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

DRA
DIVISION OF RATEPAYER ADVOCATES

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE GENERAL OFFICE 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

PUBLIC VERSION

San Francisco, California
March 1, 2013

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MEMORANDUM

This report presents analyses, findings and recommendations pertaining to the General Office of California Water Service Company in its General Rate Case Application 12-07-007.

Larkin & Associates, PLLC and Donna Ramas, an independent contractor to Larkin & Associates, PLLC on this project, prepared this report on behalf of the *Division of Ratepayer Advocates* - *Water Branch*. Mr. Dady prepared Chapters 1 through 5 and Chapter 8; Ms. Ramas prepared Chapters 6 and 7. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups.

Senior Utilities Engineers Yoke Chan and Pat Ma serve as DRA 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.

CHAPTER 1: INTRODUCTION

A. INTRODUCTION

CWS is requesting the Commission's authorization to increase rates charged for water service in 2014 by $92,765,000, an increase of 19.4% over present rates; in 2015 by $17,240,000, an increase of 3.0%; and in 2016 by $16,950,000 an increase of 2.9%.

This report presents DRA's analyses and recommendations with regard to CWS' General Office ("GO") payroll expense, including requests for various new positions in this proceeding as well as several positions that were authorized in the Settlement Agreement approved by the Commission in D.10-12-017, GO cost allocations to the districts, affiliates and unregulated operations, GO Operations and Maintenance ("O&M") and Administrative and General ("A&G"), as well as GO rate base including proposed plant additions.

CWS currently owns and operates water systems in 23 districts in California, each of which is operated separately and has separate accounting and tariff schedules.

CWS' GO headquarters is located at 1720 North First Street in San Jose, California. The accounting, engineering, water quality, purchasing/stores, and customer billing functions are centralized at this location.

B. SUMMARY OF RECOMMENDATIONS

CWS is requesting overall GO expenses of $65,374,900 in Test Year 2014 and $66,594,100 in Escalation Year 2015 as well as $65,718,900 in GO rate base in Test Year 2014 and $67,807,500 in the Escalation Year 2015. After careful deliberation and evaluation of CWS' request, DRA recommends overall GO expenses of $54,785,000 in Test Year 2014 and $54,379,200 in Escalation Year 2015. In addition, DRA recommends an overall weighted average rate base of $51,177,100 in Test Year 2014 and $51,891,600 in Escalation Year 2015. The differences between CWS requests and DRA's recommendations are attributable to the use of different methodologies; data and information used by the parties; DRA's recommendations of forecasted payroll expense; and DRA's disallowance of certain capital projects. DRA's recommendations are described in detail throughout this report. The sections below summarize DRA's recommendations in each chapter of this report.

<u>Chapter 2 - General Office Cost Allocation</u>

DRA reviewed and agreed with the methodology used by the Company to allocate forecasted GO expenses and rate base to the districts. This allocation is based on the Commission's four-factor methodology, which includes (1) gross utility plant, (2) district payroll, (3) active service connections, and (4) direct operating and maintenance expenses. Each factor is given equal weight and CWS' allocation percentages are based on the most recent review of such expenses using end of year 2011 data.

<u>Chapter 3 - Payroll Expense, Payroll Taxes and Business License Tax</u>

CWS requested overall payroll expense is $23,255,700 in Test Year 2014 and $24,228,500 in Escalation Year 2015. DRA recommends overall payroll expense of $20,898,400 in Test Year 2014 and $21,263,600 in Escalation Year 2015. The adjustments by DRA are primarily attributable to methodologies, expense ratios, escalation factors and the disallowance of certain requested positions. The difference between CWS' requested and DRA's recommended Payroll Tax and Business License Tax Expense are due to the adjustments made by DRA to the Company's forecasted payroll expense.

<u>Chapter 4 - Operation and Maintenance ("O&M") Expenses</u>

CWS requested O&M expenses totaling $6,694,700 in Test Year 2014 and $6,933,000 in Escalation Year 2015. DRA recommends O&M expenses of $4,396,900 in Test Year 2014 and $4,479,700 in Escalation Year 2015. DRA's recommendations are based on using different forecasting methodologies and inflation factors compared to those used by the Company.

Chapter 5 - Administrative & General ("A&G") Expenses

CWS requested overall A&G expenses totaling $58,680,300 in Test Year 2014 and $59,661,100 in Escalation Year 2015. DRA recommends overall A&G expenses of $50,388,100 in Test Year 2014 and $49,899,400 in Escalation Year 2015. DRA's recommendations are based on using different forecasting methodologies and inflation factors compared to those used by the Company. It should be noted that DRA addresses Pension and Benefits, A&G Salaries (excluding payroll) and Injuries and Damages in separate chapters of this report.

Chapter 6 - Pension and Benefits

CWS requested Pension and Benefits expenses totaling $19,653,100 in Test Year 2014 and $19,414,200 in Escalation Year 2015. DRA recommends Pension and Benefits expenses of $16,294,400 in Test Year 2014 and $15,244,100 in Escalation Year 2015. DRA's recommendations are based on using different forecasting methodologies and inflation factors compared to those used by the Company and the removal of Supplemental Executive Retirement Plan costs.

Chapter 7 - A&G Salaries (Excluding Payroll) and Injuries and Damages

CWS requested A&G Salaries (excluding payroll)[1] expense totaling $1,172,700 in Test Year 2014 and $1,200,900 in Escalation Year 2015. DRA recommends A&G Salaries (excluding payroll) expense of $52,800 in Test Year 2014 and $54,100 in Escalation Year 2015. DRA's recommendations are based on using different forecasting methodologies, the removal of stock awards granted to executives, and different inflation factors compared to those used by the Company.

[1] The amounts reflected in this account exclude payroll and mileage and only include cost such as allocations and stock awards.

CWS requested Injuries and Damages expense totaling $3,914,000 in Test Year 2014 and $4,128,700 in Escalation Year 2015. DRA recommends Injuries and Damages expense of $3,306,800 in Test Year 2014 and $3,367,200 in Escalation Year 2015. DRA's recommendations are based on using different forecasting methodologies, removal of an incorrect adjustment made by CWS, and different inflation factors compared to those used by the Company.

<u>Chapter 8 - Rate Base</u>

CWS requested a weighted average rate base of $65,718,900 in Test Year 2014 and $67,807,500 in Escalation Year 2015. DRA recommends a weighted average rate base of $51,177,100 in Test Year 2014 and $51,891,600 in Escalation Year 2015. The differences are primarily due to DRA's recommendations for disallowing several of CWS' requested capital projects. The amount is also impacted by DRA's recommended revision to the overhead rate applied to certain proposed capital projects.

CHAPTER 2: COST ALLOCATIONS

A. INTRODUCTION

California Water Service Group is a holding company with six operating subsidiaries which include: CWS, New Mexico Water Company ("New Mexico Water"), Washington Water Service Company ("Washington Water"), Hawaii Water Service Company ("Hawaii Water"), CWS Utility Services and HWS Utility Services LLC. CWS, New Mexico Water, Washington Water and Hawaii Water are regulated public utilities whereas CWS Utility Services and HWS Utility Services provide non-regulated services to private companies and municipalities.

B. SUMMARY OF RECOMMENDATIONS

DRA reviewed and agrees with CWS' methodology used by the Company to allocate forecasted GO expenses and rate base to the districts. This allocation is based on the Commission's four-factor methodology, which includes (1) gross utility plant, (2) district payroll, (3) active service connections, and (4) direct operating and maintenance expenses. Each factor is given equal weight and CWS' allocation percentages are based on the most recent review of such expenses using end of year 2011 data.

C. DISCUSSION

CWS conducts California water operations, which provides service to approximately 471,915 customers in 83 California communities through 22 separate districts.[2] Of these 22 districts, 24 are regulated water systems, which are subject to regulation by the Commission.[3] The other two districts, the City of Hawthorne and the City of Commerce, are governed through their respective city

[2] There were 23 districts, but the Commission authorized the consolidation of the Mid-Peninsula and South San Francisco districts into the Bayshore district in D.10-12-017.

[3] Redwood Valley is one district broken out into three separate ratemaking districts, including Coast Springs, Lucerne and Unified.

councils and are outside of the Commission's jurisdiction. As shown in Table 2-A below, California water operations account for approximately 94% of total customers. This equates to approximately 95% of total consolidated operating revenues.

Table 2-A		
Number of Customers - CWS and Affiliates		
Entities	Number of Customers - 2011	Percentage of Customers - 2011
California	471,915	94.48%
Hawaii	4,171	0.84%
New Mexico	7,704	1.54%
Washington	15,692	3.14%
Company Total	499,482	100.00%

1) <u>Allocation of General Office Expense and Rate Base to Out-of-State Affiliates</u>

As discussed in CWS General Report at page 85, CWS' corporate headquarters provides limited support for the operations of its out-of-state affiliates. Any charges directly attributable to the operations of CWS' affiliates are billed to those companies. For example, Washington Water pays for its health coverage directly. In addition, employees working on direct affiliate matters charge their applicable time to those affiliates. However, indirect costs that may be applicable to all operations are allocated based on a modified four-factor approach that DRA and CWS jointly recommended in A.01-09-062 and adopted in D.03-09-021. This jointly recommended approach estimated the full allocation of general expense to out-of-state affiliates. CWS has applied this methodology in its previous applications.

In allocating GO costs to the out-of-state affiliates, CWS first derives the gross four-factor allocation using recorded 2011 data, which resulted in 10.52% to the out-of-state affiliates as reflected on Company workpaper "2011 Updated Numbers." CWS then performs an analysis by department to derive the portion of expenses by each department that is of a general nature that would include services to out-of-state operations. The derived composite pool of general expenses was 11.2% of the cost that would also benefit other out-of-state affiliates. The 10.52% gross four-factor was applied to the 11.2% to derive a percentage of GO expenses being allocated to out-of-state operations of 1.18%. It should be noted that the Company's as-filed version of its workpaper 2011 Updated Numbers, reflected an allocation factor to out-of-state regulated operations of .81%. Upon DRA's inquiry, CWS advised that the .81% factor was the result of applying a gross four-factor of 7.25%, which the Company stated was the factor used in the 2009 GRC and that the 10.52% gross four-factor referenced above is the correct allocation factor to use in the current proceeding. DRA agrees and uses the 1.18% for its allocation of Test Year and Escalation Year expenses to out-of-state entities.

In allocating rate base to the out-of-state affiliates, CWS utilizes the same methodology as in the previous GRC. Utilizing a modified four-factor, CWS derived an allocable pool of GO plant by account that also benefits out-of-state affiliates. CWS determined that 11.4% of structures and improvements are of a general nature that also benefits out-of-state affiliates, while 15% of hardware and software benefit these affiliates. The out-of-state affiliates do not use the billing, accounting, or customer information systems that are maintained in the GO. CWS allocates the officer's vehicles to all entities. By applying these criteria, CWS determined that 12.03% of GO plant is generally applicable. After applying the 10.52% four-factor allocation to the 12.03%, the result is that 1.27% of GO rate base is allocated to the out-of-state affiliates as shown on Company workpaper "AUS TBL5B2."

2) <u>Allocation of General Office Expense and Rate Base to Unregulated Activities</u>

Prior to June 30, 2011, the accounting treatment given to CWS' unregulated activities varied by contract. For some contracts, a portion of unregulated revenues were shared with ratepayers while incremental costs associated with unregulated activities were allocated to unregulated. However, for other contracts, no unregulated revenues were shared with ratepayers. In those cases, unregulated costs were fully allocated to un-regulated versus only the incremental costs being allocated to unregulated.

As of June 30, 2011 and thereafter, the Commission's new rules for affiliate transactions and non-tariffed products and services (i.e., excess capacity), which were adopted in D.10-10-019 (and modified in D.11-10-034), became effective. Pursuant to the new rules, CWS converted all of its unregulated contracts to excess capacity contracts whereby revenues are shared with ratepayers and incremental costs are allocated to unregulated activities at the GO and at the district level.

In terms of the revenue sharing with ratepayers, this is discussed in CWS' Report on Unregulated Operations in Appendix A under Rule X.C. Specifically, under the new rules, gross revenue from Non-Tariffed Products and Services ("NTP&S", formerly referred to as Excess Capacity) projects shall be shared between the utility's shareholders and its ratepayers. In each general rate case, NTP&S revenues shall be determined and shared as follows:

1. Active NTP&S projects: 90% shareholder and 10% ratepayer.
2. Passive NTP&S projects: 70% shareholder and 30% ratepayer.
3. A utility shall classify all NTP&S as active or passive. For a new NTP&S which requires approval by the Commission by advice letter pursuant to Rule X.G, an "active" project requires a shareholder investment of at least $125,000. Otherwise the new NTP&S shall be classified as passive. No costs recoverable through rates shall be counted towards the $125,000 threshold.
4. Revenues received that are specified in a contract as pass-through of costs, without any mark-up, shall be excluded when determining revenue sharing. If an advice letter is required pursuant to Rule X.G, the utility shall specify in the advice letter any items other than postage, power, taxes and purchased water for which it proposes

pass-through treatment and must obtain Commission approval for such treatment.

5. For those utilities with annual Other Operating Revenue ("OOR") of $100,000 or more, revenue sharing shall occur only for revenues in excess of that amount. All NTP&S revenue below that level shall accrue to the benefit of ratepayers.

6. For those utilities with annual OOR below $100,000, there shall be no sharing threshold, and ratepayers shall accrue all benefits for NTP&S.

The Company's revenue sharing is discussed in further detail in Chapter 5, Section 15 of this report. In terms of cost allocations, this is also discussed in Appendix A of CWS' Report on Unregulated Operations under Rule X.D whereby:

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

Since the new rules became effective on June 30, 2011, CWS' recorded expenses for 2011 reflected the methodologies of both the old rules and the new rules. As a result, CWS attempted to adjust part of the expenses incurred during the first six months of 2011 for forecasting purposes in the current GRC proceeding. The intent of the Company's adjustment was to reflect the revenue sharing and incremental cost methodology under the new rules as if they had been in effect for the entire year. Specifically, CWS determined that the costs associated with insurance was allocated to unregulated contracts under full cost accounting, but that such costs should be borne by ratepayers under the excess capacity cost methodology since they are not considered incremental to unregulated contracts (i.e., insurance costs are incurred regardless of any excess capacity contracts). As such, the adjustments that CWS reflected in its filing[4] were designed to remove the insurance allocation for unregulated contracts from the first six months of 2011.

Upon further review however, CWS made the determination that the aforementioned adjustments did not accurately reflect the Company's intent as described above. Therefore, CWS advised DRA that these adjustments should be disregarded and thus removed from the Company's filing. In other words, after removing the adjustments, the Company's workpapers reflect 2011 recorded amounts. With respect to the 2011 recorded expenses in GO (after removing the adjustments), CWS stated:

> 2011 recorded expenses for GO (without the adjustments) still exclude unregulated expenses because, for each contract, there are directly charged labor and non-labor costs, as well as allocated labor and non-labor costs. These are charged to a separate department for each unregulated contract. Costs coming through to the GO are net of those direct and allocated charges. The methodologies for determining these costs differ from the first half of the year and the second half of the year, but are internally consistent for a given period of time.

DRA's removal of the Company's unregulated adjustments are discussed in more detail in the sections of this report to which they relate.[5]

3) Allocation of General Office Expense and Rate Base to Districts

After allocating to out-of-state and unregulated activities, CWS allocates its GO expenses and rate base to its operating districts using the four-factor method.

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[4] CWS reflected these adjustments in Tables 5-A and 6-A2 as well as workpaper WP6-B5-Ac794AG.

[5] The removal of the unregulated adjustments impact Customer Accounting expense, Property Insurance expense and Liability Insurance expense.

The four-factors used are (1) the ratio of gross utility plant in each district to the gross utility plant for all districts; (2) the ratio of each district's payroll expense to the total payroll expense for all districts; (3) the ratio of active service connections in each district to the total districts; and (4) the ratio of the districts' direct operating and maintenance expenses to the total of all districts. Each factor is given equal weight.

CWS' allocation percentages are based on the most recent review of these expenses using end of year 2011 data. Both DRA and CWS use this method and determined the same resulting factors which are reflected in Table 2-B below.[6]

Table 2-B
Summary of Four-Factors

District	Four Factor
Bakersfield	15.32%
Bayshore	10.04%
Bear Gulch	5.61%
Chico	5.55%
Dixon	0.57%
East Los Angeles	6.18%
Hermosa Redondo	5.12%
King City	0.64%
Livermore	3.51%
Los Altos	4.21%
Marysville	0.78%
Oroville	1.03%
Palos Verdes	5.98%
Salinas	6.06%
Selma	1.17%
Stockton	7.83%
Visalia	6.97%
Westlake	2.37%
Willows	0.49%
Antelope Valley	0.36%
Dominguez - So-Bay	8.28%
Kern River Valley	1.24%
Redwood - Coast Springs	0.43%
Redwood - Lucerne	0.10%
Redwood - Unified	0.14%
Grand Oaks	0.02%
Total	100.00%

[6] The amounts shown in Table 2-B were taken from CWS' GRC Master File in the workpaper titled "4-Factor %".

As stated in CWS's Application, the Grand Oaks water system is excluded from the Company's filing since it is treated as a stand-alone Class D water company pursuant to Ordering Paragraph 3 of D.07-05-053.

CHAPTER 3: PAYROLL EXPENSE, PAYROLL TAXES AND BUSINESS LICENSE TAX EXPENSE

A. INTRODUCTION

This chapter discusses DRA's investigation, analysis and recommendations for CWS' General Office Payroll expense, Payroll Tax expense and Business License Tax expense for the Test Year 2014 and the Escalation Year 2015.

B. SUMMARY OF RECOMMENDATIONS

DRA makes the following recommendations:

1. Adopt DRA's recommendation to use the wage inflation factors issued by the Energy Cost of Service Branch ("ECOS") on April 30, 2012 for each year 2012 through 2015, which are the inflation factors reflected in CWS' Application.[7]
2. Adopt DRA's recommendation that vacancies be removed from 2011 recorded Payroll expense, which is the starting point for estimating total expensed payroll in the Test Year 2014 and the Escalation Year 2015.
3. Adopt DRA's recommendation that the salaries associated with seven positions that were included in 2011 base year payroll expense, but subsequently became vacant during 2012, and will not be replaced per CWS, be removed from the 2011 base year payroll expense amount.
4. Adopt DRA's recommendation to remove the 2014 labor escalation factor from an internal Company workpaper, which escalated the salaries for the proposed new positions and which flowed to the Company's filing.

[7] DRA used the April 2012 ECOS factors for purposes of preparing its payroll estimates for this report. However, DRA recommends that the latest available wage inflation factors be used when determining the final payroll estimates before the rate case decision.

5. Adopt DRA's estimate for "total expensed payroll" in the Test Year 2014 and the Escalation Year 2015.
6. Adopt DRA's estimate of expenses related to filled new positions for capitalized payroll expense.
7. Adopt DRA's allowance for 14 new positions in the Test Year 2014.

C. DISCUSSION

DRA investigated, analyzed and developed its recommendations based on the information and data from the Application, Direct Testimony, General Report, Company workpapers, onsite review of the GO as well as information obtained from CWS' employees through discussions, telephone conversations, emails and responses to discovery.

On Table 5-B of the Company's filing, CWS allocated total payroll into the following categories: Operations and Maintenance ("O&M") and Administrative and General ("A&G"). CWS estimates projected O&M expensed payroll costs of $3,723,300 in the Test Year 2014 and $3,879,100 in the Escalation Year 2015. In addition, CWS estimated projected A&G expensed payroll costs of $19,532,400 in the Test Year 2014 and $20,349,400 in the Escalation Year 2015.

1) Forecasting Methodology

To arrive at its forecasted Test Year payroll, CWS began with the last recorded year of 2011 as the base year. In its filing, the Company calculated its payroll estimate for the 2012 Estimate Year by taking the 2011 base year amount and increasing it by a combination of (1) an average annual increase of 1.94%, and (2) a three-year average of the percentage change in CPI-U index for year-to-year April values for 2009, 2010, 2011 and 2012. The combined total of these two items (reflected on Company workpaper WP6-B6a-Historical Complement) increased the base year payroll amount by 4.51% for 2012 as shown on CWS workpaper WP5-B1-Payroll Est. CWS then added $1,676,100 to account for the Dominguez district merger synergies. The salaries of additional personnel requested in this proceeding were also added to this new total to arrive at Test Year payroll expense. For the 2013, 2014 and 2015 payroll estimates, CWS applied the same methodology with respect to using the 4.51% escalation factor, adopted merger synergies and additional expensed payroll additions requested.

The calculated Test Year and Escalation Year payroll was distributed among Operations, Maintenance and A&G accounts, according to a calculated percentage ratio, which is a ratio of each account's payroll to total payroll for years 2007 through 2011. An average of these ratios was used to determine the distribution of total payroll for the Test Year and Escalation Year to each payroll account (per Company workpaper WP5-B3-Division of Payroll).

DRA reviewed CWS' method for distributing its Test Year payroll between the O&M and A&G accounts and found it reasonable. DRA used this same method for allocating its recommended payroll between O&M and A&G, estimating O&M payroll of $3,345,900 in the Test Year 2014 and $3,404,300 in the Escalation Year 2015. For A&G payroll, DRA estimated $17,552,500 in the Test Year 2014 and $17,859,300 in the Escalation Year 2015. A comparison of DRA's O&M payroll estimates with CWS' O&M payroll estimates are summarized in Table 3-A below.

Table 3-A		
General Office O&M Payroll Expense		
	2014	2015
DRA	$ 3,345,900	$ 3,404,300
CWS	$ 3,723,300	$ 3,879,100
CWS > DRA	$ 377,400	$ 474,800

A comparison of DRA's A&G payroll estimates with CWS' A&G payroll estimates is summarized in Table 3-B below.

Table 3-B		
General Office A&G Payroll Expense		
	2014	2015
DRA	$ 17,552,500	$ 17,859,300
CWS	$ 19,532,400	$ 20,349,400
CWS > DRA	$ 1,979,900	$ 2,490,100

DRA based its payroll estimates on the following:

1. DRA reduced CWS' starting 2011 base year payroll amount by $150,027, which is based on two separate adjustments. The first adjustment relates to positions that were vacant at December 31, 2011 that CWS stated will not be refilled. Specifically, the response to data request MSD-05, Question 5 identified 19 positions that were included in the 2011 base year payroll amount that became vacant during 2012. Twelve of the 19 positions were refilled during 2012, leaving seven positions unfilled. In the response to MSD-05, Question 5(e), CWS identified three of the seven unfilled positions and stated they would not be replaced. DRA inquired as to the status of the four remaining unfilled positions in data request MSD-15, Question 3(d). In response, CWS stated that these four remaining positions, which were identified in response to data request MSD-17, Question 8, also will not be replaced because they were for a short-term need. Since CWS has stated that these seven positions, which are summarized in Table 3-C below, will not be replaced, DRA has removed the seven positions from 2011 base payroll expense. The second adjustment relates to a reduction in 2011 recorded payroll expense pursuant to the addition of two Electrical Mechanical Technicians ("EMT") approved in the settlement from the 2009 GRC. This adjustment is discussed in Section 3 below. The resulting adjusted base payroll expense amount is $16,634,800.

Table 3-C
Vacant Positions Removed from 2011 Recorded Payroll Expense

Department	Description	2011 Payroll Expense	Reference
Accounting	Construction Accounting & Budget Analyst	$ -	Note A
Administration	Assistant to the CFO	$ 31,175	MSD-17, Q.8
Corporate Secretary	Legal Intern	$ 2,482	MSD-17, Q.8
Human Resources	Intermediate Clerk-PBX	$ 42,906	MSD-05, Q.5
Operations	Cell Site Operator	$ 4,143	MSD-17, Q.8
Water Quality	Intern	$ 14,916	MSD-05, Q.5
Water Quality	Water Quality Project Manager	$ 33,805	MSD-05, Q.5
		$ 129,427	

Note A: CWS adjusted out temporary payroll for this position on W/P WP6-B3-792AG

2. DRA replaced CWS' 4.51% wage escalation factor that it used for its estimates for 2012 through 2015 payroll expense estimate with the wage escalation rates developed by DRA's ECOS on April 30, 2012. This is consistent with the Commission's Rate Case Plan (D.04-06-018). It should be noted that in response to data request MSD-03, Question 47, the Company stated that it would forego the 1.94% component of its wage escalation factor and instead only use the three-year average of annual historical CPI-U of 2.57%.

3. DRA added the Dominguez merger synergies and its adjusted payroll expense related to new positions (see additional discussion below). These adjustments were then added to the 2011 adjusted payroll expense amount of $16,634,800. This total estimated expensed payroll is then proportionately divided between O&M and A&G payroll by the ratios described above.

4. As discussed in further detail in the following section, DRA removed the 2014 labor escalation factor from an internal Company workpaper, which escalated the salaries for the proposed new positions and which flowed through to the WP5-B2-Payroll Additions workpaper from the Company's filing.

2) Payroll Addition Overview

CWS has included a total of 56 new GO positions in this proceeding as shown on workpaper WP5-B2-Payroll Additions. Specifically, this workpaper reflects 14 positions for 2011 and 7 positions for 2012, which the Company described as "adjust for new hire". One additional position for 2012 is described as "promotion due to retirement". In addition, CWS is requesting 34 new positions for the 2014 Test Year, which are described as "new in 2014."

Company workpaper WP5-B2-Payroll Additions is the workpaper in CWS' filing which reflects the addition of the 56 proposed positions that the Company is requesting in this proceeding. Column F of this workpaper reflects the annual salaries of the positions that CWS proposes to add to its payroll. Upon reviewing the electronic version of WP5-B2-Payroll Additions, DRA noted that the amounts in this column were taken from a separate Company workpaper titled "CWS GO Additional Personnel in 2012 GRC." Column M from this internal workpaper reflected the 2012 annual salaries and in Column N, CWS reflected the escalation of these salaries by using the 2014 labor inflation factor of 1.7% per the ECOS inflation rates that were issued April 30, 2012. DRA inquired about the rationale of using the 2014 labor inflation factor to escalate the 2012 salaries in data request MSD-14, Question 4. In response, the Company stated:

> The inflation factors are the same across all of Cal Water's districts and GO. Cal Water happens to link the workpaper to the Bakersfield district for its inflation factors.

DRA disagrees with the Company using the 2014 labor escalation factor to inflate the 2012 salaries for the obvious reason that the 2014 labor inflation rate should not be used to inflate 2012 salaries, but also because the estimated payroll expense is already escalated for each year 2012 through 2015 on Company workpaper WP5-B1-Payroll Est. Therefore, DRA removed the impact of using the 2014 labor inflation rate to escalate the 2012 salaries.

3) <u>Status of D.10-12-017 Authorized New Positions</u>

2011 and 2012

As noted above, CWS included a total of 21 positions for 2011 and 2012 which the Company designated as "adjust for new hire." The majority of these positions were authorized in the settlement approved by the Commission in D.10-12-017 from CWS' last General Rate Case ("GRC") in 2009 (A.09-07-001). Per the settlement from that prior proceeding, CWS was authorized to add 34 GO positions, all of which were expected to be hired in 2011. However, as discussed in the Direct Testimony of Company witness Thomas Smegal, as of May 1, 2012, the Company had only filled half of the authorized positions with the remaining positions being filled by either temporary employees and/or outside consultants, or remaining unfilled. CWS is proposing to include the remaining positions from the 2009 GRC settlement in the instant proceeding.[8]

Through reviewing Mr. Smegal's Direct Testimony and responses to discovery, DRA has determined, with one exception, that CWS has hired all of the remaining positions in the time since Mr. Smegal's testimony was finalized as summarized in Table 3-D below.

[8] CWS included several positions that were authorized in D.10-12-017 as new hires for 2014 which is discussed in a later section of this report.

		Table 3-D - GO Positions Approved in 2009 GRC		
Year	**Department**	**From Settlement per D.10-12-017**	**Per WP5-B2-Payroll Additions**	**Hire Date**
2011	Accounting	Construction Accounting Analyst	Construction Accounting Analyst	December 2011
2011	Accounting	Corporate Cashier	Treasury Analyst	August 2011
2011	Accounting	Sr. Tax Accountant	Sr. Tax Accountant	November 2011
2011	Engineering	Communications Technician	Communications Technician	2011
2011	Engineering	Operations Engineer	Operations Engineer	2011
2011	Engineering	CMMS Supervisor	Southern Regional Maintenance Supervisor	June 2011
2011	Engineering	Operations Technician	Operations Technician	2011
2011	HR	ER & Comp Senior HR Analyst	HR Business Partner	November 2011
2011	HR	HC Claims Supervisor	HR Benefits Assistant	October 2011
2011	HR	HR Analyst	Sr. HR Clerk	April 2011
2011	I.T.	Mobile Telecommunications Specialist	Mobile Telecommunications Specialist	October 2011
2012	Engineering	Electrical Mechanical Technician - Bear Gulch	Electrical Mechanical Technician - Bear Gulch	2012
2012	Engineering	Electrical Mechanical Technician - Kern River Valley	Electrical Mechanical Technician - Kern River Valley	2012
2012	HR	HR Analyst	HR Business Partner	2012
2012	HR	Sr. HR Analyst (Emp. Relations & Training Mgr.)	Staffing Employee Devel. (Emp. Relations & Training Mgr.)	August 2012
2012	Water Quality	Environmental Affairs Project Manager	Environmental Affairs Project Manager	**Not Hired**
2012	Water Quality	Water Quality Project Manager	Water Quality Trainer	February 2012
2012	Water Quality	Lab Technician	Lab Technician	February 2012

As it relates to the two Electrical Mechanical Technicians ("EMT") in the table above, on page 55 of his Direct Testimony, Mr. Smegal stated that "Cal Water estimates that 200 hours of recorded overtime will be offset in test year 2014 for each position. To reconcile costs to 2014, Cal Water will add 35% of the position salaries to rates and add benefit costs". DRA requested that CWS explain fully and in detail Mr. Smegal's statement in data request MSD-03, Question 25(c). In response the Company stated:

> Mr. Smegal's statement was not reconciled directly to the GRC workpapers. Workpaper 5-B2 shows annual expensed salaries of $34,903 for both positions (reflecting 50% expense, 50% capital). Cal Water did conclude that these positions would reduce expensed overtime from the amount of $10,296 per position or $20,600 in recorded 2011 payroll for other EMTs. The new positions would reduce, not eliminate, overtime, and the estimated savings in overtime were a ballpark estimate from the Maintenance Manager. A corrected workpaper would reflect that Cal Water would "net" these 2011 amounts from salary expense. Cal Water's corrected

estimate of the 2014 expensed payroll would be $34,903 - $10,296 or $24,607 for each position.

In response to a follow-up inquiry from DRA, CWS stated the $20,600 of overtime savings described in the passage above should be adjusted out of 2011 recorded expensed payroll expense. In addition, DRA asked CWS to confirm that its reference to a "corrected workpaper" in the passage above referred to WP5-B2-Payroll Additions. In response to data request MSD-14, Question 20(b), CWS confirmed that this was so. As a result, DRA reduced the expensed salaries of each of the two EMTs approved in D.10-12-017 by $10,296. In addition, CWS stated that a similar adjustment applies to the salaries for two EMTs that the Company has requested in this proceeding as well. This additional adjustment is discussed in Section 4 below.

In addition to the positions listed in the table above, CWS hired additional positions for 2011 and 2012 that were not specifically authorized by D.10-12-017. These positions and the Company's explanation for them are as follows:

- *Conservation Analyst*: Workpaper WP5-B2-Payroll Additions reflects a $0 salary for this position. A footnote on WP5-B2-Payroll Additions states that the salary and benefits for this position are accounted for under Conservation (Department 350).

- *Regulatory Cost Analyst*: The response to data request MSD-03, Question 28 stated that this position was a replacement hire and that the previous Regulatory Account Analyst was moved to a position titled Financial Planning & Analysis Analyst ("FPA&A). The FPA&A was approved as a Budget Analyst in D.10-12-017 and is discussed in the following section of this report as a new position for 2014.

  It should be noted that CWS made adjustments to reduce Temporary Labor expense associated with this position in 2010 and 2011 by $63,290 and $60,340, respectively. These adjustments are reflected on workpaper WP6-B3-792AG from the Company's filing.

- *Accounts Payable Department Manager*: The response to data request MSD-03, Question 17 stated that this is an existing position but that it was vacant for about half of 2011 and that the expenses listed on WP5-B2-Payroll Additions was to capture a full year's salary for this position. The position was filled by temporary personnel during the interim and CWS reflected adjustments to reduce the temporary labor expense associated with this position in 2010 and 2011 by $8,510 and $37,360, respectively. These adjustments are also reflected on WP6-B3-792AG. It should be noted that the response to data request MSD-14, Question 13(b) stated that this position should be referred to as an Accounts Payable Supervisor.

- Officer (Adjustment): As noted above in the Payroll Addition Overview, CWS included a position in the amount of $99,355 ($97,694 after removing the 2014 labor inflation factor as discussed above) which it described as "promotion due to retirement." Upon DRA's inquiry about this in data request MSD-03, Question 44, CWS stated:

> Cal Water had one Vice President overseeing Human Resources, Information Technology, and Customer Service. In 2012 Cal Water separated the functions into two roles; there is [sic] now a Vice President of Human Resources, and a Vice President overseeing Customer Service and Information Technology. Cal Water promoted the Director of Human Resources to the Vice President role, and is about to hire another Director of Human Resources. The additional $99,355 requested is to adjust the salary for the additional Vice President.

