would have occurred under shared gross
16 revenue. This “full-cost allocation” method was discontinued for NTP&S activities as of
17 June 30, 2011. In D.10-10-019, the Commission imposed the “revenue-sharing” method
18 uniformly for NTP&S activities performed by Class A and Class B water utilities. As a
19 result, for a number of contracts CWS’s method of compensating ratepayers for
20 unregulated activities was revised on July 1, 2011. It is worth noting that the net
21 economic difference between the two methods is negligible. Simply put, the “full-cost”
22 method has fewer costs absorbed by ratepayers but no share of revenues, while the
23 “revenue-share” method has more costs absorbed by ratepayers but they are also
24 compensated by share of gross revenues. For all districts, CWS now allocates a share of
25 its NTP&S gross revenues to the ratepayers in the form of a credit to the regulated
26 Administrative and General (“A&G”) expense account 8120 (“A/C 8120”), and only
27 direct costs and incremental costs are charged to the unregulated contract.

1 **1. Overview of New Rules**

2 As of July 1, 2011 new rules governing NTP&S went into effect. Rule X in D.10-
3 10-019 (Decision Adopting Standard Rules and Procedures for Class A and B Water and
4 Sewer Utilities Governing Affiliate Transactions and the Use of Regulated Assets for
5 Non-Tariffed Utility Services) and D.11-10-034 (Modified Decision Regarding Petition
6 for Modification of Decision 10-10-019) provides a uniform methodology for tracking
7 and accounting for NTP&S activities (formerly referred to as “Excess Capacity”)
8 provided by Class A and Class B water utilities using regulated resources to generate
9 additional revenues. In addition to providing uniform guidelines for unregulated cost
10 allocation, the Commission in D.10-10-019 also adopted basic rules for revenue sharing
11 with ratepayers which designate NTP&S activity types as being either “active” or
12 “passive.” This distinction between “active” and “passive” activities assigns a gross
13 revenue sharing rate to ratepayers of 10% to “active” and 30% to “passive” activities.⁴

14 In addition to standardizing revenue sharing and cost allocation methodologies for
15 Class A and Class B water utilities, D.10-10-019 also established a minimum sharing
16 threshold stating in Rule X.C.5: “For those utilities with annual Other Operating
17 Revenue (“OOR”) of \$100,000 or more, revenue sharing shall occur only for revenues in
18 excess of that amount. All NTP&S revenue below that level shall accrue to the benefit of
19 ratepayers.”⁵

20 Therefore, the first \$100,000 of unregulated revenue derived from all NTP&S
21 activity will go entirely to benefit the ratepayers, with requisite active and passive
22 revenue sharing beginning once this threshold is reached. DRA agrees with CWS’s
23 methodology which allocates the first \$100,000 to ratepayers proportionally by each
24 district’s total amount of gross revenue, and then removes that portion from later standard
25 gross revenue sharing so as to not double count the revenue. Hence, only after each

⁴ D.10-10-019, Appendix A states an activity be designated as “active” provided the activity incurs an incremental shareholder investment in excess of \$125,000. Otherwise, activity is classified as passive.

⁵ D.10-10-019, Rule X.C.5.

1 NTP&S activity’s proportional amount of the \$100,000 is deducted from its gross, does
2 the active or passive ratepayer sharing allotment begin.

3 **2. Overview of CWS NTP&S contracts where revenue is generated**
4 **from the use of regulated assets and personnel.**

5 a) **Antenna Leases**

6 CWS has 95 lease agreements with a number of telecommunication providers such
7 as AT&T Wireless, Verizon, Sprint and others. Pursuant to the contractual agreements,
8 CWS leases out space on one of its properties (usually a water tank site at an elevated
9 position) for cellular tower placement. Leases are generally for multi-year renewable
10 terms and contain annual escalation stipulations. Since antenna leases require minimal
11 shareholder investment, they are classified as “passive” activities and pursuant to D.10-
12 10-019 are subject to gross revenue sharing with ratepayers at a rate of 30%.

13 b) **Operations and Maintenance Agreements**

14 CWS has agreements with 13 separate entities to provide the resources necessary
15 to operate and maintain a water system owned by a local municipality. The services
16 CWS provides as per these agreements generally include personnel, supervision,
17 equipment, machinery, vehicles, customer service and repair work. Since these services
18 meet the stated minimum shareholder investment, Operations and Maintenance
19 (“O&M”) agreements are classified as “active” contracts and pursuant to D.10-10-019
20 are subject to gross revenue sharing with ratepayers at a rate of 10%.

21 c) **Billing and Meter Reading Services**

22 CWS has agreements with 9 separate entities to provide meter reading and billing
23 services for water and sewer systems owned by the local municipality. Utility resources
24 generally employed during these activities are general office equipment and staff,
25 vehicles, and meter reading devices. When CWS has such agreements in place, billing
26 services are generally implemented with the addition of a line item on its normal
27 customer bill. Since these services meet the stated minimum shareholder investment,

1 billing and meter reading contracts are classified as “active” contracts and pursuant to
2 D.10-10-019 are subject to gross revenue sharing with ratepayers at a rate of 10%.

3 **d) Home Service USA Contract**

4 CWS contracts directly with Home Service USA (“HomeServe”) to provide
5 billing services. HomeServe provides water line insurance to CWS customers under the
6 term Enhanced Services Protection, or “ESP.” Providing these services makes use of
7 regulated assets such as general office equipment, customer service systems and bill
8 insertion machines. Consequently, CWS allocates ratepayer revenue sharing amongst
9 districts using a ratio based on each district’s actual HomeServe revenue generation.
10 Since this contract meets the minimum shareholder investment it is designated as “active”
11 and gross revenues derived from these activities are subject to ratepayer sharing of 10%.

12 **3. Forecasting Methodology**

13 For Test Year 2014 CWS did not provide for any escalation or adjustment from
14 2011 figures when forecasting its revenue sharing component. As indicated in its district
15 expense workpapers Table 6A, Line 14, A/C 8120, CWS simply used 2011 recorded
16 nominal data when forecasting revenue sharing for Test Year 2014. DRA does not agree
17 with CWS’s method and believes there are several adjustments which should be made. It
18 should also be noted that in response to a data request CWS acknowledged the inaccuracy
19 of its revenue sharing forecasts for A/C 8120, stating: “In investigating the supporting
20 information, Cal Water discovered that not all relevant expenses [sic] adjustments were
21 included. Cal Water would not oppose DRA including this in its report as an adjustment
22 for settlement.”⁶

23 **a) Gross Revenue Forecast**

24 For this chapter, DRA is primarily interested in forecasting gross revenue for
25 NTP&S contracts to determine the appropriate amount of revenue sharing to be allocated
26 to ratepayers for Test Year 2014. This will ensure that ratepayers properly realize the

⁶ Response to Data Request MC8-003 Q1.

1 benefit derived from unregulated activities in this GRC cycle. For ratemaking purposes,
2 CWS's revenue sharing method takes the form of a reduction (credit) to the A&G
3 Expense A/C 8120 for each regulated district where the revenue was generated. This
4 reduction of expenses has the natural effect of a decrease to the revenue requirement of
5 the applicable district and therefore provides a benefit to ratepayers.

6 As mentioned in subsection C. above, a number of CWS's NTP&S contracts
7 began compensating ratepayers using the "revenue-sharing" method only after June 30,
8 2011. This procedural change mid-way through 2011(which totals only six months of
9 data) indicates to DRA that unadjusted 2011 historical data cannot be relied upon to
10 accurately forecast Test Year revenue sharing to ratepayers. However, for these
11 contracts, 2011 historical data is what CWS provided for in its Test Year forecast in
12 revenue sharing A&G A/C 8120. DRA disagrees with this forecast method because it
13 essentially provides half of a full year's revenue sharing benefit since only six months of
14 2011 was accounted for in this manner. For the contracts which changed methods, CWS
15 did not take into account that revenue sharing for Test Year 2014 under the new rules
16 will be based on 10% of gross revenues for a full twelve months instead of the six
17 months of sharing which is what the recorded 2011 data reflected. DRA corrects for this
18 and adds an equivalent of six months of revenue sharing when calculating its forecast for
19 Test Year revenue sharing in A/C 8120 for these contracts.

20 **b) Home Service USA Forecast**

21 In November of 2011, as part of its exclusivity contract with HomeServe, CWS
22 received the first of seven annual payments ("Annual Payment") in the amount of
23 \$1,169,000.00 in addition to its standard contracted business activity revenue. In
24 response to DRA's data request,⁷ CWS stated that it did not share any portion of the 2011
25 Annual Payment from HomeServe with ratepayers and because CWS used 2011 data for
26 test year forecasting, this revenue was excluded from CWS's forecasted revenue sharing

⁷ Response to Data Request MC8-003 Q2.

1 for Test Year 2014. In a subsequent data request response,⁸ CWS further explained that
2 pursuant to the settlement agreement between CWS and DRA in A.08-05-019, CWS was
3 not required to share the 2011 Annual Payment with ratepayers. DRA examined the
4 terms of the settlement agreement, which is currently awaiting Commission approval, and
5 agrees that CWS need not have shared the Annual Payment in 2011.⁹ However, the
6 pending settlement in A.08-05-019 also states that “[b]eginning with the November 2012
7 annual payment from HomeServe, ratepayers will receive a 10% share of the annual
8 payment that Cal Water receives from HomeServe.”¹⁰ For this reason, DRA
9 recommends that this Annual Payment revenue be subject to ratepayer sharing at the rate
10 of 10% for this GRC and has calculated its revenue sharing test year forecasts for each
11 district accordingly. To allocate the \$116,900 ratepayer’s share of the Annual Payment
12 amongst CWS’s districts, DRA applied an allocation factor that is in proportion to the
13 HomeServe revenue generated in each CWS district.

14 **c) Antenna Lease Forecast**

15 As part of DRA’s audit of NTP&S gross revenues, DRA requested and reviewed
16 the contracts involving CWS’s antenna site lease activity. During this examination, DRA
17 conducted extensive sampling and performed escalation according to contract terms. For
18 its part, CWS did not provide for escalation to contract terms or inflation factors when
19 projecting antenna lease revenue for Test Year 2014, opting to simply use 2011 nominal
20 historical data. DRA does not believe this method accurately forecasts Test Year 2014
21 revenues. DRA recommends using a composite of forecasted non-labor and
22 compensation-per-hour inflation factors to escalate CWS’s 2011 antenna lease revenues
23 to accurate Test Year levels.

24 In addition, DRA found that in the Bakersfield district, CWS entered into two new
25 antenna leases in 2012 whose revenue is not reflected in the 2011 revenue data used by

⁸ Response to Data Request MC8-007 Q2.

⁹ 2011 Annual Payment sharing is included in proposed A.08-05-019 “Lump Sum”

¹⁰ Proposed Settlement Agreement A.08-05-019.

1 CWS for its Test Year forecast. DRA performed 30% gross revenue sharing calculations
2 for Test Year 2014 according to the terms of these new leases and is recommending
3 antenna lease sharing revenue of \$18,720 for the Bakersfield district's revenue sharing
4 forecast. Since this calculation incorporates the new contracts, DRA believes \$18,720
5 more accurately captures the Bakersfield antenna lease revenue sharing than the \$5,828
6 forecasted by CWS. This results in a Test Year increase adjustment of \$12,892 to
7 Bakersfield ratepayers.

8 **d) Expense Forecast**

9 For its examination of the expense portion of CWS's NTP&S activities, DRA was
10 primarily concerned with the change to certain contracts' cost allocation methods due to
11 the implementation of D.10-10-019. To provide guidance for the uniform treatment of
12 cost allocation for unregulated activities, the Commission plainly states in D.10-10-019,
13 Rule X.D:

14 All costs, direct and indirect, including all taxes incurred due to
15 NTP&S projects shall not be recovered through tariffed rates. These
16 costs shall be tracked in separate accounts and any costs to be
17 allocated between tariffed utility services and NTP&S shall be
18 documented and justified in each utility's rate case. More
19 specifically, all incremental investments, costs and taxes due to non-
20 tariffed utility products and services shall be absorbed by the utility
21 shareholders, i.e., not recovered through tariffed rates.

22 DRA examined CWS's responses to the MDR and data requests specifically to
23 ensure that CWS has procedures in place to comply with D.10-10-019. During its audit,
24 DRA noticed that for a number of unregulated contracts, a portion of "Conservation
25 Expense" and "IS_Allocation" cost that had been allocated to the NTP&S contract prior
26 to implementing D.10-10-019 was no longer being allocated to the NTP&S contract.
27 During a meeting between DRA and CWS on October 5, 2012, the CWS team explained
28 that this accounting treatment change was the result of the move from the "full-cost
29 allocation" method to the "revenue-share" method mandated by D.10-10-019. For a
30 number of contracts, CWS had been using the "full-cost allocation" method described in

1 section C. above which meant CWS was assigning a larger portion of costs to the
2 unregulated contract and therefore a lower cost portion to the ratepayers. Once revenue
3 sharing was implemented as directed by D.10-10-019, the ratepayers then began
4 absorbing a larger portion of these costs. Supporting documentation provided by CWS
5 has satisfied DRA regarding its NTP&S contract treatment of Conservation Expense and
6 IS Allocation. For the remainder of expenses related to NTP&S activities, DRA has
7 completed an examination of their 2011 treatment and allocation by CWS and is satisfied
8 that expenses incurred by these unregulated activities were not borne by the ratepayers.

9 **4. Escalation Method**

10 For Test Year 2014, DRA used its annualized calculation of the 2011 revenues
11 escalated by a composite of forecasted non-labor and compensation-per-hour inflation
12 factors (“Composite Factor”). The Composite Factor DRA used is published by DRA’s
13 Energy Cost of Service and Natural Gas and Water branches and uses a weighting
14 method of 40% to the compensation-per-hour index and 60% to non-labor inflation. For
15 the current calculation, DRA used the Composite Factor published in September 2012,
16 resulting in an increase of \$99,903 for Test Year 2014 forecast. CWS did not apply
17 escalation to any of its forecasted revenue sharing for the expense credit in A&G A/C
18 8120 for Test Year 2014 and, instead, simply used nominal, un-escalated 2011 historical
19 data. When DRA inquired as to why CWS chose to rely on 2011 historical amounts
20 instead of contractual escalation terms, CWS replied as follows: “Cal Water did not use
21 contractual provisions with regard to either revenues or costs (escalation) for forecasting
22 purposes because the terms of each contract vary. Cal Water is in the process of
23 evaluating the impact that using contractual provisions may have on the forecasts.”¹¹ No
24 copy of the result of the evaluation has been provided to DRA to date, and in a meeting
25 on January 11, 2013 CWS stated that a complete evaluation would not be forthcoming
26 since contracts for the most part used CPI-U for escalation.

¹¹ Response to Data Request MC8-004 Q2.

1 **D. CONCLUSION**

2 DRA recommends that the Commission use DRA’s forecasted NTP&S revenue
3 sharing calculations for A&G A/C 8120 when determining the revenue requirement
4 during this GRC. For Test Year 2014, across all CWS districts DRA forecasts a net
5 credit to A&G expense A/C 8120 for \$2,406,779. DRA arrived at its forecasting
6 methodologies and estimates based on its interpretation of the new NTP&S rules,
7 inflation escalation using the Composite Factor, two new antenna lease contracts, and the
8 addition of the Home Service Annual Payment share. CWS did not include these
9 adjustments in its GRC forecast and DRA believes that in order to achieve a more
10 accurate reflection of Test Year benefits to ratepayers from NTP&S, these adjustments
11 must be made. As such, DRA recommends that its CWS district revenue sharing
12 estimates for Test Year 2014 and Escalation Year 2015 shown in Table 2-A below be
13 adopted for this GRC.

**TABLE 2-A
COMPARISON OF NTP&S REVENUE SHARING FORECASTS**

District	Test Year 2014	Test Year 2014	TY 2014	Escalation Year 2015
	Revenue Sharing	Revenue Sharing	% change	Revenue Sharing
	CWS	DRA		DRA
Bakersfield	\$336,137	\$847,537	152.1%	\$867,170
Bear Gulch	\$11,300	\$16,103	42.5%	\$16,448
Chico	\$102,300	\$110,685	8.2%	\$113,249
Dixon	\$33,344	\$32,545	-2.4%	\$33,314
East Los Angeles	\$159,743	\$191,561	19.9%	\$196,048
Hermosa Redondo	\$85,400	\$97,357	14.0%	\$99,626
King City	\$2,500	\$2,930	17.2%	\$2,992
Livermore	\$134,264	\$151,049	12.5%	\$154,597
Los Altos	\$130,100	\$132,527	1.9%	\$135,646
Marysville	\$5,800	\$6,044	4.2%	\$6,162
Oroville	\$700	\$1,463	109.1%	\$1,480
Salinas	\$32,200	\$39,599	23.0%	\$40,416
Mid-Peninsula & SSF	\$212,700	\$234,643	10.3%	\$240,015
Selma	\$1,000	\$2,459	145.9%	\$2,486
Stockton	\$266,117	\$162,572	-38.9%	\$166,182
Visalia	\$445,844	\$124,986	-72.0%	\$127,781
Willows	\$900	\$1,450	61.1%	\$1,468
Palos Verdes	\$100,700	\$112,390	11.6%	\$114,943
Westlake	\$1,200	\$2,894	141.2%	\$2,924
Dominguez	\$107,800	\$122,606	13.7%	\$125,285
Antelope Valley	\$300	\$653	117.8%	\$661
Kern River Valley	\$11,748	\$12,709	8.2%	\$12,978
Totals	\$2,182,097	\$2,406,764	10.3%	\$2,461,873

CHAPTER 3: AFFILIATE TRANSACTIONS

A. INTRODUCTION

This chapter presents the results of the Division of Ratepayer Advocates' ("DRA") examination and review of California Water Service Company's ("CWS") affiliate transactions that occurred in 2011. As part of this review DRA evaluated CWS's response to Minimum Data Requirements ("MDR"), CWS's 2011 Annual Summary Statement of Affiliated Transactions ("Annual Statement") in its Report on Unregulated Activities, and CWS's responses to data requests, meetings and conference calls. On July 1, 2011 Commission Decision 10-10-019 ("Decision"), as modified by D.11-10-034, as corrected by D.12-01-042, governing the affiliate transactions of Class A Water Utilities became effective, and it is natural that questions of interpretation as well as difficulties during implementation would arise during CWS's first General Rate Case ("GRC") following the Decision. Through its recommendations, DRA is seeking to remedy these issues and to provide guidance for future reporting of affiliate transactions.

B. SUMMARY OF RECOMMENDATIONS

- 1) DRA recommends that a \$4,151,811 interest-free cash loan from CWS to its affiliate CWS Utility Services ("CWSUS") in 2011 be made to bear interest back to the utility at the rate of 5.5% per year.
- 2) DRA recommends that all future cash loans between CWS and affiliates, whether they are long-term or short-term loans, be made to bear interest and terms priced in accordance with Rule VI of D.10-10-019.
- 3) CWS should amend its procedure concerning its Annual Statement's reporting of cash loans with its affiliates, as well as principal and interest payments on long-term loans to clearly identify and classify them as "financing arrangements and

1 transactions between the utility and the affiliated companies;”¹²
2 as directed by Rule VIII.F, Item 7 of D.10-10-019.

3 4) The Commission should require CWS to disclose when a
4 property it is purchasing or has already purchased and that it is
5 requesting to include in rates has been previously owned by
6 CWS.

7 5) The Commission should disallow the \$1,247,500 addition to
8 Dominguez district’s rate base related to the repurchase of the
9 previously owned Dominguez Field Yard and not allow any
10 future addition to rate base for the purchase of property on the
11 Dominguez Field Yard.

12 **C. DISCUSSION**

13 On July 1, 2011 D.10-10-019 (Decision Adopting Standard Rules and Procedures
14 for Class A and B Water and Sewer Utilities Governing Affiliate Transactions and the
15 Use of Regulated Assets for Non-Tariffed Utility Services) became effective. D.10-10-
16 019 adopted standard rules for all Class A and B water and sewer utilities regarding
17 affiliate transactions and the use of regulated assets and personnel for non-tariffed utility
18 products and services. Prior to D.10-10-019 some water utilities operated under affiliate
19 rules which were adopted under individual Commission decisions resulting in differing
20 affiliate rules amongst the utilities. Still other water utilities had no such affiliate rules in
21 place at all. For this GRC cycle, DRA’s focus regarding CWS’s affiliate transactions is
22 on ensuring that CWS has policies and procedures in place conforming to the Decision,
23 that real property transactions are properly accounted for, and that ratepayers are not
24 cross-subsidizing affiliates.

¹² D.10-10-019, Appendix A, Sec VIII.F, Item 7.

1 **1. Brief Overview of New Affiliate Rules**

2 **a. Jurisdiction**

3 Rule I.A of D.10-10-019 sets forth the boundaries of the new rules in stating
4 “These Rules apply to all Class A and B California public utility water and sewer
5 corporations...”¹³ CWS being a Class A California Water utility is consequently subject
6 to these rules.

7 Rule I.B of D.10-10-019 clarifies which transactions will be subject to the
8 Decision- “...transactions between a Commission-regulated utility and another affiliated
9 entity that is engaged in the provision of products that use water or sewer services or the
10 provision of services that relate to the use of water or sewer services, including the
11 utility’s parent company.”¹⁴ In addition, Rule I.B provides an exemption from these rules
12 for affiliated utilities regulated by another state regulatory commission.

13 **b. Definition of Affiliate**

14 Rule II.E of D.10-10-019 defines an affiliate as “any entity whose outstanding
15 voting securities are more than 10% owned, controlled, directly or indirectly, by a utility,
16 by its parent company, or by any subsidiary of either...” Additional Decision language
17 states “For purposes of these Rules “affiliate” includes the utility’s parent company, or
18 any company that directly or indirectly owns, controls, or holds the power to vote more
19 than 10 percent of the outstanding voting securities of a utility or its parent company.”¹⁵

20 **c. Pricing of Goods and Services between the Utility and its affiliates.**

21 Rule VI.E directs water utilities on pricing policy: “Transfers from the utility to its
22 affiliates of goods and services not produced, purchased or developed to be offered on the

¹³ D.10-10-019, Appendix A, Sec I.A.

¹⁴ D.10-10-019, Appendix A, Sec I.B.

¹⁵ D.10-10-019, Appendix A, Sec II.E.

1 open market by the utility shall be priced at fully allocated cost plus 5% of direct labor
2 cost.”¹⁶

3 **d. Annual Affiliate Transaction Reports**

4 Rule VIII.F of D.10-10-019 guides the appropriate annual reporting of affiliate
5 transactions. Each year, by March 31, the utility shall submit a summary of affiliate
6 transactions for the previous year. Most noteworthy to this chapter is Item 7 of Rule
7 VIII.F which requires the utility to list separately “[t] he financing arrangements and
8 transactions between the utility and the affiliated companies.”¹⁷

9 **2. Overview of CWS’s Affiliates**

10 Given the definition of an affiliate in sub-section 1.b above, six affiliates of CWS
11 can be identified: California Water Service Group (“CWS Group”), Hawaii Water
12 Service Company, New Mexico Water Service Company, Washington Water Service
13 Company, CWSUS, and HWS Utility Services (“HWSUS”). Since Hawaii Water
14 Service Company, New Mexico Water Service Company and Washington Water Service
15 Company are affiliated utilities regulated by a state regulatory commission elsewhere,
16 pursuant to Rule I.B of D.10-10-019 they are exempt from the remaining affiliate rules of
17 D.10-10-019. However, CWS Group, CWSUS and HWSUS’s transactions with the
18 utility CWS are subject to Commission regulation and thus are the subject of DRA’s
19 examination.

20 **a. CWS Group**

21 CWS Group is CWS’s holding company and is the parent company to the other
22 affiliates named in this chapter. A typical transaction is the payment of dividends from
23 subsidiary CWS to parent CWS group consistent with consolidated accounting under
24 Generally Accepted Accounting Principles, (“GAAP”).

¹⁶ D.10-10-019, Appendix A, Sec VI.E.

¹⁷ D.10-10-019, Appendix A, Sec VIII.F, Item 7.

1 **b. CWSUS**

2 CWSUS is an unregulated company in California that until July 1, 2011 facilitated
3 the provision of insurance products to CWS customers through Home Service USA.
4 CWSUS has also historically facilitated property transactions between CWS and third
5 parties, and currently is the lessor to a property rented by CWS.

6 **c. HWSUS**

7 HWSUS is an unregulated company in Hawaii that provides non-regulated
8 services such as billing, meter-reading and water quality testing through maintenance
9 contracts with public and private entities. HWSUS operates entirely outside of California
10 and its affiliate transactions with CWS are not substantial. DRA reviewed the accounting
11 procedures in place for transactions between CWS and HWSUS and is satisfied with
12 CWS's compliance.

13 **3. Transactions with CWSUS**

14 Throughout 2011 CWS engaged in multiple transactions with its affiliate CWSUS
15 including a continuing lease agreement, the facilitation of NTP&S, a short-term cash
16 loan, and real property transactions. Since D.10-10-019 became effective mid-way
17 through 2011, and because affiliate property transfers have been a source of discussion in
18 the past, DRA reviewed the accounting treatment of these transactions closely to ensure
19 CWS's adherence to Commission directives both before and after implementation of the
20 Decision.

21 Real Property Transaction

22 As part of its GRC investigation, DRA reviews plant and real property
23 transactions. DRA learned that in August 2011, CWS's affiliate CWSUS acquired a tract
24 of land known as the Dominguez Field Yard ("Field Yard") and in 2012 CWS purchased
25 3 parcels of the Field Yard from CWSUS for future well sites. CWS's general purchase
26 of land for future well sites was approved in AL 2076 in compliance with D.10-12-017.
27 DRA also learned that the Field Yard itself was previously owned entirely by CWS with

1 a historical cost of \$3025 as CWS acquired it during CWS’s 2000 merger with the
2 Dominguez Water Company.¹⁸ In 2002, CWS deemed the Field Yard non-useful to
3 operations and transferred it to CWSUS at Fair Market Value of \$1.3 million.¹⁹ This
4 transfer netted CWS a \$1,296,975 gain-on-sale.²⁰

5 The rate base effect of CWS’s 2002 Field Yard transfer and the treatment of the
6 resulting proceeds from the gain-on-sale were of renewed interest to DRA due to CWS’s
7 2012 partial reacquisition of the Field Yard. Treatment of gain-on-sale of water utility
8 assets are primarily governed by the Water Utility Infrastructure Improvement Act of
9 1995, PUC Code Section 789, et seq. (“the Act”) with further interpretation of the Act
10 provided by Commission Decision 06-05-041. The Act provides:

11 “Whenever a water corporation sells any real property that
12 was at any time, but is no longer, necessary or useful in the
13 performance of the water corporation’s duties to the public,
14 the water corporation shall invest the net proceeds, if any,
15 including interest at the rate that the commission prescribes
16 for memorandum accounts, from the sale in water system
17 infrastructure, plant, utilities and properties that are necessary
18 or useful in the performance of its duties to the public”²¹

19 And:

20 “All water utility infrastructure, plant, facilities and properties
21 constructed or acquired by, and used and useful to, a water
22 corporation by investment pursuant to subdivision (a) shall be
23 included among the water corporation’s other utility property

¹⁸ DR Response MC8-009 Q2.

¹⁹ DR Response MC8-009 Q2.

²⁰ Ibid.

²¹ California Public Utilities Code, Section 790(a).

1 upon which the commission authorizes the water corporation
2 the opportunity to earn a reasonable return.”²²

3 In short, pursuant to the Act, a gain-on-sale from water utility property deemed no
4 longer necessary or useful to operations is to be reinvested back into utility infrastructure
5 and then added to rate base where the utility will earn its approved return on the
6 investment. D.06-05-041 interprets the Act’s legislative intent:

7 “These reports evince a legislative intent to give water
8 companies certainty on how to allocate their gains from the
9 sale of real property. Recognizing the need for infrastructure
10 investment, the difficulty for water companies of acquiring
11 capital in the market, and the varying approaches the
12 Commission has taken on the subject, the Legislature created
13 a bright-line rule. Thus, water utilities must invest net
14 proceeds from the sale of formerly used and useful real
15 property in new water infrastructure.”²³

16 DRA agrees that given the costs of acquiring capital in markets it can be beneficial
17 to reinvest proceeds from the sale of property that is no longer useful into necessary
18 utility infrastructure. DRA also does not take exception to the reinvestment of the
19 proceeds from the \$1,296,975 gain-on-sale realized from the 2002 transfer of the Field
20 Yard, as this was done in accordance with the provisions of the Act. However, D.06-05-
21 041 also voices concern for the incentive the Act gives water utilities to sell off property
22 that is useful to operations, but is recorded at a low historical cost in order to reinvest
23 those proceeds at a higher cost basis, thereby increasing rate base in a practice known as
24 “churning”:

²² California Public Utilities Code, Section 790 (b)

²³ D.06-05-041, page 65.

1 “Because [the Act] may incent water companies to sell used
2 and useful property prematurely, safeguards against
3 “churning” are appropriate.”²⁴

4 Moreover, the safeguards against churning required of all Class A water utilities
5 by D.06-05-041 are apparently an extension of rules the Commission imposed on CWS
6 stemming from property transactions discussed in CWS’s 2001 GRC:

7 “The reporting requirements D.03-09-021 imposed on Cal Water are
8 sufficient for that purpose, and we will require regulated water companies
9 to do the following:

- 10 1. Track all utility property that was at any time included in rate base
11 and maintain sales records for each property that was at any time in
12 rate base but which was subsequently sold to any party, including a
13 corporate affiliate.
- 14 2. Obtain Commission authorization to establish a memorandum
15 account in which to record the net proceeds from all sales of no
16 longer needed utility property.
- 17 3. Use the memorandum account fund as the utility's primary source of
18 capital for investment in utility infrastructure.
- 19 4. Invest all amounts recorded in the memorandum account within
20 eight years of the calendar year in which the net proceeds were
21 realized.”²⁵

22 Clearly, in D.06-05-041 the Commission provides protections to ratepayers from
23 the unintended incentive created by the Act for a water utility to churn assets. While the
24 2002 Field Yard transfer to CWSUS and the subsequent reinvestment of the gain appear

²⁴ D.06-05-041, Conclusions of Law 29, page 95.

²⁵ D.06-05-041, page 74.

1 to comply with the provisions of the Act, these provisions are based on the premise that
2 the property relinquished actually be “no longer, necessary or useful in the performance
3 of the water corporation’s duties to the public.”²⁶ A utility repurchasing previously
4 relinquished property for operational service severely weakens this premise. CWS’s
5 2012 market-priced repurchase of the Field Yard land that was previously in rate base at
6 practically no cost shows that the Field Yard should never have been deemed by CWS
7 management to be “no longer necessary or useful.” DRA takes issue with the fact that a
8 property deemed no longer necessary or useful to water operations in 2002 was found in
9 2012 to be suddenly useful again.

10 Whether this revolving property transaction between CWS and its affiliate
11 CWSUS meets the definition of “churning” or simply was the result of imprudent
12 decision making by CWS management, ratepayers should not be subject to the resulting
13 rate base increase. If allowed in rate base, this transaction will have an undue detrimental
14 effect to Dominguez ratepayers by asking them to pay a return on property with a
15 substantially higher cost basis that was previously in rates with a very low cost basis.

16 Working with the assumption that the reinvestment of the \$1,296,975 proceeds
17 from the gain was a necessary investment regardless of whether CWS transferred the
18 Field Yard in 2002, ratepayers still see an additional \$1,247,500 in rate base from the
19 2012 repurchase that would not be occurring had CWS maintained ownership of the Field
20 Yard in 2002. Furthermore, as summarized in Table 3-A below, despite the marked
21 increase in rate base, CWS’s 2012 repurchase only provides ratepayers use of
22 approximately 30% of the Field Yard whereas in 2002 CWS enjoyed 100% ownership.

²⁶ California Public Utilities Code, Section 790(a).

Table 3-A. Summary of dollar impact on rate base

	Not Transferred in 2002	Transferred to CWSUS in 2002
Historical Cost - Field Yard	\$3,025	-\$3,025
Gain reinvested (necessary regardless)	\$1,296,975	\$1,296,975
Repurchase from CWSUS 2012	-	\$1,247,500
Total Rate Base	\$1,300,000	\$2,541,450
% of Field Yard usage	100%	30%

DRA recommends that the \$1,247,500 cost for projects 20973, 20978, and 13543 detailed in AL 2076 to repurchase the land parcels on the Field Yard be disallowed from rate base. Additionally, any future purchase of land parcels on the Field Yard should not be allowed in rate base, since ratepayers would have had full use of the entire site for very low cost had CWS management not deemed the property non-useful in 2002. DRA understands that this GRC’s purchase of land for wells was approved in AL 2076, but believes that the circumstances described in this chapter give strong weight to its recommendation.

In addition, prior to this GRC, DRA found no evidence of disclosure by CWS that the land they intended to purchase for wells under AL 2076 was in fact previously relinquished CWS property. This information first surfaced during DRA’s field visit and in response to DRA’s subsequent data requests.²⁷ Since a property’s ownership history is such a strong indicator of a property’s ultimate usefulness to utility operations, as an extra safeguard to ratepayers, DRA also respectfully requests that the Commission require CWS to disclose when a property it is purchasing or has already purchased and that it is requesting to include in rates has been previously owned by CWS.

Treatment of Short-Term Loan

DRA’s review of the 2012 real property transactions with CWSUS also showed that in order for CWSUS to secure funding to acquire the Field Yard from the third party, CWS tendered an interest-free cash loan of \$4,151,811 to CWSUS. In essence, CWS

²⁷ DR Response MC8-009 Q2, DR Response PPM-007 and Email Response 1/8/13 Affiliate Transaction Data Request Q2.

1 provided an interest-free cash loan to its affiliate CWSUS, in order for CWSUS to
2 purchase property that was previously owned by CWS at a low cost basis, and then sell
3 part of it back to CWS at the current market price. In examining CWS's Annual
4 Statement, the only indication this cash loan was made to CWSUS was the dollar amount
5 \$4,151,811 listed under Services provided by the Utility to CWSUS as "Reimbursement
6 from the Utility to CWS Utility Services."²⁸ Indeed, CWS's Annual Report noted CWS
7 dividend payments to CWS Group as the only financial transaction or arrangement
8 between CWS and any affiliate.²⁹ It is troublesome that prior to DRA's examination of
9 real property transactions between CWS and CWSUS, the Commission had no means of
10 determining an interest-free cash loan occurred between the regulated utility CWS and its
11 affiliate CWSUS. Furthermore, when DRA requested copies of the terms and interest of
12 the loan, CWS responded "[t]here is no loan agreement between CWSUS and CWS,"³⁰
13 the loan itself was an oversight due to difficulties implementing D.10-10-019 and that the
14 loan was repaid as soon as the oversight was discovered.³¹ Bank statements provided by
15 CWS confirm a transfer from CWS of \$4,151,811 on August 17, 2011 and repayment to
16 CWS on January 3, 2012 after discovery of the oversight in December 2011.

17 DRA believes this short-term loan should have been disclosed on CWS's 2011
18 Annual Statement under Section VIII.F, Item 7 of D.10-10-019 which requires the
19 separate listing of "financing arrangements and transactions between the utility and the
20 affiliated companies."³² It is unclear why CWS did not have procedures in place to
21 accurately report this transaction, since the "oversight" loan was discovered in December
22 of 2011 and the Annual Report was filed in March of 2012. Furthermore, any difficulties
23 implementing D.10-10-019 should have been resolved before July 1, 2011 given the
24 Commission had already granted a 5 month extension for Class A water utilities to

²⁸ CWS 2011 Annual Summary Statement of Affiliate Transactions.

²⁹ Ibid.

³⁰ DR Response MC8-009 Q3.

³¹ DR Response MC8-009 Q4.

³² D.10-10-019, Appendix A, Sec VIII.F, Item 7.

1 comply.³³ The fact that improper accounting for a \$4,151,811 affiliate cash loan went
2 undiscovered for five months underscores the need for CWS to improve its affiliate
3 transaction reporting. The Commission should require CWS to amend its policies and
4 procedures for the Annual Report to list all financing arrangements with its affiliates,
5 whether short-term or long-term, under Section VIII.F, Item 7. CWS's current stance is
6 unclear although the company informed DRA that "Only the long term transactions are
7 reflected in item 7 of the same report."³⁴

8 Rule VI.E of D.10-10-019 states "Transfers from the utility to its affiliates of
9 goods and services not produced, purchased or developed to be offered on the open
10 market by the utility shall be priced at fully allocated cost plus 5% of direct labor cost."³⁵
11 DRA considers an interest-free cash loan from a utility to an affiliate to be in violation of
12 this rule. The \$4,151,811 that CWS loaned to CWSUS from August to December of
13 2011 should have included an interest charge to compensate the utility for its loss of
14 access to the funds. These funds could have been used in any number of return or interest
15 bearing ways were they not being loaned to CWSUS. The loss of these potential returns
16 is the "fully-allocated cost" referred to in Rule VI.E. For this reason, DRA recommends
17 the affiliate CWSUS pay CWS for its use of these funds at the rate of 5.5% which is the
18 identical rate CWS is currently charging CWS Group for its long-term note payable.³⁶
19 Imputing a 5.5% annual rate is fair given it is the same rate CWS charged for its long-
20 term note and that the funds for both of these loans were transferred out of the same bank
21 account.³⁷ The payment should be made via intercompany wire transfer in the amount of
22 \$86,960 which is 5.5% per annum of \$4,151,811 for 139 days. The funds should be
23 realized in a below-the-line entry (not in ratemaking) to "Other Operating Expenses" in

³³ Clanon, Paul. "Re: Request for Further Extension of Time to Comply with Decision (D.)10-10-019." 21 Dec 2010.

³⁴ Email Response 1/4/13 Affiliate Transaction Data Request Q4.

³⁵ D.10-10-019, Appendix A, Sec VI.E.

³⁶ Email Response 1/4/13 Affiliate Transaction Data Request Q7.

³⁷ CWS Response to Affiliate Follow-up email, 1/24/13

1 accordance with CWS’s current standard treatment of utility interest revenue and
2 expenses. It should be noted that DRA makes this recommendation in this GRC only in
3 the interest of uniformity of CWS policy regarding its stated accounting treatment of cash
4 loans from a Commission regulated utility to an affiliate. DRA reserves the right and has
5 the intention of revisiting the practice of affiliate loans in future GRCs. For future short-
6 term affiliate loans, CWS seems to agree with DRA’s pricing recommendation
7 responding that although the company does not plan on engaging in short-term affiliate
8 loan transactions, if it does it will be priced in accordance with Rule VI.³⁸

9 Building Lease Agreement

10 In 2011 CWS rented office space in a Rancho Dominquez building from CWSUS
11 at the rate of \$42,070 per month. While a portion of this amount is included in
12 ratemaking for the Dominguez district (with further details provided by DRA witness Pat
13 Esule’s Chapter on A&G expenses), of significance to this Chapter is the transaction’s
14 appearance on CWS’s Annual Report. DRA noticed that Item 2.b.3 of the Annual Report
15 which concerned the lease agreement incorrectly listed the annual intercompany amount
16 of \$504,840 on the debit side when it should have been listed as a credit. In an email on
17 1/24/13 CWS confirmed this “typo error” further highlighting DRA’s recommendation
18 that CWS update its policies and procedures to produce a more accurate and reliable
19 Annual Report.

20 **4. Transactions with CWS Group**

21 On December 31, 2010 CWS entered into a long-term cash loan agreement with
22 its holding company CWS Group where CWS loaned \$7,925,000 to CWS Group. The
23 terms of the loan are 5.5 % per annum with principle due on December 20, 2014. As
24 discussed in subsection C above, inter-affiliate cash loans and the way they are disclosed
25 is a subject of interest to DRA. Rule VIII.F, Item 7 of D.10-10-019 clearly requires
26 separate disclosure of “financing arrangements and transactions between the utility and

³⁸ Email Response 1/4/13 Affiliate Transaction Data Request Q4

1 the affiliated companies”³⁹ This includes not only newly entered into arrangements for
2 the particular calendar year, but in addition principal and interest payment transactions of
3 existing arrangements. Since Rule II.G of D.10-10-019 defines a transaction as “any
4 transfer of item of value such as good, service, information or money between a utility
5 and one of more of its affiliates,”⁴⁰ continuing interest and principal payments derived
6 from previous years’ financing arrangements between affiliates fall under the disclosure
7 requirement set forth in Rule VIII.F, Item 7.

8 Rule VIII.F “Annual Affiliate Transaction Reports,” describes the annual
9 summary of all affiliate transactions utilities are required to provide to the Commission.
10 One phrase in that rule states: “[t]he summary shall include a description of each
11 transaction and an accounting of all costs associated with each transaction although each
12 transaction need not be separately identified where multiple transactions occur in the
13 *same account*.”⁴¹ (Emphasis added.) This does not mean that an affiliate financing
14 arrangement occurring in the “same account” with other transactions does not need to be
15 itemized or separated in the Annual Report. In CWS’ 2011 Annual Report, CWS made
16 this error and did not itemize the loan transaction under item 7. The seven items laid out
17 in Rule VIII.F are not mutually exclusive from each other for listing purposes. For
18 example, a payment from an affiliate for a financing arrangement that is netted in an
19 account with other transactions can be reported netted under Rule VIII.F Item 2.
20 However that payment should also be disclosed separately as a financial transaction
21 between affiliates under Rule VIII.F Item 7.

22 **D. CONCLUSION**

23 Affiliate transactions present an area ripe for ratepayer cross-subsidizing by the
24 Utilities, and thus the reporting of affiliate transactions must be extremely detailed,
25 accurate and above all transparent. DRA’s examination of CWS’s 2011 Annual Report

³⁹ D.10-10-019, Appendix A, Sec VIII.F, Item 7.

⁴⁰ D.10-10-019, Appendix A, Sec II.G.

⁴¹ D.10-10-019, Appendix A, Sec VIII.F.

1 shows that CWS has not met this burden. For its Annual Report, CWS should disclose
2 any cash loan between it and an affiliate, as well as principal and interest payments for
3 existing affiliate loans as directed by Rule VIII.F, Item 7 of D.10-10-019. All cash loans
4 between CWS and affiliate companies should be subject to formalized terms and interest
5 rates priced as directed by Rule VI of D.10-10-019. CWS should also be compensated
6 for its 2011 cash loan to CWSUS with a below-the-line adjustment to Other Operating
7 Revenues in the amount of \$86,960.

8 While D.06-05-041 provides safeguards against asset churning by water utilities,
9 an additional reporting mechanism will strengthen these rules. CWS should disclose
10 when a property it is purchasing or has already purchased and that it is requesting to
11 include in rates has been previously owned by CWS. The Dominguez rate base increase
12 of \$1,247,500 related to the Field Yard repurchase should also be removed as this
13 property was previously owned at practically no cost. DRA respectfully requests that the
14 Commission recognize the benefits of these recommendations to ratepayers during this
15 GRC and include them as part of the final decision.

CHAPTER 4: AUDIT OF RECORDED PLANT ADDITIONS

A. INTRODUCTION

This chapter presents the results of an audit performed by DRA on the costs of plant additions recorded by CWS in the period between its 2009 GRC Application (A.09-07-001) and the instant proceeding (A.12-07-007). The objective of the audit is to evaluate and assess the accuracy and reasonableness of recorded costs for the plant additions that CWS requests to be included in rate base. In A.12-07-007 and covering the years 2009, 2010, and 2011, CWS recorded 3,805⁴² plant addition projects totaling \$317,174,689.95.^{43.44}

Based upon total project cost, DRA selected an audit sample of 13 of the 3,805 plant addition projects. DRA sorted the plant additions by highest cost and identified the 10 highest cost projects. DRA excluded the advice letter project,⁴⁵ excluded the CWS's General Office expansion and renovation project,⁴⁶ which is being reviewed in Application 12-06-016, and excluded two ongoing routine maintenance projects.⁴⁷ This process left six of the ten highest-cost plant additions projects.⁴⁸ In addition, DRA reviewed the three highest cost land acquisition projects⁴⁹ and two land acquisition projects⁵⁰ that CWS had not previously requested in a GRC Application. For the Los Altos 1579 Miramonte Avenue land acquisition project and the ongoing associated land

⁴² Number of unique plant additions (sorted by work order #) in the document referenced in footnote 3.

⁴³ \$317,174,698.95 is the sum of the "actual cost" of each plant addition in the document referenced in footnote 3. In 2009 CWS recorded plant additions totaling \$109,785,906.74. In 2010 CWS recorded plant additions totaling \$100,184,635.73. In 2011 CWS recorded plant additions totaling \$107,204,147.48.

⁴⁴ CWS October 11, 2012 email in response to DRA's request for excel copy of "Attachment B- Recorded Plant Additions" for all CWS districts.

⁴⁵ Project #14384

⁴⁶ Project #16992

⁴⁷ Project #SLN0600 and Project #BKD0600

⁴⁸ Project #21113, Project #15946, Project #BKD0600, Project #11451, Project #10498, Project #BKD7888

⁴⁹ Project #15948, Project #18433, Project #18434

⁵⁰ Los Altos- 1579 Miramonte Avenue and Project #50350

1 development project,⁵¹ DRA traced the reported costs provided in data requests and email
2 inquiries to the costs presented in A.12-07-007. For the East LA land acquisition project,
3 Project #50350, DRA reviewed the Phase 1 Customer Center project.^{52, 53} Among the 13
4 projects selected, nine projects are Non-Specific Projects. A Non-Specific Project is an
5 “unplanned or ‘Emergency’ addition or replacement.”⁵⁴

6 DRA’s audit reviewed the extent to which the selected projects were applicable
7 and consistent with the project plans and justifications submitted by CWS in previous
8 GRC filings. The audit also included a reconciliation of forecast project budgets with
9 actual project expenditures. DRA utilized analytical procedures such as verifying,
10 recalculating, and tracing all supporting documentation to validate the project costs that
11 CWS has requested be included in rate base in this GRC. In addition, the selected 13
12 projects were reviewed for cost overruns, project scope changes, and reasonableness in
13 assigned charges.

14 The analysis and recommendations related to DRA’s audit were developed based
15 upon a review of CWS’s current and prior GRC Applications, associated workpapers,
16 responses to DRA data requests, and information received in meetings, discussions, and
17 correspondence with the CWS Rates group.

18 **B. SUMMARY OF RECOMMENDATIONS**

19 DRA’s audit performed on the costs and the accounting of the selected 13 plant
20 additions included an analytical review of selected project invoices and tracing the
21 selected project invoices to the reported cost presented on the Work Order Charges
22 Report generated by PowerPlant. With respect to the legitimacy of the project invoices
23 and the recording of project invoices to PowerPlant, DRA finds that CWS has accurately
24 recorded the actual invoice cost into PowerPlant and that the project invoices are in line

⁵¹ Project #67949

⁵² Project #57791

⁵³ CWS response to DR PR-003 Q6b states “All of the work performed in the project has just been completed, however the Company has not yet closed the project.”

⁵⁴ CWS PowerPoint Presentation “The Capital Budget,” p. 6, Thomas Salzano, November 5, 2012.

1 with the scope of the project specifications. With respect to the reasonableness review of
2 projects, DRA makes a recommendation to remove costs associated with Project #15948
3 and Project #18434 from requested plant additions to rate base. In addition, DRA
4 reviewed, assessed the reasonableness of, and makes a recommendation on the
5 capitalized interest charges recorded on select plant additions. DRA's three
6 recommendations are listed below.

7 **1. Remove \$274,460 in 2010 recorded plant addition to the Visalia District.**

8 Project #15948 is for a property acquisition in the Visalia District for a new well
9 or tank site. This project was closed in 2010. Based on DRA's review of the original
10 project plan, the latest available project status, actual versus projected customer growth
11 rate, and DRA's plant recommendations⁵⁵ to disallow the tank (Project #19730) and well
12 (Project #16782) projects located on the land acquired under Project #15948,⁵⁶ it is not
13 reasonable to include costs associated with the land acquisition, Project #15948, in
14 CWS's current requested rate base. DRA recommends the full cost of the land, \$274,460,
15 be excluded from 2010 plant additions to rate base for the purpose of forecasting the
16 2014 revenue requirement.

17 **2. Remove \$84,211 in 2009 recorded plant addition to the Bakersfield District.**

18 Project #18434 is a property acquisition project in the Bakersfield District intended
19 to serve as a site for a new pump station. Based on review of the current project status
20 and project plan going forward it is not reasonable to include costs associated with
21 Project #18434 in CWS's requested 2009 recorded plant addition. DRA recommends the
22 full cost of the land, \$84,211, be excluded from 2009 plant additions to rate base for the
23 purpose of forecasting the 2014 revenue requirement. In addition, CWS plans to build
24 Project #86237 (a pump station) on the land in Project #18434. However, CWS has not
25 requested this pump station in the current GRC. The Commission should review the
26 status of Project #86237 (pump station) in the next (2015) CWS GRC filing. Contingent

⁵⁵ See DRA witness Jenny Au's testimony on Utility Plant In Service for the Visalia District.

⁵⁶ Project #16782 and Project #19730

1 upon the completion of Project #86237 (pump station), the Commission should decide
2 whether to permit CWS to recover the cost for the land acquired under Project #18434.

3 **3. Disallow double recovery of financing charges. Remove \$110,336 in 2009**
4 **recorded plant addition to the Salinas District. Remove \$188,166 in 2010**
5 **recorded plant addition to the Visalia District.**

6 Based on the analysis performed herein, DRA recommends that the Commission
7 require CWS to immediately remove capitalized interest charges in the amount of
8 \$110,336 for Project #11451 and \$188,166 for Project #15946. DRA's recommendation
9 would result in removing \$110,336 from 2009 plant additions to rate base and \$188,166
10 from 2010 plant additions to rate base for the purpose of forecasting the 2014 revenue
11 requirement. Project #11451 was closed in 2009 and Project #15946 was closed in 2010.
12 Furthermore, because of limited time and resources, DRA was only able to review and
13 make adjustments, for double recovery of financing charges, for two of the 3,805 plant
14 additions that CWS recorded from 2009-2011. DRA recommends that the Commission
15 require CWS to immediately conduct an internal audit to identify and remove from its
16 requested 2009, 2010, and 2011 plant additions the portion of capitalized interest for the
17 period in which any project was also included in rate base. DRA recommends that the
18 Commission require CWS to file the results of the internal audit with all supporting
19 workpapers and a rate base offset Tier 1 Advice Letter with separate calculations for each
20 district, within 90 days of a final decision of the instant proceeding, to remove from
21 adopted rate base the portion of capitalized interest charges recorded for all projects for
22 the period in which that same project had previously been included in the adopted rate
23 base. This should result in a decrease to the adopted rate base and under no conditions
24 should it result in an increase in the adopted rate base.

25 **C. DISCUSSION**

26 **1. Review of Project Accounting System**

27 DRA reviewed CWS's project accounting system and the scope of the review as
28 outlined in this section is limited to reconciling the costs shown in the Work Order
29 Charges Report with the costs shown in each District's Report- "Attachment B- Recorded

1 Plant Additions” in the instant proceeding. CWS has been using the financial database
2 and asset management software, PowerPlant, since September 2008, to estimate proposed
3 project costs, prepare budgets, track project spending, retire assets, provide tax data, and
4 generate a variety of reports.^{57, 58} One of the reports generated via PowerPlant and
5 provided by CWS for each project is the Work Order Charges Report.⁵⁹ The Work Order
6 Charges Report provides a listing of all types of charges attributed to each project.⁶⁰
7 Table 4-A lists the 13 projects by work order number (also referred to as project number),
8 district, the year in which the project was completed, and the costs associated with each
9 project that was examined as part of DRA’s Audit of Plant Additions.

⁵⁷ CWS PowerPoint Presentation “The Capital Budget,” p. 5, Thomas Salzano, November 5, 2012.

⁵⁸ CWS response to DR PR-005 Q1.

⁵⁹ CWS response to DR PR-005 Q3.

⁶⁰ CWS also refers to the Work Order Charges Report as a data dump of all charges for a project.

1

Table 4-A. Project Cost of the Recorded Plant Additions⁶¹

Work Order Number	District	Project Completion Year	(1) CWS Requested Cost of Plant Additions	(2) Total Project Cost per Work Order Charges Report	(3) Difference
21113	VISALIA	2010	\$ 3,034,113	\$ 3,034,266	\$ (153)
15946	VISALIA	2010	\$ 2,892,569	\$ 2,892,788	\$ (219)
BKD0600	BAKERSFIELD	N/A***	\$ 2,659,248	\$ 2,659,248	\$ -
11451	SALINAS	2009	\$ 2,602,158	\$ 2,607,892	\$ (5,734)
10498	SALINAS	2009	\$ 2,203,771	\$ 2,203,771	\$ -
BKD7888	BAKERSFIELD	2011	\$ 2,199,624	\$ 465,627	\$ 1,733,996
15948 *	VISALIA	2010	\$ 274,460	\$ 274,460	\$ -
18433 *	BAKERSFIELD	2009	\$ 113,764	\$ 113,764	\$ -
18434 *	BAKERSFIELD	2009	\$ 84,211	\$ 84,211	\$ -
1579. Miramonte Ave. *	LOS ALTOS	2010	\$ 2,426,184	\$ -	\$ 2,426,184
67949	LOS ALTOS	**	\$ 378,625	\$ 57,064	\$ 321,561
50350 *	EAST LA	2011	\$ 6,822,667	\$ 6,822,667	\$ -
57791	EAST LA	**	\$ 828,235	\$ 1,262,769	\$ (434,534)
TOTAL			\$ 26,519,628	\$ 22,478,525	\$ (4,041,102)

* Land acquisition project.

** Project not closed.

*** This project is for ongoing unscheduled service installations. Therefore, this project is never closed.

2

3

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The costs provided in column (1) of Table 4-A refer to the project costs that CWS is seeking to add to plant in the instant proceeding.⁶² The costs provided in column (2) are the project charges supported by the Work Order Charges Report that CWS generated from PowerPlant.^{63, 64, 65} The amount shown in column (3) is the difference between the

⁶¹ See the testimony of Julian Gandara in the Utility Plant In Service Chapter for Los Altos for DRA’s recommendations regarding 1579. Miramonte Ave. and Project #67949. Also, see the testimony of Pat Ma in the Utility Plant in Service Chapter for East LA for DRA’s recommendations regarding Project #50350 and Project #57791.

⁶² CWS provides project costs in each District’s Report- “Attachment B- Recorded Plant Additions” in the instant proceeding.

⁶³ CWS response to DR PR-001 Q5 (request for Work Order Charges Report for Projects presented in Table 4-A).

⁶⁴ CWS response to DR PR-002 Q1 (request for Work Order Charges Report for Projects presented in Table 4-A).

1 total project requested cost of plant additions and the sum of project charges. DRA
2 explains each of the differences between CWS requested project cost⁶⁶ and project cost
3 per the Work Order Charges Report.

- 4 • For Project #21113 and Project #15946, the difference for each project, (\$153) and
5 (\$219) respectively, is immaterial.
- 6 • For Project #11451, the difference, (\$5,734), is equivalent to the retirement cost of
7 an asset. Note that the (\$5,734) is not an actual cost and it represents the portion
8 that is retired from an existing asset.^{67 68}
- 9 • Project #BKD7888 is a contribution project in which CWS requested \$2,199,624
10 in plant addition.⁶⁹ The difference of this project as presented in column (3) is due
11 to CWS recording \$2,199,624 in gross additions to the Bakersfield District⁷⁰ plant
12 in service but also recording \$1,744,233 in Contributions in Aid of Construction
13 (“CIAC”). In addition, the Charges Report indicates \$10,237 as the retirement
14 cost of an asset. This \$10,237 and the net plant amount of \$455,390 sum to the
15 \$465,627 presented in column (2) on the Charges Report.
- 16 • The project involving the land purchase at 1579 Miramonte Ave., in the Los Altos
17 District was not recorded in PowerPlant and therefore no project ID number and

⁶⁵ CWS provided to DRA in November and December of 2012 the Work Order Charges Report for all projects.

⁶⁶ CWS provides project costs in each District’s Report- “Attachment B- Recorded Plant Additions” in the instant proceeding.

⁶⁷ CWS email dated February 6, 2013 in response to question on retirement cost of Project #11451.

⁶⁸ Note: In CWS Salinas Rate base July 2012 spreadsheet, Table 8b, the (\$5,734) is reflected in the retirements balance for 2009 Plant In Service.

⁶⁹ CWS Recorded Plant Addition Bakersfield District Report provided in instant proceeding

⁷⁰ CWS Bakersfield Rate Base July 2012 spreadsheet.

1 Charges Report was generated.⁷¹ The actual cost of the land acquisition was
2 \$2,426,184.^{72 73}

- 3 • Project #67949 is an ongoing carryover project with a requested budget of
4 \$378,625 and total charges incurred to date in the amount of \$57,064.^{74,75}
- 5 • Project #57791 is also a carryover project that is completed but not yet closed, and
6 for which CWS, at the time of filing, estimated the project at \$828,235 and
7 currently has incurred \$1,262,769 in charges.^{76,77}

8 **2. Review of Project Invoices**

9 DRA reviewed a sample of project invoices associated with the 13 selected
10 projects. The scope of this section of the chapter is limited to reviewing the project
11 invoices associated with each project. The Work Order Charges Report provided for
12 each project provides a listing of all types of charges attributed to each project.
13 Additionally, each project-specific charge is grouped into an account category based on
14 the type of charge incurred. For the 13 projects reviewed, CWS records charges in the
15 following account categories: “Capitalized Interest,” “Construction Overhead,”
16 “Contractor Costs,” “Labor Cost,” “Inventory Material,” “Payroll Taxes and Insurance,”
17 and “Retirement.” CWS records project invoices in only two account categories,
18 “Contractor Costs” and “Other Costs,” note that “Other Costs” may include costs such as
19 “conversion entries from prior asset management software (anything before we converted
20 to PowerPlant), manual journal entries, transfers, and corrections.”⁷⁸ Table 4-B on the
21 next page illustrates these costs within each account category in proportion to the total

⁷¹ CWS response to DR PR-001 Q3a.

⁷² CWS Purchase and Sale Agreement.

⁷³ CWS Buyers Estimated Settlement Statement.

⁷⁴ CWS response to DR PR-001 Q4.

⁷⁵ CWS response to DR PR-003 Q3.

⁷⁶ CWS response to DR PR-003 Q6d.

⁷⁷ CWS December 13, 2012 email in response to “DR PR-002 (plant audit)”.

⁷⁸ CWS January 18, 2013 email in response to “CWS plant audit- question on account categories”.

- 1 project cost for each of the 13 projects. Among all account categories, “Contractor Costs”
- 2 and “Other Cost” represent the major portion of project cost.

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Table 4-B- Proportion of Charges Making Up Total Project Cost

Project ID	CAPINT: Capitalized Interest	CONSTOH: Construction Overhead	CONTRACT: Contractor Costs	LABOR: Labor Cost	MATERIAL: Inventory Material	OTHER: Other Cost	PAYTAX: Payroll Taxes and Insurance	RETIRE: Retirement	TOTAL %
21113	1.63%	11.51%	39.99%	6.95%	31.44%	1.52%	6.95%	0.01%	100.00%
15946	7.84%	8.11%	56.67%	4.29%	0.05%	19.36%	3.68%	0.00%	100.00%
BKD0600	0.17%	12.57%	80.38%	1.81%	1.47%	1.82%	1.78%	0.00%	100.00%
11451	7.65%	6.72%	20.64%	4.94%	0.06%	55.94%	3.83%	0.22%	100.00%
10498	6.45%	7.16%	39.59%	4.84%	0.04%	38.18%	3.74%	0.00%	100.00%
BKD7888	0.00%	2.26%	39.22%	2.41%	0.00%	52.17%	1.75%	2.20%	100.00%
15948 *	0.51%	9.86%	6.46%	0.21%	0.00%	82.75%	0.21%	0.00%	100.00%
18433 *	0.00%	6.56%	0.00%	0.00%	0.00%	93.44%	0.00%	0.00%	100.00%
18434 *	0.00%	0.77%	0.00%	0.16%	0.00%	98.95%	0.12%	0.00%	100.00%
67949 **	5.80%	15.70%	78.50%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
50350 *	2.51%	13.81%	1.07%	0.05%	0.00%	82.51%	0.05%	0.00%	100.00%
57791 **	2.70%	15.86%	75.68%	1.75%	0.00%	2.10%	1.91%	0.00%	100.00%

* Land acquisition project

** Project not closed

NOTE: The project involving the Land Purchase at 1579 Miramonte Ave., Los Altos was not included in Table 4-B because this project was not recorded in PowerPlant and therefore no charges report was provided for this project.

1 For 12 of the 13 selected projects CWS provided a summary invoice spreadsheet
2 listing all the invoices for each project.^{79, 80, 81} DRA selected a sample of invoices to
3 review with a focus on reviewing invoices with the highest dollar value and from a
4 variety of vendors. The primary objective of DRA's invoice review was to ensure that
5 invoice amounts were properly recorded and consistent with project scope. DRA
6 reviewed invoices for calculation errors, tasks performed as it pertains to the project, and
7 consistency among costs (i.e. overhead %, retention %, unit (material) charge) stemming
8 from the same vendor. For selected invoices, DRA traced the invoiced cost to the project
9 Work Order Report generated by PowerPlant. DRA performed this procedure to confirm
10 that the invoiced cost is being recorded at the actual amount shown on the invoice and
11 charged to the appropriate project.

12 Table 4-C lists the 13 projects, each project's total number of invoices⁸², total cost
13 of all project invoices, and the total cost of invoices that were reviewed by DRA for
14 accounting accuracy.

⁷⁹ CWS response to DR PR-001 Q5.

⁸⁰ CWS response to DR PR-002 Q2.

⁸¹ Note that the project involving the Land Purchase at 1579 Miramonte Ave., Los Altos was a single transaction for which CWS did not provide a summary invoice spreadsheet.

⁸² Per CWS summary invoice spreadsheet provided for 12 of the 13 selected projects.

