

Docket: : A.10-11-009  
Exhibit Number : \_\_\_\_\_  
Commissioner : Michael Peevey  
Admin. Law Judge : Robert Barnett  
DRA Project Mgr. : Laura Krannawitter



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

**FINAL  
REPORT  
ON THE APPLICATION OF  
SOUTHERN CALIFORNIA EDISON  
for  
Authority to Increase Rates for Water Service  
On Santa Catalina Island for Test Year 2011**

**Application 10-11-009**

Los Angeles, California  
May 16, 2011

## TABLE OF CONTENTS

MEMORANDUM .....	1
EXECUTIVE SUMMARY .....	2
A. INTRODUCTION .....	2
B. SUMMARY OF RECOMMENDATION.....	2
CHAPTER 1    SUMMARY OF EARNINGS .....	1-1
A. SUMMARY OF RECOMMENDATIONS .....	1-1
B. DISCUSSION .....	1-1
1. Rate Base .....	1-2
2. Taxes .....	1-3
3. Rate of Return .....	1-3
4. Administrative and General.....	1-4
5. Production Expenses .....	1-5
6. Escalation Rates .....	1-6
7. Uncollectibles .....	1-6
C. CONCLUSION.....	1-6
CHAPTER 2    CUSTOMERS AND SALES FORECAST .....	2-1
A. INTRODUCTION .....	2-1
C. DISCUSSION .....	2-1
1. Water Loss.....	2-2
CHAPTER 3    NON-ADMINISTRATIVE& GENERAL EXPENSES.....	3-1
A. INTRODUCTION .....	3-1
B. SUMMARY OF RECOMMENDATIONS .....	3-1
C. DISCUSSION .....	3-2
1. Escalation Factors.....	3-3
2. Uncollectibles .....	3-3
CHAPTER 4    ADMINISTRATIVE & GENERAL EXPENSES.....	4-1
A. INTRODUCTION .....	4-1
1. Account 681 – office supplies and expenses.....	4-2
2. A&G allocation referred to as account 920/921.....	4-2
3. Account 800 .....	4-3

CHAPTER 5	PLANT IN SERVICE.....	5-1
<b>A.</b>	<b>INTRODUCTION.....</b>	<b>5-1</b>
<b>B.</b>	<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>5-1</b>
<b>C.</b>	<b>DISCUSSION.....</b>	<b>5-1</b>
	1. Catalina Fire- related System Restoration.....	5-2
	2. Water SCADA.....	5-4
	3. Pump House #2 Replacement.....	5-5
	4. Pebbly Beach Water Line Replacement.....	5-6
	5. Middle Ranch Canyon Bedrock Piezometers.....	5-7
	6. West End Pipeline Replacement .....	5-8
	7. Isthmus Area Water Supply and SCADA: .....	5-9
	8. Thompson Reservoir Siphon: .....	5-10
	9. Catalina Facility Upgrade Project (Station Office Betterment): .....	5-11
	10. Depreciation.....	5-11
CHAPTER 6	TAXES.....	6-1
<b>A.</b>	<b>INTRODUCTION .....</b>	<b>6-1</b>
CHAPTER 7	POLICY ISSUES.....	7-1
<b>A.</b>	<b>INTRODUCTION .....</b>	<b>7-1</b>
<b>B.</b>	<b>SUMMARY OF RECOMMENDATION .....</b>	<b>7-1</b>
<b>C.</b>	<b>DISCUSSION .....</b>	<b>7-1</b>
	1. Amortization of Memorandum Accounts.....	7-1
	2. Phase In Rates .....	7-1
	3. Water Quality .....	7-2
	4. Customers Complaints .....	7-2
CHAPTER 8	RATE DESIGN .....	8-1
	1. Meter charges .....	8-1

APPENDIX A – QUALIFICATIONS OF WITNESSES

1 **MEMORANDUM**

2 In this Report, the Division of Ratepayer Advocates (“DRA”) of the California Public  
3 Utilities Commission (“Commission”) presents its *limited*<sup>1</sup> analyses, findings, and  
4 recommendations pertaining to Southern California Edison’s (“SCE” or “Edison” or “the  
5 Company”) Santa Catalina Island water operations. In Application (“A.”) 10-11-009, SCE  
6 requests Commission authorization to increase rates charged for water service by  
7 \$3,274,000- an increase of 82.9% over present rates, with no attrition increases beyond 2011.  
8 In the rate design proposal, SCE seeks to change the cost allocation between residential and  
9 commercial customers on the island.

10 The DRA Project Coordinator for this Report is Laura Krannawitter. DRA’s  
11 witnesses’ qualifications are set forth in Appendix A of this Report.

12 Selina Shek is DRA’s Legal Counsel for this proceeding.

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<sup>1</sup> DRA is generally limiting its areas of focus to 10 capital projects and the rate design proposals. Water Division took 2 years to analyze the data and operations of SCE in the last GRC and produce recommendations that the Commission adopted in Resolution W-4665. Due to DRA’s limited resources and the schedule in the current case, DRA could not address all issues raised in this case.

1 **EXECUTIVE SUMMARY**

2 **A. INTRODUCTION**

3 The last general rate increase for Southern California Edison’s Catalina Island  
4 water operation was authorized by Resolution W-4665 in November 1, 2007. Three  
5 years later, on November 15, 2010, Southern California Edison (“SCE” or “Edison” or  
6 “the Company”) filed general rate case Application 10-11-009<sup>2</sup> requesting authorization  
7 to increase 2011 rates charged for water service on Santa Catalina Island by \$3,274,000  
8 or 82.9%. In this proceeding, SCE does not request attrition year increases for 2012 or  
9 2013. Within the development of revenues and rates, Edison requests the continued use  
10 of its companywide rate of return on rate base of 8.75%<sup>3</sup>.

11 With regard to rate design, SCE offers two proposals: 1) shift the current  
12 allocation of revenue responsibility between residential and commercial customers; or 2)  
13 shift the revenue responsibility and charge SCE’s 4.8 million electric customer accounts  
14 for a year in order to subsidize the water customers<sup>4</sup>. The latter proposal seeks to  
15 mitigate rate shock and to permanently reduce the rate base.

16 **B. SUMMARY OF RECOMMENDATION**

17 DRA submits this Report as its prepared direct testimony in A.10-11-009. DRA  
18 recommends an overall revenue requirement of \$ 6,320,000. Because this is such a  
19 significant increase, (i.e. an overall increase of 60% over present rates) DRA  
20 recommends a 3 year phase-in of rates for Catalina Island water customers. This would  
21 amount to a 20% increase in 2011, 20% increase in 2012, and 20% increase in 2013.  
22 DRA’s largest adjustments to the results of operations relate to the removal of \$2,284,  
23 215 from plant additions. The other large adjustment falls within the line item labeled  
24 Administrative and General in the “Summary of Earnings” table. The following table

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<sup>2</sup> SCE originally filed its GRC via advice letter (AL-79W) in July 2010, and subsequently withdrew it after being advised to do so by ALJ Barnett. (related to C.0912006)

<sup>3</sup> See SCE supplemental testimony.

<sup>4</sup> SCE analysis shows there are between 1956 and 1977 meters for billing revenues.

1 shows a summary of all the revenue requirement proposals<sup>5</sup> against the current revenue  
2 requirement.

3  
4 **SUMMARY OF REVENUE REQUIREMENT PROPOSALS**

5 Fiscal Test Year 2011

Revenues At Present Rates	SCE Request	SCE alternative	DRA Recommended 2011
\$3.948 million <sup>6</sup>	\$7.222 million <sup>7</sup>	\$3.707 million <sup>8</sup>	\$6.32 million

6  
7 1. Rates and Revenue Allocation:

8 All SCE water customers on the island have meters. The customers' rates have  
9 both a fixed meter charge and a volumetric quantity charge. In addition to that, tiered  
10 rates began in 1985. Up to now, there has been no distinction made between residential  
11 and non-residential customers.

12 Before rates can be designed, one has to allocate the total revenue requirement  
13 (\$6.32 million for the DRA and \$7.2 million for SCE) between the various classes of  
14 customers. This is referred to as revenue allocation. DRA keeps the revenue allocation  
15 from the last GRC and SCE proposes shifting the allocation from commercial to  
16 residential. DRA believes this allocation is fair to both customer classes and minimizes  
17 any cross-subsidization between residential and business customers.

<u>Customer class</u>	<u>DRA</u>	<u>SCE</u>
Residential	41%	52%
Non-Residential	59%	48%

18  
19  
20  
21  

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<sup>5</sup> There may be other proposed revenue requirements after the DRA report. This is a summary to date.

<sup>6</sup> Tessler workpaper 201

<sup>7</sup> Tessler workpaper 213

<sup>8</sup> Tessler workpaper 306

1           Once a revenue allocation is made, then the decisions for rate design follow. In  
2 this proceeding, SCE proposes increasing the flat rate by 90%, increasing tiered rates for  
3 residential customers, changing the tier 1 and tier 2 baseline volume limits, and  
4 eliminating the tier structure for the non-residential customer group. In the alternative,  
5 SCE proposes implementing all these same rate design changes and have their electric  
6 customers pay off \$18.5 million in rate base. The net effect of this alternative produces  
7 more modest rate increases for the residential customers and rate decreases for the non-  
8 residential customers.

9           DRA concurs with many of the rate design proposals SCE presents, but not all.  
10 DRA's meter charges will increase 67% not 90%, as proposed by SCE. DRA does agree  
11 with the following suggested changes: a) modifying the tiers' break point volumes for  
12 residential customers and b) eliminating the tiers for the non-residential customers. The  
13 differences between DRA and SCE rate proposals are driven by the competing estimates  
14 for the revenue requirement and revenue allocation.

