REPORT ON THE
RESULTS OF OPERATIONS

PARK
WATER COMPANY
Test Year 2016 and
Escalation Years 2017 and 2018
Application 15-01-001

For authority to increase water rates in the Central Basin Service Areas

Los Angeles, California
May 6, 2015
TABLE OF CONTENTS

MEMORANDUM ...............................................................................................................1
EXECUTIVE SUMMARY.................................................................................................2
CHAPTER 1: SUMMARY OF EARNINGS ................................................................... 1-1
A. INTRODUCTION ............................................................................................... 1-1
B. SUMMARY OF RECOMMENDATIONS ......................................................... 1-1
C. DISCUSSION ...................................................................................................... 1-1
D. CONCLUSION .................................................................................................... 1-1
CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES ....................... 2-1
A. INTRODUCTION ............................................................................................... 2-1
B. SUMMARY OF RECOMMENDATIONS ......................................................... 2-1
C. DISCUSSION ...................................................................................................... 2-2
   1. Average number of customers ................................................................... 2-2
   2. Average Consumption Forecasts............................................................... 2-2
      a. Residential Bi-Monthly ........................................................................ 2-3
         (i) Park Forecast ................................................................................... 2-3
         (ii) ORA Review ................................................................................... 2-3
      b. Business Monthly & Bi-Monthly ......................................................... 2-5
      c. Reclaimed Water ................................................................................. 2-6
   3. Total Water Supply/Unaccounted for Water ................................................. 2-6
   4. Revenues at Present Rates ............................................................................. 2-7
D. CONCLUSION .................................................................................................... 2-7
CHAPTER 3: OPERATIONS AND MAINTENANCE; ADMINISTRATIVE
   AND GENERAL EXPENSES ............................................................................. 3-1
A. INTRODUCTION ............................................................................................... 3-1
B. SUMMARY OF RECOMMENDATIONS ......................................................... 3-1
   1. O&M ........................................................................................................... 3-1
   2. A&G ............................................................................................................ 3-2
   3. Inflation factors .......................................................................................... 3-3
C. DISCUSSION ...................................................................................................... 3-4
   1. Payroll ......................................................................................................... 3-4
      a) Vacancy rate adjustment ........................................................................ 3-5
b) COLA/merit .......................................................................................... 3-6

c) Excellence Awards/Bonus A&G .......................................................... 3-8

d) Reclassified/ new positions ................................................................. 3-9

2. Operations and Maintenance ............................................................. 3-9
   a) Purchased water ................................................................................ 3-10
   b) Leased water rights ........................................................................ 3-10
   c) Customers Other ........................................................................... 3-12
      i. Conservation ................................................................................. 3-12
      ii. Advertising .................................................................................. 3-14
      iii. Sales promotion supplies .......................................................... 3-15
   d) Uncollectibles ............................................................................... 3-16

3. Administrative and General ............................................................... 3-17
   a) Employee benefits amounts ......................................................... 3-18
      i. Medical and dental .................................................................... 3-18
      ii. Group Pension .......................................................................... 3-19
      iii. Medical elections- comment ................................................... 3-19
      iv. Post-Retirement Benefits Other Than Pensions (PBOPs) .......... 3-20
   b) Insurance ..................................................................................... 3-20
   c) Regulatory expenses ..................................................................... 3-21
      i. Forecasted 2018 GRC Expenses ............................................... 3-23
      ii. Catch-Up 2015 Regulatory Expense ......................................... 3-23
   d) General office allocation ................................................................. 3-26

D. CONCLUSION ..................................................................................... 3-26

CHAPTER 4: RECLASSIFIED AND NEW POSITIONS ................................. 4-1
A. INTRODUCTION .................................................................................. 4-1
B. SUMMARY OF RECOMMENDATIONS .............................................. 4-1
C. DISCUSSION ...................................................................................... 4-2

   1. Customer Support Supervisor ....................................................... 4-2
   2. Manager of Financial Services ...................................................... 4-2
   3. Communication Center Foreperson .............................................. 4-2
   4. Utility Service Supervisor ............................................................... 4-3
   5. Production Technician .................................................................. 4-3
   6. Water Quality/Operation Engineer ............................................... 4-4
a) The new position does not provide verifiable cost savings ............ 4-4
b) Lack of New Workload ......................................................................... 4-5
c) Park’s Claim of Succession Planning is Premature and Unnecessary .......................................................... 4-6
D. CONCLUSION .......................................................................................... 4-7
CHAPTER 5: UTILITY PLANT IN SERVICE ....................................................... 5-1
A. INTRODUCTION .......................................................................................... 5-1
B. SUMMARY OF RECOMMENDATIONS ..................................................... 5-3
C. DISCUSSION .................................................................................................. 5-3
1. T&D Reservoir: Compton East Reservoir and Booster Pump Station .... 5-4
2. T&D Water Mains (New and Replacements) ........................................... 5-9
3. Water Rights ................................................................................................ 5-13
4. Groundwater Well Compton West (Well 12C) ........................................ 5-15
5. Bellflower/Norwalk Replacement Groundwater ..................................... 5-18
6. Building Remodel ..................................................................................... 5-19
7. Furniture and Office Equipment .............................................................. 5-23
8. Vehicles and Equipment ........................................................................... 5-23
9. Water System Valves ................................................................................ 5-25
10. Water System Fire Hydrants .................................................................. 5-26
11. Automated Meter Reading (“AMR”) Project ............................................ 5-27
12. Pumping Equipment ................................................................................ 5-28
13. Miscellaneous Site Improvements .......................................................... 5-29
14. Water Treatment ..................................................................................... 5-30
15. Land Purchase ........................................................................................ 5-31
16. Cost of Removal ..................................................................................... 5-32
17. Public Participation Hearing .................................................................... 5-33
D. CONCLUSION .......................................................................................... 5-35
CHAPTER 6: DEPRECIATION RESERVE AND DEPRECIATION EXPENSES ...... 6-1
A. INTRODUCTION .......................................................................................... 6-1
B. SUMMARY OF RECOMMENDATIONS ..................................................... 6-1
C. DISCUSSION .................................................................................................. 6-1
D. CONCLUSION .......................................................................................... 6-2
CHAPTER 7: RATEBASE
A. INTRODUCTION ................................................................. 7-1
B. SUMMARY OF RECOMMENDATIONS ............................................. 7-1
C. DISCUSSION ........................................................................... 7-1
   1. Working Cash........................................................................... 7-1
D. CONCLUSION............................................................................ 7-4

CHAPTER 8: TAXES OTHER THAN INCOME .......................................... 8-1
A. INTRODUCTION ................................................................. 8-1
B. SUMMARY OF RECOMMENDATIONS ............................................. 8-1
C. DISCUSSION ........................................................................... 8-1
   1. Ad Valorem Taxes..................................................................... 8-1
   2. PAYROLL TAXES .................................................................... 8-1
D. CONCLUSION............................................................................ 8-3

CHAPTER 9: INCOME TAXES ................................................................... 9-1
A. INTRODUCTION ................................................................. 9-1
B. SUMMARY OF RECOMMENDATIONS ............................................. 9-1
C. DISCUSSION ........................................................................... 9-1
   1. Tax Depreciation .................................................................... 9-2
   2. Income Tax Rates ................................................................... 9-3
   3. Ratemaking Interest ................................................................ 9-3
   4. Domestic Production Activities Deduction (“DPAD”).................... 9-3
   5. 168 (k) Bonus Depreciation Extension ..................................... 9-4
   6. IRC Sec. 481 (a) Adjustment for T.D. 9636............................. 9-4
D. CONCLUSION............................................................................ 9-5

CHAPTER 10: CUSTOMER SERVICES AND WATER QUALITY ................... 10-1
A. INTRODUCTION ................................................................. 10-1
B. SUMMARY OF RECOMMENDATIONS ............................................. 10-1
C. DISCUSSION ........................................................................... 10-1
   1. Customer Services................................................................. 10-1
      a) Data received by the Commission’s Consumer Affairs Branch
         (“CAB”) from Park’s Customers ............................................. 10-1
      b) Informal Complaints ........................................................... 10-3
      c) General Order 103-A Reporting Requirements ...................... 10-3
d) Customer Calls to Park Water ............................................................ 10-5
  e) Customer Education ............................................................................ 10-6
  
2. Water Quality .............................................................................................. 10-7
D. CONCLUSION .................................................................................................. 10-9

CHAPTER 11: REVIEW OF EXISTING MEMORANDUM AND BALANCING
ACCOUNTS ...................................................................................................... 11-1
A. INTRODUCTION ............................................................................................. 11-1
B. SUMMARY OF RECOMMENDATIONS ....................................................... 11-1
C. DISCUSSION .................................................................................................... 11-2
  1. Background on Memorandum Accounts ........................................... 11-2
  2. Memorandum and Balancing Accounts in Park’s Application ............ 11-3
     a) Tangible Property Regulations Consequences Memorandum
        Account .................................................................................................. 11-3
     b) Income Tax Repair Regulations Implementation Memorandum
        Account .................................................................................................. 11-4
     c) Low-Income Customer Data Sharing Cost Memorandum
        Account .................................................................................................. 11-5
     d) 2014 Water Conservation Memorandum Account ............................ 11-6
     e) Credit Card Memorandum Account ................................................. 11-7
     f) Conservation Expense One-Way Balancing Account ....................... 11-8
     g) California Alternative Rates for Water (CARW) Revenue
        Reallocation Balancing Account ........................................................ 11-8
  3. Memorandum Accounts Not in Park’s Application .............................. 11-9
     a) Military Family Relief Program ("MFRP") Memorandum
        Account .................................................................................................. 11-9
     b) California Urban Conservation Council Best Management
        Practice Memorandum Account ........................................................ 11-10
     c) Conservation Proceeding Memorandum Account ......................... 11-11
     d) 2010 Tax Act Memorandum Account .............................................. 11-11
     e) Interim Rates ("IRMA") Memorandum Account ............................... 11-12
     f) Conservation implementation Costs memorandum Account .......... 11-12
     g) Cost of Capital Memorandum Account ............................................ 11-13
D. CONCLUSION ................................................................................................ 11-14

CHAPTER 12: SPECIAL REQUESTS ................................................................. 12-1
A. INTRODUCTION ............................................................................................. 12-1
B. SUMMARY OF RECOMMENDATION .......................................................... 12-1
C. DISCUSSION .............................................................................................................. 12-2

1. Level Payment Plan ........................................................................................................ 12-2
2. Low Income Assistance Program (CARW) ................................................................. 12-7
3. Perchlorate Memorandum Account request ............................................................... 12-10
4. Include of Subsequent Offsets prior the Final Decision .............................................. 12-12
5. Sales Reconciliation Mechanism for Escalation Years ............................................... 12-13
6. Modification to WRAM/MCBA .............................................................................. 12-15
   a) Including Reclaimed Water in WRAM/MCBA ....................................................... 12-15
   b) Leased Water Rights in MCBA ............................................................................ 12-16
   c) Chemicals in MCBA ............................................................................................ 12-17
7. Employee and Retiree Healthcare Balancing Account ............................................... 12-18
8. Group Pension Balancing Account request ................................................................ 12-19
9. Phase-In of Test year Increase .................................................................................... 12-20
D. CONCLUSION ........................................................................................................... 12-22

CHAPTER 13: MISCELLANEOUS REVENUE ......................................................... 13-1
A. INTRODUCTION ........................................................................................................ 13-1
B. SUMMARY OF RECOMMENDATIONS ...................................................................... 13-1
C. DISCUSSION .............................................................................................................. 13-1

1. Late Payment Fees ....................................................................................................... 13-2
2. Changes to Excess Capacity Forecast ......................................................................... 13-2
   a) Inclusion of Incremental Costs .............................................................................. 13-2
   b) Addition of New NTP&S Contracts ...................................................................... 13-3
   c) Forecasting Methodology ...................................................................................... 13-4
3. Reconnection Fees ...................................................................................................... 13-5
D. CONCLUSION ........................................................................................................... 13-5

CHAPTER 14: RATE DESIGN ..................................................................................... 14-1
A. INTRODUCTION ........................................................................................................ 14-1
B. SUMMARY OF RECOMMENDATIONS ...................................................................... 14-1
C. DISCUSSION .............................................................................................................. 14-2

1. Residential Customers .................................................................................................. 14-2
2. Non-Residential Rate Design ...................................................................................... 14-4
3. Other Rate Tariffs ........................................................................................................ 14-5
D. CONCLUSION ............................................................................................................... 14-5

CHAPTER 15: ESCALATION YEARS INCREASE ................................................................ 15-1

A. FIRST ESCALATION YEAR ......................................................................................... 15-1
B. SECOND ESCALATION YEAR ....................................................................................... 15-1
C. ESCALATION YEARS’ REVENUE REQUIREMENTS ........................................ 15-2

APPENDIX A – QUALIFICATIONS OF WITNESSES
MEMORANDUM

The Office of Ratepayer Advocates ("ORA") of the California Public Utilities Commission ("Commission") prepared this report presenting its analysis and recommendations in Park Water Company’s ("Park") general rate case ("GRC") A.15-01-001. In this GRC, Park requests authorization to increase rates charged for water service by $2,918,800 or 8.72% in Test Year 2016, by $2,422,093 or 6.63% in Escalation Year 2017, and by $1,598,099 or 4.08% in Escalation Year 2018. Park requests using a rate of return on equity of 9.79% and a rate of return on rate base of 9.07%. The Commission adopted these rates in D.13-05-027 in its most recent Cost of Capital application (A.12-05-001).

Victor Chan serves as ORA’s project coordinator in this proceeding and is responsible for the overall coordination in the preparation of this report. ORA’s witnesses prepared testimony on Park’s GRC requests. Appendix A of this report contains the qualifications of ORA’s witnesses.

ORA’s Legal Counsel for this case is Selina Shek.
EXECUTIVE SUMMARY

In Application A.15-01-001 filed on January 2, 2015, Park requests authority to increase rates charged for water service by $2,918,800 or 8.72% in Test Year 2016, by $2,422,093 or 6.63% in Escalation Year 2017, and by $1,598,099 or 4.08% for Escalation Year 2018. ORA in this report presents its analysis and recommendations that result in an estimated increase of $621,470 or 1.87% in the Test Year 2016, an estimated increase of $760,000 or 2.24% in Escalation Year 2017, and an estimated increase of $590,000 or 1.70% for Escalation Year 2018.

Key Recommendations

1. Chapter 1- ORA recommends revenue requirement increase of $621,470 or 1.87% for Test year 2016.
2. Chapter 2- ORA agrees with Park on its customer growth forecast, but disagrees on the average consumption for residential, commercial and reclaimed water. ORA and Park’s 2016 forecasts are provided in Tables 2-1 to 2-4.
3. Chapter 3- ORA recommends $22,430,175 as O&M, A&G expenses for 2016, a reduction of $1,055,243 from Park’s request of $23,485,418.
4. Chapter 4- ORA agrees with Park’s reorganization except its request for a higher salary for the Production Technician 1 position and the new position for the Water Quality/Operation Engineer. ORA recommends a salary of $53,402 for the Production Technician 1 position and disallowance of the Water Quality/Operation Engineer position.
6. Chapter 6- Both Park and ORA use the same methodology to calculate the average depreciation reserve and depreciation expenses for Test Years 2016 and 2017. The differences between ORA’s recommendations and Park’s proposed amounts are due to ORA’s different recommendations for Park’s plant addition.
7. Chapter 7- Differences in ratebase are mainly due to differences in Park’s requested capital plant addition and ORA’s recommendations as discussed in the preceding chapter. ORA further recommends adjustment to working cash. ORA recommends a weighted average ratebase of $65,681,644 in Test year 2016 and $71,143,177 in Test year 2017.

8. Chapter 8- Differences between Park and ORA’s estimates for Taxes Other Than Income are primarily due to differences in net plant in service, estimated payroll expenses and use of the current applicable cap for the Social Security Tax. A comparison of ORA and Park’s Taxes Other Than Income are shown in Table 8-1.

9. Chapter 9- ORA agrees with Park’s methodology for calculating FIT and agrees with the tax rates Park uses. ORA recommends that Park be required to track the revenue requirement impact of the repair deduction under IRC Sec. 481(a) accounting change adjustment in its Tangible Property Regulations Consequences Memorandum Account.

10. Chapter 10- Based on its review, ORA finds Park’s customer service to be acceptable. ORA also finds Park’s water quality is in compliance with the requirements established by DDW, applicable federal drinking water requirements, and General Order 103-A.

11. Chapter 11- ORA recommends the following memorandum accounts that are being requested in this filing to be closed:

- Income Tax Repair Regulations Implementation Memorandum Account
- Low-Income Customer Data Sharing Cost Memorandum Account
- Credit Card Memorandum Account
- Military Family Relief Program (“MFRP”) Memorandum Account

ORA recommends the following memorandum accounts to remain open:
12. Chapter 12- The following are ORA’s recommendations for Park’s special requests in this GRC:

- Level payment plan- disallow due to lack of justification and support
- Low Income Assistance Program- CARW benefit to remain at $6.65 as compared to Park’s request of $8.02
- Perchlorate Memorandum Account – disallows due to the request as premature and uncertain
- Subsequent Offsets prior to Final Decision- agrees with this request in order to streamline the regulatory process, improve customer service and save both Park and Commission staff’s time and resources
- Sales Reconciliation Mechanism for Escalation Years- disallows because such request deviates from the general rate case process and ORA has concern over verification and accountability of the rate increases
- Modification to WRAM/MCBA- recommends that reclaimed water remain outside of WRAM and therefore costs associated with reclaimed water be excluded from the MCBA. ORA also recommends leased water rights be excluded from the MVBA, but allow chemical costs be included
- Employee and Retiree Healthcare Balancing Account- disallow due to lack of support and justification
- Group Pension Balancing Account- Disallow due to lack of support and justification
- Phase-In of Test Year Increases – Disallowed because Park’s increase does not meet the Commission guideline and it is not in the interest of the ratepayers.
13. Chapter 13- ORA recommends $497,631 as the Miscellaneous Revenue for Test Year 2016, whereas Park requests $106,957.

14. Chapter 14- ORA agrees with Park that the current conservation design should remain in place for its residential customers while the single quantity rate design should be continued for its non-residential customers.

15. Chapter 15- ORA recommends $34,677,600 for Year 2017 and $35,267,600 for Year 2018 as the revenue requirement for the escalation years. To obtain escalation year increases, Park is required to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting its requested increases.
# Organization of Report

<table>
<thead>
<tr>
<th>Chapter Number</th>
<th>Description</th>
<th>Witness</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>Executive Summary</td>
<td>Victor Chan</td>
</tr>
<tr>
<td>1</td>
<td>Summary of Earnings</td>
<td>Victor Chan</td>
</tr>
<tr>
<td>2</td>
<td>Water Consumption and Operating Revenues</td>
<td>Jeff Roberts</td>
</tr>
<tr>
<td>3</td>
<td>Operations &amp; Maintenance, Administrative &amp; General Expenses</td>
<td>Laura Krannawitter</td>
</tr>
<tr>
<td>4</td>
<td>New Positions</td>
<td>Victor Chan</td>
</tr>
<tr>
<td>5</td>
<td>Utility Plant In Service</td>
<td>Mehboob Aslam</td>
</tr>
<tr>
<td>6</td>
<td>Depreciation Reserve and Depreciation Expense</td>
<td>Mehboob Aslam</td>
</tr>
<tr>
<td>7</td>
<td>Rate Base</td>
<td>Mehboob Aslam</td>
</tr>
<tr>
<td>8</td>
<td>Taxes Other Than Income</td>
<td>Victor Chan</td>
</tr>
<tr>
<td>9</td>
<td>Income Taxes</td>
<td>Victor Chan</td>
</tr>
<tr>
<td>10</td>
<td>Water Quality and Customer Service</td>
<td>Hani Moussa</td>
</tr>
<tr>
<td>11</td>
<td>Memorandum and Balancing Accounts</td>
<td>Ray Charvez, Jose Cabrera</td>
</tr>
<tr>
<td>12</td>
<td>Special Requests</td>
<td>Hani Moussa, Victor Chan, Jeff Roberts</td>
</tr>
<tr>
<td>13</td>
<td>Miscellaneous Revenue</td>
<td>Jeff Roberts</td>
</tr>
<tr>
<td>14</td>
<td>Rate Design</td>
<td>Jeff Roberts</td>
</tr>
<tr>
<td>15</td>
<td>Step Rate Increase</td>
<td>Victor Chan</td>
</tr>
<tr>
<td>Appendix A</td>
<td>Qualifications</td>
<td>All</td>
</tr>
</tbody>
</table>
CHAPTER 1: SUMMARY OF EARNINGS

A. INTRODUCTION

This Chapter provides ORA’s recommendations for A.15-01-001, Park’s general rate increase request for Test Year 2016 and Escalation Years 2017 and 2018.

B. SUMMARY OF RECOMMENDATIONS

The Summary of Earnings shown in Tables 1-1 and 1-2 at the end of this Chapter compares ORA’s estimated summary of earnings against Park’s estimated summary of earnings for Test Year 2016, including revenues, expenses, taxes and rate base.

C. DISCUSSION

The total revenues requested by Park are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Increase</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test Year 2016</td>
<td>$2,918,800</td>
<td>8.72%</td>
</tr>
<tr>
<td>Escalation Year 2017</td>
<td>$2,422,093</td>
<td>6.63%</td>
</tr>
<tr>
<td>Escalation Year 2018</td>
<td>$1,598,099</td>
<td>4.08%</td>
</tr>
</tbody>
</table>

Park estimates that its proposed rates will produce revenues providing the following returns for Test Year 2016:

<table>
<thead>
<tr>
<th>Test Year</th>
<th>Return on Rate base</th>
<th>Return on Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>9.07%</td>
<td>9.79%</td>
</tr>
</tbody>
</table>

D. CONCLUSION

ORA recommends a revenue increase for Test Year 2016 as follows (Escalation Years 2017 and 2018 are covered in Chapter 15):

<table>
<thead>
<tr>
<th>Test Year</th>
<th>Amount of Increase</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$621,470</td>
<td>1.87%</td>
</tr>
</tbody>
</table>
D.13-09-005 authorized the last general rate increase for park, resulting in a rate of return on rate base (“ROR”) of 9.07% in Test Year 2013. In this Report, ORA uses 9.07% as ROR for Years 2016 to 2017. The Commission determined this ROR for Park in D.13-05-027, which that resulted from the Commission’s recent consolidated cost of capital proceeding.

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>Park</th>
<th>Park Exceeded ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>Present</td>
<td>Present</td>
<td>Amount</td>
</tr>
<tr>
<td>(A)</td>
<td>(B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Dollars in Thousands)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Metered Water Svs. Revenue</td>
<td>32,798.5</td>
<td>33,096.7</td>
<td>(1,880.1)</td>
</tr>
<tr>
<td>Total Other Water revenue</td>
<td>497.6</td>
<td>390.7</td>
<td>(106.9)</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>33,296.1</td>
<td>33,487.4</td>
<td>191.3</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation &amp; Maintenance</td>
<td>14,228.1</td>
<td>15,030.0</td>
<td>801.9</td>
</tr>
<tr>
<td>Administrative and General</td>
<td>7,940.0</td>
<td>8,212.5</td>
<td>272.5</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>2,184.8</td>
<td>2,261.6</td>
<td>76.8</td>
</tr>
<tr>
<td>Taxes Other</td>
<td>61.8</td>
<td>61.8</td>
<td></td>
</tr>
<tr>
<td>Taxes Other Than Income</td>
<td>1,115.1</td>
<td>1,181.6</td>
<td>66.5</td>
</tr>
<tr>
<td>CCFT</td>
<td>401.6</td>
<td>310.6</td>
<td>(91.0)</td>
</tr>
<tr>
<td>FIT</td>
<td>1,675.7</td>
<td>1,354.4</td>
<td>(321.3)</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>27,607.1</td>
<td>28,412.5</td>
<td>805.4</td>
</tr>
<tr>
<td>Net Income</td>
<td>5,689.0</td>
<td>5,074.9</td>
<td>(614.1)</td>
</tr>
<tr>
<td>Rate base</td>
<td>65,681.6</td>
<td>73,989.1</td>
<td>8,307.5</td>
</tr>
<tr>
<td>Rate of Return</td>
<td>8.66%</td>
<td>6.86%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Item Proposed</td>
<td>Proposed</td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>---------------</td>
<td>----------</td>
<td>--------</td>
<td>----</td>
</tr>
<tr>
<td>Park Exceeded ORA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORA Park</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Metered Water Svs. Revenue</td>
<td>33,420.0</td>
<td>36,015.5</td>
<td>(1,880.1)</td>
</tr>
<tr>
<td>Total Other Water revenue</td>
<td>497.6</td>
<td>390.7</td>
<td>(106.9)</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>33,917.6</td>
<td>36,406.2</td>
<td>2,488.6</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation &amp; Maintenance</td>
<td>14,232.7</td>
<td>15,046.6</td>
<td>813.9</td>
</tr>
<tr>
<td>Administrative and General</td>
<td>7,943.1</td>
<td>8,223.6</td>
<td>280.5</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>2,184.8</td>
<td>2,261.6</td>
<td>76.8</td>
</tr>
<tr>
<td>Taxes Other</td>
<td>61.8</td>
<td>61.8</td>
<td></td>
</tr>
<tr>
<td>Taxes Other Than Income</td>
<td>1,115.1</td>
<td>1,181.6</td>
<td>66.5</td>
</tr>
<tr>
<td>CCFT</td>
<td>473.4</td>
<td>566.2</td>
<td>92.8</td>
</tr>
<tr>
<td>FIT</td>
<td>1,950.5</td>
<td>2,354.0</td>
<td>403.5</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>27,961.4</td>
<td>29,695.4</td>
<td>1,734.0</td>
</tr>
<tr>
<td>Net Income</td>
<td>5,956.2</td>
<td>6,710.8</td>
<td>754.6</td>
</tr>
<tr>
<td>Rate base</td>
<td>65,681.6</td>
<td>73,989.1</td>
<td>8,307.5</td>
</tr>
<tr>
<td>Rate of Return</td>
<td>9.07%</td>
<td>9.07%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This chapter presents ORA’s analysis and recommendations on the average number of customers, water sales per customer, and operating revenues of Park Water Company for Test Year 2016. ORA reviewed Park’s Revenue Requirement Report, supporting workpapers, and methods of estimating water consumption and operating revenues. ORA also went on a site tour, reviewed Park’s data request responses and reviewed average consumption projections using a variety of historical time periods. ORA’s recommendations and Park’s estimates for the average number of customers, water consumption, and operating revenues are presented in tables at the end of this chapter.

B. SUMMARY OF RECOMMENDATIONS

ORA does not disagree with Park’s methodology for calculating customer growth and finds the forecasted total customer amounts to be what can reasonably be expected in test year 2016.


ORA recommends 1.55% for unaccounted for water based on the most recent recorded figure in 2014.

Revenues at present rates were calculated by multiplying total customers by total consumption within the tariff rate. ORA does not disagree with this methodology, but updates the data inputs for total consumption.
Tables 2-1 to 2-4 at the end of this chapter provides ORA’s recommended forecast for TY 2016 on customer consumption, customer growth, total water supplies and total revenue as compared to Park’s requests.

C. DISCUSSION

1. Average number of customers

Park’s service areas consist of residential, commercial, and industrial properties, which are generally located in fully developed areas. The work papers showed very slow to no growth across all customer classes. The customer growth rate was calculated by finding the yearly average across the five years of previously recorded data. This method produced a forecast of 27,369 total customers which could be reasonably experienced in the test year. Taking into consideration Park’s low-growth service areas and modest growth forecasts, ORA does not contest the number of customers forecasted for test year 2016.

<table>
<thead>
<tr>
<th>Tariff No.</th>
<th>Residential</th>
<th>Business</th>
<th>Industrial</th>
<th>Public</th>
<th>Private Fire</th>
<th>Temp</th>
<th>Recycle</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park</td>
<td>25,239</td>
<td>1,64</td>
<td>4</td>
<td>9</td>
<td>3</td>
<td>2</td>
<td>199</td>
<td>82</td>
</tr>
<tr>
<td>ORA</td>
<td>25,239</td>
<td>1,64</td>
<td>4</td>
<td>9</td>
<td>3</td>
<td>2</td>
<td>199</td>
<td>82</td>
</tr>
</tbody>
</table>

2. Average Consumption Forecasts

In D.04-06-018, the Commission adopted a revised Rate Case Plan \(^1\) for Class A water utilities. In this decision, the Commission adopted the “New Committee Method” to forecast per customer usage for residential and small customer classes in general rate cases. The Commission states that customer consumption is to be calculated by using multiple regression analysis based on Commission Standard Practice (“SP”) U-2 and the

---

\(^1\) D.04-06-018, Appendix at 6 D.07-05-062.
supplement U-25\(^2\). Park has provided the results from the New Committee Method, but it is not recommending the use of that output for this rate case. Instead, Park proposes an alternative for customer usage forecasts. ORA’s more reliable forecasting methodology is discussed separately by individual customer class below.

a. **Residential Bi-Monthly**

   (i) **Park Forecast**

   Park asserts in its revenue requirement report that many different statistical models were used in developing the residential test year consumption forecasts. However Park claims that when compared with recorded data, these models will not accurately reflect consumption in the test year. Park relies upon a Commission water conservation directive to annually reduce consumption per service connection by 1-2\%.\(^3\) Starting with 2013 recorded numbers, the company chose the midpoint of this directive (1.5\%) as the yearly decrease in water consumption to arrive at the test year. This method yields an average yearly consumption for residential ratepayers of 127.76 ccf.\(^4\) Through an initial data request, ORA asked about the basis used to arrive at a 1.5\% yearly decrease. Park stated that this percentage was based on company judgement.\(^5\)

   (ii) **ORA Review**

   ORA generally agrees that the new committee method produces a forecast that is significantly lower than what would likely be experienced in the test year. In this proceeding, the focus is on finding an accurate forecasting methodology that bridges the gap between the arbitrary nature of a 1.5\% yearly reduction, and the unrealistic results of the new committee method. In the 90-day update, Park provided updated workpapers outlining the most recent 2014 recorded sales numbers. Based on the updated numbers,

---

\(^2\) SP U-25 limits the regression analysis to three variables: rainfall, temperature, and time.

\(^3\) Exhibit B-Park Water Company Revenue Requirements Report p.28.


\(^5\) Data Request Response JR6-001 Q3a.
ORA found an average yearly residential consumption of 126.57ccf;\(^6\) representing a surprising 5.3% one year reduction in consumption from 2013.

ORA believes that this more recent 2014 recorded number is a more accurate basis to forecast test year consumption. The use of this forecast results in a slightly lower overall consumption forecast for residential ratepayers for test year 2016 of 126.57ccf.

Through early 2015, California drought conditions reached a severity that obligated the Governor’s office to proclaim a state of emergency. As recently as April, 2015, drought conditions have worsened to a level that state executive action was implemented; in the form of an executive order mandating statewide water reduction of 25%.\(^2\) The Executive Order includes actions that will save water, increase enforcement to prevent wasteful water use, streamline the state’s drought response and invest in new technologies that will make California more drought resilient.\(^8\) The Commission will be taking action in accordance with the Governor’s Executive Order as stated in Resolution W-5034, “Once the State Water Resources Control Board adopts new Regulations consistent with the Governor’s Executive Order issued April 1, 1015, the Division of Water and Audits will follow suit with appropriate regulations for the water utilities subject to the jurisdiction of the California Public Utilities Commission (sic).”\(^9\)

Park Water Company has an approved Rule 14.1 tariff that outlines the company’s plan during emergency water conservation and rationing.\(^10\) In effect, this gives the company and ratepayers the vehicle to implement the impending water conservation measures.

At time of writing, the State Water Resources Control Board (“SWRCB”) is considering amending drought-related emergency regulations to ensure urban water

\(^6\) ‘CB_Rev-RateDesign_16-rr’ Cell “J7/E7”.
\(^2\) Executive Order B-29-15.
\(^9\) Resolution W-5034 Order 7.
suppliers in the state of California meet the mandated 25% reduction. The SWRCB calculates the conservation amount for each urban water supplier by the amount of water already conserved, then designates each supplier into a conservation tier. Per the calculation, Park’s per capita consumption is calculated at 55.6 Gallons per capita per day (“GPCD”); this designates the company in the 2nd Tier with an 8% conservation standard.\(^1\) In SWRCB’s proposed text amending the emergency drought regulation, urban water suppliers that averaged less than 65 GPCD—applicable to Park—shall reduce its total potable water by 8 percent as compared to its reference month in 2013.\(^2\) The two time periods used in SWRCB’s calculation were “June 2013 to February 2014” and “June 2014 to February 2015”;\(^3\) the amount already conserved was calculated by finding the percent difference between the two reference time periods. In SWRCB’s calculation, Park has already conserved 8% as compared to the prior time period. Subject to change as this proposed text becomes final, Park should remain at or below current consumption levels to avoid possible penalties.

How the Governor’s Executive Order impacts forecasting methodology in this proceeding is still unclear. To best serve ratepayers during these exceptional conditions, ORA is willing and open to work in settlement with Park as more information is disclosed during this general rate case proceeding.

**b. Business Monthly & Bi-Monthly**

Consistent with the residential sales forecasting methodology, Park used the 2013 recorded sales with a 1.5% yearly reduction to forecast the test year for both the business bi-monthly and monthly tariffs. Again, the data provided in the updated workpapers resulted in the same situation—both tariffs experienced a significant one year sales


\(^3\) See header
reduction from 2013—4.3% and 12.3% respectively. Citing the same concerns with the residential tariff, ORA relies on the 2014 recorded sales to forecast test year 2016 consumption.

<table>
<thead>
<tr>
<th></th>
<th>2016 Forecasted Business Consumption (in ccf)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bi-Monthly</td>
</tr>
<tr>
<td>Park</td>
<td>511.04</td>
</tr>
<tr>
<td>ORA</td>
<td>511.61</td>
</tr>
</tbody>
</table>

c. Reclaimed Water

For reclaimed water, Park used the same forecasting methodology as business and residential customers resulting in a 5,503.2 ccf test year estimate per customer. As demonstrated above, this water class followed a similar pattern; a one year 7.6% reduction from 2013. In the interest of consistency, ORA recommends using the 2014 recorded number that results in a test year forecast of 5316.68 ccf per customer.

3. Total Water Supply/Unaccounted for Water

Unaccounted for water is also known as the leak percentage recorded in a company’s overall water system. There are two components used in calculating this percentage: the total water production (both wells & purchased water) and total metered sales from all customer classes. Unaccounted for water is determined by calculating the percent difference between the two. Park calculated the test year forecast of unaccounted for water by using the average of 2012 & 2013 recorded data. This resulted in a 3.86% calculation for each year into 2016. In the updated workpapers it was uncovered that this calculation did not accurately reflect the 2014 recorded percentage of 1.55%. Because this is Park’s most recent data and the two year forecasting methodology did not reliably forecast even one year into the future, it is recommended that the 2014 recorded data be used in forecasting the test year. Therefore, ORA recommends using a rate of 1.55% for unaccounted for water in test year 2016.

