

Docket : A.26-01-001
Exhibit Number : Cal Adv-#
Commissioner : Matthew Baker
Administrative Law Judge : Amin Nojan
Public Advocates Office
Witness(es) : Roy Keowen



PUBLIC ADVOCATES OFFICE
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON
THE GENERAL OFFICE
AND PAYROLL

Suburban Water Company's
General Rate Case Application 26-01-001
Test Year 2027

PUBLIC

San Francisco, California
April 15, 2026

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MEMORANDUM

1 The Public Advocates Office at the California Public Utilities Commission (“Cal
2 Advocates”) examined application material, data request responses, and other
3 information presented by Suburban Water Company (“Suburban”) in Application (“A.”)
4 26-01-001 to provide the California Public Utilities Commission (“Commission” or
5 “CPUC”) with recommendations in the interests of ratepayers for safe and reliable
6 service at the lowest cost. This Report is prepared by Mr. Keowen. Mr. Suliman Ibrahim
7 is Cal Advocates’ project lead for this proceeding. Mr. Hani Moussa is the oversight
8 supervisor. Mr. Corwin Hockema is the legal counsel.

9 Although every effort was made to comprehensively review, analyze, and provide
10 the Commission with recommendations on each ratemaking and policy aspect presented
11 in the Application, the absence of any particular issue from Cal Advocates’ testimony
12 connotes neither agreement nor disagreement with the underlying request, methodology,
13 or policy position related to that issue.

Chapter #	Description	Witness
1	Parent Company Expenses and Rate Base	Keowen
2	Payroll	Keowen

EXECUTIVE SUMMARY

1 In Application (A.) 26-01-001, Suburban Water Systems (“Suburban”) requests
2 authorization to recover general office and payroll expenses as part of its Test Year (TY)
3 2027 General Rate Case. The Public Advocates Office (“Cal Advocates”) reviewed
4 Suburban’s application, supporting testimony, workpapers, and data request responses to
5 evaluate whether the requested costs are reasonable and necessary to provide safe and
6 reliable water service.

7 Cal Advocates’ testimony addresses two major cost categories: parent company
8 expense and rate base allocations, and payroll expenses. Because these costs originate
9 from corporate operations and staffing assumptions that are largely controlled by the
10 utility, they require careful review to ensure that ratepayers fund only costs that are
11 reasonable, verifiable, and directly related to regulated utility service.

12 Suburban’s forecast of parent company allocation expenses relies on post-merger
13 expense levels that cannot be verified with supporting general ledger documentation.¹ In
14 addition, a review of Suburban’s recorded parent company expenses shows that
15 approximately 60 percent of entries lack sufficient descriptions to determine whether the
16 expenses provide a ratepayer benefit. As a result, Cal Advocates recommends a
17 normalized forecast grounded in recorded expense levels.

18 Additionally, Suburban’s forecast of parent company Information Technology (IT)
19 rate base relies on post-merger investment levels that are inconsistent with the ratepayer
20 indifference standard adopted in Decision (D.) 24-02-014 approving the Corix merger.
21 To address this issue, Cal Advocates forecasts the IT rate base using a five-year historical
22 per-customer methodology based on recorded data from 2020 through 2024.

23 Finally, Cal Advocates reviewed Suburban’s payroll forecast and identified
24 several components that are not reasonable for recovery from ratepayers. Suburban

¹ Suburban was clear that recorded 2025 would not be available for review. See A.26-01-001, Pre-Hearing Conference Transcript at 26-27 where it states, “Suburban does not currently have recorded audited data for 2025. Such data would not be available until May.” May 2025 is after Cal Advocates report will be issued.

1 requests \$14,711,316 in payroll expenses for TY 2027, including new employee
2 positions, incentive compensation programs, and payroll assumptions based on full
3 staffing levels. Cal Advocates recommends removing unsupported staffing increases,
4 excluding \$2,356,364 in incentive compensation, and applying a 3.8 percent payroll
5 slippage adjustment to reflect typical workforce vacancy and hiring delays.

6 In total, Cal Advocates recommends reducing Suburban’s TY 2027 parent
7 company allocation expenses by \$5,417,949 and reducing payroll expenses by
8 \$3,685,036. These adjustments ensure that ratepayers fund only costs that are reasonable,
9 verifiable, and necessary to provide safe and reliable water service while maintaining
10 consistency with the Commission’s ratepayer indifference standard.

1 **CHAPTER 1 - PARENT COMPANY EXPENSES AND**
2 **PARENT COMPANY RATE BASE**

3 **I. INTRODUCTION**

4 Parent company expenses represent costs incurred by the utility’s parent
5 organization that are allocated to the regulated utility through shared service
6 arrangements. These expenses may include corporate management, administrative
7 support, information technology services, human resources, finance, legal services, and
8 other centralized functions that support utility operations.

9 In this proceeding, Suburban Water Systems allocates certain costs from its parent
10 company, Nexus Water Group, to its regulated California utility operations. According to
11 Suburban’s application and supporting testimony, these allocations include shared
12 corporate services and information technology functions performed at the parent level.²

13 Because these costs originate outside the regulated utility entity, careful regulatory
14 review is necessary to ensure that ratepayers only pay for costs that are reasonable,
15 necessary for providing regulated service, and properly allocated to the utility. Without
16 adequate oversight, parent company allocations may include costs that primarily benefit
17 shareholders or other affiliates rather than ratepayers.

18 This chapter evaluates Suburban’s forecasted parent company expenses and IT
19 rate base and the methodology used to allocate those costs to the utility. The analysis
20 examines whether the requested expenses are supported by recorded data, whether the
21 allocation methodology appropriately assigns costs to regulated operations, and whether
22 the resulting costs are reasonable for recovery in rates.

23 **II. SUMMARY OF RECOMMENDATIONS**

24 The Commission should adopt the following adjustments to Suburban Water
25 Systems’ parent company allocation expense forecast for Test Year (TY) 2027:

² The Direct Testimony of Robert M. Hunter at 1, line 23 through 26.

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- Reject Suburban’s proposed forecast of parent company allocation expenses because the Company relied on post-merger expense levels for which it did not provide supporting general ledger documentation, preventing verification of the underlying cost drivers.
 - Apply an adjustment to recorded parent company allocation expenses reflecting Cal Advocates’ review of historical general ledger data from 2020 through 2023, which showed that an average of 60 percent of entries lacked sufficient descriptive information to determine whether the expense provided a ratepayer benefit.
 - Use the adjusted recorded expense level as the baseline for forecasting parent company allocation expenses, excluding expenses that lack sufficient documentation to evaluate the purpose or potential ratepayer benefit.
 - Forecast TY 2027 parent company allocation expenses using a normalized per-customer methodology, applying the documented historical per-customer expense level and projecting forward using the five-year average customer growth rate.
 - Reject Suburban’s proposed forecast of parent company IT rate base because the Company relied on post-merger IT investments, which ignore the ratepayer indifference standard used in the Corix merger proceeding.
 - Forecast TY 2027 parent company IT rate base using a normalized per-customer methodology, applying the documented historical per-customer expense level and projecting forward using the five-year average customer growth rate. This ensures ratepayers are indifferent to the effects of “South West Water Company’s (SWWC’s) merger with Corix into the Nexus Water Group (NWG).