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Table 4-C. Project Invoice Review

Work Order Number	District	Total # of Invoices	Invoices Reviewed	Total Invoice Cost	Cost of Invoices Reviewed	% of Invoice Costs Reviewed
21113	VIS	317	129	\$ 1,213,324	\$ 310,689	25.61%
15946	VIS	171	33	\$ 2,197,223	\$ 1,887,359	85.90%
BKD0600	BK	1233	8	\$ 2,137,818	\$ 118,662	5.55%
11451	SA	206	19	\$ 1,996,038	\$ 1,197,314	59.98%
10498	SA	201	15	\$ 1,669,967	\$ 1,066,407	63.86%
BKD7888	BK	12	7	\$ 271,789	\$ 264,945	97.48%
15948	VIS	5	5	\$ 16,583	\$ 16,583	100.00%
18433	BK	6	6	\$ 111,382	\$ 111,382	100.00%
18434	BK	3	3	\$ 9,000	\$ 9,000	100.00%
1579. LAS	LAS	N/A	0	\$ -	\$ -	N/A
67949	LAS	3	3	\$ 44,795	\$ 44,795	100.00%
50350	ELA	6	6	\$ 18,612	\$ 18,612	100.00%
57791	ELA	72	9	\$ 955,725	\$ 316,086	33.07%
TOTAL		2235	243	\$ 10,642,256	\$ 5,361,834	50.38%

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Based upon DRA's review of selected invoices, DRA finds that CWS has accurately recorded invoice amounts into PowerPlant and towards the appropriate project.

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3. Project Specific Recommendations

7

Remove \$274,460 in 2010 recorded plant addition to the Visalia District

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Project #15948, a land acquisition project in the Visalia District, was authorized in A.07-07-001 (D.08-07-008) and budgeted for \$270,000 in 2008.⁸³ The project closed in June 2010 at a final cost in the amount of \$274,460. In the project justification in A.07-07-001, CWS claimed "the property purchase will be used for the construction of a new well or tank site. The well or tank site will help increase supply, meet demand, meet peaking demand, and provide storage."⁸⁴ Using the prior five-year average number of

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⁸³ CWS project justification provided in DR PR-001 Q1c, Project #15948.

⁸⁴ CWS project justification provided in DR PR-001 Q1c, Project #15948.

1 customers added, CWS calculated the average growth rate in Visalia to be 1,698
2 customers per year.⁸⁵ CWS used this growth rate of 1,698 customers per year to justify
3 the need to add one new well per year capable of producing 1,000 gallons per minute
4 running 12 hours a day.⁸⁶

5 CWS admitted⁸⁷ to a discrepancy between the project justification document and
6 the Visalia expense workpapers⁸⁸ provided in the CWS 2007 GRC Application. CWS
7 could not provide support for the total number of customers (active service connections)
8 for the years 2001 through 2006 as shown in the table on the project justification
9 document.⁸⁹ The total number of customers each year as shown on the project
10 justification document differs from the total number of customers each year provided in
11 the Visalia expense workpaper in the CWS 2007 GRC Application. Table 4-D shows that
12 the difference between the total number of customers each year as shown on the project
13 justification document and the total number of customers each year provided in the
14 Visalia expense workpaper in the CWS 2007 GRC Application increases from the years
15 2002 through 2006. In 2002 there is a 2,286 (7.21%) difference in number of customers
16 and in 2006 there is a 4,730 (12.85%) difference in number of customers.

⁸⁵ As shown in the table on CWS project justification provided in DR PR-001 Q1c.

⁸⁶ CWS project justification provided in DR PR-001 Q1c.

⁸⁷ CWS response to DR PR-003 Q1a.

⁸⁸ CWS Visalia expense workpaper provided in A.07-07-001.

⁸⁹ CWS response to DR PR-003 Q1a.

1 **Table 4-D. Visalia District - Total Number of Customers 2001-2006**

	2001	2002	2003	2004	2005	2006
CWS number of customers per project justification provided in A. 07-07-001	33,043	34,011	35,219	36,527	39,664	41,534
CWS number of customers per Visalia expense workpapers provided in A. 07-07-001	30,310	31,725	32,752	33,929	35,164	36,804
Difference in number of customers	2,733	2,286	2,467	2,598	4,500	4,730
Percentage Difference in number of customers	9.02%	7.21%	7.53%	7.66%	12.80%	12.85%

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3 CWS acknowledged⁹⁰ the numbers shown on the Visalia expense workpaper in the
4 CWS 2007 GRC Application are the correct⁹¹ number of active service connections.
5 Table 4-E shows the total number of customers added to Visalia each year, from 2001 to
6 2006, using the numbers provided in the project justification from the CWS 2007 GRC
7 Application and the numbers provided in the Visalia expense workpapers from the CWS
8 2007 GRC Application. Using the correct total number of customers (active service
9 connections) for the years 2001 through 2006, the Visalia growth rate is 1,299 customers
10 per year.⁹²

⁹⁰ CWS response to DR PR-003 Q1a.

⁹¹ “Correct” is referring to the growth rate calculated using the customer count provided on the CWS Visalia expense workpaper provided in A.07-07-001.

⁹² (number of customers added each year from 2001-2006)/5= (1,415+1,027+1,177+1,235+1,649)/5 = 1,299)

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Table 4-E. Visalia District – Estimated Customer Growth Rate

	2001	2002	2003	2004	2005	2006	Five Year Average (Growth Rate)
CWS number of customers per project justification provided in A. 07-07-001	33,043	34,011	35,219	36,527	39,664	41,534	
Customers Added		968	1,208	1,308	3,137	1,870	1,698
CWS number of customers per Visalia expense workpapers provided in A. 07-07-001	30,310	31,725	32,752	33,929	35,164	36,804	
Customers Added		1,415	1,027	1,177	1,235	1,640	1,299

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The actual number of customers for 2006 through 2011 and CWS's projected number of customers for the years 2012 through 2015 is shown in Table 4-F.⁹³ Using the CWS 2007 forecasted customer growth rate of 1,698 and the corrected 2007 forecasted customer growth rate of 1,299 results in significantly higher than the actual number of customers for the years 2008 through 2011.

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Table 4-F. Visalia District - Total Number of Customers 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
2007 Forecasted # of Total Customers	36,804	38,502	40,200	41,898	43,596	45,294	46,992	48,690	50,388	52,086
2007 Corrected Forecasted # of Total Customers	36,804	38,103	39,402	40,701	42,000	43,299	44,598	45,897	47,196	48,495
Actual # of Total Customers (2006-2011) and Forecasted # of Total Customers (2012-2015)	36,804	38,361	39,082	39,511	40,046	40,514	40,650	40,888	41,513	42,135

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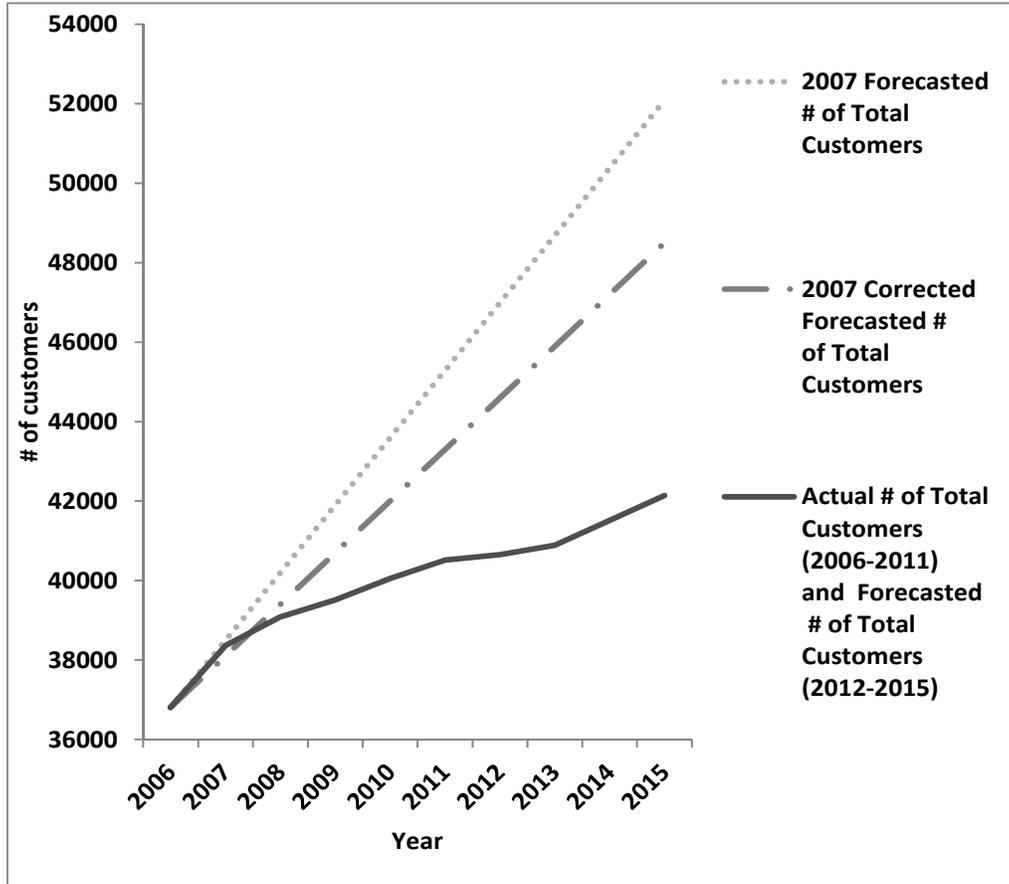
14

Figure 4-A further illustrates the disparity in forecasted total number of customers and actual total number of customers for the years 2008 through 2011. The disparity reveals that despite correcting the 2007 forecasted growth rate, the forecasted growth did not materialize and the actual growth was lower than the forecasted growth for the years 2008 through 2011 by a substantial margin. In 2011, CWS had 40,514 customers in the

⁹³ CWS Visalia expense workpaper provided in A.12-07-007.

1 Visalia District. This is 2,785⁹⁴ fewer customers than CWS predicted using the growth
 2 rate forecasted in the 2007 GRC Application.

3 **Figure 4-A. Visalia Distict - Total Number of Customers**



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 5 Note that the actual average customer growth rate from 2006 to 2011 is 742
 6 customers per year.⁹⁵ Over the projected years, 2012 through 2015, the average growth
 7 rate is 405^{96, 97} customers per year.⁹⁸ Both of these growth rates are significantly lower
 8 than the 1,299 corrected growth rate used in the 2007 project justification.

⁹⁴ 43,299- 40,514=2,785

⁹⁵ (# customers added from 2006 to 2011/5) =(1,557+725 +429+535+468)/5=742

⁹⁶ CWS Visalia expense workpaper provided in A.12-07-007.

⁹⁷ (# customers added from 2012 to 2015/4) =(136+239+625+622)/4=405

⁹⁸ The growth rate is a four year average over the projected years, 2012-2015.

1 CWS states that there are no functioning assets currently in service on this
2 property.⁹⁹ This property is the location for the 2007 GRC Carryover Project #16782
3 (new well) and the 2012 GRC proposed Project #19730 (1 MG Tank). In its “Utility Plant
4 in Service” recommendations for the Visalia District¹⁰⁰, DRA presents a supply and
5 demand analysis of the Visalia water system and DRA recommends that the Commission
6 disallow the well (Project #16782) and the tank (Project #19730).¹⁰¹

7 In summary, CWS completed acquisition of the property (Project #15948) in June
8 2010. Given the decline in average customer growth rate that had already occurred in
9 2008 and 2009, it is questionable as to why CWS still went ahead with the purchase of
10 the property in June 2010. CWS has no functioning assets currently on the property.
11 Under the original project plan, the property was purchased to provide a site to construct
12 a well or tank site to meet forecasted customer growth. Even if the well (Project #16782)
13 follows the projected timeline and is actually placed in-service in December 2013, it
14 would mean that for approximately three and a half years the land was not made used and
15 useful.

16 Based on the reasons discussed above and DRA’s plant recommendations¹⁰² to
17 disallow the tank and well projects,¹⁰³ it is not reasonable to include costs associated with
18 the land acquisition project (Project #15948) in CWS’s current requested rate base. For
19 the purposes of developing the plant in service forecast for 2014, the full cost of the
20 project, \$274,460, should be excluded from the 2010 recorded plant additions to the
21 Visalia district.

⁹⁹ CWS response to DR PR-003 Q1.

¹⁰⁰ See DRA witness Jenny Au’s testimony on Utility Plant In Service for the Visalia District.

¹⁰¹ See DRA witness Jenny Au’s testimony on Utility Plant In Service for the Visalia District.

¹⁰² See DRA witness Jenny Au’s testimony on Utility Plant In Service for the Visalia District.

¹⁰³ Project #16782 and Project #19730

1 Remove \$84,211 in 2009 recorded plant addition to the Bakersfield District

2 Project #18433 and Project #18434 are both property acquisition projects in the
3 Bakersfield District. Neither of these projects were requested by CWS nor approved by
4 the Commission (they are Non-Specific Projects). CWS created these projects in 2007 to
5 “purchase land in order to construct a pump station and tank site for a new development
6 consisting of 657¹⁰⁴ lots (“Rio Bravo” Development).”¹⁰⁵CWS later stated that the “Rio
7 Bravo” Development consists of two Phases. CWS stated Phase 1 of the “Rio Bravo”
8 Development consists of two pumps at Station 223 and a new tank at Station 222 (that
9 has already been installed) directed to serve 657 lots.¹⁰⁶ CWS stated Phase 2 of the “Rio
10 Bravo” Development will consist of an additional tank at Station 222 and additional
11 pumps at Station 223 directed to serve approximately the same number of lots as in Phase
12 1.¹⁰⁷

13 Currently only one out of the 657 lots has been fully constructed and occupied.¹⁰⁸
14 CWS states the original developer declared bankruptcy and abandoned the development
15 project.^{109, 110} CWS does not have an exact date as to when the developer abandoned the
16 project.¹¹¹ CWS states “the developer sold their contract (essentially the rights to the
17 funds being refunded by Cal Water on the constructed tank) to Pacific Capital in April
18 2011.”¹¹² CWS states that “Recently, a new developer (Highpoint Communities) has

¹⁰⁴ CWS response to DR PR-001 Q1a for Project #18433 and Project #18434

¹⁰⁵ CWS response to DR PR-001 Q1a for Project #18433.

¹⁰⁶ CWS response to DR-PR 004 Q5g.

¹⁰⁷ CWS response to DR-PR 004 Q5g.

¹⁰⁸ CWS response to DR PR-004 Q5gi, Q5gii.

¹⁰⁹ CWS response to DR PR-001 Q1a for Project #18434.

¹¹⁰ CWS response to DR PR-002 Q3d.

¹¹¹ See Q1a in CWS email dated February 12, 2013 in response to “follow up questions on the Rio-Bravo Development”

¹¹² See Q1a in CWS email dated February 12, 2013 in response to “follow up questions on the Rio-Bravo Development”

1 shown interest in reviving the project.”¹¹³ Note that under Tariff Rule No. 15, Section
2 C.1.a and Section C.1.b , the developer is responsible for constructing not only the real
3 estate, but also whatever capital projects (pumps ,tanks, service pipes, main extensions)
4 necessary to serve the real estate. CWS expects to enter into an agreement with
5 Highpoint Communities by mid-2013¹¹⁴ (emphasis added) and “[t]his agreement would
6 be to begin constructing facilities for the developer to be able to connect to Cal Water’s
7 distribution system so that Cal Water can provide water service to the development”¹¹⁵
8 (emphasis added). In accordance with Tariff Rule No. 15 Section C.1.d, DRA
9 recommends that CWS should pursue a non-refundable contribution (rather than an
10 advance) to plant facilities from the future developer of the “Rio Bravo” development
11 project to pay for the capital projects. Per Tariff Rule No. 15 Section C.2.a, if the
12 developer advances to CWS the cost of the capital projects, CWS would recover from
13 ratepayers the total cost of the capital projects over a period not to exceed 40 years from
14 the date of the contract between CWS and the developer. However, if the developer
15 provides a non-refundable contribution to CWS to cover the cost of the capital projects,
16 then the ratepayers are better off as non-refundable contributions are not included in the
17 CWS’s plant in service account, not included in rate base, and therefore not paid for by
18 ratepayers.

19 (i) **Project #18433 Property Acquisition**

20 Project #18433 was used to purchase land for a 745,000-gallon storage tank
21 (Station 222). The purchase of the land was completed in October 2009 at a recorded
22 cost of \$113,764. Project #14416, the construction of the 745,000-gallon storage tank
23 (Station 222), located on the land site purchased in Project #18433 was an Advance in
24 Aid of Construction project.¹¹⁶ The developer funded the project.¹¹⁷ CWS stated the

¹¹³ CWS response to DR PR-004 Q5e.

¹¹⁴ CWS response to DR PR-004 Q5e.

¹¹⁵ See Q3a in CWS email dated February 12, 2013 in response to “follow up questions on the Rio-Bravo Development”

¹¹⁶ CWS response to DR PR-001 Q1a for Project #18434

1 “tank was placed in service in August 2009” and “currently serves 110 existing
2 customers, including a golf course, for their operational and fire flow needs.”¹¹⁸ Although
3 the storage tank is not being used for its intended purpose, to serve the 657 lots in Phase 1
4 of the “Rio Bravo” development, it is currently in use for the benefit of existing
5 customers.

6 The tank at Station 222 (Project #14416) currently utilizes two temporary
7 pumps^{119, 120} located at Station 212, which is in relatively close proximity to the site
8 where CWS plans to construct pump station 223 (Project #86237).¹²¹ The two temporary
9 pumps, Project #19737, involved upgrading two existing pumps to boost water to the
10 tank (Project #14416).¹²² Project #19737 was performed as a Non Specific project and is
11 included in the beginning plant balance in the instant proceeding.¹²³ The recorded cost in
12 2009 and 2011 plant additions for Project #19737 is \$74,721.66.¹²⁴ CWS placed the two
13 temporary pumps into service in July 2009.¹²⁵

14 (ii) **Project #18434 Property Acquisition**

15 Project #18434 was used to purchase land for a pump station (Station 223). The
16 purchase of the land was completed in April 2009 at a recorded cost of \$84,211. CWS

¹¹⁷ CWS response to DR PR-004 Q6a.

¹¹⁸ CWS response to DR PR-004 Q6b, Q6c.

¹¹⁹ CWS February 4, 2013 email in response to “follow up questions to DR PR-004”.

¹²⁰ CWS response to DR PR-001 Q1a for Project #18434.

¹²¹ CWS response to DR PR-004 Q5ci.

¹²² See Q4a in CWS email dated February 12, 2013 in response to “follow up questions on the Rio-Bravo Development”

¹²³ See Q4b in CWS email dated February 12, 2013 in response to “follow up questions on the Rio-Bravo Development”

¹²⁴ CWS Recorded Plant Addition Bakersfield District Report provided in instant proceeding

¹²⁵ CWS response to DR PR-004 Q5cii.

1 states that no work has been performed on this land¹²⁶ and there are no functioning assets
2 currently in service on this land.¹²⁷

3 Project #86237,¹²⁸ is for the construction of pump station (Station 223), on the
4 land site purchased in Project #18434. Construction of this pump station has not
5 started.¹²⁹ CWS expects the construction of the pump station to start in July 2013 and
6 CWS projects the pump station to be in service approximately one year after construction
7 begins,¹³⁰ or about July 2014.

8 Given the projected in-service date of July 2014 for Project #86237 (pump at
9 Station 223), CWS will have held the property (Project #18434) from the time of
10 acquisition (April 2009), for more than five years, before the property is used and useful.
11 CWS has no functioning assets currently in service on the property purchased in Project
12 #18434.

13 CWS has been using two temporary pumps (Project #19737) since July of 2009 to
14 boost water to the tank (Project #14416) located on the land acquired under Project
15 #18433 . Given that for more than three and half years, CWS has been able to manage by
16 using two temporary pumps to make the tank serviceable, it is questionable if CWS even
17 needs to construct pump Station #223 to replace the two temporary pumps. Furthermore,
18 given the current halt in construction of the “Rio Bravo” Development, it remains to be
19 seen as to when CWS will come to an agreement with a developer to resume and
20 complete construction of the remaining 656 lots.

21 DRA recommends that the cost of the land acquired, \$84,211, under Project
22 #18434, to construct a pump station (Station 223), be removed from the 2009 recorded
23 plant additions to the Bakersfield District. DRA recommends that the Commission review
24 the status of the pump station (Project #86237) in the next (2015) CWS GRC filing. CWS

¹²⁶ CWS response to DR PR-004 Q5a.

¹²⁷ CWS response to DR PR-004 Q5b.

¹²⁸ CWS response to DR PR-004 Q5d.

¹²⁹ CWS response to DR PR-004 Q5e.

¹³⁰ CWS response to DR PR-005 Q5f.

1 has not requested this pump station (Project #86237) in the current GRC. Contingent
2 upon the completion of the pump station (Project #86237); the Commission should
3 decide whether to permit CWS to recover from ratepayers the cost of the land acquired
4 under Project #18434. In addition, with respect to Tariff Rule No. 15 Section C.1.d, DRA
5 recommends that CWS should pursue a non-refundable contribution (rather than an
6 advance) to plant facilities from the future developer of the “Rio Bravo” development
7 project to pay for the capital projects supporting the real estate development. By having
8 the developer provide a non-refundable contribution to CWS, the ratepayers are better off
9 as non-refundable contributions opposed to advances are not included in the CWS’s plant
10 in service account, not included in rate base, and therefore not paid for by ratepayers.

11 **4. Review of Recorded Capitalized Interest**

12 CWS uses Allowance for Funds Used During Construction (AFUDC) to capitalize
13 the costs of financing the construction of capital projects. For each project, CWS records
14 on a monthly basis an “AFUDC Debt Charge,”¹³¹ utilizing the AFUDC rate which is
15 reviewed and updated by CWS management on a quarterly basis.¹³² According to
16 Financial Accounting Standards Board’s (FASB), Statement of Financial Accounting
17 Standards. No. 34, *Capitalization of Interest Cost*, paragraph 18, “the capitalization
18 period shall end when the asset is substantially and ready for intended use...”¹³³
19 Therefore, once a capital project is placed in service, CWS should immediately stop
20 recording “AFUDC Debt Charges”, otherwise known as capitalized interest charges, for
21 the project.

22 For many of the 13 selected projects, CWS records an “AFUDC Debt Charge
23 Adjustment”.¹³⁴ The “AFUDC Debt Charge Adjustment” is a negative cost entry

¹³¹ As an example see CWS Work Order Charges Report for Project # 11451.

¹³² CWS response to DR PR-005 Q9.

¹³³ Statement of Financial Accounting Standards, No.34-Accessed on January 25, 2013

<http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175820907280&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs>

¹³⁴ As an example see CWS Work Order Charges Report for Project # 11451.

1 recorded to remove capitalized interest charges recorded based on “a prior in-service date
2 entered into PowerPlant.”¹³⁵ CWS states “this entry is created by PowerPlant as part of
3 the month end closing process” and that “In-Service and Completion training has been
4 provided to project managers to reduce this adjustment charge.”¹³⁶

5 Among the 13 selected plant addition projects, DRA reviewed the accounting
6 treatment of capitalized interest charges for two projects, Project #11451 and Project
7 #15946. DRA selected both of these projects for review as they each had a lengthy delay
8 in project start date and were carryover projects from a previous GRC filing. In both
9 projects, it is evident that CWS recovered double the cost of borrowing by recording
10 capitalized interest charges for months in which the projects were concurrently in the
11 adopted rate base thus earning an authorized rate of return.

12 The authorized rate of return consists of an equity component and debt
13 component. The equity component is used to compensate shareholders and the debt
14 component is what is used to finance the cost of borrowing for capital projects. By
15 recording capitalized interest charges for capital projects, which are concurrently in the
16 adopted rate base already earning a return, CWS is seeking to recover double the cost of
17 financing. This concept of double recovery towards the cost of financing is illustrated in
18 the two projects reviewed below.

19 Project #11451 – Salinas District

20 This project is for the construction of a one million gallon tank in Salinas. The
21 project was initially submitted in A.04-09-028. D.05-07-022, the decision resolving
22 A.04-09-028, adopted a settlement between CWS and the Office of Ratepayer Advocates
23 (ORA) and designated this project as an advice letter with a budget of \$1,050,000. CWS
24 never filed an advice letter for this project.¹³⁷ In A.07-07-001 CWS identified this
25 project as a carryover project. Therefore, the estimated project cost was included in the

¹³⁵ CWS response to DR PR-005 Q8.

¹³⁶ CWS response to DR PR-005 Q8.

¹³⁷ CWS response to DR PR-001 Q1b for Project #11451.

1 final decision as an addition to the forecasted rate base.¹³⁸ This results in rates beginning
2 in the test year 2008-2009¹³⁹ reflecting the estimated project cost. In A.09-07-001 this
3 project was identified again as a carryover project.^{140,141} It is questionable as to why
4 CWS submitted this project as a carryover in A.09-07-001 when the project itself was
5 completed, for more than double the cost of the authorized budget, in August 2009, one
6 month after the July 2009 GRC filing.¹⁴² Per A.12-07-007, the project closed at a final
7 cost of \$2,602,158.¹⁴³

8 Table 4-G lists all the capitalized interest charges- “AFUDC Debt Charges”- that
9 CWS recorded for this project.¹⁴⁴ As shown in Table 4-G, CWS records capitalized
10 interest charges for the months September 2008 through November 2009. On February of
11 2011, CWS records a \$42,258 adjustment to remove capitalized interest charges recorded
12 beyond the project in service date of August 2009. The net total of all capitalized interest
13 charges recorded for this project is \$110,336.¹⁴⁵

¹³⁸ See Attachment A and CWS “Salinas Ratebase July 2007” spreadsheet provided in A.07-07-001.

¹³⁹ Per D.07-05-062 (Opinion Adopting Revised Rate Case Plan for Class A Water Utilities) July 1, 2008 is the beginning of CWS’s test year in A.07-07-001.

¹⁴⁰ CWS “Salinas Rate base July 2009” spreadsheet provided in A.09-07-001.

¹⁴¹ Salinas Carryovers Final Settlement spreadsheet provided by CWS on January 31, 2013 in email “2009 GRC Carryovers Final Settlement for Salinas”.

¹⁴² CWS response to DR PR-001 Q1e Project #11451.

¹⁴³ Project cost as shown on CWS Recorded Plant Addition Salinas District Report provided in instant proceeding.

¹⁴⁴ See CWS Work Order Charges Report for Project #11451.

¹⁴⁵ Sum of all amounts presented in Table 4-F. Amounts are presented on the CWS Work Order Charges Report for Project #11451.

Table 4-G. Salinas District - Project #11451

AFUDC Debt Charges¹⁴⁶ (in \$)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2008	-	-	-	-	-	-	-	-	9,311	9,285	10,126	10,697
2009	9,372	9,543	9,903	8,124	8,176	8,252	11,663	11,769	11,979	12,161	12,234	-
2010	-	-	-	-	-	-	-	-	-	-	-	-
2011	-	(42,258)	-	-	-	-	-	-	-	-	-	-

The Commission approved this project in CWS’s 2007 GRC filing to be included in the adopted rate base earning CWS’ authorized rate of return beginning in the test year 2008-2009. During September 2008 through November 2009 CWS was recording capitalized interest charges for this project while the project was concurrently in the adopted rate base earning CWS’ authorized rate of return. Therefore, CWS is seeking double recovery of finance charges for this project. DRA recommends that CWS should immediately remove from CWS’s 2009 plant additions to rate base, \$110,336, which is the total of all capitalized interest charges coinciding with the period in which the project was in rate base.

Project #15946- Visalia District

This project is for the construction of a tank, well, and booster site in the Visalia District. In A.07-07-001 CWS budgeted this project in the amount of \$2,821,000. Per D.08-07-008, the Commission authorized a settlement in which CWS and DRA agreed to defer this project to 2008 with a budget of \$2,732,542.¹⁴⁷ In the subsequent GRC application, A.09-07-001, this project was identified as a carryover project having a cost of \$2,821,000.^{148, 149} The project was closed in September 2010,¹⁵⁰ about two years after it was included in the adopted rate base. The final cost of the project is \$2,892,788.¹⁵¹

¹⁴⁶ Rounded to nearest dollar.

¹⁴⁷ See Attachment B and CWS 2007 “Visalia settlement” spreadsheet provided in email on February 4, 2013.

¹⁴⁸ CWS “Visalia Rate base July 2009” spreadsheet provided in A.09-07-001.

¹⁴⁹ Visalia Carryovers Final Settlement spreadsheet in A.09-07-001.

1 Table 4-H lists all the capitalized interest charges- “AFUDC Debt Charges”- that
 2 CWS recorded for this project.¹⁵² Notice that CWS, per Table 4-H, records capitalized
 3 interest charges for the months September 2008 through November 2010. On January of
 4 2011, CWS records a \$29,559 adjustment to back out capitalized interest charges
 5 extending beyond the project in service date of September 2010. The net total of all
 6 capitalized interest charges recorded for this project is \$188,166.¹⁵³

7 **Table 4-H. Visalia District - Project #15946**
 8 **AFUDC Debt Charges¹⁵⁴ (in \$)**

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2008	-	-	-	-	-	-	-	-	3,653	3,782	4,347	4,879
2009	4,405	4,748	5,064	4,059	4,121	4,434	6,635	7,132	7,697	8,388	9,016	8,896
2010	9,988	10,840	11,203	11,293	11,367	11,466	11,619	12,137	13,998	11,246	11,314	-
2011	(29,559)	-	-	-	-	-	-	-	-	-	-	-

9
 10 The Commission approved this project in CWS’s 2007 GRC filing to be included
 11 in the adopted rate base earning CWS’ authorized rate of return beginning in the test year
 12 2008-2009. During September 2008 through November 2010 CWS was recording
 13 capitalized interest charges for this project while the project was concurrently in the
 14 adopted rate base earning CWS’ authorized rate of return. Therefore, CWS is seeking
 15 double recovery of finance charges. DRA recommends that CWS should immediately
 16 remove from CWS’s 2010 plant additions to rate base, \$188,166, which is the total of all
 17 capitalized interest charges coinciding with the period in which the project was in rate
 18 base.

19 In summary, DRA recommends that the Commission require CWS to immediately
 20 remove capitalized interest charges in the amount of \$110,336 for Project #11451 and

¹⁵⁰ CWS response to DR PR-001 Q1e.
¹⁵¹ Project cost as shown on CWS Recorded Plant Addition Visalia District Report provided in instant proceeding.
¹⁵² See CWS Work Order Charges Report for Project #11451.
¹⁵³ Sum of all amounts presented in Table 4-H. Amounts are presented on the CWS Work Order Charges Report for Project #115946.
¹⁵⁴ Rounded to nearest dollar.

1 \$188,166 for Project #15946 from 2009 and 2010 plant additions to rate base,
2 respectively. Furthermore, since DRA's audit examined just 13 of the 3,805 plant
3 additions that CWS recorded from 2009, 2010, and 2011, CWS should be required to
4 immediately conduct an internal audit to identify and remove from its requested 2009,
5 2010, and 2011 plant additions the portion of capitalized interest for all projects for the
6 period in which that same project had previously been included in the adopted rate base
7 and therefore reflected in authorized rates for those years. DRA recommends that the
8 Commission require CWS to file the results of the internal audit with all supporting
9 workpapers and a rate base offset Tier 1 Advice Letter with separate calculations for each
10 district, within 90 days of a final decision of the instant proceeding, to remove from
11 adopted rate base the portion of capitalized interest charges recorded for all projects for
12 the period in which that same project had previously been included in the adopted rate
13 base.

14 **D. CONCLUSION**

15 Upon reviewing a sample of 13 plant addition projects and assessing the
16 reasonableness of the cost, accounting, and adherence to the project specific plan, DRA
17 makes the following recommendations.

18 First, based on DRA's review of the original project plan, the latest available
19 project status, actual versus projected customer growth rate, and DRA's plant
20 recommendations¹⁵⁵ to disallow the tank (Project #19730) and well (Project #16782)
21 projects located on the land acquired under Project #15948,¹⁵⁶ it is not reasonable to
22 include costs associated with the land acquisition project in Visalia, Project #15948, in
23 CWS's current requested rate base. DRA recommends the full cost of the land, \$274,460,
24 be excluded from 2010 plant additions to rate base for the purpose of forecasting the
25 2014 revenue requirement.

¹⁵⁵ See DRA witness Jenny Au's testimony on Utility Plant In Service for the Visalia District.

¹⁵⁶ Project #16782 and Project #19730.

1 Second, based on review of the current project status and project plan going
2 forward it is not reasonable to include costs associated with the land acquisition project in
3 Bakersfield, Project #18434, in CWS's current requested rate base. DRA recommends
4 the full cost of the land, \$84,211, be excluded from 2009 plant additions to rate base for
5 the purpose of forecasting the 2014 revenue requirement. In addition, DRA recommends
6 that the Commission review the status of Project #86237 (pump station) in the next
7 (2015) GRC filing and contingent upon the completion of Project #86237 (pump station),
8 the Commission should then decide whether to permit CWS to recover the cost for the
9 land acquired under Project #18434.

10 Third, DRA recommends that the Commission require CWS to immediately
11 remove capitalized interest charges in the amount of \$110,336 for Project #11451 and
12 \$188,166 for Project #15946. This is because of double recovery of financing charges
13 that results by recording capitalized interest charges for periods in which a project was
14 already included in the adopted rate base and earning a rate of return. Additionally, DRA
15 recommends that the Commission require CWS to immediately conduct an internal audit
16 to identify and remove from its requested 2009, 2010, and 2011 plant additions the
17 portion of capitalized interest for the period in which any project was also included in
18 rate base. DRA recommends that the Commission require CWS to file the results of the
19 internal audit with all supporting workpapers and a rate base offset Tier 1 Advice Letter
20 with separate calculations for each district, within 90 days of a final decision of the
21 instant proceeding, to remove from adopted rate base the portion of capitalized interest
22 charges recorded for all projects for the period in which that same project had previously
23 been included in the adopted rate base.

24 It is just and reasonable that the Commission adopt DRA's three aforementioned
25 recommendations for the reasons discussed in the discussion section of this chapter.
26

Chapter 4, Attachment A

Screenshots #1 through #7 illustrate that Project #11451 is included in CWS’s additions to plant in 2007. Thus Project #11451 was in adopted rate base earning a rate of return beginning July 1, 2008, the first day of the first test year of the 2007 CWS GRC cycle. Screenshots #1 – 6 below show portions of spreadsheets CWS provided to DRA via email on February 4, 2013. Screenshot #1 below presents the “Carryovers” tab within the “2004 Salinas Original” spreadsheet. The carryover projects identified in this screenshot were included in the CWS 2007 GRC proceeding (A.07-07-001). Note that Project #11451 has a cost of \$1,050,000 and the grand total of all carryover projects is \$8,885,466.

Screenshot #1

	A	B	D	F	O	P	Q	K
1	Year	ID Number	Project Description	Status	Grand Total			major carryover
16	2005	00009110	Add Generator Set - Sta. 40-01	OPEN	\$ 106,200	J. Kooy	Jan Kooy - Engineering	yes
21	2005	00011254	Additional SCADA RTU's	OPEN	\$ 260,000	J. Kooy	check with Jan Kooy	yes
25	2005	00011438	New Well Site - Futura Well	OPEN	\$ 162,000		Talk to Erin	yes
26	2005	00011451	Equip Booster Station - Pumped Storage in Central Salinas	OPEN	\$ 1,050,000		See Girlie Jacobson in Engineering. Now is a 1.5 million gallon tank called station 68	yes
27	2005	00012565	1.0 Million Gallon Tank in Central Salinas	OPEN	\$ 1,231,000		See Girlie Jacobson in Engineering. Now is a 1.5 million gallon tank called station 68	yes
28	2005	00012572	Alternative Supply Project - Environmental Planning & Feasibility Study	OPEN	\$ 535,000		See Erin McCauley	yes
32	2005	00013767	Land for New Well @ Fresh Express	OPEN	\$ 405,000		Mike Jones - Salinas	yes
33	2005	00014193	Drill & Develop New Well - Sta. 65	OPEN	\$ 1,000,000		Will be operating in approximately 3 weeks	yes
38	2006	00009113	Replace Backup Power Generator - Sta. 12-01	Open	\$ 115,300		Jan Kooy - Engineering	yes
40	2006	00011255	Additional SCADA RTU's	OPEN	\$ 225,000		Jan Kooy - Engineering	yes
53	2006	00011449	Drill & Develop New Well	OPEN	\$ 424,303		See Rashmi Kashyap in Engineering	yes
54	2006	00011449	Equip New Well	OPEN	\$ 261,432		See Rashmi Kashyap in Engineering	yes
55	2006	00011449	Pumphouse and Site Improvements - New Well	OPEN	\$ 144,265		See Rashmi Kashyap in Engineering	yes
63	2006	00014896	Hwy 183 Reconstruction	OPEN	\$ 800,000		Mike Jones - Salinas	yes
65	2006	00015697	Nitrate Analyzers - Basin Unit Backup	OPEN	\$ 175,697		Jan Kooy - Engineering	yes
66	2006	00015819	SCADA Display Monitor	OPEN	\$ 13,844			no
67	2006	00015864	Acquisition Buena Vista System	OPEN				no
68	2006	00015884	Remote Radios	OPEN	\$ 2,641			no
69	2006	00015890	Replace Gate Valve	OPEN	\$ 6,489			no
70	2006	00016241	Replace Pump - Sta. 37-01	OPEN	\$ 16,069			no
71	2006	00016301	Drill & Develop New Well - Sta. 22-02	OPEN	\$ 596,870		Bill Lull - Engineering	yes
72	2006	00016345	Replace Pump - Sta. 5-03	OPEN	\$ 39,142			no
73	2006	00016627	Replace Safe - Commercial Office	OPEN	\$ 1,188			no
74	2006	00016808	Add Trash Pumps	COMPLE	\$ 1,600			no
75	2006				\$ 3,507,265			
		Grand Total			\$ 8,885,466			

Screenshot #2 presents the “WP8B1” tab within the “SALINAS ratebase Settlement 2007” spreadsheet. The carryover projects identified in this screenshot are in the amount of \$7,458,596 and \$1,426,870 for 2007 and 2008, respectively. Notice that the sum of those carryover projects for 2007 and 2008 equals the total amount of the carryover projects identified in screenshot #1, which is \$8,885,466. CWS stated, via email on February 4, 2013, that Project #11451 is included in the carryover dollar amount, \$7,458,596, for 2007. Note that in screenshot #2 the “total company funded \$ amount,” which includes carryovers and additions for 2007, is \$10,873,396.

Screenshot #2

	A	B	C	D	E	F	G	H	I	J	K
1											
2											
3											
4					SALINAS				DISTRICT		
5										WP-8B1	
6											
7			GROSS	PLANT	ADDITIONS	---	COMPANY	FUNDED			
8											
9										Y E A R S	
10		CONSTRUCTION	BUDGETS					Carryover	2007	2008	2009
11			CARRYOVERS						7,458,596	1,426,870	Okay
12			Continuing carryover		-2,368,852						
13		2007	WP8-B1a					3,414,800			
14		2008	WP8-B1b						9,275,618		
15		2009	WP8-B1c								5,492,000
16											
17											
18											
19		TOTAL	COMPANY	FUNDED	--	\$ AMOUNT			10,873,396	10,702,488	5,492,000
20											
21											
22											
23					\$ IN THOUSANDS				10,873.4	10,702.5	5,492.0
24											
25											
26											
27		LAND - GROSS	ADDITIONS						\$0.0	\$1,450.4	\$1,514.6
28											
29											
30		TRANSPORTATION	EQUIPMENT:								
31			GROSS	ADDITIONS					\$140,000	\$171,800	\$89,900
32											
33											
34		VEHICLE			VEH.				ORIGNIAL	COST	
35		RETIREMENTS		YEAR	#	YR.	PURCH		2007	2008	2009
36											
37				2007	VO99021	1999	truck		28779		
38					VO99022	1999	truck		15402		
39					VO99023	1999	truck		15402		
40					V200087	2000	truck		15797		
41											
42											
43				2008	V200016	2000	truck			15727	
44											

Page 1

Screenshot #3 presents the “WP8B2” tab within the “SALINAS ratebase Settlement 2007” spreadsheet. Screenshot #3 shows that the gross additions in company funds is \$10,873.4 for 2007. The \$10,873.4 amount is being picked up from Cell I23 in screenshot #2. Note that in screenshot #3 the total gross additions to plant is \$11,769.8 for 2007.

Screenshot #3

SALINAS DISTRICT					
WP8-B2					
NET ADDITIONS TO UTILITY PLANT					
DOLLARS IN THOUSANDS					
ITEM	YEARS			SOURCE	
	2007	2008	2009		
GROSS ADDITIONS -- COMPANY FUNDS	10873.4	10702.4881	5492	WP8-B1	
ADVANCES FOR CONSTRUCTION -- DEPOSITS	797.6	797.6	797.6	T- 10B	
CONTRIBUTIONS IN AID OF CONSTRUCTION:					
GROSS ADDITIONS	98.8	98.8	98.8	WP10-B3	
LESS TRANSFERS FROM ADVANCES	0.0	0.0	0.0	WP10-B3	
GROSS ADDITIONS -- NEW CONTRIBUTIONS	98.8	98.8	98.8		
TOTAL GROSS ADDITIONS TO PLANT	11,769.8	11,598.9	6,388.4		
RETIREMENTS	341.0	281.3	335.7	WP8B39C2	
TOTAL NET ADDITIONS	11,428.8	11,317.5	6,052.7		
WEIGHTED AVERAGE ADDITIONS:					
WEIGHTING FACTOR -- %	50.0%	50.0%	50.0%	WP8B49C3	
AMOUNT	5,714.4	5,658.8	3,026.3		

Screenshot #4 presents the “TBL8B” tab within the “SALINAS ratebase Settlement 2007” spreadsheet. Screenshot #4 shows that the 2007 gross additions to plant is \$11,769.8. The \$11,769.8 amount is picked up from Cell G19 in screenshot #3. Note that in screenshot #4 the 2007 weighted average amount of utility plant is \$91,844.5.

Screenshot #4

	A	B	C	D	E	F	G	H	I	J	K
1						SALINAS DISTRICT					
2										TABLE 8-B	
3						UTILITY	PLANT				
4				YEARS	2007	to	2009	ESTIMATED			
5						(DOLLARS IN THOUSANDS)					
6											
7											
8		ITEM				2007	2008	2009	2008-9	2009-10	
9											
10											
11		TOTAL UTILITY PLANT									
12											
13		BEGINNING OF YEAR BALANCE				\$86,115.1	\$97,765.4	\$109,301.0	\$97,765.4	\$109,301.0	
14		ADJUSTMENT FOR ESP PROGRAM				(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	
15											
16		ADJUSTMENT FOR HISTORICAL CAP INT				(\$95.3)	(\$90.8)	(\$86.3)	(\$88.6)	(\$84.1)	
17											
18		GROSS ADDITIONS				\$11,769.8	\$11,598.9	\$6,388.4	\$11,598.9	\$6,388.4	
19											
20		CURRENT CAPITALIZED INTEREST				\$221.5	\$218.0	\$106.9	\$218.0	\$106.9	
21											
22		RETIREMENTS AND ADJUSTMENTS				(\$341.0)	(\$281.3)	(\$335.7)	(\$281.3)	(\$335.7)	
23											
24		NET ADDITIONS -- TOTAL				\$11,650.3	\$11,535.6	\$6,159.6	\$11,535.6	\$6,159.6	
25											
26		-- % BEG. of YEAR				13.5%	11.8%	5.6%	11.8%	5.6%	
27											
28		END OF YEAR BALANCE									
29											
30		WEIGHTED AVERAGE -- AMOUNT				\$91,844.5	\$103,441.9	\$112,293.9	\$109,211.9	\$115,376.0	
31											
32		ESTIMATED PLANT PER CUSTOMER				\$3,416.58	\$3,838.15	\$4,155.96	\$3,978.14	\$4,286.44	
33		PERCENT CHANGE					12.34%	8.28%		7.75%	
34											
35											
36											
37											
38											
39		DO NOT TYPE									
40											
41											
42		WEIGHTED NET ADDITIONS									
43											
44		5 YEAR WEIGHTING (WP8-B4)				50.0%	50.0%	50.0%	100.0%	100.0%	
45											
46		WEIGHTED AVERAGE -- AMT				\$5,825.1	\$5,767.8	\$3,079.8	\$11,535.6	\$6,159.6	
47											
48											
49		AVERAGE SERVICES EXCL F.P. (TABLE 4-B)									
50											
51											
52											
53											

Screenshot #5 presents the “TBL10F110D2A1” tab within the “SALINAS ratebase Settlement 2007” spreadsheet. Screenshot #5 picks up the amount \$91,844.5 from Cell F31 in screenshot #4. The calculation shown in Screenshot #5 uses the \$91,844.5 amount to calculate total 2007 rate base. The spreadsheet uses the 2007 rate base as the basis to calculate rate base in 2008 and 2009. Note that in screenshot #5 the weighted average rate base is \$56,281.6 for the test year 2008-2009¹⁵⁷ and \$59,180.9 in the second test year 2009-2010¹⁵⁸.

Screenshot #5

	A	B	C	D	E	F	G	H	I
1	SALINAS DISTRICT								
2									TABLE 10F
3									WP10 - D2a1
4	WEIGHTED	AVERAGE			RATE		BASE		
5									
6									
7	Y E A R S								
8									
9				2007	2008	2009	2008-9	2009-10	SOURCE
10									
11									
12	UTILITY PLANT			\$91,844.5	\$103,441.9	\$112,293.9	\$109,211.9	\$115,376.0	TBL 8-B
13	IBCWP ADJUSTMENT			(\$2,368.9)	(\$2,368.9)	(\$2,368.9)	(\$2,368.9)	(\$2,368.9)	
14	DEPRECIATION RESERVE			\$23,955.2	\$26,322.1	\$29,015.3	\$27,753.0	\$30,577.5	TBL 9-C
15									
16	NET UTILITY PLANT			\$65,520.4	\$74,750.9	\$80,909.7	\$79,090.0	\$82,429.5	
17									
18									
19	DEDUCTIONS FROM RATE BASE								
20	-----								
21	ADJUSTMENTS			\$21,980.7	\$22,140.7	\$22,320.9	\$22,226.0	\$22,415.9	TBL 10-B
22	DEFERRED TAXES			\$6,429.4	\$6,766.9	\$7,057.2	\$6,917.9	\$7,196.6	WP7-C18
23	UNAMORTIZED ITC			\$157.5	\$151.2	\$144.9	\$148.1	\$141.8	WP7-C15
24									
25	TOTAL DEDUCTIONS:			\$28,567.6	\$29,047.8	\$29,523.0	\$29,291.9	\$29,754.3	
26									
27									
28	ADDITIONS TO RATE BASE								
29	-----								
30	WORKING CAPITAL			\$1,138.3	\$1,229.2	\$1,266.4	\$1,247.8	\$1,266.4	TBL 10-D
31	TAXES ON ADVANCES			\$3,186.6	\$3,014.0	\$2,505.5	\$2,759.8	\$2,505.5	WP 10-F3
32	TAXES ON CONTRIBUTIONS			\$531.2	\$478.7	\$427.2	\$453.0	\$427.2	WP 10-F4
33									
34	TOTAL ADDITIONS:			\$4,856.1	\$4,721.9	\$4,199.1	\$4,460.5	\$4,199.1	
35									
36									
37	DISTRICT RATE BASE			\$41,808.9	\$50,425.0	\$55,585.8	\$54,258.6	\$56,874.4	
38	PRORATED G. O. RATE BASE			\$1,699.3	\$1,867.9	\$2,164.7	\$2,023.0	\$2,306.5	TBL11-D1,2,3
39									
40	TOTAL RATE BASE			\$43,508.2	\$52,292.9	\$57,750.5	\$56,281.6	\$59,180.9	
41									
42									
43	RATE BASE EXCLUDING WORKING CASH			\$42,370.0	\$51,063.7	\$56,484.1	\$55,033.8	\$57,914.5	hand entry to ma
44									

¹⁵⁷ First test year begins July 1, 2008.

¹⁵⁸ Second test year begins July 1, 2009.

Screenshot #6 presents the “Appendix Adopted Rate Base” tab within the “SALINAS ratebase Settlement 2007” spreadsheet. Screenshot #6 shows that the adopted rate base is \$56,281.6 for the test year 2008-2009 and \$59,180.9 in the second test year 2009-2010. The \$56,281.6 and \$59,180.9 amounts are picked up from Cells G40 and H40 in screenshot #5.

Screenshot #6

	A	B	C	D	E	F	G	H
1	Appendix C							
2	PAGE 2							
3								
4	CALIFORNIA WATER SERVICE CO.							
5	SALINAS DISTRICT							
6								
7	ADOPTED RATE BASE							
8	(DOLLARS IN THOUSANDS)							
9								
10						2008-9	2009-10	2010-2011
11								
12	RATE BASE							
13								
14	WTD. AVG. PLANT IN SERVICE					\$109,211.9	\$115,376.0	\$121,540.1
15	IBCWIP ADJUSTMENT					(2,368.9)	(2,368.9)	(2,368.9)
16	MATERIALS AND SUPPLIES					220.7	220.7	220.7
17	WORKING CASH - LEAD - LAG					1,032.2	1,050.8	1,069.4
18	WORKING CASH - W / H EMPLOYEES					(5.1)	(5.1)	(5.1)
19	WTD. AVG. DEPRECIATION RESERVE					(27,753.0)	(30,577.5)	(33,402.0)
20	ADVANCES FOR CONSTRUCTION					(16,262.2)	(16,569.3)	(16,876.4)
21	CONTRIBUTIONS					(5,698.7)	(5,548.6)	(5,398.5)
22	AMORTIZATION OF INTANG.					(265.1)	(298.0)	(330.9)
23	DEFERRED TAXES					(6,917.9)	(7,196.6)	(7,475.3)
24	UNAMORT. I.T.C.					(148.1)	(141.8)	(135.5)
25	PRORATED G.O. RATE BASE					2,023.0	2,306.5	2,590.0
26	TAXES ON ADVANCES					2,759.8	2,505.5	2,251.2
27	TAXES ON C.I.A.C.					453.0	427.2	401.4
28								
29	WTG. AVG. RATE BASE					\$56,281.6	\$59,180.9	\$62,080.2
30								
31								
32								
33								
34								
35								
36								

Screenshot #7 below presents Appendix A, Page 1 for the SALINAS DISTRICT in Attachment C of the Settlement Agreement accompanying D.08-07-008, the decision which resolved A.07-07-001. The weighted average rate base is \$56,281.6 for the test year 2008-2009 and \$59,180.9 in the second test year 2009-2010. These amounts match the amounts shown in screenshot #6.

Screenshot #7

**Appendix A
Page 1**

CALIFORNIA WATER SERVICE CO.
SALINAS DISTRICT

ADOPTED RATE BASE
(DOLLARS IN THOUSANDS)

	<u>2008-9</u>	<u>2009-10</u>	<u>2010-2011</u>
RATE BASE			
WTD. AVG. PLANT IN SERVICE	\$109,211.9	\$115,376.0	\$121,540.1
IBCWIP ADJUSTMENT	(\$2,368.9)	(\$2,368.9)	(\$2,368.9)
MATERIALS AND SUPPLIES	220.7	220.7	\$220.7
WORKING CASH - LEAD - LAG	1,032.2	1,050.8	\$1,069.4
WORKING CASH - W / H EMPLOYEES	(5.1)	(5.1)	(\$5.1)
WTD. AVG. DEPRECIATION RESERVE	(27,753.0)	(30,577.5)	(\$33,402.0)
ADVANCES FOR CONSTRUCTION	(16,262.2)	(16,569.3)	(\$16,876.4)
CONTRIBUTIONS	(5,698.7)	(5,548.6)	(\$5,398.5)
AMORTIZATION OF INTANG.	(265.1)	(298.0)	(\$330.9)
DEFERRED TAXES	(6,917.9)	(7,196.6)	(\$7,475.3)
UNAMORT. I.T.C.	(148.1)	(141.8)	(\$135.5)
PRORATED G.O. RATE BASE	2,023.0	2,306.5	\$2,590.0
TAXES ON ADVANCES	2,759.8	2,505.5	\$2,251.2
TAXES ON C.I.A.C.	453.0	427.2	\$401.4
WTG. AVG. RATE BASE	<u>\$56,281.6</u>	<u>\$59,180.9</u>	\$62,080.2

Chapter 4, Attachment B

D.08-07-008, adopted a settlement between CWS and DRA (DRA was then called ORA) in the GRC proceeding A.07-07-001. In the settlement, DRA and CWS agreed to defer Project #15946 to 2008 with a budget of \$2,732,542. Screenshots #1 through #8 confirm that Project #15946 was included in the CWS additions to plant in 2008. Thus Project #15946 was included in the adopted rate base, earning a rate of return beginning July 1, 2008, the first day of the first test year of the 2007 CWS GRC cycle.

Screenshots 1 – 7 show portions of spreadsheets CWS provided to DRA via email on February 4, 2013. Screenshot #1 presents Project #15946 in the “Settlement” tab within the “Visalia Settlement” spreadsheet. CWS requested recovery for this project in the CWS 2007 GRC proceeding (A.07-07-001). Note that the settled total cost of this project is \$2,732,542¹⁵⁹ budgeted for the year 2008. In addition the project type was classified as “Storage”.

Screenshot #1

	A	B	C	D	L	N	O	P	Q	R
	Year	ID Number	Sub-Category	Project Description	Grand Total		Settlement	DRA Adjustment	Reasoning	Type
1	2008	00017077	Specific	Replace Pump & Motor - Sta. 12A	\$ 48,700		\$ 48,700	\$ -		Structures
65	2008	00017077	Specific	Replace Pump Foundation & Shelter -	\$ 19,000		\$ 19,000	\$ -		Structures
66	2008	00017085	Specific	Replace Pump & Motor - Sta. 77-01	\$ 73,400		\$ 73,400	\$ -		Pumps
67	2008	00017185	Specific	Conversion of Flat Rate Services to Metered Services	\$ 2,400		\$ -	\$ (2,400)		Equipment
68	2008	00017185	Specific	Conversion of Flat Rate Services to Metered Services	\$ 2,635,600		\$ -	\$ (2,635,600)		Equipment
69	2008	00017693	Specific	Security Mitigation Improvements - All Visalia Facilities.	\$ 81,700		\$ 81,700	\$ -		Structures
70	2008			Small Meter Replacements	\$ 88,200		\$ 88,200	\$ -		Non-Specific
71	2008		Non-specific	(blank)	\$ 1,114,200		\$ 1,114,200	\$ -		Non-Specific
72	2008	00015946	Specific	Drill & Develop New Well - Roeben & Riggin Tank Site	\$ -		\$ 526,800	\$ 526,800	Deferred project from 2007 and overall cost reduced by \$88,658 due to lower contingency.	Storage
73	2008	00015946	Specific	Equip New Well - Electrical	\$ -		\$ 330,500	\$ 330,500		Storage
74	2008	00015946	Specific	Equip New Well - Mechanical	\$ -		\$ 143,400	\$ 143,400		Storage
75	2008	00015946	Specific	Pumphouse and Site Improvements - Roeben & Riggin Tank Site	\$ -		\$ 490,100	\$ 490,100		Storage
76	2008	00015946	Specific	2.0 MG Tank - Roeben & Riggin Tank Site	\$ -		\$ 1,241,742	\$ 1,241,742		Storage
77	2007	00016710	Specific	Conversion of Flat Rate Services to Metered Services	\$ -		\$ 1,430,800	\$ 1,430,800	One-half of an 8-year program	
78	2007	00016710	Specific	Conversion of Flat Rate Services to Metered Services	\$ -		\$ -			
79	2007	00016710	Specific	Conversion of Flat Rate Services to Metered Services	\$ -					
80	2007	00016710	Specific	Conversion of Flat Rate Services to Metered Services	\$ -					
81	2007	00016710	Specific	Vehicles - Conversion of Flat Rate Services to Metered Services	\$ -		\$ -			
82	2008 Total				9,133,200		\$ 10,498,650	\$ 1,365,450	-	
83	2009	00015198	Specific	Upgrade Substandard Hydrants	\$ 37,800		\$ 37,800	\$ -		Hydrants
84										
85	2009	00016776	Specific	Well in Northwest Visalia	\$ 659,000		\$ -	\$ (659,000)	Advice Letter	
86	2009	00016776	Specific	Well electrical equip.	\$ 321,000		\$ -	\$ (321,000)	Advice Letter	

¹⁵⁹ \$526,800 + \$330,500 + \$143,400 + \$490,100 + \$1,241,742 = \$2,732,542

Screenshot #2 presents Project #15946 in the “Summary by Type” tab within the “Visalia Settlement” spreadsheet. The settled total cost of Project #15946 is \$2,732,542, as shown in screenshot #1. Note that the settled total cost of Project #15642, \$109,400, is included in the tab referenced to in screenshot #1. Both Project #15946 and Project #15642 together makeup the \$2,841,942 balance of the “Storage” type project additions in 2008 as displayed in screenshot #2. Note that the total cost of project additions in 2008 is \$9,067,850.

Screenshot #2

	A	B	C	D	E
1					
2					
3	Sum of Settlement	Year			
4	Type	2007	2008	2009	Grand Total
5	Field	\$ 6,000	\$ 31,800	\$ -	\$ 37,800
6	Hydrants	\$ 417,860	\$ 117,300	\$ 71,700	\$ 606,860
7	Intangible Plant			\$ 21,200	\$ 21,200
8	Land		\$ 540,000	\$ 313,200	\$ 853,200
9	Mains	\$ 2,878,000	\$ 1,876,908	\$ 556,900	\$ 5,311,808
10	Non-Specific	\$ 1,242,900	\$ 1,202,400	\$ 1,230,700	\$ 3,676,000
11	Office	\$ 87,600	\$ 19,300	\$ 16,800	\$ 123,700
12	Pumps	\$ 41,600	\$ 408,700	\$ 213,300	\$ 663,600
13	Purification	\$ 9,400	\$ 96,900	\$ 101,500	\$ 207,800
14	Services	\$ 382,400	\$ 348,300	\$ 121,200	\$ 851,900
15	Storage	\$ -	\$ 2,841,942		\$ 2,841,942
16	Structures	\$ 45,900	\$ 1,502,900	\$ 1,222,700	\$ 2,771,500
17	Vehicles	\$ -	\$ 81,400	\$ 229,300	\$ 310,700
18	Equipment		\$ -		\$ -
19	Grand Total	\$ 5,111,660	\$ 9,067,850	\$ 4,098,500	\$ 18,278,010
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
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44					

Screenshot #3 below presents the “WP8B1” tab within the “Visalia ratebase Settlement 2007” spreadsheet. The total project additions for the year 2008 is \$9,067,850. This dollar amount is equivalent to the total project additions in 2008 as shown in screenshot #2. This dollar amount also represents the total company funded projects in 2008.

Screenshot #3

	A	B	C	D	E	F	G	H	I	J	K	L
1												
2												
3												
4					VISALIA				DISTRICT			
5										WP-8B1		
6												
7			GROSS	PLANT	ADDITIONS	--	COMPANY	FUNDED				
8												
9										YEARS		
10		CONSTRUCTION	BUDGETS				Carryover	2007	2008	2009		
11							5,696,698					
12			continuing carryover		-1,337,605							
13		2007 WP8-B1a						5,111,660				
14		2008 WP8-B1b							9,067,850			
15		2009 WP8-B1c								4,098,500		
16												
17												
18												
19									10,808,358	9,067,850	4,098,500	
20												
21												
22												
23												
24									\$10,808.4	\$9,067.9	\$4,098.5	
25												
26												
27												
28		LAND - GROSS	ADDITIONS						\$0.0	\$540.0	\$313.2	
29												
30												
31		TRANSPORTATION	EQUIPMENT:									
32			GROSS	ADDITIONS					\$0	\$81,400	\$229,300	
33												
34												
35		VEHICLE			VEH.					ORIGINAL COST		
36		RETIREMENTS		YEAR	#	YR. PURCH		2007	2008	2009		
37												
38				2007	none							
39												
40												
41												
42												
43												
44												
45												
46												
47												
48				2008	V200023	2000	truck		18,603			
49						2000						

Screenshot #4 below presents the “WP8B2” tab within the “Visalia ratebase Settlement 2007” spreadsheet. The gross additions in company funds, \$9,067.9, as shown in screenshot #4, is equivalent to the dollar amount shown in screenshot #3.¹⁶⁰ Note that in screenshot #4 the total gross additions to plant in 2008 is \$12,204.6.

Screenshot #4

	A	B	C	D	E	F	G	H	I	J	K
1	VISALIA					DISTRICT					
2										WP8-B2	
3	NET ADDITIONS TO UTILITY PLANT										
4	DOLLARS IN THOUSANDS										
5											
6	ITEM				YEARS			SOURCE			
7					2007	2008	2009				
8											
9	GROSS ADDITIONS -- COMPANY FUNDS				10808.4	9067.9	4098.5	WP8-B1			
10											
11	ADVANCES FOR CONSTRUCTION -- DEPOSITS				2463.8	2463.8	2463.8	T- 10B			
12											
13	CONTRIBUTIONS IN AID OF CONSTRUCTION:										
14	GROSS ADDITIONS				\$672.9	\$672.9	\$672.9	WP10-B3			
15	LESS TRANSFERS FROM ADVANCES				0.0	0.0	0.0	WP10-B3			
16	GROSS ADDITIONS -- NEW CONTRIBUTIONS				672.9	672.9	672.9				
17											
18											
19	TOTAL GROSS ADDITIONS TO PLANT				\$13,945.1	\$12,204.6	\$7,235.2				
20											
21	RETIREMENTS				221.1	239.7	405.0	WP8B39C2			
22											
23	TOTAL NET ADDITIONS				13,724.0	11,964.9	6,830.3				
24											
25											
26											
27	WEIGHTED AVERAGE ADDITIONS:										
28	WEIGHTING FACTOR -- %				50.0%	50.0%	50.0%	WP8B49C3			
29	AMOUNT				6,862.0	5,982.4	3,415.1				
30											
31											
32											
33											
34											
35											
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49											

¹⁶⁰ Amounts reflected in Screenshot #4 and all screenshots going forward are “Dollars In Thousands.”

Screenshot #5 below presents the “TBL8B” tab within the “Visalia ratebase Settlement 2007” spreadsheet. The total gross additions to plant, \$12,204.6, as shown in screenshot #5, is equivalent to the dollar amount shown in screenshot #4. Note that in screenshot #5 the weighted average amount of utility plant in 2009 is \$98,354.3 (in thousands of dollars).

