

Docket: : A.14-07-006  
Exhibit Number : ORA - \_\_\_\_  
Commissioner : Michael Picker  
Administrative Law Judges : Rafael Lirag  
Douglas Long  
ORA Witnesses : Pat Esule  
Josefina Montero



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

**REPORT  
ON DISTRICT OPERATING EXPENSES  
Golden State Water Company  
Test Year 2016 General Rate Case  
A.14-07-006**

**San Francisco, California  
March 6, 2015**

## MEMORANDUM

This report is prepared by Pat Esule and Josefina Montero of the *Office of Ratepayer Advocates (ORA) - Water Branch*, and under the general supervision of Program and Project Manager Danilo Sanchez, and Program and Project Supervisor Lisa Bilir. Ms. Esule's and Ms. Montero's Statements of Qualifications can be found in ORA's Company-Wide Report on the Results of Operations in this proceeding, A.14-07-006. Shanna Foley and Kerriann Sheppard serve as ORA legal counsels.

# Report on District Operating Expenses

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1 **Chapter 1: EXECUTIVE SUMMARY**

2 **A. INTRODUCTION**

3 This report covers GSWC’s Regions 1, 2 and 3 Administrative & General (A&G) and Operation  
4 & Maintenance (O&M) expenses, excluding conservation, all labor and benefits, taxes other than  
5 income, and General Office (GO) expenses. These A&G and O&M expenses are referred to  
6 herein as “**operating expenses.**” Recommendations regarding conservation, labor and benefits  
7 expenses, taxes, and allocated GO expenses are presented in ORA’s Report on Demand-Related  
8 Issues, Report on Labor and Pension & Benefits, and Report on the General Office, respectively.  
9 This report also incorporates recommendations from ORA’s testimony on plant.

10 In this chapter, ORA presents key recommendations from this report and describes its general  
11 approaches and adjustments in forecasting Test Year 2016 operating expenses.

12 Chapters 2 to 4 of this report cover **O&M expenses**; Chapters 5 to 7 cover **A&G expenses**.  
13 Adjustments presented in Chapters 2 to 7 herein are reflected in ORA’s Results of Operations  
14 Tables 3-1 and 4-1 for each respective ratemaking area (see ORA’s Company-Wide Report on  
15 the Results of Operations).

16 This report also addresses, in Chapter 8, GSWC’s **Special Request #14** - to establish a  
17 Memorandum Account for expenses related to the proposal to provide fluoridated water in the  
18 Arden Cordova Customer Service Area (CSA).

19 **B. KEY RECOMMENDATIONS**

20 ORA presents its recommendations on district operating expenses throughout this report. Below  
21 are some key recommendations:

- 22 1) For each ratemaking area, GSWC should correct its calculation of inflation for Chemical  
23 expense (Chapter 1).
- 24 2) Customer growth factor should not be used in developing Test Year expense forecasts  
25 (Chapter 1).

- 1       3) Purchase Card (PCARD) charges that are improper, such as Health Club, Movie/Music  
2       and Pet Fee payments, should be removed from recorded expense data used for  
3       forecasting purposes (Chapter 1).
- 4       4) To increase transparency and to eliminate the need for ORA to again expend considerable  
5       efforts to obtain PCARD transaction details for its review, the Commission should  
6       impose the following requirements on GSWC in future GRCs (Chapter 1):
- 7           • GSWC must provide a complete listing of all PCARD transactions whose dollar  
8           amounts are included in recorded costs used by GSWC for forecasting purposes.  
9           The proposed application will be considered deficient and unacceptable if a  
10          complete listing is not provided.
  - 11          • GSWC must have readily available documentation (invoices, receipts, etc.)  
12          supporting the listed PCARD transactions and provide to ORA upon request and  
13          within 7 days of the request.
  - 14          • GSWC must remove from the recorded data used for GRC forecasting purposes  
15          all PCARD transactions that are [1] improper per GSWC's guidelines (e.g.,  
16          personal items), [2] found to be fraudulent, and [3] for expenses that the  
17          Commission has already determined should not be recovered from ratepayers  
18          (e.g., Chamber of Commerce, service clubs, charitable donation, lobbying work,  
19          etc.).
- 20       5) Dues and expenses related to Chambers of Commerce, service clubs, charitable  
21       contributions, and lobbying activities have been historically disallowed by the  
22       Commission. The Commission should impose the following requirements on GSWC in  
23       future GRCs (Chapter 1):
- 24           • GSWC must remove from the recorded data used for forecasting purposes all  
25           historically disallowed expenses.
  - 26           • GSWC to provide documentation of each of these exclusions from recorded data.
  - 27           • The Commission should put GSWC on notice that violations of this order will  
28           result in fines and/or a reduction in executive management's compensation  
29           expenses for rate setting purposes.
- 30       6) In the Bay Point CSA, amounts related to GSWC's share of the cost for the Contra Costa  
31       Water District's Randall-Bold Water Treatment Plant should be included in Purchased



1 Water expense and not capitalized (Chapter 2).

2 7) Historical expenses related to operation of the Bay Point Hill Street Water Treatment  
3 Plant should be excluded from historical data when forecasting for the Test Year  
4 (Chapter 2).

5 8) Historical expenses related to sludge removal at the Clearlake Sonoma Water Treatment  
6 Plant should be excluded from historical data when forecasting for the Test Year  
7 (Chapter 2).

8 9) In Regions 2 and 3, payments to Metropolitan Water Department for Flow Violations  
9 should be excluded from the Purchased Water expense subject to the Modified Cost  
10 Balancing Account treatment because it is an expense that is entirely under GSWC's  
11 operational control (Chapters 3 and 4).

12 10) In Region 3, Office/Facility Rent (sub-account 7110) should be based on rent for the  
13 current maintenance field office at 10543 Progress Way, Cypress CA and not include  
14 higher rental costs for the vacated location (Chapter 4).

## 15 **C. ESCALATION METHODOLOGY & FACTORS**

16 This section describes GSWC's and ORA's general approaches and differences in developing  
17 operating expense forecasts for Regions 1-3.

### 18 **1. General forecasting methodology**

19 GSWC bases its estimates for most operating expense accounts on the five-year average of  
20 recorded 2009 through 2013 data and generally notes any deviations from this methodology.

21 Prior to taking the five-year average, GSWC first brings the historical recorded data to a  
22 common base year, which in this case is 2013. This normalization process uses inflation factors  
23 from the ORA Energy Cost of Service & Natural Gas and Water Branches' May 2014  
24 Memoranda (ORA Memos), which contain estimated rates for Non-Labor and Wage Escalation  
25 and Compensation Per Hour. For some sub-accounts, GSWC makes additional adjustments to  
26 the normalized average expense amounts that it believes better reflects its current and future  
27 costs (e.g., for sub-account Vehicle expense, GSWC makes adjustment to reflect its proposed  
28 lower depreciation rate for vehicles).

29 Next, GSWC escalates the normalized averages (in 2013 dollars) to develop its Test Year 2016

1 expense forecasts. In this escalation, GSWC applies the inflation factors from the ORA Memos  
2 plus its five-year average customer growth factor to the normalized average.

3 As mentioned, GSWC generally bases its forecast on five-year average (2009-2013) data. In  
4 cases where GSWC uses the two- or three-year average or last recorded year data, it provides an  
5 explanation to support that forecasting approach (although not in all instances).

6 In developing operating expense forecasts, ORA uses a parallel procedure to that of GSWC with  
7 two significant exceptions:

8 (1) Prior to computing the normalized expense amounts, ORA examines the historical  
9 expenses and removes unsupported and inappropriate expenditures and one-time  
10 expenditures that are unlikely to repeat in this GRC's forecast period. These  
11 adjustments to the historical data ensure that the forecast amounts are based on  
12 expenditures that are reasonable and that can be reasonably expected in the forecast  
13 period.

14 (2) In escalating ORA-adjusted and normalized expense amounts from 2014 to 2016  
15 dollars, ORA does not apply the customer growth factor, for reasons explained in  
16 Section 4 below.

## 17 **2. Update of escalation factors**

18 ORA does not object to GSWC's application of the escalation (inflation) factors from the ORA  
19 Memos for the purposes of normalizing and escalating operating expenses discussed herein. To  
20 facilitate an apple-to-apple comparison between GSWC's and ORA's forecasts, ORA uses the  
21 factors from the same May 2014 ORA Memos. ORA recommends that escalation factors from  
22 the latest available published ORA Memos be used to update operating expense forecasts in the  
23 Comparison Exhibit, and to the extent practical in the final decision adopting test year revenue  
24 requirements in this GRC.

## 25 **3. Correction of escalation errors in GSWC's expense workpapers**

26 In addition to adjustments discussed above, ORA corrected a number of errors found in GSWC's

1 Excel workpapers. For example, ORA found that in GSWC’s workpapers for the Southwest  
2 District Office, formulas to inflate Office Supplies & Expense amounts reference the wrong  
3 Excel cells for inflation factors. ORA informed GSWC of this type of error<sup>1</sup> and the company  
4 agreed that these inadvertent errors should be corrected. Below is another example of these  
5 workpaper errors, which can have a significant cumulative impact.

6 In forecasting Chemical expense for all of its service areas, GSWC erred in escalating historical  
7 Chemical expenses to 2013 dollars. In forecasting Chemical expenses associated with water  
8 treatment, GSWC generally uses historical chemical unit costs, adjusted for inflation. GSWC  
9 applies annual escalation factors to the annual unit cost per acre-foot to bring historical costs  
10 recorded for past years forward to 2013 dollars. ORA found that GSWC incorrectly escalated its  
11 historical Chemical Expense by applying one extra year of escalation. For example, to bring  
12 2009 recorded unit costs to 2013 dollars, GSWC applied a compounded escalation factor that  
13 includes escalation factors 2009, 2010, 2011, 2012, and 2013. Essentially, GSWC escalated  
14 2009 dollars to 2010 by applying two years’ worth of escalation (2009 and 2010). ORA’s  
15 estimate reflects the correct escalation or normalization methodology by removing this double  
16 escalation and applying four years of escalation (2010, 2011, 2012, and 2013) to escalate 2009  
17 recorded cost data to 2013 dollars.

18 **4. Removal of customer growth factors from GSWC’s escalation methodology**

19 ORA rejects GSWC’s use of the customer growth factor to derive Test Year 2016 expense  
20 forecasts. The Commission’s Rate Case Plan D.07-05-062 allows the application of customer  
21 growth factors in developing expense forecasts for the escalation/attrition years (in this case,  
22 2017 and 2018), but does not specify or require such application in developing expense forecasts  
23 for the Test Year. The Commission, in its decision on San Jose Water Company’s GRC provides  
24 clear guidance on this issue:

25         ... a plain reading of D.07-05-062 shows that the Commission did not apply customer  
26         growth to test year expenses but instead applied the customer growth to expenses in  
27         escalation years following the test year. Therefore, the Commission has eliminated

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<sup>1</sup> GSWC Response to ORA Data Request JM2-014 #A.4.

1 customer growth as a factor in all test year expenses.<sup>2</sup>  
2 In this same decision, the Commission presents the following Findings of Facts on the  
3 application of customer growth factor in developing Test Year estimates:

4 11. It is unreasonable to include customer growth escalation factors in test year expenses  
5 as test year expenses are escalated due to other factors.

6 12. D.07-05-062 applies customer growth to test year expense estimates to calculate  
7 escalation year expenses.<sup>3</sup>

8 Thus, consistent with prior Commission decisions, ORA does not automatically apply the  
9 Customer Growth Factor in developing its operating expense estimates for the Test Year. In  
10 accounts/sub-accounts where ORA makes no other adjustments, ORA's removal of the Customer  
11 Growth Factor from GSWC's forecast calculations generally results in a small difference  
12 between GSWC's and ORA's expense estimates.

#### 13 **D. PURCHASED CARDS (PCARDS)**

14 In this GRC, ORA performed extensive and in-depth review of the recorded operating expenses.  
15 This type of review is necessary to ensure that the recorded expense amounts used as a basis for  
16 forecasting Test Year expenses (e.g., through the escalated 5-year average) reflect costs that are  
17 reasonable and appropriate for ratemaking purposes and for Test Year 2016. This process was  
18 made unnecessarily difficult because of GSWC's use and reporting of Purchase Cards or  
19 PCARDS, as explained below.

20 To review the recorded expenses, ORA first requested GSWC to provide the breakdown of the  
21 major sub-accounts comprising the PUC accounts Office Supplies & Expense, Outside Services,  
22 Miscellaneous and Other Maintenance of General Plant for the years 2009 to 2013 for Regions  
23 1-3, including the respective district offices for each. Many of the transactions clearly indicated  
24 the vendors (e.g., Office Depot, Verizon) or the provider of services (e.g., BROWNSTEIN  
25 HYATT FARBER SCHREC, a law firm). However, a number of transactions are simply labelled  
26 PCARDS followed by the month and year the transaction transpired and the region where the

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<sup>2</sup> D.14-08-006, p. 26.

<sup>3</sup> D.14-08-006, p. 120.

1 transaction took place (e.g., PCARD MAY11 REG3). In the case of some sub-accounts (e.g.,  
2 sub-account 7124 -Supplies Other in Region 3), the PCARD transactions accounted for over  
3 90% of the cumulative amounts for the period 2009 to 2013 for that account.<sup>4</sup>

4 GSWC issues PCARDS to some of its employees to be used for business expenses such as travel  
5 and meal expenditures or training/conference fee payments. In response to ORA’s inquiry,  
6 GSWC provided its policies regarding PCARDS. (See Appendix OpEx-A: GSWC’s PCARDS  
7 Policy and Procedures.) These policies include types of expenses that can be purchased through  
8 PCARDS, which employees are authorized to have PCARDS, approving authorities, and  
9 reporting and verification requirements for charges incurred. Expenses through PCARD  
10 transactions are embedded in the recorded data that GSWC used to redevelop its expense  
11 requests for the Test Year. Thus, it is important to address the many issues that ORA found in  
12 GSWC’s use and accounting of PCARD expenses.

13 ORA requested GSWC to expound on the nature of transactions captioned as PCARDS, such as  
14 PCARD APR10 REG2. GSWC responded as follows:

15 PCARD stands for “Purchase Card.” “PCARD APR10 REG2” represents the total  
16 charges on company charge cards for the PUC Account being reviewed for the month of  
17 April in 2010 for Region x, in this case the label is for Region 2. The related amount will  
18 be the sum of all charges for the identified account in the identified period.<sup>5</sup>

19 Since the actual transactions charged to PCARDS are not sufficiently transparent for verification  
20 and auditing purposes and due to the large number of PCARD transactions in certain accounts,  
21 ORA had to issue multiple rounds of data requests to obtain invoices or supporting documents  
22 for PCARD transactions. Having to issue multiple rounds of data requests to review individual  
23 transaction details was a convoluted and tedious process that slowed ORA’s discovery process  
24 considerably. ORA’s review of PCARD use and PCARD transactions results in the following  
25 findings and recommendations.

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<sup>4</sup> GSWC Response to ORA Data Request JM2-001 #A.1.b.

<sup>5</sup> GSWC Response to ORA Data Request JM2-017 #A.2.

1 PCARDS – Personal Use

2 In its audit of sample PCARDS, ORA found that on a number of occasions, GSWC employees  
3 use PCARDS for personal use. This is prohibited per GSWC’s PCARD policy. Instances of  
4 using PCARDS for personal use found by ORA include:

- 5 • Health Club payment of \$20.00 in the hotel bill in Region 3.<sup>6</sup>
- 6 • Movie/Music payment of \$12.99 in the hotel bill in the Northern District.<sup>7</sup>
- 7 • Pet Fee payment of \$25.00 in the hotel bill in the Santa Maria CSA.<sup>8</sup>

8 ORA requested GSWC to explain why the above items were allowed since they appear to be in  
9 violation of PCARD Policy which states: “The Purchase Card is not to be used for the purchase  
10 of personal items.” GSWC’s response was:

11 ORA misinterprets the portion of GSWC’s PCARD Policy. This statement is referring to  
12 the purchase of merchandise. The above cited items are related to business travel and  
13 meal expenditures, as determined by the approving supervisors. GSWC’s PCARD Policy  
14 states the PCARD “[c]an be used for valid business travel and meal expenditures.”<sup>9</sup>

15 ORA disagrees that these expenditures are “valid” business expenses and excludes all expenses  
16 of this nature from recorded data. Irrespective of classification, i.e., personal item or  
17 merchandise, these types of improper expenses should not be passed on to ratepayers.<sup>10</sup>  
18 Shareholders can of course shoulder these costs as part of employee benefits.

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<sup>6</sup> GSWC Response to ORA Data Request JM2-036 #A.1.d.i for PCARD JULY 10 REG3 for expense incurred on June 22,2010.

<sup>7</sup> GSWC Response to ORA Data Request JM2-050 #A.4.b.i for PCARD APR09 REG1 for expense incurred on April 8, 2009.

<sup>8</sup> GSWC Response to ORA Data Request JM2-043 #A.1.b.i for PCARD APR09 GO for expense incurred on April 5, 2009.

<sup>9</sup> GSWC Response to ORA Data Request JM2-055 #A.1, 2 and 3.

<sup>10</sup> These expenses are passed on to ratepayers in the form of escalating recorded costs for Test Year expense forecasting purposes.

1 PCARDS – fraudulent charges

2 In its sample audit of the PCARD charges, ORA discovered instances where fraudulent charges<sup>11</sup>  
3 were found resulting in reversal of charges. Because these transactions are aggregated in  
4 PCARDS, it was only by multiple rounds of data requests that ORA was able to spot these  
5 fraudulent PCARD charges.

6 Recommendation #1 regarding PCARDS

7 For the above stated reasons, ORA recommends removal of all PCARD charges that are  
8 improper, such as those described in the preceding sections, from recorded expense data used for  
9 forecasting purposes. Chapters 5 through 7, on A&G expenses, identify these specific  
10 adjustments.

11 Recommendation #2 regarding PCARDS

12 Furthermore, ORA recommends that the Commission impose the following requirements on  
13 GSWC to eliminate the need for ORA to again expend considerable efforts to obtain PCARD  
14 transaction details for its review, to provide incentives to GSWC to better manage its PCARD  
15 purchases, and to increase transparency generally:

- 16 • As part of its proposed application for future GRCs, GSWC must provide a complete  
17 listing of all PCARD transactions whose dollar amounts are included in recorded  
18 costs used by GSWC for forecasting purposes. The list should be organized in the  
19 same manner as that in GSWC’s workpapers (e.g., by ratemaking area, year, and sub-  
20 account) and each listed item should have a clear description identifying the nature of  
21 the expenditure. ORA will consider the proposed application deficient and not  
22 recommend acceptance if a complete listing is not provided.
- 23 • In the GRC application, GSWC must provide the same information and note any  
24 changes, if any, from the proposed application’s PCARD list.

