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Exhibit Number	ORA- _____
Commissioner	Martha Guzman Aceves
Administrative Law Judge	Gerald F. Kelly
ORA Witness	Kelsey Choing



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

PUBLIC

Report on General Office Expenses

**Golden State Water Company
Test Year 2019 General Rate Case
A.17-07-010**

**San Francisco, California
February 16, 2018**

Memorandum

This Report on General Office Expenses is prepared by Kelsey Choing under the general supervision of Richard Smith, Program Manager of the *Office of Ratepayer Advocates (ORA) - Water Branch*. Shanna Foley serves as ORA legal counsel, and Pat Ma as project coordinator.

Report on General Office Expenses

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Chapter 1. Executive Summary

A. Introduction

This report presents ORA’s analysis and recommendations on the General Office (GO) Test Year 2019 expenses in Golden State Water Company’s (GSWC or “Golden State”) General Rate Case (GRC) Application 17-07-010. GO expenses include operation and maintenance (O&M) and administrative and general (A&G) expenses.¹ ORA’s adjustments on certain components of GO expenses such as labor and benefits expenses are addressed in ORA’s Report on Labor and Benefits.

GSWC applies the same general forecasting methodology for both district and GO operating expenses. ORA’s Report on Results of Operations, Chapter 5 – District Operating Expenses, Section C – Forecasting Methodology provides an overview of GSWC’s expense forecasting methodology (i.e., use of recorded average and escalation factors) and ORA’s evaluation and adjustments.

B. Summary of Recommendations

The California Public Utilities Commission (“Commission”) should adopt ORA’s adjustments to GSWC’s GO expenses as summarized in the table below.

Table 1-1: ORA’s GO Expense Summary, Test Year 2019²

Business Segment	GSWC	ORA	GSWC > ORA
COPS	\$ 7,571,755	\$ 5,930,955	\$ 1,640,800
Corporate Support	\$ 10,082,900	\$ 9,039,300	\$ 1,043,600
Utility Support Services	\$ 3,738,300	\$ 3,729,700	\$ 8,600
Total	\$ 21,392,955	\$ 18,699,955	\$ 2,693,000

Chapters 2 to 4 of this report present ORA’s GO expense adjustments, by GO cost center: Centralized Operations Supports (COPS), Corporate Support, and Utility Support Services.³

¹ GSWC summarizes these expense estimates in its Report on Results of Operations – General Office, Table 3-A, pages 1-4.

² These totals do not include labor and benefits expenses. *See* ORA Report on Labor and Benefits.

³ For description of the cost centers, *see* GSWC Prepared Testimony of Nanci Tran, pages 2-3.

1 These adjusted expenses are allocated as described in ORA's Report on Results of Operations,
2 Chapter 9 – General Office Allocation.

3 ORA's silence on any particular expense account or issue does not imply its endorsement of
4 GSWC's methodologies or assertions.

5 [END OF CHAPTER]

Chapter 2. Centralized Operations Support

A. Introduction

This chapter presents ORA's adjustments to GSWC's General Office – Centralized Operations Support (COPS) expense forecasts. The following table summarizes GSWC's request and ORA's recommended amount for the Test Year.

Table 2-1: General Office Expenses – COPS, Test Year 2019

	GSWC	ORA	GSWC > ORA
Account 615 - Revenues	\$ 405,900	\$ 405,900	\$ -
Account 773 - Common Customer Account	\$ 654,755	\$ 654,755	\$ -
Account 781 - All Other Operating Expenses	\$ 264,800	\$ 264,800	\$ -
Account 788 - All Other Maintenance	\$ 600	\$ 600	\$ -
Account 792 - Office Supplies	\$ 965,600	\$ 860,300	\$ 105,300
Account 793 - Property Insurance	\$ 289,600	\$ 289,600	\$ -
Account 794 - Injuries and Damages	\$ 518,700	\$ 518,700	\$ -
Account 796 - Business Meals	\$ 42,100	\$ 34,800	\$ 7,300
Account 797 - Regulatory Expenses	\$ 1,127,100	\$ 1,079,700	\$ 47,400
Account 798 - Outside Services	\$ 2,764,400	\$ 1,283,800	\$ 1,480,600
Account 799 - Miscellaneous	\$ 465,600	\$ 465,600	\$ -
Account 805 - Maintenance of General Plant	\$ 71,100	\$ 70,900	\$ 200
Account 811 - Rent	\$ 407,400	\$ 407,400	\$ -
TOTAL (less Revenues)	\$ 7,571,755	\$ 5,930,955	\$ 1,640,800

B. Account 792 – Office Supplies

The Commission should reduce GSWC's Test Year forecast for COPS Account 792 – Office Supplies by \$105,300.

Account 792 – Office Supplies contains expenses related to printing in the GO, messenger and delivery charges, building services, supplies, postage, garbage, subscriptions, telecommunications, local services, travel and entertainment (T&E) transportation, T&E lodging, equipment rental, vehicle expenses, and other miscellaneous expenses not provided for elsewhere.⁴ The following table summarizes GSWC's and ORA's Test Year estimates for COPS Account 792 – Office Supplies.

⁴ GSWC Prepared Testimony of Nanci Tran, page 21, lines 6-11.

Table 2-2: COPS Account 792 – Office Supplies, Test Year 2019

GSWC	ORA	GSWC > ORA
\$ 965,600	\$ 860,300	\$ 105,300

ORA’s adjustments are detailed below.

1. Remove Operation Gobble charitable contributions

The Commission should remove \$435,086 of recorded expenses pertaining to GSWC’s “Operation Gobble” program from the forecast calculation.

In A.14-07-006, GSWC included expenses in its forecast related to “Operation Gobble,” which GSWC described as an “annual program to provide Thanksgiving turkeys to those in California who need them most.”⁵ Dues and expenses related to charitable contributions have been historically disallowed by the Commission.⁶

GSWC indicated that Operation Gobble expenses were booked in the GO COPS subaccount for Other Miscellaneous Expense, and had not been adjusted out of the historical expenses for this GRC.⁷ ORA removes Operation Gobble expenses totaling \$435,086 from the forecast calculation as these expenses are charitable contributions⁸ and should not be included for ratemaking purposes.

2. Remove recorded expenses relating to Truro Well gas leak response

The Commission should remove \$44,821 of recorded expenses pertaining to GSWC’s Truro Well gas leak response from the forecast calculation.

ORA requested information regarding a larger-than-average meal expense recorded in 2013 after examining general ledger transaction details in Account 796 – Business Meals.⁹ In response, GSWC indicated that the expense was for displaced families affected by the methane gas leak in its Truro Well after GSWC was ordered to evacuate nearby residents until the leak was

⁵ A.14-07-006, GSWC Response to ORA Data Request MC8-021 #3.b.

⁶ D.04-07-022, page 217.

⁷ GSWC Response to ORA Data Request KC4-011 #7.a.

⁸ A.14-07-006, Exhibit ORA-2: ORA Report on General Office, page 28, lines 6-7.

⁹ ORA Data Request KC4-008 #11.

1 repaired.¹⁰ GSWC later indicated that hotel accommodation expenses for customers affected by
 2 the Truro Well gas leak were also included in Account 792 – Office Supplies.¹¹ Because this is
 3 an extraordinary event that is not expected to occur in the forecast years, ORA removes these
 4 expenses totaling \$44,821 from the historical data used in the forecast calculation.

5 **C. Account 796 – Business Meals**

6 The Commission should reduce GSWC’s Test Year forecast for COPS Account 796 – Business
 7 Meals by \$7,300.

8 Account 796 – Business Meals includes T&E meals and company meals.¹² The following table
 9 summarizes GSWC’s and ORA’s Test Year estimates for COPS Account 796 – Business Meals.

10 **Table 2-3: COPS Account 796 – Business Meals, Test Year 2019**

GSWC	ORA	GSWC > ORA
\$ 42,100	\$ 34,800	\$ 7,300

11

12 **1. Remove expenses relating to Truro Well gas leak response**

13 For reasons discussed earlier (Chapter 2, Section B.2), ORA removes a \$35,427 expense for
 14 meals provided to GSWC customers affected by the 2013 methane gas leak in GSWC’s Truro
 15 Well.

16 **D. Account 797 – Regulatory Expense**

17 The Commission should reduce GSWC’s Test Year forecast for COPS Account 797 –
 18 Regulatory Expense by \$47,400.

19 Account 797 – Regulatory Expense¹³ includes legal, consultant, and noticing costs for GSWC’s
 20 Cost of Capital (CoC) and GRC applications scheduled for filing in 2019-2021.¹⁴

¹⁰ GSWC Response to ORA Data Request KC4-008 #11.

¹¹ GSWC Response to ORA Data Request KC4-030 #1.

¹² GSWC Prepared Testimony of Nanci Tran, page 26, line 17.

¹³ In the GO Summary of Earnings (GSWC file GO-SOE 17.xlsx, tab “797 Rate Case Expense”), this account was labeled as “Rate Case Expense.” Although the forecasting method for Account 797 in this proceeding appears to agree with an account name of “Rate Case Expense,” ORA confirmed with GSWC (via email to Jenny Darney-Lane of GSWC, dated December 19, 2017) that 1) the formal name for this

1 GSWC’s forecast for Account 797, unlike other expense accounts, is not based on an escalated
 2 five-year average of historical expenses. Rather, GSWC’s forecast is based on the legal and
 3 consulting expenses of the 2011 Cost of Capital proceeding (A.11-05-001) and the 2014 GRC
 4 (A.14-07-006), the costs of printing and newspaper publication in the 2014 GRC, and the costs
 5 of postage in the 2014 GRC.¹⁵

6 The following table summarizes GSWC’s and ORA’s Test Year estimates for COPS Account
 7 797 – Regulatory Expense.

8 **Table 2-4: COPS Account 797 – Regulatory Expense, Test Year 2019**

GSWC	ORA	GSWC > ORA
\$ 1,127,100	\$ 1,079,700	\$ 47,400

9
 10 ORA presents its adjustment to the postage expense in this account and recommended workpaper
 11 documentation regarding travel/meals expenses relating to Regulatory Expense below.

12 **1. Reduce postage expense**

13 The Commission should reduce postage expense in the forecast calculation to reflect the USPS
 14 bulk mailing rate, as detailed below.

15 GSWC uses a postage rate of \$0.47 per USPS First-Class mail to estimate the total postage cost
 16 for mailing individual customer notices in relation to the next GRC filing.¹⁶ As support, GSWC
 17 includes a screenshot of the USPS website’s “Shipping for Business” page, which states that the
 18 cost of First-Class postage starts at \$0.47 per stamp.¹⁷

account is “Regulatory Expense,” and 2) due to a recent change in the recovery of Account 797 expenses, amounts pertaining to Commission proceedings other than GRCs and Cost of Capital proceedings currently appear in Account 798 – Outside Services under Business Unit 51W, which is currently labeled as “Rate Cases” (see GSWC Prepared Testimony of Nanci Tran, page 10, line 17). However, GSWC states that in the future, Account 797 may include all Commission proceeding expenses, thus coinciding with the formal label of “Regulatory Expense” (confirmed via email to Jenny Darney-Lane of GSWC, dated December 19, 2017).

¹⁴ GSWC Prepared Testimony of Nanci Tran, page 26, lines 19-21.

¹⁵ GSWC Prepared Testimony of Nanci Tran, page 26, lines 19-28 and page 27, lines 2-4.

¹⁶ GSWC GO-SOE 17.xlsx, tab “797 Rate Case Expense,” cell D26.

¹⁷ GSWC GO-SOE 17.xlsx, tab “797 Rate Case Expense.”

1 ORA inquired as to whether GSWC uses bulk mailing for its customer notice mailings.¹⁸ GSWC
2 responded that “GSWC uses bulk mailing for customer mailings, which allows for the mail to be
3 processed more efficiently and quickly by the post office.”¹⁹ Furthermore, ORA inquired as to
4 whether the \$0.47 postage stamp rate in GSWC’s estimate took into account any bulk/volume
5 discounts. GSWC responded: “GSWC’s postage mailing rate is for first class postage with
6 postage discounts. Notices are mailed by using bulk mailing standards, which is \$0.37 per
7 piece.”²⁰ Thus, ORA adjusts the postage rate from \$0.47 to \$0.37 in its forecast calculation.

8 **2. Travel and meal expenses relating to Regulatory Expense**

9 The Commission should require GSWC to record all travel and meal expenses relating to
10 regulatory proceedings in its Account 797, consistent with its own account description.

11 ORA requested the general ledger transaction details for the expenses used to forecast Account
12 797 – Regulatory Expense.²¹ The requested general ledger details included the details for what
13 GSWC described as “Misc Expenses (travel/meals/WP printing/testimony printing, etc).”²²
14 GSWC provided the details as requested. Upon examination, ORA noticed that the transaction
15 details for the “Misc Expenses” line item only contained expenses for “PROFORMA QUALITY
16 PRINTING,” but no expenses for travel or meals.²³

17 ORA later requested the transaction details for a sample of PCARD entries found in the general
18 ledger for Account 792 – Office Supplies.²⁴ GSWC’s response revealed that the PCARD
19 transactions were largely for lodging and airfare.²⁵ ORA requested more information about the
20 business purposes of the provided PCARD transaction details²⁶ and the business purposes of

¹⁸ ORA Data Request KC4-015 #2.

¹⁹ GSWC Response to ORA Data Request KC4-015 #2.

²⁰ GSWC Response to ORA Data Request KC4-015 #3.

²¹ ORA Data Request KC4-015, #9.

²² ORA Data Request KC4-015 #9.f.

²³ GSWC Response to ORA Data Request KC4-015 #9.f.

²⁴ ORA Data Request KC4-029 #1 and #2.

²⁵ GSWC Response to ORA Data Request KC4-029 #1 and #2.

²⁶ ORA Data Request KC4-030 #1.a and #2.a.

1 airfare/flight expenses in select business units.²⁷ GSWC provided details that revealed rate case-
 2 related lodging and airfare expenses in Account 792,²⁸ although GSWC’s GO Summary of
 3 Earnings states that these expenses are included in the forecast for Account 797.

4 ORA does not remove regulatory proceedings-related expenses from the Account 792 forecast,
 5 as they are not included in the Account 797 forecast currently. However, ORA recommends that
 6 in future GRCs GSWC present its travel/meals expenses in Account 797 consistent with the
 7 description in its GO Summary of Earnings workpaper²⁹ to avoid confusion and possible double-
 8 counting of expenses.

9 **E. Account 798 – Outside Services**

10 The Commission should reduce GSWC’s Test Year COPS Account 798 – Outside Services
 11 forecast by \$1,480,600.

12 Account 798 – Outside Services contains expenses for consulting, legal, consulting training, and
 13 recruiting services, in addition to other outside services not specifically provided for or
 14 assignable to other expense accounts.³⁰ The following table summarizes GSWC’s and ORA’s
 15 Test Year estimates for COPS Account 798 – Outside Services.

16 **Table 2-5: COPS Account 798 – Outside Services, Test Year 2019**

GSWC	ORA	GSWC > ORA
\$ 2,764,400	\$ 1,283,800	\$ 1,480,600

17
 18 **1. Remove rate case expenses inappropriately used in forecasting**

19 As previously detailed, the forecast for Account 797 – Regulatory Expense is based on expenses
 20 incurred for the 2014 GRC and 2011 CoC proceedings only. GSWC does not use its typical
 21 forecasting method of using an escalated five-year average of historical expenses for Account
 22 797. Because GSWC’s Account 797 forecast already captures GRC costs by escalating the
 23 expenses incurred for one GRC cycle, it is inappropriate to include GRC expenses in the

²⁷ ORA Data Request KC4-030 #4.

²⁸ GSWC Response to ORA Data Request KC4-030 #1.a and #4.

²⁹ GSWC GO-SOE 17.xlsx, tab “797 Rate Case Expense,” cell A12.

³⁰ GSWC Prepared Testimony of Nanci Tran, page 27, lines 6-8.

1 forecasts for other accounts. Correspondingly, ORA removes the following GRC-related
2 expenses from historical expenses used to forecast Account 798 – Outside Services.

3 a. Double-counted 2014 Rate Case and 2011 Cost of Capital proceedings expenses used
4 in Account 797 forecasting

5 The Commission should remove the double-counted 2014 GRC and 2011 CoC expenses totaling
6 \$483,254 from the forecast calculation.

7 ORA requested the general ledger information for all expenses used to forecast expenses for
8 Account 797 – Regulatory Expense.³¹ This includes expenses for the 2014 GRC, from 2014 to
9 2017, and the Cost of Capital proceeding in 2011.³²

10 ORA found that Business Unit 51W under Account 798 – Outside Services was labeled as being
11 for “Rate Cases.” ORA inquired as to what the difference was between costs booked to Account
12 797 and costs booked to Account 798 under Business Unit 51W.³³ GSWC explained as follows:

13 Historically Account 797 was used for the amortization of deferred Regulatory
14 Expenses, which typically included all expenses in connection with General Rate
15 Case (“GRC”) and Cost of Capital (“CoC”) proceedings before the CPUC. Therefore
16 the recorded 797 expenses include the amortization of costs only up to the
17 amortization amount authorized in rates. Any costs that were incurred in excess of
18 the authorized level of deferred regulatory expense were booked to Account 798
19 Outside Services. Account 798 also includes expenditures for activities other than
20 GRC or CoC.

21 Beginning with costs for the 2017 GRC, Golden State books expenses incurred for
22 GRC and CoC proceedings directly to account 797, so they will no longer be booked
23 as deferred costs and then amortized over the GRC cycle. Outside Services costs
24 incurred for other reasons will continue to be booked to account 798.³⁴

25 Additionally, GSWC includes certain recorded expenses with matching dollar amounts, dates,
26 and descriptions in both the forecast for Account 797– Regulatory Expense and the forecast for

³¹ ORA Data Request KC4-015 #9.

³² The 2011 Cost of Capital proceeding (A.11-05-001) was the last Cost of Capital proceeding that GSWC participated in until 2017 (A.17-04-001).

³³ ORA Data Request KC4-024 #2.

³⁴ GSWC Response to ORA Data Request KC4-024 #2. (Emphasis added.)

1 Account 798 – Outside Services. ORA inquired as to why these expenses appeared in both
2 accounts.³⁵ GSWC responded as follows:

3 When forecasting [Account 797] we did not use only what was recorded in Account
4 797, we used ALL expenses relating to 2014 GRC and the 2011 CoC proceeding,
5 whether booked as deferred expenses or booked directly as outside services.

6 As mentioned [in GSWC’s response to ORA DR KC4-024 #2], what was recorded in
7 Account 797 as a deferred amortization is capped at the authorized amount and
8 anything excess of that was recorded in outside services, therefore you can see the
9 same types of transactions in the recorded 2014 GRC expense we use to forecast
10 outside services.³⁶

11 As indicated above, GSWC does not remove from Account 798 the 2014 GRC expenses over the
12 authorized amount, despite already accounting for such expenses in the forecast for Account 797.
13 In general, ORA does not disagree with GSWC’s method of including all expenses incurred for
14 the 2014 GRC and 2011 CoC proceedings in forecasting for the 2020 GRC expenses. However,
15 it is inappropriate to use the same expenses to develop the forecast for both Account 797 and
16 Account 798. This amounts to “double-counting,” or duplicative accounting, for certain rate
17 case expenses in the forecast calculation. Thus, ORA removes the double-counted 2014 GRC
18 and 2011 CoC expenses totaling \$483,254³⁷ from the historical expenses used for forecasting
19 purposes.

20 **b. A.08-07-010 (Regions 2 and 3 GRC) expenses and other GRC-related expenses**

21 The Commission should remove the recorded \$1,454,950 pertaining to GRCs other than A.14-
22 07-006 from the forecast calculation, as detailed below.

23 Upon ORA’s request, GSWC provided general ledger transaction details for 2012-2016 expenses
24 for all subaccounts in Account 798.³⁸ After reviewing the transaction details provided, ORA

³⁵ ORA Data Request KC4-024 #3.

³⁶ GSWC Response to ORA Data Request KC4-024 #3.

³⁷ ORA identified these expenses in the Account 798 general ledger transaction details because they had the exact same dollar amount, date, and description associated with them as expenses in the Account 797 general ledger transaction details. For full listing, *see* this report’s Appendix 2-1: Double-counted rate case expenses.

³⁸ GSWC Responses to ORA Data Request KC4-003 #1 and ORA Data Request KC4-012 #1.

1 requested more information about an expense billed to GSWC by Winston and Strawn LLP
2 (“Winston”) with the description of “Regions II & III GRC.” GSWC stated in response:

3 Winston and Strawn was retained by Golden State for the provision of legal services
4 related to Phase II of Application A.08-07-010, Region 2 and 3 GRC, which services
5 included consultation between Golden State and attorneys, legal research, preparation
6 and submission of motions, filings and other related papers.³⁹

7 Section 14.11 of GSWC and ORA’s 2014 GRC settlement in proceeding A.14-07-006 regarding
8 Regulatory Expenses states:

9 In this proceeding, GSWC is incorporating the Settlement Agreement between
10 GSWC and ORA in the Rehearing of Decision 10-11-036 (A.08-07-010) regarding
11 Regulatory Expense by implementing a one-time transition mechanism to recover
12 both its forecast for the 2017 GRC regulatory expenses, and recover its regulatory
13 expenses incurred through 2015 for the preparation of the 2014 GRC on a deferred
14 basis. Beginning in GSWC’s next GRC, Regulatory Expense forecasts should
15 include the cost of processing only one GRC. GSWC included these Regulatory
16 Expenses in the COPS business segment, so they are entirely allocated to GSWC’s
17 water operation customers.