15           See Chapter 8 for the detailed numbers, but in summary, the average rate increase  
16 produced by SCE's first proposal would produce a residential customer bill increase of  
17 131% and a non-residential bill increase of 48%. DRA's proposal would ultimately  
18 produce a residential customer bill increase of 60% and a non-residential increase of  
19 61%, but it would be phased in over three years.

20           While DRA understands the irregular rate proposal from SCE, (i.e. the subsidy  
21 proposal), DRA cannot endorse this rate shock mitigation proposal<sup>2</sup>. DRA instead offers  
22 an alternative (lower revenue requirement and phasing in of rates). Not only is SCE's  
23 alternative proposal unfair to the electric customers who gain no benefit from such a  
24 proposed subsidy, the proposal delinks costs from rates. In many water cases, DRA has  
25 argued against subsidies where other water customers (not in the district) should pay the  
26 cost of providing service. DRA has even opposed water subsidies within a multi-district  
27 water company i.e. California American Water, Golden State Water, and California

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<sup>2</sup> Additionally, SCE should expand its outreach efforts to enroll residential customers in its low-income program.

1 Water Service. While the Commission has granted limited forms of subsidies to mitigate  
2 rate shock, (i.e. the Rate Support Fund for California Water Service<sup>10</sup>) SCE's proposal  
3 goes well beyond that allowance, even if it is only for a year. The level of subsidies SCE  
4 proposes masks the true cost of service and the Commission should reject its proposal.

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<sup>10</sup> D06-08-011



1                                   **CHAPTER 1           SUMMARY OF EARNINGS**

2                   This Chapter provides DRA’s summary of recommendations pertaining to A.10-  
3 11-009, Edison’s general rate increase request for its water operations for Test Year  
4 2011.

5                   **A.       Summary of Recommendations**

6                   The Summary of Earnings shown below compares DRA’s estimated costs for  
7 Fiscal Test Year 2011 against SCE’s estimate. The biggest areas where DRA and SCE  
8 differ are: administrative and general, depreciation, taxes and rate base. DRA  
9 recommends net operating revenue of \$1.8 million while SCE proposes \$2.08 million

10  
11

Table 1-1			
Summary of Earnings at Proposed Rates			
Thousand			
Item	SCE	DRA	Difference
Total Operating Revenues	7222	6320	(902)
Production Expenses	2428	2420	(8)
Administrative and General	674	189	(485)
Uncollectibles	17	14	(3)
Franchise Requirement	72	63	(9)
Revenue Credit	(154)	(154)	0
Escalation	157	126	(31)
Depreciation	774	713	(61)
Taxes	1171	1078	(93)
<b>Total Expenses</b>	<b>5139</b>	<b>4449</b>	<b>(690)</b>
<b>Net Operating Revenue</b>	<b>2083</b>	<b>1871</b>	<b>(212)</b>
<b>Rate Base</b>	<b>23808</b>	<b>21398</b>	<b>(2410)</b>
<b>Rate of Return</b>	<b>8.75%</b>	<b>8.75%</b>	

12  
13  
14                   **B.       Discussion**

15                   The total revenues Edison requests are \$7,222,000. This is an 82.9% increase over  
16 current revenues. The total revenues DRA proposes for their Catalina water operations

1 are \$6,320,000, a 60% increase. Because these increases are large, SCE should phase the  
2 rates in over three years (as was done is the last GRC).

3 For those less familiar with the Commission's calculations of revenues, the  
4 Commission designs a summary of earnings table to determine what expenses and  
5 revenues ought to be created for a future year so that the utility operations are sound,  
6 service is reliable, and rates are reasonable. DRA's focus is reviewing the areas on the  
7 summary of earnings table and assessing the reasonableness of each request. DRA, in  
8 this case, has done a review of the expenses and the capital projects since the last GRC.  
9 In designing the summary of earnings, DRA 1) utilized escalation factors SCE proposed;  
10 2) proposed reasonable capital project amounts; and 3) estimated appropriate expense  
11 levels.

### 12 **1. Rate Base**

13 In regulatory vernacular, rate base is the characterization of net plant. This means  
14 that you want to characterize the plant that is used and useful and net it for depreciation  
15 and deferred income taxes. There is also a component referred to as working cash<sup>11</sup>.  
16 Working cash is designed to compensate investors for funds used to pay operating  
17 expenses (before revenues come in as paid bills) and to maintain minimum bank  
18 balances.

19 A Plant in service figure is developed from the amount of plant that is already  
20 recorded and in service plus the proposed plant additions projected to be built in the test  
21 year. Plant or capital additions are covered in detail in Chapter 5.

22 The 2008 authorized rate base was \$10.371 million. SCE requests the  
23 Commission authorize a rate base amount of \$23.8 million for 2011<sup>12</sup>. After our own  
24 review of the capital projects since the last GRC, DRA recommends a rate base amount  
25 of \$21.398 million. Differences in the company request and DRA are primarily due to

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<sup>11</sup> See [http://docs.cpuc.ca.gov/published/REPORT/83068.htm#P182\\_4029](http://docs.cpuc.ca.gov/published/REPORT/83068.htm#P182_4029) for the standard practice for calculating working cash allowances.

<sup>12</sup> Under the SCE alternative proposal, rate base would shrink to 5.2 million (see Tessler workpaper 306)

1 differences in plant additions, depreciation, and capitalization of A&G (account 800).  
2 DRA did not take issue with the working cash methodology SCE used. As stated earlier,  
3 DRA rejects SCE's alternative rate proposal, which would seek to have electric  
4 customers in the larger SCE territory pay off \$18.5 million in rate base investment that  
5 took place on the island. SCE electric customers will receive new rates pending the  
6 culmination of its ongoing GRC<sup>13</sup>. We do not support a one year surcharge for the  
7 electric customers because there is no benefit to that customer group in exchange for the  
8 one year subsidy. Furthermore, it is a bad precedent that delinks rates from costs.

## 9                   **2.     Taxes**

10           Because tax law changes impacted the revenue requirement substantially, DRA  
11 wanted to recognize the tax law change that occurred in January in the hopes that it  
12 would lower SCE's tax responsibility and rate base due to the potential increase in  
13 deferred income taxes. Please see Chapter 6 for DRA's discussion of this area. The  
14 downward adjustment to 2011 revenues is \$93,000. This reduction stems from a lower  
15 "Plant in Service" amount. While it was expected that there would be a further  
16 downward tax adjustment, SCE has demonstrated that the capital projects in 2010 and  
17 2011 are ineligible for the accelerated depreciation and tax benefits from the new January  
18 law. If the assessment of plant additions is in error and 2010 and 2011 additions are  
19 eligible for accelerated depreciation, DRA asks that the rates be subject to refund to allow  
20 for the corrected figure.

## 21                   **3.     Rate of Return**

22           SCE utilizes its company-wide rate of return ("ROR") on rate base of 8.75%.  
23 Other class C water utilities are allowed to use a much higher percentage<sup>14</sup> to compute an  
24 ROR on capital investments. The use of SCE's ROR provides a direct benefit to Catalina  
25 customers by lowering the revenue requirement, when compared to the higher ROR

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<sup>13</sup> Application A10-11-015

<sup>14</sup> See <http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/131464.PDF> (the latest memo suggests a return between 11.25% and 12.25% for a class C water utility)

1 granted to Class C and D water utilities by the Commission. Thus, Catalina customers  
2 have been enjoying this savings since SCE has owned the operations.

#### 3 **4. Administrative and General**

4 In Resolution W-4665, the last GRC, the summary of earnings table did not  
5 distinguish a portion of the expense accounts in the 600 series as administrative and  
6 general services. In that summary of earnings statement, there was a listing of operating  
7 expenses. In the current workpapers, SCE has defined administrative and general  
8 expenses<sup>15</sup> to be the summary of accounts related to:

- 9 • Office salaries (670)
- 10 • Management salaries (671)
- 11 • Office supplies and expenses (681)
- 12 • Professional services (682)
- 13 • General expenses (689)
- 14 • A&G allocation (erroneously labeled 920/921)
- 15 • Transfer credit (922).

16 By this definition, SCE proposes incurring \$674,000 and DRA proposes \$189,000.  
17 This is a disallowance of \$485,000. DRA opposes the new line item called 920/921  
18 towards the calculation of A&G. SCE proposes an “A&G allocation” that stems from  
19 applying the four factor methodology to SCE’s total company A&G amounts. There  
20 was insufficient time to analyze this proposal, coordinate with other DRA staff working  
21 on the SCE electric GRC and verify that duplication of expenses did not occur. Instead,  
22 DRA included a pension and benefit estimate that is based upon an amount from the last  
23 GRC. Of note, SCE created confusion in its workpapers and the Results of Operations  
24 (R/O) model because it hadn’t fully cleaned up the Federal Energy Regulatory  
25 Commission (“FERC”) accounting nomenclature. As the R/O model and workpapers are  
26 almost as complex as what is provided in an electric rate case in terms of number of  
27 spreadsheets and levels of detail, it is the Company’s burden to clearly show the validity

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<sup>15</sup> Tessler workpaper page 238

1 of a new proposal and a simpler RO model, which is user-friendly and consistent with the  
2 types of models DRA uses and other regulated water utilities. Perhaps a clearer  
3 presentation and user-friendly model can be made in the next GRC.