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<sup>11</sup> Charges where the employee assigned the PCARDS claimed that the charges were made without his/her knowledge. Examples: 2011 charge of \$2,950 for the “Fluid Conservation System” in the Region 3’s Orange County District Office; a 2011 charge of \$905 for Macy’s purchases in Region 3.

- 1 • In addition to the listing provided in the final GRC application, GSWC must have  
2 readily available documentation (invoices, receipts, etc.) supporting the listed  
3 PCARD transactions and provide to ORA upon request and within 7 days of the  
4 request.
- 5 • For the recorded data used for GRC forecasting purposes, GSWC must remove all  
6 PCARD transactions that are [1] improper per GSWC’s guidelines (e.g., personal  
7 items), [2] found to be fraudulent, and [3] for expenses that the Commission has  
8 already determined should not be recovered from ratepayers (e.g., Chamber of  
9 Commerce, service clubs, charitable donation, lobbying work, etc.).<sup>12</sup>

10 **E. HISTORICALLY DISALLOWED EXPENSES**

11 ORA found a large number of transactions for dues and expenses related to Chambers of  
12 Commerce, service clubs, charitable contributions, and lobbying activities in its review of  
13 recorded operating expenses. This included General Office expenses. These expenses are  
14 recorded in a number of different sub-accounts. For example, ORA found dues for Chamber of  
15 Commerce and service clubs in various sub-accounts under PUC Account 799 (Miscellaneous)  
16 and Account 792 (Office Supplies & Expense). Some of these improper expenses were buried in  
17 PCARD totals, which is not a transparent method of tracking these expenses. ORA was only able  
18 to discover these expenses through multiple rounds of data requests.

19 The problem here is two-fold. First, as discussed in more detail in ORA’s Report on the General  
20 Office, the Commission has historically disallowed these expenses. By including these expenses  
21 in the recorded data used to forecast Test Year expenses, GSWC is in effect requesting funding  
22 from ratepayers so that it can continue to incur expenses the Commission already determined to  
23 be improper for ratemaking purposes. Ratepayers should not be asked to fund these  
24 discretionary expenditures, and neither ORA nor the Commission should bear the burden of  
25 identifying and disallowing these expenses in every GRC application. Second, GSWC’s  
26 accounting of these expenses (e.g., in PCARDs and in different sub-accounts) makes it extremely

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<sup>12</sup> See Section E below for discussion on improper expenses such as Chamber of Commerce fees, etc.



1 difficult for ORA to verify that GSWC has not included these improper expenses in recorded  
2 data used for forecasting purposes.

3 **Recommendation #1 regarding Historically Disallowed Expenses**

4 For the reasons mentioned above and presented in greater detail in ORA’s General Office  
5 Report, ORA recommends removal of dues and expenses related to Chambers of Commerce,  
6 service clubs, charitable contributions, and lobbying activities from the recorded data used for  
7 forecasting purposes. In Chapters 5 to 7 on A&G expenses, ORA identifies the specific  
8 expenses for removal based on this recommendation.

9 **Recommendation #2 regarding Historically Disallowed Expenses**

10 For the reasons stated above, ORA recommends that the Commission (1) order GSWC to  
11 remove all historically disallowed expenses from recorded data used for forecasting purposes in  
12 future GRCs, and provide documentation of each of these exclusions from recorded data (2) put  
13 GSWC on notice that violations of this order will result in fines and/or a reduction in executive  
14 management’s compensation expenses for rate setting purposes.

## Chapter 2: REGION 1, O&M EXPENSES

### A. REGION 1, O&M EXPENSES - OVERVIEW

GSWC's Region 1 is comprised of two districts: Northern and Coastal. The Northern District consists of the Arden Cordova, Bay Point, and Clearlake Customer Service Areas (CSAs). The Coastal District covers the Los Osos, Ojai, Santa Maria, and Simi Valley CSAs. Unlike Regions 2 and 3 where the Commission has authorized regional rates, the Region 1 CSAs are separate unique ratemaking areas.

This chapter presents ORA's Region 1 O&M estimates; ORA's discussions presented herein focus on adjustments made to GSWC's estimates. The resulting adjusted estimates are reflected in ORA's Results of Operations (RO) tables included in its ORA's Company-Wide Report on Results of Operation.

In addition, as explained in Chapter 1, ORA accepts GSWC's application of escalation factors but not the Customer Growth factor, and conservation, labor and benefits expenses are covered in testimony by other ORA witnesses.

### B. SUMMARY OF RECOMMENDATIONS

**Table 2-A** at the end of this chapter presents a summary of Test Year 2016 O&M expenses for Region 1. ORA's forecasts reflect adjustments discussed herein, as well as adjustments to labor and benefits and conservation expenses (see ORA's testimony on Labor and Benefits and Conservation expenses).

### C. ACCOUNT 70400 – PURCHASED WATER

Purchased Water expenses include the cost of water purchased by GSWC from various purveyors for resale to GSWC's customers. In Region 1 CSAs, GSWC purchases various amounts of water for supply to its customers in all CSAs except for Arden Cordova and Los Osos. Arden Cordova is supplied through groundwater from company-owned wells and the American River surface water treated by GSWC. Los Osos is supplied with 100% groundwater from company-owned wells. ORA's recommended total water supply for Arden Cordova and Los Osos is based on sales forecast and estimated water loss percentages presented in ORA's

1 testimony on Sales and Plant, respectively.

2 ORA reviewed GSWC's methodology, rates, and calculations for Purchased Water requirements  
3 for each of the CSAs where GSWC purchases water. ORA generally agrees with GSWC's  
4 methodology used to calculate Purchased Water Expenses for all CSAs as described below.  
5 However, ORA and GSWC's estimates for Purchased Water expenses differ principally due to  
6 differing estimated water supply requirements. ORA presents herein GSWC's water supply  
7 requirement estimates for informational purposes only. ORA's Purchased Water Expense  
8 estimates, shown in its Results of Operations tables, reflect its sales forecasts, supply mix  
9 estimates, and water loss percentage as estimated by ORA plant witnesses.

#### 10 Purchased Water, Bay Point CSA

11 For the Bay Point CSA, GSWC estimates a total supply requirement of 973,664.3 hundred cubic  
12 feet (ccf) of water in Test Year 2016. Bay Point's estimated supply mix consists of about 90%  
13 purchased water from the Contra Costa Water District (CCWD) through two inter-connections  
14 and a buy-in of CCWD's Bollman Treatment Plant and the Randall Bold Treatment Plant. The  
15 remaining 10% of the supply is groundwater produced from 3 company-owned wells. GSWC's  
16 estimate for total Purchased Water Expense is equal to the most recent cost/ccf, multiplied by the  
17 estimated supply to be purchased in the Test Year. GSWC also includes \$21,402.00 for 4,680  
18 Acre-Feet (AF) (2,038,608 ccf) of water pumped under a special contract with Westwood  
19 Village Condominium Association.

20 In late January 2015, GSWC alerted ORA to an error in its workpapers wherein GSWC  
21 erroneously included in its purchased treated water supply the 4,680 AF of water pumped under  
22 special contract with Westwood Village Condominium Association. According to GSWC, this  
23 water should be excluded from the purchased treated water supply calculation. ORA corrected its  
24 own workpapers to calculate total purchased water supply. The corrected estimate is reflected in  
25 Table 2-A at the end of this Chapter and in ORA's RO table.

26 ORA's recommended Purchased Water expense also includes adjusted amounts requested by  
27 GSWC in its capital budget for GSWC's share of costs for the Contra Costa Water District's

1 Randall-Bold Water Treatment Plant.<sup>13</sup> ORA’s recommended Purchased Water expense  
2 includes an amortized amount of \$140,000 per year for years 2016 through 2018. For ORA’s  
3 recommendation on this adjustment, see ORA’s Report on Plant – Region 1 (Chapter 2).

4 **Purchased Water, Clearlake CSA**

5 For the Clearlake CSA, GSWC estimates a total water supply requirement of 244,578 ccf.  
6 GSWC proposes to purchase 186,234 ccf (76% of total supply requirement) from the Yolo  
7 County Flood Control & Water Conservation District. The Purchased Water expense estimate is  
8 equal to the most recent authorized rate, effective May 1, 2014, multiplied by the amount of  
9 water expected to be purchased. The balance of supply volume is surface water from Clear Lake  
10 that is treated at GSWC’s treatment plant. GSWC has prescriptive rights to 58,344 ccf of surface  
11 water per year.

12 **Purchased Water, Ojai CSA**

13 For the Ojai CSA, GSWC estimates a total supply requirement of 1,018,415 ccf, of which  
14 211,240 ccf (26%) is purchased water. The balance of supply is pumped from company-owned  
15 wells. Approximately 85% of the purchased water is from the Casitas Metropolitan Water  
16 District (MWD). GSWC uses the most recent authorized rate, effective July 2013, multiplied by  
17 the estimated amount of purchased water to estimate the Purchase Water expenses payable to  
18 Casitas MWD. The remaining 15% of purchased water is under special contract with the Harold  
19 Bailey and Doralee Bailey Trust.

20 **Purchased Water, Santa Maria CSA**

21 In the Santa Maria CSA, GSWC estimates a total supply volume of 4,170,772 ccf. GSWC uses  
22 its groundwater wells for about 96%, or 4,039,108 ccf, of its total supply, and purchases the  
23 remaining 4% from the City of Santa Maria, the Central Coast Water Authority, and the Nipomo  
24 Community Service District and via a special contract with the Blochman Union School District.  
25 To estimate Purchase Water expenses, GSWC uses the rates for purchased water effective for

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<sup>13</sup> GSWC requests \$28,200 in 2015, \$174,900 in 2016, \$255,600 in 2017, and \$137,000 in 2018. GSWC prepared testimony of Robert McVicker and Mark Insko, Attachment BP01 – Contra Costs Water District, FY2015-2024 Capital Improvement program (Randall-Bold WTP Improvements).

1 fiscal year 2014/2015 multiplied by the respective, estimated purchased water amounts, plus the  
2 cost of water purchased from the Blochman Union School District under a special contract.

3 **Purchased Water, Simi Valley CSA**

4 For the Simi Valley CSA, GSWC estimates a total supply volume of 3,212,327 ccf, of which  
5 2,942,061 ccf (92%) is purchased from the Calleguas Municipal Water District. GSWC's  
6 Purchased Water expense estimate is equal to the most recent authorized rates for 2014 and 2015  
7 multiplied by the estimated purchased water quantity. The remaining supply (8%) is produced  
8 from company owned wells.

9 **D. ACCOUNT 72600 – PURCHASED POWER**

10 GSWC estimates total Purchased Power expenses by multiplying the most recent authorized  
11 rates for power by its estimated power consumption for pumping and/or boosting water through  
12 the individual water systems. In the Northern District CSAs, GSWC purchases power from  
13 Sacramento Municipal Utility District (SMUD) and Pacific Gas & Electric (PG&E). In the  
14 Coastal District CSAs, GSWC purchases power from PG&E and Southern California Edison  
15 Company (SCE). GSWC uses historical data to forecast power consumption for booster pumps  
16 and wells.

17 ORA examined GSWC's calculations and accepts the company's methodology in estimating  
18 Purchased Power expenses for the following CSAs: Bay Point, Clearlake, Los Osos, and Simi  
19 Valley. ORA's calculation differs from GSWC's calculation for total estimated power  
20 consumption in the Arden Cordova, Ojai, and Santa Maria CSAs.

21 ORA's Purchase Power estimates, as shown in ORA's RO table, are based on ORA estimates of  
22 power required to pump and move ORA's recommended total water supply, multiplied by the  
23 most recent authorized rates included in GSWC's filing.

24 **Purchased Power, Arden Cordova CSA**

25 For Arden Cordova, ORA methodology for forecasting power consumption differs slightly from  
26 GSWC's methodology. Specifically, ORA and GSWC differ in the estimate of power  
27 consumption per unit of water rate (kilowatt per hour per ccf, or kwh/ccf). GSWC uses the last  
28 recorded (2013) power consumption rate of 1.054 kwh/ccf to forecast the amount of power

1 needed for well pumping, and the last recorded power consumption rate of 0.669 kwh/ccf to  
2 forecast power needed for booster pumping. ORA uses the five-year average power  
3 consumption rate of 1.038 kwh/ccf to forecast power consumption for wells, and the five-year  
4 average of 0.668 kwh/ccf for boosters. ORA’s methodology results in a lower estimated power  
5 consumption rate for both wells and boosters.

6 As shown in the table below, the power consumption rates for well and booster pumping  
7 fluctuate from year to year.

8 **Table 2-B: Historical Power Consumption Rate for Wells and Booster Pumps, in kwh/ccf**

<b>Pumps</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2009-2013 Average</b>
Wells	1.034	1.038	1.052	1.010	1.054	1.038
Boosters	0.602	0.669	0.717	0.684	0.669	0.668

9 GSWC provided no justification for using the last recorded kwh/ccf for wells or boosters.  
10 ORA’s estimate, based on the five-year average, takes into consideration the historical annual  
11 variations in power consumption rates for well and booster pumping and provides a more  
12 reasonable estimate for the forecast period. ORA’s lower estimate for power consumption is  
13 appropriate because of GSWC’s program to install Variable Frequency Drives (VFDs) to more  
14 efficiently operate its boosters.<sup>14</sup> Such planned initiatives resulting in expected energy savings  
15 should be reflected in the forecast.

16 **Purchased Power, Ojai CSA**

17 GSWC used the last recorded (2013) kwh/ccf for wells (3.45 kwh/ccf) and (0.181 kwh/ccf) for  
18 boosters to forecast power consumption for Ojai. ORA also uses 3.45 kwh/ccf for wells, but  
19 uses the most recent two-year average (2012 and 2013) kwh/ccf for boosters (0.179 kwh/ccf).  
20 ORA’s lower rate for boosters is based on GSWC’s proposal for improvements at the Fairview  
21 Boosters. According to GSWC’s response to MDR F.7, improvements at the Fairview boosters

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<sup>14</sup> In its response to Minimum Data Request F. 7, GSWC indicates that boosters will have VFDs and will provide more efficient low flow supply than wells.

1 will eliminate the need for the Valley View Booster station. ORA’s adjustments to power used  
2 by boosters reflect GSWC’s capital projects that are expected to result in energy savings.

3 **Purchased Power, Santa Maria CSA**

4 GSWC’s Purchase Power forecast for Santa Maria CSA is based on the five-year average  
5 kwh/ccf for wells (2.48 kwh/ccf) and the two-year average kwh/ccf for boosters (0.019 kwh/ccf).  
6 ORA uses the last recorded year (2013) for both wells (2.45 kwh/ccf) and booster pumps (0.018  
7 kwh/ccf) to reflect capital projects completed by GSWC to improve energy efficiency.  
8 According to MDR F.7, GSWC has installed VFDs at the new Tanglewood Well #3, and the  
9 Lake Marie Boosters. In MDR F.7, GSWC states that the VFDs installed at Tangelwood Well  
10 #3 and the Lake Marie Boosters will improve the efficiency of low flow pumping. GSWC also  
11 plans to install VFDs at the Oak Well, Orcutt Boosters, and Alta Mesa Boosters.

12 **E. ACCOUNT 73500 – PUMP TAXES**

13 The only CSA in Region 1 where GSWC is assessed a Pump Tax for extracting groundwater is  
14 the Ojai CSA. GSWC’s estimate of \$27,800 for Pump Tax expense is equal to the most recent  
15 rate, effective July 1, 2013, assessed by the Ojai Basin Groundwater Management Agency  
16 multiplied by the estimated amount of pumped water subject to tax. ORA accepts the  
17 methodology used.

18 **F. ACCOUNT 74400 – CHEMICALS**

19 In general, GSWC uses historical chemical unit costs, adjusted for inflation, to forecast Chemical  
20 expenses. To estimate chemicals’ unit cost per AF, GSWC divides the total recorded chemical  
21 expense incurred each year by the total groundwater and surface water (where used) production  
22 per year. GSWC then applies annual escalation factors to the unit cost per AF to normalize  
23 historical costs to 2013 dollars. To forecast for the test year, GSWC uses the last recorded unit  
24 cost for 2013 escalated to the test year, and in some cases, an average of the recorded unit costs,  
25 escalated to the test year.

26 As discussed previously in Chapter 1 of this report, ORA found that GSWC incorrectly escalated  
27 its historical Chemical expenses by applying one extra annual escalation factor to years 2009  
28 through 2012. ORA’s estimates for Chemical expense, as shown in ORA’s RO table, reflect the

1 amount of water forecasted by ORA, using the corrected escalation calculations and ORA's  
2 recommended unit cost.

### 3 Chemical Expense, Bay Point, and Santa Maria CSAs

4 GSWC based the Chemical expenses for the Bay Point and Santa Maria CSAs on the last  
5 recorded year (2013) unit cost per AF, escalated to 2016. The escalation error mentioned above  
6 does not impact the 2016 forecast for Bay Point and Santa Maria because GSWC used the last  
7 recorded year (2013). ORA accepts the methodology used for Bay Point and Santa Maria.

### 8 Chemical Expense, Arden Cordova CSA

9 To forecast Chemical expenses in Arden Cordova CSA, GSWC uses inflation adjusted, two-year  
10 average (2012 and 2013) unit cost per AF multiplied by the estimated water quantity to be  
11 treated with chemicals. GSWC's estimated unit cost for Test Year 2016 is \$16.10/AF. ORA  
12 also used the inflation adjusted, two-year average unit cost per AF. However, ORA estimates a  
13 lower unit cost of \$15.98/AF. This lower unit cost reflects a correction to GSWC's inadvertent  
14 application of an extra year of escalation to the 2012 recorded unit cost (in normalizing expenses  
15 to 2013 dollars).

### 16 Chemical Expense, Clearlake CSA

17 For Clearlake CSA, GSWC and ORA both use the latest two-year average (2012-2013) unit cost,  
18 adjusted for inflation. GSWC's estimated two-year average escalated to 2016 dollars is  
19 \$65.72/AF, whereas ORA's estimated two-year average is \$65.25/AF. The difference in the  
20 estimated 2016 unit cost/ccf is due to ORA correction to GSWC's inflation calculation discussed  
21 above.

### 22 Chemical Expense, Los Osos CSA

23 For the Los Osos CSA, GSWC uses the last recorded (2013) inflation-adjusted unit cost/AF.  
24 GSWC's 2013 unit cost/AF escalated to 2016 dollars is \$262.89. The higher chemical cost per  
25 AF in Los Osos is due to the use of additional chemicals at the County Club plant site and the  
26 high cost of brine waste disposal. ORA used the inflation-adjusted five-year (2009-2013)  
27 average unit cost/AF. ORA's estimate for 2016 is \$253.79/AF. The historical Chemical  
28 expenses in the Los Osos CSA from 2008 through 2013 fluctuate up and down. ORA's  
29 methodology provides a better forecast because the five-year average takes into consideration the



1 historical annual variations that occur in Chemical expenses for the Los Osos CSA.