Since all of the positions noted in Table 3-D above were authorized in D.10-12-017 and have been filled, with one exception, DRA is agreeable to allowing all, but the one unfilled position. The unfilled position is the Environmental Affairs Project Manager, which Mr. Smegal stated in his Direct Testimony has been filled by a temporary employee starting in January 2012. In addition, Mr. Smegal stated that during 2011 the Company incurred outside consultant costs of over $200,000 to perform the work related to this function which DRA requested the detail for in data request MSD-03, Question 30. In response, CWS stated that the actual costs for the outside consultants were not recorded in the GO, but at the district level. Furthermore, CWS stated that it will still need to use outside consultants in the area of National Pollutant Discharge Elimination System ("NPDES") permitting. Based on the foregoing, DRA has removed this position.

As it relates to the Regulatory Cost Analyst and Accounts Payable Supervisor positions, since CWS made the adjustments noted above to reduce the Temporary Labor expense associated with these positions, DRA will allow them. However, DRA has removed the $97,694 related to the new Vice President of Human Resources because (1) CWS provided no justification for the additional Vice President position, and (2) the Director of Human Resources position is still vacant per the response to data request MSD-14, Question 28.

As noted above, Mr. Smegal indicated in his Direct Testimony that many of these positions were filled with temporary employees and/or outside consultants prior to being permanently filled. It is worth noting that CWS made adjustments similar to those discussed above for the Regulatory Cost Analyst and Accounts Payable Supervisor, which reduced temporary labor expense associated with the following positions: Senior Tax Accountant; Audit Coordinator; Benefits Assistant; HR Business Partner; Employee Relations & Training Manager; Construction Analyst; and Budget Analyst.

DRA made one additional adjustment and that relates to the Construction Accounting Analyst position. Specifically, workpaper WP5-B2-Payroll Additions indicates a 20% expense ratio for this position. However, the response to data request MSD-03, Question 14 stated that the workpaper reflected an error in the capitalization percentage and that this position should be 100% capitalized. Therefore, DRA recommends that this position be 100% capitalized, which results in the expense portion of this position's salary being $0.

4) New Positions in A.12-07-007 for 2014

As noted above, CWS is requesting approval for 34 new positions in 2014 for which CWS provided justifications in Attachment D, which was filed in conjunction with Mr. Smegal's Direct Testimony. It should be noted that of the 34 proposed positions for 2014, six of them were authorized in D.10-12-017, but were unfilled at the time of the Company's Application in this proceeding.

DRA reviewed all of the requested position justifications for the 34 positions and recommends that 14 new positions be allowed (see Table 3-I below). DRA does not recommend the hiring of 20 of the new positions requested by CWS because DRA has not found reasonable justification, or the need for these positions. Additionally, it is not realistic to assume that CWS will increase its employee complement to the degree requested given its past history and other factors.

A summary of the positions that DRA is recommending be disallowed is in Table 3-E below.

Table 3-E

Summary of GO Positions Disallowed by DRA

No.	Department	Position	Salary	Expense Ratio	Expensed Salary
1	Accounting	Regulatory Cost Analyst (WRAM/MCBA)	$ 85,000	100%	$ 85,000
2	Accounting	Audit Coordinator	$ 67,764	85%	$ 57,599
3	Accounting	Senior Accounts Payable Clerk	$ 67,222	80%	$ -
4	Administration	Financial Planning & Analysis Analst	$ 85,000	25%	$ 21,250
5	Administration	Pension Trust Financial Analyst	$ 64,000	100%	$ 64,000
6	Administration	Risk Management Analyst	$ 85,000	100%	$ 85,000
7	Customer Service	Clerk (LIRA Data Entry PT)	$ 21,447	100%	$ 21,447
8	Customer Service	LIRA Manager (PT)	$ 47,500	100%	$ 47,500
9	Engineering	Enterprise Asset Management Technician	$ 66,942	50%	$ 33,471
10	Engineering	Real Estate Acquisition Specialist	$ 100,000	0%	$ -
11	Engineering	SCADA Project Manager	$ 115,000	0%	$ -
12	Engineering	Operational Data Management System Data Base Administrator	$ 85,000	100%	$ 85,000
13	Engineering	Software Lead Engineer	$ 92,544	0%	$ -
14	Engineering	Design Lead Engineer	$ 92,544	0%	$ -
15	Engineering	Human Machine Interface/Program Logic Controller	$ 75,450	30%	$ 22,635
16	Field Maintenance	Electrical Maintenance Technician	$ 67,128	50%	$ 33,564
17	IT	Senior IT Auditor	$ 85,000	100%	$ 85,000
18	IT	I.T. Security Specialist	$ 130,000	80%	$ 104,000
19	Rates	Tariff & Compliance Manager	$ 90,000	100%	$ 90,000
20	Water Quality	Environmental Health & Safety Project Manager	$ 67,600	67%	$ 45,067
		Total	$ 1,590,141		$ 880,533

The following section discusses each position that DRA is recommending be disallowed.

Accounting Department

Regulatory Cost Analyst (WRAM/MCBA) **-** CWS contends that this position is necessary to ensure the accurate tracking and amortization of the deferred WRAM and MCBA balances[9] as well as the annual WRAM filing. The Company's rationale for requesting this position is that its external auditors ordered CWS to defer the revenues and expenses associated with the WRAM/MCBA mechanisms and that calculating the deferred balances and determining the proper accounting pursuant to the recommendations of CWS' external auditors "took considerable efforts and generated increased outside costs for auditing."

Pursuant to CWS's statement that substantial effort was made to determine the proper accounting with respect to calculating the deferred WRAM/MCBA balances, DRA asked the Company if this has been accomplished and whether CWS anticipates any changes to the established methodology in data request MSD-05, Question 11. In response to Q.11(c), CWS stated that the proper accounting for the deferral of the WRAM/MCBA balances has been determined and integrated into its financial statements as of December 31, 2011 and that the 2008 through 2012 WRAM/MCBA balances have been recorded in accordance with EITF[10] 92-7. In addition, CWS does not anticipate a change to the analytical, recording or reconciliations methodology related to accounting for the deferred WRAM/MCBA balances. Furthermore, CWS already has a full-time employee as well as a full-time contractor performing these calculations per the response to data request MSD-15, Question 8.

Based on the foregoing and the fact that the Commission has adopted uniform amortization rules for the WRAM/MCBA in D.12-04-048 DRA's position

[9] WRAM refers to CWS' Water Revenue Adjustment Mechanism and MCBA refers to the Modified Cost Balancing Account.

[10] EITF stands for Emerging Issues Task Force.

is that CWS has not demonstrated a need for the proposed Regulatory Cost Analyst position. Therefore, DRA recommends disallowing this position.

Audit Coordinator **-** This position was authorized in the settlement from the 2009 GRC that was approved in D.10-12-017, although it had not been filled by the time CWS filed its Application in this proceeding in July 2012. As discussed on page 53 of Mr. Smegal's Direct Testimony, the Company used temporary staff to perform the functions of this position during 2011 at a cost of $70,000. However, in anticipation of making this position permanent, CWS made an adjustment to remove $73,914[11] from 2011 recorded Office Supplies expense to reflect the removal of the temporary payroll expense associated with this position.

Since this position is still unfilled despite being approved over two years ago in D.10-12-017, DRA recommends that CWS request the addition of the Audit Coordinator through an Advice Letter filing. Therefore, DRA has removed this position and has also reversed the Company's adjustment to reduce 2011 recorded Office Supplies expense by $73,914.

Senior Accounts Payable Clerk **-** This position was authorized in the settlement from the 2009 GRC that was approved in D.10-12-017 although it had not been filled by the time CWS filed its Application in this proceeding in July 2012. As discussed on page 53 of Mr. Smegal's Direct Testimony, the Company used temporary staff to perform the functions of this position during 2011. However, unlike similar adjustments made by CWS to reduce 2011 recorded expense with respect to authorized positions from the 2009 GRC being filled by temporary employees to this point, CWS reflected an expensed salary of $0 for this position despite indicating a salary expense ratio of 80% on the WP5-B2-Payroll Additions workpaper.

Since this position is still unfilled despite being approved over two years ago in D.10-12-017, DRA recommends that CWS request the addition of the

[11] CWS removed $3,680 and $70,234 from 2010 and 2011 historical cost, respectively, per workpaper WP6-B3-792AG.

Senior Accounts Payable Clerk through an Advice Letter filing. Therefore, DRA has removed this position from estimated Test Year expense.

Administration Department

***Financial Planning & Analysis Analyst* - ** A Budget Analyst position was authorized in the settlement from the 2009 GRC that was approved in D.10-12-017, which had not been filled at the time CWS filed its Application in this proceeding in July 2012. As discussed in Mr. Smegal's Direct Testimony at page 53, the Company relied on temporary staff to perform the functions of this position during 2011, but wants to make the position permanent in 2014. Upon DRA's inquiry as to why the Company had not hired a permanent Budget Analyst despite the position being authorized in D.10-12-017 in data request MSD-03, Question 19, CWS stated that the Budget Analyst was reclassified as a Financial Planning & Analysis Analyst ("FP&A"). In addition, CWS made an adjustment to remove $182,512 from Office Supplies expense to reflect the removal of the temporary payroll expense associated with this position.[12]

Since this position is still unfilled despite being approved over two years ago in D.10-12-017, DRA recommends that CWS request the addition of the Financial Planning & Analysis Analyst through an Advice Letter filing. Therefore, DRA has removed this position and has also reversed 50% (see footnote below) of the Company's $182,512 adjustment to reduce 2011 recorded Office Supplies expense. In other words, DRA added $91,256 back to 2011 recorded Office Supplies expense.

***Pension Trust Financial Analyst* -** This position was authorized as part of the settlement from CWS' 2009 GRC (A.09-07-001) that the Commission approved in D.10-12-017, but was never filled by the Company. CWS is now requesting this position in the current proceeding and has included it in the justifications in Attachment D to Mr. Smegal's Direct Testimony.

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[12] The adjustment to remove the $182,512 also relates to the same temporary employee performing work associated with a Construction Accounting Analyst position that was also authorized in D.10-12-017.

CWS contends that it needs this proposed position due to increasing and more complex Federal and State regulations and that by conducting regular reviews of the Company's performance pursuant to such regulations, the Pension Trust Financial Analyst would "consistently validate adherence" to those regulations. In addition, the Company stated that this position would improve disclosure to stakeholders and communications of plans and amendments to plan participants. CWS also stated that it is out of compliance with the law insofar as necessary plan amendments have not been distributed in a timely manner pursuant to ERISA guidelines.

DRA inquired as to how long CWS has been out of compliance with the law with respect to the timely distribution of plan amendments and how many hours would be required to meet this ERISA standard of compliance. In response to data request MSD-05, Question 8(c), CWS stated that it is currently reliant on outside services to keep the plan current and to be notified of any changes to ERISA laws. Table 3-F provides the level of Outside Service expense incurred from 2007 through 2012 with respect to CWS' compliance with ERISA laws.

Table 3-F

Outside Service Expense Related to Compliance with ERISA

2007	2008	2009	2010	2011	2012
$ 155,807	$ 123,868	$ 119,199	$ 60,304	$ 75,224	$ 95,793

Source: MSD-15, Question 6

As shown in the table, the costs associated with ERISA compliance have fluctuated over the 2007 through 2012 period. It is important to note that according to the response to MSD-15, Question 6, even if the Company had a Pension Trust Financial Analyst, this position would not replace the need for consultants (ERISA attorney, pension trustee, investment advisor and actuary) from which the costs above were generated.

CWS stated that the functions associated with this proposed position are currently being performed by the Treasury Manager, Treasury Analyst and

Executive Administrative Assistant, but that due to the complexity of the ERISA laws, centralizing the associated responsibilities to one individual would help to ensure that the Company's plan remains in compliance.

DRA noted that the response to MSD-05, Question 8(b) included a chart (replicated in Table 3-G below) which depicted the current pension trust activities in terms of average weekly man hours and annual man hours.

Table 3-G

Current Pension/Trust Activities

Work Tasks	Average Weekly Man Hours	Annual Man Hours
Administration Activities	10	520
Annual Audit - Form 5500 Filing	4	208
Miscellaneous Presentations	1	52
Reviewing Plan Against ERISA Requirements	1	52
Continuous Education on ERISA Requirements	1	52
Total	17	884

Source: MSD-05, Question 8(C)

As shown in the table, the individuals currently tasked with the functions associated with the proposed positions are only spending an average of 17 hours per week performing these functions.

The fact that the individuals currently performing the functions associated with the proposed position coupled with CWS' assertion that it will still need to use outside consultants for the reasons stated above lead to DRA's conclusion that the Pension Trust Financial Analyst position is not necessary for the Company to achieve its goals and remain in compliance with ERISA requirements. Therefore, DRA recommends that the Pension Trust Financial Analyst be disallowed.

Risk Management Analyst **-** In its discussion regarding the justification for this proposed position, CWS stated that as the types of insurance policies available have increased and have become more complex, so has the work associated with keeping up to date with them, and that companies are coming under increasing regulatory scrutiny in the area of risk. In addition, the Company stated that operational risk has not been analyzed systematically and consistently, and that negotiations on insurance policy coverage as well as semi-regular reviews of insurance underwriter relationships have not been consistently addressed.

CWS cited several types of coverages as examples of the types of policies that have increased and become more complex over the years, including Excess Side A insurance, Employment Practices Liability, Professional Liability, Business Interruption and Cyber Risk Policies. However, DRA asked to CWS to state how long it has had the types of policies reference above in data request MSD-05, Question 14(a). In response, CWS stated that it has had Excess A coverage since 2007, Cyber Risk since 2008 and policies for Employment Practices Liability, Professional Liability and Business Interruption for over 20 years.

With respect to the Company's assertion that the area of operational risk has not been consistently analyzed, in response to MSD-05, Question 14(c) the Company stated in part that operational risk has in fact been analyzed, but that a more unifying approach is desired. Moreover, as part of its justification for this position, the Company suggested that it faces exposure associated from inadequate or poorly written policies without the proposed position. DRA asked CWS to clarify whether it was implying that it had inadequate or poorly written policies in MSD-05, Question 14(d) and in response CWS stated:

> Not at all, the Company has a robust insurance program placed with strong underwriters, but it is the Company's position that a good insurance program is not a substitute for a holistic internal risk management and mitigation program with responsibility assigned to this position.

DRA asked who currently performs the functions associated with this position and in response to MSD-05, Question 14(f), CWS stated that the Commercial Manager and a claims adjudicator perform many of these functions while other aspects are either outsourced or handled on an ad hoc basis within the Company.

Based on the foregoing, DRA does not believe that CWS has demonstrated a need for this position. Therefore, DRA recommends that the proposed Risk Management Analyst be disallowed.

<u>Customer Service Department</u>

LIRA Program Data Entry Clerk and LIRA Manager (two half-time positions) **-** The request for these two positions are for half-time employees that CWS stated would play an important role in ensuring that the Company adheres to Commission decision D.11-05-020 which requires water and energy utilities with overlapping service territories to share low income customer information in order to increase participation in CWS' Low Income Rate Assistance ("LIRA") program. CWS is mandated by D.11-05-020 to notify its customers annually regarding the availability of the LIRA program. In its justification for this proposed position, CWS stated that this notification was scheduled to occur in January 2012. In response to data request MSD-06, Question 25(a), CWS stated that due to technical and legal reasons, the low income data sharing did not occur until September 2012 and the Company had enrolled over 40,000 additional customers into the LIRA program resulting in an overall enrollment of 93,732 customers.

Since CWS is not proposing to add these proposed positions until 2014, DRA asked the Company to explain the process by which CWS has and will share its low income customer data with energy utilities with overlapping service territories during the interim until 2014. In response to MSD-06, Question 25(b), the Company stated that hired two full-time temporary employees to be trained to carry out the data sharing process under the supervision of customer service staff in the GO, and that the costs of these two temporary employees is being tracked in the LIRA Memorandum Account. In addition and more importantly, CWS stated:

> By using temporary employees at this time, Cal Water will be able to evaluate the level of permanent resources that will be needed to maintain the semi-annual data sharing activities, as well as the upcoming LIRA recertification and verification processes, on a going-forward basis. By the end of 2013, Cal Water will also be in a

position to decide whether additional resources should be housed in GO, placed in one district office, or distributed among several district offices, before making the commitment to hire permanent personnel.

Based on the response cited above, it appears that CWS is not certain that it will even need the LIRA Program Data Entry Clerk or the LIRA Manager. Therefore, DRA recommends that both proposed half-time positions be disallowed at this time.

Engineering Department

Enterprise Asset Management Technicians (2 Positions) **-** As discussed in the justifications for this proposed position, asset management is a comprehensive approach to managing production assets from (1) the point of purchase and installation, (2) service and maintenance, and (3) replacement and disposal. In CWS' 2006 GRC Compliance Filing, the Commission directed that the Company to refine and integrate its planning efforts to meet the General Accounting Office ("GAO") standards for comprehensive asset management planning. Pursuant to the Commission's directive, CWS has begun implementing an Enterprise Asset Management system ("EAM") which utilizes the methodology advocated by the Environmental Protection Agency ("EPA").

CWS has not fully developed its EAM system, which includes planning and budgeting for preventive maintenance on all equipment, monitoring the status of preventive maintenance programs and understanding the quantity, cost and nature of unplanned maintenance.

DRA agrees that having an effective fully functioning asset management system in place is appropriate, but believes that one Enterprise Asset Management Technician should be sufficient to fill the Company's needs in this area. Therefore, DRA recommends that only one of the two requested positions be allowed and the other disallowed.

Real Estate Acquisition Specialist **-** This proposed position would be responsible for acquiring properties and easements necessary for capital projects.

This position would identify properties, coordinate with various Company departments, arrange appraisals, negotiate with property owners and create contract documents.

Under the "Alternatives" section of the justifications, CWS indicated that one of the alternatives to hiring the proposed position is to outsource to real estate agents. However, CWS also stated that not only does it already use local real estate agents to identify and purchase property that this practice would not change even if the proposed position was hired. In data request MSD-05, Question 21(b), which asked (1) why the Company would still continue to use local real estate agents if the Real Estate Acquisition Specialist was hired, and (2) whether the Company's filing reflects any cost savings in outside service costs if the proposed position was hired, CWS stated:

> It is necessary to use local real estate agents in order to identify potential properties. The use of local real estate agents may be reduced in some, but not all, cases. These savings are difficult to quantify, as they are different for each project.

In a related item, DRA asked whether the Company's filing reflects any cost savings related to not outsourcing to outside consultants or attorneys if the proposed position is approved, and to quantify such savings. In response to MSD-05, Question 21(d), CWS stated:

> The costs of outside attorneys and consultants to procure land are included with the capital projects for land acquisition. The current rate case filing does not reflect the reduced use of outside consultants. The new staff member would also charge capital projects directly, so Cal Water would be able to estimate the cost savings for future Rate Case filings.

Since CWS stated that it will still use local real estate agents if the proposed position was approved coupled with no cost savings being reflected in the filing, DRA recommends that the proposed Real Estate Acquisition Specialist be disallowed.

SCADA-Related Positions

The following section discusses five proposed positions which relate to the Company's SCADA system including: (1) SCADA Project Manager; (2) Operational Data Management System Database Administrator; (3) Software Lead Engineer; (4) Design Lead Engineer; and (5) Human Machine Interface/Program Logic Controller.

In the justifications for each of these proposed positions, under the "Need" section, CWS stated the following:

> Cal Water is initiating a 5-6 year, multi-million SCADA upgrade that will require adequate staff to support and maintain it, in conjunction with the existing system currently in place.

In addition to the referenced passage above, the Company stated the following as it relates to each of the proposed SCADA related positions:

***SCADA Project Manager* -** The introduction of the SCADA upgrade will require a professional in the field of project management who can plan, execute and close SCADA related capital projects.

***Operational Data Management System Database Administrator ("ODMS")* -** The introduction of the SCADA upgrade will require a professional in the field of ODMS who can program, test and support the Operations Data Management System.

***SCADA Software Lead Engineer* -** The introduction of the SCADA upgrade will require a focus on programming related activities directly linked to the HMI terminals and to the PLC's within the SCADA network. The Software Lead Engineering position is an essential entity that will provide critical support for system operations.

***Design Lead Engineer* -** The introduction of the SCADA upgrade will require a focus on I&C related activities pertaining to the development of design drawings and specifications. The Design Lead Engineering position is a crucial entity that will provide significant support for SCADA system design, integration and implementation.

***Human Machine Interface/Program Logic Controller ("HMI/PLC")* -** The introduction of the SCADA upgrade will require a focus on programming related activities directly linked to the HMI terminals and to the PLC's within the SCADA network. The HMI/PLC Programmer position is an important one that will provide significant support for SCADA system software design, integration and implementation.

As discussed in further detail in Chapter 8 of this report, DRA is recommending that the proposed SCADA upgrade project be deferred to a future GRC. Therefore, DRA recommends that the five SCADA related positions above be disallowed, at this time.

<u>Field Maintenance</u>

Electrical Mechanical Technicians (2 Positions) **-** Electrical Mechanical Technicians ("EMT") provide electrical, mechanical and technical support to the districts with support from the engineering staff. EMT's also respond to emergency repair situations, perform preventive maintenance on existing equipment and oversee and assist contractors in the installation of new equipment. CWS stated that due to the expansion and aging of its system, the need for preventive maintenance is increasing and as a result, the Company has developed and began implementing preventive maintenance programs. However, with the current EMT complement, the preventive maintenance program is falling behind schedule. In response to data request MSD-06, Question 20(a), CWS stated that 85% of the existing complement of EMTs time was spent performing corrective or emergency repairs on equipment and that only 15% of their time was spent on preventive maintenance during 2012. In the justification for these positions, CWS stated that it had 424 open work orders for preventive maintenance as of February 3, 2012, but according to the response to MSD-06, Question 20(e), the Company stated that there are currently 542 open preventive maintenance work orders.[13] CWS stated that the additional two EMTs will support completing the additional necessary preventive maintenance work.

As discussed in detail in Section 3 above, the response to MSD-03, Question 25 stated that in order to reflect overtime expense savings pursuant to the addition of two EMTs that were approved in the 2009 GRC that (1) the 2011

[13] The response to MSD-06, Question 20 was provided on October 29, 2012.

recorded expensed payroll should be reduced by $20,600; and (2) the expensed portion of the salaries of the two EMTs should each be reduced by $10,296. DRA inquired as to whether this overtime adjustment also applies to the two EMTs proposed for the 2014 Test Year in the current proceeding and the Company response was "It is for the two 2014 EMTs."

Based on its review of the justifications and responses to discovery, as well as the overtime related adjustments made to 2011 recorded payroll expense and the expensed portion of the salaries of the proposed EMTs, DRA is agreeable to allowing one of the proposed EMTs and disallowing the other one. DRA has reduced the expensed salary of the EMT it is allowing by $10,296 pursuant to the Company's response to MSD-03, Question 25(c) and has removed the salary of the EMT being disallowed.

<u>Information Technology Department</u>

Senior IT Auditor **-** This position was authorized as part of the settlement from CWS' 2009 GRC (A.09-07-001) that the Commission approved in D.10-12-017, but was never filled by the Company. CWS is now requesting this position in the current proceeding and has included it in the justifications in Attachment D to Mr. Smegal's Direct Testimony.

Despite this position being authorized in the 2009 GRC settlement, CWS has employed temporary employees to perform the functions associated with IT auditing. CWS now requests a permanent position since its states that the work is of a permanent nature. The Company stated in the justifications for this position that CWS has over 375 internal controls with 215 classified as key controls, 28 of which are deficient. Of these 28 deficient controls, seven were considered significant deficiencies that need to be addressed. There is also a statement in the justifications which states that the Company's IT systems will grow from three systems in 2006 to approximately 12 systems in 2007.

Since the figures listed in the justifications are outdated (based on the references to 2006 and 2007), DRA requested that CWS provide the current number of its IT systems in data request MSD-05, Question 9(c). In response, the Company stated that it currently has 11 IT application systems. More importantly, DRA also asked CWS to provide current information with respect to its internal controls including the current status of the key controls that were deemed deficient at the end of 2006. In response to MSD-05, Question 9(d), CWS stated:

> At the end of 2011, the Company had in excess of 330 internal controls, 215 are classified as key controls. 15 key controls were deemed to be deficient at the end of 2011 and there were no significant deficiencies.

The updated numbers referenced above represent a 46% decrease in deficient internal controls and a 100% decrease in significant deficiencies. Furthermore, CWS stated that in 2006, it did not have the resources to meet Auditing Standard #2 of the Public Accounting Oversight Board ("PCAOB"), so the Company's audit plan was not in conformance with the standards prescribed by the Securities and Exchange Commission ("SEC") through the PCAOB. DRA requested that CWS provide current data with respect to meeting this requirement in MSD-05, Question 9(e) and in response CWS stated that its internal auditing standards currently satisfy Auditing Standard #2 of the PCAOB.

Based on the foregoing updated figures described above, DRA has concluded that CWS has not demonstrated a need for the proposed IT Auditor position. Therefore, DRA recommends that this position be disallowed.

***I.T. Security Specialist* -** In its justifications for this proposed position, CWS stated that it needs a dedicated resource to maintain a sound security posture to reduce the risk of data breach and that there is no dedicated internal resource to manage its security program. The Company currently hires outside consultants to meet its needs in the area of I.T. security, but that an adverse effect of relying on outside consultants for I.T. security is that the programs and documentation are often outdated and cannot be maintained in a timely manner.

DRA asked to CWS to describe each instance from 2007 through 2012 where the Company's systems have come under a cyber attack or breach. In response to data request MSD-06, Question 22, CWS stated that in the six year period between 2007 and 2012, there were two significant security or breach incidents, both of which occurred in 2009. DRA asked whether the Company's systems are protected by firewalls, encryption devices, etc., that are designed to prevent cyber attacks and/or breaches. In response to MSD-06, Question 22(c) CWS stated:

> Cal Water's internal network is protected by Cisco ASA firewalls. Mobile devices such as laptops are encrypted with PGP whole disk encryption or Windows 7 bitlocker and all Windows servers and workstations have Trend Micro Officescan (anti-virus software) installed on them. The Cisco Ironport appliance that protects internet access from malware, phishing, etc. and provides internet web content filtering has also been installed. Non-company external devices connected to our network are not controlled.

In its response to MSD-06, Question 22(d), CWS stated that the average billing rate of an outside consultant is between $250 and $300 per hour and are only hired for the most urgent of matters and as a result is cost prohibitive. However, between 2007 and 2012, CWS spent $60,900 for an outside consultant to draft the Data Security Charter and $81,600 for Security Awareness Training. In other words, spending a total of $142,500 over a six year period is considerably less than employing a full-time employee.

DRA agrees with CWS with respect to the importance of protecting its own and its customers' data. However, based on the foregoing, it appears that CWS has already taken steps to ensure that its systems are protected from cyber attack and/or breach. Therefore, DRA recommends that the proposed I.T. Security Specialist be disallowed.

<u>Rates Department</u>

Tariff & Compliance Manager **-** CWS stated that it needs this proposed position since the workload of the Rates Department has increased in terms of more advice letter ("AL") filings and more Company participation in CPUC water industry proceedings. In addition, the Company contends that this position is needed to improve how AL's and other documents are organized and maintained.

In terms of its current practices, CWS stated that it has been completing its regulatory work without thoroughly double-checking it which has led to numerous instances of filing supplemental AL's to correct deficiencies and re-filing documents with the CPUC. Table 3-H below presents a summary of the CWS' AL filings for the period 2007 through 2012[14] as well as the number of supplemental filings that occurred over the same period.

Table 3-H

Advice Letter Filings

Year	Advice Letter Filings	Revisions and Refilings	Percentage Revised or Refiled
2007	44	2	5%
2008	45	10	22%
2009	79	20	25%
2010	44	17	39%
2011	41	9	22%
2012	36	16	44%
Total	289	74	26%

As shown in the table, over the period 2007 through 2012, an average of 26% of CWS's AL filings have been revised or refiled.

In addition, CWS stated that advice letter filings are done by multiple Regulatory Analysts and that it has been an ongoing administrative challenge to coordinate among "many Regulatory Analysts" whose primary duties generally involve data analysis.

However, in response to data request MSD-05, Question 17(d), in which DRA asked CWS why it uses "multiple Regulatory Analysts" with respect to filing advice letters instead of using just one Regulatory Analyst, the Company stated:

> Cal Water chooses to use different regulatory analysts to complete different portions of the advice letters as this leads to improved accuracy and allows for quality assurance cross checking by

[14] The data in Table 3-H is an update to data originally presented on page 34 of Attachment D, which was filed in conjunction with Thomas Smegal's Direct Testimony.

> different analysts. It is common for one analyst to complete the workpapers, develop the revenue requirement, and complete the summary of earnings calculations. Another analyst typically calculates the impact of the changes to the Preliminary statement "M" with regard to WRAM and MCBA impacts. Then the tariff sheets are developed by yet another specialist. This allows for specialization and segregation of duties.

The Company's response above appears to contradict the argument in the justifications against using multiple Regulatory Cost Analysts for the advice letter process. In the "Benefits to Ratepayers" section of the justification for this position, the Company stated that having this position will improve the accuracy of tariffs and improve coordination with the customer billing department which will help ensure that customers' bills are accurate and will minimize the re-billing that results from erroneous billing. DRA inquired about the number of times it was necessary for CWS to re-bill customer due to erroneous billing during the period 2007 through 2012. In response to MSD-05, Question 17(e) CWS stated that it does not formally keep track of how often it needs to re-bill customers due to erroneous billing, but that there have been five instances in the last two years where erroneous bills were sent to customers. In DRA's view the limited number of instances in which erroneous billing has occurred does not justify the addition of a full-time position.

Based on the foregoing, DRA recommends that the propose Tariff and Compliance Manager position be disallowed.

<u>Water Quality Department</u>

***Environmental Health & Safety Managers (2) Positions)* -** In the justifications for this position, CWS stated that these positions are required to ensure CWS' compliance with National Pollutant Discharge Elimination System ("NPDES") permits, Storm Water Prevention Compliance, California Environmental Quality Act ("CEQA"), Diesel Program, Training, Hazardous Waste Management, Hazardous Materials Management, Air Programs and Community Right to Know Programs. The Company stated that the primary focus of the proposed positions is environmental compliance associated with NPDES permits, which would allow the personnel in CWS' southern districts to focus on the day-to-day operation of the water systems plus they would allow the Environmental, Health and Safety Department to ensure environmental compliance in all of the Company's 70 water systems.

DRA asked CWS who is currently performing the functions that are designated for the new positions in data request MSD-15, Question 10(a). In response, the Company stated that it currently relies on an outside consultant and a temporary employee. Company workpaper WP5-B2-Payroll Additions reflects the temporary employee and the new proposed position.

Based on its review of the justifications and responses to discovery, DRA is agreeable to allowing the temporary employee who is currently performing the functions of this position to become a permanent employee, but recommends disallowing the other proposed Environmental Health & Safety Project Manager.

<u>Allowed Positions</u>

DRA is recommending the allowance of 14 of CWS' requested positions which are summarized in Table 3-I below. A brief discussion of each allowed position is below.

No.	Department	Position	Salary	Expense Ratio	Expensed Salary
		Table 3-I			
		Summary of GO Positions Allowed by DRA			
1	Accounting	Regulatory Cost Analyst (M&B Accounts)	$ 85,000	100%	$ 85,000
2	Administration	Continuous Improvement Assistant	$ 65,169	100%	$ 65,169
3	Engineering	Enterprise Asset Management Supervisor	$ 125,000	50%	$ 62,500
4	Engineering	Enterprise Asset Management Technician	$ 66,942	50%	$ 33,471
5	Engineering	Engineering Assistant - GIS	$ 70,488	10%	$ 7,049
6	Engineering	Cost Estimator	$ 79,734	0%	$ -
7	Engineering	Production & Tank Maintenance Engineer	$ 75,450	25%	$ 18,863
8	Field Maintenance	Electrical Mechanical Superintendent	$ 95,000	50%	$ 47,500
9	Field Maintenance	Electrical Mechanical Technician*	$ 67,128	50%	$ 23,268
10	I.T.	I.T. Business - Workflow Analyst	$ 95,000	80%	$ 76,000
11	I.T.	I.T. Applications Analyst	$ 105,000	80%	$ 84,000
12	I.T.	Records Management System Adminstrator	$ 105,000	70%	$ 73,500
13	Purchasing	Diversity Supplier Manager	$ 75,000	38%	$ 28,500
14	Water Quality	Environmental Health & Safety Project Manager	$ -		$ -
		Total	$ 1,109,911		$ 604,819

* See report for further discussion regarding the expensed salary of this position

Accounting Department

Regulatory Cost Analyst (Memo & Balancing Accounts) - CWS proposes this position to ensure that the accounting transactions related to the memorandum and balancing ("M&B") accounts are accurately recorded in accordance with Generally Accepted Accounting Principles ("GAAP") throughout the Company's 23 districts. In its justification for this proposed position, CWS stated that this addition will enable the Company to improve upon the accounting, tracking and the reporting of its M&B accounts.

Given the problems that DRA has encountered throughout the course of this proceeding with respect to obtaining, reviewing and quantifying the data associated with the Company's M&B accounts, DRA agrees that CWS should hire a full-time employee whose tasks are to track, analyze and record the accounting transactions related to the M&B accounts.

Administration Department

Continuous Improvement Assistant - As discussed in the justification for this position, Continuous Improvement is the Company's approach to business which focuses on customer service, operating efficiency and employee development. CWS summarized its request for this position by stating that:

> Well trained employees in Continuous Improvement produces well rounded employees able to efficiently work together to improve company processes to serve our customers. Employees not trained and worked in a timely manner causes delays in process improvement, which results in a short-term cost impact to Cal Water, and a long-term cost impact to the customer.