18 As a result of the Commission adopting the Settlement in D.14-09-009, ORA agreed
19 with GSWC’s methodology of implementing a one-time transition mechanism during
20 this GRC.⁴⁰

21 Although GSWC is using only the 2014 GRC and 2011 CoC expenses in its forecast for Account
22 797, the costs of a previous GRC (A.08-07-010) are still embedded in GSWC’s Outside Services
23 forecast. It is inappropriate to include other GRC-related expenses in other accounts’ historical
24 five-year averages because, as previously mentioned, GSWC is already using a special
25 forecasting method for Account 797 – i.e., basing the forecast on only one GRC (and CoC)
26 cycle, as opposed to using a five-year average.

27 ORA also requested subject matter names and descriptions for certain Winston transactions
28 booked under Business Unit 51W, as the general ledger transaction information previously
29 provided to ORA did not contain descriptions for those transactions.⁴¹ Upon reviewing GSWC’s

³⁹ GSWC Response to ORA Data Request KC4-007 #9.a.

⁴⁰ A.14-07-006, Partial Settlement Agreement Between the Golden State Water Company and the Office of Ratepayer Advocates of the California Public Utilities Commission, Section 14.11, page 145. (Emphasis added.) D.16-12-067 adopts this settlement agreement.

⁴¹ GSWC Response to ORA Data Request KC4-024 #1.a.

1 response, ORA found additional expenses relating to A.08-07-010.⁴² As a result, ORA removes
2 in total \$1,322,100⁴³ relating to A.08-07-010 from GSWC’s historical Account 798 expense
3 amounts used for forecasting purposes.

4 Additionally, ORA requested a copy of the invoice for a general ledger transaction of \$109,759
5 detailed in GSWC’s response to a previous data request, with a description of “Cap at \$1.691K
6 per Settlement.”⁴⁴ In response, GSWC indicated that the transaction of interest was “to
7 reclassify legal costs from regulatory expense to legal expense.”⁴⁵ ORA then requested
8 information as to which settlement this transaction referred to. GSWC responded that the “Cap
9 at \$1.691K per Settlement” line item referred “to the settlement between ORA and GSWC in the
10 2014 GRC for the Regulatory Expenses line item.”⁴⁶ This indicates that the transaction was
11 originally GRC-related and reclassified to legal expenses in Account 798. This may be because
12 of GSWC’s former practice of booking GRC-related expenses to Account 797 up to the
13 authorized amount and booking any GRC-related expenses over the authorized amount to
14 Account 798. Regardless, it is inappropriate to embed this expense in the Account 798 forecast
15 because GSWC already forecasts the upcoming 2020 GRC expenses by escalating the expenses
16 incurred for one GRC, as previously detailed. Thus, ORA removes the reclassification amount
17 of \$109,759 from GSWC’s historical Account 798 expense amounts used for forecasting
18 purposes.

19 ORA also removes \$23,090 in 2012 expenses pertaining to a matter described as “2012 GRC /
20 Basin Storage Project Public Outreach and Education” as it is related to a past GRC.⁴⁷

21 **2. Remove acquisition-related expenses**

22 The Commission should remove the recorded \$1,213,848 in acquisition-related expenses from
23 the forecast calculation.

⁴² GSWC Response to ORA Data Request KC4-024 #1.a.

⁴³ For full listing of expenses, *see* Appendix 2-2: A.08-07-010 Regions 2 & 3 GRC expenses.

⁴⁴ ORA Data Request KC4-004 #1.a.

⁴⁵ GSWC Response to ORA Data Request KC4-004 #1.a (Attachment KC4-004 Q.1.a.xlsx).

⁴⁶ Email from Jenny Darney-Lane of GSWC to Kelsey Choing of ORA, dated December 8, 2017.

⁴⁷ GSWC Response to ORA Data Request KC4-028 #1.

1 A significant portion of GSWC’s Outside Services expenses were for legal fees pertaining to
 2 GSWC’s activities in acquiring or attempting to acquire other water companies. The table below
 3 summarizes the expenses relating to several acquisition attempts as found in the forecast.

4 **Table 2-6: GSWC Acquisition-Related Expenses in Account 798 – Outside Services⁴⁸**

Description	2012	2013	2014	2015	2016	TOTAL
Mid-Sierra Water System	\$ -	\$ -	\$ 12,905	\$ -	\$ 4,473	\$ 17,378
Park Water Company	\$ -	\$ -	\$ 43,085	\$ 356,218	\$ -	\$ 399,303
"Project Orchard"	\$ -	\$ -	\$ 148,239	\$ -	\$ -	\$ 148,239
Rural Water Company	\$ 6,376	\$ 175,745	\$ 259,668	\$ 25,475	\$ 276	\$ 467,540
San Juan Oaks	\$ -	\$ -	\$ 28,132	\$ 7,826	\$ 21,755	\$ 57,713
Tahoe	\$ -	\$ -	\$ -	\$ -	\$ 118,082	\$ 118,082
"290177" (Manatt)	\$ -	\$ -	\$ 5,592	\$ -	\$ -	\$ 5,592
						\$1,213,848

5
 6 ORA removes the above acquisition-related legal and consulting expenses from the forecast
 7 calculation.

8 The following remark is from the June 27, 2014 Board of Directors meeting of the American
 9 States Water Company (“American States” or AWR,⁴⁹ GSWC’s parent company):

10 *****BEGIN CONFIDENTIAL***** [REDACTED]
 11 [REDACTED]
 12 [REDACTED]
 13 [REDACTED]
 14 [REDACTED]
 15 [REDACTED]
 16 *****END CONFIDENTIAL*****

17 Reflecting recorded expenses related to past acquisition activities in GSWC’s forecast expenses
 18 is tantamount to asking GSWC’s ratepayers to pay for its parent company’s efforts to among
 19 other things *****BEGIN CONFIDENTIAL***** [REDACTED]
 20 [REDACTED] *****END**

⁴⁸ These acquisition attempts were described in GSWC’s Response to ORA Data Request KC4-003, GSWC’s Response to ORA Data Request KC4-007, and GSWC’s Response to ORA Data Request KC4-012 #2 (Attachment 1).

⁴⁹ AWR is American States Water Company’s stock symbol.

⁵⁰ CONFIDENTIAL Board of Directors meeting minutes from June 27, 2014, page 3. Mr. Sprowls is AWR’s President and Chief Executive Officer.

1 CONFIDENTIAL***⁵¹ Acquisition efforts by GSWC’s parent company should not be funded
 2 by ratepayers by way of embedding these recorded expenses in the forecast calculation. Thus,
 3 the Commission should remove expenses relating to acquisition efforts from GSWC’s historical
 4 expenses used for forecasting purposes.

5 **3. Remove Brownstein Hyatt Farber Schreck’s “general benefit services” and “general**
 6 **benefit lobbying” expenses**

7 The Commission should remove the recorded “general benefit lobbying” expenses totaling
 8 \$457,792 from the forecast calculation, as detailed below.

9 GSWC’s forecast for Outside Services uses recorded expenses for Brownstein Hyatt Farber
 10 Schreck (“Brownstein”), a lobbying/law firm.⁵² ORA removes the following Brownstein
 11 expenses from the historical expenses used in the forecast calculation because the Commission
 12 does not allow lobbying expenses in rates,⁵³ and, moreover, these are one-time expenses.

13 **Table 2-7: Brownstein Expenses in Account 798 – Outside Services**

Description	2012	2013	2014	2015	2016	TOTAL
General Benefit Services	\$ -	\$ 968	\$ -	\$ -	\$ -	\$ 968
General Benefit Services (Lobbying)	\$ 59,940	\$ 35,339	\$ 90,215	\$ 5,600	\$ -	\$ 191,095
General Benefit Services (Non Lobbying)	\$ -	\$ 12,436	\$ 35	\$ -	\$ -	\$ 12,471
General Lobbying (Monthly Retainer)	\$ 135,150	\$ 117,324	\$ -	\$ -	\$ -	\$ 252,474
General Matters	\$ -	\$ 785	\$ -	\$ -	\$ -	\$ 785
						\$ 457,792

14

⁵¹ CONFIDENTIAL Board of Directors meeting minutes from June 27, 2014, page 3.

⁵² Brownstein Hyatt Farber Schreck, “Government Relations” practices.
 (<https://www.bhfs.com/services/practices/GovernmentRelations>, accessed January 5, 2018.)

⁵³ D.06-11-050, page 73: “Commission policy is clear that political and lobbying activity should not be included in customer rates.”

1 a. Expenses not expected to reoccur during rate case cycle

2 ORA requested copies of the invoices for six Brownstein transactions in the general ledger
3 details,⁵⁴ then issued a follow-up data request regarding a Brownstein invoice with the subject
4 matter “General Benefit Lobbying (Monthly Retainer)” GSWC previously provided.⁵⁵ When
5 asked to provide descriptive information for the monthly retainer, GSWC provided information
6 about a very specific issue covered by Brownstein’s general benefit lobbying (Senate Bill 1386):

7 The 2012 Lobbying Invoices covered expenses incurred by our Legislative Advocate
8 to work on behalf of Golden State Water Company and its customers. The 2012
9 legislative season was very busy with particular bills that, if not framed appropriately
10 or enacted, would have severe negative impacts on the company’s customers.

11 One of the key issues being addressed in 2012 was the legislative changes that
12 impacted the storage rights in the Central and West Coast basins of Southern
13 California. These issues were eventually resolved through legislation, specifically SB
14 1386.⁵⁶

15 As indicated above, the major issue for which GSWC retained Brownstein for general benefit
16 lobbying services has concluded. GSWC gave no indication that the need for a Brownstein
17 general benefit lobbying retainer would continue or occur in this rate case cycle.

18 Furthermore, ORA asked whether GSWC was still paying Brownstein a monthly retainer.⁵⁷
19 GSWC responded with a definitive “No.”⁵⁸ If GSWC foresees an issue of the magnitude and
20 duration similar to the issue discussed above and believes there is a need for a monthly retainer
21 similar to that with Brownstein, GSWC may request to establish a memorandum account for
22 such future expenses. However, it is unreasonable to use these recorded expenses for forecasting
23 purposes.

24 b. Expenses for which ratepayer benefits cannot be determined

25 ORA requested information describing “the work/activity/case” pertaining to several Brownstein
26 transactions in the general ledger transaction details for Account 798 – Outside Services, for

⁵⁴ ORA Data Request KC4-004 #1.a.

⁵⁵ ORA Data Request KC4-007 #4.a.

⁵⁶ GSWC Response to ORA Data Request KC4-007 #4.a. (Emphasis added.)

⁵⁷ ORA Data Request KC4-014 #1.a.

⁵⁸ GSWC Response to ORA Data Request KC4-014 #1.a.

1 which GSWC had not provided matter names or descriptions.⁵⁹ In its response, GSWC did not
2 provide the level of detail requested by ORA, and only provided general remarks for the
3 transactions, such as “General Lobbying (Monthly Retainer),” “General Benefit Services
4 (Lobbying),” and “General Benefit Services (Non Lobbying).”⁶⁰

5 As previously described, ORA asked GSWC to provide information regarding the monthly
6 retainer for “general benefit lobbying” services.⁶¹ In its response, GSWC provided additional
7 information discussed above regarding the “2012 Lobbying Invoices.”⁶² However, GSWC did
8 not provide information regarding the general benefit lobbying monthly retainer expenses
9 incurred in other years. Furthermore, when later asked to provide information describing “the
10 work/activity/case” for transactions with no descriptions, GSWC did not explain the difference
11 between expenses for the monthly retainer and expenses it labeled as “General Benefit Services
12 (Lobbying)” or “General Benefit Services (Non Lobbying).”

13 Finally, the six Brownstein invoices that GSWC provided were substantially redacted, which
14 prevented ORA from assessing the reasonableness of the services provided.⁶³ It is unreasonable
15 for a utility to include expenses in a forecast calculation while also refusing to provide complete
16 information regarding those expenses. GSWC should be transparent in its requests and has the
17 burden of proof to demonstrate the reasonableness of its requests.

18 For the reasons above, ORA removes Brownstein general benefit lobbying expenses totaling
19 \$457,792 from the forecast calculation.

20 **4. Remove expenses related to the Ojai Customer Service Area (CSA)**

21 The Commission should remove Ojai CSA-related recorded expenses totaling \$298,217 from the
22 forecast calculation, as detailed below.

⁵⁹ ORA Data Request KC4-028 #1: “These selected line items do not have any information in the Remarks column to allow ORA to determine the work/activity/case related to the recorded expense. For each of the line items in Attachment 1, please provide information describing of the work/activity/case provided.”

⁶⁰ GSWC Response to ORA Data Request KC4-028 #1.

⁶¹ ORA Data Request KC4-007 #4.a.

⁶² GSWC Response to ORA Data Request KC4-007 #4.a.

⁶³ GSWC Response to ORA Data Request KC4-004 #1.a.

1 In June 2017, GSWC transferred its Ojai operations (Ojai CSA) to the Casitas Municipal Water
2 District.⁶⁴ Because Ojai is no longer part of GSWC’s service area, ORA asked whether GSWC
3 had removed its Ojai CSA-related recorded expenses from the Test Year 2019 GO expense
4 forecasts.⁶⁵ GSWC responded “No.”⁶⁶ ORA also asked GSWC to identify the Ojai CSA-related
5 expenses that had not been removed and explain why these expenses should not be removed for
6 forecasting purposes.⁶⁷ In response, GSWC stated, “All expenses on the [general ledger
7 transaction details spreadsheet] are corporate related expenses that are part of operating a water
8 utility with multiple service territories and therefore should not be removed.”⁶⁸ GSWC did not
9 identify the Ojai CSA-related expenses as ORA requested.

10 GSWC’s explanation for keeping Ojai CSA-related expenses in its forecast is insufficient and
11 unreasonable. GSWC no longer operates the Ojai water system and will no longer incur related
12 expenses in the forecast years. Any Outside Services expenses pertaining to matters in Ojai
13 should be excluded from the forecast as these expenses are not representative of reasonable and
14 expected expenses for this rate case cycle. For example, GSWC appropriately adjusts its
15 Domestic Production Activities Deduction (DPAD) estimate to “reflect disposition of Ojai
16 service.”⁶⁹ ORA removes from the forecast calculation Ojai CSA-related expenses, listed in the
17 table below.

⁶⁴ GSWC GRC Application 17-07-010, page 2, footnote 1: “This application does not include a rate request for Golden State’s Ojai Customer Service Area. Golden State and Casitas Municipal Water District reached a Settlement Agreement resolving an eminent domain action brought against Golden State. As of June 8, 2017, Casitas has taken control of the Ojai water system and the transaction is complete.”

⁶⁵ ORA Data Request KC4-004 #2.b.i.

⁶⁶ GSWC Response to ORA Data Request KC4-004 #2.b.i.

⁶⁷ ORA Data Request KC4-004 #2.b.iii.

⁶⁸ GSWC Response to ORA Data Request KC4-004 #2.b.iii. The general ledger transaction details from which Ojai expenses had not been removed were provided to ORA in GSWC’s response to ORA Data Request KC4-003 #1.

⁶⁹ GSWC Response to ORA Data Request MC8-001 #4, Attachment “MC8-001 GSWC 2017 Water-Wide GRC DPAD v01.”

1 **Table 2-8: Ojai CSA-related Expenses in Account 798 – Outside Services**⁷⁰

Description	2012	2013	2014	2015	2016	TOTAL
Ojai Asset Protection/Potential Groundwater Adjudication	\$ -	\$ 2,110	\$ 5,865	\$ 5,058	\$ -	\$ 13,033
Ojai Playhouse Coverage Dispute	\$ -	\$ -	\$ -	\$ 20,440	\$ 40,298	\$ 60,738
Ojai Complaint	\$ -	\$ -	\$ -	\$ -	\$ 138,761	\$ 138,761
Whaley Complaint	\$ 59,869	\$ 25,341	\$ -	\$ -	\$ -	\$ 85,210
Ojai Unified School District	\$ 375	\$ -	\$ -	\$ -	\$ -	\$ 375
PCARD transaction - "DEWEY-PAYPAL *OJAIVALLEYG"	\$ 100	\$ -	\$ -	\$ -	\$ -	\$ 100
						\$298,217

2
3 ORA identified most of the above expenses in the general ledger transaction details as being Ojai
4 CSA-related because the descriptions specifically referenced Ojai. ORA also removes the
5 Whaley complaint expenses in 2012 and 2013, which GSWC identified in its response to ORA's
6 data request,⁷¹ because they are for a customer complaint filed at the Commission by Jon Whaley
7 regarding GSWC service issues in the Ojai CSA.⁷²

8 **5. Remove other one-time expenses (A.08-08-022, Navigant, HomeServe)**

9 The Commission should remove recorded one-time expenses totaling \$994,858 from the forecast
10 calculation, as detailed below.

11 Over the course of several data requests, ORA discovered specific expenses or types of expenses
12 that were not expected to reoccur during the forecast years. ORA removes the expenses from the
13 forecast as detailed in the table below.

⁷⁰ Expenses pertaining to the Ojai Playhouse Coverage Dispute are allocated to Corporate Support, not COPS. Thus, ORA removes the amounts listed in Corporate Support (detailed in Chapter 3 of this report).

⁷¹ GSWC Response to ORA Data Request KC4-024 #Q.1.a.

⁷² California Public Utilities Commission: "Informal Complaint, CPUC file #193465" (www.cpuc.ca.gov/EFILE/MOTION/169302.pdf, accessed January 5, 2018).

Table 2-9: One-time Expenses in Account 798 – Outside Services

Description	2012	2013	2014	2015	2016	TOTAL
A.08-08-022	\$ 101,908	\$ 11,924	\$ 354,084	\$ 48,083	\$ 214,236	\$ 730,234
Navigant	\$ -	\$ -	\$ -	\$ -	\$ 209,011	\$ 209,011
HomeServe	\$ -	\$ 55,613	\$ -	\$ -	\$ -	\$ 55,613
						\$ 994,858

ORA removes expenses related to proceeding A.08-08-022, in which GSWC applied for a Certificate of Public Convenience and Necessity (CPCN) to construct and operate a water system and establish rates for water service in Sutter County, California. This proceeding was closed in 2016 by D.16-09-051. When asked whether and how the expenses pertaining to A.08-08-022 were expected to reoccur in the GRC’s forecast years, GSWC stated, “Although this invoice relates to a specific Commission proceeding, this type of expense is recurring in nature.”⁷³ It is unreasonable to include this type of regulatory expense in the revenue requirement, particularly at this magnitude and duration (\$730,234 over five years), without a more detailed explanation for why this activity is expected to reoccur during the rate case cycle. If GSWC has any indication that a similar proceeding will occur in this rate case cycle, it should submit cost estimates for ORA’s review and Commission consideration.

ORA also removes one-time Navigant consulting expenses in 2016, which GSWC stated were “not expected to occur in the GRC forecasted years,”⁷⁴ and one-time expenses incurred when GSWC was considering a contract with HomeServe in 2013.⁷⁵

6. Adjust Customer and Community Education program expenses

The Commission should adjust the Customer and Community Education program expense forecasts, as shown in the table below.

⁷³ GSWC Response to ORA Data Request KC4-007 #12.b.

⁷⁴ GSWC Response to ORA Data Request KC4-007 #1.c and #2.c.

⁷⁵ Call between Jenny Darney-Lane of GSWC and Kelsey Choing of ORA on December 8, 2017: Ms. Darney-Lane indicated that GSWC did not currently have a contract with HomeServe, and that the expenses incurred in 2013 were from when GSWC was working with Winston and Strawn LLP to develop a possible contract with HomeServe.

1 **Table 2-10: Customer and Community Education Program**

Item	GSWC			ORA		
	2018	2019	2020	2018	2019	2020
Website overhaul	\$ 87,000	\$ -	\$ -	\$ -	\$ -	\$ -
Spanish translation services	\$ 10,000	\$ -	\$ -	\$ 10,000	\$ -	\$ -
Paid outreach campaigns and paid media	\$ 30,000	\$ -	\$ -	\$ 30,000	\$ -	\$ -
Education and staff development videos	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ -	\$ -
Customer research	\$ 100,000	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -
TOTAL	\$ 242,000	\$ 100,000	\$ 100,000	\$ 55,000	\$ -	\$ -

2
3 GSWC proposes specific amounts to be added to the five-year average forecast for Account 798
4 to “provide additional work to expand [its] Customer and Community Education program.”⁷⁶
5 GSWC states that these additions increase the Outside Services expenses by \$242,000 in 2018,
6 \$100,000 in 2019, and \$100,000 in 2020.⁷⁷ ORA’s adjustments are detailed below.

7 **a. Website overhaul**

8 The Commission should remove GSWC’s website overhaul expense of \$87,000 from the Test
9 Year forecast calculation, because it is a one-time expense and because expenses to be incurred
10 in 2018 are already accounted for in rates authorized in the last GRC, covering 2016-2018.

11 In response to ORA’s inquiry, GSWC stated that the proposed website overhaul would be a one-
12 time expense.⁷⁸ Additionally, ORA requested a timeline for the proposed website overhaul.⁷⁹ In
13 its response, GSWC provided a timeline that indicated that the website overhaul’s anticipated
14 completion (go live) date would be in August 2018.⁸⁰

15 ORA removes the entire website overhaul expense of \$87,000 for the reasons discussed below.

⁷⁶ GSWC Prepared Testimony of Nanci Tran, page 27, lines 22-23.