2 **Chemical Expense, Ojai CSA**

3 For the Ojai CSA, GSWC used the last recorded (2013) inflation-adjusted unit cost per AF.  
4 GSWC's unit cost escalated to 2016 is \$21.39/AF. GSWC provided no justification for using the  
5 last recorded unit cost. ORA used the inflation-adjusted five-year average (2009-2013) unit cost  
6 because of the historical fluctuations in Chemical expenses over the last five recorded years.  
7 ORA's unit cost/AF is \$17.42 for 2016.

8 **Chemical Expense, Simi Valley CSA**

9 For Simi Valley CSA, GSWC and ORA both use the inflation-adjusted five-year average (2009-  
10 2013) unit cost per AF. ORA found a formula error in GSWC's workpapers in addition to the  
11 inflation escalation error discussed previously. In calculating inflation for 2009 unit costs,  
12 GSWC subtracted rather than multiplied an inflation factor that incorrectly lowered the unit cost.  
13 ORA's estimate is slightly more than GSWC's estimate (by \$100) to reflect the correction of  
14 these two errors.

15 **G. ACCOUNT 77500 – UNCOLLECTIBLES**

16 Uncollectible expenses refers to unpaid customer accounts receivable. GSWC's forecast for  
17 Uncollectible expenses is calculated using a ratio between the five-year average (2009-2013) of  
18 the recorded Uncollectible expenses and gross operating revenue (expressed as a percentage of  
19 revenue). ORA reviewed GSWC's methodology and accepts the use of the five-year average  
20 ratio (percentage) for each CSA as follows:

1

**Table 2-C: Region 1 Uncollectible Expense Rates**

CSA	Uncollectible %
Arden Cordova	0.4293%
Bay Point	0.6391%
Clearlake	0.7373%
Los Osos	0.1798%
Ojai	0.1973%
Santa Maria	0.2047%
Simi Valley	0.2743%

2 **H. ACCOUNT 78100- OTHER OPERATION EXPENSES (excluding expenses from**  
3 **Region 1 District Offices)**

4 Other Operation expenses include numerous sub-accounts. These expenses are directly charged  
5 to individual CSAs in Region 1. The sub-accounts include Advertising, Printing, Building  
6 Services, Consulting Services, Outside Services, Utilities, Office/Facility Rent, Supplies,  
7 Telephone, and Vehicle expenses, to name just a few. For each CSA, GSWC’s estimate for total  
8 Other Operation expense is based on the inflation-adjusted five-year recorded average (2009-  
9 2013) expense, plus annual escalation to the Test Year and GSWC’s added Customer Growth.  
10 As explained earlier, ORA’s estimates do not include the Customer Growth factor in developing  
11 its Test Year estimates.

12 **Other Operation Expense, Arden Cordova CSA**

13 In Arden Cordova CSA, GSWC bases its estimate of \$216,000 for the Test Year on an inflation-  
14 adjusted five-year recorded average, excluding amounts for Courtesy Adjustments<sup>15</sup> to  
15 customers. GSWC also adjusted depreciation for company vehicles downward.<sup>16</sup> GSWC  
16 applies a Customer Growth Factor of 0.16% to further inflate costs in the Test Year. The

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<sup>15</sup> See ORA’s testimony on Sales.

<sup>16</sup> GSWC Prepared Testimony of John Garon (p. 8) re. GSWC’s proposal to lower depreciation rates for vehicles.

1 Customer Growth Factor is based on the five-year average annual change in the number of  
2 customers from 2009 through 2013. ORA examined each sub-account and accepts GSWC's  
3 five-year average but excludes the Customer Growth Factor of 0.16%. ORA recommends  
4 \$215,300 for Test Year 2016.

5 **Other Operation Expense, Bay Point CSA**

6 GSWC's estimate of \$88,800 for Bay Point CSA is also based on the inflation-adjusted five-year  
7 average, plus Customer Growth. GSWC removes Courtesy Adjustments and decreases  
8 depreciation expenses for vehicles. ORA accepts GSWC's five-year average methodology and  
9 adjustments but removed expenses incurred in 2009 that are not expected to recur in the Test  
10 Year. ORA recommends \$69,100 for 2016. ORA adjustments to GSWC's request are as  
11 follows:

12 Sub-account 7131 Consulting – GSWC included \$18,471 from 2009 in its five-year average.  
13 ORA learned through discovery that the project associated with this amount was cancelled.<sup>17</sup>  
14 GSWC has not incurred any other consulting fees since 2009. Thus, this is a one-time expense  
15 that should not be included in the five-year average for Test Year forecasting purposes.

16 Sub-account 7205 Utilities Other – GSWC included \$28,002 from 2009 in its five-year average.  
17 ORA learned through discovery that this expense was incurred in 2009 for pumping sludge from  
18 the Hill Street Treatment Plant.<sup>18</sup> The Hill Street plant was shut down permanently in 2009.  
19 ORA removed associated recorded costs from the five-year average because this service is no  
20 longer needed.

21 Sub-account 8360 Water Treatment Lab – GSWC's level of expense decreased by 50% from  
22 2009 to 2010. In 2009, GSWC recorded \$47,745 in lab expenses. In GSWC's Response to ORA  
23 Data Request PXS-005, GSWC indicated that lab expenses decreased after 2009 due to  
24 shutdown of the Hill Street Treatment Plant. This plant shutdown eliminates the need for the  
25 high level of lab expense; as such, ORA removes 2009 from consideration in estimating

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<sup>17</sup> GSWC Response to ORA Data Request PXS-021.

<sup>18</sup> GSWC Response to ORA Data Request PXS-005.

1 forecasted lab expense for the test year and uses a four-year average (2010–2013). While GSWC  
2 continues to incur some lab expenses, those expenses are not at the same level as when the Hill  
3 Street Plant was in operation. Annual lab expenses recorded from 2010 through 2013 continued  
4 to decrease from the high of \$47,745 recorded in 2009 and are now only approximately \$14,000  
5 per year.

#### 6 Other Operation Expense, Clearlake CSA

7 GSWC’s estimate in the Clearlake CSA is \$83,200. This estimate is based on the five-year  
8 recorded average (2009-2013) expense, adjusted for inflation. GSWC also applies the Customer  
9 Growth Factor of -0.07% (negative growth) for Clearlake, removes Courtesy Adjustments, and  
10 decreases depreciation expense for vehicles.

11 ORA recommends \$67,800 for the Test Year. ORA accepts the five-year average expense, the  
12 removal of the Courtesy Adjustments, and the vehicle depreciation adjustment. Other  
13 adjustments made by ORA are as follows:

14 Sub-account 7205-Utilities Other – Between 2009 and 2013, the total amount recorded in this  
15 sub-account is \$71,783, all payable to the Lake County Special District. In years 2009 through  
16 2011, the average expense recorded in this sub-account was \$7,600 per year. In 2012 and 2013,  
17 the amount recorded increased significantly to \$23,638 and \$25,295, respectively. ORA asked  
18 GSWC to explain the increase in the recorded expense beginning in 2012. In its Response to  
19 ORA Data Request PXS-006, GSWC stated that the amounts recorded in this sub-account were  
20 paid to the Lake County Special District because GSWC discharged sludge from the  
21 sedimentation basin at the Sonoma Water Treatment Plant into the sanitary sewer. GSWC  
22 explained that it was unable to comply with revised discharge limits set by the sanitation district.  
23 GSWC also indicated that after construction of sludge drying beds, authorized in GSWC’s last  
24 GRC, GSWC no longer discharges sludge into the sewage system. This expense is no longer  
25 necessary because GSWC has solved the discharge problem by constructing sludge drying beds.  
26 Therefore, ORA excludes sludge removal expenses from the historical data used for forecasting  
27 purposes.

#### 28 Operation Expense, Coastal District CSAs

29 The CSAs in the Coastal District include Los Osos, Ojai, Santa Maria, and Simi Valley. The

1 following table shows GSWC's and ORA's estimates for Other Operation expenses for the  
2 Coastal District CSAs.

3 **Table 2-D: Coastal District - Other Operation Expenses**

CSA	GSWC	ORA	GSWC > ORA
Los Osos	\$156,500	\$156,700	(\$200)
Ojai	\$72,500	\$72,400	\$100
Santa Maria	\$475,900	\$471,900	\$4,000
Simi Valley	\$65,900	\$65,800	\$100

4 GSWC's estimate for each of the four CSAs in the Coastal District is based on the inflation-  
5 adjusted five-year average expense, plus a Customer Growth Factor.<sup>19</sup> GSWC removes Courtesy  
6 Adjustments, and decreased the depreciation expense for vehicles. After reviewing each account  
7 and sub-account for unusual or non-recurring expenses, ORA accepts GSWC's methodology and  
8 estimates for each of the CSAs but excludes the Customer Growth Factor for the reason  
9 explained above. The difference between GSWC and ORA estimates reflect the impact of the  
10 Customer Growth factor.

11 **I. ACCOUNT 78800 – OTHER MAINTENANCE (excluding expenses from District**  
12 **Offices)**

13 Other Maintenance expenses are directly charged to each of the individual CSAs in Region 1  
14 according to various sub-accounts. The sub-accounts include Tools, Permits, Outside Services,  
15 Vehicle expense, Meals, and Equipment Rental. For each of the CSAs, GSWC's estimate is  
16 based on the inflation-adjusted five-year average (2009-2013) expense, plus GSWC's Customer  
17 Growth factor.

18 **Other Maintenance Expenses, Region 1 CSAs**

19 The following table presents GSWC's and ORA's estimates of Other Maintenance expenses for

---

<sup>19</sup> Customer Growth Factor used for the Coastal District CSAs are as follows: Los Osos -0.08%, Ojai 0.05%, Santa Maria 0.43%, and Simi Valley 0.08%.

1 the seven CSAs in the Northern and Coastal Districts.

2 **Table 2-E: Region 1 CSAs - Other Maintenance Expenses**

CSA	GSWC	ORA	GSWC > ORA
Arden Cordova	\$286,500	\$285,600	\$900
Bay Point	\$107,200	\$105,800	\$1,400
Clearlake	\$66,800	\$66,800	\$0
Los Osos	\$150,800	\$151,000	(\$200)
Ojai	\$254,800	\$254,500	\$300
Santa Maria	\$307,800	\$305,200	\$2,600
Simi Valley	\$73,700	\$73,600	\$100

3 ORA reviewed the expenses recorded in each of the sub-accounts for the period 2009 through  
4 2013 and accepts the five-year average plus inflation but rejects GSWC's application of the  
5 Customer Growth factor for the Test Year. The Clearlake and Los Osos CSAs had negative  
6 Customer Growth. ORA's removal of the negative Customer Growth Factor made a negligible  
7 difference in Clearlake CSA and increased the level of expense in the Los Osos CSA.

8 **J. ACCOUNT 79910 – ALLOCATED DISTRICT OFFICE EXPENSES – O&M only**

9 The Allocated District Office expense is the sum of the Administrative & General, Operation &  
10 Maintenance expenses, including Payroll and Taxes for the Northern and Coastal District  
11 Offices, and the Region 1 CSAs. GSWC uses the number of customers in each CSA as the basis  
12 for allocating the District Office expense. GSWC's request for O&M expense for the two  
13 District Offices for Test Year 2016 is based on historical expenses for years 2009 through 2013,  
14 adjusted for inflation. ORA accepts this methodology for the O&M expenses for each of the  
15 District Offices.

16 The O&M expense estimates for Northern and Coastal District Offices include sub-account 744 -  
17 Chemicals (*not associated with water production*), sub-account 781 - Other Operation Expense  
18 (*excluding Labor and Conservation*), and sub-account 788 - Other Maintenance Expense  
19 (*excluding Labor*).

1 Other Operation Expenses, Northern and Coastal District Offices

2 Other Operation expenses for the Northern District Office and the Coastal District Office were  
3 minimal. Expenses were based on the inflation-adjusted five-year recorded average (2009  
4 through 2013). GSWC’s estimate for Northern District Office is \$0 and \$2,500 for the Coastal  
5 District Office. ORA accepts GSWC’s estimates for both offices.

6 Other Maintenance Expenses, Northern and Coastal District Offices

7 GSWC uses historical averaging for forecasting Other Maintenance expense for the Region 1  
8 District Offices. GSWC uses the inflation-adjusted five-year average for the Coastal District  
9 Office and the inflation-adjusted three-year average to forecast for the Northern District Office.  
10 ORA accepts the five-year average for the Coastal District Office but rejects the three-year  
11 average used to forecast for the Northern District Office. The table below compares GSWC’s  
12 forecast with ORA’s estimate.

13 **Table 2-F: Northern and Coastal District Offices - Other Maintenance Expenses**

<b>DISTRICT OFFICE</b>	<b>GSWC</b>	<b>ORA</b>	<b>GSWC &gt; ORA</b>
Northern District Office	\$12,600	\$7,700	\$4,900
Coastal District Office	\$500	\$500	\$0

14 When reviewing the historical expenses recorded in the Northern District Office, ORA found  
15 that GSWC spent \$0 dollars in years 2009 and 2010 but spent an average of \$11,800 per year in  
16 2011 through 2013. ORA uses the inflation-adjusted five-year recorded average to normalize the  
17 level of expense. Neither GSWC nor ORA included the Customer Growth Factor.

18 **K. CONCLUSION**

19 ORA recommends that the Commission adopt ORA’s adjustments presented herein. The  
20 following tables reflect the adjustments to the O&M accounts discussed in this chapter and  
21 ORA’s sales forecasts and water loss estimates.

22

1

**Table 2-A: O&M Expenses – Region 1 CSAs**

Operations & Maintenance - Arden Cordova CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$0	\$0	\$0
Acct. 72600, Purchased Power	\$863,400	\$884,900	(\$21,500)
Acct. 73500, Pump Taxes	\$0	\$0	\$0
Acct. 74400, Chemicals	\$99,900	\$105,000	(\$5,100)
Acct. 77500, Uncollectibles	0.4293%	0.4293%	
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

Operations & Maintenance - Bay Point CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$1,918,500	\$2,049,100	(\$130,600)
Acct. 72600, Purchased Power	\$102,300	\$102,300	\$0
Acct. 73500, Pump Taxes	\$0	\$0	\$0
Acct. 74400, Chemicals	\$3,000	\$3,000	\$0
Acct. 77500, Uncollectibles	0.6391%	0.6391%	
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

2

3



Operations & Maintenance - Clearlake CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$25,600	\$25,600	\$0
Acct. 72600, Purchased Power	\$77,800	\$77,800	\$0
Acct. 73500, Pump Taxes	\$0	\$0	\$0
Acct. 74400, Chemicals	\$36,900	\$36,600	\$300
Acct. 77500, Uncollectibles	0.7373%	0.7373%	
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

Operations & Maintenance - Los Osos CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$0	\$0	\$0
Acct. 72600, Purchased Power	\$171,300	\$171,600	(\$300)
Acct. 73500, Pump Taxes	\$0	\$0	\$0
Acct. 74400, Chemicals	\$260,200	\$251,800	\$8,400
Acct. 77500, Uncollectibles	0.1798%	0.1798%	
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

Operations & Maintenance - Ojai CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$485,600	\$485,600	\$0
Acct. 72600, Purchased Power	\$321,900	\$315,800	\$6,100
Acct. 73500, Pump Taxes	\$27,800	\$27,100	\$700
Acct. 74400, Chemicals	\$39,600	\$31,500	\$8,100
Acct. 77500, Uncollectibles	0.1973%	0.1973%	
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

Operations & Maintenance - Santa Maria CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$60,900	\$60,900	\$0
Acct. 72600, Purchased Power	\$1,675,700	\$1,658,500	\$17,200
Acct. 73500, Pump Taxes	\$0	\$0	\$0
Acct. 74400, Chemicals	\$50,200	\$50,200	\$0
Acct. 77500, Uncollectibles	0.2047%	0.2047%	
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

Operations & Maintenance - Simi Valley CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$8,882,500	\$9,225,600	(\$343,100)
Acct. 72600, Purchased Power	\$167,600	\$170,200	(\$2,600)
Acct. 73500, Pump Taxes	\$0	\$0	\$0
Acct. 74400, Chemicals	\$2,100	\$2,200	(\$100)
Acct. 77500, Uncollectibles	0.2743%	0.2743%	
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

1 Chapter 3: REGION 2, O&M EXPENSES

2 A. REGION 2, O&M EXPENSES – OVERVIEW

3 GSWC’s Region 2 is a single regional ratemaking area consisting of two Districts: Central and  
4 Southwest. The Central District consists of three CSAs: Central Basin East, Central Basin West,  
5 and Culver City. Southwest District consists of the Southwest CSA.

6 This chapter presents ORA’s Region 2 O&M estimates; ORA’s discussions presented herein  
7 focus on adjustments made to GSWC’s estimates. The resulting adjusted estimates are reflected  
8 in ORA’s Results of Operations (RO) tables included in ORA’s Company-Wide Report on  
9 Results of Operation.

10 In addition, as explained in Chapter 1, ORA accepts GSWC’s application of escalation factors  
11 but not the Customer Growth factor, and conservation, labor and benefits expenses are covered  
12 in testimony by other ORA witnesses.

13 B. SUMMARY OF RECOMMENDATIONS

14 **Table 3-A** below presents a summary of Test Year 2016 O&M expenses for Region 2. ORA’s  
15 forecasts reflect adjustments discussed herein, as well as adjustments to labor and benefits and  
16 conservation expenses (see ORA’s testimony on Labor and Benefits and Conservation expenses).

**Table 3-A: O&M Expenses – Region 2**

Operations & Maintenance - Region 2 CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$26,255,700	\$25,204,400	\$1,051,300
Acct. 72600, Purchased Power	\$2,773,900	\$2,754,500	\$19,400
Acct. 73500, Pump Taxes	\$10,437,500	\$10,437,500	\$0
Acct. 74400, Chemicals	\$843,100	\$823,400	\$19,700
Acct. 77500, Uncollectibles	0.3345%	0.3345%	\$0
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

## 2 **C. ACCOUNT 70400 – PURCHASED WATER**

3 GSWC's estimate for total Purchased Water expense for Region 2 is calculated by multiplying  
4 the most recent unit cost per ccf by the estimated supply to be purchased in the Test Year.  
5 GSWC estimates that it will need a total supply volume of 26,073,043 ccf. GSWC's estimated  
6 total volume includes 16,847,040 ccf (65% of total) of groundwater pumped from company-  
7 owned wells and 9,226,003 ccf (35%) purchased water, including reclaimed.

8 GSWC purchases water from purveyors including Metropolitan Water District (MWD),  
9 Suburban Water Systems, City of Lakewood, City of Southgate, and City of Paramount.  
10 Purchased Water expenses also include 14,734.0 AF (6,418,149 ccf) of required leased water  
11 rights from Central Basin and West Basin. This is in addition to the 9,226,003 ccf of purchased  
12 water.

13 In addition to the unit cost for water purchased and leased from the above purveyors, GSWC  
14 includes \$252,099 for Flow Violations in the Southwest system paid to MWD. GSWC's forecast  
15 for Flow Violations in 2016 is based on the four-year historical average for 2010-2013. Flow  
16 Violations occur when GSWC's water usage flowing through MWD connections exceed design

1 capacity.