#### 4 **5. Production Expenses**

5 In SCE's policy chapter, there is a quote that SCE requests a 7.5% increase over  
6 2009 recorded expenses for an amount of \$2.619 million<sup>16</sup>. This dollar amount refers to  
7 testimony in Ron Hite's operations and maintenance ("O&M") chapters. Table III-2  
8 shows the development of the \$2.6 million figure. This dollar amount represents all the  
9 dollars in the 600 series Uniform System of Accounts ("USOA") accounts. The 11  
10 accounts presented in the table are analyzed in a similar fashion and are assembled in his  
11 Chapter to represent expenses (production, O&M and partial A&G). Because this Report  
12 has already discussed A&G, it is more instructive to discuss the remaining expenses in  
13 accounts 615, 630, 640, 650 and 660. In the summary of earnings chart, they are  
14 represented as production expenses. In SCE testimony Chapter III, they are the non-  
15 A&G operations and maintenance expenses. DRA suggests a lower amount in account  
16 660, that is now reflected in the model run or rates. Therefore, there is an \$8000  
17 difference shown in the summary of earnings table for the line item production expenses.

18 To further complicate matters, SCE testimony Chapter III uses FERC  
19 terminology<sup>17</sup>.

#### 20 USOA compliance:

21 DRA performed a review of the adjustments in the accounts in the 600 series to  
22 check for compliance with USOA accounting practices and found them to be reasonable.  
23 DRA did not perform a formal audit (as was done in the last GRC by the audit staff of the  
24 Commission.) DRA also went through many spreadsheets in the results of operations  
25 model<sup>18</sup> to verify USOA compliance. DRA is satisfied that SCE is in compliance with

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<sup>16</sup> Kelly testimony page 3

<sup>17</sup> Testimony pages 12, 15, 16, 18, 23, 25, 26, 29, 30, 31, 32,

<sup>18</sup> There are 27 spreadsheets that comprise the R/O model and many of those spreadsheets have additional

1 USOA accounting practices, but SCE needs to correct its testimony, workpapers, and  
2 models to eliminate the misleading references to FERC accounts.

### 3 **6. Escalation Rates**

4 SCE uses a methodology to project labor and non-labor to forecast O&M and  
5 A&G for future years that utilizes information from the Global Insight Utility Cost  
6 Information Service<sup>19</sup>. DRA accepts SCE's escalation rates.

### 7 **7. Uncollectibles**

8 SCE developed an uncollectible factor in its 2012 electric GRC and advocates for  
9 that same factor in its water case. It is characterized as a percentage of total revenues and  
10 is developed from historic write-offs of unpaid bills. In this case, SCE refers to the  
11 0.229% in Exhibit SCE-04 Vol 2. The currently authorized factor is 0.24%, so the  
12 updated figure assumes a decrease in unpaid bills on a percentage basis.

13 The increased amount of uncollectibles from the last GRC is due to the larger  
14 revenue requirement. Under SCE's proposal, uncollectibles would rise from \$10,000 to  
15 \$17,000<sup>20</sup> while DRA's uncollectible amount would rise to \$15,000 using the revised  
16 percentage for uncollectibles. DRA was unable to identify the uncollectible figure from  
17 DRA's testimony in the SCE electric general rate case because staff has not finalized the  
18 percentage as of the date the water R/O was run.

### 19 **C. Conclusion**

20 DRA recommends a more modest revenue increase for Fiscal Test Year 2011. But  
21 it is still a large increase. The DRA proposal would increase revenues by \$2.372 million.  
22 As was done in the last GRC, this increase should be phased in over 3 years.

23

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tabular sub-spreadsheets within each spreadsheet.

<sup>19</sup> SCE uses 2009 fourth quarter data from Global Insight Utility Cost Information Service

<sup>20</sup> See SCE errata to the summary of earnings table I-1(b) corrected dated Feb 15, 2011

1                   **CHAPTER 2           CUSTOMERS and SALES FORECAST**

2           **A.    Introduction**

3           This Chapter sets forth DRA’s analysis and recommendations regarding the  
4 number of customers and water consumption in 2011.

5           **B.    Summary of Recommendation**

6           DRA agrees with SCE in its forecast for number of customers and water  
7 consumption. DRA also recommends that SCE provide its water loss analysis in its next  
8 GRC.

9           **C.    Discussion**

10          SCE utilizes a number of variables to define its sales forecast. It utilizes such data  
11 as the number of passengers that come to the island and the idle meter rate to review the  
12 economic conditions of the island. SCE predicts that while the economy declined in  
13 2009 and 2010, they predict a modest rebound in 2011.

14          SCE workpapers suggest that in 2011, there will be 1,956 meters, a downward  
15 adjustment of 27 meters from recorded 2009 levels. DRA recognizes that in January, the  
16 Company ended the Phase 1 water rationing on the island and granted many new  
17 customers a new water allocation. While DRA would like to opine on the number of  
18 meters that would be installed in 2011 as a result of the lifting of the water rationing,  
19 there isn’t an obvious way to determine a percentage or likelihood of which customers  
20 would hook up a new meter nor is there a way to project the unique volumes this group  
21 of new connects will contribute to the 2011 estimate.

22          The Company’s 2011 sales testimony suggests the following consumption levels:

23           2008	145.7 million gallons per year
24           2009	125.7
25           2010	119.7 (update = 116.99 million gallons <sup>21</sup> )
26           2011 est	125.7

27  

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<sup>21</sup> DR LLK-007 Q 3

1 DRA accepts this forecast as reasonable. DRA recognizes that although higher  
2 rates may have a dampening effect on usage, it's reasonable to assume a slightly higher  
3 demand level due to the potential for new hookups and increase in visitors to the island  
4 in greater numbers than 2010 levels.

5 **1. Water Loss**

6 DRA could not find testimony or tracking of the water losses, nor could it find  
7 discussion of this in Resolution W-4665, the last GRC. This ought to be discussed and  
8 analyzed in future rate cases.

9 Nevertheless, DRA issued a data request to learn more about unaccounted for  
10 water loss for years 2004-2010<sup>22</sup>. SCE provided DRA a definition, not an analysis.  
11 SCE described known losses, but did not provide percentages or volumes.<sup>23</sup> Given the  
12 terrain of the island and the miles of piping, it would be helpful to know the percentage  
13 of losses. SCE should be required to measure, track, record, and present an analysis of  
14 water losses in its next GRC and to describe what it is doing to mitigate those losses if  
15 the unaccounted for losses are greater than 10%.

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<sup>22</sup> DR 11k -003 question 10

<sup>23</sup> Known losses could be: fire hydrant flushing, gas plant fire protection deluge testing volumes, fire meter readings, main and service line repair losses, equipment failure, etc.



1       **CHAPTER 3       NON-ADMINISTRATIVE& GENERAL EXPENSES**

2       **A.     Introduction**

3           This title for the Chapter is presented as Non-A&G expenses. It would have been  
4 called O&M, except that in SCE testimony Chapter III operations and maintenance  
5 (“O&M”) represents 9 -11 accounts, but workpapers for SCE testimony Chapter X show  
6 O&M to be 5 accounts.

7           SCE could have done a better job presenting its case. After resolving the USOA  
8 accounting corrections, overlooking the faulty use of the word FERC throughout  
9 testimony, workpapers and models, it was still challenging to put these accounts into the  
10 larger context. In Chapter III of SCE’s testimony, accounts 670, 671, 681, and 689 were  
11 deemed O&M expenses, while in SCE’s Chapter X they were deemed contributors to the  
12 administrative and general expenses. Accounts 615, 630, 640, 650, and 660 were deemed  
13 O&M in Chapter III, and they were identified as other production expenses in Chapter X.  
14 SCE’s updates on February 10 and 15 helped tremendously. Nevertheless, after getting  
15 that straight, one could go into the R/O model workpapers and still get confused because  
16 one always had to adjust for uncollectibles, franchise fees, and escalation in order to  
17 make matches with figures in testimony. All of this made it difficult to analyze these  
18 accounts.

19           DRA has validated that dollars are not duplicated for accounts 670, 671, 681, and  
20 689 in the summary of earnings table.

21           Having said all that, DRA is generally satisfied with the projected amounts for  
22 accounts 615, 630, 640, 650, and 660.

23       **B.     Summary of Recommendations**

24           DRA supports \$2.42 million in other production expenses for the summary of  
25 earnings statement, otherwise referred to as partial O&M expenses. The goal is to design  
26 expenses that promote operational efficiency while minimizing ratepayer costs. DRA  
27 had an \$8,000 downward adjustment in account 660.

1           **C.     Discussion**

2           DRA went through all of Ron Hite’s Chapter III workpapers and reviewed the  
3 accounting adjustments to ensure compliance with the Uniform System of Accounts  
4 (“USOA”). The revised Table III-2<sup>24</sup> corrects historical data so that proper analysis of  
5 accounts can take place.

6           In corrected version Table I-1(b)<sup>25</sup>, one can theoretically compare the SCE  
7 proposal with that which was authorized in the last GRC. In doing so, one can quickly  
8 run into obstacles. The last GRC had dollar amounts authorized for pensions and benefits  
9 in account 674, for office service and rentals in account 678, large amounts in general  
10 expenses account 689, and no dollar amounts for capitalized expenses. In this  
11 proceeding, SCE seeks to define the expenses differently. Professional services are  
12 moving to contract work; better accounting of general services has been implemented;  
13 and they are showing a 100% credit amount for the other operating revenues they receive.  
14 This makes a direct comparison difficult.

15           For example, in this GRC, SCE requests \$2.428 million for the subtotal of  
16 accounts 615, 630, 640, 650, and 660. In the last GRC, the Commission authorized SCE  
17 \$1.813 million for those same 5 accounts. This is a 33% increase over the last  
18 authorized. That percentage increase is exaggerated because it doesn’t capture the  
19 decreases in accounts 682 and 689(reflected in A&G for our purposes). Comparing the  
20 \$2.619 million<sup>26</sup> amount listed in SCE’s Table III-2 with those same 9 accounts with the  
21 past GRC shows an increase of only 2% from the last GRC. But this analysis is faulty as  
22 well since there were also monies approved in accounts 674 for employee pension and  
23 benefits, 678 for office service and rentals, and 682 for professional services.