The Continuous Improvement program is currently being managed by one full-time manager who performs the day-to-day functions associated with this program. In response to data request MSD-05, Question 15(a), CWS stated that this full-time manager spends an average of 60 hours a week performing these functions. The Company stated that the additional tasks listed below are currently not getting done.

- New employee training and refresher skills training.
- Timely work with teams struggling with basic business analysis, including problem definition, flowcharting, benchmarking, cost (expense versus capital), objectively selecting solutions, implementation planning, presentation techniques and teamwork.
- Covering all practice presentations and 90-day presentations.
- Administrative program management statistics for approximately 70 teams.
- Intranet content management for Continuous Improvement.
- Facilitating brainstorming new project ideas with districts and departments.

DRA recommends allowing this proposed position as it would alleviate the workload of the Continuous Improvement program manager and better balance the tasks associated with this program.

<u>Engineering Department</u>

Enterprise Asset Management Supervisor - As stated in the justifications for this position, Asset Management is a comprehensive approach to managing production assets from the point of purchase and installation, through service and maintenance, to replacement and disposal. Pursuant to the Commission's recommendation that CWS meet the General Accounting Office ("GAO") standards for comprehensive asset management planning,[15] CWS has begun implementing an Energy Asset Management ("EAM") system based on a methodology developed by the Environmental Protection Agency ("EPA"). Currently, the EAM system is available to only a small portion of the Company's employees. In response to data request MSD-05, Question 18(b), CWS stated that the initial deployment of the EAM demonstrated the need for support staff due to the training, system administration, configuration and analysis associated with the EAM being more complex than anticipated. In addition, a full EAM system is comprised of many components which will take time to fully implement. In response to data request MSD-15, Question 11, CWS stated that its goal is to build an asset management team, led by this proposed position to develop and implement policies which support the EPA's methodology including asset criticality, asset condition and an overall risk assessment.

DRA agrees that a fully developed EAM would be beneficial to the Company from the standpoint of planning and budgeting for preventive maintenance on equipment, monitoring preventive maintenance programs, quantifying the cost of unplanned maintenance as well as improving the overall maintenance program. Therefore, DRA is agreeable to allowing the proposed position.

Enterprise Asset Management Technician **-** Similar to the previous section, this proposed position relates to the Company developing a fully functioning EAM in a manner that is consistent with the EPA's asset management model. The primary responsibility associated with this position will be the maintenance of the asset registry, which according to CWS, is not currently being performed. The Company stated that only 10% of the assets that need to be tracked for maintenance were entered into the EAM system during 2011. Upon

[15] See Commission Decision D.07-12-055 dated December 20, 2007.

DRA's inquiry as to why only 10% of the Company's assets were entered into the EAM in 2011 in data request MSD-05, Question 19(b), CWS stated:

> Because the workload is in excess of one full time employee, only a portion of the work could be completed and many new assets are installed on an ongoing basis.

In addition, the response to MSD-05, Question 19(c), CWS stated:

> Data entry and management is a continuous and on-going effort. Each year, hundreds of assets are purchased and installed and several hundred are also retired from service. For each one of these assets the associated records and documents must be managed within the EAM system.

Based on the foregoing, DRA recommends allowing the requested position to help ensure that all of the Company's equipment that is required to be tracked for maintenance is entered into the asset registry since the EAM's full capabilities would be limited without a complete and accurate registry.

Engineering Assistant - GIS **-** This position was authorized in the settlement from the 2009 GRC that was approved in D.10-12-017, although it had not been filled by the time CWS filed its Application in this proceeding in July 2012. As discussed on page 55 of Mr. Smegal's Direct Testimony, this position was not filled during 2011 due to changes in the management in the GIS program.

The proposed position would perform various functions that are associated with GIS data management, data analysis, cartography, applications testing, user training and GIS research. The specific responsibilities associated with the proposed position include the following:

- Document current and future business process and workflow.
- Recommend appropriate use of geospatial processing tools.
- Understand other business systems used by CWS and identify integration points.
- Assist in the design and development of GIS applications.
- Assist with quality control testing of GIS applications.
- Design and conduct training for geospatial solutions.

- Perform spatial analysis and modeling.
- Perform mapping and reporting using GIS, CAD and other databases.
- Assist staff with GPS usage Company wide.
- Research best practices and recommend use of geospatial processing solutions.
- Provide functional support for GIS applications and solutions.

The current staff of the GIS program is comprised of one GIS Supervisor and five GIS Mapping Technicians. According to the response to data request MSD-05, Question 20(c), the five GIS Mapping Technicians are currently performing the responsibilities listed in the bullet points above in addition to their own duties.

Based on the foregoing, DRA recommends allowing the proposed GIS Engineering Assistant to manage the GIS data and maps and to provide support for applications and integration in order to improve the efficiency of the water system and to also alleviate the workload of the existing GIS program staff.

Cost Estimator - As discussed in the justification for this position, the proposed Cost Estimator would be responsible for determining and implementing best industry practices for estimating the cost of construction projects. CWS stated that it has improved its planning process and its ability to identify projects by preparing Water Supply and Facility Master Plans ("WSFMP"), but that it has become increasingly difficult to estimate the cost of construction projects identified in the WSFMPs. Upon DRA's inquiry as to why this is in data request MSD-05, Question 22(a), CWS stated:

> The main evidence for this is to look at past projects. Many of our larger projects are significantly under or over budget. Sometimes these cost variances are due to unexpected conditions on the site, but Cal Water also sees cases where the per-unit estimates are significantly different than the budget. Cal Water suspects that some of these discrepancies are due to not having a standardized way of tracking past projects or projecting project costs which may vary more than the rate of inflation. Moreover, this work is being done

> by hundreds of individuals throughout the company, and inconsistent methodologies are being used.

In consideration of the response quoted above, DRA asked CWS why it has not develop a standardized methodology by which it can track past projects and/or forecast costs for future projects in data request MSD-15, Question 12(a). In response, CWS stated:

> The Cal Water Engineering department has first focused on completing capital projects to ensure reliable water supply in each district. Cal Water continues to refine the current estimating methodology with each rate case, both by making use of recent cost quotes, as well as by attempting to use the same staff to estimate each district over multiple rate cases, thus maintaining the knowledge of individual district construction factors. It is challenging to file all of Cal Water's districts on a three year cycle while maintaining knowledge of individual district construction factors with changing staff members. Having one staff member responsible for this process would allow Cal Water to better track past projects and costs for future projects.

Based on the foregoing and given the variances that have been occurred in recent years between CWS's budgeted capital expenditures versus its actual expenditures, which by the Company's own admission have been significant, DRA recommends allowing the Cost Estimator position based on the premise that going forward, CWS's actual capital expenditures will more closely align with its budgeted amounts. It should also be noted that the salary for this position will be 100% capitalized.

***Production & Tank Maintenance Engineer* -** CWS is proposing this position to assist the maintenance engineering group with tank maintenance and production facilities maintenance. There are currently two engineers, one technician and one supervisor responsible for tank maintenance and four engineers responsible for production facilities and distribution flushing.

Since 2010 CWS has implemented a maintenance and inspection program for Company pressure vessels as well as a tank deficiency program the purpose of which is to correct health and safety related deficiencies in the tanks since their construction. In addition, in the response to response to data request MSD-05, Question 23(e), CWS stated that it implemented a tank deficiency remediation program in 2011 and that in the time since this program was implemented, 53 tanks have been identified as requiring some level of repair or improvement.

With respect to production facilities maintenance, in 2008 the Maintenance Department implemented a well maintenance program which identifies wells in need of rehabilitation to reduce operating costs. Through this program, the Company plans to rehabilitate three to four wells in each year 2013 through 2015. In addition, through the Maintenance Department's pump testing program, the Company plans to replace 40 pumps during the years 2013 through 2015.

All of the aforementioned programs are in addition to existing programs, which include routine tank inspection and cathodic protection system testing and inspection, management of tank painting and cathodic protection system installation projects. With the combination of the new programs coupled with the existing programs, CWS's current staff involved with production and tank maintenance has not been able to keep up with the increasing responsibilities associated with these programs.

Based on the foregoing, DRA is agreeable to allowing the proposed Production & Tank Maintenance Engineer position.

Field Maintenance Department

***Electrical Mechanical Superintendent* -** CWS proposes to add this position to supervise new and existing Electrical Mechanical Technicians ("EMT"). At present, there are two EMT Superintendents who currently manage 22 EMTs who perform corrective maintenance, preventive maintenance, maintain the SCADA system and assist with capital improvements to the Company' water systems. The EMT Supervisors also provide assistance to the Engineering Department and district operations staff. In order to interact with and supervise the EMTs, the EMT Supervisors are required to travel between districts to meet with the EMTs and the district managers. The combined travel time between the two EMT Supervisors averages 26.5 hours per week, as shown on page 127 of Attachment D, which was filed in conjunction with Mr. Smegal's Direct Testimony. The addition of a third EMT Supervisor would reduce the weekly travel time of the EMT Supervisors, thus allowing them to spend more time supervising their EMT staffs and performing other tasks.

In addition to the above, the Company stated in the response to data request MSD-15, Question 16 that the Electrical Mechanical Technician group has increased the level of preventive maintenance and inspections performed on control valves and electrical equipment. CWS stated that as more preventive maintenance programs are implemented, the number of preventive maintenance work orders is projected to increase substantially as a result. An outside consultant called Infinity Management Consulting Group produced a report[16] which recommended that additional staffing will be required to supervise the EMTs and provide support as the preventive maintenance program expands.

DRA recommends that this proposed position be allowed to ensure that the EMTs performing preventive maintenance as well as their other duties can be properly supervised and supported.

Electrical Mechanical Technician **-** As discussed in Section 4 above, CWS is requesting two EMTs in this proceeding. Electrical Mechanical Technicians ("EMT") provide electrical, mechanical and technical support to the districts with support from the engineering staff. EMT's also respond to emergency repair situations, perform preventive maintenance on existing equipment and oversee and assist contractors in the installation of new equipment.

CWS stated that due to the expansion and aging of its system, the need for preventive maintenance is increasing and as a result, the Company has developed and began implementing preventive maintenance programs. However, with the

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[16] Infinity Management Consulting Group's report was provided in the response to data request MSD-06, Question 19(c).

current EMT complement, the preventive maintenance program is falling behind schedule. As noted above, the response to data request MSD-06, Question 20(a) stated that in 2012, 85% of the existing complement of EMTs time was spent performing corrective or emergency repairs on equipment and that only 15% of their time was spent on preventive maintenance and that there are currently 542 open preventive maintenance work orders.

Based on its review of the justifications and responses to discovery, as well as the adjustments made to 2011 recorded payroll expense and the expensed salary of one EMT as it relates to overtime expense savings as discussed in Section 4 above, DRA is agreeable to allowing one of the proposed EMTs and disallowing the other one. DRA has reduced the expensed salary of the EMT it is allowing by $10,296 pursuant to the Company's response to MSD-03, Question 25(c) and has removed the salary of the EMT being disallowed.

<u>Information Technology Department</u>

***I.T. Business Analyst* -** As discussed in the justification for this position, the proposed I.T. Business Analyst will have three primary responsibilities, including (1) functional lead for capital projects; (2) administrator for work flow; and (3) business analyst for production support. In addition, the response to data request MSD-15, Question 17(a) stated that although purchasing would be this position's primary responsibility, the I.T. Business Analyst would also support various enterprise projects, including procure to pay enhancements, contractor authorization and accrual improvements, and future PeopleSoft FSCM upgrades.

CWS has identified three separate components of cost savings associated with hiring this position which total $261,000. The specific adjustments made to derive this amount are discussed in detail in Chapter 5, Section 11 of this report.

Since CWS has identified and quantified annual cost savings of $261,000 as discussed above related to this position, DRA is agreeable to allowing the I.T. Business Analyst.

***I.T. Applications Specialist* -** As discussed in the justification for this proposed position, the I.T. Applications Group oversees multiple critical applications which support corporate initiatives for improving business efficiencies, enabling faster decision making and ensuring proper documenting of field events and activities in order to meet business and regulatory requirements. These systems include the Laboratory Management Information System ("LIMS"), the Computerized Maintenance Management System ("CMMS"), the Business Intelligence System ("BI") and the Mobile Workforce Management system ("MWM").

The I.T. Applications Group is comprised of four technical programmers covering LIMS, GIS, CMMS, BI and MWM and other engineering applications as well as one analyst that is dedicated to GIS. Due to its current workload, the I.T. Applications Group relies on outside consultants to provide functional support and are involved in other ongoing projects including the BI, GIS and CMMS application systems.

DRA requested that CWS quantify any cost savings that would be realized through the hiring of the proposed position relative to the level of outside consulting costs used on a going-forward basis. In response to data request MSD-15, Question 18(b), CWS identified and quantified annual cost savings totaling $58,240 that would be achieved by hiring the I.T. Applications Specialist. DRA's adjustment to reflect this cost savings is discussed in detail in Chapter 5, Section 11 of this report.

In the justification for this position, CWS stated that this proposed position is expected to devote 30% of his or her work to capital projects. However, Company workpaper WP5-B2-Payroll Additions indicates that the capitalization ratio for this position's salary is 20%. Upon DRA's inquiry of this discrepancy in data request MSD-06, Question 23(g), CWS confirmed that 30% is the correct capitalization ratio for this position. Therefore, DRA adjusted workpaper WP5-B2-Payroll Additions to reflect a 70% expense ratio.

Since CWS has identified and quantified annual cost savings of $58,240 as discussed above related to this position, DRA is agreeable to allowing the I.T. Applications Specialist.

***Records Management System Administrator* -** As discussed in the justification for this proposed position, in the 2009 GRC, CWS was authorized to implement an Enterprise Records Management ("ERM") system to effectively manage information contained in records, documents, drawings and forms. As it relates to the implementation of the ERM, in the response to data request MSD-06, Question 24(a) CWS stated that it has been working on developing a record management policy and set of retention schedules in 2012. CWS plans to implement the technical solution to support the policy and retention schedules in the beginning of 2013 with the ERM system being operational and in service by the second half of 2013.

There are currently no personnel at CWS who have in-depth knowledge of an ERM system. DRA inquired as to why an existing employee cannot be trained to use the ERM system in data request MSD-06, Question 24(e). In response CWS stated in part:

> Cal Water has two existing employees that have administered 23 other existing enterprise applications with full capacity and requested additional assistance with their current assignment...Both system administrators are overloaded with work already and have no extra bandwidth to administer the ERM system.

CWS stated that if an outside contractor was used to administer the ERM system, the contract rate for a System Administrator who specializes in records management systems is $125 per hour at a minimum which translates to $260,000 per year and that the requested position will result in lower costs to ratepayers.

Using the salary information on workpaper WP5-B2-Payroll Additions for this position (as modified by DRA) and CWS's projected amount for an outside contractor above, DRA made an adjustment to reflect annual cost savings of $40,000 which is discussed in detail in Chapter 5, Section 11 of this report.

DRA recommends allowing this position since the annual cost savings discussed above has been reflected in the 2014 Test Year.

Purchasing Department

Diversity Supplier Manager **-** This position was authorized in the settlement from the 2009 GRC that was approved in D.10-12-017, although it had not been filled by the time CWS filed its Application in this proceeding in July 2012. On page 56 of his Direct Testimony, Mr. Smegal stated that the CWS plans to use existing resources to fill this position in the Test Year. However, in response to data request MSD-03, Question 31, the Company stated that it filled this position, now referred to as a Strategic Supplier Outreach Manager, with an existing employee on July 31, 2012 with the title. In response to data request MSD-17, Question 7, CWS stated that this existing position, which has the title Acting Training and Development Manager, has been refilled since July 2012.

DRA recommends that this position be allowed since it was authorized in the settlement approved in D.10-12-017 and filled in July 2012.

Water Quality Department

Environmental Health & Safety Project Managers (2) **-** CWS is requesting two of these positions in this proceeding. In the justifications for this position, CWS stated that these positions are required to ensure CWS' compliance with NPDES permits, Storm Water Prevention Compliance, CEQA, Diesel Program, Training, Hazardous Waste Management, Hazardous Materials Management, Air Programs and Community Right to Know Programs. The Company stated that the primary focus of the proposed positions is environmental compliance associated with NPDES permits, which would allow the personnel in CWS' southern districts to focus on the day-to-day operation of the water systems plus they would allow the Environmental, Health and Safety Department to ensure environmental compliance in all of the Company's 70 water systems. The program support responsibilities associated with this position include Water

Programs, Air Programs, Hazardous Waste Management, Community Right-to-Know Programs, Training and CEQA.

Based on its review of the justifications and responses to discovery, DRA recommends allowing the temporary employee who is currently performing the functions of this position to become a permanent employee, but recommends disallowing the other proposed Environmental Health & Safety Project Manager.

5) Payroll Taxes

Payroll Taxes are comprised of Social Security tax (i.e., Federal Insurance Contribution Act ("FICA") which consists of Old Age Benefits and Medicare), Federal Unemployment Tax Assessment ("FUTA") and State Unemployment Tax Assessment ("SUTA"). CWS estimates $2,568,000 in the Test Year 2014 and $2,675,500 in the Escalation Year 2015.

DRA estimates $2,312,700 in the Test Year 2014 and $2,354,900 in the Escalation Year 2015. The differences between CWS' requested amounts and DRA's recommended amounts are due to the adjustments made by DRA to CWS' forecasted payroll expense.

6) Business License Tax

The Business License tax is based on the number of employees and fees assessed by the City. CWS is requesting $5,662 in the Test Year 2014 and $6,274 in the Escalation Year 2015.

DRA estimates $5,626 in the Test Year 2014 and $5,896 in the Escalation Year 2015. The differences between CWS' requested amounts and DRA's recommended amounts are due to DRA's lower estimate of number of employees.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's Payroll expense estimates for the General Office.

CHAPTER 4: OPERATION AND MAINTENANCE EXPENSES

A. INTRODUCTION

CWS incurs Operations and Maintenance ("O&M") and Administrative and General ("A&G") expenses in the GO. This chapter presents DRA's analysis and recommendations with respect to CWS' O&M expenses in the GO. Table 4-A provides a comparison of DRA's and CWS' O&M estimates for Test Year 2014 and Escalation Year 2015.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimate for total O&M expenses is $4,396,900 in the Test Year 2014 and $4,479,700 in the Escalation Year 2015. CWS' estimate is $6,694,700 in the Test Year 2014 and $6,933,000 in the Escalation Year 2015, which exceeds DRA's estimates by $2,297,800 and $2,453,300, respectively. A comparison of DRA's and CWS' estimates for the 2014 Test Year are summarized in Table 4-A below.

General Office				
California Water Service Company				
Table 4-A				
Operations & Maintenance Expenses				
$000's				
2014 Test Year				
	DRA	CWS	CWS > DRA	
Operations Expenses				
Payroll	3,041.7	3,384.8	343.1	11%
Transportation	209.6	256.1	46.5	22%
Purchased Services:				
Source of Supply	1.2	1.2	-	0%
Pumping	15.7	15.7	-	0%
Water Treatment	414.7	414.7	-	0%
T&D	162.1	162.1	-	0%
Customer Accounting	185.2	1,994.2	1,809.0	977%
Conservation	-	22.4	22.4	
Total	4,030.1	6,251.2	2,221.0	55%
Maintenance Expenses				
Payroll	304.2	338.5	34.3	11%
Transportation	26.4	41.3	14.9	56%
Stores	0.1	0.1	-	0%
Purchased Services	36.1	63.6	27.5	76%
Total	366.7	443.5	76.7	21%
Total O&M Expenses				
Payroll	3,345.9	3,723.3	377.4	11%
Transportation	236.0	297.4	61.4	26%
Other	815.1	2,674.0	1,858.9	228%
Total O&M Expenses	4,396.9	6,694.7	2,297.8	52%

A comparison of DRA's and CWS's estimates for the 2015 Escalation Year are summarized in Table 4-B below.

General Office				
California Water Service Company				
Table 4-B				
Operations & Maintenance Expenses				
$000's				
2015 Escalation Year				
	DRA	CWS	CWS > DRA	
Operations Expenses				
Payroll	3,094.8	3,526.4	431.6	14%
Transportation	214.6	262.2	47.6	22%
Purchased Services:				
Source of Supply	1.2	1.2	-	0%
Pumping	16.1	16.1	-	0%
Water Treatment	424.7	424.7	-	0%
T&D	165.9	165.9	-	0%
Customer Accounting	189.6	2,054.7	1,865.1	984%
Conservation	-	22.9	22.9	
Total	4,107.0	6,474.2	2,367.2	58%
Maintenance Expenses				
Payroll	309.5	352.7	43.2	14%
Transportation	27.0	42.3	15.3	57%
Stores	0.1	0.1	-	0%
Purchased Services	36.2	63.7	27.5	76%
Total	372.8	458.8	86.0	23%
Total O&M Expenses				
Payroll	3,404.3	3,879.1	474.8	14%
Transportation	241.6	304.5	62.9	26%
Other	833.8	2,749.3	1,915.5	230%
Total O&M Expenses	4,479.7	6,933.0	2,453.3	55%

C. DISCUSSION

1) Forecasting Methodology

For most O&M accounts, CWS used a five-year (2007-2011) average, escalated for inflation, to determine its estimates. DRA points out in this report when CWS used a different methodology in reaching its O&M estimates. In general, CWS provided minimal justification for its deviation from the five-year average methodology and has not supported the resulting large increase projected for those accounts.

DRA analyzed CWS' reports, supporting workpapers, responses to data requests and other information provided by CWS in meetings on-site, phone conversations and emails to arrive at its O&M expense estimates. DRA used a five-year (2007-2011) average, escalated for inflation for most accounts. DRA also used the last recorded year (2011) amounts for a few accounts as appropriate under the specific circumstances on a case by case basis.

DRA noted numerous errors in the Company's workpapers and calculations with regard to the application of the various inflation factors. In many cases, CWS referenced incorrect cells within its model, which caused incorrect inflation factors to be applied in deriving the inflation adjusted 2011 recorded year expenses as well as projected escalation year expenses. DRA corrected these errors in deriving its recommended GO expenses and addresses each of the errors made by CWS when applying inflation factors in this chapter.

In its filing, CWS separates O&M expenses into the following components: Payroll, Transportation, Purchased Services and Maintenance.

2) <u>Payroll Expense</u>

Please see Chapter 3 for DRA's discussion of O&M related Payroll Expense.

3) <u>Operations - Transportation</u>

As shown on Company workpaper WP5-B4-Transportation, CWS separated its Transportation expense into the three following components: Operations, Maintenance and A&G. In determining its forecasted Test Year Transportation expense, CWS inflated the historical amounts from 2007-2011 using the composite escalation factors in order to reflect these amounts in "Constant 2011 Dollars" (CWS used the incorrect inflation factors in deriving the constant 2011 dollars - see additional discussion below). CWS used the last recorded year, 2011, for the Operations related component of Transportation expense. As discussed in further detail later in this report, CWS also used the last recorded year 2011 for the A&G related component and a five-year average (2007-2011) for the Maintenance related component. For the Operations related component, CWS escalated using the composite inflation factor, to estimate Operations Transportation expense of $244,200 in 2012, $249,800 in 2013, $256,100 in the Test Year 2014 and $262,200 in the Escalation Year 2015. CWS' estimates also included additional incremental costs for vehicle additions per its capital budget, of 7, 2 and 2 vehicles for 2013, 2014 and 2015, respectively.

A footnote on workpaper WP5-B4-Transporation stated that 2011 recorded amounts for Operations and A&G related Transportation expenses were used to "better smooth-out amounts." In addition, the response to data request MSD-03, Question 49, which asked why CWS did not use a five-year average to forecast Operations and A&G related Transportation expense, stated:

> Cal Water used the last recorded expense in lieu of the 5-year average adopted for maintenance costs since the last recorded year more accurately reflects the current transportation costs.

DRA noted that CWS' Operations related Transportation expense has trended higher in each year of the 2007-2011 historical period. Therefore, DRA agrees with the use of the last recorded year to estimate such expense going forward.

As noted above, CWS used incorrect inflation factors in its calculation to escalate the historical amounts to constant 2011 dollars. Specifically, the Company used the 2012 composite escalation factors to adjust the 2007-2011 historical amounts for inflation. In response to data request MSD-011, Question 22(a), CWS concurred that the 2011 inflation factors should have been used for this calculation. As part of this error, CWS also escalated the 2011 recorded amounts to 2011 constant dollars using the 2012 inflation factor (e.g. 2011 recorded Operations Transportation expense was $233,800 which the Company escalated to $238,900). However, the response to data request MSD-03, Question 46, which asked in part why CWS did not apply an inflation factor to the 2011 recorded amounts in Account 812 (Revenue Sharing Credits - discussed in further detail later in this report), stated in part: "The $19,500 is already in 2011 dollars, there is no need to inflate the values to bring those to 2011 dollars." Pursuant to this response, CWS concurred in the response to MSD-011, Question 22(b) that the 2011 recorded amounts should not be inflated to 2011 constant dollars as reflected on Attachment 22-A to that response. Therefore, DRA did not escalate the 2011 recorded amounts to 2011 constant dollars.

As discussed in detail in Chapter 8, DRA has recommended the disallowance of many of the Company's proposed vehicle replacements. Pursuant to this recommendation, DRA adjusted Test Year Operations related Transportation expense to reflect the impact of these disallowances.[17]

After applying the correct inflation factors to the 2007 through 2010 recorded amounts, and removing the inflation factors for the 2011 recorded amounts, as well as reflecting the adjustment related to disallowed replacement vehicles, DRA's estimated Operations related Transportation expense is $209,600 in the Test Year 2014 and $214,600 in the Escalation Year 2015.

4) **Operations - Purchased Services**

CWS includes the following components under Purchased Services: Source of Supply, Pumping, Water Treatment, Transmission & Distribution, Customer Accounting and Conservation. Each of these components is discussed below.

5) **Operations - Source of Supply**

CWS used a five-year inflation adjusted average to estimate Source of Supply operations expense of $1,120 in 2012, $1,150 in 2013, $1,180 in the Test Year 2014 and $1,210 in the Escalation Year 2015. DRA does not contest the amounts projected by CWS for this account.

6) **Operations - Pumping**

CWS General Report at page 54 stated that CWS used a five-year inflation adjusted average to estimate Pumping expense. However, a review of workpaper WP5-B7-OperPump reflects the use of a four-year average (2007-2010) to

[17] DRA made similar adjustments to Maintenance and A&G related Transportation expense.

estimate Pumping expense of $15,000 in 2012, $15,400 in 2013, $15,700 in the Test Year 2014 and $16,100 in the Escalation Year 2015. DRA noted that the 2011 recorded amount for this account was significantly higher than the other years of the historical period. Therefore, DRA agrees with CWS' use of a four-year inflation adjusted average and does not contest the amounts projected by CWS for this account.

7) Operations - Water Treatment

CWS used a five-year inflation adjusted average to estimate Water Treatment expense of $414,700 in the Test Year 2014 and $424,700 in the Escalation Year 2015. The items in this account relate to the operation of water treatment facilities, the expenses of which are general to the districts. However, a portion of these costs, which relate to the Water Quality lab are centralized in the GO (i.e., the costs related to lab work are not direct charged to the districts).

DRA does not contest the amounts projected by CWS for this account.

8) Operations - Transmission and Distribution

CWS used a three-year inflation adjusted average to estimate Transmission and Distribution expense of $162,100 in the Test Year 2014 and $165,900 in the Escalation Year 2015. During its review of workpaper WP5-B9-OperT&D, DRA noted that the 2008 recorded amount was significantly higher than the other years of the historical period and asked the Company to explain this discrepancy. In response to data request MSD-11, Question 5, CWS stated in part:

> The variance across multiple years for transmission & distribution operations expense, much as is the case with the various districts, is a result of the expense category's dynamic nature...This is why Cal Water uses an estimate based on the average of multiple (three) years' activities in this category. With an 3-year average being selected in lieu of an 5-year one so as to specifically exclude the 2008 expenses and obtain what was believed to be a more accurate forecast.

Based on the foregoing, DRA agrees with CWS' use of a three-year inflation adjusted average for this category and does not contest the amounts projected by CWS for this account.

9) <u>Operations - Customer Accounting</u>

CWS projected customer accounting expenses of $1,994,200 in the Test Year 2014 and $2,054,700 in the escalation year 2015. To derive these amounts, CWS started by using a five-year inflation adjusted average of the historical costs then applied a series of adjustments to this amount which are listed below.

Before discussing DRA's recommended estimate for Customer Accounting expense, it is important to point out that during its review of Table 5-A from the Company's filing, DRA noted that this table contained several "hidden" rows (63-167) comprised of amounts that CWS referred to as "Unregulated Contract Adjustments." These amounts, which were reflected in each year of the 2007-2011 historical period, flowed to Customer Accounting expense (row 17 of the electronic version of Table 5-A), which in turn, flowed to the historical Customer Accounting amounts reflected on workpaper WP5-B10-OperCustAcct. In the response to data request MSD-11, Question 9 (which addressed similar unregulated contract adjustments made to historical Property Insurance expense), CWS stated that the unregulated contract adjustments "were an attempt by Cal Water to adjust for expenses associated with unregulated business activities" pursuant to the new Affiliate Transactions and Excess Capacity Rules that were adopted in D.10-10-019.[18] However, in response to data request MSD-11, Question 12(b), CWS conceded that the unregulated contract adjustments should be removed from historical expense.

The first adjustment was for what CWS described as new software maintenance costs of $145,000 in 2012, $348,000 in 2013, $1,147,000 in 2014 and $1,164,000 in 2015. The second adjustment was described as a "GO Basement

[18] CWC made similar adjustments to historical Property and Liability Insurance expense as discussed in Chapters 5 and 7, respectively, of this report.

Modification" in the amount of $152,000 and applied to 2012 only. The third and fourth adjustments related to the proposed GO solar capital project (Project ID 52229). Specifically, the third adjustment was referred to as an energy credit in the amount of $64,000, which was applied to 2014 and 2015, and is comprised of (1) a California Based Performance Incentive in the amount of $118,650, amortized over five years,[19] or $23,730, and (2) $40,000 of electrical cost savings in the data cooling center. The fourth adjustment was power expense savings credits of $79,258 in 2013, $84,014 in 2014 and $89,054 in 2015, which the Company estimated as part of its cost impact analysis pursuant to the proposed GO solar project.

DRA removed the new software maintenance cost adjustments for each of the years noted above. Other than an Excel spreadsheet with amounts merely inputted (initially provided in the response to data request MSD-01, Question 11[20]), CWS provided no support (e.g. vendor quotes, invoices, etc.) for these amounts nor did the Company provide a substantive explanation for including these amounts in projected customer accounting expense. Specifically, data request MSD-11, Question 7 asked the Company to explain fully and in detail the basis for including the projected new software maintenance costs in Customer Accounting expense, but in response CWS merely provided the same Excel spreadsheet that was provided in MSD-01, Question 11.

DRA asked CWS to explain fully and in detail the $152,000 related to the GO Basement modification in data request MSD-11, Question 7(d). In response, the Company stated this amount related to expenses incurred in 2012 pursuant to pumping and maintenance expenses that were not captured in the recorded years. In response to a follow-up inquiry from DRA, the Company stated that the GO

[19] CWS stated in response to data request MSD-11, Question 7 that amortizing the California Based Performance Incentive over a five-year period was in accordance with the Federal Modified Accelerated Cost-Recovery System ("MCRS"), Section 26 USC § 48(a)(3)(A).

[20] The same Excel spreadsheet was also provided in the responses to MSD-11, Question 7 and MSD-14, Question 2.

Basement Modification was capitalized for the $152,000, which reflected expenditures totaling $131,000 and overhead of $21,000. Subsequent to capitalizing this project, CWS determined instead that it was a maintenance item and ultimately expensed the costs of the project.[21] CWS provided copies of invoices which substantiated its claim of expenses related to this project totaling $131,000. Based on this new information, DRA removed $21,000 ($152,000 - $131,000) from this account.

DRA removed the energy credits from 2014 and 2015 as well as the power expense savings credits for 2013, 2014 and 2015. As discussed in further detail in Chapter 8 of this report, DRA is recommending the removal of the GO solar project from CWS' proposed 2013 capital projects. Therefore, these corresponding adjustments should be removed.

After reflecting the foregoing adjustments, DRA recommends Customer Accounting expense of $185,200 in the Test Year 2014 and $189,600 in the Escalation Year 2015.

10) <u>Operations - Conservation</u>

CWS used the last recorded year to estimate Conservation expense of $22,400 in the Test Year 2014 and $22,900 in the Escalation Year 2015. However, CWS' forecasted conservation expenses are budgeted separately at the district level and tracked through the Water Conservation Expense One-Way Balancing account.[22] Upon DRA's inquiry, CWS stated in an email that there should be no conservation related expenses in the GO since such expenses are included in the district budgets and subject to the one-way balancing account. Therefore, DRA has removed Conservation expense from the GO.

[21] CWS advised that since this project was ultimately expensed in 2012 (after being closed to plant in 2011), that its 2011 plant balance should be reduced by $152,000, which reflects the costs of the project plus overhead. As discussed in Chapter 8 of this report, DRA reduced the beginning plant balance by the $152,000.

[22] The Water Conservation Expense One-Way Balancing Account is discussed in DRA's Report on the Balances in the Balancing Accounts and Memorandum Accounts of CWS.