2 ORA’s recommended total water supply for Region 2 is based on sales forecast and estimated  
3 water loss percentages presented in the ORA’s testimony on Sales and Plant, respectively.

4 ORA reviewed the methodology and rates used by GSWC to calculate Purchased Water  
5 expenses and accepts GSWC’s methodology with one exception. In GSWC’s request for Capital  
6 Additions (plant), GSWC indicates that installation of improved SCADA at MWD connections  
7 in the Southwest system will allow GSWC to avoid paying flow violation penalties.<sup>20</sup> The  
8 project is scheduled for construction in 2015. ORA Region 2 plant witness Jenny Au  
9 recommends that the Commission authorize the project (*Southwest SCADA at MWD*  
10 *interconnections*). Therefore, ORA removes the forecasted expense of \$252,099 for Flow  
11 Violations from the Purchased Water expense estimate.

12 **D. ACCOUNT 72600 – PURCHASED POWER**

13 GSWC’s estimate for total Purchased Power for pumping and moving water throughout Region  
14 2 is based on a composite of the most current rates for power purchased from Southern  
15 California Edison, Los Angeles Department of Water And Power, and the most recent rate for  
16 gas provided by Southern California Gas Company multiplied by the estimated electric or gas  
17 consumption to produce and distribute water.

18 To estimate the amount of electric power necessary in the Test Year for both pumping water  
19 from wells and boosting water through the system, GSWC uses the most recent recorded five-  
20 year average kwh/ccf. ORA reviewed this methodology, and agrees with using the five-year  
21 average kwh/ccf for wells, but disagrees with GSWC’s use of the five-year average kwh/ccf for  
22 boosters.

23 ORA uses the most recent recorded (2013) kwh/ccf for boosters to estimate power consumption  
24 for booster pumps because GSWC has shown improvements in its booster pump efficiency.  
25 GSWC’s response to MDR F.8, Region 2 Summary of Pump Efficiency Tests for 2013 shows a

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<sup>20</sup> GSWC Prepared Testimony of Robert McVicker and Mark Insko, p. 224.

1 steady improvement in booster pump efficiency. Out of a total 64 booster pumps, 46 were rated  
2 “Excellent.” In prior years, the number of booster pumps rated “Excellent” was 33 in 2009, 34  
3 in 2010, 38 in 2011, and 40 in 2012. Correspondingly, GSWC’s historical power consumption  
4 shows a steady decline in kwh/ccf for booster pumps since 2009, proving increasing efficiency.<sup>21</sup>  
5 The 2013 kwh/ccf for boosters is about 82% of the five-year average used by GSWC.

6 According to GSWC’s Response to Supplemental Data Request (SDR) No. 13, to improve  
7 pumping power efficiency, GSWC replaced 24 worn and inefficient well and booster pumps  
8 from 2011 through 2013 to ensure the efficient operation of its facilities. GSWC also states that  
9 it replaced boosters at the Willowbrook & Converse plant, as well as the Budlong & Wadsworth  
10 plant. In SDR No. 14, GSWC cites several measures that it expects to undertake in the Test Year  
11 that will continue to improve power efficiency. Such projects include upgrading and redesign of  
12 booster stations and installing Variable Frequency Drives (VFDs). ORA’s use of the 2013  
13 kwh/ccf for boosters reflects recent and expected improvements in booster pump efficiencies.  
14 ORA agrees with the methodology used to estimate gas consumption.

15 **E. ACCOUNT 73500 – PUMP TAXES**

16 GSWC’s estimate of \$10,437,500 for Pump Tax expense is based on the most recent unit costs  
17 charged by the State of California Department of Water Resources for Central Basin and West  
18 Basin, and the Water Replenishment District of Southern California. The unit costs are  
19 multiplied by the respective amounts of water pumped. ORA accepts the methodology used.

20 **F. ACCOUNT 74400 – CHEMICALS**

21 For the treatment of groundwater, GSWC calculates its Chemical expense by first multiplying  
22 the estimated amount of pumped water by the most recent (2013) inflation-adjusted unit cost for  
23 chemicals. GSWC then increases that estimated total chemical expense by 6% to account for  
24 additional chemical treatment that GSWC claims it needs due to the return of Yukon Wells #4  
25 and #5 to full operation.

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<sup>21</sup> Power consumption for wells continues to show fluctuation in kwh/ccf from year to year.

1 Neither GSWC's testimony nor its workpapers provided data supporting the need for additional  
2 chemicals required for Yukon Wells #4 and #5. Through ORA Data Request PXS-018, ORA  
3 found that Yukon Well #4 was off line during 2011 and 2012 and that production from Yukon  
4 Well #5 dropped to approximately 1% of total production during 2012. Both wells were brought  
5 back into full service in mid-2013. According to GSWC's response to Data Request PXS-018,  
6 the Yukon wells have a high chlorine demand of approximately 20 mg/L (milligrams per liter)  
7 whereas the average chlorine demand for wells in the Southwest system is 6 mg/L.

8 From 2008 through 2010, when the Yukon wells were in full operation, the total production from  
9 Yukon Wells #4 and #5 represented approximately 7% of the total water produced. In Test Year  
10 2016, GSWC estimates total groundwater production of 16,847,040 ccf. In Data Request PXS-  
11 018, ORA asked GSWC to provide the estimated production for Yukon Wells #4 and #5 for Test  
12 Year 2016. GSWC responded that Yukon Well #4 would produce approximately 394,691 ccf  
13 and Yukon Well #5 approximately 441,818 ccf for a total 836,509 ccf annually, or  
14 approximately 5% of the total estimated groundwater produced. To determine if the 6% increase  
15 in Chemical expenses was reasonable, ORA compared groundwater production and Chemical  
16 expenses in 2012, when the Yukon wells produced approximately 1% of total groundwater, with  
17 2013 data when the Yukon wells were brought back online in the middle of the year and  
18 produced approximately 3% of total groundwater. Chemical expenses increased by  
19 approximately 6% during 2013. Based on the return to full production of Yukon Wells #4 and  
20 #5, and the fact that the required chemical demand is greater for these wells, ORA finds it  
21 reasonable to include the 6% in additional Chemical expenses based on the full operation of  
22 Yukon Wells #4 and #5.

23 GSWC's estimate of \$843,100 is based on the 2013 recorded unit cost, escalated to Test Year  
24 2016, plus 6% for the Yukon Wells. GSWC reaches its forecast by using the 2013 recorded unit  
25 cost escalated to 2016 dollars, and then multiplying that escalated unit cost by the forecasted  
26 units of water produced plus the 6% discussed above. GSWC then applies another 2016  
27 escalation factor to further inflate the total estimate. Because GSWC already escalated the  
28 historical unit cost to 2016 dollars before multiplying the unit cost by the water quantity  
29 produced, the second application of the 2016 inflation factor is redundant and therefore  
30 inappropriate. This error resulted in an additional \$20,000 in costs.



1 ORA’s estimate reflects the correct calculation using the recorded 2013 unit cost, inflated to  
2 2016 dollars, plus the 6% related to Yukon Wells #4 and #5. Because Chemical expense is  
3 dependent on the total groundwater produced, any additional difference between ORA and  
4 GSWC is due to differences in the sales forecast and estimate supply mix (groundwater and  
5 purchased water).

6 **G. ACCOUNT 77500 – UNCOLLECTIBLES**

7 Uncollectible expenses refer to unpaid customer accounts receivable. GSWC’s forecast of  
8 0.3345% is calculated using the ratio between the five-year average (2009-2013) of the recorded  
9 Uncollectible expenses and gross operating revenue (expressed as a percentage of revenue).  
10 ORA reviewed GSWC’s methodology and accepts the use of the five-year average ratio.

11 **H. ACCOUNT 78100 – OTHER OPERATION (excluding expenses from District Office)**

12 Other Operation expense includes numerous sub-accounts wherein GSWC tracks Operation  
13 expenses for Region 2. Such expenses include Advertising, Printing, Building Services,  
14 Consulting Services, Outside Services, Utilities, and Vehicle expenses to name just a few.

15 **Other Operation Expense, Region 2**

16 GSWC’s estimate for total Other Operation expense is based on the inflation-adjusted five-year  
17 recorded average for years 2009 through 2013. GSWC applies a Customer Growth factor of  
18 0.10% per year to further inflate costs for the Test Year. As explained earlier in Chapter 2,  
19 GSWC also excludes the Customer Courtesy Adjustments from Other Operation Expense and  
20 decreased the vehicle depreciation expenses.

21 ORA accepts the exclusion of Customer Courtesy Adjustments and the decreased vehicle  
22 depreciation. To forecast Other Operation expense, ORA also uses the inflation-adjusted five-  
23 year average, but excludes: (1) the Customer Growth factor, (2) expenses that were non-  
24 recurring, (3) expenses recorded in error, and (4) expenses that should be disallowed. ORA  
25 made the following adjustments to Other Operation expenses for Region 2:

26 Sub-account 7201 – Utilities Electric – ORA removes \$18,361 recorded in 2010 from the five-  
27 year average. Sub-account Utilities Electric tracks electric service for the operation of utility  
28 offices and facilities not associated with production or transmission of water supply. According

1 to GSWC’s response to ORA Data Request PXS-012, Q. 3, power for pumping was incorrectly  
2 included in Sub-account 7201 in 2010, and should have been booked in the Purchased Power  
3 expense account. ORA removed this amount from the recorded data used for forecasting  
4 purposes.

5 Sub-account 8810 Work for Others Revenue, and Sub-account 8830 Work for Others Expenses –  
6 ORA removes the Work for Others Revenue amount of negative \$1,258.22 and the Work for  
7 Others Expense amount of \$11,071.25 from consideration of the five-year average. According to  
8 GSWC’s Response to Data Request PXS-013, Q.6, prior to the implementation of Power Plant,<sup>22</sup>  
9 a blanket work order for new services was generated for each CSA/system and was used to track  
10 all costs associated with new services, free services, and service upgrades. These work orders  
11 were used to track costs for service installations reimbursable by customers (funded by others),  
12 including payments received for these services. In 2009, 2010, and 2011, some of these  
13 costs/credits were charged to the sub-accounts 8810 and 8830. GSWC, in its response, agreed  
14 with ORA that these expenses should not be charged to ratepayers nor should the credits be  
15 credited to ratepayers.

16 **I. ACCOUNT 78800 – OTHER MAINTENANCE (excluding expenses from District**  
17 **Office)**

18 Other Maintenance expense also includes several sub-accounts wherein GSWC tracks its  
19 expenses related to maintenance work within Region 2. The sub-accounts include expenses  
20 related such items as: Tools, Permits, Outside Services, Vehicle expense, Meals, and Equipment  
21 Rental. GSWC’s estimate is based on the inflation adjusted five-year average expense, plus a  
22 Customer Growth factor.

23 Based on its review of the expenses recorded in each of the sub-accounts for the period 2009  
24 through 2013, ORA accepts the five-year average plus inflation methodology, but rejects  
25 GSWC’s application of the Customer Growth factor for the Test Year for reasons presented  
26 earlier in this report.

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<sup>22</sup> Software program for managing fixed assets.

1 **J. ACCOUNT 79910 – ALLOCATED DISTRICT OFFICE EXPENSES – O&M only**

2 The Allocated District Office expense is the sum of the Administrative & General, Operation &  
3 Maintenance expenses, including Payroll and Taxes for the Central and Southwest District  
4 Offices and the Region 2 CSAs.

5 GSWC’s request for O&M expense for the Region 2 District Offices for Test Year 2016 is based  
6 on historical expenses for years 2009 through 2013, adjusted for inflation. ORA accepts this  
7 methodology for both District Offices. See ORA’s RO table for the recommended level of  
8 Allocated District Office Expense.

9 **K. CONCLUSION**

10 ORA recommends that the Commission adopt ORA’s adjustments presented herein. Table 3-A  
11 in Section B reflects the adjustments to the O&M accounts discussed in this chapter and ORA’s  
12 sales forecasts and water loss estimates.

1 **Chapter 4: REGION 3, O&M EXPENSES (Pat E)**

2 **A. REGION 3, O&M EXPENSES – OVERVIEW**

3 GSWC’s Region 3 is a single regional ratemaking area consisting of three Districts: Foothill,  
4 Mountain-Desert, and Orange County. The Foothill District consists of three CSAs: Claremont,  
5 San Dimas, and San Gabriel Valley. Mountain-Desert District consists of five CSAs: Barstow,  
6 Calipatria, Apple Valley, Morongo Valley and Wrightwood. The Orange County District  
7 consists of two CSAs: Los Alamitos and Placentia.

8 This chapter presents ORA’s Region 3 O&M estimates; ORA’s discussions presented herein  
9 focus on adjustments made to GSWC’s estimates. The resulting adjusted estimates are reflected  
10 in ORA’s Results of Operations (RO) tables included in ORA’s Company-Wide Report on  
11 Results of Operation.

12 In addition, as explained in Chapter 1, ORA accepts GSWC’s application of escalation factors  
13 but not the Customer Growth factor, and conservation, labor and benefits expenses are covered  
14 in testimony by other ORA witnesses.

15 **B. SUMMARY OF RECOMMENDATIONS**

16 **Table 4-A** below presents a summary of Test Year 2016 O&M expenses for Region 3. ORA’s  
17 forecasts reflect adjustments discussed herein, as well as adjustments to labor and benefits and  
18 conservation expenses (see ORA’s testimony on Labor and Benefits and Conservation expenses).

1

**Table 4-A: O&M Expenses – Region 3**

Operations & Maintenance - Region 3 CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 70400, Purchased Water	\$16,689,500	\$16,903,900	(\$214,400)
Acct. 72600, Purchased Power	\$5,039,000	\$5,058,600	(\$19,600)
Acct. 73500, Pump Taxes	\$9,827,400	\$9,885,400	(\$58,000)
Acct. 74400, Chemicals	\$1,578,800	\$1,537,200	\$41,600
Acct. 77500, Uncollectibles	0.3095%	0.3095%	\$0
Acct. 77300, Allocated GO - Billing & Cash Processing	See ORA's Results of Operations Table 3.1 - O&M *		
Acct. 77300, Allocated Common Cust. Acct. (Region)			
Acct. 77300, Allocated Common Cust. Acct. (District)			
Acct. 77325, Postage			
Acct. 78000, Operation Labor			
Acct. 78100, Other Operation Expenses			
Acct. 78100, Conservation			
Acct. 78700, Maintenance Labor			
Acct. 78800, Other Maintenance Expenses			

2 **C. ACCOUNT 70400 – PURCHASED WATER**

3 GSWC’s estimate for total Purchased Water expense for Region 3 is calculated by multiplying  
 4 the most recent unit cost per ccf by the estimated supply to be purchased in the Test Year.  
 5 GSWC estimates that it will need a total supply volume of 29,916,675 ccf. GSWC’s estimated  
 6 total volume includes 20,805,890 ccf (70% of total) groundwater pumped from 13 company-  
 7 owned wells, and 9,110,785 ccf (30%) of purchased water, including reclaimed. In Region 3,  
 8 GSWC purchases water from a number of purveyors including Metropolitan Water District  
 9 (MWD), Pomona College, Three Valley Municipal Water District, Orange County MWD, East  
 10 Orange County Water District, City of Claremont, City of Seal Beach, City of Anaheim, Upper  
 11 San Gabriel Valley, Covina Irrigation, Miramar Pipeline, Apple Valley Ranchos Water, Imperial  
 12 Irrigation District, and City of Upland.

13 ORA’s recommended total water supply for Region 3 is based on sales forecast and estimated  
 14 water loss percentages presented in the ORA’s testimony on Sales and Plant, respectively.

15 ORA reviewed the methodology and rates used by GSWC to calculate Purchased Water and  
 16 accept GSWC’s methodology with one modification. GSWC includes \$17,155 for Flow  
 17 Violations for exceeding the maximum rate of flow through MWD Orange County and Three

1 Valley MWD connections. GSWC’s estimate for Flow Violations is based on the six-year  
2 average (2008 through 2013).

3 Because GSWC can exercise operational controls to avoid Flow Violation expenses, it is not  
4 appropriate to include such expenses in this account which is subject to the Modified Cost  
5 Balancing Account (MCBA). ORA recommends that GSWC not be allowed to book flow  
6 violation expenses in its MCBA for this and all other ratemaking areas.

7 However, if the Commission allows this practice to continue, ORA recommends that the Test  
8 Year forecast reflect \$0 associated with flow violations for the following reason.

9 GSWC provided no support for using the six-year average. As shown in the table below,  
10 GSWC’s flow violation expenses have decreased from the high of nearly \$41,000 in 2008 to less  
11 than \$4,700 in 2013, showing a potential for GSWC to reduce flow violation charges, possibly to  
12 zero. A Test Year forecast of \$0 would provide GSWC the proper incentive to operate its  
13 systems without incurring flow violation charges in the future. Therefore, ORA’s forecast in this  
14 account reflects no flow violation charges.

15 **Table 4-B: Region 3 - Flow Violations**

GSWC Forecast							
	2008	2009	2010	2011	2012	2013	6 Year Avg
MWDOC	\$ 6,182	\$ 4,751	\$ 6,864	\$ 15,380	\$ 10,774	\$ 4,679	\$ 8,105
Three Valleys	\$ 34,664	\$ 8,536	\$ 3,610	\$ 829	\$ 6,661	\$ -	\$ 9,050
Total	\$ 40,846	\$ 13,287	\$ 10,474	\$ 16,209	\$ 17,435	\$ 4,679	\$ 17,155

16  
17 **D. ACCOUNT 72600 – PURCHASED POWER**

18 GSWC’s estimate for total Purchased Power expenses for pumping and moving water throughout  
19 Region 3 is based on a composite of the most current rates for electric power purchased from  
20 Southern California Edison, Imperial Irrigation District, and City of Anaheim multiplied by the  
21 estimated electric consumption to produce and distribute water. For infrastructure powered by  
22 natural gas, GSWC uses the most recent rates for gas provided by Southern California Gas  
23 Company and Southwest Gas Company.

24 To estimate the amount of power necessary in the Test Year for both pumping water from wells  
25 and boosting water through the system, GSWC uses the most recent recorded (2013) kilowatt-

1 hour per ccf (kwh/ccf). ORA reviewed GSWC’s calculations and agrees with this methodology.  
2 GSWC estimates only 24 therms of gas necessary in the Test Year, and ORA accepts GSWC’s  
3 methodology to estimate gas consumption.

4 **E. ACCOUNT 73500 – PUMP TAXES**

5 GSWC’s estimate of \$9,827,402 for Pump Tax expenses is based on the most recent unit costs  
6 assessed by the Main San Gabriel Basin, Orange County Water District, Six Basin Water Master,  
7 Chino Basin, Mohave River Alto Basin, Mojave River Este Basin, and Mojave River Centro  
8 Basin, multiplied by the amount of pumped water subject to tax. ORA accepts the methodology  
9 used.