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<sup>24</sup> Email 6/6 dated Feb 10 from SCE.

<sup>25</sup> Provided February 15 by SCE.

<sup>26</sup> Accounts 615+630+640+650+660+670+671+681+689

1 Because it proved unhelpful to make comparisons with the prior GRC, DRA  
2 reviewed closely the development of each account and the methodology used to project  
3 the future amounts.

4 SCE and DRA use recorded adjusted amounts from 2005 to 2009 to develop a  
5 2011 forecast. In each account, SCE reviews and charts the recorded annual amounts  
6 (adjusted to bring old figures into the USOA accounting regime) and then it uses a  
7 variety of analytic methods to determine the 2011 forecast.

8 The list of four methods used are:

- 9 • 2, 3, 4 and 5 year averaging;
- 10 • 3,4,and 5 year trending;
- 11 • last recorded year (2009);
- 12 • or budget based.

13 SCE provided the results for accounts 615,630, 640, 650, 660, 670, 671, 681, 689.

14 DRA generally agrees with the methodologies chosen, the rationales behind the  
15 analytic method chosen, and the accounting compliance adjustments that were made to  
16 recorded numbers to obtain the analytic projections for 2011.

17 The exception is account 660 transportation expenses. This account provides for  
18 the reliable inventory of vehicles to repair and maintain the system.

19 DRA's disallowance of (\$8,000) to account 660 represents an adjustment to 2008  
20 levels for this expense. DRA acknowledges the need to keep vehicles on the island  
21 operational and safe, but sees a need for more gradual increases than what SCE projects.

22 .

### 23 **1. Escalation Factors**

24 To develop its escalation factors, SCE uses a weighting of the 2009 fourth quarter  
25 Global Insights Utility Cost Information Service ("UCIS") projections.

### 26 **2. Uncollectibles**

27 SCE uses a rate of 0.229% for uncollectible expenses. This is a downward  
28 adjustment from 0.24%. DRA will accept this percentage because it has not been given

1 recorded levels to analyze and the uncollectible amount in the electric GRC is not yet  
2 developed. This factor is applied to the adopted revenue requirement. The differences in  
3 the uncollectible amounts are due to the differences in the factor and the proposed  
4 revenue requirements.

1           **CHAPTER 4           ADMINISTRATIVE & GENERAL EXPENSES**

2           **A.     Introduction**

3           This Chapter sets forth DRA’s analyses and recommendations of proposed  
4 Administrative and General Expenses for its Catalina water operation. As explained  
5 previously, SCE’s characterization of expenses has been confusing. Therefore, this  
6 Chapter represents the dollars SCE presented in accounts 670, 671, 681, 689 and two new  
7 proposals called “A&G allocation<sup>27</sup>,” and account 800 capitalized expenses.

8           **B.     Summary of Recommendations**

9           DRA recommends \$189,000 in Administrative and General Expenses for Test  
10 Year 2011; SCE requests \$674,000. DRA’s estimate is \$485,000 less than SCE’s  
11 because DRA does not accept SCE’s new proposals and attempted to reflect an amount  
12 for pensions and benefits.

13           Account 681	( 2,000)
14           A&G allocation	(639,000)
15           Account 800	(156,000) capitalization to be removed

16           **C.     DISCUSSION**

17           Although SCE seeks to rectify an inconsistency it sees in the allocation of A&G<sup>28</sup>  
18 to reflect the true cost of water, it has done an inferior job of showing how \$640,000 is a  
19 meaningful number to represent a proper allocation to water operations. DRA would like  
20 to see a better showing in the next GRC. DRA also recommends a modest amount for the  
21 estimated pensions and benefits expense based upon the last authorized levels.

22           In the same vein, SCE represented a capitalized portion of its A&G as a \$156,000  
23 credit to A&G. Workpapers do not convey the reasonableness or rationale of the dollar  
24 amount, and there was no capitalization rate from the last GRC to draw from. DRA  
25 recommends the elimination of the (156,000) credit or capitalization of expenses for this

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<sup>27</sup> referred to as 920/921 in workpapers and account 689 in corrected table I-1(b)

<sup>28</sup> DR LLK-001 Q7

1 GRC. This adjustment would allow the expense dollars to stay in the expense category  
2 and not be transferred to rate base.

3 For areas where a utility is proposing a huge departure from the practices of the  
4 last GRC, it is incumbent for a utility to meet its burden of proof. For example, in  
5 explaining its A&G estimates, SCE presents just one paragraph in testimony  
6 summarizing the proposals. Workpapers did not enlighten either or provide any  
7 additional detail. While data requests have certainly illuminated the origin of \$640,000,  
8 there is insufficient time or detail to validate the additional support, cross reference with  
9 other accounts, coordinate with our own SCE rate case witnesses or determine if the  
10 amounts are reasonable.

11 **1. Account 681 – office supplies and expenses**

12 DRA chose a forecast amount using a different methodology than SCE for this  
13 account. DRA chose the analysis based upon the last recorded amounts. DRA seeks to  
14 use the same forecasting method as was used for the labor accounts (670 and 671). As a  
15 result, DRA would disallow \$2,000 from this account to better align the forecast  
16 methodology chosen for labor with the forecast for office supplies. It is reasonable to use  
17 consistent methodologies for the supplies of the same stable labor pool. DRA believes  
18 that the leased office equipment is captured with the “last recorded year” methodology.  
19 Also, the level of office supplies tends to fluctuate with the level of employees.

20 **2. A&G allocation referred to as account 920/921**

21 SCE seeks \$640,000<sup>29</sup> for what it calls an A&G allocation. To that, SCE adds  
22 \$34,000<sup>30</sup> of other A&G to have a combined A&G request of \$674,000. The A&G  
23 allocation concept is a new proposal. It is not clear from the workpapers what SCE is  
24 trying to capture using the 4 factor methodology on electric accounts 920 (A&G salaries)  
25 and 921 (office supplies and expense). An analyst is left to guess. SCE used account 674  
26 to recover pension and benefits in previous GRCs and Account 681 is set up to capture

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<sup>29</sup> Tessler workpaper page 238 in

<sup>30</sup> The calculation of accounts 671+681+682+689- “transferred credit”

1 supplies and expenses. The workpapers, as presented, do not demonstrate appropriate  
2 dollars were utilized, how the 4 factor method was applied to achieve the estimates  
3 presented in testimony, and if duplication was avoided in supplies and expenses.

4 For an area where a new proposal is being proffered, it is important for a utility to  
5 show the explanation of dollars explicitly. DRA could find no substantiation of the  
6 \$640,000. DRA deduced that 6% of some number <sup>31</sup>equates to \$640,000  
7 mathematically, but there's no relationship presented in the workpapers to demonstrate  
8 how \$640,000 was derived. DRA cannot tell from the workpapers provided, how  
9 \$640,000 ties to SCE's electric A&G expense accounts 920 and 921 or if there is  
10 duplication with account 681, or whether adjustments to those accounts were made to  
11 convert from FERC to USOA accounting.

12 Data request response 7 in DR LLK-001, discusses the awareness made of the  
13 inconsistent treatment of plant allocations and A&G expense allocation. In other words,  
14 how previous plant allocations had occurred, but not the A&G expenses. This cycle of  
15 the GRC is where they propose rectifying the inconsistency. While it is appropriate to  
16 correct past mistakes, this effort falls short of presenting an amount DRA can endorse.  
17 As such, DRA offers a placeholder amount of \$1,000 for pensions and benefits for this  
18 effort until SCE can make a stronger presentation of the A&G allocation. In the last  
19 GRC, we authorized \$960 for account 674.

### 20 3. Account 800

21 A similar criticism is made for the capitalization estimate for A&G. Mr. Tessler's  
22 testimony on page 94 states the capitalization rate is .194%. DRA assumes that was a  
23 typo because Tessler's workpaper 242 shows a 19.4%. Having said that, the workpaper  
24 calculation of (\$156,000) references an exhibit in the electric GRC. Once again there is  
25 no explicit presentation of how the workpapers from the electric GRC relate to Catalina  
26 Island water capitalized A&G expenses. Even if one were to track down the workpapers  
27 in the other proceeding, there is an insufficient showing as to the numbers presented and

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<sup>31</sup> \$10.667 million

1 if that is a meaningful application. One can't know from SCE's presentation if  
2 adjustments were made or which percentages were applied to get the dollars referenced.  
3 In the last GRC, no Catalina Island A&G expense dollars were capitalized in account  
4 800.

5 In the SCE summary of earnings table, the capitalized A&G (account 800) is  
6 added to the rate base amount. Because DRA rejects this proposal, based upon findings  
7 from above, this amount was removed from rate base.

#### 8 Property Insurance

9 SCE did not request any dollars in account 684 in this GRC or the last. This  
10 seems odd. Other Class C water utilities recover funds for this effort. The electric  
11 ratepayers must support the cost.

12 As of the last GRC, there has been a fire on the island, a modest earthquake<sup>32</sup>  
13 nearby, and an earthquake-related tsunami watch from Japan's recent tragedies. SCE  
14 should probably reevaluate its coverage for Catalina Island and ensure there is some  
15 coverage for unforeseen events that may impact the water system.

16 Nevertheless, DRA reviewed SCE's insurance information<sup>33</sup> and SCE is waiting  
17 for the payment from the insurer for the cash value of covered lost properties.

#### 18 Regulatory Commission Expense

19 SCE requests no dollars in account 688, nor did it request dollars in the last GRC.  
20 In a review of other Class C water utilities, DRA found that some class C water utilities  
21 recovered modest amounts and others asked for nothing. DRA accepts a zero request in  
22 this account. It is not clear where or how SCE captures its expenses relating to this GRC.