11) Maintenance - Transportation

As discussed above, CWS separated its Transportation expense into the three following components: Operations, Maintenance and A&G. As also noted above, CWS used a five-year average to estimate projected Maintenance related Transportation expense. Similar to the Operations component, CWS escalated using the composite inflation factor, to estimate Maintenance Transportation expense of $41,300 in the Test Year 2014 and $42,300 in the Escalation Year 2015.

DRA disagrees with CWS' use of a five-year average in estimating projected Maintenance related Transportation expense. In its review of the historical amounts, DRA noted that while these expenses fluctuated in 2007 and 2008, beginning in 2009 these expenses have trended downward as shown in Table 4-C below. As such, DRA used the 2011 recorded amounts in calculating its projected Maintenance related Transportation expense.

Table 4-C - General Office
Maintenance Transportation Expense ($000s)

2007	2008	2009	2010	2011
$ 38.5	$ 35.7	$ 39.6	$ 35.2	$ 29.4
	-7.3%	10.9%	-11.1%	-16.5%

As discussed in Section 3 above, DRA has recommended the disallowance of many of the Company's proposed vehicle replacements. Pursuant to this recommendation, DRA adjusted Test Year Maintenance related Transportation expense to reflect the impact of these disallowances.

After applying the correct inflation factors to the 2007 through 2010 recorded amounts, and removing the inflation factors for the 2011 recorded amounts (as described in Section 3 above), using the 2011 recorded amount to escalate the maintenance component, as well as reflecting the adjustment related to disallowed replacement vehicles, DRA's estimated Maintenance related

Transportation expense is $26,400 in the Test Year 2014 and $27,000 in the Escalation Year 2015.

12) <u>Maintenance Expense - Stores</u>

CWS used a five-year inflation adjusted average to estimate Stores expense of $100 in the Test Year 2014 and $100 in the Escalation Year 2015. DRA does not contest the amounts projected by CWS for this account.

13) <u>Maintenance Expense - Purchased Services</u>

CWS used the last recorded year to estimate Purchased Services expense of $63,600 in the Test Year 2014 and $63,700 in the Escalation Year 2015. Included in the Company's estimates for both years is the addition of $27,000, which CWS stated relates to a licensing fee for a new database.

In its review of the historical amounts for this account, DRA noted that the 2007 and 2008 amounts of $773,700 and $264,700 were significantly higher than the 2010 and 2011 recorded amounts of $15,000 and $35,500 with 2009 reflecting a significant credit in the amount of $516,700. A footnote on Company workpaper WP5-B14-Mnt.PurchSvc states the 2009 credit amount was due to the reversal of accruals. As it relates to the $27,000 that CWS added in both 2014 and 2015, this footnote stated that these additions are "known expenses for licensing and software maintenance."

Due to the large fluctuations in the historical amounts, DRA agrees with the Company's use of the last recorded year to estimate its projected Maintenance related purchased services expense. However, DRA disagrees with CWS' contention that the $27,000 for licensing and software maintenance in 2014 and 2015 is a known expense. Specifically, the response to data request MSD-11, Question 8, which requested support for the $27,000 and to specify the database to which the $27,000 (in 2014 and 2015) relates, identified the database as the Service Reliance Program ("SRP"). In addition, Attachment 8-C to that response consisted of an intercompany email which referred to a project called SCADA

Historian as well as a quote from OSISoft, which reflected a total project cost of $230,543, including the annual licensing fee.

However, upon DRA's review of the GO Capital Project Justifications and Company workpaper "GO Adv Capital Budget,"[23] there is no reference to the SRP database nor is there a reference to a project identified as SCADA Historian. Upon DRA's inquiry in data request MSD-17, Question 4(b), CWS stated that it planned to include an enterprise-wide SCADA historian to capture historical data from its SCADA systems. As discussed in further detail in Chapter 8 of this report, DRA is recommending that all of the proposed SCADA projects be deferred until a future GRC. Therefore, DRA has removed the $27,000 annual licensing fee from the projected 2014 and 2015 maintenance related purchased services.

After reflecting the foregoing adjustments, DRA recommends maintenance related Purchased Services expense of $36,100 in the Test Year 2014 and $36,200 in the Escalation Year 2015.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's O&M expense estimates for the General Office.

[23] Workpaper GO Adv Capital Budget includes all of the proposed GO capital additions in this GRC proceeding.

CHAPTER 5: ADMINISTRATIVE AND GENERAL EXPENSES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations with respect to CWS' A&G expenses in the GO. Table 5-A below provides a comparison of DRA's and CWS' A&G estimates for Test Year 2014 and Escalation Year 2015.

The categories of A&G expenses are comprised of general expenses including Payroll, Transportation, A&G Salaries, Office Supplies, Property Insurance, Injuries and Damages, Pension and Benefits, Franchise Requirements, Regulatory Commission Expense, Outside Services, Miscellaneous General Expenses, Maintenance of General Plant, Rent, Administrative Charges Transfer, Amortization of Limited Investment and Dues and Donations.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimate for total A&G expenses is $50,388,100 in the Test Year 2014 and $49,899,400 in the Escalation Year 2015. CWS' estimate is $58,680,300 in the Test Year 2014 and $59,661,100 in the Escalation Year 2015, which exceeds DRA's estimates by $8,292,200 and $9,761,700, respectively. A comparison of DRA's and CWS' estimates for the 2014 Test Year are summarized in Table 5-A below.

General Office
California Water Service Company

Table 5-A
Administrative & General Expenses
$000's
2014 Test Year

	DRA	CWS	CWS > DRA	
A&G Expenses				
Payroll	17,552.5	19,532.4	1,979.9	11%
Transportation	363.0	443.6	80.6	22%
Expenses Excluding Payroll and Transportation				
791 A&G Salaries	52.8	1,172.7	1,119.9	2121%
792 Office Supplies	4,134.8	4,169.8	35.0	1%
793 Property Insurance	118.2	250.3	132.1	112%
794 Injuries and Damages	3,306.8	3,914.0	607.2	18%
795 Pensions and Benefits	16,294.4	19,653.1	3,358.7	21%
796 Franchise Requirements	-	-	-	0%
797 Regulatory Commission Expense	185.0	279.8	94.8	51%
798 Outside Services	6,027.3	6,635.3	608.0	10%
799 Miscellaneous General Expenses	2,489.7	2,523.2	33.5	1%
805 Maintenance of General Plant	250.4	352.9	102.5	41%
811 Rent	144.8	244.8	100.0	69%
812 Administrative Charges	(38.8)	(20.9)	17.9	-46%
504 Amortization of Limited Term Investment	19.1	19.1	-	0%
Dues and Donations Adjustment	(149.1)	(128.6)	20.5	-14%
Synergy adjustments	(361.4)	(361.4)	-	0%
	50,388.1	58,680.3	8,292.2	16%

A comparison of DRA's and CWS's estimates for the 2015 Escalation Year are summarized in Table 5-B below.

General Office California Water Service Company Table 5-B Administrative & General Expenses $000's 2015 Escalation Year	DRA	CWS	CWS > DRA	
A&G Expenses				
Payroll	17,859.3	20,349.4	2,490.1	14%
Transportation	371.7	454.2	82.5	22%
Expenses Excluding Payroll and Transportation				
791 A&G Salaries	54.1	1,200.9	1,146.8	2120%
792 Office Supplies	4,234.0	4,269.9	35.9	1%
793 Property Insurance	120.4	269.1	148.7	124%
794 Injuries and Damages	3,367.2	4,128.7	761.5	23%
795 Pensions and Benefits	15,244.1	19,414.2	4,170.1	27%
796 Franchise Requirements	-	-	-	0%
797 Regulatory Commission Expense	189.4	226.3	36.9	19%
798 Outside Services	6,039.1	6,648.4	609.3	10%
799 Miscellaneous General Expenses	2,549.4	2,583.8	34.4	1%
805 Maintenance of General Plant	256.4	361.4	105.0	41%
811 Rent	144.8	244.8	100.0	69%
812 Administrative Charges	(39.7)	(21.4)	18.3	-46%
504 Amortization of Limited Term Investment	21.5	21.5	-	0%
Dues and Donations Adjustment	(149.1)	(128.6)	20.5	-14%
Synergy adjustments	(361.4)	(361.4)	-	0%
	49,899.4	59,661.1	9,761.7	20%

C. DISCUSSION

1) Forecasting Methodology

Similar to O&M expense, for most A&G accounts, CWS used a five-year (2007-2011) inflation adjusted average to determine its estimates. DRA points out in this report when CWS used a different methodology in reaching its A&G estimates. In general, and similar to its O&M accounts, CWS has provided minimal justification for the A&G accounts in which it deviated from the five-year inflation adjusted average methodology.

DRA analyzed CWS' reports, exhibits, supporting workpapers, responses to data requests, information provided in meetings, phone conversations and emails to arrive at its A&G expense estimates. DRA used a five-year (2007-2011) average, adjusted for inflation, for most A&G accounts. DRA also used the last recorded (2011) year amounts for a few accounts as appropriate under the specific circumstances on a case by case basis.

As was the case when reviewing CWS' O&M expenses, DRA noted numerous errors in the Company's workpapers and calculations with regard to the application of the various inflation factors. In many cases, CWS referenced incorrect cells within its model, which caused incorrect inflation factors to be applied in deriving the inflation adjusted 2011 recorded year A&G expenses as well as projected escalation year expenses. DRA corrected these errors in deriving its recommended GO expenses and addresses each of the errors made by CWS when applying inflation factors in this chapter.

2) <u>A&G Payroll</u>

Please refer to Payroll Expense which is discussed in Chapter 3.

3) <u>A&G Transportation</u>

As discussed above, CWS separated its Transportation expense into the three following components: Operations, Maintenance and A&G. As also noted above, CWS used the last recorded year to estimate projected A&G related Transportation expense. Similar to the Operations and Maintenance components, CWS escalated using the composite inflation factor, to estimate A&G Transportation expense of $443,600 in the Test Year 2014 and $454,200 in the Escalation Year 2015.

DRA noted that CWS' A&G related Transportation expense has generally trended higher in each year of the 2007-2011 historical period with a slight dip in 2011. Therefore, DRA agrees with the use of the last recorded year to estimate such expenses going forward

As discussed in Chapter 4, Section 3, CWS used incorrect inflation factors in its calculation to escalate the historical amounts to constant 2011 dollars, which included escalating the 2011 recorded amounts to 2011 constant dollars using the 2012 inflation factor.

As also discussed in Chapter 4, DRA has recommended the disallowance of many of the Company's proposed vehicle replacements. Pursuant to this recommendation, DRA adjusted Test Year A&G related Transportation expense to reflect the impact of these disallowances.

After applying the correct inflation factors to the 2007 through 2010 recorded amounts, and removing the inflation factors for the 2011 recorded amounts, as well as reflecting the adjustment related to disallowed replacement vehicles, DRA's estimated A&G related Transportation expense $363,000 in the Test Year 2014 and $371,700 in the Escalation Year 2015.

4) A&G Salaries (Excluding Payroll)

Please refer to A&G Salaries (excluding payroll), which is discussed in Chapter 7.

5) Office Supplies Expense

CWS used a five-year inflation adjusted average to estimate Office Supplies expense of $4,169,800 in the Test Year 2014 and $4,269,900 in the Escalation Year 2015. CWS included $153,445 of adopted Dominguez merger synergy savings as part of its estimate.

In calculating the five-year inflation adjusted average from which the Test Year and Escalation Year estimates were derived, CWS made several adjustments to reduce the pre-inflation adjusted historical amounts in this account. Specifically and as discussed in further detail in Chapter 3, in the 2009 GRC, the settlement of which was approved in D.10-12-017, CWS was authorized to add 34 positions to GO payroll, but not all of these positions had been filled at the time of the Company's Application in this proceeding.

Prior to filling these positions with permanent employees, CWS used temporary labor to perform the functions of these positions until they could be permanently filled. As a result of the positions being permanently filled, which occurred primarily in 2010 and 2011, CWS made two sets of labor related adjustments to reduce Office Supplies expense in the historical period. The first set of adjustments reduced historical pre-inflation adjusted Office Supplies expense by approximately $11,270 in 2008, $23,190 in 2009, $160,050 in 2010 and $243,670 in 2011and related to temporary payroll expense incurred in the Accounting and Rates departments. The second set of adjustments, which totaled $496,000, reduced 2011 recorded costs in its Accounting and Human Resources departments. In this instance, CWS reflected a five-year average of the $496,000, or $99,200 as a reduction to the five-year inflation adjusted average for Office Supplies expense. Upon DRA's inquiry as to why the temporary payroll expense was removed from Office Supplies expense, CWS stated that the cost for the temporary employees was booked to this account, so the adjustments to remove these costs were also made to this account.

DRA requested that CWS explain how each of these temporary payroll adjustments was derived in data request MSD-11, Question 11(h). In response, CWS provided, among other things, an intercompany email which listed each position and the amount of temporary payroll expense to remove from Office Supplies expense. DRA noted a discrepancy upon its review of this document. This discrepancy related to a temporary Regulatory Cost Analyst position. Company workpaper WP6-B3-792AG reflects an adjustment of $53,300 related to this temporary position in 2011, but the intercompany email reflects a salary of $60,335, or an additional adjustment of $7,035.

In addition, as discussed in Chapter 3, DRA has recommended Advice Letter treatment for the proposed Audit Coordinator and has removed this position from the Test Year Payroll expense estimates. As a result, DRA has reversed adjustments made by CWS to 2010 and 2011 recorded costs which totaled $73,914 and which related to temporary staff filling the Audit Coordinator position.

After correcting for the discrepancy described above, and reversing CWS's adjustments related to the proposed Audit Coordinator, DRA agrees with the Company's adjustments to reduce the pre-inflation adjusted historical amounts for Office Supplies expense. However, DRA disagrees with using a five-year average for the second set of adjustments, which total $404,800 after DRA's adjustments, to reduce the five-year inflation adjusted average. Upon DRA's inquiry to CWS regarding the rationale for its proposed treatment of the second set of adjustments, the Company stated: "There isn't a singular reason. The nature of using an average is to smooth out for one-time expenses which may go away, but may be replaced with other costs that may not be predictable."

Since the DRA adjusted $404,800 of temporary payroll expense from the second set of adjustments was incurred in 2011, consistent with the first set of adjustments discussed above, DRA included the entire $404,800 as a reduction to the pre-inflation adjusted 2011 recorded amount.

Another adjustment made by CWS in this account reflects the removal of bank fees totaling $1,593,000 from 2011 expense, which the Company referred to as a one-time expense. In place of this amount, CWS added $275,000 to the pre-inflation adjusted recorded amount for 2011. DRA requested that CWS explain fully the rationale for including this amount in 2011 recorded costs in data request MSD-11, Question 11(g). In response, the Company, referring to its removal of the $1,593,000 related to bank fees, stated in part:

> ...and replaced it with the anticipated ongoing annual unused fee expense for 2014 of $275K. The underlying assumption for doing so is that the Company will need to draw $25M from CWSCO's line of credit in the first part of the year and carry an unused balance of about $275K. This fee is driven by the line's balance and its capitalization ratio (assuming it remains relatively unchanged as part of the treasury manager's underlying assumptions).

DRA disagrees with the Company adding the $275,000 to 2011 recorded expenses as this amount, based on the response to MSD-11, Question 11, is speculative and does not represent a known and measurable expense nor was it a recorded expense in 2011. In addition, such fees are typically built into a credit line's interest rate or amortized over the life of the credit line. Therefore, DRA has removed this amount from 2011 recorded Office Supplies Expense.

DRA made one other adjustment to this account. Specifically, in the settlement approved by the Commission in D.10-12-017, CWS was authorized to add a Water Quality Project Manager. However, as discussed on page 56 of Mr. Smegal's Direct Testimony, CWS hired a Water Quality Trainer in February 2012 in lieu of the Water Quality Project Manager. The Company stated in the response to data request MSD-03, Question 33 that it converted the Water Quality Project Manager to the Water Quality Trainer position, which was hired to improve water quality knowledge and certification standards throughout the Company. Upon DRA's inquiry as to the Commission authority on which this conversion was made, CWS stated in the response to data request MSD-14, Question 25(a) that:

> Cal Water management has the authority to modify operations based on need. Cal Water assessed that the training provided by the Water Quality Trainer is more pertinent at this time.

DRA asked the Company to provide the justification[24] for adding the Water Quality Trainer in lieu of the approved Water Quality Project Manager in MSD-03, Question 33(d). In response CWS stated:

> Cal Water does not have a detailed justification for this position in the format requested. Cal Water's operations require extensive technical expertise and the water quality hire helps to address the training needs for its water quality personnel. This position is filled by an individual with over 30 years of treatment and water quality knowledge, Gary Gottowski. Mr. Gottowski has been instructing a distribution and treatment certification course that Cal Water has utilized for many years. His expert instructions resulted in many Cal Water employees passing the required treatment and distribution certifications. Employing Mr. Gottowski naturally fills a training need and continues to develop the expertise for its certified water

[24] DRA requested that CWS provide this justification in a format similar to Attachment D, filed in conjunction with Mr. Smegal's Direct Testimony.

quality personnel. Cal Water is agreeable to adjusting out the costs for Mr. Gottowski's training courses.

Pursuant to the Company's response above, DRA requested that CWS provide the costs incurred for Mr. Gottowski's training courses for the period 2007 through 2012 in MSD-14, Question 25(c) and to identify the account(s) where such costs were recorded in Question 25(d). In response, CWS provided the amounts shown in Table 5-C below for the years 2009 through 2011.

Table 5-C		
Gottowski's Training Expenses		
Year	**Amount**	**Ratio**
2009	$26,700	28.63%
2010	$37,000	39.67%
2011	$29,560	31.70%
	$93,260	100.00%
Account	**Amount**	
725000	$ 9,210	
792603	$84,050	
	$93,260	

At the time these training courses were taught, Mr. Gottowski was classified as an outside consultant. As shown in Table 5-B, Mr. Gottowski's training expenses were allocated between Miscellaneous Expense and the Training and Seminars component of Office Supplies expense.[25] Using the ratios shown in Table 5-B, DRA reduced the historical Office Supplies expense by $24,063, $33,346 and $26,641 in 2009, 2010 and 2011, respectively, for a total reduction of $84,050. DRA made a similar adjustment to remove the $9,210 shown in Table 5-B from Miscellaneous expense as discussed in Section 12 below.

After reflecting the foregoing adjustments and including the $153,445 of adopted Dominguez merger synergy savings, DRA estimates Office Supplies expense of $4,134,800 in the Test Year 2014 and $4,234,000 in the Escalation Year 2015.

[25] The Chart of Accounts provided in response MSD-03, Question 3 indicates that Account 725000 is Miscellaneous Expense and Account 792603 is for Training & Seminars.

6) Property Insurance Expense

CWS' filing reflects estimates for Property Insurance expense of $250,300 in the Test Year 2014 and $269,100 in the Escalation Year 2015. As stated in the General Report at page 56, CWS' estimate is based on estimated premium increases as determined by its independent insurance broker Marsh Risk and Insurance Services ("Marsh"). As shown on Company workpaper WP6-B4-Ac793AG, CWS used Marsh's estimated net premium of $206,899 as its starting point for 2012, then escalated this amount to the Test Year using an average of 5% to 15% (i.e., 10%) and an average of 5% to 10% (i.e., 7.5%) in the Escalation Year.

Before discussing DRA's recommended estimate for Property Insurance expense, it is important to point out that during its review of Table 6-A2 from the Company's filing, DRA noted that this table contained several "hidden" rows (32-44) comprised of amounts that CWS referred to as "Unregulated Contract Adjustments". These amounts, which were reflected in each year of the 2007-2011 historical period, flowed to Property Insurance expense (row 14 of the electronic version of Table 6-A2), which in turn, flowed to the historical Property Insurance amounts reflected on workpaper WP6-B4-Ac793AG. In the response to data request MSD-11, Question 9, CWS stated that the unregulated contract adjustments "were an attempt by Cal Water to adjust for expenses associated with unregulated business activities" pursuant to the new Affiliate Transactions and Excess Capacity Rules that were adopted in D.10-10-019.[26] However, in response to data request MSD-11, Question 12(b), CWS conceded that the unregulated contract adjustments should be removed from historical Property Insurance expense. Despite the Company's assertion, the methodology proposed by CWS for estimating Test Year and Escalation Year Property Insurance expense precludes any impact of removing the unregulated contract adjustments on such

[26] CWC made similar adjustments to historical Liability Insurance expense as discussed in Chapter 7 of this report.

costs since the Company used the net premium amount of $206,900 that was determined by Marsh as the starting point for estimating Test Year expense.

The removal of the unregulated contract adjustment amounts notwithstanding, DRA disagrees with the use of Marsh's net premium amount as the starting point for estimating Property Insurance expense as well as the use of Marsh's recommended percentages to escalate this amount. CWS agreed in part in the response to MSD-11, Question 12(b) where it stated:

> The forecast was also mistakenly based off of Marsh's $206.9K estimate in lieu of the 2011 historical amount or an 5-year average. Please see Attachment 12-B for WP6-B4-Ac793AG that includes the removal of unregulated activity adjustments and the 2011 historical amount having been escalated using Marsh's projections and provided for illustrative purposes.

The revised company workpaper referenced in the quote above reflects estimated Property Insurance expense of $133,500 in the Test Year 2014 and $143,500 in the Escalation Year 2015.

DRA agrees with CWS' response to Question 12(b) insofar as using the last recorded year to estimate Property Insurance expense but disagrees with using Marsh's recommended 10% and 7.5% escalation factors. Instead, DRA recommends using the CPI-U labor escalation rates to estimate Property Insurance expense pursuant to the Rate Case Plan approved in D.04-06-018. This recommendation is based on (1) the fact that CWS' historical Property Insurance costs have decreased significantly since 2009, and (2) the uncertainty expressed in Marsh's analysis with respect to predicting future market trends.

After reflecting the foregoing adjustments including removing the unregulated contract adjustments, DRA estimates Property Insurance expense of $118,200 in the Test Year 2014 and $120,400 in the Escalation Year 2015.

7) <u>Injuries and Damages Expense</u>

Please see Chapter 7 for DRA's discussion of Injuries and Damages Expense.

8) Pension and Employee Benefits Expense

Please see Chapter 6 for DRA's discussion of Pension and Employee Benefits Expense.

9) Franchise Requirements (Excluding Payroll)

CWS' filing reflects zero for this account in both the Test Year 2014 and in the Escalation Year 2015.

10) Regulatory Commission Expense

CWS used a five-year inflation adjusted average to estimate Regulatory Commission expense of $279,800 in the Test Year 2014 and $226,300 in the Escalation Year 2015. CWS included $42,816 of adopted Dominguez merger synergy savings as part of its estimate.

In addition to including the Dominguez merger synergy savings, CWS reflected two additional adjustments to arrive at its estimates for Regulatory Commission expense. Specifically, the Company added $61,940 to the estimate for 2013 which CWS identified as costs related to the Utility Supplier Diversity Program ("USDP"). The second adjustment, in the amount of $23,000, was added to the Test Year estimate, which CWS identified as relating to a Climate Change Study.

DRA noted when reviewing the electronic version of workpaper WP6-B8-Ac797AG, that the Company used incorrect inflation factors when escalating the estimated 2014 and 2015 amounts for Regulatory Commission expense. DRA used the correct inflation factors for 2014 and 2015.

DRA inquired as to why CWS included the estimated cost of the USDP in its estimates for Regulatory Commission expense. In response to data request MSD-11, Question 14(a), the Company stated that it included the USDP projected expenses due to the regulatory costs that will be incurred pursuant to CPUC General Order 156 ("GO 156"). GO 156 was adopted by the Commission in 1986 and was designed to promote greater competition among utility suppliers by expanding the supplier base and to encourage economic opportunity for women, minority and disabled veteran owned businesses. As for the Company's estimate of $61,940 for the USDP study, CWS stated that this amount was determined by a purchasing manager who is no longer with the Company and that as of July 2012, the USDP program is being overseen by a new purchasing manager. This new individual calculated a revised estimate of $147,600 for the USDP program which is approximately 138% higher than the original estimate of $61,940. CWS stated that due to this transition, the implementation of the program has been delayed. In response to data request MSD-17, Question 1(a), which questioned the rationale of including the USDP study in Regulatory Commission expense, CWS stated:

> Cal Water's general practice is to only include studies as a capital cost if there is an associated capital project. This study does not have an associated capital project and is thus treated as an expense item. The classification in regulatory commission expense may not be appropriate; however, it reflects the concept that this study is an expense that should be included in Cal Water's expense estimates.

DRA has removed the $61,940 estimate for the USDP study. First of all, in DRA's view, the substantial difference between the original and revised estimates for this study exemplifies the fact that these estimates are speculative and are not known and measureable amounts. Secondly, by the Company's own admission, the appropriateness of classifying this study as a regulatory commission expense is questionable.

DRA asked CWS to explain the rationale for including the estimated cost of the Climate Change Study in Regulatory Commission expense in MSD-11, Question 14(b). In response, CWS provided Attachment 14-B, which was a document referred to as a "Non-Capital Project Justification". This document reflected an estimated cost for this project of $99,000.[27] Of this amount, CWS included $50,000 for consulting fees and an additional $19,000 for contingencies,

[27] The $99,000 is broken out as follows: $50,000 for consulting fees; $10,000 for a Project Manager Consultant to oversee the project schedule; $30,000 is estimated for staff labor and a 10% contingency factor which calculated to $9,000 ($90,000 x 10%).

for a total of $69,000 amortized over the three-year rate case cycle which resulted in the $23,000 adjustment noted above. It appears that the $19,000 for contingencies is comprised of the $10,000 designated for the proposed Project Manager Consultant and the 10% ($90,000 x 10% = $9,000) contingency noted in Attachment 14-B.

DRA has removed the estimated cost of the Climate Change Study as CWS has not demonstrated that this study was mandated by the Commission nor has it provided any support (e.g., vendor quotes, proposals, etc.) for its estimated consulting costs. Furthermore, since the proposed Climate Change Study does not fall under the parameters of a construction project, it is not appropriate to include a factor for contingencies. It should also be noted that there are many studies related to climate change available in the public domain.[28]

After correcting the errors in the Company's workpaper related to the 2014 and 2015 inflation factors and removing the costs associated with the Climate Change Study, and including the $42,816 of adopted Dominguez merger synergy savings, DRA estimates Regulatory Commission expense of $185,000 in the Test Year 2014 and $189,400 in the Escalation Year 2015.

11) Outside Services Expense

CWS separates Outside Service expense into three categories which include Legal, Accounting and Other as reflected on workpaper WP6-B9-Ac798AG. In the General Report at page 64, CWS stated that Outside Service expense was estimated based on using the last two years of such expense as it is most indicative of future expense. However, a review of WP6-B9-Ac798AG indicated that CWS used a five-year inflation adjusted average to estimate Outside Service expense of $6,635,300 in the Test Year 2014 and $6,648,400 in the Escalation Year 2015. CWS included $845,142 of adopted Dominguez merger synergy savings as part of its estimate.

[28] As an example, the State of California website (i.e., CA.gov) has a portal in which climate change is addressed through its California Climate Adaptation Strategy.

In addition to the Dominguez merger synergy savings, CWS included various other adjustments in reaching its Test Year and Escalation Year estimates for Outside Service expense. Specifically, under the Other expense category, the Company reduced the recorded amounts in historical years 2009 and 2010 by $45,000 and reduced the 2011 recorded year by $97,000. These adjustments represented a reduction in the use of outside consultants related to I.T security as well as a reduction in P2P consulting services. CWS made several additional adjustments which had the net effect of increasing Outside Service expense by $233,900 in 2012 and 2013 and by $250,600 in 2014 and 2015.

As noted above, CWS reduced the recorded years 2009 through 2011 to reflect a reduction in I.T. security related consulting costs. The basis for these adjustments is that the Company is requesting the addition of an I.T. Security Specialist in this GRC proceeding and these adjustments represent a reduction in I.T. security related consultant costs as a result. However, as discussed in Chapter 3 of this report, DRA is recommending that the I.T. Security Specialist position be disallowed. Therefore, DRA added these consulting costs back into the 2009, 2010 and 2011 recorded years, thereby reversing CWS' adjustments.

DRA requested that CWS explain fully and in detail the rationale for including the adjustments which increased the estimated Outside Service costs for 2012 through 2015 and to provide support for those amounts in data request MSD-11, Question 15(a). In response, the Company stated that these adjustments were "based upon historical amounts and discussions with management" and CWS provided a copy of an intercompany email which discussed each of the adjustments included in the Test Year estimates. DRA removed these adjustments due to CWS providing insufficient support and more importantly because, as stated in the response to MSD-11, Question 15(a), these amounts were based on historical amounts. Therefore, since the estimates for this account are based on a five-year inflation adjusted average of the 2007-2011 historical amounts, the Test Year and Escalation Year already reflect these expenses.

DRA made an additional adjustment to reduce the 2011 recorded year by $36,000. Specifically, in his Direct Testimony at page 55, the Company witness Thomas Smegal stated that in 2011 the Company conducted a one-time study to internally justify the need for an Electrical Mechanical Superintendent position in the Engineering Department. In response to DRA's inquiry regarding this amount in data request MSD-03, Question 27(d), CWS stated:

> As noted in Mr. Smegal's testimony, in 2011 the company conducted a one-time study for $36,000 to internally justify the position. This amount was nonrecurring and should be adjusted from 2011 outside services costs when determining 2014 test year costs. However, it appears that the statement in Mr. Smegal's testimony was not reconciled to workpaper 6-B9 and this adjustment was not among those made in that workpaper.

Accordingly, DRA removed the $36,000 from 2011 recorded Outside Services expense.

DRA also removed $59,888 from 2009 recorded costs, which according to the response to MSD-15, Question 14(g), related to a study conducted by the Hawkridge Group to determine ways in which CWS could improve its market position as well as identifying business opportunities. CWS was agreeable to DRA removing this amount which it did by reducing the 2009 recorded cost.

DRA made five additional adjustments to the Company's estimated Outside Services expense for the 2014 Test Year and 2015 Escalation Year. Three of these adjustments relate to cost savings CWS will achieve by hiring an I.T. Business Analyst in 2014 and the fourth adjustment relates to cost savings CWS will achieve by hiring an I.T. Application Specialist in 2014. Specifically, the response to data request MSD-06, Question 21(c) stated that a full-time I.T. Business Analyst would replace an outside consultant. The Company estimated that the outside consultant, working full time, would cost $875,000 over a three-year period whereas the full-time I.T. Business Analyst would cost approximately $630,000 over the same three-year period, resulting in cost savings totaling approximately $240,000 over three-years or $80,000 annually.

In addition, the justification for this position states in part: "A full-time in-house Business Analyst/Workflow Administrator with an annual salary of $105,000 can save ratepayers approximately $90,000-$120,000 annually. DRA requested that CWS clarify this statement in MSD-06, Question 21. In response CWS stated:

> The IT Business Analyst would replace external consultants with workflow administration duties, project functional lead duties, and assist with some production support duties following system implementation and upgrades. This would reduce the need for one full-time consultant. Business analyst consulting rates range between $130/hr to $165/hr or an approximate annual costs of $270K to $350K, while an internal resource is estimated to cost approximately $220,000 annually with full benefit loading. This does not include the efficiencies gained from utilizing an internal versus external resource as mentioned in the response to Item# 21,C.

In order to quantify the cost savings described above, DRA started by taking the salary of the I.T Business Analyst of $95,000 (per WP5-B2-Payroll Additions) and multiplying it by CWS's benefits loading factor of 110% to derive annual salary and benefits totaling $199,500. DRA then calculated the average of the two outside consultant annual costs identified in MSD-06, Question 21(f), which was $310,000 (($270,000 + $350,000) / 2), then subtracted the $199,500 of salary and benefits to derive annual cost savings of $110,500..

The response to MSD-06, Question 21(c) stated that additional savings and benefits would be realized from "keeping the knowledge and lessons learned by the business analyst in house". DRA asked CWS to quantify this additional savings in data request MSD-15, Question 17(b). In response CWS stated that the additional annual savings of approximately $70,000 would be realized and is the difference between the I.T. Business Analyst's salary and the outside consultant supporting the purchasing department. Based on the foregoing adjustments, the total annual cost savings realized from the addition of the I.T. Business Analyst is $260,500 ($80,000 + $70,000 + $110,500).

The fourth adjustment relates to cost savings achieved by CWS as a result of hiring a full-time I.T. Applications Specialist. Specifically, data request MSD-15, Question 18(b) asked CWS to quantify the cost savings associated with (1) BI report development; (2) leveraging of GIS technologies and development; and (3) leveraging of CMMS technologies and development, the functions of which are currently being performed by outside consultants. In response, CWS stated that the benefit associated with these three areas would result in annual savings estimated at $58,240 ($15,120 - BI report development; $28,000 - leveraging GIS technologies and development; and $15,120 - leveraging of CMMS technologies and development).

The fifth adjustment relates to cost savings achieved by CWS as a result of hiring the proposed Records Management System Administrator. The justification for this position stated that if CWS was to hire an outside system administrator to maintain the ERM system, that this individual who specializes in records management commands rates of at least $125 per hour and which would translate to $260,000 annually. To adjust for cost savings, DRA took the salary of $105,000 for this position and applied CWS's benefits loading factor of 110% to calculate salary and benefits totaling $220,500. The resulting difference of $39,500 was then applied to the Test Year and Escalation Year estimates for Outside Services expense. DRA applied all five of these adjustments, which totaled $358,200, to the Company's estimates for 2014 and 2015 Outside Services expense.