10 **F. ACCOUNT 74400 – CHEMICALS**

11 GSWC’s expense estimate for chemicals to treat groundwater is based on the amount of pumped  
12 water multiplied by the inflation-adjusted, last recorded (2013) unit cost for purchased  
13 chemicals. GSWC also increases the estimated Chemical expense by an additional \$48,000 for  
14 media change out at the Garvey Well in the San Gabriel CSA.

15 Neither GSWC’s testimony nor its workpapers provided data supporting the need for media  
16 change out at the Garvey well. Through ORA Data Request PXS-018, ORA learned that the  
17 Garvey Well is a new well that is not in operation as of 2014. In response to ORA Data Request  
18 PXS-029, GSWC stated that the Garvey Well has been drilled and developed but that equipping  
19 the well and installing above ground facilities including the Granular Activated Carbon (“GAC”)  
20 Treatment system have not started as of October 2014. GSWC expects the well and treatment  
21 facilities to be completed and ready for production in the third quarter of 2015. According to  
22 GSWC’s Response to PXS-034, GSWC has not included water from the Garvey Well in its  
23 supply mix for Test Year 2016. This shows that uncertainty still exists as to when this well will  
24 be ready to produce water and as to the need and timing of its first required media change out.  
25 GSWC’s request for \$48,000 in additional funds for treatment media at the Garvey Well is  
26 premature, since the well has not been completed and will not be in operation until late 2015 at  
27 the earliest. Only then will GSWC be able to sample the water to determine the level of  
28 treatment necessary and how frequently media change out should be scheduled.

1 ORA’s recommendation for Chemical expense in Test Year 2016 is based on the most recent  
2 five-year average, adjusted for inflation. ORA excludes the additional \$48,000 due to the  
3 uncertainty of the need and timing for media change out for a well that may not be in operation  
4 or require media change out in the Test Year or this rate case cycle.

5 **G. ACCOUNT 77500 – UNCOLLECTIBLES**

6 Uncollectible expense refers to unpaid customer accounts receivable. GSWC’s forecast of  
7 0.3095% is using a ratio between the five-year average (2009-2013) of the recorded  
8 Uncollectible expenses and gross operating revenue (expressed as a percentage of revenue).  
9 ORA reviewed GSWC’s methodology and accepts the use of the five-year average ratio.

10 **H. ACCOUNT 78100 – OTHER OPERATION EXPENSES (excluding expenses from**  
11 **District Offices)**

12 Other Operation expenses include numerous sub-accounts wherein GSWC tracks Operation  
13 expenses for Region 3. Such expenses include Advertising, Printing, Building Services,  
14 Consulting Services, Outside Services, Utilities, Office/Facility Rent, Supplies, Telephone, and  
15 Vehicle expenses to name just a few.

16 GSWC’s estimate for total Other Operation expense is based on the inflation-adjusted five-year  
17 recorded average expense for years 2009 through 2013. As discussed in Chapter 2, GSWC  
18 excludes amounts for Courtesy Adjustments to customers and adjusted depreciation for company  
19 vehicles downward. GSWC also applies a Customer Growth factor of 0.10% to further inflate  
20 costs for the Test Year.<sup>23</sup>

21 ORA accepts GSWC’s removal of Courtesy Adjustments and the adjustment for reduced  
22 depreciation of company vehicles. ORA’s estimate for Other Operation Expense is also based  
23 on the inflation adjusted five-year average, but excludes: (1) the Customer Growth factor of  
24 0.10%, (2) expenses that were non-recurring, (3) expenses recorded in error, and (4) expenses  
25 that should be disallowed. Those adjustments are as follows:



1 Sub-account 7110 – Office/Facility Rent/Lease - GSWCs estimate included the five-year average  
2 rent for its Los Alamitos field operations office. GSWC maintains an operations office occupied  
3 by a field crew of nine employees performing operations and maintenance work. Through ORA  
4 Data Request PXS-031, ORA learned that in June 2011, GSWC relocated this office to a smaller  
5 location. The prior location at 11670 Seaboard Circle, Stanton, CA was 11,856 sq. ft. and leased  
6 for approximately \$9,700 per month in the last full calendar year of occupancy in 2010. The  
7 new location at 10543 Progress Way, Cypress CA is 6,665 sq. ft. with a monthly rent of \$6,428  
8 in 2013. GSWC’s estimate is based on recorded costs in years when it paid rent that was 50%  
9 higher than that for the current location. To estimate Office/Facility Rent, ORA uses the  
10 annualized rent for 2013 at the new location instead of the five-year average used by GSWC,  
11 resulting in a reduction of approximately \$77,000/year.

12 Sub-account 7201 – Utilities Electric - ORA removes \$9,911 recorded in 2010 from the five-year  
13 average. Sub-account 7201 - Utilities Electric tracks electric service for the operation of utility  
14 offices and facilities not associated with production or transmission of supply. According to  
15 GSWC’s response to ORA Data Request PXS-017, power for pumping was incorrectly included  
16 in Sub-account 7201. Therefore, this amount should be removed for forecasting purposes.

17 Sub-account 7134 – Other Outside Services - ORA uses a four-year average of the recorded  
18 expenses for years 2010 through 2013. GSWC’s use of the five-year average includes \$692,013  
19 for 2009. The following table shows the recorded level of expense for 2009 through 2013. The  
20 recorded 2009 level of expense is unusually high when compared with the more recent years. It  
21 is apparent from the reduction in spending from 2009 to 2010, which has continued, that 2009  
22 was an unusual and exceptionally high year that should not be considered in the forecast for the  
23 test year. Additionally, in response to ORA Data Request PXS-036, GSWC indicated that it had  
24 contracted with Basin Water Inc. (BWI) in 2003, to design, build and operate the Highway Water  
25 Treatment Plant. In 2009, GSWC paid BWI \$408,431 to operate the plant. BWI filed for  
26 bankruptcy in late 2009 and defaulted on the agreement leaving GSWC responsible for all O&M  
27 activities at the plant. As of 2010, GSWC has taken over operation of the plant and incurs the  
28 costs through labor, materials and supplies. ORA’S forecast using a four-year average (2010  
29 through 2013) adjusted for inflation is a more reasonable estimate for the test year.

**Table 4-C: Region 3 Other Outside Services Sub-account 7134**

<b>GSWC Forecast Other Outside Services</b>						
<i>Recorded Spending</i>					<i>Adjusted for Inflation</i>	
2009	2010	2011	2012	2013	GSWC 5yr Avg	ORA 4yr Avg
<b>\$692,013</b>	\$187,725	\$177,426	\$125,268	\$160,580	\$287,189	\$167,314

**I. ACCOUNT 78800 – OTHER MAINTENANCE EXPENSES (excluding expenses from District Offices)**

Other Maintenance expenses consist of several sub-accounts wherein GSWC tracks its expenses related to maintenance work within Region 3. The sub-accounts include but are not limited to Tools, Permits, Outside Services, Vehicle expense, Meals, and Equipment Rental. GSWC’s estimate is based on the inflation-adjusted five-year average expense, plus a 0.10% Customer Growth factor.

ORA reviewed the expenses recorded in each of the sub-accounts for the period 2009 through 2013. ORA accepts the five-year average plus inflation, but rejects GSWC’s application of the Customer Growth factor for reasons explained earlier in this report.

**J. ACCOUNT 79910 – ALLOCATED DISTRICT OFFICE EXPENSES, O&M only**

The Allocated District Office expense is the sum of the Administrative & General, Operation & Maintenance Expenses, including Payroll and Taxes for the Foothill, Mountain and Desert, Orange County District Offices, and the Region 3 CSAs.

ORA reviewed GSWC’s request for O&M expense for the three District Offices in Region 3. The proposed level of expense for Test Year 2016 is based on GSWC’s historical expenses for years 2009 through 2013, adjusted for inflation. ORA accepts this methodology for each of the District Offices. See ORA’s RO table for the recommended level of Allocated District Office Expense.

**K. CONCLUSION**

ORA recommends that the Commission adopt ORA’s adjustments presented herein. Table 4-A in Section B reflects the adjustments to the O&M accounts discussed in this chapter and ORA’s sales forecasts and water loss estimates.

## Chapter 5: REGION 1, A&G EXPENSES

### A. REGION 1, A&G EXPENSES – OVERVIEW

This chapter presents ORA’s Region 1 A&G expense estimates; ORA’s discussions presented herein focus on adjustments made to GSWC’s estimates. The resulting adjusted estimates are reflected in ORA’s Results of Operations (RO) tables included in its ORA’s Company-Wide Report on the Results of Operations .

In addition, as explained in Chapter 1, ORA accepts GSWC’s application of escalation factors but not the Customer Growth factor, and conservation, labor and benefits expenses are covered in testimony by other ORA witnesses.

### B. SUMMARY OF RECOMMENDATIONS

**Table 5-A** at the end of the chapter present a summary of Test Year 2016 A&G expenses for seven Region 1 CSAs. ORA’s forecasts reflect adjustments discussed herein, as well as adjustments to labor and benefits and conservation expenses (see ORA’s testimony on Labor and Benefits and Conservation expenses).

### C. ACCOUNT 79200 – OFFICE SUPPLIES & EXPENSE

Office Supplies & Expense includes various sub-accounts including Building Services and Supplies, Supplies Other, Utilities Electric, Equipment Rental, T&E Transportation and Lodging, Telephone, Other Miscellaneous Expenses.

#### Arden Cordova CSA

In the Arden Cordova CSA, GSWC forecasts Office Supplies & Expense based on the two-year average of 2012 and 2013 recorded data. GSWC’s justification for using the 2012-2013 average is as follows: “In 2011, GSWC relocated its office which houses its Northern District Office, Arden Cordova CSA, and GSWC’s Northern California Asset Management team. After the

1 relocation costs were more accurately allocated between the District Office, CSA, and Asset  
2 Management. The two year average more accurately reflects the current and future costs.”<sup>24</sup>  
3 GSWC also made a downward adjustment to depreciation for company vehicles.<sup>25</sup> However, in  
4 switching from the five year to the two year average, GSWC hard coded the difference instead of  
5 computing the actual difference between the five year and the two year averages,<sup>26</sup> thus  
6 understating their Test Year estimate for Office Supplies & Expense. The result is to also  
7 understate any difference between ORA’s and GSWC’s Test Year estimates for Office Supplies  
8 & Expense.

9 ORA examined the major sub-accounts comprising Office Supplies & Expense and agrees to the  
10 use of the 2012-2013 corrected average for forecasting purposes. In addition, ORA adjusts the  
11 recorded expenses for the following sub-accounts prior to escalating the historical average to  
12 develop the Test Year forecasts:

13 Building Service Supplies - ORA removes payments to Pepsi Cola San Francisco totaling \$1,242  
14 for 2012 and 2013. In response to Data Request JM2-019 #A.1.b.ii, GSWC stated that GSWC  
15 “had discontinued the practice of providing soft drink for its employees.”<sup>27</sup> However, ORA  
16 found a PCARD purchase in 2012 that still included soft drinks.<sup>28</sup> Consistent with GSWC’s  
17 stated policy that it no longer provides soft drinks to its employees, ORA removes all soft drink  
18 purchase amounts from recorded data used for forecasting purposes.

19 T&E Transportation – ORA removes payment for Fastrak violation of \$30 in 2013. ORA asked  
20 for support, and GSWC was not able to provide invoices or supporting documents to justify this  
21 particular expense.<sup>29</sup>

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<sup>24</sup> GSWC Prepared Testimony of John Garon, p. 16.

<sup>25</sup> GSWC Prepared Testimony of John Garon, p. 16. GSWC is proposing a lower depreciation rate for vehicles.

<sup>26</sup> GSWC Response to JM2-003 #A.4.

<sup>27</sup> GSWC Response to ORA Data Request JM2-019 #A.1.b.ii.

<sup>28</sup> GSWC Response to ORA Data Request JM2-037 #A.1.b.iii for PCARD NOV12 REG2.

<sup>29</sup> No response provided to ORA Data Request JM2-038 #A.1.d.i.

1 Bay Point CSA

2 For the Bay Point CSA, ORA agrees with the use of a five-year average for forecasting purposes,  
3 but adjusts the recorded expenses for the following sub-account prior to escalating the historical  
4 average to develop the Test Year forecasts:

5 Telephone Leased Lines – ORA removes payments to AT&T Long Distance totaling \$15,672 in  
6 2009. When asked why there were no more recorded payments to AT&T Long Distance after  
7 2009, GSWC responded that “At the end of 2009, we switched carriers from AT&T to Verizon  
8 for the network circuits.”<sup>30</sup> ORA removes all AT&T Long Distance expenses from the five-year  
9 average because the Test Year estimate should not reflect expenses for a service that GSWC no  
10 longer uses.

11 Clearlake CSA

12 For the Clearlake CSA, ORA agrees with the use of a five-year average for forecasting purposes,  
13 but adjusts the recorded expenses for the following sub-account prior to escalating the historical  
14 average to develop the Test Year forecasts:

15 Telephone Leased Lines – ORA removes payments to AT&T Long Distance totaling \$29,372 in  
16 2009 from the Test Year estimate due to GSWC’s discontinued use of this service.<sup>31</sup>

17 Los Osos CSA

18 For the Los Osos CSA, ORA agrees with the use of a five-year average for forecasting purposes,  
19 but adjusts the recorded expenses for the following sub-account prior to escalating the historical  
20 average to develop the Test Year forecasts:

21 Telephone Leased Lines – ORA removes payments to AT&T Long Distance totaling \$14,943 in  
22 2009 from the Test Year estimate due to GSWC’s discontinued use of this service.<sup>32</sup>

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<sup>30</sup> GSWC Response to ORA Data Request JM2-020 #A.1.d.i.

<sup>31</sup> GSWC Response to ORA Data Request JM2-005 #A.2.

<sup>32</sup> GSWC Response to ORA Data Request JM2-006 #A.3.

1 Ojai CSA

2 For the Ojai CSA, ORA agrees with the use of a five-year average for forecasting purposes, but  
3 adjusts the recorded expenses for the following sub-accounts prior to escalating the historical  
4 average to develop the Test Year forecasts:

5 Telephone Leased Lines – ORA removes payments to AT&T Long Distance totaling \$7,107 in  
6 2009 and 2010 from the Test Year estimate due to GSWC’s discontinued use of this service.<sup>33</sup>

7 Other Misc Expenses – For reasons presented in Chapter 1, ORA removes the following  
8 Chamber of Commerce and related expenses from the recorded data used for forecasting  
9 purposes:

- 10       ▪ \$250 payment for Ojai Valley Chamber of Commerce and \$2,000 payment for golf  
11        classic, both in 2011.<sup>34</sup>
- 12       ▪ \$3,000 payment in 2012 for Ojai Valley golf tournament.<sup>35</sup>
- 13       ▪ \$2,050 payment in 2013 for Ojai golf classic.<sup>36</sup>

14 Santa Maria CSA

15 For the Santa Maria CSA, ORA agrees with the use of a five-year average for forecasting  
16 purposes, but adjusts the recorded expenses for the following sub-accounts prior to escalating the  
17 historical average to develop the Test Year forecasts:

18 Subscriptions – ORA removes payment of \$125 in 2011 for subscriptions that have stopped.<sup>37</sup>

19 T&E Lodging – ORA removes payment of \$25 in 2009 for Pet Fee included in an employee

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<sup>34</sup> GSWC Responses to ORA Data Request JM2-023 #A.1.c.i and JM2-042 #A.1.c.i for PCARD APR11 REG1

<sup>35</sup> GSWC Responses to ORA Data Request JM2-023 #A.1.c.ii, JM2-042 #A.1.c.ii and MC8-022 #4 for PCARD JUN12 REG1.

<sup>36</sup> GSWC Responses to ORA Data Request JM2-023 #A.1.c.iii, JM2-042 #A.1.c.iii and MC8-022 #4 for PCARD JUN13 REG1.

<sup>37</sup> GSWC Response to ORA Data Request JM2-008 #A.4.

1 hotel bill reimbursed by GSWC.<sup>38</sup> For the reasons cited in Chapter 1, ORA removes personal  
2 expenses paid using PCARDS from recorded data.

3 Telephone Leased Lines – ORA removes \$42,647 in erroneous charges for five additional data  
4 circuits in 2009.<sup>39</sup>

#### 5 Simi Valley CSA

6 For the Simi Valley CSA, ORA agrees with the use of a five-year average for forecasting  
7 purposes, but adjusts the recorded expenses for the following sub-accounts prior to escalating the  
8 historical average to develop the Test Year forecasts:

9 Telephone Leased Lines – ORA removes payments to AT&T Long Distance of \$7,082 in 2009  
10 due to GSWC’s discontinued use of this service.<sup>40</sup>

11 Other Misc Expenses – ORA removes the following charitable contributions, service club dues,  
12 and related expenses from recorded data used for forecasting purposes:

- 13       ▪ \$100 payment in 2013 for Simi Valley Rotary Club.<sup>41</sup>
- 14       ▪ \$700 payment in 2011 for Simi Valley Canine and On-Line Event Registration.<sup>42</sup>
- 15       ▪ \$300 payment in 2013 as sponsor for “Relay for Life ½ Marathon.”<sup>43</sup>

#### 16 D. ACCOUNT 79600 – BUSINESS MEALS

17 Business Meals expense includes meal expenses incurred by employees while traveling and  
18 meals provided on company premises associated with company events such as training. ORA  
19 makes no additional adjustments to recorded expenses used for forecasting purposes.

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<sup>38</sup> GSWC Response to ORA Data Request JM2-043 #A.1.b.i for PCARD APR09 GO.

<sup>39</sup> GSWC Responses to ORA Data Request JM2-024 #A.3.b and JM2-043 #A.2.

<sup>40</sup> GSWC Response to ORA Data Request JM2-025 #A.2.

<sup>41</sup> GSWC Response to ORA Data Request JM2-009 #A.1.h.

<sup>42</sup> GSWC Responses to ORA Data Request JM2-025 #A.1.c.i and JM2-044 #A.1.b.i for PCARD AUG11 REG1.

<sup>43</sup> GSWC Response to ORA Data Request JM2-044 #A.1.b.iii for PCARD AUG13 REG1.

1 **E. ACCOUNT 79800 – OUTSIDE SERVICES**

2 Outside Services is typically composed of three sub-accounts: Consulting, Legal Fees, and  
3 Other Outside Services.

4 **Arden Cordova CSA**

5 For this account in Arden Cordova, ORA agrees with the use of a five-year average for  
6 forecasting purposes. ORA makes no additional adjustments to GSWC’s recorded expense data  
7 used for forecasting purposes.

