Docket	A.17-07-010
Exhibit Number	ORA- _____
Commissioner	Martha Guzman Aceves
Administrative Law Judge	Gerald F. Kelly
ORA Witness	Julia Ende

ORA
OFFICE OF RATEPAYER ADVOCATES

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

PUBLIC

Report on Labor and Benefits

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

San Francisco, California
February 16, 2018

Memorandum

This Report on Labor and Benefits is prepared by Julia Ende 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 Labor and Benefits

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Chapter 1. Executive Summary

A. Introduction

This report presents ORA's analysis and recommendations on the following issues in Golden State Water Company's (GSWC or "Golden State") General Rate Case (GRC) Application 17-07-010: payroll and benefits expenses, Special Request #1 for amortization and continuation of Balancing and Memorandum Accounts, Special Request #2 for a Medical Cost Balancing Account, Special Request #4 for a Sales Reconciliation Mechanism, Special Request #8 to remove the 10% cap on WRAM/MCBA surcharges, and Special Request #9 for a General Ratemaking Area Balancing Account. In developing its recommendations, ORA reviewed GSWC's ratemaking area and General Office Reports on Results of Operations, Prepared Testimony Reports, GSWC's workpapers, and GSWC responses to ORA Data Requests.

B. Key Recommendations

Chapter 2 – Payroll Expenses

- The Commission should remove $171,220 in Test Year payroll expenses resulting from GSWC's inappropriate use of a customer growth factor in its district payroll estimates for Test Year 2019. It is unreasonable to include customer growth escalation factors in Test Year expenses because test year expenses are already escalated due to other factors.
- The Commission should correct GSWC's formula error in its General Office (GO) workpaper because it does not include the Procurement Services Department salaries in the calculation of the vacancy rate for Utility Support Services Cost Center. This correction will reduce the payroll for GO Utility Support Services by $22,210.
- The Commission should remove the salary associated with the Investor Relations Administrator position. The expense is unnecessary and should not be funded by ratepayers.
- The Commission should remove $1,712,288 for recorded temporary labor and placement fee expenses from GSWC's expense forecasting calculation in GO Account 798 – Outside Services because the additional positions GSWC requests will eliminate the need for temporary employee expenses.

Chapter 3 – Employee Benefits

- The Commission should remove expenses associated with the short- and long-term incentive plans for executive officers. GSWC's request significantly exceeds authorized compensation levels and exacerbates the wage gap between executive and non-executive employees. This adjustment removes $2,654,000 from the GO Account 795 – Employee Benefits forecast.

Chapter 4 – Special Request #2 to establish Medical Cost Balancing Account

- The Commission should deny GSWC's request for a medical cost balancing account. Recorded health care costs have not increased at the rates asserted by GSWC. With the protection offered by a balancing account, there is no incentive for GSWC to negotiate for the most affordable insurance coverage.

Chapter 5 – Special Request #4 to establish a permanent Sales Reconciliation Mechanism

- The Commission should deny GSWC's request to establishing a permanent Sales Reconciliation Mechanism (SRM) but allow GSWC to continue the pilot Sales Adjustment Mechanism (SAM) adopted in D.16-12-067, as modified by D.17-03-001, in lieu of establishing a permanent SRM. GSWC should collect more data and provide analysis to justify a permanent SRM.

Chapter 6 – Special Request #8 to remove the 10 percent cap on WRAM/MCBA surcharges.

- The Commission should deny GSWC's request to remove the 10% cap on WRAM/MCBA surcharges. The cap protects customers against rate shock from substantial surcharges related to high under-collections. GSWC has an SAM to address WRAM balances, and the need for additional changes to the WRAM/MCBA mechanism is reduced in light of the end of the drought.

Chapter 7 – Special Request #1 – Balancing and Memorandum Accounts, and Special Request #9 – General Ratemaking Area Balancing Account

- The Commission should adopt ORA's recommended enhanced balancing and memorandum account reporting requirements. These procedures will improve the transparency, clarity and consistency of reported balances and facilitate the

Commission's review of balancing and memorandum accounts. They will also help detect and eliminate double accounting of recorded data used in expense forecasting.

[END OF CHAPTER]

Chapter 2. Payroll Expenses

A. Introduction

This chapter presents ORA's analysis and recommendations for payroll expenses. ORA's discussions presented herein focus on adjustments made to GSWC's estimates. The resulting adjusted estimates are reflected in ORA's Results of Operations (RO) tables.

B. Summary of Recommendations

The Commission should:

(1) Remove the customer growth factor from GSWC's district payroll estimates.
(2) Correct GSWC's formula error in General Office (GO) workpaper regarding vacancy adjustment.
(3) Remove the salary associated with the Investor Relations Administrator position.
(4) Remove recorded temporary labor and placement fee expenses from expense forecasting calculation of the GO Account 798 – Outside Services.

These adjustments are discussed in this report and reflected in the forecasts presented in ORA's Report on General Office Expenses. The table below presents a summary of Test Year 2019 total expensed payroll estimates.

Table 2-1: Comparison of Total Expensed Payroll Estimate – Test Year 2019

Ratemaking Area / GO	GSWC	ORA	GSWC>ORA	Difference as % of GSWC
Region 1				
Arden Cordova	$941,064	$926,317	$14,747	98%
Bay Point	$386,893	$382,179	$4,712	99%
Clearlake	$354,898	$350,982	$3,916	99%
Los Osos	$404,277	$403,052	$1,225	100%
Santa Maria	$1,166,631	$1,110,210	$56,421	95%
Simi Valley	$590,869	$587,635	$3,234	99%
Region 2	$5,803,450	$5,751,972	$51,478	99%
Region 3	$7,209,157	$7,173,670	$35,487	100%
GO	$16,710,300	$16,608,200	$102,100	99%
TOTAL	**$33,567,539**	**$33,294,217**	**$273,320**	**99%**

C. Discussion

1. Payroll Forecasting Overview

To arrive at its forecasted Test Year 2019 payroll expenses, GSWC first identifies individual employees and their 2017 salary levels. For currently vacant positions or those being filled by a temporary employee, GSWC uses a mid-point of the salary grade.[1] GSWC then identifies the allocation between expensed payroll and capitalized payroll based on the expected Test Year 2019 allocations.[2] For employees in operating districts, once the total expensed salaries are determined, GSWC then adds salary expenses incurred for its stand-by and call-out[3] staff.[4] To calculate the Test Year 2019 salary, this amount of estimated 2017 expensed salary is then escalated using labor inflation factors, and a 1% annual merit increase; an additional factor for customer growth is applied to the operating district amounts.[5] Next, GSWC adds overtime costs and applies a vacancy factor to remove salaries for vacant positions.[6]

The estimated payroll expense is then allocated between Operations, Maintenance, and Administration categories based on the recorded payroll expense in each ratemaking area and General Office (GO) to these three payroll expense categories as of December 2016.[7] The payroll costs in the operating districts are allocated to the respective ratemaking areas based on the equivalent number of customers in each ratemaking area. GSWC categorizes the GO payroll expenses in the three Cost Centers: 1) Corporate Support, 2) Centralized Operations, and 3)

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[1] GSWC Prepared Testimony of Jenny Darney-Lane, page 8.

[2] GSWC Prepared Testimony of Jenny Darney-Lane, page 8.

[3] Water Distribution Operators, Water Supply Operators, and Water Treatment Plan Operators receive stand-by and call-out time. Stand-by time is from 5:00 PM to 8:00 PM Monday to Friday and all day Saturday and Sunday. Per GSWC policy, one employee is available on stand-by at each customer service area. GSWC used the three-year annual average recorded call-out hours for 2014-2016 to estimate Test Year call-out hours. *See* GSWC Prepared Testimony of Jenny Darney-Lane, pages 8-9.

[4] GSWC Prepared Testimony of Jenny Darney-Lane, page 8.

[5] GSWC Prepared Testimony of Jenny Darney-Lane, page 9.

[6] GSWC Prepared Testimony of Jenny Darney-Lane, page 9. GSWC calculates the vacancy factor in the GO and each ratemaking area by dividing the salaries for vacant positions by the total salaries.

[7] GSWC Prepared Testimony of Jenny Darney-Lane, page 9.

Utility Support Services. GSWC allocates GO payroll expenses across GSWC's ratemaking areas based on the number of equivalent customers.[8]

2. Remove Customer Growth Factor in Operating Districts

GSWC's 2017-2019 payroll forecast for the operating districts includes an adjustment for customer growth. To support its request, GSWC states only that the customer forecast is applied as authorized by D.07-05-062, the Revised Rate Case Plan for Class A Water Utilities ("Rate Case Plan").[9]

The reference to customer growth in the Rate Case Plan allows the application of customer growth factors in developing expense forecasts for the escalation/attrition years (in this case, 2020 and 2021), but does not advise or authorize such application in developing expense forecasts for the Test Year.[10] D.14-08-006 in San Jose Water Company's GRC provides guidance on the use of customer growth factors:

> [A] plain reading of D.07-05-062 shows that the Commission did not apply customer growth to test year expenses but instead applied the customer growth to expenses in escalation years following the test year. Therefore, the Commission has eliminated customer growth as a factor in all test year expenses.[11]

In the same decision, the Commission presents the following Findings of Facts on the application of the customer growth factor in developing Test Year estimates:

> 11. It is unreasonable to include customer growth escalation factors in test year expenses as test year expenses are escalated due to other factors.
>
> 12. D.07-05-062 applies customer growth to test year expense estimates to calculate escalation year expenses.[12]

GSWC provides no quantitative analysis to show a direct relationship between payroll expenses and the recorded number of customers. The figures below compare GSWC's 2011-2016 recorded payroll expenses and number of customers by ratemaking area. As these figures show,

[8] GSWC Prepared Testimony of Jon Pierotti, pages 49-50.

[9] GSWC Prepared Testimony of Jenny Darney-Lane, page 9.