---

14 UnaccountedWater 16-rr’ Cell H46.
4. Revenues at Present Rates

Park presents revenues at present rates in the revenue requirement portion of the application, which is derived from workpapers also filed therein. The company forecasted a $33,096,664 test year. The calculations in the workpapers were reviewed with special attention paid to the accurate flow of data through the workbooks. No issues were found with document linking between tabs or other workbooks. The methodology of calculating revenues was analyzed, and it was found that the multiplication of customers by the unit consumption modeled through the current tariff rate provided an accurate calculation. ORA does not contest this method for calculating the overall revenues. Revenues were adjusted however, due to different estimates on average unit consumption. This is reflected in the tables located at the end of the chapter. ORA calculated a test year of $32,798,530.

D. CONCLUSION

California’s ongoing drought has been exceptional in duration and remarkable for its perniciousness. 2014 was a challenging year for the water industry as a whole; the beginning of 2015 presages even more difficult times ahead. The forecasts for sales, customer growth, and revenue were developed with an appreciation of the realities of this state’s current water environment. As such, ORA recommends the Commission adopt the recommendations set forth in this chapter.
### TABLE 2-1

**PARK WATER COMPANY**

**OPERATING REVENUES**  
Test Year 2016  
(at Present Rates)

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA (A)</th>
<th>Utility</th>
<th>Park Exceeded ORA (C)</th>
<th>Percent (D)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water Service Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>22,442,210.0</td>
<td>22,595,192.0</td>
<td>152,982.0</td>
<td>0.68%</td>
</tr>
<tr>
<td>Business Bi-Monthly</td>
<td>5,537,807.0</td>
<td>5,532,925.0</td>
<td>(4,882.0)</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Business Monthly</td>
<td>1,721,787.0</td>
<td>1,852,372.0</td>
<td>130,585.0</td>
<td>7.58%</td>
</tr>
<tr>
<td>Industrial Bi-Monthly</td>
<td>93,783.0</td>
<td>93,783.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Industrial Monthly</td>
<td>121,339.0</td>
<td>121,339.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Public Authority</td>
<td>1,921,691.0</td>
<td>1,921,691.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Private Fire Service Bi-Mon</td>
<td>53,992.0</td>
<td>53,992.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Private Fire Service Monthl</td>
<td>120,425.0</td>
<td>120,425.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Fire Hydrant Bi-Monthly</td>
<td>7,661.0</td>
<td>7,661.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Temporary</td>
<td>139,363.0</td>
<td>139,363.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Reclaimed</td>
<td>638,472.0</td>
<td>657,921.0</td>
<td>19,449.0</td>
<td>3.05%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32,798,530.0</td>
<td>33,096,664.0</td>
<td>298,134.0</td>
<td>0.91%</td>
</tr>
</tbody>
</table>

**Other Water Revenue**

- **Miscellaneous Revenues**: 450,447.0  390,674.0  (59,773.0)  -13.27%

**Total Other Water Revenue**: 450,447.0  390,674.0  (59,773.0)  -13.27%

**Total Operating Rev.**: 33,248,977.0  33,487,338.0  238,361.0  0.72%

**Total Operating Rev. less PUC Reimbur**: 33,241,316.0  33479677.0
<table>
<thead>
<tr>
<th>Item</th>
<th>ORA (A)</th>
<th>Utility Estimated (B)</th>
<th>Park Exceeded ORA (C)</th>
<th>Percent (D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>25,239</td>
<td>25,239</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Business Bi-Monthly</td>
<td>1,645</td>
<td>1,645</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Business Monthly</td>
<td>49</td>
<td>49</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Industrial Bi-Monthly</td>
<td>3</td>
<td>3</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Industrial Monthly</td>
<td>2</td>
<td>2</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Public Authority (Combined)</td>
<td>199</td>
<td>199</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Private Fire Service Bi-Monthly</td>
<td>64</td>
<td>64</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Private Fire Service Monthly</td>
<td>130</td>
<td>130</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Resale</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Temporary Bi-Monthly</td>
<td>0</td>
<td>0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Temporary Monthly</td>
<td>13</td>
<td>13</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Irrigation-Reclaimed</td>
<td>25</td>
<td>25</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Average Number of Customers</strong></td>
<td><strong>27,369</strong></td>
<td><strong>27,369</strong></td>
<td><strong>0.0</strong></td>
<td><strong>0.00%</strong></td>
</tr>
</tbody>
</table>
### TABLE 2-3

**PARK WATER COMPANY**

Average consumption (Ccf) per customer  
Test Year 2016

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA Analysis</th>
<th>Utility Estimated</th>
<th>Park Exceeded ORA Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(A)</td>
<td>(B)</td>
<td>C</td>
<td>(D)</td>
</tr>
<tr>
<td><strong>Average Consumption by Customer Class</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential Bi-Monthly</td>
<td>126.6</td>
<td>127.8</td>
<td>1.2</td>
<td>0.95%</td>
</tr>
<tr>
<td>Business Bi-Monthly</td>
<td>511.6</td>
<td>511.0</td>
<td>(0.6)</td>
<td>-0.12%</td>
</tr>
<tr>
<td>Business Monthly</td>
<td>5,767.7</td>
<td>6,284.1</td>
<td>516.4</td>
<td>8.95%</td>
</tr>
<tr>
<td>Industrial Bi-Monthly</td>
<td>5,353.0</td>
<td>5,353.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Industrial Monthly</td>
<td>10,817.2</td>
<td>10,817.2</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Public Authority</td>
<td>1,445.9</td>
<td>1,445.9</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Private Fire Service Bi-Monthly</td>
<td>2.8</td>
<td>2.8</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Private Fire Service Monthly</td>
<td>11.6</td>
<td>11.6</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Resale</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Temporary Bi-Monthly</td>
<td>242.1</td>
<td>242.1</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Temporary Monthly</td>
<td>1,372.2</td>
<td>1,372.2</td>
<td>0.0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Irrigation</td>
<td>5,316.7</td>
<td>5,503.2</td>
<td>186.5</td>
<td>3.51%</td>
</tr>
</tbody>
</table>
### TABLE 2-4

PARK WATER COMPANY

<table>
<thead>
<tr>
<th>Consumption by Customer Class</th>
<th>ORA</th>
<th>Utility</th>
<th>Park Exceeded ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(A)</td>
<td>(B)</td>
<td>(C)</td>
</tr>
<tr>
<td>Residential Bi-Monthly</td>
<td>3,194,441.0</td>
<td>3,224,514.0</td>
<td>30,073.0</td>
</tr>
<tr>
<td>Business Bi-Monthly</td>
<td>841,601.0</td>
<td>840,655.0</td>
<td>(946.0)</td>
</tr>
<tr>
<td>Business Monthly</td>
<td>282,615.0</td>
<td>307,922.0</td>
<td>25,307.0</td>
</tr>
<tr>
<td>Industrial Bi-Monthly</td>
<td>16,059.0</td>
<td>16,059.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Industrial Monthly</td>
<td>21,634.0</td>
<td>21,634.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Public Authority</td>
<td>287,729.0</td>
<td>287,729.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Fire Service Bi-Monthly</td>
<td>180.0</td>
<td>180.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Fire Service Monthly</td>
<td>1,509.0</td>
<td>1,509.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Resale</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Temporary Bi-Monthly</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Temporary Monthly</td>
<td>17,839.0</td>
<td>17,839.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Irrigation</td>
<td>132,917.0</td>
<td>137,580.0</td>
<td>4,663.0</td>
</tr>
<tr>
<td><strong>Total Consumption</strong></td>
<td>4,796,524.0</td>
<td>4,855,621.0</td>
<td>59,097.0</td>
</tr>
</tbody>
</table>

Unacounted For Water  74,346.1  187,427.0  63,760.0  85.76%
Park- 3.86%  ORA- 1.55%

Total Supply Forecast  4,870,870.1  5,043,048.0  127,520.0  2.62%
CHAPTER 3: OPERATIONS AND MAINTENANCE;
ADMINISTRATIVE AND GENERAL EXPENSES

A. INTRODUCTION

This chapter presents ORA’s analysis and recommendations on Operations and Maintenance (“O&M”) and Administrative and General (“A&G”) Expenses. ORA’s review is based on Park’s application, supporting work papers, numerous work sessions with the Park modeler, field visits, and Park’s responses to ORA formal data requests, informal conversations and emails.

B. SUMMARY OF RECOMMENDATIONS

Overall, ORA recommends $1,060,163 lower expenses than Park’s request of $23,485,418 for Test year 2016.

Table 3-1

<table>
<thead>
<tr>
<th>Expenses 2016</th>
<th>ORA</th>
<th>PARK</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>O&amp;M</td>
<td>14,229,213</td>
<td>15,013,950</td>
<td>784,737</td>
</tr>
<tr>
<td>A&amp;G*</td>
<td>8,196,042</td>
<td>8,471,468</td>
<td>275,426</td>
</tr>
<tr>
<td>TOTAL</td>
<td>22,425,255</td>
<td>23,485,418</td>
<td>1,060,163</td>
</tr>
</tbody>
</table>

*Note: The A&G number includes a $3.365 million of general office allocation

1. O&M

ORA recommends the following O&M adjustments to the 2016 expenses, which reduce the test year O&M expense by $784,737:

1) adjusting the COLA and Merit assumptions for O&M payroll;
2) imputing a vacancy adjustment based upon 4.6% historic vacancy rates;
3) reducing the salary, overtime and June increases for the production;
4) technician 1 position as discussed in Chapter 4; the total adjustment for items 1 to 3 = $301,536;

15 Park supplied 233 pages of workpapers for chapter 4 expenses and over 16 spreadsheets with multiple tabs of information.
5) estimating lower purchased water costs of $97,892 based upon 59,097 ccf fewer sales as discussed in Chapter 2;
6) reducing the forecasted unit costs of the “unidentified” leased water rights which resulted in a $58,760 adjustment;
7) reducing the proposed conservation expenses by $293,963;
8) reducing the amount of money spent on advertising by $3,396;
9) reducing the amount of money spent on the supplies for sales promotion by $6,397;
10) applying the uncollectible rate to metered sales revenue which resulted in a $20,563 adjustment; and
11) carrying adjustments through maintenance and clearings other accounts.

2. A&G

ORA recommends the following A&G adjustments to the 2016 expenses, which reduce the test year A&G expense by $275,426:

1) adjusting the COLA and Merit assumptions for A&G payroll;
2) imputing a vacancy adjustment based upon historic vacancy rates;
3) eliminating “excellence awards”/bonuses;
4) eliminating the water quality operations engineer position as discussed in Chapter 4. The total adjustments for Items 1 to 4 result in $162,800 adjustment;
5) reducing the proposed employee benefits amounts by $233,031 including the use of a 4.6% vacancy rate;
6) reducing the forecasted regulatory expenses by $29,292;
7) identifying a placeholder for updating the general office allocation when the Apple Valley/general office decision is adopted by the Commission;
8) correcting errors for insurance projections discovered during discovery resulted in a $83,319 adjustment (inclusive of 4.6% vacancy adjustment);
9) differences in franchise fees that results in $11,818 adjustment; and
10) minor adjustments of $543 to A&G Other.

Note: A&G transfer credit amount difference of ($245,375) is provided by ORA’s capital witness.
3. **Inflation factors**

Traditionally, utilities and ORA apply various escalation factors established by ORA Energy Cost of Service Branch ("ECSB") and Water Branch publications to develop the level of expenses requested in Park’s application.

While ECSB memos were utilized to calculate five year escalated average numbers; a few important deviations must be noted: 1) not every expense item utilized the five year escalated average methodology; and 2) when projecting 2015, 2016 and other years going forward, Park did NOT utilize the ECSB memo information to obtain labor and composite escalation factors.

In this sense, Park chose not to use the traditional method.

Therefore, ORA had to review instances where the 5 year methodology was not utilized and decide how to proceed with regard to the erroneous escalation factors utilized by Park.

At this time, ORA is not representing the differences solely attributable to the escalation factors. Instead ORA will make these escalation factor corrections in the comparison exhibit. ORA wants to focus on other important differences so that the Commission can address those shortfalls first before addressing the deviation from Commission practice with regard to escalation factors.

Therefore, to avoid comparing differences in ORA’s and Park’s estimates that result solely from the application of erroneous and appropriate escalation factors, ORA temporarily applied the same non-traditional factors Park used in deriving Test Year and Escalation Year expense estimates.

To establish the final test year expenses, the Commission should utilize the most current ECSB and Water Branch Memorandum’s data available. Both Park and ORA should use them when the Joint Comparison Exhibit is prepared.

---

16 Park’s labor and non-labor escalation assumptions are 3% for 2015, 2016, 2017, etc. By comparison the March 24, 2015 ECSB memo shows the following labor escalations: 1.6% for 2015, 0.1% for 2016 and 2.3% for 2017; non-labor escalations: 0.4% for 2015, 2% for 2016, and 2.2% for 2017.
In the Rate Case Plan Decision 04-06-018, page 13, the Commission lays out which escalation rate factors are applicable to each expense type.

Although Park suggests that the uniform 3% inflation factor is “generally based upon a five year average,” there is an authorized methodology sanctioned by the Commission. This unauthorized and unfounded escalation hypothesis should be rejected.

ORA’s “preliminary”\textsuperscript{17} calculation of its own expense adjustments found that Park’s estimated expenses were reduced by over $170,000 when the latest ECOS/Water Branch memo factors are considered. Therefore, its significance must be noted.

C. DISCUSSION

For discussion purposes, ORA will discuss the expense items as follows:

**Payroll, O&M and A&G**

<table>
<thead>
<tr>
<th>Expenses 2016</th>
<th>ORA</th>
<th>PARK</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>payroll</td>
<td>4,273,148</td>
<td>4,737,484</td>
<td>464,336</td>
</tr>
<tr>
<td>non-payroll O&amp;M</td>
<td>11,928,988</td>
<td>12,412,189</td>
<td>483,201</td>
</tr>
<tr>
<td>non payroll A&amp;G</td>
<td>6,223,119</td>
<td>6,335,745</td>
<td>112,626</td>
</tr>
<tr>
<td>subtotal of non payroll</td>
<td>18,152,107</td>
<td>18,747,934</td>
<td>595,827</td>
</tr>
<tr>
<td>subtotal of non payroll</td>
<td>22,425,255</td>
<td>23,485,418</td>
<td>1,060,163</td>
</tr>
</tbody>
</table>

1. **Payroll**

The company’s proposal is to employ 49 people by 2016. In the last rate case, the CPUC authorized 52 positions by adopting a settlement in D.13-09-005. In 2014, Park employed 46 people.

\textsuperscript{17} Very rough estimate.
Below represents the differences in payroll between ORA and Park

<table>
<thead>
<tr>
<th></th>
<th>ORA</th>
<th>PARK</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYROLL-OPERATIONS</td>
<td>1,026,641</td>
<td>1,232,821</td>
<td>206,180</td>
</tr>
<tr>
<td>PAYROLL-CUSTOMERS</td>
<td>748,000</td>
<td>790,167</td>
<td>42,167</td>
</tr>
<tr>
<td>PAYROLL-MAINTENANCE</td>
<td>376,239</td>
<td>421,078</td>
<td>44,839</td>
</tr>
<tr>
<td>PAYROLL-CLEARINGS</td>
<td>149,345</td>
<td>157,695</td>
<td>8,350</td>
</tr>
<tr>
<td>A &amp; G PAYROLL</td>
<td>1,972,923</td>
<td>2,135,723</td>
<td>162,800</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>4,273,148</strong></td>
<td><strong>4,737,484</strong></td>
<td><strong>464,336</strong></td>
</tr>
</tbody>
</table>

a) **Vacancy rate adjustment**

One cannot ignore that over the past 5 years, Park has systematically had a number of vacancies it carries year to year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Vacancy Rate</th>
<th>Vacancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.0%</td>
<td>1.0</td>
</tr>
<tr>
<td>2011</td>
<td>4.0%</td>
<td>2.0</td>
</tr>
<tr>
<td>2012</td>
<td>2.0%</td>
<td>1.0</td>
</tr>
<tr>
<td>2013</td>
<td>3.85%</td>
<td>2.0</td>
</tr>
<tr>
<td>2014</td>
<td>12%</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>5 year avg</strong></td>
<td><strong>4.68%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Given the historic pattern, ORA imputed a 4.6% decrease for payroll and payroll related expenses\(^{18}\) to account for the historic vacancy rate. By contrast, Park’s payroll and expense projections represent the company at full employment. It is more reasonable to model a downward adjustment for vacancy rates when projecting future payroll expenses. ORA made a 4.6% downward adjustment to payroll related expenses. While this approach has deficiencies, and is overly simplistic, it is superior to Park’s projections which do not acknowledge historic vacancies.

In the next sections, ORA will discuss the Park assumptions used to develop payroll that ORA opposes. The first is the assumptions for cost of living.

---

\(^{18}\) Payroll operations, Payroll customers, Payroll maintenance, Payroll clearings, A&G payroll, employee benefits, and insurance.
(“COLA”)/“merit”, and the second is other salary enhancements applied by Park to develop its estimate.

b) COLA/merit

Two sentences on page 40\(^{19}\) of Park’s expense testimony state:

Payroll for 2015 is estimated based upon employees hourly rates in effect at the end of 2014, estimated 3% COLA increase estimated for 2015, estimate of merit salary adjustments to be granted during 2015 to individual employees, and overtime by individual employees. Payroll for Test year 2016 is estimated similarly beginning with the hourly rate expected at the end of year 2015 and assuming a COLA increase of 3%.

References are then given to 63 pages in the workpapers that will enlighten the reader. Buried in the middle of the 63 pages are the input tabs\(^{20}\) that show the 2% COLA and 1% merit factors applied in Park’s modelling conventions.

On other pages in Park’s workpapers\(^{21}\) there is a convention of showing a 2% COLA, 1% April change, and additional columns using the merit nomenclature to capture additional increases to some individual employees (i.e.“merit b4” and “Merit after”) in dollar amount increases.

Park created unnecessary confusion by using the words COLA and merit inconsistently between workpapers and testimony. Park did not highlight how the testimony and workpapers are linked and work together to capture these types in increases.

ORA requested\(^{22}\) historical information with regard to COLA and merit percentages. The information is presented below:

---

\(^{19}\) Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses.

\(^{20}\) Park’s Revenue Requirement workpapers section 1-4, chapter IV, operating expenses p4-137; 4-169.

\(^{21}\) Park’s Revenue Requirement workpapers section 1-4, chapter IV, operating expenses p4-116; 4-148.

\(^{22}\) Data request LLK002 Q 2 and 3.
In its responses, Park discusses how its proposal is less than the 2 year average. ORA recommends utilizing the 5 year average amounts. Therefore, ORA’s proposed COLA of 1.44% and Merit of 1.22% results in a 2.66% factor overall as compared to Park’s 3% factor. Given the March 24, 2015 ECSB memos, labor escalations are running 1.6% for 2015, 0.1% for 2016. Therefore, ORA’s assumptions could be further reduced if those factors are adopted.

With regard to the specific “merit salary adjustments” that Park speaks of in testimony, ORA deleted the 2016 increases of $1.59 and $1.72 for two employees on workpaper 4-148 (staff accountant 1 (employee 588) and production technician 1 (employee 529)). ORA did not make adjustments to 2015 salary merit entries in the model on workpaper page 4-116.

---

23 Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses page 40.
During informal conversations, ORA learned that a new staff accountant would be hired to replace an accountant who left. Because of this, ORA felt that a new hire would not be eligible for the salary merit increase that would have occurred for the accountant who left.

The removal of the salary merit for the production technician was designed to craft a salary that matched the proposal discussed in ORA’s Chapter 4 sponsored by ORA witness Victor Chan.

c) **Excellence Awards/Bonus A&G**

Buried within the payroll workpapers, one can find a line item for “excellence awards” of $21,768 with the identifier 999 in years 2015 and 2016. There is no explanation of this amount, how it is developed or how it flows through the spreadsheets.

Informal conversations with Park reveal that detail buried within A&G payroll workpapers show account 6340.920 labeled “Bonuses” relate to the historic amounts of money dedicated to bonuses. However, incorrect modeling placed the forecasted amounts of $21,768 in account 6340.925, designated bonus injuries and damages.

Nowhere in Park testimony is this program discussed, how it was calculated or what it means relative to historical amounts. It is Park’s burden of proof and responsibility to discuss its expenses and show how they are developed and prudent. ORA cannot comment on the reasonableness of the bonuses as Park has not discussed: 1) the criteria used for its bonus program; 2) what performance measures are considered; and 3) if the magnitude of the bonus is consistent with 5 year average.

Without substantiation, explanation or context, ORA recommends that this program cost not be recovered in rates. ORA will model this recommendation by

---

24 Park’s Revenue Requirement workpaper section 1-4, chapter IV, operating expenses page 4-115, 4-147
25 Park’s Revenue Requirement workpaper section 1-4, chapter IV, operating expenses 4-13
eliminating the hours proposed for this line item to ensure that ORA’s adjustment flows through all the calculations.

In the future, Park should discuss the methodology and performance measurements it uses to select who gets bonuses and quantify the amounts for its employees. It should also discuss whether or not there are differences between staff level bonuses and managerial bonus formulas/criteria.

d) **Reclassified/ new positions**

The discussion of new or reclassified positions is being provided in Chapter 4 by Victor Chan.

2. **Operations and Maintenance**

Excluding payroll, Park seeks to recover $12,412,189 in O&M expenses for test year 2016. ORA recommends $11,928,988 for non-payroll O&M.

Here is a chart that highlights the areas of disagreement and shows the breakdown of the $484,343 difference by subject area.

<table>
<thead>
<tr>
<th>Operating and Maintenance Expenses</th>
<th>ORA</th>
<th>PARK</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased Water-Potable</td>
<td>7,541,481</td>
<td>7,628,298</td>
<td>86,817</td>
</tr>
<tr>
<td>Purchased Water-Reclaimed</td>
<td>169,655</td>
<td>180,731</td>
<td>11,076</td>
</tr>
<tr>
<td>Leased Water Rights</td>
<td>495,370</td>
<td>554,130</td>
<td>58,760</td>
</tr>
<tr>
<td>Customer-Others</td>
<td>597,342</td>
<td>902,671</td>
<td>305,329</td>
</tr>
<tr>
<td>Uncollectibles (% x revenue)</td>
<td>185,811</td>
<td>207,515</td>
<td>21,704</td>
</tr>
<tr>
<td>Maintenance-Other</td>
<td>628,840</td>
<td>628,639</td>
<td>(201)</td>
</tr>
<tr>
<td>Clearings-Other</td>
<td>304,230</td>
<td>305,087</td>
<td>857</td>
</tr>
</tbody>
</table>

|            | 9,922,728    | 10,407,071   | 484,343    |

For O&M, Park used a variety of estimating tools. Park represents that those expenses that are projected using the 5 year averages not discussed in testimony. Rather, only those expenses that deviate from 5 year averages are mentioned in testimony. As laid out in its testimony, Park utilizes the following approaches to develop its estimates:
• a four year escalated average for miscellaneous pumping,
• new required testing parameters for Test Year water quality lab expenses,
• a “2015 budget” approach for water treatment supplies and uniforms,
• a 2 year average escalated for dechlorination estimates because of a new process with more costly chemicals,
• a three year escalated amount for data sharing amounts in customer operations, and
• a water use efficiency report for conservation.

Therefore, a lot of judgement enters into Park’s estimation of many expenses.

ORA was generally in agreement with many of Park’s judgement calls for estimating its expenses. Those areas where Park and ORA differ that do not relate to payroll are: purchased water, leased water rights, Customers other, uncollectibles, and maintenance other.

a) Purchased water

Purchased water expenses are related to production estimates and rely on projections of sales and pumping as discussed in Chapter 2. Because ORA projects lower sales than Park, ORA’s recommends commensurately lower production expenses related to the lower demand. This amounts to a purchased water expense of $97,893 less than Park in 2016. ORA does not take issue with the estimates for chemicals, purchased power, and replenishment as the pumping estimates are satisfactory to ORA.

b) Leased water rights

ORA makes a downward adjustment of $58,760 in the area of leased water rights. ORA makes no adjustments to the leased volumes and prices of the leases with signed contracts. ORA, instead, focuses on the leased water rights details of those amounts not locked down in contracts. In the leased water rights expense
workpaper detail\textsuperscript{26}, there is a line item for unidentified leased water rights. These are the projections of needed leased water rights Park needs to satisfy production and sales requirements. The volumes of water rights that are assumed to be needed to close the production gap are reasonable. ORA, however, proposes a different unit cost for those unsigned water lease volumes.

While contract costs in 2015/16 show unit costs of $140/AF to $145/AF, Park projects $185/AF for the volumes of leased water rights not currently under contract. Similar anomalies between contracted unit costs and those projected for non-contracted amounts were equally apparent in subsequent years.

As shown in the summary below, the differences between ORA and Park are primarily because of the difference in cost per Acre Foot (“AF”) calculated for leased water rights.

<table>
<thead>
<tr>
<th>water year</th>
<th>vol in AF</th>
<th>ORA $/AF</th>
<th>Park $/AF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>1,204</td>
<td>150</td>
<td>185</td>
</tr>
<tr>
<td>2016/17</td>
<td>1,842</td>
<td>158</td>
<td>205</td>
</tr>
<tr>
<td>2017/18</td>
<td>4,004</td>
<td>165</td>
<td>165</td>
</tr>
</tbody>
</table>

While ORA recognizes that some premium might occur to obtain additional leased rights, ORA proposes a more modest premium than the one suggested by Park. While Park suggests that a good proxy is a deal signed by the city of Compton at $165/AF\textsuperscript{27}, it goes on to escalate the number 12% for 2015, 10% for 2016 and 10% for 2017\textsuperscript{28} for the water rights they hope to obtain.

Park has provided no basis for why an increase over the Compton amount is necessary, nor have they discussed why these high percentage increases are valid.

\textsuperscript{26} Parks Revenue Requirement Workpapers, section 1-4, chapter IV, operating expenses 4-30 to 4-31.
\textsuperscript{27} Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses page 48.
\textsuperscript{28} Park’s Revenue Requirement workpapers section 1-4, chapter IV, operating expenses.
ORA proposes a unit cost slightly greater than contracted amounts\(^{29}\) in 2015/16 and then increases the unit costs by 5% per year. ORA’s projection is more in line with other contracted amounts\(^{30}\) and recognizes that some premium might occur in the marketplace.

c) **Customers Other**

Overall there is a difference of $305,329 between Park and ORA for this category of expenses. The three areas of differences are discussed in the following sections.

i. **Conservation**

Park requests $585,091 for conservation efforts in the test year. ORA would limit this account to the escalated 5 year average of $291,128. Park seeks $293,963 greater than the 5 year escalated average for conservation efforts.

In its testimony on page 45\(^{31}\), Park states that its estimate is based upon a water use efficiency plan. It does not disclose what that amount is in testimony and it is buried within the category of “customer other” in summary tables. In appendix D of the water use efficiency plan, a projected utility cost of $585,091\(^{32}\) for 2016 is included, assuming the 15 measures proposed are adopted.

ORA met with the conservation witness to go over the water use efficiency plan and to obtain some of the supporting documents that went into the creation of the plan. Overall, it is an evaluation of 3 different program roll outs. Plan A, Parks preferred plan with the best cost/benefit ratio, encompasses 15 measures that address: public information, turf removal, weather based irrigation controllers, rebates, surveys, school incentives, education and training programs, award

---

\(^{29}\) It equals the contracted amount of two leases in the next year.

\(^{30}\) In 2016/2017 contract amounts range from $140/AF to $150/AF; in 2017/18 contract amounts range from $150/AF to $155/AF.

\(^{31}\) Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses.

\(^{32}\) App D also shows that the customer will bear $482,264 of the program costs.
programs, and direct installation of toilets. There are calculations of estimated
water savings and costs to denote present values of each program option.
While the document was a useful starting point, it lacked detail for an
annual work plan, it didn’t estimate values for partnership or grant amounts\(^{33}\) that
might be included, and each program had significant administration/mark up cost
assumptions that were unsubstantiated. Forecasted program costs were not shown
relative to historic costs.
Additionally, there is a $96,620 over-collected balance in the conservation
balancing account\(^{34}\), and Park has not spent the amounts agreed to in the last GRC
settlement\(^{35}\). Those amounts were in the $300,000 range. To suggest that Park
could ramp up to $585,091 without any help from Metropolitan Water District
(“MWD”) programs in 2016 seems unreasonable.
To date, Park is currently in compliance with the SBX7-7 requirements\(^{36}\).
The 2009 legislation set an overall goal of reducing per capita urban water use by
20% by December 31, 2020. It requires utilities to make incremental progress
towards this goal by reducing per capita water use by at least 10% by December
31, 2015.
It is also worth noting that Park has done well by reducing usage by 8%,
when other neighboring communities have only shown usage reductions of 1%,
6% and 7%\(^{37}\).


\(^{34}\) As of April 11, 2015.


\(^{36}\) [http://www.water.ca.gov/wateruseefficiency/sb7/](http://www.water.ca.gov/wateruseefficiency/sb7/) ; email dated April 24, 2015 from Tiffany Thong.

\(^{37}\) [http://www.swrcb.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulations/draft_usage_tiers.pdf](http://www.swrcb.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulations/draft_usage_tiers.pdf) ; see percentages for Compton (1%), Vernon (6%) and Golden State Norwalk (7%).
Park has managed to meet these goals without spending all of its authorized conservation budget in years 2013 and 2014.38

<table>
<thead>
<tr>
<th>conservation expenses</th>
<th>year</th>
<th>authorized</th>
<th>actual</th>
<th>difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>337,995</td>
<td>278,730</td>
<td>59,265</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>387,888</td>
<td>362,154</td>
<td>25,734</td>
</tr>
</tbody>
</table>

Given the emergency mandates from the Governor for 25% cuts39, the likely penalties that are being discussed in the news media, and programs from MWD, ORA cannot support Park’s 2016 wish list projections. Customers will have motivation to conserve to avoid lofty40 penalties. Instead ORA proposes using the 5 year escalated average conservation expenses of $291,13941 for this program.

ii. Advertising

In its testimony42, Park offered up 3 sentences of explanation for this account (7717.9301.). “Park increased its support of community events with program advertisement and collateral to establish Park as a community partner, especially through school events.”

A review of the events of the past five years43 includes the following:

- Water Awareness Week
- Norwalk Summer Concerts Community Events (4)

---

38 This chart utilizes information in the settlement agreement of the last GRC plus Park workpapers for account 7717 908. Additionally: In years 2013 and 2014, Park underspent $29,154 of its authorized conservation public outreach dollars (email dated April 24, 2015 from Tiffany Thong).


41 This takes the five year escalated average of $274,426 in 2014 dollars (from Park workpapers 4-220; spreadsheet CB Expenses 2016rr.xls) and escalates it using the composite factors in the April 2015 ECOS memo.

42 Parks Exhibit B Revenue Requirement Chapter 4 page 45.

43 Data request LLK001 q15.
Norwalk Business Expo.
WRD Ground Water Festival
Professional Landscape Class (2)
California Friendly Gardening Class (2)
Bellflower Earth Day Event
Bellflower Utility Fair Event
Norwalk High School - Rally Towel
Norwalk High School Fall Calendar
John Glenn High School - Rally Towel

The workpapers\textsuperscript{44} show the request to be $9,650 for 2016. As stated in testimony, Park used a two year average to project this account, suggesting that the increased efforts in the last two years are reasonable.

ORA recommends that a 5 year escalated average number of $6,254 be used. The increases in community events and school events should be moderated; therefore the longer time period should be utilized. Given the increase of CARE penetration rates to 50\% of the customer base because of data sharing with Edison, it is more reasonable to return to historical levels in terms of public outreach and managing expenses.

iii. Sales promotion supplies

Park describes this account on page 46 of its testimony. This account (7762.910) supplies the promotional water bottles, seat cushions, towels, etc. that Park uses at the outreach events. Park projects an amount 300\% greater than the 5 year average amount. The budget amount of $8,240 has not been explained or justified other than to say that the company needs to increase communication outreach effectiveness. There is no data, customer surveys, or report to show this

\textsuperscript{44} Park’s Revenue Requirement workpaper section 1-4, chapter IV, operating expenses pp. 4-7.
need. In discovery\textsuperscript{45} ORA sought information on competitive bidding for the
water bottles, but Park does not engage in competitive bidding for water bottles. The variety and expense of these items ought to be tempered. As noted on page
56 of its testimony, Park was “part of a branding project” in 2012 that sought to
have better information for customers. Park ought to return to long term historical
levels of advertising and sales.

Like the companion account above, ORA recommends a 5 year escalated
average number of $1,853 because a 10 year number isn’t available.

d) Uncollectibles

In its testimony, Park estimates $207,515 for its uncollectibles in Test Year
2016, whereas ORA estimates $186,952. Park’s estimate\textsuperscript{46} utilizes an estimate of
0.57\% of the total revenues to determine the amount of uncollectible expenses.
This is based upon a 5 year average recorded.

\begin{center}
\begin{tabular}{|c|c|}
\hline
Uncollectibles & \% Rate \\
\hline
2009 & 0.79\% \\
2010 & 0.68\% \\
2011 & 0.63\% \\
2012 & 0.43\% \\
2013 & 0.33\% \\
\hline
5 year average & 0.57\% \\
\hline
\end{tabular}
\end{center}

ORA accepts the 5 year average factor, although the recent two year
average of 0.38\% could also be used since the recession is no longer present. In
the 2012 GRC, a 3 year average percentage was used.

While Park applies the factor to operating revenues and miscellaneous
revenue, ORA proposes an alternative. ORA recommends that the uncollectible
factor apply only to those revenues from metered sales. ORA recommends that
the uncollectible rate should not be applied to the Miscellaneous Revenues

\textsuperscript{45} DR LLK002 Q 11.

\textsuperscript{46} See revenue requirement workpaper chapter 1-4, page 4-180.
because it includes primarily the ratepayers share of the revenues from Park’s
Non-Tariffied Products and Services contracts, operating contracts for CBMWD’s
reclaimed water systems, and marketing and billing contracts with HomeServe, a
provider of service line emergency repairs insurance. Since Park collects this type
of revenues from entities such as CBMWD, HomeServe etc. entities, which do not
typically default on their payments, ORA excludes the Miscellaneous Revenue
from its uncollectible estimate.

3. Administrative and General

Park seeks to recover $8,471,468 in A&G expenses for test year 2016, and
$6,335,745 of this amount is for non-payroll expenses. The General Office
portion of A&G expenses is approximately 40% or $3,365,982 of the total A&G
expenses Park requested.