1 Table 1-1 below summarizes the total dollar difference between Cal Advocates
2 and Suburban's (TY) 2027 estimates.

3
4 **Table 1-1: Estimated (TY) 2027 Parent Company Expense Allocation**

Estimated (TY) 2027 Parent Company Expense Allocation		
Suburban	Cal Advocates	Difference
\$8,543,103	\$3,125,154	\$5,417,949

5
6 Table 1-2, below, summarizes Cal Advocates' and Suburban's proposed parent
7 company IT rate bases and for (TY) 2027 and 2028.

8
9 **Table 1-2: Comparison of IT Rate Base Estimates for (TY) 2027**

Test Year	Suburban IT Rate Base Estimate	Cal Advocates IT Rate Base Estimate	Difference
Ref	A	B	(A-B)
2027	\$3,888,939	\$3,076,768	\$812,171
2028	\$6,096,681	\$3,081,282	\$3,015,399

10
11 **III. ANALYSIS**

12 **A. Suburban's Post-Merger Expenses Are Unverified, And**
13 **Suburban's Recorded Parent Company Expenses Are**
14 **Inadequately Documented**

15 Suburban Water Systems' forecast of parent company allocation expenses for Test
16 Year (TY) 2027 are not reasonable and are not supported by substantial evidence given
17 that: (1) the forecast is based on post-merger expense levels following Corix
18 Infrastructure Inc.'s acquisition of SouthWest Water Company, (2) Suburban declined to

1 provide underlying general ledger detail supporting those post-merger expenses,³ and
2 (3) customer growth remains essentially flat.

3 In a general rate case, the utility bears the burden of demonstrating that requested
4 expense forecasts are reasonable and supported by substantial evidence.⁴ Forecast
5 methodologies must rely on verifiable data and reasonable assumptions that reflect
6 expected utility operations during the test year.⁵

7 Additionally, the Commission approved Corix Infrastructure Inc.’s acquisition of
8 SouthWest Water Company subject to a ratepayer indifference standard, meaning that
9 ratepayers should be no worse off as a result of the transaction.⁶ Under this standard, the
10 Commission expects that post-merger cost structures will not impose additional burdens
11 on ratepayers absent demonstrated operational benefits or necessary cost drivers.

12 Lastly, when forecast expense levels cannot be adequately verified, the
13 Commission commonly relies on normalized historical trends to establish reasonable
14 expense levels.⁷

³ See Application (A.) 26-01-001, Pre-Hearing Conference Transcript at 26-27 where it states “Suburban does not currently have recorded audited data for 2025. Such data would not be available until May.” May 2025 is after Cal Advocates report was issued so is not available for Cal Advocates review.

⁴ Decision (D.) 96-12-066 at 5, line 11 through 12.

⁵ D.06-01-025 at 10, lines 27 through 11, lines 10 states “The applicant, SCWC, bears the burden of proving that its proposed rate increases are “justified.” Pursuant to § 454(a), before implementing a rate increase, SCWC must make a “showing before the Commission,” and the Commission must find that the proposed increase is “justified.” In adopting the revised Rate Case Plan, the Commission further articulated the required showing for a water utility’s GRC: “The utility’s application for a rate increase must identify, explain, and justify the proposed increase.” Specifically, the application must include testimony, with supporting analysis and documentation, describing the components of the utility’s proposed increase, e.g., results of operations, plant in service. All significant changes from the last adopted and record amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.”

⁶ D.24-02-014 at 22, lines 17 through 23, lines 6.

⁷ D.07-05-062 “Opinion Adopting Revised Rate Case Plan For Class A Water Utilities”, Appendix A at A-24, Footnote 7 states “For district and general office expenses, excluding water production related expenses, parties may forecast using traditional estimating methodologies (historical averages, trends, and specific test year estimates). In addition to any other methodology the utility may wish to use, the utility shall also present, in its workpapers, an inflation adjusted simple five-year average for all administrative and O&M expenses, with the exception of off-settable expenses and salaries.” This demonstrates the Commission’s expectation that forecasts be grounded in recorded experience (including averages) and.

1 Suburban’s forecast of parent company allocation expense relies on post-merger
2 recorded costs from 2025.⁸ According to the Company’s testimony, its forecast
3 methodology is based on the first several months of 2025 recorded expenses.⁹ However,
4 when asked to provide the general ledger detail supporting those expenses, Suburban
5 stated that the data was not available.¹⁰

6 Because the Company relies on 2025 “recorded” expense as the basis for its
7 forecast, the absence of supporting documentation prevents verification of the underlying
8 cost drivers. Without general ledger details, the Commission cannot determine whether
9 the forecasted costs reflect reasonable operating expenses, merger-related integration
10 costs, expanded corporate allocations, or non-operational expenditures.

11 This lack of transparency is particularly significant given that Suburban’s
12 corporate ownership changed following the Corix acquisition in 2024.¹¹ The Commission
13 approved that transaction under the ratepayer indifference standard and relied on
14 assurances that the merger would not harm ratepayers. However, Suburban’s forecast
15 reflects a notable increase in per-customer corporate allocation expenses compared to
16 historical levels despite essentially flat customer growth.¹² When customer counts remain
17 constant, increases in per-customer overhead expenses generally indicate growth in
18 corporate cost structure rather than increased service demand.

19 Without documentation that demonstrates these increased allocation expenses are
20 necessary and directly related to providing regulated utility service, the Company has not
21 met its burden of proof to justify the forecasted level of expense. Additionally,

supported by verifiable data.

⁸ The Direct Testimony of Robert M. Hunter at p.9.

⁹ The Direct Testimony of Robert M. Hunter at 9, line 217 through line 230.

¹⁰ A.26-01-001, Pre-Hearing Conference Transcript at 26-27 where it states “Suburban does not currently have recorded audited data for 2025. Such data would not be available until May.” May 2025 is after Cal Advocates report will be issued..

¹¹ The Direct Testimony of Robert M. Hunter at 2, line 40 though 3, line 63.

¹² See Attachment 1-1 Parent Company Estimate.