Screenshot #5

	A	B	C	D	E	F	G	H	I	J
1					VISALIA	DISTRICT				
2								TABLE 8-B		
3						UTILITY PLANT				
4		YEARS		2007 to		2009	ESTIMATED			
5				(DOLLARS IN THOUSANDS)						
6										
7									End of Year	End of Year
8		ITEM				2007	2008	2009	2008-9	2009-10
9										
10										
11		TOTAL UTILITY PLANT								
12										
13		BEGINNING OF YEAR BALANCE				\$78,437.8	\$92,379.9	\$104,529.0	\$92,379.9	\$104,529.0
14										
15		GENERAL PLANT ALLOCATED TO ESP				(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)
16										
17		ADJUSTMENT FOR HISTORICAL CAP INT				(\$104.3)	(\$99.7)	(\$95.1)	(\$97.4)	(\$92.8)
18										
19		GROSS ADDITIONS				\$13,945.1	\$12,204.6	\$7,235.2	\$12,204.6	\$7,235.2
20										
21		CURRENT CAPITALIZED INTEREST				\$218.1	\$184.2	\$83.0	\$184.2	\$83.0
22										
23		RETIREMENTS AND ADJUSTMENTS				(\$221.1)	(\$239.7)	(\$405.0)	(\$239.7)	(\$405.0)
24										
25		NET ADDITIONS -- TOTAL				\$13,942.1	\$12,149.1	\$6,913.3	\$12,149.1	\$6,913.3
26										
27		-- % BEG. of YEAR				17.8%	13.2%	6.6%	13.2%	6.6%
28										
29		END OF YEAR BALANCE								
30										
31		WEIGHTED AVERAGE -- AMOUNT				\$85,304.1	\$98,354.3	\$107,890.1	\$104,431.2	\$111,349.1
32										
33		ESTIMATED PLANT PER CUSTOMER				\$2,249.76	\$2,503.04	\$2,652.82	\$2,611.89	\$2,692.26
34		PERCENT CHANGE					11.26%	5.98%		3.08%
35										
36										
37										
38										
39		DO NOT TYPE								
40										
41										
42		WEIGHTED NET ADDITIONS								
43										
44		5 YEAR WEIGHTING (WP8-B4)				50.0%	50.0%	50.0%	100.0%	100.0%
45										
46		WEIGHTED AVERAGE -- AMT				\$6,971.1	\$6,074.6	\$3,456.7	\$12,149.1	\$6,913.3
47										
48										
49										

Screenshot #6 below presents the “TBL10F10D2A1” tab within the “Visalia ratebase Settlement 2007” spreadsheet. The total utility plant in 2008 is \$98,354.4. This dollar amount is equivalent to the amount shown in screenshot #5. The spreadsheet shown uses the \$98,354.4 amount to calculate the total rate base for 2008. The spreadsheet uses the 2008 rate base as the basis to calculate the 2009 and 2010 rate base. Note that in screenshot #6 the weighted average rate base is \$40,074.1 for the first test year 2008-2009¹⁶¹ and \$41,514.8 in the second test year 2009-2010.¹⁶²

Screenshot #6

	A	B	C	D	E	F	G	H	
1				VISALIA	DISTRICT				
2								TABLE 10F	
3								WP10 - D2a1	
4				WEIGHTED	AVERAGE	RATE	BASE		
5									
6									
7					Y E A R S				
8									
9				2007	2008	2009	2008-9	2009-10	
10									
11									
12				UTILITY PLANT	\$85,304.1	\$98,354.3	\$107,890.1	\$104,431.2	\$111,349.1
13				IBCWP ADJUSTMENT	-1337.6	(\$1,337.6)	(\$1,337.6)	(\$1,337.6)	(\$1,337.6)
14				DEPRECIATION RESERVE	\$22,466.7	\$24,579.9	\$26,977.0	\$25,894.6	\$28,386.6
15									
16				NET UTILITY PLANT	\$61,499.8	\$72,436.8	\$79,575.6	\$77,199.0	\$81,624.9
17									
18									
19				DEDUCTIONS FROM RATE BASE					
20									
21				ADJUSTMENTS	\$33,247.2	\$36,034.5	\$39,109.0	\$37,889.3	\$40,716.9
22				DEFERRED TAXES	\$5,606.4	\$5,926.2	\$6,221.1	\$6,075.7	\$6,366.5
23				UNAMORTIZED ITC	\$113.7	\$109.2	\$104.7	\$107.0	\$102.5
24									
25				TOTAL DEDUCTIONS:	\$38,967.3	\$42,069.9	\$45,434.8	\$44,072.0	\$47,185.9
26									
27									
28				ADDITIONS TO RATE BASE					
29									
30				WORKING CAPITAL	\$381.9	\$432.4	\$497.1	\$464.7	\$497.1
31				TAXES ON ADVANCES	\$4,255.1	\$4,071.1	\$3,712.8	\$3,892.0	\$3,712.8
32				TAXES ON CONTRIBUTIONS	\$548.6	\$510.9	\$473.4	\$492.2	\$473.4
33									
34				TOTAL ADDITIONS:	\$5,185.6	\$5,014.4	\$4,683.3	\$4,848.8	\$4,683.3
35									
36									
37				DISTRICT RATE BASE	\$27,718.1	\$35,381.3	\$38,824.1	\$37,975.8	\$39,122.4
38				PRORATED G. O. RATE BASE	\$1,762.8	\$1,937.4	\$2,245.3	\$2,098.3	\$2,392.4
39						\$33,399.8	\$39,194.0		
40				TOTAL RATE BASE	\$29,480.9	\$37,318.7	\$41,069.4	\$40,074.1	\$41,514.8
41					\$29,480.9	\$37,322.3	\$41,065.6	\$40,074.0	\$41,511.0
42					\$29,099.0	\$36,886.3	\$40,572.3	\$39,609.4	\$41,017.7
43				RATE BASE EXCLUDING WORKING CASH	\$29,099.0	\$36,886.3	\$40,572.3	\$39,609.4	\$41,017.7
44									
45									
46									
47									
48				ESTIMATED RATE BASE PER CUSTOMER	\$777.51	\$949.73	\$1,009.82	\$1,002.28	\$1,003.77
49									

¹⁶¹ First test year begins July 1, 2008.

¹⁶² Second test year begins July 1, 2009.

Screenshot #7 below presents the “Appendix adopted rate base” tab within the “Visalia ratebase Settlement 2007” spreadsheet. Screenshot #7 shows that the adopted rate base is \$40,074.2 for the test year 2008-2009, \$41,514.8 in the second test year 2009-2010, and \$42,955.4 in the attrition year 2010-2011. The \$40,074.2 and \$41,514.8 amounts are picked up from Cells G40 and H40 shown in screenshot #6.

Screenshot #7

	A	B	C	D	E	F	G	H	I	J	
1	ATTACHMENT T										
2	PAGE 2										
3											
4	CALIFORNIA WATER SERVICE CO.										
5	VISALIA DISTRICT										
6											
7	ADOPTED RATE BASE										
8	(DOLLARS IN THOUSANDS)										
9											
10							2008-9	2009-10	2010-2011		
11											
12	RATE BASE										
13											
14	WTD. AVG. PLANT IN SERVICE						\$104,431.2	\$111,349.1	\$118,267.0		
15	IBCWIP ADJUSTMENT						(1,337.6)	(1,337.6)	(1,337.6)		
16	MATERIALS AND SUPPLIES						125.8	125.8	125.8		
17	WORKING CASH - LEAD - LAG						344.2	376.6	409.0		
18	WORKING CASH - W / H EMPLOYEES						(5.3)	(5.3)	(5.3)		
19	WTD. AVG. DEPRECIATION RESERVE						(25,894.6)	(28,386.6)	(30,878.6)		
20	ADVANCES FOR CONSTRUCTION						(30,341.5)	(32,743.9)	(35,146.3)		
21	CONTRIBUTIONS						(7,456.2)	(7,856.8)	(8,257.4)		
22	AMORTIZATION OF INTANG.						(91.6)	(116.1)	(140.6)		
23	DEFERRED TAXES						(6,075.7)	(6,366.5)	(6,657.3)		
24	UNAMORT. I.T.C.						(107.0)	(102.5)	(98.0)		
25	PRORATED G.O. RATE BASE						2,098.3	2,392.4	2,686.5		
26	TAXES ON ADVANCES						3,892.0	3,712.8	3,533.6		
27	TAXES ON C.I.A.C.						492.2	473.4	454.6		
28											
29	WTG. AVG. RATE BASE						\$40,074.2	\$41,514.8	\$42,955.4		
30											
31											
32											
33											
34											
35											
36											
37											
38											
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Screenshot #8 below presents Appendix A, Page 1 for the VISALIA DISTRICT in Attachment C of the Settlement Agreement accompanying D.08-07-008, the decision which resolved A.07-07-001. The weighted average rate base is \$40,074.2 for the test year 2008-2009, \$41,514.8 in the second test year 2009-2010, and \$42,955.4 in the attrition year 2010-2011. These amounts match the amounts shown in screenshot #7 and confirm that Project #15946 was included in the adopted rate base beginning July 1, 2008.

Screenshot #8

Appendix A Page 1

CALIFORNIA WATER SERVICE CO.
VISALIA DISTRICT

ADOPTED RATE BASE
(DOLLARS IN THOUSANDS)

	2008-9	2009-10	2010-2011
RATE BASE			
WTD. AVG. PLANT IN SERVICE	104,431.2	111,349.1	118,267.0
IBCWIP ADJUSTMENT	(1,337.6)	(1,337.6)	(1,337.6)
MATERIALS AND SUPPLIES	125.8	125.8	125.8
WORKING CASH - LEAD - LAG	344.2	376.6	409.0
WORKING CASH - W / H EMPLOYEES	(5.3)	(5.3)	(5.3)
WTD. AVG. DEPRECIATION RESERVE	(25,894.6)	(28,386.6)	(30,878.6)
ADVANCES FOR CONSTRUCTION	(30,341.5)	(32,743.9)	(35,146.3)
CONTRIBUTIONS	(7,456.2)	(7,856.8)	(8,257.4)
AMORTIZATION OF INTANG.	(91.6)	(116.1)	(140.6)
DEFERRED TAXES	(6,075.7)	(6,366.5)	(6,657.3)
UNAMORT. I.T.C.	(107.0)	(102.5)	(98.0)
PRORATED G.O. RATE BASE	2,098.3	2,392.4	2,686.5
TAXES ON ADVANCES	3,892.0	3,712.8	3,533.6
TAXES ON C.I.A.C.	492.2	473.4	454.6
WTG. AVG. RATE BASE	40,074.2	41,514.8	42,955.4

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

2 **A. INTRODUCTION**

3 This chapter presents DRA’s analysis and recommendations relating to taxes
4 other than income. Income taxes are discussed in Chapter 6. This chapter discusses
5 taxes which are a function of the payment of employee compensation, (payroll taxes), the
6 ownership of plant and property (ad valorem taxes), and the collection of revenues (local
7 franchise and business taxes).

8 DRA and CWS generally do not differ on any methodologies employed to
9 forecast taxes other than income. Differences in total estimated taxes are largely due to
10 differences in related inputs. DRA examined CWS’s methodologies, testimony, and
11 supporting workpapers.

12 Regulated taxes other than income are comprised of the following items: (1)
13 payroll taxes, (2) ad valorem, or property taxes, and (3) local franchise and business
14 taxes. Payroll taxes are comprised of: (1) Federal Insurance Contribution Act (“FICA”),
15 (2) Federal Unemployment Insurance (“FUI”); and (3) State Unemployment Insurance
16 (“SUI”). Local franchise and business taxes are comprised of various fees and taxes
17 imposed by governmental agencies within all of CWS’s districts and are typically levied
18 as a statutory percentage of gross revenues.

19 **B. SUMMARY OF RECOMMENDATIONS**

20 DRA recommends that test year’s taxes other than income be computed using the
21 following parameters and assumptions:¹⁶³

- 22 a. Effective payroll tax rates and wage bases used by CWS to forecast
23 payroll taxes were found to be reasonable and should be applied in
24 estimating payroll tax expense. Any differences between DRA and
25 CWS are due to differences in the test year estimate for labor
26 expense.
- 27 b. Ad Valorem tax expense methodologies were found to be reasonable
28 and should be applied in estimating property taxes. Any differences

¹⁶³ These parameters and assumptions should also be applied to the escalation years 2015 and 2016.

1 between CWS and DRA are due to differences in the test year's
2 estimated plant levels.

- 3 c. CWS's estimates of franchise and business license taxes were found
4 to be reasonably forecasted using the applicable tax rates applied
5 against forecasted revenues. Any differences between CWS and
6 DRA are due to differences in the test year's forecast of operating
7 revenues.

8 **C. DISCUSSION**

9 **1. Payroll Taxes**

10 Payroll taxes were estimated based upon historical recorded expenses for each
11 category of payroll tax in relation to recorded payroll expense. The resulting effective
12 tax rates were then applied against the forecasted payroll amounts for each district. CWS
13 assumes that since the components of each category of payroll taxes are subject to a wage
14 limit for individual employees, it uses an average incidence methodology to approximate
15 payroll taxes in the test year.¹⁶⁴ This results in an effective tax rate for all wages, with an
16 indirect application of the specific wage base for each payroll tax. DRA found CWS's
17 approach to yield a reasonable result and concurs with CWS. Effective payroll tax
18 factors used by CWS, as well as CWS's methodology to estimate payroll taxes were
19 found to be reasonable. Payroll taxes consisted of FICA, FUI, and SUI. Differences
20 between DRA and CWS are due to different levels of forecasted payroll expense.

21 **2. Ad Valorem Taxes**

22 CWS's tax deduction for property taxes is based upon historical County
23 Assessor's valuations and underlying methodologies applied to estimated plant additions
24 in the Test Year. The forecasted tax is based on a calculated effective tax rate applied to
25 forecasted (net) plant investment.

26 DRA analyzed CWS's method of estimating ad valorem taxes for the test year and
27 found its methodology rational and reasonable. The differences between DRA's ad
28 valorem tax estimate and CWS's is solely due to differences in net plant estimates. Insert

¹⁶⁴ CWS did not project any changes in tax rates and wage bases for the 2014 test year.

1 text Insert text
2 Insert text Insert text Insert text Insert text Insert text.

3 **3. Local Franchise and Business License Taxes**

4 Franchise and business license tax requirements forecasted for the test year are
5 based upon a historical average effective tax rate paid to the various governmental
6 jurisdictions within all of CWS’s districts. DRA and CWS applied the same forecasting
7 methodology for franchise and business license taxes with one exception. DRA applied
8 the franchise and business license tax rates to total operating revenues net of
9 uncollectibles, while CWS did not make that adjustment to reflect uncollected revenues.
10 Other differences in total franchise fees are the result of differing revenue estimates
11 between DRA and CWS.

12 **D. CONCLUSION**

13 There are no methodological differences between DRA and CWS for computing
14 taxes other than income. DRA recommends the Commission adopt DRA’s estimates of
15 taxes other than income.

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter presents DRA’s analysis and recommendations relating to income tax expense. Taxes Other Than Income are discussed in Chapter 5. Income tax expense is similar to any other expense category in a general rate case filing in that it is a cost of service. However, it is unique in that estimating income tax expense is not merely a matter of reviewing historical payments and then applying objective projection criteria in order to estimate test year expense. Income tax expense is the composite of projected taxable income streams, booked expenses, special tax deductions, and tax credits, calculated within the combined contexts of “real world” tax law and “regulatory world” tax policy (income taxes).

DRA and CWS generally do not differ on any methodologies employed to forecast income tax expense. Differences in total estimated taxes are largely due to differences in related inputs. DRA examined CWS’s methodologies, testimony, and supporting workpapers.

Regulated income tax expense is comprised of the following items: (1) federal income taxes (“FIT”), and California Corporate Franchise Taxes (“CCFT”).

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that test year income tax expense be computed using the following parameters and assumptions:¹⁶⁵

- a. For federal income tax purposes, the corporate tax rate of 35% should be used to compute FIT. CWS used the same FIT rate.
- b. For state income tax purposes, the corporate tax rate of 8.84% should be used to compute CCFT. CWS used the same rate.
- c. All federal and state tax timing differences should be flowed through to the ratepayer to the extent allowed by Commission policy, and federal and state tax laws.

¹⁶⁵ These parameters and assumptions should also be applied to the escalation years 2015 and 2016.

- 1 d. DRA recommends that the tax effects stemming from the Tax
2 Accounting changes related to the deduction for Repair Costs be
3 flowed-through to ratepayers by normalizing the Section 481 catch-
4 up deduction as well as the test-year estimated deduction for both
5 FIT and CCFT purposes. The current estimate for the catch-up
6 deduction in deferred taxes of \$30,349,524¹⁶⁶ (all districts)
7 attributable to Repair Costs should be adopted. The effect is a
8 reduction in rate base and a lower revenue requirements. DRA and
9 CWS adopted this methodology.
- 10 e. DRA recommends that the accumulated ratepayer tax benefits
11 stemming from the American Jobs Creation Act in the amount of
12 \$287,800 computed by CWS be returned to ratepayers. CWS
13 proposes to refund this amount to ratepayers with a billing surcredit.
14 DRA concurs with this treatment.¹⁶⁷
- 15 f. DRA concurs with CWS's methodology for computing the Qualified
16 Production Activities Deduction. Any differences between DRA
17 and CWS are due to differences in forecasted revenues, plant levels,
18 and water production mix.
- 19 g. DRA recommends that the effects of the American Taxpayer Relief
20 Act of 2012 related to the extension of Bonus Depreciation be
21 incorporated into the computation of regulated taxable income and
22 the deferred taxes for the years 2012-2015. It is DRA's
23 understanding that CWS does not oppose this methodology. DRA
24 further recommends that any revenue requirement impact of the
25 Bonus Depreciation in 2013 be captured in the Tax Memorandum
26 Account established by Resolution L-411A.¹⁶⁸
- 27 h. DRA recommends that any changes in federal and state tax laws¹⁶⁹
28 made before the close of the record in this proceeding be
29 incorporated into the tax estimates for the test year, after review of
30 the new law(s) by DRA.
- 31

¹⁶⁶ CWS's response to DRA's Data Request No. DRA-A.1207007.PPM008, Q.1(a).

¹⁶⁷ Direct Testimony of Thomas Smegal, Section G, page 61, and Attachment F, relating to the Qualified Production Activities Deduction.

¹⁶⁸ Resolution L-411A established a one-way memorandum account to track the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The memorandum account applies to all cost-of-service rate regulated utilities that do not address the new tax law in a 2011 or 2012 test year.

¹⁶⁹ Including any amendments to the American Taxpayer Relief Act of 2012.

1 **C. DISCUSSION**

2 The following section provides a brief background of regulated income tax
3 expense and a discussion of certain specific tax deductions, credits and other tax policy
4 issues applied in determining taxable income for ratemaking purposes. Unless otherwise
5 noted, all discussions apply equally to both federal and state tax expense.

6 **1. Basis for Regulated Tax Expense**

7 While the mathematical model used to calculate tax expense is seemingly
8 unequivocal, the underlying accounting conventions, applicable tax rates, and the
9 determination of what constitutes allowable deductions necessarily are a function of
10 current FIT and CCFT tax laws, including new laws expected to affect the test year. In
11 addition, forecasted tax expense is based on adopted regulatory tax policy as determined
12 by numerous Commission decisions, and DRA recommended tax policies. Much of
13 existing Commission tax policy was established in Order Instituting Investigation 24
14 (“OII 24”), D.84-05-036, 15 CPUC 2d 42 (1984). Numerous subsequent decisions
15 adopted a variety of changes in ratemaking tax policy in order to comply with changes in
16 federal and state tax laws.

17 The goal of DRA is to minimize tax expense, therefore, minimize revenue
18 requirements for taxes. Another way to articulate DRA’s goal is that the test year’s
19 income tax expense estimate should reflect, to the extent possible, the current (test year)
20 deduction of expenses in which there is a book/tax timing difference. In D.84-05-036,
21 the Commission stated, “[f]or the present, we will continue our current policy regarding
22 flow-through treatment of timing differences consistent with applicable tax law.”¹⁷⁰
23 DRA recommends that the Commission continue to adopt policies which result in the test
24 year tax estimate reflecting, to the extent possible,¹⁷¹ the flow-through of forecasted

¹⁷⁰ See D.84-05-036, discussion at Section I, pgs. 32-33a. The Commission refused to adopt additional normalization requirements beyond those required for depreciation.

¹⁷¹ DRA’s ability to flow-through certain tax deductions and benefits is limited by Income Tax Normalization requirements of the Internal Revenue Code, as well as tax policy established in D.84-05-036. For example, currently, DRA cannot use disallowed expenses as tax deductions.

1 expenditures. It is important to note that in most cases, it is the regulated utility's *parent*
2 *corporation* which actually pays the income taxes of the regulated utility as part of a
3 consolidated or combined income tax return. However, it is DRA's position and the
4 Commission's policy that the regulated utility's taxes are determined on a stand-alone
5 basis, and not based on the actual tax liability of the parent corporation.

6 **2. FIT Deduction for Prior Years CCFT**

7 The amount of CCFT allowed as a deduction for FIT purposes by the Internal
8 Revenue Service ("IRS") is not the current year's CCFT. The amount allowed on the FIT
9 return is the prior year's CCFT liability. This creates a timing difference between when
10 the payment of the CCFT is made and when it is allowed as a tax deduction.

11 This issue was addressed in Phase II of a PG&E general rates case; A.85-12-050
12 (I.86-11-019). D.89-11-058, issued on November 22, 1989, requires that for ratemaking
13 purposes, the prior year Commission adopted CCFT number be used as the deduction for
14 CCFT taxes in arriving at FIT taxable income in the test year. However, in many cases,
15 the current or test year estimated CCFT number may be used as a test year FIT deduction.
16 This is particularly true when there is no firm prior year's payment information or the
17 prior year's amount is merely an estimate based on progressive annual estimates. CWS
18 used the present (test year) estimate CCFT number as a 2014 deduction for FIT purposes.
19 DRA concurs with CWS on this method because it yields a reasonable result. Therefore,
20 the CCFT estimate for 2013 will not be used as a deduction in arriving at the 2014 test
21 year's estimated FIT.

22 **3. Tax Normalization**

23 Normalization is a ratemaking concept, which aims to adjust a utility's operating
24 expenses in the test year by eliminating abnormal, non-annual events that are known and
25 certain to change in a regularly recurring manner. For example, accelerated depreciation
26 is a tax expense, which is normalized over the life of an asset when computing
27 ratemaking tax expense. It is known and certain that toward the end of the life of an
28 asset, straight-line (book) depreciation will exceed accelerated tax depreciation.

1 However, at the conclusion of the asset’s life, the total depreciation charges under both
2 book and tax methods will be equivalent.

3 Income tax normalization permits a utility to include in its current ratemaking
4 expense, an amount of income tax expense that is higher than what the utility will
5 actually pay. This is based on the theory that the taxes saved by the accelerated
6 depreciation (taken on the real world tax returns) are merely deferred. Utilities generally
7 use accelerated methods of depreciation on their real world tax returns, while using the
8 straight-line method for book purposes. IRS rules require that utilities use book
9 depreciation rates on all plant purchased or constructed after 1980 when computing
10 regulated tax expense. To mitigate the effect of normalization, the tax effect of the
11 differences between accelerated and straight-line depreciation is booked to a deferred tax
12 reserve. The deferred taxes are used to reduce rate base. Another example of
13 normalization in this general rate case is the computation of deferred income taxes for
14 both FIT and CCFT purposes related to the tax accounting changes related to the
15 deduction for Repair Costs. The deductions for certain capital investment costs are to be
16 captured in a deferred tax account and reduced the ratebase to lower revenue
17 requirements. This issue is discussed further below.

18 **4. Tax Depreciation**

19 For FIT purposes, tax depreciation for all post-1980 plant has been normalized
20 using book lives and rates. For 1980 and prior years’ plant, the appropriate accelerated
21 depreciation has been flowed through. For CCFT purposes, tax depreciation has been
22 flowed-through in estimating CCFT taxable income. Tax depreciation for ratemaking
23 purposes does not include depreciation on plant costs disallowed in previous rate cases.

24 **5. American Jobs Creation Act of 2004**

25 In terms of both impact and number of provisions, the American Jobs Creation Act
26 of 2004 (“Act”) is one of the most significant reforms of U.S. business taxation. The act
27 created a new tax deduction for manufactures and added new Section 199 to the Internal
28 Revenue Code (“IRC”). Congress broadly defined the term “manufacturers” as well as

1 the underlying (qualifying) “production activities” to include Class A water utilities and
2 their well production activities. Generally, the deduction is referred to as the Qualified
3 Productions Activity Deduction (“QPAD”).

4 The deduction is equal to a specified percentage applied to the lesser of (1)
5 qualified production activity income for the year, or (2) taxable income for the year. The
6 deduction started at a transition percentage of 3% for 2005 and 2006, 6% for 2007
7 through 2009 and later fully expanded to 9% in 2010.

8 The impact of the legislation is that many water utilities qualify as
9 “manufacturers” to the extent that they pump well water for distribution to customers.
10 The Act defines production of potable water as a manufacturing activity. CWS calculates
11 the QPAD by taking the ratio of water production from groundwater and surface water to
12 total water production which includes groundwater, surface water and purchased water.
13 The QPAD is computed by multiplying net production revenue by the aforementioned
14 ratio and multiplied by the statutory 9% rate. Of course, districts with 100% purchased
15 water do not have a QPAD in its regulated taxable income calculations. CWS’s
16 methodology was examined by DRA in its prior general rate case and found to be
17 reasonable. There have been no departures from the prior methodology since the last rate
18 case.

19 The deduction is a permanent item and not subject to a timing difference. As
20 such, it should be fully flowed through to ratepayers in the form of an immediate tax
21 deduction (schedule M adjustment). DRA reviewed CWS’s methodology to calculate the
22 deduction for the Test Year 2014, and found it to be reasonably forecasted. Any
23 differences between DRA and CWS are due to differences in forecasted revenues, plant
24 levels, and water production mix.

25 Accumulated Tax Benefit of the QPAD

26 CWS determined that due to QPAD (stemming from the American Jobs Creation
27 Act of 2004), there is an accumulated ratepayer benefit of \$287,800 that should be

1 returned to ratepayers.¹⁷² This issue was addressed by the Commission in D.06-08-
2 011.¹⁷³ This accumulated benefit was derived from actual tax returns for the years 2006-
3 2009. CWS proposes to return this benefit to ratepayers using a billing surcredit. DRA
4 concurs with this treatment.

5 **6. American Taxpayer Relief Act of 2012: Bonus Depreciation**

6 The American Taxpayer Relief Act of 2012 (“ATRA”) signed on January 2, 2013
7 extends certain provisions related to immediate expensing of certain investments in
8 depreciable personal tangible property¹⁷⁴. ATRA provides for (1) higher immediate tax
9 deduction limits, and (2) extension of the allowable percentage of investment qualified
10 for current tax deduction.

11 Higher Expense Limits

12 Legislation in 2003 temporarily increased the maximum dollar amount that may
13 be deducted from \$25,000 to \$100,000. Under ATRA, these maximum thresholds are
14 further modified and extended several times on a temporary basis, increasing up to a high
15 of \$500,000 and \$2 million respectively for taxable years beginning in 2010 and 2011,
16 and then to \$125,000 and \$500,000 respectively for taxable years beginning in 2012.
17 These amounts revert back to permanent thresholds of \$25,000 and \$200,000 respectively
18 for taxable years beginning in 2013 and thereafter.

19 Extension of Allowable Deduction Percentage

20 For 2008 through 2010, Section 179 of the IRC allowed businesses to take a
21 current tax deduction allowance equal to 50% of the cost of qualified depreciable
22 property. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation

¹⁷² Direct Testimony of Thomas Smegal, Section G, page 61, and Attachment F, relating to the Qualified Production Activities Deduction.

¹⁷³ Ordering Paragraph of D. 06-08-011 provides that CWS is to track and report the tax benefits of the Qualified Production Activity Deduction in each of its general rate cases.

¹⁷⁴ In short, under Section 179 of the IRC, a corporation may elect to currently deduct the cost of certain property placed in service for the year rather than depreciate those costs over time. The amount currently deducted is commonly referred to as “bonus depreciation.”

1 Act of 2010 (“TRA 2010”) later expanded this provision to allow 100% bonus
2 depreciation for investments placed in service after September 8, 2010 and before
3 January 1, 2012, and extended 50% bonus depreciation for investments placed in service
4 after December 31, 2011, and before January 1, 2013. ATRA extends the current 50%
5 allowable percentage for expensing qualifying property purchased and placed in service
6 before January 1, 2014.

7 DRA recommends that the tax effects of ATRA be incorporated into the regulated
8 tax computations for 2012-2013 as this will affect the deferred income tax balance in the
9 2014 test year. While ATRA provides that its bonus depreciation provisions will expire
10 at the end of 2013, the deferred taxes stemming from the accumulated effect of
11 normalizing the bonus depreciation in 2012 and 2013 will serve to lower ratebase in 2014
12 and beyond. Based on discussions between DRA and CWS in January 2013, after the
13 passage of ATRA, it is DRA’s understanding that CWS would not oppose reflecting the
14 extension of the bonus depreciation to 2013 in estimating test year and escalation year
15 ratebase.

16 DRA recommends that any revenue requirement impact of the Bonus Depreciation
17 in 2013 be tracked in the Tax Memorandum Account established by Resolution L-
18 411A.¹⁷⁵

19 **7. Tax Deduction for Certain Repair Costs**

20 In 2008 the U.S. Treasury Department made significant changes to tax regulations
21 affecting the capitalization of certain repairs and replacements of plant property. The
22 new rules were adopted by the IRS as mandatory changes effective January 1, 2012. In
23 general, the new tax law provides that to the extent CWS was required to capitalize
24 certain repair and replacement costs under the old rules, it can currently deduct these
25 same costs, and not be required to depreciate them over their useful lives.

¹⁷⁵ Resolution L-411A established a one-way memorandum account to track the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The memorandum account applies to all cost-of-service rate regulated utilities that do not address the new tax law in a 2011 or 2012 test year.

1 There are two components to the new tax accounting rules. First, there is a current
2 deduction for repair and replacement costs, that is, those costs forecasted to be incurred in
3 the forecasted years (starting in 2012), and deductible to arrive at forecasted regulatory
4 taxable income in test year 2014. For tax purposes, CWS has assumed that all repair and
5 replacement activities for mains meet the requisite criteria to be fully tax deductible in the
6 forecasted years, test year, and escalation years. DRA concurs with this assumption.

7 Second, under the mandatory accounting change, CWS must calculate the
8 accumulated effect of the change as though CWS had always followed the new tax
9 accounting method. This second component is commonly referred to as the Section 481
10 Adjustment,¹⁷⁶ and if it results in a tax benefit, CWS may take the accumulated benefit of
11 the Adjustment in the first year of adopting the change, which in this case is 2012. What
12 this means is that CWS (as well as other Class A water utilities) will have a significant
13 “real world” tax deduction for 2012, possibly resulting in a tax Net Operating Loss
14 (“NOL”) that can be carried back to previous years (or forward to future years). This will
15 result in refunds of previously paid FIT and CCFT taxes and possibly mitigate future tax
16 liabilities.

17 The ratemaking treatment proposed by CWS is to normalize the Section 481
18 Adjustment. The accumulated catch-up adjustment computed by CWS, and deducted on
19 its 2012 tax return, will be flowed through to ratepayers by establishing a deferred tax
20 component for this Section 481 Adjustment, and deducting the deferred taxes to arrive at
21 a lower ratebase. The amount of the deferred taxes associated with the Section 481
22 Adjustment originally included in CWS’s filing was \$14,107,501 (for all districts). In
23 response to DRA’s request, CWS subsequently updated the estimated Section 481
24 adjustment on December 4, 2012 to \$30,349,524 (for all districts).¹⁷⁷ DRA recommends
25 that the updated estimate be incorporated into the results of operations for the 2014 test
26 year and escalation years.

¹⁷⁶ This cumulative adjustment is also interchangeably referred to as a “catch-up adjustment.” It is called a “Section 481 Adjustment” because it is authorized by Section 481(a) of the Internal Revenue Code.

¹⁷⁷ CWS’s response to DRA’s Data Request No. DRA-A.1207007.PPM008, Q.1(a).

1 DRA notes that the deferred tax account not only will include the tax effect of the
2 catch-up deduction at the time it is taken, but will also capture the increases and
3 decreases that result from each subsequent years' deduction(s). Further, the deferred tax
4 account will also capture the turnaround of prior year's deductions in the same manner as
5 the normalization of the tax effects of accelerated depreciation are captured in a deferred
6 tax account.

7 CWS identified what prior costs qualified for the catch-up adjustment by
8 examining 25 years of historical work orders, by district. The resulting accumulated
9 costs and underlying qualifying property were audited by CWS's CPA consultants¹⁷⁸ and
10 found to be reasonably stated. CWS provided DRA with a Process Memorandum from
11 their CPA consultants describing in detail the steps and procedures undertaken to identify
12 prior qualifying costs for Transmission and Distribution property. DRA accepted the
13 memorandum as a reasonable basis for identifying qualifying investment.¹⁷⁹

14 DRA concurs with the proposed normalized treatment of the repair costs as it
15 results in a reduction in ratebase and lowers future rates for ratepayers while allowing
16 CWS to have the benefit of the zero cost capital to help fund capital improvements.
17 Further, DRA supports establishing a deferred tax component for purposes of
18 implementing the repair regulations because this will ensure that the benefits of the
19 increased deduction(s) will be preserved for future ratepayers as well as recognition in
20 future rate cases in the form of increased accumulated deferred FIT and CCFT income
21 taxes to be deducted from ratebase.

22 **8. Interest Expense**

23 For FIT purposes, interest expense was estimated by applying the weighted
24 average cost of debt to total ratebase excluding working capital. Differences in the total
25 amount of interest expense deductible for regulated income tax purposes are, therefore,

¹⁷⁸ Ernst & Young, and Deloitte Touche.

¹⁷⁹ All main projects starting in 2012 through 2015 are assumed to be qualifying property for purposes of the tax deduction.

1 the result of differing rate base estimates between CWS and DRA.¹⁸⁰ The unamortized
2 deferred investment tax credit (ITC, discussed below) balance was deducted from rate
3 base for this calculation. The method of “interest synchronization” does not apply to
4 CWS because it is an “option 1” company (see below).¹⁸¹ For CCFT purposes, the
5 unamortized ITC was also deducted from rate base by DRA and CWS before applying
6 the same debt cost factor

7 **9. Investment Tax Credit (“ITC”)**

8 FIT expense was not reduced by the annual amortization of ITC. Under current
9 federal tax law, ITC must be amortized over the life of the underlying plant when
10 estimating regulated federal income tax expense. Generally, this method of normalizing
11 ITC applies to plant placed in service after 1980. Public utility corporations have two
12 normalization methods to choose from when electing a method to amortize ITC for
13 regulated tax purposes. Under option one, the tax benefits of ITC are flowed through to
14 ratepayers by deducting deferred ITC from rate base; as each year passes, the deferred
15 ITC balance decreases, thereby ratably restoring rate base over the book life of the plant
16 which generated it. Under option two, the tax benefits of ITC are ratably flowed through
17 as a direct reduction of estimated FIT. CWS uses option one; DRA is precluded from
18 diverting from this method of ITC amortization.

19 **D. CONCLUSION**

20 All tax benefits should continue to be flowed through to the ratepayer to the extent
21 possible under the Internal Revenue Code and CPUC tax policy. There are no
22 methodological differences between DRA and CWS for computing income taxes. DRA
23 recommends the Commission adopt DRA’s estimates of income taxes.

¹⁸⁰ In some cases, the differences in computed interest expense would also stem from differences in the computed weighted average cost of debt if this issue were included in the rate case.

¹⁸¹ With Interest Synchronization, deferred ITC is not deducted from ratebase resulting in a larger tax deduction for interest expense. This is because the cost of debt factor is applied to a larger sum, resulting in a larger deduction.

CHAPTER 7: PLANT – COMMON ISSUES

A. INTRODUCTION

This chapter addresses plant issues that are common to all districts and the General Office of CWS. It includes DRA’s analyses and recommendations that affect its estimated plant additions and consequently rate base estimates for 2012-2015 in DRA’s Report on the Results of Operations for each district (District RO Report) and in the Report on the General Office (GO Report). Also presented in this chapter are DRA’s evaluation of the plant-related documentation submitted by CWS in this GRC, and recommended improvements for the next GRC filing to increase transparency and ease of review.

B. SUMMARY OF RECOMMENDATIONS

- Plant Weighting Factor – The factor for forecast years should be based on a five-year recorded average, and not the last recorded 2011 value. Section C.1 below presents the basis for DRA’s recommendation and notes exceptions to this general approach.
- Tank painting – Costs associated with tank painting (subsequent to the first tank painting) should not be part of plant addition estimates and should be amortized over 15 years. Section C.1 briefly summarizes the basis for DRA’s recommendation; Chapter 8 of this report presents DRA’s analysis and recommendations in more detail.
- Capitalized Interest – Capitalized interest should not be a component of project cost estimates. Section C.3 presents the basis for DRA’s recommendation and notes exceptions to this general approach.
- Construction Overhead – CWS’s estimated construction overhead costs should be reduced from \$21,398,920 to \$17,925,907 for Test Year 2014. Section C.4 presents the basis for DRA’s adjustment.

- Capital Project Documentation – CWS provided inadequate justification and cost support and, therefore, should be required to improve its documentation and justification of plant requests in future rate cases. Section D includes recommended ordering paragraphs to address this issue.

C. DISCUSSION

1. **Plant Weighting Factor**

Plant Weighting Factor is applied to the *net plant addition*¹⁸² to arrive at the Weighted Average Plant in Service for the Test Year 2014 and Escalation Year 2015. These factors are shown in lines 11a (for 2014) and 11b (for 2015) of Table 7-1, Plant In Service in each DRA district's Report on the Results of Operations (Chapter 1, Attachment A).

For all estimated years 2012-2015, CWS uses the Plant Weighting Factor from the last recorded year 2011. This is a deviation from the company's past practice which generally relied on a five-year recorded average. CWS provides no testimony to support this change. However, in informal discussion with CWS staff, CWS explained that it made this change to reflect CWS's recent effort to shorten the (accounting) time it takes to close its books on plant projects once completed (i.e., to transfer a plant project from in-progress/open status to completed/in-service status). As explained below, that change alone is not a valid reason to switch from a five-year (multi-year) average to latest recorded year in estimating the Plant Weighting Factor.

- If 2011 data is supposed to be reflective of CWS's recent practice of posting project faster, it is unclear why for 6 districts, the weighting factor actually increased from the recorded year 2010 to recorded year 2011 and by as much as 27%.
- A recorded plant weighting factor from any given year reflects capital expenditures in that year. A project with larger dollar value

¹⁸² Gross plant additions are presented in Chapter 7- Plant In Service of DRA's RO Reports for the districts, and Chapter 8 of DRA's GO Report.

1 would have a proportionately larger effect to the weighting factor.
2 Using recorded plant weighting factors from a multi-year period,
3 rather than from a single year data as proposed by CWS, modulates
4 the impact of unusually large-dollar projects. Indeed, this is likely
5 the underlying reason why CWS used a five-year average plant
6 weight factor in its previous GRC filings.

7 DRA recommends maintaining the general approach of using the recorded five-
8 year average Plant Weighting Factor (in this case 2007-2011) in calculating the Weighted
9 Average Plant in Service amounts. For some districts and in GO, there are years with
10 negative or *zero* values for the plant weighting factor. In those instances, DRA excludes
11 data points from those years in calculating the average. For GO, there were multiple
12 years with negative values; therefore, DRA agrees that the last recorded year 2011's
13 percentage is a reasonable factor for GO.

14 Table 7-A below provides a comparison between CWS's 2011 factors and DRA's
15 recommended five-year average factors (with few exceptions as noted). For a given Test
16 Year's plant addition level, a higher factor translates to a higher Weighted Average Plant
17 in Service amount and consequently a higher Weighted Average Rate Base, on which
18 CWS can earn its return for that year. CWS's deviation from its past practices increases
19 CWS's plant weighting factors in all but two districts (Antelope Valley and Westlake).

1 **Table 7-A. Comparison of DRA’s and CWS’s Plant Weighting Factors***

DISTRICTS & GENERAL OFFICE	DRA 2007-2011 Average *	CWS 2011	CWS > DRA
Antelope Valley	23.0%	22.9%	-0.1%
Bakersfield	39.2%	54.9%	15.7%
Bayshore	28.9%	48.2%	19.3%
Bear Gulch	28.9%	49.6%	20.7%
Chico	32.3%	32.7%	0.4%
Dominguez	37.3%	51.3%	14.0%
Dixon	30.4%	45.2%	14.8%
East Los Angeles	39.1%	67.1%	28.0%
Hermosa-Redondo	33.1%	50.7%	17.6%
Kern Valley	16.9%	21.3%	4.4%
King City	18.3%	34.4%	16.1%
Livermore	34.7%	36.3%	1.6%
Los Altos	39.3%	57.9%	18.6%
Marysville	31.1%	59.6%	28.5%
Oroville	29.2%	48.3%	19.1%
Palos Verdes (1)	41.1%	44.5%	3.4%
Rancho Dominguez (2)	29.6%	48.4%	18.8%
Redwood Valley (3)	27.9%	36.4%	8.5%
Salinas	25.8%	38.4%	12.6%
Selma	32.0%	37.0%	5.0%
Stockton	28.6%	49.7%	21.1%
Visalia	32.3%	45.4%	13.1%
Willows	24.6%	38.2%	13.6%
Westlake	30.6%	26.3%	-4.3%
General Office	27.1%	27.1%	0.0%
* Source: CWS's 'GRC Masterfile' spreadsheet, 'WP8B4, WP9C3' tab.			
(1) DRA's average excludes negative value in 2009.			
(2) DRA's average excludes zero value in 2007.			
(3) DRA's average excludes negative values in 2009 and 2010.			

2

3 **2. Tank Painting Expenditures Should be Amortized Over 15 years**

4 For estimated tank painting expenditures in 2012-2015 and beyond, DRA
5 recommends that the tank painting expenditures be amortized over a 15-year period and
6 not be booked in plant accounts. The basis for this recommendation is presented in
7 Chapter 8 of this Report and referenced in all of the District RO Reports. For each tank
8 painting project recommended by DRA’s plant witness for a district, DRA adjusts that
9 district’s operating expense for that year and for the following years to reflect the annual
10 effect of the 15-year amortization of that project’s estimated cost. In the District RO

1 Reports, the adjustment (addition) shows up as an increase to the district's Contracted
2 Maintenance expense total, under the Maintenance Expense category (RO Table 3-1, line
3 18). DRA is open to discussions with CWS to determine where to present the amortized
4 amounts in the Joint Comparison Exhibit's Results of Operations tables to be generated
5 later in the proceeding.

6 **3. No Double-Recovery of Capitalized Interest and Rate of Return**

7 DRA in its review of the Proposed Application noted that for the first time CWS
8 included capitalized interest expense as a component in its capital project cost estimates.
9 DRA noted also that other Class A water utilities do not include this component in their
10 plant project cost estimates, and asked CWS for an explanation. CWS included its
11 explanation in the Direct Testimony of Darin T. Duncan, page 36.

12 DRA agrees that for forecasting purposes, it may be appropriate to include capital
13 interest expense for projects that are expected to accrue costs before the project is
14 estimated to be in rate base, earning a rate of return. For example, this could be a \$2-
15 million tank construction project that takes 2 or 3 years to complete and does not show up
16 in the estimated rate base until the year it is estimated to be completed. In such cases, it
17 is perhaps reasonable for the company to include interest expense that the company needs
18 for the funding of expenditures up to the point, or more specifically the year, where the
19 project is forecasted to be in rate base. Once the project is forecasted to be in rate base,
20 there would be a corresponding rate increase to compensate CWS at its authorized rate of
21 return for interest expense for the funding of expenditures and therefore no interest
22 expense should be included in the forecasted capital expenditures.

23 For example, if the Commission adopts a Test Year capital budget from this GRC
24 that includes the above mentioned \$2-million tank, rates for the Test Year would have
25 reflected the cost of the tank in the estimated plant and rate base. This means that CWS's
26 rates will include a return (rate of return times rate base) on that investment – the cost to
27 build the tank. That return includes a cost of debt component.¹⁸³ Having both cost of

¹⁸³ Rate of return = return on equity + weighted cost of debt

1 debt component in the rate of return and the capitalized interest in the project
2 expenditures in the same year constitutes double recovery of the same cost. For this
3 reason, DRA recommends excluding capitalized interest in the cost estimates for all
4 capital projects, except for those that are expected to last more than one year.

5 DRA also presents additional testimony on the inappropriate inclusion of capital
6 interests in recorded plant additions during the same year the Commission included the
7 same plant addition projects in rates in Chapter 4 – Audit of Recorded Plant Additions of
8 this Report.

9 **4. Construction Overhead Estimate Should Be Adjusted**

10 In estimating its plant project costs, CWS applies a Construction Overhead factor
11 of 20%. In informal discussions, CWS explained to DRA that 20% was the factor the
12 company was using at around the time it developed its workpapers and plant cost
13 estimates for this GRC. This is also the factor or rate that CWS charges to then on-going
14 capital projects to recover its overhead expenses.

15 CWS informed DRA that the company re-evaluates and adjusts this factor
16 periodically to ensure that the amounts charged to actual capital projects are sufficient to
17 recover an identified” pool” of construction overhead expenses (OH pool).¹⁸⁴ The
18 adjustment is necessary because this OH pool is for the most part fixed, at least in the
19 short term. For example, the company would have to maintain the same General Office
20 building and pay 100% of its Director of Information Technology’s salary even if its
21 construction budget drops by 30% next year. It follows that if there were fewer capital
22 investment or construction projects (or more accurately construction dollars) on which
23 the factor can be applied to recover a portion of the total overhead expenses, the company
24 would need to raise the Overhead (OH) factor.

25 As mentioned earlier, the 20% OH factor used in CWS’s project cost estimates
26 was the factor effective at the time CWS prepared its application for this GRC. CWS in
27 its application recognized that the 20% applied on its requested capital projects could

¹⁸⁴ For the purposes of this discussion, the terms capital and construction are used interchangeably.

1 generate an overhead expense amount that is greater than its estimated OH pool -
2 resulting in an “over-collection” of construction overhead expenses. Similarly, if applied
3 to a lower capital investment level, as to be expected from DRA’s recommendations, the
4 20% OH factor could conceivably generate an “under-collection.” Therefore, CWS
5 included a calculation in its workpaper spreadsheets to first estimate the construction
6 overhead dollar amount that would be recovered through the application of the 20%
7 factor in the project cost estimates.¹⁸⁵ Next, CWS’s calculation compares that expected
8 recovery amount with the estimated OH pool. When that estimate is shown to be larger
9 than the OH pool, CWS’s calculations adjust its forecast years’ plant addition total to
10 essentially back out the “over-collection.” DRA agrees with this calculation as it ensures
11 that the final plant-in-service forecasts would include no more or no less than the
12 estimated OH pool.

13 DRA however disagrees with the way CWS estimates the OH pool; this amount is
14 also referred as “Proposed Construction Overhead Applied” in CWS’s workpapers.¹⁸⁶
15 This OH pool is made up of the various expense components including Payroll and
16 Benefits, Leases, Mileage, Engineering Expense and others, and per CWS’s calculations
17 equals to \$21,398,920 for Test Year 2014. This is a 35% increase over the \$15,844,415
18 recorded for 2011 shown in the same CWS workpapers. The steep increase is the result
19 of CWS’s unreasonably high escalation factors applied to the (recorded) base amounts for
20 the various expense components. For example, to estimate the 2014 Payroll and Benefits
21 component of the OH pool, CWS escalated the 2012 amount described as from a ‘labor
22 effort study’ by 10% per year to arrive at its 2014 estimate. For other expense
23 components, CWS escalated the 2012 base¹⁸⁷ by a uniform 5% per year. CWS provided
24 no citation to support the use of these inflationary rates. Instead of these unexplained
25 rates, DRA applies the escalation rates published by its ECOS, Natural Gas, and Water
26 Branches – the same used by DRA in estimating operating expenses. DRA also makes

¹⁸⁵ CWS’s ‘GRC MASTER FILE JULY 2012’ spreadsheet, ‘Construction Overhead’ tab.

¹⁸⁶ Ibid.

¹⁸⁷ The 2012 base amounts are either multi-year average or last recorded 2011 year.

1 one other adjustment – to the “Account Payable” component. CWS uses a 2009-2010
2 average as a base on which it applied the escalation rates in the Account Payable
3 category. DRA uses the more recent 2-year average, 2010-2011, of Accounts Payable
4 and escalates that amount to 2014 dollars.

5 The Test Year 2014 OH pool based on CWS’s methodology but with DRA’s
6 adjustments is \$17,925,907, or about \$3.5 million less than CWS’s estimate of
7 \$21,398,920. DRA recommends that the Commission adopt as reasonable DRA’s
8 estimate for the Construction Overhead pool.

9 **5. Insufficient Supporting Documentation in CWS’s Capital**
10 **Budget Proposals**

11 In this proceeding, DRA encountered numerous issues with the quality of CWS’s
12 GRC filing that significantly hampered its ability to effectively and timely evaluate
13 CWS’s capital budget proposals, which in turn negatively impacts DRA’s ability to
14 provide the Commission analyses and recommendations to protect ratepayers’ interests.
15 DRA’s plant witnesses discuss district-specific issues in Chapter 7 of the District RO
16 Reports. This section summarizes and highlights those issues in the hopes (1) that the
17 Commission will consider them as it examines the reasonableness of CWS’s capital
18 investment requests in this rate case and (2) that the Commission will require CWS to
19 improve its documentation in support of its requests in the next GRC in order to meet its
20 burden of proof.

21 Plant cost estimates are not developed consistently and calculations not
22 transparent.

23 CWS’s plant cost estimates were not well-documented or easily verified. For
24 example, many project justifications simply contain a total amount with no back-up
25 calculations. DRA noticed this deficiency and started requesting additional supporting
26 documentation in the Proposed Application deficiency review phase. DRA expended a
27 considerable amount of its allotted deficiency review and discovery time to ask for cost
28 calculations, cost assumptions and Excel spreadsheets that should have been part of the

1 company's GRC showing. The level of details provided by CWS falls short when
2 compared to other Class A utilities and does not meet the burden of proof expected from
3 a utility.

4 DRA also notes a surprising level of inconsistencies in how costs are estimated
5 across districts, and sometimes even within a district. An example of this type of
6 inconsistency is in main replacement unit costs as explained in DRA engineer Terence
7 Shia's plant testimony for the Stockton District. Additionally, "standard" gross-up
8 factors such as capitalized interest, escalation, and construction overhead were not
9 applied in a consistent and easy to understand way among capital projects. There is no
10 apparent streamlined cost estimating methodology that one would expect a company as
11 large as CWS. The one exception is in tank painting where CWS uses a standard and
12 easy to understand methodology and format for all districts. The inconsistent and
13 inadequate project justification and cost support documentation severely hampered
14 DRA's ability to evaluate CWS's requests and make recommendations to the
15 Commission and protect ratepayers from unnecessary rate increases

16 Previously authorized projects with Advice Letter status are included in the capital
17 budget requests without sufficient justification.

18 CWS includes in its capital budget requests approximately 45 Advice Letter (AL)
19 projects that were previously authorized but not completed by the time CWS filed this
20 instant Application. CWS provided very little information on the status of these projects
21 and why they should be included as part of the estimated plant additions. DRA removes
22 all AL projects from its plant estimates and recommends that they continued to be
23 handled through the Advice Letter process upon project completion, if they are still
24 necessary projects.

25 CWS should be required to present in future GRCs more detailed status and cost
26 information on all outstanding AL projects. Furthermore, if CWS has reason to believe
27 the project costs will exceed the previously established cost cap, CWS must submit the
28 new cost estimates so that the project's viability, cost effectiveness and reasonableness

1 can be reconsidered by the Commission. Of course, CWS must report to DRA and the
2 Commission all AL projects that are no longer needed or whose scope has changed from
3 its original proposal so appropriate dispositions of those projects can be made.

4 Carryover projects make up a significant portion of CWS’s capital budget requests
5 but lack adequate supporting documentation.

6 As shown in Table 7-B (Chapter 7) in DRA’s District RO Reports, carryover
7 projects constitute a significant portion of the company’s plant requests. Many of the
8 projects classified as funded under the “Non-Specifics” budgets are neither routine nor
9 urgent and have never been subject to Commission pre-approval. Yet, CWS’s filing only
10 included bare bone information such as project number, brief description, expected
11 completion year and cost to complete the project. This lack of information required
12 extensive discovery by DRA. DRA engineer Jenny Au’s plant testimony for the Salinas
13 District illustrates the various problems associated with carryover projects.

14 On the whole, DRA staff in this rate case spent a considerable amount of
15 discovery efforts to obtain the information necessary for its evaluation of CWS requests.
16 This information should be readily available to DRA and to the Commission so that staff
17 can spend time evaluating the reasonableness of proposals, rather than gathering
18 information about what CWS proposes. For example, DRA issued Data Request (DR)
19 PPM-004 on October 8, 2012 to request detailed information on the carryover projects
20 and not until late November 2012 did DRA receive the entire response to its data request,
21 albeit with still inadequate information on many projects. CWS should be required in
22 future GRCs to present detailed information, similar to that provided for its “Specific”
23 projects, for all projects that it includes in the “carryover” list. Just because the project
24 has been started does not relieve CWS the burden of justifying its need and cost to the
25 Commission.

26 Furthermore, CWS should be required to provide detailed project justifications on
27 all projects greater than \$20,000. In this and past GRCs, CWS only provide justification
28 and cost support for projects with cost estimate at \$100,000. This leaves a substantial

1 portion of its capital budgets un-discussed and un-supported. For example, for the
2 Antelope Valley District, while CWS asked for a total of \$2.4 million in new, “Specific”
3 projects for 2012-2015, it only provided project justification and cost support in its
4 Project Justification Reports for five projects that total less \$0.9 million, or less 40% of
5 the requested dollars. In essence, CWS provided little details on about half of the total
6 dollars¹⁸⁸ associated with new, “Specific” projects for Antelope Valley, a district that
7 CWS is proposing to increase rates by almost 60% in 2014. Having to ask for supporting
8 information on these under-\$100,000 projects again consumed a large portion of DRA’s
9 investigative time in this GRC.

10 Project and system information provided in the filing and in response to DRA’s
11 data requests were in too many instances inadequate and inaccurate.

12 Utilities are expected to provide up-to-date and accurate information in their GRC
13 filings. When a utility fails to offer that information up front or in a timely manner when
14 requested, it hampers DRA’s investigation efforts and therefore its ability to develop its
15 recommendations to the Commission and to represent CWS ratepayers’ interest
16 effectively. DRA has encountered numerous instances where it received inaccurate or
17 misleading information from the company.

18 One example is in the Antelope Valley District. Both CWS RO Report and CWS
19 Project Justifications Report for the district indicate that the Leona Valley system only
20 has five storage tanks. Even the company’s September 4, 2012 response to DRA’s data
21 request indicates only five tanks exist in this system.¹⁸⁹ In fact, the system has *six tanks*.
22 The sixth tank was built in 2010 and only after persistent follow-up efforts by DRA
23 engineer Susana Nasserie did DRA receive in late November 2012 the information on the
24 sixth tank.¹⁹⁰ DRA does not wish to speculate on the reason behind the company’s

¹⁸⁸ Some routine projects such vehicles do have supporting documentation outside of the Project Justifications Report.

¹⁸⁹ CWS’s response to DRA’s DR SN-001.

¹⁹⁰ CWS’s email dated November 20, 2012.

1 failure and lateness in producing the existence of the sixth tank in this water system, but
2 would like to point out that such information was crucial in any water storage
3 requirement analysis. For more details, see DRA’s plant testimony for the Antelope
4 Valley District.

5 Another example is in the Kern Valley District. The discovery issue related to
6 Project 66170 is discussed in detail in DRA’s Kern Valley District RO Report (Chapter
7 7) but is worth a mention here. When DRA engineer Jenny Au on January 7, 2013 in
8 DRA Data Request JAU-007 asked for the Maximum Daily Demand data for the years
9 2008-2012 for the Lakeland Water System, CWS responded that it does not have such
10 information. In fact, CWS did have that information. Only through persistent efforts by
11 Ms. Au that DRA discovered CWS had indeed provided the same information to the
12 California Department of Public Health (“CDPH”) in its 2011 Annual Report to the
13 CDPH’s Drinking Water Program.

14 In the Salinas District, CWS neglected to include information regarding a new
15 well at Station 47. CWS did not provide information on this well in its Minimum Data
16 Requirement Question II.3.13 pertaining to new source of supply. On November 15,
17 2013, in its response to DRA Data Request JAU-02, CWS again did not provide any
18 information on a well at Station 47, but did identify a well located on River Road, serving
19 Pressure Zone 320. The well at Station 47 actually serves Pressure Zone 155.¹⁹¹

20 Project 17431 in the Dixon District is another example of where CWS provided
21 misleading and inaccurate information. CWS included a request in its “carryover” list
22 Project 17431 to replace a pump at Station 5 with 2012 as its “Estimated Completion
23 Year.”¹⁹² In fact, as DRA engineer Julian Gandara discovered during his field inspection,
24 the old pump broke down and was already replaced prior to 2012. As can be seen in
25 CWS RO Report for the Dixon District, Attachment B, page 1 of 4, Pump 5-01 was
26 replaced in December 2009. It is troubling that CWS still included the request for its
27 replacement nearly three years later. There appears to be a lack of adequate internal

¹⁹¹ CWS’s email to DRA Jenny Au on February 26, 2013.

¹⁹² CWS RO Report for Dixon District, page 24.

1 audits of CWS’s PowerPlant system in specific and construction budgeting and
2 management in general.

3 One last and perhaps most troubling example of inappropriate request is Project
4 65588 in CWS Bear Gulch District’s carryover budget request. The entirety of the
5 information provided for this project is a description “Install inline hydroturbine,” a
6 “Non-Specific” cost estimate of \$1,050,714 and an expected completion year of 2012.¹⁹³
7 In response to DRA’s DR PPM-004, CWS states the following:

8 *“This project was initiated by the PUC as part of decision*
9 *(Resolution W-4854, Cal Water AL 2018) authorizing 4 water IOU’s*
10 *to install hydroturbines to recover energy as part of a pilot project.”*

11 As discussed in DRA witness Tina Miller’s Report on the Balances of
12 Memorandum and Balancing Accounts of CWS, there exists a Pressure Reducing Valve
13 Memorandum Account (“PRVMA”) to which CWS should have booked this project’s
14 costs.¹⁹⁴ Furthermore, it is unclear whether CWS will invest more efforts into this pilot
15 project. For both of those reasons, it is clearly inappropriate for CWS to present this
16 project in its capital budget requests. What is unclear is whether CWS’s internal
17 accounting of its capital projects is deficient, or the company attempted to double recover
18 the cost of this project, or both. DRA found similar anomalies in plant-related
19 memorandum accounts such as the Operational Energy Efficiency Program
20 Memorandum Account. See for Ms. Miller’s report for a complete review of those
21 accounts.

22 These above instances and many more have not only made DRA’s job harder but
23 also made the accuracy of the rest of the submitted plant information suspect. The
24 Commission should require CWS to improve its capital budgeting documentation and
25 verify the submitted information for accuracy.

¹⁹³ CWS RO Report for the Bear Gulch District, page 24. Also, CWS’s workpapers *BEAR GULCH RATE BASE JULY 2012.xlsx*.

¹⁹⁴ DRA’s plant estimates do not include this project.

1 **D. CONCLUSION**

2 DRA recommends that the Commission adopt DRA’s adjustments presented
3 above. In addition, the Commission should adopt DRA-recommended requirements
4 related to plant-related documentation to be submitted in future GRCs and order the
5 following:

- 6 • CWS shall provide in future general rate case filings detailed capital
7 project justifications and cost support (including Excel spreadsheets)
8 for proposed projects costing \$20,000 or more. This requirement
9 applies to newly proposed projects but also those completed or
10 started but were not previously authorized.
- 11 • CWS shall provide in future rate case filings detailed status report on
12 completed and outstanding Advice Letter projects. For any Advice
13 Letter project whose total cost exceeded or is expected to exceed the
14 cost cap, CWS shall provide a detailed explanation to support the
15 exceedance. For any Advice Letter project that was not completed
16 as originally estimated CWS shall provide a detailed explanation to
17 justify the delay. For any Advice Letter project whose scope has
18 changed, CWS shall provide a detailed explanation to support
19 changes and the reasonableness of project.
- 20 • CWS shall provide in future rate case filings supporting project cost
21 workpapers that are consistent across the districts and contain details
22 including but not limited to unit costs and applicable rates. These
23 workpapers should be in spreadsheet format (with formula intact),
24 and can be easily verified for accuracy and modified for adjustments,
25 if needed, by DRA and by the Commission.

1 **CHAPTER 8: DEPRECIATION**

2 **A. INTRODUCTION**

3 This chapter sets forth DRA’s analyses and recommendations regarding
4 depreciation for CWS’s 23 districts.

5 **B. SUMMARY OF RECOMMENDATIONS**

6 1. DRA recommends that the cost of removal incurred during replacement of mains
7 and service be included as a part of the cost of the newly replaced mains and
8 services. Including the cost of removal in the replacement cost of the mains and
9 services would be appropriate because future customers would be the ones who
10 benefit from the replacement of the mains or services. If the cost of removal is
11 incurred for permanent abandonment, the cost of removal should be expensed.
12 Expensing cost of removal is also consistent with the Federal Income Tax
13 treatment of cost of removal.

14 2. DRA recommends that CWS maintain two separate subaccounts for Account 250
15 Depreciation Reserve, one reflecting the reserve for the recovery of plant
16 investments and the other reflecting the depreciation accrual for future cost of
17 removal. This would help to identify the depreciation reserve accumulated for the
18 recovery of plant investment and the accumulated depreciation for the future cost
19 of removal separately. Maintaining separate reserve subaccounts is extremely
20 important to determine the actual premium paid over the book cost in the event
21 that CWS sells its water system to another water utility. Under P. U. Code
22 Sections 2718 to 2720, Public Water System Investment and Consolidation Act of
23 1997 (Act), ratepayers are required to pay for the premium paid over the book
24 value by the acquiring utility if the utility meets certain conditions. The Federal
25 Energy Regulatory Commission issued a similar ruling on the requirements for
26 energy utilities to maintain separate subaccounts for the accumulated cost of
27 removal.