<table>
<thead>
<tr>
<th>A&amp;G Expenses</th>
<th>ORA</th>
<th>PARK</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>A&amp;G Payroll</td>
<td>1,972,923</td>
<td>2,135,723</td>
<td>162,800</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>1,677,443</td>
<td>1,910,474</td>
<td>233,031</td>
</tr>
<tr>
<td>Insurance</td>
<td>737,830</td>
<td>821,149</td>
<td>83,319</td>
</tr>
<tr>
<td>Uninsured Property Damage</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reg. Commission Expense</td>
<td>145,735</td>
<td>175,027</td>
<td>29,292</td>
</tr>
<tr>
<td>Franchise Requirements</td>
<td>126,525</td>
<td>138,343</td>
<td>11,818</td>
</tr>
<tr>
<td>Outside Services</td>
<td>204,699</td>
<td>204,699</td>
<td>0</td>
</tr>
<tr>
<td>A&amp;G- Other</td>
<td>445,514</td>
<td>446,057</td>
<td>543</td>
</tr>
<tr>
<td>A&amp;G Transferred Credit</td>
<td>-480,611</td>
<td>(725,986)</td>
<td>(245,375)</td>
</tr>
<tr>
<td>Rents</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>General Office Allocation</td>
<td>3,365,982</td>
<td>3,365,982</td>
<td>0</td>
</tr>
<tr>
<td>Total A&amp;G Expenses</td>
<td>8,196,042</td>
<td>8,471,468</td>
<td>275,426</td>
</tr>
</tbody>
</table>

The GO allocation in the above table includes payroll taxes, ad valorem taxes, etc.

For A&G, Park used a variety of estimating tools, including 5 year
averages. To outside services, Park added the cost of ongoing activities to the 5
year average, for insurance/medical projections information from brokers/actuaries
was utilized, and for other items they use a budgeting process and adders.
ORA is generally in agreement with the judgement utilized to project expenses. Those areas where Park and ORA differ that do not relate to sales differences or payroll are: employee benefits, regulatory expenses, and general office allocation.

ORA also includes the corrections to insurance that Park identified in an April 1 email to ORA.

ORA applied the vacancy rate adjustment discussed in the payroll section to the following A&G expenses: A&G payroll, benefits, and insurance.

a) **Employee benefits amounts**

For Test Year 2016, Park projects $1,910,474 for employee benefits. These amounts include projections for: medical insurance, dental insurance, life insurance, accident insurance, disability long term, 401K, group pension, PBOPs, service awards, educational assistance, EAP/wellness, 401A, and other. As stated in testimony on pages 52-54, many of the projections rely on the expertise of an actuary, or actual rates in effect.

ORA proposes changes in the following areas:

i. **Medical and dental**

For its projections, Park used 2015 hard wired numbers and actuarial projections of 7\% increases for medical and 4.75\% increases for dental. ORA obtained a January 2015 update for Global Insight U.S. Economic Outlook in which factors for health insurance escalation can be utilized. The IHS Global Insight is the source of information for Estimates of Non-Labor and Wage Escalation Rates and Compensation per Hour published by ORA’s ECOS and Water Branches. ORA is using 4\% factor onto 2014 recorded amounts to get to

---

47 From Tiffany Thong at 4:09 pm
48 Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses
49 From January 2015 Global Insight Prices and wages sheet for the percentage change for health insurance in 2015.
2015 numbers and then a 5% escalation factor to get to 2016. ORA used a similar methodology for dental projections. The difference in methodologies results in a decrease of $31,284 for these two expenses. This number was then adjusted downward to reflect the vacancy adjustment which created an overall difference of $60,374.

<table>
<thead>
<tr>
<th></th>
<th>ORA</th>
<th>Park</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 medical</td>
<td>546,481</td>
<td>600,732</td>
<td>54,251</td>
</tr>
<tr>
<td>2016 dental</td>
<td>48,681</td>
<td>54,804</td>
<td>6,123</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>60,374</td>
</tr>
</tbody>
</table>

**ii. Group Pension**

In Park’s testimony on page 54, Park reveals that this number is developed by an actuarial valuation and that a 2015 report is expected (soon.) The company offers up one page in its workpapers (WP 4-198) to support the $890,241 request but lacks detail and analysis.

Rather than accept this unsupported estimate, ORA proposes using the 2014 recorded amount of $737,214 (increased by the use of the January Global Insight factors for “benefits”) amount for group pensions. This results in the test year amount of $782,865 or $107,376 less than Park’s projection.

Looking at the five year escalated amount of $685,357 in this category of costs shows that ORA is still projecting an increase. ORA’s methodology is based upon recent recorded data and reasonable inflation factors.

**iii. Medical elections- comment**

Based upon conversations with the company when going over the expense workpapers, it was revealed that the workpapers in the application do not reflect

---

50 Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses.
51 ORA has an outstanding data request to review this document.
52 The factors used are 1.028 for 2015 and 1.033 for 2016 from Global Insight Jan 2015.
the current employee elections of medical plans. Therefore, when a comparison
exhibit is prepared, the workpapers ought to be updated to reflect current elections
for the various medical plans.

iv. Post-Retirement Benefits Other Than
Pensions (“PBOPs”)

In looking over the workpaper\(^{53}\) details for PBOP, there is a dramatic shift
in expenses from 2013 to 2014 and again from 2015 to 2016. As explained in
testimony\(^{54}\), there was a policy change in 2013 that reduced funding levels. As
stated in testimony, the 2015 actuarial report is not yet available (that is still
ture\(^{55}\)). For this rate case cycle, ORA accepts Park’s 2016 estimate of $80,000 as
it is substantially less than the 5 year average of $180,610.

Additionally, ORA acknowledges that Park is now in the process of
reducing the regulatory asset\(^{56}\) that relates to full recovery of PBOPs expenses.

b) Insurance

There are many forms of insurance for which Park has to purchase. They
include: workers compensation insurance, business insurance (general and
umbrella liability, crime, inland marine, property, commercial bond, directors and
officers, fiduciary, employment practices, contractor, errors and omissions, life)
and transportation insurance.

During discovery\(^{57}\), ORA found that there were errors in Park’s calculations
of business insurance. Therefore, the $817,231 overstated the test year amounts
due to errors in its results of operations model. These are now corrected to reflect
the accurate estimate of $773,894. This corrected number is more consistent with

\(^{53}\) Park’s Revenue Requirement workpaper section 1-4, chapter IV, operating expenses p. 4-13.
\(^{54}\) Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses page 53.
\(^{55}\) As of April 28, 2015 the report was not available.
\(^{56}\) The difference each year between the FASB 106 PBOP expense and the allowed tax-deductible
ratemaking expense have been recorded as a regulatory asset.
\(^{57}\) April 1, 2015 email from Tiffany Thong.
the five year escalated average of $725,254. ORA does accept the corrected
amount of insurance expense forecasted for 2016.

c) Regulatory expenses

On pages 56-57\[^{58}\], Park describes the estimates it utilizes for test year
purposes. Essentially it utilizes the 2012 Apple Valley litigated GRC estimate and
the 2013 cost of capital proceeding to design the regulatory expenses. From these
numbers, Park escalates the numbers to bring them into 2016 dollars.

In addition, Park includes the costs of past reports\[^{59}\] used in past rate cases.
When annualized over three years, Park seeks to recover $175,027 in test year
regulatory expenses.

Park and ORA have historically agreed to defer and amortize in the Test
Year expenses incurred for current rate case proceedings. While this convention
has been utilized in the past by Park Water Company, the Commission is
correcting this retroactive ratemaking practice with other water companies\[^{60}\]. This
is the time to correct Park’s practice of forecasting regulatory expenses.

Since Park’s last General Rate Case filed in A.12-01-001, ORA has
recommended, in other GRCs, that the practice of amortizing deferred rate case
expenses be converted to a prospective forecast.

In D.12-04-009, the Commission indicated that there are good reasons to
use a forecast because, it provides a limit on costs or at least an incentive to
control costs, whereas amortizing prior costs provides little or no incentive for a
utility (Suburban in that case) to control costs.\[^{61}\] ORA agrees with the
Commission that forecasting rate case costs provides the best incentive to control
costs. Therefore, ORA recommends that \textit{only} forecasted expenses be included in

\[^{58}\] Park’s Revenue Requirement Report Exhibit B, chapter IV, operating expenses.
\[^{59}\] Asset management report, water use efficiency plan.
\[^{60}\] D 12-04-009, D15-04-007.
\[^{61}\] D.12-04-009, Section 7.3.
Test Year 2016. As a result, ORA recommends $145,737 in forecasted costs for Park’s next Cost of Capital proceeding and Park’s General Rate Case for Test Year 2019.

It is also ORA’s position that there is no need to allow Park to have a “catch up” provision when switching to forecasting rate case expenses from amortizing the actual incurred cost. Park will continue to recover its rate case expenses on a prospective basis as long as it continues to file rate cases. The only way it would not recover its costs, is if Park’s forecast is lower than its recorded rate case expenses or it ceases to exist as a business entity. Therefore, ORA does not recommend that Park be allowed a “catch up” provision.

However, if the Commission considers granting a “catch up” provision, the following table shows ORA’s estimate for the forecasted 2016 Regulatory Expense in order to transition Park from amortizing past rate case costs to a prospective forecast approach.

There are two scenarios regarding the catch-up expenses:

1) an amount of $294,837, if the current rate case can be settled in its entirety; or

2) an amount of $385,009 if there are litigated issues in the current GRC.

ORA further recommends that if Park is allowed to catch up its deferred 2015 rate case costs, the recovery of the 2015 costs be amortized over six years rather than three years to ease the transition for Park’s ratepayers.

---

62 The last two Park GRC’s have been settled.
### ORA Recommended Forecast and Optional Catch Up Plan

<table>
<thead>
<tr>
<th></th>
<th>Forecast</th>
<th>Catch Up (full settlement)</th>
<th>Catch Up (Litigated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 GRC Costs</td>
<td>$0</td>
<td>$294,837</td>
<td>$312,813</td>
</tr>
<tr>
<td>2018 GRC Costs</td>
<td>$365,009</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2015 Cost of Capital Litigation</td>
<td>$</td>
<td>included</td>
<td>$72,196</td>
</tr>
<tr>
<td>2018 Cost of Capital Litigation</td>
<td>$72,196</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Total</td>
<td>$437,205</td>
<td>$294,837</td>
<td>$385,009</td>
</tr>
<tr>
<td></td>
<td>/3</td>
<td>/6 =</td>
<td>/6</td>
</tr>
<tr>
<td></td>
<td>$145,735</td>
<td>$49,140</td>
<td>$64,168</td>
</tr>
</tbody>
</table>

#### i. Forecasted 2018 GRC Expenses

ORA recommends $437,205, subject to escalation, as the regulatory expenses for Park’s next general rate case, which will be filed in 2018. The estimate is based on the actual amount incurred by Park’s subsidiary Apple Valley Ranchos Water Company (“AVR”) in its Test Year 2012 rate case and escalated to the time of its next proceeding, and the removal of the expenses associated with two non-recurring reports. The total forecasted regulatory expenses, including the concurrent Cost of Capital proceeding parallel to the GRC, are $437,205 or $145,735 for each year during the current rate case cycle.

#### ii. Catch-Up 2015 Regulatory Expense

As ORA pointed out earlier, should the Commission allow Park to recover the expenses for the current GRC, ORA recommends two options for the Commission to consider.

---

63 the Asset Management Report ($53,215) and Water Use Efficiency Plan ($34,660).
64 $437,205/3.
In Park’s prior GRC, A.12-01-001, Park was authorized $560,442 for its regulatory expenses, which includes the assumption that the rate case would be contentious and an evidentiary hearing would be required. However, as a result of reaching a full settlement with ORA, Park’s recorded regulatory expenses were reduced to $270,493. ORA, therefore, recommends $294,837 after escalation from 2013 to 2016, as the regulatory expenses for the current GRC if there is a full settlement between ORA and Park in this GRC. This amount excludes the cost for the Asset Management Report ($53,215) and Water Use Efficiency Plan ($34,660) as ORA believes these costs should be included as part of Park’s capital and conservation budget, and not treated as a regulatory expense.

For the second scenario, ORA recommends the regulatory expenses be based on the most recent AVR GRC expenses, minus the portion relating to its General Office. As provided in Park’s Regulatory Commission Expense workpaper, Park proposes $175,027 for Test Year 2016 as provided in the following Table:

///

///

///
## REGULATORY COMMISSION EXPENSE

### GRC - Excluding Cost of Capital Component

<table>
<thead>
<tr>
<th>Description</th>
<th>Actual Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVR Actual GRC Expense - Test Year 2012 (Recorded thru 2012)</td>
<td>336,147</td>
</tr>
<tr>
<td>sub-total excluding cost of capital</td>
<td>336,147</td>
</tr>
<tr>
<td>Escalation Factor for 5 Years (2013 to 2016)</td>
<td>1.09</td>
</tr>
<tr>
<td></td>
<td>366,010</td>
</tr>
</tbody>
</table>

### Cost of Capital Component

<table>
<thead>
<tr>
<th>Description</th>
<th>Actual Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Capital 2013 (Recorded thru 2013)</td>
<td>67,112</td>
</tr>
<tr>
<td>Escalation Factor for 3 Years (2013 to 2016)</td>
<td>1.08</td>
</tr>
<tr>
<td></td>
<td>72,196</td>
</tr>
</tbody>
</table>

### Other Regulatory Proceedings & Reports

<table>
<thead>
<tr>
<th>Description</th>
<th>Actual Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Management Report</td>
<td>53,215</td>
</tr>
<tr>
<td>Water Use Efficiency Plan</td>
<td>34,660</td>
</tr>
<tr>
<td></td>
<td>87,875</td>
</tr>
</tbody>
</table>

### Total

<table>
<thead>
<tr>
<th>Description</th>
<th>Actual Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>525,081</td>
</tr>
<tr>
<td>Annual Expense</td>
<td>175,027</td>
</tr>
</tbody>
</table>

ORA agrees with Park to use its AVR GRC as a proxy for the regulatory expenses estimate if the current GRC requires evidentiary hearings, but recommends the removal of the cost of the Asset Management Report and Water Use Efficiency Plan for the reasons ORA stated earlier. ORA further recommends the reduction of 14.3% from AVR’s actual GRC expenses as the percentage related to the General Office portion because there is no General Office filing in the current Park Central GRC. The percentage used to adjust the General Office portion of the regulatory expenses is based upon the percentage of the overall General Office Allocated expenses to the overall AVR expenses\(^{65}\). As a result of

---

\(^{65}\) Park’s workpaper in A.14-01-002; 14.3%=GO expense of $2,477,759 divided by the overall AVR expenses of $17,274,611.
the adjustment from ORA, Park’s regulatory expenses under the second scenario will be $385,009, or $64,168 per year for six years.

It is ORA’s mission to obtain the lowest possible rate consistent with reliable and safe service. By forecasting rate case costs, Park will be motivated to control its costs without violating the Commission’s future test year prospective rate setting policy. The Commission should adopt ORA’s recommendation of a prospective forecast of $145,735 for Test Year 2016 as it provides ratepayers with protection from Park’s unrestrained regulatory costs.

d) **General office allocation**

ORA reviewed the general office allocation workpapers. ORA is satisfied that the calculations reflect the appropriate allocation percentages from the settlement for Park’s portion of general office expenses. When the decision in the Apple Valley/General Office is made final, the results will be carried into the summary of earnings calculation and a revised estimate will be presented for general office allocation. For purposes of estimating 2016 expenses, the general office allocation to Park is represented as $3,365,982. (inclusive of payroll taxes, ad valorem taxes etc)

D. **CONCLUSION**

ORA recommends that the Commission adopt ORA’s lower estimates on expenses as recommended herein. ORA’s recommendations reflect greater usage of 5 year average data, corrections, lower sales, more moderate leased water rights projections, lower regulatory expenses, 48 employees, lower bonuses, global insight information for benefits and group pensions, and more moderate conservation expenses.

ORA does not accept Park’s escalation estimates. Rather than updating the escalation factors each month, ORA proposes utilizing the most current ECSB memo escalation factors for the comparison exhibit.
CHAPTER 4: RECLASSIFIED AND NEW POSITIONS

A. INTRODUCTION

This chapter covers ORA’s discussion of Park’s new positions (job titles) that Park did not have in its prior GRC due to reorganization. The discussion of payroll forecast and methodology is being covered by ORA’s Expense witness in Chapter 3.

Since the last GRC, Park has reviewed, evaluated, and analyzed the Company’s organizational structure, business requirements, and individual work load requirements. Overall, Park requests 49 regular positions for Test Year 2016 as compared to 52 regular positions last authorized by the Commission in D.13-09-005 through a combination of organizational restructuring, reassignment of duties, and increased reliance on technology.

ORA applauds Park’s continuous effort to streamline its organization and operation. ORA does not micro-manage Park’s management in dealing with its organization and operation, but focuses its review on whether or not such changes would result in efficiency to the company, result in cost savings, and are reasonable for its ratepayers to fund.

B. SUMMARY OF RECOMMENDATIONS

ORA agrees with Park’s reorganization except its request for a higher salary for the Production Technician 1 position and the new position for the Water Quality/Operation Engineer. ORA recommends a salary of $53,402 for the Production Technician 1 position, an adjustment of $44,587 per Commission D.13-09-005. ORA also recommends the disallowance of the Water Quality/Operation Engineer position because: 1) the new position does not provide verifiable cost savings; 2) there is not enough additional workload to justify a new position; and 3) Park’s claim of succession planning is premature and unnecessary.
C. DISCUSSION

The following is a discussion of the new positions (job titles) that Park did not have at the time of the prior GRC due to reorganization.

1. Customer Support Supervisor

Park replaced the Manager of Customer Service and Conservation with a Customer Service Supervisor in December 2014. In January 2015, the Supervisor was promoted to Customer Support Supervisor and has the responsibility of supervising the Water Conservation Coordinator, Senior Public Affairs Specialist and seven Customer Service Representatives. Park will realize salary savings of $5,263 in Test Year 2016 and ORA finds this organizational change reasonable.

2. Manager of Financial Services

Park replaced the General Accounting Supervisor due to retirement and replaced it with the Manager of Financial Services. The Manager of Financial Services is a certified public accountant with more financial, accounting, and auditing experience compared to the previous General Accounting Supervisor. Although the change will result in a $2,279 higher salary for Test Year 2016, ORA believes this is necessary due to the additional credentials and higher qualifications of Manager of Financial Services requirement for the Manager of Financial Services position.

3. Communication Center Foreperson

Park reorganized its dispatch group when the most senior member of the Communications Center retired in 2014. The Associated Risk Manager position was eliminated after he became the Communications Center Foreperson. Park also changed the Control Center Operators job title to Communication Center Operators. In addition, Park has retained an answering service at a cost of $2,410 annually to cover some of the shifts in the Communication Center during weekdays and weekends. This change has resulted in the elimination of one full time Communication Center Operator position and another that could be filled
with a limited-part time position. The Communication Center is now staffed with
two full time and a part time positions compared to five full time positions prior to
the reorganization. Park will realize a total of $192,923 in salary savings in Test
Year 2016 and ORA agrees with this organizational change.

4. **Utility Service Supervisor**

Park reorganized the Utility Service and Meter Reading groups by
combining them. When the Field Foreperson of the Utility Service group retired,
Park promoted the Meter Reader Foreperson into a new position called the Utility
Service Supervisor who would be the supervisor of the two groups while the Field
Foreperson position was eliminated. For the past year, Utility Service crews have
been cross-trained in meter reading and Meter Reading staff have been crossed-
trained in utility service duties and allowed them to be flexible and
interchangeable. All Meter readers became Utility Service persons at the end of
2014. Under the new group, the Utility Service Foreperson has two lead positions
under him to handle the workload from utility service and meter reading.

Part of the reorganization of this business unit is to increase the salary of
the previous authorized Production Technician 1 from $53,402 to $97,989 and the
new Water Quality/Operation Engineer position with a salary of $159,866. As per
ORA’s discussion in this chapter, the disallowance of the increase for the
Production Technician 1 and the elimination of the Water Quality/Operation
Engineer position will allow Park to achieve cost savings of over $150K
associated with this reorganization. ORA agrees with this reorganization.

5. **Production Technician**

In the last GRC, the Commission authorized in D.13-09-005 a new
Production Technician 1 at a salary of $50,375, or $53,402 with escalation
increase for Test Year 2016. However, Park requests in this GRC $97,989, an
increase of $44,587 or 88.5%, in Test Year 2016 to fund this same position
because the position was filled by an internal individual who was earning a salary
comparable to a Meter-Reader 3 salary level. Park claimed that the Meter Reader position was not filled and has been eliminated. ORA opposes such increase because the Commission authorized only $53,402 for this position. Park was able to eliminate the Meter Reader position due to reassignment of duties and the use of technology, such as Automatic Meter Reader (“AMR”). ORA believes any cost savings should be passed onto the benefit of Park’s ratepayers rather than funding another position with higher salary. As such, ORA recommends that the funding of the Production Technician 1 should remain at $53,402 per D. 13-09-005.

6. Water Quality/Operation Engineer

Park requests a new position for Water Quality/Operation Engineer. This position has not previously been authorized by the Commission, but was filled in January 2015. Park’s primarily reason for this position was to address succession planning and handle new workload. The individual that Park hired brings over 18 years of water industry experience. Park is expected to pay $155,564 annual salary for this position.

ORA opposes the Water quality/Operation Engineer position for the following reasons: 1) the new position does not provide verifiable cost savings; 2) there is not enough additional workload to justify a new position; and 3) Park’s claim of succession planning is premature and unnecessary.

a) The new position does not provide verifiable cost savings

One of the most important justifications for the need of any new position is that the benefit of this position has to be tangible, quantifiable and out-weighs its costs- a showing that Park has failed to provide. Park could only provide general statements on the cost savings that this position might be able to generate. In its response to ORA’s verbal data request on March 12, 2015, Park stated the following regarding the cost savings:

Cost savings will be realized from not having direct charges from the Corporate Vice President of Water Quality for activities directly
related to Central Basin. Operational efficiencies will become more
evident with time as Adam learns about Park’s current operations.
Because of his expertise, he may be able to analyze and implement
more cost effective ways of doing things that may also result in cost
savings. For example, Adam has been studying daily, monthly, and
seasonal pumping patterns for each well. Adam may be able to
optimize pumping to reduce energy requirements and minimize low
flow penalties from MWD. There may also be operational
efficiencies in the near future if retirements provide opportunities to
reorganize departments. It is too early to provide detailed cost
savings or operation efficiencies because Adam is still learning the
details about Park’s operations.

The lack of specifics regarding the savings and operational efficiency of
this position troubles ORA. While the costs of the $155,564 annual salary plus
benefits are being passed onto ratepayers immediately, the benefit result from this
new position is much more uncertain. As such, it is unfair to ratepayers if this
position is allowed to be filled at this time.

b) **Lack of New Workload**

Although Park stated that it needs this new position in order to handle the
new workload, the information it provided to ORA did not support its claim.
Page 42 of Exhibit B states the person filling this position:

will assist the Corporate Vice President of Water Quality in dealing
with water quality requirements for the Central Basin Division,
including all water quality monitoring, testing and compliance,
**preparing the annual Consumer Confidence Report, and fulfilling**
obligations for the Partnership for Safe Water. The new manager
will supervise the Production Department, assure compliance with
**GO 103A, design process and procedures for effective and efficient**
operation and maintenance of the system, and work closely with the
Division Superintendent, Utility Service Department, and
**Engineering Department to implement best management practices.**

(underline added)

In its response to ORA’s verbal data request on March 12, 2015, Park
admitted that none of the above underlined activities is new since the prior GRC.
Most of the described activities were being handled by the existing staff, except the Partnership for Safe Water and the new statewide NPDES permit “for potable water discharge,” which are new functions and in Park’s estimate, would require 120 hours annually by this individual to perform. In short, most of the workload the Water Quality/Operations would perform includes the current workload activities already being handled by existing staff. There is not enough additional workload to justify the need for this new position.

Park’s Claim of Succession Planning is Premature and Unnecessary

Another major justification by Park for this position is the need for succession planning due to the pending retirement of several key leadership positions that will likely become vacant in the next year or two. This includes the Corporate Vice President of Water Quality, the Central Basin Division Assistant Vice President/Division Superintendent, and the Production Foreperson. Park does not feel that it has any existing internal staff members that have the education, skills, certification, and experience to assume either the Vice President of Water Quality or the Division Superintendent positions. If Park decides to hire someone from the outside, it would not be able to find a qualified candidate to fill the position in a timely manner. Park believes the hiring of the Water Quality/Operation Engineer would allow it to begin the succession process. ORA disagrees with this assertion.

The most important factors in any succession plan is when the certain individual actually leaves the company and the company being able to find the talent and expertise in a manner that the company can move forward smoothly. In Park’s case, ORA believes Park can hire an individual with adequate qualifications and experience to meet its need without difficulty as evidenced in Park’s search for a suitable candidate to fill the Water Quality/Operations Engineer. According to Park’s data request response dated March 20, 2015, Park provided that the job posting was advertised on Brown and Caldwell’s Water News Job posting site for
30 days. It received 46 responses to the job posting of which 10 were selected for
interviews. The final candidate selected for this job was a person with over 18
years of water industry experience in water quality, regulatory compliance, water
supply planning, treatment plant operations and maintenance, strategic planning,
capital improvements, and budgeting. He has California Water Distribution
Operator 5, AWWA Water Quality Analyst Grade 4 Certification, and Water
Treatment Operator 5 certification, is a registered professional civil engineer, and
has an MBA.

Given that Park was able to hire such a well-qualified person in a relatively
short period of time with posting on only one job site, ORA believes Park’s claim
that it needs to have a new position as part of its succession plan is unfounded.
ORA believes that when such need arises, Park should be able to hire someone
with the qualifications that meet its needs with little difficulty. Having a
succession plan for this position is premature and unnecessary at this time.

D. CONCLUSION

ORA applauds Park’s continuous effort to streamline its operations in
order to achieve efficiency and cost savings. ORA agrees with most of the
reorganization that Park is undertaking, except the increased salary for the
Production Technician I and the new position of the Water Quality/Operation
Engineer. ORA believes Park should continue to fund the Production Technician
1 position based on the funding level authorized by D.13-09-005. The Water
Quality/Operation Engineer position should be disallowed at this time.
CHAPTER 5: UTILITY PLANT IN SERVICE

A. INTRODUCTION

In developing its recommendations for capital investment in utility plant, the Office of Ratepayers (“ORA”) reviewed and analyzed Park Water Company’s (“Park”) testimony, its application, workpapers, capital project details, emails, and various responses to ORA data requests. ORA also conducted a field investigation of most of the proposed plant additions. During the field investigation ORA noted that Park’s management team and staff were both knowledgeable and open to discuss current operations and future plans for infrastructure improvement.

Upon reviewing Park’s request for utility plant, ORA found that Park’s plans to replace aging infrastructure and add new facilities are in some cases justified. However, the requested increase in the rate of infrastructure replacement and the number of new facilities proposed to be constructed are significantly more ambitious than in past rate cases. For example, in Park’s last General Rate Case (“GRC”), A.12-01-001, ORA determined that the Park’s recorded total plant additions averaged $2.7 million per year between 2006 and 2011. By contrast, in this General Rate Case (“GRC”), Park seeks to add an average of $14.8 million gross plant per year for 2015 through 2017. It should also be noted that for its last GRC, Park requested an average of $11.4 million per year for 2012 through 2014.

Park’s service area is comprised of mostly working-class individuals, with a median household income of $42,953 for consumers living in the City of Compton, and $49,637 for consumers living in City of Bellflower. It should be noted that the median income in the State of California was reported as $61,094

---

66 A.12-01-001, ORA’s Report, p. 7-1.
67 Park Water Company Application, p. 124.
68 US Census Bureau, American Fact Finder S1903 Median Income in the Past 12 Months (In 2013 Inflation Adjusted Dollars).
for the same period. Therefore, it can be seen that Park’s service territory is
comprised of neighborhoods, which have below average median household
incomes in the state. In addition, the state economy has not fully recovered to the
pre-recession levels. For example, a recent study conducted by a non-profit
organization, California Budget & Policy Center issued a Budget Brief, dated
January 7, 2014 quotes U.S. Bureau of Labor Statistics that the labor market is still
weak despite more than three years of sustained economic growth, with
California’s unemployment rate (8.7 percent in October 2013)\(^69\) remaining higher
than at any point during or following the 2008-2009 Great Recession.\(^70\)

Nearly 50% of Park’s customers are under the low-income program. Thus,
affordability of water service is an issue for Park. The Commission in D.14-10-
047 related to rulemaking proceeding, R.11-11-008 that pertains to Water Action
Plan objectives for setting rates that balance investment, conservation, and
affordability address how to measure affordability based on what portion of
household income goes towards paying a water utility bill. In the proceeding one
of the parties argued that the Commission should use 1.5% of household income.
The Commission denied this request. The Commission noted that in the
affordability screening framework, the staff report relies upon the 2.5% threshold
recommended by the California Department of Public Health. The Commission
concluded that to the extent that parties use that framework, which is a
discretionary tool, they should use the 2.5% threshold. Based on Park’s past rate
increases, ORA found out that Park already exceeds the 1.5%, and getting very
close to the 2.5% affordability benchmark\(^71\).

\(^69\) Per California State Employment Development Department (www.labormarketinfo.edd.ca.gov)
the unemployment rates in City of Bellflower, City of Compton, and City Norwalk remain 6.9%,
11.2% and 9.7% respectively in year 2015.
\(^70\) See Attachment-A: A copy of the California Budget & Policy Center’s Budget Brief.
\(^71\) See Attachment-B: Calculations for Park’s average customers’ affordability.
Therefore, as the economy has not yet fully recovered to the pre-recession levels and the majority of Park’s customers have below average income levels, ORA found it necessary to consider the affordability of Park’s customers and to carefully balance the needs of the company to replace its aging infrastructure. ORA’s objective is to recommend plant additions that will allow Park to continue to provide safe, reliable service at the lowest rate possible.

B. SUMMARY OF RECOMMENDATIONS

Park has proposed $15,048,700 in year 2015, $15,095,700 in year 2016 and $15,191,600 in year 2017 for the purpose of company/ratepayer-funded plant additions. Park also includes the addition of third-party or contributed plant additions that are not company or ratepayer funded in the amount of $150,000 annually over the period of 2015-2017. ORA recommends company/ratepayer funded plant additions of $9,348,361 in year 2015, $9,942,824 in test year 2016, and $7,454,440 in test year 2017.22

C. DISCUSSION

The following table, Table 5-1 shows a summary of those capital requests ORA has recommended different amounts than Park’s proposed amounts:

22 Pursuant to new Rate Case Plan Decision, D.07-05-062, ware IOUs have two Test Years for the purpose of assessing their ratebase.
Table 5-1: Summary of ORA’s Capital Plant Adjustment

<table>
<thead>
<tr>
<th>Description</th>
<th>ORA 2015</th>
<th>PWC 2015</th>
<th>ORA 2016</th>
<th>PWC 2016</th>
<th>ORA 2107</th>
<th>PWC 2107</th>
</tr>
</thead>
<tbody>
<tr>
<td>T&amp;D Reservoir &amp; Booster Station</td>
<td>$0.00</td>
<td>$230.00</td>
<td>$0.00</td>
<td>$1,600.00</td>
<td>$0.00</td>
<td>$1,378.00</td>
</tr>
<tr>
<td>T&amp;D Main (New/Replacement)</td>
<td>$4,000.00</td>
<td>$6,541.00</td>
<td>$4,000.00</td>
<td>$5,656.30</td>
<td>$4,000.00</td>
<td>$6,853.30</td>
</tr>
<tr>
<td>Replacement Valves</td>
<td>$76.10</td>
<td>$100.10</td>
<td>$76.85</td>
<td>$101.10</td>
<td>$77.63</td>
<td>$102.20</td>
</tr>
<tr>
<td>Replacement Hydrants</td>
<td>$88.10</td>
<td>$176.20</td>
<td>$88.97</td>
<td>$178.00</td>
<td>$89.87</td>
<td>$179.70</td>
</tr>
<tr>
<td>T&amp;D Land</td>
<td>$0</td>
<td>$1,000.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>MISC. Pumping Equipment</td>
<td>$133.88</td>
<td>$200.00</td>
<td>$135.21</td>
<td>$200.00</td>
<td>$136.57</td>
<td>$200.00</td>
</tr>
<tr>
<td>Well 12C (Drill &amp; Casing)</td>
<td>$730.39</td>
<td>$908.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Well 12C (Structure &amp; Equipping)</td>
<td>$402.20</td>
<td>$500.00</td>
<td>$804.40</td>
<td>$1,000.00</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Compton East Well (Drill &amp; Casing)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Misc. Site Improvements</td>
<td>$38.77</td>
<td>$100.00</td>
<td>$39.16</td>
<td>$100.00</td>
<td>$39.55</td>
<td>$100.00</td>
</tr>
<tr>
<td>Misc. Treatment Equipment</td>
<td>$129.19</td>
<td>$136.30</td>
<td>$130.28</td>
<td>$137.00</td>
<td>$131.79</td>
<td>$137.70</td>
</tr>
<tr>
<td>Water Rights</td>
<td>$0</td>
<td>$1,000.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Land for New Well</td>
<td>$650.00</td>
<td>$650.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Misc. Vehicles &amp; Equipment</td>
<td>$32.60</td>
<td>$84.50</td>
<td>$32.60</td>
<td>$66.30</td>
<td>$6.90</td>
<td>$77.60</td>
</tr>
<tr>
<td>Cost of Removal</td>
<td>$452.92</td>
<td>$888.40</td>
<td>$452.92</td>
<td>$874.80</td>
<td>$452.92</td>
<td>$393.90</td>
</tr>
</tbody>
</table>

1. **T&D Reservoir: Compton East Reservoir and Booster Pump Station**

   Park requests a total of $3,128,000 for the purpose of building a new 0.60 million gallon reservoir and associated booster pump station. More specifically, Park proposes spending $150,000, $1,600,000, and $1,378,000 in years 2015, 2016, and 2017, respectively. ORA recommends disallowing this capital project.

   Park justifies its need for the new reservoir based on its increased efforts to utilize more groundwater and to lower the use of purchase water. In addition, Park argues that because of state grants for another well, Well 9D were received under the condition that the Park would pump on average of 900 AF/year from the facility, but due to the low demand it now believes that it cannot pump the water directly to the system and needs the new reservoir for groundwater storage. Additionally, Park also cites the water service reliability risk that exists due to the potential for both planned and emergency interruptions in imported water.

---

23 Park’s application, p. 64
deliveries per the Metropolitan Water District (“Metropolitan”) of Southern California Administrative Code (“SCAC”). The SCAC requires that each member agency shall have sufficient resources such as local reservoir storage, ground water capacity, system interconnections or alternate supply to maintain a seven-day interruption in Metropolitan deliveries from raw and treated water distribution facilities based on average annual demands of the affected facility. In addition, Park hired an outside consultant, Water Systems Consulting, Inc. (“WSC”), in order to evaluate best possible alternatives for the situation in the Compton East Water System. The WSC study indicates that the other alternatives considered were: 1) an option of doing nothing; 2) an option of groundwater well with Variable Frequency Drives (“VFDs”); and 3) the option of connecting the Compton East to the neighboring Compton West or Bellflower/Norwalk Water Systems. The study compares these alternatives across a 30-year life cycle cost. In the end, the study shows that even though constructing a new well will be the lowest cost option, constructing the new reservoir and booster pump station option are preferred as the actual water production of the wells (replacement well for the existing Well 4B and an additional new well) may not be at the assumed levels of 1000 GPM.