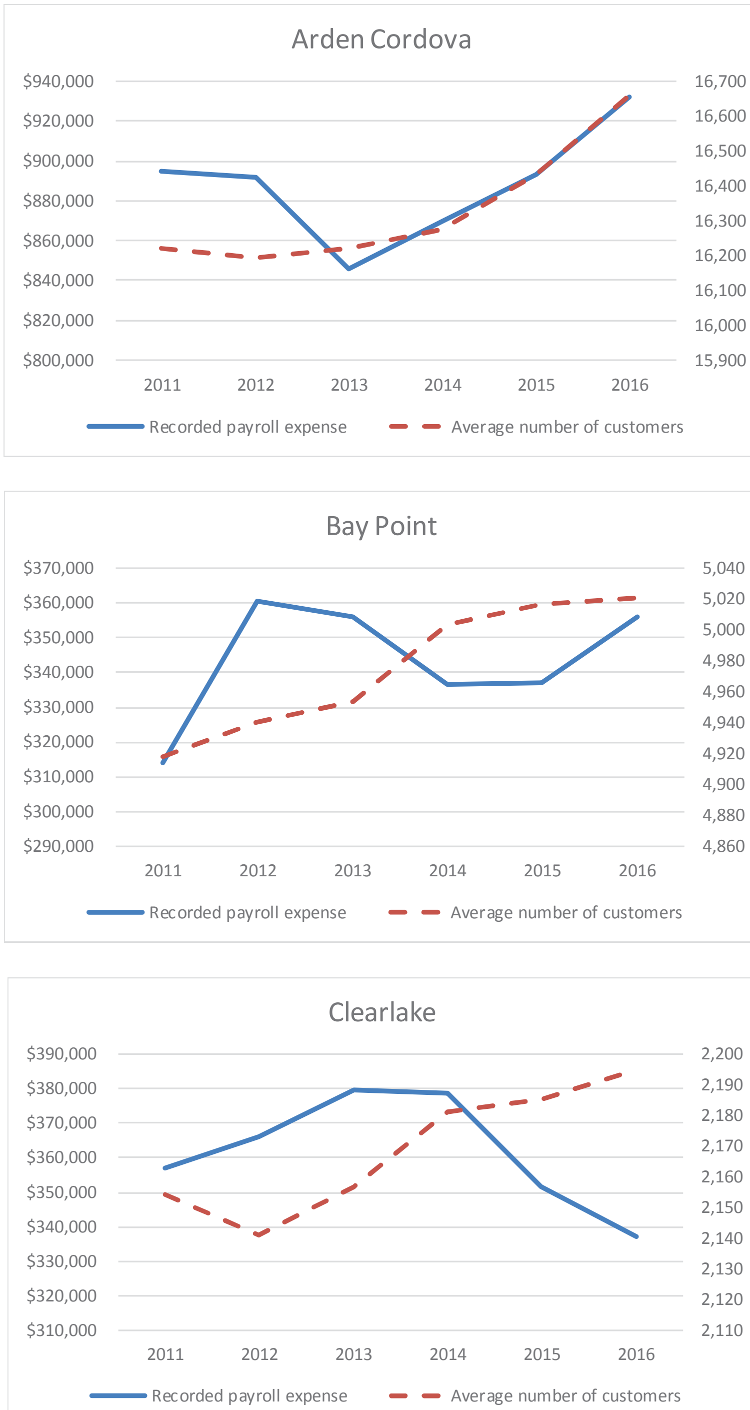
[10] Rate Case Plan D.07-05-062, Appendix-A, page A-20.

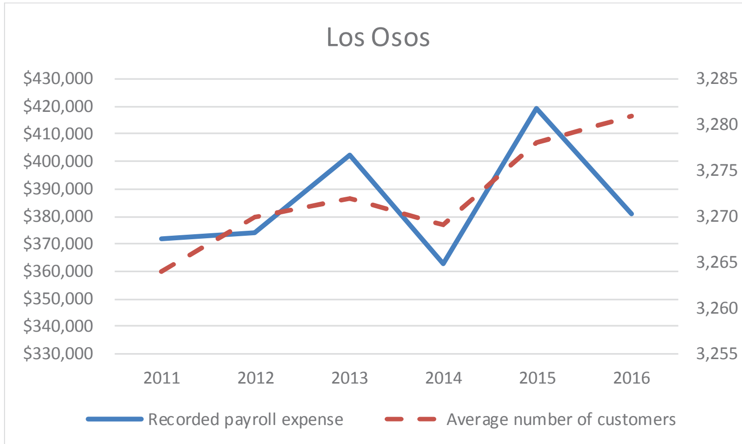
[11] San Jose Water Company GRC A.12-01-003, D.14-08-006, page 26.

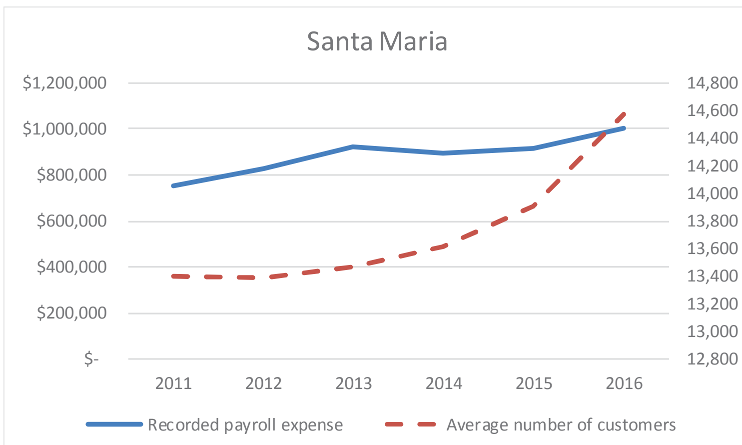
[12] San Jose Water Company GRC A.12-01-003, D.14-08-006, page 120.

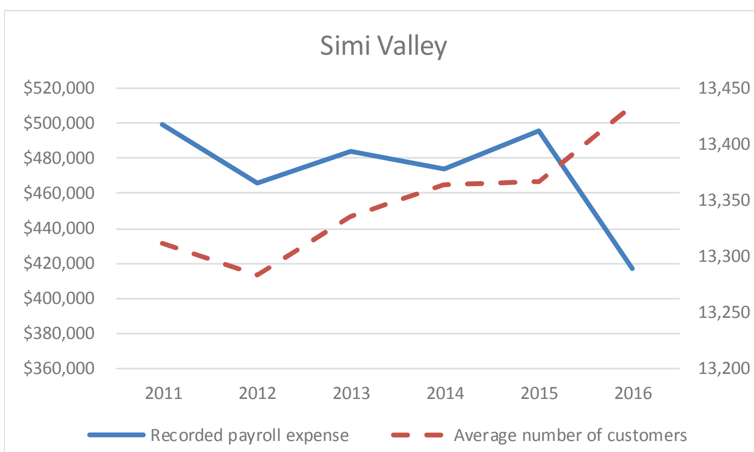
a change in the number of customers does not coincide with a change in the same positive or negative direction for recorded payroll costs. Rather, in many of the operating districts payroll costs decrease as customer counts increase.

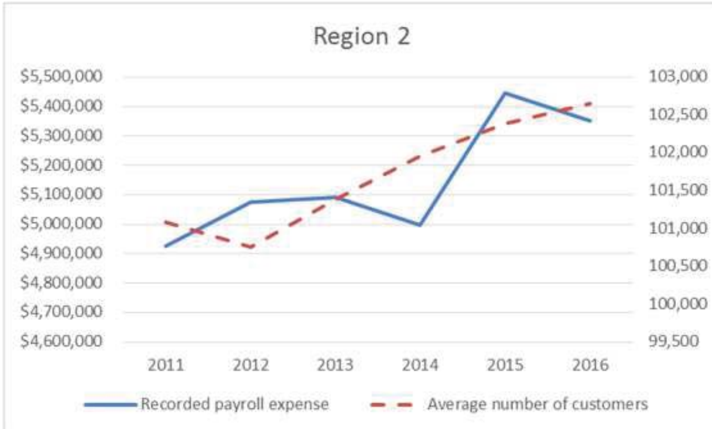
Figure 2-1: Number of Customers vs. Payroll Expense

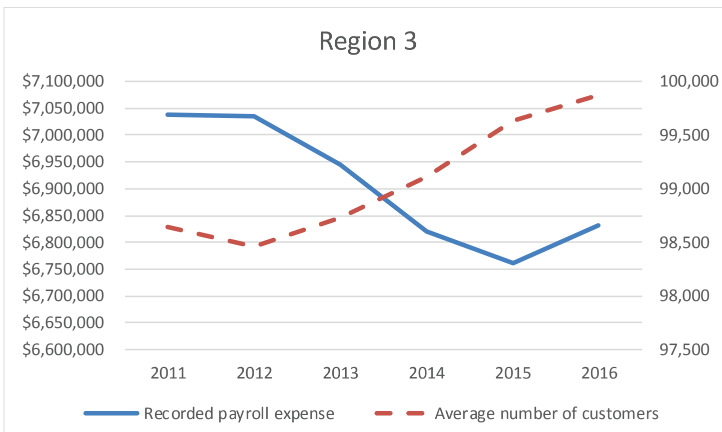



Los Osos
$430,000
$420,000
$410,000
$400,000
$390,000
$380,000
$370,000
$360,000
$350,000
$340,000
$330,000
3,285
3,280
3,275
3,270
3,265
3,260
3,255
2011
2012
2013
2014
2015
2016
Recorded payroll expense
Average number of customers


Santa Maria
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
14,800
14,600
14,400
14,200
14,000
13,800
13,600
13,400
13,200
13,000
12,800
2011
2012
2013
2014
2015
2016
Recorded payroll expense
Average number of customers


Simi Valley
$520,000
$500,000
$480,000
$460,000
$440,000
$420,000
$400,000
$380,000
$360,000
13,450
13,400
13,350
13,300
13,250
13,200
2011
2012
2013
2014
2015
2016
Recorded payroll expense
Average number of customers





GSWC's testimony describes five positions previously located in the operating districts whose functions are being centralized to the general office.[13] GSWC's decision to centralize functions while forecasting growth in its customer base does not support the use of a customer growth factor in the estimate for district payroll expense.

Further, GSWC's request in this case includes payroll dollars for new positions based on anticipated organizational needs, including expected customer growth. GSWC provides no justification for the addition of a customer growth factor in developing its Test Year forecast, on top of salary expenses for new positions, an overtime factor, a merit pool increase, and labor inflation factors.