After reflecting the foregoing adjustments and including the $845,142 of adopted Dominguez merger synergy savings, DRA estimates Outside Services expense of $6,027,300 in the Test Year 2014 and $6,039,100 in the Escalation Year 2015.

12) <u>Miscellaneous General Expense</u>

CWS used a five-year inflation adjusted average to estimate Miscellaneous General expense of $2,523,200 in the Test Year 2014 and $2,583,800 in the

Escalation Year 2015. CWS included $171,015 of adopted Dominguez merger synergy savings as part of its estimate.

The Company's estimate also reflects the reclassification of certain legal expenses and franchise tax expenses in each year of the 2007-2011 historical period. DRA requested that CWS explain the rationale for these reclassifications in data request MSD-11, Question 16. In response the Company stated:

> Legal expenses were incorrectly coded to account 799400 and these costs were subsequently taken out of WP6-B10 (799 Misc. General Expenses) and added to WP6-B9 (798 Outside Services that includes legal expenses (a/c 798100)). Cal Water previously recorded Franchise tax expenses in account 507100, Other Taxes. Starting in 2011, Cal Water began recording the expense in account 799400, General Corporate Expense. The adjustment in this workpaper is to classify expenses to their appropriate categories.

DRA also used a five-year inflation adjusted average to estimate Miscellaneous General expense and included the $171,015 of adopted Dominguez merger synergy savings. In addition, DRA agrees that the reclassification made by CWS is appropriate.

DRA made four adjustments to the historical costs in this account. As discussed in detail in Section 5, DRA has removed the costs associated with training courses taught by Gary Gottowski, CWS' new Water Quality Trainer. As shown in Table 5-B, Mr. Gottowski's training expenses were allocated between Miscellaneous Expense and the Training and Seminars component of Office Supplies expense. Using the ratios shown in Table 5-B, DRA reduced the historical Miscellaneous General expense by $2,637, $3,654 and $2,919 in 2009, 2010 and 2011, respectively, for a total reduction of $9,210. DRA made a similar adjustment to remove the $84,050 shown in Table 5-B from Office Supplies expense as discussed in Section 5 above.

DRA also removed $146,914 from 2011 recorded costs, which related to a one-time lump sum distribution from the Edward D. Harris Revocable Trust. According to the response to MSD-15, Question 14(i), this trust was the result of providing a CWS director with a lump sum in lieu of periodic payments. In response to MSD-17, Question 9(a), CWS clarified that this amount was paid out of Dr. Harris' Director Retirement Plan upon his passing. Since this was a one-time non-recurring expense, DRA has removed it from 2011 recorded costs.

After reflecting the foregoing adjustments and including the $171,015 of adopted Dominguez merger synergy savings, DRA estimates Miscellaneous General expense of $2,489,700 in the Test Year 2014 and $2,549,400 in the Escalation Year 2015.

13) <u>Maintenance of General Plant</u>

CWS used a five-year inflation adjusted average to estimate Maintenance of General Plant expense of $352,900 in the Test Year 2014 and $361,400 in the Escalation Year 2015. The Company's estimate also includes $100,000 in the 2014 Test Year which CWS described as additional maintenance expense relating to the proposed SCADA microwave network.

DRA requested that CWS explain fully and in detail the rationale for including the additional $100,000 in this account and to show how this amount was derived in data request MSD-11, Question 17. In response, the Company provided a table which reflected how the $100,000 was derived, but there was no explanation given as to the justification for including this amount in the projected Maintenance of General Plant expense. More importantly, as discussed in further detail in Chapter 8 of this report, DRA is recommending that all of the Company's proposed SCADA related capital projects be deferred until a future GRC. Therefore, DRA removed the $100,000 from projected Maintenance of General Plant.

After reflecting the foregoing adjustment, DRA estimates Maintenance of General Plant expense of $250,400 in the Test Year 2014 and $256,400 in the Escalation Year 2015.

14) Rent Expense

CWS used the last recorded year escalated for inflation to estimate Rent expense of $244,800 in both the Test Year 2014 and the Escalation Year 2015. The Company's estimate also includes an adjustment to include an additional $100,000 in 2014 which CWS stated relates to antennae space leases needed for the SCADA program.

DRA requested that CWS explain fully the details related to the SCADA antennae leases in data request MSD-01, Question 15. In response, the Company provided the data shown in Table 5-D below and stated that the costs will vary between the sites depending upon location and number of antennas per site, which CWS stated would range from two to four antennas.

Table 5-D
Projected Annual Leases

Region	Planned Leased Sites	Annual Lease Cost
Sutter Buttes	1	$ 6,000
Monument Peak	3	$ 18,000
Soledad Peak	3	$ 28,000
Earlimart	3	$ 15,000
Oat Mountain	2	$ 28,000
Total	12	$ 95,000

In response to data request MSD-14, Question 6, CWS stated that of the $95,000 of planned lease agreements, it has executed $16,000 worth and that the remaining leases would be executed during 2013. DRA requested copies of the executed leases in data request MSD-16, Question 31(a). In response, CWS provided Attachments 31-1 through 31-6 for a total of six attachments. However, upon review, DRA determined that there were only three lease agreements[29] as duplicates of each agreement were provided in response to MSD-16, Question 31(a). In addition, despite DRA's request for copies of executed leases, none of

[29] Two of the lease agreements were with TOR Broadcasting Corporation and the third agreement was with American Towers LLC.

the agreements provided were signed by either party, thus the leases do not appear to be have been executed. Furthermore, as discussed in Chapter 8 of this report, DRA is recommending that all of the Company's proposed SCADA related capital projects be deferred until a future GRC. Therefore, for this reason and the reasons noted above, DRA has removed the $100,000 from projected Test Year Rent expense.

After reflecting the foregoing adjustment, DRA estimates Rent expense of $144,800 in the Test Year 2014 and in the Escalation Year 2015.

15) <u>Administration Charges (Excluding Payroll)</u>

As discussed in the General Report at page 66, this account reflects revenue sharing credits for unregulated activities which cannot be assigned to a particular district. CWS used the last recorded year escalated for inflation to estimate Administration Charges (credits) of $20,900 in the Test Year 2014 and $21,400 in the Escalation Year 2015.

As discussed in further detail in Chapter 2 of this report, the amounts recorded in this account reflect the gross revenue from NTP&S projects that is shared between CWS' shareholders and ratepayers pursuant to the new affiliate transaction rules which became effective June 30, 2011.

The Administration Charges recorded during the 2007-2011 historical period fluctuated considerably which led DRA to ask CWS why it used the last recorded year for its Test Year and Escalation Year estimates in data request MSD-03, Question 46. In response, the Company stated in part:

> Cal Water used the last recorded year to estimate the revenue sharing component since it reflects the most recent contract activities. Using a five-year average may inaccurately incorporate revenue sharing for contracts that no longer exists or may not capture new contracts.

In consideration of the Company's response to MSD-03, Question 46, DRA requested that for each year 2007 through 2012, CWS provide a listing which summarizes each of the contract activities to which the revenue sharing credits relate in data request MSD-14, Question 1. In response, the Company provided

MSD-14_Attachment 1-1, which reflected revenue sharing credits totaling $38,573 for 2012. This amount is nearly double the 2011 recorded amount and is closely aligned with the 2009 and 2010 recorded credit amounts of $38,808 and $32,695, respectively.

Based on the foregoing, DRA used a five-year inflation adjusted average to estimate Administration Charges (revenue sharing credits) of $38,800 in the Test Year 2014 and $39,700 in the Escalation Year 2015. In order to be consistent with the recommendations of DRA witness Michael Conklin, these estimates are based on using the ECOS inflation factors that were issued by DRA for September 2012.

16) <u>Amortization of Limited Term Investment</u>

The General Report at page 66 stated that CWS used "the last five year's average" estimate Amortization of Limited Term Investment of $19,100 in the Test Year 2014 and $21,500 in the Escalation Year 2015. However, a review of electronic workpaper WP6-B14-Ac5040AG revealed that the Company's projected amounts were flowed to the referenced workpaper from another workpaper designated as "TBL10B3-AMORT RESERVE", which is from CWS' rate base related workpapers.

DRA requested that the Company explain and reconcile this discrepancy in data request MSD-11, Question 19. In response, CWS stated that the language in the report contained a typographical error and that the calculation on workpaper TBL10B3-AMORT RESERVE reflects the accurate accounting for the amortization of limited term investments.

DRA estimates Amortization of Limited Term Investment of $17,800 in the Test Year 2014 and $19,600 in the Escalation Year 2015. The differences are attributable to DRA's and CWS's estimates for intangible plant additions.

17) <u>Dues and Donations</u>

As shown on Company workpaper WP6-B15-Dues and Donations, CWS reported Dues and Donations totaling $415,312. Of this amount, CWS deducted

$128,577, which the Company referred to as non-professional dues in the General Report at page 66.

DRA agrees that the amounts removed by CWS should be removed and excluded from rates. However, CWS did include dues associated with the Alliance of Chief Executives, LLC ("ACE") in the amount of $20,495. In response to data request MSD-14, Question 7(a), CWS stated that the ACE provides training for executives and offers a forum for collaboration discussions on strategic and planning matters. CWS also provided an overview of the ACE in response to data request MSD-14, Question 7(a) which stated in part:

> The Alliance creates very private, high-level, confidential environments for members to have strategic business conversations that typically wouldn't, or simply couldn't, take place anywhere else. Technologies and markets are rapidly converging on a global basis and "*face to face*" meetings with other chief executives have become increasingly difficult, but even more critically important. We have found that simply bringing top executives with diverse talents and expertise together results in the discovery of innovative new strategies and opportunities.

Based on that overview, DRA requested that CWS provide a list of the Company executives who are members of the ACE and to also quantify and explain the benefits of such membership and how they are passed onto ratepayers in data request MSD-17, Question 3. In response, CWS stated that it only has one executive who is a member of this organization and no quantification or explanation of how the ACE membership benefits ratepayers was provided. Therefore, DRA has removed the ACE membership dues totaling $20,495. After removing the ACE membership dues and adjusting for inflation, DRA removed dues and donations expense in the amount of $149,072 in both the Test Year 2014 and the Escalation Year 2015.

D. <u>CONCLUSION</u>

DRA recommends that the Commission adopt DRA's A&G expense estimates for the General Office.

CHAPTER 6: PENSION AND BENEFITS EXPENSE

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendation on Account 795 – Employee Benefits expense. Expenses included in Account 795 include costs associated with the 401(k) plan, pension costs, group health insurance (including medical, dental, and vision), retiree health care costs including Post Retirement Benefits Other than Pensions ("PBOP"), disability benefits, and benefit administrative costs. The costs are offset by benefits transferred. The costs are also impacted by the Dominguez synergy adjustment.

In CWS filing, employee benefit costs are both assigned and allocated to the districts. The portion that is assigned is based, in part, on projected district payroll dollars and district employee counts. All remaining costs are assigned to the General Office and then allocated to the districts with other General Office costs using the four-factor allocation method.

In evaluating this area, DRA analyzed CWS' reports, supporting workpapers, responses to data requests on the subjects, and a confidential executive compensation assessment provided by CWS.

B. SUMMARY OF RECOMMENDATIONS

CWS' estimates are based, in part, on projected total payroll dollars and the total number of employees. DRA is recommending a different employee compliment and different payroll escalation factors than those used by CWS in its benefit expense projections. DRA has also corrected errors on the spreadsheet that assigns some of the benefit costs to the district level, as well as an error pertaining to the inclusion of conservation employees in the General Office employee count. Additionally, DRA is recommending the following revisions to CWS' projected employee benefit costs:

- DRA recommends that the projected pension expense, on a per employee basis, be revised to reflect updated actuarial assumptions and a lower projected wage increase assumption.
- DRA recommends that the Supplement Executive Retirement Plan Costs be removed from the per employee pension expense projections and instead by funded by shareholders.
- The projected group health insurance costs should be reduced to account for the fact that not all employees receive CWS provided coverage.
- The 2015 healthcare cost estimate should be limited to the recommended 2014 cost level with CPI-U applied. If costs escalate my more than CPI-U, CWS should consider increasing the employee contribution rate.

DRA recommends the following amounts (thousands of dollars) for Account 795, Pensions and Benefits, on a total Company basis:

Table 6-A
Account 795 – Pensions and Benefits, Total Company

	2012	2013	2014	2015
DRA	$ 43,711,400	$ 46,392,300	$ 44,636,800	$ 43,425,200
CWS	$ 44,425,300	$ 48,150,400	$ 49,971,100	$ 49,833,700
CWS > DRA	$ 713,900	$ 1,758,100	$ 5,334,300	$ 6,408,500

DRA's estimate for Account 795 – Employee Benefits Expense for the General Office is $16,294,400 for 2014 and $15,244,100 for 2015. CWS' estimate is $19,653,000 for 2014 and $19,414,000 for 2015. The difference between DRA's recommendation and CWS' request is presented below:

Table 6-B
Account 795 – Pensions and Benefits, General Operations

	2012	2013	2014	2015
DRA	$ 15,421,000	$ 16,327,000	$ 16,294,400	$ 15,244,100
CWS	$ 17,148,000	$ 17,635,000	$ 19,653,000	$ 19,414,000
CWS > DRA	$ 1,727,000	$ 1,308,000	$ 3,358,700	$ 4,170,100

DRA's estimate for Account 795 – Employee Benefits Expense for each district, excluding the allocation from the General office, for 2014 and 2015, is presented below:

Table 6-C
Account 795 – Pensions and Benefits, Districts (000s)

District:	2014 per DRA	2015 per DRA
Antelope Valley Water	$ 111.9	$ 111.3
Bakersfield	$ 5,121.7	$ 5,091.9
Bear Gulch	$ 1,222.2	$ 1,215.5
Chico	$ 1,903.8	$ 1,892.9
Dixon	$ 174.1	$ 173.2
East Los Angeles	$ 2,121.6	$ 2,109.5
King City	$ 217.2	$ 216.0
Livermore	$ 738.3	$ 734.1
Los Altos Suburban	$ 1,001.6	$ 996.1
Marysville	$ 346.8	$ 344.8
Oroville	$ 434.2	$ 431.8
Salinas	$ 1,867.8	$ 1,857.3
Selma	$ 347.0	$ 345.0
Stockton	$ 2,348.3	$ 2,337.2
Visalia	$ 2,250.0	$ 2,240.2
Willows	$ 174.1	$ 173.1
Westlake	$ 393.4	$ 391.2
Kern River Valley	$ 434.9	$ 432.5
Redwood Valley		
CS	$ 39.8	$ 39.6
LUC	$ 197.3	$ 196.2
UNI	$ 69.2	$ 68.8
Rancho Dominguez		
DOM	$ 1,912.5	$ 1,900.5
HR	$ 1,523.1	$ 1,514.4
PV	$ 1,397.5	$ 1,389.8
Bayshore	$ 1,994.2	$ 1,983.0
Total - Districts	$ 28,342.5	$ 28,181.0

C. DISCUSSION

1) Employee Compliment and Payroll Increases

The benefit costs projections are impacted by the projected employee payroll dollars and by the projected number of employees. The projections assume an increase in employee compliment of 21 employees in 2012 (7 at the

General Office and 14 at the District level) and 40.4 employees in 2014 (29.9 at the General Office and 10.5 at the District level). In determining the GO employee additions, CWS reduced the requested 2012 and 2014 positions by a factor of 12.09% to "…account for GO hires' benefits being allocated to capital…" (Response to MSD-03, question 43) DRA did not apply this 12.09% reduction factor to its recommended GO employee additions as the portion of the benefit costs that are capitalized is already removed in the employee benefit expense calculations. DRA's employee benefit cost estimates assume an increase in the employee compliment of 21 employees in 2012 (7 at the General Office and 14 at the District level) and 14 employees in 2014 (14 at the General Office and 0 at the District level). DRA's recommended changes in CWS' requested increases in the employee compliment is addressed elsewhere in this report for the General Office operations and in the various District reports being filed by the DRA.

In determining the amount of employee benefit costs that are assigned to the districts, prior to the GO allocation of the remaining benefit costs, there were errors in CWS' spreadsheet for each of the divisions. The division level employee benefit expense calculation was off by one year for the employee compliment used. For example, the expense projection for 2013 was based on projected 2012 employee compliment at the division level. Similarly, the projection for 2014 was based on the projected 2013 employee compliment. This error only impacted the divisions in which CWS proposed to add employees in 2012 and/or 2014. While this error does not impact the total employee benefit expense calculated, it does impact the assignment of the costs to the divisions in which there was a projected change in the employee compliment, as well as the cost remaining at the General Office level to be spread to the divisions using the four-factor approach. Additionally, for the Bayshore Division, CWS' worksheets applied the historic employee compliments for the period 2007 through 2011 instead of the projected employee compliments for 2012 through 2015 in the calculations. DRA corrected these errors.

CWS also included four conservation employees in the 2011 General Office employee count for purposes of calculating the General Office employee benefit expense. In discussions between CWS, DRA and Mr. Dady, CWS agreed that the four employees were included in the GO benefits calculation in error and should be removed. DRA reflected this correction, reducing the employee count used in projecting the benefits expense by 4 employees.

In addition to the impact of the increase in employee compliment, CWS' employee benefit expense projections factored in a projected average effective annual payroll increase, excluding the impacts of the increase in the employee compliment, of 4.51%. This 4.51% is applied each year, 2012 through 2015, and consists of an "average annual increase" of 1.94% and an average annual "CPI-U" increase of 2.57%. CWS has agreed that its calculation of the 4.51% rate was in error. Elsewhere in this report, DRA recommends that the annual payroll escalations be based on the DRA labor inflation rates. DRA recommends that those same rates be used for purposes of projecting the employee benefit expense.

2) <u>401(k) Matching - Account 7951-1</u>

CWS provides a 401(k) plan for its employees in which it matches 75% of employee contributions up to 8% of payroll, capped at the statutory contribution limit. Thus, the maximum contribution under the program for CWS is 6% of company payroll. Since not all employees fully participate in the program, CWS projected the costs based on the actual participation levels in the last recorded year (2011), which results in a contribution rate of 4.3%. CWS applied the 4.3% contribution rate to its projected employee payroll costs. DRA agrees with the use of the 4.3% contribution rate and the methodology used by CWS. The only difference between CWS' requested 401(k) matching costs and DRA's recommended cost is due to DRA's modifications to the projected payroll costs to which the 4.3% rate is applied.

3) <u>Pension Funding – Account 7951-2</u>

CWS' estimate of pension expense for 2012 through 2015 is based on an actuarial forecast provided by Milliman in June 2012. The costs include both pension costs and Supplemental Executive Retirement Plan ("SERP") costs. In the forecast, Milliman provided the projected net periodic pension costs and SERP costs, as well as the combined total amount, for each year, 2012 through 2016. Milliman also provided a breakdown of the projected costs for each year on an average per employee basis using the number of employees included in its actuarial calculations. CWS applied the resulting average per employee cost, which includes both net periodic pension costs and SERP costs, in its model. In CWS' model, the average per employee costs provided by Milliman in the June 2012 forecast is multiplied by the number of employees factored into CWS' model. The table below provides the annual pension costs and SERP costs projected by Milliman in June 2012, as well as the resulting average cost per employee. The average cost per employee is also broken down between pension costs and SERP costs in the table below.

Table 6-D
Pensions and SERP Costs, Per CWS

	Pension per CWS (a) (000s)	SERP per CWS (b) (000s)	Total (c)=(a)+(b) (000s)	Amt per Emp. per CWS (d)	Employees (e)=(c)/(d)	Avg. Pension per Employee (f)=(a)/(e)	Avg. SERP per Employee (g)=(b)/(e)
2012	$ 28,171	$ 3,044	$ 31,215	$ 32,035	974.4	$ 28,911	$ 3,124
2013	$ 33,447	$ 3,081	$ 36,528	$ 35,703	1,023.1	$ 32,692	$ 3,011
2014	$ 33,647	$ 2,937	$ 36,584	$ 34,055	1,074.3	$ 31,321	$ 2,734
2015	$ 33,602	$ 2,824	$ 36,426	$ 32,293	1,128.0	$ 29,789	$ 2,504
2016	$ 33,493	$ 2,746	$ 36,239	$ 30,597	1,184.4	$ 28,279	$ 2,318

Columns (a), (b), (c) and (d) provided by CWS

The average per employee amounts presented in column (d), above, which include both pension and SERP costs, are the amounts incorporated in CWS' filing.

Instead of using the most recent known actuarial assumptions that would have been selected by CWS for the 2012 fiscal year for financial purposes, several of the actuarial assumptions were modified for purposes of projected the 2013 through 2016 cost estimates. For purposes of estimating the pension costs, the following changes were made: 1) the long term rate of return on plan asset assumption was reduced from the 7.00% rate used in 2012 to 6.75% for 2013 through 2016; and 2) the long term average salary increase was increased from the 3.5% used for 2012 to 5.00% for 2013 through 2016. Each of these changes increase the pension cost estimates. In estimating the SERP plan costs, the Company increased the long term average salary increase assumption from the 4.00% used in 2012 to 5.00% in 2013 through 2016. The discount rate assumptions remain unchanged from the 2012 level for the years 2013 through 2016.

It is DRA's opinion that CWS has not justified the significant increase in the long term average salary increase assumptions used in the actuarial projections. CWS has not supported increasing the assumption from the 3.5% salary increase rate used for the pension projections in 2011 and 2012 to 5.0% in the period 2013 through 2015. The salary increase assumption is a long term assumption and the significant increase has not been supported. Additionally, the use of an average 5% increase in salary assumption is significantly higher than the DRA labor escalation factors and higher than the annual wage increase projections recommended elsewhere in this report.

In Data Request MSD-012, DRA requested that CWS provide revised pension and SERP projections using different actuarial assumption for 2013 through 2015. In the response, dated January 4, 2013, CWS' actuarial firm, Milliman, provided revised actuarial projections for the 2013 through 2016 period under three additional scenarios. This response went beyond the information requested by DRA in the request. Scenario #3 provided by Milliman reduced the long term average salary increase assumption for 2013 through 2016 from the

5.0% contained in the original projection to the 3.5% that was used for 2011 and 2012. In that scenario, Milliman also modified the discount rate that was used for 2013 through 2016 based on their current best estimates, reducing the discount rate from 4.4% for the pension plan and 4.3% for the SERP plan to 3.9% and 3.7%, respectively. The reduction in the discount rate assumption is the result of the significant decrease in interest rates and bond yields since the time Milliman prepared the original projections in June 2012. DRA recommends that the average per-employee pension plan cost be calculated based on the 2013 through 2015 pension costs calculated by Milliman in Scenario #3. This would be consistent with the original projections with the only items changed being the reduction of the long term salary increase assumption to 3.50% and the reduction in the discount rates to the more recent projection of 3.9%. DRA also recommends that the average per-employee SERP costs included in the filing for 2013 be based on the Milliman's Scenario #3.

DRA also recommends that beginning with this GRC cycle, which starts January 1, 2014, that CWS no longer be permitted to recover SERP costs from ratepayers. The SERP benefit is provided only to executive officers and is in addition to the 401(k) plan and pension plan benefits already received by the participating officers. The SERP plan provides additional retirement benefits to executive officers that exceed the amounts allowed for in the qualified pension plan by the IRS. The costs of these generous benefit plans should be funded by shareholders, not ratepayers. Since the SERP plan costs were included in the authorized pension expenses in the prior CWS GRC, DRA is including the projected SERP costs, based on Milliman's Scenario 3 calculations, in the 2013 expense projections. However, the SERP plan costs are excluded from the DRA recommended average per employee pension costs for the years 2014 and 2015.

****BEGIN CONFIDENTIAL**** [redacted]

[redacted] **END CONFIDENTIAL****

Consistent with DRA's recommendation that SERP costs not be recovered from ratepayers beginning with this rate cycle, the SERP costs should also be excluded from the pension balancing account beginning in January 2014.

For 2012, DRA is not recommending any modifications to the average per employee pension costs requested by CWS in its filing. This is an average cost per employee of $32,035 and includes both pension and SERP costs. The only difference in pension costs between DRA and CWS for 2012 is based on DRA's revisions to the 2012 employee compliment.

For 2013, DRA recommends that the average per employee pension cost used in CWS' model be reduced from $35,703 to $34,441. The calculation of DRA's recommended amount is based on the pension and SERP costs provided by Milliman in its Scenario #3 (i.e., reduces discount rate to more recent estimates and reflects a salary increase of 3.5% for pensions and 4.0% for SERP). The result of the Scenario #3 calculations is a total projected pension cost of $32,221,000 and a projected SERP cost of $3,016,000. Using the number of employees from Milliman's estimates, the result is an average cost per employee for 2013 of $34,441.

For 2014 and 2015, DRA recommends that the average per employee pension cost requested by CWS be reduced to $29,889 and $28,129, respectively. These revised amounts are based on Milliman's Scenario #3 actuarial projections and excludes the SERP plan costs. The calculation of DRA's resulting average per employee pension cost is presented in columns (c) through (e) in the table below. The table below also provides a comparison of the pension and SERP costs used by Milliman in calculating the average 2014 and 2015 pension costs per employee contained in CWS' filing and the number of employees used by Milliman in deriving the average per employee amounts. Column (c) (the per-DRA pension amount) is based on Scenario #3 provided by Milliman for pension costs only.

Table 6-E
2014 & 2015 Pensions Costs per Employee, Per DRA

	Pension & SERP Per CWS (a) (000s)	Pension Only per CWS (b) (000s)	Total Pension per DRA (c) (000s)	# of Employees in CWS Pension Calc. (d)	Per DRA Pension Cost per Employee (e)=(c)/(d)
2014	$ 36,584	$ 33,647	$ 32,109	1,074.3	$ 29,889
2015	$ 36,426	$ 33,602	$ 31,729	1,128.0	$ 28,129

The table below provides a comparison of DRA's recommend average pension cost per employee and the average pension cost per employee contained in CWS' filing:

Table 6-F
Average Pensions Cost per Employee

	2012	2013	2014	2015
DRA	$ 32,035	$ 34,441	$ 29,889	$ 28,129
CWS	$ 32,035	$ 35,703	$ 34,055	$ 32,293
CWS > DRA	$ -	$ 1,262	$ 4,166	$ 4,164

In addition to the above recommended revisions to the average per-employee pension costs contained in the filing, DRA also recommends that CWS close the defined benefit pension plan to new employees beginning with this rate case cycle. Instead, DRA recommends that new employees be offered an enhanced 401(k) or enhanced employee savings plan. Many utilities, including other public water utilities in California, have closed their defined benefit pension plans to new employees and instead offer enhanced savings plans to new employees. CWS should do the same. Taking such steps will help to mitigate future cost volatility associated with the provision of the defined benefit plan. CWS could first close the plan to new non-union employees, and begin to address closing the plan or other options with the union employees in future union negotiations. We note that CWS has indicated that the union employees currently receive the same benefits as the non-union employees. Thus, closing the plan to new non-union employees would be an important first step in transition the retirement benefits for future employees to an enhanced savings plan format. We have not recommended any expense adjustments associated with this recommendation in this rate case cycle. Instead the average pension cost per employee recommended above is also being used for the existing and the new employees that DRA agrees should be added for purposes of estimating the retirement benefit costs in this rate case cycle.

4) Group Health Insurance – Account 7952

CWS self-insures and administers its employee health care plan, which includes medical, dental and vision coverage. Employees may also opt for coverage through Kaiser. Cost projections provided to CWS by its actuarial firm, Milliman, on June 7, 2012 indicates that approximately 75% of employees receiving insurance are enrolled in the self-insured medical options, with the remaining 25% covered under the Kaiser option.

In projecting the 2012 through 2015 group health insurance costs in the filing, CWS applied its projected employee compliments to average per employee health insurance costs that were provided by Milliman. Milliman's projected costs for 2012 through 2015 were based on actuarial estimates. In calculating the projected costs, Milliman assumed annual medical cost inflation of 9% in 2012, 10% in 2013, 9% in 2014 and 9% in 2015. Dental and vision costs were assumed to be subject to 5% annual inflation for 2012 through 2015. In projecting the costs, Milliman also assumed that CWS would make no changes to its current healthcare plan design and that the employee contribution would remain at $125 per month. The projections also factor in the impacts of the employees who participate in the Kaiser option.

DRA agrees that the healthcare expense on a per employee basis calculated by Milliman for 2012 through 2014 is a reasonable projection for those employees receiving coverage. Thus, for 2012 through 2014, DRA factored in the per employee cost calculated by Milliman. However, DRA does not agree with the Company's method of applying Milliman's calculated per employee costs to the full projected employee compliment in each of those years. In projecting the per employee cost, Milliman only factored in the employees that participate in the medical plans. For example, Milliman's projections estimate that 883 employees received coverage in 2012, while CWS' filing estimates an employee compliment of 960 employees in 2012. Similarly, Milliman's projections assume 844 participants in 2011, while CWS' filing reflects 939 employees in 2011. Not all active employees participate in the company provided healthcare coverage. Thus, by applying Milliman's per employee cost to the full projected employee compliment, the projected healthcare costs in the filing are overstated as they assume all employees will participate in the coverage. The table below shows for the years 2008 through 2011 the number of year-end employees as compared to the number of employees CWS indicates are covered by the CWS healthcare plans.

Table 6-G
Average Employee Participation Rate in Insurance Plans

	2008	2009	2010	2011
Year End Employee Count	819	895	923	939
Participants in Company Provided Plans	780	857	866	903
% Employees Participating in Plans	95.24%	95.75%	93.82%	96.17%
Four-Year Average Employee Participation Rate				95.25%

Source: Response to MSD-012, Question 2

As shown in the table above, over the last four years 95.25% of employees have participated in the Company provided healthcare coverage. DRA recommends that for purposes of estimating the 2012 through 2014 group insurance costs for active employees, this 95.25% factor be applied to the DRA recommended employee compliment prior to applying the cost per employee that was determined by Milliman.

For 2015, DRA recommends that the group insurance expense for active employees be based on the amount found appropriate for 2014 with inflation applied based on CPI-U. This is consistent with the Commission's Rate Case Plan. If CWS' actual costs exceed the 2014 cost level with CPI-U applied, it has the option of increasing the amount employees contribute to the costs of the coverage. CWS has indicated that union employees receive the same benefits as non-union employees, and that there is not a union agreement in place for 2014 and after. Thus, presumably, CWS can take steps to increase the portion of healthcare costs that are funded by employees.

In 2007, CWS implemented a monthly premium per active employee participating in the coverage of $125. That $125 monthly premium has remained unchanged despite the significant increase in healthcare costs. Using Milliman's per employee cost projections, DRA notes that the employee premium, which results in an annual contribution rate of $1,500, would cover approximately 9.2% of the plan costs in 2012 and less than 8% of the plan costs by 2014. This is much lower than the trend DRA has noticed with other companies. For example, a survey conducted by Kaiser Family Foundation and the Health Research and Educational Trust identified the average annual health insurance premiums as $15,745 for 2012, with workers contributing $4,316 of that amount for family coverage, or approximately $360 per month. This equates to an employee contribution for family coverage of approximately 27% on average, which is well above the contribution rate for CWS employees.

CWS' employee contribution rate is also lower than other Class A water companies in California. Based on an informal survey conducted by DRA, Golden State Water Company employee contribute 15% toward their health insurance, Suburban Water System employees contribute 16% towards their coverage, and Valencia Water Company employees contribute from 20% to 30% depending on the type of plan. Based on the last California American Water Company general rate case, their employee contribution rate exceeds 20%. The contribution rate paid by CWS employees falls far short of these levels.

5) Retiree Group Health Insurance – Account 7952-1

CWS administers and self-insures its own retiree health care plan. The retiree health care plan provides full coverage for employees not yet eligible for Medicare and provides supplemental coverage for Medicare enrollees. CWS' retirees pay a monthly premium of $335 per person and premium of $670 per month for retiree and spouse. The premium declines to $156 per person when the retiree receives Medicare or other coverage. The projected retiree group health insurance expense provided by Milliman assumes that the employee premiums are adjusted periodically to maintain a level equal to 50% of expected medical claims.

CWS's retiree group health care plan expense is funded in advance in accordance with accrual accounting requirements (previously known as FAS 106), which requires that annual funding of the plan be based on an actuarial analysis of the expected future expense arising during the employee service time. CWS' estimate is based on an actuarial forecast provided by Milliman. Milliman provided estimated annual costs as well as the average annual cost per active employee. The resulting average cost per active employee calculated by Milliman was $7,812 for 2012, $7,674 for 2013, $7,294 for 2014 and $7,017 for 2015. CWS applied the average cost per active employee provided by Milliman to the projected employee compliment contained in the filing for each year, 2012 through 2015.

DRA agrees that Milliman's projected average cost per active employee is a reasonable forecast and based on reasonable actuarial assumptions. The only difference between CWS' requested retiree group health care plan costs and

DRA's recommended amounts is the result of DRA's recommended employee compliments differing from those proposed by CWS.

6) Benefits Administration – Account 7953

CWS estimates benefit administration costs based on the five year average of administrative costs to payroll costs, with the resulting ratio then applied to the projected payroll costs. DRA agrees this approach is reasonable. The difference between DRA's recommended amount and CWS' proposal is the result of DRA's projected payroll amounts differing from those proposed by CWS.

7) Benefits Transferred – Account 7954

In determining the percentage of employee benefits transferred to capital projects, construction overhead, and work charged to affiliates or unregulated operations, CWS used the percentage from the last recorded year (2011) of 23.9%. DRA agrees the use of the 23.9% rate for determining the amount of employee benefits expense transferred. The difference between the DRA amount and CWS is the result of DRA's revisions to the various employee benefit expense items discussed in this chapter.