A careful examination of Park’s application, workpapers and various pertinent information that was obtained through ORA’s data requests, reveals that currently there is no immediate need to construct the proposed reservoir and the booster pump station. For example, on page 3-7 of the WSC study, it indicates that the water demand in the system is met by the exiting Central Basin connection. And CB-25 which is a relatively newly constructed Well 9D, and Well 4B are used to minimize the amount of time that CB-25 operates below 10% of its capacity to avoid the low flow penalties. The Well 9D was constructed in 1999 and then in 2012 it was equipped with a new wellhead treatment, while the

---

24 Park Application, p. 66.
Well 4B is quite old and was constructed in 1967. However, currently Well 4B is used only as a standby well. In addition, during the low demand periods overnight when Well 9D is also shut off, the demand still falls below the 10% minimum flow rate requirement\(^\text{25}\). Therefore, the two existing wells are under-utilized.

Apparently the Compton East Water System has been operating with the Central Basin Connection, CB-25 and combination of well 4B and 9D. Since the Metropolitan’s SCAC requires that each member agency shall have sufficient resources of supply to maintain a seven-day interruption in Metropolitan deliveries, but this has not been a priority for Park. ORA finds that no major changes have taken place that would force Park to adopt measures to comply with the Metropolitan’s SCAC requirements.

Similarly, as far as Park finds itself in a conflict with the Proposition 50 grant requirement, which requires Park to utilize Well 9D to at least the level of 900 AF/year, Park demonstrates a lapse in making sure that it would not be able to meet this requirement. Now Park wants its captive ratepayers to pay for its inability to meet this provision of the grant. For example, while responding to ORA’s data request, AMX-02 (Question-2b) Park responded:

At the time of application in 2006, the water produced in the Compton East Water System was 2,371 AF and in 2007 it was 2,054 AF. These amounts were used in modeling the optimization of flow out of Well 9D while minimizing the low-flow penalties from Cen B-25. The conclusion of this was that we could pump 900 AF from Well 9D (see email). Beginning in 2008 (1,853 AF) and continuing through 2010 (1,700 AF for the last full year of data prior to signing the funding agreement), the water production in this system had decreased as the demand had decreased. \textbf{At that time, Park didn’t revisit running its model again to ensure that 900 AF could still be pumped.} (Emphasis Added)

\(^{25}\) WSC Study, p. 3-7.
It is evident that since 2007 to 2010 the water production in the Compton East Water System has dropped 28.3%, but Park failed to adjust its estimates for the potential production from Well 9D, and still agreed on a production of 900 AF/year in order to secure the Proposition 50 grant for the Well 9D. Today in order to avoid low flow penalties it is not only under-utilizing its two wells in the Compton East Water System, but it is also forcing a less than favorable option of placing the cost burden of a new reservoir, booster and pump station on its captive ratepayers.

The following table summarizes the various alternatives Park has presented:

Table 5-2: Park’s proposed alternatives for new reservoir

<table>
<thead>
<tr>
<th>Alternative Description</th>
<th>Capital Costs</th>
<th>30-year Life Cycle Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Alternative Range</td>
<td>$0- $425,000</td>
<td>$39,933,000 - $53,910,000</td>
</tr>
<tr>
<td>Alternative #1: Construct a Reservoir</td>
<td>3,778,000</td>
<td>$37,397,000</td>
</tr>
<tr>
<td>Alternative #2: Drill &amp; Equip Well with VFDS</td>
<td>$3,343,000</td>
<td>$36,867,000</td>
</tr>
<tr>
<td>Alternative #3: Combine Compton East and Compton West</td>
<td>$4,535,000</td>
<td>$38,153,000</td>
</tr>
</tbody>
</table>

It should be noted that the least cost method would be Alternative #2: Drill & Equip Well with VFD. However, Park dismisses this least cost alternative on the basis of uncertainty associated with the actual production of 1000 gpm of the new well due to hydrogeology of the location. Park’s consultant also adds that “the potential for the new well to require wellhead treatment is a risk to the project budget. The cost of wellhead treatment is highly variable and is dependent upon the groundwater quality of the proposed well which is unknown; however, any treatment need would increase the life Cycle cost of this alternative. For

\[ (2371 - 1700)/2371 = 28.3\% \]
instance, the cost to install wellhead treatment at Well 9D was approximately $2.6 million, which is at the high end of the expected range.”22

ORA would like to point out that while indicting the possible risk associated with adding a new well (third well in the system besides the Well 9D and a new replacement of Well 4B that would be necessary for the new reservoir to work effectively), WSC conveniently fails to list the similar risk associated with the new replacement Well 4B. While Park acknowledges the fact that the new replacement Well 4B is essentially an integral part of the selected Alternative #1, but it still insists that it is separate standalone project independent of the reservoir and booster pump station.28

ORA points out that Park’s logic is misplaced because the new replacement Well 4B is not constructed yet and the proposed reservoir will never work without the water production from Well 4B (currently assumed to be 1000 gpm). Park requests the new replacement Well 4B as a standalone project starting in 2017 with completion in year 2018. Therefore, Park requests constructing the reservoir before the replacement of Well 4B; however, this would expose captive ratepayers to a tremendous risk if Well 4B required the wellhead treatment costing $2.6 million just as what was needed for Well 9D in the same water system.

Park’s current cost/benefit study is flawed as it does not take into account the level of obvious risk associated with the selected option of constructing a reservoir and booster pump station. In addition, the cost/benefit study transfers the costs of Park’s past lapses to its captive ratepayers---this is neither fair nor reasonable. Under these circumstances, ORA recommends that Park should go back to conduct further studies on the various project options and re-submit a cost-effective and fair solution for its Compton East Water System in its next GRC.

ORA would also like to point out that given the cost of Well 4B along with the

22 WSC study, p. 5-11.
28 Park’s response to ORA’s Data Request, AMX-02 (Question-3c).
potential cost of wellhead treatment, Alternative# 3: Combine Compton East to
Compton West looks promising. However, as Park puts it, currently there are too
many unknowns to accurately estimate the costs of this pipeline without
completing detailed design\(^\text{79}\). ORA recommends that Park should initiate more
detailed designs under this option and present the results in its next GRC along
with other alternatives, which should adequately capture the costs associated with
their respective risks.

2. T&D Water Mains (New and Replacements)

Park has proposed a tremendous budget of $19,050,600 for the replacement
of old and new installation of its water mains over the next three years. ORA
recommends that the Commission should authorize a total of $12,000,000 spread
evenly over the period of 2015-2017. Park’s requested amount makes up
approximately 42.9\(^\%\)\(^\text{80}\) of its total gross plant addition request for the next three
years. This is an overwhelming increase over Park’s historic budgets for the same
purpose. For example, in year 2009 through 2011, Park only spent a total of
$923,413 for the purpose of installing new and replaced water mains.\(^\text{81}\) It was
during its last GRC when Park started to request massive amounts for this purpose.
For example, in its last GRC, Park requested a total amount of $15,556,300 over
years 2012 through 2014, while the Commission authorized only $13,262,556\(^\text{82}\).
However, Park’s response to ORA’s Data Request, AMX-04 (Question-1) reveals
that Park has spent a lesser amount of $11,885,123 for the same period. Park also
responded that out of $11,885,123, $3,211,070 (27\%) was spent on the two
massive pipeline projects that Park did not specifically request in its last GRC, but

\(^{79}\) Park’s Application, p. 67.

\(^{80}\) $19,050,600/$44,445,957 = 42.9\% (Refer to Park’s Application, p. 124 and Park’s response to
ORA’s Data Request, AMX-02, Question-7).

\(^{81}\) Park’s response to ORA’s Data Request, AMX-04 (Question-1).

\(^{82}\) D.13-09-005 (See Settlement Document, p. 41).
were constructed due to the City of Compton and LA County’s re-pavements of street sections which forced Park to relocate its pipes to the lower depths.

Responding to ORA’s Data Request, AMX-04 (Question-2a) Park gives an interesting response for the reasons to its recent surge in the water main replacement program:

There are two primary reasons why Park had not been replacing pipelines at the appropriate rate for long-term sustainability: 1) **not having knowledge of the appropriate replacement rate**; 2) financial constraint…in 2011 and prior years Park was a small (compared to other Class A water companies), family-owned utility that was not publically traded and had limited access to outside capital. The owner of the company was concerned about the ability to raise additional capital for infrastructure replacement especially during the economic recession. As a result, Park refrained from large capital spending to guard against financial uncertainty during the recession. The acquisition of Park by Carlyle infrastructure Partners in December 2011 provided enhanced access to capital and, along with some degree of recovery in the economy, allowed Park to increase its pipeline replacement rate to more nearly approximate the appropriate rate. (Emphasis Added)

Park’s above response is quite troubling. It is questionable for a Class-A water company to claim that it had no knowledge of the appropriate replacement rate. On the other hand, Park has acknowledged that various staff members, such as Corporate Chief Engineer, Division Chief Engineer, Corporate GIS Coordinator, Civil Engineer 2, Engineering Technician 3, Division Superintendent, Production Supervisor, Utility Service Supervisor, Water Quality Operations Engineer, Utility Serviceperson, 1, 2, and 3, Production Foreperson, Production Technicians 1, 2, 3, and Corporate Engineering Technician 2 all are aware of the importance of the assets management.\textsuperscript{83}—Park’s captive ratepayers are paying collective salaries of these various staff positions totaling over $2 million per year. Therefore, for Park to claim its ignorance toward an appropriate rate of

\textsuperscript{83} Park’s response to ORA Data Request, AMX-04 (Question-2c).
replacement of its pipelines is troublesome to say the least. On one hand, Park claims that at least 75.6% of its pipeline in the Central Basin area is 45 years to 65 years old, and on the other it says that it has no knowledge of the appropriate replacement rate. Thus, it is beyond comprehension that for 2009-2011, Park has only replaced a total of 0.62 miles of pipeline with a cost of $923,143 given that 75.6% of its pipelines have ages between 45 years to 65 years at the rate of less than 0.21 miles a year.

In contrast, currently, Park goes to another extreme and requests replacing 14.92 miles at a cost of $19,050,600 over the period of 2015-2017---at a rate of 4.97 miles per year and at an annual average cost of $6,350,200. Unfortunately, both of these approaches are detrimental to the ratepayers’ interest. In its past approach, Park ignored the fact that one of its crucial assets i.e. pipelines were deteriorating and requested a replacement rate that was clearly too low and did not require advanced engineering knowledge to figure out that the replacement rate was too low. In its current approach, Park is now too ambitious and apparently shows no concern for the impact on its ratepayers, of which nearly 50% are in the low-income program. As discussed earlier, Park serves a community that is mainly comprised of blue-collar workers and a community whose median household income is less than the state average. Just because Park has recently found a new owner and access to capital does not necessarily mean that the company can expand its rate base to play catch up without considering the impact on captive ratepayers. Clearly, wages have not grown in the communities served by Park at rate increases enjoyed by Park. For example, based on the rates adopted in D.13-09-005 the average residential monthly bill increased 17.8%, while the average weekly wage change in Los Angeles between 2012 and 2013 fourth quarter was a negative 1.9%. Clearly customers in Bellflower and

---

84 Park’s Application, p. 70.
85 http://www.bls.gov/regions/west/news-
(continued on next page)
Compton are still living under the effects of recession. As U.S. Bureau of Labor Statistics puts it, the labor market in California is still weak despite more than three years of sustained economic growth, with California’s unemployment rate (8.7 percent in October 2013) remaining higher than at any point during or following the 2001 recession.  

Therefore, an ORA recommendation for main replacement is a reasonable amount to allow Park in the light of both its aging infrastructure and affordability for its captive ratepayers. In its last GRC, both ORA and Park settled on $13,262,556, which was later approved by the Commission. However, Park’s documents show that it has actually spent $11,885,123 of this approved amount over the last approved period of 2012-2014. ORA Therefore, recommends that the Commission should authorize an annual budget of $4,000,000 over the period of 2015-2017 for a total of $12,000,000. In addition, ORA understands that Park will need operational flexibility as it does not always strictly follow the individual pipeline projects, which it identifies as a needed within its GRC application, but based on leak history, high leak rate, and the age of few specific projects, Park should prioritize the pipeline projects identified by ORA in Table 3, and complete these projects within ORA’s recommended budget of $12,000,000 over the period of 2015-2017.

Table 5-3: ORA’s recommended pipeline replacement projects

(continued from previous page)
release/CountyEmploymentAndWages_California.htm#table1.

86 See Attachment-A: A copy of the California Budget & Policy Center’s Budget Brief.
3. Water Rights

Park requests a total of $3,000,000 for the purpose of purchasing water rights in the Central Basin. More specifically, Park proposes spending $1,000,000 per year over the period of 2015 through 2017. ORA recommends disallowing the purchase of water rights.

Park claims that the current drought has increased the importance of groundwater pumping rights in the Central Groundwater Basin. In addition, current increases in the imported water costs also caused the water right costs to increase as well when more utilities are turning to groundwater for their supplies. In addition, Park stated that cost of pumping groundwater has not risen at the same pace of imported water, so the cost savings from pumping groundwater versus purchasing imported water has increased. It is expected that groundwater that is impaired because of water quality issues may be utilized by adding treatment facilities. Park also argues that the cost of pumping and treatment will become more economical than purchasing imported water in the future.

---

87 Park Application, p. 83.
88 Park Application, p. 84.
A closer look at the historic records of water production shows that Park’s claim only reveals half the truth---cost of pumping groundwater had always been more economical than the cost of imported water, but Park had been relying more on imported water at least since 1980. For example in 1980 Park’s water mix was 43% groundwater and 57% imported water, and in its most recent year-2013, Park’s water mix was 38% groundwater and 62% imported water.  

Similarly, in responding to ORA’s Data Request, AMX-05 (Question-4b), Park submitted a past-12 year analysis of groundwater costs versus imported (purchased) water costs, which shows that historically the purchased water cost per Acre Foot (AF) were never more economical than the groundwater costs including the revenue requirement impact of Park’s recent purchasing spree for the water rights.

**Table 5-4: Park’s historic groundwater cost vs. purchased water cost**

<table>
<thead>
<tr>
<th></th>
<th>Cost Per AF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pumped ($/AF)</td>
</tr>
<tr>
<td>2003</td>
<td>$428.32</td>
</tr>
<tr>
<td>2004</td>
<td>$461.44</td>
</tr>
<tr>
<td>2005</td>
<td>$492.54</td>
</tr>
<tr>
<td>2006</td>
<td>$445.12</td>
</tr>
<tr>
<td>2007</td>
<td>$407.08</td>
</tr>
<tr>
<td>2008</td>
<td>$386.10</td>
</tr>
<tr>
<td>2009</td>
<td>$395.33</td>
</tr>
<tr>
<td>2010</td>
<td>$435.59</td>
</tr>
<tr>
<td>2011</td>
<td>$459.79</td>
</tr>
<tr>
<td>2012</td>
<td>$462.81</td>
</tr>
<tr>
<td>2013</td>
<td>$524.01</td>
</tr>
<tr>
<td>2014</td>
<td>$705.74</td>
</tr>
</tbody>
</table>

Based on the above facts, it is troubling to know that Park was historically relying on the more expensive source of water i.e. imported water than developing capabilities with its groundwater sources, such as improving its wells or securing water rights. For example, up until its last GRC (year 2012), Park owned only 2.3 AF

[^89]: Park’s Application, p. 60.
of water rights in the Central Basin and it either relied on the leased water rights or using purchased water. In its last GRC, the Commission authorized a total of $3,000,000 over the period of 2012 through 2014 to secure water rights—it turned out that Park has spent $8,991,423 on securing the water rights—a whopping 199.71% more than the amount authorized. Another key point that has a significant impact on ratepayers is the fact that water rights are not depreciable, and when included in rate base Park will earn a full rate of return on those rights into perpetuity, plus the gross up for income taxes.

Here we are beginning to see a pattern that over the past years Park did not manage its assets in the best interest of its ratepayers whether it was due to the neglectful mismanagement or lack of necessary capital, the end result was inefficient cost structures and poorly managed capital assets. We have seen with the less than reasonable replacement of its main waterlines, and now we see the same neglect in securing water rights and using the relatively least cost groundwater source. On the other hand, Park’s desperate dash to recover the years of neglect in a few years is also problematic because Park’s captive ratepayers’ wages have been stagnant and simply cannot afford the level of requested rate increases that will result because of these substantial capital additions. Based on the foregoing discussion and the fact that Park has already spent approximately 2 times more (approximately $5,991,423) than the amount Park was previously authorized for securing additional water rights. The Commission should not allow any amount in this rate cycle for the purchase of water rights.

4. **Groundwater Well Compton West (Well 12C)**

Park requests a total of $2,408,000 for a new well in its Compton West Water System. More specifically, Park requests $1,408,000 in 2015 and $1,000,000 in 2016. ORA recommends a total cost of $1,937,000 for this project.

Park claims that the Commission authorized this new well in its last GRC (D.13-09-005) as Well 13D, but due to Park’s hydrogeologist’s concerns about the potential low yield of water supply at the location previously selected, this forced
Park to search a new suitable location. However, there were extensive delays in purchasing the additional property for this facility and completing the City of Compton’s Architectural Review Board process.⁹⁰

A closer look at Park’s record reveals that the Commission has authorized a total of $1,937,000 for this well. More specifically the Commission authorized $100,000, $975,000, and $862,000 in year 2012, 2013, and 2014, respectively. Currently, Park requests $2,408,000 for the same project, but fails to provide any justification in its application for the increased cost of $471,000⁹¹. Please note that Park’s workpaper 6-D-1 through 6-D-10 shows cost breakdowns that compare the cost data for Well 12C to that of Well 19C, which Park has constructed in the year 2013 in Compton Wets Water System.

ORA believes that the more appropriate starting point for Park is not Well 19D, but its costs estimates for the Well 13D, which Park requested in its last GRC and the Commission subsequently approved. And more importantly, the Commission needs to know why Park’s ratepayers should pay $471,000 more for the Well 12C toady which was apparently delayed due to the Park’s hydrogeologist’s judgment error. In its last GRC while justifying the need and costs of Well 13D (predecessor of Well 12C), Park stated the following:

Due to the lack of supply in meeting maximum day demands, the age of one of the runner wells, the northerly location of the Well 19C, the lack of another adequate producing well to serve as back-up for a Well 19C, we believe it is prudent to install another groundwater well in our Compton West Water Systems. **We are proposing to abandon Well 13C and to construct a new groundwater well on the same site.** Fortunately, the site is large enough to maintain the Hydrogeologist recommended 25-foot clearance from existing Well 13C’s location. We believe a new well could be drilled into a deeper aquifer that is not expected to have TCE contamination. For 2012, we propose hiring Richard Slade &

⁹⁰ Park’s Application, p. 80.
⁹¹ $2,408,000 – 1,937,000 = $471,000.
Associates to perform hydrogeologic services related to the design including proving technical specifications for the construction of new municipal Well 13D. **The estimated cost for these services (a copy of Slade’s proposal and their hydrogeological report are included in the workpapers)** including Park’s in-house payroll for engineering and bid services is $100,000. (Emphasis Added).

The above excerpt from the Park’s GRC application, A.12-01-001, p. 69 shows that Park has selected the old site for the Well 13D under the advisement of its Hydrogeologist, Richard Slade & Associates as according to Park it has submitted “…their hydrogeological report” in 2012. It should also be noted that this Hydrogeologist, Richard Slade & Associates is the same consultant who has prepared the report titled “HYDROGEOLOGICAL EVALUATION OF EXISTING MUNICIPAL- SUPPLY WATER WELLS IN THE PARK WATER COMPANY SERVICE AREAS LOS ANGELES COUNTY, CALIFORNIA” for Park Water Company in 2005, and thus is intimately familiar with the Park’s water wells and its various well-site hydrogeology. Therefore, it is unfair and unreasonable to subject Park’s captive ratepayers to the cost increase of $471,000 for the new Well 12C. ORA recommends that the Commission should allow a hard-cap on the cost of Well 12C that should not increase above $1,937,000 that the Commission authorized in its D.13-09-005 for the same well.

Please note that ORA describes the term “hard-cap” as the authorized amount that would become the part of the Park’s final rate base (Plant + CWIP). This is an important distinction as in general practice, utilities would calculate the rates based on the authorized value of a specific project, but in its subsequent GRC, the utility’s recorded rate base account would include an actual amount spent on the same project that may be more than the authorized amount---this historic rate base that is then used as a base amount for any subsequent plant additions thus making the increased capital expenditure above the authorized amount a permanent part of the utility’s rates. For example, as previously addressed in Park’s water rights discussion, the Commission authorized $3,000,000 in its previous GRC-and the rates were set based on the
authorized amount of $3,000,000. However, subsequently, Park actually spent $8,991,423 on securing the water rights. This actual amount of $8,991,423 and not the authorized amount of $3,000,000 is now built into Park’s historic rate base starting in Test Year 2016 for the purpose of the current GRC, and the future rates will be based on the amount of $8,991,423 instead of $3,000,000. Placing a hard-cap will avoid such unwarranted inclusions into the utility’s rate base.

5. Bellflower/Norwalk Replacement Groundwater

Park requests $3,750,000 to replace an old well in its Bellflower/Norwalk Water System. More specifically, Park requests $650,000 in year 2015 for the purchase of land, $1,550,000 in year 2016 for drilling and casing, and $1,550,000 in year 2017 for structure and equipment for the new well. ORA agrees with Park’s justifications and cost estimations for this capital project.

Park has hired an outside consultant, Richard Slade & Associates LLC in 2005 to perform hydrogeological evaluation of Park’s water system. According to findings of the study, all of Park’s wells are quite old and are beyond their normal life expectancy. The consultant recommended that due to the high probability that many of Park’s wells could fail within the next few years, Park should embark on an aggressive program of replacing each of its old wells.⁹²

ORA is in general agreement that Park needs to replace its old well, but the rate of replacement needs to be reasonable to accommodate ratepayer service affordability as well. Park has recently constructed a few new wells: Well 9D was constructed in 1999 in its Compton East Water System; Well 19C was constructed in 2012 in its Compton West Water System, and ORA recommends construction of another new Well 12C in year 2016 in its Compton West Water System. ORA believes that at this time Park’s Bellflower Water System also get a new well. However, ORA stresses the point that in the interim, Park must follow a proactive asset management practice to its remaining old wells and new wells. Park must take

⁹²Park’s Well Study, p. 21 (Park’s workpapers Section 10-16, 10r).
on a proactive well maintenance program and rehabilitate the existing wells whenever it is feasible and advantageous rather than building new replacement wells. For example, in responding to ORA’s Data Request, AMX-01 (Question-4c), Park acknowledged the fact that in the past rehabilitation of the old wells has been quite cost-effective and it has gained approximately 4,617 gpm production rate through well rehabilitations.93

ORA has evaluated the reasonableness of the total cost of $3,750,000 for the new well and noticed that Park has based its estimates on the costs of its recently constructed wells: Well 9D and Well 19C. Park has escalated the past costs and added an extra amount for anticipated cost increases due to the increased backlogs for drillers. Park has added a 10% contingency and 5% overhead rate as well.94 ORA finds Park’s estimates reasonable, but ORA recommends a hard-cap of the total cost of $3,750,000 i.e. if the cost of well and the associated land increases above the requested cost amount of $3,750,000, the ratepayers will only be subject to the impact of $3,750,000 in their future water rates.

6. Building Remodel

Park requests $2,600,000 for remodeling its existing office building. More specifically Park requests $1,300,000 in year 2015 and $1,300,000 in year 2016 for this purpose. ORA agrees with Park’s justifications and cost estimates for this capital project.

Park states that its Central Basin operational crew and its corporate staff share offices at the existing building. The main office building was constructed in the early 1970s and is made of reinforced brick single-story abutting on two sides with a two-story concrete tilt-up. Originally, the single-story building included offices along the building perimeter with open bay office space in the middle. The

93 Includes 1180 gpm for Well 46C that was reported separately on Park’s Application, p. 89).
94 Park’s workpapers, Section 5-9, p. 6-D-5.
two-story tilt-up was a warehouse for the local operating division’s construction equipment and materials.\textsuperscript{*5}

Please note that Park has remodeled the existing building over the past year as well. For example, in 1991 as Park’s staff outgrew its office building, Park installed a triple wide trailer on the property to house its senior management at a cost of $91,770.\textsuperscript{*6} In 1994, to accommodate the changing work environment for its staff, Park began a series of office improvements including a customer lobby reconfiguration, customer payment processing room, and a partial second floor office installation in what was the two-story high construction warehouse. In 1997, Park evaluated the building’s resistance to seismic forces and found out that structural reinforcement was necessary to comply with the essential Services Building Seismic Safety Act of 1986. Park spent $154,655 to replace the roof of the building and seismic retrofit the office building. More recently, Park had to accommodate the growth in its customer service department and reconfigured its office space into an open working area. In addition, Park’s information technology staff was consolidated into one central area to improve work productivity. Park reports that from 1970 to 2014, it has approximately spent $4,798,045 for its office building and has either retired or depreciated $2,630,821 which leaves an approximately $2,167,223 in its current rate base.\textsuperscript{*7}

Park also claims that over the past few years each piecemeal building modification was made to address staffing increases or new technology. Park states that it has encountered challenges related to originally installed infrastructure, including heating-ventilation-air-conditioning ("HAVC"), cabling, structural, and electrical. Park further claims that infrastructure such as old plumbing system, electrical wiring and circuitry, lighting system, old phone and

---

\textsuperscript{*5} Park’s Application, p. 91.

\textsuperscript{*6} Park’s Response to ORA’s Data Request, AMX-03 (Question 1d).

\textsuperscript{*7} Park’s Response to ORA’s Data Request, AMX-03 (Question 2).
paging system etc. in Park’s building is reaching the end of its useful life. In addition, the concerns for non-compliance with the American Disability Act, 42 U.S.C. §12101 et seq. requirements for public building are also among the reasons that in November, 2012 Park issued a Request for Proposal (‘RFP”) to hire an architectural firm, KDG Architecture and Planning (“KDG”).

KDG has prepared the Office Building Renovation (“OBR”) Report on June 20, 2013. In this OBR report, KDG has identified various design elements for the first floor and the second floor such as occupancy for the Park’s staff, fire protection, means of egress, accessibility, architectural building systems, and sustainability and LEED (leadership in Energy and Environmental Design) considerations. The KDG estimated a probable construction cost of $2,221,075, soft cost of $450,000, and cost of $176,000 for optional items such as relocation of communication center and installment of solar panels.

In addition, Park also submitted a cost/benefit study that compares various alternatives and their respective cumulative effect on revenue requirement over the next 50 years. The alternatives include options such as leasing a new building for only office staff, leasing office space for Park’s office staff and field personnel, construction of new building at the same property and construction of new building at a different location. Park was able to demonstrate that the option of remodeling the existing building was more cost-effective among the available alternatives.

Based on foregoing facts, ORA believes that Park has reasonably justified the need of remodeling its existing building. However, ORA has few concerns regarding the cost estimates and the cost of the existing building still remains in ratebase. For example, Park’s workpapers, Section 5-9, tab Er, page. 6-E-3

---

98 Park’s Application, pp. 92-93.
99 KDG report, p. 35.
100 Park’s workpapers, Section 10-16, tab 14r, p. 1.
presents a cost of $2,952,047 for the purpose of renovating the existing building. The note on the same page explains that these costs are preliminary costs and are NOT based on specific designs, but rather based on current industry unit costs consistent with this type of building. Park further states that typically soft costs are based on percentages of the proposed construction costs and these costs may fluctuate up or down depending on established programming requirements that have not yet been established.

However, as stated earlier, Park has not only hired KDG to establish its design concept, but it also hired another architectural firm, Montalba Architects Inc. (“Montalba”) on January 10, 2014 to assist Park to further refine its need based on the KDG report’s findings. More specifically, Montalba would help Park to increase “open office” area and supporting team cubicles area, reconfiguration and modernization of exiting interior square footage, including private offices, open offices, kitchen(s), storage areas, conference room(s), restrooms, and additional program to be determined, flexible outdoor space for meeting, relaxing and dining, new furniture throughout.\[101\] Park paid KDG a total of $22,280 and has paid Montalba so far $119,706.\[102\] Park has also requested $450,000 for new office furniture and equipment based on Montalba’s interior designs. Therefore, ORA believes that Park’s estimates for the building are no longer a high level estimate as Park has spent a total of $141,986 to get a clear idea about the design and what is entailed to accomplish the proposed renovations. ORA recommends that the Commission should place a “hard cap” on the requested amount of $2,600,000 for the building remodel.

In addition, Park acknowledges that currently $2,167,223 of undepreciated costs of all past renovations are included in the rate base. The massive remodeling will invariably render a good portion of these un-depreciated costs un-useful; thus

\[101\] Park-Montalba Agreement, p. 1 (Park’s response to ORA Data Request, AMX-03, Question 6c).
\[102\] Park’s response to ORA Data Request, AMX-03, Questions 4 & 6.
there is need to adjust rate base to reflect these retirements. Similarly, Park has requested $450,000 for new office furniture and equipment due to the remodeling per its agreement with Montalba, and thus it is reasonable for past furniture costs be removed from rate base. Park’s workpapers show it has estimated $522,000 in year 2016. However, later during the discovery, Park realized that the correct amount for retirement is $1,452,000 for 2016 and has agreed to correct its workpapers. Please note that the correction will have no impact on rates as a parallel and equal adjustment in Park’s depreciation reserve would neutralize the impact of the increased retirement on rate base.103

7. Furniture and Office Equipment

Park requests $200,000 in year 2015, $250,000 in year 2016 and $5,000 in year 2017 for the purpose of purchasing office furniture. Park stated that this office purchase is needed in conjunction with the building remodel as discussed earlier. ORA agrees with Park’s justification and cost estimation of this capital project, but just as with building remodeling, ORA recommends that the Commission should place a “hard cap” on the total requested amount of $455,000.

8. Vehicles and Equipment


Park’s vehicle replacement criterion is to replace vehicles and trucks at 10 years and/or 100,000 miles.104 Park will also purchase 6 light-emitting diode (“LED”) light bars to increase the visibility of company vehicles. ORA reviewed Park’s estimates, which are based on 2014 average unit costs that have been

---

103 An email from Eric Wright dated April 9, 2015.

104 Park’s Application, p. 101. (Please also note that the 8 year vehicle replacement criteria as depicted in the Table 4 above is due to an error. Park’s Division Chief Engineer, James Elliot acknowledged that Park’s actual vehicle replacement criteria is 10 year and/or 100,000 mile as reported in Park’s report, p. 101)
escalated by a 5-year average Construction Index to 2015, 2016, and 2017 replacement unit costs for the particular vehicles and the light bars. The following table shows the summary of Park’s various vehicle replacement requests along with the projected mileage on the day of replacement according to Park’s policy of replacement at 10 year and/or 100,000 miles:-

Table 5-5: Park’s Vehicle Replacement request per its workpapers

<table>
<thead>
<tr>
<th>Vehicle Type</th>
<th>Year of Purchase</th>
<th>Over 8 Years Old?</th>
<th>Mileage at Date of 1/1/13</th>
<th>Mileage at Date of 7/31/13</th>
<th>Over 100K Miles?</th>
<th>Average Mileage Per Month during Year</th>
<th>Projected 2015 Year End Mileage</th>
<th>Projected 2016 Year End Mileage</th>
<th>Projected 2017 Year End Mileage</th>
</tr>
</thead>
<tbody>
<tr>
<td>F350 Pick-up</td>
<td>2001</td>
<td>Yes</td>
<td>105,696</td>
<td>108,264</td>
<td>Yes</td>
<td>367</td>
<td>114,501</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F250 Pick-up</td>
<td>1999</td>
<td>Yes</td>
<td>90,914</td>
<td>96,920</td>
<td>No</td>
<td>858</td>
<td>111,506</td>
<td>121,802</td>
<td></td>
</tr>
<tr>
<td>F350 Utility Bed</td>
<td>2002</td>
<td>Yes</td>
<td>125,800</td>
<td>129,185</td>
<td>Yes</td>
<td>484</td>
<td>137,406</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F350 Utility Bed</td>
<td>2006</td>
<td>Yes</td>
<td>80,209</td>
<td>85,838</td>
<td>No</td>
<td>804</td>
<td>99,508</td>
<td>109,158</td>
<td>118,808</td>
</tr>
<tr>
<td>F150 Pick-up</td>
<td>2003</td>
<td>Yes</td>
<td>91,262</td>
<td>96,500</td>
<td>No</td>
<td>748</td>
<td>109,221</td>
<td>118,200</td>
<td>127,180</td>
</tr>
<tr>
<td>F150 Pick-up</td>
<td>2004</td>
<td>Yes</td>
<td>96,989</td>
<td>101,629</td>
<td>Yes</td>
<td>663</td>
<td>112,898</td>
<td>120,852</td>
<td></td>
</tr>
</tbody>
</table>

Park claims that it has found that its maintenance costs start to exceed the replacement value of the depreciated asset.\textsuperscript{105} However, Park does not provide any such study to back its claim regarding the maintenance cost exceeding the replacement value at the given vehicle replacement criteria. ORA on the other hand relied on the well-established State of California Department of General Services’ (“DGS”) Vehicle Replacement Guidelines, which states as follows:

1. Sedan, station wagons, vans and light duty trucks or vehicles having a gross vehicle weight rating (GVWR) of 8,500 pounds or less at 120,000 miles.

\textsuperscript{105} Ibid.
2. Heavy duty trucks or vehicles (Class 3 and under) having a gross vehicle weight rating (GVWR) of 8,501 or more at 150,000 miles. According to the above DGS vehicle replacement criteria which has been applied by the Commission toward GRCs of sometimes, none of Park’s vehicles qualifies for replacement, except a Ford 150 Pick-up in 2016 and in 2017. Please note that the Ford 150 Pick-up has GVWR of 6,900 pounds and hence under DGS’ vehicle replacement criteria it should be replaced at 120,000 miles. The current Market Suggested Retail Price (“MSRP”) of a Ford 150 Pick-up is listed as $25,800 at Ford Motor Company website. Therefore, ORA recommends replacement of only one Ford 150 Pick-up in year 2016 and 2017. On the other hand, ORA agrees with the requested $6,800 for year 2015 and 2106, and $6,900 for year 2017 for the LED lights.

9. Water System Valves

Park requests $100,100 in year 2015, $101,100 in 2016, and $102,200 in 2017 for the purpose of replacing old valves. Park also requests $56,300 in 2015, $56,800 in 2016, and $57,400 in 2017 for the purpose of installing new valves. ORA recommends $76,095 for 2015, $76,855 for 2016, and $77,634 for 2017 for the purpose of replacing old valves. For the installation of new valves, ORA finds Park’s request to be reasonable.