Therefore, consistent with prior Commission decisions, the Commission should remove from GSWC's operating district payroll expense estimate the portion associated with the customer growth factor – for the Test Year 2019, this amount is $171,220.

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[13] GSWC Prepared Testimony of Jenny Darney-Lane, pages 2-3.

3. Correct Formula Error in GO Workpaper Regarding Vacancy Adjustment

ORA corrected a formula error in the GO Labor workpaper that failed to include the Procurement Services Department salaries in the calculation of the vacancy rate for Utility Support Services Cost Center. [14] This correction changes the impact of the vacancy rate from $113,760 to $135,970, reducing the payroll for GO Utility Support Services by $22,210.

4. Remove Salary for Investor Relations Administrator Position

GSWC's Test Year 2019 GO payroll forecast includes the salary for an Investor Relations Administrator position filled by an employee named ***BEGIN CONFIDENTIAL*** [redacted]. ***END CONFIDENTIAL***[15] Separately, the general ledger transaction details for GO Account 798 – Outside Services include recorded expenses with a Journal Entry Explanation of ***BEGIN CONFIDENTIAL*** "[redacted]" ***END CONFIDENTIAL*** totaling ***BEGIN CONFIDENTIAL*** [redacted] ***END CONFIDENTIAL*** from 2013 to 2016.[16] In response to ORA's inquiry regarding these expenses, GSWC stated that it "inadvertently included the cost of the contract employee in the Outside Services account instead of a labor expense account" and that the expenses for ***BEGIN CONFIDENTIAL*** [redacted] ***END CONFIDENTIAL*** should be excluded from the forecast calculation for GO Account 798.[17] The Commission should remove ***BEGIN CONFIDENTIAL*** [redacted] ***END CONFIDENTIAL*** in recorded expenses from GO Account 798 for forecasting purposes, as described in ORA's Report on General Office Expenses (Chapter 3).

Additionally, the Commission should remove the salary for this Investor Relations Administrator position because it is an expense that is unnecessary and should not be funded by ratepayers. In its response to ORA's Supplemental Data Request Question 2,[18] GSWC provided company

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[14] GSWC Workpaper "GO-Labor 2017 CONFIDENTIAL," tab GO & COPS, cell N369.

[15] GSWC Workpaper "GO-Labor 2017 CONFIDENTIAL," tab GO & COPS. GSWC lists the employee as "Temp" (cell 14).

[16] 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.

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

[18] GSWC included the Supplemental Data Request responses in its application workpapers.

organization charts for 2011 to 2016 and job descriptions for employees. However, GSWC's response did not include the Investor Relations Administrator position or provide its job description. ORA thus issued a follow-up data request and GSWC provided a job description for the position. The primary duties described relate to shareholders. For example: [19]

- Serve as primary information contact with current and prospective shareholders.
- Assist management in comparing quarterly earning results with Street expectations.
- Work with management to develop investor messages and presentations for investors' conferences, road-shows, and special shareholder events and meetings.
- Administrate and manage [Investor Relations] section of aswater.com, including making recommended changes to be in line with best-in-class corporate IR sites.

The benefits of this position accrue to shareholder and not to ratepayers, and therefore should be excluded from the expense forecast.

Further, GSWC's payroll expense request includes other employees whose job descriptions list investor relations responsibilities. The Chief Financial Officer, according to GSWC's job description, is "responsible for the investor relations function"[20] among other duties. Responsibility for overseeing investor relations is also included in the job description for the Finance Manager position.[21] GSWC also includes recorded expenses related to investor relations in the forecast for GO Account 799 – Miscellaneous Expense through Board of Director member fees and consultant services payments.[22] Ratepayers should not also have to pay for the Investor Relations Administrator position, as they see little benefit from funding a position solely dedicated to shareholder relations. Thus, the Commission should remove the Investor Relations Administrator's salary of ***BEGIN CONFIDENTIAL*** [redacted] ***END CONFIDENTIAL*** from the Test Year 2019 forecast.

[19] GSWC Response to ORA Data Request JE6-015 #7.b (CONFIDENTIAL).

[20] Supplemental Data Request #2, Chief Financial Officer Position Description.

[21] Supplemental Data Request #2, Finance Manager Position Description.

[22] GSWC Response to ORA Data Request KC4-009 #1.e.

5. Remove Temporary Labor and Placement Fee Expenses

GSWC requests a net nine new employee positions in this GRC.[23] GSWC's testimony explains that the work associated with the requested positions has been completed in some instances by employees on temporary stretch assignments[24] and in most instances by temporary employees or consultants.[25]

In response to ORA's inquiry, GSWC identified transactions in the General Ledger for GO Account 798 – Outside Services relating to temporary employee and placement fee expenses.[26] The table below summarizes expenses for temporary employees and placement fees for employees.

Table 2-2: Account 798 – Outside Services – Temporary Labor and Placement Fee Expenses

Expense	2012	2013	2014	2015	2016	Total
Accounting Principals, Inc.			$25,300	$14,700	$2,000	$42,000
Ajilon Professional Staffing	$12,000					$12,000
Alliance Resource Group Lp	$34,760					$34,760
Appleone			$2,973			$2,973
Century Group	$133,988	$144,191	$67,500			$345,678
Chipton Ross Inc	$18,104					$18,104
Cybercoders			$89,531	$128,033	$123,218	$340,782
Kapsis Investments Llc	$20,800	$9,314	$89,563			$119,676
Kapsis Technical Services			$22,094			$22,094
Kimco Staffing Services Inc.	$21,850	$(13,292)				$8,558
Lucas Group			$60,480			$60,480
P. Murphy & Associates, Inc			$20,813	$1,031	$23,233	$45,077
Platinum Resource Group Inc	$19,894	$3,744	$1,560			$25,198
Project Partners Inc					$24,084	$24,084
Robert Half International Inc.	$22,125	$28,179	$19,501	$4,266	$5,736	$79,806
Staffing Network				$6,771		$6,771
Taxgroup Partners, Inc.	$201,431	$37,951	$25,809	$35,516	$26,797	$327,505
Tfi Resources Inc.		$139,619	$57,123			$196,742
Total	**$484,951**	**$349,705**	**$482,246**	**$190,317**	**$205,069**	**$1,712,288**

[23] GSWC Prepared Testimony of Jenny Darney-Lane, page 5.

[24] GSWC Prepared Testimony of Denise Kruger, Staffing Changes and Community Education, page 44.

[25] GSWC Prepared Testimony of Denise Kruger, Staffing Changes and Community Education, page 41.

[26] GSWC Response to ORA Data Request JE6-015, #5.

ORA recommends removal of these expenses from the Outside Services forecast to correspond to the addition of the nine new positions. The Commission has previously removed temporary labor expenses from the revenue requirement forecast for Class A water utilities. For example, the Commission disallowed temporary labor costs for San Jose Water Company in its last two GRCs. D.16-06-004 states:

> We disallow recovery for temporary and part-time positions because the need is uncertain and therefore does not provide a continuous benefit to ratepayers. We acknowledge that there may be times when temporary or part-time employees are necessary and to the extent that they provide cover for vacant, fully funded positions, additional ratepayer funding is unnecessary. SJWC also has the discretion to allocate existing payroll to cover the expense of temporary or part-time coverage for vacations or extended absences.[27]

GSWC's justification for new employee positions is that temporary employees or consultants have primarily completed the work associated with the requested positions. As such, the additional positions should eliminate the need for temporary employee expenses. Further, if GSWC chooses to pay a recruitment firm, it can use the dollars it collects through rates associated with the salary for vacant, fully funded positions. Correspondingly, if the Commission grants GSWC's request for the new positions, the Commission should also remove $1,712,288 for placement fees and temporary employees from the recorded costs used to forecast General Office Account 798 – Outside Services.

D. Conclusion

The Commission should remove $171,220 in Test Year payroll expenses resulting from GSWC's inappropriate use of a customer growth factor in its estimates. It is unreasonable to include customer growth escalation factors in Test Year expenses because test year expenses are already escalated due to other factors.

The Commission should correct GSWC's formula error in its GO workpaper because it does not include the Procurement Services Department salaries in the calculation of the vacancy rate for Utility Support Services Cost Center. This correction will reduce the payroll for GO Utility Support Services by $22,210.

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[27] D.16-06-004, page 23.

The Commission should remove ***BEGIN CONFIDENTIAL***[redacted] ***END CONFIDENTIAL*** associated with the Investor Relations Administrator position from Test Year 2019 GO payroll expenses. The expense is unnecessary and should not be funded by ratepayers.

The Commission should remove $1,712,288 in recorded temporary labor and placement fee expenses from expense forecasting calculation in GO Account 798 – Outside Services because the additional positions GSWC requests will eliminate the need for temporary employee expenses.

[END OF CHAPTER]

Chapter 3. Employee Benefits

A. Introduction

This chapter presents ORA's analysis and recommendations for General Office (GO) Account 795 – Employee Benefits expenses. ORA's analysis focuses on adjustments made to GSWC's estimates. The resulting adjusted estimates are reflected in ORA's Results of Operations (RO) tables.

B. Summary of Recommendations

The Commission should deny GSWC's requested $2,654,000 in Short-Term Incentive Program (STIP) and Long-Term Incentive Program (LTIP) expenses for executive employees in GO Account 795 – Employee Benefits forecast.

Table 3-1: Adjustments to GO Account 795 – Employee Benefits

2019 Test Year Expense Adjustment	GSWC	ORA	GSWC > ORA	ORA as % of GSWC
Remove Annual Cash Incentive Bonus Expense for Executive Officers (STIP)	$1,058,300	$0	$1,058,300	0%
Remove Restricted Stock Units Expense for Executive Officers (LTIP)	$1,595,700	$0	$1,595,700	0%
Total Adjustment	$2,654,000	$0	$2,654,000	0%

C. Discussion

Expenses in Account 795 – Employee Benefits include costs associated with the 401(k) plan, pension costs, Defined Contribution Plan, group health insurance (including medical, dental, and vision), and Supplemental Executive Retirement Plan.