8) Disability Benefits Received – Account 7955-2

In projecting these costs, CWS estimates the credits for disability benefits based on a five-year average of credits to payroll costs. The resulting percentage is applied to CWS' projected payroll costs. DRA agrees with CWS' method and the percentage used. The only difference between CWS' request and DRA's recommendation for disability benefits received is the result of DRA's modifications to the projected payroll amounts.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's recommended amounts for Account 795 – Employee Benefits for the general office. This recommendation also includes the recommended disallowance of the costs included in the pension component for the Supplemental Executive Retirement Plan.

CHAPTER 7: A&G SALARIES (EXCLUDING PAYROLL) AND INJURIES AND DAMAGES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendation on Account 791 – A&G Salaries (Excluding Payroll) and Account 794 - Injuries & Damages expenses in the General Office. This Chapter also presents DRA's recommendation on workers compensation for the Districts. The largest component of Account 791 – A&G Salaries (Excluding Payroll) is for stock awards granted to executive officers of CWS.

In evaluating this area, DRA analyzed CWS' reports, supporting workpapers, responses to data requests on the subjects, a confidential executive compensation assessment provided by CWS, and CWS' proxy statements.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that the expense included by CWS for stock awards granted to executive officers be removed. DRA also removed a double-counting of the Dominguez synergies that were included twice in CWS' adjustment to A&G Salaries (Excluding Payroll). As a result, DRA's recommended expense for Account 791- A&G Salaries (Excluding Payroll) is $52,800 for 2014 and $54,100 for 2015. CWS' estimate for this account is $1,201,100 for 2014 and $1,231,700 for 2014. The difference between DRA's recommendation and CWS' request is presented below:

Table 7-A
Account 791 – A&G Salaries (Excluding Payroll)

	2012	2013	2014	2015
DRA	$ 50,400	$ 51,500	$ 52,800	$ 54,100
CWS	$ 1,118,400	$ 1,144,100	$ 1,172,700	$ 1,200,900
CWS > DRA	$ 1,068,000	$ 1,092,600	$ 1,119,900	$ 1,146,800

DRA's estimate for Account 794 – Injuries & Damages Expense, is $3,306,800 for 2014 and $3,367,200 for 2015. CWS' estimate is $3,914,000 for 2014 and $4,128,700 for 2015. The difference between DRA's recommendation and CWS' request is presented below:

Table 7-B
Account 794 – Injuries and Damages (Excluding Payroll)

	2012	2013	2014	2015
DRA	$ 3,076,800	$ 3,191,700	$ 3,306,800	$ 3,367,200
CWS	$ 3,507,800	$ 3,702,900	$ 3,914,000	$ 4,128,700
CWS > DRA	$ 431,000	$ 511,200	$ 607,200	$ 761,500

DRA's estimate for workers compensation for each of the districts for 2014 and 2015, is presented in Table 7-C below. This does not include the portion associated with the General Office employees, which is included in the above Injuries and Damages amounts.

Table 7-C
Workers Compensation – District Amounts

District	2014	2015
Bakersfield	$ 289,323	$ 294,820
Bear Gulch	$ 68,225	$ 69,522
Chico	$ 95,142	$ 96,949
Dixon	$ 10,065	$ 10,256
East Los Angeles	$ 108,573	$ 110,636
King City	$ 10,595	$ 10,796
Livermore	$ 39,283	$ 40,029
Los Altos Suburban	$ 56,357	$ 57,428
Marysville	$ 15,806	$ 16,107
Oroville	$ 22,358	$ 22,783
Salinas	$ 96,961	$ 98,803
Selma	$ 17,035	$ 17,359
Stockton	$ 126,506	$ 128,910
Visalia	$ 111,410	$ 113,527
Willows	$ 9,955	$ 10,145
Westlake	$ 24,371	$ 24,834
Antelope Valley Wate	$ 4,688	$ 4,777
Kern River Valley	$ 23,826	$ 24,278
Redwood Valley	$ 14,982	$ 15,267
Rancho Dominguez	$ 237,845	$ 242,364
Bayshore	$ 101,564	$ 103,494

C. DISCUSSION

1) A&G Salaries (Excluding Payroll) – Account 791

CWS' filing includes $1,172,700 in 2014 and $1,200,900 in 2015 for Account 791 – A&G Salaries (Excluding Payroll). The main component of this expense account is for the provision of stock awards to executive officers. DRA recommends that expenses in Account 791 – A&G Salaries (Excluding Payroll) be reduced to $52,800 for 2014 and $54,100 for 2015. The main driver of the difference between DRA and CWS is that DRA recommends that the executive stock expenses be removed in their entirety.

In GRC Company Report #1, or the General Report, CWS asserts at page 56 that the non-payroll charges to this account "are miscellaneous charges" and that "Cal Water uses the last recorded year to estimate the test year charges." However, this is not an accurate description of what is included in the account or of how the requested amounts were derived. While some miscellaneous charges are included, the majority of the projected costs are for stock awards granted to executive officers of CWS.

CWS WP 6-B2 shows that the costs recorded in this account were ($122,800) in 2007 and $152,600 in 2008. DRA's Report on General Operations in the last CWS rate case, A.09-07-001, recommended an expense for this account of $122,100 for 2011. In the current case, the requested amount for 2014 jumps to $1,201,100. This significant increase above historic levels and above the amount projected in the prior rate case is due to the significant amount included by CWS for executive officer stock awards granted under the long-term equity incentive plan. In fact, of the $1,201,100 included by CWS for 2014, $1,046,500 is for the stock awards under the long-term equity incentive plan. The $1,046,500 is based on CWS' projected 2012 amortization of stock expenses of $976,600, which was then escalated to 2014. CWS WP6-B2 describes the significant increase in costs in this account as follows:

> Increase in above expenses mostly due to change in approved equity-based compensation plans to one having stock awards with an exercise price of $0.00 and their subsequent 4-year vesting periods with 25% of the award being available after the first quarter and the remainder being prorated monthly over the remaining life of the award. This, in turn, results in a compounding effect as subsequent awards are issued.

While CWS claims in the General Report, at page 56, that the projected cost is based on the "last recorded year to estimate the test year charges," this is not an accurate description. Based on the electronic workpapers for CWS, workpaper WP 6-B2, the amount is based on: 1) the 2011 recorded expense in Account 791 A&G Salaries (excluding payroll); 2) less the $860,400 included in that amount for the amortization of stock awards; 3) plus the projected 2012 amortization of stock expense of $976,600; 4) plus the Dominquez synergy adjustment from D.06-08-01 of $70,000. The resulting amount of $1,025,800 is then escalated by CWS in the subsequent years. In the cell applying the escalation for 2012, CWS mistakenly added the $70,000 for Dominguez synergies a second time.

DRA recommends that the amortization of stock awards be removed in their entirety. The costs in the filing are associated with the Company's long-term equity incentive plan. The California Water Service Group Proxy Statement, issued April 13, 2012, describes the purpose of the plan as: "…to align executive compensation with stockholder interests, to create incentive for executive recruiting and retention, to encourage long-term performance by the Group's executive officers, and to promote stock ownership and therefore alignment with shareholder interests." Clearly the focus of the plan is stockholder interests, not ratepayers. The costs of the plan should be funded by the stockholders as they are the primary beneficiaries and the focus of the plan.

The April 2012 proxy statement also indicates that the Organization and Compensation Committee of the Board of Directors establishes the total value of the equity compensation awards to be granted to the Chief Executive Officer and the other executive officers in each year, with the value vesting over four years in the form of Restricted Stock Awards. The proxy statement indicates that the total value of the equity compensation awards to be granted to the Chief Executive Officer and other executive officers for 2012 was $400,000 for the Chief Executive Officer and $90,000 for each of the other executive officers. These amounts are above and beyond the base salaries earned by the executive officers.

The $400,000 identified for the Chief Executive Officer is above and beyond his base salary, which is identified in the proxy statement as $995,000 for 2012. The proxy statement shows that the next highest paid officer's base salary is less than half the base salary of the Chief Executive Officer. It is DRA's opinion that removal of the costs associated with the long-term equity incentive plan also results in a more reasonable level of overall executive compensation costs for the executive officer group as a whole being included in test year expenses to be passed on to ratepayers.

Additional proxy materials issued by California Water Service Group on May 22, 2012, indicate that the pay structure reflects the regulated business model. Specifically, the information states as follows:

> Historically, the Compensation Committee has not used annual bonuses or other types of short-term incentive plans, rather has chosen to use long-term incentives to align executive compensation with long-term results. The Compensation Committee is mindful that as a holding company for water regulated utilities, financial performance is significantly dependent upon regulatory actions. In addition, ***there is no rate recovery mechanism for incentive compensation, so that any costs associated with such plans must be paid solely by the shareholders and not recovered in rates***. [Emphasis added.]

While the additional proxy materials states that costs associated with incentive compensation "…must be paid solely by the shareholders and not recovered in rates," the filing includes the long term incentives, i.e., the stock award costs, in Account 791 – A&G Salaries (Excluding Payroll). This would pass the costs onto the Company's ratepayers instead of the shareholders who benefit from the long term equity incentive plan.

DRA recommends that the expense included by CWS in its filing for the executive stock awards be removed. DRA's recommended expense in Account 791 – A&G Salaries (Excluding Payroll), also removes the double counting of the Dominquez synergies from D. 06-08-01 that were inadvertently included twice by CWS in its workpaper. CWS has agreed that $70,000 synergy adjustment was mistakenly added twice in its calculations.

2) <u>Injuries & Damages – Account 794</u>

CWS estimates Injuries and Damages costs of $3,914,000 for 2014 and $4,128,700 for 2015. DRA made several revisions to CWS' estimates, resulting in DRA recommended Injuries and Damages costs of $3,306,800 for 2014 and

$3,367,200 for 2015. Both the CWS and DRA amounts include $126,700 in each year for Dominguez synergy savings adopted in D.06-08-01.

Included in the injuries and damages request are: a) workers compensation insurance; b) occupational sick leave costs; c) safety and training costs; and d) liability insurance expense. Each of these components will be addressed separately below.

a) Workers Compensation Insurance

CWS currently self-insures for workers' compensation costs. Historically, CWS has recovered workers compensation insurance costs in rates based on a pay-as-you-go methodology. In the General Report, at page 57, CWS provided an incorrect description of how the workers compensation insurance costs were derived in its filing. The General Report indicates the test year costs were based on actuarial expectations provided by actuaries at Milliman USA ("Milliman"). The discussion also indicates that the cost projections include not only the amount of expected future expenses arising from present injuries, but also an amortization for the accrued liability in the account from past injuries, with amortization occurring over a seven-year period. CWS' response to Data Request MSD-01, Question 12, also indicated that it used a revised methodology in this case of "…accruals coupled with an (sic) 7-year amortization period." However, in response to Data Request MSD-003, Question 51, the Company agreed that its previous response to Question 12 of Data Request MSD-01 was in error and that "Cal Water's worker compensation expenses are accounted for on a pay-as-you-go basis and do not take into consideration previously open claims or amounts expected to be incurred beyond a one-year period." Thus, while CWS' described method of calculating the workers compensation insurance expense included in the filing is inconsistent with past approved methods, the amount of expense actually included in the Company's workpapers and projected test year expense is based on the pay-as-you-go method previously recommended by DRA and approved by the Commission in prior CWS rate case proceedings.

The self-insured workers compensation insurance expense incorporated in the injuries and damages expense account in the filing is based on cash basis estimates, i.e., estimated pay-as-you-go amounts, which were provided to the Company from Milliman on June 22, 2012. Using actuarial methods, Milliman estimated the expected claim payments and expected additional cash expenses, for the self-insured workers compensation program for each year, 2012 through 2016. DRA accepts Milliman's estimated pay-as-you-go costs for 2012, 2013 and the 2014 test year.

For the 2014 test year, Milliman projects a cash-basis cost of $3,081,000. CWS then applied an 80% factor to this amount in its workpapers to reflect 80% of the costs going to expense and a 20% capitalization factor. After application of the 80% expense factor, $979,900 is allocated to the general office operations for 2014.

While DRA accepts CWS' estimates through 2014, DRA recommends that the 2015 amount be based on the 2014 amount with the labor inflation rate applied. Several significant assumptions had to be made by CWS and by Milliman in projecting the future cash payments. The further out the estimates, the more speculative they become. Thus, for projecting the costs after the 2014 test year, DRA recommends that the costs be based on the projected test year cash basis costs with the appropriate DRA escalation factors applied. This is consistent with the rate case plan. The result is a $56,500 reduction to CWS' projected 2015 expense for workers compensation.

b) <u>Occupational Sick Leave</u>

The amount included in CWS's filing for the occupational sick leave costs recorded in Account 794.2 is based on the escalated five-year (2007-2011) average cost level. DRA agrees that this methodology is appropriate; however, there was an error in the method by which CWS escalated the amounts. CWS inadvertently applied the wrong escalation factors to the historic costs in deriving the five-year average cost and the 2012 escalated costs. The error, which impacted 2014 test year expense by approximately $100, was corrected by DRA. The DRA corrected balance for 2014 is ($14,500). The balance in CWS's filing is ($14,600).

c) Safety and Training

The amount included in CWS's filing for safety and training costs recorded in Account 794.3 is based on the escalated five-year (2007-2011) average cost level. In determining the five-year average cost level, CWS appropriately removed some training expenses from the historic periods that were previously provided by an outside consultant and brought in-house in 2012. DRA agrees this methodology is appropriate; however, there was an error in the method by which CWS escalated the historic amounts. CWS inadvertently applied the wrong escalation factors to the historic costs in deriving the five-year average cost and the 2012 escalated costs. The error, which impacted 2014 test year expense by approximately $1,000, was corrected by DRA. The balance in CWS' filing for 2014 is $39,700 and balance but, as corrected by DRA, is $38,600.

d) Liability Insurance

The General Report indicates that CWS bases its estimate of liability insurance on a combination of premiums paid to independent insurance companies, including fees paid to the insurance brokers, and a provision for uninsured losses. The provision for uninsured losses covers the deductible on the insurance policies and exposure that is not covered by the insurance policies.

In addressing the liability insurance component of the Injuries and Damages Expense in the General Report, at pages 57 and 58, CWS provided an incorrect description of how the liability insurance expense was derived in its filing. The General Report states that CWS forecasts the insurance portion of the costs based "…on an analysis performed by Marsh." The report also states that the "…estimate of uninsured losses is based on its most recent experience of 2011 uninsured losses, which is based on its current insurance policies and deductibles." However, this is inconsistent with the calculations in the workpapers that calculate the amounts actually flowing through CWS' request.

Based on the electronic workpapers provided by CWS, specifically WP 6-B5, the starting point of CWS' adjustment is to take the actual recorded 2007 through 2011 amounts. CWS then added what it called "unregulated district adjustments" of $207,690 in 2007, $285,800 in 2008, $296,690 in 2009, $487,240 in 2010 and $179,330 in 2011. No explanation was provided with the filing with regards to these "unregulated district adjustments" that CWS added to the "liability insurance" that was recorded at the GO level. CWS then took the resulting amounts (i.e., the GO recorded "liability insurance" expense and the "unregulated district adjustments") for each year, escalated the amounts to 2012 dollars, and determined the five-year average amount based on 2012 dollars. CWS then escalated the five year average amount, which was based on 2012 dollars, by another 5% in deriving the 2012 expense estimate. Each of the following years were then escalated by 5%, which the workpaper indicates was based on a quote from Marsh of a 5% to 10% increase a year, with CWS opting to select the 5% annual increase factor in its calculation.

In summary, CWS's estimated test year "liability insurance" expense included in Account 794 – Injuries and Damages, is based on a 5 year average of amounts recorded at the GO level plus unexplained "unregulated district adjustments," escalated to 2012 dollars with additional 5% escalation factors applied each year, starting with 2012. Based on the workpaper, the costs are not based on projections provided by Marsh, other than the 5% escalation factors, and is not based on the most recent 2011 experience for uninsured losses.

DRA believes that the 2012 estimated amount should be based on a five year average of actual costs escalated to 2012 dollars. Given CWS's inaccurate description of what is included in its estimated costs, coupled with the lack of support for amounts exceeding the escalated five-year average cost level, basing the cost on a five-year average with escalation is reasonable and the only level supported by CWS. DRA's recommended costs removes the unexplained "unregulated district adjustments." CWS agreed in response to Data Request MSD-14, Question 31(a) that the unregulated district adjustments were done in error and that the unregulated district adjustments "…should be eliminated for 2007 through 2010." DRA is also removing the unregulated district adjustment for 2011 of $179,330 as CWS has not adequately explained or supported the adjustment, nor has it adequately explained why the amount should be added to the 2011 "liability insurance" at the GO.

DRA also removed the 5% escalation rate that CWS applied to the five year average cost to obtain the forecast 2012 amount. The five year average cost is already based on 2012 dollars and should not be escalated by an additional 5%. For projecting the 2014 test year and 2015 escalation year costs, DRA replaced CWS' proposed 5% annual inflation factor with the DRA's CPI-U factor. CWS has not adequately supported projected annual increases in the costs of 5%.

While the filing does reference a "quote from Marsh" that indicates a 5% to 10% increase per year, with CWS selecting to use a 5% increase, a March 30, 2012 letter from Marsh to CWS expresses that there are many variables that will impact the insurance market and that it is not possible to predict future market trends with absolute certainty. The letter also references a "transitioning" in the insurance market which can impact the future costs. Given the uncertainties surrounding the insurance projections, DRA recommends that the CPI-U be used in going from the estimated 2012 costs to the test year costs.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's recommended amounts for Account 791 – Administrative & General Salaries (ExcludingPayroll) and Account 794 – Injuries & Damages Expense for the general office. This recommendation also includes the recommended disallowance of the costs included for the stock awards provided to executive officers through the long-term equity incentive plan.

CHAPTER 8: RATE BASE

A. INTRODUCTION

This chapter sets forth the analyses and recommendations of DRA for capital projects for CWS's General Office and weighted average rate base. DRA's recommendations are based on DRA's independent review of CWS's Application, workpapers, capital budgets, capital project justifications, telephone conversations, emails and responses to discovery.

B. SUMMARY OF RECOMMENDATIONS

CWS requested a weighted average rate base of $47,790,000 for 2012, $57,844,800 for 2013, $65,718,900 for the Test Year 2014 and $67,807,500 for the Escalation Year 2015. DRA recommends a weighted average rate base of $46,198,600 for 2012, $50,993,100 for 2013, $51,177,100 for the Test Year 2014 and $51,891,600 for the Escalation Year 2015.

The differences are primarily due to DRA's recommendations for adjustments and the disallowance of several of CWS's proposed capital projects.

C. DISCUSSION

1) Carryover Projects

As discussed in the General Report at page 75, CWS includes carryover projects in its filing because it does not include Construction Work in Progress ("CWIP") in rate base. CWS included carryover projects of $13,640,397 for 2012 and $1,211,250 for 2013 for an overall total of $14,851,647 included in CWS's weighted average rate base.

CWS separates its carryover projects between specific projects and non-specific projects. On page 78 of the General Report, CWS describes non-specific projects as:

> ...a series of projects that cannot be anticipated prior to a General Rate Case filing, but by nature must completed due to unforeseen requirements. This category includes, but is not limited to,

> emergency replacement of failed components in a pumping plant or main line replacements where a simple repair is not a cost effective solution and a larger unit of replacement is selected for operational purposes.

The Company's filing reflects two different groups of non-specific carryover projects. Specifically, Company workpaper "GO Carryover Projects for 2012" reflects non-specific projects totaling $3,529,796 for projects between 2008 and 2012. In addition, Company workpaper "WP8B2b-Adv Cap Budget" reflects budgeted non-specific projects totaling $4,861,937 over the period 2012 through 2015 as shown in Table 8-A below.

Table 8-A Budgeted Non-Specific Projects				
2012		**2014**	**2015**	**Total**
$1,177,937	$1,176,300	$1,237,600	$ 1,270,100	$ 4,861,937

In response to data request MSD-01, Question 16, CWS stated that the amounts in Table 3-B represent designated non-specific budgets for each year 2012 through 2015. In addition, CWS stated that the non-specific projects totaling $3,529,796 represent the sum of carryover projects planned for 2009, 2010 and 2011 that were not completed by December 31, 2011.[30]

DRA recommends removing the non-specific projects totaling $3,529,796 from CWS' listing of carryover projects. DRA also recommends that the Commission adopt DRA's revised amounts for budgeted non-specific projects as shown in Table 8-B below.

Table 8-B General Office Non-Specific Budget		
Year	**CWS Proposed**	**DRA Recommendation**
2012	$1,177,937	$1,000,200
2013	$1,176,300	$1,011,000
2014	$1,237,600	$1,031,600
2015	$1,270,100	$1,053,700
Total	$4,861,937	$4,096,500

[30] Data request MSD-01, Question 16 references non-specific projects totaling $3,550,603 as shown on page 77 of the General Report.

The rationale for DRA's recommendations is the same as that presented in DRA's testimony regarding non-specific budgets for the districts (see the Non-Specifics Budgets section in Chapter 7 of the districts' Results of Operations Reports).

With respect to specific carryover projects, in data request PPM-004, DRA requested that CWS update its Carryover Projects workpaper for the GO and all of the Company's districts to (1) include the start date of each carryover project, and (2) to provide the actual cost for completed projects. As it relates to the GO, the response to PPM-004 listed four projects that had been completed and two that had been cancelled since the Company's workpaper GO Carryover Projects for 2012 was filed with its Application. For the projects that were completed, the actual costs were different from what is reflected on the GO Carryovers for 2012 workpaper as summarized in Table 8-C below.

Table 8-C
Completed or Cancelled Specific Carryover Projects

Project ID	Description	Actual Cost per PPM-004	Costs per GO Carryover W/P	DRA Adjustment
20984	Office - Duplicator for Publishing	$ 10,685	$ 15,328	$ (4,643)
21028	Office - Network Enhancements	$ 799,149	$ 800,255	$ (1,106)
16095	Barcode Printer for LIMS	$ 9,306	$ 17,900	$ (8,594)
16389	Check Scanners for Districts	$ 55,660	$ 124,100	$ (68,440)
16975	Mailroom Counters (cancelled)	$ -	$ 11,300	$ (11,300)
79173	Install Fire Sprinklers at GO (cancelled)	$ -	$ 24,000	$ (24,000)
	Total	$ 874,800	$ 992,883	$ (118,083)

DRA adjusted the specific carryover projects to reflect the revised amounts shown in Table 8-C above.

2) Capital Projects for Year 2013

CWS is requesting an overall amount of $22,869,934 for its proposed capital projects in the GO for 2013, whereas DRA recommends an amount of $9,104,550. Table 8-D below presents a summary of the GO related capital projects that DRA has either removed from CWS's plant additions or recommended a different amount than that proposed by CWS.

		Table 8-D			
		Disallowed or Adjusted 2013 Capital Projects			
			CWS	**DRA**	**Adjusted**
Year	**Project ID**	**Description in CWS Filing**	**Amount**	**Adjustment**	**Amount**
2013	21104	Customer Care & Billing System	$ 3,424,700	$ (3,424,700)	$ -
2013	64611	Customer Care & Billing System	$ 3,655,704	$ (3,655,704)	$ -
2013	52229	GO Solar Project	$ 1,968,806	$ (1,968,806)	$ -
2013	63232	Enterprise & End-User Software Licensing	$ 725,000	$ (241,655)	$ 483,345
2013	63934	Pipeline Decision Support System	$ 696,000	$ (696,000)	$ -
2013	64057	Enterprise Reporting & Analysis	$ 390,000	$ (390,000)	$ -
2013	64501	Enterprise Application Integration	$ 282,400	$ (282,400)	$ -
2013	64810	GO Landscaping	$ 213,796	$ (213,796)	$ -
2013	66372	Capital Budgeting Enhancements	$ 550,000	$ (550,000)	$ -
2013	69930	Distribution Map Conversion to GPS	$ 438,600	$ (438,600)	$ -
2013	75733	On-Site Generator for Data Center	$ 224,400	$ (48,300)	$ 176,100
2013	67595	Microwave Link GO to Livermore	$ 137,402	$ (137,402)	$ -
2013	67597	Microwave Link Rancho Dominguez to Westlake	$ 186,254	$ (186,254)	$ -
2013	67591	Microwave Link GO - Mt. Chual - Salinas	$ 88,552	$ (88,552)	$ -
2013	67593	Microwave Link GO - Mt. Allison - Bayshore	$ 88,552	$ (88,552)	$ -
2013	67596	Microwave Link Livermore to Stockton	$ 88,552	$ (88,552)	$ -
2013	67749	SCADA Network Management System	$ 96,079	$ (96,079)	$ -
		Total Adjustments to 2013 Capital Projects	**$ 13,254,797**	**$ (12,595,352)**	**$ 659,445**

The following section discusses the details of DRA's recommendations for 2013 GO capital projects. The five Microwave Link projects and the SCADA Network Management System are addressed in the section below which relates to CWS's proposed SCADA replacement projects. In addition, DRA made several adjustments related to CWS' proposed vehicle purchases and replacements, which are discussed in detail below.

Project IDs 21104 and 64611 - Customer Care & Billing System

CWS is proposing two separate projects in 2013 which relate to the implementation of a new Customer Care & Billing System ("CC&B"), which is a fully functioning customer information and billing solution which is comprised of several functions which address customer service, field service, billing, payment and collections. The two CC&B projects, the Company's estimates of which total $7,080,404, are discussed below.

Project ID 21104

The Company budgeted $3,424,700 for this project, the purpose of which is to transfer the current PeopleSoft/Oracle Revenue Management System ("RMS") to the new CC&B system. The upgrade to a CC&B will enhance the applications for customer communications, customer service requests, customer billing and collections, customer accounts history, integration with eBilling and new connections management. As stated above, this project is the first of two CC&B related projects being proposed by CWS. The other CC&B project (Project ID 64611) is discussed below.

The work that Project ID 21104 entails is the cost to purchase and install the CC&B license, software and necessary hardware for the CC&B project. Per the response to data request MSD-09, Question 1(d), additional expenses include the configuration of the test CC&B environments in a Linux environment as well as production environment on Exalogic and Exadata platforms. The response to MSD-09, Question 1(d) also stated that this project will not be in service until Project ID 64611 is completed, which currently has an estimated in-service date of April 2014.

Project ID 64611

The Company budgeted $3,655,704 for this project, the purpose of which is to complete the upgrade of CWS' customer service and billing applications. As discussed above, Project ID 21104 represents the first phase of this project whereas this project entails the second and final phase of implementing the CC&B system. Specifically, while Project ID 21104 addresses the purchase and installation of the CC&B license, software and hardware, this phase of the CC&B project relates to the configuration of CC&B to meet the business processes within the Company, including rate set up and configuration, collections, severance and write-off policies, reporting requirements, integrations with other systems and control tables set ups.[31] As noted above, the response to MSD-09, Question 1(d) stated that it is anticipated that this project will not be completed and in service until April 2014.

Due to the overlap between these two related projects coupled with the estimated budget of nearly $7.1 million, DRA recommends that CWS' request for the placement of the CC&B system into rate base be addressed through a Tier III Advice Letter filing and that the costs of the project be capped at the Company's estimated costs for both projects. Therefore DRA recommends removing the total costs of these two projects from CWS' forecasted 2013 plant additions.

Project ID 52229 - GO Solar Project

CWS budgeted an overall amount of $1,968,807 for this project which entails the installation of a solar generating system at the GO office campus, which is designed to reduce the energy demand, thus reducing operating costs. As part of its estimate for this project, CWS reflected the following two rebates in its filing: (1) a Federal Tax Rebate of $590,642, and (2) a California Based Incentive Rebate of $118,650. The application of these rebates results in a net amount for this project of $1,259,515. In addition to the rebates, CWS has also reflected savings totaling $40,000 per year for 2014 and 2015 related to the energy costs of its data cooling center. The Company also reflected savings related to annual electrical expense of $79,258, $84,014 and $89,054 for 2013, 2014 and 2015, respectively.

In the justification for this proposed project was a quote from a solar vendor called SPG Solar ("SPG"). As part of its quote, SPG included a section titled "Energy Analysis and System Sizing". The purpose of this analysis was to analyze CWS's electric usage patterns and to determine the optimal system size and interconnection strategy. Using CWS's monthly bills from Pacific Gas & Electric ("PG&E"), the Company's electric service provider, SPG compiled

[31] See the response to data request MSD-09, Question 14(a).

consumption data totaling 1,116,000 kWh.[32] From this amount, SPG determined that the proposed system would produce 449,552 kWh annually, which is approximately 40% of the 1,116,000 kWh. As discussed in further detail below, CWS converted the 449,552 kWh to 449.552 MWh, with which it derived the percentage of its electric power that would be covered by this proposed project, and which determined annual electrical expense savings that CWS would achieve. It is important to note that the 1,116,000 kWh does not include the consumption generated at the Company's Water Quality building, which, based on 2010 and 2011 consumption data, totals approximately 440,000 kWh annually.[33] Specifically, the justification for this project, which was prepared in part by solar vendor SPG Solar stated:

> PG&E consumption data from 2008 was used to analyze the CWSC electric usage patterns and determine optimal system size and interconnection strategy. The following chart depicts the historic energy usage of electric meter #1003874308 feeding the Exec, Acct/Purchasing, IS/HR buildings[34]:

Upon DRA's inquiry as to why the consumption from the Water Quality building was not factored into the consumption data, CWS stated:

> The vendor decided to apply all of the power to the single Accounting/Purchasing and IS/HR meter for cost reasons. Splitting the power to the separate meters would increase construction costs from trenching and additional electrical equipment. The two meters are on opposite sides of the parking area. Cal Water receives two monthly bills for each of the meters, however the expense is combined as one. There is no advantage to apply the power generated to one meter or split the power to two meters.

Despite the Company's statement in the passage above, as discussed in further detail below, in calculating the percentage of electrical power that would

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[32] The 1,116,000 kWh was determined by tabulating CWS's monthly bills from PG&E for the period May 2008 through April 2009.

[33] Consumption at the Water Quality building totaled 442,440 kWh in 2010 and 447,120 kWh in 2011.

[34] The chart referred to in the passage above is a table showing the monthly consumption for the period May 2008 through April 2009 that totals 1,116,000 kWh.

be covered by the proposed solar project over the projected 30-year life of the project, CWS used 2010 consumption data from both meters.

In its justification for this project, CWS included a schedule titled "Capital Project Cost Impact Analysis", (attached as Appendix I) from which the Company calculated several parameters associated with the proposed solar project over the 30-year life of the project,[35] including (1) rate base value; (2) revenue requirement; (3) depreciation cost; (4) annual capital customer expenditure; (5) reduction to Federal income tax; (6) total annual customer expense; (7) remaining electrical expense; (8) inflated electrical power expense; (9) saved annual electrical expense; and (10) the net present value ("NPV") related to items 4, 6, 7, 8 and 9. From this cost impact analysis, CWS calculated the positive NPV's shown in Table 8-E below.

Table 8-E
Net Present Values per CWS

Description	NPV Amount
Annual Capital Customer Expenditure	$ 2,054,729
Total Annual Customer Expense	$ 7,264,841
Remaining Annual Electrical Expense	$ 5,644,520
Inflated Electrical Power Expense	$ 7,887,672
Saved Annual Electrical Expense	$ 2,243,152

In addition, CWS's analysis reflected that the break-even point for this project would occur in 2024.[36] Based on the Company's analysis, its future electrical power expense as a result of this project would translate to approximately 28.4% of annual electrical savings that would be passed onto ratepayers. As shown on Appendix I, CWS calculated saved annual electrical expense over the 30-year life of the proposed project from which the NPV of $2,243,152 was derived using an inflation rate of 6%.

[35] The Company's cost impact analysis on Appendix I reflects a 30-year depreciable life from 2013 through 2042 for the GO solar project.

[36] The break-even point of 2024 is over 10 years after the solar project would be included in rate base as proposed by CWS.

DRA's review of this project led to a different conclusion. DRA believes that the Company's cost impact analysis demonstrates that this project would not be cost effective over the long term. DRA performed a similar cost impact analysis (attached as Appendix II). As enumerated below, DRA noted several flaws with the figures used by CWS in its analysis, that, when modified, results in an even larger disparity with respect to the cost effectiveness of this project. Specifically,

1. The total budgeted amount for this project is $1,968,807 and is the amount CWS included in rate base. In its analysis, CWS used the net amount for this project of $1,259,515, which, as described above, reflects the application of the Federal Tax Rebate of $590,642, and the California Based Incentive Rebate of $118,650 to the total budgeted amount ($1,968,807 - $590,642 - $118,650 = $1,259,515). In response to data request MSD-09, Question 3(a), which asked why the Company's filing does not reflect the net amount of $1,259,515, CWS stated:

   > If the project moves forward, the Company would have to pay the full amount of $1,968,807 to the solar vendor for payment of their services to design and built the solar power plant. Once the project is installed and functioning, the Company would apply for the Tax Rebates, which will not be able to occur until the following tax year.

   As discussed in response to data request MSD-11, Question 7(a), CWS proposes to amortize the California Based Incentive over a five-year period beginning in the 2014 Test Year in accordance with the Federal Modified Accelerated Cost-Recovery System, section 26 USC § 48(a)(3)(A).

   In DRA's view, based on the responses to MSD-09, Question 3(a) and MSD-11, Question 7(a), the cost impact analysis should use the total budgeted amount of $1,968,807 since (1) CWS would have to apply for the aforementioned tax rebate after the project is operational, and (2) the California Based Incentive would be amortized over a five-year period.