- 1 3. Beginning Test Year 2014, Tank Painting expense should be treated as a
2 recoverable regulatory asset and amortized over a 15 year period and CWS should
3 remove Account 342.10 Tank Painting from its plant accounts when the current
4 balances are fully depreciated to be consistent with Commission’s Uniform
5 System of Accounts (“USOA”) for Class A water utilities. The Commission’s
6 USOA allows only the first tank painting to be included in plant.
- 7 4. For the calculation of depreciation expenses, CWS uses two different depreciable
8 plant numbers, one for its bookkeeping and another for ratemaking. For
9 ratemaking, CWS uses beginning-of-year plant balances. However, for
10 bookkeeping, its Power Plant Accounting software uses another set of numbers
11 called “Depreciation Base,” which are usually less than the beginning-of-year
12 numbers. This inconsistency would understate the depreciation expense and
13 reserve for the affected districts. CWS should restate its depreciation expense and
14 reserve to correct the under-stated book depreciation expense and reserve to match
15 the ratemaking depreciation expense and reserve. DRA recommends that plant,
16 depreciation expense, depreciation reserve and rate base forecasts in this GRC
17 reflect the above recommendations regarding (1) cost of removal for the
18 replacements of mains and services and (2) tank painting.
- 19 5. Table 8-A at the end of this chapter lists DRA’s recommended depreciation rates
20 for this rate case cycle, 2014-2016. DRA’s depreciation accrual and reserve
21 estimates, reflecting its recommendations herein, are presented in Chapter 1,
22 Attachment A, Table 8-1 of each district’s Report on the Results of Operations.
23

1 **C. DISCUSSION**

2 **1. CWS Proposal**

3 CWS performed a depreciation study using vintage level information compiled
4 through December 31, 2010 and updated it using recorded 2011 plant balances and
5 depreciation reserves for this GRC. CWS generally followed the straight-line remaining
6 life depreciation method the Commission adopted in its Standard Practice U-4. For
7 depreciation study purposes, CWS categorizes its districts into three district groups:
8 Metro, Valley, and Dominguez Districts.

9 The Metro District consists of CWS' General Office and seven operating districts
10 located in the metropolitan areas in Northern and Southern California: General Office,
11 Bayshore Consolidated, Bear Gulch, East Los Angeles, Hermosa-Redondo, Livermore,
12 Los Altos, and Palos Verdes.

13 The Valley District Consists of CWS' districts located in the Northern and Central
14 Valleys of California: Bakersfield, Chico, Dixon, King City, Marysville, Oroville,
15 Salinas, Stockton, Visalia, and Willows.

16 The Dominguez District consists of the four consolidated districts of Dominguez
17 Water Company that CWS acquired in May 2000: Dominguez, Antelope Valley
18 Consolidated, Kern River Valley, and Consolidated Redwood Valley.

19 For salvage and cost of removal study purposes, all the districts under Metro,
20 Valley, and Dominguez Districts are treated as single consolidated district. Based on its
21 study, CWS proposes changing the depreciation rates for the following accounts in this
22 rate proceeding.

23 Ac. 315.00 - Wells for Dominguez Districts

24 Ac. 332.20 - Water Treatment-Filters for Valley and Dominguez Districts

25 Ac. 342.00 - Distribution Reservoirs & Tanks for Metro and Valley Districts

26 Ac. 342.10 - Reservoirs & Tanks-Tank Painting for Metro and Dominguez Districts

27 Ac. 343.22 - Mains-Asbestos Cement 6-8 Inch for Metro and Valley Districts

28 Ac. 373 - Transportation Equipment for all three Districts

1 DRA has reviewed the depreciation study and CWS' proposed changes and found
2 them reasonable except the cost of removal ratios for underground facilities, such as
3 Acct. 343 Mains and Acct. 345 Services that are not required to be removed at the end of
4 their service life. Acct. 342.10 Tank Painting should be removed from plant because
5 under the Commission's USOA, only the first painting is allowed to be included as plant
6 cost. DRA recommends that the accumulated tank painting should be treated as a
7 regulatory asset similar to a balancing account, and be amortized over a 15 year period,
8 with the unamortized balance accruing interest at the 90-day commercial paper rate
9 published by the Federal Reserve. Additionally, CWS' estimated depreciation rate of
10 52.77% for Acct. 432.10 Tank Painting for Livermore District appears to be an error. The
11 correct depreciation rate should be 7.28%.

12 Attachment A at the end of this chapter shows DRA's recommended depreciation
13 rates for this general rate case cycle.

14 **2. Cost of Removal for Mains and Services**

15 Total depreciation accrual is the sum of the depreciation accrual for the recovery
16 of stockholders' investments in plant (plant less salvage value) plus the depreciation
17 accrual for future cost of removal. The recovery of plant cost represents the recovery of
18 stockholders' plant investment over the life of plant investment, while the depreciation
19 accrual for future cost of removal represents an advanced fund ratepayers provided for
20 the expected future cost of removal at the end of service life.

21 CWS requests substantial amount of depreciation expenses for cost of removal for
22 its Acct. 343 Mains and Acct. 345 Services. CWS proposes using the cost of removal
23 ratios of -50% and -180% for Metro Districts, -75% and -180% for Valley Districts, and -
24 20% and -25% for Dominguez Districts for Acct. 343 Mains and Acct. 345 Services,
25 respectively except East Los Angeles, Hermosa-Redondo, Livermore, Los Altos,
26 Marysville, Oroville, Palos Verdes, Salinas, Stockton, Westlake, and Coastal Springs and
27 Lucerne Service Areas of Redwood Valley District. For these Districts, CWS proposes
28 to use a zero percent for cost of removal. DRA concurs with CWS' proposal.

1 CWS derived its cost of removal ratios for mains and services by taking the
2 historical ratios of the original cost of the plant to the corresponding cost of removal for
3 the historical retirements. The reason for CWS' estimates for the cost of removal ratios
4 for mains and services are so high because these mains and services were installed 40 to
5 60 years ago, and because of the high rate of inflation over the last 40 to 60 years, the
6 ratios of original cost to the recent cost of removal are very high.

7 To understand the impact of the high cost of removal ratio on the depreciation
8 expense, if we assume a \$1,000,000 main is constructed with estimated zero gross
9 salvage ratio and -75% cost of removal ratio, then ratepayers have to pay not only the
10 \$1,000,000 in depreciation accrual for plant investment so that the stockholders could
11 recover its investment, but an additional \$750,000 in depreciation accrual for the cost of
12 removal over the life of the mains.

13 However, in terms of construction expenditure, cost of removal represents a small
14 portion of CWS' construction expenditure. CWS' average last five year recorded cost of
15 removal is \$1,219,692, compared to the gross plant additions of \$114 million in 2012.

16 CWS's request for such substantial depreciation accrual from the current
17 ratepayers is not logical or reasonable because most of the cost of removal is incurred as
18 a part of mains or services replacement. The cost of removal resulting from installation of
19 replacement mains or services should be included as a part of the cost of constructing
20 replacement mains and services; this is because the cost of removal incurred for the
21 replacement mains or services is for the benefit of future customers. Therefore, the future
22 customers should pay for the cost of removing old mains or services in order to allow
23 new installation to be put in place. This will eliminate unfair payments through
24 depreciation accrual for cost of removal by the current customers for future customers'
25 benefits.

26 In case of permanent abandonment, mains and services are abandoned in place and
27 usually little or no cost of removal is necessary. However, if there is any cost of removal
28 incurred for permanent abandonment, it should be expensed. For Federal Income Tax

1 purposes, cost of removal is expensed and expensing cost of removal would be consistent
2 with income tax treatment.

3 **3. Separate Reserves for Cost of Removal and Recovery of Plant**
4 **Investment**

5 Total depreciation accrual is the sum of the depreciation accrual for the recovery
6 of stockholders' investments in plant investment (plant less salvage value) plus the
7 depreciation accrual for cost of removal.

8 The accumulated depreciation reserve for the cost of removal and the depreciation
9 reserve for the recovery of plant investment should be kept separately because the
10 accumulated depreciation for future cost of removal is quite different from the
11 accumulated depreciation reserve for the recovery of the plant investment made by
12 shareholders. The accumulated depreciation for cost of removal is an advanced fund by
13 ratepayers while the accumulated depreciation for plant investment is fund returned to the
14 shareholders for the plant investment dedicated by shareholders for the benefit of the
15 ratepayers.

16 Currently CWS does not maintain separate subaccounts for the depreciation
17 reserve to separate the depreciation accrual for the recovery of the plant investment from
18 that for the recovery of cost of removal. However, maintaining separate subaccounts is
19 very important because of the enactment of The Public Water System Investment and
20 Consolidation Act of 1997. Prior to the enactment of this Act, the Commission did not
21 recognize any premium paid over the book value for ratemaking when the acquiring
22 company paid a premium over the book value. This Act requires the Commission to
23 recognize the premium paid by the acquiring water utility and to allow the acquiring
24 utility to recover the premium paid above the book value of the system by the acquiring
25 water utility from the ratepayers if the acquiring company can demonstrate that the
26 acquisition improves the 1) reliability of the water system, 2) ability to comply with
27 health and safety regulations, and 3) ability to achieve efficiencies through economy of
28 scale. (See P. U. Code Section 2718 to 2720.)

1 For example, if we were to assume that a water system with \$1 million in gross
2 plant with a total depreciation reserves of \$500,000 that consists of \$300,000 for the
3 recovery of plant cost and the remaining \$200,000 for the future cost of removal is sold
4 for \$800,000, the premium that the acquiring company can recover would be \$300,000
5 (market value \$800,000 – book value \$500,000) if we did not make any distinction
6 between the reserve accumulated for the recovery of plant investment and the
7 depreciation reserve accumulated for the cost of removal.

8 However, the true book value of the utility plant would be \$700,000 (Gross plant
9 \$1 million – depreciation reserve for plant investment recovery \$300,000) instead of
10 \$500,000 because the depreciation reserve accumulated for the recovery of plant
11 investment is actually \$300,000 and the remaining accumulated depreciation reserve of
12 \$200,000 is the money set aside for future cost of removal. Thus, the true book value of
13 the property is \$700,000 and the premium the ratepayers are responsible to pay would be
14 \$100,000 (market value \$800,000 –book value \$700,000).

15 As can be seen from the above example, without keeping track of the accumulated
16 depreciation reserves for plant and cost of removal recovery separately, ratepayers would
17 be required to pay \$300,000 instead \$100,000. The ratepayers would be paying twice for
18 the cost of removal, once through depreciation and again through the payment for the
19 premium paid over book value when the water system is sold to a new owner. This
20 double payment for cost of removal would be repeated every time the water system
21 changes ownership unless the accumulated depreciation reserve is separately tracked and
22 has appropriate adjustments made when there is a sale of the water system.

23 In fact, when CWS acquired Dominguez Water Company in 1999, CWS paid
24 \$31,686,862 over the book value. CWS is allowed to include the merger premium in its
25 rate base and CWS ratepayers are paying for the premium paid by CWS for this
26 acquisition.

27 The Federal Energy Regulatory Commission (“FERC”) has also recognized the
28 need to maintain separate subaccounts for the cost of removal and issued FERC Order

1 No. 631 requiring energy utilities to keep track of the accumulated depreciation for the
2 cost of removal and the recovery of plant investment separately.

3 Page 7 of FERC Order No. 631 states:

4 *--- we will require jurisdictional entities to maintain separate subsidiary*
5 *records for cost of removal for non-legal retirement obligations that are*
6 *included as specific identifiable allowances recorded in accumulated*
7 *depreciation in order to separately identify such information to facilitate*
8 *external reporting and for regulatory analysis, and rate setting purposes.*
9 *Therefore, the Commission is amending the instructions of accounts 108*
10 *and 110 in Parts 101, 201 and account 31, Accrued specific allowances for*
11 *cost of removal for non-legal retirement obligations as a specific*
12 *component in their rates approved by their regulators.*

13 **4. Tank Painting**

14 CWS has been including Tank Painting costs as a separate plant account, Acct.
15 342.10 Tank Painting since 1999. This practice is contrary to the plant accounting
16 instruction of Commission's USOA. The plant accounting instruction allows only the
17 first tank painting to be included in the cost of plant. The instruction for "Structures and
18 Improvements" clearly lists "Painting, first" and limits that only the first tank painting is
19 allowed to be included in the plant accounts. (See Page 47 of Commission's USOA for
20 Class A Water Utilities, Instructions - Utility Plant Accounts, Items of Cost to be
21 included.)

22 Additionally, to be included as a separate plant item in a plant account requires
23 that the property must meet the definition of units of property. The Commission's USOA
24 Utility Plant Instruction 12 states that:

25 *A. For the purpose of avoiding undue refinement in accounting for*
26 *additions to and retirements and replacements of utility plant, all*
27 *property shall be considered as consisting of (1) units of property and*
28 *(2) minor items of property.*

29 *B. Units of Property*

30 *(1) When a unit of property is added to utility plant, the cost thereof*
31 *shall be added to the appropriate utility plant account, except that*
32 *when units are acquired in acquisition of utility plant constituting an*

1 *operating system, they shall be accounted for as provided in utility*
2 *plant instruction 4.*

3 *(2) When a unit of property is retired from utility plant, with or without*
4 *replacement, the book costs thereof shall be credited to the utility*
5 *plant account in which it is included, determined in the manner set*
6 *forth in the paragraph D, below*

7 A tank is a unit of property; however, tank painting is not a unit of property
8 because tank painting cannot exist without the tank and it has to be a part of the tank;
9 therefore, repainting of a tank should be maintenance of a tank and not a plant item
10 because it cannot function as an operating unit.

11 Furthermore, CWS's accounting practice on tank painting is not consistent with
12 other California water utilities. CWS is the only water utility that treats tank painting as a
13 plant item. All other California water utilities treat tank painting as an expense item.

14 However, because tank painting is an unusually large expense item and lasts
15 approximately 15 years, beginning Test Year 2014, tank painting expenses should be
16 amortized over a 15 year period and the unamortized balance should be treated as a
17 regulatory asset and allowed to accrue interest at 90-day commercial paper rate published
18 by Federal Reserve. CWS should close out Account 342.10 Tank Painting when the
19 current balances of this account are fully depreciated. This treatment is consistent with
20 Commission's ratemaking treatment of other regulatory assets, such as balancing
21 accounts.

22 **5. Accounting Errors**

23 For the calculation of depreciation expenses, CWS uses two different depreciable
24 plant numbers, one for its bookkeeping and another for ratemaking. For ratemaking,
25 CWS uses beginning-of-the year plant balances. However, for bookkeeping, its Power
26 Plant Accounting software uses another set of numbers called "Deprecation Base", which
27 are sometimes less than the beginning-of-year numbers.

28 This inconsistency would understate the depreciation expense and reserve for the
29 affected Districts. Therefore, CWS' depreciation expense and reserve should be restated

1 to correct the under-accrual for book purposes to match the ratemaking and the book
2 depreciation.

3 **D. CONCLUSION**

4 DRA recommends that, in the case of the replacement of mains and services, the
5 cost of removal should be capitalized as a part of new plant since the removal and
6 installation of a new property is for the benefit of future customers. If the cost of removal
7 incurred is for the permanent abandonment of mains or services, then the cost of removal
8 should be expensed. This expensing of cost of removal is also consistent with the income
9 tax treatment of cost of removal.

10 DRA recommends that the Commission order CWS to maintain separate
11 subaccounts for accumulated depreciation accrual for the cost of removal and for plant
12 investment separately.

13 Beginning Test Year 2014, tank painting for existing tanks for the purpose of tank
14 maintenance should be treated as an unusual expense and amortized over a 15 year
15 period. The unamortized tank painting cost should be treated as a regulatory asset and
16 accrue interest at 90-day commercial paper rate. CWS should remove Account 342.10
17 Tank Painting from its plant accounts when the current balances are fully depreciated.

18 CWS's depreciation expense and reserve should be restated to correct the under-
19 accrual for book purposes to match the ratemaking and book depreciation.

20 Finally, DRA recommends that plant, depreciation expense, depreciation reserve
21 and rate base forecasts in this GRC reflect the above recommendations regarding (1) cost
22 of removal for the replacement of mains and services and (2) tank painting. Table 8-A in
23 the following pages presents DRA's recommended depreciation rates for CWS.

**TABLE 8-A (ANTELOPE VALLEY DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	3.81%	1.21%	0.00%	5.02%
103160	SUPPLY MAINS	18.83%	-0.79%	0.00%	18.04%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	4.04%	0.19%	0.00%	4.23%
103240	PUMPING EQUIPMENT	3.60%	0.26%	0.00%	3.86%
103241	SYSTEM CTRL COMPUTER EQUIP	3.60%	0.26%	0.00%	3.86%
103250	OTHER PUMPING PLANT	4.37%	0.22%	0.00%	4.59%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103320	WATER TREATMENT EQUIPMENT	3.03%	0.42%	0.00%	3.45%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	3.39%	0.17%	0.00%	3.56%
103411	PAntelopeEMENT- TRANS & DIST PLANT	6.90%	0.00%	0.00%	6.90%
103420	RESERVOIRS AND TANKS	4.65%	1.53%	0.00%	6.18%
103421	TANK PAINTING	7.45%	0.00%	0.00%	7.45%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.65%	0.00%	0.00%	1.65%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.70%	0.00%	0.00%	1.70%
103460	METERS	7.62%	0.00%	-0.16%	7.46%
103480	HYDRANTS	1.42%	0.20%	0.00%	1.62%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	3.35%	0.16%	0.00%	3.51%
103720	OFFICE FURNITURE AND EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103721	OFFICE EQUIPMENT - COMPUTERS	0.00%	0.00%	0.00%	0.00%
103730	TRANSPORTATION	0.00%	0.00%	0.00%	0.00%
103740	STORES EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103750	LABORATORY EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103760	COMMUNICATION EQUIPMENT	21.96%	0.00%	0.00%	21.96%
103770	POWER OPERATED EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	7.68%	0.00%	0.00%	7.68%
103790	OTHER GENERAL PLANT	0.00%	0.00%	0.00%	0.00%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (BAKERSFIELD DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	2.22%	0.22%	0.00%	2.44%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	1.45%	0.27%	0.00%	1.72%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	1.22%	1.51%	0.00%	2.73%
103160	SUPPLY MAINS	1.53%	0.16%	0.00%	1.69%
103163	STEEL - SUPPLY MAIN	1.53%	0.16%	0.00%	1.69%
103164	All Other -Supply Mains	1.53%	0.16%	0.00%	1.69%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	3.29%	0.94%	0.00%	4.23%
103211	Pavement - Pumping Plant	3.54%	0.00%	0.00%	3.54%
103240	PUMPING EQUIPMENT	2.61%	0.18%	0.00%	2.79%
103241	System Ctrl Computer Equipment	2.61%	0.18%	0.00%	2.79%
103250	OTHER PUMPING PLANT	4.40%	0.00%	0.00%	4.40%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	1.96%	0.32%	0.00%	2.28%
103320	WATER TREATMENT EQUIPMENT	2.34%	0.27%	0.00%	2.61%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	1.96%	0.10%	0.00%	2.06%
103411	Pavement - Trans & Dist Plant	4.41%	0.00%	0.00%	4.41%
103420	RESERVOIRS AND TANKS	1.69%	0.35%	0.00%	2.04%
103421	TANK PAINTING	15.89%	0.00%	0.00%	15.89%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.38%	0.00%	0.00%	1.38%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.00%	0.00%	0.00%	1.00%
103460	METERS	3.37%	0.00%	-0.17%	3.20%
103480	HYDRANTS	1.20%	1.01%	0.00%	2.21%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	3.45%	0.32%	0.00%	3.77%
103711	DRIVEWAY PAVEMENT	7.00%	0.00%	0.00%	7.00%
103720	OFFICE FURNITURE AND EQUIPMENT	4.22%	0.00%	0.00%	4.22%
103721	OFFICE EQUIPMENT - COMPUTERS	5.75%	0.00%	0.00%	5.75%
103722	COMPUTER SOFTWARE	10.04%	0.00%	0.00%	10.04%
103730	TRANSPORTATION	9.44%	0.00%	-2.25%	7.19%
103740	STORES EQUIPMENT	3.81%	0.00%	0.00%	3.81%
103750	LABORATORY EQUIPMENT	7.39%	0.00%	0.00%	7.39%
103760	COMMUNICATION EQUIPMENT	2.52%	0.00%	0.00%	2.52%
103770	POWER OPERATED EQUIPMENT	6.11%	0.00%	-0.14%	5.97%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	5.73%	0.00%	0.00%	5.73%
103790	OTHER GENERAL PLANT	3.37%	0.00%	0.00%	3.37%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (BAYSHORE DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	103110-Struct & Improve-Supply Plnt	0.00%	0.00%	0.00%	0.00%
103120	103120-Collect & Impound Reservoirs	1.03%	6.56%	0.00%	7.59%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	103150-Wells-Supply Plant	1.89%	1.81%	0.00%	3.70%
103160	103160-Supply Mains	3.34%	-1.30%	0.00%	2.04%
103164	103164-All Other -Supply Mains	3.34%	-1.30%	0.00%	2.04%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	5.65%	1.15%	0.00%	6.80%
103211	103211-Pavement-Pumping Plant	6.78%	0.00%	0.00%	6.78%
103240	103240-Pumping Equipment	2.46%	0.11%	0.00%	2.57%
103241	103241-System Ctrl Computer Equip	2.46%	0.11%	0.00%	2.57%
103250	103250-Other Pumping Plant	2.74%	0.25%	0.00%	2.99%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	2.23%	0.10%	0.00%	2.33%
103320	WATER TREATMENT EQUIPMENT	1.94%	0.08%	0.00%	2.02%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	1.23%	0.15%	0.00%	1.38%
103411	103411-Pavement-Trans & Dist Plant	1.13%	0.00%	0.00%	1.13%
103420	RESERVOIRS AND TANKS	2.23%	0.96%	0.00%	3.19%
103421	103421-Tank Painting	13.09%	0.00%	0.00%	13.09%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.36%	0.00%	0.00%	1.36%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.14%	0.00%	0.00%	1.14%
103460	103460-Meters & Meter Boxes	3.50%	0.00%	-0.15%	3.35%
103480	103480-Hydrants-T & D Mains	1.49%	0.46%	0.00%	1.95%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS-general plant	1.72%	0.22%	0.00%	1.94%
103711	103711-Driveway Pavement-Gen Plant	-6.30%	0.00%	0.00%	-6.30%
103720	OFFICE FURNITURE AND EQUIPMENT	1.47%	0.00%	-0.15%	1.32%
103721	OFFICE EQUIPMENT - COMPUTERS	6.20%	0.00%	0.00%	6.20%
103722	103722-Computer Software	0.00%	0.00%	0.00%	0.00%
103730	TRANSPORTATION	3.00%	0.00%	-2.58%	0.42%
103740	STORES EQUIPMENT	7.60%	0.00%	0.00%	7.60%
103750	LABORATORY EQUIPMENT	6.69%	0.00%	0.00%	6.69%
103760	COMMUNICATION EQUIPMENT	1.19%	0.00%	0.00%	1.19%
103770	POWER OPERATED EQUIPMENT	2.77%	0.00%	-0.34%	2.43%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	3.60%	0.00%	0.00%	3.60%
103790	OTHER GENERAL PLANT	4.15%	0.00%	0.00%	4.15%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (BEAR GULCH DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	103110-Struct & Improve-Supply Plnt	1.40%	0.17%	0.00%	1.57%
103120	103120-Collect & Impound Reservoirs	3.53%	14.74%	0.00%	18.27%
103130	103130-Lake River & Other Intakes	1.13%	0.20%	0.00%	1.33%
103150	103150-WELLS - Supply plant	0.00%	0.00%	0.00%	0.00%
103160	103160-Supply Mains	1.57%	0.10%	0.00%	1.67%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	2.47%	0.70%	0.00%	3.17%
103211	103211-Pavement-Pumping Plant	2.05%	0.00%	0.00%	2.05%
103240	103240-Pumping Equipment	2.54%	0.11%	0.00%	2.65%
103241	103241-System Ctrl Computer Equip	2.54%	0.11%	0.00%	2.65%
103250	103250-Other Pumping Plant	2.59%	0.25%	0.00%	2.84%
Treatment					
103310	103310-Struct & Improve-Treat Plant	2.17%	0.09%	0.00%	2.26%
103320	103320-Water Treatment Equipment	2.29%	0.19%	0.00%	2.48%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	1.48%	0.15%	0.00%	1.63%
103411	103411-Pavement-Trans & Dist Plant	5.94%	0.00%	0.00%	5.94%
103420	103420-Reservoirs & Tanks	2.96%	1.27%	0.00%	4.23%
103421	103421-Tank Painting	19.69%	0.00%	0.00%	19.69%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.32%	0.00%	0.00%	1.32%
103440	103440-FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.18%	0.00%	0.00%	1.18%
103460	103460-Meters & Meter Boxes	3.45%	0.00%	-0.15%	3.30%
103480	103480-Hydrants-T & D Mains	1.52%	0.46%	0.00%	1.98%
General Plant					
103710	103710-Struct & Improve Genl Plnt	1.02%	0.25%	0.00%	1.27%
103711	103711-Driveway Pavement-Gen Plant	-53.26%	0.00%	0.00%	-53.26%
103720	103720-Office Furn & Equip-Gen Plnt	2.87%	0.00%	-0.15%	2.72%
103721	103721-Office-Elec. Equip/Computers	6.54%	0.00%	0.00%	6.54%
103730	103730-Transportn Equip-Gen Plant	9.07%	0.00%	-2.09%	6.98%
103740	103740-Stores Equipment-Gen Plant	5.46%	0.00%	0.00%	5.46%
103750	103750-Laboratory Equip-Gen Plant	6.23%	0.00%	0.00%	6.23%
103760	103760-Communication Equip-Gen Plnt	2.46%	0.00%	0.00%	2.46%
103770	103770-Pwr Operated Equip-Gen Plant	5.27%	0.00%	-0.27%	5.00%
103780	103780-Tools, Shop & Garage Equip	4.46%	0.00%	0.00%	4.46%
103790	103790-Other General Plant	4.09%	0.00%	0.00%	4.09%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%
103910	103910-Utility Plant Purchased	0.00%	0.00%	0.00%	0.00%
* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'					
** DRA adjusts Cost of Removal rates for Mains and Services to 0%					
*** Rates used to calculate annual depreciation accruals.					

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**TABLE 8-A (CHICO DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	103110-Struct & Improve-Supply Plnt	0.00%	0.00%	0.00%	0.00%
103120	103120-Collect & Impound Reservoirs	1.36%	0.28%	0.00%	1.64%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	103150-Wells-Supply Plant	1.39%	1.37%	0.00%	2.76%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	2.88%	0.83%	0.00%	3.71%
103211	103211-Pavement-Pumping Plant	3.63%	0.00%	0.00%	3.63%
103240	103240-Pumping Equipment	2.46%	0.18%	0.00%	2.64%
103241	103241-System Ctrl Computer Equip	2.46%	0.18%	0.00%	2.64%
103250	103250-Other Pumping Plant	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	103310-Struct & Improve-Treat Plant	2.04%	0.30%	0.00%	2.34%
103320	103320-Water Treatment Equipment	2.26%	0.36%	0.00%	2.62%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	2.00%	0.10%	0.00%	2.10%
103420	103420-Reservoirs & Tanks	1.60%	0.32%	0.00%	1.92%
103421	103421-Tank Painting	8.35%	0.00%	0.00%	8.35%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.43%	0.00%	0.00%	1.43%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.14%	0.00%	0.00%	1.14%
103460	103460-Meters & Meter Boxes	3.18%	0.00%	-0.15%	3.03%
103480	103480-Hydrants-T & D Mains	1.19%	1.00%	0.00%	2.19%
General Plant					
103710	103710-Struct & Improve Genl Plnt	3.17%	0.30%	0.00%	3.47%
103711	103711-Driveway Pavement-Gen Plant	7.77%	0.00%	0.00%	7.77%
103720	103720-Office Furn & Equip-Gen Plnt	3.94%	0.00%	0.00%	3.94%
103721	103721-Office-Elec. Equip/Computers	6.32%	0.00%	0.00%	6.32%
103722	103722-Computer Software	15.66%	0.00%	0.00%	15.66%
103730	103730-Transportn Equip-Gen Plant	3.63%	0.00%	-2.21%	1.42%
103740	103740-Stores Equipment-Gen Plant	4.25%	0.00%	0.00%	4.25%
103750	LABORATORY EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103760	103760-Communication Equip-Gen Plnt	1.11%	0.00%	0.00%	1.11%
103770	103770-Pwr Operated Equip-Gen Plant	5.35%	0.00%	-0.22%	5.13%
103780	103780-Tools, Shop & Garage Equip	5.19%	0.00%	0.00%	5.19%
103790	103790-Other General Plant	7.79%	0.00%	0.00%	7.79%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%
* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'					
** DRA adjusts Cost of Removal rates for Mains and Services to 0%					
*** Rates used to calculate annual depreciation accruals.					

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**TABLE 8-A (DIXON DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS - Supply Plant	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	103150-Wells-Supply Plant	1.55%	1.29%	0.00%	2.84%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	2.39%	0.64%	0.00%	3.03%
103211	103211-Pavement-Pumping Plant	3.85%	0.00%	0.00%	3.85%
103240	103240-Pumping Equipment	2.63%	0.18%	0.00%	2.81%
103241	103241-System Ctrl Computer Equip	2.63%	0.18%	0.00%	2.81%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	103310-Struct & Improve-Treat Plant	2.02%	0.30%	0.00%	2.32%
103320	103320-Water Treatment Equipment	2.26%	0.35%	0.00%	2.61%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103411	103411-Pavement-Trans & Dist Plant	10.54%	0.00%	0.00%	10.54%
103420	103420-Reservoirs & Tanks	1.43%	0.27%	0.00%	1.70%
103421	103421-Tank Painting	9.55%	0.00%	0.00%	9.55%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.30%	0.00%	0.00%	1.30%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.12%	0.00%	0.00%	1.12%
103460	103460-Meters & Meter Boxes	3.68%	0.00%	-0.19%	3.49%
103480	103480-Hydrants-T & D Mains	1.22%	0.97%	0.00%	2.19%
General Plant					
103710	103710-Struct & Improve Genl Plnt	1.61%	0.30%	0.00%	1.91%
103720	103720-Office Furn & Equip-Gen Plnt	-9.83%	0.00%	0.00%	-9.83%
103721	103721-Office-Elec. Equip/Computers	-33.72%	0.00%	0.00%	-33.72%
103722	103722-Computer Software	20.31%	0.00%	0.00%	20.31%
103730	103730-Transportn Equip-Gen Plant	27.01%	0.00%	-2.19%	24.82%
103740	103740-Stores Equipment-Gen Plant	1.54%	0.00%	0.00%	1.54%
103750	STORES EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103760	103760-Communication Equip-Gen Plnt	-1.90%	0.00%	0.00%	-1.90%
103770	103770-Pwr Operated Equip-Gen Plant	4.54%	0.00%	-0.09%	4.45%
103780	103780-Tools, Shop & Garage Equip	4.27%	0.00%	0.00%	4.27%
103790	TOOLS, SHOP AND GARAGE EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%
103910	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

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**TABLE 8-A (DOMINGUEZ DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	1.41%	0.11%	0.00%	1.52%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	5.98%	1.47%	0.00%	7.45%
103160	SUPPLY MAINS	6.22%	-0.92%	0.00%	5.30%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	3.71%	0.20%	0.00%	3.91%
103211	PAVEMENT - PUMPING PLANT	9.58%	0.00%	0.00%	9.58%
103240	PUMPING EQUIPMENT	2.57%	0.37%	0.00%	2.94%
103241	SYSTEM CTRL COMPUTER EQUIP	2.57%	0.37%	0.00%	2.94%
103250	OTHER PUMPING PLANT	4.37%	0.22%	0.00%	4.59%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	1.90%	0.24%	0.00%	2.14%
103320	WATER TREATMENT EQUIPMENT	2.85%	0.68%	0.00%	3.53%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	4.21%	0.19%	0.00%	4.40%
103411	PAVEMENT - TRANS & DIST PLANT	9.87%	0.00%	0.00%	9.87%
103420	RESERVOIRS AND TANKS	7.55%	2.49%	0.00%	10.04%
103421	TANK PAINTING	8.97%	0.00%	0.00%	8.97%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.53%	0.00%	0.00%	1.53%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.65%	0.00%	0.00%	1.65%
103460	METERS	1.80%	0.00%	-0.13%	1.67%
103480	HYDRANTS	0.98%	0.27%	0.00%	1.25%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	1.71%	0.07%	0.00%	1.78%
103720	OFFICE FURNITURE AND EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103721	OFFICE EQUIPMENT - COMPUTERS	0.00%	0.00%	0.00%	0.00%
103730	TRANSPORTATION	0.00%	0.00%	0.00%	0.00%
103740	STORES EQUIPMENT	2.98%	0.00%	0.00%	2.98%
103750	LABORATORY EQUIPMENT	0.03%	0.00%	0.00%	0.03%
103760	COMMUNICATION EQUIPMENT	7.09%	0.00%	0.00%	7.09%
103770	POWER OPERATED EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	3.60%	0.00%	0.00%	3.60%
103790	OTHER GENERAL PLANT	-0.06%	0.00%	0.00%	-0.06%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

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**TABLE 8-A (EAST LOS ANGELES DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	2.05%	2.04%	0.00%	4.09%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	2.91%	0.74%	0.00%	3.65%
103211	PAVEMENT - PUMPING PLANT	4.98%	0.00%	0.00%	4.98%
103240	PUMPING EQUIPMENT	2.65%	0.11%	0.00%	2.76%
103241	SYSTEM CTRL COMPUTER EQUIP	2.65%	0.11%	0.00%	2.76%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	2.31%	0.10%	0.00%	2.41%
103320	WATER TREATMENT EQUIPMENT	2.46%	0.00%	0.00%	2.46%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	1.43%	0.15%	0.00%	1.58%
103411	PAVEMENT- TRANS & DIST PLANT	-21.49%	0.00%	0.00%	-21.49%
103420	RESERVOIRS AND TANKS	1.11%	1.29%	0.00%	2.40%
103421	TANK PAINTING	9.12%	0.00%	0.00%	9.12%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.34%	0.00%	0.00%	1.34%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	0.75%	0.00%	0.00%	0.75%
103460	METERS	3.40%	0.00%	0.00%	3.40%
103480	HYDRANTS	1.50%	0.46%	0.00%	1.96%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	2.28%	0.24%	0.00%	2.52%
103711	DRIVEWAY PAVEMENT - general plant	2.75%	0.00%	0.00%	2.75%
103720	OFFICE FURNITURE AND EQUIPMENT	3.27%	0.00%	-0.17%	3.10%
103721	OFFICE EQUIPMENT - COMPUTERS	3.58%	0.00%	0.00%	3.58%
103722	COMPUTER SOFTWARE	3.72%	0.00%	0.00%	3.72%
103730	TRANSPORTATION	11.59%	0.00%	-2.24%	9.35%
103731	HEAVY TRUCKS	11.59%	0.00%	-2.24%	9.35%
103740	STORES EQUIPMENT	6.25%	0.00%	0.00%	6.25%
103750	LABORATORY EQUIPMENT	5.52%	0.00%	0.00%	5.52%
103760	COMMUNICATION EQUIPMENT	1.77%	0.00%	0.00%	1.77%
103770	POWER OPERATED EQUIPMENT	4.54%	0.00%	-0.28%	4.26%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	4.21%	0.00%	0.00%	4.21%
103790	OTHER GENERAL PLANT	3.56%	0.00%	0.00%	3.56%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (HERMOSA-REDONDO DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	1.81%	1.89%	0.00%	3.70%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
103164	ALL OTHER - SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	5.55%	1.28%	0.00%	6.83%
103211	PAVEMENT - PUMPING PLANT	6.10%	0.00%	0.00%	6.10%
103240	PUMPING EQUIPMENT	2.53%	0.11%	0.00%	2.64%
103241	SYSTEM CTRL COMPUTER EQUIP	2.53%	0.11%	0.00%	2.64%
103250	OTHER PUMPING PLANT	2.68%	0.25%	0.00%	2.93%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	1.81%	0.06%	0.00%	1.87%
103320	WATER TREATMENT EQUIPMENT	1.83%	0.00%	0.00%	1.83%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	1.60%	0.15%	0.00%	1.75%
103411	PAVEMENT - TRANS & DIST PLANT	8.26%	0.00%	0.00%	8.26%
103420	RESERVOIRS AND TANKS	3.33%	1.46%	0.00%	4.79%
103421	TANK PAINTING	13.09%	0.00%	0.00%	13.09%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.28%	0.00%	0.00%	1.28%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.12%	0.00%	0.00%	1.12%
103460	METERS	3.58%	0.00%	0.00%	3.58%
103480	HYDRANTS	1.50%	0.46%	0.00%	1.96%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	4.21%	0.32%	0.00%	4.53%
103711	DRIVEWAY PAVEMENT - general plant	9.70%	0.00%	0.00%	9.70%
103720	OFFICE FURNITURE AND EQUIPMENT	5.11%	0.00%	-0.17%	4.94%
103721	OFFICE EQUIPMENT - COMPUTERS	15.70%	0.00%	0.00%	15.70%
103730	TRANSPORTATION	-210.05%	0.00%	-4.92%	-214.97%
103740	STORES EQUIPMENT	4.42%	0.00%	0.00%	4.42%
103750	LABORATORY EQUIPMENT	5.82%	0.00%	0.00%	5.82%
103760	COMMUNICATION EQUIPMENT	0.42%	0.00%	0.00%	0.42%
103770	POWER OPERATED EQUIPMENT	5.65%	0.00%	-0.30%	5.35%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	6.53%	0.00%	0.00%	6.53%
103790	OTHER GENERAL PLANT	4.53%	0.00%	0.00%	4.53%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (KERN RIVER DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	-5.14%	0.11%	0.00%	-5.03%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	3.13%	0.25%	0.00%	3.38%
103150	WELLS	4.91%	1.44%	0.00%	6.35%
103160	SUPPLY MAINS	2.66%	-0.06%	0.00%	2.60%
103164	ALL OTHER - Supply Mains	2.66%	-0.06%	0.00%	2.60%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	4.07%	0.18%	0.00%	4.25%
103240	PUMPING EQUIPMENT	3.47%	0.30%	0.00%	3.77%
103250	OTHER PUMPING PLANT	5.06%	0.26%	0.00%	5.32%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	4.30%	0.20%	0.00%	4.50%
103320	WATER TREATMENT EQUIPMENT	3.60%	0.41%	0.00%	4.01%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	3.62%	0.17%	0.00%	3.79%
103420	RESERVOIRS AND TANKS	3.18%	1.19%	0.00%	4.37%
103421	TANK PAINTING	8.91%	0.00%	0.00%	8.91%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.27%	0.00%	0.00%	1.27%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	0.63%	0.00%	0.00%	0.63%
103460	METERS	-3.61%	0.00%	0.00%	-3.61%
103480	HYDRANTS	0.56%	0.26%	0.00%	0.82%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	3.66%	0.18%	0.00%	3.84%
103720	OFFICE FURNITURE AND EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103721	OFFICE EQUIPMENT - COMPUTERS	0.00%	0.00%	0.00%	0.00%
103730	TRANSPORTATION	0.00%	0.00%	0.00%	0.00%
103740	STORES EQUIPMENT	3.23%	0.00%	0.00%	3.23%
103750	LABORATORY EQUIPMENT	12.56%	0.00%	0.00%	12.56%
103760	COMMUNICATION EQUIPMENT	14.99%	0.00%	0.00%	14.99%
103770	POWER OPERATED EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	7.09%	0.00%	0.00%	7.09%
103790	OTHER GENERAL PLANT	8.16%	0.00%	0.00%	8.16%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

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**TABLE 8-A (KING CITY DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	1.56%	1.30%	0.00%	2.86%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	3.25%	0.79%	0.00%	4.04%
103240	PUMPING EQUIPMENT	2.78%	0.18%	0.00%	2.96%
103241	SYSTEM CONTROL COMP EQUIPMENT	2.78%	0.18%	0.00%	2.96%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103320	WATER TREATMENT EQUIPMENT	2.75%	0.43%	0.00%	3.18%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103420	RESERVOIRS AND TANKS	3.60%	-1.49%	0.00%	2.11%
103421	TANK PAINTING	10.19%	0.00%	0.00%	10.19%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.54%	0.00%	0.00%	1.54%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.28%	0.00%	0.00%	1.28%
103460	METERS	3.63%	0.00%	-0.18%	3.45%
103480	HYDRANTS	1.18%	1.01%	0.00%	2.19%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	1.83%	0.00%	0.00%	1.83%
103720	OFFICE FURNITURE AND EQUIPMENT	-4.48%	0.00%	0.00%	-4.48%
103721	OFFICE EQUIPMENT - COMPUTERS	-55.39%	0.00%	0.00%	-55.39%
103730	TRANSPORTATION	8.98%	0.00%	-2.20%	6.78%
103740	STORES EQUIPMENT	3.59%	0.00%	0.00%	3.59%
103750	LABORATORY EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103760	COMMUNICATION EQUIPMENT	0.41%	0.00%	0.00%	0.41%
103770	POWER OPERATED EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	3.33%	0.00%	0.00%	3.33%
103790	OTHER GENERAL PLANT	0.00%	0.00%	0.00%	0.00%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

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**TABLE 8-A (LIVERMORE DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS - Supply Plant	0.00%	0.00%	0.00%	0.00%
103120	103120-Collect & Impound Reservoirs	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	103150-Wells-Supply Plant	1.94%	2.10%	0.00%	4.04%
103160	103160-Supply Mains	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	11.28%	2.44%	0.00%	13.72%
103211	103211-Pavement-Pumping Plant	5.49%	0.00%	0.00%	5.49%
103240	103240-Pumping Equipment	2.59%	0.11%	0.00%	2.70%
103241	103241-System Ctrl Computer Equip	2.59%	0.11%	0.00%	2.70%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	103310-Struct & Improve-Treat Plant	2.33%	0.10%	0.00%	2.43%
103320	103320-Water Treatment Equipment	2.54%	0.00%	0.00%	2.54%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	1.55%	0.15%	0.00%	1.70%
103411	103411-Pavement-Trans & Dist Plant	7.06%	0.00%	0.00%	7.06%
103420	103420-Reservoirs & Tanks	2.53%	1.07%	0.00%	3.60%
103421	103421-Tank Painting #	7.28%	0.00%	0.00%	7.28%
103431	Transmission & Distribution Mains	1.33%	0.00%	0.00%	1.64%
103450	103450-Services-Trans & Distr Mains	1.16%	0.00%	0.00%	1.91%
103460	103460-Meters & Meter Boxes	3.33%	0.00%	0.00%	3.33%
103480	103480-Hydrants-T & D Mains	1.56%	0.46%	0.00%	2.02%
General Plant					
103710	103710-Struct & Improve Genl Plnt	2.43%	0.26%	0.00%	2.69%
103711	103711-Driveway Pavement-Gen Plant	-14.09%	0.00%	0.00%	-14.09%
103720	103720-Office Furn & Equip-Gen Plnt	1.00%	0.00%	-0.16%	0.84%
103721	103721-Office-Elec. Equip/Computers	-9.14%	0.00%	0.00%	-9.14%
103722	103722-Computer Software	0.00%	0.00%	0.00%	0.00%
103730	103730-Transportn Equip-Gen Plant	9.78%	0.00%	-2.34%	7.44%
103740	103740-Stores Equipment-Gen Plant	5.72%	0.00%	0.00%	5.72%
103750	103750-Laboratory Equip-Gen Plant	6.30%	0.00%	0.00%	6.30%
103760	103760-Communication Equip-Gen Plnt	2.48%	0.00%	0.00%	2.48%
103770	103770-Pwr Operated Equip-Gen Plant	4.38%	0.00%	-0.31%	4.07%
103780	103780-Tools, Shop & Garage Equip	4.54%	0.00%	0.00%	4.54%
103790	103790-Other General Plant	3.97%	0.00%	0.00%	3.97%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

DRA's 7.28% is a correction of CWS's rate of 52.77%.

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**TABLE 8-A (LOS ALTOS DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	103110-Struct & Improve-Supply Plnt	1.84%	0.18%	0.00%	2.02%
103120	103120-Collect & Impound Reservoirs	0.14%	7.64%	0.00%	7.78%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	103150-Wells-Supply Plant	1.72%	2.09%	0.00%	3.81%
103160	103160-Supply Mains	1.48%	-0.18%	0.00%	1.30%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	11.31%	2.35%	0.00%	13.66%
103211	103211-Pavement-Pumping Plant	5.43%	0.00%	0.00%	5.43%
103240	103240-Pumping Equipment	2.74%	0.12%	0.00%	2.86%
103241	103241-System Ctrl Computer Equip	2.74%	0.12%	0.00%	2.86%
103250	103250-Other Pumping Plant	2.61%	0.25%	0.00%	2.86%
Treatment					
103310	103310-Struct & Improve-Treat Plant	2.25%	0.11%	0.00%	2.36%
103320	103320-Water Treatment Equipment	2.36%	0.00%	0.00%	2.36%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	1.48%	0.15%	0.00%	1.63%
103411	103411-Pavement-Trans & Dist Plant	6.23%	0.00%	0.00%	6.23%
103420	103420-Reservoirs & Tanks	1.83%	0.91%	0.00%	2.74%
103421	103421-Tank Painting	14.86%	0.00%	0.00%	14.86%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.31%	0.00%	0.00%	1.31%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.18%	0.00%	0.00%	1.18%
103460	103460-Meters & Meter Boxes	3.75%	0.00%	0.00%	3.75%
103480	103480-Hydrants-T & D Mains	1.53%	0.46%	0.00%	1.99%
General Plant					
103710	103710-Struct & Improve Genl Plnt	1.97%	0.20%	0.00%	2.17%
103720	103720-Office Furn & Equip-Gen Plnt	4.39%	0.00%	-0.19%	4.20%
103721	103721-Office-Elec. Equip/Computers	11.13%	0.00%	0.00%	11.13%
103722	103722-Computer Software	4.39%	0.00%	0.00%	4.39%
103730	103730-Transportn Equip-Gen Plant	4.04%	0.00%	8.19%	12.23%
103740	103740-Stores Equipment-Gen Plant	5.09%	0.00%	0.00%	5.09%
103750	103750-Laboratory Equip-Gen Plant	5.48%	0.00%	0.00%	5.48%
103760	103760-Communication Equip-Gen Plnt	2.85%	0.00%	0.00%	2.85%
103770	103770-Pwr Operated Equip-Gen Plant	2.31%	0.00%	-0.29%	2.02%
103780	103780-Tools, Shop & Garage Equip	4.62%	0.00%	0.00%	4.62%
103790	103790-Other General Plant	6.82%	0.00%	0.00%	6.82%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%
103920	103920-Utility Plant Sold	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

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**TABLE 8-A (MARYSVILLE DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	103110-Struct & Improve-Supply Plnt	0.00%	0.00%	0.00%	0.00%
103120	103120-Collect & Impound Reservoirs	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	103150-Wells-Supply Plant	0.29%	2.40%	0.00%	2.69%
103160	103160-Supply Mains	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	3.33%	1.24%	0.00%	4.57%
103211	103211-Pavement-Pumping Plant	3.61%	0.00%	0.00%	3.61%
103240	103240-Pumping Equipment	2.53%	0.18%	0.00%	2.71%
103241	103241-System Ctrl Computer Equip	2.53%	0.18%	0.00%	2.71%
103250	103250-Other Pumping Plant	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	103310-Struct & Improve-Treat Plant	1.65%	0.33%	0.00%	1.98%
103320	103320-Water Treatment Equipment	2.34%	0.00%	0.00%	2.34%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	2.06%	0.10%	0.00%	2.16%
103420	103420-Reservoirs & Tanks	1.12%	0.41%	0.00%	1.53%
103421	103421-Tank Painting	8.04%	0.00%	0.00%	8.04%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.18%	0.00%	0.00%	1.18%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.13%	0.00%	0.00%	1.13%
103460	103460-Meters & Meter Boxes	2.65%	0.00%	0.00%	2.65%
103480	103480-Hydrants-T & D Mains	1.21%	1.04%	0.00%	2.25%
General Plant					
103710	103710-Struct & Improve Genl Plnt	3.40%	0.37%	0.00%	3.77%
103711	103711-Driveway Pavement-Gen Plant	4.72%	0.00%	0.00%	4.72%
103720	103720-Office Furn & Equip-Gen Plnt	-0.65%	0.00%	0.00%	-0.65%
103721	103721-Office-Elec. Equip/Computers	-3.14%	0.00%	0.00%	-3.14%
103722	103722-Computer Software	0.00%	0.00%	0.00%	0.00%
103730	103730-Transportn Equip-Gen Plant	10.71%	0.00%	-2.19%	8.52%
103740	103740-Stores Equipment-Gen Plant	0.00%	0.00%	0.00%	0.00%
103750	103750-Laboratory Equip-Gen Plant	7.36%	0.00%	0.00%	7.36%
103760	103760-Communication Equip-Gen Plnt	0.75%	0.00%	0.00%	0.75%
103770	103770-Pwr Operated Equip-Gen Plant	5.34%	0.00%	-0.23%	5.11%
103780	103780-Tools, Shop & Garage Equip	5.31%	0.00%	0.00%	5.31%
103790	103790-Other General Plant	0.00%	0.00%	0.00%	0.00%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

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**TABLE 8-A (OROVILLE DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	103110-Struct & Improve-Supply Plnt	2.13%	0.22%	0.00%	2.35%
103120	103120-Collect & Impound Reservoirs	1.45%	0.32%	0.00%	1.77%
103130	LAKE, RIVER AND OTHER INTAKES	1.18%	0.57%	0.00%	1.75%
103150	103150-Wells-Supply Plant	0.01%	2.50%	0.00%	2.51%
103160	103160-Supply Mains	1.19%	0.16%	0.00%	1.35%
103163	103163-Steel- Supply Main	1.19%	0.16%	0.00%	1.35%
103164	103164-All Other -Supply Mains	1.19%	0.16%	0.00%	1.35%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	2.56%	0.72%	0.00%	3.28%
103211	103211-Pavement-Pumping Plant	3.28%	0.00%	0.00%	3.28%
103240	103240-Pumping Equipment	2.67%	0.18%	0.00%	2.85%
103241	103241-System Ctrl Computer Equip	2.67%	0.18%	0.00%	2.85%
103250	103250-Other Pumping Plant	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	103310-Struct & Improve-Treat Plant	1.69%	0.34%	0.00%	2.03%
103320	103320-Water Treatment Equipment	3.77%	0.00%	0.00%	3.77%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	0.74%	0.10%	0.00%	0.84%
103411	103411-Pavement-Trans & Dist Plant	6.38%	0.00%	0.00%	6.38%
103420	103420-Reservoirs & Tanks	2.01%	0.34%	0.00%	2.35%
103421	103421-Tank Painting	14.58%	0.00%	0.00%	14.58%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.41%	0.00%	0.00%	1.41%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.12%	0.00%	0.00%	1.12%
103460	103460-Meters & Meter Boxes	3.35%	0.00%	0.00%	3.35%
103480	103480-Hydrants-T & D Mains	1.25%	0.98%	0.00%	2.23%
General Plant					
103710	103710-Struct & Improve Genl Plnt	2.25%	0.33%	0.00%	2.58%
103711	103711-Driveway Pavement-Gen Plant	-1.59%	0.00%	0.00%	-1.59%
103720	103720-Office Furn & Equip-Gen Plnt	4.52%	0.00%	0.00%	4.52%
103721	103721-Office-Elec. Equip/Computers	7.53%	0.00%	0.00%	7.53%
103730	103730-Transportn Equip-Gen Plant	12.22%	0.00%	-2.11%	10.11%
103740	103740-Stores Equipment-Gen Plant	3.67%	0.00%	0.00%	3.67%
103750	103750-Laboratory Equip-Gen Plant	8.00%	0.00%	0.00%	8.00%
103760	103760-Communication Equip-Gen Plnt	-0.25%	0.00%	0.00%	-0.25%
103770	103770-Pwr Operated Equip-Gen Plant	5.17%	0.00%	-0.14%	5.03%
103780	103780-Tools, Shop & Garage Equip	4.40%	0.00%	0.00%	4.40%
103790	103790-Other General Plant	6.74%	0.00%	0.00%	6.74%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (PALOS VERDES DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	0.00%	0.00%	0.00%	0.00%
103160	SUPPLY MAINS	1.91%	0.26%	0.00%	2.17%
103164	ALL OTHER - SUPPLY MAINS	1.91%	0.26%	0.00%	2.17%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	4.35%	1.00%	0.00%	5.35%
103211	PAVEMENT - PUMPING PLANT	5.36%	0.00%	0.00%	5.36%
103240	PUMPING EQUIPMENT	2.69%	0.09%	0.00%	2.78%
103241	SYSTEM CTRL COMPUTER EQUIP	2.69%	0.09%	0.00%	2.78%
103250	OTHER PUMPING PLANT	2.53%	0.25%	0.00%	2.78%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	0.98%	0.03%	0.00%	1.01%
103320	WATER TREATMENT EQUIPMENT	-0.10%	0.00%	0.00%	-0.10%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.93%	0.14%	0.00%	1.07%
103411	PAVEMENT - TRANS & DIST PLANT	-33.88%	0.00%	0.00%	-33.88%
103420	RESERVOIRS AND TANKS	1.70%	0.79%	0.00%	2.49%
103421	TANK PAINTING	17.75%	0.00%	0.00%	17.75%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.20%	0.00%	0.00%	1.20%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	0.72%	0.00%	0.00%	0.72%
103460	METERS	3.52%	0.00%	0.00%	3.52%
103480	HYDRANTS	1.40%	0.47%	0.00%	1.87%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	2.57%	0.23%	0.00%	2.80%
103711	DRIVEWAY PAVEMENT	6.98%	0.00%	0.00%	6.98%
103720	OFFICE FURNITURE AND EQUIPMENT	5.43%	0.00%	-0.18%	5.25%
103721	OFFICE EQUIPMENT - COMPUTERS	15.99%	0.00%	0.00%	15.99%
103730	TRANSPORTATION	-237.77%	0.00%	-4.71%	-242.48%
103740	STORES EQUIPMENT	4.43%	0.00%	0.00%	4.43%
103750	LABORATORY EQUIPMENT	5.31%	0.00%	0.00%	5.31%
103760	COMMUNICATION EQUIPMENT	2.69%	0.00%	0.00%	2.69%
103770	POWER OPERATED EQUIPMENT	5.15%	0.00%	-0.30%	4.85%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	5.78%	0.00%	0.00%	5.78%
103790	OTHER GENERAL PLANT	12.86%	0.00%	0.00%	12.86%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

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**TABLE 8-A (RWV DISTRICT, COAST SPRINGS)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	1.05%	0.11%	0.00%	1.16%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	5.31%	1.43%	0.00%	6.74%
103160	SUPPLY MAINS	1.34%	-0.09%	0.00%	1.25%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	3.62%	0.17%	0.00%	3.79%
103240	PUMPING EQUIPMENT	3.05%	0.28%	0.00%	3.33%
103250	OTHER PUMPING PLANT	3.05%	0.28%	0.00%	3.33%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	3.70%	0.18%	0.00%	3.88%
103320	WATER TREATMENT EQUIPMENT	3.32%	0.00%	0.00%	3.32%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103420	RESERVOIRS AND TANKS	2.62%	1.01%	0.00%	3.63%
103421	TANK PAINTING	12.44%	0.00%	0.00%	12.44%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.62%	0.00%	0.00%	1.62%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.70%	0.00%	0.00%	1.70%
103460	METERS	0.73%	0.00%	0.00%	0.73%
103480	HYDRANTS	1.18%	0.23%	0.00%	1.41%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103720	OFFICE FURNITURE AND EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103721	OFFICE EQUIPMENT - COMPUTERS	0.00%	0.00%	0.00%	0.00%
103730	TRANSPORTATION	0.00%	0.00%	0.00%	0.00%
103740	STORES EQUIPMENT	3.08%	0.00%	0.00%	3.08%
103750	LABORATORY EQUIPMENT	9.27%	0.00%	0.00%	9.27%
103760	COMMUNICATION EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103770	POWER OPERATED EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	3.15%	0.00%	0.00%	3.15%
103790	OTHER GENERAL PLANT	0.00%	0.00%	0.00%	0.00%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (RWV DISTRICT, LUCERNE)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	1.80%	0.11%	0.00%	1.91%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	5.64%	1.46%	0.00%	7.10%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103211	PAVEMENT - PUMPING PLANT	8.13%	0.00%	0.00%	8.13%
103240	PUMPING EQUIPMENT	2.86%	0.31%	0.00%	3.17%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	3.26%	0.18%	0.00%	3.44%
103320	WATER TREATMENT EQUIPMENT	3.73%	0.00%	0.00%	3.73%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103420	RESERVOIRS AND TANKS	2.87%	1.08%	0.00%	3.95%
103421	TANK PAINTING	12.71%	0.00%	0.00%	12.71%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.43%	0.00%	0.00%	1.43%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.49%	0.00%	0.00%	1.49%
103460	METERS	0.75%	0.00%	0.00%	0.75%
103480	HYDRANTS	1.22%	0.23%	0.00%	1.45%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	2.38%	0.16%	0.00%	2.54%
103720	OFFICE FURNITURE AND EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103721	OFFICE EQUIPMENT - COMPUTERS	0.00%	0.00%	0.00%	0.00%
103730	TRANSPORTATION	0.00%	0.00%	0.00%	0.00%
103740	STORES EQUIPMENT	2.56%	0.00%	0.00%	2.56%
103750	LABORATORY EQUIPMENT	9.62%	0.00%	0.00%	9.62%
103760	COMMUNICATION EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103770	POWER OPERATED EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	5.96%	0.00%	0.00%	5.96%
103790	OTHER GENERAL PLANT	0.00%	0.00%	0.00%	0.00%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (RWV DISTRICT, UNITED)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.90%	0.11%	0.00%	1.01%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	6.33%	1.54%	0.00%	7.87%
103160	SUPPLY MAINS	4.49%	0.02%	0.00%	4.51%
103164	ALL OTHER - SUPPLY MAINS	4.49%	0.02%	0.00%	4.51%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	4.23%	0.20%	0.00%	4.43%
103240	PUMPING EQUIPMENT	5.64%	0.31%	0.00%	5.95%
103241	SYSTEM CTRL COMPUTER EQUIP	5.64%	0.31%	0.00%	5.95%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103320	WATER TREATMENT EQUIPMENT	4.81%	0.60%	0.00%	5.41%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103420	RESERVOIRS AND TANKS	3.67%	1.09%	0.00%	4.76%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.56%	0.00%	0.00%	1.56%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.57%	0.00%	0.00%	1.57%
103460	METERS	0.65%	0.00%	-0.14%	0.51%
103480	HYDRANTS	1.38%	0.25%	0.00%	1.63%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	1.05%	0.07%	0.00%	1.12%
103720	OFFICE FURNITURE AND EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103721	OFFICE EQUIPMENT - COMPUTERS	0.00%	0.00%	0.00%	0.00%
103730	TRANSPORTATION	0.00%	0.00%	0.00%	0.00%
103740	STORES EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103750	LABORATORY EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103760	COMMUNICATION EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103770	POWER OPERATED EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	4.38%	0.00%	0.00%	4.38%
103790	OTHER GENERAL PLANT	0.00%	0.00%	0.00%	0.00%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (SALINAS DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	103110-Struct & Improve-Supply Plnt	0.00%	0.00%	0.00%	0.00%
103120	103120-Collect & Impound Reservoirs	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	103150-Wells-Supply Plant	1.58%	1.33%	0.00%	2.91%
103160	103160-Supply Mains	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	3.02%	0.80%	0.00%	3.82%
103211	103211-Pavement-Pumping Plant	3.59%	0.00%	0.00%	3.59%
103240	103240-Pumping Equipment	2.85%	0.18%	0.00%	3.03%
103241	103241-System Ctrl Computer Equip	2.85%	0.18%	0.00%	3.03%
103250	103250-Other Pumping Plant	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	103310-Struct & Improve-Treat Plant	2.05%	0.31%	0.00%	2.36%
103320	103320-Water Treatment Equipment	2.28%	0.00%	0.00%	2.28%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	2.01%	0.10%	0.00%	2.11%
103411	103411-Pavement-Trans & Dist Plant	7.77%	0.00%	0.00%	7.77%
103420	103420-Reservoirs & Tanks	2.08%	0.37%	0.00%	2.45%
103421	103421-Tank Painting	12.01%	0.00%	0.00%	12.01%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.41%	0.00%	0.00%	1.41%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.07%	0.00%	0.00%	1.07%
103460	103460-Meters & Meter Boxes	3.39%	0.00%	0.00%	3.39%
103480	103480-Hydrants-T & D Mains	1.21%	1.00%	0.00%	2.21%
General Plant					
103710	103710-Struct & Improve Genl Plnt	5.59%	0.50%	0.00%	6.09%
103711	103711-Driveway Pavement-Gen Plant	10.95%	0.00%	0.00%	10.95%
103720	103720-Office Furn & Equip-Gen Plnt	4.17%	0.00%	0.00%	4.17%
103721	103721-Office-Elec. Equip/Computers	5.27%	0.00%	0.00%	5.27%
103722	103722-Computer Software	0.00%	0.00%	0.00%	0.00%
103730	103730-Transportn Equip-Gen Plant	8.14%	0.00%	-2.30%	5.84%
103731	103731-Heavy Trucks-Gen Plant	8.14%	0.00%	-2.30%	5.84%
103740	103740-Stores Equipment-Gen Plant	4.56%	0.00%	0.00%	4.56%
103750	103750-Laboratory Equip-Gen Plant	7.81%	0.00%	0.00%	7.81%
103760	103760-Communication Equip-Gen Plnt	1.61%	0.00%	0.00%	1.61%
103770	103770-Pwr Operated Equip-Gen Plant	5.15%	0.00%	-0.21%	4.94%
103780	103780-Tools, Shop & Garage Equip	4.95%	0.00%	0.00%	4.95%
103790	103790-Other General Plant	7.17%	0.00%	0.00%	7.17%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	103910-Utility Plant Purchased	0.00%	0.00%	0.00%	0.00%
103800	103800-Capital Lease	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (SELMA DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	1.33%	1.35%	0.00%	2.68%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	3.74%	0.99%	0.00%	4.73%
103211	Pavement - Pumping Plant	3.53%	0.00%	0.00%	3.53%
103240	PUMPING EQUIPMENT	2.64%	0.18%	0.00%	2.82%
103241	SCADA	2.64%	0.18%	0.00%	2.82%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103320	WATER TREATMENT EQUIPMENT	1.41%	0.40%	0.00%	1.81%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103411	Pavement-Trans & Dist Plant	11.78%	0.00%	0.00%	11.78%
103420	RESERVOIRS AND TANKS	1.91%	0.38%	0.00%	2.29%
103421	TANK PAINTING	0.00%	0.00%	0.00%	0.00%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.41%	0.00%	0.00%	1.41%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.32%	0.00%	0.00%	1.32%
103460	METERS	3.42%	0.00%	-0.17%	3.25%
103480	HYDRANTS	1.16%	1.01%	0.00%	2.17%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	3.19%	0.34%	0.00%	3.53%
103711	Driveway Pavement-Gen Plant	5.31%	0.00%	0.00%	5.31%
103720	OFFICE FURNITURE AND EQUIPMENT	3.45%	0.00%	0.00%	3.45%
103721	OFFICE EQUIPMENT - COMPUTERS	2.87%	0.00%	0.00%	2.87%
103722	COMPUTER SOFTWARE	21.62%	0.00%	0.00%	21.62%
103730	TRANSPORTATION	13.97%	0.00%	-2.26%	11.71%
103740	STORES EQUIPMENT	1.55%	0.00%	0.00%	1.55%
103750	LABORATORY EQUIPMENT	10.04%	0.00%	0.00%	10.04%
103760	COMMUNICATION EQUIPMENT	-4.88%	0.00%	0.00%	-4.88%
103770	POWER OPERATED EQUIPMENT	-16.32%	0.00%	1.10%	-15.22%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	4.62%	0.00%	0.00%	4.62%
103790	OTHER GENERAL PLANT	10.54%	0.00%	0.00%	10.54%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (STOCKTON DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	103110-Struct & Improve-Supply Plnt	0.00%	0.00%	0.00%	0.00%
103120	103120-Collect & Impound Reservoirs	1.08%	0.32%	0.00%	1.40%
103130	103130-Lake River & Other Intake	0.00%	0.00%	0.00%	0.00%
103150	103150-Wells-Supply Plant	1.69%	1.45%	0.00%	3.14%
103160	103160-Supply Mains	0.84%	0.14%	0.00%	0.98%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	2.91%	0.83%	0.00%	3.74%
103211	103211-Pavement-Pumping Plant	3.40%	0.00%	0.00%	3.40%
103240	103240-Pumping Equipment	2.55%	0.18%	0.00%	2.73%
103241	103241-System Ctrl Computer Equip	2.55%	0.18%	0.00%	2.73%
103250	103250-Other Pumping Plant	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	103310-Struct & Improve-Treat Plant	2.05%	0.31%	0.00%	2.36%
103320	103320-Water Treatment Equipment	2.53%	0.00%	0.00%	2.53%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	1.26%	0.10%	0.00%	1.36%
103411	103411-Pavement-Trans & Dist Plant	-3.74%	0.00%	0.00%	-3.74%
103420	103420-Reservoirs & Tanks	1.75%	0.35%	0.00%	2.10%
103421	103421-Tank Painting	12.88%	0.00%	0.00%	12.88%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.23%	0.00%	0.00%	1.23%
103440	103440-Fire Mains	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	0.85%	0.00%	0.00%	0.85%
103460	103460-Meters & Meter Boxes	3.48%	0.00%	0.00%	3.48%
103480	103480-Hydrants-T & D Mains	0.85%	1.17%	0.00%	2.02%
General Plant					
103710	103710-Struct & Improve Genl Plnt	2.66%	0.27%	0.00%	2.93%
103711	103711-Driveway Pavement-Gen Plant	5.65%	0.00%	0.00%	5.65%
103720	103720-Office Furn & Equip-Gen Plnt	-0.69%	0.00%	0.00%	-0.69%
103721	103721-Office-Elec. Equip/Computers	5.15%	0.00%	0.00%	5.15%
103722	103722-Computer Software	9.38%	0.00%	0.00%	9.38%
103730	103730-Transportn Equip-Gen Plant	10.26%	0.00%	-2.16%	8.10%
103731	103731-Heavy Trucks-Gen Plant	10.26%	0.00%	-2.16%	8.10%
103740	103740-Stores Equipment-Gen Plant	-0.07%	0.00%	0.00%	-0.07%
103750	103750-Laboratory Equip-Gen Plant	8.80%	0.00%	0.00%	8.80%
103760	103760-Communication Equip-Gen Plnt	1.37%	0.00%	0.00%	1.37%
103770	103770-Pwr Operated Equip-Gen Plant	6.81%	0.00%	-0.03%	6.78%
103780	103780-Tools, Shop & Garage Equip	5.63%	0.00%	0.00%	5.63%
103790	103790-Other General Plant	2.09%	0.00%	0.00%	2.09%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%
103910	103910-Utility Plant Purchased	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (VISALIA DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	1.57%	1.34%	0.00%	2.91%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
103164	ALL OTHER - SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	2.97%	0.82%	0.00%	3.79%
103211	PAVEMENT - PUMPING PLANT	3.40%	0.00%	0.00%	3.40%
103240	PUMPING EQUIPMENT	2.58%	0.18%	0.00%	2.76%
103241	SYSTEM CTRL COMPUTER EQUIP	2.58%	0.18%	0.00%	2.76%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	2.13%	0.31%	0.00%	2.44%
103320	WATER TREATMENT EQUIPMENT	2.36%	0.29%	0.00%	2.65%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	-0.76%	0.10%	0.00%	-0.66%
103420	RESERVOIRS AND TANKS	1.49%	0.29%	0.00%	1.78%
103421	TANK PAINTING	9.65%	0.00%	0.00%	9.65%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.41%	0.00%	0.00%	1.41%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	1.18%	0.00%	0.00%	1.18%
103460	METERS	3.39%	0.00%	-0.15%	3.24%
103480	HYDRANTS	1.24%	0.98%	0.00%	2.22%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	3.20%	0.31%	0.00%	3.51%
103711	DRIVEWAY PAVEMENT	6.82%	0.00%	0.00%	6.82%
103720	OFFICE FURNITURE AND EQUIPMENT	4.04%	0.00%	0.00%	4.04%
103721	OFFICE EQUIPMENT - COMPUTERS	6.58%	0.00%	0.00%	6.58%
103722	COMPUTER SOFTWARE	23.60%	0.00%	0.00%	23.60%
103730	TRANSPORTATION	10.47%	0.00%	-2.14%	8.33%
103740	STORES EQUIPMENT	3.82%	0.00%	0.00%	3.82%
103750	LABORATORY EQUIPMENT	31.26%	0.00%	0.00%	31.26%
103760	COMMUNICATION EQUIPMENT	3.32%	0.00%	0.00%	3.32%
103770	POWER OPERATED EQUIPMENT	5.07%	0.00%	-0.18%	4.89%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	4.95%	0.00%	0.00%	4.95%
103790	OTHER GENERAL PLANT	8.65%	0.00%	0.00%	8.65%
103800	CAPITAL LEASE	2.60%	0.00%	0.00%	2.60%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (WESTLAKE DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	0.00%	0.00%	0.00%	0.00%
103160	SUPPLY MAINS	1.64%	0.09%	0.00%	1.73%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	4.90%	1.14%	0.00%	6.04%
103211	PAVEMENT - PUMPING PLANT	5.02%	0.00%	0.00%	5.02%
103240	PUMPING EQUIPMENT	3.03%	-0.21%	0.00%	2.82%
103241	SYSTEM CTRL COMPUTER EQUIP	3.03%	-0.21%	0.00%	2.82%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103320	WATER TREATMENT EQUIPMENT	0.00%	0.00%	0.00%	0.00%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	1.48%	0.00%	0.00%	1.48%
103420	RESERVOIRS AND TANKS	2.24%	0.91%	0.00%	3.15%
103421	TANK PAINTING	29.26%	-20.41%	0.00%	8.85%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.29%	0.00%	0.00%	1.29%
103440	FIRE MAINS	1.57%	0.67%	0.00%	1.57%
103450	SERVICES	2.03%	0.00%	0.00%	2.03%
103460	METERS	3.92%	0.00%	0.00%	3.92%
103480	HYDRANTS	1.36%	0.47%	0.00%	1.83%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	2.47%	0.27%	0.00%	2.74%
103720	OFFICE FURNITURE AND EQUIPMENT	2.68%	0.00%	-0.16%	2.52%
103721	OFFICE EQUIPMENT - COMPUTERS	-8.86%	0.00%	0.00%	-8.86%
103722	COMPUTER SOFTWARE	-6.00%	0.00%	0.00%	-6.00%
103730	TRANSPORTATION	6.96%	0.00%	-2.18%	4.78%
103740	STORES EQUIPMENT	-4.35%	0.00%	0.00%	-4.35%
103750	LABORATORY EQUIPMENT	2.43%	0.00%	0.00%	2.43%
103760	COMMUNICATION EQUIPMENT	-3.86%	0.00%	0.00%	-3.86%
103770	POWER OPERATED EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	4.40%	0.00%	0.00%	4.40%
103790	OTHER GENERAL PLANT	-1.37%	0.00%	0.00%	-1.37%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA & CWS Cost of Removal rates for Mains and Services are the same: 0%.