1 Suburban’s response to data requests did not include 2025 data. At the pre-hearing
2 conference,¹³ Suburban alleged that audited 2025 data would not be available until May
3 2026.¹⁴ Per the Class A Rate Case Plan Schedule, May 2025 is after Cal Advocates
4 testimony must be submitted.¹⁵

5 Further, a review of Suburban’s *recorded* parent company expense allocation
6 revealed more problems. Suburban’s recorded parent company expense allocation
7 represents Suburban’s parent company cost structure prior to its merger with Corix, so it
8 is informative to establish a reasonable and measurable level of ratepayer indifference,
9 post-Corix merger. But the review of Suburban’s recorded expenses revealed that many
10 of Suburban’s recorded parent company expenses include unreasonable, one-time, or
11 non-recurring expenses. In response to discovery, Suburban states it is up to the
12 Commission to remove such items from rates, which is an admission that Suburban does
13 not know whether all the expenses presented are reasonable, because it did not screen
14 them.¹⁶ Since Suburban does not verify its own data, the Commission cannot find that it
15 meets its burden of proof.¹⁷ The 2020-2023 average of Suburban’s parent company
16 expenses without descriptions is 60%.^{18, 19} The Commission should not allow these

¹³ Suburban’s Response to Cal Advocates Data Request SIB-001.

¹⁴ A.26-01-001, Pre-Hearing Conference Transcript at 26-27 where it states “Suburban does not currently have recorded audited data for 2025. Such data would not be available until May.” May 2025 is after Cal Advocates report will be issued..

¹⁵ D.07-05-062, Appendix A “Rate Case Plan and Minimum Data Requirements for Class A Water Utilities General Rate Applications” at A-5.

¹⁶ Suburban’s “PARTIAL RESPONSE #1 to A.26-01-001, Public Advocates Office DR DKG-001 (Response to SIB-001 follow up).”

¹⁷ D.96-12-066 at 5, line 11 through 12.

¹⁸ See Attachment 1-2 “Recorded Parent Company Blank Entry (Confidential)”.

¹⁹ Cal Advocates look at Suburban’s Response to Cal Advocates Data Request SIB-001. That response included a file for recorded parent company expense titled “10. Table 5-2B 2020-2023 Detail Data.xlsx” which had recorded data for the years 2020-2023. Cal Advocates look through each year and tallied up the entries with no description (Cal Advocates also included “p-card” entries that were non-descript) and calculated the percentage of total for the year. The percentage for each year was averaged which resulted in 60% non-descript entries.

1 expenses in rates unless and until Suburban adequately demonstrates that these expenses
2 provide benefit to ratepayers.

3 Cal Advocates therefore calculated a normalized projection of parent company
4 allocation expense using Suburban’s five-year average recorded allocation expense,
5 reduced by 60% to account for unsupported expenses, and applied the five-year average
6 customer growth rate to project expenses through TY 2027.²⁰ This approach aligns
7 projected corporate overhead with expected customer growth and avoids reliance on
8 unsupported pre-merger and post-merger expense levels.

9 Suburban’s forecast of parent company allocation expense relies on unverifiable
10 pre-merger and post-merger expense data and results in increasing per-customer
11 corporate allocation expense despite minimal customer growth. Because Suburban did
12 not provide the underlying general ledger support for the expenses forming the basis of
13 its forecast, and because the recorded data contains unexplained expenses, Suburban has
14 not demonstrated that the proposed level of allocation expense is reasonable or consistent
15 with the ratepayer indifference standard established in Corix Merger proceeding.²¹

16 The Commission should therefore adopt Cal Advocates’ normalized forecast
17 based on the five-year average recorded allocation expense, reduced by 60% to account
18 for unsupported recorded expenses and adjusted for projected customer growth through
19 TY 2027.

20 **B. Suburban’s Information Technology Rate Base Forecast**
21 **Ignores the Ratepayer Indifference Standard**

22 The Commission should reject Suburban’s forecasted General Office information
23 technology (“IT”) rate base allocated from the parent company to Suburban Water
24 Systems and authorize Cal Advocates’ estimate instead. This is because Suburban’s
25 forecast is based on unverified data and is contrary to the ratepayer indifference standard
26 used in Suburban’s Corix merger proceeding.

²⁰ See Attachment 1-1 “Parent Company Estimate”.

²¹ D.24-02-014 at 22 line 14 through 23 line 6.

1 Suburban includes parent company IT plant costs through the line item titled “AD
2 Allocated SWWC (Parent Company Rate Base)” in Table 8-1 of its workpapers. These
3 costs represent IT assets owned at the parent company level that are allocated to
4 Suburban’s regulated operations.

5 Because Suburban’s parent company structure changed following the SouthWest
6 Water Company merger with Corix, and because the merger was approved under the
7 ratepayer indifference standard, Suburban’s (TY) 2027 forecast should comply with this
8 standard.

9 When evaluating affiliate or parent company costs, the Commission applies the
10 principle that ratepayers should not be adversely affected by corporate transactions. In
11 merger proceedings such as Suburban’s recent merger with Corix Decision,²² this
12 concept is commonly referred to as the ratepayer indifference standard, meaning that
13 ratepayers should be no worse off as a result of a merger or change in corporate
14 ownership.

15 Consistent with this principle, recorded costs prior to a merger can provide a
16 reasonable benchmark to evaluate whether post-merger costs are reasonable and
17 consistent with past operating levels. Additionally, when reliable historical data exists,
18 the Commission frequently relies on recorded averages to forecast reasonable future
19 expenses or investments.²³

20 Suburban requests a steep increase in the parent company’s IT rate base when
21 compared to recorded levels. Table 1-3 below shows Suburban’s last full recorded-pre-
22 merger year 2023, to Suburban’s TY 2027 and TY 2028 levels:

23

²² D.24-02-014 at 22 line 14 through 23 line 6.

²³ D.07-05-062 “Opinion Adopting Revised Rate Case Plan For Class A Water Utilities”, Appendix A at A-26 states “Rate base and percentage of increases for last authorized test years, last five years recorded data, and proposed test year.” This demonstrates the Commission’s expectation that the forecast be grounded in recorded experience.

1

Table 2-3: Comparison of (TY) 2027 IT Rate Base Estimates

Recorded Parent Company IT Rate Base v Suburban’s Forecast	
Year	Amount
2020-2023 Average	\$3,205,545
2027	\$3,888,939
2028	\$6,096,681
2027 Increase Over Average in Dollars	\$683,394
2027 Increase Over Average in Percentage	21%
2028 Increase Over Average in Dollars	\$2,891,136
2028 Increase Over Average in Percentage	90%

2

3 To evaluate the reasonableness of Suburban’s forecasted parent company IT rate
4 base, Cal Advocates analyzed recorded data from 2020 through 2024 for the line item
5 titled “AD Allocated SWWC (Parent Company Rate Base)” in Table 8-1 of Suburban’s
6 workpapers.