⁷⁷ GSWC Prepared Testimony of Nanci Tran, page 27, lines 23-24.

⁷⁸ Email from Nanci Tran of GSWC to Kelsey Choing of ORA, dated July 31, 2017. GSWC’s response to ORA’s question “Is the website overhaul a one-time cost?” is “Yes.”

⁷⁹ ORA Data Request KC4-002 #2.b.iv.

⁸⁰ GSWC Response to ORA Data Request KC4-002 #2.b.iv.

1 *This is a one-time expense that should not be used for forecasting purposes*

2 In GSWC’s application, the total website overhaul cost of \$87,000 is embedded in its entirety in
3 2018, which is then escalated for the 2019-2021 forecasts.⁸¹ Because of this, what GSWC
4 characterizes as a one-time \$87,000 expense adjustment has the impact of increasing GO
5 expense by approximately \$271,000 over the rate case cycle (2019-2021).

6 *Expenses to be incurred in 2018 are already accounted for in current rates*

7 Expenses to be incurred in 2018 have already been accounted for in rates authorized by the
8 previous GRC proceeding and decision, and should not be recoverable in rates to be authorized
9 in this GRC.

10 **b. Customer research**

11 The Commission should remove GSWC’s proposed customer research project expense of
12 \$300,000 from the forecast because this expense should not be ratepayer-funded. GSWC’s
13 workpaper calculation is also inconsistent with its testimony.

14 GSWC states that the proposed customer research project’s total cost would be \$300,000 spread
15 out over three years, or \$100,000 annually in 2018, 2019, and 2020.⁸²

16 ORA removes the entire proposed customer research project expense of \$300,000 for the reasons
17 discussed below.

18 *GSWC workpaper calculation is inconsistent with its testimony*

19 Similar to the website overhaul adjustment, GSWC overstates the customer research project’s
20 cost in its workpaper calculations. GSWC adds \$100,000 to each of the 2019 and 2020 forecast
21 totals. GSWC also adds \$100,000 to 2018 expenses, which is escalated to develop the 2019-
22 2021 forecast totals.⁸³ This calculation results in an impact of approximately \$819,000 charged
23 to ratepayers over the rate case cycle (2019-2021), compared to GSWC’s written request for
24 \$300,000 spread out over three years. Even if this were an appropriate expense for forecasting

⁸¹ GSWC GO-SOE 17.xlsx, tab “798 Outside service,” cell Q163.

⁸² GSWC Prepared Testimony of Denise Kruger – Staffing Changes and Community Education, page 68, lines 8-10.

⁸³ GSWC GO-SOE 17.xlsx, tab “798 Outside service,” cells Q163:S163.

1 purposes, GSWC’s calculation does not reflect its written request and should at the minimum be
2 corrected by removing the redundant \$100,000 incremental adjustments in the 2019 and 2020
3 forecasts.

4 *These expenses should not be ratepayer-funded*

5 ORA removes the entire customer research adjustment from the rate case cycle forecasts because
6 this project should not be ratepayer-funded. GSWC indicated that the \$300,000 estimate for its
7 customer research project was based on polling and focus group research conducted in its
8 Claremont CSA in 2017.⁸⁴ ORA was concerned that the expenses were related to the then-
9 unresolved eminent domain proceeding involving GSWC and the City of Claremont, and
10 requested additional information on the completed polling and focus group research in
11 Claremont.⁸⁵

12 GSWC responded with the following:

13 GSWC decided to conduct polling and focus group research in the Claremont service
14 area to determine the status of Claremont customer’s knowledge about GSWC’s
15 operations and service, and better understand the community’s concerns directly
16 following the eminent domain lawsuit. The events leading up to and including the
17 eminent domain trial itself were highly publicized in the community. Given the
18 inaccurate coverage of GSWC’s service and rates throughout the process, GSWC
19 determined a need to poll the community in order to be better informed on how to
20 proceed with helpful community outreach and education going forward.⁸⁶

21 GSWC also provided the GS Strategy Group’s report regarding the 2017 Claremont research.

22 The report revealed that ***BEGIN CONFIDENTIAL*** [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 ***END CONFIDENTIAL***⁸⁷

⁸⁴ GSWC Response to ORA Data Request KC4-002 #1.a.iv.

⁸⁵ ORA Data Request KC4-016 #2.b.i.

⁸⁶ GSWC Response to ORA Data Request KC4-016 #2.b.i.

⁸⁷ GSWC Response to ORA Data Request KC4-016 #2.c.i. See this report’s Appendix 2-3:
CONFIDENTIAL GS Strategy Group report.

1 In GSWC’s previous GRC (A.14-07-006), the Commission made the following findings
2 regarding ratemaking treatment of expenses related to GSWC’s attempts to fight condemnation
3 in the Claremont area:

4 The Settlement Agreement, which was executed subsequent to the testimonies and
5 cross examinations cited above by Claremont, clearly states in Section 14.12 that
6 none of the funds for General Office Outside Services shall be used for any
7 condemnation defense in Claremont and Ojai, or for any future condemnation costs in
8 other CSAs.

9 ...In addition, Golden State should be directed that no ratepayer funds authorized in
10 this GRC, and not just amounts authorized for General Offices Outside Services,
11 should be used for condemnation defense.⁸⁸

12 While not condemnation defense costs, these research expenses are related to GSWC’s efforts to
13 retain its service areas, and therefore should not be included in the expense forecast calculation.
14 Ratepayers should not provide funds for GSWC to retain its service areas because the benefits of
15 such asset protection are accrued to AWR stockholders, and not necessarily to GSWC’s
16 ratepayers.

17 For these reasons, ORA excludes the requested customer research project expenses from the
18 forecast calculation.

19 **7. Adjust recorded expenses consistent with the adopted 2014 GRC settlement**

20 The Commission should include the following adjustments to recorded data used in the forecast
21 calculation of Account 798 – Outside Services; GSWC and ORA had agreed to these
22 adjustments in the adopted 2014 GRC settlement.

23 ORA requested more information regarding discrepancies between the GSWC’s 2014 GRC
24 application GO workpapers and its 2017 GRC application GO workpapers.⁸⁹ In its response,
25 GSWC explained that it had inadvertently omitted several adjustments and offered the following
26 adjustments to be made in the COPS expense forecasts.⁹⁰

⁸⁸ D.16-12-067, pages 126-127.

⁸⁹ ORA Data Request KC4-001 #1.

⁹⁰ GSWC Response to ORA Data Request KC4-001#1.

1 Rehearing of D.10-11-035

2 GSWC stated the following:

3 Decision 14-09-009 authorized settlement between ORA and GSWC to “exclude 75%
 4 of all legal and consulting cost incurred in [the rehearing proceeding of D.10-11-035]
 5 from any historical expenses used in forecast expenses in any future GRCs and/or
 6 other filings.” (p.20) GSWC mistakenly excluded this adjustment from the 2017
 7 GRC, the following amount should be adjusted from GO COPS outside services...

8 GSWC’s adjustments are shown below.

9 **Table 2-11: GSWC Response to ORA Data Request KC4-001 #1 (Rehearing of D.10-11-**
 10 **035)**

Sum of General Ledger Amount		
Year	Total	75%
2012	-\$1,082,562	-\$ 811,922
2013	-\$ 238,806	-\$ 179,105
2014	-\$ 875	-\$ 656
Grand Total	-\$1,322,243	

11

12 Procurement Audit

13 GSWC stated the following: “All procurement cost was mistakenly adjusted from COPS only in
 14 the 2017 GRC; should be corrected to reflect 2014 GRC methodology and adjust for individual
 15 GO business segments.”

16 GSWC’s proposed adjustments are shown below.

17 **Table 2-12: GSWC Response to ORA Data Request KC4-001 #1 (Procurement Audit)**

GO Business Segments	2012	2013	2014	2015	2016
Central Ops	-\$67,544	-\$28,581	-\$3,217	-\$436,997	
Corporate Support	\$12,796	\$ 750			
Utility	\$ -	-\$ 196	-\$ 785	\$ 398	-\$1,564
Grand Total	\$54,748	\$28,027	\$4,002	\$436,599	\$1,564

18

19 ORA incorporates GSWC’s proposed adjustments shown above into the forecast.

1 **8. Adjust for recorded expenses already tracked in memorandum accounts**

2 COIIMA

3 GSWC noted that for the Conservation Order Instituting Investigation Memorandum Account
4 (COIIMA), the GO Summary of Earnings should be adjusted to add back credits that were once
5 recorded to reclassify expenses authorized for recovery to a regulatory asset on the balance
6 sheet.⁹¹ ORA incorporates the COIIMA adjustment by adding back a credit of \$734,926 to 2013
7 historical expenses in COPS Account 798 – Outside Services.

8 ITRRI-MA

9 The Commission should remove \$272,060 paid to Ernst & Young LLP from the forecast
10 calculation.

11 The Commission authorized GSWC’s Income Tax Repair Regulations Implementation
12 Memorandum Account (ITRRI-MA) in its Advice Letter 1498, effective September 27, 2012.⁹²
13 The ITRRI-MA’s purpose is “to track the costs associated with the initial implementation of the
14 Repair Regulations.”⁹³ GSWC has not recorded expenses in the ITRRI-MA since June 30,
15 2014.⁹⁴

16 GSWC includes the same expenses paid to Ernst & Young LLP in both the ITRRI-MA and the
17 forecast calculation for Account 798. In COPS, these expenses total \$272,060 in the years 2013
18 and 2014.⁹⁵ ORA removes these recorded expenses as it is inappropriate to include in Test Year
19 forecast calculations amounts already tracked for memorandum account recovery.

⁹¹ GSWC Response to ORA Data Request JE6-005 #1.

⁹² GSWC Preliminary Statement CCC.

⁹³ GSWC Preliminary Statement CCC.

⁹⁴ GSWC workpaper spreadsheet “2017 GRC BAMA,” tab 2, cell E5.

⁹⁵ A.14-07-006, GSWC Response to ORA Data Request RK2-005 #1 (Attachment “RK2-005 Q.1. Balancing and memorandum Accounts,” tab “38b”). Expense amounts of \$158,360, \$40,600, and \$73,100 appear in both the ITRRI-MA and the COPS Account 798 recorded expenses used for forecasting purposes. ORA removes those amounts from the forecast calculation. An additional \$7,060 appears in both the ITRRI-MA and Corporate Support - Account 798 recorded expenses used for forecasting purposes; ORA also removes that amount from the forecast calculation.

1 **9. Remove temporary labor and placement fee expenses**

2 For reasons detailed in ORA's Report on Labor and Benefits (Chapter 2), ORA removes
 3 expenses pertaining to temporary labor and placement fees totaling \$1,712,288 from the recorded
 4 expenses used for forecasting purposes – \$94,513 of this total is in COPS; the remaining amount
 5 is in Corporate Support.

6 **F. Account 805 – Maintenance of General Plant**

7 The Commission should reduce GSWC's Test Year forecast for COPS Account 805 –
 8 Maintenance of General Plant by \$200.

9 Account 805 – Maintenance of General Plant contains expenses relating to the maintenance and
 10 repair of office equipment, computer hardware/software, outside services, and permits, in
 11 addition to operations and maintenance not assignable to other expense accounts.⁹⁶ The
 12 following table summarizes GSWC's request for Account 805 – Maintenance of General Plant in
 13 COPS and ORA's recommended amount for the Test Year.

14 **Table 2-13: COPS Account 805 – Maintenance of General Plant, Test Year 2019**

GSWC	ORA	GSWC > ORA
\$ 71,100	\$ 70,900	\$ 200

15
 16 **1. Remove one-time expenses as indicated by GSWC**

17 The Commission should remove one-time expenses from the forecast calculation, as detailed
 18 below.

19 ORA identified several subaccounts in Account 805 in which expenses had not occurred in the
 20 last three recorded years (2014-2016). ORA questioned GSWC as to whether these expenses
 21 were expected to reoccur during the rate case cycle.⁹⁷ In its response, GSWC indicated that the
 22 expenses in some of the subaccounts were not expected to reoccur during the rate case cycle.⁹⁸
 23 Thus, ORA removes the expenses that GSWC indicated were not expected to reoccur from the
 24 forecast calculation. A summary of the amounts removed is shown in the table below.

⁹⁶ GSWC Prepared Testimony of Nanci Tran, page 28, lines 7-10.

⁹⁷ ORA Data Request KC4-018 #2.b.

⁹⁸ GSWC Response to ORA Data Request KC4-018 #2.b.

1 **Table 2-14: One-time Expenses in Account 805 – Maintenance of General Plant⁹⁹**

Business Unit	Object Account	2012	2013
89U	7102	\$ (712)	\$ -
89U	7106	\$ 139	\$ -
31W	7101	\$ -	\$ 329
31W	8280	\$ 20	\$ -
32W	7101	\$ 34	\$ -
32W	7107	\$ -	\$ 20
70W	7101	\$ 38	\$ 48
95W	7101	\$ 177	\$ -
TOTAL		\$ (303)	\$ 396

2

3 **G. Conclusion**

4 The Commission should adopt ORA's adjustments presented above and reflected in ORA's
5 Results of Operations Tables report.

6

[END OF CHAPTER]

⁹⁹ The expenses listed in Business Unit 89U are removed from the Utility Support Services forecast, as detailed in Chapter 4.

Chapter 3. Corporate Support

A. Introduction

This chapter presents ORA's adjustments to GSWC's Corporate Support expense forecasts. The following table summarizes GSWC's and ORA's estimates for the Test Year.

Table 3-1: General Office Expenses – Corporate Support, Test Year 2019

	GSWC	ORA	GSWC > ORA
Account 615 - Revenues	\$ 37,700	\$ 37,700	\$ -
Account 781 - All Other Operating Expenses	\$ 900	\$ 900	\$ -
Account 792 - Office Supplies	\$ 1,198,900	\$ 1,163,100	\$ 35,800
Account 793 - Property Insurance	\$ 9,000	\$ 9,000	\$ -
Account 794 - Injuries and Damages	\$ 1,782,500	\$ 1,782,500	\$ -
Account 796 - Business Meals	\$ 21,600	\$ 20,500	\$ 1,100
Account 798 - Outside Services	\$ 4,099,300	\$ 3,625,000	\$ 474,300
Account 799 - Miscellaneous	\$ 1,694,400	\$ 1,162,000	\$ 532,400
Account 805 - Maintenance of General Plant	\$ 1,247,300	\$ 1,247,300	\$ -
Account 811 - Rent	\$ 29,000	\$ 29,000	\$ -
TOTAL (less Revenues)	\$ 10,082,900	\$ 9,039,300	\$ 1,043,600

B. Account 792 – Office Supplies

The Commission should reduce GSWC's Test Year forecast for Corporate Support Account 792 – Office Supplies by \$35,800.

The following table summarizes GSWC's and ORA's Test Year expense estimates for Account 792 – Office Supplies in Corporate Support.

Table 3-2: Corporate Support Account 792 – Office Supplies, Test Year 2019

GSWC	ORA	GSWC > ORA
\$ 1,198,900	\$ 1,163,100	\$ 35,800

ORA's adjustments are detailed below.

1. Remove expenses as indicated by GSWC

The Commission should remove recorded one-time expenses totaling \$5,444 from the forecast calculation, as detailed below.

1 ORA identified subaccounts in which expenses had not occurred in the last three recorded years
2 (2014-2016), and inquired as to whether these expenses were expected to reoccur.¹⁰⁰ GSWC
3 identified a non-reoccurring expense of \$5,420 in 2013.¹⁰¹ ORA removes this expense from the
4 historical five-year average calculation. ORA also removes a \$15 government penalty
5 mistakenly recorded to a regulated account instead of a non-regulated account,¹⁰² and a \$9 refund
6 of a PCARD transaction for golf.¹⁰³

7 **2. Remove “unallowable” expenses per federal guidelines**

8 The Commission should remove recorded “unallowable” travel-related expenses totaling
9 \$157,090 from the forecast calculation, as detailed below.

10 Regarding expenses in Account 796 – Business Meals, ORA inquired as to how expenses with
11 the descriptions “T/E Meals – Unallow” and “Company Meal – Unallow” were calculated, and
12 requested any guidelines used in those calculations.¹⁰⁴ In its response, GSWC indicated that
13 “unallowable” expenses referred to “unallowable expenses to the U.S. Government (CAS405)
14 under the Federal Acquisition Regulation (FAR Part 31.205) & Defense Acquisition Regulation
15 System (DFARS Part 231.205).”¹⁰⁵ These unallowable expenses in Account 796 also appear in
16 Account 792 – Office Supplies.

17 In response to ORA’s inquiry, GSWC further indicated that the “unallowable” expenses were
18 related to “the government contract with ASUS.”¹⁰⁶ GSWC ratepayers should not have to pay
19 for expenses pertaining to government contracts with ASUS. Thus, ORA removes all
20 “unallowable” T&E Transportation, T&E Lodging, T&E Other A&G, and Miscellaneous
21 expenses totaling \$157,090 from the historical expenses used in the forecast calculation.

¹⁰⁰ ORA Data Request KC4-011 #2.

¹⁰¹ GSWC Response to ORA Data Request KC4-011 #2.

¹⁰² GSWC Response to ORA Data Request KC4-011 #4.

¹⁰³ GSWC Response to ORA Data Request KC4-011 #5.b.

¹⁰⁴ ORA Data Request KC4-006 #4.a.

¹⁰⁵ GSWC Response to ORA Data Request KC4-006 #4.a.

¹⁰⁶ GSWC Response to ORA Data Request KC4-011 #6.

1 **C. Account 796 – Business Meals**

2 The Commission should reduce GSWC’s Test Year forecast for Corporate Support Account 796
3 – Business Meals by \$1,100.

4 The following table summarizes GSWC’s and ORA’s Test Year estimates for Account 796 –
5 Business Meals in Corporate Support.

6 **Table 3-3: Corporate Support Account 796 – Business Meals, Test Year 2019**

GSWC	ORA	GSWC > ORA
\$ 21,600	\$ 20,500	\$ 1,100

7
8 **1. Remove acquisition-related expenses**

9 The Commission should remove the recorded \$175 pertaining to an acquisition-related expense
10 from the forecast calculation, as detailed below.

11 ORA requested the general ledger transaction details for a sample of subaccounts in Account 796
12 – Business Meals.¹⁰⁷ GSWC provided the general ledger transaction details as requested, in
13 addition to twelve specified invoices from the transaction details.¹⁰⁸

14 GSWC indicated that an invoice of \$175 for Granlibakken Resort was related to a “meeting to
15 discuss operational issues associated with small systems and possible acquisition by GSWC.”¹⁰⁹

16 ORA removes this acquisition-related expense from the 2016 historical data for reasons
17 discussed earlier in this report (Chapter 2, Section E.2).

18 **2. Remove “unallowable” expenses per federal guidelines**

19 For reasons detailed earlier (Chapter 3, Section B.2), ORA removes “unallowable” T&E meals
20 expenses totaling \$5,467 from the historical expenses used in the forecast calculation.

21 **D. Account 798 – Outside Services**

22 The Commission should adopt ORA’s adjustments detailed below and reduce GSWC’s Test
23 Year forecast for Corporate Support Account 798 – Outside Services by \$474,300.

¹⁰⁷ ORA Data Request KC4-006 #4.b.

¹⁰⁸ GSWC Response to ORA Data Request KC4-006 #4.b.

¹⁰⁹ GSWC Response to ORA Data Request KC4-008 #7.

1 The following table summarizes GSWC’s and ORA’s Test Year estimates for Account 798 –
2 Outside Services in Corporate Support.

3 **Table 3-4: Corporate Support Account 798 – Outside Services, Test Year 2019**

GSWC	ORA	GSWC > ORA
\$ 4,099,300	\$ 3,625,000	\$ 474,300

4
5 **1. Remove acquisition-related expenses**

6 For the same reasons presented earlier (Chapter 2, Section E.2), ORA removes \$82,014 in
7 acquisition-related expenses (regarding small water systems) from the Account 798 – Outside
8 Services forecast calculation.

9 **2. Remove Ojai CSA-related expenses**

10 ORA removes a total of \$60,738 in recorded 2015-2016 expenses pertaining to the Ojai
11 Playhouse insurance coverage dispute. The dispute arose because of a GSWC water main break
12 that caused the playhouse to flood and ultimately forced it to close.¹¹⁰ Because Ojai is no longer
13 part of GSWC’s service area, these expenses should be excluded from the forecast calculation.

14 **3. Remove investor relations consultants expenses**

15 The Commission should remove \$310,849 paid to investor relations consultants from the
16 forecast calculation, as indicated by GSWC.

17 The general ledger transaction details for this account show payments with a Journal Entry

18 Explanation of ***BEGIN CONFIDENTIAL*** “██████████ ██████████” ***END

19 CONFIDENTIAL*** totaling ***BEGIN CONFIDENTIAL*** ██████████ ***END

20 CONFIDENTIAL*** from 2013 to 2016.¹¹¹ Upon examination of the GO 2017 labor

21 information provided in GSWC’s application, ORA found a temporary employee by the name of

¹¹⁰ ojaivalleynews.com, Belknap, Andra: “Golden State files Playhouse appeal 30 minutes before deadline.”

(https://www.ojaivalleynews.com/index.php?option=com_content&view=article&id=13590:golden-state-files-playhouse-appeal-30-minutes-before-deadline&Itemid=102, accessed on January 5, 2018.)