Park claims that it has 5,121 valves in its water systems and it exercises the hydrant and water system valves in accordance with General Order 103-A. Park’s valve exercise program helps identify irreparable valves that must be replaced. In addition, Park also reviews its water system maps to determine the placement of new valves to minimize customer water outages during water system repairs and

---

shutdowns. Park acknowledges that historically it has replaced 19 valves per year, but claims currently there is a backlog of 40 valves and requests to replace 25 valves per year instead. Park claims that it has used 2014 normalized average unit cost that is escalated by a 5-year average Construction Cost Index to a 2015 average replacement unit cost of $4,005 per valve. In addition, Park claims that it has installed an average of 14 new valves per year. Park estimates unit costs of $4,018 for the installment of new valves.

ORA notes that even though Park claims that it has a backlog of 40 valves, it failed to provide any supporting documents or cite any particular reasons for the backlog. It is also questionable that implementation of the valve exercise program has contributed in an increase of the irreparable numbers of valves as the program has been in place for some years now per General Order 103-A requirements. Therefore, ORA recommends that Park should maintain the historic average rate of replacement of 19 valves per year and average 14 new valves per year. ORA agrees with Park’s unit cost estimates for both old and new valves. ORA recommends $76,095 for 2015, $76,855 for 2016, and $77,634 for 2017 for the replacement of 19 old valves per year.

**10. Water System Fire Hydrants**

Park requests $176,200 in 2015, $178,000 in 2016, and $179,700 in 2017 for the purpose of replacing old fire hydrants. Park also requests $30,900 in 2015, $31,200 in 2016, and $31,600 in 2017 for the purpose of installing new fire hydrants. ORA recommends $88,099 for 2015, $88,979 for 2016, and $89,870 for 2017 for the replacement of 11 old fire hydrants per year. For the installation of new fire hydrants, ORA finds Park’s request to be reasonable and accepts the company’s estimate.

Park claims that it has 1,782 fire hydrants in its water systems and each hydrant is tested at least once every year. This exercise program helps identify

---

108 Park’s Application, p. 75.
irreparable hydrants. In addition, Park also installs 4 new fire hydrants per year. Park acknowledges that historically it has replaced 11 fire hydrants per year, but claims that due to the number of fire hydrants that are undersized and reaching the end of their useful life, it considers it is prudent to increase the replacements to 22 fire hydrants per year. Park also claims that it has used 2014 normalized average unit costs that are escalated by a 5-year average Construction Cost Index to a 2015 average replacement unit cost of $8,009 per fire hydrant. In addition, Park claims that it has installed an average of 4 new fire hydrants per year. Park estimates unit costs of $7,734 for the installment of new fire hydrants.\textsuperscript{109}

ORA notes that Park does not provide any supporting documents to justify doubling the number of fire hydrant replacements from 11 to 22 per year. In addition, as discussed earlier, the affordability of Park’s customers must be taken into account while considering increases in capital additions. Therefore, absence any needed support that can justify this accelerated rate of replacement, ORA recommends that Park should maintain the historic average rate of replacement of 11 old fire hydrants per year and 4 new fire hydrants per year. ORA agrees with Park’s unit cost estimates for both old and new fire hydrants. ORA recommends $88,099 for 2015, $88,979 for 2016, and $89,870 for 2017 for the replacement of 11 old fire hydrants per year.

11. \textit{Automated Meter Reading (“AMR”) Project}

Park requests $238,600 in 2015, $262,300 in 2016, and $266,100 in 2017 for the purpose of replacing old water meters with that of newer AMR meters that can be read with the help of handheld electronic device from close proximity with the water meters. Park claims that due to the large capital outlay for this project, the program was implemented over a number of years. As of September 2014, Park had about 24,089 AMR meters in its system which represents 85\% of its customers. Park plans to complete its conversion program in 2017. As part of this

\textsuperscript{109} Park’s Application, pp. 75, 76.
program, Park would continue to replace the old and damaged meters with the
newer AMR meters. ORA finds Park’s request and associated costs reasonable.

12. Pumping Equipment

Park requests $200,000 annually in 2015, 2016 and 2017 for the various
pumping equipment, such as vertical turbine pumps, motors, motor controllers,
and pump control valves. ORA recommends $133,880 in 2015, $135,219 in 2016,
and $136,571 in year 2017.

Park claims that now that it has increased its pumping, the wear and tear on
its facilities, both old and new is increasing. Park the arbitrarily selects $200,000
per year for its pumping equipment capital budget.

ORA notes that Park already has started using more groundwater and has at
least two new wells in operations. Therefore, any increase in the related pumping
equipment capital expenditures is duly captured in its historic expenditures. In
addition, the new facilities will not require the level of replacements experienced
in older facilities. For example, Table-5 shows Park’s 5-year historic amount for
the expenditures for pumping equipment. As the cost data shows, the most recent
amounts are $21,906, $75,576, and $78,423 in years 2014, 2013 and 2012,
respectively. The recorded amount for year 2014 was $21,906 as of September
30, 2014, which ORA annualized as $29,208.

<table>
<thead>
<tr>
<th>Pumping Equipment</th>
<th>Normalized Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>$ 203,464</td>
<td>$ 251,114</td>
</tr>
</tbody>
</table>

Table 5-6: Park’s historic capital expenditure for Pumping Equipment

---

110 Park’s Application, p. 79.
111 Park’s workpapers, Section 5-9, Tab-Br, p. 6-B-1r.
112 Ibid.
The 5-year normalized historic average amount is $131,788. Therefore, based on the recent history Park’s estimates of $200,000 is quite excessive. ORA on the other hand, used 5-year historic expenditure levels and normalized the historic costs to base year 2014 and then escalated theses normalized 2014 costs using Park’s proposed 5-year average Construction Cost Index to recommend an estimate of $133,880, $135,219, and $136,571 for 2015, 2016, and 2017, respectively.

13. Miscellaneous Site Improvements

Park requests $100,000 annually for 2015, 2016 and 2017 for the various site structures such as seepage pits, vault lids, doors, and roofs etc. ORA recommends $38,775 in 2015, $39,163 in 2016, and $39,554 in 2017.

Park claims that now that it has increased its pumping, the wear and tear on its facilities, both old and new is increasing. Park arbitrarily selects $100,000 per year for miscellaneous site improvement costs.\footnote{113}{Park’s workpapers, Section 5-9, Tab-Br, p. 6-B-1r.}

ORA notes that Park has already started using more ground water, and it has at least two new wells in operations. Therefore, any increase in the related site improvements capital expenditure is duly captured in its historic expenditures. In addition, the new facilities will not require the level of replacements experienced in older facilities. For example, Table-6 shows Park’s 5-year historic amount for the expenditures for site improvements. Table-6 shows that the most recent amounts are $12,576 and $1,521 for the 2014 and 2013, respectively. Over the last 5 years except for 2012, the expenditure remained under $19,000 per year. The recorded amount for 2014 was $9,432\footnote{114}{Ibid.} as of September 30, 2014, which ORA annualized as $12,576.
Table 5-7: Park’s historic capital expenditure for Site Improvements

<table>
<thead>
<tr>
<th>Miscellaneous Site Improvements</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Normalized Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>2010</td>
<td>$15,538</td>
<td>$18,260</td>
<td>$138,524</td>
<td>$1,521</td>
<td>$12,576</td>
<td><strong>38,147</strong></td>
</tr>
</tbody>
</table>

As shown in Table-7, the 5-year normalized historic average is $38,147. Therefore, based on the recent history Park’s estimate of $100,000 is quite excessive. ORA on the other hand, used 5-year historic expenditure levels and normalized the historic costs to base year 2014, and then escalated these normalized 2014 cost using Park’s proposed 5-year average Construction Cost Index to recommend an estimate of $38,725, $39,163, and $39,554, in 2015, 2016, and 2017 respectively.

14. Water Treatment

Park requests $136,300 in 2015, $137,000 in 2016, and $137,700 in 2017 for the various water treatment equipment, such as chlorine generation, MicrOclor cell upgrades, miscellaneous analyzers and other water treatment equipment.


Park claims that now that it has increased its pumping, because the wear and tear on its facilities, both old and new is increasing. In addition, Park states that the historic 10-year average for miscellaneous treatment equipment is $70,179.115

ORA notes that Park has already started using more ground water, and it has at least two new wells in operations. Therefore, any increase in the capital expenditures related to water treatment equipment is duly captured in its historic expenditures. In addition, the new facilities will not require the level of replacements experienced in older facilities. For example, Table-7 shows Park’s 5-year historic amount for the expenditures for miscellaneous water treatment.

---

115 Park’s Application, p. 81.
equipment. Please notice that whereas Park cites the 10-year historic average, ORA believes that most recent 5-year average is more appropriate to use as it reflects the most recent trend in Park’s capital expenditures for this category. The 5-year normalized average amount is $127,121 per year. Please also note that the recorded amount for year 2014 was $13,248\textsuperscript{116} as of September 30, 2014, which ORA annualized as $17,664.

**Table 5-8: Park’s Historic Capital Expenditure for Water Treatment Equipment**

<table>
<thead>
<tr>
<th>Water Treatment</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Normalized Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$58,610</td>
<td>$199,653</td>
<td>$39,057</td>
<td>$309,216</td>
<td>$17,664</td>
<td>$127,121</td>
</tr>
</tbody>
</table>

ORA used the most recent 5-year historic expenditure levels and normalized the historic costs to the base year 2014, and then escalated these normalized 2014 costs using Park’s proposed 5-year average Construction Cost Index to estimate the future amounts of $129,194, $130,486, and $131,791, in 2015, 2016, and 2017, respectively.

**15. Land Purchase**

As discussed earlier under new well section, Park has requested various land purchases for its new and replacement wells. More specifically, Park requests $1,000,000 in 2015 for the purchase of land for its Compton East reservoir and booster station and replacement well, $650,000 in 2015 for the purchase of land for the new well in Bellflower/Norwalk Water System, and $700,000 for a potential new or replacement well that Park has not requested in this application. The total cost for land purchases requested by Park is $2,350,000.

ORA has already discussed the Compton East reservoir and booster station and Park’s request for a new well in Bellflower/Norwalk Water System. More

\textsuperscript{116} Ibid.
specifically ORA recommends that the Commission should not allow the reservoir and booster station project along with the new well in Park’s Compton East Water System. On the other hand, ORA agrees with Park’s request for the new well in its Bellflower/ Norwalk Water System. Therefore, accordingly ORA recommends that the Commission disallow the requested $1,000,000 worth of land purchase in Park’s Compton East Water System, but agrees with $650,000 worth of land purchase in Park’s Bellflower/Norwalk Water System.

ORA also recommends that the Commission should disallow Park’s request for $700,000 worth of land purchase in 2017 for a new/replacement well that Park has not requested in this GRC application. It is not only pre-mature at this stage to request funds to purchase land for a future well, but it also lacks the necessary justifications for the future well in the light of the fact that Park will be building two new wells in its systems which ORA currently agrees and recommends. Park needs to justify the need for future wells given the impact of the new wells it has requested in this GRC application, and which ORA has also agreed and recommends. Because no such justification is presented in this GRC application, ORA recommends that the Commission should disallow Park’s request for land purchases associated with the presumed new or replacement well.

16. Cost of Removal

Parks requests $2,157,100 for replacing houselines, servicelines, and other building facilities associated with the building renovation. More specifically, Park requests $888,400 in 2015, $874,800 in 2016, and $393,900 in 2017. ORA recommends $1,358,760 that should be spread evenly over 2015-2017. ORA’s annual recommended amount is $452,920.

A closer look at Park’s request reveals that a majority of these capital expenses are for the houselines and servicelines that are associated with the Park’s requests for its main pipeline replacements. These houselines re-connect the existing customers to the new water main lines that are being replaced. Therefore, as ORA recommends scaling back Park’s current water main replacement capital
budget mainly due to the affordability concerns of Park’s captive ratepayers, the
associated houselines/servicelines should also be reduced to maintain an
appropriate ratio.

Park requests $19,050,600 for the installation of new and replacement of
the exiting water mains and its request for the houselines/servicelines replacement
is $2,157,100. ORA recommends $12,000,000 for the installation of new and
replacement of the exiting water mains. Therefore, in order to maintain the same
ratio of the new houselines/servicelines replacement to that of the recommended
amount of $12,000,000 for the installation of new and replacement of the exiting
water mains, ORA recommends that the Commission should allow $1,358,670\textsuperscript{117}
that should be evenly spread over 2015-2017 or $452,920 per year.

17. Public Participation Hearing

During the public participation hearing at the City of Bellflower on April
29, 2015, ORA learned that one of the wells owned by the City of Bellflower has
excess capacity that could be available to Park. ORA inquired Park about this
possibility and Park provided the following response on May 4, 2015 by e-mail,

Park met with the City of Bellflower in late 2012 and 2013 to
discuss excess capacity in a new well they had developed. The City
had about 2,200 AFY of excess pumping capacity. However, not all
of the capacity was available to benefit Park’s customers for two
main reasons:

Hydraulic constraints. The City had a consultant run a hydraulic
analysis on the flows that might be available to Park after the City
and Bellflower-Somerset Mutual Water Company satisfied their
demands. The amount of well water available in the summer was
only 400 gpm and at low pressures (less than 49 psi).

Water rights. The City had only 680 AFY of unused water rights
available to supply Park. If Park were to take more than 680 AFY,
Park would need to pay for lease water rights in addition to the other

\textsuperscript{117} \$12,000,000 \times (\$2,157,100 / \$19,050,700) = \$1,358,760.
project costs. It made more economic sense to use our own wells for pumping leased rights.

Park prepared a cost estimate of the facilities needed to take water from the City’s well. We would use existing property to locate a booster pump station to increase the pressure (around 40 psi) to match the pressures in Park’s system (80 to 90 psi). We estimated the cost of the following items to make the project work:

1300 ft of 12-inch ductile iron (DI) pipe to reduce the bottleneck from the well site. This would be an improvement to the City of Bellflower water system funded by Park.

700 ft of 12-inch DI from Mapledale/McNab to Park’s property.

Booster pump station equipment

Fluoridation equipment

The total expense was estimated at about $1.32 million for 680 AFY.

Park also had concerns about contract conditions. The City wanted to enter into a 10 year contract for the water. Park requested 20 to 25 years. We would have stranded assets if the City pulled out of the contract after 10 years. The other unknown was the wheeling charge from Bellflower-Somerset Mutual. In order to move the water from the well to Park’s water system, we would have to pay the Mutual a wheeling charge of $70/AF (2013 price). Future price increases for the wheeling charge were unknown and could become cost prohibitive. Park did not want to have to create another agreement with the Mutual for wheeling charges. Park wanted to only deal with the City and have the City work with the Mutual on the wheeling charge since they already had a working relationship with them. For these various reasons, Park declined to enter into an agreement with the City at that time. It is more cost effective for Park to replace wells in its Bellflower-Norwalk system.
ORA accepts Park’s response at this time. However, ORA encourages Park to continue negotiating with the City of Bellflower in order to achieve a more economical agreement to obtain this excess capacity. Park should report to the Commission in its next GRC about the result of any further negotiations with the City of Bellflower.

D. CONCLUSION

Upon reviewing Park’s request for utility plant, ORA found that Park’s plans to replace aging infrastructure and add new facilities are in some cases justified. However, the requested increase in the rate of infrastructure replacement and the amount of new facilities proposed to be constructed is significantly more ambitious than in past rate cases. Park’s service area is comprised of mostly working-class individuals, with a median household income of $42,953 for consumers living in the City of Compton, and $49,637 for consumers living in City of Bellflower. These income levels are lower than the median income of $61,094 in the State of Californian reported for the same period.\textsuperscript{118} In addition, the state economy has not fully recovered to the pre-recession levels. For example, a recent study conducted by a non-profit organization, California Budget & Policy Center issued a Budget Brief, dated January 7, 2014 quotes U.S. Bureau of Labor Statistics that the labor market is still weak despite more than three years of sustained economic growth, with California’s unemployment rate (8.7 percent in October 2013) remaining higher than at any point during or following the 2001 recession. In addition, the rate affordability levels of Park’s customers are near the 2.5% of average household income set as guideline by the Commission.

ORA found it necessary to consider the service affordability and level of low income customers served by Park and to carefully balance the needs of the company to replace its aging infrastructure. ORA’s objective is to recommend

\textsuperscript{118} US Census Bureau, American Fact Finder S1903 Median Income in the Past 12 Months (In 2013 Inflation Adjusted Dollars).
plant additions that will allow Park to continue to provide safe, reliable service at the lowest rate possible. ORA’s recommendations have been incorporated into the calculations for ORA’s recommended Plant in Service as shown in Tables 5-9 and 5-10 below:

### TABLE 5-9
PARK WATER COMPANY
DEPRECIATION RESERVE & DEPRECIATION EXPENSE
TEST YEAR 2016

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td>Amount</td>
</tr>
<tr>
<td>Plant in Service-(BOY)</td>
<td>$ 92,483,123</td>
<td>$ 98,791,686</td>
<td>$ 6,308,563</td>
</tr>
<tr>
<td>Utility Plant Additions During Year</td>
<td>12,962,215</td>
<td>16,403,351</td>
<td>$ 3,441,136</td>
</tr>
<tr>
<td>Less Retirement</td>
<td>2,054,888</td>
<td>1,124,888</td>
<td>$ (930,000)</td>
</tr>
<tr>
<td>Net Plant-in-Service (EOY)</td>
<td>103,390,450</td>
<td>114,070,149</td>
<td>$0,679,699</td>
</tr>
<tr>
<td>Weighting factor</td>
<td>0.5</td>
<td>0.5</td>
<td>-</td>
</tr>
<tr>
<td>Wtd. Avg. Plant in Service</td>
<td>$ 97,936,787</td>
<td>$ 106,430,918</td>
<td>$ 8,494,131</td>
</tr>
</tbody>
</table>

### TABLE 5-10
PARK WATER COMPANY
DEPRECIATION RESERVE & DEPRECIATION EXPENSE
TEST YEAR 2017

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td>Amount</td>
</tr>
<tr>
<td>Plant in Service-(BOY)</td>
<td>$ 103,390,450</td>
<td>$ 114,070,149</td>
<td>$10,679,699</td>
</tr>
<tr>
<td>Utility Plant Additions During Year</td>
<td>7,151,520</td>
<td>16,547,700</td>
<td>9,396,180</td>
</tr>
<tr>
<td>Less Retirement</td>
<td>623,803</td>
<td>623,803</td>
<td>-</td>
</tr>
<tr>
<td>Net Plant-in-Service (EOY)</td>
<td>109,918,167</td>
<td>129,994,046</td>
<td>20,075,879</td>
</tr>
<tr>
<td>Weighting factor</td>
<td>0.5</td>
<td>0.5</td>
<td>-</td>
</tr>
</tbody>
</table>
ATTACHMENT A

POVERTY IN THE GOLDEN STATE: WHERE CALIFORNIA STANDS
50 YEARS SINCE THE WAR ON POVERTY BEGAN

January 6, 2014 marks the 50th anniversary of President Lyndon B. Johnson’s declaration of an unconditional War on Poverty, made during his 1964 State of the Union address. Although poverty remains a reality for millions of Californians, the last half-century has shown the key role that public policies can play in reducing poverty and fostering economic security. With state policymakers set to begin crafting a new state budget, this Budget Brief looks at poverty in the Golden State and discusses some ways that policymakers can help reduce economic hardship and expand pathways to opportunity and advancement.

Public Policies Can Reduce Poverty and Address Its Impacts

Over the last 50 years, efforts to strengthen the “social safety net” – the public services and benefits that help provide a basic level of subsistence – have helped combat poverty and have alleviated economic hardship for millions of individuals and families. By one estimate, safety-net policies helped reduce the national poverty rate from 26 percent in 1967 to 16 percent in 2012 – a decline of more than one-third.¹

In California, the social safety net comprises individual programs that fight poverty on a number of fronts. Some programs provide in-kind assistance that helps families obtain food or afford housing. For example, the federal Supplemental Nutrition Assistance Program (SNAP) – known as CalFresh in California – provides food assistance to low-income families. The Public Policy Institute of California estimates that CalFresh helped 800,000 individuals, including 380,000 children, escape poverty in 2011.²

Other programs provide modest cash assistance to low-income Californians. One such program, California Work Opportunity and Responsibility to Kids (CalWORKs), helps lift approximately 470,000 Californians – about half of them children – out of poverty in 2011. Other safety-net programs include tax credits for working families and programs that increase access to affordable health care.³

The social safety net plays a critical role in keeping Californians out of poverty. According to the US Census Bureau, safety-net programs on average kept nearly 4 million Californians, including 1 million children, out of poverty between 2009 and 2011.⁴

Many Californians Still Struggle in the Aftermath of the Great Recession

Although the social safety net has proven to be a vital tool in the fight against poverty, many Californians nonetheless are struggling in the aftermath of the Great Recession, the worst economic downturn in generations. The labor market is still weak despite more than three years of sustained economic growth, with California’s unemployment rate (8.7 percent in October 2013) remaining higher than at any point during or following the 2001 recession.⁵ The official federal poverty measure shows that:

P.O. Box 108014, Sacramento, CA 95814 • P: (916) 444-0500 • www.cbpp.org
• Poverty in California is nearly one-third higher now than before the Great Recession. Nearly 16 percent of Californians—more than 6 million people—had incomes below the federal poverty line in 2012, compared to 12.2 percent in 2008, the last year before the recession began.6

• Poverty is more common among children than for the population as a whole. In 2012, 22.5 percent of the state’s children—2.1 million—were living in poverty, according to the official measure (Figure 1). This child poverty rate is nearly seven percentage points higher than California’s overall poverty rate of 15.9 percent.

Unfortunately, the official poverty measure understates the extent of economic hardship in California. Newer, alternative measures of poverty more accurately estimate economic well-being, because they not only factor in cash income and other resources provided by public programs, but also account for the costs of housing, medical expenses, and other necessities.

California’s high cost of living means that more people struggle to make ends meet than the official measure estimates, even after accounting for the poverty-reducing effect of public programs.

One alternative poverty measure—the US Census Bureau’s Supplemental Poverty Measure—shows that, on average, 23.8 percent of Californians lived in poverty between 2010 and 2012, well above the official poverty rate for these three years—16.5 percent.7

Continuing the War on Poverty in California

Fifty years since the War on Poverty began, there is clearly much more to be done. As President Johnson said in his 1964 address, while poverty is a national problem, “this attack, to be effective, must also be organized at the state and the local level and it must be supported and directed by state and local efforts.” California’s leaders can reduce poverty by making budget and policy choices that extend the reach of public programs and provide the necessary investments in people and the state’s future. State lawmakers can:

• Ensure that public programs and services that help reduce poverty and alleviate economic hardship reach those who need them most. For example, only 55 percent of Californians who were eligible for SNAP/CalFresh received this food assistance in 2010—the lowest SNAP participation rate in the nation.8 Boosting participation in CalFresh—and in other critical programs for low-income individuals in California—would help families make ends meet and reduce economic hardship.

![Figure 1. Nearly One Out of Four California Children Were Living in Poverty in 2012. Child Poverty Rate Remains Nearly One Fourth Higher Than in 2008, the Year Before the Great Recession Began.](image-url)

Source: US Census Bureau.
## ATTACHMENT B

### Current Authorized Residential Rates

<table>
<thead>
<tr>
<th>Tier</th>
<th>Service Rates per Tariff Sheets April 2015 as reported on PWC’s website</th>
<th>Adopted Settlement-Average Consumption Per Residential Customer (Ccf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier I</td>
<td>$4.79</td>
<td>$47.90</td>
</tr>
<tr>
<td>Tier II</td>
<td>$5.51</td>
<td>$6.93</td>
</tr>
<tr>
<td>Average Quantity Bill</td>
<td>$54.83</td>
<td></td>
</tr>
<tr>
<td>Meter Charge (3/8-inch)</td>
<td>$20.22</td>
<td></td>
</tr>
<tr>
<td>Average Monthly Bill</td>
<td>$75.05</td>
<td></td>
</tr>
<tr>
<td>Average Yearly Bill</td>
<td>$900.64</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average Household Income</th>
<th>1.5% Threshold</th>
<th>2.5% Threshold</th>
<th>Current Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compton</td>
<td>$42,953</td>
<td>$644</td>
<td>$1,074</td>
</tr>
<tr>
<td>Bellflower</td>
<td>$49,373</td>
<td>$741</td>
<td>$1,234</td>
</tr>
</tbody>
</table>
CHAPTER 6: DEPRECIATION RESERVE AND DEPRECIATION EXPENSES

A. INTRODUCTION

This chapter presents the ORA’s analyses and recommendations regarding the depreciation reserve and depreciation expense. Table 6-1 and Table 6-2 at the end of this chapter provide ORA and Park’s estimates for depreciation reserve and depreciation expenses for Test Years 2016 and Escalation Year 2017.

B. SUMMARY OF RECOMMENDATIONS

ORA carefully reviewed Park’s application for its methodology used for calculating depreciation reserve and depreciation expenses for Test Years 2016 and 2017 and found it reasonable. The differences between ORA’s recommendations and Park’s proposed amounts are caused mainly due to ORA’s different recommendations for Park’s plant addition which were discussed in preceding chapter.

C. DISCUSSION

Park has calculated depreciation rates for the Test Year 2016 in accordance with the Commission’s Standard Practice U-4. Park used its plant and reserved balances as of January 2014 and determined the revised depreciation rates through use of the appropriate Iowa Type Remaining Life Curves contained in the Commission’s Standard Practice U-4. Park has revised remaining life assumptions for few of its assets as well. For example, the service life assumption for a well was increased from 40 to 50 years and for water mains from 50 to 60 years.\textsuperscript{119}

Similarly, the depreciation accruals for 2014 and 2015 are based on the currently authorized depreciation rates, which were applied to the respective average plant balances. The accruals for 2016 and 2017 are based on the proposed

\textsuperscript{119} Park’s Application, p. 125.
depreciation rates. Park also made few adjustments. For example, adjustments to
the accrual account were made for the depreciation that was charged to the
clearing accounts and the contribution accounts. Adjustments for the allocated
plant common to the Central Basin Division were also made.\(^{120}\)

D. CONCLUSION
ORA reviewed Park’s methodology and found it in accordance with the
Commission’s Practice and Standards. The differences in ORA and Park’s
proposed depreciation reserves and accruals are mainly due to the differences in
the plant addition.

\(^{120}\) Park’s Application, p. 126
<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accum. Depreciation (BOY)</td>
<td>$ 21,067,835</td>
<td>$ 21,920,314</td>
<td>$ 852,479</td>
<td>4.05%</td>
<td></td>
</tr>
<tr>
<td>Annual Accrual Charged to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clearing Accounts</td>
<td>$ 110,541</td>
<td>$ 109,324</td>
<td>$ (1,217)</td>
<td>-1.10%</td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>299,675</td>
<td>300,175</td>
<td>500</td>
<td>0.17%</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expenses</td>
<td>2,058,176</td>
<td>2,139,342</td>
<td>81,166</td>
<td>3.94%</td>
<td></td>
</tr>
<tr>
<td>Total Accrual</td>
<td>$ 2,468,392</td>
<td>$ 2,548,841</td>
<td>$ 80,449</td>
<td>3.26%</td>
<td></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirements</td>
<td>$ 2,054,888</td>
<td>$ 1,124,888</td>
<td>$ (930,000)</td>
<td>-45.26%</td>
<td></td>
</tr>
<tr>
<td>Adjustment</td>
<td>166,761</td>
<td>73,761</td>
<td>(93,000)</td>
<td>-55.77%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ 2,221,649</td>
<td>$ 1,198,649</td>
<td>$ (1,023,000)</td>
<td>-46.05%</td>
<td></td>
</tr>
<tr>
<td>Depreciation Reserve (EOY)</td>
<td>$ 21,314,578</td>
<td>$ 23,270,506</td>
<td>$ 1,955,928</td>
<td>9.18%</td>
<td></td>
</tr>
<tr>
<td>Avg. Accumulated Deprec.</td>
<td>$21,191,207</td>
<td>$22,595,410</td>
<td>$1,404,204</td>
<td>6.63%</td>
<td></td>
</tr>
</tbody>
</table>
### TABLE 6-2

**PARK WATER COMPANY**

**DEPRECIATION RESERVE & DEPRECIATION EXPENSE**

**TEST YEAR 2017**

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA 1</th>
<th>PARK 2</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accum. Depreciation (BOY)</td>
<td>$21,314,578</td>
<td>$23,270,506</td>
<td>$1,955,928</td>
</tr>
<tr>
<td>Annual Accrual Charged to</td>
<td>$111,954</td>
<td>$112,391</td>
<td>$437</td>
</tr>
<tr>
<td>Clearing Accounts</td>
<td>301,170</td>
<td>301,669</td>
<td>499</td>
</tr>
<tr>
<td>Contributions</td>
<td>2,373,499</td>
<td>2,620,743</td>
<td>247,244</td>
</tr>
<tr>
<td>Depreciation Expenses</td>
<td>2,786,623</td>
<td>3,034,803</td>
<td>248,180</td>
</tr>
<tr>
<td>Total Accrual</td>
<td>$2,786,623</td>
<td>$3,034,803</td>
<td>$248,180</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirements</td>
<td>$623,803</td>
<td>$623,803</td>
<td>0</td>
</tr>
<tr>
<td>Adjustment</td>
<td>6,908</td>
<td>6,908</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>$630,711</td>
<td>$630,711</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation Reserve (EOY)</td>
<td>$23,470,490</td>
<td>$25,674,598</td>
<td>$2,204,108</td>
</tr>
<tr>
<td>Avg. Accumulated Deprec.</td>
<td>$22,392,534</td>
<td>$24,472,552</td>
<td>$2,080,018</td>
</tr>
</tbody>
</table>

1. 6-4
CHAPTER 7: RATEBASE

A. INTRODUCTION

This chapter presents the ORA’s analysis and recommendations regarding Park’s ratebase.

B. SUMMARY OF RECOMMENDATIONS

Differences in ratebase are mainly due to differences in Park’s requested capital plant addition and ORA’s recommendations as discussed in preceding chapter. ORA recommends a weighted average ratebase of $65,681,644 in year 2016 and $71,143,177 in year 2017. Table 7-1 and 7-2 at the end of this Chapter provide a summary of ORA’s and Park’s weighted Average Depreciated ratebase.

C. DISCUSSION

1. Working Cash

Working Cash is a component of rate base and it is comprised of cash provided by the investors for the purpose of enabling the utility to perform its day-to-day operations. These cash needs are measured in a lead-lag study. A lead-lag study measures the time between the services provided to the utility customers and the collection of revenues for these services, and the time between the provision of services by the utility and its disbursement of payments to its employees and its various vendors for the related cost of these services. Typically, a “lead” is associated with the expenses and a “lag” is related to the revenues. Thus, the need for investors to provide the needed revenues to pay for the utilities expenses before the associated revenue can be collected from the customers.

Park claims that it has followed the Commission’s Standard Practice U-16. The method has two parts: 1) the lead-lag study; and 2) the Operational Cash
Requirement and reduction to it, which are derived from the average of monthly balances in certain balance sheet accounts.\textsuperscript{121}

Park states that traditionally, it has calculated a revenue lag for use in the lead-lag Study, by assuming that the full amount of the revenue would be billed and collected in the same year. However, Park claims that based on its recent experience the significant portion of the revenue requirement is not billed or received in that year, but is instead captured in the Water Revenue Adjustment Mechanism (“WRAM”) account and billed and received much later in the form of surcharges. Park therefore, anticipates that a portion of the commodity revenue for 2017 will not be billed or received in that year. Park requests increasing this late received commodity rate revenue amount by 1.5%. In addition, Park also includes a provision that when the revenue is later billed and received through surcharge, the amount of revenue will be reduced by the associated production cost savings.\textsuperscript{122} ORA has reviewed Park’s Lead-Lag study and made a few adjustments:

First, ORA notes that any adjustments for the revenues that are captured in WRAM accounts are not warranted as Park’s WRAM account is an interest bearing account and pursuant to the Commission’s Standard Practice U-16W, balances that are interest bearing, such as customer deposits and balancing or memorandum accounts should not be included in the lead-lag calculations since these balancing accounts accrue interests which compensate investors for the time value of money. Similarly, expenses, such as Purchased Power, Purchase Water and Replenishment expenses are all included in Park’s WRAM/Modified Cost Balancing Account, which are interest bearing accounts\textsuperscript{123}. Therefore, ORA

\textsuperscript{121} Park’s Application, p. 131.
\textsuperscript{122} Park’s Application, p. 132.
\textsuperscript{123} The Commission Decision, D.08-02-036, Ordering Paragraph 1, adopted ORA and Park’s settlement regarding WRAM.
recommends excluding these expenses from the Working Cash calculations which
are not consistent with Standard Practice U-16W.

Secondly, ORA recommends removing the depreciation expense from
Park’s lead-lag Study. Since the purpose of Working Cash is to compensate
investors for the amount of cash they make available for the expenses of the
utility’s day-to-day operations, the depreciation expense inherently is a non-cash
expense in that no cash is needed from investors to make available for this
expense. Therefore, the inclusion of depreciation expense in the lead-lag Study is
grossly unreasonable. In the past, Park has claimed that using depreciation
expense in the lead-lag Study is warranted by the Commission’s Standard Practice
U-16W.

However, ORA argues that the Commission’s Standard Practice may have
created an undesirable effect when it stated that “Since book depreciation expense
is occurring uniformly day by day and accumulated depreciation is deducted from
the rate base, the practice is to include depreciation provisions at zero lag days”
(Standard Practice U-16W, p. 1-15). ORA would like to point out that by
including depreciation expense provision at “zero lag days” does not neutralize the
impact of inclusion of depreciation expense on the Working Cash. For example,
for 2016, Park’s overall net revenue lag days of 13.19 is calculated by assuming
zero lag days of the depreciation expense, but in the end this net revenue lag day is
multiplied with the total expenses that are deemed necessary for the Park’s day-to-
day operation. And as depreciation expense is included in these operational
expenses, Park thus effectively collects Working Cash for the provision of the
depreciation expenses. This goes against the fundamental principle of the Working
Cash allowance. The bottom line is depreciation expense is a non-cash expense
and no payment is required by the investors on a day-to-day basis. Therefore,
depreciation expense needs to be excluded from the Working Cash calculations all
together.
It should also be noted that when investors made the funds available for the purchase of depreciable assets, they are duly compensated with a rate of return that is assessed on the un-depreciable plant and the recovery of their investment in the form of depreciation expense. Therefore, including depreciation expenses in the Working Cash calculation compensates investors twice.

D. CONCLUSION

Table 7-1 and 7-2 compare ORA’s and Park’s estimates for the Weighted Average Depreciation Ratebase.