1. Executive Compensation

Annual compensation of GSWC executive officers is comprised of three main components:

- Base pay
- Cash incentives, also called the Short-Term Incentive Program

- Equity grants, also called the Long-Term Incentive Program.

GSWC has eight executive officer positions:[28]

(1) President and Chief Executive Office: Robert Sprowls

(2) Senior Vice President, Finance, Chief Financial Officer, and Secretary: Eva Tang

(3) Senior Vice President, Regulated Utilities: Denise Kruger

(4) Vice President, Water Operations: Patrick Scanlon

(5) Vice President, Water Operations: Paul Rowley

(6) Vice President, Environmental Quality: William Gedney

(7) Vice President, Finance, Treasurer, and Assistant Secretary: Gladys Farrow

(8) Vice President, Regulatory Affairs: Keith Switzer.

The following table summarizes the expensed executive compensation for each officer.

Table 3-2: Test Year 2019 Expensed Executive Compensation[29]

BEGIN CONFIDENTIAL

Executive Officer	Base salary	STIP	LTIP	Total
Robert Sprowls	[redacted]	[redacted]	[redacted]	[redacted]
Eva Tang	[redacted]	[redacted]	[redacted]	[redacted]
Denise Kruger	[redacted]	[redacted]	[redacted]	[redacted]
Patrick Scanlon	[redacted]	[redacted]	[redacted]	[redacted]
Paul Rowley	[redacted]	[redacted]	[redacted]	[redacted]
William Gedney	[redacted]	[redacted]	[redacted]	[redacted]
Gladys Farrow	[redacted]	[redacted]	[redacted]	[redacted]
Keith Switzer	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL	$2,440,600	$1,058,400	$1,595,800	$5,094,800

END CONFIDENTIAL

[28] GSWC Prepared Testimony of Keith Switzer, page 3.

[29] GSWC Prepared Testimony of Keith Switzer, pages 12, 18, and 21; GSWC Workpaper Spreadsheet Bonuses Stock Awards - Officers and Managers for 2017 GRC – CONFIDENTIAL, tab Bonuses & Stock Awards.

a. Base Pay

Base pay for executives is calculated consistent with non-executive employees, as described in Chapter 2. GSWC begins with the 2017 level of base pay, identifies the allocation between expensed and capitalized payroll, then adds labor inflation factors and a 1% merit increase to arrive at the Test Year 2019 base pay amount.

b. STIP

The STIP is an annual cash bonus available to executive officers and managers, and directors. The target award percentages for executive officers are 25% of base salary for Vice Presidents, 30.5% of base salary for Senior Vice Presidents, and 70% of base salary for the President.[30]

c. LTIP

The LTIP is stock-based compensation available to executive officers, managers and directors. The annual LTIP award is based on a targeted dollar value for each officer, and that value is converted to restricted stock units (RSUs) based on the current (30-day) average stock price.[31] The Compensation Committee of the Board of Directors approves the 2017 LTIP award grants.[32] To forecast the Test Year 2019 estimate, GSWC inflates the 2017 estimates by 1.9% per year and then removes a percentage based on the capital portion of executive salaries.[33]

d. Executives' Compensation Increases Exceed Non-Executive Employees'

In response to ORA's Supplemental Data Request Question 38, GSWC provided salary and gross pay data of all employees for the period 2011-2016.[34] Data from those files is summarized in the table below for executive officers and all others ("non-executive").

[30] GSWC Prepared Testimony of Keith Switzer, page 12.

[31] GSWC Prepared Testimony of Keith Switzer, page 18.

[32] GSWC Prepared Testimony of Keith Switzer, page 6.

[33] GSWC Workpaper Spreadsheet Bonuses Stock Awards - Officers and Managers for 2017 GRC – CONFIDENTIAL, tab Bonuses & Stock Awards.

[34] GSWC Excel file "Q.38 [2011-2016] Salary and Gross Earnings CONFIDENTIAL."

Table 3-3: Executive and Non-Executive Compensation – Average Annual Increase[35]

Description	2011	2012	2013	2014	2015	2016
Executive average salary	$267,935	$279,348	$302,187	$327,825	$359,971	$353,825
Average annual increase: 6.4%						
Non-executive average salary	$68,551	$70,196	$71,447	$71,473	$75,735	$77,927
Average annual increase: 2.7%						
Executive average gross pay	$339,945	$425,188	$569,319	$601,743	$653,005	$784,798
Average annual increase: 26.2%						
Non-executive average gross pay	$75,362	$77,123	$79,311	$78,911	$83,821	$86,640
Average annual increase: 3.0%						
Exec. : Non-exec. salary ratio	3.9	4.0	4.2	4.6	4.8	4.5
Exec. : Non-exec. gross pay ratio	4.5	5.5	7.2	7.6	7.8	9.1

The Commission should disallow the STIP and LTIP for executive officers entirely. As shown in the table above, the gross pay of executives has increased at a significantly faster rate than that for non-executives or inflation. Further, in 2016 the average executive gross pay was over nine times the average gross pay of non-executive employees.[36] Removing the STIP and LTIP results in total executive compensation that is still over four times the average non-executive total compensation.[37] This recommendation ensures the wage gap does not continue to grow.

e. Reduction of STIP and Removal of LTIP in D.16-12-067, as modified by D.17-03-001

GSWC's executive compensation request significantly exceeds authorized levels from the previous GRC.[38] In D.16-12-067, as modified by D.17-03-001, the Commission evaluated GSWC's request for STIP and concluded:

> The operating and individual performance metrics benefit ratepayers in ensuring that officers are carrying out directives and activities to ensure the operational safety and

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[35] Average annual increase % = ((2016 $ ÷ 2011 $) – 1) ÷ 5 years.

[36] $784,798 ÷ $86,640 = 9.1.

[37] $353,825 ÷ $86,640 = 4.1.

[38] As shown in Table 3-3: Elements of Executive Compensation, below.

> reliability of Golden State's utility systems. At the same time however, the financial and company performance metrics are of benefit to shareholders who in theory will see the price of the stock move upwards. The financial metric may also benefit ratepayers as a result of the companies' lower borrowing costs. We disagree with Golden State that costs should not be shared by ratepayers and shareholders because both ratepayers and shareholders, as discussed above, directly benefit from the presence of this award.[39]

The decision continues:

> Because ratepayers and shareholders equally benefit from the STIP program, we find that the costs for STIP should be divided equally between ratepayers and shareholders. We therefore reduce the requested amounts for STIP by 50 percent to reflect the benefits that shareholders receive from having a financially strong company, while recognizing that the STIP is a valuable tool for attracting and retaining skilled professionals to run and manage the company, and to carry out and meet safety, diversity, and customer service goals.[40]

In evaluation of the LTIP, the decision states:

> In analyzing the mechanics of the LTIP, we note that since this compensation is primarily stock-based, this means that when officers are awarded stock units, the value of the stock units will grow if the company's stock price increases. This means that awardees of stock units have an incentive to align with the company's goals that improve the financial standing of the company and on other issues that raise the stock price. We also note that the LTIP vests over a three-year period which means the award is tied to three years of financial performance. These factors all point to benefits which accrue to shareholders.[41]

Furthermore, the decision states:

> Another consideration is the cost to ratepayers, who see little benefit from such a program, but face increased costs if the cost of the long term incentive compensation program is included in the revenue requirement. While we recognize that this type of compensation also benefits ratepayers by attracting and retaining employees who are qualified, experienced and high-performing, based on all the considerations discussed above, we find it reasonable to disallow ratepayer funding of the costs of the LTIP.[42]

As shown in the table below, GSWC's requests for base salaries and STIP and LTIP expenses exceed the amounts authorized in D.16-12-067 (the last GRC decision).

[39] D.16-12-067, page 103.

[40] D.16-12-067, page 104.

[41] D.16-12-067, page 104.

[42] D.16-12-067, page 105.

Table 3-4: Elements of Executive Compensation

Executive Compensation	Requested TY 2019 - Expensed	Requested TY 2016 - Expensed	Authorized TY 2016 - Expensed	Request Expensed Amount this GRC > Last GRC	Request Expensed Amount this GRC > Authorized Last GRC
Base Salary for officers	$2,440,500[43]	$2,190,400[44]	$2,190,400[45]	$250,100	$250,100
STIP for officers	$1,058,300[46]	$748,800[47]	$374,300[48]	$309,500	$684,000
LTIP for officers	$1,595,700[49]	$1,085,600[50]	$0[51]	$510,100	$1,595,700
Total	$5,094,500	$4,024,800	$2,564,700	$1,069,700	$2,529,800
Percentage relative to last authorized	199%	157%	100%	--	--

The Commission's decision in D.16-12-067, as modified by D.17-03-001, considered the beneficiaries of STIP and LTIP as a basis for determining cost sharing between ratepayers and shareholders, and removed $1,460,100 from GSWC's executive compensation request for Test Year 2016. In analyzing GSWC's request in this proceeding, ORA evaluated the elements of executive compensation – base salary, STIP, and LTIP – in total. GSWC has not justified the significant increases in executive compensation from the last adopted level (GSWC's current requests are nearly two times the last adopted total – *see* Table 3-4 above). As shown in Table 3-3, the average total compensation per executive officer grew from $339,945 to $784,798 in the 2011-2016 period, an increase of over 130% or an average of 26% per year. Disallowing STIP

[43] GSWC Workpaper Spreadsheet GO-Labor 2017 CONFIDENTIAL. While this file is labeled confidential, ORA confirmed the specific cited data is not considered confidential via email from Jon Pierotti to Julia Ende on February 6, 2018.

[44] A.14-07-006 GSWC Workpaper Spreadsheet GO-Labor 2014, tab GO & COPS.

[45] A.14-07-006 GSWC Workpaper Spreadsheet GO-Labor 2014, tab GO & COPS.

[46] GSWC Prepared Testimony of Keith Switzer, page 19.

[47] A.14-07-006 GSWC Workpaper Spreadsheet "Bonuses Stock Awards - Officers and Managers for 2014 GRC."

[48] D.16-12-067, page 104.

[49] GSWC Prepared Testimony of Keith Switzer, page 21.

[50] A.14-07-006 GSWC Workpaper Spreadsheet "Bonuses Stock Awards - Officers and Managers for 2014 GRC."