*** Rates used to calculate annual depreciation accruals.

1

**TABLE 8-A (WILLOWS DISTRICT)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	0.20%	1.78%	0.00%	1.98%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	103210-Struct & Imp- Pumping Plant	3.97%	1.43%	0.00%	5.40%
103211	103211-Pavement-Pumping Plant	3.69%	0.00%	0.00%	3.69%
103240	103240-Pumping Equipment	2.44%	0.18%	0.00%	2.62%
103241	103241-System Ctrl Computer Equip	2.44%	0.18%	0.00%	2.62%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	103310-Struct & Improve-Treat Plant	1.25%	0.36%	0.00%	1.61%
103320	103320-Water Treatment Equipment	2.63%	0.33%	0.00%	2.96%
Transmission and Distribution					
103410	103410-Struct & Imp-Trans&Dis Plnt	2.24%	0.10%	0.00%	2.34%
103411	103411-Pavement-Trans & Dist Plant	17.71%	0.00%	0.00%	17.71%
103420	103420-Reservoirs & Tanks	0.89%	0.27%	0.00%	1.16%
103421	103421-Tank Painting	9.90%	0.00%	0.00%	9.90%
103431	TRANSMISSION AND DISTRIBUTION MAINS	1.46%	0.00%	0.00%	1.46%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	103450-Services-Trans & Distr Mains	1.17%	0.00%	0.00%	1.17%
103460	103460-Meters & Meter Boxes	3.14%	0.00%	-0.14%	3.00%
103480	103480-Hydrants-T & D Mains	1.21%	1.00%	0.00%	2.21%
General Plant					
103710	103710-Struct & Improve Genl Plnt	3.94%	0.33%	0.00%	4.27%
103711	103711-Driveway Pavement-Gen Plant	7.52%	0.00%	0.00%	7.52%
103720	103720-Office Furn & Equip-Gen Plnt	-1.88%	0.00%	0.00%	-1.88%
103721	103721-Office-Elec. Equip/Computers	-8.31%	0.00%	0.00%	-8.31%
103730	103730-Transportn Equip-Gen Plant	-9.25%	0.00%	-2.29%	-11.54%
103740	103740-Stores Equipment-Gen Plant	0.89%	0.00%	0.00%	0.89%
103750	LABORATORY EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103760	103760-Communication Equip-Gen Plnt	0.62%	0.00%	0.00%	0.62%
103770	103770-Pwr Operated Equip-Gen Plant	0.00%	0.00%	0.00%	0.00%
103780	103780-Tools, Shop & Garage Equip	5.15%	0.00%	0.00%	5.15%
103790	OTHER GENERAL PLANT	0.00%	0.00%	0.00%	0.00%
103900	103900-Other Tangible Property	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** DRA adjusts Cost of Removal rates for Mains and Services to 0%

*** Rates used to calculate annual depreciation accruals.

1

TABLE 8-A (GENERAL OFFICE)
DRA-RECOMMENDED DEPRECIATION RATES *

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	0.00%	0.00%	0.00%	0.00%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103240	PUMPING EQUIPMENT	4.27%	0.14%	0.00%	4.41%
103241	103241-System Ctrl Computer Equip	4.27%	0.14%	0.00%	4.41%
103250	OTHER PUMPING PLANT	2.33%	0.25%	0.00%	2.58%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103320	WATER TREATMENT EQUIPMENT	0.54%	0.04%	0.00%	0.58%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103420	RESERVOIRS AND TANKS	0.00%	0.00%	0.00%	0.00%
103431	TRANSMISSION AND DISTRIBUTION MAINS	0.00%	0.00%	0.00%	0.00%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	0.00%	0.00%	0.00%	0.00%
103460	METERS	0.00%	0.00%	0.00%	0.00%
103480	HYDRANTS	0.00%	0.00%	0.00%	0.00%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	2.91%	0.28%	0.00%	3.19%
103711	103711-Driveway Pavement-Gen Plant	8.11%	0.00%	0.00%	8.11%
103720	OFFICE FURNITURE AND EQUIPMENT	4.78%	0.00%	-0.17%	4.61%
103721	OFFICE EQUIPMENT - COMPUTERS	14.10%	0.00%	0.00%	14.10%
103722	COMPUTER SOFTWARE	7.98%	0.00%	0.00%	7.98%
103730	TRANSPORTATION	8.71%	0.00%	-2.21%	6.50%
103740	STORES EQUIPMENT	5.08%	0.00%	0.00%	5.08%
103750	LABORATORY EQUIPMENT	5.76%	0.00%	0.00%	5.76%
103760	COMMUNICATION EQUIPMENT	1.59%	0.00%	0.00%	1.59%
103770	POWER OPERATED EQUIPMENT	4.39%	0.00%	-0.26%	4.13%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	4.48%	0.00%	0.00%	4.48%
103790	OTHER GENERAL PLANT	3.46%	0.00%	0.00%	3.46%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** Rates used to calculate annual depreciation accruals.

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**TABLE 8-A (RANCHO DOMINGUEZ)
DRA-RECOMMENDED DEPRECIATION RATES ***

ACCOUNT NO.	DESCRIPTION	PLANT RATE	COST OF REMOVAL RATE **	SALVAGE RATE	TOTAL DEPRECIATION RATE ***
Water Supply					
103110	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103120	COLLECTING AND IMPOUNDING RESERVOIRS	0.00%	0.00%	0.00%	0.00%
103130	LAKE, RIVER AND OTHER INTAKES	0.00%	0.00%	0.00%	0.00%
103150	WELLS	0.00%	0.00%	0.00%	0.00%
103160	SUPPLY MAINS	0.00%	0.00%	0.00%	0.00%
Pumping					
103210	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103240	PUMPING EQUIPMENT	2.98%	0.15%	0.00%	3.13%
103241	SYSTEM CTRL COMPUTER EQUIP	2.98%	0.15%	0.00%	3.13%
103250	OTHER PUMPING PLANT	0.00%	0.00%	0.00%	0.00%
Treatment					
103310	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103320	WATER TREATMENT EQUIPMENT	0.00%	0.00%	0.00%	0.00%
Transmission and Distribution					
103410	STRUCTURES AND IMPROVEMENTS	0.00%	0.00%	0.00%	0.00%
103420	RESERVOIRS AND TANKS	0.00%	0.00%	0.00%	0.00%
103431	TRANSMISSION AND DISTRIBUTION MAINS	0.00%	0.00%	0.00%	0.00%
103440	FIRE MAINS	0.00%	0.00%	0.00%	0.00%
103450	SERVICES	0.00%	0.00%	0.00%	0.00%
103460	METERS	0.00%	0.00%	0.00%	0.00%
103480	HYDRANTS	0.00%	0.00%	0.00%	0.00%
General Plant					
103710	STRUCTURES AND IMPROVEMENTS	2.55%	0.28%	0.00%	2.83%
103711	DRIVEWAY PAVEMENT	6.80%	0.00%	0.00%	6.80%
103720	OFFICE FURNITURE AND EQUIPMENT	4.60%	0.00%	-0.25%	4.35%
103721	OFFICE EQUIPMENT - COMPUTERS	12.71%	0.00%	0.00%	12.71%
103730	TRANSPORTATION	21.25%	0.00%	-3.99%	17.26%
103740	STORES EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103750	LABORATORY EQUIPMENT	0.00%	0.00%	0.00%	0.00%
103760	COMMUNICATION EQUIPMENT	4.47%	0.00%	0.00%	4.47%
103770	POWER OPERATED EQUIPMENT	5.39%	0.00%	-0.30%	5.09%
103780	TOOLS, SHOP AND GARAGE EQUIPMENT	4.67%	0.00%	0.00%	4.67%
103790	OTHER GENERAL PLANT	4.29%	0.00%	0.00%	4.29%
103900	OTHER TANGIBLE PLANT	0.00%	0.00%	0.00%	0.00%
103910	UTILITY PLANT PURCHASED	0.00%	0.00%	0.00%	0.00%

* Except where noted, same as those presented in CWS 'Ratebase' spreadsheet workpapers, tab 'WP9B2-AUS rates.'

** Rates used to calculate annual depreciation accruals.

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CHAPTER 9: RATE BASE

A. INTRODUCTION

This chapter sets forth DRA’s analyses and recommendations regarding rate base for each of CWS’s ratemaking districts.

B. SUMMARY OF RECOMMENDATIONS

Tables 9-1 and 9-2 (Weighted Average Rate Base) in Chapter 1 of DRA’s RO Report for each district present DRA’s and CWS’s rate base estimates for Test Year 2014 and Escalation Year 2015, respectively.

Differences between DRA’s and CWS’s rate base estimates are due to differences in working cash, materials and supplies, and contributions in aid of construction calculations, as discussed in this chapter. Other differences include plant additions, depreciation reserve and deferred income tax estimates, as presented elsewhere in DRA’s District RO Reports and DRA’s Company-wide Report on the RO.

C. DISCUSSION

Differences in rate base for the 23 districts are attributed to differences in plant additions (discussed in Chapter 7), depreciation (discussed in Chapters 6 and 8), Contributions in Aid of Construction, Materials and Supplies, and Lead Lag Study. DRA agrees with CWS’s methodology of rate base calculation for the districts. DRA also agrees with CWS’s methodology for calculating working cash.

1. Materials and Supplies

The Materials and Supplies Account includes the cost of small tools and unapplied materials and supplies (including fuel) held primarily for use in the utility business. CWS estimates the Materials and Supplies for each of its districts based on historical average using two years, three years, four years or five years, without providing support for or explanation of why its methodology provides a good forecast for the Test Year.

DRA reviewed the Materials and Supplies of each of the 23 districts and agrees with CWS on some of the districts but disagrees on others. DRA agrees with CWS on

1 the use of average historical expenditures as the methodology to forecast this category of
2 expense. DRA disagrees, however, with how CWS arbitrarily used its historical data to
3 derive its forecast without support or explanation. As such, DRA uses different sets of
4 historical data to derive its own recommendations to better reflect historical trends. In
5 districts in which DRA uses data from a lower number of years, i.e., 2 years' average by
6 DRA versus 4 years' average by CWS, DRA's results reflect the more recent historical
7 expenditure. In districts in which DRA uses historical data from more years, i.e., 4 years'
8 average by DRA versus 3 years by CWS, DRA's results reflect normalized historical
9 fluctuations over a longer time period. The following Table 9-A provides a summary of
10 DRA's recommendation on Materials and Supplies for each district compared to that
11 offered by CWS.

12

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Table 9-A. Materials and Supplies

Districts	CWS Methodology	CWS Estimates	DRA Methodology	DRA Estimates	CWS Exceeded DRA
Antelope Valley	avg 3 years	\$14,800	avg 2 years	\$9,600	\$5,200
Bakersfield	avg 4 years	\$578,000	avg 4 years	\$578,000	\$0
Bayshore	avg 5 years	\$282,600	avg years	\$282,600	\$0
Bear Gulch	avg 5 years	\$339,200	avg 3 years	\$321,600	\$17,600
Chico	avg 4 years	\$239,500	avg 5 years	\$234,900	\$4,600
Dixon	avg 4 years	\$59,100	avg 4 years	\$59,100	\$0
Dominguez	avg 5 years	\$240,500	avg 5 years	\$240,500	\$0
E. LA	avg 5 years	\$314,100	avg 5 years	\$314,100	\$0
Hermosa Redondo	avg 5 years	\$148,700	avg 5 years	\$148,700	\$0
Kern River	avg 4 years	\$27,400	avg 2 years	\$9,800	\$17,600
King City	avg 5 years	\$40,000	avg 5 years	\$40,000	\$0
Livermore	avg 4 years	\$100,600	avg 4 years	\$100,600	\$0
Los Altos	avg 5 years	\$284,000	avg 5 years	\$284,000	\$0
Marysville	avg 5 years	\$77,800	avg 5 years	\$77,800	\$0
Oroville	avg 5 years	\$91,300	avg 5 years	\$91,300	\$0
Palos Verdes	avg 4 years	\$573,700	avg 5 years	\$539,800	\$33,900
Redwood-Coast Spring	avg 4 years	\$0	avg 4 years	\$0	\$0
Redwood-Lucerne	avg 5 years	\$9,100	avg 5 years	\$9,100	\$0
Redwood-Unified	avg 4 years	\$0	avg 4 years	\$0	\$0
Salinas	avg. 4 years	\$497,400	avg 5 years	\$488,000	\$9,400
Selma	avg 3 years	\$188,400	avg 5 years	\$142,300	\$46,100
Stockton	avg 4 years	\$512,300	avg 5 years	\$491,900	\$20,400
Visalia	avg 5 years	\$402,400	avg 5 years	\$402,400	\$0
Westlake	avg 5 years	\$183,000	avg 5 years	\$183,000	\$0
Willows	avg 4 years	\$37,300	avg 4 years	\$37,300	\$0

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1 **2. Contribution in Aid of Construction (“CIAC”)**

2 CIAC is plant-owned and used by the utility and has an expected life in service of
3 more than one year from the date of installation. This plant is financed by donations or
4 contributions in cash, services or property from states or other municipalities or other
5 governmental agencies, individuals, and others for construction purposes. DRA reviewed
6 the CIAC of each of the 23 districts and agrees with CWS on some of the districts but
7 disagrees on others. DRA agrees with CWS on the use of average historical expenditures
8 as the methodology to forecast this category of expenditure. DRA disagrees, however,
9 with how CWS arbitrarily used its historical data to derive its forecast without support or
10 explanation. As such, DRA uses different sets of historical data to derive its own
11 recommendations that better reflect trends in historical data. In districts in which DRA
12 uses fewer and more recent data points, i.e., 2 years’ average by DRA versus 4 years’
13 average by CWS, DRA’s results reflect the more recent historical expenditure. In
14 districts in which DRA uses more data points, i.e., 4 years’ average by DRA versus 3
15 years’ average by CWS, DRA’s results normalize historical fluctuations over a longer
16 time period. The following Table 9-B provides a summary of DRA’s recommendation
17 on CIAC for each district compared to that offered by CWS.

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Table 9-B. Contributions in Aid of Construction.¹

Districts	CWS Methodology	CWS Estimates	DRA Methodology	DRA Estimates
Antelope Valley	avg 2 years	\$7,100	avg 5 years	\$10,800
Bakersfield	avg 4 years	\$1,463,100	avg 4 years	\$1,463,100
Bayshore	avg 5 years	\$363,900	avg 2 years	\$635,400
Bear Gulch	avg. 4 years	\$599,100	avg. 3 years	\$738,700
Chico	avg. 4 years	\$546,500	avg. 5 years	\$662,500
Dixon	avg. 5 years	\$6,100	avg. 2 years	\$14,000
Dominguez	avg. 3 years	\$729,700	avg. 5 years	\$1,772,400
E. LA	avg. 4 years	\$473,300	avg. 5 years	\$772,200
Hermosa Redondo	avg. 5 years	\$160,300	avg. 3 years	\$190,400
Kern River	avg. 5 years	\$47,900	avg. 3 years	\$59,900
King City	avg. 5 years	\$25,000	avg. 3 years	\$37,300
Livermore	avg. 3 years	\$136,400	avg. 5 years	\$307,700
Los Altos	avg 5 years	\$337,900	avg 5 years	\$337,900
Marysville	avg 3 years	\$30,900	avg 3 years	\$30,900
Oroville	avg 5 years	\$62,800	avg 5 years	\$62,800
Palos Verdes	avg. 5 years	\$118,200	avg. 3 years	\$179,300
Redwood-Coast Spring	last recorded year	\$0	last recorded Year	\$0
Redwood-Lucerne	avg 5 years	\$19,000	avg 5 years	\$19,000
Redwood-Unified	avg 5 years	\$4,900	avg 5 years	\$4,900
Salinas	avg 4 years	\$269,600	avg 4 years	\$269,600
Selma	avg. 3 years	\$134,800	avg. 5 years	\$189,900
Stockton	avg 5 years	\$339,700	avg 5 years	\$339,700
Visalia	avg. 5 years	\$1,135,300	avg. 3 years	\$1,474,700
Westlake	avg 5 years	\$32,500	avg 5 years	\$32,500
Willows	avg 5 years	\$21,500	avg 5 years	\$21,500

2

3. **Working Cash**

4 As defined in the Commission's Standard Practice U-16-W, working cash
5 allowance is a component of rate base. It can be positive or negative. Its purpose is to
6 compensate investors for funds they provided which are permanently committed to the

¹ DRA excluded the nonrecurring 2008 data to calculate its 5-year average for the Livermore and Selma Districts.

1 business to pay operating expenses in advance of receipt of offsetting revenues from
2 customers and to maintain minimum bank balances.

3 DRA agrees with CWS's calculation of working cash, except for the number of
4 lag days included for Purchased Chemicals and for Purchased Water. CWS's calculation
5 of lag days for both expenses is based on the time period from the midpoint between the
6 invoice dates to the date of payment. DRA's review of these two expenses shows that
7 CWS has consistently paid its bills much earlier than the due date in many of its 23
8 districts. For example, Stockton East Water District sells water to CWS in the City of
9 Stockton. That district's billing practice typically is to send out an invoice to CWS on
10 the first day of the month in which water service is provided. It further allows CWS up
11 to 30 days from the invoice date to pay its bill. During all the payment periods in 2010,
12 CWS consistently paid Stockton East Water District much earlier than the payment due
13 date. In some cases, such as February 2010, CWS made payment even before the bill
14 was invoiced. In so doing, CWS has increased the working cash requirement for
15 Purchased Water in the City of Stockton.

16 In general, lag days and working cash are inversely proportional, i.e., a lower
17 number of lag days would result in a higher amount of working cash, and vice versa.
18 CWS's practice of making payment earlier than its due date tends to reduce the number
19 of lag days and thus leads to higher working cash requirement. This type of payment
20 practice does not benefit CWS's ratepayers and should be avoided or modified.

21 DRA believes CWS has the ability to minimize its working cash level in both
22 Purchased Water and Purchased Chemical Expenses by having a more balanced approach
23 in its payment practice, by making payment neither too early nor too late to incur a late
24 payment penalty. CWS should take advantage of the grace period (such as net 30 days)
25 offered by its vendors. To attain such a balanced approach, DRA recommends that CWS
26 pay its vendors for Purchased Water and Purchased Chemical no earlier than 7 days from
27 the due date on the invoice. In districts where vendors offer a longer grace period, such
28 as 40 days in Antelope Valley, DRA recommends CWS make payment no earlier than 10
29 days from the due date.

1

Table 9-D. Purchased Chemical Lag Days.²

Districts	CWS Lag Days	DRA Lag Days	CWS Exceeded DRA
Antelope Valley	n/a	n/a	
Bakersfield	6.6	6.7	(0.1)
Bayshore	8.8	10.4	(1.6)
Bear Gulch	10.0	11.1	(1.1)
Chico	15.7	16.1	(0.4)
Dixon	(3.8)	(2.7)	(1.1)
Dominguez	6.4	9.5	(3.1)
E. LA	8.2	11.5	(3.3)
Hermosa Redondo	5.7	9.4	(3.7)
Kern River	7.3	9.7	(2.4)
King City	7.3	9.7	(2.4)
Livermore	7.3	8.5	(1.2)
Los Altos	6.4	10.5	(4.1)
Marysville	7.6	10.7	(3.1)
Oroville	4.1	6.5	(2.4)
Palos Verdes	n/a	n/a	
Redwood-Coast Spring	(1.1)	(0.7)	(0.4)
Redwood-Lucerne	3.9	7.9	(4.0)
Redwood-Unified	(0.4)	(0.7)	0.3
Salinas	7.4	9.2	(1.8)
Selma	5.4	7.6	(2.2)
Stockton	14.4	15.0	(0.6)
Visalia	3.8	8.7	(4.9)
Westlake	11.0	11.0	0.0
Willows	11.6	12.0	(0.4)

2

3 **D. CONCLUSION**

4 DRA recommends that the Commission adopt DRA's adjustments to rate base
5 estimates and calculations as discussed above and as presented in Tables 9-1 and 9-2

² Figures for CWS's Redwood Valley- Coast Spring, Lucerne and Unified come from Table 7 of the Lead Lag Study. CWS's ratebase workpapers show different lag day numbers for these areas.

- 1 (Weighted Average Rate Base) in DRA's District RO Report for each of CWS's 23
- 2 districts.

1 **C. DISCUSSION**

2 **1. Informal Complaints Filed With the Commission**

3 According to CWS all customer complaints filed with the Commission are sent to
4 the CWS rates department. The rates department contacts the district office to inform
5 them of the complaint with the goal of resolving the issue within 7 days. The district
6 office investigates the complaint and contacts the customer to inform them of the
7 investigation’s findings, then works with the customer to reach a resolution. The district
8 office then submits its findings and resolution to CWS’ rates department for review.
9 CWS’ rates department then contacts the Commission’s Division of Water and Audits or
10 the Consumer Affairs branch to present the complaint findings. Informal complaints filed
11 by customers with the Commission since the last GRC have been minimal compared to
12 the total number of customers.

13 The Table 10-A below lists customer informal complaints referred by the
14 Commission’s Public Advisor’s Office to CWS for resolution over the past six years. A
15 six-year average of 51 complaints was referred to CWS (approximately 0.01% of the six-
16 year average total customers 439,646).¹⁹⁷ The majority of these complaints were
17 regarding high water usage, disputed bills, and disconnections. Some complaints were
18 regarding other matters, such as, rates, meter inaccuracy, water rationing, and service
19 quality.

20

¹⁹⁷ CWS’ response to DRA’s Data Request ALC-001, Question 4.

1 **Table 10-A. Informal Complaints referred to CWS by Commission (1 of 2)**

District	2006	2007	2008	2009	2010	2011
Antelope Valley						
Number of Complaints	1	1	0	1	0	2
Number of Customers	1,347	1,365	1,371	1,356	1,352	1,360
Percent of Customers	0.07%	0.07%	0.00%	0.07%	0.00%	0.15%
Bakersfield						
Number of Complaints	5	9	8	12	10	6
Number of Customers	63,647	64,396	64,668	65,367	66,457	67,261
Percent of Customers	0.01%	0.01%	0.01%	0.02%	0.02%	0.01%
Bayshore						
Number of Complaints	0	1	1	3	2	3
Number of Customers	51,683	51,667	51,689	51,681	51,769	51,872
Percent of Customers	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%
Bear Gulch						
Number of Complaints	1	2	2	2	1	3
Number of Customers	17,758	17,752	17,805	18,071	18,371	18,451
Percent of Customers	0.01%	0.01%	0.01%	0.01%	0.01%	0.02%
Chico						
Number of Complaints	0	1	1	0	0	1
Number of Customers	26,286	26,706	26,952	17,027	18,679	20,602
Percent of Customers	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Dixon						
Number of Complaints	0	0	0	1	2	0
Number of Customers	2,851	2,853	2,832	2,807	2,821	2,841
Percent of Customers	0.00%	0.00%	0.00%	0.04%	0.07%	0.00%
Dominguez						
Number of Complaints	0	2	1	4	5	8
Number of Customers	32,720	32,595	32,573	32,592	32,654	32,710
Percent of Customers	0.00%	0.01%	0.00%	0.01%	0.02%	0.02%
East Los Angeles						
Number of Complaints	3	0	2	1	0	3
Number of Customers	25,990	25,989	25,976	25,955	25,983	26,024
Percent of Customers	0.01%	0.00%	0.01%	0.00%	0.00%	0.01%
Hermosa Redondo						
Number of Complaints	3	2	0	2	4	1
Number of Customers	25,949	25,980	3,081	26,124	26,172	26,244
Percent of Customers	0.01%	0.01%	0.00%	0.01%	0.02%	0.00%
Kern River Valley						
Number of Complaints	0	1	3	3	5	8
Number of Customers	4,309	4,287	4,285	4,258	4,222	4,204
Percent of Customers	0.00%	0.02%	0.07%	0.07%	0.12%	0.19%
King City						
Number of Complaints	0	0	2	0	0	1
Number of Customers	2,283	2,398	2,449	2,459	2,473	2,496
Percent of Customers	0.00%	0.00%	0.08%	0.00%	0.00%	0.04%
Livermore						
Number of Complaints	1	1	1	3	2	5
Number of Customers	17,775	17,814	17,842	17,855	17,897	17,949
Percent of Customers	0.01%	0.01%	0.01%	0.02%	0.01%	0.03%

1 **Table 10-A. Informal Complaints referred to CWS by Commission (2 of 2)**

	2006	2007	2008	2009	2010	2011
Los Altos						
Number of Complaints	0	1	2	5	0	7
Number of Customers	18,196	18,249	18,221	18,265	18,322	18,360
Percent of Customers	0.00%	0.01%	0.01%	0.03%	0.00%	0.04%
Marysville						
Number of Complaints	0	0	0	0	0	0
Number of Customers	3,777	3,718	3,696	3,662	3,647	3,642
Percent of Customers	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Oroville						
Number of Complaints	0	0	1	0	0	0
Number of Customers	3,482	3,494	3,497	3,251	3,293	3,347
Percent of Customers	0.00%	0.00%	0.03%	0.00%	0.00%	0.00%
Palos Verdes						
Number of Complaints	3	6	1	6	3	4
Number of Customers	23,903	23,840	23,856	23,874	23,904	23,936
Percent of Customers	0.01%	0.03%	0.00%	0.03%	0.01%	0.02%
Redwood Valley						
Number of Complaints	3	1	0	6	2	8
Number of Customers	1,982	1,958	1,951	1,946	1,931	1,909
Percent of Customers	0.15%	0.05%	0.00%	0.31%	0.10%	0.42%
Salinas						
Number of Complaints	2	2	5	2	1	1
Number of Customers	27,160	27,129	26,968	27,019	27,315	27,473
Percent of Customers	0.01%	0.01%	0.02%	0.01%	0.00%	0.00%
Selma						
Number of Complaints	0	0	1	0	0	0
Number of Customers	5,932	5,983	5,995	3,318	3,430	3,709
Percent of Customers	0.00%	0.00%	0.02%	0.00%	0.00%	0.00%
Stockton						
Number of Complaints	10	3	7	14	14	5
Number of Customers	41,441	41,436	41,127	41,191	41,815	41,975
Percent of Customers	0.02%	0.01%	0.02%	0.03%	0.03%	0.01%
Visalia						
Number of Complaints	1	1	1	2	3	9
Number of Customers	36,248	37,767	38,437	38,833	39,357	39,812
Percent of Customers	0.00%	0.00%	0.00%	0.01%	0.01%	0.02%
Westlake						
Number of Complaints	0	0	1	1	2	2
Number of Customers	6,915	6,929	6,925	6,914	6,914	6,922
Percent of Customers	0.00%	0.00%	0.01%	0.01%	0.03%	0.03%
Willows						
Number of Complaints	0	0	0	0	0	0
Number of Customers	2,324	2,341	2,342	2,335	2,340	2,356
Percent of Customers	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total complaint count	33	34	40	68	56	77
Total number of customers	443,958	446,646	424,538	436,161	441,118	445,455
Complaints / Total Customers	0.01%	0.01%	0.01%	0.02%	0.01%	0.02%

2

1 Overall, the low number of complaints cited by CWS and the Commission
2 received appears to indicate that CWS is providing adequate customer service. DRA
3 notes that the total number of complaints for 2010 and 2011 are slightly lower than the
4 total number of complaints reported in CWS' Annual Report, Attachment D, which is
5 attached to the end of this chapter in Attachment A. This difference is minor and
6 unexplained.

7 As noted below, DRA observes that several districts have a higher percentage of
8 complaints per total number of customers.

9 For Antelope Valley District the percent of complaints per customer (0.15%) for
10 2011 is greater than what is expected for the company-wide General Order 103-A
11 performance standard of less than or equal to 0.1% percent of complaints reported
12 annually per total number of customers. However, although the percentage of complaints
13 exceeds the standard, Antelope Valley only received two customer complaints for high
14 bills in 2011.

15 For Kern River Valley District there were eight customer complaints in 2011, an
16 increase from the previous two years. Five complaints were for high bills, two for
17 disconnects, and one concerned service quality. CWS explains that the increase in
18 customer complaints in 2011 pertains mostly to rates and WRAM (Water Revenue
19 Adjustment Mechanism) charges.¹⁹⁸ The percent of complaints per customer (0.19%) for
20 2011 is greater than what is the expected for company-wide General Order 103-A
21 performance standard of less than or equal to 0.1% percent of complaints reported
22 annually per total number of customers. Since the percentage of complaints exceeds the
23 standard, the number of informal complaints in this district should be monitored to ensure
24 they do not increase.

25 Redwood Valley District had eight customer complaints in 2011, an increase from
26 the previous two years, of which six pertained to high bills and two concerned quality of
27 service. CWS explains that high bill complaints can be attributed to high water rates in

¹⁹⁸ CWS' response to DRA's Data Request ALC-004, Question 3.

1 this service area.¹⁹⁹ The percent of complaints per customer (0.42%) for 2011 is greater
2 than what is the expected for company-wide General Order 103-A performance standard
3 of less than or equal to 0.1% percent of complaints reported annually per total number of
4 customers. This percentage of complaints exceeds the standard, and does cause concern.
5 DRA recommends CWS monitor the complaints in this district.

6 Although CWS is not required to meet the GO 103-A company-wide standard for
7 each district, DRA encourages CWS to meet or exceed this standard in each of its
8 districts. DRA recommends that CWS monitor the calls and types of complaints in
9 Antelope Valley, Kern River Valley, and Redwood Valley Districts in the future to allow
10 them to identify the cause or trend, and address customer concerns more quickly.

11 CWS states that all of the informal complaints submitted from 2006 to 2011 have
12 been resolved and there are no open issues.²⁰⁰ CWS has not received any formal
13 complaints from its customers from 2006 to 2011.

14 **2. Customer Calls to CWS**

15 According to CWS, most CWS districts are on a central phone system, which
16 automatically collects and records customer call information. Dominguez, Hermosa-
17 Redondo, and Palos Verdes districts' call volume is consolidated as Rancho Dominguez.

18 Antelope Valley, Kern River Valley, and Redwood Valley districts do not employ
19 automated call distribution phone systems so concise call data is not available for those
20 districts. However, to obtain an annual customer call estimate for Redwood Valley and
21 Kern River Valley districts, CWS used the data from its "First Person Customer
22 Satisfaction Phone Survey" results to extrapolate call volume for the entire year.²⁰¹

23 The First Person Phone Surveys are conducted for a 5-day period in the first and
24 third quarter of each year in each district. This survey is a tool to evaluate customer
25 satisfaction and to determine the percent of customers satisfied on the first call. It

¹⁹⁹ CWS' response to DRA's Data Request ALC-004, Question 3.

²⁰⁰ CWS' response to DRA's Data Request ALC-001, Question 5.

²⁰¹ CWS' response to DRA's Data Request ALC-001, Question 2.

1 measures customer satisfaction with the performance of Customer Service
2 Representatives (“CSRs”) who handled customer phone calls during that period. The
3 CSR conducted the verbal survey for each call while they had the customer on the phone.
4 CWS used the survey count conducted in Redwood and Kern River Valley districts to
5 extrapolate an annualized call volume. Also, the survey results are tallied and evaluated
6 by each district to determine if they are meeting CWS’ “First-Call Customer Satisfaction”
7 objectives. CWS’ internal objectives are that the phones are answered by a trained
8 knowledgeable CWS employee, in a friendly respectful manner, the call does not need to
9 be transferred due to lack of information, and the CSR focuses on letting the customer
10 know what they can do for them as opposed to what they can’t do.²⁰²

11 DRA recommends that CWS should put into place a cost-effective way of tracking
12 customer calls in Kern River Valley District and Redwood Valley District in order to
13 know exactly the number of calls and types of calls received in these two districts instead
14 of just relying on the “First Person Customer Satisfaction Phone Survey” results to
15 estimate annual call volume.

16 The Antelope Valley District did not participate in this survey so no call data is
17 available.²⁰³ DRA recommends that CWS find a cost effective way or process which
18 allows them to track customer calls in the Antelope Valley District in order to better
19 collect and record customer call information.

20 The two tables below summarize the number of customer calls received by each
21 district and the number of calls per connection for each district for 2009, 2010, and
22 2011.²⁰⁴

²⁰² Email from James Polanco, dated September 17, 2012, in response to follow up questions regarding CWS’ responses to DRA’s data request ALC-001.

²⁰³ CWS’ response to DRA’s Data Request ALC-001, Question 2.

²⁰⁴ Ibid.

1 **Table 10-B. Customer Call Volume**

District	2009	2010	2011
Antelope Valley	NA	NA	NA
Bakersfield	197,807	200,103	218,343
Bayshore	48,505	47,962	47,940
Bear Gulch	25,355	22,110	21,970
Chico	35,355	32,087	35,637
Dixon	9,958	10,868	4,024
East Los Angeles	41,532	40,980	41,650
Kern River Valley	17,160	17,732	24,778
King City	4,973	4,796	4,601
Livermore	19,269	19,322	18,442
Los Altos	16,281	15,740	14,717
Marysville	15,418	7,592	9,336
Oroville	8,918	9,242	9,627
Rancho Dominguez	99,517	102,174	110,420
Redwood Valley	5,356	4,732	4,966
Salinas	47,707	50,660	49,116
Selma	10,098	9,741	11,265
Stockton	133,627	116,265	127,141
Visalia	83,093	78,842	80,383
Westlake	7,821	7,321	7,605
Willows	5,270	5,460	5,864
Total Calls	813,020	803,729	847,825

Table 10-C. Calls Per Connection

District	2009	2010	2011
Antelope Valley	N/A	N/A	N/A
Bakersfield	3.03	3.01	3.25
Bayshore	0.94	0.93	0.92
Bear Gulch	1.40	1.20	1.19
Chico	2.08	1.72	1.73
Dixon	3.55	3.85	1.42
East Los Angeles	1.60	1.58	1.60
Kern River Valley	4.03	4.20	5.89
King City	2.02	1.94	1.84
Livermore	1.08	1.08	1.03
Los Altos	0.89	0.86	0.80
Marysville	4.21	2.08	2.56
Oroville	2.74	2.81	2.88
Rancho Dominguez	1.20	1.24	1.33
Redwood Valley	2.75	2.45	2.60
Salinas	1.77	1.85	1.79
Selma	3.04	2.84	3.04
Stockton	3.24	2.78	3.03
Visalia	2.14	2.00	2.02
Westlake	1.13	1.06	1.10
Willows	2.26	2.33	2.49
Total Calls/Total Connections	1.86	1.82	1.90

2

3 Although DRA was not able to find any industry standard for an average number
 4 of calls per connection, DRA recommends that CWS use its company-wide average of
 5 two calls per connection as a benchmark for all its districts as a means of measuring
 6 customer satisfaction with their service. When evaluating the number of calls received in
 7 each district if the average number of calls per connection is over the benchmark, this
 8 could raise concerns about the level of customer service and may warrant further review.

9 Kern River Valley District’s call volume increase in 2011 causes concern and
 10 reiterates the need for this district to track the customer calls by category.

11 According to CWS, the CSRs in each district office handle all customer calls.
 12 When a customer calls the district office, the CSR logs the date and time of the call along
 13 with a description of the complaint into the Customer Service Information system. The
 14 majority of customer complaints are resolved the same day they are received. The CSR
 15 tries to resolve each issue directly without having to transfer or call the customer back.
 16 One problem is that CWS does not track each customer call by category so they cannot
 17 count the number of calls in each district that are regarding billing or other concerns.
 18 Also another reason to track calls by category would be to see how a district has

1 improved customer service, such as lower complaints affected by system improvements,
2 such as observed in Dixon and Marysville districts. DRA recommends that CWS find a
3 cost effective way to track the category of each call in order to know how many calls are
4 concerning billing, service quality, and other customer issues.

5 **3. Customer Comments Received by Commission’s Public Advisor’s Office**

6 The Commission’s Public Advisor’s Office (“PAO”) receives informal comments
7 from the public and ratepayers by email, written letters, and verbal comments at public
8 participation hearings, and public comment sessions of Commission meetings. The
9 written informal comments are circulated to appropriate decision-makers, such as the
10 Administrative Law Judge and assigned Commissioner’s office, and, if they pertain to a
11 specific proceeding, they become part of its official record.²⁰⁵ Public comments made at
12 public participation hearings are transcribed and made part of the official record for that
13 particular proceeding.²⁰⁶

14 For this proceeding, the PAO has received 56 emails opposing CWS’ application,
15 and 1 email supporting, along with 17 phone calls opposing, and 13 letters opposing
16 CWS’ request for rate increases. The table below lists the emails, letters, and calls
17 received from customers opposing CWS’ application for rate increases.

²⁰⁵ The Commission’s website for Consumer Service and Information Division, Public Advisor’s Office, www.cpuc.ca.gov/PUC/aboutus/Divisions/CSID/Pulic+Advisor.

²⁰⁶ Ibid.

1

Table 10-D. Protest Emails, Letters and Calls from CWS Customers

District	Emails	Letters*	Calls*
Antelope Valley	1		
Bakersfield	2		
Bayshore	2		
Bear Gulch	5		
Chico	6		
Dixon	3		
Hermosa-Redondo	4		
Kern River Valley	3		
Los Altos	5		
Oroville	2		
Redwood Valley	6		
Salinas	2		
Selma	1		
Visalia	10		
Westlake	4		
Totals	56	13	17

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* Letters and Calls were not tracked by district

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The Visalia District customers sent ten emails to the Commission’s Public Advisor’s Office protesting the rate increase CWS requests. Customers expressed that they feel penalized for conserving water and the fact that CWS has to raise rates to cover fixed costs because of lower water usage by its customers. Also, customers expressed opposition to the increased costs CWS outlined, such as: 1) rising employee health care costs, pensions, and retiree health care benefits, 2) increased General Office operation expenses and building renovations, and 3) increased costs to retain quality personnel in the general office and district operations. Visalia customers stated they want to have a Public Participation Hearing in Visalia so they can voice their opposition to CWS’ rate hike.

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4. Calls Received by the Commission’s Consumer Affairs Branch (“CAB”) from CWS Customers

DRA evaluated call data received from CAB’s Consumer Information Management System (“CIMS”) database for the past three years (2009, 2010, and 2011).

1 The CIMS data includes phone calls, letters, faxes, emails, and website informal inquiries
2 and complaints.²⁰⁷ The table below presents a summary of CWS' customer calls and
3 inquiries the Commission's CAB received from 2009 through 2011.- A majority of these
4 customer calls categorized as complaints involved disputed bills, disconnects, or payment
5 arrangements. Some of these calls concerned other issues, such as water rationing, rate
6 increases, rate design, Commission rules, company practices, low income programs, and
7 meter inaccuracy. The table also provides the number of calls and inquiries expressed as a
8 percentage of total number of customers for each district for each year.²⁰⁸
9

²⁰⁷ 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.”

²⁰⁸ Report from CAB's CIMS database for CWS, 2009, 2010 and 2011.

1

Table 10-E. Calls Received by CAB

	2009	2010	2011		2009	2010	2011
Antelope Valley				Los Altos			
Number of Calls	1	2	5	Number of Calls	10	1	7
Number of Customers	1,356	1,352	1,360	Number of Customers	18,265	18,322	18,360
Percent of Customers	0.07%	0.15%	0.37%	Percent of Customers	0.05%	0.01%	0.04%
Bakersfield				Marysville			
Number of Calls	37	52	57	Number of Calls	1	2	8
Number of Customers	65,367	66,457	67,261	Number of Customers	3,662	3,647	3,642
Percent of Customers	0.06%	0.08%	0.08%	Percent of Customers	0.03%	0.05%	0.22%
Bayshore				Oroville			
Number of Calls	5	6	8	Number of Calls	1	4	8
Number of Customers	51,681	51,769	51,872	Number of Customers	3,251	3,293	3,347
Percent of Customers	0.01%	0.01%	0.02%	Percent of Customers	0.03%	0.12%	0.24%
Bear Gulch				Palos Verdes			
Number of Calls	2	3	6	Number of Calls	9	6	4
Number of Customers	18,071	18,371	18,451	Number of Customers	23,874	23,904	23,936
Percent of Customers	0.01%	0.02%	0.03%	Percent of Customers	0.04%	0.03%	0.02%
Chico				Redwood Valley			
Number of Calls	4	1	5	Number of Calls	4	6	16
Number of Customers	17,027	18,679	20,602	Number of Customers	1,946	1,931	1,909
Percent of Customers	0.02%	0.01%	0.02%	Percent of Customers	0.21%	0.31%	0.84%
Dixon				Salinas			
Number of Calls	2	2	1	Number of Calls	5	6	10
Number of Customers	2,807	2,821	2,841	Number of Customers	27,019	27,315	27,473
Percent of Customers	0.07%	0.07%	0.04%	Percent of Customers	0.02%	0.02%	0.04%
Dominguez				Selma			
Number of Calls	10	14	12	Number of Calls	0	1	3
Number of Customers	32,592	32,654	32,710	Number of Customers	3,318	3,430	3,709
Percent of Customers	0.03%	0.04%	0.04%	Percent of Customers	0.00%	0.03%	0.08%
East Los Angeles				Stockton			
Number of Calls	2	10	15	Number of Calls	60	77	73
Number of Customers	25,955	25,983	26,024	Number of Customers	41,191	41,815	41,975
Percent of Customers	0.01%	0.04%	0.06%	Percent of Customers	0.15%	0.18%	0.17%
Hermosa Redondo				Visalia			
Number of Calls	1	2	10	Number of Calls	15	19	25
Number of Customers	26,124	26,172	26,244	Number of Customers	38,833	39,357	39,812
Percent of Customers	0.00%	0.01%	0.04%	Percent of Customers	0.04%	0.05%	0.06%
Kern River Valley				Westlake			
Number of Calls	11	13	23	Number of Calls	1	6	4
Number of Customers	4,258	4,222	4,204	Number of Customers	6,914	6,914	6,922
Percent of Customers	0.26%	0.31%	0.55%	Percent of Customers	0.01%	0.09%	0.06%
King City				Willows			
Number of Calls	1	0	4	Number of Calls	0	0	2
Number of Customers	2,459	2,473	2,496	Number of Customers	2,336	2,340	2,356
Percent of Customers	0.04%	0.00%	0.16%	Percent of Customers	0.00%	0.00%	0.08%
Livermore				Total Calls	188	243	315
Number of Calls	6	10	9	Total Customers	436,161	441,118	445,455
Number of Customers	17,855	17,897	17,949	Total Calls/Total Cust.	0.04%	0.06%	0.07%
Percent of Customers	0.03%	0.06%	0.05%				

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4

1 DRA is unable to draw any conclusions regarding the CIMS data. Some of the
2 calls input into CIMS were not assigned any specific town, city, zip code, or CWS
3 district, or the call was not categorized as to any particular problem. DRA eliminated
4 these incomplete calls from the data set count. Also, many of the calls were informational
5 inquiries only, or were labeled as misdirected or of a non-jurisdictional nature.²⁰⁹ The
6 misdirected and non-jurisdictional calls also could not be counted as complete and useful
7 data. After eliminating the non-useful calls, DRA found only 55 percent were considered
8 useful data out of the total number of calls in the CAB data set. Although this data set is
9 incomplete, it does show that once again Redwood Valley, Kern River Valley and
10 Antelope Districts have the highest percentage of calls per total customer of all the
11 districts. This further supports DRA’s recommendation that CWS monitor these districts
12 for service quality.

13 **5. Water Quality Complaints**

14 CWS states that overall its records show that the number of complaints per year is
15 low relative to the number of customers in each district.²¹⁰ CWS also states that it
16 periodically reviews the water quality complaints in each district and when trends are
17 noted the Water Quality Department works with the local district to pinpoint the exact
18 water quality problem. Sometime flushing is the best short-term measure available to
19 reduce the number of complaints.²¹¹

20 According to CWS, a system is in place to receive and record customer complaints
21 concerning water quality. A CSR handles customer complaints regarding taste and odor
22 and explains to the customer why those types of conditions occur. Other types of
23 complaints, such as low pressure or the presence of sand in the water, require a
24 serviceman to go out to the premises and investigate the complaint. When a service call is

²⁰⁹ According to CAB misdirected means that the complaint has been wrongfully sent to CAB, non-jurisdictional means the CPUC has no control and is not liable over the situation of the complaint.

²¹⁰ CWS response to Minimum Data Requirements (“MDRs”), Item II. H.2, provided in CWS’ General Report, page 12.

²¹¹ Ibid, page 13.

1 required, the CSR notifies the maintenance department. The maintenance department
2 then assigns personnel to investigate the problem, notify the customer, and resolve the
3 issue. The majority of these complaints are resolved by inspecting the customer premises.
4 As part of an investigation for a “taste and odor” or “dirt or sand” complaint, CWS will
5 take a water sample to test for chlorine residuals. Another typical procedure is to check
6 faucet aerator screens in the customer’s home.²¹²

7 For “pressure” complaints, a CWS representative will take a pressure reading at
8 the customer’s home. All complaints are recorded on a work order (otherwise known as a
9 field order) which, when completed, is turned into the customer service department for
10 management review and entry into the customer information database.²¹³ According to
11 CWS, company personnel attempt to respond to any water quality complaint within one
12 hour. CWS has also implemented a regular unidirectional flushing program to flush pipe
13 sections that have low flow and dead end mains to reduce the number of complaints.

14 Customer water quality complaints for the past three years are listed in the table
15 below. The three-year average of 1,427 water quality complaints per year was received
16 by CWS, which is approximately 0.32% of CWS’ total three-year average number of
17 customers (440,911).

18 The six categories for the different kinds of water quality complaints are described
19 as follows:

20 Air - can be air bubbles trapped in water causing a milky or cloudy
21 appearance which will clear when allowed to stand and the air dissipates;

22 Dirt - can be discolored or dirty looking water caused by naturally
23 occurring organic matter, minerals or mineral build-up in the pipes;

24 Pressure - can be too high or too low;

25 Taste or odor - can be stronger than usual from chlorine, or a musty odor
26 the customer is not accustomed to;

²¹² CWS response to DRA data request ALC-002, Question #3.

²¹³ CWS response to DRA data request ALC-002, Question #4.

1 Sand - can be caused by sediment in the water from mainline flushing or a
2 main break in the area, also dirt or sand occur naturally in groundwater or
3 as a result of a water line repair;

4 Noise - can be associated with the water system, such as wells turning on,
5 or problem with the customer's internal plumbing.

6 The table below lists all the water quality complaints received by CWS for each of
7 the last three years by individual district.²¹⁴

8

²¹⁴ CWS' General Report, Attachment B.

1

Table 10-F. Water Quality Complaints by District (1 of 3)

2

Antelope Valley	2009	2010	2011	Dixon	2009	2010	2011
Air	1	0	0	Air	0	0	0
Dirt	0	2	5	Dirt	0	1	1
Pressure	5	1	3	Pressure	8	12	6
Taste/Odor	3	1	1	Taste/Odor	2	2	1
Sand	0	0	0	Sand	0	3	1
Noise	0	0	0	Noise	0	0	0
Totals	9	4	9	Totals	10	18	9
Total Customers	1,356	1,352	1,360	Total Customers	2,807	2,821	2,841
Complaints/customer	0.66%	0.30%	0.66%	Complaints/customer	0.36%	0.64%	0.32%
Bakersfield	2009	2010	2011	Dominguez	2009	2010	2011
Air	12	11	8	Air	0	0	0
Dirt	70	65	66	Dirt	56	28	12
Pressure	232	215	212	Pressure	38	17	17
Taste/Odor	43	41	39	Taste/Odor	29	12	14
Sand	6	8	1	Sand	0	0	1
Noise	11	15	7	Noise	2	1	0
Totals	374	355	333	Totals	125	58	44
Total Customers	65,367	66,457	67,261	Total Customers	32,592	32,654	32,710
Complaints/customer	0.57%	0.53%	0.50%	Complaints/customer	0.38%	0.18%	0.13%
Bayshore	2009	2010	2011	East Los Angeles	2009	2010	2011
Air	1	1	0	Air	1	4	1
Dirt	48	12	3	Dirt	15	14	22
Pressure	30	15	3	Pressure	5	4	3
Taste/Odor	6	6	1	Taste/Odor	2	1	3
Sand	0	0	0	Sand	1	0	1
Noise	5	3	0	Noise	1	0	0
Totals	90	37	7	Totals	25	23	30
Total Customers	51,681	51,769	51,872	Total Customers	25,955	25,983	26,024
Complaints/customer	0.17%	0.07%	0.01%	Complaints/customer	0.10%	0.09%	0.12%
Bear Gulch	2009	2010	2011	Hermosa-Redondo	2009	2010	2011
Air	3	2	2	Air	0	0	1
Dirt	14	7	16	Dirt	7	11	12
Pressure	58	68	58	Pressure	22	9	0
Taste/Odor	2	3	2	Taste/Odor	11	8	0
Sand	0	0	1	Sand	0	10	0
Noise	0	0	4	Noise	3	2	1
Totals	77	80	83	Totals	43	40	14
Total Customers	18,071	18,371	18,451	Total Customers	26,124	26,172	26,244
Complaints/customer	0.43%	0.44%	0.45%	Complaints/customer	0.16%	0.15%	0.05%
Chico	2009	2010	2011	Kern River Valley	2009	2010	2011
Air	3	2	3	Air	1	1	1
Dirt	4	5	3	Dirt	8	11	14
Pressure	7	3	8	Pressure	17	17	20
Taste/Odor	13	10	18	Taste/Odor	1	1	5
Sand	5	3	3	Sand	0	0	0
Noise	5	4	0	Noise	0	0	0
Totals	37	27	35	Totals	27	30	40
Total Customers	17,027	18,679	20,602	Total Customers	4,258	4,222	4,204
Complaints/customer	0.22%	0.14%	0.17%	Complaints/customer	0.63%	0.71%	0.95%
King City	2009	2010	2011	Palos Verde	2009	2010	2011
Air	0	0	0	Air	5	0	0
Dirt	0	2	2	Dirt	6	8	3
Pressure	4	8	6	Pressure	49	19	18
Taste/Odor	4	2	2	Taste/Odor	3	1	1
Sand	0	0	0	Sand	0	1	0
Noise	1	0	0	Noise	4	4	3
Totals	9	12	10	Totals	67	33	25
Total Customers	2,459	2,473	2,496	Total Customers	23,874	23,904	23,936
Complaints/customer	0.37%	0.49%	0.40%	Complaints/customer	0.28%	0.14%	0.10%

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Table 10-F. Water Quality Complaints by District (2 of 3)

Livermore	2009	2010	2011
Air	1	0	0
Dirt	27	25	20
Pressure	26	30	45
Taste/Odor	10	19	0
Sand	0	0	1
Noise	0	1	33
Totals	64	75	99
Total Customers	17,855	17,897	17,949
Complaints/customer	0.36%	0.42%	0.55%

Lucerne Rate Area	2009	2010	2011
Air	5	0	1
Dirt	17	25	4
Pressure	3	5	7
Taste/Odor	5	3	5
Sand	0	0	1
Noise	0	0	0
Totals	30	33	18
Total Customers	1,265	1,251	1,230
Complaints/customer	2.37%	2.64%	1.46%

Los Altos	2009	2010	2011
Air	6	1	1
Dirt	21	14	16
Pressure	21	34	29
Taste/Odor	9	8	12
Sand	0	0	1
Noise	2	8	9
Totals	59	65	68
Total Customers	18,265	18,322	18,360
Complaints/customer	0.32%	0.35%	0.37%

Coast Springs Area	2009	2010	2011
Air	0	0	0
Dirt	0	0	1
Pressure	0	1	1
Taste/Odor	1	0	0
Sand	0	0	0
Noise	0	0	0
Totals	1	1	2
Total Customers	251	250	250
Complaints/customer	0.40%	0.40%	0.80%

Marysville	2009	2010	2011
Air	0	0	1
Dirt	4	4	3
Pressure	10	7	7
Taste/Odor	3	3	3
Sand	0	1	0
Noise	1	0	0
Totals	18	15	14
Total Customers	3,662	3,647	3,642
Complaints/customer	0.49%	0.41%	0.38%

Unified Rate Area	2009	2010	2011
Air	0	0	0
Dirt	2	6	1
Pressure	1	1	2
Taste/Odor	0	1	2
Sand	0	0	0
Noise	0	0	0
Totals	3	8	5
Total Customers	430	430	429
Complaints/customer	0.70%	1.86%	1.17%

Oroville	2009	2010	2011
Air	0	0	1
Dirt	3	4	0
Pressure	7	6	10
Taste/Odor	3	3	5
Sand	0	0	0
Noise	0	0	0
Totals	13	13	16
Total Customers	3,251	3,293	3,347
Complaints/customer	0.40%	0.39%	0.48%

Salinas	2009	2010	2011
Air	0	0	0
Dirt	10	7	1
Pressure	29	30	17
Taste/Odor	3	4	1
Sand	2	0	0
Noise	2	1	1
Totals	47	43	20
Total Customers	27,019	27,315	27,473
Complaints/customer	0.17%	0.16%	0.07%

Selma	2009	2010	2011
Air	0	0	0
Dirt	0	1	0
Pressure	0	0	1
Taste/Odor	0	0	0
Sand	0	0	0
Noise	0	0	0
Totals	0	1	1
Total Customers	3,318	3,430	3,709
Complaints/customer	0.00%	0.03%	0.03%

Westlake	2009	2010	2011
Air	0	0	0
Dirt	5	2	2
Pressure	24	16	25
Taste/Odor	7	6	4
Sand	0	0	0
Noise	1	0	0
Totals	37	24	31
Total Customers	6,914	6,914	6,922
Complaints/customer	0.54%	0.35%	0.45%

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Table 10-F. Water Quality Complaints by District (3 of 3)

Stockton	2009	2010	2011	Willows	2009	2010	2011
Air	8	6	3	Air	1	0	0
Dirt	65	119	147	Dirt	0	0	0
Pressure	93	109	123	Pressure	3	1	4
Taste/Odor	27	33	23	Taste/Odor	2	1	1
Sand	14	5	2	Sand	1	0	0
Noise	1	0	1	Noise	0	0	0
Totals	208	272	299	Totals	7	2	5
Total Customers	41,191	41,815	41,975	Total Customers	2,336	2,340	2,356
Complaints/customer	0.50%	0.65%	0.71%	Complaints/customer	0.30%	0.09%	0.21%
Visalia	2009	2010	2011	Total Complaints	1,502	1,429	1,351
Air	5	5	2	Total Customers	436,161	441,118	445,455
Dirt	15	18	24	Total Compl/Total Cust.	0.34%	0.32%	0.30%
Pressure	62	87	58				
Taste/Odor	22	21	17				
Sand	13	17	20				
Noise	5	12	13				
Totals	122	160	134				
Total Customers	38,833	39,357	39,812				
Complaints/customer	0.31%	0.41%	0.34%				

DRA noted that several districts had increased number of complaints, particularly with pressure. DRA asked CWS to explain the reason for these pressure complaints and what it did to resolve these problems. CWS provided the explanations below for Bakersfield, Livermore, and the Stockton Districts.