7 This period reflects the pre-merger operating structure prior to the SouthWest
8 Water Company and Corix transaction that occurred during the first quarter of 2024.
9 Because the merger introduced a new parent company structure, the historical
10 relationship between parent company IT investments and Suburban’s customer base prior
11 to the merger provides a useful benchmark for evaluating reasonable cost levels.

12 Cal Advocates calculated the per-customer parent company IT rate base for each
13 recorded year from 2020 through 2024 by dividing the recorded parent company IT rate
14 base allocation by Suburban’s recorded number of customers for the same year. Then,
15 Cal Advocates calculated the five-year recorded average per-customer IT rate base cost
16 for the 2020–2024 period.

1 Using this approach ensures that the forecast reflects Suburban’s historical level of
2 IT investment allocated to customers prior to the merger. Applying this historical
3 benchmark is consistent with the Commission’s ratepayer indifference standard, which
4 requires that corporate restructuring or mergers should not result in increased costs to
5 ratepayers absent clear justification.²⁴

6 After determining the five-year average per-customer IT rate base cost, Cal
7 Advocates forecasted the TY rate base by multiplying the average per-customer amount
8 by the projected number of customers (which is based on the recorded customer growth
9 rate) in each test year.²⁵

10 This method produces forecasts for TY Test Year 2027 and Test Year 2028 that
11 maintain the historical relationship between parent company IT investment and the
12 number of customers served by Suburban. This ensures ratepayer indifference as a result
13 of the Corix Merger.

14 Using a per-customer recorded average provides a transparent and data-driven
15 method for forecasting rate base while preventing unsupported increases that could arise
16 from changes in corporate structure following the merger.

17

²⁴ D.24-02-014 at 22 line 14 through 23 line 6.

²⁵ See Attachment 1-3 “IT Rate Base Calculation”.

1 Table 1-4, below, summarizes the difference in IT Rate Base (TY) 2027 and 2028
2 estimates.

3 **Table 3-4: Comparison of (TY) 2027 IT Rate Base Estimates**

Test Year	Suburban IT Rate Base Estimate	Cal Advocates IT Rate Base Estimate	Difference
Ref	A	B	(A-B)
2027	3,888,939 ²⁶	3,076,768 ²⁷	\$812,171
2028	6,096,681 ²⁸	3,081,282 ²⁹	\$3,015,399

4
5 The Commission should rely on the recorded data from 2020 through 2024 that
6 establishes a per-customer parent company IT rate base for Suburban. This period reflects
7 Suburban’s operations prior to the Corix merger and therefore provides a reasonable
8 benchmark for evaluating future allocations under the Commission’s ratepayer
9 indifference standard.

10 Accordingly, the Commission should forecast parent company IT rate base for
11 Test Years 2027 and 2028 using the five-year average recorded per-customer IT rate base
12 cost from 2020–2024, multiplied by Suburban’s projected customer counts for each test
13 year. This approach ensures that forecasted rate base remains consistent with historical
14 levels and protects ratepayers from potential cost increases associated with changes in the
15 utility’s parent company structure.

16 **IV. CONCLUSION**

17 Parent company expenses require heightened regulatory scrutiny because they
18 originate from activities performed outside the regulated utility and are allocated to

²⁶ Workpaper, Volume 1 PDF A.pdf at Worksheet 8-1.
²⁷ See Attachment 1-3 “IT Rate Base Calculation”.
²⁸ Workpaper, Volume 1 PDF A.pdf at Worksheet 8-1.
²⁹ See Attachment 1-3 “IT Rate Base Calculation”.

1 ratepayers through internal cost allocation methods that are largely controlled by the
2 utility and its affiliates. As a result, there is an inherent risk that costs which primarily
3 benefit shareholders, parent company operations, or non-regulated affiliates may be
4 improperly shifted to ratepayers.

5 In this proceeding, Suburban requests recovery of parent company expenses
6 allocated from Nexus Water Group through its shared services structure. However,
7 Suburban has not adequately demonstrated that all requested costs are necessary for the
8 provision of regulated water service or that the allocation methodology ensures that
9 ratepayers are charged only for the costs that directly benefit Suburban's utility
10 operations. Without sufficient documentation and verification, the Commission cannot
11 ensure that these expenses are reasonable or that they comply with fundamental
12 ratemaking principles.

13 Accordingly, the Commission should carefully scrutinize Suburban's requested
14 parent company expenses and IT rate base and adopt the adjustments recommended in
15 this chapter. Doing so will ensure that ratepayers are indifferent and do not bear the
16 burden of excessive or unsupported affiliate costs while allowing Suburban to recover
17 only those parent company expenses and IT rate base that are demonstrably reasonable
18 and necessary to provide safe and reliable water service.

19

1

LIST OF ATTACHMENTS FOR CHAPTER 1

Attachment #	Description
Attachment 1-1	Parent Company Estimate
Attachment 1-2	Recorded Parent Company Blank Entry (CONFIDENTIAL)
Attachment 1-3	IT Rate Base Calculation

2

CHAPTER 2 - PAYROLL

I. INTRODUCTION

Suburban requests recovery of payroll expenses for employees responsible for operating and maintaining its water systems and supporting administrative functions. Payroll represents a significant component of its operating expenses and therefore warrants careful review to ensure that only reasonable and necessary labor costs are recovered from ratepayers. Cal Advocates reviewed Suburban’s recorded payroll expenses, forecast staffing levels, and compensation assumptions to evaluate whether its payroll forecast reasonably reflects the labor costs required to provide safe and reliable service. Based on this review, several adjustments to the Suburban’s payroll forecast are necessary.

II. SUMMARY OF RECOMMENDATIONS

Suburban forecasts total payroll expenses of \$14,711,316 for the 2027 test year.³⁰ Cal Advocates reviewed the Company’s payroll forecast and recommends several adjustments to ensure that only reasonable and necessary labor costs are recovered from ratepayers.

- The Commission should reject the Company’s request for new employee positions. The Company has not demonstrated that additional staffing is necessary to maintain safe and reliable water service. Authorizing new positions based solely on forecasted staffing needs would require ratepayers to fund speculative hiring and shift financial risk from shareholders to ratepayers. This saves ratepayers \$799,640 in (TY) 2027.³¹
- The Commission should exclude incentive compensation from rates. The Company includes \$2,356,364 in incentive compensation in its test year payroll forecast.³² Incentive compensation programs primarily

³⁰ Suburban’s “Workpaper Volume 1.pdf”, Worksheet 5-1.