[51] D.16-12-067, page 105.

and LTIP costs results in an average total compensation of $395,600 per executive in Test Year 2019 for ratemaking purposes.[52] An increase between $339,945 in 2011 to $395,600 in 2019 is approximately 2% per year, which is similar to the CPI-based inflation factors GSWC used to escalate payroll costs and in line with the 3% annual rate in increase of non-executive gross pay (presented in Table 3-3). Adopting ORA's recommended adjustment is in line with inflation factors and will reduce the growing wage gap between executive and non-executive employees.

D. Conclusion

The Commission should deny GSWC's requested $2,654,000 in STIP and LTIP Test Year 2019 expenses for executive employees in GO Account 795 – Employee Benefits forecast. This adjustment builds on the findings from the last GRC regarding executive incentive compensation and prevents the widening of the wage gap between executive and non-executive employees.

[END OF CHAPTER]

[52] GSWC Response to ORA Data Request JE6-018 #1.

Chapter 4. Special Request #2 – Medical Cost Balancing Account

A. Introduction

This chapter addresses GSWC's Special Request #2 to establish a Medical Cost Balancing Account. GSWC requests a Medical Cost Balancing Account to track the difference between authorized costs, expensed and capitalized, and actual healthcare costs incurred by GSWC.[53]

B. Summary of Recommendations

The Commission should deny GSWC's request for a Medical Cost Balancing Account for the following reasons.

(1) GSWC has not shown that its group health insurance costs increase at a rate much greater than ORA's published inflation factors.

(2) GSWC's group insurance costs have not fluctuated significantly and therefore balancing account treatment is unnecessary.

(3) A balancing account removes the incentive for GSWC to negotiate for the most affordable insurance coverage option in future policy renewals.

C. Discussion

1. Increases in GSWC Medical Premiums Remain Stable

GSWC states that the Rate Case Plan adopted by D.07-05-062 limits the escalation of benefit costs in the attrition years to the labor inflation factors from ORA's "Estimates of Non-Labor and Wage Escalation Rates" memorandum.[54] GSWC asserts that these factors, which reflect an average 2% annual increase for 2013 to 2016, are much lower than historical increases in medical insurance premiums.[55] In response to ORA's inquiry, GSWC provided data on its historical premiums.[56] Contrary to GSWC's claim, the average annual increase in medical

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[53] GSWC Prepared Testimony of Matt Currie, page 21.

[54] GSWC Prepared Testimony of Matt Currie, page 20.

[55] GSWC Prepared Testimony of Matt Currie, page 20.

[56] GSWC Response to ORA Data Request JE6-008, #6.a.

insurance premiums between 2011 and 2016 was ***BEGIN CONFIDENTIAL*** [redacted], ***END CONFIDENTIAL*** [57] similar to ORA's published inflation factors.[58] GSWC's claim that increases in premiums necessitate a balancing account is unfounded.

2. Impact of the Patient Protection and Affordable Care Act

GSWC argues that uncertainty surrounding the Patient Protection and Affordable Care Act justifies its request for the Medical Cost Balancing Account.[59] However, there is no evidence that uncertainty due to health care reform or other changes in the law would place GSWC at financial risk. Instead, a balancing account would eliminate GSWC's incentive to negotiate for the lowest possible health rates. GSWC would be able to choose the most expensive provider available, or pursue the most expensive available coverage, and the balancing account would allow GSWC to recover from ratepayers the full amount of the associated cost increases. The balancing account treatment also removes incentives for GSWC to explore ways to minimize or contain health care costs, such as adopting greater cost-sharing for health coverage between employer and employees, consistent with the general trends in private sector health coverage.[60]

D. Conclusion

The Commission should deny GSWC's Special Request #2. GSWC's request for a medical cost balancing account is unreasonable and lacks merit. Health insurance premiums and costs have not increased or fluctuated significantly, and therefore balancing account treatment is unnecessary. Further, if GSWC is allowed dollar for dollar recovery, GSWC will have no incentive to control its health care costs.

[END OF CHAPTER]

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[57] GSWC Response to ORA Data Request JE6-008, #6.a., CONFIDENTIAL Attachment 1 A1707010 ORA DR JE6-008 (Group Health Insurance).

[58] ORA's Memoranda containing estimated rates for Non-Labor and Wage Escalation and Compensation per Hour.

[59] GSWC Prepared Testimony of Matt Currie, page 20.

[60] Premiums for Employer-Sponsored Family Health Coverage Rise (https://www.kff.org/private-insurance/press-release/premiums-for-employer-sponsored-family-health-coverage-rise-slowly-for-sixth-straight-year-up-3-but-averaging-18764-in-2017/, accessed on December 1, 2017.)

Chapter 5. Special Request #4 – Permanent Sales Reconciliation Mechanism

A. Introduction

This chapter presents ORA's analysis and recommendations regarding GSWC's Special Request #4 – a request for a permanent rate adjustment mechanism called a Sales Reconciliation Mechanism (SRM) in ratemaking areas with a Water Revenue Adjustment Mechanism (WRAM).[61]

B. Summary of Recommendations

The Commission should deny GSWC's request for a permanent SRM but allow GSWC to continue the pilot sales adjustment mechanism (SAM) adopted in D.16-12-067, as modified by D.17-03-001.[62] GSWC has not provided evidence justifying the removal, permanent implementation, or modification of the SAM. The Commission should review the SAM in GSWC's next GRC application filing, scheduled for July 2020, because there will be three full years of data on sales adjustments (2017, 2018, and 2019) available for analysis. To facilitate the Commission's review of the SAM, the Commission should direct GSWC to provide information on the program in its next GRC application, including but not limited to WRAM/MCBA balances with and without impact of SAM, and customer bill comparisons. GSWC's analysis should include ratemaking areas where SAM is and is not triggered. Comparing SAM's impacts in all applicable ratemaking areas will afford a better overall understanding of the effectiveness of the SAM pilot program.

C. Discussion

1. SRM Background and GSWC's Proposed Modifications

GSWC proposed a sales reconciliation mechanism in its Test Year 2016 GRC Application (A.) 14-07-006, filed on July 15, 2014. As part of the settlement adopted in D.16-12-027, GSWC

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[61] GSWC Prepared Testimony of Jenny Darney-Lane, page 14. All ratemaking areas except Clearlake Customer Service Area have WRAM.

[62] D.16-12-067, Attachment A: Corrected Partial Settlement Agreement, pages 200-203.

withdrew its request for a Sales Reconciliation Mechanism (SRM).[63] Instead, pursuant to the adopted settlement agreement, GSWC was authorized to implement a pilot SAM to adjust its adopted sales volumes through a Tier 1 advice letter in escalation years 2017 and 2018 under the following conditions:[64]

(1) The recorded WRAM-related sales volumes in any ratemaking area for the twelve months ending the September before the escalation year vary by more than 10% from the adopted WRAM-related sales volumes for the current calendar year.

(2) If the mandated drought reductions are still in effect (i.e., Schedule 14.1 is still active[65]) and if mandatory reduction targets have not been achieved, the advice letter would not trigger an adjustment.

If GSWC meets the above-described conditions, it may file a Tier 1 advice letter to:

(1) Adjust adopted sales volumes for the upcoming escalation year by 50% of the variance in the calculation of rates for that escalation year.

(2) Revise the adopted revenue requirement solely to flow-through the change in purchased water, purchased power and pump tax associated with the change in the adopted sales forecast (using adopted rates for purchased water, purchased power and pump tax expenses).

(3) Present the effect of the sales adjustment together with the escalation impacts on revenue requirement and rates so that the effect of the sales adjustment can be isolated and examined by looking at the advice letter.[66]

GSWC's proposed SRM differs from the SAM authorized in the previous GRC in several ways:

(1) The SRM would not be tied to drought conditions or the implementation of Schedule 14.1.[67]

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[63] D.16-12-067, Attachment A: Corrected Partial Settlement Agreement, page 201.

[64] D.16-12-067, Attachment A: Corrected Partial Settlement Agreement, page 201.

[65] Schedule 14.1 is a tariff which addresses mandatory rationing to be enforced if voluntary conservation does not yield the necessary reduction in consumption or in circumstances of prolonged or severe drought.

[66] D.16-12-067, Attachment A: Corrected Partial Settlement Agreement, pages 201-202.

(2) The trigger is reduced from a 10% to a 5% difference between adopted WRAM-related sales and recorded sales.[68]

(3) The SRM would be permanent, continuing beyond the escalation years 2020 and 2021 of this rate case cycle.[69]

2. Result of Sales Adjustment Mechanism Authorized in D.16-12-027, as modified by D.17-03-001

For 2017, GSWC identified three ratemaking areas – Los Osos, Bay Point, and Simi Valley – that met the conditions for the sales adjustment mechanism based on the difference between adopted and actual sales volumes for the twelve months ending September 2016. On March 6, 2017, GSWC filed an advice letter for each of those ratemaking areas to request a rate change effective April 20, 2017.[70]

For 2018, GSWC identified one ratemaking area, Arden Cordova, which met the conditions for the sales adjustment mechanism based on the difference between adopted and actual sales volumes for the twelve months ending September 2017. GSWC filed Advice Letter 1731 on November 17, 2017 with a requested effective date of January 1, 2018.

3. California Water Service Company's Pilot Sales Reconciliation Mechanism

To justify Special Request #4, GSWC states the Commission has twice approved an SRM program for the California Water Service Company (CWS).[71] However, there are key differences between CWS's program and GSWC's request.

The Commission's original rationale for allowing the SRM for CWS in D.14-08-011 (Test Year 2014 GRC) was to address the impact of drought conditions on the sales forecast.[72] In the following rate case, A.15-07-014 (Test Year 2017 GRC), CWS requested to continue the SRM,

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[67] GSWC Prepared Testimony of Jenny Darney-Lane, page 21.

[68] GSWC Prepared Testimony of Jenny Darney-Lane, page 21.

[69] GSWC Prepared Testimony of Jenny Darney-Lane, page 17.

[70] These Advice Letters (AL) were filed with an effective date coinciding with the escalation filing changes: AL 1688 for Los Osos, AL 1689 for Bay Point, AL 1690 for Simi Valley.