2. The Company used an inflation rate of 6% in its NPV calculations. DRA requested that CWS explain how the 6% inflation rate was derived in MSD-09, Question 3(b). In response CWS stated that the 6% was the recommended rate for energy costs by solar vendors. However, CWS provided rates that it tabulated from its power invoices for the period 1998 through 2012 and the overall annual increase amounted to an average inflation rate of 5.3%, which is the rate used by DRA.

3. The Company's analysis included GO annual energy usage of 1,581 MWh per year, which was based on electrical usage at the GO campus in 2010. DRA based its analysis on electrical usage at the GO campus during calendar 2011, which totaled 1,526 MWh per year, and is the most recent period for which an entire year's worth of data is available.[37]

4. CWS based its inflated electrical power expense over the 30-year life of the proposed solar project by using the calendar 2010 amount of its electrical power expenses (before credits and adjustments) and inflating this amount (and subsequent years) by the 6% inflation rate. DRA started with actual 2011 electrical power expense of $232,528 and inflated this amount by the 5.3% inflation rate discussed above.

5. CWS determined that 28.4% of its electric power would be covered by this proposed project (which determined annual electrical

[37] The 2011 data was derived from a schedule provided by CWS which also reflected 2012 data through July. CWS stated that the remaining 2012 data had not yet been tabulated.

expense savings), by dividing the annual power production of 449.552 MWh that was calculated by SPG by the GO annual energy usage of 1,581 MWh per year. As noted in item #3, DRA used the 2011 GO energy usage of 1,526 MWh/yr. With respect to the annual power production, DRA has concerns as to the validity of the 449.552 MWh since this figure was calculated from the 1,116,000 kWh of consumption data from the period May 2008 through April 2009 discussed in the footnote above. DRA requested that CWS provide the actual calculations from which the 449.552 MWh was determined and in response CWS stated:

> The Annual Energy Production value of 449.552 MWh/yr is an estimate of the amount of energy the solar plant should generate. The value was calculated by the solar vendor and how they established this amount was not provided. In general, this value is estimated by the number of solar panels times the solar radiation expected to be collected times a given unit of time. Actual energy production will depend on as-built solar configuration and future weather conditions.

In the absence of a more reliable and quantifiable figure, DRA used the 449.552 MWh/yr in its analysis. Using this figure and the 2011 GO energy usage of 1,526 MWh/yr DRA calculated annual electrical expense savings of 29.45%.

As shown on Appendix II, after reflecting the aforementioned modifications in the cost impact analysis model, DRA calculated the positive NPVs shown in Table 8-F below.

Table 8-F

Modified Net Present Values

Description	DRA Amount	CWS Amount	Difference	% Change
Annual Capital Customer Expenditure	$ 3,412,283	$ 2,054,729	$ 1,357,554	66.07%
Total Annual Customer Expense	$ 8,033,409	$ 7,264,841	$ 768,568	10.58%
Remaining Annual Electrical Expense	$ 5,182,039	$ 5,644,520	$ (462,481)	-8.19%
Inflated Electrical Power Expense	$ 7,345,560	$ 7,887,672	$ (542,112)	-6.87%
Saved Annual Electrical Expense	$ 2,163,520	$ 2,243,152	$ (79,632)	-3.55%

As shown in Table 8-F, the NPV for the Annual Capital Customer Expenditure, which represents the combination of the revenue requirement and depreciation cost associated with the solar project, is approximately 66% greater than the Company's projected NPV. In addition, DRA's NPV for the Saved Annual Electrical Expense is approximately 3.6% less than that calculated by CWS. More significantly, the NPV for the Annual Capital Customer Expenditure is approximately 158% ($3,412,283 / $2,163,520) greater than the Saved Annual Electrical Expense. In addition, the proposed project has a cost/benefit ratio of approximately 42%, which is calculated by dividing the NPV of annual electrical savings by the NPV of the remaining annual electrical expense that ratepayers would be responsible for. This ratio indicates that the project would be uneconomical to pursue.

Furthermore, the NPV for the Total Annual Customer Expense, which represents the revenue requirement, depreciation cost and remaining electrical expense (after savings), is approximately 371% ($8,033,409 / $2,163,520) greater than the Saved Annual Electrical Expense. Finally, the NPV for the Remaining Electrical Expense, which represents projected electrical expense net of savings, is approximately 240% ($5,182,039 / $2,163,520) greater than the Saved Annual Electrical Expense. It should also be noted that the break-even point for this project under DRA's analysis would not occur until 2030, or 17 years after the solar project would be placed into service.

While DRA acknowledges that CWS reflected the projected Saved Annual Electrical Expense of $79,258, $84,014 and $89,054 in 2013, 2014 and 2015, respectively, in its rate case filing, the figures above clearly show that this proposed project would not be cost effective over its 30-year depreciable life.

During DRA's on-site tour of the GO office campus on November 5, 2012, CWS gave a PowerPoint presentation on this proposed solar project and it was during this presentation that the issue of whether it would be more cost effective for CWS to lease the solar equipment necessary for this project versus purchasing it was addressed by DRA. In response to DRA's inquiry, the Company stated that it had conducted research on whether to lease the solar equipment versus purchasing it and ultimately concluded that it was more cost effective to purchase and capitalize the equipment. DRA requested that CWS provide all documentation and analyses which supports the Company's contention that purchasing the solar equipment is more cost effective than leasing it. In response CWS stated:

> The CI team discussed owning or leasing options with solar vendors for this solar project. It was decided that it would be better for Cal Water and our customers to proceed with this project if we purchased it and rejected the leasing option. Owning this project will allow us and our customers the benefit of tax incentives, rebates and the ability to collect "carbon credits". Owning this project will also allow us to earn on this capital project, and would eventually pay for itself. A lease option would negate these benefits as well as a third party would be installing their solar panels on our property. Documentation and analyses regarding leasing options were not developed.

In response to data request MSD-16, Question 5(a), which asked CWS to provide the name of each solar vendor in which it discussed owning versus leasing, the Company stated that it held discussions with several potential vendors and specifically identified four solar vendors.[38] It is also important to note that in its justification for this project, CWS stated that its original estimate for this project was received in 2009 and then subsequently received an updated in 2011, which is the estimate used in this proceeding. During its presentation on November 5, 2012, the Company stated that it had issued a Request for Proposal ("RFP") to 10 solar vendors in order to obtain an updated estimate for the proposed solar project. However, in response to data request MSD-16, Question 5(b), CWS provided copies of proposals which were submitted by Cupertino Electric, Rosendin Electric, Sprig Electric and SPG Solar.[39] The updated bids

[38] The four solar vendors were Cupertino Electric, REC Solar, Rosendin Electric and SPG Solar.

[39] The proposals submitted by Cupertino Electric, Sprig Electric and SPG Solar were marked confidential.

appear to be of the same general size and scope with two of the bids being higher than the project as proposed while the other two are lower than what is included in the rate case filing.

DRA does not debate the merits of CWS utilizing solar power as an alternative source of energy. However, a project of this magnitude should be cost effective over the long term, and as demonstrated by DRA's cost impact analysis discussed above, the Total Annual Customer Expense associated with this project is approximately 371% greater than the projected electrical expense savings over the depreciable life of the project and the break-even point would not occur until 17 years after the project is placed into service. In addition, DRA takes issue with the fact that for all of the discussions CWS has stated it had with different vendors regarding leasing versus buying the solar equipment, that there is no documentation or analyses, which supports the Company's decision to buy the equipment.

Based on the results of DRA's cost impact analysis coupled with the Company's lack of documentation supporting its decision to purchase the solar equipment versus leasing it, DRA recommends that the GO solar project be disallowed from the 2013 capital projects. In light of DRA's recommendation to disallow this project, DRA has also removed/reversed the adjustments made by the Company to reflect: (1) the Federal Tax Rebate of $590,642; (2) the California Based Incentive Rebate; (3) the $40,000 of annual data cooling center savings; and (4) the annual savings in electrical expense in 2013, 2014 and 2015.

<u>Project IDs 63232, 63312 and 63317 - Enterprise & End-User Software Licensing</u>

This project, which is spread over the three-year period 2013 through 2015, is budgeted at $725,000 in each year for an overall total cost of $2,175,000. Specifically, this project is for the annual renewal of software licenses related to the Company's core business applications including financial, human resources, customer service and asset and maintenance management software. In its justification for this project, CWS included estimates for software of $600,000 for each year 2013, 2014 and 2015, which was based on several vendor quotes that were provided with the justification. DRA asked the Company to reconcile each $600,000 software estimate with the vendor quotes provided. In response to data request MSD-09, Question 6(c), CWS stated that the $600,000 figure in each year was inaccurate and that the budgets for the software in each year were reduced to $358,345 in 2013, $354,852 in 2014 and $ 354,684 in 2015. The breakout of the revised software quotes are summarized in Table 8-G below.

Table 8-G
Revised Enterprise & End-User Software Licensing Costs

Description	**2013**	**2014**	**2015**
Microsoft Licenses	$109,544	$109,544	$109,544
Adobe Upgrade	$ 74,521		
Symantec Licenses & Upgrades	$174,280		
Solarwinds Monitoring Tools & Applications		$100,980	$245,140
VMW Licenses & Virtual Environment Upgrade		$144,328	
Total Revised Software Costs	$358,345	$354,852	$354,684

The quotes supporting these amounts were included in the justifications for this project.

Based on this updated information, DRA has reflected adjustments to reduce the costs of this project by $241,655 in 2013, $245,148 in 2014 and $245,316 in 2015. DRA's revised estimates for Project IDs 63232, 63312 and 63317 are $483,345, $479,852 and $479,684, respectively.

Project ID 63934 - Pipeline Decision Support System

The Company budgeted $696,000 for this project, which is to establish an Asset Decision Support System. According to the justification for this proposed project, the purpose is to establish an efficient process for prioritizing and selecting assets for renewal, repair and replacement. Specifically, CWS stated that this system could be used to (1) identify assets for replacement; (2) assess replacement based on predicted number of failures; (3) forecast the expected annual number of failures; and (4) calculate the cost implications of different management and operational scenarios to be evaluated.

DRA asked CWS to explain fully its current process for prioritizing and selecting assets for renewal, maintenance, repair and replacement, and to identify the department and personnel responsible for making those decisions in data request MSD-09, Question 9(a). In response, the Company stated:

> Currently pipelines are replaced following Cal Water's main replacement program which aims to remove unlined steel pipe and 4-inch and smaller steel pipes within the next 50 years. Additionally, pipes which are in poor condition based on leak history are replaced as well. Prioritization and selection of specific pipes for replacement are handled by the Distribution Superintendent in each of Cal Water's districts. Repairs to pipelines are performed on an as needed basis as failures occur.

DRA also asked CWS to provide the number of asset renewals, maintenance, repairs and replacements that have occurred over the period 2007 through 2012 in MSD-09, Question 9(b). In response, CWS provided the data in Table 8-H below.[40]

Based on the foregoing, DRA concluded that this project is unnecessary since CWS has a main replacement program already in place and has generally experienced declining situations requiring renewals, maintenance, repairs and/or replacements. Therefore, DRA recommends that this project be disallowed from 2013 capital projects.

Project IDs 64057 and 64072 - Enterprise Reporting and Analysis

This project, which is spread over the two-year period 2013 through 2014, is budgeted at $390,000 for 2013 and $1,206,600 for 2014 for an overall total cost of $1,596,600. CWS stated that the purpose of this project is to enhance the use and value of the Company's Business Intelligence ("BI") system through the

[40] DRA omitted the 2012 data from Table 8-F since it reflected a partial year's worth of data.

development and deployment of management trending, analysis and reporting applications. CWS asserted that these applications will improve the decision processes for financial, human resources and rates management.

As CWS stated in the justification for this project, it already has a BI system in place which was implemented in 2010. That said, the Company is already using the Oracle BI system to deploy a "financial status dashboard" to district and GO managers. The proposed project is designed to expand the use of the BI system by achieving the following objectives:

- Expand the BI system to support business/operational/financial planning, budgeting, forecasting, analysis and reporting as well as expanding the financial dashboard capabilities.
- Develop and deploy a Customer Management dashboard, which will display key data from the Company's new CC&B system for use by district managers and customer service representatives.
- Develop and deploy an HR dashboard, to provide key personnel data for Company managers.
- Develop and deploy a HealthCare dashboard, to provide key plan data for Company managers.
- Deliver new scorecard and strategy management functionality enabling integrated communication of strategic goals and monitoring of their progress over time.
- Provide support for mobile devices enabling direct access to BI reports from mobile devices.
- Provide support for new data sources and platforms not available under current software release.

DRA asked CWS how it currently achieves the goals outlined above in data request MSD-09, Question 10(a). In its response, CWS stated that certain aspects of the proposed project (e.g., HR dashboard and HealthCare dashboard) do not currently exist and that existing non-BI reports are manually generated by HR staff. Generally, while the current system may not have all the attributes illustrated in the bullet points above that the proposed project is designed to provide, the Company's current BI system appears to be sufficient for the Company's business purposes.

Based on the foregoing, DRA concluded that this project is unnecessary since the existing BI system was implemented in 2010 and is already utilizing a "financial status dashboard" to the Company's district managers and GO managers. Therefore, DRA recommends that the costs for this project be disallowed from 2013 and 2014 capital additions.

<u>Project IDs 64501, 64504 and 64511 - Enterprise Application Integration</u>

This project, which is spread over the three-year period 2013 through 2015, is budgeted at $282,400 for 2013 and 2014 and at $434,600 for 2015 for an overall total cost of $999,400. This project is for the purpose of implementing the software toolset for integrating CWS' core business systems. Specifically, as discussed in the justifications, the purpose of this project is to analyze business processes to determine where efficiencies can be achieved through integrating applications and business processes, to develop a plan for developing and implementing the desired integrations, to identify the most effective toolset and to install a contemporary Enterprise Application Integration toolset that utilizes service-oriented architecture methodology.

In MSD-09, Question 13(a) DRA asked CWS to elaborate on its statement in the justification that "business processes can be substantially streamlined and attain further efficiencies beyond those the Company will already have achieved by implementing enterprise-class business applications." In response, CWS stated that it has many enterprise applications such as Oracle's CC&B, IBM's Maximo CMMS and GIS and that these systems work well on their own.

While the aforementioned systems may not be integrated in the manner proposed by the Company, as CWS acknowledged in the justifications as well as in MSD-09, Question 13(a), the Company has already implemented enterprise class business applications. DRA has concluded that this proposed project is unnecessary and therefore recommends that the estimated costs be disallowed from 2013, 2014 and 2015 capital projects.

Project ID 64810 - General Office Landscaping

The Company budgeted $213,796 for this project in which it seeks to install new landscaping and irrigation that will conserve more water, thus reducing water bills and maintenance costs. This proposed project would include the installation of No Mow Sod, Fescue Lawn Sod and Carex Ground Cover as well as new irrigation controllers with rain sensors, soil moisture sensors and low volume irrigation sprinkler heads. In addition, this project includes the creation of a walking trail for employees and the installation of plant signs to promote water conservation.

It is important to note that this project does not reflect the entire landscaping plan envisioned by CWS. On page 184 of the justifications, CWS stated that the overall landscaping plan will not be constructed all at once, but instead as one main project followed by four smaller projects that "will be constructed at different times". Specifically, this portion of the project, which CWS referred to as "Area A" entails retiring the existing pool and installing a rock waterfall and pond, electrical systems, planting and irrigation. The justification for this project makes reference to water and maintenance savings of approximately $51,000 annually as a result of this project as well as a land replacement rebate from San Jose Water Company of up to $20,000. However, in both cases, these savings and rebate only reflect the project at full build out and are not reflected in the current filing. CWS did not indicate when it projected full build out of the project to be nor did it specify the cost of the project at full build out.

During its on-site tour of the GO office campus, DRA observed that the campus is primarily comprised of buildings, parking lots and sidewalks with the landscaped areas mainly confined to the western end of the property. In addition, the centerpiece fountain is not very big and appeared to be in relatively good shape during DRA's visit.

Since CWS has not demonstrated a genuine need for this project, or reflected the projected cost savings in water use and maintenance expense nor the $20,000 land replacement rebate in its filing, as a result of this proposed project representing only the initial phase of a larger project, DRA recommends that this project be disallowed from the 2013 capital projects.

Project ID 66372 - Capital Budgeting Enhancements

As reflected in the "Estimated Cost" section on page 202 of the justifications, CWS budgeted $350,000 in 2015 for this project which entails upgrading the Company's Capital Budgeting solution to the latest version of PowerPlant, its primary capital budgeting system.

DRA does not contest this project per se. However, in addition to the $350,000 that CWS budgeted for this project in 2015, DRA noted that workpaper "GO Adv Capital Budget" from CWS' rate base workpapers included not only this amount, but also $550,000 under the same project number in 2013. Upon DRA's inquiry about this discrepancy in data request MSD-09, Question 17(a), CWS stated:

> The project was originally scheduled for 2013, and later it was decided the upgrade will happen in 2012 under work order ID 76533. With the change in date, the next upgrade would not be required until 2015 to the latest version of PowerPlant at that time.

DRA noted that Project ID 76533 is included in the specific carryover projects for 2012 as indicated on workpaper GO Carryover Projects for 2012 in the amount of $1,738,224. Based on the foregoing, DRA has removed the $550,000 from CWS' 2013 capital projects.

Project ID 69930 - Distribution Map Conversion to GPS

The Company budgeted $438,600 which entails converting the water distribution maps from CAD to GPS to eliminate the redundant map updating process. CWS stated in its justification for this project that the water distribution maps currently produced and maintained using AutoCAD are effective and that the current Geographic Information System ("GIS") technology deployed by CWS enables the presentation of the distribution map from the database used for atlas mapping, asset inventory, hydraulic modeling and other processes. The main driver for this project is the Company's desire to eliminate mapping in CAD and GPS in a system that, by the Company's own assertion, operates effectively.

Based on the foregoing, DRA concluded that this project is unnecessary and should be disallowed from the 2013 capital projects.

Project ID 75733 - On-Site Generator for Data Center

CWS budgeted $224,400 for this project which replaces the existing on-site power generator for the Disaster Recovery Data Center that is located in Torrance, California. On page 363 of the justifications, which is a price quotation from the vendor proposing to work on this project, the price quote includes a line item with the description "Optional if Required - Active Diesel Particulate Filter w/ Critical Silencing. CAT believes this NOT be required by the city, and is quoted as a contingency only".

DRA asked the Company whether Active Diesel Particulate with Filtering is in fact required by the City of Torrance in data request MSD-16, Question 17(b). In response, CWS stated "At this time the Active Diesel Particulate with Filtering is not needed."

The amount in the vendor quote that is associated with Active Diesel Particulate with Filtering is $48,300. Therefore, DRA reduced the budgeted amount for this project by that amount.

3) Capital Projects for Year 2014

CWS is requesting an overall amount of $12,161,858 for its proposed capital projects in the GO for 2014, whereas DRA recommends an amount of $8,207,537. Table 8-I below presents a summary of the GO related capital projects that DRA has either removed from CWS's plant additions or recommended a different amount than that proposed by CWS.

Table 8-I
Disallowed or Adjusted 2014 Capital Projects

Year	Project ID	Description in CWS Filing	CWS Amount	DRA Adjustment	Adjusted Amount
2014	63312	Enterprise & End-User Software Licensing	$ 725,000	$ (245,148)	$ 479,852
2014	64072	Enterprise Reporting & Analysis	$ 1,206,600	$ (1,206,600)	$ -
2014	64504	Enterprise Application Integration	$ 282,400	$ (282,400)	
2014	63472	I.T. Services Suite - Help Desk Management	$ 371,360	$ (10,046)	$ 361,314
2014	64497	Enterprise Financial Management	$ 1,275,000	$ (1,275,000)	$ -
2014	65496	Install Automatic Gates	$ 154,506	$ (154,506)	$ -
2014	67598	Microwave Link GO Bakersfield to Visalia	$ 141,404	$ (141,404)	$ -
2014	67599	Microwave Link Livermore Peak to Dixon Tank	$ 91,132	$ (91,132)	$ -
2014	67600	Microwave Link Visalia to Selma	$ 91,132	$ (91,132)	$ -
2014	67751	SCADA Network Management System	$ 98,878	$ (98,878)	$ -
		Total Adjustments to 2014 Capital Projects	**$ 4,437,411**	**$ (3,596,245)**	**$ 841,166**

The following section discusses the details of DRA's recommendations for 2014 GO capital projects with the exception of Project IDs 63312, 64072 and 64504, which are discussed in Section 2 above. The three Microwave Link projects and the SCADA Network Management System are addressed in the section below which relates to CWS's proposed SCADA replacement projects. In addition, DRA made several adjustments related to CWS' proposed vehicle purchases and replacements, which are discussed in detail below.

Project ID 63472 - I.T. Services Suite - Help Desk Management

CWS budgeted $371,360 for this project which is to initiate the implementation of an IT Services Suite for the IT Group. DRA does not contest this project but noted that the vendor quote for the software does not agree with the Company's estimate for software. Specifically, CWS budgeted software costs totaling $200,000 for this project, but the vendor quote included with the justifications totaled $189,954, or a difference of $10,046. Therefore, DRA has reduced the cost of this project by $10,046.

Project ID 64497 - Enterprise Financial Management

CWS budgeted $1,275,000 for this project which is for the general upgrade and updating of the Company's core PeopleSoft Financials software system to the new Oracle Fusion Financials. DRA noted that the justification for this project indicates that it has a start date of January 1, 2015, but the Company reflected in its filing as a 2014 project. DRA inquired about this in data request MSD-10, Question 7(a) and in response CWS stated that the project is currently scheduled to start in 2014.

DRA recommends shifting this project to 2015.

Project ID 65496 - Installation of Automatic Gates

The Company budgeted $154,506 for this project which entails installing automatic gates on the north and south side entrances at the Company's GO office campus located at 1720 North First Street. The gates are left open during business hours and CWS stated that it has experienced an increase in the number of incidents of pedestrians being asked to vacate the grounds. The goal of the automatic gates is to restrict access to only those who are authorized to be on the premises. This proposed project involves not only the installation of new automatic gates, but also the related fencing, electrical conduit, pavement replacement, sensors as well as an intercom and control system.

DRA asked whether the Company considered modifying its existing gates so that they remain closed during business hours in data request MSD-10, Question 8(a). In response, CWS stated that it had considered modifying the existing gates. However, CWS contends that given the location of the gates, which is 23 feet from the sidewalk and 30 feet from the roadway, leaving the existing gate closed during the day "would create several occasions throughout the day where vehicles waiting to enter the facility would be backed up on North 1st Street". The Company also stated that since the current gate only allows for one vehicle to wait off the roadway while the gate is opening, that any remaining vehicles would be stopped in the street.

While DRA certainly does not dispute the necessity of keeping unauthorized individuals off the Company's premises, it does dispute the Company's reasoning for not modifying the existing gate so that it remains closed during business hours. As noted above, CWS stated that the distance between the existing gate and the roadway is 30 feet. That distance is more than long enough to accommodate at least two or possibly three vehicles depending on their size. In addition, during the on-site field visit, DRA personnel walked through the gate at lunchtime on multiple days and even at that busy hour of the day, there were few, if any, vehicles entering or leaving the GO premises.

Based on the foregoing, DRA recommends that CWS reconsider modifying its existing gate so that it remains closed during normal business hours and therefore, also recommends that this project be disallowed from the 2014 capital projects.

4) <u>Capital Projects for Year 2015</u>

CWS is requesting an overall amount of $14,472,042 for its proposed capital projects in the GO for 2015, whereas DRA recommends an amount of $7,380,558. Table 8-J below presents a summary of the GO related capital projects that DRA has either removed from CWS's plant additions or recommended a different amount than that proposed by CWS.

		Table 8-J Disallowed or Adjusted 2015 Capital Projects			
Year	Project ID	Description in CWS Filing	CWS Amount	DRA Adjustment	Adjusted Amount
2015	63317	Enterprise & End-User Software Licensing	$ 725,000	$ (245,316)	$ 479,684
2015	64511	Enterprise Application Integration	$ 434,600	$ (434,600)	$ -
2015	64098	Enterprise Recruiting Solutions	$ 357,600	$ (357,600)	$ -
2015	64133	Enterprise ePerformance	$ 509,000	$ (509,000)	$ -
2015	64214	Portable Booster Pumps	$ 605,364	$ (605,364)	$ -
2015	64497	Enterprise Financial Management	$ -	$ 1,275,000	$ 1,275,000
2015	64294	Replace SCADA Hardware and Software	$ 5,104,536	$ (5,104,536)	$ -
2015	67601	Microwave Link GO Salinas to Selma	$ 117,136	$ (117,136)	$ -
2015	67604	Microwave Link GO Rancho Dominguez to Bakersfield	$ 196,298	$ (196,298)	$ -
2015	67602	Microwave Link Rancho Dominguez to East L.A.	$ 93,709	$ (93,709)	$ -
2015	67752	SCADA Network Management System	$ 101,676	$ (101,676)	$ -
		Total Adjustments to 2015 Capital Projects	**$ 8,244,920**	**$ (6,490,236)**	**$ 1,754,684**

The following section discusses the details of DRA's recommendations for 2015 GO capital projects with the exception of Project IDs 63317 and 64511, which are discussed in Section 2 above. The SCADA replacement project, two Microwave Link projects and the SCADA Network Management System are addressed in the section below which relates to CWS's proposed SCADA replacement projects. In addition, DRA made several adjustments related to CWS' proposed vehicle purchases and replacements, which are discussed in detail below.

<u>Project ID 64098 - Enterprise Recruiting Solutions</u>

CWS budgeted $357,600 for this project, the purpose of which is to implement software to aid human resources in the recruitment of new employees. As discussed in the justification for this proposed position, the Company's intent is to leverage critical information about its new employees throughout the entire employment lifecycle and to reduce overall hiring costs.

CWS's current practice is that new employee information is manually entered into the employee database. The Company contends that with the addition of this proposed project, an applicant can enter their own information, which would be verified by HR staff then automatically transferred to the employee database. The result of this would save approximately one hour of data entry per new employee.

DRA believes the Company has failed to provide sufficient justification for this project including a specific need analysis, cost comparison and evaluation pursuant to the Rate Case Plan. In addition, there is no apparent benefit to ratepayers.

Based on the foregoing and DRA's conclusion that this project is unnecessary, DRA recommends that it be disallowed from the 2015 capital additions.

Project ID 64133 - Enterprise ePerformance

CWS budgeted $509,000 for this project which entails personal performance management, goal management and compensation management. The Company's position is that effective performance management will improve employee goal planning, career development, competency assessment, performance appraisal, compensation management and organizational alignment. In the justification for this project, CWS outlined the following four goals which it expects to achieve with the implementation of this software:

- Improve performance by providing managers with a framework to discuss, measure and improve employee performance.
- Engage staff by providing employees with clear feedback for professional growth, which helps staff to more likely care about their jobs and perform them well.
- Retain the best employees by rewarding top performers.
- Recruit better by making it easier to quickly find, assess and onboard the right people.

DRA asked CWS to explain its current practices with respect to the four bullet points listed above in data request MSD-10, Question 13(a). However, in its response, the Company merely explained how items listed above would be accomplished with the implementation of the new software.

Another assertion made by CWS is that by having the proposed project implemented, the Company would have easily accessible and documented employee reviews which can assist the Department of Labor audits, which could prevent fines of up to several hundred thousand dollars. DRA asked CWS to provide, for each year 2007 through 2012, the amount of fines that have been levied on the Company as a result of Department of Labor audits. In response to MSD-10, Question 13(b), CWS stated that it has not had any fines levied by the Department of Labor during the specified period.

DRA believes the Company has failed to provide sufficient justification for this project including a specific need analysis, cost comparison and evaluation pursuant to the Rate Case Plan. In addition, there is no apparent benefit to ratepayers.

Based on the foregoing and DRA's conclusion that this project is unnecessary, DRA recommends that it be disallowed from the 2015 capital additions.

Project ID 64214 - Portable Booster Pumps

CWS budgeted $605,364 for this project which is for the purchase of four portable booster pumps, which are used to provide pumping operations during emergency situations and planned shutdowns. Three of the four proposed portable booster pumps are to replace three existing pumps which CWS stated have been identified for replacement due to (1) the pumps will not be re-certified; (2) the pumps do not meet operating requirements; and (3) the pumps are not reliable. The Company stated that the fourth booster pump would be purchased to enhance the availability of a unit within its service areas in the event of an emergency or planned shutdown.

CWS references California Air Resource Board ("CARB") regulations as a mandate for replacing the three booster pumps. Specifically, the Company cites

California Code of Regulations Article 4, Chapter 9, Division 3, Title 13, Section 2425.1 and Executive Order R-05-006, which states that all off-highway diesel driven engines must be Tier 4 compliant by 2017.

DRA asked CWS to explain fully and in detail why it proposes to include the booster pumps in the current GRC when its pumps are not required to be Tier 4 compliant until 2017 in data request MSD-10, Question 14(c). In response the Company stated:

> The current portable booster pumps produced by Godwin Pumps are manufactured and assembled on a per order basis. Large units are not available off the shelf as are smaller pumps typically used in dewatering and waste water situations. In our experience, delivery of a unit occurs nine to ten months after a purchase order is issued. In addition, speaking with contacts in the diesel engine industry, demand for Tier 4 engines will greatly exceed the available supply. Cal Water was told by Godwin Pumps that delivery of a unit with a Tier 4 engine purchased when the engines are commercially available could take up to 14 months. If Cal Water was to push back the project to the next rate case as a 2016 budget item, we would be at risk of not having the units available by the 2017 compliant date. Having the units on order in 2015 when the first T4 engines are available ensure Cal Water will have the engines by the required compliance date.

DRA disagrees with CWS' assertion that the booster pumps must be included in this GRC due to the purchase orders for such pumps being issued in 2015. While it may in fact require nearly a two-year window from the point of ordering the units to the time when they are placed into service in order to be Tier 4 compliant by 2017 is irrelevant. The point is that the pumps would not be placed into service until 2017, which is well into the next rate period for CWS. DRA is not suggesting that CWS wait until the next GRC to order the booster pumps. However, DRA does not believe that it is appropriate for ratepayers in the current proceeding to fund a capital project that will not be placed into service until the next GRC. Furthermore, these equipment projects are for the district operations and therefore should be a part of the districts' capital budget requests where DRA can better assess the need for the equipment in the operations of those respective districts.

Therefore, based on the foregoing, DRA recommends that this project be removed from the 2015 capital additions.

Project ID 64497 - Enterprise Financial Management

CWS budgeted $1,275,000 for this project which is for the general upgrade and updating of the Company's core PeopleSoft Financials software system to the new Oracle Fusion Financials. DRA noted that the justification for this project indicates that it has a start date of January 1, 2015, but the Company reflected in its filing as a 2014 project. DRA inquired about this in data request MSD-10, Question 7(a) and in response CWS stated that the project is currently scheduled to start in 2014. The justification indicates a starting date of January 1, 2015 and a completion date of December 31, 2015, so even if the project does start on January 1, 2014, it would not be completed until December 31, 2014 based on the timetable in the justification. Therefore, DRA recommends that this project be shifted to 2015.

SCADA Related Projects

CWS has an extensive Supervisory Control and Data Acquisition ("SCADA") system that is used to operate the majority of its operating districts in California. The current SCADA system, which was initially installed in 1992, has been upgraded several times over the past 20 years, but will not be able to be updated further after 2014. In response to DRA's request that CWS provide a summary of the dollars spent on SCADA upgrades since 1992, the Company referenced a schedule that was provided in the response to data request JG4-006 which had requested that CWS provide the annual booked to plant dollar amounts for all SCADA projects over the last six years (2006-2011).[41] These SCADA

[41] CWS stated that the 2006-2011 data was all that was available at the time of DRA's inquiry.

related upgrades, which totaled $7.128 million, are summarized in Table 8-K below.

	Table 8-K					
	SCADA Upgrades During the Period 2006-2011					
2006	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
$845,119	$892,604	$1,822,834	$921,907	$751,117	$1,894,074	$7,127,655

CWS hired Westin Engineering[42] in 2011to assist the Company in developing a SCADA Master Plan. This plan has identified the need for CWS to replace its existing SCADA system as well as a series of related projects designed to establish industry best practices for managing the SCADA. The scope of the overall SCADA replacement plan encompasses the six-year period 2013 through 2018. It should be noted that according to Appendix A from the SCADA Master Plan, which represents the overall cost summary for the proposed SCADA projects, the total cost of the SCADA replacement program is $37,332,595.[43]

In the current GRC, covering the period 2013 through 2015, CWS has included the costs of the first phase of the SCADA replacement project, which entails producing a detailed functional specification for the SCADA hardware and software, which according to CWS, will include best business practice policies and procedures for the new SCADA system and to design the program to be used for integrating all of the Company's districts into a common SCADA platform.

Table 8-L presents a summary of the SCADA related projects that CWS has included in the GO for years 2013 through 2015 in this GRC.

[42] Westin Engineering is a consulting firm which specializes in water systems and SCADA systems.

[43] Appendix A was provided in response to data request MSD-10, Question 15(a).