³¹ See Attachment 2-1 “New Position Workpaper (Confidential)”

³² Includes \$968,969 in incentive compensation its payroll forecast and also allocations \$1,387,395 in incentive compensation from it’s parent company. The total of the two is \$2,356,364.

1 reward corporate financial performance and shareholder outcomes
2 rather than providing measurable benefits to ratepayers. Therefore, these
3 costs should be borne by shareholders rather than customers.

- 4 • The Commission should apply a payroll slippage adjustment to the
5 Company’s payroll forecast. Based on a review of Suburban’s prior
6 general rate case forecasts compared to realized payroll levels, Cal
7 Advocates calculated a historical payroll slippage ratio of 3.8 percent.
8 Applying this factor to the Company’s test year regular payroll forecast
9 of \$13,802,970 results in a payroll reduction of \$529,032.³³ This
10 adjustment reflects normal vacancy, hiring delays, and workforce
11 turnover that prevent utilities from maintaining full staffing throughout
12 the year.

13
14 Table 2-1 summarizes Cal Advocate’s recommended payroll adjustments.

15
16 **Table 2-1: Payroll Adjustment Summary**

Payroll Adjustment Summary	
Adjustment	Amount
Remove Unjustified Positions	\$799,640 ³⁴
Remove Incentive Compensation	\$2,356,364 ³⁵
Vacancy / Slippage Adjustment	\$529,032
Total Adjustments	\$3,685,036

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18

³³ See Attachment 2-3 “Vacancy / Slippage Ratio Workpaper”.

³⁴ See Attachment 2-1 “New Position Workpaper (Confidential)”.

³⁵ See Attachment 2-2 “Suburban’s Parent Company Incentive Compensation from Request from Suburban Customers Calculation (Confidential)”.

1 Table 2-2 summarizes the difference between Suburban’s and Cal Advocates (TY)
2 2027 forecasts.

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4

Table 2-2: Comparison of (TY) 2027 Payroll Forecasts

Suburban	Cal Advocates	Difference
A	B	(A-B)
\$14,711,316	\$11,026,280	\$3,685,036

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6

III. ANALYSIS

7 **A. New Employee Positions**

8 The Commission should not authorize Suburban’s forecasted payroll expenses that
9 include additional employee positions in the test year expenses because the positions are
10 not adequately justified. Operating expenses must be reasonable, necessary, and
11 supported by evidence demonstrating benefits to ratepayers. In a future test year general
12 rate case, forecast expenses should be grounded in historical experience and
13 demonstrated operational need.³⁶ Suburban Water Systems forecasts total payroll
14 expenses of \$14,711,316 for the 2027 test year, an increase from the recorded payroll
15 expense of \$13,791,896 in 2024.³⁷

16 Suburban’s forecast assumes continued payroll growth during the forecast
17 period.³⁸ However, it has not demonstrated that additional employees are necessary to

³⁶ D.06-01-025 at 10, lines 27 through 11, lines 10 states “The applicant, SCWC, bears the burden of proving that its proposed rate increases are “justified.” Pursuant to § 454(a), before implementing a rate increase, SCWC must make a “showing before the Commission,” and the Commission must find that the proposed increase is “justified.” In adopting the revised Rate Case Plan, the Commission further articulated the required showing for a water utility’s GRC: “The utility’s application for a rate increase must identify, explain, and justify the proposed increase.” Specifically, the application must include testimony, with supporting analysis and documentation, describing the components of the utility’s proposed increase, e.g., results of operations, plant in service. All significant changes from the last adopted and record amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.”

³⁷ See Suburban’s Workpaper Volume 1 PDFA.pdf at Worksheet 5-1.

³⁸ Suburban’s “Results of Operations (Final Application) PDFA.pdf” at 3-4 to 3-6.

1 maintain safe and reliable service. The Company’s recorded staffing levels historically
2 supported system operations, and the Company has not shown that system growth,
3 workload increases, or regulatory requirements justify additional employees.³⁹ In
4 response to a data request, Suburban said it had performed time studies to justify the new
5 positions, but then cited back to its witness testimony, which did not have a time study.⁴⁰

6 While Suburban has not shown a need for new positions, Suburban could
7 repurpose positions that were already in rates for the new positions.⁴¹ The new proposed
8 positions include 2 associate engineers, 3 water quality specialists and 3 customer service
9 representatives. The combined salary of the new employees is nearly \$800,000 annually,
10 that ratepayers could save instead.⁴²

11 Because this proceeding uses future test year ratemaking, approving new positions
12 based solely on projections would require ratepayers to fund speculative hiring that may
13 not ultimately occur or may not be necessary. Ratepayers should not bear the financial
14 risk of workforce expansion absent clear evidence that demonstrates the need for
15 additional staffing.

16 Utilities are responsible for managing workforce efficiency. If operational needs
17 ultimately require additional staffing, the Company may seek recovery in a future general
18 rate case after it demonstrates that those employees were necessary and that ratepayers
19 benefited from those expenditures.

20 The Commission should reject Suburban Water Systems’ proposed new employee
21 positions and base authorized payroll expenses on the Company’s existing staffing levels.

³⁹ Suburban’s “Results of Operations (Final Application) PDFa.pdf” at 3-4 to 3-6. Every reason Suburban gives to justify the new positions could be due to other factors like for example bad management.

⁴⁰ Suburban’s Response to Data Request RK2-001 (Payroll 1).

⁴¹ Suburban’s “Results of Operations (Final Application) PDFa.pdf” at 3-4 to 3-6.

⁴² “2026 GRC Compensation (CONFIDENTIAL).xlsx” at Tab “GRC (confidential) (2)”.

1 Removing the new positions reduces Suburban’s (TY) 2027 payroll forecast by
2 \$799,640.⁴³

3 **B. Incentive Compensation**

4 Incentive compensation expenses included in Suburban Water Systems’ payroll
5 forecast should not be recovered from ratepayers. The Commission has consistently held
6 that ratepayers should not fund compensation that primarily benefits shareholders.⁴⁴

7 Incentive compensation may be recoverable only when the utility demonstrates that the
8 incentive metrics are directly tied to measurable benefits for ratepayers.