[71] GSWC Prepared Testimony of Jenny Darney-Lane, page 16.

[72] D.14-08-011, page 111.

eliminate the trigger, and set the sales adjustment at the full amount of the deviation between authorized and actual sales.[73] ORA's testimony in A.15-07-015 included an analysis of the preliminary results of CWS's SRM. The analysis demonstrated that there was a benefit (reduction in the WRAM balance in the first six months of 2015) in nine of CWS's thirteen districts that triggered the SRM. However, when aggregated on a companywide basis, the net reduction to the WRAM balance was greater without an SRM adjustment, due to the relative magnitude of adjustments in the districts.[74] ORA's review demonstrated the complexities of and lack of clear ratepayer benefits from CWS's SRM. Given the varied results and limited data, ORA recommended not making changes to the SRM. Rather, ORA recommended that CWS provide a more detailed analysis in the next GRC. As part of the settlement adopted in A.15-07-015, CWS withdrew its request to modify the SRM and agreed to keep the pilot program in place without additional modifications.[75]

Consequently, unlike in GSWC's request, CWS was authorized a pilot program and must provide more data in order to modify or justify permanent institution of its SRM program. Similar to the timing and circumstances in CWS's rate case, less than a year has passed between GSWC's implementation of SAM-adjusted rates and the request to implement the permanent SRM. Therefore, ORA again supports the pilot SAM program be continued without modifications, and that GSWC be required to include data on the pilot SAM program in its next GRC in order for the Commission to evaluate its results, effectiveness, and impact on ratepayers' bills and the WRAM balances.

4. GSWC's Assertion of Lower WRAM Balance

a. Lack of Support for SRM Request

In support of its request, GSWC states that the SRM mitigates the size of the balances accrued in the WRAM.[76] As discussed above regarding the CWS SRM, the impact of SAM on the WRAM is inconclusive. GSWC did not provide any quantitative analysis in its application to support the

[73] A.15-07-015, Exhibit CWS-2: California Water Service Company Direct Testimony Book, page 154.

[74] A.15-07-015, Exhibit ORA-3: ORA's Report on Sales and Rate Design, page 43.

[75] D.16-12-042, Attachment A: Corrected Partial Settlement Agreement, page 28.

[76] GSWC Prepared Testimony of Jenny Darney-Lane, page 15.

assertion of reduced WRAM balance. With the data available at the time of GSWC's application filing in this GRC, GSWC, ORA, and the Commission lack sufficient empirical information to assess the value of SAM. Absent a thorough examination of the results of the sales adjustment mechanism, it is premature to modify, eliminate or make permanent GSWC's SAM. Comprehensive analysis of WRAM changes due to modifications to the SAM is necessary to ensure the program meets the objective of reducing WRAM balances. Notably, GSWC does not mention the impact of SAM on the Medical Cost Balancing Account (MCBA). The effect of SAM on GSWC's MCBA balances should also be evaluated to verify that the adjustments made to sales are reflected in and consistent with actual supply costs.

b. Addressing Problems with WRAM

Implementing an SRM does not resolve the issue of inaccurate sales forecasts, and the resulting WRAM balances, in all scenarios. Sales volumes have changed and will likely continue to change from year to year. GSWC's current SAM program and proposed process for SRM adjustments are premised on the assumption that sales in the future will trend in the direction of the prior year's sales. However, lower sales than forecasted in one year do not always mean that sales will continue to be lower than forecast in succeeding years. The drought and changing economic conditions demonstrate the unpredictability of sales year to year.

5. Evaluation of SAM

The Commission should allow GSWC to continue the SAM pilot program to gather necessary data to complete a full analysis and assessment of the pilot's effectiveness. To facilitate this assessment, the Commission should direct GSWC to provide information on the program in its next GRC application including but not limited to WRAM/MCBA balances with and without impact of SAM, and customer bill comparisons.

GSWC's analysis of the above information should include ratemaking areas where SAM is and is not triggered. Comparing its impacts in all applicable ratemaking areas will afford a better overall understanding of the effectiveness of the SAM pilot program.

D. Conclusion

The Commission should not adopt a permanent SRM for GSWC. Instead, the Commission should allow GSWC to continue the pilot SAM program adopted in D.16-12-067, as modified by D.17-03-001. GSWC should be required to monitor and report on the effectiveness of the pilot in reducing WRAM/MCBA balances in its next GRC application. To facilitate the Commission's review of the SAM, GSWC should be required to provide information on the program in its next GRC application, including but not limited to WRAM/MCBA balances with and without the impact of SAM, and customer bill comparisons.

[END OF CHAPTER]

Chapter 6. Special Request #8 – Removal of the 10 Percent Cap for WRAM/MCBA Surcharges

A. Introduction

This chapter presents ORA's analysis and recommendations regarding GSWC's Special Request #8 – a request for removal of the 10 percent cap for total net Water Rate Adjustment Mechanism and Modified Cost Balancing Account (WRAM/MCBA) surcharges.

B. Summary of Recommendations

The Commission should reject GSWC's Special Request #8 because GSWC has an SAM to address WRAM balances, the 10 percent cap provides ratepayer protection against rate shock, and the need for additional changes to the WRAM/MCBA mechanism is reduced in light of the end of the drought.

C. Discussion

1. 10 Percent Cap Established in D.12-04-048

D.12-04-048, issued April 30, 2012, addressed the amortization of WRAM/MCBA related accounts. To address concerns with the amount of WRAM/MCBA under-collections being passed on to customers, the decision ordered a cap be placed on total WRAM/MCBA surcharges of 10 percent of the last authorized revenue requirement.[77]

2. Addressing Impact of Drought on WRAM

GSWC filed Application (A.) 14-07-006 in its previous rate case on July 15, 2014. Subsequently, on April 1, 2015, Governor Edmund G. Brown Jr. issued Executive Order B-29-15 (Executive Order) directing the State Water Resources Control Board (SWRCB) to impose restrictions on urban water suppliers to achieve a 25 percent reduction in urban water usage (relative to 2013 levels) through February 2016. On May 5, 2015, the State Water Resources Control Board adopted final emergency regulations for statewide conservation through

[77] D.12-04-048, Ordering Paragraph No. 3, page 41.

Resolution No. 2015-0032. On May 7, 2015, the Commission adopted Resolution W-5041 (Resolution) ordering water utility compliance with the SWRCB's Resolution.

On May 8, 2015, Administrative Law Judge Doug Long issued a ruling via email recognizing the Resolution and Executive Order and instructing parties to "recast all testimony about to be presented in order to reflect a 25 percent reduction in water usage consistent with the requirements of both the Resolution and the Executive Order." The ruling also stated:

> If Golden State or any other party believes that this ruling would in any way require further examination of the Water Revenue Adjustment Mechanism (WRAM) currently in effect for Golden State, they should provide supplemental testimony that specifically identifies their concerns.

In response, on May 19, 2015, GSWC filed supplemental testimony regarding concerns related to the recovery period of the WRAM and MCBA.[78] The supplemental testimony requested a temporary suspension of the 10 percent cap on total net WRAM and MCBA surcharges set in D.12-04-048.[79] GSWC stated that lower water sales to meet the conservation targets could result in amortization periods reaching 36 months, which combined with prior year balances, would exceed the 10 percent cap and extend amortization periods.[80]

D.16-12-067, as modified by D.17-03-001, adopted GSWC's request to lift the 10 percent cap on WRAM and MCBA charges for the 2016-2018 rate cycle.

The issue of the 10 percent cap was recently addressed in D.16-12-026 in Phase II of Rulemaking (R.) 11-11-008. The Decision "maintains the current WRAM and MCBA ratemaking mechanism, and the current 10 percent cap on the recovery of revenues that applies to the WRAM mechanism though utilities may propose alternative in their GRC proposals and negotiate those outcomes."[81]

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[78] A.14-07-006, Exhibit GS-132: John Garon Supplemental Testimony, page 2.

[79] A.14-07-006, Exhibit GS-132: John Garon Supplemental Testimony, page 4.

[80] A.14-07-006, Exhibit GS-132: John Garon Supplemental Testimony, page 3.

[81] D.16-12-026, page 9.

3. Sales Adjustment Mechanism

As discussed in Chapter 5, GSWC requests a Sales Reconciliation Mechanism to address the issue of inaccurate sales forecasting. ORA recommends the continuation of the pilot Sales Adjustment Mechanism (SAM) program adopted in D.16-12-067, as modified by D.17-03-001 (*see* Chapter 5 of this report). The SAM allows GSWC to adjust sales when WRAM-related sales volumes in any ratemaking area for the twelve months ending the September before the escalation year vary by greater than 10 percent from the adopted WRAM-related sales volumes for the current calendar year. This mechanism aims to reduce the difference between actual and forecasted sales, to lower the balances in the WRAM and MCBA accounts. Lower WRAM balances will reduce the likelihood of the WRAM balance reaching 10 percent of GSWC's authorized revenue requirement, and consequently the need to lift the 10 percent cap. ORA recommends utilizing the SAM while maintaining the ratepayer protection of the 10 percent cap as a more appropriate method of addressing large WRAM balances.

4. Addressing Inter-Generational Transfer of WRAM Balances

GSWC asserts that lifting the 10 percent cap avoids issues of "inter-generational transfer."[82] GSWC's testimony cites to language in Phase II of R.11-11-008 stating, "carrying a large balance into the future for later collection has the effect of separating the consumers who incurred the costs from the consumers who must pay the costs."[83] GSWC argues "the drought has created a large WRAM and MCBA balance that extends the recovery period of the 2015 WRAM and MCBA surcharge up to 33 months."[84] GSWC does not present data to show what percentage of its ratepayers have been customers for less than 33 months or what number would be impacted by lifting the 10 percent cap. There is nothing in R.11-11-008 to suggest recovering expenses over 33 months, or less than three years, shifts costs to another "generation" of customers. More importantly, the ruling in R.11-11-008 that GSWC cites goes on to state that

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[82] GSWC Prepared Testimony of Nanci Tran, page 78.

[83] GSWC Prepared Testimony of Nanci Tran, page 78 quoting from the April 30, 2015 Assigned Commissioner's Third Amended Scoping Memo and Ruling Establishing Phase II of R.11-11-008, page 12.