Bakersfield District

In the Bakersfield District, there were a high number of pressure complaints in the past three years. CWS explains that after investigating the complaints, approximately 16% of these pressure complaints were attributed to CWS. Low pressure was caused by several different problems, such as; stuck meters restricting flows, service leaks, street shut-offs not completely open or broken closed, power failure, and mechanical failure of pumps causing low pressure in the distribution system. The remainder of the pressure complaints (84%) was attributed to various internal problems with the customer’s plumbing.²¹⁵

²¹⁵ CWS response to DRA data request ALC-003, question #1.

1 Livermore District

2 In the Livermore District CWS states that the majority of the pressure problems
3 were customer internal plumbing problems, such as clogged faucet screens. However,
4 seven of the complaints CWS system caused were corrected by flushing, changing
5 meters, and replacing the water service. One incident was a planned pump station
6 shutdown that inadvertently affected a nearby customer. The shutdown only lasted a few
7 hours and was back in service the same day. One pressure complaint was found to be
8 caused by a failed fill valve which was repaired the same day.²¹⁶

9 DRA reviewed CWS’ explanation of the reasons for the pressure complaints, and
10 DRA is satisfied with their finding and remedies to these complaints in Bakersfield, and
11 Livermore Districts.

12 Stockton District

13 In the Stockton District, CWS explains that the pressure complaint increase was
14 partially attributed to not using the blending operations substantially in 2011 during high
15 demand periods. Also, there is an on-going problem sustaining adequate pressures during
16 high demand in the southern part of this system. CWS has requested in its capital budget
17 to purchase additional property to install booster stations to remedy the pressure issue.²¹⁷

18 DRA is concerned that the pressure problem will not be resolved. CWS should consider
19 other alternatives to resolve the problem in the event that the property is not allowed. For
20 further information regarding DRA’s recommended capital budget, see the chapters on
21 Utility Plant in Service and Water Quality in DRA’s Report on the Result of Operations
22 in the Stockton District.

23 Stockton District also had a significant increase in dirty water complaints in the
24 last three years. CWS explains that the increase in dirty water complaints relates to
25 consecutive water quality incidents that the Stockton East Water District (“SEWD”) has
26 had in the past few years during storm run-offs. The SEWD has made some treatment

²¹⁶ Ibid.

²¹⁷ Ibid.

1 process improvements and has started construction on a second finished clear-well, which
2 is expected to be completed by August, 2013, and will help prevent repeat water quality
3 incidences. Additionally, CWS had reduced system flushing due to a drought declaration
4 by the Governor. Since the drought declaration has been lifted CWS implemented a five-
5 year unidirectional flushing program beginning fall of 2012.²¹⁸

6 DRA reviewed CWS' explanation of the reasons for dirty water complaints in
7 Stockton and DRA is satisfied with their findings and remedies.

8 Redwood Valley District

9 For the Redwood Valley District, CWS under D.10-12-017 from the last GRC,
10 must report on the water quality complaints concerning bad taste and smell, or stains left
11 in toilets, etc. in the Lucerne and the Coast Springs service areas of this district. CWS
12 provided testimony addressing this requirement in its Redwood Valley District Report on
13 the Result of Operations.²¹⁹

14 CWS states that for the Lucerne Service Area the color and odor complaints
15 coincide with the occurrence of algae blooms on Clear Lake. Clear Lake water quality is
16 unique in that rapid algae blooms and lake-turnover events can cause sudden changes in
17 the lake's water quality.²²⁰ CWS states:

18 "To reduce odor complaints in the finished water from the Lucerne Water
19 Treatment Plant ("LWTP") Cal Water has implemented an advanced
20 oxidation process, which it uses when odor issues are probable. Since 2010,
21 samples for odor have been analyzed by an environmentally approved and
22 certified laboratory. This sampling step provides an indication of a potential
23 odor event. This allows Cal Water to utilize the advanced oxidation

²¹⁸ Ibid.

²¹⁹ CWS' Report on the Result of Operations for the Redwood Valley District, July 2012, pg 15-17.

²²⁰ Ibid.

1 process at the optimum times to prevent odors from occurring in the
2 finished water.”²²¹

3 With regards to color issues associated with Clear Lake water, CWS states it is
4 caused by manganese present in the lake algae.²²² With regards to taste issues, CWS
5 states:

6 “To reduce taste complaints in the finished water from the LWTP, Cal
7 Water installed potassium permanganate and zinc orthophosphate injection
8 processes to the existing treatment operations.”²²³

9 DRA observes that the number of dirty water complaints have reduced from 25 in
10 2010 to 4 in 2011, but the number of odor complaints increased from 3 in 2010 to 5 in
11 2011. DRA recommends monitoring the water quality complaints in the Lucerne Service
12 Area.

13 In the Coast Springs Service Area, the water supply is obtained from a
14 combination of seasonal springs and shallow wells. To meet DPH requirements, water is
15 treated by a membrane treatment plant and chloramination. There has been only one taste
16 and odor complaint in the past three years. This complaint coincided with the use of
17 alternate source water during a high demand period. CWS states that some of the water
18 sources have more taste and odor associated with them and CWS attempts to utilize the
19 best water quality possible based on the demand conditions in the water system.²²⁴ DRA
20 finds this explanation satisfactory. For further information regarding these water quality
21 issues, see the chapters on Utility Plant in Service and Water Quality in DRA’s Report on
22 the Result of Operations in the Redwood Valley District.

²²¹ Ibid.

²²² Ibid.

²²³ Ibid.

²²⁴ Ibid.

1 DRA reviewed CWS' explanation of the reasons for these water quality
2 complaints in Bakersfield, Livermore, Stockton and Redwood Valley districts. DRA is
3 satisfied with their findings and remedies to these complaints.

4 **6. General Order 103-A Reporting Requirements**

5 The Commission's General Order 103-A (GO 103-A) has standardized reporting
6 requirements so that the Commission can monitor service quality and changes in utility
7 customer service performance. Water utilities are required to report company-wide
8 performance in the utility's Annual Report to the Commission starting in 2010.

9 GO 103-A, Appendix E, outlines performance standards for telephone inquiries,
10 billing, meter reading, work completion, and response to customers and regulatory
11 complaints. A utility is required to meet these performance standards and report the
12 performance results annually as part of its Annual Report to the Commission's Division
13 of Water and Audits as outlined in GO 103-A, Appendix E.

14 CWS tracks customer phone calls regarding billing and meter reading performance
15 standards, such as misapplied payments, scheduled appointments made and kept, misread
16 meters, and bills skipped or not mailed within 7 days.- CWS' annual report provides
17 company-wide reporting results for 2010 and 2011 that meet its annual performances
18 measures as required by GO 103-A and Appendix E.²²⁵

19 CWS states that the data for the GO 103-A compliance filing is from a variety of
20 sources: 1) the Company's Business Intelligence System; 2) CWS' Intertel phone system;
21 3) CWS' Revenue Management System (RMS); and 4) customer service surveys.²²⁶

22 Listed below is a summary of the Performance Standards General Order 103-A,²²⁷
23 Appendix E – Customer Service & Reporting Standards for Class A and B Water Utilities
24 requires:

²²⁵ CWS' response to DRA's data request ALC-001, question 7, Attachment C.

²²⁶ Ibid. response to question #5-a.

²²⁷ 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

- 1 1. Telephone – (a) percentage of calls reaching a utility representative
2 within 30 seconds must be greater than or equal to 80%; (b) percentage
3 of calls abandoned before reaching a utility representative must be less
4 than or equal to 5%.
- 5 2. Billing performance measure – (a) percentage of bills rendered within
6 seven days must be greater than or equal to 99%; (b) percentage of
7 inaccurate bills must be less than or equal to 3%; (c) percentage of
8 posting errors must be less than or equal to 1%.
- 9 3. Meter Reading – percentage of meter readings skipped per meter reading
10 schedule must be less than or equal to 3%.
- 11 4. Work completion – (a) percentage of scheduled appointments missed
12 must be less than or equal to 5%; (b) percentage of customer requested
13 work not completed on or before the scheduled date must be less than or
14 equal to 5%.
- 15 5. Response to Customer and Regulatory Complaints – percentage of
16 complaints reported annually to CAB per total number of customers
17 must be less than or equal to 0.1%.

18 DRA reviewed these performance measures²²⁸ as reported in CWS’ Annual
19 Reports for 2010 and 2011. See Attachment A for the tables showing the performance
20 measure results from CWS’ 2010 and 2011 Annual Report to the CPUC. DRA did
21 observe that for 2010 the reported percentage (79.9%) of Calls Answered in 30 Seconds
22 was slightly under the performance standard of > or = 80.0%. The reported percentage
23 (5.1%) of Call Abandonment Rate was slightly higher than the performance standard of <
24 or = 5.0%. In 2011 the percentage of Calls Answered in 30 Seconds improved to 85.7%,

and Wastewater Utilities, Appendix E – Customer Service and Reporting Standards for Class A and B Utilities.

²²⁸ California Water Service Company Annual Report for 2010 and 2011, Attachment D, Customer Service Performance Measures.

1 which meets the standard. However, Call Abandonment Rate of 5.3% was still above the
2 performance standard. Since CWS has met the standard for Calls Answered in 30
3 Seconds in 2011, DRA recommends the Call Abandonment standard should be monitored
4 and met going forward. CWS should report the Call Abandonment rate in the next GRC.

5 Reporting requirements for telephone performance standards are explained in GO-
6 103-A, Appendix E. To ensure that customer inquiries are responded to in a timely
7 manner, the standard of calls a utility representative answers within 30 seconds is set at
8 greater than or equal to 80%. This performance measure is deemed substantially out of
9 compliance if less than 60% of calls are answered within 30 seconds. This is a difference
10 of 20% for this measure. For the call abandonment rate, the performance standard is set at
11 less than or equal to 5%. However, no percentage was set for this measure to be
12 substantially out of compliance. If the 20% difference is applied to this measure then
13 anything greater than 6% would be considered out of compliance. So when a utility's call
14 abandonment rate is reported to be above 6%, the utility should be required to provide a
15 plan to DWA indicating how it will remedy the deficiency. Even though this out of
16 compliance standard is not written into the requirements of GO 103-A, DRA
17 recommends that CWS follow this standard requirement and develop a plan to remedy
18 the deficiency if CWS does exceed the 6% for call abandonment rate in the future.

19 DRA concludes that CWS has mostly met the customer service performance
20 standards company-wide for all service quality reporting areas as required by GO 103-A,
21 Appendix E, except for those mentioned above.

22 **7. CWS' Own Set of Key Performance Measurements**

23 CWS has its own set of Key Performance Measures regarding customer calls,
24 service call appointments, water quality incident investigations and calls after hours.²²⁹ In
25 response to a DRA data request question regarding these performance measurements and
26 results, CWS states: ²³⁰

²²⁹ CWS' response to DRA's data request ALC-001, question #7.

²³⁰ CWS' response to DRA's data request ALC-004, question #5-a.

1 “Prior to adoption of General Order 103-A, Cal Water implemented its own
2 set of Customer Service Performance Measures.
3 Cal Water still tracks its original Customer Service Performance Measures,
4 as well as the GO-103-A Customer Service and Reporting Standards. These
5 two sets of performance measures are slightly different. GO 103-A
6 reporting standards have only been in use for 2010 and 2011.”
7 CWS also states that they periodically monitor the Key Performance Measure

8 results, which are then discussed annually with each District Manager. Any
9 recommended improvements are incorporated into that district’s performance goals.²³¹

10 In addition, DRA inquired as to what approach CWS takes if a district does not
11 meet their performance goals, as seen in Bakersfield, Kern River Valley, Stockton,
12 Rancho Dominguez, and Redwood Valley districts. CWS states:²³²

13 “For Districts with poor marks, or a noted decrease in customer service, Cal
14 Water attempts to understand why there is an issue, and then takes steps to
15 resolve it. One solution, for example, may be to conduct an updated
16 efficiency study to determine if there are simple things that can be done to
17 improve service, such as staggering break and lunch times to allow more
18 continuous phone coverage at peak times. Another solution may be to
19 address staffing issues.

20
21 One difficult goal to achieve is the 1-hour water quality investigation goal.
22 While the three districts noted all had relative low scores in this category, it
23 is important to note that in a larger or geographically diverse district, it can
24 take nearly an hour to drive from one portion of the district to the other.”
25

26 DRA asked CWS to explain what steps they have taken, or may be instituted, to
27 resolve poor performance in certain districts that have not met their own Key
28 Performance Measurements for “Water quality incidents are investigated within one
29 hour.” CWS response for Bakersfield, Bear Gulch, Kern River Valley, Redwood Valley,
30 Rancho Dominguez (consolidate Dominguez, Hermosa-Redondo and Palos Verdes
31 districts’ records), and Stockton districts is listed below.²³³ The percent shown below for

²³¹ CWS’ response to DRA’s data request ALC-004, question #5-c.

²³² CWS’ response to DRA’s data request ALC-004, question #5-d.

²³³ CWS’ response to DRA’s data request ALC-005, question #1.

1 these districts represent the reported 2012 year-to-date percentage achieved for this
2 performance measurement for these CWS districts.

3 Bakersfield District – 32%; Stockton District – 66%

4 The primary reason why the Bakersfield District and the Stockton District did not
5 meet the goal of investigating water quality incidents within one hour is due to the
6 “Mobile Workforce” project. The Mobile Workforce project allows district field
7 personnel to enter information pertaining to FA’s (field appointments) and WO’s (work
8 orders) into their laptop while at a customer location. In districts with Mobile Workforce,
9 the completion time was recorded as meeting the one hour response time. Because the
10 report captures the completion time and not the arrival time, most FA’s and WO’s were
11 reported as not meeting the one hour timeframe. CWS has corrected this and now reports
12 the arrival time to capture a more accurate account of CWS meeting the one hour water
13 quality response measurement. CWS corrected the monthly percentages for 2012
14 resulting in an eleven month average of 82% for the Bakersfield District.²³⁴ The
15 corrected percentage for the Stockton District results in a year-to-date monthly average of
16 90%.

17 Bear Gulch District – 61%

18 CWS states that at the time they responded to DRA’s data request regarding Key
19 Performance Measurements, Bear Gulch District’s time report had not been audited and
20 contained errors including actual arrival time for appointments for second and third
21 quarters of 2012. When these appointments are removed from the report, the district met
22 the goal of 100%.²³⁵

23 Kern River Valley District – 65%

24 CWS states that once a work order is placed the clock starts and can often create a
25 timing issue in this small district. If a customer requests to meet the operator, and if it is

²³⁴ CWS’ response to DRA’s data request ALC-005, question #1a & f.

²³⁵ CWS’ response to DRA’s data request ALC-005, question #1-b.

1 towards the end of the day, the customer may ask to meet the next day. This situation
2 causes a “late arrival” to be reported. CWS also states they have been short staffed in
3 2012 due to an extended illness by an operator. Kern River Valley is an expansive
4 district, with services distributed over a large area. The long driving time makes it
5 impossible to respond within one-hour. CWS says this issue has been discussed internally
6 and they initiated alternate ways to meet the deadline. One alternative includes having a
7 meter reader in the area respond to assess the situation. Then after assessing the situation,
8 the first available operator should arrive. Or, if the operator is not immediately available,
9 a supervisor may come to the incident site until an operator is available.²³⁶

10 Redwood Valley District – 65%

11 CWS states that in the Redwood Valley District there are a few issues that
12 regularly impact the response times to investigate a water quality incident. These issues
13 are:

- 14 1. The actual time is not reflected due to weekend calls being entered on a
15 subsequent date.
- 16 2. From the farthest points in the Redwood Valley system, it takes
17 approximately 2 hours to drive from the Coast Springs system in
18 Guerneville to the Lucerne area.
- 19 3. The service areas served out of the district office in Guerneville have one
20 operator to cover five systems spread across a large area.
- 21 4. An agreed to later response time with a customer is not reflected when
22 the field order (“FO”) is issued and actual response time is entered.
- 23 5. The large number of Lucerne events in August and September of 2012
24 were because of an iron and manganese issue that required a change in
25 the treatment process, which was subsequently changed and the issue is
26 now resolved. The response times were long due to the availability of
27 one operator and the number of calls while performing other daily duties.
28 ²³⁷

²³⁶ CWS’ response to DRA’s data request ALC-005, question #1-c.

²³⁷ CWS’ response to DRA’s data request ALC-005, question #1-d.

1 Rancho Dominguez District – 35%

2 CWS consolidates Key Performance Measurement information for its Dominguez,
3 Hermosa-Redondo, and Palos Verdes districts under Rancho Dominguez. CWS states
4 that in many cases, the district was within an hour of meeting the standard. The
5 percentages in the Key Performance Measurements report for water quality incidents
6 investigated within one hour may be misleading for two reasons: 1) If a water quality
7 complaint call is received and the customer requests an appointment, CWS' recording
8 system does not take appointments into consideration and starts the clock ticking for the
9 one-hour response time as soon as the field order is created, and 2) The driving time
10 required for a district this size may restrict the field representatives from meeting the one-
11 hour standard.

12 DRA finds CWS' responses satisfactory for the above districts where the Key
13 Performance Measurements were not met.

14 See Attachment B for tables for each CWS districts' Key Performance
15 Measurements and Results for 2008 through third quarter of 2012.²³⁸ Antelope Valley
16 District does not have a central phone system so no call data is available. Also, this
17 district did not participate in any surveys nor was data available for performance
18 measures; thus, there is not a Key Performance Measurement and Results table in
19 Attachment B for Antelope Valley District.

20 **D. CONCLUSION**

21 DRA recommends that the Commission find CWS' customer service to be
22 satisfactory, except for Antelope Valley, Kern River Valley, and Redwood Valley
23 districts. However, DRA recommends that CWS find a cost-effective way to track
24 customer calls in Antelope Valley, Kern River Valley and Redwood Valley Districts in
25 order to better collect and record customer call information. This would allow CWS to

²³⁸ CWS' response to DRA's data request ALC-004, question #6.

1 better address customer complaints and concerns, and to continue customer service
2 improvements.

3 DRA also recommends that CWS find a way to track the category of each call in
4 all of its districts so that they will know the number of calls concerning billing, service
5 quality, disconnections, and other customer issues, so they will better address customer
6 complaints and concerns.

7 DRA further notes that CWS' website *www.calwater.com* provides customers with
8 on-line company and customer district information that is user-friendly and district
9 specific. The website also provides subject information, such as water quality reports for
10 each district, information on fluoridation and water contaminants, fact sheets on water
11 quality, rates, water conservation, and how to read your meter, to name a few.

12

CHAPTER 10, ATTACHMENT A

*Customer Service Performance Measures
for 2010 and 2011 as reported in
Attachment D of the CWS Annual Reports*

Annual Report of California Water Service Company to the California Public Utilities Commission

ATTACHMENT D

**CUSTOMER SERVICE PERFORMANCE MEASURES
YEAR 2010**

	Goal	Q1	Q2	Q3	Q4	Year to Date
PHONE SYSTEM						
Total Calls Received		183,184	186,976	211,141	182,387	763,688
# Calls Answered in 30 seconds		145,492	154,037	161,105	149,882	610,516
1(A) % Calls Answered in 30 seconds	> or = 80.0%	79.4%	82.4%	76.3%	82.2%	79.9%
# Calls Abandoned		8,903	8,644	12,800	8,473	38,820
1(B) Abandonment Rate	< or = 5.0%	4.9%	4.6%	6.1%	4.6%	5.1%
BILLING						
Total Bills Scheduled to Run		1528114	1527140	1527698	1490151	6,073,103
Total Bills Rendered		1528114	1527140	1527698	1490151	6,073,103
Bills Not Rendered in 7 days (10 for finals)		0	0	0	0	0
2(A) % Bills Rendered In 7 days	> or = 99.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Inaccurate Bills Rendered		11830	8574	8893	9775	39,072
2(B) % of Inaccurate Bills Rendered	< or = 3.0%	0.8%	0.6%	0.6%	0.7%	0.6%
PAYMENTS						
Total Payments Posted		1328168	1319688	1333089	1311351	5,292,296
Payment Posting Errors		29	29	26	37	121
2 (C) % of Payment Posting Errors	< or = 1.0%	0.00%	0.00%	0.00%	0.00%	0.00%
METER READING						
Total Number of Meter Reads Scheduled		1420583	1386707	1447224	1450909	5,705,423
Total Scheduled Reads Not Read		12351	9169	7261	8361	37,142
3(A) % Meters Not Read	< or = 3.0%	0.87%	0.66%	0.50%	0.58%	0.65%
WORK ORDER COMPLETION						
Total Work Orders Scheduled		45,228	50,508	52,880	45,552	194,168
# Scheduled Orders Missed		1,352	1,622	1,525	1,696	6,195
4(A) % of Scheduled Appointments Missed	< or = 5.0%	2.99%	3.21%	2.88%	3.72%	3.19%
Total Customer Requested Work Orders		3,462	4,030	3,750	2,878	14,120
# Customer Requested Scheduled Orders Missed		314	289	302	213	1,118
4(B) % Customer Requested Scheduled Orders Missed	< or = 5.0%	0.7%	0.6%	0.6%	0.5%	0.6%
CAB COMPLAINTS						
Total # of Connections/Customers		458762	460321	461295	482006	460828
# of Complaints to Utility from CAB		12	10	23	12	57
5(A) % of Complaints to Utility from CAB	< or = 0.10%	0.00%	0.00%	0.00%	0.00%	0.01%

CHAPTER 10, ATTACHMENT B

*CWS' Key Performance Measurements and Results
for 2008 through Third Quarter 2012
(CWS' Response to DRA's Data Request ALC-004,
Question #6)*



**Bayshore
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	97%		99%		98%	100%	99%	98%	100%
Service call appointments are met within two hours	100%	96%	95%	98%		96%	99%	100%	100%	100%
Water quality incidents are investigated within one hour	100%	100%	None reported	67%		84%	100%	100%	98%	91%
After hours emergency call outs on site within one hour	100%	100%	96%	83%		93%	86%	87%	93%	96%
Telephone calls are answered within 20 seconds	80%	94%	93%	92%		93%	89.6%	88.5%	84.3%	76.7%
Overall Customer Satisfaction Survey results	100%							92%		91%
Aged A/R current	85%	89%	96%	93%		93%	91.9%	92.0%	91.7%	89.12%
eBilling customer's enrolled	20%	16%	17%	17%		16%	15.4%	13.2%	10.2%	8.2%



**Bakersfield
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	None reported		None reported		#DIV/0!	92%	93%	94%	98%
Service call appointments are met within two hours	100%	86%	90%	87%		88%	86%	83%	80%	82%
Water quality incidents are investigated within one hour	100%	30%	33%	32%		32%	63%	77%	33%	36%
After hours emergency call outs on site within one hour	100%	83%	86%	89%		86%	89%	94%	89%	100%
Telephone calls are answered within 20 seconds	80%	89%	87%	83%		86%	77.0%	61.8%	38.3%	37.4%
Overall Customer Satisfaction Survey results	100%							91%		78%
Aged A/R current	85%	82%	87%	86%		85%	81.1%	77.7%	75.7%	69.65%
eBilling customer's enrolled	20%	20%	20%	21%		20%	19.3%	17.0%	13.3%	11.3%



**Bear Gulch
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	95%		99%		97%	100%	92%	98%	99%
Service call appointments are met within two hours	100%	99%	99%	98%		99%	100%	100%	100%	100%
Water quality incidents are investigated within one hour	100%	100%	100%	100%		100%	74%	100%	100%	100%
After hours emergency call outs on site within one hour	100%	100%	100%	None reported		100%	100%	100%	100%	100%
Telephone calls are answered within 20 seconds	80%	98%	98%	98%		98%	97.9%	97.3%	96.5%	96.8%
Overall Customer Satisfaction Survey results	100%							93%		97%
Aged A/R current	85%	87%	95%	94%		92%	89.4%	88.2%	92.4%	92.10%
eBilling customer's enrolled	20%	17%	18%	18%		17%	16.7%	14.0%	13.1%	7.7%



**Chico
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		100%		100%	100%	97%	99%	99%
Service call appointments are met within two hours	100%	99%	99%	99%		99%	99%	100%	97%	97%
Water quality incidents are investigated within one hour	100%	100%	84%	100%		95%	92%	100%	93%	94%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	100%	99%	99%
Telephone calls are answered within 20 seconds	80%	91%	91%	82%		88%	87.7%	85.5%	80.8%	68.3%
Overall Customer Satisfaction Survey results	100%							94%		91%
Aged A/R current	85%	92%	94%	93%		93%	90.5%	92.0%	91.6%	90.38%
eBilling customer's enrolled	20%	17%	18%	18%		17%	16.8%	14.8%	11.8%	9.9%



**Dixon
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		100%		100%	100%	97%	100%	97%
Service call appointments are met within two hours	100%	100%	None reported	None reported		100%	100%	83%	65%	97%
Water quality incidents are investigated within one hour	100%	None reported	100%	100%		100%	100%	100%	100%	94%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	93.0%	100%	100%
Telephone calls are answered within 20 seconds	80%	99%	98%	99%		98%	97.7%			
Overall Customer Satisfaction Survey results	100%							100%		75%
Aged A/R current	85%	86%	92%	59%		79%	79.3%	85.1%	85.0%	82.45%
eBilling customer's enrolled	20%	16%	16%	16%		16%	16.9%	14.5%	11.9%	9.0%



**East Los Angeles
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	90%		96%		93%	94%	95%	99%	98%
Service call appointments are met within two hours	100%	88%	86%	83%		86%	89%	90%	91%	91%
Water quality incidents are investigated within one hour	100%	100%	44%	100%		81%	83%	89%	90%	93%
After hours emergency call outs on site within one hour	100%	92%	93%	89%		91%	96%	89%	92%	97%
Telephone calls are answered within 20 seconds	80%	100%	99%	99%		99%	98.8%	98.3%	98.4%	98.6%
Overall Customer Satisfaction Survey results	100%							86%		93%
Aged A/R current	85%	89%	91%	91%		90%	89.4%	92.7%	93.6%	90.74%
eBilling customer's enrolled	20%	10%	11%	11%		10%	9.9%	8.5%	6.3%	4.9%



**Kern River Valley
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		None reported		100%	99%	91%	88%	100%
Service call appointments are met within two hours	100%	88%	90%	92%		90%	88%	91%	94%	89%
Water quality incidents are investigated within one hour	100%	84%	44%	66%		65%	61%	39%	52%	79%
After hours emergency call outs on site within one hour	100%	100%	96%	97%		98%	100%	98.3%	100%	99%
Telephone calls are answered within 20 seconds	80%	Technology not available on curent phone system								
Overall Customer Satisfaction Survey results	100%							50%		77%
Aged A/R current	85%	76%	82%	76%		78%	78.0%	79.6%	80.5%	76.75%
eBilling customer's enrolled	20%	18%	18%	19%		18%	17.5%	15.1%	13.7%	8.4%



**King City
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	97%		None reported		97%	98%	99%	94%	100%
Service call appointments are met within two hours	100%	None reported	0%	83%		42%	100%	100%	78%	8%
Water quality incidents are investigated within one hour	100%	None reported	None reported	None reported		#DIV/0!	100%	100%	84%	79%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	97%	100%	100%
Telephone calls are answered within 20 seconds	80%	87%	87%	86%		87%	86.8%	86.2%	86.3%	81.1%
Overall Customer Satisfaction Survey results	100%							0%		100%
Aged A/R current	85%	85%	89%	83%		86%	84.4%	84.2%	77.4%	77.06%
eBilling customer's enrolled	20%	9%	10%	10%		9%	9.3%	8.0%	6.4%	5.2%



**Los Altos
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		100%		100%	100%	100%	100%	99%
Service call appointments are met within two hours	100%	93%	98%	100%		97%	99%	100%	99%	100%
Water quality incidents are investigated within one hour	100%	88%	77%	67%		77%	97%	97%	99%	97%
After hours emergency call outs on site within one hour	100%	None reported	100%	100%		100%	100%	99%	100%	100%
Telephone calls are answered within 20 seconds	80%	97%	97%	98%		98%	97.5%	96.8%	97.0%	96.3%
Overall Customer Satisfaction Survey results	100%							83%		91%
Aged A/R current	85%	96%	98%	97%		97%	95.3%	95.5%	95.8%	95.54%
eBilling customer's enrolled	20%	18%	19%	19%		18%	17.6%	14.8%	11.1%	8.4%



**Livermore
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	99%		100%		100%	99%	100%	99%	99%
Service call appointments are met within two hours	100%	100%	96%	95%		97%	97%	97%	97%	98%
Water quality incidents are investigated within one hour	100%	92%	100%	91%		94%	90%	91%	94%	95%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	97%	71%	79%	90%
Telephone calls are answered within 20 seconds	80%	100%	100%	100%		100%	99.7%	99.7%	99.7%	99.8%
Overall Customer Satisfaction Survey results	100%							67%		88%
Aged A/R current	85%	91%	95%	95%		94%	91.2%	91.9%	91.9%	91.53%
eBilling customer's enrolled	20%	18%	19%	20%		18%	17.8%	15.7%	12.5%	9.8%



**Marysville
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		100%		100%	100%	100%	100%	100%
Service call appointments are met within two hours	100%	None reported	None reported	100%		None reported	None reported	None reported	100%	100%
Water quality incidents are investigated within one hour	100%	100%	None reported	None reported		100%	100%	100%	97%	100%
After hours emergency call outs on site within one hour	100%	None reported	None reported	None reported		#DIV/0!	100%	100%	100%	100%
Telephone calls are answered within 20 seconds	80%	98%	97%	98%		98%	97%			
Overall Customer Satisfaction Survey results	100%							86%		100%
Aged A/R current	85%	85%	87%	88%		87%	85%	85.6%	86.1%	85.03%
eBilling customer's enrolled	20%	12%	13%	13%		12%	11%	11.1%	9.2%	11.7%



**Oroville
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		100%		100%	100%	100%	100%	100%
Service call appointments are met within two hours	100%	100%	100%	95%		98%	96%	100%	100%	100%
Water quality incidents are investigated within one hour	100%	100%	100%	100%		100%	96%	100%	100%	100%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	100%	100%	100%
Telephone calls are answered within 20 seconds	80%	100%	99%	99%		99%	98.7%	98.7%	98.7%	98.2%
Overall Customer Satisfaction Survey results	100%							90%		100%
Aged A/R current	85%	83%	89%	91%		88%	83.2%	84.3%	83.2%	79.80%
eBilling customer's enrolled	20%	8%	8%	9%		8%	8.4%	7.9%	6.3%	5.3%



**Redwood Valley
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		100%		100%	100%	100%	100%	100%
Service call appointments are met within two hours	100%	50%	100%	100%		83%	99%	98%	95%	99%
Water quality incidents are investigated within one hour	100%	84%	50%	60%		65%	81%	67%	90%	89%
After hours emergency call outs on site within one hour	100%	100%	95%	100%		98%	97%	94%	100%	100%
Telephone calls are answered within 20 seconds	80%	Technology not available on curent phone system								
Overall Customer Satisfaction Survey results	100%							67%		100%
Aged A/R current	85%	76%	80%	77%		78%	74.2%	76.1%	76.4%	73.20%
eBilling customer's enrolled	20%	12%	12%	12%		12%	11.1%	10.2%	7.9%	6.9%



**Rancho Dominguez
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	98%		97%		98%	99%	99%	95%	97%
Service call appointments are met within two hours	100%	95%	91%	89%		92%	93%	95%	93%	92%
Water quality incidents are investigated within one hour	100%	50%	20%	34%		35%	73%	70%	69%	63%
After hours emergency call outs on site within one hour	100%	96%	94%	92%		94%	96%	94%	97%	95%
Telephone calls are answered within 20 seconds	80%	75%	83%	83%		80%	76.9%	68.5%	70.1%	73.4%
Overall Customer Satisfaction Survey results	100%							81%		80%
Aged A/R current	85%	92%	93%	93%		93%	91.9%	92.0%	91.5%	89.18%
eBilling customer's enrolled	20%	17%	18%	18%		17%	16.7%	14.4%	11.0%	8.6%



**Selma
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	99%		100%		100%	100%	100%	100%	100%
Service call appointments are met within two hours	100%	None reported	100%	None reported		100%	100%	100%	100%	100%
Water quality incidents are investigated within one hour	100%	None reported	None reported	100%			100%	100%	None reported	100%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	100%	100%	100%
Telephone calls are answered within 20 seconds	80%	93%	95%	93%		94%	95%	97%	96.6%	96.0%
Overall Customer Satisfaction Survey results	100%							100%		100%
Aged A/R current	85%	85%	89%	88%		87%	84.7%	84.7%	84.8%	82.41%
eBilling customer's enrolled	20%	11%	11%	11%		11%	10.5%	9.1%	7.1%	6.1%



**Salinas
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	96%		99%		98%	98%	98%	99%	99%
Service call appointments are met within two hours	100%	93%	93%	91%		92%	97%	99%	100%	100%
Water quality incidents are investigated within one hour	100%	84%	100%	57%		80%	100%	100%	99%	99%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	100%	98%	98%
Telephone calls are answered within 20 seconds	80%	85%	86%	84%		85%	85.8%	87.1%	73.4%	80.3%
Overall Customer Satisfaction Survey results	100%							89%		94%
Aged A/R current	85%	87%	90%	89%		89%	87.7%	89.2%	85.4%	84.32%
eBilling customer's enrolled	20%	14%	14%	15%		14%	13.6%	12.1%	9.3%	7.7%



**Stockton
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	93%		94%		94%	94%	92%	92%	95%
Service call appointments are met within two hours	100%	89%	87%	90%		89%	80%	69%	68%	63%
Water quality incidents are investigated within one hour	100%	86%	85%	96%	92%	90%	72%	79%	62%	4%
After hours emergency call outs on site within one hour	100%	100%	100%	99%		100%	100%	96%	84%	93%
Telephone calls are answered within 20 seconds	80%	76%	88%	77%		80%	71.8%	73.1%	41.9%	42.4%
Overall Customer Satisfaction Survey results	100%							83%		69%
Aged A/R current	85%	80%	89%	80%		83%	80.4%	79.3%	75.5%	77.84%
eBilling customer's enrolled	20%	15%	16%	16%		15%	14.9%	13.4%	11.0%	9.1%



**Visalia
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	98%		98%		98%	96%	96%	96%	98%
Service call appointments are met within two hours	100%	94%	91%	93%		93%	96%	98%	92%	92%
Water quality incidents are investigated within one hour	100%	85%	98%	95%		93%	95%	94%	87%	89%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	100%	100%	100%
Telephone calls are answered within 20 seconds	80%	90%	89%	82%		87%	81.7%	75.0%	49.6%	53.4%
Overall Customer Satisfaction Survey results	100%							88%		75%
Aged A/R current	85%	90%	94%	85%		90%	88.0%	89.0%	87.5%	86.19%
eBilling customer's enrolled	20%	21%	21%	22%		21%	20.3%	18.1%	14.5%	12.5%



**Willows
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		100%		100%	100%	100%	100%	100%
Service call appointments are met within two hours	100%	100%	84%	95%		93%	94%	100%	100%	92%
Water quality incidents are investigated within one hour	100%	100%	100%	100%		100%	100%	100%	100%	100%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	100%	100%	95%
Telephone calls are answered within 20 seconds	80%	100%	99%	99%		99%	98.5%	98.5%	98.4%	99.0%
Overall Customer Satisfaction Survey results	100%							90%		100%
Aged A/R current	85%	86%	89%	83%		86%	85.8%	87.3%	88.0%	86.07%
eBilling customer's enrolled	20%	10%	11%	12%		10%	10.0%	9.1%	7.5%	6.5%



**Westlake
Key Performance Measurements and Results
2012**

Measurement	Goal	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	YTD	2011	2010	2009	2008
Customer inquiries are handled satisfactorily by the first person	100%	100%		100%		100%	100%	100%	100%	100%
Service call appointments are met within two hours	100%	100%	100%	75%		92%	100%	100%	100%	100%
Water quality incidents are investigated within one hour	100%	100%	100%	100%		100%	100%	100%	100%	100%
After hours emergency call outs on site within one hour	100%	100%	100%	100%		100%	100%	100%	99%	100%
Telephone calls are answered within 20 seconds	80%	100%	99%	100%		99%	99.5%	99.6%	99.4%	99.8%
Overall Customer Satisfaction Survey results	100%							100%		100%
Aged A/R current	85%	95%	97%	96%		96%	94.6%	95.5%	95.8%	92.63%
eBilling customer's enrolled	20%	14%	14%	15%		14%	13.6%	11.9%	9.0%	7.5%

]

1 **C. DISCUSSION**

2 DRA does not object to meeting with CWS and other parties in this proceeding to
3 jointly develop accurate tariff and rates in order to reflect the rate design determined
4 during the main phase of this GRC. DRA wants to limit the joint effort to the non-policy
5 and non-substantive issues in rate design, which will still be addressed in the main phase
6 of this proceeding.

7 During the prehearing conference on October 29, 2012, CWS notified the ALJ
8 presiding in this proceeding of this request. On December 3, 2012, the ALJ issued the
9 scoping memo indicating that when the Proposed Decision is issued, it will resolve all
10 contentious issues but will not include rates and tariffs. The parties will jointly propose
11 rates and tariffs consistent with the Proposed Decision in their comments on the Proposed
12 Decision. A footnote in the scoping memo also noted that this process follows similar
13 requests in CWS' 2009 General Rate Case.

14 **D. CONCLUSION**

15 DRA does not believe the Commission needs to take any action on this special
16 request at this time. DRA does not object to working with CWS and other parties to
17 work on the non-substantive issues like rate design once the Proposed Decision is
18 released to ensure that the rates and tariffs are developed accurately, as stated in the
19 Assigned Commissioner and Administrative Law Judge's Scoping Memo and Ruling,
20 dated December 3, 2012.

1 **B. SUMMARY OF RECOMMENDATIONS**

2 DRA agrees with CWS that the Commission should allow CWS to include the
3 results of other proceedings and the subsequent offsettable expenses that will be resolved
4 before the new rates of this proceeding become effective in January 1, 2014. DRA
5 believes doing so would reduce customer confusion, reduce workload on both
6 Commission and CWS staff, and streamline the regulatory process. However, DRA is
7 concerned the inclusion of other proceedings and offsettable expenses could potentially
8 lead to the perception of higher revenue requirement than what CWS has requested in its
9 original filing. DRA recommends CWS to notify its customers explaining the resulting
10 increase and the reason for the increase after the Commission’s final decision as a
11 condition for the approval of both requests.

12 **C. DISCUSSION**

13 Currently, there are several CWS proceedings that are pending before the
14 Commission, which can be resolved before the new rates of the current proceeding
15 A.12-07-007 takes into effect in January 1, 2014. These proceedings are: 1) a cost-of-
16 capital (A.11-05-001) that will establish CWS’ cost of capital for 2012-2014; 2) a
17 proceeding addressing CWS’ non-tariffed services for a third party, HomeServe USA
18 (A.08-05-019); 3) CWS’ request to modify the surcharges and surcharge recovery
19 mechanism associated with its Low-Income Ratepayer Assistance (“LIRA”) program
20 (A.05-10-035); and 4) CWS’ request for an offset rate increase for the construction of
21 remodeled and expanded General Office facilities (A. 12-06-016). Under the
22 Commission’s Rules, the normal procedure to implement a Commission’s decision into a
23 water utility’s tariff outside of a General Rate Case is to file an advice letter with the
24 Division of Water and Audits. This process requires Commission staff to spend time and
25 resources reviewing the advice letter. In certain situations in which the advice letter
26 impacts the rate, ratepayers may see multiple rate changes in their utility bills depending
27 on the timing of the GRC and advice letter filings. For example, On July 12, 2012, the
28 Commission issued its decision, D.12-07-009, approving a settlement establishing cost of

1 capital (debt and equity), capital structures and rates of return for the period 2011 -
2 2014 for CWS and three other Class A Water companies. The decision provided CWS a
3 new cost of equity of 9.99% and a new rate of return of 8.24%. If CWS were to file an
4 advice letter to implement this new cost of capital, it is likely that CWS ratepayers will
5 see the change in rates as a result of the current GRC proceeding and subsequently see
6 another rate change that reflects the new ROR. Similarly, CWS would be required to file
7 an advice letter in order to amortize offsetable expense such as water production expense
8 outside of a general rate case. Again, CWS customers may see multiple rate increases
9 due to the results of the current rate case as well as the results from the subsequent
10 offsetable expenses. Both instances could lead to customer confusion and an increased
11 number of customer complaints. It is possible that both IOUs and the Commission would
12 have to spend additional resources to answer questions and mediate customer complaint
13 issues whenever there are consecutive rate changes in a short period of time. Some of the
14 additional costs could pass on to customers in the form of higher rate and customer
15 service quality may also be adversely impacted.

16 CWS' request to reflect the outcomes of other proceedings and other offsetable
17 expenses into the current GRC proceeding is consistent with Commission's goal of
18 streamlining the regulatory process, improving customer service and saving both CWS
19 and Commission staff's time and resources. As such, DRA agrees with CWS that the
20 final decision should reflect the outcomes of other open proceedings and offsetable
21 expenses to the extent they have been resolved and updated.

22 The inclusion of other open proceedings and other offsetable expenses could
23 present an unintended consequence into this GRC proceeding. DRA is concerned that the
24 final revenue requirement may exceed the one CWS requested in its filing when the
25 outcome of other proceedings is included. This may lead to the appearance, or customer
26 perception that the adopted rates reflected in the final decision in the GRC appear to
27 exceed those originally CWS requested in its original GRC application. Should this
28 occur, DRA recommends that the Commission require CWS to notice its customers as a
29 condition for granting CWS' request. The notice shall describe the outcome of the

1 general rate case by following the requirements stated in the "Huff Bill" that was recently
2 passed by the legislature. The "Huff Bill" requires utilities to provide the estimated rate
3 impacts on various customer classes in either a separate letter or through a bill insert.
4 The notice is required to be provided to customers within 60 days of the Commission's
5 final decision and include the approved rates and the approved capital projects that will
6 be subsequently executed by way of an advice letter. Finally, the notice should also
7 provide the primary reasons for the approved rates and the reasons for any rate that is
8 higher than what CWS requested in its GRC.

9 **D. CONCLUSION**

10 DRA recommends the Commission to include the results of other proceedings as
11 well as the offsettable expenses in its final decision before the new rates of this
12 proceeding become effective in January 1, 2014. CWS, however, needs to notify its
13 customers and explain the final approved rate increase as a condition for the approval.

14

1 **CHAPTER 13: SPECIAL REQUEST #3 - RATE DESIGN PILOT**

2 **A. INTRODUCTION**

3 In Special Request #3, California Water Service (“CWS”) requests continuation of
4 the current Conservation Rate Design Pilot, which includes tiered rates for residential
5 customers, single-tariff rates for non-residential customers, a full Water Revenue
6 Adjustment Mechanism (“WRAM”), and a Modified Cost Balancing Account
7 (“MCBA”). The Conservation Rate Design Pilot was established in a settlement between
8 CWS, the Division of Ratepayer Advocates (“DRA”), and The Utility Reform Network
9 (“TURN”) and approved in Commission Decision (“D.”) 08-02-036. The preliminary
10 scoping memo for the Order Instituting Investigation (“OII”) which led to D.08-02-036
11 had noticed parties that the Commission “would implement increasing block rates for
12 residential customers and WRAMs by advice letter or subsequent decision after issuing a
13 decision on the broad policy issues.”²⁴¹

14 In addition to adopting inclining block or tiered rates for residential customers, the
15 settlement agreement generally reduced the percentage of fixed costs recovered through
16 service charges and implemented full revenue decoupling WRAMs and MCBAs for all
17 CWS districts and most customer classes. The WRAMs allow Cal Water to record the
18 difference between actual and adopted quantity charge revenues while MCBAs record the
19 difference between actual and adopted variable costs. The stated goal for decoupling was
20 “to sever the relationship between sales and revenue to remove the disincentive to
21 implement conservation rates and conservation programs, to ensure cost savings are
22 passed on to ratepayers, and to reduce overall water consumption.”²⁴²

23 **B. SUMMARY OF RECOMMENDATIONS**

24 The WRAM and MCBA pilot decoupling mechanisms should be continued with
25 additional clarification provided on which items are appropriate to include in the

²⁴¹ D.08-02-036, p.6.

²⁴² *id.*, p.25-26.

1 calculation of balances. In particular, the calculation of WRAM/MCBA amounts should
2 exclude non-revenue water, be adjusted to reflect the actual pace of meter conversions,
3 and reflect the revenue that is anticipated under any “phase-in” program.

4 In addition to authorizing the continuation of the pilot project’s decoupling
5 mechanisms, the Commission should also preserve the options identified in Decision 12-
6 04-048 for consideration as greater experience with both full revenue decoupling and
7 other pilot adjustments mechanisms is attained.

8 Recommendations pertaining to other aspects of CWS’ conservation rate design
9 pilot project are addressed separately within DRA’s report.²⁴³

10 **C. DISCUSSION**

11 **Necessary Clarification in WRAM/MCBA Calculations**

12 The adopted settlement in CWS’ previous general rate case refined the process of
13 calculating WRAM and MCBA balances in order to avoid “illogical entries into the
14 WRAM balancing account.”²⁴⁴ In particular, the ongoing CWS project to convert flat-
15 rate customers to metered services had the potential for WRAM balances to be
16 undeservedly affected by a delay or acceleration in CWS’ meter conversion project.
17 Prior to establishing the current adjustment process, if a delay occurred in converting
18 customers to metered rates, the lower-than-forecast metered consumption that resulted
19 from being unable to meter usage might have been erroneously recorded as reduced
20 consumption within the WRAM.

21 A similar countermanding condition with the stated purpose of decoupling which
22 now requires correction is the inclusion of unaccounted-for or non-revenue-water within
23 the WRAM/MCBA calculation. Reducing the amount of system loss and unbilled usage
24 (i.e. non-revenue-water) can have a significant impact on total system demand. However,
25 by including non-revenue-water within the calculations, the dollar amount to be
26 recovered by CWS actually grows as more water is lost throughout the system. This

²⁴³ See DRA Testimony (Atwal/Hoglund) for rate design and (Worster/Tully) on conservation.

²⁴⁴ D.10-12-017, Attachment C.

1 condition is clearly at odds with decoupling’s stated purpose of promoting conservation.
2 The relevance of non-revenue-water targets (forecasts) in creating financial incentive to
3 control water loss must be restored by removing actual non-revenue water amounts from
4 total water production when calculating MCBA balances.

5 Another necessary adjustment in WRAM/MCBA calculations emanates from
6 recognition that calculated revenue requirements for test and escalation years may differ
7 from the revenue requirements that result from a “phase-in” of rates.²⁴⁵ When calculating
8 the difference between adopted and actual quantity-rate revenue, which is the basis for
9 WRAM calculations, using the revenue associated with actual “phased-in” rates will
10 result in more accurate and smaller WRAM balances than if using revenue requirements
11 that do not reflect the actual rates of an authorized phase-in program.

12 The three preceding refinements in the operation of CWS’ WRAM/MCBA
13 mechanisms demonstrate that decoupling and rate adjustment programs for the
14 Commission’s water utilities continue to evolve and will likely require further
15 modification as additional information on their operation, purpose, and consistency with
16 Commission water policy is attained. This understanding supports both the continuation
17 of decoupling for CWS as a “pilot program” and preservation of the five alternatives
18 identified in Decision 12-04-048.

19 **The Five Alternatives to CWS’ Current Decoupling Program**

20 Commission Decision 12-04-048 ordered applicants, including CWS, in
21 subsequent general rate cases to provide testimony to address five possible alternatives to
22 the current operation of full revenue decoupling programs. The five options identified in
23 D.12-04-048 are generally:

- 24 (1) Adopt a “Monterey-style” adjustment mechanism
- 25 (2) Place bands or limits upon recoverable amounts
- 26 (3) Increase surcharge on higher-usage customers
- 27 (4) Eliminate the WRAM/MCBA mechanism
- 28 (5) Adopt tiered-rates for all customer classes

²⁴⁵ See DRA Testimony (Atwal/Hoglund) for discussion of CWS’ proposed phase-in of rates.

1 CWS’ testimony rejects the above five options, criticizes the Commission’s
2 “misguided efforts to end full decoupling,”²⁴⁶ and offers a sixth option (Special Request
3 #3) that would allow CWS greater ability to adjust customer rates between general rate
4 cases.

5 Based upon the continuing necessity for refinement of WRAM/MCBA
6 calculations, the limited period for which these mechanisms have been operating, and the
7 lack of adequate understanding regarding the environment in which the mechanisms
8 operate within the water industry, the Commission should not abandon CWS’ current
9 pilot project but neither should the Commission too readily dismiss the alternatives that
10 were identified in D.12-04-048. The Commission should reaffirm both the pilot project
11 status of CWS’ decoupling program and the requirement to consider alternatives to
12 decoupling in future GRCs.

13 A good example of the general lack of understanding for the environment in which
14 full-decoupling mechanisms operate can be found by comparing different portions of
15 CWS’ testimony. In recommending against adopting any of the above five options and in
16 providing support for its sixth option, CWS arrives at the conclusion that there has been a
17 sustained reduction in consumption that “implies some level of permanent shift in water
18 demand.”²⁴⁷ However, in support of its request for continuing conservation spending,
19 separate CWS’ testimony concludes that historical consumption trends “suggest the
20 recent trend may be temporary rather than permanent and per service use is likely to
21 rebound over time.”²⁴⁸

22 In dismissing the option of replacing full decoupling with a Monterey-style
23 WRAM (“M-WRAM”)²⁴⁹, CWS concludes that under an M-WRAM “customers and Cal

²⁴⁶ Prepared Testimony of David Morse (“Morse”), pg. 4.

²⁴⁷ CWS: Morse, pg. 3.

²⁴⁸ CWS: Conservation Program Recommendations and Budgets, pg. 8.

²⁴⁹ M-WRAM does not track revenue loss due to any reduction in consumption, but rather recovers the difference in revenue under standard and conservation-oriented tiered rates.

1 Water are at risk for variables out of the control of Cal Water.”²⁵⁰ However, full
2 decoupling reduces the risk for variables well within the control of CWS, including
3 energy-efficient operation and the control of system losses (the latter remedied by
4 excluding non-revenue water from the calculation per DRA’s above recommendation).
5 Furthermore, many of the risks identified as being outside the control of CWS, “including
6 weather, price elasticity, and economic effects”²⁵¹ are the same risks faced by water
7 utilities without full revenue decoupling, who must exercise more disciplined multi-year
8 budgetary planning as a result.

9 CWS also purports that some of the rate tools that the Commission supports to
10 encourage conservation “will not work correctly or provide the proper incentives unless a
11 WRAM/MCBA is in place.”²⁵² This statement unfortunately ignores the conservation
12 success of other water utilities under the Commission’s jurisdiction that have experienced
13 significant reductions in consumption without WRAM/MCBA mechanisms in place.²⁵³
14 CWS’ statement also ignores the vast majority of water utilities outside of Commission
15 jurisdiction that must maintain budgets and capital programs without the revenue
16 protection of decoupling. Furthermore, since WRAM/MCBA mechanisms lack the
17 sophistication to separate general economic effects from conservation effects, it should be
18 remembered that at least some of the causes of lower utility revenues are also likely
19 causing utility customers to experience lower personal revenues.

20 Ultimately, CWS’ testimony on decoupling determines that “there is not a problem
21 with the WRAM/MCBA, it works, and it is symmetrical.”²⁵⁴ However, as identified
22 above, distinct and correctable problems with the WRAM/MCBA mechanisms do exist.
23 As problems continue to be identified or Commission policy continues to evolve,

²⁵⁰ CWS: Morse, pg. 9.

²⁵¹ *ibid*

²⁵² *ibid*

²⁵³ Although currently requesting a WRAM/MCBA mechanism in A.12-01-003, San Jose Water Company has experienced near 20% reductions in residential consumption without decoupling.

²⁵⁴ CWS: Morse, pg. 21.

1 additional modification to the operation of decoupling mechanisms should be reviewed.
2 At the present time and as evidenced by both the testimony of DRA and CWS,
3 insufficient information and less-than-adequate alignment with regulation's higher
4 purpose of ensuring reasonableness prevent either wholesale adoption or rejection of
5 CWS' current decoupling programs. Rather, the currently identified and necessary
6 modifications to CWS' decoupling mechanisms should be made with future results from
7 the pilot program continuing to be monitored, analyzed, and compared with other rate
8 adjustment mechanisms.

9 **D. CONCLUSION**

10 Based upon the limited understanding of the impacts from and environment in
11 which decoupling mechanisms operate for water utilities, CWS' WRAM/MCBA should
12 be only authorized to continue under its current "pilot program" status. Results from
13 ongoing operation of this pilot program should continue to be reviewed in the context of
14 overall Commission policy. The alternatives to the current operation of CWS'
15 WRAM/MCBA mechanisms that were identified in D.12-04-048 should continue to be
16 available for Commission consideration. The problems with the operation of CWS'
17 existing decoupling mechanisms that DRA has identified in this chapter should be
18 rectified consistent with DRA's recommendations.

1 part of the general rate case process. As the inputs that form the basis for the escalation-
2 year’s calculation of sales have been previously reviewed and authorized by Commission
3 decision, the annual escalation filings by Class A water utilities are typically designated
4 as Tier I, which require no additional customer notice and permit rate changes to become
5 effective pending disposition.²⁵⁷

6 The proposed SRM would incorporate “sales reconciliation into the Commission’s
7 process for escalation increases” and eliminate “the need for an additional informal
8 filing.”²⁵⁸ However, unlike the current escalation year filing where many of the inputs to
9 the calculation have been known and reviewed, the SRM would allow untested
10 assumptions and calculations to immediately impact customer rates through the same
11 automatic and ministerial process.

12 The conflict with the existing RCP that would arise if the Commission were to
13 approve the requested SRM was explored by CWS and DRA during the discovery
14 process. In DRA Data Request RRA-001-001,²⁵⁹ CWS acknowledged that this special
15 request “represents a deviation from the provisions of the 2007 rate case plan” and noted
16 that a petition to modify the rate case plan would be considered if the Commission
17 declines to consider this proposal in Cal Water’s rate case.

18 Although re-examination of the RCP’s directives with which “all Class A Water
19 Utilities shall comply”²⁶⁰ would more appropriately proceed in a forum other than an
20 individual utility’s general rate case, an adherence to rigid regulatory orthodoxy should
21 not be the sole reason for the Commission denying CWS’ Special Request #4 at this time.

22 **2. The Commission should require greater utility accountability**
23 **for customer rate changes – not less.**

24 A common complaint amongst California’s non-investor-owned public water
25 utilities is the difficulty that can be experienced when attempting to increase customer

²⁵⁷ Water Industry Rule 7.3, Commission General Order 96-B.

²⁵⁸ Direct Testimony of Thomas F. Smegal, page 5.

²⁵⁹ See Chapter 14, Attachment B: *DRA Data Request RRA-001*.

²⁶⁰ D.07-05-062, Ordering Paragraph No. 4.

1 water rates. With voter passage of California Proposition 218, municipal water utilities
2 have had to face the prospect of a simple majority of customers protesting and therefore
3 blocking increases in water rates.²⁶¹ However, for California’s investor-owned utilities,
4 the regulatory process that has evolved in the last several decades appears to have created
5 an equally—if not more—troubling situation where customer rates can too easily be
6 automatically adjusted with little notice or accountability.

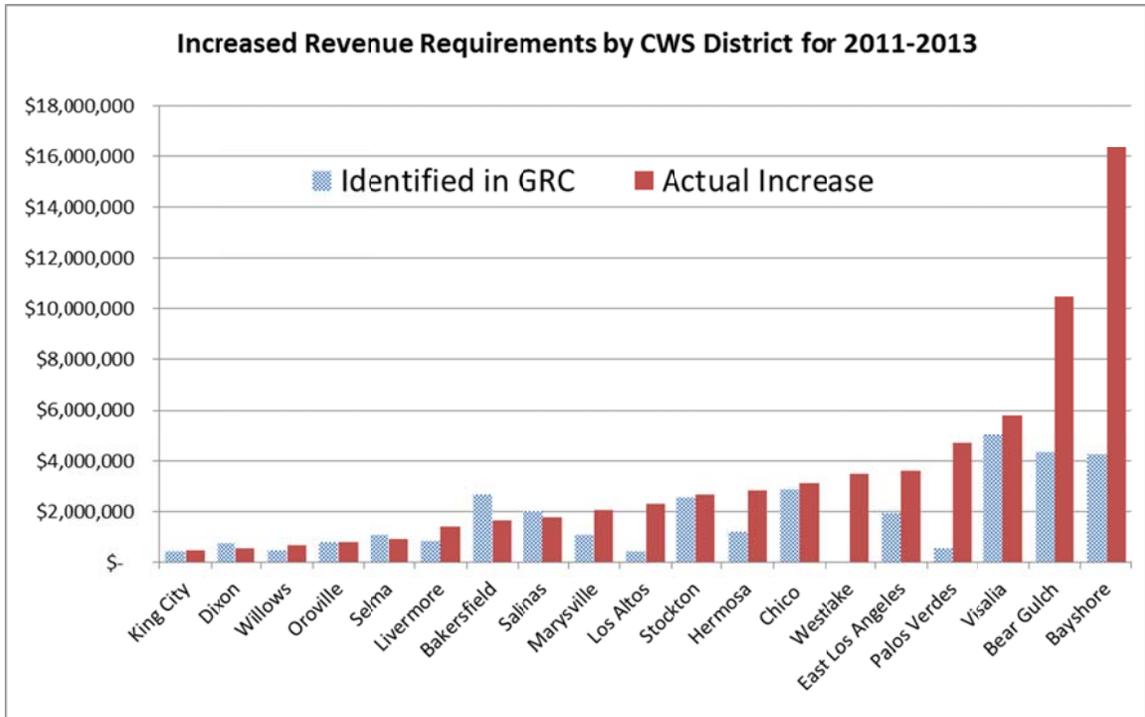
7 For CWS, the past three years have seen revenue requirements increase nearly
8 twice that envisioned by the Commission in CWS’ last general rate case. In fact, due to
9 the myriad automatic adjustment mechanisms already available to CWS, all but six of the
10 nineteen CWS districts that filed for 2013 escalation-year increases had revenue
11 requirements greater than those identified and approved in the governing rate case
12 decision.²⁶² For the years 2011 through 2013, approximately \$31 million of additional
13 revenue requirements passed into customers’ general rates via existing rate mechanisms,
14 which function largely outside of the general rate case proceeding.²⁶³ The following
15 graph compares the increases in district revenue requirements that were identified in
16 CWS’ last general rate case with the actual increases that were observed in the
17 company’s 2013 Tier I escalation filings.²⁶⁴

²⁶¹ Approved by voters on November 5, 1996, Proposition 218 amended the California Constitution by adding Articles XIII C and XIII D to require local governments to obtain the approval of property owners in a local ballot measure before levying a new or increased tax assessment on those property owners. In 2006, the California Supreme Court ruled that the provisions of Proposition 218 apply to local water, refuse and sewer charges.

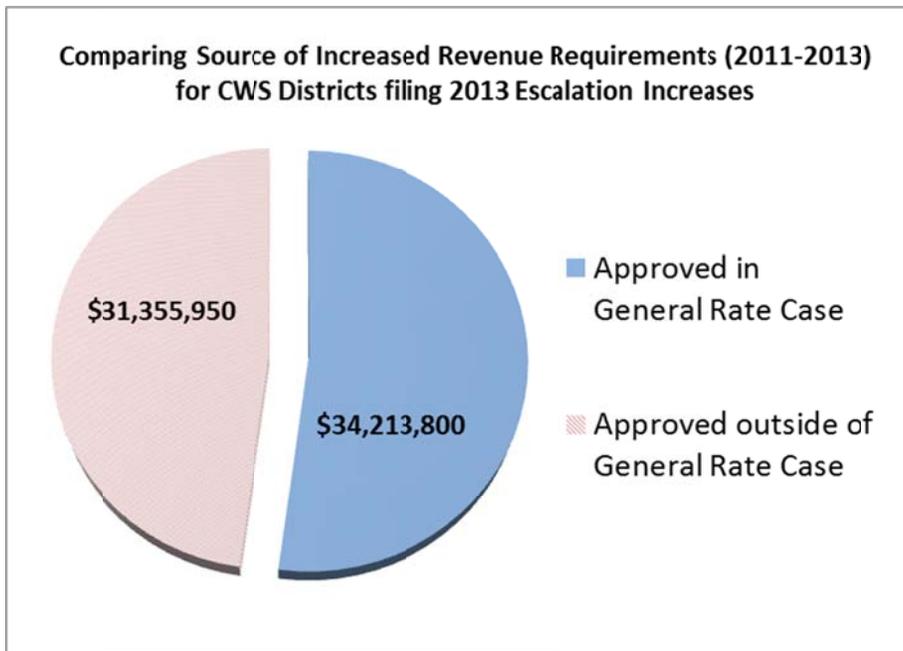
²⁶² See pages 12-27 of D.10-12-017 for last GRC-approved revenue requirements.

²⁶³ Additional 2013 increases occurring after the development of this testimony are possible

²⁶⁴ Having met or exceeded the pro-forma earnings test, the districts comprising Antelope Valley, Dominguez, Kern River, and Redwood Valley did not file for 2013 escalation-year increases.



1 As can be seen in the following graph, the total amount of increased revenue that
 2 resulted from rate mechanisms operating outside of the GRC proceeding, including
 3 separate applications and expense/ratebase offsets, was nearly equal to the total amount
 4 of increased revenue that was identified and authorized in CWS' GRC proceeding over
 5 the same time period.



1 In addition to creating concerns regarding transparency and customer notification,
2 the facility in which general rates can be adjusted outside of a general rate case
3 proceeding should cause serious pause when considering yet another mechanism to
4 automatically adjust customer rates. At a minimum, greater awareness is needed that as a
5 result of existing adjustment mechanisms, the Commission-authorized increases in
6 revenue requirements that emerge from a general rate case may present only a fraction of
7 the ultimate increase in total revenue requirements that customers will experience during
8 the rate case cycle.