8 **Bay Point CSA**

9 For Bay Point’s Outside Services expenses, recorded annual total expenses fluctuated from year  
10 to year. Therefore, ORA uses the five-year average of 2009 to 2013 recorded data for  
11 forecasting purposes. GSWC uses the two-year average. In the GRC application, GSWC  
12 provided no justification for the deviation from its standard five-year average methodology for  
13 Outside Service expenses among Region 1 CSAs. Upon inquiry however, GSWC stated:

14 As can be seen on table 4-I, Sheet No. 4, GSWC incurred substantial legal cost in 2008  
15 and 2009, then no legal costs in 2010 and 2011 and then substantial legal costs again in  
16 2012 and 2013, 2010 and 2011 being the anomaly . . . Therefore the 2 year average is  
17 more reflective of what GSWC would be expected to incur in the 2016 through 2018 rate  
18 cycle than is the 5 year average excluding 2008.<sup>44</sup>

19 GSWC’s response reinforces the fact that this type of expense does fluctuate. For comparison  
20 purposes, ORA reviewed the recorded expenses for account Outside Services for the other six  
21 Region I CSAs. ORA found that GSWC used the five-year historical average for all six to  
22 project Test Year’s Outside Services expenses. Though each CSA is different, ORA’s review  
23 showed the recorded Outside Services expenses for these six CSAs fluctuated as much as Bay  
24 Point’s, especially in Arden Cordova, Los Osos, Ojai, and Santa Maria. ORA therefore does not  
25 find merit in GSWC making an exception in the case of Bay Point and using the two- year  
26 average for this CSA to project Test Year Outside Services expense.

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<sup>44</sup> GSWC Response to ORA Data Request JM2-055 #B.5.



1 Clearlake, Los Osos, Santa Maria and Simi Valley CSAs

2 For this account in these CSAs, ORA agrees with the use of a five-year average for forecasting  
3 purposes. ORA makes no additional adjustments to GSWC’s recorded expense data used for  
4 forecasting purposes.

5 Ojai CSA

6 For the Ojai CSA, ORA agrees with the use of a five-year average for forecasting purposes but  
7 adjusts the recorded expenses for sub-account Consulting A&G. This sub-account has only one  
8 recorded expense for the period 2009 to 2013. When asked, GSWC explained that the only  
9 recorded expense was in 2011 and represents payment to Saylor Company. This company is no  
10 longer used by GSWC for public and customer relations purposes.<sup>45</sup> Therefore, ORA removes  
11 the \$8,875 from the computation of the five-year average for forecasting purposes.

12 F. ACCOUNT 79900 - MISCELLANEOUS

13 Miscellaneous expenses include various sub-accounts including Membership Dues-Company,  
14 Membership Dues-Employee, and Consulting Services.

15 Arden Cordova CSA

16 For the Arden Cordova CSA, ORA agrees with the use of a five-year average for forecasting  
17 purposes, but adjusts the recorded expenses for the following sub-account prior to escalating the  
18 historical average to develop the Test Year forecasts:

19 Membership Dues-Company – For reasons cited earlier regarding Chamber of Commerce dues  
20 and expenses, ORA removes payments to the Rancho Cordova and Sacramento Metro Chambers  
21 of Commerce totaling \$6,897<sup>46</sup> for the period 2009 to 2013.

22 Bay Point CSA

23 In the Bay Point CSA, GSWC forecasted the Miscellaneous expenses based on the “inflation

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<sup>45</sup> GSWC Response to ORA Data Request JM2-007 #B.9.

<sup>46</sup> GSWC Response to ORA Data Request JM2-003 #C.8.a.

1 adjusted three-year recorded data which provides a more accurate projection of future  
2 expenditures.<sup>47</sup>

3 ORA agrees with the use of a three-year average (2011-2013) for forecasting purposes, but  
4 adjusts the recorded expenses for the following sub-account prior to escalating the historical  
5 average to develop the Test Year forecasts:

6 Membership Dues-Employee – ORA removes payments to the Bay Point Chamber of Commerce  
7 totaling \$1,150<sup>48</sup> for the period 2011 to 2012.

### 8 Clearlake CSA

9 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
10 expenses for the following sub-accounts prior to escalating the historical average to develop the  
11 Test Year forecasts:

12 Membership Dues-Company – ORA removes payments to the Clearlake Chamber of Commerce  
13 and Rotary Club of Clearlake totaling \$825<sup>49</sup> for the period 2009 to 2013.

14 Membership Dues-Employee – ORA removes payments to the Rotary Club of Clearlake totaling  
15 \$725<sup>50</sup> for the period 2010 to 2013.

### 16 Los Osos CSA

17 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
18 expenses for the following sub-accounts prior to escalating the historical average to develop the  
19 Test Year forecasts:

20 Membership Dues-Company – ORA removes payments to the Los Osos/Baywood Pk Chamber  
21 of Commerce and Kiwanis Club of Bay-Osos totaling \$974<sup>51</sup> for the period 2009 to 2013.

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<sup>47</sup> GSWC Prepared Testimony of John Garon, p. 20.

<sup>48</sup> GSWC Response to ORA Data Request JM2-004 #C.8.b.

<sup>49</sup> GSWC Response to ORA Data Request JM2-005 #C.9.a.

<sup>50</sup> GSWC Response to ORA Data Request JM2-005 #C.9.b.

<sup>51</sup> GSWC Response to ORA Data Request JM2-006 #C.9.a.

1 Membership Dues-Employee – For reasons cited earlier regarding service club dues and  
2 expenses, ORA removes payments to the Kiwanis Club of Bay-Osos totaling \$888<sup>52</sup> for the  
3 period 2009 to 2012.

4 Ojai CSA

5 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
6 expenses for the following sub-account prior to escalating the historical average to develop the  
7 Test Year forecasts:

8 Membership Dues-Company – ORA removes payments to the Ojai Valley Chamber of  
9 Commerce totaling \$2,285<sup>53</sup> for the period 2009 to 2013.

10 Santa Maria CSA

11 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
12 expenses for the following sub-account prior to escalating the historical average to develop the  
13 Test Year forecasts:

14 Membership Dues-Company – ORA removes payments to the Santa Maria Valley Chamber of  
15 Commerce totaling \$1,575<sup>54</sup> for the period 2009 to 2013.

16 Simi Valley CSA

17 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
18 expenses for the following sub-accounts prior to escalating the historical average to develop the  
19 Test Year forecasts:

20 Membership Dues-Company – ORA removes payments to the Simi Valley Chamber of  
21 Commerce and Simi Valley Rotary Club totaling \$5,061<sup>55</sup> for the period 2009 to 2013. ORA  
22 also excludes payment of \$1,000 in 2013 using PCARD for event sponsorship of Simi Valley

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<sup>52</sup> GSWC Response to ORA Data Request JM2-006 #C.9.b.

<sup>53</sup> GSWC Response to ORA Data Request JM2-003 #C.8.a.

<sup>54</sup> GSWC Response to ORA Data Request JM2-008 #C.8.a.

<sup>55</sup> GSWC Response to ORA Data Request JM2-009 #C.5.a.

1 Living Green Expo.<sup>56</sup>

2 Membership Dues-Employee – ORA removes payments to the Simi Valley Rotary Club totaling  
3 \$5,621<sup>57</sup> for the period 2009 to 2013.

4 **G. ACCOUNT 80500 – OTHER MAINTENANCE OF GENERAL PLANT**

5 Other Maintenance of General Plant expense includes various sub-accounts, among which are:  
6 Maintenance Office Equipment, Other Outside Services, and Permits.

7 **Arden Cordova CSA**

8 ORA agrees with the use of a five-year average for forecasting purposes. For this account in  
9 Arden Cordova, ORA makes no additional adjustments to GSWC’s recorded expense data used  
10 for forecasting purposes.

11 **Bay Point CSA**

12 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
13 expenses for the following sub-account prior to escalating the historical average to develop the  
14 Test Year forecasts:

15 Permits – ORA removes a payment of \$807 in 2012. There is only one recorded expense for this  
16 sub-account in 2012. GSWC explained that the expense is for hazardous materials management  
17 fees related to the Hill Street Treatment Plant, and because the plant has been shut down, there  
18 will be no further charges for this expense.<sup>58</sup> This being the case, ORA removes the \$807 from  
19 the five-year average.

20 **Clearlake, Los Osos, Ojai and Santa Maria CSAs**

21 For this account in these CSAs, ORA makes no additional adjustments to GSWC’s recorded  
22 expense data used for forecasting purposes.

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<sup>56</sup> GSWC Response to ORA Data Request JM2-044 #C.3.a.i for PCARD AUG13 REG1.

<sup>57</sup> GSWC Response to ORA Data Request JM2-009 #C.5.b.

<sup>58</sup> GSWC Response to ORA Data Request JM2-004 #D.12.

1 Simi Valley CSA

2 For this account in Simi Valley, ORA asked GSWC to explain the 200% increase in recorded  
3 expense from 2012 to 2013 for sub-account O&M Material. GSWC provided an updated  
4 spreadsheet and explained that for 2013, there were transposition errors not only for sub-account  
5 O&M Material but for two other sub-accounts, Permits-Maintenance and Vehicle Company  
6 A&G.<sup>59</sup> ORA used the corrected spreadsheet to derive its Test Year estimate.

7 GSWC explained that it forecasted this account based on the inflation adjusted four-year average  
8 (2010-2013) because that average provides a more accurate projection of anticipated future  
9 expenditures.<sup>60</sup> ORA examined the major sub-accounts comprising Other Maintenance of  
10 General Plant expense and agrees that the use of the four-year average provides a reasonable  
11 forecast.

12 H. ACCOUNT 81100 – RENT

13 Rent expense includes rent/lease expenses not provided for elsewhere (e.g., office space, public  
14 storage space).<sup>61</sup> Both ORA and GSWC use the current rent/lease agreements to estimate Rent  
15 expense for Test Year 2016.

16 Arden Cordova CSA

17 GSWC splits the rent expense at 3005 Gold Canal Drive, Rancho Cordova, among the Arden  
18 Cordova CSA, the Northern District Office and the GO Centralized Operations Support based on  
19 employee head count. The Arden Cordova CSA accounts for 38% share of the rent. ORA  
20 estimates Test Year 2016 Rent expense of \$80,075. GSWC's estimate is \$85,585 which exceeds  
21 ORA's estimate by \$5,510. In ORA's review of the original Common Area Maintenance (CAM)  
22 cost of \$50,523, ORA found that although \$6,694 of annual insurance expense was already  
23 included in the \$50,523 total CAM, an additional 1/12 of the same \$6,694 or \$557.83 was still  
24 added to CAM cost for the period December 31, 2012 to February 28, 2013. Upon ORA's

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<sup>59</sup> GSWC Response to JM2-009 #D.8 and 9.

<sup>60</sup> GSWC Prepared Testimony of John Garon, p. 22.

<sup>61</sup> Ibid.

1 inquiry about this redundant expense, GSWC explained the following: “The situation has been  
2 brought to the attention of the lessor. The lessor will adjust the error as part of the yearly  
3 reconciliation. There will be a credit owed to GSWC in the amount of \$5,578.34.”<sup>62</sup> This being  
4 the case, ORA reduced the original CAM cost of \$50,523 by \$5,578.34.

5 **Bay Point, Clearlake, Los Osos and Ojai CSAs**

6 ORA agrees with GSWC’s Test Year 2016 Rent expense estimates in these CSAs.

7 **Santa Maria CSA**

8 ORA estimates Test Year 2016 Rent expense of \$90,237. GSWC’s estimate is \$90,395, which  
9 exceeds ORA’s estimate by \$158. ORA found that GSWC included an additional 4% to 1/12<sup>th</sup>  
10 of the rent in 2014. When asked to explain the basis of the additional 4%, GSWC’s response  
11 was: “GSWC has no explanation for the basis of the 4% rent increase escalator for 2014 other  
12 than it may have been a carryover from a prior GRC.”<sup>63</sup> GSWC also did not apply the correct  
13 provision of the rent contract, i.e., contract amount changed on November 1, 2014. GSWC  
14 however used December 1, 2014. ORA recomputed Test Year 2016 Rent expense and asked  
15 GSWC to comment. GSWC agrees to ORA’s recomputed Rent expense.<sup>64</sup>

16 **Simi Valley CSA**

17 ORA estimates Test Year 2016 Rent expense of \$36,321. GSWC’s estimate is \$37,084, which  
18 exceeds ORA’s estimate by \$763. 1) ORA found that the basis for the 2014 rent of \$35,574 was  
19 hard coded. ORA asked GSWC to provide the basis for the hard coded number including  
20 computations and citations to contract terms.<sup>65</sup> 2) ORA also asked GSWC to explain why in  
21 deriving the 2015 rent, GSWC escalated 2014 rent using the labor factor of 2.1% instead of using  
22 the contract amount of \$3,234 per month.<sup>66</sup> ORA provided GSWC its own computation using

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<sup>62</sup> GSWC Response to ORA Data Request JM2-054 #A.1.a.

<sup>63</sup> GSWC Response to ORA Data Request JM2-035 #E.5.d.

<sup>64</sup> GSWC Response to ORA Data Request JM2-035 #E.5.e.

<sup>65</sup> GSWC Response to ORA Data Request JM2-035 #F.6.a.

<sup>66</sup> GSWC Response to ORA Data Request JM2-035 #F.6.b.

1 contract provisions and asked GSWC to comment. GSWC agrees to ORA’s recomputed Rent  
2 expense.<sup>67</sup>

3 **I. ACCOUNT 79910 – ALLOCATED DISTRICT OFFICE EXPENSES – A&G only**

4 The A&G expenses of two district offices, e.g., Northern District Office and Coastal District  
5 Office are allocated to the CSAs based on equivalent customers. The Northern District Office  
6 accounts are allocated to the Arden Cordova, Bay Point, and Clearlake CSAs. The Coastal  
7 District Office accounts are allocated to the Los Osos, Ojai, Santa Maria and Simi Valley CSAs.  
8 Each of these district offices has the same set of A&G expenses as in the other Region 1 CSAs,  
9 namely: Office Supplies & Expense, Business Meals, Outside Services, Miscellaneous, Other  
10 Maintenance of General Plant, and Rent.

11 **Northern District Office**

12 Office Supplies & Expense –GSWC forecasted Office Supplies & Expense based on the two-  
13 year average adjusted for inflation and customer growth. As describe in the Arden Cordova CSA  
14 discussion of Office Supplies & Expense above, GSWC provided the following explanation in  
15 support of the two-year average: “In 2011, GSWC relocated its office which houses its Northern  
16 District Office, Arden Cordova CSA and GSWC’s Northern California Asset Management team.  
17 After the relocation costs were more accurately allocated between the District Office, CSA and  
18 Asset Management. The two-year average more accurately reflects the current and future  
19 costs.”<sup>68</sup> GSWC also made a downward adjustment to depreciation for company vehicles.<sup>69</sup>

20 ORA examined the major sub-accounts comprising Office Supplies & Expense and agrees that  
21 the use of the two-year average is appropriate. However, for reasons cited earlier regarding  
22 Chamber of Commerce dues and related expenses, ORA removes from sub-account Supplies-

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<sup>67</sup> GSWC Response to ORA Data Request JM2-035 #F.6.a and b.

<sup>68</sup> GSWC Prepared Testimony of John Garon, p. 16.

<sup>69</sup> GSWC Prepared Testimony of John Garon, p. 17. GSWC is proposing a lower depreciation rate for vehicles.

1 Other a payment to California Chamber of Commerce of \$155 in 2013<sup>70</sup> prior to taking the two-  
2 year average.

3 Miscellaneous, Membership Dues-Company – ORA removes payments to the Rancho Cordova  
4 and Sacramento Metro Chambers of Commerce totaling \$2,714<sup>71</sup> for the period 2009 to 2011.

5 Miscellaneous, Membership Dues-Employee – ORA removes payments to the Rancho Cordova  
6 Chamber of Commerce of \$500 in 2009.<sup>72</sup>

7 Rent – GSWC splits the rent expense at 3005 Gold Canal Drive, Rancho Cordova, among the  
8 Arden Cordova CSA, the Northern District Office and the GO Centralized Operations Support  
9 based on employee head count. The Northern District Office accounts for 20% share of the rent.  
10 ORA estimates Test Year 2016 Rent expense of \$42,145. GSWC’s estimate is \$45,045 which  
11 exceeds ORA’s estimate by \$2,900. The difference is due to ORA’s adjustment to the total rent  
12 amount as presented in the Arden Cordova CSA’s Rent expense section.

13 Coastal District Office

14 Miscellaneous, Membership Dues-Company – ORA removes payment to the Simi Valley  
15 Chamber of Commerce of \$639<sup>73</sup> in 2010.

16 Other Maintenance of General Plant – For sub-account Other Outside Services, ORA removes a  
17 payment to Techknowsion Inc. of \$3,780 in 2010 because this is a one-time expense that is not  
18 expected to recur in the forecast period.<sup>74</sup>

19 **J. CONCLUSION**

20 ORA recommends that the Commission adopt ORA’s adjustments presented herein. The  
21 following tables reflect the adjustments to the A&G accounts discussed in this chapter.

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<sup>70</sup> GSWC Response to ORA Data Request JM2-015 #A.1.b.

<sup>71</sup> GSWC Response to ORA Data Request JM2-015 #C.5.a

<sup>72</sup> GSWC Response to ORA Data Request JM2-015 #C.5.b

<sup>73</sup> GSWC Response to ORA Data Request JM2-016 #C.8.a.

<sup>74</sup> GSWC Response to ORA Data Request JM2-032 #D.5.b.i.



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**Table 5-A: A&G Expenses – Region 1 CSAs**

Administrative & General - Arden Cordova CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$98,581	\$98,142	\$439
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$1,090	\$1,085	\$5
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$104,761	\$104,425	\$336
Acct. 79900, Miscellaneous	\$34,843	\$33,272	\$1,571
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$13,858	\$13,814	\$44
Acct. 81100, Rent	\$85,585	\$80,075	\$5,510
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

2

Administrative & General - Bay Point CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$54,924	\$50,591	\$4,334
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$773	\$763	\$10
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$30,171	\$18,551	\$11,620
Acct. 79900, Miscellaneous	\$575	\$160	\$416
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$4,029	\$3,807	\$222
Acct. 81100, Rent	\$24,468	\$24,468	\$0
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

Administrative & General - Clearlake CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$54,679	\$47,947	\$6,732
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$1,031	\$1,033	(\$2)
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$10,849	\$10,872	(\$23)
Acct. 79900, Miscellaneous	\$692	\$356	\$337
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$641	\$638	\$2
Acct. 81100, Rent	\$13,971	\$13,971	\$0
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

1

Administrative & General - Los Osos CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$46,376	\$42,985	\$3,391
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$729	\$730	(\$2)
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$111,781	\$111,967	(\$186)
Acct. 79900, Miscellaneous	\$702	\$299	\$403
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$6,646	\$6,651	(\$5)
Acct. 81100, Rent	\$1,394	\$1,397	(\$3)
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

1

2

Administrative & General - Ojai CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$76,961	\$73,687	\$3,274
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$4,123	\$4,116	\$7
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$46,572	\$44,562	\$2,010
Acct. 79900, Miscellaneous	\$2,959	\$2,463	\$496
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$25,040	\$25,013	\$27
Acct. 81100, Rent	\$44,466	\$44,466	\$0
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

Administrative & General - Santa Maria CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$105,256	\$94,451	\$10,806
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$1,228	\$1,213	\$16
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$160,222	\$158,879	\$1,343
Acct. 79900, Miscellaneous	\$1,292	\$932	\$360
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$13,914	\$13,794	\$120
Acct. 81100, Rent	\$90,395	\$90,237	\$158
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

1

2

Administrative & General - Simi Valley CSA	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$43,647	\$41,704	\$1,944
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$954	\$952	\$2
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$7,727	\$7,714	\$12
Acct. 79900, Miscellaneous	\$7,492	\$4,935	\$2,557
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$6,924	\$6,897	\$26
Acct. 81100, Rent	\$37,084	\$36,321	\$763
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

1 **Chapter 6: REGION 2, A&G EXPENSES**

2 **A. REGION 2, A&G EXPENSES – OVERVIEW**

3 This chapter presents ORA’s Region 2 A&G expense estimates; ORA’s discussions presented  
4 herein focus on adjustments made to GSWC’s estimates. The resulting adjusted estimates are  
5 reflected in ORA’s Results of Operations (RO) tables included in its ORA’s Company-Wide  
6 Report on the Results of Operations .