[84] GSWC Prepared Testimony of Nanci Tran, page 77.

efforts to reduce high WRAM balances can result in rate shock.[85] While it may be GSWC's preference to collect surcharges from customers as quickly as possible, the Commission's implementation of the 10 percent cap balances the goals of contemporaneous collection of costs with gradualism in rate increases for customers.

5. Drought Emergency Lifted

GSWC's justification for its request in the previous rate case was related to the impact of the drought on amortization of WRAM and MCBA surcharges. The decision authorizing the temporary lifting of the cap cited the effect of the drought and mandatory water reduction on surcharges in its reasoning.[86] Governor Brown lifted the drought emergency declaration in April 2017. As a result, the drought mandate is no longer putting downward pressure on water sales, which could result in the large under-collections GSWC asserts. The conditions supporting the temporary removal of the cap have now ended and consequently the cap should remain in place.

D. Conclusion

GSWC has not justified its request to remove the 10 percent cap on WRAM/MCBA surcharges. The cap protects customers against substantial surcharges associated with high under-collections. GSWC has an SAM to address WRAM balances and the need for additional changes to the WRAM/MCBA mechanism is reduced in light of the end of the drought. The Commission should reject GSWC's request to lift the 10 percent cap on WRAM/MCBA surcharges.

[END OF CHAPTER]

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[85] R.11-11-008 Assigned Commissioner's Third Amended Scoping Memo and Ruling Establishing Phase II filed April 30, 2015, page 12.

[86] D.16-12-067, pages 16-17.

Chapter 7. Special Request #1 – Balancing and Memorandum Accounts, and Special Request #9 – General Ratemaking Area Balancing Account

A. Introduction

This chapter presents ORA's analysis and recommendations for Special Request #1 – a request for amortization and continuation of balancing and memorandum accounts (BAMAs).

At the time of its GRC filing in July 2017, GSWC maintained 57 balancing and memorandum accounts.[87] GSWC submits Special Request #9 to establish a new balancing account – General Ratemaking Area Balancing Account (GRABA) – to aggregate small residual amounts and small dollar amounts resulting from miscellaneous refunds for subsequent amortization at the ratemaking area level.[88]

On October 27, 2017, GSWC provided 100-day update amendments on ten of the 57 accounts. In response to ORA Data Request PPM-015 (BAMA update and calculations), GSWC provided a document titled "2017 GRC Ronald Testimony-redlined for PPM-015 Q.1 Response" which shows how the update affects the information contained in GSWC Prepared Testimony of Ronald Moore.[89] Many of the amendments are for accounts whose amortization is complete or nearly complete by August 2017. Consequently, GSWC proposes to roll the small balances from those accounts to the proposed GRABA.

B. Summary of Recommendations

(1) ORA recommends no change to GSWC's balances and to GSWC's proposed actions, as amended in GSWC's October 27, 2017 update and response to ORA's Data Request PPM-015, with one exception.

For reasons detailed in ORA's Report on Results of Operations (Chapter 5), GSWC should maintain the Los Osos Groundwater Adjudication Memorandum Account through this GRC cycle, and not switch to expense recovery through forecasting beginning in the Test Year 2019 as

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[87] GSWC Prepared Testimony of Ronald Moore, page 3.

[88] GSWC Prepared Testimony of Ronald Moore, page 2.

[89] GSWC Response to ORA Data Request PPM-015 #1, provided on December 8, 2017.

proposed by GSWC. The following table summarizes GSWC's stated balances and proposed actions for the 57 accounts GSWC submitted in Special Request #1 for review.

(2) ORA does not oppose GSWC's proposed establishment of the GRABA.[90]

(3) However, the Commission should:

(a) Require GSWC to continue to provide in future GRC applications a specified set of basic information pertaining to each of its BAMAs with its application. This will promote transparency and facilitate the Commission's review of the balances of these numerous BAMAs.

(b) Require GSWC to provide more workpaper details in future GRC applications demonstrating that BAMA expenses are not also included in the operating expenses forecast. This will facilitate the Commission's review and ensure that the same costs are not embedded in both BAMA and expense forecast calculations.

Table 7-1: GSWC Balancing and Memorandum Accounts

Prelim. State-ment	Account (* indicates GSWC-amended balance and/or proposed action)	Under (Over) Collection as of May 31, 2017	GSWC's proposed action
WW	Cost of Service Memorandum Account (COSMA), formerly named the 2010 Tax Act Memorandum Account or 2010TAMA	$3,308 *	Roll balance into General Ratemaking Area Balancing Account (GRABA). *
JJJ	American Recovery and Reinvestment Act Balancing Account (ARRABA)	$266,927	Surcharge in effect. No action requested.
Z	Bay Point Mandatory Conservation Rationing Implementation Memorandum Account (BPMCRIMA)	$11,345	Surcharge in effect. Close account when fully amortized.
GGG	Tangible Property Regulations Collateral Consequences Memorandum Account (TPRCCMA)	$0	Keep open.
CCC	Income Tax Repair Regulations Implementation Memorandum Account (ITRRI-MA)	$(224) *	Roll balance into GRABA. *
H	Outside Services Memorandum Account (OSMA)	$185,811	Amortize and close.
L	Orange County Annexation Memorandum Account (OCAMA)	$317,726	Surcharge in effect. Close account when fully amortized.
O	Santa Maria Stipulation Memorandum Account (SMSMA)	$283,567	Amortize balance.

[90] GSWC Prepared Testimony of Ronald Moore, page 34.

Prelim. State-ment	Account (* indicates GSWC-amended balance and/or proposed action)	Under (Over) Collection as of May 31, 2017	GSWC's proposed action
V	Los Osos Interlocutory Stipulated Judgment Memorandum Account (LOISJMA)	$243,755	Amortize and close.
UU	Santa Maria Steelhead Recovery Plan Memorandum Account (SMSRPMA)	$45,603	Surcharge in effect. No action requested.
TT	Los Osos Groundwater Adjudication Memorandum Account (LOAMA)	$672,490	Amortize balance. Close when fully amortized, and switch to expense recovery through forecasting beginning in the Test Year 2019. *See* Report on Results of Operations, Chapter 5 for ORA's recommendation on this account.
SS	General Office Maintenance Memorandum Account (GOMMA)	$(213) *	Roll balance into GRABA. *
QQ	Barstow Water Alert Memorandum Account (BWAMA)	$63,716	Surcharge in effect. Close account when fully amortized.
PP	Well Study Balancing Account (WSBA)	$356,633	Surcharge in effect. Close account when fully amortized.
OO	Pension and Benefits Balancing Account (PBBA)	$347,015 *	No action is being requested. Balance will be determined after end of year 2018. *
MM	Omega Chemical Corporation Superfund Site Memorandum Account (OCCSSMA)	$71,654	Surcharge in effect. No action requested.
LL	Oracle Technical Support Costs Memorandum Account (OTSCMA)	$28,513	Roll balance into GRABA.
T	Water Conservation Memorandum Account (WCMA)	$588,893	Surcharge in effect. Close account when fully amortized.
S	Bay Point Water Quality Memorandum Account (BPWQMA)	$9,012	Surcharge in effect. Close account when fully amortized.
Q	California Alternative Rates for Water Balancing Accounts (CARW)	$7,954,749	Recalibrate surcharge and keep open.
N	Santa Maria Water Rights Balancing Account (SMWRBA)	$92,924 *	Implement a surcharge to zero out the residual balance. *
M	Santa Maria Water Rights Memorandum Account (SMWRMA)	$1,771,698	Keep open, recalculate surcharge annually.
VV	Randall-Bold Balancing Account (RBBA)	$1,722,338 *	Implement a surcharge to zero out the residual balance. *
FFF	Conservation Expenses One-Way Balancing Account (CEOWBA)	$0	Close.
PPP	Conservation Expenses One-Way Balancing Account-2016 (CEOWBA-2016)	$576,717 in 2016	No action requested. Balance will be determined after end of year 2018.
		$454,542 in 2017 as of 5/31/2017	

Prelim. State-ment	Account (* indicates GSWC-amended balance and/or proposed action)	Under (Over) Collection as of May 31, 2017	GSWC's proposed action
XXX	City of Torrance Balancing Account (COTBA)	$ (8,934) *	Roll balance into GRABA .*
RRR	Aerojet Water Litigation Memorandum Account (AEROJET)	$11,599,302	Surcharge in effect. No action requested.
BBBB	Catastrophic Event Memorandum Account-Barstow Water Alert (CEMA-BWA)	$8,096	Surcharge in effect. Close account when fully amortized.
K	Calipatria Prison Memorandum Account (CPMA)	$(2,289)	Roll balance into GRABA.
JJ	Region 3 Interim Rate Memorandum Account (R3IRMA)	$2,323,741	Surcharge in effect. Close account when fully amortized.
JJ	Region 2 Interim Rate Memorandum Account (R2IRMA)	$1,462,212	Surcharge in effect. Close account when fully amortized.
VVV	Region 3 Rate Base Surcharge (RATEBASE)	$93,877	Surcharge in effect. Close when fully amortized.
UUU	Folsom Refund Residual (FOLSOM)	$(1,254) *	Roll balance into GRABA. *
ZZZ	Rule 14.1 Premium Charges (RULE 14.1)	$(108,458)	Surcredit in effect. Close account when fully amortized.
TTT	Clearlake Supply Expense Balancing Account (CSEBA)	$46,341 *	Surcharge effective 8/16/2017-8/15/2018; address residual balance after amortization expires. *
YYY	Region 1 Interim Rate Shortfall Memorandum Account (R1IRMA)	$23,929	Surcharge in effect. Close account when fully amortized.
AAA	Settlement Agreement Balancing Account (SABA)	$(51,541)	Surcredit in effect. Close account when fully amortized.
YY	Cost of Capital Interim Rate True-up Memorandum Account (COCIRTMA)	$(27,585)	Surcredit in effect. Close account when fully amortized.
EE	Temporary Interest Rate Balancing Account (TIRBA)	$(3,825)	Surcredit in effect. Close account when fully amortized.
III	2014 Water Conservation Memorandum Account (2014WCMA)	$1,412,290	Amortize and close.
HHH	Catastrophic Event Memorandum Account (CEMA)	$0	Keep open.
KKK	2016 Interim Rates Memorandum Account (2016IRMA)	$11,105,936	No action requested. Keep open and review for reasonableness in advice letter.
MMM	Los Osos Basin Management Committee Memorandum Account (LOBMCMA)	$50,831	Amortize and keep open.
NNN	Basin Pumping Rights Litigation Memorandum Account (OCBPRLMA)	$247,470	Amortize and keep open.
OOO	School Lead Testing Memorandum Account (SLTMA)	$16,184	Amortize and keep open.
ZZ	Low-Income Customer Data Sharing Memorandum Account (LICDSMA)	$0	Keep open.