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Average Utility Plant in Service</td>
<td>$95,134,549</td>
<td>$103,413,202</td>
<td>$8,278,653, 8.70%</td>
</tr>
<tr>
<td>Average Construction Work In Progress</td>
<td>1,661,155</td>
<td>2,616,226</td>
<td>955,071, 57.49%</td>
</tr>
<tr>
<td>Average Materials and Supplies</td>
<td>194,248</td>
<td>196,210</td>
<td>1,962, 1.01%</td>
</tr>
<tr>
<td>Working Cash</td>
<td>2,212,412</td>
<td>2,474,564</td>
<td>262,152, 11.85%</td>
</tr>
<tr>
<td>Total Additions to Rate Base</td>
<td>$99,202,364</td>
<td>$108,700,202</td>
<td>$9,497,838, 9.57%</td>
</tr>
</tbody>
</table>

Less Deduction from Ratebase:

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Reserve for Depreciation</td>
<td>$20,981,548</td>
<td>$22,120,695</td>
<td>$1,139,147, 5.43%</td>
</tr>
<tr>
<td>Advances for Construction</td>
<td>1,315,896</td>
<td>1,271,779</td>
<td>(44,117), -3.35%</td>
</tr>
<tr>
<td>Contributions</td>
<td>6,440,562</td>
<td>6,437,929</td>
<td>(2,633), -0.04%</td>
</tr>
<tr>
<td>Unamortized ITC</td>
<td>32,945</td>
<td>32,945</td>
<td>0, 0.00%</td>
</tr>
<tr>
<td>Deferred Income Taxes</td>
<td>6,773,971</td>
<td>6,866,281</td>
<td>92,310, 1.36%</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$35,544,922</td>
<td>$36,729,629</td>
<td>$1,184,707, 3.33%</td>
</tr>
</tbody>
</table>

Plus

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Method 5 Adjustment</td>
<td>$3,878</td>
<td>$3,878</td>
<td>0, 0.00%</td>
</tr>
<tr>
<td>Resources Adjustment</td>
<td>0</td>
<td>0</td>
<td>0, 0.00%</td>
</tr>
<tr>
<td>General Office Allocation</td>
<td>$2,014,655</td>
<td>$2,014,655</td>
<td>0, 0.00%</td>
</tr>
<tr>
<td>Total Average Rate Base</td>
<td>$65,681,644</td>
<td>$73,989,106</td>
<td>$8,307,462, 12.65%</td>
</tr>
</tbody>
</table>
### TABLE 7-2
PARK WATER COMPANY
WEIGHTED AVERAGE DEPRECIATED RATE BASE
TEST YEAR 2017

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Average Utility Plant in Service</td>
<td>$103,453,642</td>
<td>$118,383,298</td>
<td>$14,929,656</td>
</tr>
<tr>
<td>Average Construction Work In Progress</td>
<td>0</td>
<td>800,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>Average Materials and Supplies</td>
<td>200,076</td>
<td>202,097</td>
<td>$2,021</td>
</tr>
<tr>
<td>Working Cash</td>
<td>195,6374</td>
<td>414,1888</td>
<td>$2,185,514</td>
</tr>
<tr>
<td>Total Additions to Rate Base</td>
<td>$105,610,092</td>
<td>$123,527,283</td>
<td>$17,917,191</td>
</tr>
</tbody>
</table>

Less Deduction from Ratebase:

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Reserve for Depreciation</td>
<td>$22,358,898</td>
<td>$24,036,777</td>
<td>$1,677,879</td>
</tr>
<tr>
<td>Advances for Construction</td>
<td>138,1748</td>
<td>133,8735</td>
<td>$(43,013)</td>
</tr>
<tr>
<td>Contributions</td>
<td>619,0140</td>
<td>618,7006</td>
<td>$(3,134)</td>
</tr>
<tr>
<td>Unamortized ITC</td>
<td>25,913</td>
<td>25,913</td>
<td>0</td>
</tr>
<tr>
<td>Deferred Income Taxes</td>
<td>698,4247</td>
<td>718,6687</td>
<td>$202,440</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$36,940,946</td>
<td>$38,775,118</td>
<td>$1,834,172</td>
</tr>
</tbody>
</table>

Plus

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>PARK</th>
<th>PARK exceeds ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Method 5 Adjustment</td>
<td>$3,687</td>
<td>$3,687</td>
<td>0</td>
</tr>
<tr>
<td>Resources Adjustment</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>General Office Allocation</td>
<td>$2,462,159</td>
<td>$2,462,159</td>
<td>0</td>
</tr>
<tr>
<td>Total Average Rate Base</td>
<td>$71,143,177</td>
<td>$87,218,011</td>
<td>$16,074,834</td>
</tr>
</tbody>
</table>
CHAPTER 8: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter presents ORA’s analysis and recommendations on Taxes Other Than Income for the Park General Rate Case Test Year 2016. The category of Taxes Other Than Income is comprised of ad valorem tax (property taxes), and payroll taxes.

B. SUMMARY OF RECOMMENDATIONS

Differences between Park and ORA’s estimates for Taxes Other Than Income are primarily due to differences in net plant in service, estimated payroll expenses and use of the current applicable cap for the Social Security Tax. The methodologies Park used in estimating future taxes and fees are detailed below. A comparison of ORA and Park’s Taxes Other Than Income are shown in Table 8-1.

C. DISCUSSION

1. Ad Valorem Taxes

Park estimates future ad valorem taxes based on the estimated assessed value placed on Park’s property for the Test Year by the Los Angeles County Assessor’s Office and the ad valorem tax rates currently in effect. The estimates of the assessed value are calculated based on the estimated plant additions, retirements, advances, contributions, Construction Work in Progress (“CWIP”), and Materials and Supplies (“M&S”) using the same assessment percentage of 1.25% by the Los Angeles County Assessor’s Office. ORA accepts this methodology and notes that differences between Park and ORA estimates are due to differences in estimates of future plant. ORA’s plant estimate is less than Park’s plant estimate. Thus, ORA’s tax estimate is lower.

2. PAYROLL TAXES

Payroll taxes include three components: (1) Federal Insurance Contribution Act (“FICA”) tax consisting of Old Age Benefits (Social Security Tax) and
Medicare, (2) Federal Unemployment Insurance (“FUI”), and (3) State Unemployment Insurance (“SUI”). All three components have statutory limits governing the maximum percentage that can be collected from employers (see table, below).

<table>
<thead>
<tr>
<th>PAYROLL TAXES</th>
<th>RATE</th>
<th>EXPLANATORY NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FICA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>6.20%</td>
<td>Social Security Tax is 6.2% applied to only the first $118,500 of an employee’s salary. Maximum per employee is $7347.</td>
</tr>
<tr>
<td>Medicare Tax</td>
<td>1.45%</td>
<td>No salary limitations.</td>
</tr>
<tr>
<td><strong>FUI Tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare Tax</td>
<td>0.60%</td>
<td>This amount is deducted from the amount of employee federal unemployment taxes you owe. Federal Unemployment Tax is 6.0% reduced by an offset credit of up to 5.4% for a total of 0.6% on the first $7,000 of employee wages ($42 per employee).</td>
</tr>
<tr>
<td><strong>SUI Tax (CA)</strong></td>
<td>4.30%</td>
<td>State Unemployment Taxes vary by company from 1.5% to 6.2% plus an Employment Training Tax Rate of 0.1% for a maximum tax percentage of 6.3%.</td>
</tr>
</tbody>
</table>

Payroll taxes are estimated using the rates and limits applicable in Test Year 2016. For Social Security Tax, Park estimates $123,600 as the maximum
applicable cap per employee based on an average annual increase of $3,300 from $117,000 that was applicable in 2014. However, the most recent update for 2015 by the Social Security Administration shows that the cap is being set at $118,500 and there is no indication that this cap will change in the near future. ORA applies this cap when calculating its estimate for payroll tax.

ORA used its estimated Test Year 2016 payroll (as stated in Chapter 4 of this report) to calculate payroll taxes by applying the tax percentages, as shown in the table above, to the ORA estimated 2016 payroll. Differences between Park’s estimated payroll taxes and ORA’s estimated payroll taxes are the result of differences in the estimates of 2016 payroll and the use of the current applicable cap for the Social Security Tax.

D. CONCLUSION

ORA recommends the Commission adopt ORA’s estimates of Taxes Other Than Income presented in Table 8-1.

<table>
<thead>
<tr>
<th>Item</th>
<th>ORA Analysis</th>
<th>Park Estimated Amount</th>
<th>Park Exceeded ORA</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ad Valorem Tax- Central Basin</td>
<td>719,594</td>
<td>741,334</td>
<td>21,740</td>
<td>3.0%</td>
</tr>
<tr>
<td>Ad Valorem Tax- G.O. Allocated</td>
<td>12,713</td>
<td>12,713</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Subtotal Ad Valorem Tax</strong></td>
<td><strong>732,307</strong></td>
<td><strong>754,047</strong></td>
<td><strong>21,740</strong></td>
<td><strong>3.0%</strong></td>
</tr>
<tr>
<td>FICA- Central Basin</td>
<td>281,727</td>
<td>313,422</td>
<td>31,695</td>
<td>11.3%</td>
</tr>
<tr>
<td>FICA-G.O. Allocated</td>
<td>92,471</td>
<td>92,471</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>FUTA- Central Basin</td>
<td>2,016</td>
<td>2,058</td>
<td>42</td>
<td>2.1%</td>
</tr>
<tr>
<td>FUTA- G.O. Allocated</td>
<td>591</td>
<td>591</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>SUI- Central Basin</td>
<td>14,448</td>
<td>14,749</td>
<td>301</td>
<td>2.1%</td>
</tr>
<tr>
<td>SUI- G.O. Allocated</td>
<td>4,240</td>
<td>4,240</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Subtotal FICA, FUI, and SUI Taxes</strong></td>
<td><strong>395,493</strong></td>
<td><strong>427,531</strong></td>
<td><strong>32,038</strong></td>
<td><strong>8.1%</strong></td>
</tr>
<tr>
<td><strong>Total Taxes Other Than Income</strong></td>
<td><strong>1,115,087</strong></td>
<td><strong>1,181,578</strong></td>
<td><strong>66,491</strong></td>
<td><strong>6.0%</strong></td>
</tr>
</tbody>
</table>
CHAPTER 9: INCOME TAXES

A. INTRODUCTION

This chapter presents the results of the Office of Ratepayer Advocate’s analysis of Park’s Income Taxes related to its General Rate Case (“GRC”). Application 15-01-001. Income Taxes are comprised of the Federal Income Tax (“FIT”) and California State Income Tax, referred to as the California Corporate Franchise Tax (“CCFT”). Accordingly, this chapter also contains ORA’s Income Tax expense recommendations for Test Year (“TY”) 2016.

ORA’s recommendations are based on an analysis of Park’s application testimony, workpapers, and responses to data requests (“DR”). Furthermore, ORA reviewed previous Commission rulings, information contained within the Internal Revenue Service (“IRS”) Internal Revenue Code (“IRC”), and information from the California Franchise Tax Board when appropriate. The remainder of this chapter consists of a summary of ORA’s recommendations followed by a discussion section that includes the background and rationale for each recommendation.

B. SUMMARY OF RECOMMENDATIONS

Generally, ORA agrees with Park’s methodology for calculating FIT and agrees with the tax rates Park uses. In the interest of ensuring and capturing the possible ratepayer tax benefits, ORA recommends that Park be required to track the revenue requirement impact of the repair deduction under IRC Sec. 481(a) accounting change adjustment in its Tangible Property Regulations Consequences Memorandum Account. Any remaining differences between ORA and Park for Income Tax Expense will be due to differences in recommended revenues, expenses and rate base.

C. DISCUSSION

Park is a subsidiary of Western Water Holdings LLC, and is consolidated along with Western Water Holdings’ other subsidiaries on the Federal Income Tax

9-1
return. For ratemaking purposes Park’s FIT liability is calculated as if it were an unconsolidated California corporation, and any accelerated depreciation is “normalized” in accordance with the IRC provisions governing the treatment of depreciable assets of public utilities.

Depreciation expense for ratemaking FIT under the normalization method is calculated using straight-line book value, instead of using an accelerated depreciation schedule. The difference between straight-line book depreciation and the accelerated depreciation taken by Park on its Federal Income Tax return gives rise to a balance in Accumulated Deferred Federal Income Taxes (“ADFIT”). For ratemaking purposes, the ADFIT balance acts as a reduction from the rate base that benefits ratepayers, while outside of ratemaking the utility benefits due to its realization of either a reduced real-world tax liability, or in some cases a refund. It should be noted that ORA’s silence on any particular issue does not imply ORA’s endorsement of any of Park’s methodologies or assertions.

1. Tax Depreciation

The federal and state tax depreciation for plant of vintage prior to 1956 is calculated using the straight-line method. Except for an area in the City of Compton in Los Angeles County that was formerly served by the Uehling Water Company known as the “Uehling Area,” the federal and state tax depreciation for plant installed between 1957 and 1980 is calculated using the double declining balance method. By contrast, for plant located in the Uehling Area, the federal and state tax depreciation for all plant of vintage prior to 1980 is calculated using the straight-line method.

For plant of vintage of 1981 and later, Park properly used the double declining method to estimate its state depreciation and applied the straight-line remaining life or “book” depreciation rates to the tax basis plant additions to estimate the federal tax depreciation.

Park’s state and federal tax depreciation deductions are allocated to Central Basin using the allocation factor from the General Office, which has been settled.
between ORA and Park in the most recent Apple Valley rate case. It should also be noted that the settlement is currently pending before the Commission.

2. **Income Tax Rates**

   Park calculates its TY 2016 Income Tax Expense using rates of 8.84% and 35% for CCFT and FIT, respectively. ORA concurs with Park’s tax rates and any differences between Park and ORA’s Income Tax Expenses for TY 2016 are due to differences in revenues, expenses, and rate base recommendations.

3. **Ratemaking Interest**

   Park calculated its Ratemaking Interest Expense for CCFT and FIT by multiplying its Weighted Cost of Debt by its Weighted Average Rate Base. Park determined its Weighted Cost of Debt using the factors adopted by the Commission in D.13-05-027. ORA used the same methodology as Park; thus any recommended difference in Ratemaking Interest is due to recommended differences by ORA plant witnesses in Weighted Average Rate Base.

4. **Domestic Production Activities Deduction (“DPAD”)**

   The American Jobs Creation Act of 2004 established IRC Sec. 199 which contains the instructions for a taxpayer applying the DPAD. Since 2009, the DPAD has generally been equivalent to 9% of the lesser of Qualified Production Activities Income (“QPAI”), or taxable income. In this GRC, Park has forecasted 13.42% as the percentage of its taxable income that is production-related.

   Park based its TY 2016 DPAD forecast on its estimated 2013 DPAD amount. However, ORA requested Park to update the calculation of DPAD using the recorded 2014 figures available, which provided 15.41% as the production related taxable income percentage. The revised TY 2016 amount for DPAD is $79,039, compared to $82,789 included in the application.
5. **168 (k) Bonus Depreciation Extension**

Section 168(k) of the IRC allows a business to take a 50% bonus depreciation for certain qualifying business property placed in service before January 1, 2014. The goal of this allowance is to incentivize business toward increased capital investment during a sluggish economy by letting a business claim a greater portion of the capital investment as an expense, and thus reduce the business’s current tax liability. As previously discussed, according to the IRC normalization rules for depreciation expense, any accelerated depreciation for tax purposes, including bonus depreciation, results in an increase to Accumulated Deferred Federal Income Taxes (“ADFIT”), which is quantified as a reduction from rate base. Thus, by taking Sec.168(k) bonus depreciation, the utility gains a benefit from having a lower real-world tax liability, while the ratepayer benefits from the reduction from rate base through ADFIT.

ORA has learned from Park that it has elected not to take the 50% bonus depreciation for 2014 due to the substantial net operating loss it would have incurred for tax purposes. Furthermore, the review of the applicable Internal Revenue Code provisions as of April 5, 2015 indicated that the extension of the 50% bonus depreciation only applies to plants constructed to January 1, 2015. There is no assurance that Congress will extend the benefit of this regulation beyond 2015. ORA, therefore, accepts Park’s rationale to not include the effect of the bonus depreciation in the forecasted FIT calculation.

6. **IRC Sec. 481 (a) Adjustment for T.D. 9636**

On September 19, 2013 the IRS released T.D. 9636 which provides for the final regulations (and removes the various temporary regulations) governing the application of IRC Sections 162(a) and 263(a) and the related dollar amounts paid to acquire, produce, or improve tangible property. T.D. 9636 seeks to clarify for taxpayers whether an expenditure for repairs to qualifying property should be

---

124 IRC §168(k)(1)(A).
either expensed, or capitalized and depreciated for tax purposes. T.D. 9636 also allows for a business to “look back” at its previous accounting methodology for repairs expenses and file for an IRC Sec.481(a) “catch-up” adjustment for change in accounting method. For certain taxpayers, the Sec.481(a) adjustment could result in a substantial tax refund for previous tax years, and for ratepayers a substantial increase in ADFIT.

Prior to T.D.9636, the IRS released temporary guidance for the new regulations and allowed taxpayers to change their tax accounting methodology immediately based on the temporary guidelines. When a taxpayer files for a Sec.481(a) catch-up adjustment, they file an IRS Form 3115. Park stated that the calculations for the 481(a) catch-up adjustments pertaining to the Repair Regulations change in tax accounting methodology is still in progress. It is Park’s intent that it will be filing the changes with or prior to filing the 2014 federal tax return, which Park will be filing by September 15, 2015, after obtaining a five-month extension.\textsuperscript{125}

To the extent the IRS final repairs expense deduction rules provided for in T.D. 9636 cause Park to file for a Sec. 481(a) adjustment, or to file a Form 3115, ORA recommends treating the associated ADFIT on a normalized basis. If Park is not able to capture the benefit of this rule change in this GRC, Park should record such benefit in its Tangible Property Regulations Consequences Memorandum Account to be amortized at a later date.

\textbf{D. CONCLUSION}

Based on the above discussion, ORA requests that the Commission adopt the recommendations pertaining to income taxes contained within this chapter. ORA’s recommended income taxes for Test year 2016 is provided in Table 9-1 at the end of this chapter.

\textsuperscript{125} Park response to DR ORA-A.1501001.VCC-003.
<table>
<thead>
<tr>
<th>Item</th>
<th>ORA Present Rates (Dollars in Thousands)</th>
<th>Utility Present Rates (Dollars in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A)</td>
<td>(B)</td>
<td>(E)</td>
</tr>
<tr>
<td>(F)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Taxable Operating Reven</td>
<td>33,296,161</td>
<td>33,487,338</td>
</tr>
<tr>
<td></td>
<td>33,917,631</td>
<td>36,406,138</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>13,930,814</td>
<td>14,729,782</td>
</tr>
<tr>
<td>Uncollectibles</td>
<td>186,952</td>
<td>190,878</td>
</tr>
<tr>
<td>Administrative &amp; General</td>
<td>7,814,186</td>
<td>8,085,226</td>
</tr>
<tr>
<td>Franchise Requirements</td>
<td>126,525</td>
<td>127,252</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>732,307</td>
<td>754,047</td>
</tr>
<tr>
<td>Taxes-Others</td>
<td>7,814,186</td>
<td>8,085,226</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>427,531</td>
<td>427,531</td>
</tr>
<tr>
<td>Meals Adjustment</td>
<td>-7,487</td>
<td>-7,487</td>
</tr>
<tr>
<td>Total</td>
<td>23,240,563</td>
<td>24,369,002</td>
</tr>
<tr>
<td>Income Before Taxes</td>
<td>10,055,598</td>
<td>9,118,336</td>
</tr>
<tr>
<td>CA Corp Franchise Tax (CCFT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA Tax Depreciation</td>
<td>3,020,270</td>
<td>3,020,270</td>
</tr>
<tr>
<td>Interest</td>
<td>2,294,662</td>
<td>2,584,593</td>
</tr>
<tr>
<td>Total</td>
<td>5,314,932</td>
<td>5,604,863</td>
</tr>
<tr>
<td>Taxable Income from CCFT</td>
<td>4,740,666</td>
<td>5,356,232</td>
</tr>
<tr>
<td>CCFT Rate</td>
<td>8.84%</td>
<td>8.84%</td>
</tr>
<tr>
<td>California Income Tax</td>
<td>419,075</td>
<td>473,491</td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA Tax</td>
<td>419,075</td>
<td>310,591</td>
</tr>
<tr>
<td>Interest</td>
<td>2,294,662</td>
<td>2,584,593</td>
</tr>
<tr>
<td>Qualified Production Deduction</td>
<td>70,121</td>
<td>78,659</td>
</tr>
<tr>
<td>Total</td>
<td>5,069,744</td>
<td>5,228,624</td>
</tr>
<tr>
<td>FIT Taxable Income</td>
<td>4,985,854</td>
<td>5,592,883</td>
</tr>
<tr>
<td>FIT Rate</td>
<td>35.0%</td>
<td>35.0%</td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td>1,745,049</td>
<td>1,957,509</td>
</tr>
<tr>
<td>Investment Tax Credit</td>
<td>7,032</td>
<td>7,032</td>
</tr>
<tr>
<td>Net Federal Income Tax</td>
<td>1,738,017</td>
<td>1,950,477</td>
</tr>
</tbody>
</table>

**Table 9-1**  
PARK WATER COMPANY  
**Income Tax**  
Test year 2016
CHAPTER 10: CUSTOMER SERVICES AND WATER QUALITY

A. INTRODUCTION

This chapter provides ORA’s analysis and recommendations regarding the customer service processes and procedures and water quality regarding Park Water Company.

B. SUMMARY OF RECOMMENDATIONS

ORA reviewed Park’s application, responses to ORA data requests, and data obtained from the Commission’s Consumer Affairs Branch (“CAB”) to evaluate customer service. Based upon this review ORA found Park’s customer service efforts to be acceptable. Notably, as explained in more detail below, Park’s records show that the company and CAB received a low number of service complaints in 2012, 2013 and 2014 relative to the number of customers served in those years.

ORA has also reviewed Park’s water quality and based upon the information Park and Department of Drinking Water (“DDW”) provided, the water systems in the Central Basin Division are currently in compliance with the requirements established by DDW, applicable federal drinking water requirements, and General Order 103-A.

C. DISCUSSION

1. Customer Services

   a) Data received by the Commission’s Consumer Affairs Branch (“CAB”) from Park’s Customers

   ORA evaluated data received from CAB’s Consumer Information Management System (“CIMS”) database for the past three years. The CIMS data includes the following Case Types:

   1. Complaints - Denote written consumer contacts in which the consumer is protesting or expressing dissatisfaction with an action or practice of the CPUC, or a regulated or non-regulated utility. These
include issues that may be outside the purview of CAB to investigate or outside the regulatory authority of the Commission. These issues are not forwarded to the utility company for resolution but handled as a referral to the appropriate utility, CPUC division, entity, or closed outright with the appropriate letter of explanation.

2. **Informal Complaints (IC)** - Denote written consumer contacts expressing dissatisfaction with, or a dispute with a utility regarding issues within the regulatory authority of the CPUC. These issues are forwarded to the utility company for investigation and response.

3. **Phone Contacts** - Denote all consumer calls in reference to concerns, questions, and complaints related to utility companies. These contacts are no longer coded as complaints, inquiries, etc.

4. **Inquiries** - Denote written consumer contacts requesting facts and information for a situation.

The table below presents a summary of Park’s customer service complaints, calls, and inquiries received by the Commission’s CAB from 2012 through 2014. The majority of the customer data received by the Commission’s CAB involved billing. The table also provides the total number of customer service complaints, calls, and inquiries expressed as a percentage of total number of customers for each year.

<table>
<thead>
<tr>
<th>Case Type</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints</td>
<td>145</td>
<td>63</td>
<td>5</td>
</tr>
<tr>
<td>Informal Complaints</td>
<td>0</td>
<td>50</td>
<td>109</td>
</tr>
<tr>
<td>Phone Contacts</td>
<td>0</td>
<td>13</td>
<td>40</td>
</tr>
<tr>
<td>Inquiries</td>
<td>8</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>153</td>
<td>133</td>
<td>154</td>
</tr>
<tr>
<td>No. of customers</td>
<td>27,210</td>
<td>27,261</td>
<td>27,292</td>
</tr>
</tbody>
</table>
Total as % of customers 0.56% 0.49% 0.56%

b) **Informal Complaints**

According to Park, customer informal complaints referred by the Commission’s CAB to Park for resolution in the past three years are low compared to the number of customers. The majority of these complaints were regarding high water usage, reconnection charges, or meter accuracy.

<table>
<thead>
<tr>
<th>Complaints referred to Park by CAB</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Complaints</td>
<td>22</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>No. of customers</td>
<td>27,210</td>
<td>27,261</td>
<td>27,292</td>
</tr>
<tr>
<td>Total as % of customers</td>
<td>0.08%</td>
<td>0.03%</td>
<td>0.09%</td>
</tr>
</tbody>
</table>

A few complaints referenced city taxes and surcharges. Park states that for the informal complaints that the Commission has ruled on, it has ruled in Park’s favor. The low numbers of complaints Park cited and the Commission’s CAB received indicate that Park provides reasonable customer service, and its customer service processes and procedures are responsive to customer needs.

c) **General Order 103-A Reporting Requirements**

The Commission’s General Order 103-A (GO 103-A) has standardized reporting requirements so that the Commission can monitor service quality and changes in utility customer service performance. GO 103-A, Appendix E, outlines performance standards for telephone inquiries, billing, meter reading, work completion, and response to customers and regulatory complaints. A utility is required to meet the performance standards and to report the performance results annually following the performance standards outlined in Appendix E.

---

128 Ibid. at 13.
In January 2010 Park began tracking customer phone calls regarding billing and meter reading performance standards, such as misapplied payments, scheduled appointments made and kept, misread meters, and bills skipped or not mailed within 7 days. Park provided the statistics for 2012, 2013, and 2014 that Park used to report its annual performance required by GO 103-A and Appendix E.\textsuperscript{129} ORA reviewed these reported performance measures and Park’s data used to report compliance with the required performance standards.\textsuperscript{130} (See Table 10-1) ORA concludes that Park has met the customer service performance standards for all service quality areas as required by GO 103-A.

Listed below is a summary of the Performance Standards required by General Order 103-A\textsuperscript{131}, Appendix E – Customer Service & Reporting Standards for Class A and B Water Utilities:

1. Telephone – (a) percentage of calls reaching a utility representative within 30 seconds must be greater than or equal to 80%; (b) percentage of calls abandoned before reaching a utility representative must be less than or equal to 5%.

2. Billing performance measure – (a) percentage of bills rendered within seven days must be greater than or equal to 99%; (b) percentage of inaccurate bills must be less than or equal to 3%; (c) percentage of posting errors must be less than or equal to 1%.

3. Meter Reading – percentage of meter readings skipped per meter reading schedule must be less than or equal to 3%.

\textsuperscript{129} Park’s response to ORA’s data request ORA-A.15-01-001 HSM-001, Question 2.
\textsuperscript{130} Ibid.
4. Work completion – (a) percentage of scheduled appointments missed must be less than or equal to 5%; (b) percentage of customer requested work not completed on or before the scheduled date must be less than or equal to 5%.

5. Response to Customer and Regulatory Complaints – percentage of complaints reported annually to CAB per total number of customers must be less than or equal to 0.1%.

d) **Customer Calls to Park Water**

   Park tracked the customer calls that generated service orders for meter re-reads related to high water bills. In 2012, customer calls regarding high water bills generated 2,135 special read service orders. In 2013, customer calls generated 2,318 special read service orders. Customer calls in 2014 generated 2,733 special read service orders.132

   All customer inquiries and complaints for all Central Basin Division’s customers are handled by Park’s Customer Service Representatives (“CSR”) at Park’s main office in Downey, California. Most inquires concern high water usage and bills. According to Park, when a customer calls with a high water bill inquiry, the CSRs utilize the following procedures: 133
   1) review previous water usage to compare current to past usage, 2) find out if the customer inadvertently left water running during the billing period, and 3) ask if the customer had any plumbing repairs recently that could account for higher than normal usage. If this line of questioning does not identify the source of the higher than normal usage, then a service order is generated for the meter to be reread, which usually occurs the next business day after the inquiry. The customer is then notified of the results of the reread.

---

132 Park’s response to Supplemental Data Request, Item 28, at 10.
133 Ibid, at 9.
If the reread of the meter proves to be correct and the customer still has a
problem, Park may suggest that the customer check their property for water leaks.
A meter reader will explain to the customer how to read their water meter and how
to check for leaks. If a leak is detected it is recommended that the leak be repaired.
If the customer still has a problem, the meter is re-checked and may be removed
and tested for accuracy as the final step to resolve any questions regarding the
accuracy of the meter. Park states that meter reading department personnel work
with the customer to eliminate the customer’s concerns and resolve any issues
regarding their water use.\textsuperscript{134}

e) Customer Education

In the last three years, Park has implemented several measures to try to
inform and educate its customers about interactive voice response payment
arrangements, conservation efforts, website, and other general information.\textsuperscript{135}

1. Interactive Voice Response (“IVR”) Arrangements - Park has enhanced
its IVR phone system to now offer payment arrangements without the
need for a customer to request it through a customer service
representative. Park offers its customers many convenient options to
pay their bills. Credit Cards/Electronic Checks, through a third party
vendor, are accepted through the IVR phone system and through the
Company’s website. Park utilizes a third party vendor, PayNearMe, to
allow customers to pay their bills in cash at any 7-Eleven store. Park
also offers Easy Pay for customers who would like the option of having
their payments withdrawn automatically from their checking accounts.

2. Conservation Efforts - Park has increased its conservation efforts by
offering many different programs. Park offers a home water audit to
help residents take steps to reduce their water consumption. In 2014,
Park held a conservation event, where the Company invited members
of the community to come tour Park’s conservation garden and become
better educated about the need to conserve water, as well as steps they
can take in their own homes to reduce water use. If any of the

\textsuperscript{134} Ibid, at 9.

\textsuperscript{135} Park Water Company’s Revenue Requirements Report TY2016, at 14.
Company’s residential customers encounter a leak on their property, the Company offers a courtesy leak adjustment once the customer provides proof that the repairs have been made.

3. **Website** - Park’s website is available to provide customer account information electronically as well as information about the Company. Park continually take steps to improve its website to provide customers with the most current and important information.

4. **New Customer Welcome Brochure** - Park has developed a new customer information brochure for each new customer. This brochure gives new customers information regarding their water service and other information about the Company.

2. **Water Quality**

   Park’s Central Basin Division consists of three separate water systems in southeastern Los Angeles County: the Compton System, the Bellflower/Norwalk System, and the Lynwood System. Park’s purchased water source is from imported water supplier Metropolitan Water District of Southern California (“MWD-SC”) through the wholesaler Central Basin Municipal Water District (“CBMWD”). Park operates three water systems under permits from the State Water Resources Division of Drinking Water (“DDW”), formerly referred to as the California Department of Public Health (“CDPH”). Park’s water supply comes from groundwater wells and purchased treated water.

   Investor-owned water utilities are required to submit information about water quality as part of each utility’s General Rate Case (“GRC”) application. In accordance with these requirements, Park submitted water quality information in its response to Minimum Data Requirements (“MDR”). In developing its

---

136 See D.04-06-018 (adopting revised Rate Case Plan (“RCP”)); see also D.07-05-062, (adopting changes to the RCP including improved oversight of water quality data through the use of Minimum Data Requirements (“MDR”) pertaining to water quality that must be completed by the utility as part of its GRC testimony and cost of capital testimony).
recommendation for water quality, ORA reviewed Park’s testimony, application, work papers, and the most recent DDW inspection reports available for Park’s water systems.

The following table lists the systems in the Central Basin Division with the corresponding information on the most recent inspection reports available to ORA and citations by DDW, if any. Where appropriate, ORA discussed the nature of each DDW citation.

<table>
<thead>
<tr>
<th>System</th>
<th>DDW Inspection Report</th>
<th>DDW Citation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compton</td>
<td>2014</td>
<td>None</td>
</tr>
<tr>
<td>Bellflower/Norwalk</td>
<td>2012</td>
<td>None</td>
</tr>
<tr>
<td>Lynwood</td>
<td>2014</td>
<td>None</td>
</tr>
</tbody>
</table>

Based upon ORA’s review of the information Park and DDW provided, Park did not exceed any drinking water regulations since the last GRC. There have been no violations of any Maximum Contaminant Levels (“MCLs”), Action Levels (“ALs”) or Treatment Techniques (“TTs”). However, there was one minor Tier 3 monitoring violation that was reported to customers in the 2013/2014 Lynwood system Consumer Confidence Report. On September 27, 2013, DDW (formerly known as CDPH) issued a Fluoridation Distribution Monitoring and Reporting Violation due to the failure to monitor the daily distribution fluoride level at the Lynwood System on August 1, 2013. Based upon SCADA data, Park was in compliance with the fluoridation regulations, but failed to collect the daily distribution system fluoride reporting information.

---

137 Park’s MDR, Section G.
138 Park’s MDR, Section G-5, Page 1-15.
D. CONCLUSION

Based on ORA’s analysis of the CAB complaint data, and Park’s information on customer complaint tracking and service, ORA recommends that the Commission find Park’s customer service to be satisfactory.