¹¹¹ GSWC Response to ORA Data Request KC4-012 #1. ORA marks the name and expense amount taken from this data request response as confidential, however, the information was not originally marked as confidential in GSWC’s response to this data request.

1 ***BEGIN CONFIDENTIAL*** [REDACTED] [REDACTED] ***END CONFIDENTIAL*** on GSWC's
2 payroll, with a job title of ***BEGIN CONFIDENTIAL*** "[REDACTED] [REDACTED]".
3 ***END CONFIDENTIAL***¹¹² ORA inquired as to why expenses for ***BEGIN
4 CONFIDENTIAL*** [REDACTED] ***END CONFIDENTIAL*** should be included in the
5 forecast for labor (Account 795) and also for Outside Services (Account 798).¹¹³ GSWC stated
6 that it "inadvertently included the cost of the contract employee in the Outside Services account
7 instead of a labor expense account" and that the expenses for ***BEGIN CONFIDENTIAL***
8 [REDACTED] ***END CONFIDENTIAL*** should be excluded from the forecast calculation
9 for Account 798.¹¹⁴

10 Additionally, GSWC indicated that it had incurred ***BEGIN CONFIDENTIAL*** [REDACTED]
11 *** END CONFIDENTIAL*** in expenses in 2012, paid to ***BEGIN CONFIDENTIAL***
12 [REDACTED] [REDACTED]. *** END
13 CONFIDENTIAL***¹¹⁵ ORA removes these expenses from the forecast calculation for
14 Account 798.

15 **4. Adjust for recorded expenses already tracked in memorandum accounts**

16 GOMMA

17 GSWC noted that for the General Office Maintenance Memorandum Account (GOMMA), the
18 GO Summary of Earnings should be adjusted to add back credits which were once recorded to
19 reclassify expenses authorized for recovery to a regulatory asset on the balance sheet.¹¹⁶ ORA's
20 forecast calculation incorporates the GOMMA adjustment by removing \$225 from 2012
21 historical expenses and adding back a credit of \$25,352 to 2016 historical expenses in Account
22 798 in Corporate Support.

¹¹² GSWC file GO-Labor 2017 CONFIDENTIAL.xlsx, tab "GO & COPS."

¹¹³ ORA Data Request JE6-015 #7a (CONFIDENTIAL).

¹¹⁴ GSWC Response to ORA Data Request JE6-015 #7.a (CONFIDENTIAL).

¹¹⁵ GSWC Response to ORA Data Request JE6-015 #7.a. (CONFIDENTIAL).

¹¹⁶ GSWC Response to ORA Data Request JE6-005 #1.

1 [ITRRI-MA](#)

2 As mentioned previously (Chapter 2, Section E.8), ORA removes expenses from the Account
3 798 recorded expenses used for forecasting purposes that also appear in the ITRRI-MA. Of the
4 \$279,120 total, ORA removes \$7,060 in Corporate Support.

5 **5. Remove temporary labor and placement fee expenses**

6 For reasons detailed in ORA’s Report on Labor and Benefits (Chapter 2), The Commission
7 should remove expenses pertaining to temporary labor and placement fees totaling \$1,712,288
8 from the recorded expenses used for forecasting purposes – \$1,617,775 of that total is in
9 Corporate Support.

10 **6. Remove Macias Consulting Group expenses**

11 The Commission should remove the recorded \$99,487 pertaining to the 2013 audit regarding
12 Affiliate Transaction Rules from the forecast calculation.

13 In 2013, Macias Consulting Group performed an audit regarding GSWC’s compliance with the
14 Commission’s Affiliate Transaction Rules, covering the period of June 30, 2011 to December 31,
15 2012 (“Macias audit”).¹¹⁷

16 In the 2014 GRC, GSWC included the Macias audit expenses in the recorded expenses used for
17 forecasting purposes. Affiliate Transaction Rule VIII.E regarding independent audit states that
18 such audits “shall be at shareholder expense,”¹¹⁸ and not ratepayer expense. Thus, ORA
19 recommended removal of the Macias audit expenses from the recorded costs used for
20 forecasting.¹¹⁹

21 In its rebuttal testimony, GSWC agreed that these costs should be a shareholder expense and not
22 be included in the GRC forecast.¹²⁰ However, GSWC again includes the Macias audit expenses

¹¹⁷ GSWC Final Report – Attestation Audit of Affiliate Transaction Rules for the Period June 30, 2011 to December 31, 2012, by Macias Consulting Group, dated August 30, 2013 (www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Utilities_and_Industries/Water/Golden_StateAuditReport2011and2012.pdf, accessed on January 29, 2018).

¹¹⁸ D.10-10-019, page 76.

¹¹⁹ A.14-07-006, Exhibit ORA-2: ORA Report on General Office, page 55, lines 6-8.

¹²⁰ A.14-07-006, Exhibit GS-118: GSWC Rebuttal Testimony of John Garon, page 54, lines 15-16.

1 totaling \$99,487 in its forecast calculation in this GRC. Consistent with the Commission’s
 2 Affiliate Transaction Rule VIII.E and GSWC’s previous agreement that the Macias audit
 3 expenses should be a shareholder expense, ORA removes these recorded expenses from the
 4 forecast calculation.

5 **E. Account 799 – Miscellaneous**

6 The Commission should adopt ORA’s adjustments detailed below and reduce GSWC’s Test
 7 Year forecast for Corporate Support Account 799 – Miscellaneous by \$532,400.

8 Account 799 – Miscellaneous contains expenses for membership dues, shareholder expenses,
 9 and miscellaneous expenses not covered in other expense categories.¹²¹ A large portion of the
 10 expenses in this account are Board of Directors (“Board”)-related expenses. The following table
 11 summarizes GSWC’s and ORA’s Test Year estimates for Account 799 – Miscellaneous in
 12 Corporate Support.

13 **Table 3-5: Corporate Support Account 799 – Miscellaneous, Test Year 2019**

GSWC	ORA	GSWC > ORA
\$ 1,694,400	\$ 1,162,000	\$ 532,400

14

15 **1. Remove Spencer Stuart expenses**

16 The Commission should remove \$175,191 pertaining to a candidate search firm from the forecast
 17 calculation, as detailed below.

18 ORA requested additional information regarding the “Spencer Stuart” transactions in GSWC’s
 19 general ledger transaction details; these transactions occurred primarily in 2012.¹²² In its
 20 response, GSWC stated: “The expenses were incurred in the process of a search for a candidate
 21 for the AWR/GSWC Board of Directors. Spencer Stuart is a search firm engaged to identify
 22 possible candidates.”¹²³

¹²¹ GSWC Prepared Testimony of Nanci Tran, page 27, lines 27-28.

¹²² ORA Data Request KC4-026 #2 and #3.

¹²³ GSWC Response to ORA Data Request KC4-026 response to Question 2.a.

1 The Board currently consists of nine directors.^{124 125} Although AWR’s 2017 Proxy Statement
2 states that “the board of directors may increase the authorized number of directors up to eleven
3 without obtaining shareholder approval so long as we list our common shares on the New York
4 Stock Exchange,”¹²⁶ there has been no indication that the Board’s Nominating and Governance
5 Committee intends to do so. There is no indication that the Board has been actively searching
6 for candidates to fill vacancies on the Board, and AWR has “not paid any fees for assistance in
7 identifying potential candidates to fill a vacancy on the board since [its] previous annual
8 meeting.”¹²⁷

9 The Proxy Statement does not specify any ideal number of Board members or assert that having
10 more members confers any benefits to AWR. Additionally, the Proxy Statement specifies that
11 “[t]he board of directors may also decrease the number of authorized directors to no less than six
12 without obtaining shareholder approval.”¹²⁸ Therefore, at least three Board members could leave
13 the Board without requiring any action from shareholders. Furthermore, shareholders “have the
14 right to elect a director or directors at any time”¹²⁹ without utilizing the services of a recruitment
15 firm. As a result, ORA opposes inclusion of Spencer Stuart expenses or similar director
16 recruitment expenses in the forecast years, and removes \$175,191 from GSWC’s historical
17 expenses used for forecasting.

18 **2. Adjust Board of Directors compensation**

19 The Commission should remove from the forecast calculation \$2,244,559 of recorded 2012-2016
20 expenses pertaining to Board member compensation.

¹²⁴ AWR 2017 Proxy Statement, page 7. (<https://americanstateswatercompany.gcs-web.com/static-files/f82dcb20-da45-4829-8369-d5ad1267283c>, accessed January 16, 2017.)

¹²⁵ Robert Sprowls, who is also President and Chief Executive Officer of both AWR and GSWC, is the sole management member of the Board. He is not paid any additional compensation for his services as a director or member of any committee (*see* AWR 2017 Proxy Statement, pages 28-29).

¹²⁶ AWR 2017 Proxy Statement, page 8.

¹²⁷ AWR 2017 Proxy Statement, page 13.

¹²⁸ AWR 2017 Proxy Statement, page 8.

¹²⁹ AWR 2017 Proxy Statement, page 8.

1 AWR's Board members are compensated primarily in the form of cash payments for annual
 2 retainer and committee fees and restricted stock unit (RSU) awards.¹³⁰ AWR's 2017 Proxy
 3 Statement details the compensation paid to Board members in 2016, as shown below.

4 **Figure 3-1: AWR Board of Directors Compensation for 2016**¹³¹

DIRECTOR⁽¹⁾ COMPENSATION FOR 2016				
Name	Fees Paid or Earned in Cash (\$)	Stock Awards (\$)⁽²⁾	All Other Compensation (\$)⁽³⁾	Total (\$)
Lloyd E. Ross	\$153,750	\$55,000	\$137	\$208,887
James L. Anderson	83,825	55,000	433	139,258
Sarah J. Anderson	80,925	55,000	425	136,350
Dr. Diana M. Bontá	74,775	55,000	137	129,912
John R. Fielder	72,408	55,000	137	127,545
Anne M. Holloway	78,742	55,000	137	133,879
James F. McNulty	78,742	55,000	137	133,879
Janice F. Wilkins	72,408	55,000	137	127,545

(1) Mr. Sprowls, the president and chief executive officer of the company in 2016, was also a director of the company. We did not pay him any additional compensation for his services as a director or member of any committee.

(2) The amounts in this column reflect the aggregate grant date fair value of the awards on the grant date, computed in accordance with FASB's accounting guidance ASC Topic 718. We provide information regarding the assumptions used in calculation of these amounts in Note 12 to our audited financial statements for the year ended December 31, 2016 in our Annual Report on Form 10-K filed with SEC. We did not make any other form of stock award to any director in 2016.

(3) We provide our board members and executive officers a blanket accident insurance policy. The policy is intended to provide coverage for traveling on company business or on assignment for the benefit of our company. We allocated one-third of the three-year premium of \$7,786 for coverage under the blanket accident insurance policy equally to our board members and executive officers. The cost was \$137 per person in 2016. We also reimburse our board members for the related cost of travel and meals of their spouses when attending regular board and committee meetings.

5
 6 ORA requested the general ledger transaction details for a sample of sub-accounts in Account
 7 799 – Miscellaneous Expense.¹³² A sub-account described in GSWC's GO Summary of
 8 Earnings as "Oth Misc Director's Fee" contained approximately \$1 million in recorded expenses
 9 each year from 2012 to 2016. In its response to ORA's data request, GSWC revealed that Board
 10 member compensation, as detailed above, was included in this sub-account.¹³³

11 ORA removes certain expenses from the historical data used for forecasting purposes as follows.

12 **a. Fees paid to directors**

13 The Commission should remove \$114,559 of recorded 2012-2016 expenses pertaining to cash
 14 fees paid to Board directors from the forecast calculation, as detailed below.

¹³⁰ AWR 2017 Proxy Statement, pages 29-30.

¹³¹ AWR 2017 Proxy Statement, page 29.

¹³² ORA Data Request KC4-009 #1.e.

¹³³ GSWC Response to ORA Data Request KC4-009 #1.e.

1 ORA requested information regarding general ledger transactions for which the descriptions
 2 show the names of Board members.¹³⁴ GSWC explained that the expenses were “cash payments
 3 to the Board of Directors for their retainer fees and committee fees.”¹³⁵ These cash payments,
 4 along with RSU grants, make up the majority of AWR’s compensation to the Board.¹³⁶

5 For 2012 and 2013, the general ledger transaction details contained director fees paid to Nathan
 6 Dodge, Robert Kathol, and Gary King, who are no longer on the Board as of 2017.¹³⁷ It is
 7 unreasonable to include director fees in the forecast for directors who are no longer being paid
 8 such fees.

9 In addition, ORA adds \$42,108 to the 2012 recorded expenses to estimate fees paid to John
 10 Fielder, who joined the Board in 2013.^{138 139} This adjustment allows for Mr. Fielder’s director
 11 fees to be fully accounted in the forecast. Thus, ORA removes a net amount of \$114,559 from
 12 the historical expenses used for forecasting, as detailed below.

13 **Table 3-6: Director Fees Removed from Historical Account 799 Expenses**

Director	2012	2013	2014	2015	2016	TOTAL
Nathan Dodge (former)	\$ 25,858	\$ -	\$ -	\$ -	\$ -	\$ 25,858
Robert Kathol (former)	\$ 41,983	\$ 17,981	\$ -	\$ -	\$ -	\$ 59,964
Gary King (former)	\$ 50,308	\$ 20,536	\$ -	\$ -	\$ -	\$ 70,845
John Fielder (current)	\$ (42,108)	\$ -	\$ -	\$ -	\$ -	\$ (42,108)
						\$ 114,559

14

15 **b. Restricted stock units (RSUs)**

16 The Commission should remove \$2,130,000 of recorded 2012-2016 expenses pertaining to RSUs
 17 from the forecast calculation, as detailed below.

¹³⁴ ORA Data Request KC4-026 #6.

¹³⁵ GSWC Response to ORA Data Request KC4-026 #6.a.

¹³⁶ AWR 2017 Proxy Statement, page 29.

¹³⁷ AWR 2017 Proxy Statement, pages 22-29. Non-employee Board members include Lloyd Ross, James Anderson, Sarah Anderson, Diana Bontá, John Fielder, Anne Holloway, James McNulty, and Janice Wilkins as of 2017.

¹³⁸ To provide a more accurate forecast using the five-year average, ORA uses Mr. Fielder’s 2013 director fees as a proxy for 2012. Mr. Fielder’s 2013 director fees total \$42,108. Thus, ORA adds \$42,108 into the recorded expenses for 2012 before calculating the five-year average.

¹³⁹ AWR Proxy Statement, page 22.

1 In its response to ORA’s data request, GSWC revealed that the following awards in RSUs were
2 included in the account.¹⁴⁰

3 **Table 3-7: Board of Directors RSU Compensation in Account 799 – Miscellaneous**

Date	Amount	Journal Entry Explanation	Total RSU Compensation by year	
6/30/2012	\$ 450,000	RSU Grant - Director's Plan	\$ 450,000	2012
6/30/2013	\$ 180,645	2013 Compensation RSU	\$ 400,000	2013
7/31/2013	\$ 133,333	2013 Compensation RSU		
8/30/2013	\$ 86,022	2013 Compensation RSU		
5/31/2014	\$ 51,613	2014 Compensation RSU	\$ 400,000	2014
6/30/2014	\$ 133,333	2014 Compensation RSU		
7/31/2014	\$ 133,333	2014 Compensation RSU		
8/31/2014	\$ 81,720	2014 Compensation RSU		
8/31/2014	\$ 0	2014 Compensation RSU		
8/31/2015	\$ 85,161	2015 RSU compensation	\$ 440,000	2015
7/31/2015	\$ 146,667	2015 RSU compensation		
6/30/2015	\$ 146,667	2015 RSU compensation		
5/31/2015	\$ 61,505	2015 RSU compensation		
8/31/2016	\$ 75,699	2016 Compensation RSUs	\$ 440,000	2016
7/31/2016	\$ 146,667	2016 Compensation RSUs		
6/30/2016	\$ 146,667	2016 Compensation RSUs		
5/31/2016	\$ 70,968	2016 Compensation RSUs		
TOTAL			\$ 2,130,000	

4
5 GSWC informed ORA that the entry from June 30, 2012 represented the “full value of the RSUs
6 granted to non-employee members of the Board based on the value of the grants on the award
7 date,” whereas the amounts for the years 2013 onward reflected a “90-day amortization of the
8 award amount.”¹⁴¹

9 Regarding long-term incentive plan (LTIP) compensation “primarily in the form of restricted
10 stock” for employee officers of GSWC, D.16-12-067 stated the following:

11 In analyzing the mechanics of the LTIP, we note that since this compensation is
12 primarily stock-based, this means that when officers are awarded stock units, the
13 value of the stock units will grow if the company’s stock price increases. This means
14 that awardees of stock units have an incentive to align with the company’s goals that

¹⁴⁰ GSWC Response to ORA Data Request KC4-009 #1.e.

¹⁴¹ GSWC Response to ORA Data Request KC4-026 #5.a.

1 improve the financial standing of the company and on other issues that raise the stock
2 price. We also note that the LTIP vests over a three-year period which means the
3 award is tied to three years of financial performance. These factors all point to
4 benefits which accrue to shareholders.¹⁴²

5 Furthermore, the decision states:

6 Another consideration is the cost to ratepayers, who see little benefit from such a
7 program, but face increased costs if the cost of the long term incentive compensation
8 program is included in the revenue requirement.

9 While we recognize that this type of compensation also benefits ratepayers by
10 attracting and retaining employees who are qualified, experienced and high-
11 performing, based on all the considerations discussed above, we find it reasonable to
12 disallow ratepayer funding of the costs of the LTIP.¹⁴³

13 This portion of D.16-12-067 refers to the LTIP plan for employee officers of GSWC, rather than
14 non-employee directors on the Board. Nevertheless, GSWC's forecast in this GRC includes
15 RSUs for non-employee directors on the Board.

16 Holders of stock units have a direct incentive to focus on issues that raise the company's stock
17 price, which provide little benefit to ratepayers. For example, consider the following quotes
18 taken from the Board's meeting minutes:

19 ■ *****BEGIN CONFIDENTIAL***** [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED] *****END CONFIDENTIAL*****¹⁴⁴

23 ■ *****BEGIN CONFIDENTIAL***** [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED] *****END CONFIDENTIAL*****¹⁴⁵

¹⁴² D.16-12-067, page 104. (Emphasis added.)

¹⁴³ D.16-12-067, page 105. (Emphasis added.)

¹⁴⁴ AWR Board of Directors meeting minutes for June 26, 2014, page 3.

¹⁴⁵ AWR Board of Directors meeting minutes for August 1, 2016, page 11.

1 Additionally, ORA requested that GSWC provide AWR’s vesting policy for RSUs for non-
2 employee directors.¹⁴⁶ In response to ORA’s inquiry, GSWC provided AWR’s Non-Employee
3 Directors Stock Plan (“Stock Plan”) for 2003 and 2013.¹⁴⁷ Section 4.3 of the 2013 Stock Plan
4 states the following:

5 All Units and other amounts credited to a Non-Employee Director’s Account shall be
6 at all times fully vested and not subject to a risk of forfeiture ninety days after the
7 date of grant.¹⁴⁸

8 As indicated in the Stock Plan, RSUs for Board members do not follow a vesting schedule based
9 on performance metrics. With regard to GSWC executives, GSWC notes that “75% of the LTIP
10 award for the President and 50% of the LTIP award for the other Golden State officers is tied to
11 performance measures, and the single-most heavily weighted measure is cost containment.”¹⁴⁹
12 On the other hand, GSWC did not provide ORA with any performance metrics used to determine
13 RSU awards for Board members. AWR’s 2017 Proxy Statement also does not include
14 performance metrics for Board members, and indeed states, “We have no incentive
15 compensation...for non-employee directors.”¹⁵⁰ Rather, stock ownership guidelines for the
16 Board are as follows:

17 We have requested each non-employee member of our board to accumulate and hold
18 common shares of the company, restricted units or other equity equivalents (other
19 than stock options) granted by the company equal in value to four times his or her
20 annual retainer for board service, plus 1,000 common shares, with the latter to be
21 accumulated and held within three years after his or her appointment as a director.
22 Non-employee directors are also prohibited from selling or transferring common
23 shares awarded by the company until he or she satisfies these requirements, except
24 where the directors sells or transfers his or her shares to satisfy applicable tax
25 withholding obligations owed by the director as a result of the receipt or vesting of
26 his or her shares...

27 We consider these guidelines to have been satisfied once the minimum ownership
28 requirements have been satisfied regardless of subsequent changes in the market

¹⁴⁶ ORA Data Request KC4-026 #5.b.

¹⁴⁷ GSWC Response to ORA Data Request KC4-026 #5.b.

¹⁴⁸ GSWC Response to ORA Data Request KC4-026 #5.b, “2013 Non-Employee Directors Stock Plan,” page 3.

¹⁴⁹ GSWC Prepared Testimony of Keith Switzer, page 24, lines 3-5.

¹⁵⁰ AWR 2017 Proxy Statement, page 31.

1 value of our common shares. Each member of our board currently satisfies the stock
2 ownership guidelines.¹⁵¹

3 As indicated above, the Board members' RSU awards are part of AWR's minimum stock
4 ownership requirements. Requiring Board members to hold a minimum amount of stock in the
5 Company while simultaneously lacking performance metrics to follow encourages the Board
6 members to focus on issues which affect the Company's stock price.

7 For the reasons above, it is unreasonable to include expenses for the Board's RSU awards in the
8 forecast. Thus, the Commission should remove \$2,130,000 from GSWC's historical expenses
9 used for forecasting Test Year expenses.