		Table 8-L	
		GO Capital Projects - SCADA and Related Projects	
Project ID	**Year**	**Description**	**Amount**
21226	2012	SCADA Historian	$ 270,000
67595	2013	Microwave Link G.O. to Livermore	$ 137,402
67597	2013	Microwave Link Rancho Dominguez to Westlake	$ 186,254
67591	2013	Microwave Link GO - Mt. Chual - Salinas	$ 88,552
67593	2013	Microwave Link GO - Mt. Allison - Bayshore	$ 88,552
67596	2013	Microwave Link Livermore to Stockton	$ 88,552
67749	2013	SCADA Network Management System	$ 96,079
67598	2014	Microwave Link Bakersfield to Visalia	$ 141,404
67599	2014	Microwave Link Livermore Peak to Dixon Tank	$ 91,132
67600	2014	Microwave Link Visalia to Selma	$ 91,132
67751	2014	SCADA Network Management System	$ 98,878
67601	2015	Microwave Link Salinas to Selma	$ 117,136
67604	2015	Microwave Link Rancho Dominguez to Bakersfield	$ 196,298
67602	2015	Microwave Link Rancho Dominguez to East L.A.	$ 93,709
67752	2015	SCADA Network Management System	$ 101,676
64294	2015	Replace SCADA Hardware and Software	$ 5,104,536
		Total GO SCADA Related Projects	$ 6,991,292

In addition to the primary SCADA replacement project (Project ID 64294), CWS has also included several projects that are related to the Company's proposed Microwave Backbone Plan. As discussed in the response to data request PPM-003:

> The Cal Water Microwave Backbone is a set of microwave links that will extend from Chico to Torrance connecting all of the districts in California. The backbone will improve availability required by the SCADA systems to implement server failover and backup and will serve Information Technology as an alternate to existing phone company lines, operations as the carrier for inter-district voice radio, and other corporate functions. While only a small portion of the network exists today, it is used to provide SCADA services to Willows and Oroville, and as the primary connection between the Bakersfield Control Center and the data acquisition radio site at Panorama Tanks and the two treatment plants. It also carries commercial network traffic to Oroville, Bakersfield Northeast and Bakersfield Northwest Treatment Plants.

The response to PPM-003 listed the following bullet points as SCADA benefits from the Microwave Backbone:

- Secure, fast, highly available network connections between districts.

- Alternate routing so that district services will function even if the telephone company's WAN fails.
- Reliable means of distributing alarms to operators..
- Eliminate reliance on outside suppliers for emergency communications.

As shown in Table 8-L above, the Company has proposed 11 Microwave Backbone projects in this GRC spread out between 2013 and 2015.

CWS also included a project in its proposed 2012 capital additions that is identified by Project ID 21226 and titled SCADA Replacement Specification. The amount budgeted for this project is $270,000. There has been some confusion as to whether this is the same project that is discussed in Chapter 4, Section 13 and referred to as SCADA Historian. However, based on the response to data request MSD-17, Question 4, it appears that the SCADA Replacement Specification and SCADA Historian are in fact the same project. Specifically, Attachment 4-3, which was provided in that response identified Project ID 21226 as the SCADA Historian project with an estimated cost of $270,000. Attachment 4-3 stated in part the following with respect to this project,

> Cal Water originally planned to create a SCADA replacement specification in 2012. The original estimate for this project was for a total of $270,000 and was primarily for engineering effort. Upon completing the Master Plan Cal Water determined that the money budgeted in 2012 to complete the SCADA replacement specification was insufficient and would have to be re-budgeted in a future year.

Based on the foregoing, DRA has removed Project ID 21226 from 2012 capital projects.

Another multi-year project being proposed by CWS is identified by Project IDs 67749, 67751 and 67752 and is referred to as a SCADA Network Management System. As explained in the response to data request MSD-10, Question 18(d), the network management system is not considered part of the SCADA system, but a manager for the network and communication devices that comprise the SCADA infrastructure. Specifically, the proposed network management system is a combination of hardware and software that would continuously monitor the servers, network devices and programs that make up the SCADA system.

As shown in Table 8-M, Project ID 64294, which reflects the initial phase of the proposed SCADA replacement, is comprised of the following elements:

Table 8-M	
Project ID 64294 - Replace SCADA Hardware & Software	
Standard SCADA Project Development Methodologies	$ 89,000
Comprehensive SCADA Guidelines and Standards	$ 243,000
SCADA Change Management	$ 108,000
Build Software Lab and Develop Software Library	$ 229,000
SCADA Disaster Recovery/Business Continuity	$ 108,000
HMI and PLC Vendor Agreements	$ 67,000
Project Implementation	$ 317,000
Enterprise SCADA System Design	$2,852,000
Capitalized Interest at 6%	$ 240,780
Overhead at 20%	$ 850,756
Total	$5,104,536

The Company has included the costs in Table 8-M above with the 2015 capital projects in its filing. DRA asked CWS to confirm that it intends to place this initial phase of the SCADA replacement project into service in 2015 in data request MSD-10, Question 15(c). In response CWS stated:

> It is the company's position that the assets created as part of this project will be placed into service by the end of 2015. A majority of the assets being proposed will be intangible assets such as design specifications and design standards that will be used as part of the SCADA replacement that will continue into years 2016-2018 but there will be some tangible assets such as the demonstration SCADA system being proposed as the first phase of the SCADA replacement.

In a follow-up data request, DRA asked CWS to specify when in 2015 it anticipated that the assets described above would be placed into service. In response to MSD-16, Question 23(a), CWS stated that it anticipates completing these projects in December 2015. Since this project is identified as replacing the existing SCADA system, DRA asked CWS whether it has reflected any retirements associated with the existing SCADA system in its filing. In response to MSD-10, Question 15(b) CWS stated:

> No retirements are included in the filing. What is being proposed is the first phase of the replacement of Cal Water's company-wide SCADA system. In this phase there not be a complete replacement of any asset that is currently in rate base. The proposed SCADA replacement will continue into years 2016-2018 and at that time will include retirements of existing SCADA assets.

It is also important to note that implementing (or in this case replacing) a SCADA system should translate into some form of tangible ratepayer benefit including reduced energy and water supply costs, reduced capital costs, improved water quality and improved data management. However, CWS has not demonstrated that any cost savings or other tangible ratepayer benefit would be achieved through these projects.

Since CWS has not demonstrated any tangible ratepayer benefit resulting from these projects coupled with the fact that the initial phase of the SCADA replacement project is not anticipated to be placed into service until the very end of Escalation Year 2015 and CWS will not be reflecting any retirements associated with the existing SCADA system until the second phase of the SCADA replacement project is underway in years 2016 through 2018, DRA recommends that the SCADA replacement project as well as the SCADA Historian, Microwave Backbone and SCADA Network Management System projects be deferred until a future GRC.

<u>Vehicle Purchases and Replacements</u>

CWS is requesting the purchase and/or replacement of 76 vehicles as reflected on Company workpaper "WP8B2-Details for Vehicles" in the GO filing. The total vehicle complement requested is comprised of several different types of vehicles, including sedans, station wagons, SUVs, half-ton pick-up trucks and heavy duty trucks. As discussed below, DRA is recommending that many of these vehicle purchases and replacements be disallowed. Of the 76 vehicles that CWS is requesting be replaced in this proceeding, 32 vehicles are for GO employees according to a schedule that was provided in response to data request MSD-18, Question 3. Many of these vehicles are provided to employees who work at the Company's headquarters located at 1720 North First Street in San Jose. While DRA does not take issue with ratepayers funding Company vehicles that are used in the field for the provision of safe and reliable water service, DRA disagrees with ratepayers funding vehicles for GO employees who work at the Company's headquarters.

For those Company vehicles that are used by GO employees to drive from home to the Company's headquarters, and which are not utilized in the field for the provision of safe and reliable water service, DRA asked CWS to explain fully and in detail the benefits to ratepayers for funding such vehicles in data request MSD-16, Question 3. In response CWS stated in part:

> ...All company-owned vehicles are used for supporting or providing services that our customers rely on. Whether they are used to meet with customers or employees, inspect construction sites, deliver equipment, **transport GO employees to their offices** or in the field, or ensure standards are followed; all these activities are essential, have value to our customers, and guarantee that they are receiving the best quality service and value from their water provider. [Emphasis added.]

DRA generally agrees with the passage above. However, DRA does not believe it is appropriate for ratepayers to be responsible for funding vehicles that are driven by employees from their homes to the GO headquarters. Specific to those GO employees and the ratepayer benefits requested by DRA pursuant to the use of Company vehicles, the passage below is also from the response to MSD-16, Question 3.

> Employees that are required to report primarily to the General Office in San Jose do so for the purpose of performing their jobs in the most efficient manner possible, geographically. The service or work they perform is in support of the customers they serve throughout the 24 service districts. By using a company vehicle that is regularly maintained, insured by a common carrier, and available 24 hours a

> day, allows our employees to report to work when needed and reduces the cost and liability to the company. This, in turn reduces the costs that our customers pay as well. On those occasions when they need to travel to and from the districts, they have a reliable vehicle in which to do so. Company-owned vehicles ultimately allow our employees to respond to our customer's needs at a speed that is consistent with their expectations.

Based on the Company's response above and as a general matter, DRA does not agree that CWS providing GO employees who do not work in the field with brand new vehicles, merely for the purpose of driving to and from the GO headquarters, benefits ratepayers in any meaningful way.

With regard to CWS' argument that providing Company vehicles enables its employees to report to work when needed, DRA notes that the CWS' employees who are provided with vehicles are well compensated and should be capable of affording and acquiring their own vehicles. DRA also disagrees with CWS' statement that providing vehicles to its GO employees reduces the cost and liability to the Company. In DRA's view, it would seem that purchasing a fleet of vehicles and fully insuring them would increase the Company's costs, not decrease them. Furthermore, the Company's liability would be reduced if its employees purchased their own insurance for their own vehicles.

In addition, the fact that these vehicles are available to CWS' employees 24 hours a day is troubling from the standpoint that these Company vehicles could be used for personal use. DRA asked CWS whether it maintains a log for its Company vehicles in which GO employees keep track of their business versus personal use of these vehicles in data request MSD-18, Question 1. In response, CWS stated that it does maintain such a vehicle log but that it does not include employees who use Company vehicles for business purposes only. The Company provided a copy of the vehicle log for 2012. Upon reviewing the vehicle log, DRA noted a total of 1,389,231 miles for 2012. Of this amount, DRA determined that approximately 48% of these miles were of a personal nature. In addition, on an individual basis, in many instances, the ratio of personal versus business miles driven was 80% or higher. In fact, in two instances, the ratio was 100% personal use of a Company vehicle.

DRA does not agree that ratepayers should be responsible for funding Company vehicles that are not used in the field pursuant to the provision of safe and reliable water service. In addition, in an updated response to MSD-17, Question 3, CWS indicated that the vehicles identified by Project IDs 76214, 76215 and 76218 were cancelled, so DRA has removed them. Furthermore, in response to MSD-07, Question 4(a), CWS provided a schedule which reflected the mileage of each vehicle that the Company is proposing to replace in this proceeding. A review of this schedule revealed that several of the vehicles that CWS is proposing to replace have very low mileage as shown in Table 8-N below.

Table 8-N
Vehicles With Low Mileage

Year	Project ID	Description	Amount	Mileage
2013	65417	1 Ton C&C with Service Body - EMT	$ 88,800	83,369
2013	65421	1 Ton C&C with Service Body - Flushing	$ 88,800	21,192
2013	65550	1.5 Ton C&C with Service Body - EMT	$ 88,800	76,141
2014	65212	Van & Outfitting - TMM	$ 45,000	39,668
2015	64957	.5 Ton Pick-up with Accessories - Cross Connection	$ 37,000	40,420
2015	64958	Sedan - Government Affairs Manager	$ 35,700	21,957

Of the vehicles listed in the table above, DRA recommends that Project IDs 65421, 65212, 64957 and 64958 be removed as the mileage for those vehicles are well below the 120,000 mile threshold established the DGS Vehicle Replacement Policy that was adopted in D06-01-025. In addition, DRA recommends that Project IDs 65417 and 65550 be shifted from 2013 to 2014 at which time it will be more likely that they will trigger the DGS vehicle replacement criteria of 120,000 miles.

Based on the foregoing, Tables 8-O, 8-P, 8-Q and 8-R below reflect the Company vehicles that DRA recommends be disallowed in 2012, 2013, 2014 and

2015, respectively. As discussed in Chapters 4 and 5, DRA made an adjustment to reduce Test Year Transportation expense estimates to reflect the disallowance of the vehicle replacements listed in the tables below.

Table 8-O
Vehicles Disallowed in 2012

Year	Project ID	Description	Amount	Specific/ Non-Specific
2012	20853	New Vehicle - Director of Corporate Communications	$ 38,500	Specific
2012	20855	New Sedan - CEO	$ 32,500	Specific
2012	20859	New Vehicle - Director of Customer Service	$ 32,500	Specific
2012	20862	New Sedan - VP of Operations	$ 46,500	Specific
2012	21081	New Sedan	$ 34,500	Specific
2012	79153	New Vehicle for VP of HR	$ 47,430	Non-Specific
2012	79154	New Vehicle for HR Business Partner	$ 33,660	Non-Specific
2012	79155	Replace V209091	$ 33,660	Non-Specific
2012	79156	New Vehicle for VP of IT	$ 47,430	Non-Specific
		Total Vehicles Disallowed for 2012	$346,680	

As shown in the Table 8-O, DRA is recommending vehicle disallowances in 2012 totaling $346,680.

Table 8-P
Vehicles Disallowed in 2013

Year	Project ID	Description	Amount	Specific/ Non-Specific
2013	65414	Sedan - Environmental Manager	$ 34,000	Specific
2013	65415	SUV - Corporate Secretary	$ 48,600	Specific
2013	65418	Sedan - VP of Rates	$ 48,600	Specific
2013	65421	1 Ton C&C with Service Body	$ 88,800	Specific
2013	65425	Sedan - WQ Project Manager	$ 34,000	Specific
2013	65426	SUV - VP Corporate Development	$ 48,600	Specific
2013	65434	Sedan - WQ Project Manager - Additional Complement	$ 34,000	Specific
2013	65435	Sedan - WQ Project Manager - Additional Complement	$ 34,000	Specific
2013	65551	Sedan - Director of Accounting	$ 34,000	Specific
2013	65557	Sedan - Engineering Manager of Distribution	$ 34,000	Specific
2013	65559	Sedan - Director Dev & Prop	$ 34,000	Specific
2013	65560	Sedan - Director I.S.	$ 34,000	Specific
2013	65682	Sedan - CI - Additional Complement	$ 34,000	Specific
2013	76214	EMT C&C with Service Body - Additional Complement	$ 92,310	Specific
2013	76215	EMT C&C with Service Body - Additional Complement	$ 92,310	Specfic
2013	79553	New Vehicle - HR Business Partner	$ 33,966	Specific
2013	79554	New Vehicle - Employee Relations Manager	$ 33,966	Specific
		Total Vehicles Disallowed for 2013	$793,152	

As shown in the Table 8-P, DRA is recommending vehicle disallowances in 2013 totaling $793,152.

		Table 8-Q		
		Vehicles Disallowed in 2014		
				Specific/
Year	**Project ID**	**Description**	**Amount**	**Non-Specific**
2014	65172	Sedan - Water Quality Manager	$ 34,900	Specific
2014	65189	Sedan - VP of Engineering	$ 49,000	Specific
2014	65191	Sedan - Director of Water Quality	$ 34,900	Specific
2014	65210	Sedan - Electrical Engineering Manager	$ 34,900	Specific
2014	65211	Sedan - Safety Coordinator	$ 34,900	Specific
2014	65212	Van & Outfitting - TMM	$ 45,000	Specific
2014	76216	EMT C&C with Service Body - Additional Complement	$ 94,350	Specific
		Total Vehicles Disallowed for 2014	$ 327,950	

As shown in the Table 8-Q, DRA is recommending vehicle disallowances in 2014 totaling $327,950.

		Table 8-R		
		Vehicles Disallowed in 2015		
				Specific/
Year	**Project ID**	**Description**	**Amount**	**Non-Specific**
2015	64948	New Vehicle - CS Process Analyst	$ 35,700	Specific
2015	64952	New Vehicle - Business Development Manager	$ 35,700	Specific
2015	64954	New Vehicle - Director of IT	$ 35,700	Specific
2015	64957	0.5 Ton Pick-Up with Accessories - Cross Connection	$ 37,000	Specific
2015	64958	Sedan - Government Affairs Manager	$ 35,700	Specific
2015	64959	Vehicle - Director of Finance Reporting	$ 35,700	Specific
2015	65436	Sedan - WQ Project Manager - Additional Complement	$ 35,700	Specific
2015	76218	EMT C&C with Service Body - Additional Complement	$ 96,390	Specific
		Total Vehicles Disallowed for 2015	$ 347,590	

As shown in the Table 8-R, DRA is recommending vehicle disallowances in 2015 totaling $347,590.

5) <u>Other Rate Base Adjustments</u>

DRA made a number of non-capital project related adjustments to CWS' weighted average rate base, which are discussed below.

1. In data request MSD-03, Question 56, CWS stated that it included costs associated with the expansion and renovation of its GO I.T.

building in its weighted average rate base. These costs, which totaled $6,055,966, were included in the Company's recorded 2011 plant additions in this GRC filing. However, CWS' request for recovery of the costs pursuant to this project is being addressed in a separate proceeding in A.12-06-016. A settlement was ultimately reached in A.12-06-016 and as part of that settlement, CWS and DRA agreed that costs totaling $5,734,400, which related to the GO I.T. building expansion and renovation, will be reflected in the Company's rate base in the instant proceeding. Therefore, DRA has removed the $6,055,966 that CWS included in its 2011 recorded plant and replaced that amount with the $5,734,400 pursuant to the settlement agreement reached in A.12-06-016. DRA recommends that the final decision in this rate case reflect the amount adopted by the Commission in A.12-06-016.

2. As discussed in Chapter 4, Section 9, DRA made an adjustment to include $152,000 in Operations Expense - Customer Accounting related to pumping and maintenance expenses being incurred in 2012 pursuant to a GO basement modification project. The Company explained that the GO Basement project was initially capitalized for the $152,000, which reflected expenses totaling $131,000 and overhead of $21,000. Subsequent to capitalizing this project, CWS determined instead that it was a maintenance item and ultimately expensed the costs of the project. As a result of this reclassification, CWS stated that the $152,000 should be adjusted out of its beginning plant balance which DRA has done.

3. DRA inquired about three projects each in the amount of $36,573 with the description "PCs - New Complements and are identified by Project IDs 64158, 64176 and 64179 and for years 2013, 2014 and

2015, respectively, in data request MSD-18, Question 6. In response, CWS stated that Project ID 64158 was cancelled. The Company also stated that Project IDs 64176 and 64179 relate to the Company's request to add 54 complements between 2014 and 2015, but that 44 will require a computer which is to be split between both years at 22 computers each. DRA has removed all three of these projects due to Project ID 64158 being cancelled and no support being provided for Project IDs 64176 and 64179.

4. DRA made several adjustments to CWS' projected construction overhead calculations. The nature of these adjustments and the rationale for making them is discussed by DRA witness Pat Ma in the plant related portion of DRA's Company-Wide Report.

6) <u>Depreciation</u>

DRA's and CWS' General Office estimates for Depreciation Reserve and Depreciation Expense for the Test Year 2014 and Escalation Year 2015 are reflected in Tables 8-S and 8-T below.

Table 8-S
Weighted Average Depreciation Reserve

Description	2012	2013	2014	2015
DRA	$22,985,600	$26,098,900	$28,530,000	$29,766,100
CWS	$22,887,500	$26,070,300	$29,333,600	$32,046,800
CWS > DRA	$ (98,100)	$ (28,600)	$ 803,600	$ 2,280,700

As shown in the Table 8-Q, DRA is recommending a weighted average depreciation reserve of $28,530,000 in the Test Year 2014 and $29,766,100 in the Escalation Year 2015.

Table 8-T Depreciation Expense				
Description	**2012**	**2013**	**2014**	**2015**
DRA	$ 7,615,800	$ 9,125,000	$ 6,250,600	$ 6,430,700
CWS	$ 7,615,800	$ 9,749,600	$ 7,713,500	$ 8,213,900
CWS > DRA	$ -	$ 624,600	$ 1,462,900	$ 1,783,200

As shown in the Table 8-R, DRA is recommending depreciation expense of $6,250,600 in the Test Year 2014 and $6,430,700 in the Escalation Year 2015.

There are two factors causing the difference between DRA's and CWS' depreciation reserve balances. The first factor is DRA's recommended adjustments to the Company's proposed plant additions, which directly impact the amount of depreciation expense and build-up of the depreciation reserve. The second factor is DRA's recommendation that CWS adhere to the DGS Vehicle Replacement policy guidelines, which results in a lower level of vehicle retirements. This results in less vehicles being removed from the depreciation reserve balance.

The differences between DRA and CWS with regard to depreciation expense are the result of the differences in the CWS and DRA estimates for plant in service.

7) <u>Reserve for Amortization of Intangibles</u>

CWS estimates a Reserve for Amortization of Intangibles of $323,600 in the Test Year 2014 and $343,400 in the Escalation Year 2015. DRA's estimates are $322,100 in the Test Year 2014 and $340,400 in the Escalation Year 2015. The differences are attributable to CWS's and DRA's estimates for intangible plant additions.

8) <u>Deferred Income Taxes</u>

CWS estimates a Deferred Taxes of $9,481,800 in the Test Year 2014 and $12,034,000 in the Escalation Year 2015. DRA's estimates are $7,707,200 in the Test Year 2014 and $8,388,700 in the Escalation Year 2015. The differences between DRA and CWS with regard to Deferred Taxes are the result of differences in the CWS and DRA estimates for plant additions and the related tax depreciation.

During the course of this proceeding, it was discovered that the Company's rate base workpapers, as filed, were not configured to recalculate tax depreciation when DRA revised its estimates for plant additions. The result was the deferred tax amounts were not being updated when DRA made its adjustments to plant. In addition, since the Company filed its Application in July 2012, the deferred tax workpapers did not address 50% bonus depreciation, which was extended for 2013 upon President Obama signing the 2012 American Taxpayer Relief Act into law on January 2, 2013. DRA witnesses Pat Ma and Josefina Montero worked with CWS to revise the workpapers to reflect the impact of DRA's estimates for plant additions on the tax depreciation calculations as well as the extension of the 50% bonus depreciation through 2013.

9) <u>Unamortized Investment Tax Credit</u>

CWS estimates an Unamortized Investment Tax Credit of $553,800 in the Test Year 2014 and $314,600 in the Escalation Year 2015. DRA's estimates are $199,400 in the Test Year 2014 and $196,500 in the Escalation Year 2015. The differences are attributable to DRA's adjustment to remove the Federal Tax Rebate of $590,642 which relates to the GO Solar Project that DRA has recommended be disallowed.

10) <u>Working Capital</u>

CWS estimates a working capital allowance of $250,000 in the Test Year 2014 and Escalation Year 2015. DRA does not contest the amounts projected by CWS for this account.

D. <u>CONCLUSION</u>

DRA recommends that the Commission adopt DRA's rate base estimates for the General Office.

APPENDIX I - CWS Solar Project Cost Analysis

California Water Service Company - Capital Project Cost Impact Analysis

Bidding Firm	SPG Solar		Base Cost of Project	$1,547,804	
Rated Power Output	339	kW DC	Base Cost + 6% Cap Int + Overhead	$1,968,807	Total
Annual Power Production	449.552	MWh/yr	California Performance Based Incentive	$118,650	
GO Annual Energy Usage	1,581	MWh/yr	Federal Tax Incentive	$590,642	based on Total
Inflation Rate	6.00%		Capital Cost	$1,259,515	
Depreciation Period	30	Years			
	1				
	13.0%				
	28.4%	Annual Power Production / GO Annual Energy Usage			

(A) Year	(B) Rate Base Value	(C) Revenue Requirement	(D) Depreciation Cost	(E) Annual Capital Customer Expenditure	(F) Reduction to Federal Income Tax	(G) Total Annual Customer Expense	(H) Remaining Annual Electrical Expense	(K) Inflated Electrical Power Expense		(J) Saved Annual Electrical Expense		
								2010	$234,000			
								2011	$248,040			
								2012	$262,922			
2013	$1,259,515	$163,737	$41,984	$205,721	$460,472	($55,311)	$199,440	2013	$278,698	$79,258		($334,009)
2014	$1,217,531	$158,279	$41,984	$200,263		$411,669	$211,406	2014	$295,420	$84,014	$116,249	
2015	$1,175,547	$152,821	$41,984	$194,805		$418,895	$224,090	2015	$313,145	$89,054	$105,751	
2016	$1,133,563	$147,363	$41,984	$189,347		$426,883	$237,536	2016	$331,933	$94,398	$94,949	
2017	$1,091,579	$141,905	$41,984	$183,889		$435,677	$251,788	2017	$351,849	$100,061	$83,828	
2018	$1,049,595	$136,447	$41,984	$178,431		$445,326	$266,895	2018	$372,960	$106,065	$72,366	
2019	$1,007,611	$130,989	$41,984	$172,973		$455,882	$282,909	2019	$395,338	$112,429	$60,544	
2020	$965,627	$125,532	$41,984	$167,515		$467,399	$299,884	2020	$419,058	$119,175	$48,341	
2021	$923,643	$120,074	$41,984	$162,057		$479,934	$317,877	2021	$444,202	$126,325	$35,732	
2022	$881,659	$114,616	$41,984	$156,599		$493,549	$336,949	2022	$470,854	$133,905	$22,695	
2023	$839,675	$109,158	$41,984	$151,142		$508,308	$357,166	2023	$499,105	$141,939	$9,202	
2024	$797,691	$103,700	$41,984	$145,684		$524,280	$378,596	2024	$529,052	$150,455	Breakeven Point	($4,772)
2025	$755,707	$98,242	$41,984	$140,226		$541,538	$401,312	2025	$560,795	$159,483		($19,257)
2026	$713,723	$92,784	$41,984	$134,768		$560,158	$425,391	2026	$594,442	$169,052		($34,284)
2027	$671,739	$87,326	$41,984	$129,310		$580,224	$450,914	2027	$630,109	$179,195		($49,885)
2028	$629,755	$81,868	$41,984	$123,852		$601,821	$477,969	2028	$667,915	$189,947		($66,095)
2029	$587,771	$76,410	$41,984	$118,394		$625,041	$506,647	2029	$707,990	$201,343		($82,949)
2030	$545,787	$70,952	$41,984	$112,936		$649,982	$537,046	2030	$750,470	$213,424		($100,488)
2031	$503,803	$65,494	$41,984	$107,478		$676,747	$569,269	2031	$795,498	$226,229		($118,751)
2032	$461,819	$60,036	$41,984	$102,020		$705,445	$603,425	2032	$843,228	$239,803		($137,783)
2033	$419,835	$54,579	$41,984	$96,562		$736,193	$639,630	2033	$893,821	$254,191		($157,629)
2034	$377,851	$49,121	$41,984	$91,104		$769,112	$678,008	2034	$947,451	$269,443		($178,338)
2035	$335,867	$43,663	$41,984	$85,647		$804,335	$718,688	2035	$1,004,298	$285,609		($199,963)
2036	$293,883	$38,205	$41,984	$80,189		$841,998	$761,810	2036	$1,064,556	$302,746		($222,557)
2037	$251,899	$32,747	$41,984	$74,731		$882,249	$807,518	2037	$1,128,429	$320,911		($246,180)
2038	$209,915	$27,289	$41,984	$69,273		$925,242	$855,969	2038	$1,196,135	$340,165		($270,892)
2039	$167,931	$21,831	$41,984	$63,815		$971,142	$907,328	2039	$1,267,903	$360,575		($296,760)
2040	$125,947	$16,373	$41,984	$58,357		$1,020,124	$961,767	2040	$1,343,977	$382,210		($323,853)
2041	$83,963	$10,915	$41,984	$52,899		$1,072,372	$1,019,473	2041	$1,424,616	$405,142		($352,243)
2042	$41,979	$5,457	$41,984	$47,441		$1,128,083	$1,080,642	2042	$1,510,092	$429,451		($382,010)
Total Expenditure		$2,537,913	$1,259,515	$3,797,428	$460,472	**$19,104,298**	$15,767,341		**$22,033,338**	$6,265,997		
			Net Present Value	$2,054,729		**$7,264,841**	$5,644,520		**$7,887,672**	$2,243,152	649,657	(3,578,698)

APPENDIX II - DRA Solar Project Cost Analysis

California Water Service Company - Capital Project Cost Impact Analysis

Bidding Firm	SPG Solar	Base Cost of Project	$1,547,804
Rated Power Output	339 kW DC	Base Cost + 6% Cap Int + Overhead	$1,968,807 Total
Annual Power Production	449.552 MWh/yr (2011)-per vendor	California Performance Based Incentive	$118,650
GO Annual Energy Usage	1,526 MWh/yr (2011)	Federal Tax Incentive	$590,642 based on Total
Inflation Rate	5.30% (1999-2012 Avg) - MSD-09, Q.3(b)	Capital Cost	$1,259,515
Depreciation Period	30 Years		
	1		
Revenue Requirement Rate	13.0%		
Percent Power Covered By Proj.	29.45% Annual Power Production / GO Annual Energy Usage		

(A) Year	(B) Rate Base Value	(C) Revenue Requirement	(D) Depreciation Cost	(E) Annual Capital Customer Expenditure	(F) Reduction to Federal Income Tax	(G) Total Annual Customer Expense	(H) Remaining Annual Electrical Expense	Year	(K) Inflated Electrical Power Expense	(J) Saved Annual Electrical Expense		
								2011	$232,528			
								2012	$244,852			
2013	$1,968,807	$255,945	$65,627	$321,572	$590,642	($87,181)	$181,890	2013	$257,829	$75,940		($345,010)
2014	$1,903,180	$247,413	$65,627	$313,040		$504,570	$191,530	2014	$271,494	$79,964	$233,076	
2015	$1,837,553	$238,882	$65,627	$304,509		$506,190	$201,681	2015	$285,883	$84,202	$220,306	
2016	$1,771,926	$230,350	$65,627	$295,977		$508,347	$212,370	2016	$301,035	$88,665	$207,312	
2017	$1,706,299	$221,819	$65,627	$287,446		$511,071	$223,625	2017	$316,990	$93,364	$194,081	
2018	$1,640,672	$213,287	$65,627	$278,914		$514,392	$235,478	2018	$333,790	$98,313	$180,601	
2019	$1,575,045	$204,756	$65,627	$270,383		$518,341	$247,958	2019	$351,481	$103,523	$166,859	
2020	$1,509,418	$196,224	$65,627	$261,851		$522,951	$261,100	2020	$370,110	$109,010	$152,841	
2021	$1,443,791	$187,693	$65,627	$253,320		$528,258	$274,938	2021	$389,726	$114,788	$138,532	
2022	$1,378,164	$179,161	$65,627	$244,788		$534,298	$289,510	2022	$410,381	$120,871	$123,917	
2023	$1,312,537	$170,630	$65,627	$236,257		$541,110	$304,854	2023	$432,131	$127,278	$108,979	
2024	$1,246,910	$162,098	$65,627	$227,725		$548,736	$321,011	2024	$455,034	$134,023	$93,702	
2025	$1,181,283	$153,567	$65,627	$219,194		$557,218	$338,025	2025	$479,151	$141,126	$78,067	
2026	$1,115,656	$145,035	$65,627	$210,662		$566,602	$355,940	2026	$504,546	$148,606	$62,056	
2027	$1,050,029	$136,504	$65,627	$202,131		$576,935	$374,805	2027	$531,287	$156,482	$45,648	
2028	$984,402	$127,972	$65,627	$193,599		$588,268	$394,669	2028	$559,445	$164,776	$28,823	
2029	$918,775	$119,441	$65,627	$185,068		$600,654	$415,587	2029	$589,096	$173,509	$11,559	
2030	$853,148	$110,909	$65,627	$176,536		$614,149	$437,613	2030	$620,318	$182,705	Breakeven Point	($6,169)
2031	$787,521	$102,378	$65,627	$168,005		$628,811	$460,806	2031	$653,195	$192,388		($24,384)
2032	$721,894	$93,846	$65,627	$159,473		$644,702	$485,229	2032	$687,814	$202,585		($43,112)
2033	$656,267	$85,315	$65,627	$150,942		$661,888	$510,946	2033	$724,268	$213,322		($62,380)
2034	$590,640	$76,783	$65,627	$142,410		$680,437	$538,026	2034	$762,654	$224,628		($82,218)
2035	$525,013	$68,252	$65,627	$133,879		$700,420	$566,542	2035	$803,075	$236,533		($102,655)
2036	$459,386	$59,720	$65,627	$125,347		$721,916	$596,569	2036	$845,638	$249,070		($123,722)
2037	$393,759	$51,189	$65,627	$116,816		$745,002	$628,187	2037	$890,457	$262,270		($145,455)
2038	$328,132	$42,657	$65,627	$108,284		$769,765	$661,481	2038	$937,651	$276,171		($167,886)
2039	$262,505	$34,126	$65,627	$99,753		$796,292	$696,539	2039	$987,347	$290,808		($191,055)
2040	$196,878	$25,594	$65,627	$91,221		$824,677	$733,456	2040	$1,039,676	$306,220		($214,999)
2041	$131,251	$17,063	$65,627	$82,690		$855,018	$772,329	2041	$1,094,779	$322,450		($239,761)
2042	$65,624	$8,531	$65,627	$74,158		$887,420	$813,262	2042	$1,152,802	$339,540		($265,382)
Total Expenditure		$3,967,140	$1,968,807	$5,935,947	$590,642	**$18,071,258**	$12,725,953		**$18,039,085**	$5,313,131		
			Net Present Value	$3,412,283		**$8,033,409**	$5,182,039		**$7,345,560**	$2,163,520	2,046,361	(2,014,187)

[END OF REPORT ON THE GENERAL OFFICE OF CWS]