9 **D. CONCLUSION**

10 A faithful observance of the directives contained within the General Rate Case
11 Plan applicable to all Class A water utilities would require the Commission to deny this
12 special request. Careful consideration of the underlying policy implications for
13 transparency in establishing customer rates and the relevance of the general rate case
14 proceeding would require the same. DRA recommends the Commission not approve
15 CWS Special Request #4.

Chapter 14, Attachment A

RCP Excerpt for Calculating Escalation Year Rates

The most recent memorandum entitled, "Estimates of Non-labor and Wage Escalation Rates" as described in D.04-06-018, shall be used for Escalation Years 1 and 2 rate increase requests and shall be sought by Tier 1 advice letter no later than 45 days prior to first day of the escalation year. The advice letter filing shall include all calculations and documentation necessary to support the requested rate change. The requested rate increase shall be subject to the pro forma earnings test, as specified in D.04-06-018. Revenue requirement amounts otherwise subject to rate recovery, e.g., through balancing or memorandum accounts, shall not be subject to escalation.

All rate base items, including capital additions and depreciation, shall not be escalated but rather shall be subject to two test years and an attrition year, consistent with D.04-06-018. If the Escalation Year and Attrition Year advice letters are in compliance with this decision, GO 96-B, and other requirements, the advice letter shall be effective on the first day of the escalation or attrition year, consistent with the procedures set forth in GO 96-B.

Utilize the following methods for preparing escalation year requests:¹

1. Estimate escalation year labor expenses by the most recent labor inflation factors as published by the DRA.
2. Estimate non-labor escalation year expenses, excluding water production related expenses, by the most recent composite non-labor 60%/compensation per hour 40% inflation factors published by DRA.
3. Estimate escalation year water production related expenses based on escalation year sales.
4. Adjust for all non-recurring and significant expense items prior to escalation. A significant expense is equal to or greater than 1% of test year gross revenues.
5. Expense items subject to recovery via offset accounts, e.g., balancing accounts, shall not be escalated.
6. Estimate escalation year expenses not specifically addressed in DRA's published inflation factors, (such as insurance) based on CPI-U for most recently available 12 months, as provided in D.04-06-018.

¹ In each water utility's escalation year advice letter filing, the most recent DRA inflation factors will be used.

R.06-12-016 COM/JB2/hl2

7. Escalation year expenses may also be increased by the most recent five-year average customer growth or other growth adopted by the Commission.
8. For the first escalation year, estimate customers by adding the five-year average change in customers by customer class or other growth adopted by the Commission to the test year customers. For the second escalation year, estimate customers by adding the five-year average change in customers by customer class or other growth adopted by the Commission to the first escalation year customers.
9. Estimate sales for the escalation years for the residential, multifamily, and business classes by multiplying the number of customers for each escalation year by the test year sales per customer. Use the test year sales for all other customer classes for both escalation years.
10. Forecast sales revenues for the escalation years based on each year's forecast of sales and customers. Other revenues will be estimated using a five-year average of recorded other revenue.

Chapter 14, Attachment B

DRA Data Request RRA-001



CALIFORNIA WATER SERVICE COMPANY
1720 NORTH FIRST STREET
SAN JOSE, CA 95112 • (408) 367-8200 • F (408) 367-8428

September 4, 2012

Yoke Chan
Project Manager
Division of Ratepayer Advocates
505 Van Ness Avenue,
San Francisco, CA 94102
(415) 703-1909

RE: Data Request Response RRA-001, Subject: Sales Reconciliation Mechanism

Cal Water's response to Data Request RRA-001 is as follows:

1. Page 4 of the Direct Testimony of Thomas F. Smegal explains that the company's proposed Sales Reconciliation Mechanism would adjust sales forecasts for escalation years if recorded sales "for the past year are more than 5% different (higher/lower) than adopted test year sales."

Page A-20 of the Revised Rate Case Plan for Class A Water Utilities (D.07-05-062) provides direction on calculating sales forecasts for escalation years. In particular, item #9 of page A-20 reads:

9. Estimate sales for the escalation years for the residential, multifamily, and business classes by multiplying the number of customers for each escalation year by the test year sales per customer. Use the test year sales for all other customer classes for both escalation years.

- a. Does Cal Water intend to file a Petition to Modify Commission Decision D.07-05-062?

RESPONSE: If the Commission declines to consider this proposal in Cal Water's rate case, we will consider filing a petition to modify the rate case plan.

- b. Does Cal Water agree that approval of Special Request #4 would conflict with the requirements of D.07-05-062 for calculating escalation year sales estimates?

RESPONSE: Cal Water's sales reconciliation mechanism represents a deviation from the provisions of the 2007 rate case plan.

- c. If answers to either (1a) or (1b) are anything other than "yes," please provide explanation.

RESPONSE: Cal Water has requested several deviations from the rate case plan since its adoption in 2007. Some of these deviations have been adopted by the Commission in settlements joined by DRA. While the Commission is not bound by the precedent set in these settlements, the Commission does seem to have allowed parties in cases to negotiate solutions in the public interest even when they deviate from the rate case plan. Cal Water is hopeful



that the Commission or perhaps even DRA will understand that this proposal is in the public interest and allow such a deviation in this case.

2. Page 6 of the Direct Testimony of Thomas F. Smegal explains that triggering of the Sales Reconciliation Mechanism would "allow" Cal Water to adjust its overall sales forecast by 50% of the recorded sales variation.
 - a. Should triggering of the mechanism require Cal Water to adjust its overall sales forecast?
 - b. Please explain answer to (2a)

RESPONSE: Cal Water is open to that approach.

3. Page 19 of the prepared testimony of David Morse (Company Report No. 8) explains that "the larger energy utilities update the forecast periodically, but water utilities use the same adopted forecast for three years."
 - a. Please identify the names of all the "larger energy utilities" to which Mr. Morse refers.

RESPONSE: The larger utilities referenced are Pacific Gas and Electric ("PG&E"), Southern California Edison ("SCE") and San Diego Gas and Electric Company ("SDG&EC").

- b. Please detail which "forecasts" are updated periodically for the utilities identified in

RESPONSE: The Commission adopts a new sales forecast for the three major energy utilities each year. The forecasts are adopted in the energy utility proceeding, which sets rates for recovery of variable costs. For PG&E, the Energy Resource Recovery Account ("ERRA"), tracks the variable costs for recovery. The ERRA is somewhat similar to the water utilities' Modified Cost Balancing Account ("MCBA"). However, unlike water utilities, energy utilities have base-rates revenue requirement, covering fixed costs, which are set in a general rate case ("GRC") and variable cost revenue requirement which are set in proceedings like the ERRA. For water utilities, both are set in a rate case.

The adopted forecast for the ERRA is in turn used in the Annual Electric true-up filing. This is used to set new rates each year for a variety of PG&E accounts including the PG&E Distribution Revenue Adjustment Mechanism ("DRAM"). The DRAM has a similar function as the Water Revenue Adjustment Mechanism ("WRAM"), including a trigger mechanism that requires adjustments if collections are over or above 5%.

The key differences between Cal Water's GRC forecast process as it relates to WRAM and PG&E's process as it relates to the ERRA are that:

1. The sales forecast is litigated in the ERRA proceeding, not the GRC.
2. A new sales forecast is adopted each year outside of a rate case.
3. The DRAM is adjusted each year based on the new sales forecast.
4. If balances within the one-year time frame are +/- 5% there is an adjustment.



CALIFORNIA WATER SERVICE COMPANY
RRA-001 Response

- c. Please provide the actual time interval for the updating that has been characterized by Mr. Morse as occurring "periodically" for all utilities identified in (3a).

Response: The approximate time sequence is as follows.

1. In June of 2011 PG&E files an estimate of sales for 2012 in the ERRRA proceeding.
 2. The Commission makes a determinate of the proper forecast around September of 2011. This is usually uncontested.
 3. PG&E makes an advice letter filing called the Annual Electric True-Up (AET) around September of 2011 for rates to be in effect as of January 2, 2012.
 4. Start process again, June 2012.
- d. Please provide the Commission Decision or relevant authority that established the intervals provided in (3c) for each of the utilities identified in (3a).

Response: The staff from PG&E explained that the process has been ongoing for many years and that SCE and SDG&E have a similar process. Representatives from PG&E were not aware of any one decision that provides a detailed explanation of the process. However, as referenced in Morse testimony footnote 26, see the PG&E Advice letter 3896 – E-B, which provides an example of an AET filing in September 2010 for rates to be in effect as of January 1, 2011. In addition, please see R-E-4432, this notes that "The AET advice letter is the vehicle the PG&E has used for many years to consolidate revenue requirements which have been authorized by the Commission or by the FERC for recovery, and to amortize balances in regulatory accounts." (R-E-4432, page 2)

Also see D. 07-09-944, 10-12-035, referenced in the PG&E ERRRA preliminary statement tariff and D. 12-04-045, referenced in the PG&E DRAM preliminary statement tariff.

SCE and SDG&E have decoupling mechanisms. The SCE decoupling mechanism is called Base Revenue Requirement Balancing Account, the SCE preliminary statement tariff references is D. 09-03-025.

CALIFORNIA WATER SERVICE COMPANY

A handwritten signature in cursive script that reads "Darin T. Duncan".

Darin T. Duncan
Manager of Rates

Enclosures

1 **CHAPTER 15: SPECIAL REQUEST #5 – EXPAND RATE STABILIZATION**
2 **MECHANISM**

3 **A. INTRODUCTION**

4 In Special Request #5, CWS proposes continuation of the Low-Income Ratepayer
5 Assistance (“LIRA”) program and Rate Support Fund (“RSF”). Additionally, CWS
6 seeks expansion of the RSF to include CWS’ Oroville district and the remaining
7 ratemaking areas (Leona Valley, Lancaster and Lake Hughes) within the Antelope Valley
8 district that were not previously included in the fund.

9 Initially adopted by Commission decision as part of an all-party settlement in
10 CWS’ 2005 general rate case (“GRC”),²⁶⁵ the RSF was reviewed and continued in CWS’
11 2009 GRC as part of another settlement that was supported by five of the seven parties to
12 the proceeding.²⁶⁶

13 The basic concept behind the RSF is to provide rate relief to customers in CWS’
14 highest-cost districts through a discount that is supported by all customers within the
15 CWS system. The type and amount of relief provided was established through settlement
16 and varies by district.²⁶⁷ The current charge that is assessed on all customers to fund the
17 program is \$0.01 per hundred cubic feet (ccf) of water consumption.²⁶⁸

18 The LIRA program, in which CWS’ low-income and special-program²⁶⁹
19 customers can qualify for a bill discount was approved by the Commission in a separate
20 and uncontested amended application.²⁷⁰ Qualification to be included in CWS’ LIRA
21 program is the same as that found in the California Alternative Rates for Energy
22 (“CARE”) programs offered by energy utilities. For CWS’ LIRA program, the discount

²⁶⁵ D.06-08-011.

²⁶⁶ D.10-12-017.

²⁶⁷ See Chapter 15, Attachment A: *Schedule No. RSF Tariff*.

²⁶⁸ One ccf = 748 gallons.

²⁶⁹ Special Program LIRA customers include qualified non-profit group living facilities, qualified agricultural employee housing facilities, and migrant farm worker housing centers. Currently there are no qualifying Special Program LIRA customers in any of CWS’ districts.

²⁷⁰ D.06-11-053.

1 provided to low-income customers is a 50% reduced service charge (up to a maximum
2 benefit), while qualified special-program LIRA customers receive a fixed twenty-dollar
3 reduction in monthly service charges.

4 **B. SUMMARY OF RECOMMENDATIONS**

5 CWS' request to continue the LIRA program should be approved with a
6 requirement to conduct and report upon efforts to verify customer eligibility.

7 CWS' request to continue and expand coverage of the RSF program should be
8 approved to include the Oroville district and the remaining ratemaking areas of the
9 Antelope Valley district.

10 Additionally, the amount of rate support that is provided to customers in
11 qualifying RSF districts should be adjusted upwards and based upon objective standards
12 to avoid having the cost of basic service in any qualifying RSF district exceed CWS
13 system-wide average rates.

14 **C. DISCUSSION**

15 **1. Low-Income Ratepayer Assistance (LIRA) Program**

16 The LIRA program became effective January 1, 2007. In 2011, total customer
17 enrollment in the program was recorded at 47,441 service connections or approximately
18 12% of total residential customers. The total value of LIRA discounts provided in 2011
19 was \$3.3 million while \$1.5 million was collected to fund the program during the same
20 period.²⁷¹ Following the implementation of data sharing between water and energy
21 utilities in September 2012, enrollment in CWS' LIRA program had increased to 93,722
22 service connections. The corresponding value of total LIRA discounts to be provided in
23 2013 based upon CWS' estimated sales and a surcharge \$0.06 per ccf of water sold is
24 approximately \$6.2 million.²⁷²

²⁷¹ Data Response to RRA-002-01(a).

²⁷² CWS Advice Letter 2089.

1 Since credits and debits to the LIRA program are recorded in a balancing account,
2 any under- or over-collection of funds can be reviewed by the Commission and
3 reconciled in customer rates. Nevertheless, because of the growth in LIRA enrollment
4 and funding costs, DRA explored the process by which an applicant’s eligibility is
5 verified by CWS. Special Condition #5 of the LIRA tariff indicates that “information
6 provided by [a LIRA] applicant is subject to verification by the Utility.”²⁷³ In DRA Data
7 Request RRA-002, question 10(a), CWS was asked to identify “the cumulative number of
8 requests made by Cal Water to verify customer eligibility and the number of customers
9 removed from the LIRA rate schedule as a result of the verification process since the
10 inception of the program on January 1st 2007.” Without providing the requested
11 information, CWS indicated that it “expects to begin the process of recertification and
12 verification in early 2013.”

13 Prior to its next scheduled general rate case, CWS should be required to report
14 upon its efforts in the “process of recertification and verification” of LIRA customers.
15 For relevancy and efficiency, this reporting can be combined with the annual summary
16 report of its LIRA program that per Commission Decision 06-11-053, CWS is required to
17 submit to Water Division and DRA.

18 With regards to CWS’ request to continue the LIRA program, the company has
19 proposed to increase the maximum monthly benefit to \$14 per qualified residential
20 customer. The company has provided no testimony on how this maximum benefit has
21 been calculated or why a “maximum benefit” should exist to limit the standard LIRA
22 benefit, which would otherwise be calculated as a 50% reduction in a residential
23 customer’s monthly service charge. As the company has proposed “service charges for
24 5/8” residential customers exceeding \$24 in Dixon, Oroville, Willows, Antelope Valley,
25 Kern River Valley and Redwood Valley,” districts ²⁷⁴ the possibility exists that low-
26 income customers in these districts might receive less than the standard LIRA bill

²⁷³ See Chapter 15, Attachment C: Schedule No. *LIRA Tariff*.

²⁷⁴ CWS: Smegal, page 8.

1 reduction. Absent explanatory evidence why a maximum dollar cap is necessary, the
2 typical LIRA benefit which reduces the monthly service charge by 50% is a useful and
3 objective standard that should be provided to qualifying applicants without limitation on
4 its nominal value.

5 **2. The Rate Support Fund (RSF)**

6 Although not initially designed as a low-income program, the Rate Support Fund
7 operated by CWS currently has an implicit affordability component which is reflected in
8 the criteria that the company currently utilizes to screen districts for participation in the
9 fund. CWS examined unemployment statistics, average water bills as a percentage of
10 household income, and the percentage of customers participating in CWS' primary
11 affordability program, LIRA, to arrive at CWS' recommendation for continuing the
12 program in all existing RSF districts and to expand the program to include the Oroville
13 district and the remaining ratemaking areas in the Antelope Valley district. The
14 following example summarizes the bill discounts that are available to a low-income
15 customer in an RSF district with a RSF service charge discount and a low-income
16 customer in an RSF district with a quantity-based discount.

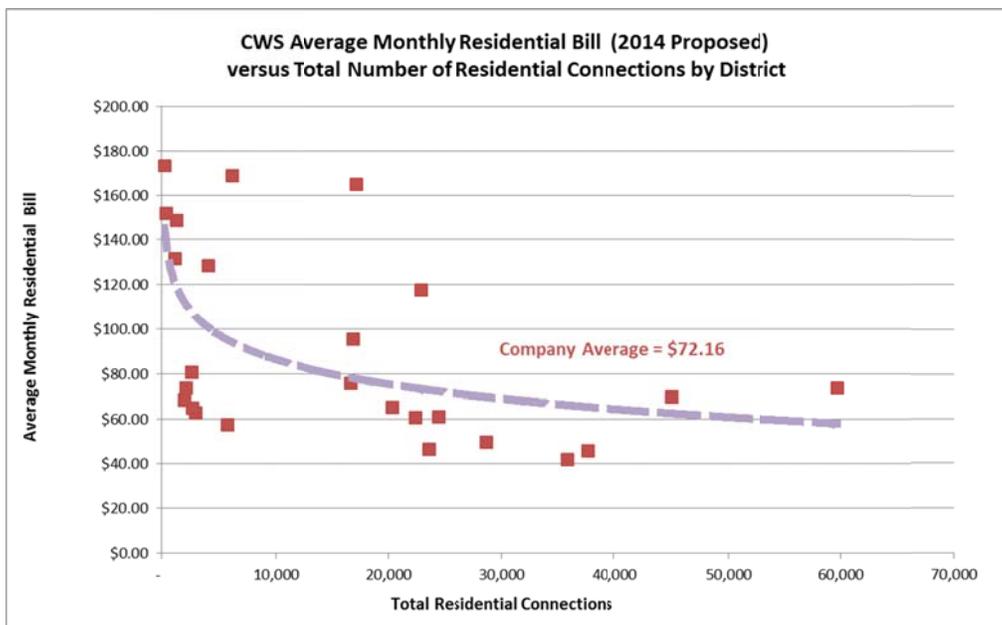
(1) Sample RSF District: Service Charge Discount	
Redwood Valley Lucerne	
Residential 5/8" x 3/4" Service Connection	
Monthly Consumption = 5 ccf	\$46.68
Monthly Fixed Charge	(\$24.00)
RSF DISCOUNT	(\$11.34)
Low-Income Discount	<u>\$39.00</u>
Consumption Charges (\$7.80 x 5ccf)	\$50.34
Monthly Bill (excluding any surcharges)	
(2) Sample RSF District: Quantity-Based Discount	
Redwood Valley Coast Springs	
Residential 5/8" x 3/4" Service Connection	
Monthly Consumption = 5 ccf	\$59.05
Monthly Fixed Charge	(\$14.00)
Low-Income Discount*	\$147.85
Consumption Charges (\$29.57 x 5ccf)	(\$51.85)
RSF Quantity-Based Discount (\$10.37 x 5ccf)	\$141.05
Monthly Bill (excluding any surcharges)	
*CWS' requested cap on Low-Income Discounts	

1 Initially conceived as a means of mitigating the “revenue requirement disparity as
2 a result of the higher rate base per customer in Antelope Valley, Kern River Valley, and
3 the Redwood Valley sub-districts,”²⁷⁵ the RSF program has the potential to address larger
4 policy issues including the ability of small water systems to meet the infrastructure
5 investments necessary for providing all Californians with safe and reliable water service
6 at an affordable cost.²⁷⁶

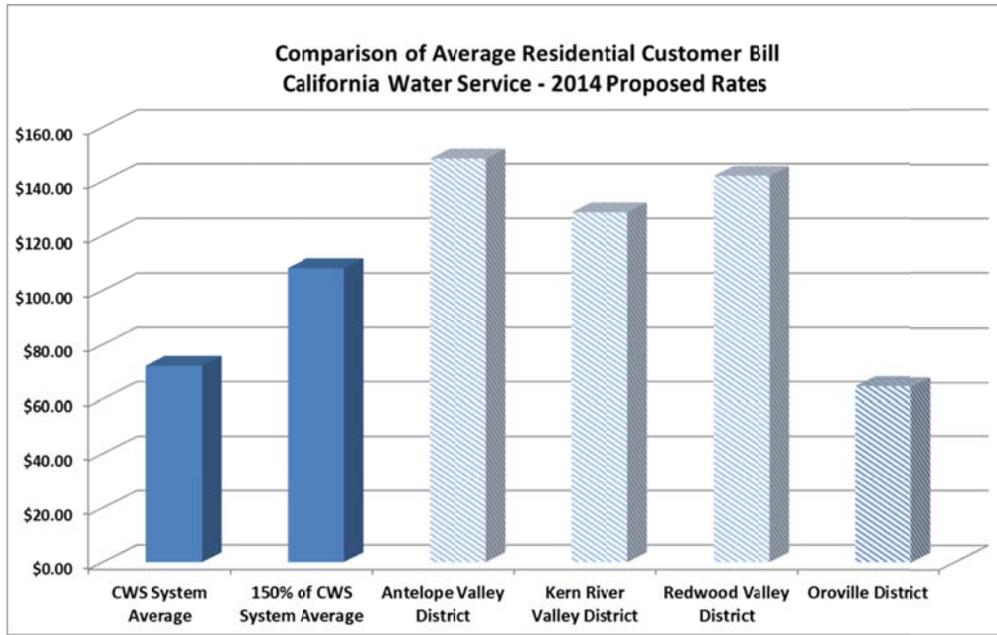
²⁷⁵ A.05-08-006; CWS Kern River Valley testimony, page 43.

²⁷⁶ California Assembly Bill 685, signed into law September 25, 2012, added Section 106.3 to the Water Code, declaring that it is the established policy of the state that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes. The bill requires all relevant state agencies to consider this policy when revising, adopting, or establishing policies and regulations, when those policies and regulations are pertinent to the uses of water described above.

1 To test the notion that without the ability to spread certain fixed costs across a
2 larger base, smaller water districts are more likely to possess disproportionately higher
3 rates, DRA calculates the average residential customer bill for each of CWS' districts.
4 Utilizing CWS' proposed 2014 customer rates and consumption, the average residential
5 bill for each district was plotted as a function of the total number of residential customers
6 in that district. Using CWS' estimates for total residential revenues and consumption in
7 2014, a system-wide average residential customer bill of \$72.16 was calculated. A
8 logarithmic trend line (dotted) is also added showing the line of best fit.



9 Although district size is not the sole factor in determining whether a customer in a
10 particular ratemaking area will experience rates more or less than the system-wide
11 average, there does appear to be a loose correlation between the size of the district and
12 the average customer bill.

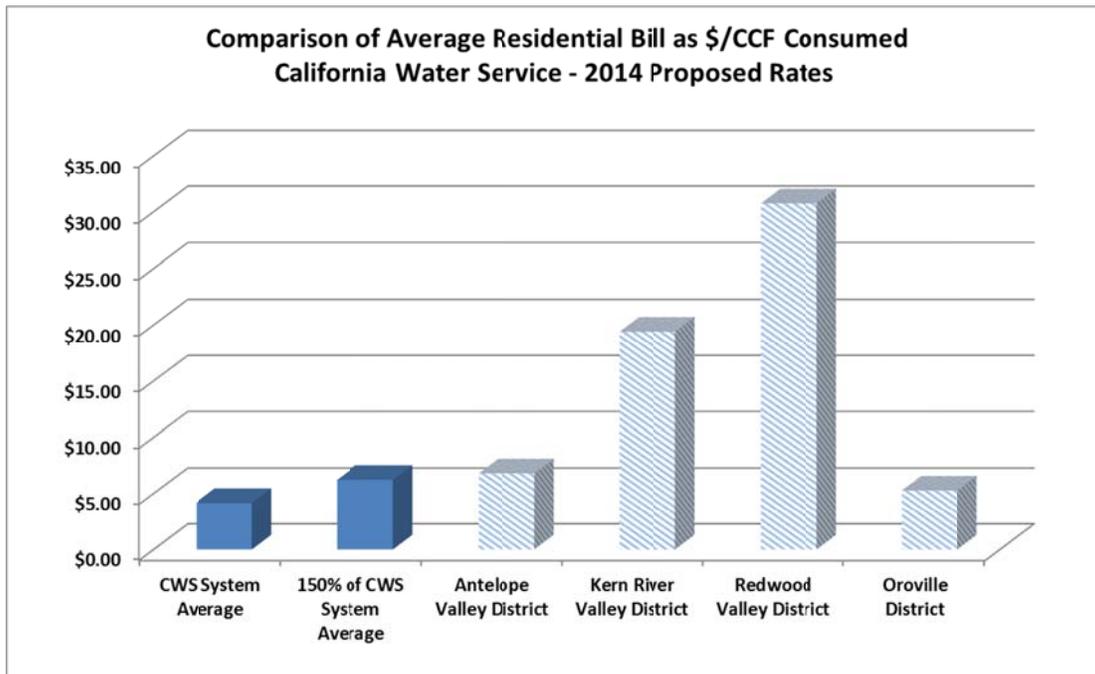


1 The above graph compares the CWS system-wide average residential bill of
2 \$72.16 with the average residential bill in districts that are currently included within the
3 RSF and those that CWS proposes to include. While the districts of Redwood Valley
4 (including all three ratemaking areas), Kern River Valley, and Antelope Valley
5 (including the four ratemaking areas) are forecast to have average residential bills near
6 double the CWS system-wide average, the district of Oroville is forecast to have an
7 average residential bill ten percent less than the CWS system-wide average. When used
8 as a policy tool to equalize the “local cost of service spikes [that] are often associated
9 with new long-lived capital investments”²⁷⁷ the RSF program can be used beneficially
10 and objectively to avoid the local effects of district rates that fall beyond an acceptable
11 range of normalcy and affordability. However, to achieve this dual use, the screening
12 criteria utilized by CWS to identify districts to include in the RSF program must be
13 augmented with an additional criterion that compares rates against a system-wide
14 average. While this comparison of average bills incorporates any local conditions that
15 may affect consumption, to prevent criticism that a district’s relatively high average
16 residential bill is solely the result of inordinate usage within that district, an additional

²⁷⁷ CWS: Smegal, pg. 9.

1 analysis was performed on the districts currently included and those proposed for
2 inclusion in the RSF program.

3 Utilizing the same CWS estimates for number of residential customers and
4 estimated residential revenue in 2014, a unitization of the average residential bill was
5 performed using forecasted consumption. The result of this analysis is an average cost
6 per unit of water (ccf) for each district.²⁷⁸ Dividing the total estimated residential
7 revenue for all districts by the total residential consumption for all districts yields a
8 system-wide average residential charge of \$4.15 per ccf. Once again, district averages
9 were compared with a system-wide average to substantiate a recommendation for which
10 districts to include in the RSF program.



11 From the above graph, one can see that when adjusted for consumption the
12 residential costs per unit of water in Antelope, Redwood and Kern River Valleys are still
13 more than 150% of the CWS system average even though the relative proportions differ.
14 Using the new and more descriptive metric of cost per ccf, the average cost per ccf for the

²⁷⁸ Cost per ccf for this analysis utilizes total revenue (service charge and quantity charge) and should not be confused with the cost per ccf (quantity charge) that is established in rate design.

1 Oroville district is now found to be 27% higher than the CWS system-wide average.
2 Even without the preliminary screening criteria on economic conditions for candidate
3 districts, the results of this average cost analysis comport with inclusion of the proposed
4 districts into RSF as a means for achieving system-wide cost averaging to remove
5 periodic cost spikes that might otherwise arise due to any number of unforeseen
6 circumstances in any given district.

7 An additional benefit of comparing averages across ratemaking areas is the ability
8 to objectively establish the amount of relief to provide in RSF districts. Rather than
9 establishing RSF relief in the current proceeding by means of proportionally increasing
10 the relief adopted in CWS' previous GRC, which ignores the significant rate increases
11 that have occurred between GRCs, a more consistent and objective approach would be to
12 provide relief proportional to the RSF district's deviation from CWS' system-wide
13 average. Calculating the relief within RSF districts to result in the district's average cost
14 per ccf being no greater than 150% of the CWS system-wide average would be a gradual
15 step towards providing objective rate standardization in the most expensive and
16 challenging of CWS current and future service areas.

17 **D. CONCLUSION**

18 CWS' low-income program should be authorized to continue with the additional
19 requirement that CWS report upon its efforts in verification of participant eligibility.
20 Additionally, the proposed maximum benefit for qualified LIRA participants should be
21 removed to create a standard 50% reduction of the participant's monthly service charge.

22 CWS' request to expand the RSF program to include the Oroville district and the
23 remaining ratemaking areas (Leona Valley, Lancaster and Lake Hughes) of Antelope
24 Valley district should be permitted. Quantitative analysis demonstrates that in addition to
25 average unit costs of water in these districts exceeding the CWS system-wide average,
26 the districts that CWS proposes to include exhibit marked economic challenges, which
27 are likely to compound the challenge of providing water service at affordable rates.

Chapter 15, Attachment A

Schedule No. RSF Tariff

Schedule No. RSF
All Tariff Areas
RATE SUPPORT FUND

**This tariff was approved
 by the California Public
 Utilities Commission.
 Stamped originals are
 available upon request**

APPLICABILITY

Applicable to all water service except that provided for private fire protection service.

TERRITORY

All territories served.

QUANTITY RATE SURCHARGE

All water sold, per 100 cu. Feet \$0.010 (I)

APPLICABILITY

Applicable to all metered customers except those participating in the LIRA program described on Schedule LIRA

FLAT RATE SURCHARGE

Per Service Per Month:

Bakersfield District	\$0.40	(I)	Oroville District	\$0.15	(R)
Chico District	\$0.31	(I)	Selma District	\$0.38	(I)
Marysville District	\$0.21	(R)	Visalia District	\$0.24	(I)
			Willows District	\$0.30	(I)

APPLICABILITY

Applicable to all residential flat rate customers except those participating in the LIRA program described on Schedule LIRA

RATE SUPPORT FUND GENERAL SUPPORT SURCREDIT

Credit Per Service Per Month:

Antelope Valley District, Fremont Valley Service Area	\$12.10	(I)
Kern River Valley District	\$22.50 †	(I)
Redwood Valley District, Lucerne Tariff Area	\$24.00	(I)

Credit per 100 cu. Ft. Per Service Per Month:

Redwood Valley District, Coast Springs Tariff Area	\$9.07 *	(I)
Redwood Valley District, Redwood Unified Tariff Area	\$2.31	(I)

†Kern River Valley RSF Surcredit will be \$25.00 in escalation year 2012. (N)

*Coast Springs RSF Surcredit will be \$10.37 in escalation year 2012. (N)

RATE SUPPORT FUND LOW-INCOME SUPPORT SURCREDIT

This credit program is included in Schedule LIRA

SPECIAL CONDITIONS

1. All surcharges and credits under this tariff shall be separately identified on customer bills.
2. In no instance should the total amount of the combined (RSF plus LIRA) subsidy received by a customer in any month exceed that customer's water bill for service in that month.

(D)

(To be inserted by utility)

Advice Letter No. 2015-A
 Decision No. 10-12-017

Issued by

THOMAS F. SMEGAL
NAME
Vice President
TITLE

(To be inserted by Cal. P.U.C.)

Date Filed January 27, 2011
 Effective January 1, 2011
 Resolution No. -

Chapter 15, Attachment B

LIRA-SC TARIFF

Schedule No. LIRA-SC
All Tariff Areas
LIRA Surcharge

APPLICABILITY

Applicable to all water service except that provided for private fire protection service and that provided under Schedules OR-3M, OR-3M-I, and OR-2UL for raw water delivery along the Powers Canal. Customers receiving a credit under schedule LIRA are also exempt from this tariff.

TERRITORY

All territories served.

QUANTITY RATE SURCHARGE

All water sold, per 100 cu. Ft \$0.0600 (1)

FLAT RATE SURCHARGE

Per Service Per Month:

Bakersfield District	\$2.42	(1)	Oroville District	\$1.59	(1)
Chico District	\$1.41		Selma District	\$2.30	(1)
Marysville District	\$1.47	(1)	Willows District	\$1.89	(1)

SPECIAL CONDITIONS

1. Amortization of non-discretionary balance in the Low-Income Ratepayer Assistance Memorandum Account over a 36-month period, beginning October 12, 2012, the effective date of Advice Letter 2086. (N) |

QUANTITY RATE SURCHARGE

All water sold, per 100 cu. Ft \$0.0182 |

FLAT RATE SURCHARGE

Per Service Per Month:

Bakersfield District	\$0.75	Oroville District	\$0.49	
Chico District	\$0.44	Selma District	\$0.71	
Marysville District	\$0.46	Willows District	\$0.58	(N)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. 2086-A
 Decision No. 12-09-020

FRANCIS S. FERRARO
NAME
Vice President
TITLE

Date Filed _____
 Effective _____
 Resolution No. -

Chapter 15, Attachment C

1

Schedule No. LIRA TARIFF

Schedule No. LIRA
LOW-INCOME RATEPAYER ASSISTANCE (LIRA)
(Page 1)

This tariff was approved
by the California Public
Utilities Commission.
Stamped originals are
available upon request

APPLICABILITY

Applicable to individually metered and flat rate residential customers, qualified non-profit group living facilities, qualified agricultural employee housing facilities, and migrant farm worker housing centers where the customer meets all the special conditions of this schedule.

TERRITORY

All tariffed service areas of the California Water Service Company.

METERED SINGLE-FAMILY RESIDENTIAL RATES

Quantity Rates:

Customers will be charged per 100 cubic feet of water delivered at the metered rates as reflected in applicable rate schedule for single-family service.

Service Charges:

Eligible customers will receive a monthly LIRA credit equal to 50% of the 5/8" x 3/4" service charge for single-family residential service, prorated based on the days of service, if service is not provided for a full month. The maximum monthly credit is \$12.00.

(1)

FLAT RATE RESIDENTIAL RATES

Customers will be charged the flat rates reflected in the applicable rate schedule for residential flat rate service.

Eligible customers will receive a monthly LIRA credit equal to 50% of the 5/8" x 3/4" service charge for metered single-family residential service, prorated based on the days of service, if service is not provided for a full month. The maximum monthly credit is \$12.00.

(1)

QUALIFIED NON-PROFIT GROUP LIVING FACILITIES, QUALIFIED AGRICULTURAL EMPLOYEE HOUSING FACILITIES, MIGRANT FARM WORKER HOUSING CENTERS

Quantity Rates:

Customers will be charged per 100 cubic feet of water delivered at the metered rates as reflected in applicable rate schedule for single-family service.

Service Charges:

Eligible customers will receive a monthly LIRA credit of \$20.00, prorated based on the days of service, if service is not provided for a full month. The maximum monthly credit per qualifying sub-metered customer is \$20.00.

(continued)

(To be inserted by utility)
Advice Letter No. 2015-A
Decision No. 10-12-017

Issued by
FRANCIS S. FERRARO
NAME
Vice President
TITLE

(To be inserted by Cal. P.U.C.)
Date Filed January 27, 2011
Effective January 1, 2011
Resolution No. -

Schedule No. LIRA
LOW-INCOME RATEPAYER ASSISTANCE (LIRA)
(Page 2)

This tariff was approved
by the California Public
Utilities Commission.
Stamped originals are
available upon request

SPECIAL CONDITIONS

1. LIRA Household: A LIRA household is one for which the total gross income from all sources is less than or equal to the maximum household income level for the CARE programs approved by the Commission. Southern California Edison's (Edison) CARE program will be applicable to customers residing within Edison's service area and Pacific Gas and Electric Company's (PG&E) CARE program will be applicable to customers residing within PG&E's service area. Total gross income shall include income from all sources, both taxable and non-taxable. The billed customer must not be a person who is claimed as a dependent on another person's income tax return.
2. Application and Eligibility Declaration: Proof of active participation in a CARE program or an application and eligibility declaration on a form authorized by the Commission is required for each request for service under this schedule. Renewal of a customer's eligibility declaration may be required consistent with CARE program renewal requirements, but not more often than annually. Customers, excluding qualified non-profit group living facilities, qualified agricultural employee housing facilities, and migrant farm worker housing centers, are eligible to receive service under this rate schedule at no more than one residential location at any one time, and the rate applies only to the customer's permanent primary residence.
3. Commence of Rate: LIRA rates become effective January 1, 2007. After LIRA rates are effective eligible customers shall be billed on this schedule commencing no later than one billing period after receipt and approval of the customer's application by the Utility.
4. Verification: Information provided by the applicant is subject to verification by the Utility. Refusal or failure of a customer to provide sufficient documentation of eligibility acceptable to the Utility, upon the request of the Utility, shall result in removal from this rate schedule. Failure to comply with any terms of the LIRA program shall result in removal from this rate schedule.
5. Notice from Customer: It is the customer's responsibility to notify the Utility if there is a change in the customer's eligibility status.
6. Customers may be re-billed for periods of ineligibility under the applicable rate schedule.
7. The RSF-LIRA program approved in D.06-08-011 requires a \$10 credit for customers in Antelope Valley, Kern River Valley, and Redwood Valley districts regardless of the amount of a 5/8" x 3/4" service charge in those districts.

(continued)

(To be inserted by utility)
Advice Letter No. 1803
Decision No. 06-11-053

Issued by
FRANCIS S. FERRARO
NAME
Vice President
TITLE

(To be inserted by Cal. P.U.C.)
Date Filed December 21, 2006
Effective January 1, 2007
Resolution No. _____

1

2

1 CAP of 50% for rate phase-ins²⁸³ to determine if a phase-in is appropriate and to
2 calculate the phase-in revenue requirement for each year. (Memo is attached as
3 Attachment A at the end of this chapter.) Based upon DRA’s lower recommended
4 revenue requirement and phase-in criteria, none of the districts qualifies for a 2-year or 3-
5 year phase-in.

6 **C. DISCUSSION**

7 **CWS’s proposal applies rate phase-ins to districts that are challenged by**
8 **economic issues and/or facing a substantial rate increase.**
9

10 CWS has proposed a rate increase phase-in plan that considers a number of factors
11 for each district. CWS’s proposal incorporates the magnitude of the rate increase, the
12 unemployment rate in the district, the level of LIRA participation in the district, and the
13 average water bill as a percentage of the median household income. This would result in
14 14 districts having the GRC requested rate increase phased-in over either two or three
15 years.

16 CWS proposes a scoring system that would allocate one point for a rate increase
17 greater than 20%, two points for a rate increase greater than 30%, and three points for
18 increases greater than 40%. Next, one point is awarded if the unemployment rate is
19 greater than 13% in the district. Then, LIRA participation rate is considered with one
20 point being awarded for LIRA participation greater than 15% in the district. Finally, one
21 point is awarded for average customer bills greater than 1.5% of the Median Household
22 Income (MHHI) and two points are awarded for average bills greater than 3% of the
23 MHHI. An aggregate score is then calculated for each district by adding the points
24 awarded. A score of two results in a two-year phase-in while a score of 3 or more results
25 in a three-year phase-in. Thus, if a district has a 30% or higher increase and does not
26 meet any other criteria, the district would receive a phase-in.

²⁸³ CAPS Standard Procedure, p. 1.

1 CWS proposes using the following calculation methodology to determine the rate
 2 increases for districts where CWS found a rate phase-in to be appropriate:²⁸⁴

3 **Table 6-A. CWS Corrected Rate Phase-in Calculation Methodology.**²⁸⁵

2 Year Phase-in DRA	Illustrative Purposes Only	Incremental TY Revenue	Deferred TY Revenue w/ Interest	Final Rate	% Change
Interest			8.24%		
2014 Present Rates TY Incremental Change	\$63,472,796	\$12,784,627	20.14%	rate increase	
Deferred Revenue			\$5,113,851		
2014 Rev. Req.	\$76,257,423	\$7,670,776	0	\$71,143,572	12.09%
2015 Rev. Req.	\$77,532,011	\$1,274,588	5,535,232	\$77,953,392	9.57%
	1.67%		new 2015 rev eq	\$77,953,392	
		sum of deferred w/ interest	5,535,232		\$421,381 3.296%
					interest cost add'l cost increase

4
 5 Under the CWS proposal, the phase-in is calculated using 60% of the un-phased in
 6 revenue increase for the first year (60% x \$12,784,627=\$7,670,776) and then the remaining
 7 amount of increase is deferred to the following year. The deferred amount receives the
 8 utility's authorized rate of return and is distributed over 2 or 3 years.²⁸⁶ In the example above,
 9 a two-year phase-in is illustrated with the deferred amount of \$5,113,851 earning a rate of
 10 return of 8.24 % for one-year (\$5,113,851 x 8.24%= \$421,381). The rate phase-in revenue
 11 requirement increase for 2015 would be \$5,113,851 + \$421,381+ \$1,274,588 (revenue
 12 requirement increase for the un-phased-in 2015) = \$6,809,820, with the final phased-in
 13 revenue requirement for 2015 being \$77,953,392. Under this proposal, customers pay an
 14 additional 3.296% of the rate increase for 2014 (\$12,784,627) in order to have the rate phase-
 15 in.

²⁸⁴ DRA found an error in CWS's original calculation of the deferred revenue component and the rate of return in the phase-in years. In DRA data request ID2-002, Question 3, DRA corrected the calculation and verified it with CWS.

²⁸⁵ See DRA Data Request ID2-002, Question 3.

²⁸⁶ Data Request ID2-002, Question 3.

1 **The Rate Phase-in should be used to mitigate the potential rate shock from a**
2 **substantial rate increase.**

3 DRA is not opposed to the concept of phasing-in rate increases. In CWS’s last
4 GRC proceeding, the City of Selma intervened on behalf of its residents to request a
5 phase-in of rates and DRA supported the request.²⁸⁷ A phase-in of rates may allow
6 customers the opportunity to better adjust to the new rates and provide greater flexibility
7 to customers to manage their water usage in light of forthcoming rate increases. Rate
8 phase-ins should be considered whenever a district or utility customer base is facing a
9 significant rate increase.

10 Generally, rate phase-ins should be used for the purpose of avoiding a sudden
11 increase in rates. While DRA supports the concept of assisting economically challenged
12 districts, DRA notes that CWS has several existing mechanisms to achieve this goal. The
13 Rate Support Fund (“RSF”) provides subsidies to districts that are economically
14 challenged and need assistance in mitigating high water rates. In addition to this district
15 support mechanism, CWS has the LIRA program that offers low-income customers
16 individual water bill subsidies to make individual bills more affordable. These programs
17 are the appropriate mechanisms to address making rates more affordable for
18 economically challenged districts and individuals. LIRA and RSF provide subsidies to
19 economically challenged individuals and/or districts. A rate phase-in is merely a
20 payment plan for rate increases. Using rate phase-ins for the purpose of providing
21 support to economically challenged districts may mask the true effectiveness of
22 affordability programs.

23 **CWS should use the Commission’s CAPS Procedure for implementing rate**
24 **phase-ins.**

25 CWS has recommended using a novel methodology to calculate a rate phase-in for
26 each district, distributing it over 2 or 3 years depending on a calculation that factors in a
27 variety of economic factors and the amount of projected rate increase.

²⁸⁷ See A.09-07-001, Petition of the City of Selma, the Division of Ratepayer Advocates and California Water Service Company (U 60 W) to Modify D.10-12-017, June 28, 2011.

1 DRA is not opposed to applying a rate phase-in for districts that are facing a
 2 significant rate increase. The Commission has previously recognized the usefulness of
 3 rate phase-ins when a large rate increase is adopted. For example, in 1983 the
 4 Commission issued a memorandum describing its CAPS policy (Attachment A at the end
 5 of this chapter). In essence this provided a policy (guideline) by which a revenue
 6 requirement increase of greater than 50% for Class A water utilities could be phased-in
 7 with a cap on revenue requirement increases of 50% per year for up to three years.²⁸⁸

8 Under CWS’s original proposal, if a district is due for a greater than 30% rate
 9 increase it receives a rate phase-in regardless of whether it meets any of the factors in the
 10 factor test for rate phase-in eligibility. DRA recommends using the CAPS Policy set forth
 11 by the Commission for determining and calculating rate phase-ins (see Sample
 12 Calculation below). The CAPS procedure would take into account only the threshold
 13 requirement (i.e., 50%) and no other factors in determining whether a district is eligible
 14 for a rate phase-in.

15 **Table 6-B. Sample 2 Year Rate Phase-In Calculation Using Commission’s CAPS**
 16 **Procedure for CWS Dixon District (Using CWS Proposed Revenue Requirement)**

For illustrative purposes							
	2014		2014 Phase-In Using CAPS Procedure				
Present Revenue	\$2,083,192		Present Revenue	\$2,083,192			CAPS Procedure
Proposed Increase	\$1,181,876		Proposed Increase	\$1,041,596	Defered Revenue Interest Charge	\$140,280	CAP
							50%
							ROR
							7.94%
Total Proposed Revenue	\$3,265,068	57% Percent Change	Total Proposed Revenue	\$3,124,788			
					50% Percent Change		
							Additional Cost Increase
							0.94%
	2015		2015 Phase-In Using CAPS Procedure				
Present Revenue	\$3,265,710		Present Revenue	\$3,124,788			
Proposed Increase	\$160,821		Proposed Increase	\$312,239	10% Below CAP of 50%		
							No Phase-In going forward.
Total Proposed Revenue	\$3,426,531	5% Percent Change	Total Proposed Revenue	\$3,437,027			

17
18

²⁸⁸ CAPS Standard Procedure.

1 DRA's proposed CAPS calculation caps the rate increase in any given year to
2 50%, deferring the remaining portion of the un-phased-in rate increase to subsequent
3 years. In the example Table 6-2, the revenue requirement increase would be limited to
4 \$1,041,596 (50% x \$2,083,192=\$1,041,596) in 2014. The deferred revenue amount is
5 \$140,280, to which the current authorized rate of return (7.94%)²⁸⁹ is applied, resulting in
6 \$11,138. The rate phase-in revenue requirement increase for 2015 would be \$140,280 +
7 \$11,138 + \$160,821 (revenue requirement increase for the un-phased-in 2015) =
8 \$312,239 with the final phased-in revenue requirement for 2015 being \$3,437,027.
9 Because \$312,239 is approximately a 10% revenue requirement increase from the level
10 of \$3,124,788 and therefore below the 50% threshold for a rate phase-in under DRA's
11 proposal, no phase-in would be applied after 2015. Under this proposal, customers pay
12 an additional 0.94% of the rate increase for 2014 (\$1,181,876) in order to have the rate
13 phase-in. The deferred revenue portion receives Rate of Return (ROR) per Commission
14 policy.²⁹⁰

15 The following table depicts which districts would receive a phase-in under CWS's
16 phase-in proposal and requested revenue requirement increases, and DRA's proposed
17 modification and recommended revenue requirement increases:

²⁸⁹ When CWS filed its application, the adopted rate of return was 8.24%. The rate of return has subsequently been revised by the Commission to 7.94%, which is used in DRA's Rate Phase-in Proposal.

²⁹⁰ CAPS Standard Procedure, p. 3.

1

Table 6-3-Districts and Phase-Ins

District	Phase-In Proposed by DRA	Phase-In Proposed by CWS
AV-Leona	--	3-Year
AV-Lancaster	--	3-Year
AV-Fremont	--	3-Year
AV-Lake Hughes	--	3-Year
Bayshore	--	None
Bakersfield	--	2-Year
Bear Gulch	--	None
Chico	--	None
Dixon	--	3-Year
Dominguez	--	None
East Los Angeles	--	2-Year
Hermosa-Redondo	--	None
King City	--	3-Year
Kern River Valley	--	3-Year
Los Altos	--	None
Livermore	--	None
Marysville	--	3-Year
Oroville	--	3-Year
Palo Verde	--	None
Redwood Valley-Coast Springs	--	3-Year
Redwood Valley-Lucerne	--	3-Year
Redwood Valley-Unified	--	3-Year
Selma	--	3-Year
Salinas	--	2-Year
Stockton	--	2-Year
Visalia	--	2-Year
Willows	--	2-Year
Westlake	--	None

2 While CWS has proposed 3-year rate phase-ins for several districts, DRA has
 3 proposed only 2-year rate phase-ins because of the CAPS procedure and a lower
 4 recommended revenue requirement.

1 **D. CONCLUSION**

2 CWS's proposal applies rate phase-ins to districts that are challenged by
3 economic issues and/or facing a substantial rate increase. Rate phase-ins should be used
4 primarily for mitigating the potential rate shock from a substantial rate increase. DRA
5 disagrees with CWS's proposed phase in mechanism and recommends using the
6 Commission's CAPS Procedure for implementing rate phase-ins.

Chapter 16, Attachment A

1

CAPS Standard Procedure

Memorandum

date : February 22, 1983

To : Professional Staff

From : Public Utilities Commission — San Francisco -- W. R. Ahern, Director, Utilities Division
B. A. Davis, Director, Revenue Requirements Div. *WR*

File No.:

Subject: CAPS Standard Procedure

Purpose

The purpose of this memorandum is to provide the Commission staff and interested parties with a standardized procedure to implement the Commission's adopted policy on CAPS (deferral of a portion of a general rate increase) for water utilities.

Background

At the Commission Conference on February 4, 1982, the Commission approved a staff recommended policy limiting rate increases for water utilities (Attachment No. 1). This policy provided for deferral of that portion of general rate increases in excess of 50% for large water utilities and 100% for the smaller water utilities. This policy was adopted to mitigate the impact of a large rate increase on the utility's customers.

At the Commission Conference on August 18, 1982, the Commission approved a staff recommended policy on CAPS that the rates be reduced to the adopted level as soon as the deferred revenues are provided to the utilities (Attachment No. 2). This modification of the CAPS policy insures that the rates to recover the deferred revenues plus interest would be above the adopted level for the minimum period of time.

Citizens Utilities Company petitioned for a rehearing on the method of computation of interest on the deferred revenues contending that the monthly compounding method should be used instead of the simple annual method. The Commission in Decision 82-11-054, dated November 17, 1982, affirmed the simple annual method of compensation shown on Appendix E of the following decisions: 82-03-023, 82-04-009, 82-04-017, 82-05-038, and 82-05-076.

The recommended standard procedures to implement CAPS were distributed for analysis, review, and comments. The following standard procedure is a consensus of the reviewing Commission staff.

Criteria/Ground Rules

The following basic criteria (or ground rules) shall be used for rate increases in excess of 50% for large (Class A) water utilities or 100% for small water utilities. The procedures in this Memorandum are equally applicable to smaller (Class B, C, and D) water utilities by substituting 100% where the text reads 50%.

1. The initial increase shall not exceed 50% except: (1) in the case where the total deferred revenue including interest cannot be recovered in three years with the 50% limitation, and (2) in the case where the 50% limit would be insufficient to meet operating expenses. In the first case, approximately equal percentage increases should be used for the initial increase and the succeeding annual step increases. In the second case, the increase should be sufficient to eliminate a negative return. In all cases, the recovery should occur in three years to permit filing for further relief as prescribed in the Water Regulatory Lag Plan.
2. Step rates for both deferred revenues and attrition shall be authorized at 12-month intervals effective on the first of the month following the anniversary date of the decision authorizing the rate increase. This deviation from the present policy of attrition step rates being effective on January 1 shall only be applicable where there is a CAP on the amount of the annual rate increase.

3. Interest on the deferred rate increase (deferred revenues) shall be computed as simple interest on an annual basis. The annual interest rate shall be the authorized rate of return on rate base or such other rate as the Commission finds as reasonable in the decision authorizing the rate increase.
4. In cases with multiple test years, any attrition allowance (step rate increases) shall be included in the CAP of 50% in any one year. However, any increase in gross annual revenues associated with adopted levels of customer growth shall be excluded in the CAP of 50% in any one year.
5. The deferred rate increase revenues including interest shall be recovered in the first step rate increase, provided that the gross increase does not exceed 50%; otherwise, the balance of the deferred revenue plus interest will extend into a second step (year).
6. The decision shall provide for a final step to reduce the rates to the level of the adopted gross revenues for the latest test year.
7. The incremental rates (deferred revenue including interest) that are greater than the adopted revenues shall not be used in the summary of earnings filed with advice letter filings for attrition step rate increases.

Sample Computations

Sample computations for some typical rate case situations are shown on Attachments Nos. 3, 4, and 5. These examples are not meant to be all inclusive. Each rate case, where the 50% CAP is implemented, will ultimately be handled on a case-by-case basis using the criteria and ground rules contained herein.

Attachment No. 3 shows an example of the Appendix to Commission decisions for the following conditions:

1. Single test year
2. No attrition
3. No adopted customer growth
4. Two-year deferred revenue recovery period.

Attachment No. 4 shows an example of the Appendix to Commission decisions for the following conditions:

1. Three test years
2. Attrition step rates
3. Adopted customer growth in second and third test years
4. Two-year deferred revenue recovery period

Attachment No. 5 shows an example of the Appendix to Commission decisions for the following conditions:

1. Very large (123.5%) increase for Class A utility
2. Single test year
3. No attrition
4. No adopted customer growth
5. Three-year deferred revenue recovery period

RHB:KL

Attachments

Memorandum

January 28, 1982
(For February 4 Conference)

COMMISSIONERS

To : J. E. Bryson, President
R. D. Gravelle
L. M. Grimes
V. Galvo
P. C. Grew

From : **Public Utilities Commission -- San Francisco** --

J. E. Kerr, General Counsel
I. R. Alderson, Chief ALJ
W. R. Ahern, Director, Util. Div.
B. A. Davis, Director, Rev. Req. Div.
B. Barkovich, Director, Policy Div.

File No.: 076

Subject: "Caps" for water Utility Rate Increases (for Commission consideration at the February 4, 1982 Conference)

RECOMMENDATIONS: The following policy be established as a guideline to staff in water utility rate proceedings:

1. For the large utilities that regularly file for rate relief, the staff will recommend that relief be granted with step increases for recommended increases in excess of 50%.
2. For the smaller utilities that file infrequently for rate relief, a cap of 100% should be used, with deviations granted in accordance with criteria specified below.

DISCUSSION: In response to a discussion at the conference of January 5, 1982, staff indicated that it would provide the Commission with a recommendation on "caps" for water company increases.

The primary advantage of a cap is that the burden placed on consumers in any year would be limited and rate increases would occur in a more orderly manner. Consumers would thereby be better able to budget for utility increases during this period of rapid inflation. The main disadvantage of an imposed cap is the question of fairness and proper notice, especially since such a cap would inflict the greatest hardship on the smaller water companies. Another disadvantage is the possibility that the smaller companies would react by seeking rate increases at shorter time intervals and more frequent rate cases would increase the staff workload to levels that may be difficult to manage and impose higher average rates to consumers.

To determine the extent of the problem, rate increase requests over the last two years were reviewed. The larger water utilities filed 26 applications for rate increases, of which 7 were authorized increases in excess of 50%. Six of these were applications by PG&E for a 1980 test year, and rate relief was authorized as step increases in view of the lengthy period since the prior filings. The other was the increase authorized for Park Water Company for one of its small districts in November 1981.

The smaller water companies filed 63 advice letters for general rate increases, of which only 1 in excess of 100% was granted. Spring Crest Water and Power Company, which serves 15 customers near Palm Desert, Riverside County, was authorized a rate increase of 233% on October 8, 1980. However, this increase produced only \$2,520 in additional revenue and still resulted in a negative rate of return. It should also be noted that 9 companies were authorized increases of 100% and that some of these were influenced by the staff to temper their requests.

- 2 -

In view of the potential problems if the Commission issued a notice prescribing a cap for water increases, we recommend that the Commission establish the following policy.

Except for unusual circumstances which will be completely documented, staff will recommend step increases for the larger utilities for any rate requests in excess of 50%. Any attrition allowance will be subject to this cap of 50% in any one year.

For the smaller utilities filing advice letters or formal applications for general rate increases, staff will not recommend increases in excess of 100% unless:

1. A larger increase would be required to eliminate a negative rate of return or out of pocket loss.
2. A large increase is based on large investment for new facilities primarily to improve service.

EJT/WRA.st

cc: J. E. Bodovitz
Division Directors

Memorandum

Date : Conference of August 18, 1982

To : President Bryson
Commissioner Gravelle
Commissioner Grimes
Commissioner Calvo
Commissioner Grew

From : Public Utilities Commission -- San Francisco -- J. E. Kerr, General Counsel
W. R. Ahern, Director, Utilities Div.
B. A. Davis, Director, Rev. Req. Div.
B. Barkovich, Director, Policy Div.

File No.:

Subject: Implementation of "Caps" for Water Utility Rate Increases (for Commission Consideration at the August 18, 1982 Conference)

RECOMMENDATION: The staff recommends that rates for water utilities subject to a cap be reduced to the adopted level as soon as the revenues deferred due to the cap are provided to the utilities.

DISCUSSION: At the February 4, 1982 Conference, the Commission approved a general policy limiting annual rate increases to 50% for large water utilities and 100% for small water utilities. The Commission further indicated that any deferred revenues would be provided to the utilities with interest. In attempting to implement this policy, a pivotal issue emerged. After the deferred revenues are returned to a utility, should the rates be reduced back to the adopted level or be allowed to remain at the level set to provide the deferred revenues and interest (authorized level). The attachment presents a graphical representation of the two methods.

The advantage of the staff method is that the rates would be above the proper adopted level for the shortest time. The disadvantage would be the possibility of rate instability if the deferred revenues are repaid in year 2, rates are reduced to the adopted level in year 3 and the utility files for and receives another rate increase beginning in year 4. If the utility does not file for a rate increase in year 3, however, and the higher rates are not reduced after the revenues are returned, the customers would be paying an unauthorized rate increase beginning in year 4. Utilities do not automatically file for rate increases every three years, and they might have an incentive not to file if the authorized revenues were larger than the proposed increases. This would be another advantage of the staff method.

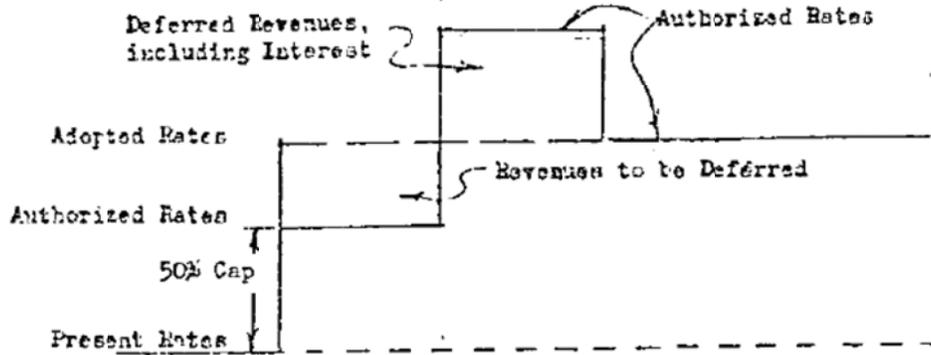
ALTERNATIVE: The initial decision draft in Application No. 60253 used the staff recommended method in ordering the recovery of deferred revenues in one year and then reducing the rates to the adopted level in year 3. However, at the conference of May 18, 1982, the Commission, in issuing Decision No. 82-05-076 in that proceeding, selected the alternative method of spreading the deferred revenues equally over years 2 and 3 and keeping the rates at this higher level for year 4. This results in more stable rates for those years, assuming that the utility receives a rate increase in the fourth year.

EJT:RN
Attachment

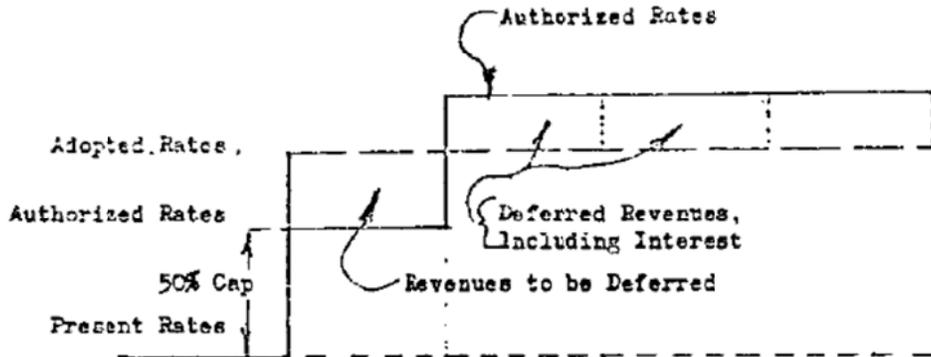
cc: J. D. Reader
M. J. Purcell
W. E. Franklin

Test Year Year 2 Year 3 Year 4

Recommended Method



Alternate Method



Authorized level represents the adopted revenues plus the deferred revenues, including interest in Year 2 and Year 3.

NO ATTRITION - SINGLE TEST YEAR
 DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983
 (Dollars in Thousands)

	<u>Adopted</u>	<u>Adjustment</u>	<u>CAPS</u>
<u>1983</u>	Effective Date - April 1, 1983		
Present	\$438.5		\$ 438.5
Adopted	787.9		657.8
Increase	349.4	79.7%	219.3 50%
<u>1984</u>	Effective Date - April 1, 1984		
Present	787.9		657.8
Adopted	787.9	[\$130.1 + \$15.6]	933.6
Increase	-		275.8 41.9%
<u>1985</u>	Effective Date - April 1, 1985		
Present	787.9		933.6
Adopted	787.9		787.9
Increase (Decrease)	-		(145.7)(15.6%)

COMPUTATIONS

Deferred Amount

$$\$349.4 - \$219.3 = \$130.1$$

Interest

$$\$130.1 \times (12.0\%) = \$15.6$$

Accumulated Revenues

	<u>Adopted</u>	<u>CAPS</u>	<u>Difference</u>
1983-85	\$2,363.7	\$2,379.3	\$15.6

ATTRITION - THREE TEST YEARS

DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983
(Dollars in Thousands)

	<u>Adopted</u>	<u>Adjustment</u>	<u>CAPS</u>
<u>1983</u> Effective Date - April 1, 1983			
Present	\$438.5		\$438.5
Adopted	787.9		657.8
Increase	349.4 79.7%		219.3 50%
<u>1984</u> Effective Date - April 1, 1984			
Present	791.2 *		660.2 *
Adopted	842.8 **	130.1 + 15.6	988.5
Increase	51.6 6.5%		328.3 49.7%
<u>1985</u> Effective Date - April 1, 1985			
Present	847.8 *		992.1
Adopted	902.8 **		902.8
Increase/(Decrease)	55.0 6.5%		(89.3) (9.0%)

* The following increases results from customer growth:

<u>Year</u>	<u>Adopted</u>	<u>Distribution</u>
1984	\$3.3	\$2.4
1985	\$5.0	\$3.6

** The following increases results from attrition:

<u>Year</u>	<u>Attrition</u>	
1984	\$51.6	(\$842.8 - \$791.2)
1985	\$55.0	(\$902.8 - \$847.8)

COMPUTATIONSDeferred Amount

$$\$349.4 - \$219.3 = \$130.1$$

Interest

$$\$130.1 \times (12.0\%) = \$15.6$$

Accumulated Revenues

	<u>Adopted</u>	<u>CAPS</u>	<u>Difference</u>
1983-1985	\$2,533.5	\$2,549.1	\$15.6

Note: Note that the total dollar amount of deferred revenue and payback (interest) are not affected by customer growth and attrition. However, the percentage amount of the annual increases are changed. (See Attachment No. 3).