10 **3. Remove recorded Board of Directors spouse expenses**

11 The Commission should remove Board of Directors spouse expenses totaling \$10,245 from the
12 forecast calculation, as detailed below.

13 In response to ORA's inquiry, GSWC explained that expenses described as "DIR Spouse
14 Expenses" in the GO Summary of Earnings were expenses relating to Board members'
15 spouses.¹⁵² Invoices provided to ORA supporting the recorded amounts revealed that these
16 expenses were travel and meal expenses for spouses accompanying Board members to Board
17 meetings,¹⁵³ which are generally held at luxury hotels and resorts.¹⁵⁴ ORA questioned how
18 ratepayers benefit from such expenses.¹⁵⁵ GSWC responded as follows:

19 The accommodation to cover spousal expenses is offered as a benefit to build
20 collegiality among the Board members. These expenses are considered as part of the
21 compensation for Board Members and are treated as taxable income to the individual
22 Directors."¹⁵⁶

23 As GSWC indicated, Board members benefit from the covering of their spousal expenses;
24 ratepayers were not even mentioned in GSWC's explanation of how ratepayers benefit from

¹⁵¹ AWR 2017 Proxy Statement, page 31. (Emphasis added.)

¹⁵² GSWC Response to ORA Data Request KC4-009 #1.d.ii.

¹⁵³ GSWC Response to ORA Data Request KC4-009 #1.d.i.

¹⁵⁴ GSWC Response to ORA Data Request KC4-009 #1.e (Attachment KC4-009 1.e.xlsx, tab "40-8302").

¹⁵⁵ ORA Data Request KC4-009 #1.d.iv.

¹⁵⁶ GSWC Response to ORA Data Request KC4-009 #1.d.iv.

1 these expenses. It is unreasonable to require ratepayers to pay for expenses incurred by
2 individuals who do not work on behalf of the Company. Thus, ORA removes expenses for
3 Board members' spouses totaling \$10,245 from the historical expenses used for forecasting
4 purposes.¹⁵⁷

5 **F. Conclusion**

6 The Commission should adopt ORA's adjustments presented above and reflected in ORA's
7 Results of Operations Tables report.

8 [END OF CHAPTER]

¹⁵⁷ The \$10,245 total includes a \$25 credit (negative adjustment) removed from the Utility Support Services historical expenses.

Chapter 4. Utility Support Services

A. Introduction

This chapter presents ORA's adjustments to GSWC's Utility Support Services expense forecasts. The following table summarizes GSWC's estimates for the Test Year.

Table 4-1: General Office Expenses - Utility Support Services, Test Year 2019

	GSWC	ORA	GSWC > ORA
Account 773 - Common Customer Account	\$ 379,100	\$ 379,100	\$ -
Account 773.25 - Postage	\$ 1,328,100	\$ 1,328,100	\$ -
Account 781 - All Other Operating Expenses	\$ 234,900	\$ 234,900	\$ -
Account 792 - Office Supplies	\$ 170,600	\$ 170,500	\$ 100
Account 794 - Injuries and Damages	\$ 232,700	\$ 232,700	\$ -
Account 796 - Business Meals	\$ 4,600	\$ 4,600	\$ -
Account 798 - Outside Services	\$ 364,000	\$ 355,500	\$ 8,500
Account 799 - Miscellaneous	\$ 2,500	\$ 2,500	\$ -
Account 805 - Maintenance of General Plant	\$ 1,021,800	\$ 1,021,800	\$ -
TOTAL	\$ 3,738,300	\$ 3,729,700	\$ 8,600

B. Account 792 – Office Supplies

The Commission should reduce GSWC's Test Year forecast for Utility Support Services Account 792 – Office Supplies by \$100.

The following table summarizes GSWC's and ORA's Test Year estimates for Account 792 – Office Supplies in Utility Support Services.

Table 4-2: Utility Support Services Account 792 – Office Supplies, Test Year 2019

GSWC	ORA	GSWC > ORA
\$ 170,600	\$ 170,500	\$ 100

1. Remove acquisition-related expenses

The Commission should remove \$249 pertaining to a recorded acquisition-related expense from the forecast calculation, as detailed below.

1 ORA requested the transaction details for a sample of PCARD entries listed in a prior data
 2 request.¹⁵⁸ Upon reviewing the details, ORA found \$249 in expenses for Granlibakken Resort,
 3 which GSWC had previously noted was for a “meeting to discuss operational issues associated
 4 with small systems and possible acquisition by GSWC.”¹⁵⁹ ORA removes this acquisition-
 5 related expense from the 2016 historical data for reasons discussed earlier in this report (Chapter
 6 2, Section E.2).

7 **C. Account 798 – Outside Services**

8 The Commission should reduce GSWC’s Test Year forecast for Utility Support Services
 9 Account 798 – Outside Services by \$8,500 because it is unreasonable to include recorded
 10 acquisition-related expenses in the forecast calculation.

11 The following table summarizes GSWC’s and ORA’s Test Year estimates for Account 798 –
 12 Outside Services in Utility Support Services.

13 **Table 4-3: Utility Support Services Account 798 – Outside Services, Test Year 2019**

GSWC	ORA	GSWC > ORA
\$ 364,000	\$ 355,500	\$ 8,500

15 **1. Remove acquisition-related expenses**

16 For the same reasons presented earlier (Chapter 2, Section E.2), ORA removes \$37,864 in
 17 recorded acquisition-related expenses (regarding small water systems) from the Outside Services
 18 forecast calculation. This adjustment reduces GSWC’s Test Year estimate by \$8,500.

19 **D. Conclusion**

20 The Commission should adopt ORA’s adjustments presented above and reflected in ORA’s
 21 Results of Operations Tables report.

22 [END OF CHAPTER]

¹⁵⁸ ORA Data Request KC4-030 #3.

¹⁵⁹ GSWC Response to ORA Data Request KC4-008 #7.

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Statement of Qualifications – Kelsey Choing

- Q.1 Please state your name, business address, and position with the California Public Utilities Commission (“Commission”).
- A1. My name is Kelsey Choing and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Public Utilities Regulatory Analyst in the Water Branch of the Office of Ratepayer Advocates.
- Q2. Please summarize your education background and professional experience.
- A2. I received a Bachelor of Science Degree from Carnegie Mellon University in 2015, where I double-majored in Economics and Policy & Management, and joined ORA shortly thereafter. I previously prepared testimony for the 2016 California American Water Company GRC and worked on the 2015 California Water Service Company GRC.
- Q3. What is your responsibility in this proceeding, GSWC GRC A.17-07-010?
- A3. I am responsible for the ORA Report on General Office Expenses.
- Q4. Does this conclude your prepared direct testimony?
- A4. Yes, it does.

[END OF SOQ]

Appendix 2-1: Double-counted rate case expenses

The following expenses are from the general ledger transaction details for Account 798 – Outside Services. The exact same transactions also appear in the forecast for Account 797 – Regulatory Expenses. Source: GSWC Response to ORA Data Request KC4-012 #1.

Business Unit	Object Account	GL Date	General Ledger Amount	Journal Entry Explanation	Remark
51W - Rate Cases	7132	3/29/2012	803.00	WINSTON AND STRAWN LLP	COST OF CAPITAL PROCEEDING
51W - Rate Cases	7132	10/16/2015	145,740.22	WINSTON AND STRAWN LLP	2014 GRC - over deferred amount
51W - Rate Cases	7132	12/2/2015	82,715.00	WINSTON AND STRAWN LLP	2014 GRC
51W - Rate Cases	7132	12/2/2015	12,369.00	WINSTON AND STRAWN LLP	2014 GRC
51W - Rate Cases	7132	12/9/2015	4,104.00	WINSTON AND STRAWN LLP	2014 GRC
51W - Rate Cases	7132	2/29/2016	368.00	WINSTON AND STRAWN LLP	2014 GRC
51W - Rate Cases	7132	3/4/2016	942.50	WINSTON AND STRAWN LLP	GENERAL ORDER 66-D
51W - Rate Cases	7132	6/8/2016	192.80	WINSTON AND STRAWN LLP	2014 GRC
51W - Rate Cases	7132	8/30/2016	367.50	WINSTON AND STRAWN LLP	2014 GRC
51W - Rate Cases	7132	10/25/2016	4,458.50	WINSTON AND STRAWN LLP	2014 GRC
51W - Rate Cases	7132	11/30/2016	26,685.40	WINSTON AND STRAWN LLP	2014 GRC
51W - Rate Cases	7132	12/21/2016	205,301.40	WINSTON AND STRAWN LLP	2014 GRC

[END OF APPENDIX]

Appendix 2-2: A.08-07-010 Regions 2 & 3 GRC expenses

The following expenses appear in the general ledger transaction details for Account 798 – Outside Services. ORA removes these expenses from the forecast for Account 798.

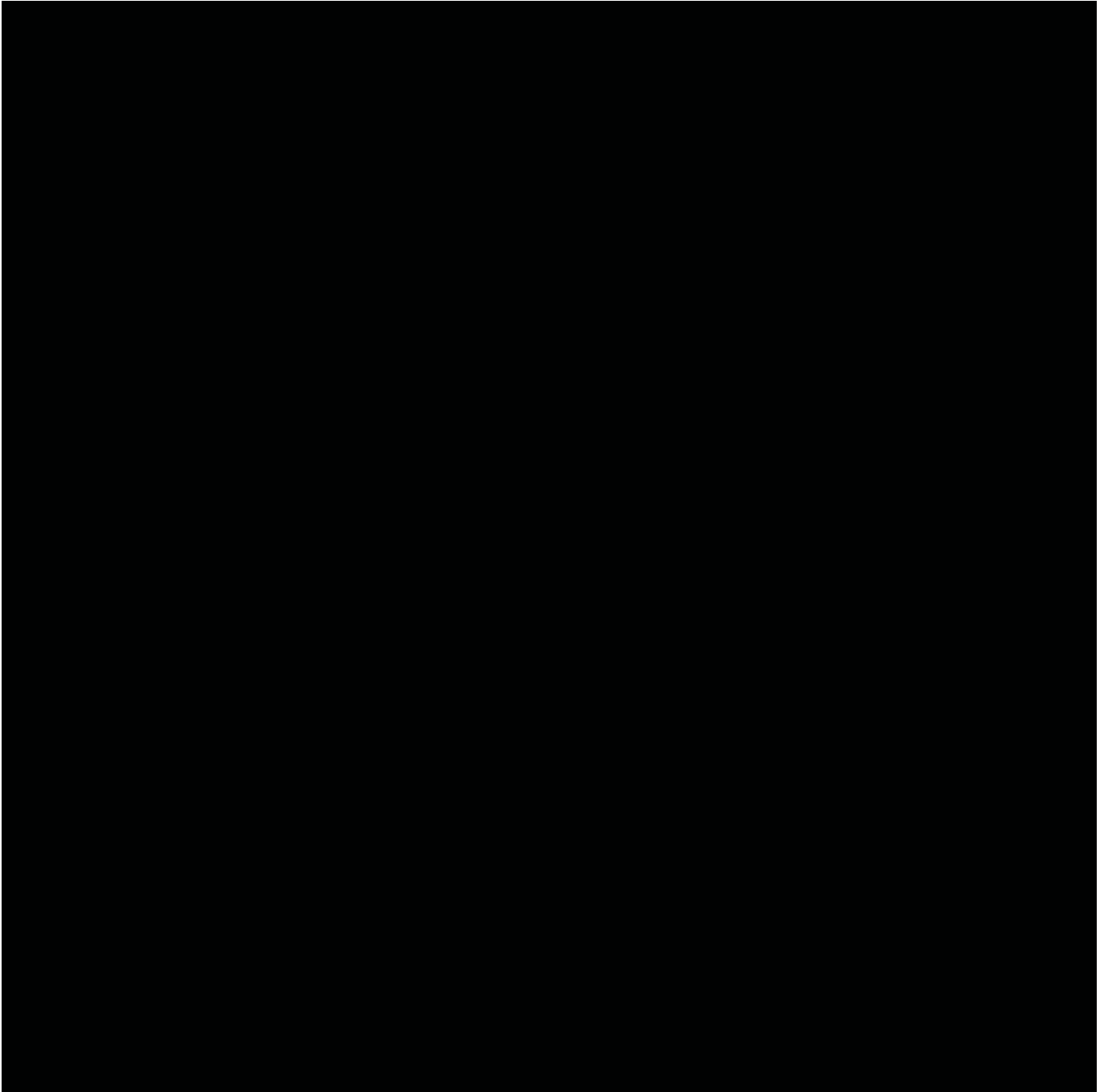
Business Unit	Object Account	GL Date	General Ledger Amount	Journal Entry Explanation	Remark
51W - Rate Cases	7132	1/13/2012	91,661.66	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	3/9/2012	83,742.74	WINSTON AND STRAWN LLP	Regions II & III GRC
51W - Rate Cases	7132	3/30/2012	23,826.01	WINSTON AND STRAWN LLP	R1&2 GRC
51W - Rate Cases	7132	5/9/2012	70,307.85	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	6/5/2012	38,518.06	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	6/28/2012	19,014.48	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	7/3/2012	91,318.25	WINSTON AND STRAWN LLP	REGIONS II & III
51W - Rate Cases	7132	8/2/2012	142,609.72	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	8/2/2012	3,174.00	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	6/25/2013	6.61	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	6/3/2013	76.00	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	10/21/2013	76.00	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	8/22/2012	86,128.90	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	10/3/2012	138,741.45	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	10/29/2012	54,179.92	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	11/15/2012	75,756.79	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	12/13/2012	163,363.51	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	10/17/2014	874.50	WINSTON AND STRAWN LLP	REG II & III
51W - Rate Cases	7132	4/23/2013	12,666.77	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	4/1/2013	59,584.50	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	3/12/2013	72,982.62	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC
51W - Rate Cases	7132	1/8/2013	93,489.81	WINSTON AND STRAWN LLP	A.08-07-010 - Region 2 & 3 GRC

Information in shaded cells was provided in GSWC's response to ORA Data Request KC4-024 #1.a.

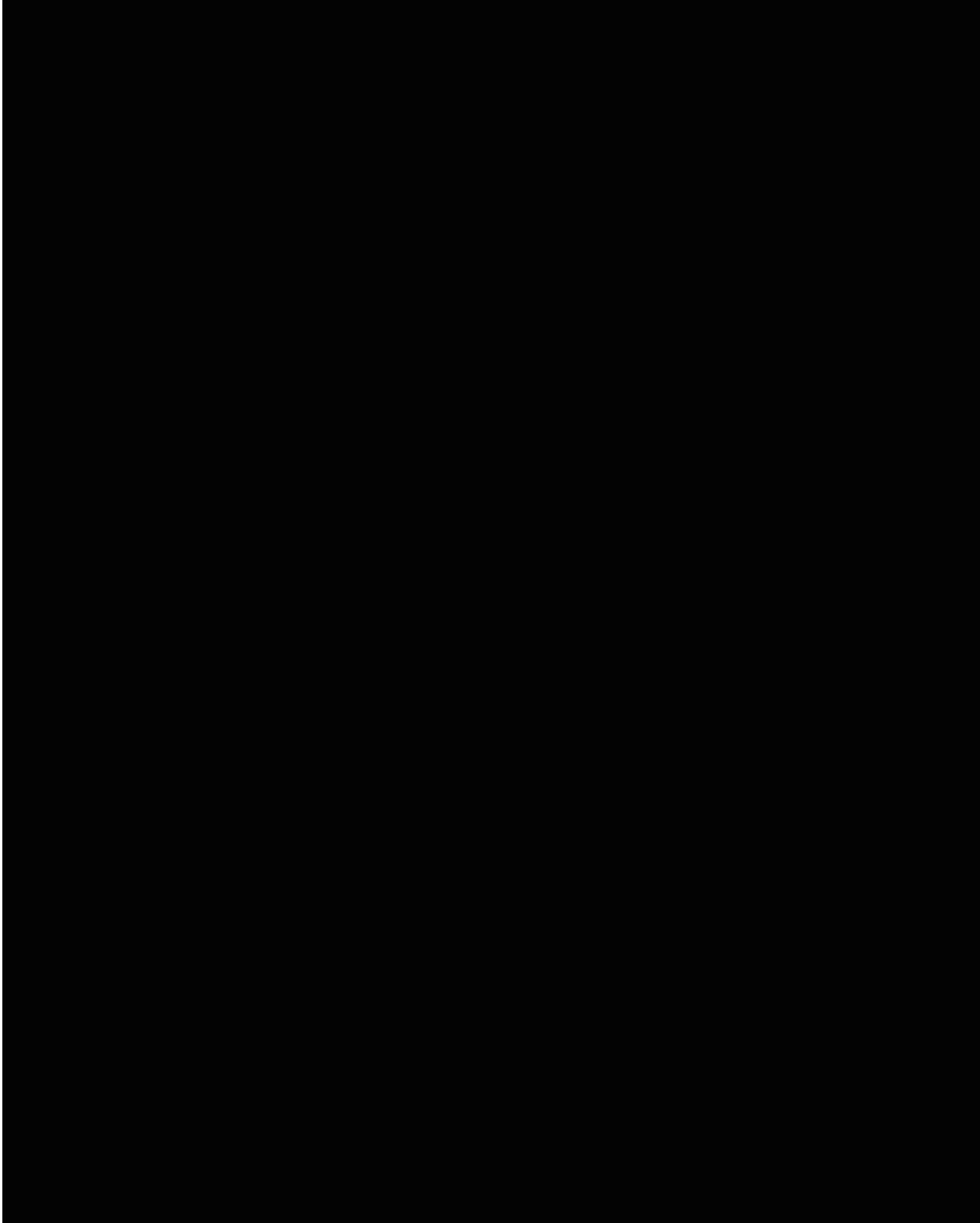
[END OF APPENDIX]