9 Suburban Water Systems includes incentive compensation labeled as
10 “Performance Pay” in its payroll forecast. The Company forecasts \$2,356,364 in
11 incentive compensation for (TY) 2027. Suburban embeds \$968,969 of these costs within
12 the Company’s total payroll forecast of \$14,711,316.⁴⁵ In addition, Suburban embeds
13 \$1,387,395 in executive performance pay in its parent company allocation of
14 \$8,543,103.⁴⁶

15 The Company has not demonstrated that the incentive compensation program
16 produces measurable benefits to ratepayers. Executive incentive compensation typically
17 rewards corporate financial performance or strategic objectives that primarily benefit
18 shareholders, and Suburban has not demonstrated otherwise. In addition, some
19 performance targets reflect obligations Suburban must already meet to operate the
20 utility,⁴⁷ meaning the incentive payments reward management for performing tasks
21 already required as part of normal operations.

⁴³ “2026 GRC Compensation (CONFIDENTIAL).xlsx” at Tab “GRC (confidential) (2)”.

⁴⁴ 2026 GRC Compensation (CONFIDENTIAL).xlsx at Tab “Incentive Comp. (confidential).”

⁴⁵ “Workpaper Volume 1 PDFA.pdf”, Worksheet 5-1.

⁴⁶ “Workpaper Volume 1 PDFA.pdf”, Worksheet 5-1.

⁴⁷ A.26-01-001, The Direct Testimony of Robert V. Mustich at 10, line 9 through 12 shows an example of a category where Suburban must already comply with general order 103-A.

1 Similarly, the Company has not shown that non-executive incentive compensation
2 programs are directly tied to measurable improvements in service quality, operational
3 efficiency, or cost reductions that benefit ratepayers.

4 The Commission should exclude incentive compensation from Suburban Water
5 Systems' payroll forecast. Removing incentive compensation would reduce the
6 Company's test year payroll expenses by \$2,356,364.

7 **C. Vacancy / Slippage Adjustment**

8 Suburban's forecast of payroll expenses should be adjusted to reflect vacancy,
9 slippage, and other forms of forecasted payroll overstatement. The Commission
10 authorizes recovery of payroll expenses that are reasonable and likely to be incurred
11 during the test year. When utilities forecast payroll based on full staffing levels,
12 adjustments are commonly applied to account for vacancy, hiring delays, and normal
13 workforce turnover. These adjustments ensure that ratepayers do not fund payroll
14 expenses associated with positions that remain unfilled during the forecast period. The
15 Commission has recognized that utilities rarely maintain full staffing throughout the year
16 and that applying a vacancy or slippage factor improves the accuracy of payroll
17 forecasts.⁴⁸

18 Suburban forecasts regular payroll expenses of \$13,802,970 for the 2027 test year.
19 However, utilities rarely maintain full staffing throughout the year due to employee
20 turnover, recruitment timelines, and internal transfers. As a result, payroll forecasts based
21 on full staffing levels typically overstate actual labor expenses.

⁴⁸ D.06-01-025 at 10, lines 27 through 11, lines 10 states "The applicant, SCWC, bears the burden of proving that its proposed rate increases are "justified." Pursuant to § 454(a), before implementing a rate increase, SCWC must make a "showing before the Commission," and the Commission must find that the proposed increase is "justified." In adopting the revised Rate Case Plan, the Commission further articulated the required showing for a water utility's GRC: "The utility's application for a rate increase must identify, explain, and justify the proposed increase." Specifically, the application must include testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase, e.g., results of operations, plant in service. All significant changes from the last adopted and record amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method."

1 To address this issue, a vacancy and slippage factor can be applied to the
2 Company’s forecast payroll to reflect typical workforce dynamics.

3 Using the vacancy and slippage methodology applied in the payroll analysis
4 model, the appropriate vacancy adjustment is 3.8%.⁴⁹

5 Applying this factor to the Company’s test year payroll forecast produces the
6 following adjustment.

7
8

Table 2-3: Vacancy / Slippage Calculation

Vacancy/ Slippage Adjustment				
Item	Amount	Vacancy / Slippage Factor	Payroll Reduction	Adjusted Payroll
Suburban’s (TY) 2027 Regular Payroll Forecast	\$13,802,970	3.8%	\$529,032	\$13,273,938

9

10 Because the Company’s payroll forecast assumes full staffing levels throughout
11 the year, applying a vacancy adjustment improves the accuracy of the forecast and
12 prevents ratepayers from funding payroll expenses associated with positions that are not
13 filled.

14 The Commission should apply a vacancy and slippage adjustment to Suburban’s
15 payroll forecast to reflect typical workforce turnover and hiring delays. Applying this
16 adjustment will ensure that authorized payroll expenses more accurately reflect the costs
17 the Company is likely to incur during the test year.

⁴⁹ See Attachment 2-3 “Vacancy / Slippage Ratio Workpaper”.

1 **IV. CONCLUSION**

2 Suburban forecasts TY 2027 total payroll expenses of \$14,711,316. After
3 reviewing its payroll forecast, staffing assumptions, and compensation structure, the
4 Public Advocates Office finds that certain components of the forecast are not reasonable
5 for recovery from ratepayers.

6 First, the Company includes \$2,356,364 in incentive compensation in its payroll
7 forecast. Because these payments primarily reward corporate performance that benefits
8 shareholders rather than providing measurable benefits to ratepayers, the Commission
9 should exclude these costs from rates.

10 Second, the Company has not demonstrated that additional employee positions are
11 necessary to maintain safe and reliable water service. Absent evidence showing that
12 existing staffing levels are insufficient to support operations, authorizing new employee
13 positions would require ratepayers to fund speculative workforce expansion. That saves
14 ratepayers \$799,640 annually.

15 Third, Suburban’s payroll forecast assumes full staffing throughout the test year.
16 However, utilities rarely maintain full staffing due to normal workforce turnover, hiring
17 delays, and other operational factors. Based on a review of Suburban’s prior general rate
18 case forecast compared to realized payroll levels, Cal Advocates calculated a historical
19 payroll slippage ratio of 3.8 percent. Applying this factor to the Company’s test year
20 2027 regular payroll forecast of \$13,802,970 results in a payroll adjustment of \$529,032.

21 In total, Cal Advocates recommends reducing Suburban’s payroll forecast by
22 \$3,685,036. Adopting these adjustments will ensure that authorized payroll expenses
23 reflect only those labor costs reasonably necessary to provide safe and reliable water
24 service while protecting ratepayers from paying for speculative staffing levels and
25 compensation programs that primarily benefit shareholders.