For water quality, Park’s water systems in the Central Basin Division have been in compliance with federal and state drinking water standards between 2012 and 2014. Therefore, ORA recommends that the Commission find that Park is in compliance with all applicable federal and state drinking water standards, including GO-103A.
<table>
<thead>
<tr>
<th>GO 103-A - Performance Standards</th>
<th>(%)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Bills Rendered Within 7 Days</td>
<td>99.88%</td>
<td>194.00</td>
</tr>
<tr>
<td>Percentage of Inaccurate Bills</td>
<td>0.10%</td>
<td>167.00</td>
</tr>
<tr>
<td>Percentage of Bills Skipped</td>
<td>0.33%</td>
<td>538.00</td>
</tr>
<tr>
<td>Percentage of Calls Meeting Service Level</td>
<td>86.00%</td>
<td>44606.00</td>
</tr>
<tr>
<td>Percentage of Abandoned Calls</td>
<td>1.50%</td>
<td>786.00</td>
</tr>
<tr>
<td>Percentage of Scheduled Appointments Not Kept</td>
<td>2.00%</td>
<td>3.00</td>
</tr>
<tr>
<td>Percentage of Pending Service Orders at Month End</td>
<td>0.39%</td>
<td>19.00</td>
</tr>
<tr>
<td>Percentage of Misapplied Payments</td>
<td>0.02%</td>
<td>29.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GO 103-A - Performance Standards</th>
<th>(%)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Bills Rendered Within 7 Days</td>
<td>99.94%</td>
<td>108.00</td>
</tr>
<tr>
<td>Percentage of Inaccurate Bills</td>
<td>0.07%</td>
<td>111.00</td>
</tr>
<tr>
<td>Percentage of Bills Skipped</td>
<td>0.33%</td>
<td>509.00</td>
</tr>
<tr>
<td>Percentage of Calls Meeting Service Level</td>
<td>83.00%</td>
<td>42289.00</td>
</tr>
<tr>
<td>Percentage of Abandoned Calls</td>
<td>2.00%</td>
<td>1106.00</td>
</tr>
<tr>
<td>Percentage of Scheduled Appointments Not Kept</td>
<td>2.00%</td>
<td>3.00</td>
</tr>
<tr>
<td>Percentage of Pending Service Orders at Month End</td>
<td>0.69%</td>
<td>35.00</td>
</tr>
<tr>
<td>Percentage of Misapplied Payments</td>
<td>0.02%</td>
<td>32.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GO 103-A - Performance Standards</th>
<th>(%)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Bills Rendered Within 7 Days</td>
<td>99.95%</td>
<td>75.00</td>
</tr>
<tr>
<td>Percentage of Inaccurate Bills</td>
<td>0.07%</td>
<td>33.00</td>
</tr>
<tr>
<td>Percentage of Bills Skipped</td>
<td>0.19%</td>
<td>131.00</td>
</tr>
<tr>
<td>Percentage of Calls Meeting Service Level</td>
<td>80.00%</td>
<td>44108.00</td>
</tr>
<tr>
<td>Percentage of Abandoned Calls</td>
<td>2.50%</td>
<td>1527.00</td>
</tr>
<tr>
<td>Percentage of Scheduled Appointments Not Kept</td>
<td>2.00%</td>
<td>6.00</td>
</tr>
<tr>
<td>Percentage of Pending Service Orders at Month End</td>
<td>0.41%</td>
<td>29.00</td>
</tr>
<tr>
<td>Percentage of Misapplied Payments</td>
<td>0.02%</td>
<td>48.00</td>
</tr>
</tbody>
</table>
CHAPTER 11: REVIEW OF EXISTING MEMORANDUM AND BALANCING ACCOUNTS

A. INTRODUCTION

This chapter presents ORA’s review and recommendations on Park’s requests related to various memorandum accounts. In addition, this chapter discusses ORA’s review of certain memorandum accounts not subject to any request but subject to review in this general rate case (“GRC”). ORA reviewed information contained in Park’s application, responses to ORA Data Requests, pertinent Advice Letter filings, and Resolutions. ORA explored such issues as the authority under which a memorandum account was established, entries into the account, whether the amounts recorded in the account were commensurate to the original terms, conditions and purpose that the memorandum account was first established, whether or not related entries were made in other unrelated memorandum accounts, the purpose of the account, and whether it should be closed or continued.

B. SUMMARY OF RECOMMENDATIONS

ORA provides recommendations for the following memorandum accounts that are part of Park’s request in this application, except the Military Family Relief Program memorandum Account:

(1) Tangible Property Regulations Consequences Memorandum Account.
ORA recommends leaving this account open at this time. Refunds to customers for the over-collection should be made when the exact amounts to be refunded are known.

(2) Income Tax Repair Regulations Implementation Memorandum Account
ORA recommends that Park’s request to terminate this account as of January 1, 2016 and apply a surcharge to recover the under-collection, be approved.

(3) Low-Income Customer Data Sharing Cost Memorandum Account.
ORA recommends that Park’s request to terminate this account as of January 1, 2016 and to apply a surcharge to recover the under-collection, be approved.

(4) **2014 Water Conservation Memorandum Account.**

ORA recommends approving Park’s request to continue this account.

(5) **Credit Card Memorandum Account.**

ORA recommends approving Park’s request to terminate this account as of January 1, 2016, and to refund to customers the over-collection.

(6) **Military Family Relief Program (“MFRP”) Memorandum Account.**

ORA recommends closing this memorandum account even though it is not part of Park’s specific request in this filing. There has been no activity since inception (4/6/2006), and ORA is not aware of any circumstances or facts existing that are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under.

C. **DISCUSSION**

1. **Background on Memorandum Accounts**

   Memorandum accounts track items not contained in the revenue requirement. Memorandum accounts are usually not used to track ongoing normal business expenses, such as maintenance and other categories of operating expenses. In terms of Commission policy, memorandum accounts are used to track items where recovery is not assured, in whole or in part. This could be because the nature of the issue has not yet been fully explored or understood and its regulatory treatment undecided. Yet, it is necessary to “leave the issue open” for future rate recovery so as to avoid retroactive ratemaking. Therefore, a memorandum account differs from a balancing account in that it leaves the issue open for eventual resolution plus an opportunity to track associated costs for possible future rate recovery.
While a memorandum account is not a part of a utility’s financial reporting system, or books of account, it is a tool which facilitates the accumulation of costs related to a specific activity. The purpose of this “off-book” accounting record is to preserve the right to recover the accumulate costs in a future period. Without the memorandum account, the accumulated costs could not be recovered because of the doctrine of retroactive ratemaking. Thus, a pre-approved memorandum account is required to avoid unlawful retroactive ratemaking. Unlike a Balancing Account, a memorandum account is used to record costs for tracking purposes and to allow a utility an opportunity to meet its burden of proof for the recovery of the recorded costs. Recovery of the accumulated costs is not automatic, and recovery of costs must be found just and reasonable by the Commission.

2. Memorandum and Balancing Accounts in Park’s Application
   a) Tangible Property Regulations Consequences
      Memorandum Account

   Park proposes closing this memorandum account as of January 1, 2016, the effective date of the 2016 Test Year, and refunding customers the over-collection estimated to be $14,000 as of December 31, 2014. At this time, Park does not know if the refund will be through a one-time surcredit or amortized over a period of time. This decision will depend on the final amount to be refunded at the end of 2015. If relatively immaterial, Park should use a one-time surcredit.

   The amounts booked or tracked in the memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under.

---

140 Authorized Balancing Accounts have an associated expectation of recovery and the recorded amounts are subject to a reasonableness review.
141 Park response to ORA Data Request JRC-001, Q.VII (5).
This memorandum account was established by approval of Advice Letter 245-W-A, and was effective January 1, 2014. The purpose of the memorandum account is to track the revenue requirement of the tax effects resulting from implementing the Internal Revenue Service (“IRS”) guidelines for the water industry for determining which costs for maintaining, replacing, or improving property may be expensed and which costs must be capitalized. The account tracks the benefit to customers resulting from Park getting a deferral of income tax payments (deferred income taxes). The memorandum account will not be needed beginning in the Test Year as the impact of these regulations has been incorporated in the requested revenue requirements in this GRC.  

As provided in Park’s response to ORA Data Request VCC-3, Park is still in the process of calculating the Section 481(a) catch-up adjustment(s) pertaining to the Repair Regulations change in tax accounting methodology. Park plans to file the change with or prior to filing the 2014 federal income tax return by September 15, 2015 after obtaining a five month extension to file. To the extent that Park is not able to capture the benefit of this rule change in this GRC, Park should record such benefits in this memorandum account to be amortized at a later date. ORA recommends that this account remain open.

b) **Income Tax Repair Regulations Implementation Memorandum Account**

Park proposes closing the memorandum account as of January 1, 2016, the effective date of the Test Year, and apply a surcharge to customers to recover the under-collection estimated to be $61,000 as of December 31, 2014. Park does not know when in 2016 it will file an Advice Letter to implement the proposed surcharge. It is likely, however, that the Advice Letter will combine the unrecovered costs of this memorandum account with the over-collected costs of

---

142 Park’s response to ORA Data Request JRC-001, Q.VII.
the Tangible Property Regulations Consequences Memorandum account *(discussed above).*  

The amounts booked or tracked in the memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under. This memorandum account was established by approval of Advice Letter 245-W-A, and was effective January 1, 2014. The purpose of the memorandum account is to track the implementation costs related to the IRS guidelines for the water industry for determining which costs for maintaining, replacing, or improving property may be expensed and which costs must be capitalized. Pursuant to these “Repair Regulations,” certain capital expenditures for book purposes can be deducted as repair expense for income tax purposes. This memorandum account allows tracking of all costs associated with the initial implementation of the Repair Regulations, including outside implementation service fees and required accounting system changes. The total recorded in this memorandum account as of February 28, 2015 is $38,242 (under-collection) and represents fees paid to outside accounting firms to conduct studies over what may be deducted as repair expense. The memorandum account will not be needed beginning in the Test Year because Park estimates that all implementation costs will have been incurred by January 1, 2016.

**c) Low-Income Customer Data Sharing Cost Memorandum Account**

Park proposes filing an Advice Letter in the future in order to implement a surcharge to amortize the under-collected balance as of December 31, 2014 of $17,989. The Advice Letter would be filed after a Commission decision is issued.

---

*143* Park response to ORA Data Request JRC-001, Q.VI (4).

*144* Park response to ORA Data Request JRC-001, Q. VI (2).

*145* Park’s Application A.15-01-001, Memorandum Accounts, Section 2.
in this GRC authorizing amortization of the balance recorded in the memorandum account. Park further proposes closing the account after 2015, effective January 1, 2016, the effective date of the Test Year. 

The amounts booked or tracked in the memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under.

This memorandum account was authorized by D.11-05-020, dated May 10, 2011, and the memorandum account established July 11, 2011. The purpose of the memorandum account is to track the costs associated with data sharing between the energy and water utilities in order to implement their respective Low Income Programs.

The memorandum account will not be needed beginning in the 2016 Test Year as the impact of the ongoing costs associated with the low-income data sharing activities have been incorporated into the requested revenue requirements estimates for 2016 in this GRC.

**2014 Water Conservation Memorandum Account**

Park proposes continuation of this memorandum account in the current rate case cycle (2016-2018) until the ongoing California drought emergency is declared over by the Governor’s office. Park’s Advice Letter 254-W was approved allowing continuation of this memorandum account until the drought emergency situation is lifted.

The amounts booked or tracked in the memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under.

---

1 Park response to ORA Data Request JRC-001, Q.III (3).
2 Park response to ORA Data Request JRC-001, Q.III (1).
3 Ibid.
The memorandum account was authorized by Commission Resolution W-4976, dated February 27, 2014. The account was effective March 25, 2014, and at December 31, 2014 had a balance of $21,926. The purpose of the memorandum account is to track the incremental expenses incurred by Park to activate Rule 14.1 voluntary conservation, Schedule 14.1 mandatory rationing efforts, and other activities associated with the Governor’s Drought Emergency Declaration dated January 17, 2014, and Executive Order dated April 25, 2014.

On April 1, 2015, California Governor Jerry Brown ordered mandatory water restrictions for the first time in California history, declaring that the State’s drought had reached near-crisis proportions after a winter that brought record-low snowfalls. It is uncontroversial that the current drought crisis conditions justify continuation of this memorandum account.

e) Credit Card Memorandum Account

Park proposes refunding customers the over-collection in this memorandum account, estimated to be $5,183 at December 31, 2015. The balance at December 31, 2014 was an over-collection of $4,853. Park proposes implementing the refund through a one-time surcredit, based on the rationale provided in Standard Practice U-27-W. Park intends to file an Advice Letter to implement the surcredit after a Commission decision in this GRC authorizing the refund of the balance.

The amounts booked or tracked in this memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under.

149 New York Times Breaking News Alert dated April 1, 2015. Governor Brown, in an executive order, directed the State Water Resources Control Board to work with local agencies to come up with ways to reduce water use by 25 percent and to enforce what he described as an onerous reduction in use.

150 Park response to ORA Data Request JRC-001, Q.V (2). Also see Standard Practice U-27-W, Section H-Recovery Periods.
This memorandum account was authorized by Commission Resolution W-4936, dated January 10, 2013. The purpose of the memorandum account is to track costs and savings associated with providing the credit/debit card payment services to Park’s customers.

The memorandum account will not be needed at beginning in the Test Year because Resolution W-4936 requires disposition of the amounts recorded in the account in this GRC proceeding.\footnote{Park’s Application 15-01-001, Section C (5).}

f) Conservation Expense One-Way Balancing Account

Park believes the audit of the conservation balancing account at this time is premature because it covers the entire rate cycle (2013-2015).

Park proposes that ORA conduct its audit of the account after the completion of the 2013-2015 rate cycle when Park files for resolution of the account authorized for the period. Park anticipates that this will occur during the first quarter of 2016. The recorded balance as of December 31, 2014 is an overcollection of $96,620.

ORA does not oppose Park’s request since we currently have only two years of recorded expenses for three years of the rate cycle (2013-2015). Park proposes filing an advice letter to amortize the over-collected balance recorded (2013, 2014, and 2015) in Park’s One-Way Conservation Balancing Account on April 30, 2016. At that time, ORA will conduct an audit of the recorded expenses for all three years.

g) California Alternative Rates for Water (CARW) Revenue Reallocation Balancing Account

Park requests that the Commission review its California Alternative Rates for Water (CARW) Revenue Reallocation Balancing Account for approval and amortization through a surcharge to customers (excluding those customers
enrolled in the CARW program) on December 31, 2014. Additionally, Park requests continuing the CARW Revenue Reallocation Balance Account for this rate case cycle. The recorded balance as of December 31, 2013 was an under collection of $622,217 and the ending balance on December 31, 2014 was an under-collection of $526,141. The ending balances for both 2013 and 2014 also include accrued interest at the 90 day commercial paper rate.

ORA’s examination, scope and procedures included verifying the accuracy of Park’s outstanding balance by sampling several months of CARW discounts, surcharges, surcredits and interest recorded in this balancing account in 2014. ORA does not oppose Park’s request to amortize the CARW balancing account through a surcharge to customers excluding its customers enrolled in the CARW program.

3. Memorandum Accounts Not in Park’s Application

The following memorandum accounts are not part of any request in this GRC proceeding but were reviewed by ORA:

a) Military Family Relief Program (“MFRP”) Memorandum Account

The account was authorized by approval of Advice Letter 190-W, and established April 6, 2006. It was opened during the Iraq/Afghanistan war to help service people to provide assistance with their water bills. The program provides assistance to military families, including a 180-day shut off protection for the family/dependents of military personnel. Extended payment terms also are available to assist military families due to the reduced income from a call to active duty military service. The purpose of the account is to record uncollectibles and program related expenses for the implementation and administration of the MFRP, such as printing, publishing and mailing related notices.\footnote{Park’s response to ORA Data Request JRC-001, Q. I.}
There have been no activities or entries in the account since inception. In response to ORA’s data request, Park asserted that the reasons/purpose of establishing the memorandum account still exists, and no circumstances have changed to support discontinuing of the account. Park asserts that the account should not be closed. Park did not describe what current circumstances exist to support continuation of this memorandum account.

ORA recommends closing this memorandum account. There has been no activity since inception, and ORA is not aware of any circumstances or facts existing that are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under.

b) California Urban Conservation Council Best Management Practice Memorandum Account

This memorandum account was authorized by Commission decision D.08-02-036 and was established September 15, 2008. As of December 31, 2014, the account had a balance of $4,782 (under-collection). The purpose of the memorandum account is to track the costs of conservation programs that are consistent with and based upon Best Management Practices. It is Park’s intention to close this memorandum account when the under-collected balance is fully amortized.

The amounts booked or tracked in the memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under. The Division of Water and Audits (“DWA”) reviewed and approved costs booked in this account and Resolution W-4961 authorized a 12-month surcharge effective March 19, 2014.

---

153 Park’s response to ORA Data Request JRC-001, Q. I
154 Park’s response to ORA Data Request JRC-001, Q. I.
155 Park’s response to ORA Data Request JRC-001, Q. I.
c) Conservation Proceeding Memorandum Account

This memorandum account was authorized by Commission decision D.10-04-001 and was established May 6, 2010. As of December 31, 2014, the account had a balance of $39,768 (under-collection). The purpose of the account is to track the legal and regulatory expenses associated with participation in I.07-01-022 (Commission Conservation Proceeding). It is Park’s intention to close this memorandum account when the under-collected balance is fully amortized.156

The amounts booked or tracked in the memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under. DWA reviewed and approved the costs booked in this account and Resolution W-4961authorized a 12-month surcharge effective March 19, 2014.157

d) 2010 Tax Act Memorandum Account

Resolution L-411A authorized Park to establish a one-way memorandum account to track the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (“Tax Act”). The Commission required creation of the Bonus Depreciation Memorandum Account as a result of the 2010 Tax Act relating to Bonus Depreciation to track ratepayer benefits associated with Bonus Depreciation. The purpose of the memorandum account is to track the impacts of the Tax Act. It is Park’s intention to close this memorandum account after the over-collected balance is fully refunded to its customers, as it will no longer be needed.158

The amounts booked or tracked in the memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under.

156 Park’s response to ORA Data Request JRC-001, Q. I.
157 Ibid.
158 Park response to ORA Data Request JRC-001, Q.I and II.
Park filed Advice Letter 257-W on February 4, 2015 in which it proposes refunding to all customers the entire over-collection of $81,803 through a one-time surcredit. ORA reviewed Park’s Advice Letter filing, and underlying workpapers, including the calculation of the over-collection. ORA did not take issue with the Advice Letter, and the methodology and calculations appeared well supported and reasonable.

e) **Interim Rates (“IRMA”) Memorandum Account**

This memorandum account was authorized by Commission decision D.13-09-005 and was established January 1, 2013. As of December 31, 2014, the account had a balance of $2,005,231 (under-collection). The purpose of the account is to track the difference between the interim rates and the final rates adopted by the Commission in D.13-09-005. It is Park’s intention to close this memorandum account when the under-collected balance is fully amortized.

The amounts booked or tracked in the memorandum account are commensurate to the original terms, conditions and purpose under which the memorandum account was originally established under. Further, DWA reviewed and approved the revenue recorded in this account for recovery by approval of Advice Letter 250-W, effective May 22, 2014.

f) **Conservation implementation Costs memorandum Account**

This memorandum account was authorized by Commission decision D.08-02-036 and was established on September 15, 2008. As of December 31, 2014,

---

159 Advice Letter 257-W is currently under review by DWA.

160 On February 18, 2015 Park had a meeting with DWA, and ORA’s Water Branch management to review the Advice Letter calculations. During the meeting, ORA expressed satisfaction with the calculations used to determine the balance at the end of 2014, and ORA decided not to protest Advice Letter 257-W. See Park response to ORA Data Request JRC-001, Q. II (4).

161 ALJ’s Ruling in Application A.12-01-001.

162 Park’s response to ORA Data Request JRC-001, Q. I.

163 Park’s response to ORA Data Request JRC-001, Q. I...
the account had a balance of $9,337.44 (under-collection). The purpose of the
memorandum account is to track the costs associated with implementation of
increasing block rates and data collection, and monitoring costs.

The amounts booked or tracked in the memorandum account are
commensurate to the original terms, conditions and purpose under which the
memorandum account was originally established under. On February 6, 2014,
Park filed an Advice Letter AL-238-W with Division of Water and Audits
(“DWA”) seeking recovery of the under-collection balance in the account through
a surcharge. The DWA reviewed and approved costs booked in this account and

ORA recommends that this memorandum account be closed upon Park’s
full recovery of the under-collection balance.

**g) Cost of Capital Memorandum Account**

This memorandum account was authorized by Commission decision D.09-
07-038 and was established July 30, 2009. As of December 31, 2014, the account
had a balance of $28,093 (under-collection). The purpose of the account is to
track the difference between the (current) rates authorized in 2010 and the new
2010 rates adopted in D.09-07-038. It is Park’s intention to close this
memorandum account when the under-collected balance is fully amortized.

The amounts booked or tracked in the memorandum account are
commensurate to the original terms, conditions and purpose under which the
memorandum account was originally established under. Further, DWA reviewed
and approved the revenue recorded in this memorandum account for recovery by

---

164 The balance shown recorded through 12/31/2014 is the remaining balance of the 2010 Cost of Capital Proceeding.
165 Park’s response to ORA Data Request JRC-001, Q. I.
166 Ibid.
D. CONCLUSION

Park’s memorandum accounts appear to be reasonable. Most of the accounts reviewed in this GRC will be closed after amortization, and Advice Letters filed with DWA to implement their respective surcharges and surcredits. ORA recommends that all advice letter filings relating to these memorandum accounts by Tier 3 Advice Letters with DWA.
CHAPTER 12: SPECIAL REQUESTS

A. INTRODUCTION

This Chapter provides ORA’s analyses and recommendations for Park’s Special Requests which include:

- Level Payment Plan
- Low Income Assistance Program (CARW)
- Perchlorate Memorandum Account
- Include of Subsequent Offsets prior to the Final Decision
- Sales Reconciliation Mechanism for Escalation years
- Modification to WRAM/MCBA
- Employee and Retiree Healthcare Balancing Account
- Group Pension Balancing Account
- Phase-In of Test Year Increases

B. SUMMARY OF RECOMMENDATION

Following are ORA’s recommendations for each of the special requests:

- Level payment plan- disallowed due to lack of justification and support
- Low Income Assistance Program- CARW benefit to remain at $6.65 as compared to Park’s request of $8.02
- Perchlorate Memorandum Account- the request is premature and uncertain
- Subsequent Offsets prior to Final Decision- ORA agrees with this request in order to streamline the regulatory process, improve customer service and save both Park and Commission staff’s time and resources.
- Sales Reconciliation Mechanism for Escalation Years- disallowed because such request deviates from the general rate case process and ORA has concern over verification and accountability of the rate increases.
- Modification to WRAM/MCBA- ORA recommends that reclaimed water remain outside of WRAM and therefore costs associated with reclaimed water be excluded from
the MCBA. ORA also recommends leased water rights be excluded from the MVBA but allow chemical costs to be included.

- Employee and Retiree Healthcare Balancing Account-disallowed due to lack of support and justification.
- Group Pension Balancing Account- Disallowed due to lack of support and justification.
- Phase-In of Test Year Increase – Disallowed because Park’s increase does not meet the Commission guideline and it is not in the interest of the ratepayers.

C. DISCUSSION

1. Level Payment Plan

Park proposes offering a level payment plan option to allow customers to pay for water service in equal bi-monthly payments based on their last 12 months average bill, or a representative bill if their consumption history is shorter than 60 days. At the end of the 12-month period, customers would receive a settlement bill with payment due or a credit balance.

Park’s testimony describes the level payment plan as another payment option to help its customers pay and manage their water bills. The plan would allow its eligible customers the opportunity to pay for their water bills in equal bi-monthly payments based on their last 12 months average bill, with either a balance due or credit at the end of the 12 month period. Because Park’s residential customers pay their bills on a bi-monthly basis, the level payment plan would allow the customers to pay for their annual water service across five equal (bi-monthly) payments.

The level payment plan does not change the total amount paid for water service but enables the customers to split the costs into equal payments throughout the year. The level payment plan is a 12-month program, and the first month participating in the program is “month one.” The month a customer receives the settlement bill is “month twelve.” To determine the amount of payments in month one through month ten, the water use for the previous twelve months is
toted. The total is then divided by ten to calculate the bi-monthly base payment amount for the next 10 months. At the 12th month, the customer will receive a settlement bill, which will be either an amount due or a credit balance. To justify the offer of the level payment plan, Park stated that it has heard from its customers inquiring about this payment option that is similar to the programs approved by the Commission for Southern California Edison (“SCE”), Southern California Gas Company (“The Gas Company”) or California Water Service (“Cal Water”).

ORA believes Park’s request for the balanced payment plan has not been adequately supported and well thought-out. Park fails to answer some of the most basic questions of the program and what impact this program may have on its ratepayers. At this time, ORA recommends that the Commission should not grant Park such a program until it can provide more justification.

In its filing, Park fails to support the need and provide the rationale that it needs a level payment plan. The testimony Park provided in its testimony describes the mechanics of the level payment plan and how it works. There is not a single word mentioned to justify why this plan is needed, how it would impact its ratepayers, what are the costs of the program, consequences this payment plan may have on its operation or what signals, if any, would send to its customers on water conservation. This information was not provided until ORA issued a data request. Even then, Park’s response was general in nature and far from being adequate.

In Data Request ORA-A.1501001.VCC001, ORA requested Park to provide support for the need of a balanced payment plan. In its response, Park provided “Park has received numerous inquiries from customers asking about a level pay plan. Many customers have asked why Park doesn’t offer a level pay plan similar to what their other utilities (Southern California Edison, Gas Company) offer. Additionally, Park has been asked by many local officials (city, county, state) in its service area, why it doesn’t offer a level pay plan to their constituents. These officials have stated that a program of this nature would
benefit their communities especially those customers who struggle with utility bills”.

Park further stated, “In the Water Action Plan, the Commission recognized the low-income customers often struggle with payments for basic monthly water service. Coupled with its low-income ratepayer assistance program (Park’s CARW program), Park believes that the proposed Level Payment Plan would provide relief to low-income customers”.

Park’s data request response above provided only a general picture of why the level payment plan is needed. Simply put, its customers and city officials requested it. However, the more appropriate and relevant determining factors for the Commission should be the number of customers, city officials and the frequency of their requests. A large number of requests certainly support the need of this program more so than a smaller numbers. Basic information such as a customer survey should have been documented and submitted to the Commission as part of the justification for its request. Park did not do so.

When Park was asked about the impact this program might have on 1) call volume, 2) service turn-off, 3) uncollectible, 4) working cash, 5) conservation, and any other.

Park’s response was “Because Park has never offered this type of program before, it does not have any way of predicting enrollment rates or the program’s influence on customer behavior other than the above general statements. Prior to the start of the program Park does not have data with which to measure, and Park believes that it is premature to estimate (with any degree of specificity), the impacts of the program on call volume, service turn-off, uncollectible, working cash, and conservation”. Park’s response that it does not know what or how much impact this program may have is simply not acceptable given the fact that it is modeling its program after SCE and The Gas Company, who have implemented this program for a number of years. At a minimum, Park could have provided some projecting numbers based on the experience of those utilities with the
balanced payment option. Evaluating the potential water demand behavior of residential customers under this type of program is very important considering that California is in a severe drought, and customers must have the right price signals to conserve water. Once again Park did not do so.

One of Park’s primary justifications for the balanced payment option is that when coupled with its CARW program, the plan would provide relief to its low income customers who struggle with their utility bills. ORA disagrees with Park’s characterization of this program because the balanced payment plan does not reduce the amount shown on customer’s billings, rather, it merely shifted the amount of the high bills during the summer months to the lower bills in winter months, with the final reconciliation bill due at the end of the 12-month bill period. Customers would pay the same amount for their water service during the same 12-month period regardless they are in the program or not.

ORA believes there are other means Park can do to achieve similar results for its struggling customers. The purpose of the level payment plan is to spread the water cost evenly over a 12-month period and therefore allows those customers to better manage their bills. However, unlike customers in SCE, The Gas Company or Cal Water who are mostly on monthly billing, Park’s residential customers are on a bi-monthly billing plan whose billing amount would be about twice as large compared to the amount if they were billed monthly. For example, Park’s average residential bi-monthly bill in 2016 is $143.30 based on its proposed filing in A.15-01-001. If the goal for Park is to spread out evenly the cost over a 12-month period so that its customers can better manage their bills, Park could have requested the Commission to allow it to switch to monthly billings so the amount is smaller. The smaller amount would make it easier for its low income customers to manage their bills, and therefore, achieve a similar result from using the level payment plan. With monthly billing, Park’s customers will also be able to better manage their water use, which becomes even more important given the drought measures that are expected to be implemented in 2015-2016 by the
California State Water Resources Control Board. There are fundamental differences between Park and those utilities that currently have the level payment plan. What is appropriate for the other utilities are not the same for Park in this case. ORA believes Park should first consider a monthly billing option before requesting the level payment plan.

Finally, there are costs associated with the implementation of the level payment plan. As provided in Data Request Response ORA-A.1501001, Park estimated “that it will take about $10,000 total ($6,500 in outside consulting and $3,500 internal payroll) for the programming, testing, and training required to implement the program. These costs would be capitalized and charged to a General Office capital project. Park does not anticipate any significant ongoing expenses for the maintenance of the program after implementation”. However, ORA believes that Park has not fully accounted for the full costs of implementing this program and thus underestimated its total cost. When California Water Service requested authorization to implement a similar level payment plan program in A.12-07-007, it provided estimates that there will be $57,600 for development and support in the first year and $41,600 per year for on-going support thereafter. Additionally, there will be about $7,000 for the first mailing by bill insert and $500 for providing posters in each of Cal Water’s customer centers. ORA recognizes that Cal Water is a bigger company with many more customers than Park. Nonetheless, the type of costs such as mailing, bill inserts or on-going program costs should be common to both. Unfortunately, none of these costs were provided in Park’s overall cost estimates. It is impossible for the Commission to make an informed decision if such information was not fully accounted for and presented in Park’s request. Given that many of Park’s customers are low income and nearly half of them are on the CARW program, any program that potentially increases ratepayers’ financial burden should be minimized unless the benefit of such program far out-weighs the cost, which Park once again failed to demonstrate in this case.
ORA recommends that the request for implementing a level payment plan at this time until Park can provide the needed data and information to support this program.

2. **Low Income Assistance Program ("CARW")**

Both the CPUC and ORA have recognized the importance of mandating the provision of water service at an affordable cost. This mindset is not only engrained in our organizations, but also outlined in our mission statement. One method of attaining this mandate is through subsidies provided to low-income ratepayers. Park had previously instituted a low-income program named California Alternative Rates for Water ("CARW"). This program provides a direct subsidy to benefit low-income ratepayers funded by a surcharge on ineligible ratepayers in the company’s service districts.

Park is asking to raise the CARW benefit amount to increase as a percentage of the overall rate increase granted in this proceeding. As the number of enrolled participants in CARW has increased fivefold over the prior three years, concerns over the affordability of this program are the focus of ORA’s testimony. Considering the feasibility of Park’s service areas to adequately afford the costs associated with this benefit, ORA finds that the subsidy credit provided to eligible customers should remain the same level. Therefore, ORA recommends the CARW monthly bill credit remain constant at $6.65. Table 12-1 displays the difference between Park and ORA’s figures.

| Table 12-1 CARW Benefit Recommendation Comparison |
|--------------------------------------|---------------|-------------|-------------------|
| Park       | ORA           | Amt Change  | % Difference     |
| $8.02      | $6.65         | $1.37       | 20.60%           |

The CPUC first recognized the need for low-income ratepayer programs over two decades ago. In a 1992 proceeding, the Commission enacted into code “Access to an adequate supply of healthful water is a basic necessity of human life, and shall be made available to all residents of California at an affordable
In the second provision of this codified directive, it gave the Commission the authority to implement programs to provide rate relief for low-income ratepayers.\textsuperscript{168} Building on this, Class A investor owned water utilities began implementing low-income programs in subsequent general rate cases.

In a 2006 proceeding, Park initiated their low-income program with a 25% service charge discount for eligible customers.\textsuperscript{169} During this time period the program had a small number of enrollees and a benefit less than five dollars a month. As awareness and customer interest piqued, the number of program enrollees began to increase. Meanwhile, a program was being implemented designed to reduce the inefficiencies of low-income enrollment programs between investor owned electric utilities and water utilities.

In a 2011 decision, the Commission adopted rules and guidelines regarding the sharing of utility data pertaining to low-income ratepayers. Specifically, the decision outlined a need for investor owned utilities in overlapping service territories to share data regarding enrollment of low-income customers.\textsuperscript{170} This data sharing initiative had a substantial impact on Park’s number of enrollees in the CARW program. In testimony, the company contended that its enrollment before this initiative stood at 2,084 customers and has since jumped to over 11,000, with a customer base of 26,847 in 2013.\textsuperscript{171}

Parks current service districts have a high number of low-income customers and it raises questions as to the feasibility of the community to support such an initiative. Currently Park is forecasting 13,351 enrollees in test year 2016\textsuperscript{172} compared with a total customer base of 26,938 in 2016; this yields a

\textsuperscript{169} D.06-10-036 Opinion granting relief for low-income ratepayers.
\textsuperscript{170} D.11-05.020 section 4.1.3.
\textsuperscript{171} Table III-1 Historical & Projected Number of Customers by class in Exhibit-B.
\textsuperscript{172} Response to JR6-002 1b.
participation rate of 49.6%. While the benefits of this program are undeniable to those enrolled, it is funded by those who are in ineligible, which creates a financial burden as the number of participants increase. Through data requests, ORA found that the current surcharge placed on ineligible customers was not an insignificant one; standing at 7.11% of the total bi-monthly bill.\textsuperscript{173} Park has also stated that customers in its service districts have become increasingly disgruntled with the rising costs of funding this CARW program.\textsuperscript{174}

Park is in a unique situation. When decisions were made regarding the policy and implementation of low-income ratepayer programs and data sharing, it wasn’t conceived that a water system would have a high enough enrollment that it would place a serious burden on those who were not enrolled. Other class A water utilities have participation rates in the 10-20% range and have a larger customer base over which to spread the cost of the program; consequently avoiding a significant financial burden on ineligible ratepayers. Due to Park’s small customer base over which to spread the cost of the CARW program, the significant increase in residential customers participating CARW places a higher cost burden on Park’s non-low income residential customers. The higher funding cost could lead to affordability issues for those residential customers that may not qualify for CARW. Therefore, in Park’s case a CARW program must be developed that meets the needs of all ratepayers in the service district.

Ideally, a statewide program would be implemented to apply to low-income ratepayers across California. This would reduce the cost variance experienced by the many different water districts across the state, and result in a lower funding cost on a per customer basis. Currently AB 401 introduced on the California state assembly floor for the 2015-2016 legislative session, proposes just that; a state-wide low-income rate assistance program. Unfortunately within the

\textsuperscript{173} Data request response JR6-002 4.
\textsuperscript{174} Data request response JR6-002 3.
scope of this GRC proceeding, even if the bill were timely enacted into
Government code, it wouldn’t take effect until early 2017. As such, a statewide
program cannot be reasonably expected to be in place by the 2016 test year.
Overall ORA would generally be in support of such a program.

The PUC code gives the Commission the flexibility to modify these
programs based on factors including, geography, climate, and most importantly,
the ability for the communities to support these programs. ORA has analyzed
the CARW program and found that an increase in the benefit amount to enrollees
would place a more tenuous financial burden on those not enrolled. ORA
disagrees with Park’s request to raise the CARW benefit amount as a percentage
of the overall rate increase decided in this GRC. ORA instead recommends that
the benefit amount remain the same $6.65.

Balancing the voice of ratepayers expressing discontent with the costs of
funding the surcharge, the affordability of the CARW program in Park’s service
districts, and a focus on providing safe, reliable, and affordable water service,
ORA believes that maintaining the current level of CARW benefit, balances all of
the above interests. Thus ORA recommends that the Commission keep the benefit
at the current level.

3. Perchlorate Memorandum Account request

Park requests that the Commission authorize a new memorandum account
for the costs of potential treatment requirements of its wells to comply with new
regulations associated with perchlorate.