#### 23 Franchise Fees

24 SCE's estimate for Franchise Fees (account 927) is \$72,000 for the Test Year.  
25 This is a significant increase because it is a percentage of total revenues. An increase in  
26 revenues would be a commensurate increase in these fees.

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<sup>32</sup> <http://latimesblogs.latimes.com/lanow/2011/01/31-earthquake-strikes-off-catalina-island.html>

<sup>33</sup> Provided under 851 confidential requirements



1           DRA does not challenge the 1% rate that is paid to the City of Avalon for this  
2 purpose. The difference in the estimate is due to the differences in estimated revenue  
3 requirement.

1                                   **CHAPTER 5            PLANT IN SERVICE**

2           **A.       Introduction**

3           SCE presents nine projects in its Application that it completed since the last GRC.  
4           The total cost that SCE requests is \$15.93 million.

5           **B.       Summary of Recommendations**

6           DRA accepts all projects and costs, except for the Catalina Fire watershed and  
7           above ground system restoration project and the Pebbly Beach Water Line Replacements.  
8           SCE requests recovery of \$3.2 million, and DRA recommends a disallowance of  
9           \$2.28million.

10

Projects		Cost	
		SCE request	DRA proposed
1	Catalina Fire – Watershed and System Restoration	\$3,204,096	\$919,881
2	Water SCADA	\$2,186,984	Same
3	Pump House #2 Replacement	\$4,567,753	Same
4	Pebble Beach Water Line Replacement	\$393,420	\$0
5	Middle Ranch Canyon Bedrock Piezometers	\$392,064	Same
6	West End Pipeline Replacement	\$754,951	Same
7	Isthmus Area Water Supply and SCADA	\$975,147	Same
8	Thompson Reservoir Siphon	\$2,160,000	Same
9	Station Office Betterment	\$1,295,500	Same
<b>Total</b>		<b>\$15,929,915</b>	<b>\$13,645,700</b>

11  
12           **C.       Discussion**

13           The capital projects SCE requests are substantial. They include projects relating  
14           to pump house replacement, fire related system restoration, Supervisory Control and Data  
15           acquisition (“SCADA”), reservoir improvements, and facility upgrades.

16           DRA went to the island to perform a site visit of six of the listed projects.<sup>34</sup> The  
17           following sections provide an in-depth review of DRA’s findings, conclusion, and  
18           recommendations on the requested projects.

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<sup>34</sup> Projects 1, 2, 3, 5, 8 and 9.

1                   **1. Catalina Fire- related System Restoration**

2                   After the 2007 fire, there was much damage, mainly to the Baker Tanks. As a  
3 result, investments needed to be made to repair and restore operations. In addition, there  
4 were activities and construction that developed from the result of the fire. For instance,  
5 the debris walls project and Baker Dam maintenance road project had to be constricted to  
6 improve the reliability of facilities or to prevent similar destruction from a future fire  
7 disaster. Access to the facilities also had to be improved. DRA, as such, found the  
8 amounts spent on for the Old Baker Dam Maintenance (\$654,609) and the Debris Wall  
9 Project (\$265,272) reasonable.

10                  With regard to the remaining dollars for the Baker Tank replacement and the  
11 plastic pipe replacement project, DRA disallows rate recovery in this GRC. The reason  
12 for DRA’s disallowance is based on its review of SCE’s insurance policy. The following  
13 quote from the insurance policy states in Part 1. Property Covered. (g) “the full cost of  
14 repair or reconstruction of both damaged and demolished portions of such property  
15 insured ....” This statement leads DRA to believe that SCE should recover the \$2.284  
16 million from its insurance policy. It’s a mystery as to why SCE has not received any  
17 funds yet from the insurance company. The fire took place in 2007 and nearly four years  
18 have lapsed since the fire took place. While SCE points out that the facilities and system  
19 restored under this project are exempted property, DRA still cannot understand why  
20 dollars haven’t been recovered when it appears the insurance policy covers the restored  
21 facilities and system. A significant portion of the \$2.195 million spent on the Baker Tank  
22 Replacement should be covered under SCE’s insurance policy<sup>35</sup>.

23                  During the site visit, DRA compared the new Baker Tanks with other utilities’  
24 storage tanks it has observed. Other than being a new facility, there was no indication of  
25 excess costs or it being an imprudent investment.

26                  As for the reasonableness of the debris wall, DRA agrees the facility is justified.  
27 After the 2007 fire, the first rainy season produced land slides. The landslide clogged the

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<sup>35</sup> Because the insurance policy is privileged, DRA is trying to maintain that confidence by using general terms. The policy was presented to DRA as DR LLK003 question 12 under section 581.

1 watershed and almost destroyed some of the critical facilities, such as pressure reducing  
2 valve stations, a well and a pump house. The extent of the damage to the sites was still  
3 visible at the valve stations. With the addition of the debris wall, the existing facilities  
4 are better protected from future landslides. These are important facilities because the  
5 water from the source needs to be pumped over the mountain to be delivered to the city  
6 of Avalon. Pump house #2 is the only pump station in the system to deliver water from  
7 the source. The water pumped from the pump house is then collected in the Wrigley  
8 reservoir at the top of the mountain and is fed through the pipeline to the Baker Tanks,  
9 which serves the City of Avalon. There's huge elevation differences between the  
10 reservoir and the tank that is regulated by the pressure reducing valves. In other words,  
11 the valves safeguard the system and reliability of water delivery. It is reasonable to add  
12 protection to these facilities.

13 Of note, the City of Avalon had concerns with the Old Baker Dam<sup>36</sup> as a result of  
14 the post-fire landslides. The City perceived a threat to city facilities built against the  
15 defunct concrete dam.<sup>37</sup> The worry was another landslide would harm city property and  
16 potentially private businesses. The Catalina Island Company constructed a debris wall  
17 just upstream of the dam to protect the dam from future landslides. Prior to the wall  
18 construction, SCE dredged and cleared the debris and mud from the watershed and the  
19 dam. SCE recovered the cost for debris and mud clean up through O&M expenses.  
20 Upon seeing the terrain and circumstance, it was a reasonable action to take.

21 With regard to the Old Baker Dam maintenance access road, it is important to note  
22 the consequences of the fire-related landslides. After the 2007 fire, the landslides  
23 changed the landscape of the Old Baker Dam location. SCE had to reconstruct a new

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<sup>36</sup> Old Baker Dam used to be the primary water storage for the City of Avalon until the 60's. It does not function as water storage due to the California Department of Health requirements and the function is being replaced by Baker Tanks. Old Baker Dam exists today as a concrete wall at the end of the watershed.

<sup>37</sup> The post-fire landslide forced debris and mud into the watershed and filled the dam. The landslide also destroyed the access road to the dam. There are two city facilities just downstream of the dam and some other private businesses further down.

1 access road to the Old Baker Dam. This road was also used to construct the debris wall  
2 upstream of the Old Baker Dam. The new road will be used to maintain the Old Baker  
3 Dam and the debris wall. This is an unpaved road. It is adequate for this purpose and is  
4 reasonable.

5 With regard to the remaining projects, DRA generally found the projects to be  
6 reasonable and the costs associated with them to be reasonable. There is a combination  
7 of reactive and proactive projects that DRA reviewed.

8 The reactive projects are: facility upgrade, pump house #2, Pebbly Beach water  
9 line replacement, West End pipeline replacement, Isthmus area water supply and  
10 SCADA, Thompson reservoir siphon, and Catalina Island fire watershed and above-  
11 ground system restoration.

12 The proactive projects are: water SCADA and Middle Ranch Canyon bedrock  
13 piezometers.

14 Reactive projects are either driven by regulatory requirements or the condition of  
15 the system warrants repair or replacement. Proactive projects are SCE's investment on  
16 system betterment.

## 17 **2. Water SCADA**

18 The Water Supervisory Control and Data Acquisition ("SCADA") provide remote  
19 monitoring and controlling of each facility from one central location.<sup>38</sup> SCE replaced the  
20 then existing, obsolete control and monitoring equipments from the 1950's. SCE's  
21 Catalina water system is spread throughout the island, where some locations are hard to  
22 respond to if something happens. Certain locations are deep inside the island, and due to  
23 the road conditions, could take up to 3 to 4 hours to arrive in the bad weather. Some  
24 locations may be completely inaccessible during heavy rains. Ability to remotely control  
25 and monitor the facilities is reasonable.

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<sup>38</sup> It could also be programmed to monitor and control each other from each locations.

1 SCE hired Boyle Engineering (“Boyle”) in 2004 to conduct an overall water  
2 infrastructure assessment study. Boyle recommended the water SCADA system  
3 subsequent to the study.<sup>39</sup> The assessment report was included in SCE’s workpapers.

4 The construction of the SCADA system was done by a contractor, which was  
5 selected through a competitive bidding process. SCE awarded the work to the lowest  
6 bidder (13% lower than the nearest bid.) The bid selection documents were included in  
7 the confidential workpapers<sup>40</sup>. SCE Engineering and Technical Support completed the  
8 software programming.

9 A cost breakdown of the project was provided in a workpaper<sup>41</sup>. SCE provided a  
10 more detailed breakdown of the cost in response in DRA Data Request BYU-01. DRA  
11 reviewed the workpapers and the data request responses and found this project is  
12 reasonable. The SCADA system’s capability of remotely monitoring and controlling the  
13 functions of its water system justified the need for this project for SCE’s Catalina water  
14 system. Also, SCADA is becoming an essential element of modern water utilities. The  
15 competitive bidding process and the lowest bidder selection that SCE presented in its  
16 workpaper appear reasonable. The construction cost analysis presented in SCE’s  
17 workpaper appears reasonable.