26

1

LIST OF ATTACHMENTS FOR CHAPTER 2

Attachment #	Description
Attachment 2-1	New Position Workpaper (CONFIDENTIAL)
Attachment 2-2	Suburban's Parent Company Incentive Compensation from Request from Suburban Customers Calculation (CONFIDENTIAL)
Attachment 2-3	Vacancy / Slippage Ratio Workpaper

2

APPENDIX A

Qualifications of Witness Roy Keowen

1 **QUALIFICATIONS AND PREPARED TESTIMONY**
2 **OF**
3 **ROY KEOWEN**
4

5 Q1. Please state your name, business address, and position with the California Public
6 Utilities Commission (“Commission”).
7

8 A1. My name is Roy Keowen, and my business address is 320 West 4th Street, Suite
9 500, Los Angeles, California 90013. I am a Financial Examiner in the Water
10 Branch of the Public Advocates Office.
11

12 Q2. Please summarize your educational background and professional experience.

13 A2. I received a Bachelor of Science Degree in Business Administration, Option in
14 Accounting, from California State University, Los Angeles.
15

16 I have been employed by the Public Advocates Office – Water Branch since
17 January 2014 and participated in multiple GRCs. My previous professional
18 experience includes a Tax Auditor position with the California State Board of
19 Equalization and as an Office Manager position at a small non-profit organization.
20

21 Q3. What is your responsibility in this proceeding?

22 A3. In this proceeding I prepared analysis and testimony addressing Suburban’s
23 proposals for general office and payroll expenses.
24

25 Q4. Does this conclude your prepared direct testimony?

26 A4. Yes, it does.

APPENDIX B

Supporting Attachments

INDEX LIST OF ATTACHMENTS FOR APPENDIX B

Attachment #	Description
Attachment 1-1	Parent Company Estimate
Attachment 1-2	Recorded Parent Company Blank Entry (CONFIDENTIAL)
Attachment 1-3	IT Rate Base Calculation

Attachment 1-1:
Parent Company Estimate

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	Year	2019	2020	2021	2022	2023	2024	Average	2025	2026	2027	2028		
1	SJH Customers	33219	33224	33220	33309	33383	33411							
2	WLM Customers	41986	42037	42026	42048	42274	42347							
3	Total Customers	75,205	75,261	75,246	75,357	75,657	75,758	CGR	75,869	75,980	76,092	76,204		
4	% Change		0.07%	-0.02%	0.15%	0.40%	0.13%	0.15%						
5														
6														
7	Suburban's Recorded and Projected Expense		\$7,682,350	\$7,383,276	\$7,550,308	\$8,396,163	\$7,728,517	OH / Cust	\$7,657,063	\$7,916,764	\$8,543,103	\$8,906,777		
8	Cost-Per-Customer		\$ 102.08	\$ 98.12	\$ 100.19	\$ 110.98	\$ 102.02	102.68	103.56	104.19	112.27	116.88		
9														
10	Removal of blank entries (1-0.6=-.04)		\$3,072,940	\$2,953,310	\$3,020,123	\$3,358,465	\$3,091,407			Projected Difference from Suburban	\$3,125,154			
11	Adjusted Cost-per-customer		\$ 40.83	\$ 39.25	\$ 40.08	\$ 44.39	\$ 40.81	\$ 41.07			\$5,417,949			

Suburban's customer count comes from its RO Model workpapers at Worksheet 4-4. Suburban's recorded customer count is used to develop the average customer growth rate. The average customer growth rate is calculated by taking the average percent of change from 2020 to 2024. TY 2027 customer counts are estimated beginning with 2024 then multiplying the recorded average customer growth rate for each subsequent year up to (TY) 27.

Suburban recorded and projected parent company allocation also comes from Suburban's RO Model workpapers at Worksheet 5, line 27.

The removal of blank entries is based on an analysis Suburban's general ledger data provided in Cal Am's Response to Cal Advocates Data Request SIB-001. The calculation is shown in attachment 1-3.

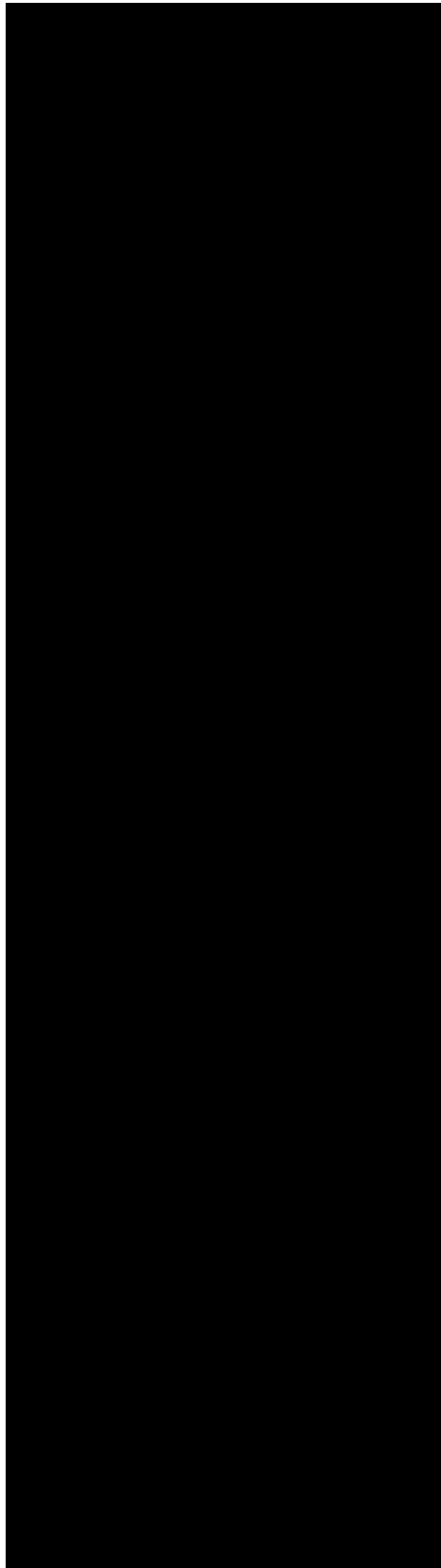
Cal Advocates TY estimate is based on the recorded average per-customer expense, reduced by 60%, then multiplied by the projected number of customers.

Attachment 1-2:

Recorded Parent Company Blank Entry

(Confidential)

<Begin Confidential>



Attachment 1-3:

IT Rate Base Calculation

	A	B	C	D	E	F	G	H	I	J	K
1	Year	2020	2021	2022	2023	2024	Average	2025	2026	2027	2028
	Suburban's Record/Project IT Rate										
2	Base	\$2,373,842	\$2,886,114	\$3,759,602	\$ 3,802,623	\$ 2,433,741		\$ 1,882,060	\$ 1,332,679	\$ 3,888,939	\$ 6,096,681
3	Number of Customers	75,261	75,246	75,357	75,657	75,758		75,869	75,980	76,092	76,204
4	Cost-Per-Customer	\$ 32	\$ 38	\$ 50	\$ 50	\$ 32	\$ 40			\$ 3,076,768	\$ 3,081,282

Suburban's customer count comes from its RO Model workpapers at Worksheet 4-4. Suburban's recorded customer count is used to develop the average customer growth rate. The average customer growth rate is calculated by taking the average percent of change from 2020 to 2024. TY 2027 customer counts are estimated beginning with 2024 then multiplying the recorded average customer growth rate for each subsequent year up to (TY) 27 and (TY) 28.