Appendix 2-3: CONFIDENTIAL GS Strategy Group report

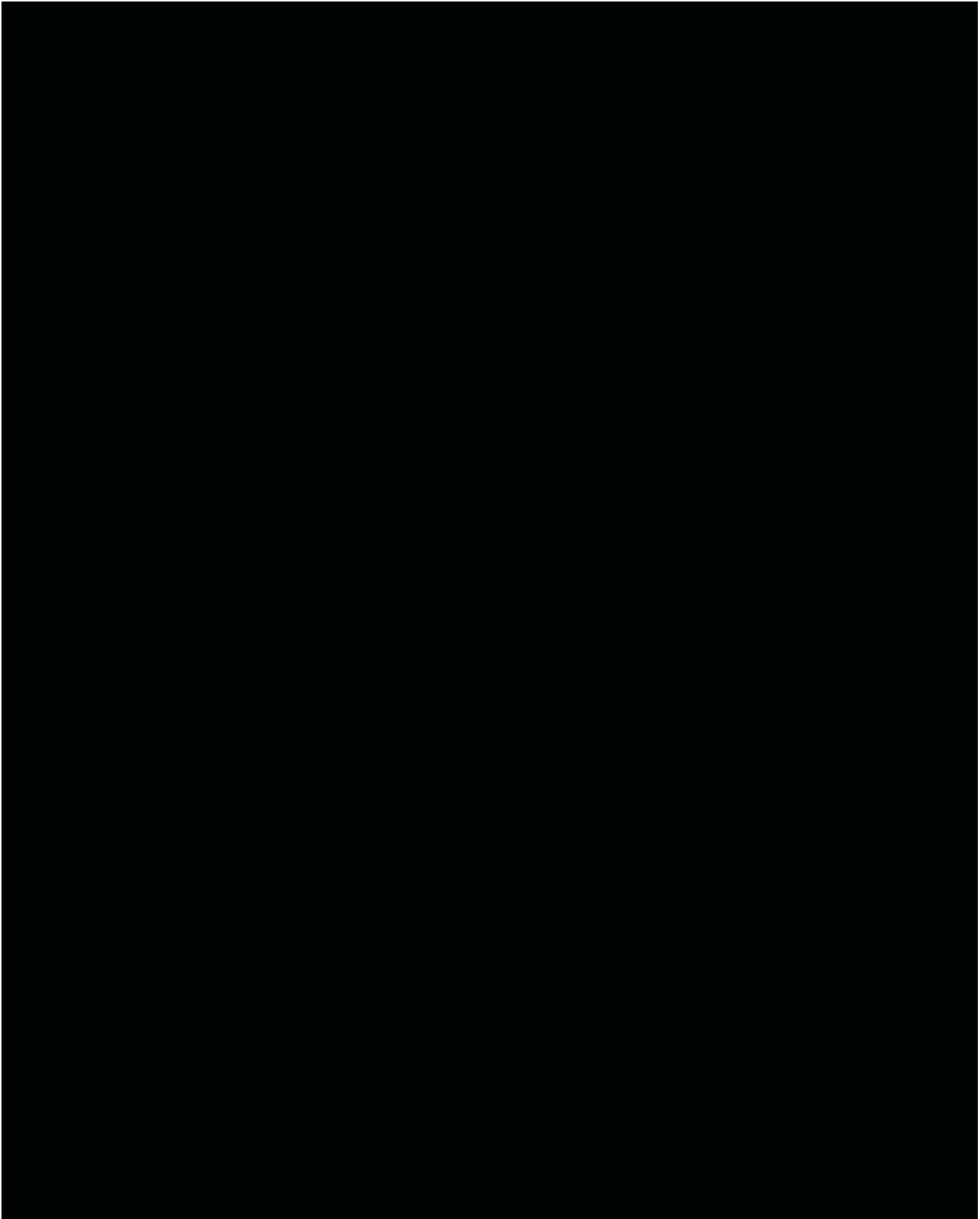
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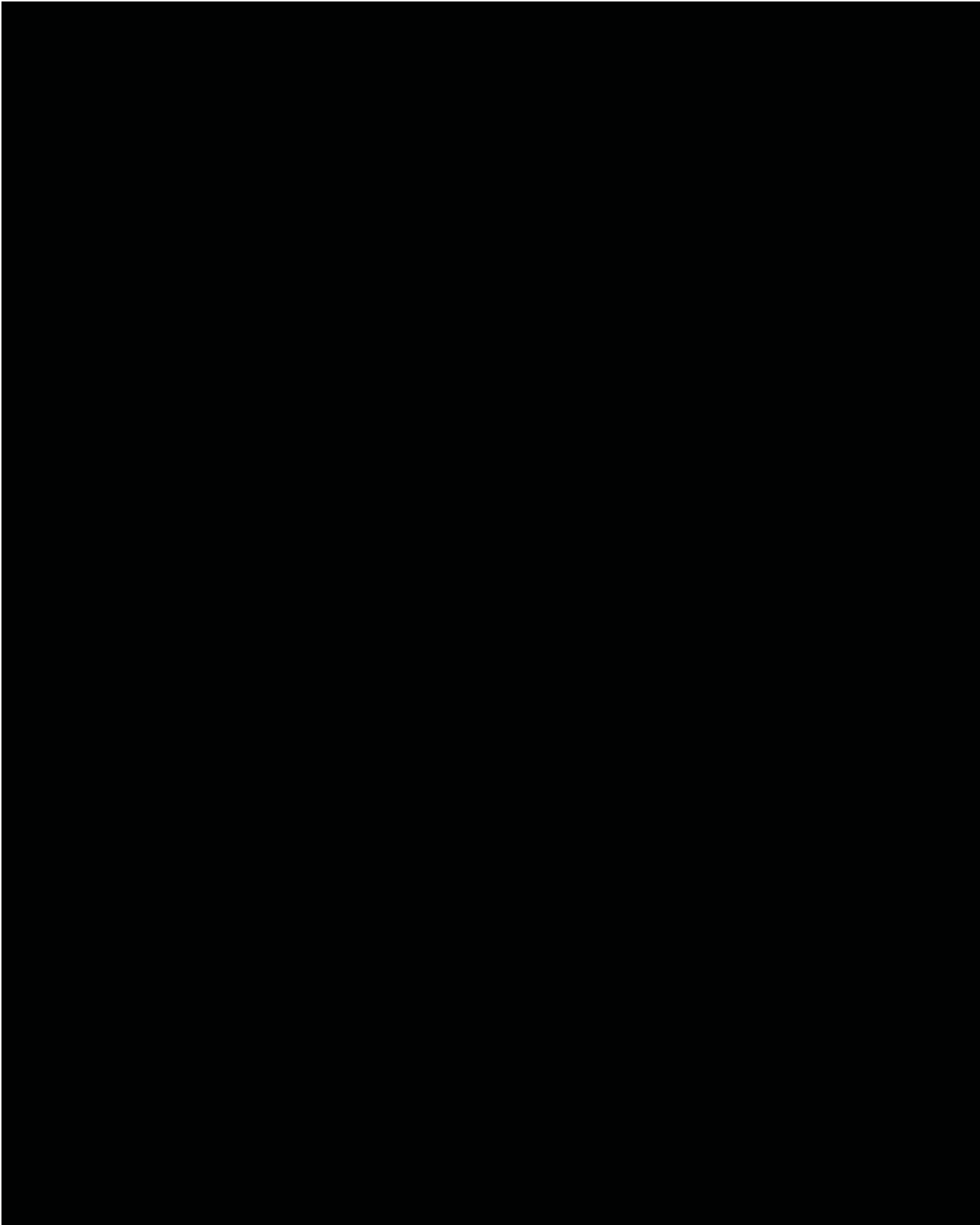
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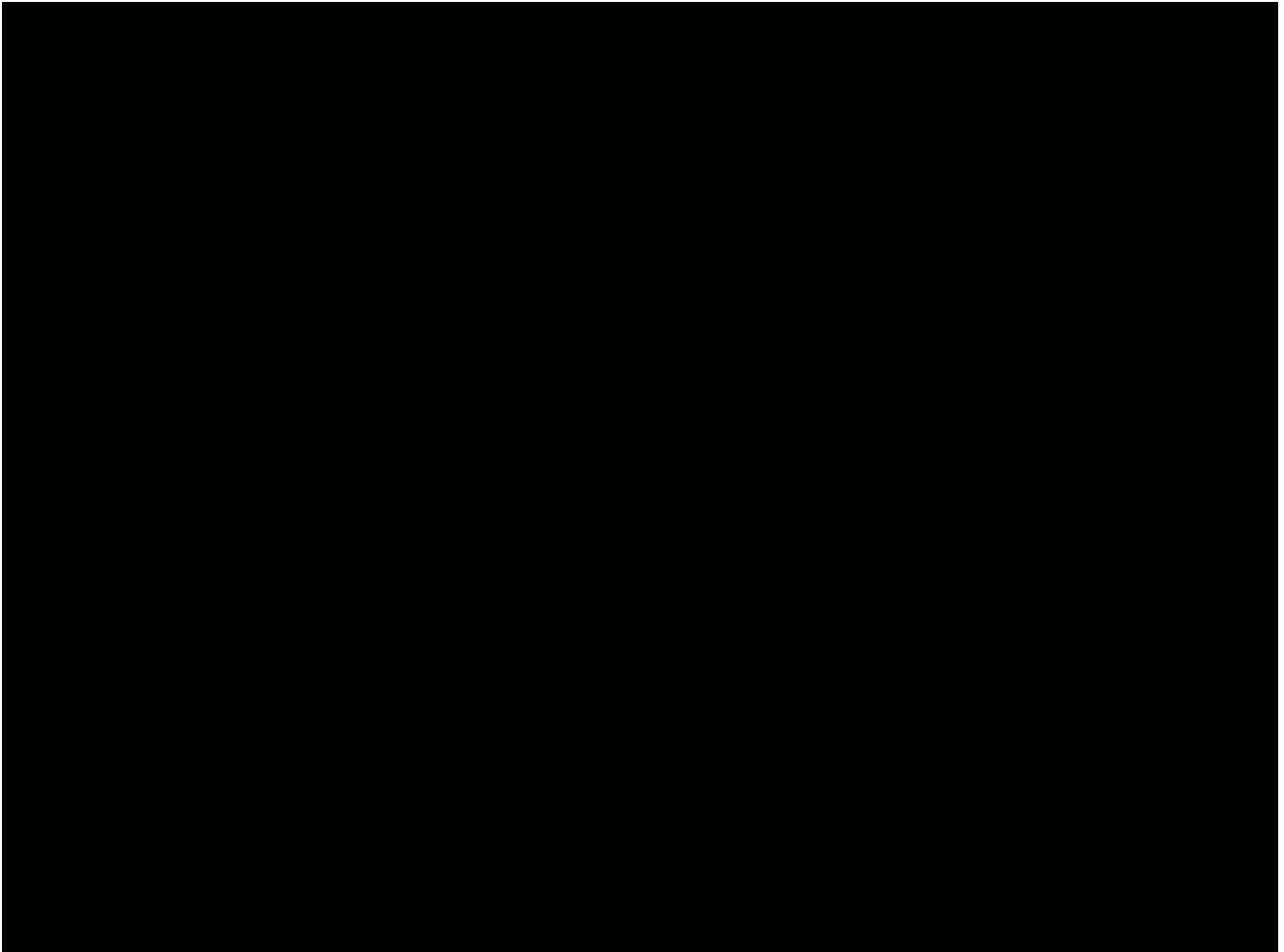


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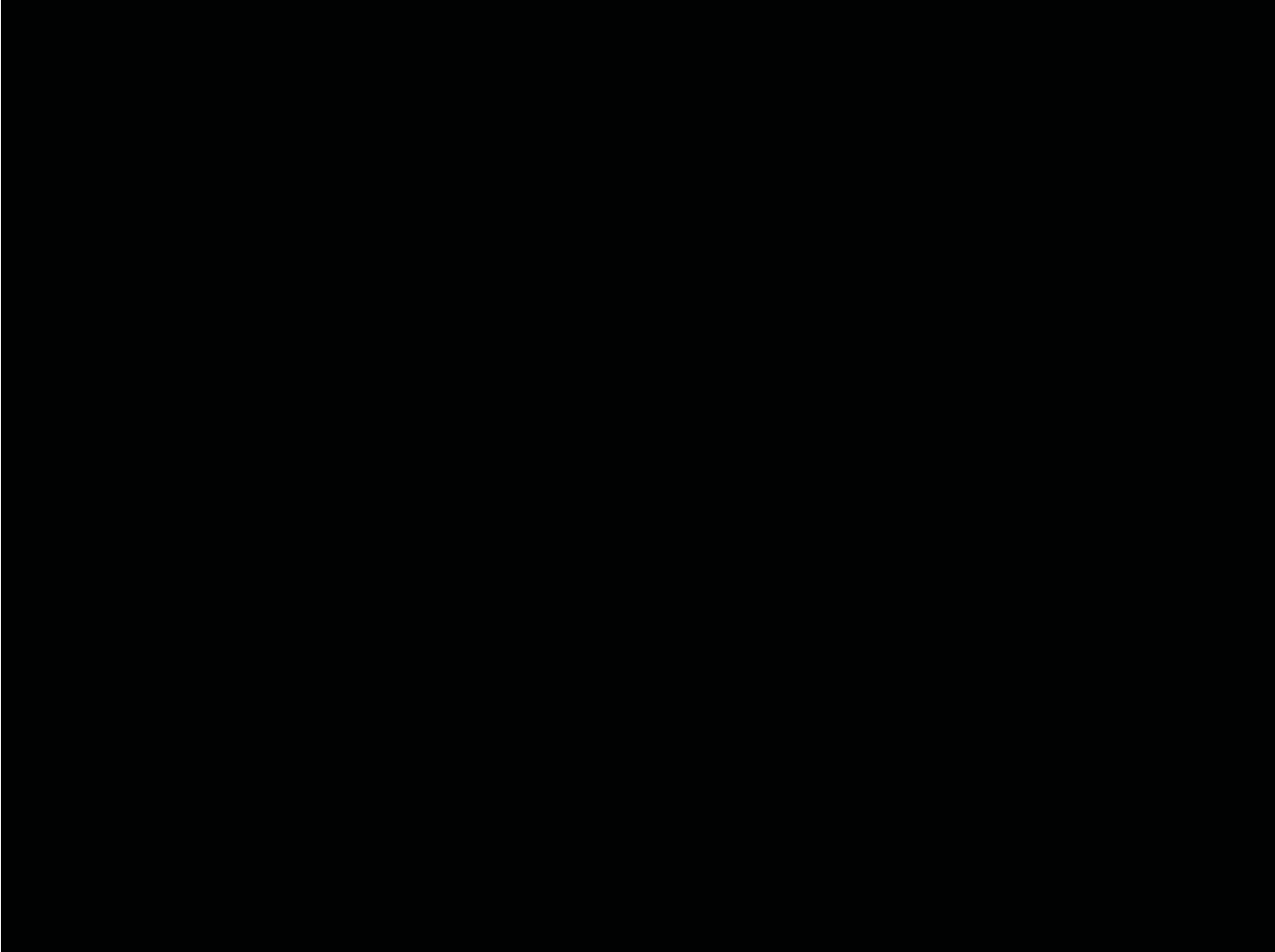


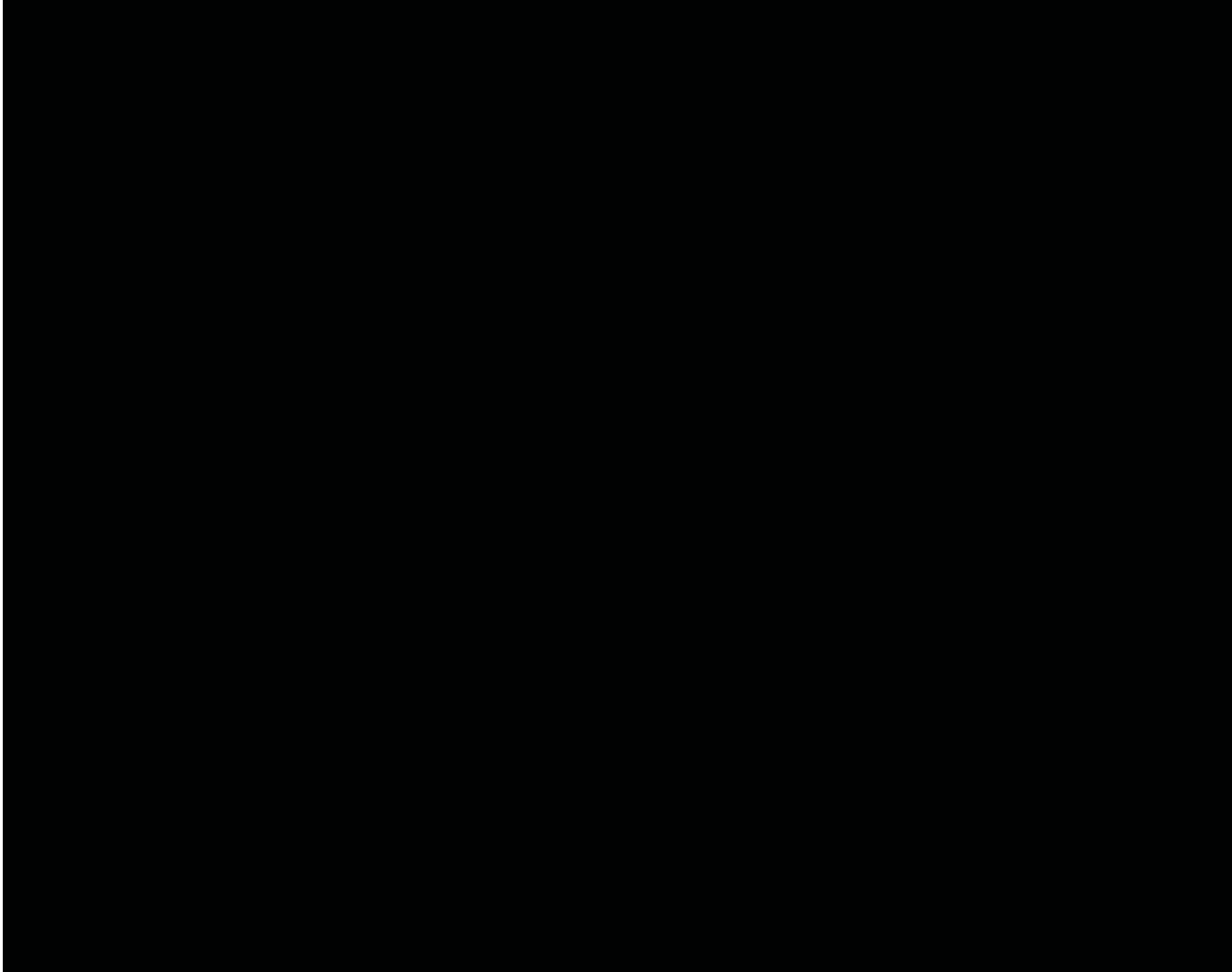
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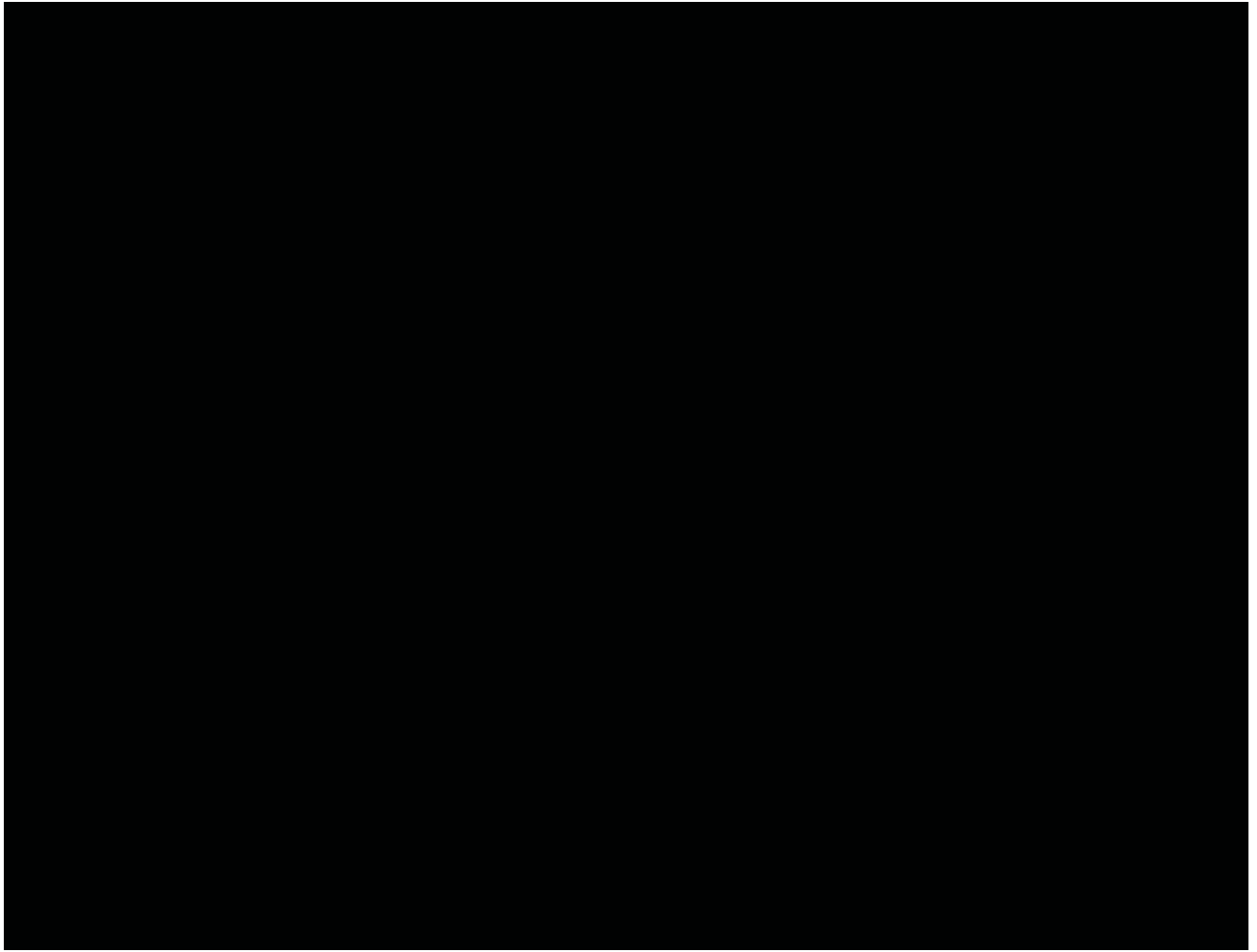


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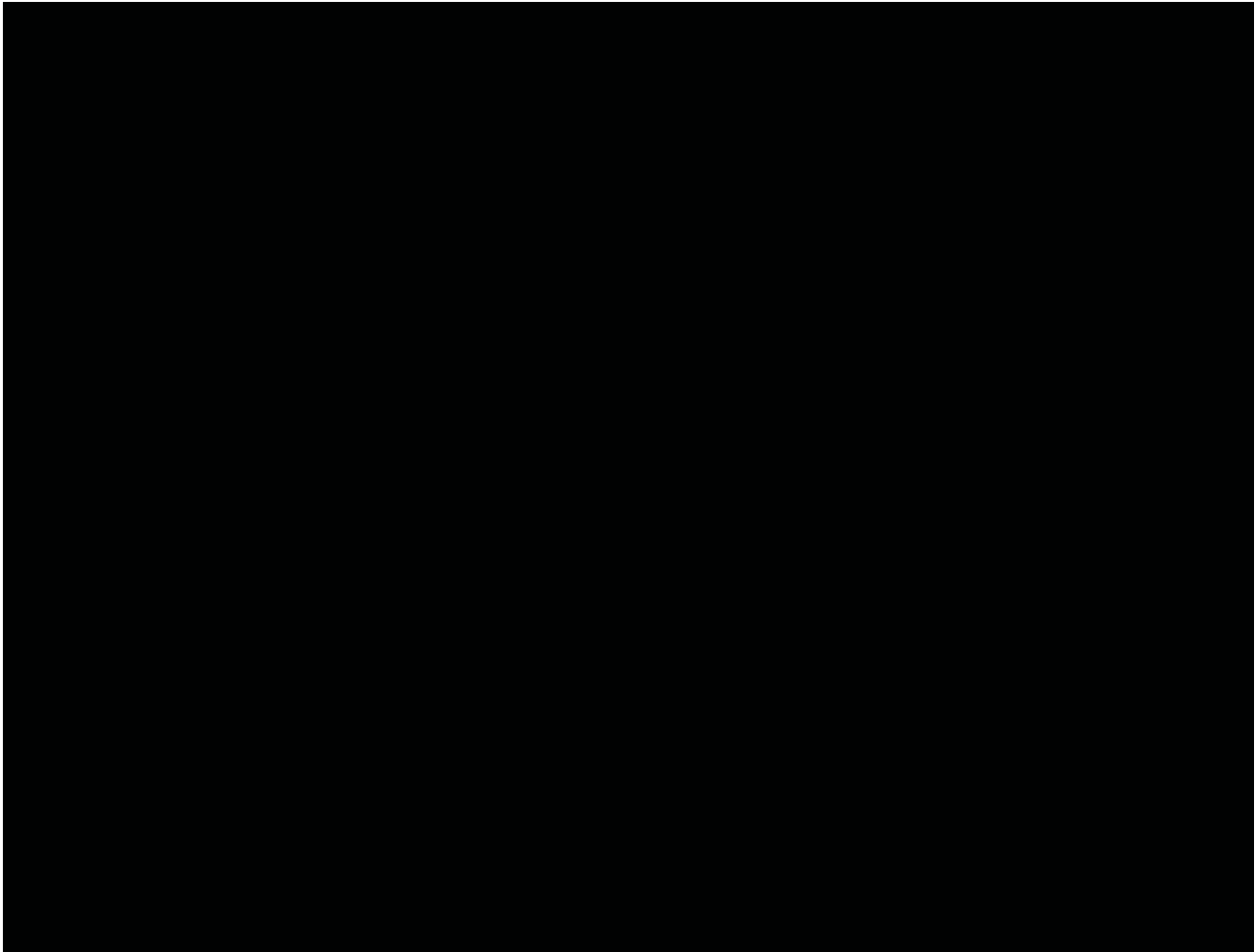