7 In addition, as explained in Chapter 1, ORA accepts GSWC’s application of escalation factors  
8 but not the Customer Growth factor, and conservation, labor and benefits expenses are covered  
9 in testimony by other ORA witnesses.

10 **B. SUMMARY OF RECOMMENDATIONS**

11 **Table 6-A** below presents a summary of Test Year 2016 A&G expenses for Region 2. ORA’s  
12 forecasts reflect adjustments discussed herein, as well as adjustments to labor and benefits and  
13 conservation expenses (see ORA’s testimony on Labor and Benefits and Conservation expenses).



1

**Table 6-A: A&G Expenses – Region 2**

Administrative & General - Region 2	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$346,164	\$325,018	\$21,146
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$10,003	\$9,972	\$31
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$114,735	\$107,037	\$7,698
Acct. 79900, Miscellaneous	\$5,105	\$1,554	\$3,551
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$35,848	\$35,775	\$73
Acct. 81100, Rent	\$361,696	\$358,209	\$3,488
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

## 2 **C. ACCOUNT 79200 – OFFICE SUPPLIES AND EXPENSES**

3 Office Supplies & Expense includes various sub-accounts including Building Services and  
4 Supplies, Supplies Other, Utilities Electric, Equipment Rental, T&E Transportation and Lodging,  
5 Telephone, and Other Miscellaneous Expenses.

6 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
7 expenses for the following sub-accounts prior to escalating the historical average to develop the  
8 Test Year forecasts:

### 9 **Supplies Other**

10 ORA removes a \$650 payment in 2009 to the Lions Club of Bell Gardens for membership and

1 meals.<sup>75</sup> ORA also removes an unsupported payment of \$312 in 2010 to Costco.<sup>76</sup>

## 2 T&E Transportation

3 ORA removes an unsupported expense of \$1,191 in 2009. GSWC was able to provide  
4 supporting documents for only \$1,241<sup>77</sup> when asked to provide supporting documents for an  
5 employee's use of PCARD in the amount of \$2,432.

## 6 T&E Lodging

7 ORA removes a payment to La Quinta Inn and Suite of \$15,927 in 2013 for temporary  
8 accommodations for customers forced to evacuate due to a methane gas leak in the Truro Well.<sup>78</sup>  
9 This is a one-time, extraordinary expense related to the Truro Well incident that, as discussed in  
10 ORA plant testimony by Jenny Au, should not be borne by ratepayers, and therefore should not  
11 be embedded in the recorded data used for forecasting purposes.

## 12 Telephone Leased Lines

13 ORA removes payments to AT&T Long Distance totaling \$52,398 for the period 2009 to 2010  
14 due to GSWC's discontinued used of this AT&T service.<sup>79</sup>

## 15 Other Misc. Expenses

16 For reasons presented in the T&E Lodging regarding the Truro Well incident above, ORA  
17 removes \$22,890 in 2013 payments for temporary living expenses for customers relocated due to  
18 methane gas leak in the Truro Well.<sup>80</sup>

19 ORA also removes a \$500 payment in 2009 to the Bell Gardens Lion Club.

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<sup>75</sup> GSWC Response to ORA Data Request JM2-037 #A.1.b.iii.

<sup>76</sup> GSWC Response to ORA Data Request JM2-037 #A.1.a.ii for PCARD FEB10 REG2.

<sup>77</sup> GSWC Response to ORA Data Request JM2-037 #A.1.d.i for PCARD JAN09 REG2.

<sup>78</sup> GSWC Responses to ORA Data Request JM2-002 #A.5 and JM2-018 #A.1.f.i for PCARD OCT13 REG2.

<sup>80</sup> GSWC Response to ORA Data Request JM2-002 #A.3.

1 **D. ACCOUNT 79600 – BUSINESS MEALS**

2 Business Meals expense includes meals incurred by employees while travelling and meals  
3 provided on company premises associated with company events such as meals provided during  
4 training. ORA has no additional adjustments to recorded data for this account.

5 **E. ACCOUNT 79800 – OUTSIDE SERVICES**

6 Outside Services is typically composed of three sub-accounts: Consulting, Legal Fees, and  
7 Other Outside Services.

8 ORA removes Legal Fees of \$35,000 recorded in 2012 because it is a one-time, extraordinary  
9 expense. The \$35,000 is the amount of the settlement between GSWC and Aerospace  
10 Corporation for alleged provision of fouled water supply by GSWC.

11 **F. ACCOUNT 79900 - MISCELLANEOUS**

12 Miscellaneous Expenses includes various sub-accounts including Membership Dues-Company,  
13 Membership Dues-Employee, and Consulting Services. ORA agrees with GSWC’s use of a  
14 five-year average for forecasting purposes, but adjusts the recorded expenses for the following  
15 sub-accounts prior to calculating and escalating the historical average to develop the Test Year  
16 forecasts:

17 **Membership Dues-Company**

18 ORA removes payments to the Chambers of Commerce of various cities and the Culver City  
19 Lions Club totaling \$7,058<sup>81</sup> for the period 2009 to 2013.

20 **Membership Dues-Employee**

21 ORA removes payments to the Culver City Chamber of Commerce and the Lions and Rotary  
22 Clubs of various cities totaling \$5,675<sup>82</sup> for the period 2009 to 2013.

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<sup>81</sup> GSWC Response to ORA Data Request JM2-002 #C.9.a.

<sup>82</sup> GSWC Response to ORA Data Request JM2-002 #C.9.b.

1 ORA also excludes \$750 recorded in 2009 because GSWC was not able to provide supporting  
2 documents for these expenses.<sup>83</sup>

3 Consulting Services

4 ORA removes \$2,850 for payment of consulting services for design works for two projects  
5 which GSWC decided not to move forward on in 2013.<sup>84</sup> Ratepayers should not fund Test Year  
6 expenses that are based on expenses due to GSWC's missteps or bad planning.

7 G. ACCOUNT 80500 – OTHER MAINTENANCE OF GENERAL PLANT

8 Other Maintenance of General Plant includes various sub-accounts, among which are:  
9 Maintenance Office Equipment, Other Outside Services, and Permits. For this account in Region  
10 2, ORA makes no additional adjustments to GSWC's recorded expense data used for forecasting  
11 purposes.

12 H. ACCOUNT 81100 - RENT

13 Rent expense includes rent/lease expenses not provided for elsewhere (e.g.; office space, public  
14 storage space). Both ORA and GSWC use the current rent/lease agreements to estimate Rent  
15 expense for Test Year 2016.

16 For the office located at 7105-D Eastern Ave., Bell Gardens, ORA asked GSWC to provide  
17 invoices or supporting documents for the Common Area Maintenance (CAM) costs of \$22,603.  
18 GSWC provided actual 2012 CAM costs which was \$2,918.56 less than the CAM used to  
19 estimate rent expense. Since GSWC has been issued a refund check for \$2,918.56 by the lessor,  
20 Florence Eastern Marketplace LLC, ORA reduces CAM by the same amount.<sup>85</sup>

21 For the office located at 1600 Redondo Beach, Gardena, ORA asked GSWC to provide the  
22 details of the \$103,200 Management Fee included in the CAM costs. In response, GSWC

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<sup>83</sup> GSWC Response to ORA Data Request JM2-037 #C.4.b.i

<sup>84</sup> GSWC Response to ORA Data Request JM2-018 #C.3.c.i

<sup>85</sup> GSWC Response to ORA Data Request JM2-053 #A.1

1 reduced the original CAM costs of \$49,956 by \$3,170 to \$46,786. GSWC explained that there  
2 was an error in the basis used to compute Management Fee and that the “amount should be  
3 reduced by \$2,881.20 plus 10% for the CAM administration fee.”<sup>86</sup> This being the case, ORA  
4 reduces the original CAM cost of \$49,956 by \$3,170. Since the Southwest CSA and the  
5 Southwest District Office splits rent 50:50, the Southwest CSA accounted for 50% of the  
6 difference, or \$1,585 in 2014.

7 **I. ACCOUNT 79910 – ALLOCATED DISTRICT OFFICE EXPENSES – A&G only**

8 The A&G expenses of two district offices are included in Region 2: Central District Office and  
9 Southwest District Office. Each of these district offices has the same set of A&G expenses as in  
10 the main Region 2, namely: Office Supplies & Expenses, Business Meals, Outside Services,  
11 Miscellaneous, Other Maintenance of General Plant, and Rent.

12 **Central District Office**

13 Office Supplies & Expense – For sub-account Telephone Leased Lines, ORA removes payments  
14 to AT&T Long Distance totaling \$7,575 for the period 2009 to 2010 due to GSWC’s  
15 discontinued use of this AT&T service.<sup>87</sup>

16 Outside Services– For sub-account Legal Fees, ORA removes payments to Brownstein Hyatt  
17 Farber Schrec of \$19,343 in 2010 as the rendered services pertaining to lobbying work.<sup>88</sup> This  
18 adjustment is consistent with D.06-11-050, in which the Commission disallowed inclusion of  
19 political and lobbying activity in customer rates, stating that “Commission policy is clear that  
20 political and lobbying activity should not be included in customer rates.”<sup>89</sup>

21 Miscellaneous – GSWC forecasted this account based on the last recorded year. ORA examined  
22 the transactions comprising Miscellaneous and agrees to the use of the last recorded year. This is

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<sup>86</sup> GSWC Response to ORA Data Request JM2-053 #B.3.

<sup>87</sup> GSWC Response to ORA Data Request JM2-029 #A.2.a and b

<sup>88</sup> GSWC Response to ORA Data Request JM2-048 #B.2.a.i

<sup>89</sup> D.06-11-050 (Cal Am GRC for the Monterey District), p. 73.

1 because the Central Basin Water Association’s fees that accounts for over 80%<sup>90</sup> of the recorded  
2 cost for sub-account Membership Dues-Company have started to increase in 2012 and expected  
3 to continue henceforth. However, ORA excludes a payment to the Greater Lakewood Chamber  
4 of Commerce of \$625 in 2013.<sup>91</sup>

5 Southwest District Office

6 Office Supplies & Expense –

7 For sub-account Telephone Leased Lines, ORA removes payments to AT&T Long  
8 Distance of \$7,084 in 2009 due to GSWC’s discontinued use of this AT&T service.<sup>92</sup>

9 For sub-account Equipment Rental, Office, ORA removes payments to CIT Technology  
10 Fin Serv. Inc. of \$31 in 2009 and Konica Minolta Business Solution of \$67 in 2012.  
11 Both of these are payments for “Late Charges” included in the invoices.<sup>93</sup> ORA excludes  
12 penalties such as “Late Charges” from recorded expenses because ratepayers should not  
13 have to fund expenditures resulting from GSWC’s failure to make payments on a timely  
14 basis.

15 Outside Services – For sub-account Legal Fees, ORA removes payments to Manatt Phelps &  
16 Phillips LLP of \$15,137 in 2013 for legal services related to the Norwalk methane release, which  
17 is a one-time, extraordinary expense.<sup>94</sup>

18 Miscellaneous –

19 Membership Dues-Company – ORA removes payments to the Chambers of Commerce  
20 of various cities and the Culver City Lions Club totaling \$8,924 for the period 2009 to  
21 2013.

22 Miscellaneous, Membership Dues-Employee – ORA removes payments to the

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<sup>90</sup> GSWC Response to ORA Data Request JM2-013 #C.4.

<sup>91</sup> GSWC Response to ORA Data Request JM2-013 #C.3.a and b.

<sup>92</sup> GSWC Response to ORA Data Request JM2-030 #A.2.a.

<sup>93</sup> GSWC Response to ORA Data Request JM2-049 #A.1.b.i and ii.

<sup>94</sup> GSWC Response to ORA Data Request JM2-049 #B.4.a.ii.

1 Hawthorne and Inglewood Chambers of Commerce totaling \$1,645 for the period 2009 to  
2 2010.

3 Other Maintenance of General Plant – For sub-account Other Outside Services, ORA removes  
4 payment to the City of Gardena of \$1,575 in 2009. These are fines levied by the City of Gardena  
5 for GSWC’s failure to obtain permits and for exceeding three false alarms activations.<sup>95</sup>  
6 Ratepayers should not have to fund expenditures resulting from GSWC’s poor planning and  
7 operational failures.

8 Rent account – ORA makes an adjustment to this account consistent with its adjustment to Rent  
9 expense in Region 2 for the office located at 1600 Redondo Beach, Gardena. This is an office  
10 that is shared 50:50 between the Southwest District Office and the Southwest CSA.

11 **J. CONCLUSION**

12 ORA recommends that the Commission adopt ORA’s adjustments presented herein. Table 6-A  
13 in Section B reflects the adjustments to the A&G accounts discussed in this chapter.

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<sup>95</sup> GSWC Response to ORA Data Request JM2-049 #D.6.b.i.

1 **Chapter 7: REGION 3, A&G EXPENSES**

2 **A. REGION 3, A&G EXPENSES – OVERVIEW**

3 This chapter presents ORA’s Region 3 A&G estimates; ORA’s discussions presented herein  
4 focus on adjustments made to GSWC’s estimates. The resulting adjusted estimates are reflected  
5 in ORA’s Results of Operations (RO) tables included in its ORA’s Company-Wide Report on the  
6 Results of Operations .

7 In addition, as explained in Chapter 1, ORA accepts GSWC’s application of escalation factors  
8 but not the Customer Growth factor, and conservation, labor and benefits expenses are covered  
9 in testimony by other ORA witnesses.

10 **B. SUMMARY OF RECOMMENDATIONS**

11 **Table 7-A** below presents a summary of Test Year 2016 A&G expenses for Region 3. ORA’s  
12 forecasts reflect adjustments discussed herein, as well as adjustments to labor and benefits and  
13 conservation expenses (see ORA’s testimony on Labor and Benefits and Conservation expenses).



1

**Table 7-A: A&G Expenses – Region 3**

Administrative & General - Region 3	Test Year 2016		
	GSWC	ORA	GSWC>ORA
Acct. 79200, Office Supplies & Expenses	\$639,946	\$608,229	\$31,717
Acct. 79300, Property Insurance	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79400, Injuries and Damages			
Acct. 79500, Pension and Benefits			
Acct. 79600, Business Meals	\$8,765	\$8,739	\$26
Acct. 79700, Regulatory Expenses	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79800, Outside Services	\$161,000	\$160,671	\$330
Acct. 79900, Miscellaneous	\$16,235	\$8,396	\$7,839
Acct. 79910, Allocated GO- Corporate Support	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 79910, Allocated GO- Centralized Op. Support			
Acct. 79910, Allocated District Office Expenses			
Acct. 80500, Other Maintenance of General Plant	\$164,053	\$163,728	\$325
Acct. 81100, Rent	\$220,707	\$220,707	\$0
Acct. 81200, A&G Expenses Capitalized	See ORA's Results of Operations Table 4.1 - A&G *		
Acct. 81500, A&G Labor			

*\*ORA's forecasts reflect adjustments by multiple witnesses and/or are allocated.*

2 **C. ACCOUNT 79200 – OFFICE SUPPLIES AND EXPENSES**

3 Office Supplies & Expense includes various sub-accounts including Building Services  
 4 and Supplies, Supplies Other, Utilities Electric, Equipment Rental, T&E Transportation and  
 5 Lodging, Telephone, and Other Miscellaneous Expenses.

6 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
 7 expenses for the following sub-accounts prior to escalating the historical average to develop the  
 8 Test Year forecasts:

9 **Supplies Other**

10 For reasons explained earlier regarding charitable donations, ORA removes \$3,289 in 2013

1 related to the purchase of turkeys for Operation Gobble.<sup>96</sup>

2 **Building Service Supplies**

3 ORA removes payments to Pepsi Cola Company – Dallas totaling \$8,220<sup>97</sup> for the period 2009  
4 to 2012. ORA also excludes \$378 in 2010 and 2011 for soft drink purchases using PCARDS.<sup>98</sup>  
5 GSWC had discontinued the practice of providing soft drinks to employees but did not make the  
6 corresponding adjustments in the recorded amounts for forecasting purposes.

7 **T&E Lodging**

8 ORA removes a payment of \$20 in 2010 for use of Health Club included in an employee hotel  
9 bill reimbursed by GSWC.<sup>99</sup> For the reasons cited in Chapter 1, ORA removes personal  
10 expenses paid using PCARDS from recorded data.

11 **Telephone Leased Lines**

12 ORA removes payments to AT&T Long Distance totaling \$101,614 for the period 2009 to 2010  
13 due to GSWC's discontinued use of this AT&T service.<sup>100</sup>

14 **Other Miscellaneous Expenses**

15 ORA removes payments to the Chambers of Commerce of various cities and payments for  
16 charitable contributions totaling \$20,277<sup>101</sup> for the period 2009 to 2013.

17 **D. ACCOUNT 79600 – BUSINESS MEALS**

18 Business Meals expense includes meals for traveling employees and meals provided on company  
19 premises associated with company events such as meals provided during trainings. ORA makes

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<sup>96</sup> GSWC Responses to ORA Data Request JM2-036 #A.1.a.i and MC8-022 #2.a to d.

<sup>97</sup> GSWC Response to ORA Data Request JM2-017 #A.1.d.ii.

<sup>98</sup> GSWC Responses to ORA Data Request JM2-036 #A.1.b.ii and iii for PCARD AUG11 REG3 AND PCARD FEB10 REG3

<sup>99</sup> GSWC Response to ORA Data Request JM2-036 #A.1.d.i for PCARD JULY10 REG3.

<sup>100</sup> GSWC Response to ORA Data Request JM2-017 #A.1.h.i.

<sup>101</sup> GSWC Response to ORA Data Request JM2-001 #A.1.j.

1 no additional adjustments to recorded data used for forecasting purposes.

2 **E. ACCOUNT 79800 – OUTSIDE SERVICES**

3 Outside Services is typically composed of three sub-accounts: Consulting, Legal Fees and Other  
4 Outside Services. ORA makes no additional adjustments to recorded data used for forecasting  
5 purposes.