Suburban's recorded and projected IT rate base data comes from Suburban's workpapers at Worksheet 8-1, line 20.

The recorded per-customer cost is calculated by dividing the annual cost by the recorded number of customers. The recorded average per-customer costs is multiplied by the projected number of customers to estimate TY 27 and TY 28 IT rate base costs.

INDEX LIST OF ATTACHMENTS FOR APPENDIX B

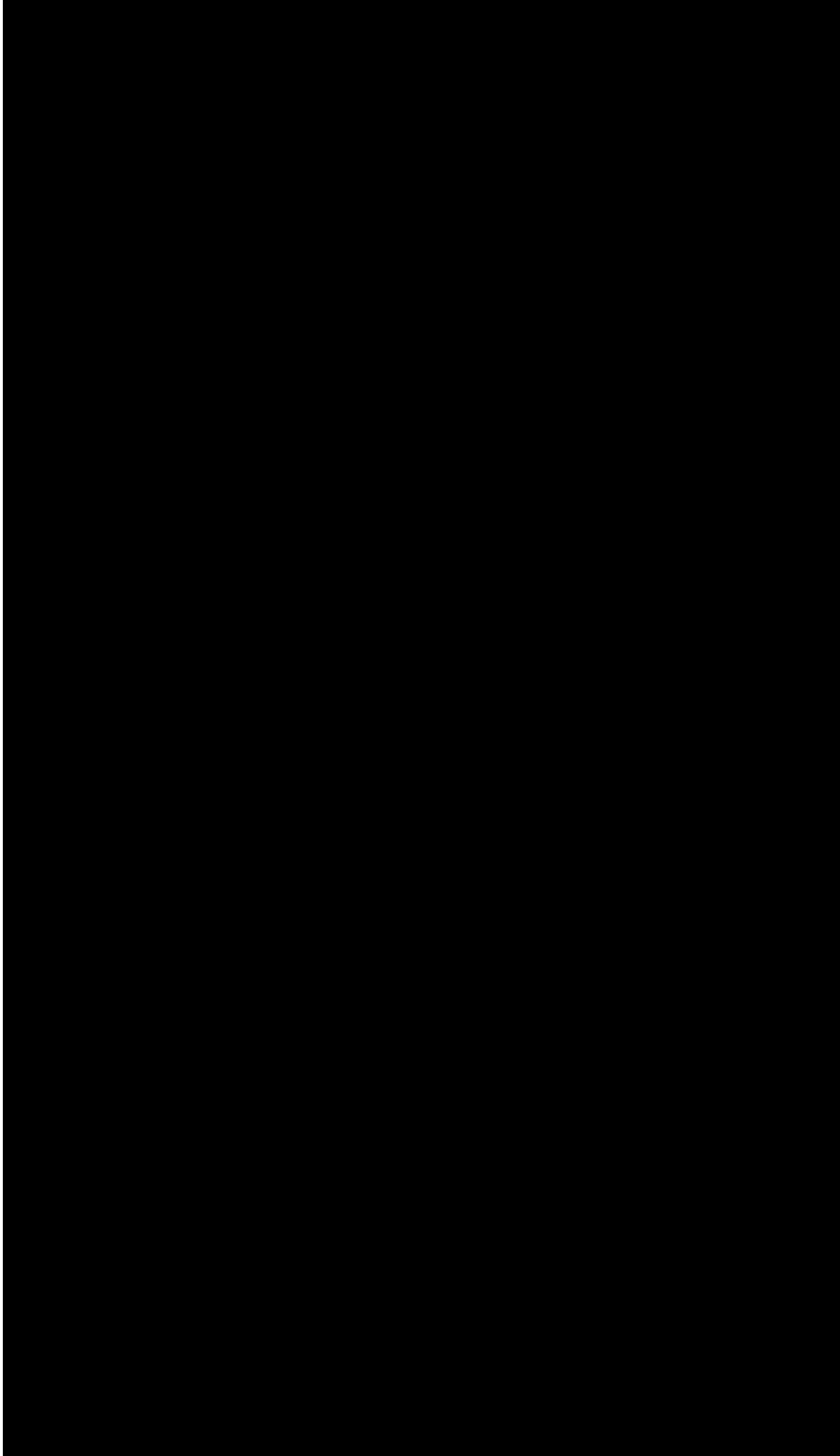
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Attachment 2-1:

New Position Workpaper

(Confidential)

<Begin Confidential>



<End Confidential>


Attachment 2-2:

**Suburban's Parent Company Incentive Compensation
from Request from Suburban Customers Calculation**

(Confidential)

<Begin Confidential>





<End Confidential>

Attachment 2-3:

Vacancy / Slippage Ratio Workpaper

	2022	2023	2024	Average	1-Average
Suburban's Payroll Forecast Last GRC (TY23)	\$ 13,119,429	\$ 13,775,156	\$ 13,860,071		
Suburban's Recorded Payroll Expenses in Current GRC (TY26)	\$ 13,113,658	\$ 12,786,981	\$ 13,791,896		
	\$ (5,771)	\$ (988,174)	\$ (68,175)		
	[historical in both GRC's]	93%	100%	96%	3.8%

Regular Payroll TY27	\$ 13,802,970
Vacancy / Slippage Rate	3.8%
Adjustment to Suburban's regular payroll	\$ 529,032

The Commission authorizes recovery of payroll expenses that are reasonable and likely to be incurred during the test year. Utilities bear the burden of demonstrating that their forecasts reflect expected operating conditions and are supported by sufficient evidence.¹ When payroll forecasts assume full staffing levels throughout the year, adjustments may be necessary to reflect typical workforce conditions such as vacancy, hiring delays, and employee turnover to ensure that authorized costs reflect expenses that are reasonably expected to be incurred.

Cal Advocates used Suburban's payroll forecast from its last GRC (A.23-01-001) and compared it to Suburban's recorded data in this GRC. Suburban's payroll forecast for that GRC was contained in their workpaper "Workpapers Vol I CONFIDENTIAL (Final Application).xlsx" at Worksheet 5-1A, line 9. This was compared to Suburban's recorded payroll in this GRC found in "A.26-01-____.xlsx" at Worksheet 5-1, line 32. The difference was calculated for two years and then averaged which resulted in a 3.8% vacancy / slippage difference.