18 DRA recommends the Commission include \$2,186,984, the cost of the Catalina  
19 Water SCADA system, in rate base.

### 20 3. Pump House #2 Replacement

21 Pump House #2 was originally constructed in 1930 prior to SCE acquiring the  
22 water system. This is a booster pump that delivers the water from its source, through the  
23 valley and over the mountain, to the City of Avalon.

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<sup>39</sup> The report “*Southern California Edison Catalina Site Survey Report*” is provided in the Workpaper SCE-01 Ch. IV: Capital Projects pages 23-46. The testimony references Boyle Engineering conducted the assessment; however, the workpaper indicated Applied Technology Groups, Inc. conducted the survey.

<sup>40</sup> Confidential Workpaper SCE-01 Ch. VI: Capital Projects. Pages 3-10

<sup>41</sup> Workpaper SCE-01 Ch. VI: Capital Projects. Page 13-17

1           The pump house and its booster pumps had numerous issues including: water  
2 hammer surge, flow rate deficiency, leaks, low system pressure, system reliability, safety  
3 issues and more. SCE constructed a new booster pump station near the previous location  
4 and demolished the old pump house.

5           Contractors completed the construction of the pump house. SCE utilized  
6 competitive bidding in selecting the contractors and supply vendors. SCE awarded the  
7 work to the lowest bidder (about 30% lower than the second-lowest bidder). Information  
8 regarding the competitive bidding was provided in SCE’s confidential workpaper.<sup>42</sup>

9           Work scope and breakdown of the cost was provided in a workpaper.<sup>43</sup> SCE  
10 provided more detailed breakdowns of the cost in response to DRA’s Data Request BYU-  
11 01. DRA reviewed the workpapers and the data request response and found this project  
12 reasonable. The pump house condition assessment presented in SCE’s workpapers  
13 depicting various deficiencies of the old pump house convinced DRA this project is  
14 reasonable. The competitive bidding process and the lowest bidder selection that SCE  
15 presented in its workpaper are reasonable. The construction cost analysis presented in  
16 SCE’s workpaper is also reasonable.

17           DRA recommends the Commission include the cost of the Pump House #2  
18 Replacement in the ratebase.

#### 19                           **4.     Pebble Beach Water Line Replacement**

20           In 2001, the upper portion of the Pebble Beach Village community was found to  
21 have insufficient water pressure for the newly-installed residential fire sprinkler system.  
22 The City of Avalon Fire Department ordered the Santa Catalina Island Company<sup>44</sup>  
23 (Island Company) to provide a sufficient fire water line. SCE proposed a cost-shared  
24 project with the Island Company. SCE was not clear about why SCE first proposed this  
25 project when the fire department’s order was to the Island Company.

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<sup>42</sup> Confidential Workpaper SCE-01 Ch. IV: Capital Projects. Pages 11-18

<sup>43</sup> Workpaper SCE-01 Ch. IV: Capital Projects. Pages 47-94

<sup>44</sup> Santa Catalina Island Company is the land owner of almost the entire island.

1 According to the information in the workpapers, the Island Company was planning  
2 to install an eight inch PVC main pipeline along the Pebbly Beach Road, which is the  
3 main access to the Pebbly Beach Village. For some reasons not clear to DRA, the Island  
4 Company stopped pursuing the project and failed to comply with the fire department's  
5 order. DRA also learned that it was SCE that was "compelled" to construct the project  
6 on its own in order to continue to fulfill its service obligation. This project would allow  
7 SCE to resolve the pressure deficiency of the location by installing a 3-inch water main  
8 from the existing 10-inch main line.

9 DRA believes the Island Company, not SCE, should bear the ultimate  
10 responsibility for the fire sprinkler deficiencies. The fire sprinkler deficiency cited by the  
11 Fire department was directed at the Island Company and as such, the Island Company  
12 should be the one to correct the deficiency and bear the cost. DRA recommends that the  
13 cost of this project be disallowed and SCE should recoup the cost of this project with The  
14 Island Company.

## 15 **5. Middle Ranch Canyon Bedrock Piezometers**

16 The major source of water for the City of Avalon is a series of wells in the Middle  
17 Ranch Canyon area of the Island. The production of these wells is dependent upon the  
18 adjacent Thompson Reservoir water level. To better understand the correlation between  
19 the reservoir water level and the well production, and hopefully to discover a potential  
20 aquifer below the current level, SCE drilled two locations to collect hydro-geological  
21 data.

22 SCE provided the hydrological study in its workpaper.<sup>45</sup> The study concludes  
23 only 22 percent of the average annual groundwater recharge is captured in the current  
24 pumping system in the alluvial aquifer and about 55 percent of the average annual  
25 groundwater recharge flows in the bedrock aquifer (beneath the alluvial aquifer).

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<sup>45</sup> Workpaper SCE-01 Ch. IV: Capital Projects. Pages 119-412



1 SCE also provided the work scope and the breakdown of the construction cost in a  
2 workpaper.<sup>46</sup> DRA reviewed the workpapers and found this project is reasonable.  
3 According to SCE's workpaper, the Thompson Reservoir charges the alluvium currently  
4 tapped by wells in the Middle Ranch Canyon area. These wells are the primary source of  
5 water for the City of Avalon which serves 95% of the Island's population. After  
6 installing the piezometers and drilling bedrock test wells, the subsequent study presented  
7 in the workpaper gave convincing results showing the direct correlation of the reservoir  
8 level and the ground water recharging in the alluvium, and more importantly, the  
9 existence and capacity of another aquifer beneath the bedrock under the alluvium. SCE  
10 awarded the work directly to several contractors for their own specialties (Drilling and  
11 Testing, geotechnical, hydro-geology, etc.), familiarity of the island conditions, and  
12 previous experience at this specific site. DRA found it was reasonable to choose the  
13 selected contractors for the specialty nature of this project. DRA determined that the  
14 construction cost analysis presented in SCE's workpaper is reasonable.

15 DRA recommends the Commission include the cost of this project in ratebase.

## 16 **6. West End Pipeline Replacement**

17 The potable water distribution pipeline from Isthmus/Two Harbors to Howland's  
18 Landing (West End) is about 2 miles and mostly galvanized pipes. The pipeline is  
19 approximately 60 years old. Some portion of the existing lines (then) were breaking  
20 away from their anchor points and either slid down the hill or were hanging in mid air.  
21 SCE replaced the entire line.

22 SCE put out the project for competitive bid. SCE awarded the work to the lowest  
23 bidder (19% lower than the nearest bid). SCE provided the bid information and the  
24 results of the bid selection in confidential workpapers.<sup>47</sup>

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<sup>46</sup> Ibid. pages 111-116

<sup>47</sup> Confidential Workpaper SCE-01 Ch. IV: Capital Projects. Pages 27-30

1 SCE provided the work description and the cost breakdown in workpapers.<sup>48</sup>  
2 DRA reviewed the workpapers and found this project to be reasonable. The inspection  
3 records listing consecutive water loss due to pipeline breakage and the before-and-after  
4 photos showing the conditions of the pipeline anchors convince DRA that the need for  
5 this project is reasonable. The competitive bidding process and the lowest bidder  
6 selection SCE presented in its workpaper are reasonable. The construction cost analysis  
7 SCE presented in SCE's workpaper is also reasonable.

8 DRA recommends the Commission include the cost of this project in the ratebase.

### 9 **7. Isthmus Area Water Supply and SCADA:**

10 The Million Gallon Tank at Isthmus Area required interior and exterior repairs.  
11 SCE sandblasted the tank and repainted it. Additionally, SCE installed ladders, railings,  
12 new valves, and connected it to the SCADA.

13 A contractor completed the construction. SCE awarded the job directly to the  
14 contractor already working on the Pump House #2 Project. SCE awarded the SCADA  
15 installation portion of the project to the contractor, who was already working on the  
16 entire SCADA system. DRA found it reasonable for SCE to reduce project costs by  
17 selecting these two contractors who were already working on other projects at the time.  
18 The contractors were to use the equipment and crew that they already brought onto the  
19 island. SCE provided the contractor selection information in confidential workpapers.<sup>49</sup>

20 SCE provided the project description, work details, and the breakdown of the cost  
21 of this project in workpapers.<sup>50</sup> DRA reviewed workpapers and determined the project is  
22 reasonable. The reservoir condition assessment report presented in the workpaper listing  
23 deficiencies convinced DRA of the need for this project. The construction cost analysis  
24 presented in the workpapers is reasonable.

25 DRA recommends the Commission include the cost of this project in ratebase.

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<sup>48</sup> Workpaper SCE-01 Ch. IV: Capital Projects. Pages 414-417

<sup>49</sup> Confidential Workpaper SCE-01 Ch. IV: Capital Projects. Pages 31-40

<sup>50</sup> Workpaper SCE-01 Ch. IV: Capital Projects. Pages 477-482

1                   **8. Thompson Reservoir Siphon:**

2                   During a routine inspection in 2004, the California Department of Water  
3 Resources Division of Safety of Dams (“DSOD”) questioned the operability of the 10-  
4 inch emergency drain at the Thompson Reservoir. DSOD tested the drain and did not  
5 meet the DSOD requirements due to plugging. SCE needed to find mitigation measures  
6 to comply with DSOD requirements. SCE cleared the line, but it was soon partially  
7 plugged again. After several iterations of alternatives, a 18-inch siphon over the dam was  
8 chosen.<sup>51</sup> SCE had also gone through numerous revisions for the siphon installation due  
9 to DSOD’s stringent requirements on working on the dam.