NO ATTRITION - SINGLE TEST YEAR

DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983
(Dollars in Thousands)

	<u>Adopted</u>	<u>Adjustment</u>	<u>CAPS</u>
<u>1983</u> Effective Date - April 1, 1983			
Present	\$170.0		\$170.0
Adopted	380.0		255.0
Increase	210.0 123.5%		85.0--50%
<u>1984</u> Effective Date - April 1, 1984			
Present	380.0		255.0
Adopted	380.0	$\overline{2.2} + 0.3$	382.5
Increase	-		127.5--50% ^{1/}
<u>1985</u> Effective Date - April 1, 1985			
Present	380.0		382.5
Adopted	380.0	$\overline{122.8} + 29.5$	532.3
Increase	-		149.8--39.2%
<u>1986</u> Effective Date - April 1, 1986			
Present	380.0		532.3
Adopted	380.0		380.0
Increase/(Decrease)	-		(152.3)--(28.6%)

COMPUTATIONSDeferred Amount

$$\$210 - \$85.0 = \$125.0$$

Distribution

$$1984 - \$ (255.0 \times 1.5 - 380.0) + 1.12^2 = \$2.2$$

$$1985 - \$ 125.0 - 2.2 = \$122.8$$

Interest

$$1984 - 2.2 \times 12\% = \$0.3$$

$$1985 - 122.8 \times 12\% \times 2 \text{ yrs.} = \$29.5$$

Accumulated Revenues

	<u>Adopted</u>	<u>CAPS</u>	<u>Difference</u>
1983-1986	\$1,520.0	\$1,549.8	\$29.8

^{1/} Note that the 50% CAP for Test Year 1984 requires that the deferred revenue is recovered in Test Year 1985.

^{2/} The factor 1.12 is a combination of principal (1.0) plus interest (12.0%).

1 exceed ten percent, water utilities are required to notify its customers in accordance to
2 Section 3.1 of GO 96B which states in part: “A *Utility shall give notice by bill insert or*
3 *by separate mailing of an advice letter requesting approval of a more restrictive term or*
4 *condition, or of a rate or charge increase, except that if the requested revenue increase is*
5 *an offset increase of less than ten percent of the revenue requirement last authorized for*
6 *the Utility (or district of the Utility for which the increase is requested), the Utility may*
7 *give notice of the requested increase by publishing a legal notice in a newspaper of local*
8 *circulation or, if no such newspaper exists, by posting notice prominently in an area in*
9 *which customers normally gather.” This notice requirement in GO 96B provides*

10 ratepayers, at a minimum, the opportunity to comment or protest on the advice letter.
11 The protests, if valid, will perhaps be used as a basis for approval by the Commission.
12 Requiring CWS to notify its customers is particularly important given the magnitude of
13 the recent rate increases and the significant number of complaints from its customers.
14 The Commission should encourage more customer participation, not less, in its decision
15 making and allow the process to be more transparent and fair to the ratepayers.

16 DRA also believes CWS’ request in this GRC is the wrong proceeding to make
17 this request. A more appropriate setting to request a deviation for a general order rule
18 should be conducted in a rule making proceeding, such as an OIR. This type of venue
19 would allow all stakeholders to provide input and comments and gives the Commission
20 the opportunity to weigh in the pros and cons of the rule change before a final decision is
21 made. A rule making proceeding also allows any rule change to be made for the entire
22 water industry, rather than changing the rules for one company at a time. Making rule
23 change outside such a proceeding would amount to piece-meal application of the rules
24 that could be confusing and unfair to both ratepayers and other water utilities.

25 Finally, DRA finds little support that it would be too burdensome and costly for
26 CWS to notify its customers of the escalation year’s rate increases. As stated in Section
27 3.1 of GO 96B, CWS has the option of notifying its customers by either a bill insert or
28 publishing a legal notice on the local newspaper. Both of these methods are cost
29 effective and require minimum cost from CWS customers.

1 **D. CONCLUSION**

2 The Commission should reject CWS' request to waive its requirement of
3 notifying its customers for Escalation Years rate increases. DRA believes the benefit of
4 notifying ratepayers under such circumstance outweighs the cost of doing so.

1 **CHAPTER 18: SPECIAL REQUEST #8 – SUBSEQUENT OFFSET**
2 **INCREASES**

3 *DRA addresses Special Request #8 together with Special Request #2 (Chapter 12*
4 *of this report).*

1 **CHAPTER 20: SPECIAL REQUEST #10 – APPLY KERNVILLE**
2 **TARIFF TO JAMES WATER**

3 **A. INTRODUCTION**

4 CWS requests to apply the Kernville rate area of the Kern River Valley District’s
5 tariff to James Water customers in compliance with the stipulation agreed to by CWS and
6 DRA in D.12-02-003. Specifically, in D.12-02-003 the Commission found “it is
7 reasonable for Cal Water to initially charge currently authorized tariffed rates to James
8 Water’s customers, and request a revision to such rates as part of its 2012 General Rate
9 Case.”

10 **B. DISCUSSION**

11 CWS has requested the application of Kernville rates to the former James Water
12 customers consistent with D.12-02-003. The James Water customers are all metered but
13 have been on a flat-rate tariff. The customers were given notice of CWS’ acquisition of
14 the James Water Company and of CWS’ intention to apply the Kernville metered rates to
15 them. Below is a comparison of the current James Water rates and CWS-proposed rates
16 for the Kernville rate area in this GRC. DRA-proposed rates are not presented here but
17 will be lower due its lower recommended revenue requirement for the Test Year 2014.
18 The monthly totals shown are the sum of the quantity charge (based on 7 CCF²⁹³) and the
19 monthly service charge.

Residential Service (5/8-in)	Current	CWS-Proposed
James Water Rate Area	\$ 45.00 Flat Rate	\$114.96
Kernville Rate Area	\$96.53	\$114.96

20
21 **C. CONCLUSION**

22 DRA recommends the Commission adopt CWS’ request to apply the Kernville
23 rates to the James Water customers.

²⁹³ CCF: 100 cubic feet; 7 CCF is what CWS uses to calculate its typical customer bill for illustrative purposes.

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**CHAPTER 21: SPECIAL REQUEST #11 – CLOSING
BALANCING ACCOUNTS AND MEMORANDUM
ACCOUNTS**

*DRA addresses Special Request #11 in its Report on the Balances in the Balancing
Accounts and Memorandum Accounts of CWS.*

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**CHAPTER 22: SPECIAL REQUEST #12 – CONTINUING
BALANCING ACCOUNTS AND MEMORANDUM
ACCOUNTS**

*DRA addresses Special Request #12 in its Report on the Balances in the Balancing
Accounts and Memorandum Accounts of CWS.*

1 **CHAPTER 23: SPECIAL REQUEST #13 – HEALTH COST BALANCING**
2 **ACCOUNT (NEW)**

3 **A. INTRODUCTION**

4 CWS proposes that employee medical costs be covered by a balancing account.
5 CWS claims that this balancing account would reduce the volatility of CWS’ medical
6 coverage in recognition that self-insured medical plan can be a cost savings for ratepayers
7 over outside coverage.²⁹⁴ The balancing account would protect the company and
8 ratepayers from significant changes in medical costs, which may occur as a result of
9 health reform, potential repeal of health reform, or other changes in the economy.
10 Finally, CWS claims that since estimates of medical cost in the GRC could be inaccurate,
11 a balancing account will protect ratepayers from an overestimate of future costs and
12 conversely protect the utility from an underestimate.

13 **B. SUMMARY OF RECOMMENDATIONS**

14 DRA disagrees with CWS on the need to establish a balancing account. There is
15 no historical evidence showing that the cost has been volatile and have led to any losses
16 suffered by CWS shareholders. Granting CWS such balancing account would remove
17 the incentive for CWS to control its health care expense while placing additional
18 financial risks onto its ratepayers. A detailed discussion of CWS’ health plan for both of
19 its current employees and retirees is in DRA’s Report on the General Office of CWS.

20 **C. DISCUSSION**

21 CWS originally established CWS’s healthcare plan as a completely self-insured
22 PPO plan. Since 2008, CWS has contracted with Kaiser Permanente and offered its
23 employee a HMO option for health care coverage. At the present time, CWS is still
24 primarily a self-insured plan, with approximately 72% of its members enrolled under the
25 self-insured medical option. The other 28% are covered under the plan’s fully insured

²⁹⁴ Testimony sponsored by Tom Smegal

1 Kaiser option for medical. The dental and vision portions of the healthcare plan remain
2 entirely self-insured.

3 Since the current health care plan is primarily self-insured, CWS claims that there
4 is inherent risk and volatility associated with maintaining a self-insured plan. It stresses
5 that the volatility due to health care reform or other changes in the economy would place
6 the company shareholders under undue risk.

7 DRA disagrees. There is no evidence that historical volatility in health care cost
8 has led CWS to any financial loss or undue risk to its shareholders. For example, CWS'
9 parent company has been paying dividends to its shareholders for 68 years consecutively,
10 and has been increasing dividends for the past 12 years consecutively.²⁹⁵ DRA's review
11 of CWS' historical health care expenditure the Commission authorized and the actual
12 cost CWS incurred suggests that CWS' health care cost projections in the GRC has been
13 fairly accurate. In fact, with the exception of 2011, CWS's actual health care costs have
14 been underspent every year since 2008 compared to the amount the Commission
15 authorized. In short, CWS has over-collected nearly \$3 million from its ratepayers in the
16 last four years. CWS' claim that its shareholders assume the financial risk due to
17 volatility is simply not true. Table below compares the authorized amount vs. actual
18 amount for both active and retired employees from 2008 through 2011:²⁹⁶

	2008	2009	2010	2011	Total (2008-2011)
Authorized	\$10,927,200	\$14,134,900	\$15,392,300	\$17,510,200	\$57,964,600
Actual	\$9,423,166	\$13,780,233	\$14,327,935	\$17,716,333	\$55,247,667
Dollar difference (over)/under	\$1,504,034	\$354,667	\$1,064,365	(\$206,133)	\$2,716,933
% Difference	13.76%	2.51%	6.91%	(1.17%)	4.68%

²⁹⁵ See <http://seekingalpha.com/news-article/5455751-california-water-service-group-board-of-directors-declares-272nd-consecutive-quarterly-dividend-and-46th-consecutive-annual-dividend-increase>

²⁹⁶ Figures from data request response VCC-05

1 In this GRC, CWS has provided its health care projection for 2012 to 2016 based
2 on an actuarial report by its consultant, Milliman. For total health care cost including
3 medical, dental, vision, CWS projects the following for its active employees based on the
4 figures from the Milliman report:

5

Medical, Dental, Vision Costs for Active Employees²⁹⁷

	Medical	Dental	Vision	Total
2012	\$11,846,000	\$1,107,000	\$112,000	\$13,065,000
2013	\$13,668,000	\$1,229,000	\$124,000	\$15,021,000
2014	\$15,915,000	\$1,364,000	\$136,000	\$17,415,000
2015	\$18,337,000	\$1,513,000	\$150,000	\$20,000,000
2016	\$21,114,000	\$1,678,000	\$166,000	\$22,958,000

6 The projection in the Milliman's report were determined based on prior year's
7 claims experience, adjusted as follows: an expected annual medical trend an insurer used
8 in setting fully insured premiums of 14% for each year from 2008 through 2012, with an
9 increase to 15.5% for 2013 and beyond to account for taxes and other provisions under
10 PPACA (AKA "Healthcare Reform") coming into effect; annual trends of 5% each for
11 dental and vision for each year from 2008 through 2015, and loss ratios of 90% for
12 medical, 95% for dental, and 95% for vision. Simply put, most of the anticipated
13 variables associated with the health care expenses have already been accounted for in
14 CWS' estimates of the current GRC. In the event of a potential large claim due to serious
15 illness, accidents, or pre-natal incidents, CWS has an individual stop-loss policy that will
16 protect it from such unexpected loss. DRA believes that most of the volatility cited by
17 CWS as a reason for having a balancing account has been accounted for in its request and
18 therefore, the need for a balancing account is not necessary. DRA's GO witness, Donna
19 Ramas, generally agrees with Milliman's projected cost for both its active and retiree
20 health benefits and her detailed discussion on Group Health Insurance is included in the
21 GO report.

²⁹⁷ Figures from Milliman Report dated June 7, 2012

1 Under CWS' current plan, employees pay a net fixed rate of \$16 toward the health
2 care insurance while CWS funds the remaining portion. As responded in data request
3 VCC-5, CWS has historically provided group health insurance without a monthly
4 employee contribution. In 2006, CWS instituted a \$16 per month employee premium. In
5 2007, CWS increased this premium to \$125 per month while at the same time increased
6 its employee salaries by \$109 per month and initiated a Section 125 plan so employees
7 could pay premiums on a pre-tax basis. However, requiring its employees to pay a net
8 fixed rate of \$16 is not reflective of recent trends in which employees are being held
9 responsible for increasing percentages of the health insurance costs. Within California,
10 employees of other Class A water companies are required to pay a much bigger share of
11 their health care costs. For example, Golden State Water Company employees contribute
12 15% toward their health insurance, Suburban 16% and Valencia ranges from 20% to 30%
13 depending on the type of plan. Clearly, CWS' employees pay a much lower amount
14 toward their health care cost. Instead of asking ratepayers to assume a greater risk of
15 health care cost volatility, CWS should ask its employees to fund a bigger share of the
16 health care costs that are more comparable to other water utilities and industry norms.
17 Doing so would help CWS to minimize the rate impact to its ratepayers.

18 In the prior CWS GRC, the Commission issued its decision, D.10-12-017,
19 authorizing CWS to track the unknown and potentially significant cost changes related to
20 the federal health care bill Congress passed in April 2010. At the time of filing this GRC,
21 CWS recorded no amount into this memo account. This is another indication that CWS
22 has been able to project its health care costs relatively accurately without further need for
23 the balancing account protection for its shareholders. Given that no balance was recorded
24 in the memo account, DRA's witness reviewing the balances in CWS' various balancing
25 accounts and memo accounts recommends that it be closed.

26 Finally, granting CWS a balancing account would eliminate its management the
27 incentive to control health care costs. Without the protection of a balancing account,
28 CWS management will have to be more prudent in projecting its health care expenses and
29 will have inherent incentives to control the costs within the level the Commission

1 authorized. Granting CWS a balancing account, on the other hand, would shift the entire
2 risk to ratepayers as CWS would be allowed to recover dollar for dollar for the cost it
3 incurred regardless of the fluctuation of the costs. Since CWS management draws a
4 competitive salary paid for by ratepayers, DRA believes CWS management must do their
5 job by properly managing its health care costs.

6 **D. CONCLUSION**

7 DRA recommends the Commission reject CWS' request for a health care cost
8 balancing account because CWS has been able to project accurately as shown in its
9 historical expenditure and the fact that there was no recorded balance in its federal health
10 care bill Memorandum Account. DRA also believes CWS can reduce the fluctuation in
11 its health care costs by requiring higher premiums from its employees. Finally, CWS
12 management would have higher incentives to forecast a realistic and accurate health care
13 costs without the protection of a balancing account.

1 **CHAPTER 24: SPECIAL REQUEST #14 – WATER QUALITY**
2 **FINDINGS**

3 **A. INTRODUCTION**

4 CWS requests the Commission determine a water quality finding under the
5 provisions of the rate case plan.²⁹⁸ It believes the Commission is required to make this
6 determination in order to uphold its regulatory duty as established under the Hartwell
7 decision. CWS requests a finding from the Commission that all operating districts
8 provide water service that meets or exceeds state and federal drinking water standards
9 and meets the requirements of General Order 103.

10 **B. SUMMARY OF RECOMMENDATIONS**

11 DRA has reviewed the water quality testimony and data for each of CWS’ 23
12 districts. DRA’s Plant witnesses have provided the findings and recommendations and
13 are found in their respective ratemaking service district testimonies on Plant.

14 **C. DISCUSSION**

15 Under the Revised New Rate Case Plan, D.07-05-062, the Commission requires
16 that any proposed decision in a GRC proceeding needs to make specific findings and
17 recommendations concerning the utility’s water quality compliance. Moreover,
18 D.07-05-062 requires the Division of Water and Audit appoint a water quality expert and
19 the presiding officer to rely on the testimony of the expert in support of a water quality
20 finding. DRA offers its independent findings and recommendations on water quality by
21 its Plant witnesses to comply with the directives of D.07-05-062.

22 **D. CONCLUSION**

23 DRA’s witnesses on Plant provide their independent review of CWS’ water
24 quality for each of its 23 rate making service districts. The findings and

²⁹⁸ Testimony sponsored by Chet Auckly.

- 1 recommendations are included in the Water Quality chapter in DRA's Report on Results
- 2 of Operations for each district.

1 **CHAPTER 25: SPECIAL REQUEST #15 – CUSTOMER SERVICE**
2 **RULE CHANGE**

3 **A. INTRODUCTION**

4 CWS requests several changes to its tariff rules primarily related to interactions
5 with customers.²⁹⁹ These changes do not have a rate impact. These changes include
6 replacing dated language, updating requirements to reflect current law or practice, minor
7 modifications to maintain internal consistency, and policy proposals CWS believes better
8 serve both customers and the company.

9 **B. SUMMARY OF RECOMMENDATIONS**

10 DRA agrees with CWS in modifying its tariff languages to reflect current law and
11 practice with the exception of its request to change the bad check or electronic fund
12 transfer fee from \$10 to \$20. CWS’ request is not supported based on DRA’s cost
13 analysis of CWS request to raise these fees, and should be rejected by the Commission.

14 **C. DISCUSSION**

15 DRA agrees with CWS that most of the proposed changes to the tariff rules are
16 intended to replace or clarify the tariff language, update the requirements to reflect
17 current law or practice, and to provide minor modifications to maintain internal control.
18 The changes would enhance clarity to CWS’ tariff rules and will better serve both
19 customers and the company.

20 DRA takes exception to CWS’ proposed increase of the fee for bad checks or
21 electronic fund transfer from the current \$10 to \$20. CWS claims that such an increase is
22 necessary in order to reflect its business practice, the increased costs charged by other
23 financial institutions and the cost of labor to handle returned payments.

24 DRA believes such increase from \$10 to \$20 is neither reasonable nor supported
25 by the actual cost that CWS incurred for returned payments. In Data Request Response
26 VCC-06, CWS provided that it would be charged \$6.55 by the financial institutions on

²⁹⁹ Testimony sponsored by Tom Smegal

1 each electronic transfer and bad check. There will be an additional \$1.14 for labor cost
2 for handling a returned check, bringing the total charge to \$7.69. As such, CWS' current
3 charge of \$10 is more than sufficient to cover the cost of bad check or electronic fund
4 transfer. DRA, therefore, recommends that the \$10 fee in the current tariff remain
5 unchanged.

6 DRA makes a correction to the phone numbers listed on CWS' tariff. On page 3
7 of 19, Section B of Rule 5, the correct statewide phone number for consumers who have
8 questions regarding their utility bills is (800) 649-7570. There are no separate phone
9 numbers for either the San Francisco or Los Angeles offices.

10 **D. CONCLUSION**

11 DRA agrees most of the proposed changes to CWS' tariff rules, except its
12 proposed increase for bad checks and electronic fund transfer fees from \$10 to \$20. DRA
13 believes such fee should remain unchanged based on CWS' actual cost for handling such
14 payments. CWS should also make corrections to the phone numbers listed in its Rule 5
15 tariff.

1 **CHAPTER 26: SPECIAL REQUEST #16 – BALANCED**
2 **PAYMENT PLAN**

3 **A. INTRODUCTION**

4 CWS requests Commission authority to offer a “Balanced Payment Plan” option
5 to its customers.³⁰⁰ This option will allow CWS’ customers to sign up for the plan and
6 receive bills equal to their last 12-month average bill, or a representative neighborhood
7 bill if their consumption history is shorter than twelve months.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 DRA agrees with CWS that the balanced payment plan offers ratepayers another
10 option to make their water service payment and allow them to better manage their bills.
11 DRA also believes that the plan has the potential to reduce call volumes, but requires
12 additional data to determine if it would have an impact on water conservation. DRA
13 recommends that the Commission approve the plan on the condition that it has to be
14 offered to all customers, not just to those who are current on their bills. Finally, DRA
15 recommends that CWS be required to track the costs and monitor the success of the
16 program and report them to the Commission in its next GRC.

17 **C. DISCUSSION**

18 The balanced payment plan provides CWS customers another option to make their
19 payments and manage their bills. This is particularly helpful to those who are on fixed
20 incomes or those who are used to flat rates. Customers who sign up for the balanced
21 payment plan will receive bills equal to their 12-month average bill, or a representative
22 neighborhood bill if their consumption history is shorter than twelve months. Every 3
23 months, CWS will review the trailing twelve month average bill amount and adjust the
24 balanced payment if necessary. The payment plan will help smooth out the fluctuation of
25 customer’s water bills throughout the entire year.

³⁰⁰ Testimony sponsored by Tom Smegal

1 In its filing, CWS stated that it does not believe the balanced payment plan would
2 significantly alter the conservation price signal to the customers. CWS further stated that
3 the balanced payment plan would still send a price signal because increasing or
4 decreasing usage would continue to have an effect on the monthly balanced amount. In
5 addition, the payment plan could be designed to provide CWS the opportunity to message
6 customers about conservation at the time of the adjustment. The actual customer usage
7 and cost information would still be available on monthly statements because only the
8 requested payment would be “balanced.” However, it is difficult for DRA to verify
9 CWS’s claim without the supporting data. DRA recommends that CWS review the plan
10 and its impact on conservation and report it to the Commission in its next GRC.

11 DRA believes the balanced payment plan has the potential to reduce call volumes.
12 The payment plan minimizes the fluctuation of the water bills from month to month, i.e.
13 winter bill vs. summer bill, and therefore, would not be a surprise to the customers. It is
14 expected that the number of billing inquiries, billing extension requests and billing
15 disputes will decrease accordingly.

16 There are some expenses, both one time and on-going, associated with the
17 implementation of this payment program. In VCC-06 data response, CWS indicated that
18 it has to set up a “Balanced Payment Plan” in CWS’ Revenue Management System
19 (“RMS”) database. The company will also need to develop two new software programs:
20 one for monitoring customer bills, and one for trueing-up customer bills. CWS estimates
21 that the cost for development and support in the first year will be \$57,600 and \$41,600
22 per year for on-going support thereafter. Additionally, there will be about \$7,000 for the
23 first mailing by bill insert and \$500 for providing posters in each of CWS’ customer
24 centers. Finally, CWS is expected to incur minimal expenses to communicate to the
25 individual customers and training for its Customer Service Managers and
26 Representatives. CWS has not included any of these expenditures in its filing nor
27 seeking its recovery at this time.

28 DRA disagrees with CWS to make the balanced payment plan available only to
29 customers who are current on their bills. Rather, the payment plan should be offered to

1 all customers regardless whether or not the customers have been paying their bills timely.
2 Currently, there are tariff penalties for late or non-payment of bills, e.g., the non-payment
3 of bills can result in discontinued of water service. This penalty, if extended to other
4 forms of payment, is an adequate deterrent for late or non-payment. Furthermore, the
5 program is being funded by every CWS customer and everyone is therefore entitled to
6 benefit from the plan. Making the plan available only to customers who are current on
7 their bills is discriminatory and should not be allowed.

8 On February 5, 2013, DRA had a conference call with CWS to further discuss its
9 Balanced Payment Plan and seek clarification to the anticipated costs relating to the plan.
10 CWS indicated to DRA that after further consideration, it no longer will restrict the plan
11 to only customers in good standing but instead would be willing to allow all customers to
12 sign up regardless of their payment history. CWS requests that it should still be given the
13 flexibility to remove those customers from the plan if they become delinquent in their
14 payment after enrollment. What is unknown at this time is the criteria or guidelines that
15 CWS will be using to determine how and when those delinquent customers will be
16 removed from the program. CWS suggested that it will begin to draft a set of guidelines
17 for the program once it receives the approval from the Commission. These guidelines,
18 when established, will be included in CWS' Balanced Payment Plan tariff. CWS should
19 file a Tier II Advice Letter to implement this program.

20 Given this is a new program with many uncertainties, DRA recommends that
21 CWS be required to track the costs and monitor the success of the program and report
22 them to the Commission in its next GRC. The report should include, but not limit to the
23 program's participation rate, costs, savings and its impact, if any, on water conservation,
24 working cash and uncollectible rates. CWS should also discuss if it needs to make
25 further adjustments to the program in order to make it more cost effective.

26 In approving CWS' Balanced Payment Plan program, DRA recommends that Item
27 4(b) of Rule 9 be removed from its proposed tariff. The removal of this rule reflects
28 CWS' willingness to allow all of its customers the opportunity to participate this program
29 and not just those who are in good standing.

1 **D. CONCLUSION**

2 DRA recommends the balanced payment plan CWS proposed be approved by the
3 Commission on the condition that CWS offers it to all of its customers. The plan offers
4 CWS customers another payment option and helps them manage their bills. DRA
5 believes the advantage of the plan far outweighs the small costs required to implement
6 and to maintain it. However, the Commission should require CWS to track the costs and
7 monitor the success of the program and report them to the Commission in its next GRC.

1 **CHAPTER 27: SPECIAL REQUEST #17 – CREDIT CARD PROGRAM**

2 **A. INTRODUCTION**

3 CWS requests eliminating its credit card/debit cards pilot program and seeks
4 Commission’s approval to offer the program to its residential customers on a permanent
5 basis.³⁰¹ CWS is reporting on the costs and benefits of the program and seeking to retire
6 the memorandum account. However, CWS is not requesting to amortize any balance in
7 the account in this GRC. CWS indicates that the program is cost neutral and therefore no
8 fee should be charged to its customers who participate in the program.

9 CWS filed an advice letter AL-1808-B in 2007 with the Commission to establish
10 its credit card pilot program, following a similar request by PG&E. The advice letter
11 indicated that CWS would file a report with the Commission on the pilot program to help
12 the Commission make a finding that a no fee credit card program is in the public interest,
13 either because it has no net cost or for other policy reasons.

14 **B. SUMMARY OF RECOMMENDATIONS**

15 DRA recommends the Commission disallow CWS’ request to offer its customers a
16 no-fee credit card/debit card payment option. CWS’ proposal does not comply with PU
17 Code 755, which requires that no portion of the credit card/debit card expense can be
18 shifted to customers that do not choose to pay a bill by credit card or debit card. The
19 memorandum account that tracks the costs and savings in CWS’ pilot program shows a
20 deficit of over \$1.4 million since its inception. This illustrates that CWS will not be in
21 compliance with PU Code 755 if it institutes the credit card program with no fee for
22 participants because CWS will have to seek recovery of costs to fund the credit card
23 program from the general body of its customers. DRA also recommends that the
24 memorandum account be closed upon the findings that CWS’ no fee credit card program
25 does not comply with PU Code 755.

³⁰¹ Testimony sponsored by Tom Smegal.

1 **C. DISCUSSION**

2 Public Utilities Code 755 states: A water utility “may offer credit card and debit
3 card bill payment options, if approved by the [C]ommission”. (PU Code § 755(b).)
4 Water utilities are also permitted to recover “the reasonable expenses incurred . . . for
5 providing [their] customers the option of paying their bills by credit card or debit card.”
6 (PU Code § 755(a)(1).) However, “[o]nly the customers that choose to use these
7 payments options incur the additional charge and [] no portion of the expense [can be]
8 shifted to customers that do not choose to pay a bill by credit card or debit card, unless
9 and until the [C]ommission determines that the savings to ratepayers exceeds the net cost
10 of accepting those cards.” (PU Code § 755(a)(2).) PU Code § 755(b) states that a water
11 utility offering credit card and debit card bill payment options “may recover reasonable
12 transaction costs incurred by the [water utility] only from those customers that choose to
13 pay by those payment options.” PU Code § 755(c) requires the Commission to
14 determine “through existing regulatory mechanisms the reasonableness of transaction
15 costs charged to customers that choose to pay [their water bills] by a credit card or debit
16 card bill payment pursuant to this section.” The Commission “shall determine how any
17 associated costs or potential savings as a result of those customers paying by the credit
18 card or debit card payment option shall be passed on to...water corporation customers”.
19 (PU Code § 755(c).) If the Commission “determines that the savings to the ... water
20 corporation exceeds the costs to the ... water corporation, the net savings shall be passed
21 on to...water corporation customers”. (Pursuant to PU Code § 755(c) (3).) CWS believes
22 that its request complies with the requirements of PU Code 755 because the program is
23 cost neutral or has additional savings, so individual customer transaction charges are not
24 warranted. CWS also indicated that any additional unquantifiable savings developed as a
25 result of the credit card pilot have been reflected in recorded costs used to evaluate the
26 revenue requirement in this proceeding and therefore, net savings, would be passed on to
27 the customers.

1 DRA's review of CWS' memorandum account tracking the costs and savings
2 associated with the pilot program shows a deficit for the pilot program throughout its
3 implementation. CWS presented the balance arguing that it is a net surplus by including
4 the mileage savings resulting from customers who drive less to the post office and the
5 postage savings that assumed everyone who pays with credit card had previously paid by
6 mailing checks. Neither of the two saving claims, however, was substantiated by CWS in
7 its justification. Similarly, CWS also claimed that the use of credit and debit cards has
8 the potential to reduce the number of shutoffs for non-payments (SONPs). It arbitrarily
9 suggested that up to 200 customers can avoid SONPs per month, saving \$30,000 in labor
10 and uncollectible expenses for CWS. CWS' savings claim not only cannot be
11 substantiated by evidence, the actual data collected by Pacific Gas & Electric (PG&E)
12 suggests the opposite is true. In fact, in PG&E's request to close its no-fee credit card
13 program, PG&E stated, "*PG&E had expected customers would use a credit card option*
14 *to pay their bills to avoid shutoff. In fact, when reviewing 'Shut off non-pay' statistics we*
15 *notice during Oct 07 only 1.15% of customer contacting us with this situation paid their*
16 *bill by using credit card. In May or 2008 that number dropped to 0.2%. These findings*
17 *lead us to the conclusion that the credit card option is not a significant help to customers*
18 *who struggle to pay their bills.*" As such, DRA did not consider those saving claims that
19 are speculative and without support in its evaluation of the memorandum account balance
20 and to determine if the credit card pilot program shows net costs to the ratepayers.

21 As requested in its advice letter AL-1808-B, CWS' memorandum account tracks
22 costs and savings associated with its pilot credit card program. The quantifiable costs are
23 those charged by CWS' third party bill payment providers, PaymentTech and Kubra.
24 The quantifiable savings are those associated with savings on check processing and bill
25 mailing. As stated previously, DRA found CWS' argument unpersuasive that customer
26 postage savings on return mailing and customer savings on mileage should be considered
27 in the memorandum account balance because these items are not substantiated. Between
28 January 2008 and May 2012, CWS' memorandum account had total costs of \$1,925,000
29 and savings of \$484,500, for a net cost of \$1,441,116 as stated in Tom Smegal's

1 testimony. Although CWS is not requesting to amortize the balance in the memorandum
2 account, the magnitude of deficit illustrates that on a going forward basis, there is likely
3 to be costs passed on to all customers if CWS does not charge a fee on credit card use for
4 participants in a credit card payment program.

5 From experience with other utilities, DRA believes that CWS would have to
6 modify its accounting and billing software and integrate with that of the third-party
7 vendor. This will require: 1) programming to share customer billing information with the
8 vendor; and 2) creating processes to electronically retrieve transaction remittances from
9 the vendor and modification of customer payment history in CWS' billing application
10 software to reflect the new source of payments. There will be costs associated with
11 programming, testing and training of its employees to implement the new system.
12 Besides the upfront programming and processing costs, there will also be ongoing
13 expenses due to time spent by customer service representatives for assisting customers in
14 credit or debit card payments. Additional costs will be incurred for fulfilling required
15 notice requirements, printing and mailing costs and programming costs to post notice of the
16 availability of the credit/debit card payment program on CWS' website. These costs may
17 be partially offset by savings from the program that may occur from fewer service
18 disconnections per month because of timely bill payments. Both the upfront and the
19 ongoing costs are not being tracked in CWS' memorandum account.

20 As discussed above, PU Code 755 allows CWS to recover reasonable costs for
21 offering its customers an option to pay bills by credit card or debit card, but CWS may
22 only recover these costs from those customers that choose to pay their bill by these
23 means. Also, PU Code 755 requires that no portion of the expenses for offering these
24 payment options be shifted to customers that do not choose to pay a bill by credit card or
25 debit card unless and until the Commission determines that the savings to ratepayers
26 exceeds the net cost of offering these payment options. Since the memorandum account
27 for CWS' credit card pilot program shows a net deficit of over \$1.4 million from its
28 inception, this illustrates that if CWS were to implement a no-fee credit card program,
29 CWS would have to allocate costs to all of its ratepayers. Recovery of costs of this

1 program from the general body of non-participating customers is not permitted. As such,
2 DRA cannot find CWS' proposal is compliant with PU Code 755.

3 CWS' request to offer a no-fee credit card program goes contrary to the programs
4 offered by other water and energy utilities. In Resolutions W-4935 and W-4936, the
5 Commission approved Park Water Company and Apple Valley Ranchos Water Company
6 requests to add an option to its tariffs that allow customers to pay their bills using a credit
7 card or debit card. The approval is based on the conditions that both companies will
8 charge a convenience fee not to exceed \$2.50 for each transaction. Similarly, the
9 Commission approved Valencia Water Company in Resolution W-4908 to charge \$2.50
10 per transaction to its customers through a third party vendor. Even the program offered
11 by PG&E from which CWS program modeled after concluded that its "no-fee" credit
12 card program was not cost neutral. In Resolution G-3390, the Commission approved
13 PG&E to close its "no-fee" pilot credit card program because the costs of the program
14 exceeded its savings. Each of these credit card programs suggests that the cost incurred
15 by each credit card transaction has to be borne by customers using this payment option.
16 To be able to offer a no-fee credit card program, CWS would have to demonstrate that its
17 program is different and that its cost structure is so much more superior over the other
18 companies that a transaction cost is unnecessary. DRA does not believe CWS has made
19 its case in this GRC.

20 **D. CONCLUSION**

21 DRA recommends the Commission disallow CWS' request to offer its customers
22 a no-fee credit card/debit card payment option. CWS has not been able to demonstrate
23 that the savings of its proposed program exceeds the cost of accepting credit cards, and
24 therefore, in compliance with PU Code 755. CWS is not requesting to amortize any
25 balance in the credit card pilot program memorandum account and there is no need to
26 amortize any balance in that account and the account should be closed.

1 **CHAPTER 28: SPECIAL REQUEST #18 – CHROMIUM 6 MEMO**
2 **ACCOUNT (NEW)**

3 **A. INTRODUCTION**

4 CWS seeks the Commission’s authority to establish a Chromium 6 Memorandum
5 Account (“C6MA”) to track the following costs:³⁰²

- 6 a. Operations and maintenance (“O&M”) and administrative and general
7 (“A&G”) costs incurred to provide treatment to water contaminated
8 with Cr6;
- 9 b. Revenue requirement of any capital investments placed in service to
10 provide treatment to water contaminated with Cr6;
- 11 c. Costs of providing treatment to water contaminated with Cr6 included
12 in revenue requirement; and
- 13 d. Interest at the 90-day commercial paper rate.

14 On July 27, 2011, the Office of Environmental Health Hazard Assessment
15 (“OEHHA”) established a public health goal (“PHG”) for chromium-6 (Cr-6) of 0.2 parts
16 per billion (ppb). The California Department of Public Health (“CDPH”), while placing
17 primary emphasis on the protection of public health, will establish a contaminant’s
18 Maximum Contaminant Level (“MCL”) at a level as close as technically and
19 economically feasible to the PHG. The creation of a Cr-6 MCL at 2 ppb, 5ppb, 10 ppb,
20 15 ppb, 20 ppb or 25 ppb is currently being discussed at the state level.

21 Due to the uncertainty of the MCL level that will be adopted by CDPH, the timing
22 of the adoption and the cost of the treatment technologies, CWS is seeking the
23 establishment of the C6MA Memorandum Account rather than including the forecasts in
24 this GRC.

³⁰² Testimony sponsored by Chet Auckly.

1 **B. SUMMARY OF RECOMMENDATIONS**

2 DRA recommends that CWS' request for establishing a Chromium 6
3 Memorandum Account be denied. CWS' justification fails to meet the following
4 Commission's Memorandum Account Requirement:

5 Criteria 2: Expense cannot be foreseen in the last GRC and will occur
6 before the next GRC; and

7 Criteria 4: The ratepayers will benefit from the memorandum account
8 treatment.

9 **C. DISCUSSION**

10 CWS claims that it has spent approximately \$126,000 as of today to conduct
11 research and studies to determine the level of Cr6 in its wells, potential technologies, and
12 the magnitude of the treatment activity that would be required at different MCLs. It
13 further stated that it will likely be incurring substantial treatment costs prior to the next
14 GRC test year of 2017, even if an MCL for Cr6 has not been finalized. CWS' sole
15 justification for the Chromium-6 Memo Account is based on the Commission's well
16 established memorandum criteria. In D. 02-08-054, the Commission stated that
17 memorandum accounts are appropriate when the following conditions exist:

- 18 1. The expense is caused by an event of an exceptional nature that is not
19 under the utility's control;
- 20 2. The expense cannot have been reasonably foreseen in the utility's last
21 GRC and will occur before the utility's next scheduled rate case;
- 22 3. The expense is of a substantial nature in the amount of money involved;
23 and
- 24 4. The ratepayers will benefit by the memorandum account treatment.

25 DRA recommends that CWS' request for the Cr-6 Memorandum Account be
26 denied because it has failed to support its request to meet Criteria 2 and 4 of
27 Commission's memorandum account criteria.

1 Criteria 2: Expense Cannot Be Foreseen in the Last GRC and Will Occur Before
2 the Next GRC

3 After the establishment of the PHG in July 27, 2011, CDPH is mandated by state
4 law to set a MCL for Cr-6. It is required to set a Cr-6 MCL at a level as close as
5 technically and economically feasible to the PHG. To determine technical and economic
6 feasibility, CDPH would need to go through the following steps:

- 7 1. Receives the PHG from OEHHA
- 8 2. Selects possible draft MCL concentration or concentration for
9 evaluation
- 10 3. Evaluates the occurrence data
- 11 4. Evaluates available analytical methods and estimate monitoring costs at
12 a draft MCL concentration or various draft MCL concentrations
- 13 5. Estimates population exposures at the draft MCL concentration or
14 various draft MCL concentrations of the chemical
- 15 6. Identifies best available technologies for treatment
- 16 7. Estimates treatment costs at the draft MCL concentration or the
17 possible draft MCL concentrations
- 18 8. Reviews the costs and associated health benefits (health risk
19 reductions) that result from treatment at the draft MCL concentration or
20 the possible draft MCL concentrations
- 21 9. Proposes the draft MCL concentration or selects an MCL for proposal
22 from the possible draft MCL

23 Under the most optimistic timeline, it is expected that it would require between 3
24 to 4 years, or 2015 to 2016, for CDPH to develop and complete the rule making
25 process.³⁰³ By July 2015, CWS will be scheduled to file its next GRC in which the cost
26 of compliance can be included in its forecast. The Commission will then have an

³⁰³ Slide presentation titled Hexavalent Chromium: Cost Implications of a Potential MCL by Steve Via of AWWA.

1 opportunity to review the reasonableness of CWS' request and make its decision
2 accordingly.

3 When a major regulation is enacted, DRA has learned that CDPH would typically
4 allow for a grace period with sufficient time for water purveyors to comply with the new
5 rule. For example, the Stage II Disinfectants and Disinfection Byproduct Rule was
6 enacted into law in January 2006 but Schedule 1 systems (serving > 100,000 customers)
7 had until April 2012 before they were required to comply with the rule. DRA recognizes
8 that the compliance grace period can vary depending on the ultimate ruling from CDPH.
9 However, it nevertheless provides a likely scenario that the cost to comply with
10 Chromium-6 rule will not occur until well after CWS' next GRC. In some instances,
11 water purveyors have the possibility of working out a compliance plan and/ or requesting
12 an applicable technical waiver with CDPH to further extend its compliance period. CWS
13 did just that for its compliance in the Cross Connection Control Program, Secondary
14 Standards and the Storage Tank Free-Board Requirements. Finally, in the unlikely event
15 that CDPH enacts the new rule prior to CWS' next GRC, CWS has the option to file an
16 advice letter with the Commission to request the establishment of a memorandum
17 account. The Commission should have more information at that time to determine the
18 appropriateness of granting CWS the memorandum account.

19 The Commission should deny CWS' request for a memorandum account to track
20 the compliance cost of Cr-6 because it is both premature and unnecessary.

21 Criteria 4: The ratepayers will benefit from the memorandum account treatment.

22 CWS' request to establish a Chromium 6 memorandum account does not serve the
23 interest of its ratepayers. CWS ratepayers are being asked to shoulder the risk associated
24 with the compliance cost due to uncertainty in the MCL level and the selection of a
25 treatment technology that has not been proven to be cost effective. The technologies that
26 are currently being considered by CDPH vary greatly in both of their effectiveness and
27 costs depending on the final level of MCL. CWS even acknowledges in its testimony
28 that the capital costs alone can vary between \$30 million for the absorptive media

1 technology treating contaminant to 80% of 16 ppb to \$1,538 million for coagulation and
2 filtration technology treating to 80% of 0.8 ppb. The annual O&M cost also varies by a
3 similar magnitude. Granting a memorandum account to CWS at this time would allow
4 CWS to implement treatment technologies that may not be most cost effective
5 considering the final MCL level is yet to be determined and adopted. Given the potential
6 rate impact of these capital projects, DRA believes the Commission should be given the
7 opportunity to review them before CWS' implementation. Otherwise, it is much more
8 difficult for the Commission to disallow an expenditure that has been spent than an
9 expenditure that has not. It is more efficient for the Commission to review a capital
10 investment proposal before they are built because the cost-effectiveness, reasonableness
11 and possible alternatives can be evaluated before the cost is incurred.

12 Since a memorandum account provides CWS the authorization to construct the
13 treatment technologies before the Commission's review, DRA is also concerned that this
14 would discourage CWS' incentive to seek outside sources of funding to help pay for the
15 cost of the treatment technologies. DRA believes that CWS must explore all options,
16 such as collaboration with other public or private entities, and applying government
17 grants such as Prop 50 funding as way to lessen ratepayers' burden in today's difficult
18 economic condition. Allowing CWS to establish the Chromium 6 Memorandum Account
19 at this time would not be helpful to such effort.

20 **D. CONCLUSION**

21 DRA recommends that the Commission deny CWS' request to establish a
22 Chromium 6 Memorandum Account because CWS has failed to meet Criteria 2 and
23 Criteria 4 of the Commission's Memorandum Account Requirement.

1 **CHAPTER 29: SPECIAL REQUEST #19 – CROSS-CONNECTION**
2 **RULE 16 CHANGE**

3 **A. INTRODUCTION**

4 CWS proposes several policy changes to its cross-connection tariff rules, Rule 16,
5 in order for it to implement changes to its Cross-Connection Control Program (“CCCP”)
6 that are being driven by requirements of California Department of Public Health
7 (“CDPH”).³⁰⁴ The modifications to Rule 16 are generally intended to 1) update
8 terminology and references to reflect current industry standards; 2) provide greater
9 specificity and clarity as to CWS’ mandates, and customers’ responsibilities, in order to
10 carry out CWS’ enforcement of its CCCP consistent with the expectations of CDPH.
11 CWS’ proposed changes do not have a direct effect on either customers’ rates or CWS’
12 revenue requirements.

13 **B. SUMMARY OF RECOMMENDATIONS**

14 Upon consultation with CDPH, DRA agrees with CWS' proposed changes to its
15 Rule 16 Cross Connection Tariff Rules. Under CWS’ current cross-connection program,
16 CWS conducts an on-site evaluation of each backflow prevention assembly installed by
17 customers. However, CWS states that this is too labor-intensive and in this special
18 request, proposes to only conduct an on-site evaluation when the customer contests the
19 need to install the backflow prevention device. Although this approach would allow
20 CWS to achieve substantial savings on labor and paperwork, it may also result in
21 customers being mistakenly required to install the backflow prevention assembly. CWS
22 should begin tracking the error rate of its program and report its findings to the
23 Commission in its next GRC.

24 **C. DISCUSSION**

25 Regulations for cross connection control are currently contained in California’s
26 Public Health Code, which is Title 17 of the California Code of Regulations. CDPH

³⁰⁴ Testimony sponsored by Darin Duncan.

1 implements and enforces Title 17. CWS has been operating successfully under Title 17
2 since 1987 and received notices of violations from CDPH in 2005 and 2006 in its South
3 San Francisco System. CWS took action and resolved those violations.

4 Since that time, CWS has been working closely with CDPH staff to develop a
5 more comprehensive CCCP program, starting with a pilot program in the Bayshore, Bear
6 Gulch, and Salinas Districts that was completed by the end of 2009.

7 In its 2009 GRC, CWS calculated a need for 25 Cross Connection Inspectors to be
8 approved for 2009-2012, in addition to the company's 4 CCCP inspectors, in order to
9 carry out a backflow prevention program adapted to the expectations of CDPH. CWS
10 claimed that CDPH was requiring CWS to conduct cross-connection hazard surveys not
11 only on new customers, but also existing customers that have experienced a change in
12 occupancy type. Both DRA and CWS settled on 6 additional cross connection positions
13 to help CWS meet the workload of CDPH's requirement in the previous GRC.

14 In this GRC, CWS proposes modifying Rule 16 to ensure that known risk factors
15 for cross-connection are promptly and efficiently addressed by sending notice to
16 appropriate customers requiring them to install and properly maintain backflow
17 prevention assemblies when the customer meets a certain set of risk factors and
18 circumstances as outlined in its proposed tariff. CWS argues that the new tariff, if
19 approved by the Commission, will help CWS identify the high-risk customers and require
20 them to install a backflow prevention assembly without first conducting an on-site
21 evaluation. This, in turn, will help CWS to achieve substantial savings in both labor
22 resources and paperwork by avoiding the need to conduct on-site evaluations for every
23 customer. Nevertheless, CWS will still provide such evaluation upon a customer's
24 request.

25 DRA discussed CWS' proposed CCCP program with CDPH's Los Angeles
26 District Engineer. CDPH confirmed its expectation and requirement regarding CWS'
27 program and was generally supportive of CWS' proactive approach requiring its
28 customers to install a backflow prevention assembly. CDPH also confirmed that while it
29 expects CWS to conduct a comprehensive survey on all of its customers as soon as

1 possible, it does provide flexibility in the timeline in which CWS needs to be in
 2 compliance.

3 While the proposed program may help CWS to achieve savings and efficiencies,
 4 DRA is concerned that such practice may bring along an unintended consequence in
 5 which some of the customers may be mistakenly required to install a backflow prevention
 6 assembly without an onsite evaluation. In a small number of pilot water systems (South
 7 San Francisco, Mid- Peninsula, Bear Gulch, and Los Altos) in which CWS tracked
 8 between 2009 and 2011, close to a 5% error rate was recorded as a result of CWS'
 9 proposed approach. For example, in the Bear Gulch District in 2011, CWS noticed 350
 10 customers requiring them to install a backflow prevention device because they have met
 11 one of the risk factors under CWS' proposed criteria. Of the 350 customers, 70 of them
 12 requested CWS to perform an on-site evaluation and 16 of them were ultimately
 13 determined that they were not required to install the backflow prevention device after all.
 14 In short, CWS' approach based on its established criteria has resulted in a 4.5% error rate
 15 (16/350).

16 **2009**

	# of customers required to install an assembly	# of customers requesting internal survey	# of customers not required to install assembly after survey	Error Percentage
S. San Francisco	85	12	4	4.7%
Mid-Peninsula	126	18	6	4.7%
Bear Gulch	0	0	0	0%
Los Altos	5	0	0	0%

17 **2010**

	# of customers required to install an assembly	# of customers requesting internal survey	# of customers not required to install assembly after survey	Error Percentage
S. San Francisco	14	1	0	0%
Mid-Peninsula	163	24	8	4.9%
Bear Gulch	147	28	7	4.7%
Los Altos	7	1	0	0%

18 **2011**

	# of customers required to install an assembly	# of customers requesting internal survey	# of customers not required to install assembly after survey	Error Percentage
S. San Francisco	16	1	0	0%
Mid-Peninsula	134	20	6	4.5%
Bear Gulch	350	70	16	4.5%

Los Altos	18	1	0	0%
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1 The data CWS provided does not allow DRA to make a conclusive determination
2 on whether the error rate is limited only to the systems being tracked or applicable to
3 CWS' other districts. It is also unclear if the proposed criteria need further modification
4 to minimize the error. Clearly, more data from other systems is needed.

5 DRA recommends that once the full scale program is implemented, CWS should
6 begin tracking the error rate, similar to those it tracked in the above mentioned systems,
7 on customers who are being notified to install a backflow prevention device. CWS
8 should be required to report its findings in its next GRC and inform the Commission of
9 the recorded error rate of the program. CWS should also be required to provide a
10 proposal on how it may reduce the program's error rate, if necessary, in its next GRC.
11 Finally, DRA recommends that CWS needs to clearly identify in its notice to customers
12 who are notified to install the backflow device that they have the option of having an on-
13 site evaluation by CWS if they so choose before any installation.

14 **D. CONCLUSION**

15 DRA agrees with CWS that its proposed changes to its Rule 16, Cross Connection
16 Tariff Rules, will allow CWS to achieve substantial savings in both labor and paperwork.
17 However, DRA is concerned that the program may also result in customers being
18 mistakenly required to install the backflow prevention assembly. DRA recommends that
19 CWS begin tracking the error rate once the program is fully implemented and report to
20 the Commission its findings in its next GRC.

1 **CHAPTER 30: SPECIAL REQUEST #20 – LOT AND TRANSMISSION FEE**
2 **MODIFICATONS**

3 **A. INTRODUCTION**

4 CWS is requesting changes to Lot and Transmission Fees in its Visalia, Kern
5 River Valley and Antelope Valley Districts. In Visalia, CWS is requesting an update to
6 the district’s Unitized Transmission Fee. The Unitized Transmission Fee is used to
7 develop the transmission backbone of the water distribution system for all subdivisions
8 within a half-mile of the existing system, except those extensions servicing four or fewer
9 residential lots of equivalent single-family dwelling units. CWS proposes to update the
10 Unitized Transmission Fee to include the cost of fire hydrants in addition to the
11 installation of the backbone main. In Kern River Valley and Antelope Valley, CWS
12 proposes to modify the Individual Facility fees, which are fees that apply to all new
13 services in those districts. CWS proposes to update the fees to account for current
14 construction costs.

15 **B. SUMMARY OF RECOMMENDATIONS**

16 1) CWS’s proposal to update the Visalia District’s Unitized Transmission Fee to
17 include fire hydrants is an appropriate plan and is reasonable.

18 2) CWS’s proposal to update the Unitized Transmission Fee for Kern River
19 Valley and Antelope Valley is reasonable.

20 **C. DISCUSSION**

21 **CWS’s proposal to update the Visalia District’s Unitized Transmission Fee to**
22 **include fire hydrants is reasonable and appropriate.**

23
24 Visalia District’s Unitized Transmission Fee is used for the purpose of developing
25 the 12” Transmission Backbone in this well-gridded distribution system. The fee is
26 currently set at \$1,100 per 1” service or \$4,000 per acre of development for new

1 services.³⁰⁵ The fee was authorized by the Commission in D.08-07-008 (Ordering
2 Paragraph 14). The original Unitized Transmission Fee had no provision to include the
3 installation of fire hydrants to be installed along with the backbone mains. CWS
4 proposes to increase the fee to \$1,400 per 1” equivalent service and \$5,350 per acre of
5 development; the increase is to offset the cost of adding fire hydrants.³⁰⁶

6 CWS’s proposal to update the Unitized Transmission Fee in Visalia is a
7 reasonable request. Installing fire hydrants at the time of the installation of water mains
8 will alleviate the future need and additional cost of separately installing fire hydrants.
9 CWS’s request to update the Unitized Transmission Fee to include installation of fire
10 hydrants along with main backbone is reasonable and appropriate.

11 **CWS’s proposal to update the Unitized Transmission Fee for Kern River**
12 **Valley and Antelope Valley is reasonable.**

13
14 CWS states in its testimony that Unitized Transmission Fees for Kern River
15 Valley and Antelope Valley were established in 1991 when the districts were owned and
16 operated by the Dominquez Services Corporation.³⁰⁷ CWS asserts that these fees are in
17 need of update to reflect current construction costs of a typical service installation. The
18 current fee for new services in Antelope Valley is \$600 per new service and in Kern
19 River Valley is \$700 per new service.³⁰⁸ CWS proposes to use the cost of a typical
20 service installation as a proxy for the facility fee. In the Kern River Valley and Antelope
21 Valley Districts, this is approximately \$1,000 per service.³⁰⁹

22 DRA finds this request to be reasonable. CWS’s proposal to update the Unitized
23 Transmission Fee to reflect current costs is reasonable because it ensures that customers
24 requiring new service establishment adequately contribute to the cost of building the
25 capacity of the system for that service. DRA recommends that CWS perform a study to

³⁰⁵ Direct Testimony of Darin T. Duncan, p. 9.

³⁰⁶ Direct Testimony of Darin T. Duncan, p. 10.

³⁰⁷ Direct Testimony of Darin T. Duncan, p. 9.

³⁰⁸ Direct Testimony of Darin T. Duncan, p. 9.

³⁰⁹ Direct Testimony of Darin T. Duncan, p. 11.

1 analyze the Lot and Transmission fees in all its districts in the next GRC to ensure that
2 these fees are updated and adequately capture the cost of providing service to new
3 customers.

4 **D. CONCLUSION**

5 CWS's requests to modify Lot and Transmission Fees in its Visalia, Kern River
6 Valley and Antelope Valley Districts are reasonable. The proposal to increase the Visalia
7 District's Unitized Transmission Fee to include fire hydrants is an appropriate plan and is
8 reasonable for ratepayers. In addition, CWS's proposals to update the Unitized
9 Transmission Fee for Kern River Valley and Antelope Valley to reflect current cost are
10 reasonable. Furthermore, DRA recommends that CWS perform a study to analyze the
11 Lot and Transmission fees in all its districts in the next GRC to ensure that these fees are
12 updated and adequately capture the cost of providing service to new customers.

1 **CHAPTER 31: SPECIAL REQUEST #21 – TARIFF FOR RESIDENTIAL**
2 **FIRE SERVICE**

3 **A. INTRODUCTION**

4 CWS is requesting the implementation of a uniform rate for services that have a
5 residential fire sprinkler component.³¹⁰ CWS is expecting a rise in the number of
6 residential customers requiring fire service as a result of the adoption of the 2009
7 International Building, Fire, and Residential Code (“IRC”) by the California Building
8 Standards Commission in 2010. The new code became effective in January 2011 and
9 requires residential fire sprinklers in all new residential construction and remodels
10 involving more than 50% of the structure. In general, residential fire sprinklers usually
11 require an upsize in the meter and on-site piping to provide adequate residual pressure.
12 Currently, according to CWS, it has handled residential fire sprinklers on a tariff-by-tariff
13 basis, which has led to inconsistencies across the districts. CWS proposes implementing
14 a policy across all districts of a meter charge that is two sizes lower for 1” meters and one
15 size lower for over-1” meters for customers that require a residential fire sprinkler. CWS
16 argues that this would provide a uniform and consistent approach to the residential fire
17 sprinkler service tariff for all CWS districts.

18 **B. SUMMARY OF RECOMMENDATIONS**

19 1) DRA recognizes the need to update residential fire tariffs in the context of the
20 recent adoption of the IRC by the California Building Standards Commission.

21 2) CWS’s proposal in Special Request 21 to implement a policy of two sizes lower
22 for 1” meters and one size lower for over-1” meters for residential fire sprinkler
23 customers is inconsistent with the Standard Practice-U-7-W (“SP-U-7-W”)³¹¹ method
24 used to develop meter rates for customers that require fire sprinklers. The Commission

³¹⁰ GRC Company Report # 1, p. 20.

³¹¹ California Public Utilities Commission Water Division, Rate Design for Water and Sewer System Utilities Including Master Metered Facilities, Standard Practice U-7-W, July 2006, (“Standard Practice U-7-W”), available at <http://docs.epuc.ca.gov/published/REPORT/61295.htm>.

1 should direct CWS to use the SP-U-7-W method to calculate the appropriate meter size
2 ratio for customers with meters sized for fire-flow requirements. The SP-U-7-W policy is
3 an established methodology and implementation has the administrative efficiency of not
4 requiring Commission action.

5 3) The Commission should require CWS to notify customers on their monthly
6 bills, as well as new customers when they apply for service, of the option to receive a
7 lower rate when a residential fire sprinkler service is required.

8 **C. DISCUSSION**

9 **DRA recognizes the need to update residential fire tariffs in the context of the**
10 **adoption of the 2009 International Building, Fire, and Residential Code.**

11 The recent adoption of the 2009 IRC by the California Building Standards
12 Commission is likely to increase the number of customers needing fire residential fire
13 sprinkler service in the future. As a matter of ratemaking policy, it is important to
14 evaluate the fire tariffs to ensure that the tariff adequately reflects the true cost of service
15 and does not over- or under-collect from ratepayers requiring a particular service. CWS
16 has provided a review of the current fire residential tariffs in several of its districts. CWS
17 argues that there are inconsistencies across its districts with regard to residential fire
18 tariffs and it is necessary to implement a consistent policy across CWS districts. DRA
19 does not oppose applying a consistent approach to fire residential tariffs for the CWS
20 districts and recommends this be accomplished by adhering to SP-U-7-W.

21 **CWS's proposal to implement a policy of two-sizes-lower for 1" meters and**
22 **one-size-lower for meters greater than 1" for residential fire sprinkler**
23 **customers is inconsistent with Standard Practice-U-7-W.**

24 CWS's proposal of using two sizes lower for 1" meters and one size lower for
25 over 1" meters for residential fire sprinkler customers fails to follow the procedure set
26 forth in SP-U-7-W. Rates should be set to ensure that each class of customer pays the
27 proportionate share of the cost of providing service to that customer, and one class of
28 customer does not subsidize another. The Commission's SP-U-7-W procedure was
29 established to ensure that meter rates are set appropriately.

1 SP-U-7-W established a methodology to determine an appropriate rate for
2 residential fire sprinkler service, which should be used to determine the rate for CWS
3 service areas. SP-U-7-W, paragraph 8, provides an exception to the usual flow-based
4 meter charge ratio calculation when a larger meter size is required to provide a sprinkler
5 system for fire protection.³¹² The Commission should direct CWS to use this method to
6 determine the appropriate rate for residential fire sprinkler service.

7 CWS has provided cost calculations to support the proposed change in the
8 residential fire sprinkler rate in *Data Request Response ID2-002*. CWS calculates the
9 installation cost associated with providing fire sprinkler service for a variety of common
10 residential connections. The company then factors in depreciation to calculate the
11 projected revenue requirement for providing the additional level of service for residential
12 fire sprinklers. CWS's calculation, as provided in the data request response, is similar to
13 the calculation set forth by the Commission in SP-U-7-W for determining the appropriate
14 residential fire service tariff.³¹³

15 CWS believes that the cost calculation provided in *Data Request Response ID2-*
16 *002* is applicable to all CWS districts. CWS uses the corresponding results to justify its
17 "two sizes lower" and "one size lower" approach. CWS argues that the calculated cost of
18 providing the residential fire service is adequately close to the amount collected using its
19 "two sizes lower" and "one size lower" proposal and is therefore an appropriate
20 methodology to determine the appropriate tariff.

21 While CWS's proposed method does approximate the cost of providing residential
22 fire sprinkler service in a similar manner to SP-U-7-W, it may be inaccurate in its
23 approximation of the cost of providing residential fire sprinklers for all CWS districts.
24 CWS has "calculated the installation cost of (these) 5 different meter/service
25 combinations based on the master contractor for its San Francisco Bay Area region,"³¹⁴
26 an approach that may not be applicable to the various other CWS districts. Thus, CWS's

³¹² See Standard Practice U-7-W, p. 5 and Appendix B.

³¹³ See Standard Practice U-7-W, Appendix A.

³¹⁴ Data Request ID-002, Question 4.

1 proposal in Special Request 21 to implement a policy of two-sizes-lower for 1” meters
2 and one-size-lower for over 1” meters for residential fire sprinkler customers may be
3 inconsistent with SP-U-7-W for other CWS districts. CWS should calculate the
4 appropriate meter service discount using SP-U-7-W for each of its districts and then use
5 this calculated rate for residential fire sprinkler tariff for each CWS district. Because
6 CWS is not arguing that there is a substantive difference between its proposal and the SP-
7 U-7-W policy, in the interest of consistency across the industry it would be prudent to
8 have CWS apply SP-U-7-W instead of creating a novel methodology for calculating fire
9 sprinkler tariffs. Furthermore, using SP-U-7-W provides the administrative efficiency
10 that no further Commission action is required.

11 **The Commission should require CWS to notify customers of the option to**
12 **receive a lower rate for residential fire sprinkler service.**

13 CWS should educate customers of the availability of a lower meter charge if they
14 install meters sized to meet fire flow requirements. CWS should notify existing
15 customers on their monthly bill and new customers when they apply for service, and the
16 information should be available on CWS’s website. CWS should take steps to ensure
17 that customers who are eligible for the fire sprinkler service rate are informed of its
18 availability and facilitate customer enrollment.

19 **D. CONCLUSION**

20 CWS’s proposed policy of two-sizes-lower for 1” meters and one-size-lower for
21 over-1” meters for calculating residential fire sprinkler tariffs does not comply with the
22 method established by the Commission to set appropriate tariffs for such service. The
23 Commission should direct CWS to calculate the appropriate fire sprinkler tariff in
24 accordance with SP-U-7-W for each of CWS’s districts.

25 The Commission should also ensure that any change in the residential fire
26 sprinkler rates should not impact the revenue requirement for each customer class so that
27 the change does not lead to subsidies across customer classes.

1 Finally, CWS should be required to notify customers on their monthly bill, when
2 a customer applies for service, and on its website of the option to receive the lower
3 charge for a meter sized to meet fire-protection requirements.

APPENDIX A

**QUALIFICATIONS & PREPARED TESTIMONY
OF DRA WITNESSES**