6 **F. ACCOUNT 79900 - MISCELLANEOUS**

7 Miscellaneous expenses include various sub-accounts including Membership Dues-Company  
8 and Membership Dues-Employees.

9 ORA agrees with the use of a five-year average for forecasting purposes, but adjusts the recorded  
10 expenses for the following sub-accounts prior to escalating the historical average to develop the  
11 Test Year forecasts:

12 **Membership Dues-Company**

13 ORA removes payments to the Chambers of Commerce, Rotary, and Kiwanis Clubs of various  
14 cities totaling \$26,898<sup>102</sup> for the period 2009 to 2013.

15 **Membership Dues-Employee**

16 ORA removes payments to the Chambers of Commerce, Rotary, and Kiwanis Clubs of various  
17 cities totaling \$8,145<sup>103</sup> for the period 2009 to 2013.

18 ORA also excludes \$700 payment in 2013 for a golf tournament.<sup>104</sup>

19 **G. ACCOUNT 80500 – OTHER MAINTENANCE OF GENERAL PLANT**

20 Other Maintenance of General Plant includes various sub-accounts including Maintenance Office  
21 Equipment, Other Outside Services, and Permits. ORA makes no additional adjustments to

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<sup>102</sup> GSWC Response to ORA Data Request JM2-001 #C.7.a.

<sup>103</sup> GSWC Response to ORA Data Request JM2-001 #C.7.a and JM2-036 #C.3.b.i.

<sup>104</sup> GSWC Responses to ORA Data Request JM2-017 #C.4.b.ii (only for \$700) and JM2-036 #C.3.b.i.

1 recorded data used for forecasting purposes.

## 2 **H. ACCOUNT 81100 - RENT**

3 Rent expense includes rent/lease expenses not provided for elsewhere (e.g., office space, public  
4 storage space). Both ORA and GSWC use the current rent/lease agreements to estimate Rent  
5 expense for Test Year 2016. ORA agrees with GSWC's Test Year 2016 Rent expense of  
6 \$220,707.

## 7 **I. ACCOUNT 79910 – ALLOCATED DISTRICT OFFICE EXPENSES – A&G only**

8 The A&G expenses of three district offices are included in Region 3: Orange County District  
9 Office, Foothill District Office, and Mountain Desert District Office. Each of these district  
10 offices has the same set of A&G expenses as in the main Region 3, namely: Office Supplies &  
11 Expenses, Business Meals, Outside Services, Miscellaneous, Other Maintenance of General  
12 Plant and Rent.

### 13 **Orange County District Office**

14 Miscellaneous – For sub-account Membership Dues-Company, GSWC cannot provide  
15 supporting documents for \$180 worth of purchases in 2009 using PCARD.<sup>105</sup>

16 Rent – GSWC splits rent at 1920 W. Corporate Way, Anaheim between the Orange County  
17 District Office and GO Centralized Operations Support based on employee head count. The  
18 Orange County District Office accounts for 17% share of the rent. The General Office accounts  
19 for 33.66%. The rest of the Rent expense is capitalized.

20 ORA estimates Test Year 2016 Rent expense of \$94,802. GSWC's estimate is \$97,615, which  
21 exceeds ORA's estimate by \$2,813. ORA found that the basis for the 2014 rent of \$534,257 was  
22 hard coded. ORA asked GSWC to provide the basis for the hard coded number including  
23 computations and citations to contract terms.<sup>106</sup> ORA validated the computation provided by

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<sup>105</sup> GSWC Response to ORA Data Request JM2-045 #C.4.a.i for PCARD JUNE09 REG2.

<sup>106</sup> GSWC Response to ORA Data Request JM2-033 #A.2.

1 GSWC to arrive at the \$534,257 hard coded number and found that GSWC did not apply the  
2 correct provision of the rent contract, i.e., contract amounts changed on December 1, 2014.  
3 GSWC explained that: “ORA prorated the rent based on the fact that rate increases on December  
4 1, 2014. GSWC did not.”<sup>107</sup>ORA recomputed Test Year 2016 Rent expense and asked GSWC to  
5 comment. GSWC agrees to ORA’s recomputed Rent expense.<sup>108</sup>

6 **Foothill District Office**

7 **Miscellaneous** – ORA removes payments to the San Gabriel Valley Economic PA, Kiwanis Club  
8 of Claremont, and Rotary Club of San Dimas totaling \$11,530<sup>109</sup> for the period 2009 to 2012.

9 **Mountain Desert District Office**

10 **Office Supplies & Expenses** – For sub-account Supplies Computer, ORA removes a \$2,995  
11 payment in 2010 to Copier Source for a copier lease that has been discontinued. This is a one-  
12 time expense.<sup>110</sup>

13 **J. CONCLUSION**

14 ORA recommends that the Commission adopt ORA’s adjustments presented herein. Table 7-A  
15 in Section B reflects the adjustments to the A&G accounts discussed in this chapter.

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<sup>107</sup> GSWC Response to ORA Data Request JM2-052 #A.1.

<sup>108</sup> GSWC Response to ORA Data Request JM2-052 #A.1

<sup>109</sup> GSWC Response to ORA Data Request JM2-027 #C.4.a.i and JM2-011 #C.3.a and b.

<sup>110</sup> GSWC Response to ORA Data Request JM2-028 #A.4.a.and b.

1 **Chapter 8: SPECIAL REQUEST #14 –New Memorandum Account related**  
2 **to First 5 Fluoridation Project in Arden Cordova**

3 **A. INTRODUCTION – SPECIAL REQUEST #14**

4 GSWC requests authority to establish a Memorandum Account to track O&M and carrying costs  
5 that are not covered by First 5 Sacramento for a project to implement fluoridation of water in  
6 GSWC’s Arden Cordova CSA. The project is expected to be completed sometime after January  
7 2016.

8 According to GSWC witness David Chang, GSWC was approached by First 5 Sacramento  
9 Commission (“First 5”)<sup>111</sup> in 2012 to apply for funding to construct or modify GSWC’s  
10 infrastructure to inject fluoride into the Arden and Cordova systems. GSWC informed ORA that  
11 First 5 approved GSWC’s funding application on August 4, 2014. As of January 26, 2015, First  
12 5 and GSWC reached a funding agreement with a revision to the direct costs to be covered by  
13 First 5. The revised costs include bonds that were not included in the original estimate. GSWC  
14 seeks to track the costs not covered by funding received from First 5 during the 2016 – 2018 rate  
15 cycle.

16 **B. DISCUSSION**

17 In 1995, the California Legislature enacted Assembly Bill (AB) 733 requiring that: (1) All  
18 public water systems with 10,000+ service connections must fluoridate their systems, and (2)  
19 Funding must come from a source other than the water system’s own usual funding sources. AB  
20 733 added Section 4026.8(h) to the Health and Safety Code Section which states:

21 A public water system subject to the jurisdiction of the Public Utilities Commission shall  
22 be entitled to recover from its customers all of its capital and associated costs, and all of

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<sup>111</sup> After passage of Proposition 10 in 1998, the Sacramento County Board of Supervisors established the Sacramento County Children and Families Commission. The Commission’s mission is to support the healthy development of children prenatal to age five. In 2003, the Sacramento Board of Supervisors renamed the Commission “First Five Sacramento Commission”.

1 its operation and maintenance expenses associated with compliance with this section and  
 2 Section 4026.7. The Public Utilities Commission shall approve rate increases for an  
 3 owner or operator of a public water system that is subject to its jurisdiction within 45  
 4 days of the filing of an application or an advice letter, in accordance with the  
 5 commission’s requirements, showing in reasonable detail the amount of additional  
 6 revenue required to recover the foregoing capital and associated costs, and operation and  
 7 maintenance expenses.

8 Proposition 10, The California Children and Families Act of 1998, added a 50-cent tax on all  
 9 tobacco products for the promotion and support of programs to improve the early development of  
 10 children from the prenatal stage through age five. Revenues collected via Proposition 10 support  
 11 First 5 initiatives as well as other such County Commissions throughout the state.

12 As previously stated, GSWC has received approval for funding of direct capital costs from First  
 13 5 to implement fluoridation in the Arden Cordova systems. According to GSWC’s Fluoridation  
 14 Project Budget, the direct capital costs include installation of fluoridation delivery systems at 14  
 15 groundwater wells and 1 water treatment plant. The estimated direct capital costs to be covered  
 16 by First 5 are shown in the table below.<sup>112</sup>

17 **Table 8-A: Arden Cordova CSA - Fluoridation Direct Costs**

\$3,116,400	Project Construction
\$ 623,280	Quality Assurance, Construction Inspection, and Project Management (20%)
\$78,177	Bonds
<b>\$3,817,857</b>	<b>Total Direct Costs</b>

18 Costs not covered by First 5 include GSWC’s project overhead (17% of the construction costs)  
 19 totaling \$529,788 and an estimated \$423,744 per year for Operation and Maintenance (O&M) of  
 20 the infrastructure necessary to inject fluoride into the water system. O&M costs include the cost  
 21 of chemicals, power, operations labor, and maintenance labor.<sup>113</sup> A breakdown of the estimated

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<sup>112</sup> The testimony of GSWC’s witness David Chang shows the estimated direct costs of \$3,739,680 to be covered by First 5. In January 2015, GSWC and First 5 signed a funding agreement for \$3,817,857. The difference of \$78,177 is for the issuance of insurance and performance/payment bonds.

<sup>113</sup> Fluoridation Plan and Preliminary Cost Estimate, Prepared by Forsgren Associates Inc. Dec. 30, 2013 (Addendum 1) pp 16-50. The Fluoridation Plan and Cost Estimate prepared by Forsgren Associates Inc., was paid for by First 5 Sacramento.

1 O&M costs is as follows:

2 **Table 8-B: Fluoridation - Estimated Annual O&M Costs**

<b>Description</b>	<b>O&amp;M Cost Per Year</b>
Fluoridation Chemicals	\$107,954.50
Reagents and Standards	\$ 48,000.00
Electrical	\$ 35,040.00
Operations Labor	\$232,749.94
<b>Total Estimated Costs/Year<sup>114</sup></b>	<b>\$423,744.44</b>

3 The estimated annual O&M costs do not include the payroll and benefits for staff performing the  
4 work. GSWC indicates that the labor cost estimate as presented in its study prepared by its  
5 consultant, Forsgren Associates Inc., requires more than two full-time operators to operate the  
6 fluoridation facilities.<sup>115</sup> However, GSWC did not request any new employees to operate the  
7 fluoridation facilities. According to GSWC's response to ORA Data Request PXS-033, No. 2,  
8 although the workload to operate the facilities is equivalent to two full-time water treatment  
9 operators, GSWC will only request to hire one new water treatment operator immediately before  
10 completion of the fluoridation systems which is expected to be in early 2016. Additionally,  
11 GSWC will require a service vehicle for use by the new water treatment operator, but did not  
12 request one in this application. GSWC estimates the salary range for the new operator will be  
13 \$45,300 to \$72,700 per year depending on experience and education level when hired. GSWC  
14 also assumes a labor burden of 44.23% as employee benefits based on 2014 data. GSWC  
15 provided no estimate for the cost of the proposed new vehicle.

16 ORA reviewed GSWC workpapers for the estimated cost of vehicles requested in this GRC and  
17 found that GSWC's estimate for a new F-10 pick-up truck (commonly used by GSWC's water

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<sup>114</sup> Reagents and Standards unit price and quantity are based on the actual costs incurred for fluoridation in GSWC's Los Angeles System in Region 2. The costs for Operation/Maintenance labor are based on the average water operator labor and water quality labor hours tracked for GSWC's Fluoride O&M per fiscal year for the Los Angeles System.

<sup>115</sup> GSWC Prepared Testimony of David Chang, p. 4.



1 distribution operators) in 2016 would be approximately \$38,500.<sup>116</sup>

2 **C. CONCLUSION & RECOMMENDATIONS**

3 ORA recommends that the Commission authorize the Memorandum Account to track capital  
4 costs not covered by funding received from the First 5 Sacramento Commission, the Operation  
5 and Maintenance costs, the salary and benefits for one water treatment operator to be hired just  
6 prior to implementation of fluoridation of water in Arden Cordova CSA, and one service vehicle.  
7 ORA finds that GSWC's request is consistent with statutes enacted by the California Legislature.  
8 O&M costs should be recorded upon implementation until December 31, 2018. As part of  
9 GSWC's next GRC, GSWC should seek reasonable funding levels for the next rate case cycle  
10 2019-2022. O&M costs beginning January 2019 should not be recorded in the Memorandum  
11 Account.

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<sup>116</sup> GSWC A.14-07-006 workpapers Project Cost Estimate (PCE) to replace service truck vehicle #1256 in 2016.

# APPENDIX OPEX-A: GSWC'S PCARDS POLICY & PROCEDURES

JM2-050 Attachment A

## AMERICAN STATES WATER COMPANY

### Purchase Card Policy

**Purpose** The Purchase Card is to be used for legitimate company expenses in accordance with these Policies. Misuse of the card may result in privileges being revoked or other disciplinary action, up to and including termination.

The Purchase Card Program:

- Provides for the timely purchases of goods and services.
- Reduces the need for certain blanket purchase orders, such as those for print shops, hardware, computer, safety, and water works supply stores.
- Reduces direct payment processing costs for purchases.
- Replaces travel and entertainment cards which carry annual fees and gas cards, as applicable.
- Can be used for valid business travel and meal expenditures. Please refer to the Business Expense Reimbursement Policy for a listing of guidelines and documentation requirements for business, travel, and meal expenses paid with a Purchase Card.

**Restrictions and Requirements** The Purchase Card is **not** to be used for:

- Purchases requiring, or payments against, a purchase order or a contract as identified in the Purchasing and Procurement Policy.
- Cash advances.
- Payment of services, medical expenses or attorney fees, unless an address book entry in the JD Edwards/Oracle system has been completed and tax reporting is completed during the monthly upload process.
- The purchase of personal items. When a purchase of personal items with the company Purchase Card has occurred, a personal check, reimbursing the company, must accompany the subsequent Purchase Card report. Repeated utilization of the Purchase Card for personal items may result in disciplinary action, up to and including termination.
- Purchase Card reports must be submitted for each month that an expense was incurred and in accordance with deadlines communicated by the Accounting department. Failure to complete reports and have them approved by the Supervisor will result in communication to the Supervisor for follow-up. Repeated instances of unsubmitted or late reports may result in cancellation of Purchase Card privileges and possible further disciplinary action.
- Expenses incurred, where one receipt is submitted that supports various types of expenses (e.g., lodging, hotel meals, etc.) should be split out and reported separately on the Purchase Card report.
- Employees must not have more than one Purchase Card assigned to them.
- Temporary employees must not be assigned a Purchase Card.

*Continued on next page*

	Approval: Robert J. Sprowls	Approval Date: 5-26-2009
Purchase Card Policy		Revision 2/7/05; 12/27/05, 11/05/07, 4/25/08; 5/21/2009, 07/20/2012, 8/9/12
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## Purchase Card Policy, Continued

**Assignment of Card** Each potential Cardholder is recommended by their immediate supervisor and must review and understand the Purchase Card Policy, and sign the Purchase Cardholder Agreement.

The Purchase Card is specifically assigned to an individual and is not to be shared in any manner. No credit report checks will be done on any employee for the purpose of issuing a Purchase Card.

Each Site Administrator will maintain a file of all Purchase Cardholder Agreements and will maintain a comprehensive list of individual employees who participate in the Program, their Assigned Spending Level and their Transaction Limits.

The direct Supervisor and the appropriate Manager, as indicated in the following table, approve all requests for new Purchase Cards and/or changes to the Assigned Spending Level and Transaction Limits of that card. Once approved, the request is then forwarded to the Program Administrator who will secure the card(s) or process the changes.

For...	Approved by the...
Front-Line Personnel	Manager or Controller
Manager	Vice President
Vice President	Senior Vice President
Senior Vice President	President and CEO
Senior Vice President - Regulated Utilities	Senior Vice President – Finance, Chief Financial Officer, Corporate Secretary and Treasurer
Senior Vice President – Finance, Chief Financial Officer, Corporate Secretary and Treasurer	President and CEO
President and CEO	Senior Vice President - Regulated Utilities

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	Approval: Robert J. Sprowls	Approval Date: 5-26-2009
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**Purchase Card Policy, Continued**

**Purchase Card Report** Cardholders must provide original supporting documentation for reconciliation and verification of all charges incurred; must sign the report; and must have all charges reviewed and approved by their immediate Supervisor. Approval of Purchase Card charges by subordinates is prohibited. It is the responsibility of the cardholder and approver to ensure that company policy is complied with on an ongoing basis. Purchase Card reports not adhering to company policy should be returned to the employee for correction and resubmission. Purchase card reports are subject to review for compliance with company policy.

**Assigned Levels** Outlined below are the four levels and the positions assigned to these levels:

Level	Assigned to...
A	President, Senior Vice President and Vice Presidents
B	Managers, Superintendents and Engineers
C	Supervisors and Support Personnel
D	Clerical and Field Personnel

**Note:** Additional staff may be assigned to Levels B, C, or D depending on the company need and with the proper approval.

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	Approval: Robert J. Sprowls	Approval Date: 5-26-2009
Purchase Card Policy		Revision 2/7/05; 12/27/05, 11/05/07, 4/25/08; 5/21/2009, 07/20/2012, 8/9/12
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## Purchase Card Policy, Continued

### Spending Levels

Outlined below are the four (4) spending levels and their daily and monthly spending limits:

Level	Daily Spending Limit	Monthly Spending Limit
A	\$10,000	\$50,000
B	\$5,000	\$15,000
C	\$2,500	\$ 7,500
D	\$ 500	\$ 2,500

Any deviation from this assigned Spending Limit must be requested in writing and approved by the Vice President in charge of the function and a Senior Vice President.

### Transaction Limits

Outlined below are the daily and monthly number of transaction limits allowed by each of the four (4) spending levels:

Level	Number of Daily Transactions	Number of Monthly Transactions
A	20	50
B	20	50
C	20	30
D	20	30

### Termination of an Employee

It is the responsibility of the Supervisor or the individual conducting the exit interview to secure the Purchase Card from the terminating employee. The card should be turned in to the Program Administrator in a timely manner, who will then immediately notify the bank representative to deactivate the card. When practical, the employee's supervisor should ensure that all Purchase Card transactions initiated by the terminating employee are supported by an approved Purchase Card Report prior to their termination.

### Petty Cash

None. Staff members can use the Purchase Card or a purchase order for low dollar value purchases, or they can submit an expense report for reimbursement.

### Cash Drawer

The cash drawer at customer payment stations is not petty cash.

	Approval: Robert J. Sprowls	Approval Date: 5-26-2009
Purchase Card Policy		Revision 2/7/05; 12/27/05; 11/05/07; 4/25/08; 5/21/2009, 07/20/2012, 8/9/12
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[END OF REPORT]