10                  SCE put the project out for competitive bid, and it awarded the work to the second  
11 lowest bidder (1.3% higher than the lowest bid). However, this was the only bidder who  
12 submitted the required information DSOD requested. SCE provided the bid information  
13 and the bid selection results in confidential workpaper.<sup>52</sup>

14                  SCE provided the project description, work details, and the breakdown of the cost  
15 of this project in workpapers.<sup>53</sup> SCE provided a more detailed cost breakdown in  
16 response to DRA Data Request BYU-01. DRA reviewed the workpapers and data  
17 request response and determined the project’s reasonableness. The inspection findings  
18 and the chronology of subsequent submittals to DSOD in search of proper mitigation  
19 measures and the chronology of design changes to meet DSOD requirements presented in  
20 workpapers convinces DRA to believe the design change was the major driving force for  
21 the project cost increase. And the construction cost analysis SCE presented in the data  
22 request response are reasonable as well.

23                  DRA recommends the Commission include the cost of this project in the ratebase.

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<sup>51</sup> SCE actually hired an outside contractor, Parsons Engineering, to design a proper drain system.  
Workpaper SCE-01 Ch. IV: Capital Projects. Pages 661-700

<sup>52</sup> Confidential Workpaper SCE-01 Ch. IV: Capital Projects. Pages 41-48

<sup>53</sup> Workpaper SCE-01 Ch. IV: Capital Projects. Pages 583-585

1                   **9. Catalina Facility Upgrade Project (Station Office**  
2                   **Betterment):**

3                   The main facility building was originally constructed in the 1940s and is covered  
4 by corrugated metal. Since the acquisition of the Catalina water system in 1962, SCE  
5 employees working at the facility increased from 25 to 53. Currently, some of the  
6 employees are working in the trailer offices. During the site visit, DRA noted the  
7 condition of the current office space did not exhibit any problems. However, just outside  
8 of the office, through the back door, the warehouse area and the workshop area was in  
9 need of an upgrade. SCE Electric, Gas, and Water employees share this main facility.  
10 SCE included the office betterment project in its 2012 Electric GRC. The requested  
11 amount for this project in this Water GRC (1.3 million) is 25 percent of the total office  
12 betterment project.

13                  The proposed work scope include: removal of an old diesel generator, switch  
14 assembly removal, electric panel relocation, ADA compliance, sound attenuation wall,  
15 and building improvements.

16                  Based on the site visit inspections, and the fact that the facility betterment project  
17 is already in the Electric GRC, DRA determined this project is reasonable.

18                  DRA recommends the Commission include the proposed construction cost of this  
19 project in the rate base.

20                   **10. Depreciation**

21                  SCE proposes updating the depreciation parameters to reflect those of other water  
22 utilities. DRA does not take issue with the update rates. Differences in SCE's request  
23 and DRA's recommendation are due to differences in plant additions.  
24  
25

1 **CHAPTER 6 TAXES**

2 **A. Introduction**

3 This Chapter sets forth DRA’s analysis and recommendations regarding taxes.

4 **B. Discussion**

5 Taxes are a significant expense in this GRC. They are comprised of taxes on  
6 income (\$889,000), payroll and other taxes (\$70,000), and ad valorem taxes (\$212,000).  
7 Taxes comprise 16.2% of the total revenue requirement. Although recorded 2009  
8 amounts were \$208,000, the projected tax amount jumps 463% to \$1,171,000<sup>54</sup>. The  
9 largest increase comes from the large increases expected for federal and California  
10 income taxes (a combined increase of \$873,000). In recorded 2009, Catalina Island had  
11 negative federal taxable income and negative federal income tax of \$174,000.<sup>55</sup> This  
12 compares with a 2011 Catalina Island taxable income of \$1,486,000 to result in a federal  
13 income tax of \$520,000. Similarly, Catalina Island’s California corporate franchise tax  
14 went from \$1,000 in 2009 to a projected \$180,000 in 2011. This is because its California  
15 taxable income went from \$8,000 to a projected amount of \$2,111,000 for 2011.

16 Because these are significant increases for the ratepayers to bear, DRA looked to  
17 federal laws that might bring some relief to this increase. After SCE’s Catalina Island  
18 filing, President Obama signed the Tax Relief, Unemployment Insurance  
19 Reauthorization, and Job Creation Act Of 2010 ("New Tax Law"). This was signed into  
20 law a month after SCE filed this GRC. Among the many provisions of the new tax law, it  
21 provides for 50%-100% accelerated bonus depreciation on certain business property put  
22 into service after September 8, 2010.

23 SCE representatives recently stated in an all party meeting held by Commissioner  
24 Sandoval and Ferron in regards to the Commission draft Resolution ALJ-411, that it was  
25 going to update its electric GRC filing to reflect the effects of the new tax law. It is

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<sup>54</sup> See Pasaporte Chapter VIII workpaper on page 53 of SCE-01 workpapers

<sup>55</sup> See Pasaporte Chapter VIII workpaper on page 55 of SCE-01 workpapers

1 DRA's hope to incorporate the spirit of the law into this GRC to help alleviate some of  
2 the rate shock.

3 DRA followed up with SCE and requested that the Company help craft a best  
4 guess for this tax law change. SCE's response to DRA suggests that there is NO  
5 adjustment to be made to Catalina Island's deferred income tax balances in rate base  
6 because of the qualifications required to receive that benefit. SCE suggests that no  
7 capital additions in 2010 or 2011 will qualify for the tax benefits because there are too  
8 many dollars recorded in prior years towards the project. According to SCE, there are  
9 percentage limitations on how much of the construction could have occurred in the past.  
10 With spreadsheets in hand, SCE shows that not one dollar qualifies. If given more time,  
11 DRA might have explored this more fully. For now, DRA accepts SCE's interpretation  
12 of the new law, but proposes that rates should be subject to true up<sup>56</sup>, if the  
13 circumstances for the deduction changes.

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<sup>56</sup> See Resolution W-4867

1                                   **CHAPTER 7           POLICY ISSUES**

2           **A.     Introduction**

3           This Chapter provides DRA’s comments regarding SCE’s special requests in  
4 amortizing its two memorandum accounts, phase-in rates, water quality and customer  
5 complaints.

6           **B.     Summary of Recommendation**

7           DRA is in general agreement with SCE in amortizing its two memorandum  
8 accounts. Rather than increasing the rates in one year, DRA recommends the rate  
9 increase be phased in over three years to minimize the rate impact on SCE ratepayers.  
10 Finally, DRA also comments on the water quality and customer complaint issues based  
11 on its review of CDPH inspection reports and historical customer complaints against  
12 SCE.

13           **C.     Discussion**

14                   **1.     Amortization of Memorandum Accounts**

15           SCE requests recovering the undercollections from two memorandum accounts  
16 over the course of a year and to eliminate them thereafter. The memorandum accounts  
17 are called: Purchased Power Expenses memorandum Account (“PPEMA”) and Catalina  
18 Water CARE memorandum Account (“CWCMA”). The September 30, 2010 balances  
19 are:

20                   PPEMA	\$127,000
21                   CWCMA	\$67,000

22           The Commission authorized these two accounts in the last GRC. SCE was granted  
23 authority to recover lost revenues by advice letter or in the next GRC. DRA does not  
24 oppose this request. However, it should be amortized through a surcharge consistent with  
25 the Commission’s Division of Water & Audits Standard Practice U-27.

26                   **2.     Phase In Rates**

27           SCE does not propose phasing in the rates to ameliorate the rate shock, and instead  
28 it offers up an unorthodox solution to rate shock: subsidy. Data request response LLK-

1 001 question 11 suggests that the inability to recover its full revenue requirement or to  
2 recover interest on the deferred amounts have been a deterrent. Nevertheless, DRA  
3 supports the use of a phase-in. It was used in the last GRC to ameliorate the rate shock,  
4 and it should be applied in this case. Based upon DRA’s Revenue Requirement, it could  
5 be phased in 20% for 2011, 20% for 2012, and 20% for 2013

### 6 **3. Water Quality**

7 The California Department of Public Health (“CDPH”) is the primary agency  
8 responsible for ensuring that water provided to the public is safe for consumption.

9 DRA reviewed CDPH inspection reports and contacted CDPH representatives for  
10 information about the systems.

11 Based upon the information SCE provided and CDPH, it appears that SCE’s water  
12 system is in compliance with the requirements established by CDPH. Water provided by  
13 SCE meets all primary drinking water standards.

### 14 **4. Customers Complaints**

15 DRA sought complaint information from the CPUC’s Consumer Affairs Branch  
16 (“CAB”) and received a listing of all the public and informal complaints our agency has  
17 received since 2000. The primary reason for contacting CAB was to voice a concern  
18 about billing or rates. There was one complaint that related to a delayed service order.  
19 Based on the information DRA reviewed, the CAB information does not show any  
20 significant concerns regarding service quality issues at this time.  
21



1                                   **CHAPTER 8        RATE DESIGN**

2           **A.     Introduction**

3           This Chapter sets forth DRA’s analysis on the rate design for SCE’s Catalina  
4 Island water customers.

5           **B.     Discussion**

6           With regard to rates, DRA offers its own proposal that recovers its proposed 2011  
7 revenue requirement and seeks to balance the responsibility of residential and  
8 commercial customers. DRA proposed rate design is a continuation of the evolution in  
9 conservation rate design for the customers of Catalina Island.<sup>57</sup> While additional  
10 changes were explored and contemplated, one has to recognize the practicability of the  
11 size of the customer base and weigh that against designing perfect rates. Rates must be  
12 designed to recover reasonable costs and must be designed to give proper signals to  
13 convey the true cost of service. Also, due to fluctuations in water supply, it’s appropriate  
14 to continue with a conservation rate design (increasing usage block rates).