Prelim. State-ment	Account (* indicates GSWC-amended balance and/or proposed action)	Under (Over) Collection as of May 31, 2017	GSWC's proposed action
EEE	Credit Card Payment Program Memorandum Account (CCPPMA)	$0	Keep open.
QQQ	First 5 Sacramento Memorandum Account (F5SACMA)	$0	Keep open.
--[91]	Arden Supply Expense Balancing Account (ASEBA)	$(4,217)	No action requested. Include balance in next WRAM/MCBA filing.
--[92]	La Serena Refund (LA SERENA)	$12,315	Roll balance into GRABA
DDD	2013 Interim Rates Memorandum Account (2013IRMA)	$317,577	Amortize and close.
SSS	Los Osos 2013 GRC Phase-In Balancing Account (LO2013GRCBA)	$47,935	Amortize and close.
G	Contaminant Remediation Memorandum Account (CRMA)	$0	Keep open.
HH	General Rate Case Memorandum Account (GRCMA)	$702	Roll balance into GRABA.
AAAA	Bay Point Hill Street Water Treatment Plant (HSWTP)	$338,340 *	Implement a surcharge to zero out the residual balance. *
--[93]	The Utility Reform Network (TURN)	$865	Roll balance into GRABA.
GG	Water Cost of Capital Adjustment Mechanism (WCOCAM)	$0	No action requested. Being reviewed in Cost of Capital proceeding.
	TOTAL	**$44,968,340**	

C. Discussion

ORA does not recommend any changes to GSWC's BAMA balances. ORA also does not recommend any changes to GSWC's proposed action except on the LOAMA as noted in the

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[91] GSWC Response to ORA Data Request LWA-001 #5.a.i. explained: "Arden Supply Expense Balancing Account – All existing Supply Expense Balancing Accounts were rolled into the WRAM/MCBA when it was established. The balance in the Arden Cordova ratemaking area was inadvertently omitted from prior WRAM/MCBA filings, however, GSWC will include its balance in the next WRAM/MCBA amortization advice letter that will be filed in March 2018."

[92] GSWC Response to ORA Data Request LWA-001 #5.a.ii. explained: "La Serena Refund-The item was not established as a memorandum or balancing account, it was merely an authorized one-time customer refund. GSWC is requesting in this Application that the residual be rolled into the proposed General Ratemaking Area Balancing Account (GRABA)."

[93] GSWC Response to ORA Data Request LWA-001 #5.a.ii. explained: "The Utility Reform Network-Intervenor Compensation Residual (TURN). This item was not established as a memorandum or balancing account, it is an intervenor compensation award. GSWC is requesting in this Application that the residual be rolled into the proposed General Ratemaking Area Balancing Account (GRABA)."

table above. This section presents ORA's recommendations for additional reporting on BAMAs in future GRCs.

1. GSWC's Application Should Provide a Specified Set of Basic Information Pertaining to Each of its BAMAs

In the settlement adopted as part of the previous GRC decision, GSWC agreed to provide in its GRC application filing a specified set of basic information pertaining to each of its balancing and memorandum accounts:[94]

a) An itemized list of all balancing and memorandum accounts, whether or not GSWC is seeking disposition of the account.
b) The net cumulative balance of each account.
c) Dollar amount of costs incurred since the last Commission review and the associated dates, broken down by month.
d) A workpaper showing all entries to the account.
e) A separate workpaper showing interest calculations.
f) The status of any amortization that has occurred since the last account review including the date when amortization began and when amortization will expire.
g) A workpaper showing monthly amortizations.
h) The document that authorized the account including page reference to the actual language.
i) Where in the Company's Preliminary Statement the account can be located.
j) If there have been any other Commission filings that may affect the account.
k) List any associated expense account.
l) Indicate if the account is treated as a regulatory asset and if it is recorded on the GSWC's balance sheet.
m) Indicate any balance associated with a balancing or memo account that is in a reserve account.

[94] D.16-12-067, Attachment A: Corrected Partial Settlement Agreement, pages 195-196.

The information GSWC provided in this GRC facilitated ORA's review and reduced the time required for discovery by ORA, as well as for responses by GSWC. This reporting also promotes transparency in the application.

ORA's experience reviewing the above-specified basic information in this GRC necessitates an amendment to item c) above. In future GRC applications, GSWC should include all recorded costs tracked in the BAMAs for the same period as the recorded data used to forecast operating expenses. For reasons explained in the next section, GSWC's presentation of period matching data is necessary to allow a more streamlined review and facilitate detection of duplicative accounting of costs in the BAMAs and operating expense forecasts. Therefore, GSWC should provide the same information listed above, with a modification to item c) to include the dollar amount of costs incurred and the associated dates in each BAMA for the same five-year period used for expense forecasting purposes. At the time of the next GRC application in 2020, the last five years of recorded data should include the years 2015-2019.

The Commission should require that GSWC continue to provide the basic BAMA information agreed to in the previous settlement, with ORA's proposed modification, as part of future GRC filings.

2. GSWC's Application Should Provide Detail on BAMA Expenses Recorded in Operating Expense Accounts

GSWC's workpapers for GO and district operating expenses include a section for adjustments to the recorded amounts used for forecasting purposes. This section should include and clearly identify adjustments to remove BAMA-related expenses that will be recovered through a surcharge. Costs requested for recovery through surcharges in a balancing or memorandum account should not be included in the recorded amounts used for forecasting. Doing so could lead to double-recovery of expenses.

In this GRC, there were several instances where costs already tracked for recovery in balancing or memorandum accounts were also embedded in recorded data used for expense forecasting purposes and not properly identified. For example, in an email to ORA, GSWC stated that it had "identified two memo accounts whereby costs were incurred in 2016 but were not adjusted for in

[the] 5 year average expense forecast in the 2019-2021 GRC Application."[95] The following table summarizes the adjustments to the operating expense forecasts identified in GSWC's initial email.

Table 7-2: Adjustments to Region 3 and Los Osos Expense Forecast for BAMA Costs

Memo Account	Ratemaking Area	Account	2016 Expense Amount	5-Year Average Impact
Basin Pumping Rights Litigation Memorandum Account (OCBPRLMA)	Region 3	798 – Outside Services	$174,863	$(34,973)
Los Osos Basin Management Committee Memorandum Account (LOBMCMA)	Los Osos	798 – Outside Services	$35,284	$(7,057)

GSWC further stated that these expenses should be removed from the historical costs for purposes of forecasting 2019-2021 expenses. After identifying additional expenses that were included in both the BAMA request and the recorded costs used to forecast operating expenses, ORA asked GSWC for specific account details to confirm that no further BAMA expenses were doubly-accounted.[96] GSWC's response "identified additional adjustments that should be reflected in GSWC's SOE workpapers."[97] Even after that response, ORA continued to find expenses that should have been removed for forecasting calculation purposes.[98]

To avoid similar duplicative accounting and to increase transparency, GSWC's application workpapers for expense forecasting should provide a more systematic and accurate way to identify and reconcile expenses already tracked in balancing or memorandum accounts. ORA proposes a template in Appendix 7-1 of this report showing information that should be included as part of GSWC's next GRC application.

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[95] Email dated July 24, 2017 from Jon Pierotti of GSWC to Pat Ma of ORA.

[96] ORA Data Request JE6-005 #1.

[97] GSWC Response to ORA Data Request JE6-005 #1. For example, GSWC identified $152,344 in recorded 2012-2013 costs related to the SMSMA for removal from the Santa Maria CSA operating expense forecast.

[98] For example, *see* discussion on the $279,120 in expense amounts related to the Income Tax Repair Regulations Implementation Memorandum Account (ITRRI-MA) in ORA Report on General Office Expenses.

D. Conclusion

The Commission should adopt ORA's recommended enhanced reporting requirements as described above. These procedures will improve the transparency, clarity and consistency of reported balances and facilitate the Commission's review of balancing and memorandum accounts. They will also help detect and eliminate duplicative accounting of recorded data used in expense forecasting.

[END OF CHAPTER]

Statement of Qualifications – Julia Ende

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

A1. My name is Julia Ende 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 in Policy & Management from Carnegie Mellon University. In October 2013 I joined the Water Branch of the Commission's Office of Ratepayer Advocates as a Public Utilities Regulatory Analyst. My work has focused on General Rate Case proceedings and I have testified in multiple proceedings before the Commission. Prior to joining ORA, I worked at a law firm, taking part in negotiations between public agencies/non-profits and labor unions. My work also involved analyzing budget and class and comparability data and drafting proposals and full-text Memoranda of Understanding.

Q3. What is your responsibility in this proceeding, GSWC GRC A.17-07-010?

A3. I am responsible for ORA Report on Labor and Benefits.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

[END OF SOQ]

Appendix 7-1: Workpaper Presentation of Expense/BAMA Adjustments

EXAMPLE	
BAMA	**LOISJMA**
Expense Account	798 - Outside Services
Expense Sub-account	7131 - Consulting Services
	7132 - Legal Fees
	7134 - Other Outside Services
Recorded amounts in:	
Workpaper file	LO-SOE
Workpaper tab	Table 4-I(798)
Workpaper cell(s)	B12:G12
Adjustment(s) made in:	
Workpaper file	LO-SOE
Workpaper tab	Table 4-I(798)
Workpaper cell(s)	G12; B20:G21
Explanation if no adjustment to workpapers	N/A

[END OF APPENDIX]

[END OF REPORT]