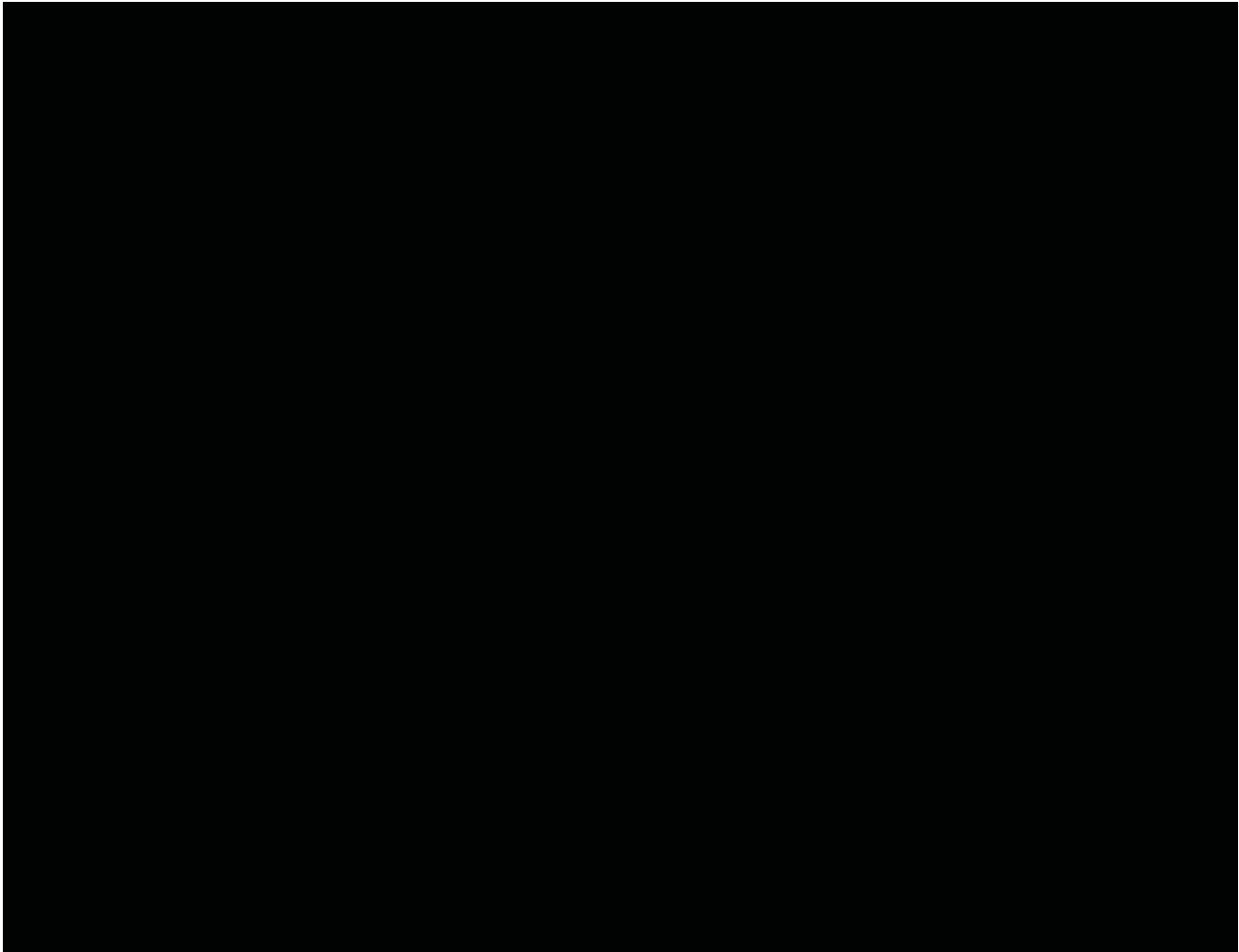


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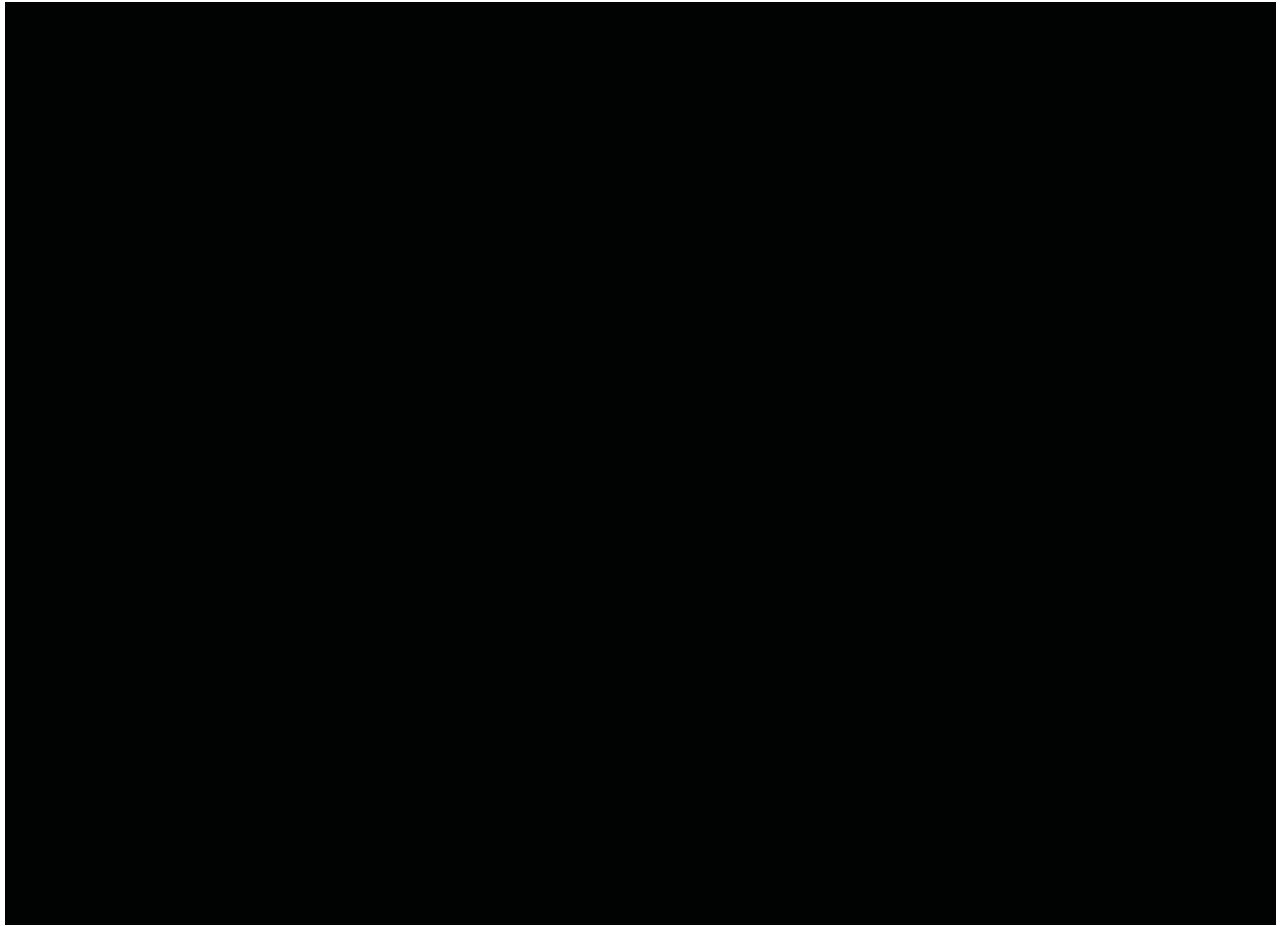


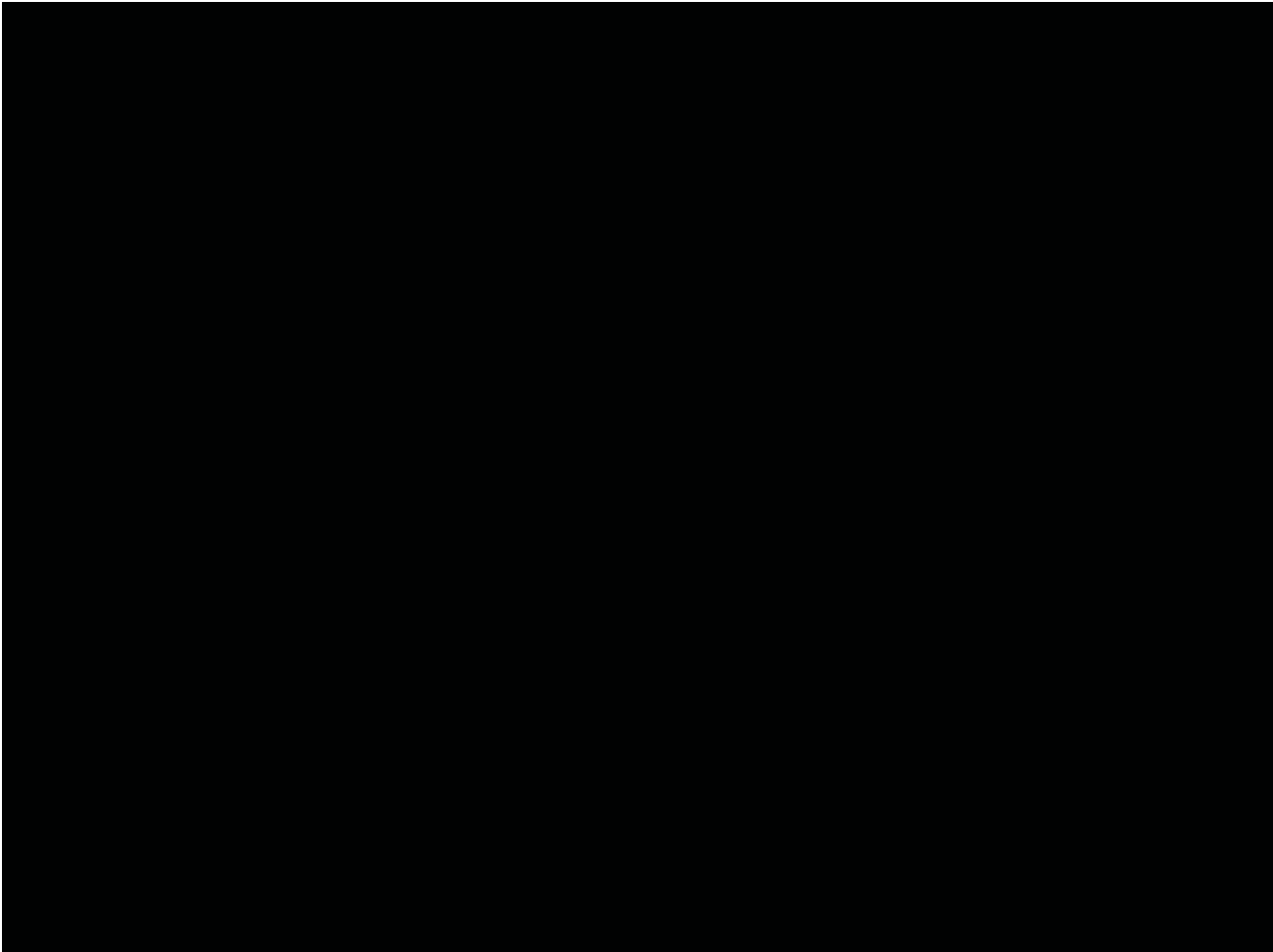
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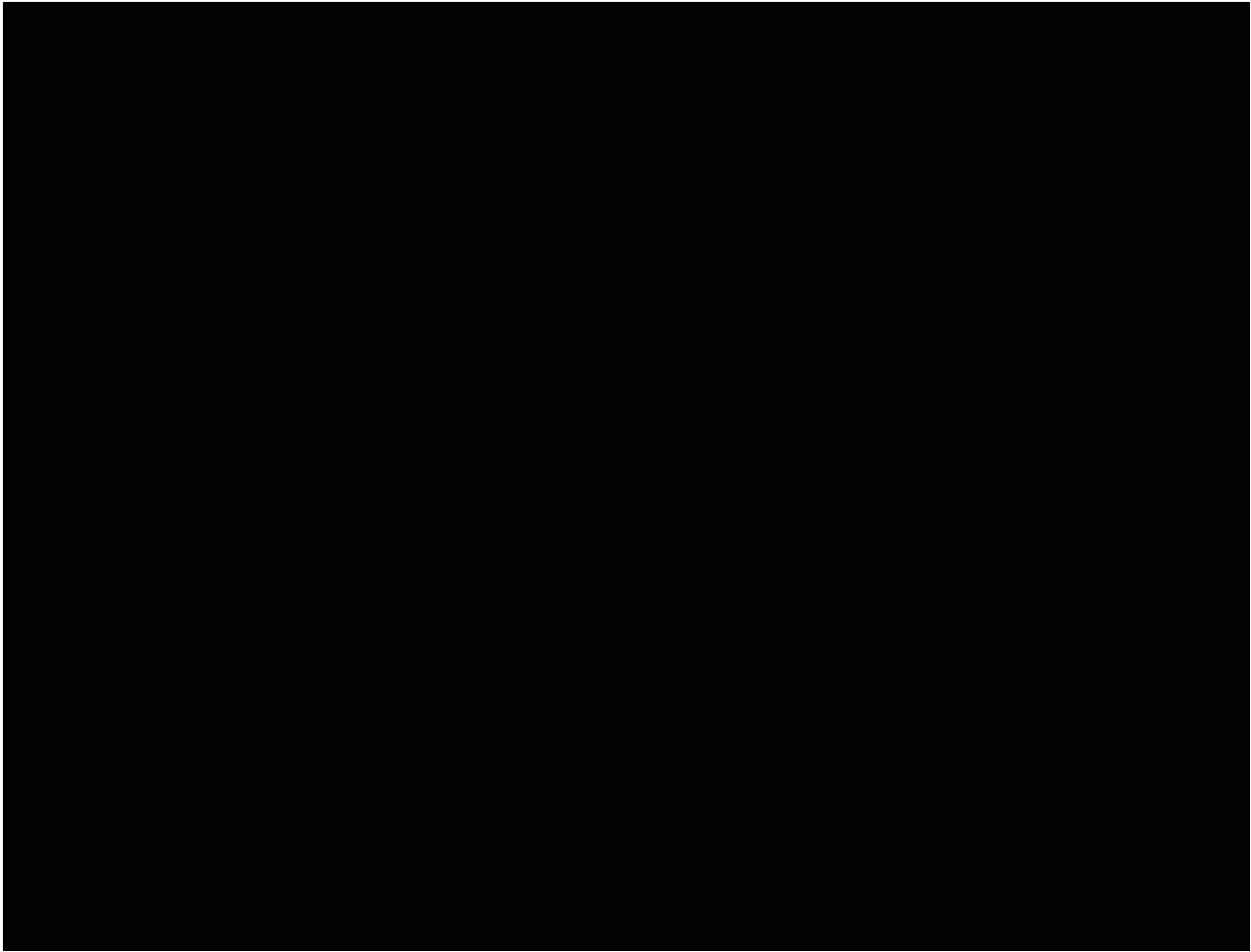


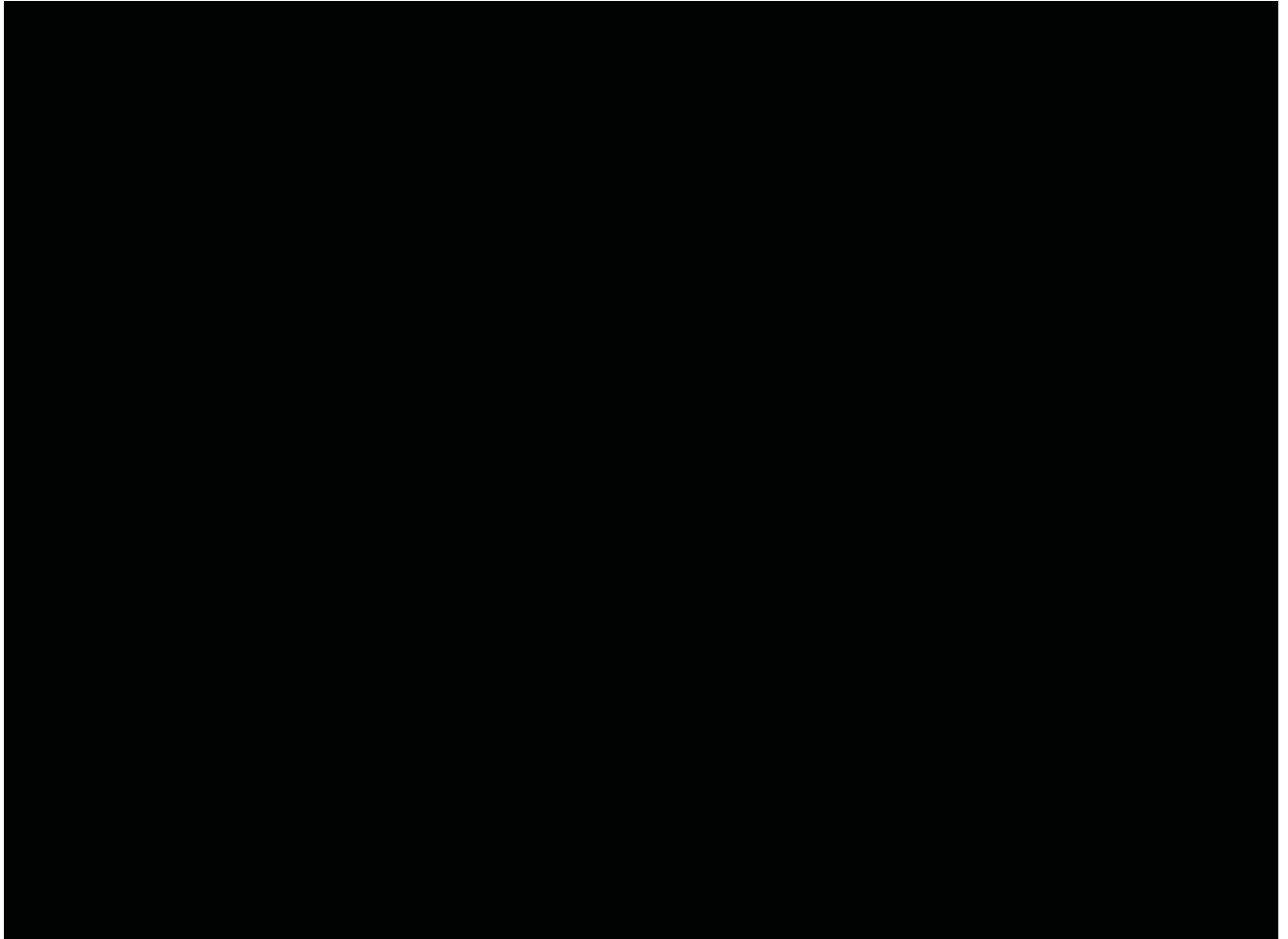
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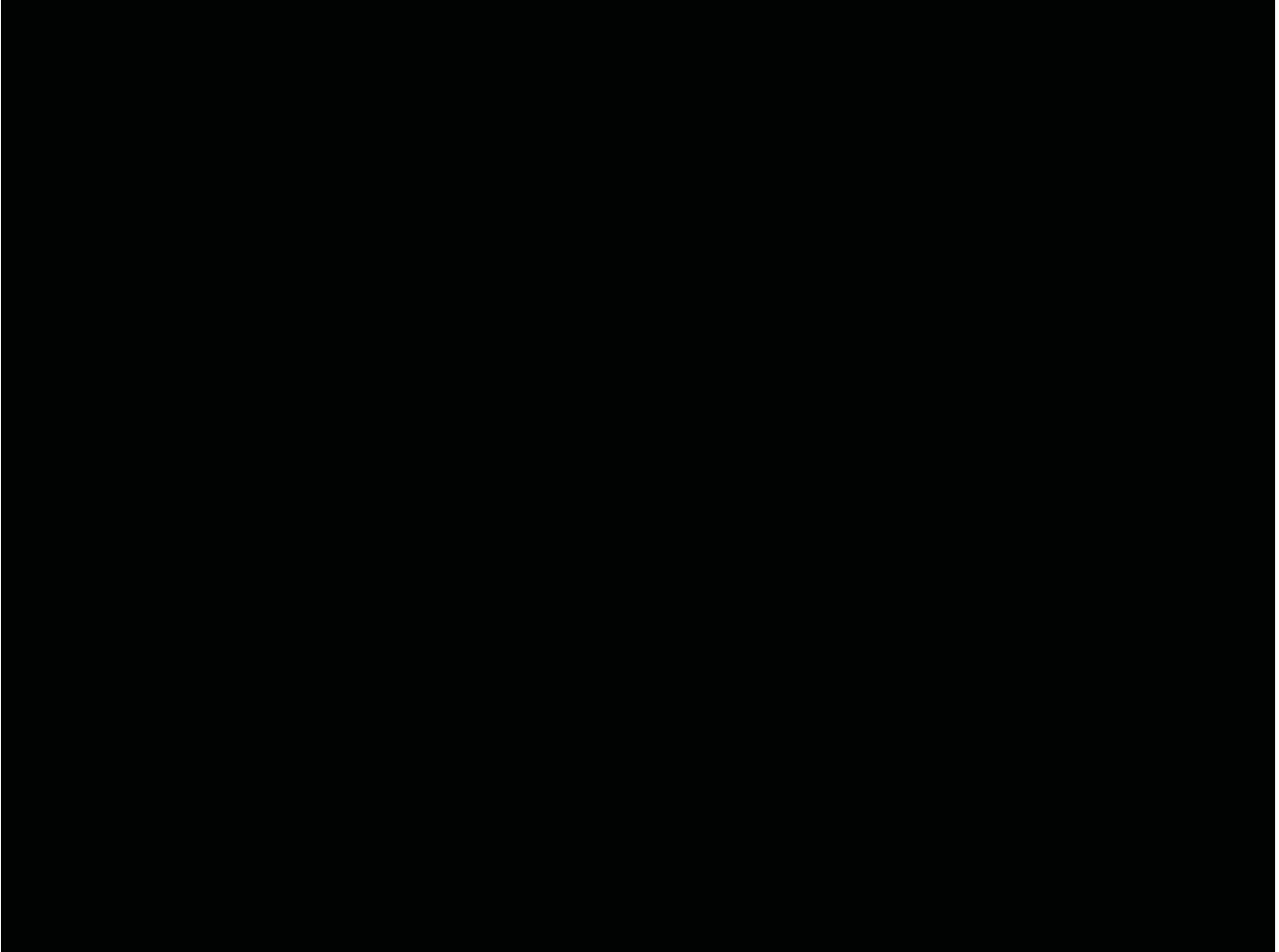