15           DRA does not endorse the alternative proposal from SCE whereby its electric  
16 customers subsidize water customers. While there may be unique circumstances where  
17 DRA *might* deviate from its consistent opposition to any form of cross subsidy, this case  
18 does not present itself as one.

19                           **1.     Meter charges**

20           SCE proposes increasing the fixed meter charges by 90%. These increases are  
21 significant; however, they have to be judged in context.

22           Under sound rate design practices<sup>58</sup>, a Class C water utility would recover at least  
23 65% of their fixed charges in the meter charge, matching fixed costs with fixed charges.  
24 Catalina customers, however, have historically only been paying for 21% of their fixed  
25 costs in the meter charge. This means that the remainder of the fixed costs is recovered

---

<sup>57</sup> There are other class C water utilities with increasing block rate structures (i.e. Rural, Rio Plaza)

<sup>58</sup> See Water Division Standard Practice U-7-W

1 in the volumetric charge. This anomaly was recognized in the last GRC (see resolution  
2 W-4665.)

3 Under another rate design perspective, using conservation rate design principles,  
4 one should design rates where more than 70% of the revenues come from the quantity or  
5 volumetric rate.<sup>59</sup> Under this precept, maintaining 20% of the fixed costs in the fixed  
6 meter cost charges encourages continued conservation and keeps the rate impact on low  
7 usage customers to a minimum.

8 Under DRA’s proposal, meter charges increase by 67%. This continues the 20%  
9 recovery of fixed charges. As pointed out in the last GRC, to correct this, it would create  
10 a hardship for low volume users.

11 Fixed charges are only part of the rate design. Each bill contains charges that  
12 represent the fixed costs and the variable costs of providing service. This can be seen on  
13 electric, gas, and water bills. In the case of Catalina, customers receive one bill from  
14 SCE that recovers costs from all three utility services.

15 SCE proposes altering the tier break points and DRA concurs. A summary of the  
16 changes are provided in the following table:

	Current Usage	Proposed Usage
17 Tier 1	0-2500 gallons	0- 2000 gallons
18 Tier 2	2501-10,000	2001 – 6500
19 Tier 3	over 10,000	over 6500

20  
21  
22 Here is the summary of the volumetric rate differences between SCE and DRA for  
23 residential customers:

---

<sup>59</sup> D08-02-036 and California Urban Water Conservation Councils best management practice 11

**VOLUMETRIC RATES**

	<b>SCE proposed residential rates</b>		<b>DRA proposed residential rates</b>
	In \$ per 1000 gallons		in \$ per 1000 gallons
4	<b>Summer</b> Tier 1 <sup>60</sup>	31.88	19.77
5	Tier 2	62.84	38.88
6	Tier 3	93.81	58.00
7			
8	<b>Winter</b> Tier 1	24.45	15.18
9	Tier 2	47.99	29.72
10	Tier 3	71.53	44.25

11

12 In terms of average bills and how a residential customer would view the rate

13 proposals, the SCE proposal would increase the residential bill from \$77.11 to \$177.94<sup>61</sup>

14 and the DRA proposal would increase the average bill to \$123.68

15 For the Commercial sector, which would begin to have its own rate schedule with

16 this GRC cycle, SCE proposes dropping the tiers in favor of singular seasonal rates.

17 While this is consistent with other commercial rate designs in other Class A water

18 companies, with the exception of California American Water’s Monterey District, it is

19 important to recognize that the commercial sector on the island has dealt with tiered rates

20 for nearly 27 years.<sup>62</sup> Additionally, Catalina has similar characteristics to other supply

21 constrained districts, such as the Monterey District, which has tiered rate designs for the

---

<sup>60</sup> Note: the break points for tier 1, 2 and 3 can change; i.e. tier 1 proposals end at 2,000 gallons for residential customers while current rates allow tier 1 to end at 2500 gallons. Similarly, current rates show tier 2 ending at 10,000 gallons while the proposals would change the end of tier 2 to 6500 gallons for residential.

<sup>61</sup> See Thomas workpapers on pages 433 and 434, Chapter XI workpapers

<sup>62</sup> See decision 83-10-045. Quantity rates were designed for the first 2000 gallons and all gallons above 2000.

1 commercial sector<sup>63</sup>. Nevertheless, DRA could not design a tiered system for the  
 2 commercial sector. Therefore, DRA will agree to single tiers for the non-residential  
 3 customers. The differences between the two rate design approaches for residential and  
 4 commercial customers are driven by the different revenue requirements and revenue  
 5 allocations.

6

<b>SCE proposed Commercial rates</b>		<b>DRA proposed commercial rates</b>	
In \$ per 1000 gallons		in \$ per 1000 gallons	
<b>Summer</b>	53.79		59.89
<b>Winter</b>	37.45		41.59

11 The average commercial bill would increase from \$594.37 to \$877.08 with the  
 12 SCE proposal while the commercial bill would increase to \$954.15 under the DRA  
 13 proposal.

14

15 Overall the rate designs show the following percentage increases to bills:

	<b>DRA</b>	<b>SCE</b>
17 Residential	60%	131%
18 Non-residential	61%	48%

19

20 While it is reasonable to create rate designs that inform the customer about  
 21 increased usage, the usage profiles proved challenging and the break points for a tiered  
 22 commercial rate proved elusive.

23 Of note, under the DRA proposal, the CARE surcharge is calculated at \$0.54/  
 24 1000 gallons, while the CARE surcharge is \$0.78/1000 gallons under the SCE proposal.

25 Lastly, DRA would like to state that after hearing from Catalina customers during  
 26 the Public Participation Hearing on April 27, 2011 and learning more about their  
 27 concerns on how rate design should be created for both residential and commercial

---

<sup>63</sup> <http://www.amwater.com/files/Monterey%20%28Main%20System%29%20Rate%20Schedules%20%2803-11-2011%29.pdf>

1 customers, DRA is still open to evaluating and reviewing other rate design proposals the  
2 Protestants might propose in this proceeding.

3 DRA understands that the Catalina Community does not agree with DRA's current  
4 rate design proposals where DRA attempts to lessen some of the impact of higher rates  
5 on what it feels are the most vulnerable customers on the island.

6 DRA would be happy to learn more about what the community feels would be a  
7 more appropriate rate design.

8

# **APPENDIX A**

## **Qualifications of DRA Witnesses**

1                                   **QUALIFICATIONS AND PREPARED TESTIMONY**  
2   **OF**  
3   **BRIAN YU**  
4

5   Q1.   Please state your name, business address, and position with the California  
6           Public Utilities Commission (Commission).

7   A1.   My name is Brian Yu and my business address is 320 W. 4<sup>th</sup> Street, Suite  
8           500, Los Angeles, CA 90013. I am a Utilities Engineer in the Water  
9           Branch of the Division of Ratepayer Advocates.

10  
11   Q2.   Please summarize your education background.

12   A2.   I graduated from the California State Polytechnic University, Pomona, with  
13           a Bachelor of Science in Mechanical Engineering.

14  
15   Q3.   Briefly describe your professional experience.

16   A3.   I have been employed by the Commission since September 2001. While at  
17           the CPUC, I have conducted safety and security audits of rail transit  
18           systems, coordinated system safety and security certifications of new transit  
19           systems, conducted safety inspections of rail transit power lines, and served  
20           as the State’s safety liaison for the Los Angeles County Metropolitan  
21           Transportation Authority. For the past three years, I have worked on  
22           different areas of a water utility’s GRC.

23  
24   Q4.   What is your responsibility in this proceeding?

25   A4.   I am responsible for review of Plant additions  
26

27   Q5.   Does this conclude your prepared direct testimony?

28   A5.   Yes, it does.

1                                   **QUALIFICATIONS AND PREPARED TESTIMONY**  
2   **OF**  
3   **LAURA KRANNAWITTER**  
4

5   Q1.   Please state your name and business address.

6   A1.   My name is Laura Krannawitter. My business address is 320 West 4<sup>th</sup>  
7       Street, Suite 500, Los Angeles, Ca 90013.  
8

9   Q2.   By whom are you employed and in what capacity?

10  A2.   I am employed by the California Public Utilities Commission as a Senior  
11       Utilities Engineer, specialist.  
12

13  Q3.   Please briefly describe your educational background and work experience.

14  A3.   I graduated from San Francisco State University with a Bachelor of Science  
15       Degree in Engineering with honors, and a Master of Business  
16       Administration, with an emphasis in international business. I have a  
17       Professional Engineering license in mechanical engineering (#M27421). I  
18       have been employed by the CPUC since 1987. Over the 23 years, I have  
19       worked on Electric, Gas, Telecommunications, Transportation, and Water  
20       matters. I have worked predominantly as a Ratepayer advocate, but I have  
21       also worked in an advisory capacity in the energy division (formerly known  
22       as CACD), and as an advisor to three Commissioners (Duque, Kennedy,  
23       and Bohn). As of September 2010, I concluded my advisor work and  
24       returned to DRA, where I work on energy and water matters.  
25

26  Q4.   What is your area of responsibility in this proceeding?

27  A.4.   I am responsible for all areas of the report except plant and rate base?  
28

29  Q5.   Does this conclude your prepared testimony?

30  A5.   Yes, it does.



1

2

3

4

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of “**FINAL REPORT ON THE APPLICATION OF SOUTHERN CALIFORNIA EDISON FOR AUTHORITY TO INCREASE RATES FOR WATER SERVICE ON SANTA CATALINA ISLAND FOR TEST YEAR 2011**” on the official service list in **A. 10-11-009** by using the following service:

**E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

**U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on May 16, 2011 at San Francisco, California.

/s/ MARTHA PEREZ  
\_\_\_\_\_  
MARTHA PEREZ