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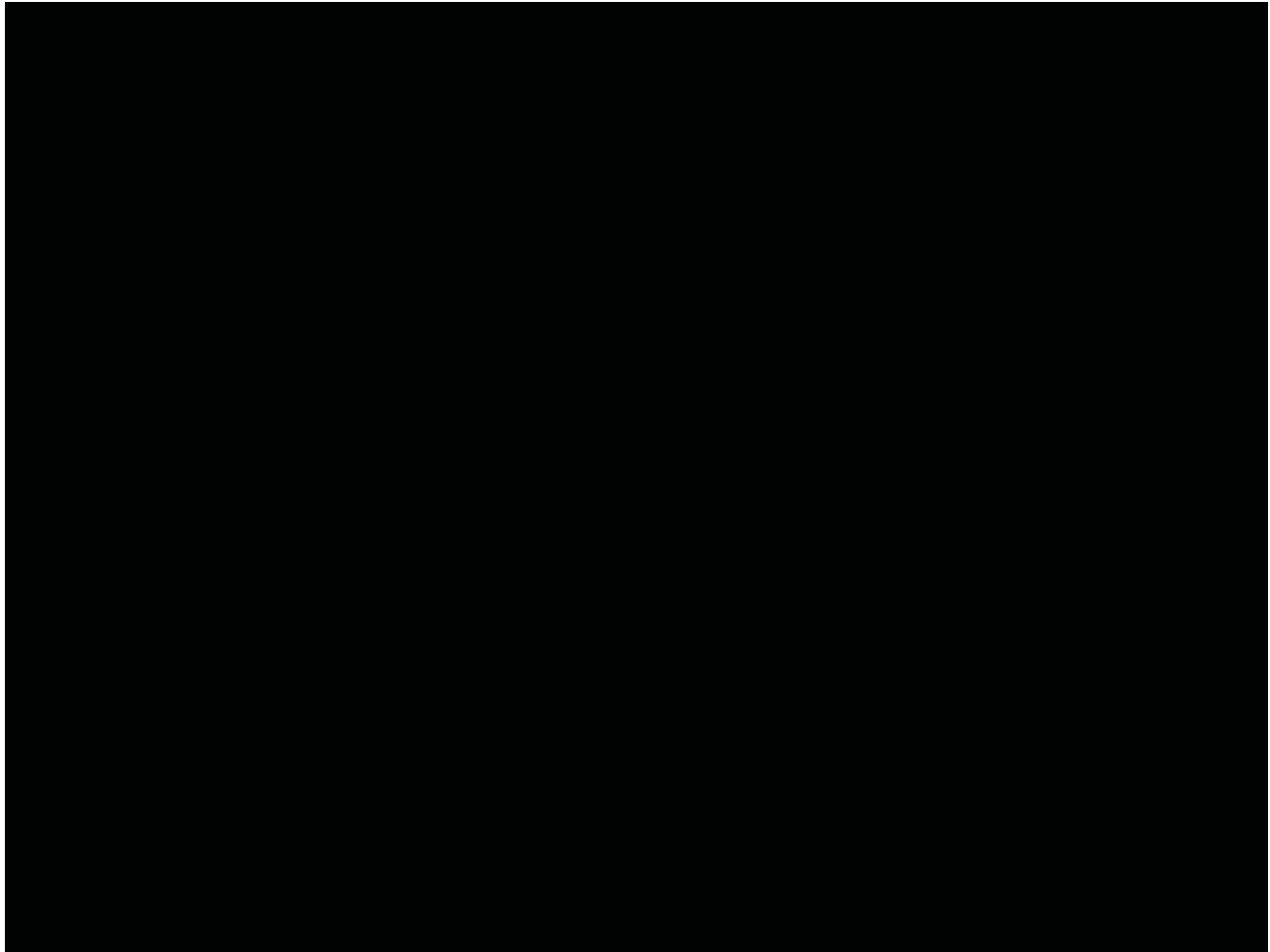




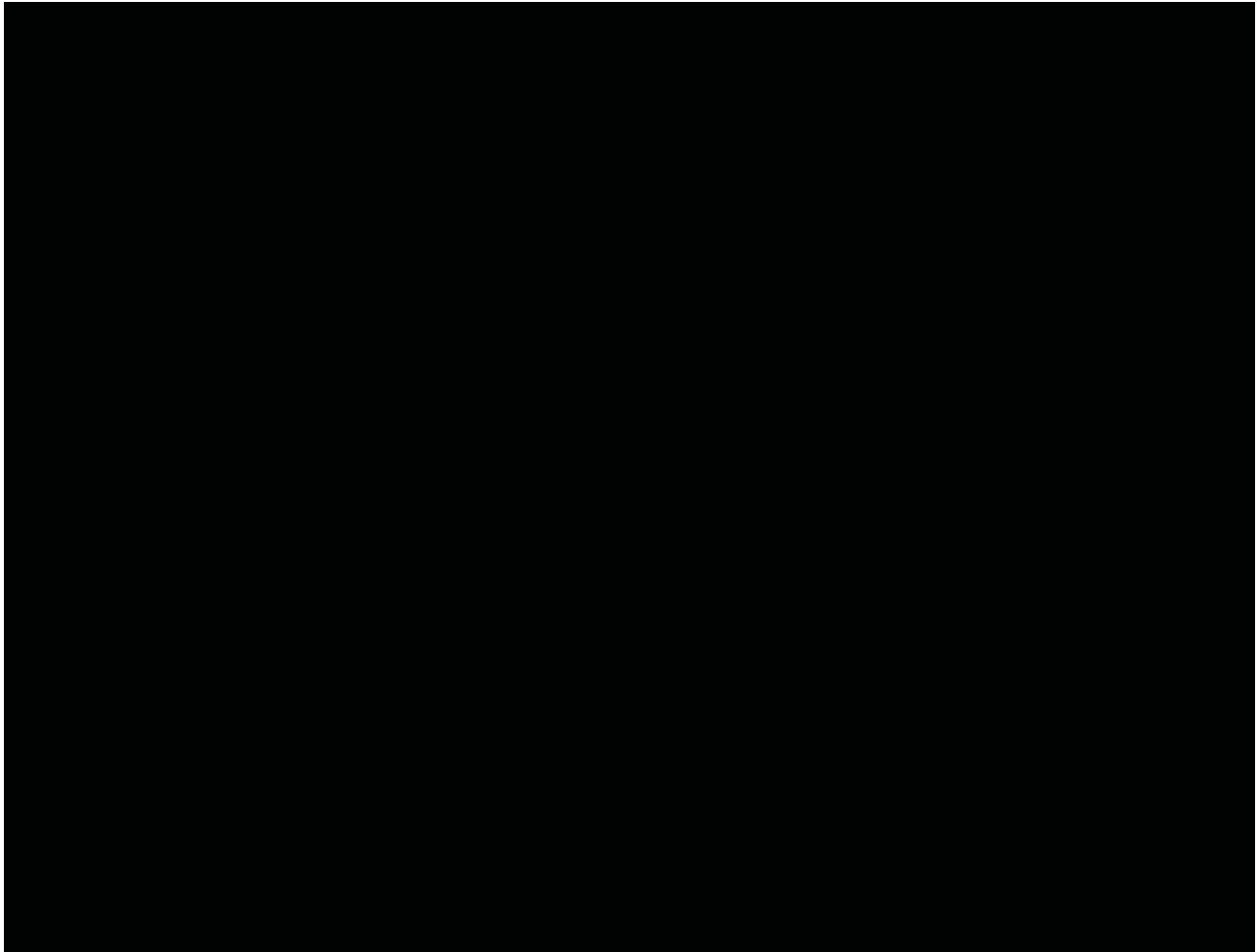
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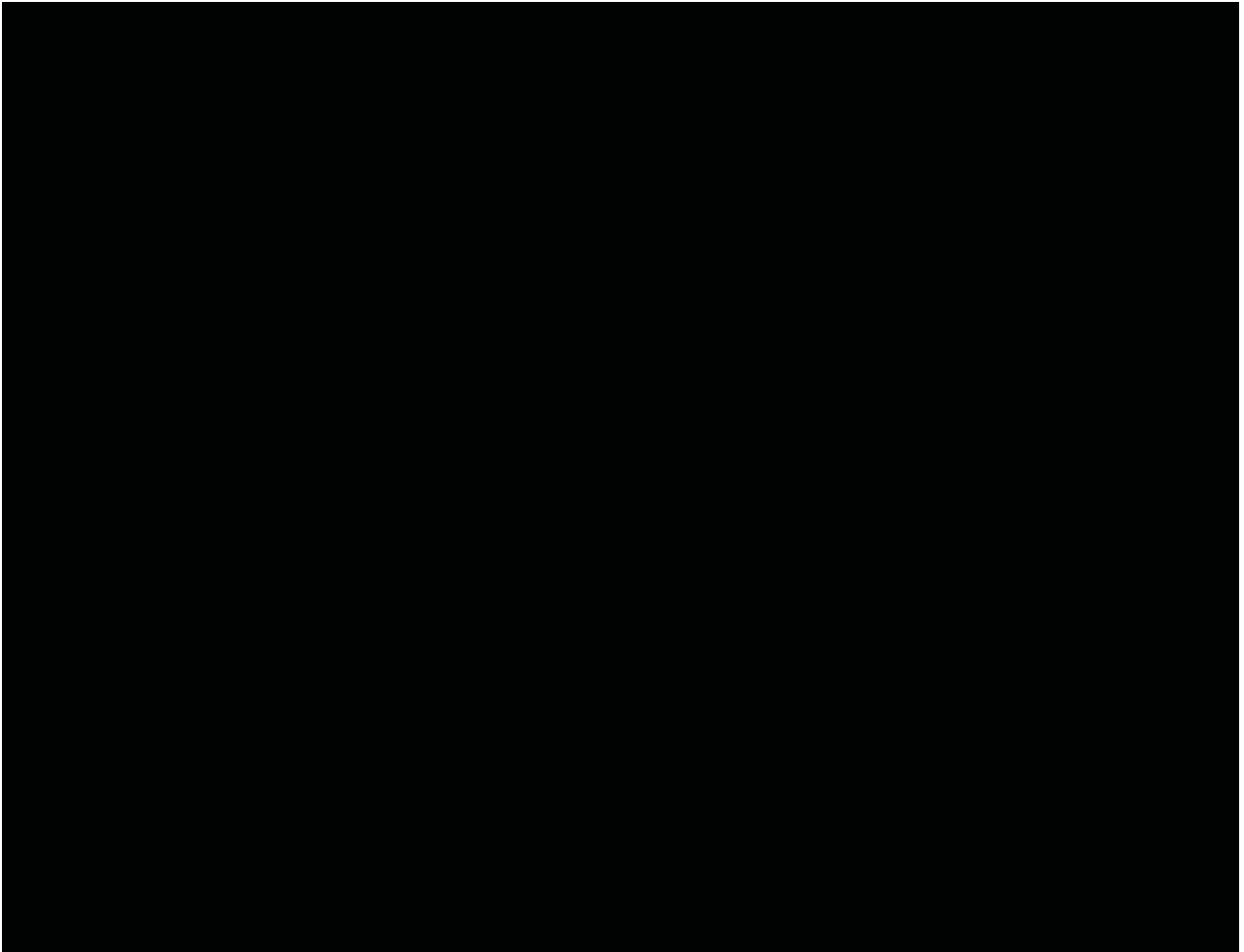
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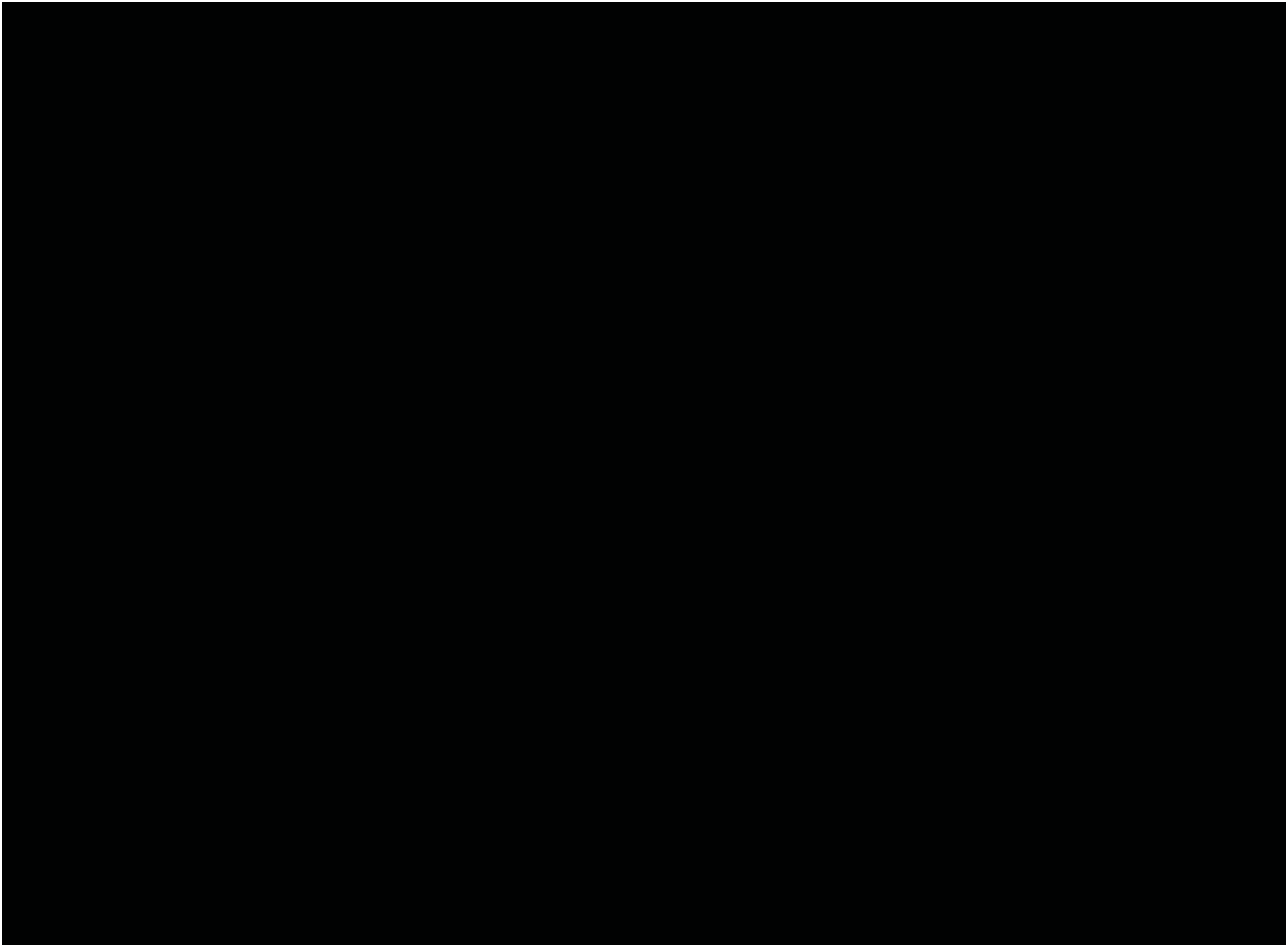
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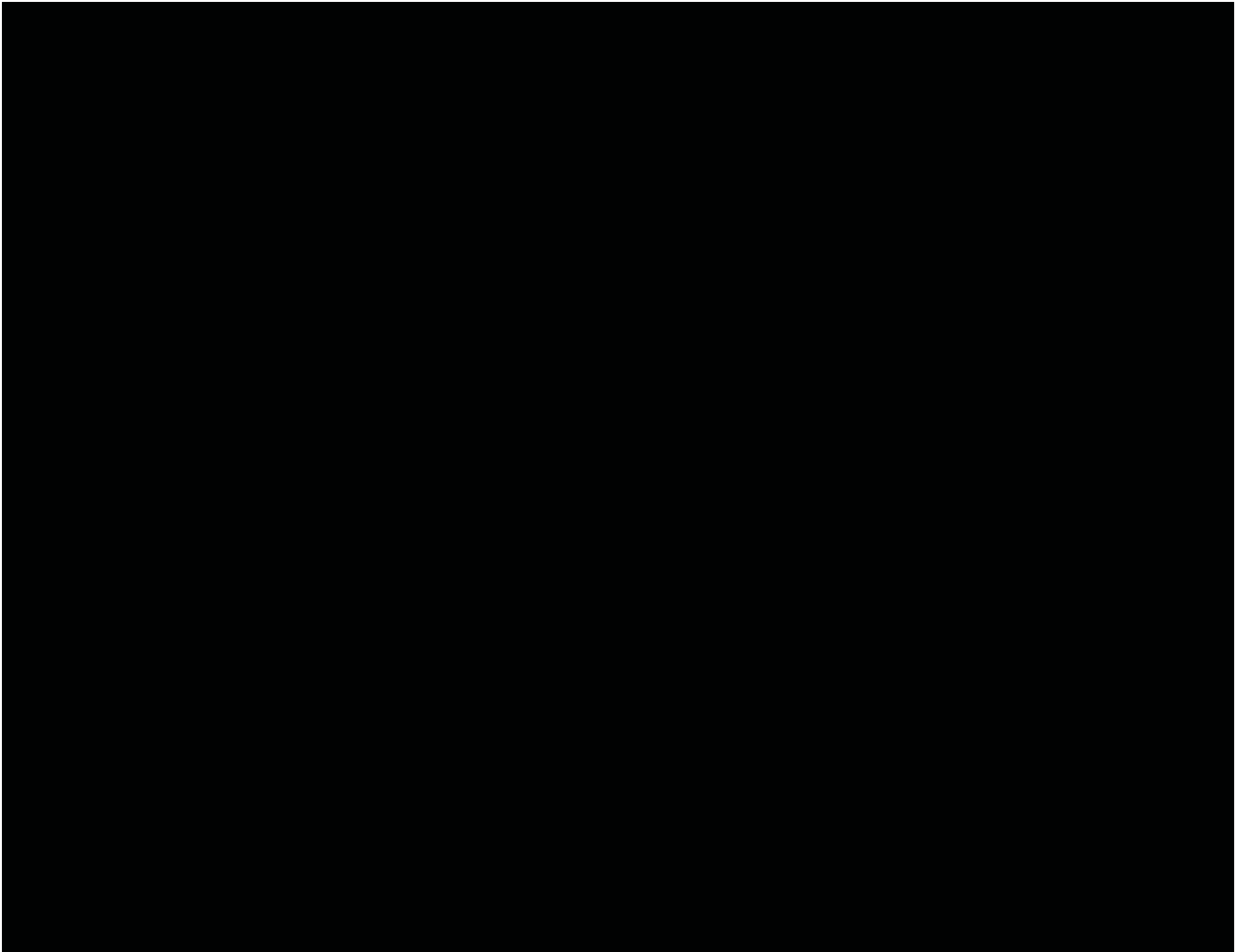
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