On February 27, 2015, The California EPA Office of Environmental Health
Hazard Assessment (“OEHHA”) published an updated public health goal (“PHG”)
of 1 part per billion (“ppb”) for perchlorate in drinking water. The new goal
updates the previous PHG for perchlorate, which was set at 6 ppb in 2004. The

175 Assembly Bill 401 ‘Legislative Counsels Digest’ paragraph 3.
updated PHG is lower than the previous goal because it incorporates new research about the effects of perchlorate on infants. Like the previous PHG, the updated PHG takes into account exposure from all sources of perchlorate including food. The lowering of the PHG does not suggest any food is unsafe or that the public should change its dietary habits.\textsuperscript{177}

A PHG is not an enforceable regulatory standard. Its purpose is to provide scientific guidance to the State Water Resources Control Board’s Division of Drinking Water (“DDW”) in reviewing the existing state drinking water standard for perchlorate. There is no current federal standard for perchlorate in drinking water. The current State standard, officially known as a maximum contaminant level (“MCL”), is set at 6 ppb.\textsuperscript{178}

Park currently has two wells with perchlorate levels detected above 1 ppb (Wells 28B and 46C) in the Bellflower/Norwalk system. According to Park, a new State MCL for perchlorate could lead to millions of dollars in required treatment or loss of groundwater resources, and it is not reasonable to predict potential costs for Park to comply with a range of hypothetical MCLs. Park, in its application, requests that the Commission approve a new memorandum account for perchlorate to track the costs associated with compliance with DDW regulations for perchlorate.\textsuperscript{179} Park also states in its application that a final rule for perchlorate is expected to occur late enough that it will not impact Park during this rate case cycle.\textsuperscript{180}

Based upon the information Park provided, ORA recommends that the Commission authorize Park to address this matter in the next GRC or file a Tier 3 advice letter to establish a memorandum account track the costs associated with

\begin{itemize}
  \item \textsuperscript{177} OEHHA Adopts Updated PHG for Perchlorate – February 27, 2015.
  \item \textsuperscript{178} Ibid.
  \item \textsuperscript{179} Park Water Company’s Revenue Requirements Report TY2016, at 144.
  \item \textsuperscript{180} Ibid, at 143.
\end{itemize}
compliance with DDW regulations for perchlorate, if they are adopted prior to Park’s next GRC.

4. Include of Subsequent Offsets prior the Final Decision

Park anticipates filing purchased water/replenishment offset advice letters subsequent to the filing of this application, but prior to the test year. Park proposes that the Commission recognize any subsequent offsets prior to the issuance of a final decision in this GRC. A final decision in this proceeding should reflect the change in revenue requirement caused by any expense offset advice letters. Offsettable expense price changes are not forecasted in a GRC. Park’s proposal would alleviate any potential customer confusion from repeated customer notices and additional workload for Commission staff and Park that would result from Park having to repeat advice letter filings to implement the expense offset increases.\(^{181}\)

Park’s request to reflect the offsettable expenses into the current GRC proceeding is consistent with Commission’s goal of streamlining the regulatory process, improving customer service and saving both Park and Commission staff’s time and resources. Therefore, ORA agrees with Park that the final decision should reflect offsettable expenses to the extent that they have been resolved, updated, and approved by the Commission. However, ORA is concerned that the inclusion of offsettable expenses could potentially lead to the perception of a higher revenue requirement than what Park has requested in its application. ORA recommends Park notify its customers explaining the resulting increase and the reason for the increase after the Commission’s final decision as a condition for the approval of this request. ORA also recommends that the final decision, specifically note the impact of the offsets in the final rate increase adopted. This was similarly done in the GSWC rate case in D.10-11-035.

\(^{181}\) Park Water Company’s Application TY2016, at 14.
5. Sales Reconciliation Mechanism for Escalation Years

Park requests use of a regulatory mechanism to adjust the adopted sales forecast in the two escalation years following the Test Year. This would include a stipulation that it would only be implemented if the total sales for the prior year are more than 5% above or below the adopted Test Year. This contrivance, aptly termed, the Sales Reconciliation Mechanism (“SRM”), would provide an adjustment of 50% of the difference. The company extrapolates the effect of this mechanism in the example; “if sales are 6% below adopted, escalation year rates would be reset based upon a 3% downward adjustment in the sales forecast.”

ORA strongly opposes this special rate adjustment mechanism and therefore recommends the Commission deny this special request.

Park is essentially asking for a mechanism to adjust rates between test years. This deviates from Commission precedent and would undermine the principles of the general rate case process outlined in the revised rate case plan for Class A Water Utilities. Apple Valley Rancho’s (“AVR”) also requested this mechanism in its recent General Rate Case (“GRC”) Proceeding A.14-01-002. Park cites this revenue requirement report as the basis for the request.

In AVR’s prior GRC, ORA filed testimony recommending the Sales Reconciliation Mechanism special request be denied. In addition to the mechanism’s ability to implement rate increases outside of the standardized GRC process, concerns over verification and accountability of the rate increases were cited as a major issue in the granting of the request. Overall, ORA had contended that “When customers’ general rates are allowed to change increasingly

---

183 D.07-05-062, Opinion Adopting Revised Rate Case Plan for Class A Water Utilities.
185 A.14-01-002 Chapter 15 Special Request 7.
186 A.14-01-002 Chapter 15 Special Request 7 Paragraph ‘b’.
more outside of the general rate case process through numerous ratemaking
vehicles, both the Commission and customers are seriously disadvantaged in
knowing the actual and cumulative rate impacts that will result.”

The Commission has issued a proposed decision (“PD”) in AVR’s general
rate case that directly addresses this issue. The PD provides commentary on the
special requests benefit to reduce WRAM surcharges associated with a GRC, but
ultimately agrees with ORA that the request should be denied. It adds further that
a revision to the rate making process should be addressed in an industry-wide
proceeding rather than for a single utility.

The Commission also disallowed a similar request in the most recent
California American Water Company (“Cal-Am”) GRC. In that proceeding, Cal-Am
had requested a consumption adjustment mechanism modeled after the SRM.
Cal-Am’s request was based upon the approval of a SRM granted in a separate
California Water (“Cal Water”) GRC proceeding. The Commission decided in
D.15-04-007 that Cal Water’s SRM had been granted on a trial basis—to allow for
review of the mechanisms efficacy—and denied Cal Am’s request.

In keeping with recent Commission precedent, ORA recommends that this
special request be denied.

Carefully considering the commission’s prior decisions authorizing the use
of sales reconciliation mechanisms, it can be reasonably surmised that the
authorization of a SRM in this GRC proceeding would both go against
commission precedent, and have the capacity to harm ratepayers. Therefore, ORA
recommends the commission deny this special request.

187 A.14-01-002 Chapter 15 Special Request 7 Paragraph ‘b).
188 Proposed Decision A.1407002 ‘Disputed Issues Resolved by this Decision 5.6.
6. Modification to WRAM/MCBA

Park’s Water Revenue Adjustment Mechanism (“WRAM”) and Modified Water Cost Balancing Account (“MCBA”) were adopted in D.08-02-036. This regulatory instrument was developed to sever the relationship between sales and revenues by removing the disincentive associated with implementing water conservation measures. Park is currently requesting that reclaimed water sales be included in WRAM, and reciprocally include the reclaimed water costs in the MCBA. The company further requests that both costs related to leased water rights and chemicals be included in the MCBA.

ORA recommends that reclaimed water remain outside of WRAM and therefore costs associated with reclaimed water be excluded from the MCBA. Additionally, ORA also recommends leased water rights be excluded from the MCBA but allow chemical costs to be included. Following are ORA’s detailed discussion on this request:

a) Including Reclaimed Water in WRAM/MCBA

Park supports its request to add reclaimed water revenues to WRAM with minimal testimony: “Additionally, Park proposes to add the commodity revenues for the Reclaimed water customer group to the WRAM balancing account”\textsuperscript{190}

The two party settlement adopted in D.08-02-036 authorized Park to decouple sales from revenue via the WRAM mechanism. More specifically, it included language excluding reclaimed water:

The WRAMs will exclude revenue from fire service, unmetered service, reclaimed water metered service, and fees (Park)\textsuperscript{191}

As discussed in the introduction portion of this chapter, the WRAM was implemented as a method of encouraging water conservation. While no

\textsuperscript{190} Exhibit B-Park Water Company Revenue Requirements Report p.150

\textsuperscript{191} Footnote 24 D.08-02-036 p.26 Authority to Implement a WRAM
commentary was provided in this decision that expanded in detail upon this specific exclusion, it is reasonable to suspect reclaimed water was omitted for conservation reasons.

In 2010, The State Water Resources Control Board released the 20% by 2020 Water Conservation Plan with an overall aim of augmenting conservation efforts in the State of California. Contained within this document are goals, guidelines, methodologies, strategies, procedures, policies, and best practices for water conservation. In regards to recycled/reclaimed water, the plan specifically recommends:

recycling as a means to reduce use of potable supplies; this approach counts recycling as a means to achieve a 20 percent reduction in potable use and provides encouragement for recycled water use.\(^{192}\)

In an ardent summation of this view, the section concludes with: “It is essential for California to expand the use of recycled water.”\(^{193}\)

In this instance, by including recycled water in WRAM it removes the financial incentive for the company to increase the sales of Recycled Water, therefore impeding overall water conservation efforts. Due to the lack of testimony provided with this request and the Commission’s preference for the promotion of water conservation, ORA recommends this request be denied.

b) Leased Water Rights in MCBA

The Modified Cost Balancing Account is designed to capture variations in production costs due to changes to pricing or consumption. Park requests that in addition to purchased power, purchased water, and pump tax; that leased water rights be included for tracking in the balancing account. The company details this

\(^{192}\) 20x2020 Water Conservation Plan p.45.

\(^{193}\) 20x2020 Water Conservation Plan p.45.
request in testimony by citing the possibility that the denial of this request could lead to unintended incentives for Park, or disincentives for ratepayers.\textsuperscript{194} The production of leased water rights Park refers to in testimony is the costs of purchasing the rights to pump a certain allotment of acre feet of water from the Central Basin. In its workpapers, the company calculates the total cost of leased water by multiplying the acre foot costs by the amount projected to be pumped\textsuperscript{195}. The specific price paid per acre foot is negotiated in contracts with third parties. These deals include large water rights holders, such as Cal Water and smaller rights holders such as school districts & cemeteries.

One of the most influential variables in calculating the costs of leased water rights is the price paid per acre foot. This amount is determined through privately negotiated deals in which the price paid is the price willing to be paid by the free market. Since the MCBA permits recovery or credit of differences between forecasted and actually incurred expenses, approving this request could diminish the incentive for the company to negotiate the lowest possible price paid for leased water rights. In other words, approving this request could adversely affect ratepayers. Therefore ORA recommends that the request to add lease water rights to the MCBA be denied.

c) Chemicals in MCBA

In similar language contained within the testimony for the leased water rights request above, the company requests that variable costs associated with chemicals be added to the MCBA.

ORA has previously advocated against the inclusion of chemicals in the Modified Cost Balancing Account. In a recent Golden State Water Company (“GSWC”) general rate case proceeding, the company argued a similar special

\textsuperscript{194} Exhibit B-Park water Company Revenue Requirements Report p 150.

\textsuperscript{195} CB Leased Water Rights 2014-2017-r.xlsx.
request to include chemicals in the MCBA\textsuperscript{196}. ORA argued against capturing the difference in recorded and actual costs, because the incentive to competitively source chemicals would be eliminated. Therefore, without this incentive to lower chemical costs, it would adversely affect ratepayers. This request was withdrawn from settlement by GSWC without prejudice.

In a similar, more recent, general rate case proceeding, Park’s subsidiary Apple Valley Ranchos (“AVR”), had also requested that chemicals be included in the MCBA. ORA had again advocated denial of this request citing concerns over whether the immaterial amounts being tracked would ever reach the recovery threshold. This argument was in conjunction with concerns over de-incentivizing companies to affordably source chemical costs.\textsuperscript{197} However, the proposed decision for AVR’s GRC includes language specifically granting this request\textsuperscript{198}.

In keeping with Commission precedent, ORA recommends Park’s request to include chemical costs in the MCBA be approved on the condition that the proposed decision becomes final.

The requests of the company, the needs of the ratepayers, and prior precedence set by the Commission are properly considered in the recommendations set forth in above discussion. Thus the Commission should adopt ORA’s recommendations in regards to Park’s request to modify the WRAM/MCBA.

7. **Employee and Retiree Healthcare Balancing Account**

Park requests that the Commission authorize a new balancing account to track the difference between authorized employee and retiree healthcare expenses included in rates in this proceeding and the costs actually incurred. Park seeks this

\textsuperscript{196} A.11-07-017 Special Request #7.


\textsuperscript{198} A.14-001-002 Finding of Fact #27.
because of the substantial sum of the expense, the volatility of the expense, and the fact that the expense is outside of Park’s control. Additionally, Park seeks similar treatment previously afforded to other water utilities.

ORA does not believe Park has justified its request for an Employee and Retiree balancing account: It has not provided the following support:

1. An increase in projected expense does not in itself justify a need for balancing account treatment. In setting test year revenue requirements, there are always some expenses above test year forecasted expense and some below the forecasts.

2. Park requests similar treatment that was accorded to other water utilities. Park has identified two utilities which have received similar types of balancing accounts. The Employee and Retiree balancing account for one of the utilities resulted from a settlement, which does not provide any precedential value. And just because the other utility received a similar balancing through litigating its request does not mean Park should not have to justify its own request at this time.

3. Circumstances have changed since Apple Valley Water Company’s test year 2012 GRC. Park’s 2016 test year forecast for employee and retiree healthcare has a significant lower escalation factor than what Apple Valley used in its test year 2012. Apple Valley requested a 23% increase in medical costs for 2011 and a further 8.5% increase for 2012. Similarly, it escalates dental in 2012 by 5%, compared to Parks request requests of 7.0% for medical for test year 2016 and its dental request is 4.75% for 2016.

8. **Group Pension Balancing Account request**

Park requests that the Commission authorize a new balancing account to track the difference between adopted pension expenses included in rates in this proceeding and the actual expenses incurred. Park states that it is seeking this account because of the projected increase in pension expense and that market conditions are outside Park’s control, which impact actual asset returns and the appropriate discount factor used by actuaries in determining the pension expenses. Lastly, Park seeks similar treatment previously afforded to other water and energy utilities the Commission regulates.
ORA does not believe Park has justified its request for a group pension balancing account. It has not provided support for the following:

1. An increase in a projected expense does not justify the need for balancing account treatment. In setting test year revenue requirements, there are always some expenses above test forecasted expense and some below the forecasts.

2. Park’s request for similar treatment that was accorded to other water utilities - Park has identified four water utilities which have pension balancing accounts. Two of the utilities received a pension balancing account by settlement, which does not have any precedential value. Additionally, just because two other utilities received pension balancing accounts through litigating their requests does not mean Park should not have to justify its own request at this time. Park has provided no evidence to justify a need for balancing account.

3. Circumstances have changed since those utilities received pension balancing accounts for test years 2010-2012. The market was in a deep recession at that time. For the month of June 2010 the average for the Dow Jones was 9,774. In February 2015, the Dow Jones hit an all-time high of 18,132. This is an increase of over 8,358 points or 85% since June 2010.

9. **Phase-In of Test year Increase**

Park proposes that the Commission give consideration to the phasing-in of the rate increase authorized for the Test Year in this proceeding, providing that any portion of the adopted revenue requirement for 2016 for which recovery is deferred to a subsequent year of the rate case cycle will be recoverable in that year and will accrue interest at the adopted rate of return. Park makes this proposal so that the Commission can consider a mechanism that would “level out” the rate increases over the rate case cycle which, due to the methodologies adopted in the RCP, are typically much larger for the test year than the escalation years.\(^{199}\)

Generally, rate phase-ins should be used for the purpose of avoiding a sudden increase in rates to avoid rate shock. While ORA supports the concept of

assisting economically challenged customers, ORA notes that Park has the California Alternative Rates for Water (“CARW”) program that offers low-income customers individual water bill subsidies to make their bills more affordable. A rate phase-in is merely a payment plan for rate increases. Using rate phase-ins for the purpose of providing support to economically challenged customers may mask the true effectiveness of affordability programs, and would result in higher rates since Park would earn a rate of return on the portion of revenues that is deferred.

ORA is not opposed to applying a rate phase-in for customers that are facing a significant rate increase that would result in rate shock. The Commission has previously recognized the usefulness of rate phase-ins when a large rate increase is adopted. For example, in 1983 the Commission issued a memorandum describing its CAPS (deferral of a portion of a general rate increase) policy (See Attachment A at the end of this chapter). In essence this provided a policy (guideline) by which a revenue requirement increase of greater than 50% for Class A water utilities could be phased-in with a cap on revenue requirement increases of 50% per year for up to three years.\(^\text{200}\) Park’s request for this GRC is a 2016 increase of 8.72%, and the final adopted increase is likely to be lower than Park’s request.

Rate phase-ins have traditionally been used to mitigate a sudden increase in rates.\(^\text{201}\) Rate phase-ins are appropriate where substantial rate increases may result in a dramatic increase in rates for customers. However, customers ultimately pay the full cost of the adopted rate increase plus interest at the authorized rate of return on any initially deferred rate increase. This usually results in higher increase to customers than adopted due to compensating the utility at the rate of return on the deferred portion of the revenue requirement not included in rates.

\(^{201}\) Ibid, at 1.
Due to the proposed rate increase by Park in this GRC, a phase-in is not appropriate. Also, based upon ORA’s recommended revenue requirement which is significant less than the 50% Class A benchmark, the Commission should disallow Park’s request to phase-in the test year increase.

D. CONCLUSION

For reasons discussed in each Special Request, the Commission should find ORA’s discussion reasonable and adopt its recommendation.
ATTACHMENT A

CAPS Standard Procedure
Memorandum

Date: February 22, 1983

To: Professional Staff

From: Public Utilities Commission — San Francisco — W. R. Ahern, Director, Utilities Division
       B. A. Davis, Director, Revenue Requirements Div.

File No.: 

Subject: CAPS Standard Procedure

Purpose

The purpose of this memorandum is to provide the Commission staff and interested parties with a standardized procedure to implement the Commission’s adopted policy on CAPS (deferral of a portion of a general rate increase) for water utilities.

Background

At the Commission Conference on February 4, 1982, the Commission approved a staff recommended policy limiting rate increases for water utilities (Attachment No. 1). This policy provided for deferral of that portion of general rate increases in excess of 50% for large water utilities and 100% for the smaller water utilities. This policy was adopted to mitigate the impact of a large rate increase on the utility’s customers.

At the Commission Conference on August 18, 1982, the Commission approved a staff recommended policy on CAPS that the rates be reduced to the adopted level as soon as the deferred revenues are provided to the utilities (Attachment No. 2). This modification of the CAPS policy insures that the rates to recover the deferred revenues plus interest would be above the adopted level for the minimum period of time.
Citizens Utilities Company petitioned for a rehearing on the method of computation of interest on the deferred revenues contending that the monthly compounding method should be used instead of the simple annual method. The Commission in Decision 82-11-054, dated November 17, 1982, affirmed the simple annual method of compensation shown on Appendix E of the following decisions: 82-03-023, 82-04-009, 82-04-017, 82-05-033, and 82-05-076.

The recommended standard procedures to implement CAPS were distributed for analysis, review, and comments. The following standard procedure is a consensus of the reviewing Commission staff.

Criteria/Ground Rules

The following basic criteria (or ground rules) shall be used for rate increases in excess of 50% for large (Class A) water utilities or 100% for small water utilities. The procedures in this Memorandum are equally applicable to smaller (Class B, C, and D) water utilities by substituting 100% where the text reads 50%.

1. The initial increase shall not exceed 50% except: (1) in the case where the total deferred revenue including interest cannot be recovered in three years with the 50% limitation, and (2) in the case where the 50% limit would be insufficient to meet operating expenses. In the first case, approximately equal percentage increases should be used for the initial increase and the succeeding annual step increases. In the second case, the increase should be sufficient to eliminate a negative return. In all cases, the recovery should occur in three years to permit filing for further relief as prescribed in the Water Regulatory Lag Plan.

2. Step rates for both deferred revenues and attrition shall be authorized at 12-month intervals effective on the first of the month following the anniversary date of the decision authorizing the rate increase. This deviation from the present policy of attrition step rates being effective on January 1 shall only be applicable where there is a CAP on the amount of the annual rate increase.
3. Interest on the deferred rate increase (deferred revenues) shall be computed as simple interest on an annual basis. The annual interest rate shall be the authorized rate of return on rate base or such other rate as the Commission finds as reasonable in the decision authorizing the rate increase.

4. In cases with multiple test years, any attrition allowance (step rate increases) shall be included in the CAP of 50% in any one year. However, any increase in gross annual revenues associated with adopted levels of customer growth shall be excluded in the CAP of 50% in any one year.

5. The deferred rate increase revenues including interest shall be recovered in the first step rate increase, provided that the gross increase does not exceed 50%; otherwise, the balance of the deferred revenue plus interest will extend into a second step (year).

6. The decision shall provide for a final step to reduce the rates to the level of the adopted gross revenues for the latest test year.

7. The incremental rates (deferred revenue including interest) that are greater than the adopted revenues shall not be used in the summary of earnings filed with advice letter filings for attrition step rate increases.

Sample Computations

Sample computations for some typical rate case situations are shown on Attachments Nos. 3, 4, and 5. These examples are not meant to be all inclusive. Each rate case, where the 50% CAP is implemented, will ultimately be handled on a case-by-case basis using the criteria and ground rules contained herein.
Attachment No. 3 shows an example of the Appendix to Commission decisions for the following conditions:

1. Single test year
2. No attrition
3. No adopted customer growth
4. Two-year deferred revenue recovery period.

Attachment No. 4 shows an example of the Appendix to Commission decisions for the following conditions:

1. Three test years
2. Attrition step rates
3. Adopted customer growth in second and third test years
4. Two-year deferred revenue recovery period

Attachment No. 5 shows an example of the Appendix to Commission decisions for the following conditions:

1. Very large (123.5%) increase for Class A utility
2. Single test year
3. No attrition
4. No adopted customer growth
5. Three-year deferred revenue recovery period

RHB:KL

Attachments
MEMORANDUM

January 28, 1982

(for February 4 Conference)

COMMISSIONERS
J. E. Bryson, President
R. D. Gravelle

L. M. Grimes
V. Calvo
P. C. Greer

FROM: Public Utility Commission — San Francisco

File No.: 076

SUBJECT: "Capes" for water Utility Rate Increases (for Commission consideration at the February 4, 1982 Conference)

RECOMMENDATIONS: The following policy be established as a guideline to staff in water utility rate proceedings:

1. For the large utilities that regularly file for rate relief, the staff will recommend that relief be granted with step increases for recommended increases in excess of 50%.

2. For the smaller utilities that file infrequently for rate relief, a cap of 100% should be used, with deviations granted in accordance with criteria specified below.

DISCUSSION: In response to a discussion at the conference of January 5, 1982, staff indicated that it would provide the Commission with a recommendation on "capes" for water company increases.

The primary advantage of a cap is that the burden placed on consumers in any year would be limited and rate increases would occur in a more orderly manner. Consumers would thereby be better able to budget for utility increases during this period of rapid inflation. The main disadvantage of an imposed cap is the question of fairness and proper notice, especially since such a cap would inflict the greatest hardship on the smaller water companies. Another disadvantage is the possibility that the smaller companies would react by seeking rate increases at shorter time intervals, and more frequent rate cases would increase the staff workload to levels that may be difficult to manage and impose higher average rates to consumers.

To determine the extent of the problem, rate increase requests over the last two years were reviewed. The larger water utilities filed 26 applications for rate increases, of which 7 were authorized increases in excess of 50%. Six of these were applications by PG&E for a 1980 test year, and rate relief was authorized as step increases in view of the lengthy period since the prior filings. The other was the increase authorized for Park Water Company for one of its small districts in November 1981.

The smaller water companies filed 63 advice letters for general rate increases, of which only 1 in excess of 100% was granted. Spring Crest Water and Power Company, which serves 15 customers near Palm Desert, Riverside County, was authorized a rate increase of 233% on October 8, 1980. However, this increase produced only $2,520 in additional revenue and still resulted in a negative rate of return. It should also be noted that 9 companies were authorized increases of 100% and that some of these were influenced by the staff to temper their requests.
In view of the potential problems if the Commission issued a notice prescribing a cap for water increases, we recommend that the Commission establish the following policy.

Except for unusual circumstances which will be completely documented, staff will recommend stop increases for the larger utilities for any rate requests in excess of 50%. Any attrition allowance will be subject to this cap of 50% in any one year.

For the smaller utilities filing advice letters or formal applications for general rate increases, staff will not recommend increases in excess of 100% unless:

1. A larger increase would be required to eliminate a negative rate of return or out of pocket loss.

2. A large increase is based on large investment for new facilities primarily to improve service.

EDT/WRA.s

c: J. E. Badovitz
Division Directors
Memorandum

Date: Conference of August 18, 1982

President Bryson
Commissioner Gravelle
Commissioner Grimes
Commissioner Calvo
Commissioner Crow

To: J. E. Kerr, General Counsel
W. R. Ahern, Director, Utilities Div.
B. Barkovich, Director, Policy Div.

From: Public Utilities Commission—San Francisco

File No.

Subject: Implementation of "Caps" for Water Utility Rate Increases (for Commission Consideration at the August 18, 1982 Conference)

Recommendation: The staff recommends that rates for water utilities subject to a cap be reduced to the adopted level as soon as the revenues deferred due to the cap are provided to the utilities.

Discussion: At the February 4, 1982 Conference, the Commission approved a general policy: limiting annual rate increases to 50% for large water utilities and 100% for small water utilities. The Commission further indicated that any deferred revenues would be provided to the utilities with interest. In attempting to implement this policy, a pivotal issue emerged. After the deferred revenues are returned to a utility, should the rates be reduced back to the adopted level or be allowed to remain at the level set to provide the deferred revenues and interest (authorized level)? The attachment presents a graphical representation of the two methods.

The advantage of the staff method is that the rates would be above the proper adopted level for the shortest time. The disadvantage would be the possibility of rate instability if the deferred revenues are repaid in year 2, rates are reduced to the adopted level in year 3 and the utility files for and receives another rate increase beginning in year 4. If the utility does not file for a rate increase in year 3, however, and the higher rates are not reduced after the revenues are returned, the customers would be paying an unauthorized rate increase beginning in year 4. Utilities do not automatically file for rate increases every three years, and they might have an incentive not to file if the authorized revenues were larger than the proposed increases. This would be another advantage of the staff method.

Alternative: The initial decision draft in Application No. 60253 used the staff recommended method in ordering the recovery of deferred revenues in one year and then reducing the rates to the adopted level in year 3. However, at the conference of May 18, 1982, the Commission, in issuing Decision No. 82-05-076 in that proceeding, selected the alternative method of spreading the deferred revenues equally over years 2 and 3 and keeping the rates at this higher level for year 4. This results in more stable rates for those years, assuming that the utility receives a rate increase in the fourth year.

cc: J. D. Reader
    N. J. Purcell
    W. E. Franklin

12-30
Test Year Year 2 Year 3 Year 4

Reconciled Method

Deferred Revenues, including Interest

Adopted Rates

Authorized Rates

50% Cap

Present Rates

Alternate Method

Authorized Rates

Adopted Rates

Deferred Revenues, including Interest

50% Cap

Present Rates

Revenues to be Deferred

Authorized level represents the adopted revenues plus the deferred revenues, including interest in Year 2 and Year 3.
**ATTACHMENT NO. 3**

**NO ATTRITION - SINGLE TEST YEAR**

**DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983**

(Dollars in Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Adopted</th>
<th>Adjustment</th>
<th>CAPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>Effective Date - April 1, 1983</td>
<td>$438.5</td>
<td>$438.5</td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adopted</td>
<td>787.9</td>
<td>657.8</td>
</tr>
<tr>
<td></td>
<td>Increase</td>
<td>349.4 79.7%</td>
<td>219.3 50%</td>
</tr>
<tr>
<td>1984</td>
<td>Effective Date - April 1, 1984</td>
<td>787.9</td>
<td>657.8</td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td>787.9</td>
<td>933.6</td>
</tr>
<tr>
<td></td>
<td>Adopted</td>
<td>$130.1 + $15.6</td>
<td>275.8 41.9%</td>
</tr>
<tr>
<td></td>
<td>Increase</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>Effective Date - April 1, 1985</td>
<td>787.9</td>
<td>933.6</td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td>787.9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adopted</td>
<td>787.9</td>
<td>787.9</td>
</tr>
<tr>
<td></td>
<td>Increase (Decrease)</td>
<td>-</td>
<td>(145.7)(15.6%)</td>
</tr>
</tbody>
</table>

**COMPUTATIONS**

**Deferred Amount**

\[
\text{Deferred Amount} = 349.4 - 219.3 = 130.1
\]

**Interest**

\[
\text{Interest} = 130.1 \times (12.0\%) = 15.6
\]

**Accumulated Revenues**

<table>
<thead>
<tr>
<th>Year</th>
<th>Adopted</th>
<th>CAPS</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983-85</td>
<td>$2,363.7</td>
<td>$2,379.3</td>
<td>$15.6</td>
</tr>
</tbody>
</table>
### ATTRITION - THREE TEST YEARS

**DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983**

(Dollars in Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Adopted</th>
<th>Adjustment</th>
<th>CAPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present</td>
<td>$438.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adopted</td>
<td>787.9</td>
<td></td>
<td>657.8</td>
</tr>
<tr>
<td>Increase</td>
<td>349.4</td>
<td>79.7%</td>
<td>219.3</td>
</tr>
<tr>
<td>1984</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present</td>
<td>791.2</td>
<td></td>
<td>660.2</td>
</tr>
<tr>
<td>Adopted</td>
<td>842.8</td>
<td>130.1 + 15.6</td>
<td>988.5</td>
</tr>
<tr>
<td>Increase</td>
<td>51.6</td>
<td>6.5%</td>
<td>328.3</td>
</tr>
<tr>
<td>1985</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present</td>
<td>847.8</td>
<td></td>
<td>992.1</td>
</tr>
<tr>
<td>Adopted</td>
<td>902.8</td>
<td></td>
<td>902.8</td>
</tr>
<tr>
<td>Increase/(Decrease)</td>
<td>55.0</td>
<td>6.5%</td>
<td>(89.3)</td>
</tr>
</tbody>
</table>

* The following increases results from customer growth:

<table>
<thead>
<tr>
<th>Year</th>
<th>Adopted</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>$3.3</td>
<td>$2.4</td>
</tr>
<tr>
<td>1985</td>
<td>$5.0</td>
<td>$3.6</td>
</tr>
</tbody>
</table>

** The following increases results from attrition:

<table>
<thead>
<tr>
<th>Year</th>
<th>Attrition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>$51.6</td>
</tr>
<tr>
<td>1985</td>
<td>$55.0</td>
</tr>
</tbody>
</table>

### COMPUTATIONS

**Deferred Amount**

$349.4 - $219.3 = $130.1

**Interest**

$130.1 \times (12.0\%) = $15.6

### Accumulated Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Adopted</th>
<th>CAPS</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983-1985</td>
<td>$2,533.5</td>
<td>$2,549.1</td>
<td>$15.6</td>
</tr>
</tbody>
</table>

**Note:** Note that the total dollar amount of deferred revenue and payback (interest) are not affected by customer growth and attrition. However, the percentage amount of the annual increases are changed. (See Attachment No. 3.)
NO ATTRITION - SINGLE TEST YEAR
DECISION DATE - MARCH 20, 1983; EFFECTIVE DATE - APRIL 1, 1983
(Dollars in Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Effective Date</th>
<th>Adopted</th>
<th>Adjustment</th>
<th>CAPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>April 1, 1983</td>
<td>$170.0</td>
<td>$170.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td>380.0</td>
<td>255.0</td>
<td>85.0-50%</td>
</tr>
<tr>
<td></td>
<td>Adopted</td>
<td>380.0</td>
<td>382.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increase</td>
<td>210.0 123.5%</td>
<td>127.5--50%</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>April 1, 1984</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td>380.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adopted</td>
<td>$380.0 \sqrt{2.2 + 0.37}$</td>
<td>532.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increase</td>
<td>-</td>
<td>149.8--39.2%</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>April 1, 1985</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td>380.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adopted</td>
<td>$380.0 \sqrt{22.8 + 29.5}$</td>
<td>380.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increase</td>
<td>-</td>
<td>(152.3)--(28.6%)</td>
<td></td>
</tr>
</tbody>
</table>

**COMPUTATIONS**

**Deferred Amount**

$210 - $85.0 = $125.0

**Distribution**

\[ \text{1984} = \$ (255.0 \times 1.5 - 380.0) + 1.12 = \$2.2 \]

\[ \text{1985} = \$ 125.0 - 2.2 = \$122.8 \]

**Interest**

\[ \text{1984} = 2.2 \times 12\% = \$0.3 \]

\[ \text{1985} = 122.8 \times 12\% \times 2 \text{ yrs.} = \$29.5 \]

**Accumulated Revenues**

<table>
<thead>
<tr>
<th></th>
<th>Adopted</th>
<th>CAPS</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983-1986</td>
<td>$1,520.0</td>
<td>$1,549.8</td>
<td>$29.8</td>
</tr>
</tbody>
</table>

\[1/\] Note that the 50% CAP for Test Year 1984 requires that the deferred revenue is recovered in Test Year 1985.

\[2/\] The factor 1.12 is a combination of principal (1.0) plus interest (12.0%).

12-34
CHAPTER 13: MISCELLANEOUS REVENUE

A. INTRODUCTION

Included in Park’s request for this GRC is the forecasted miscellaneous revenue in Test Year 2016. This other miscellaneous revenue consists of revenue from NTP&S contracts, reconnection fees, and late fees and are earned through means other than the production and sale of tariffed rates for water service.

B. SUMMARY OF RECOMMENDATIONS

The inclusion of a new NTP&S contract, removal of incremental costs associated with all NTP&S contracts, and adjustment to late fee forecasting methodology leads ORA to recommend a Test Year 2016 forecast for miscellaneous revenues of $497,631. The difference between Park & ORA is outlined in the table 13-1.

<table>
<thead>
<tr>
<th>Table 13-1 Miscellaneous Revenue Recommendation Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park</td>
</tr>
<tr>
<td>$390,674</td>
</tr>
</tbody>
</table>

C. DISCUSSION

In workpapers, Park provided the recorded revenues for the prior five years for late fee payments and reconnection fees. Reconnection fees are forecasted based on annualized revenues from data recorded from the beginning of 2014 through August of the same year. Late fee revenue is forecasted based upon a five-year average of recorded numbers.

Also included in Parks workpapers is the excess capacity forecast that outlines specific contracts the company has entered into in the provision of miscellaneous services. These services include contracts to operate other water systems and the facilitation of marketing services for an insurance company. Park

---

202 CB Miscellaneous revenues 16rr Cell ‘J7’.
estimates the ratepayer’s share of revenues using the rules outlined in D.11-10-034 regarding Non-Tariffed Utility Services.

**ORA Review**

Through a thorough review of the workpapers, discussions with Park employees, email exchanges, & data requests, ORA provides a comprehensive review in the following sections of the Miscellaneous Revenues.

**1. Late Payment Fees**

Park forecasted late payment fees into the test year by averaging the prior five years of recorded data. It contends that this five year average takes into account data that could be less representative than what will actually be experienced in the test year. In Park’s case, the revenues from late payment fees have been steadily increasing starting in 2011. Further review of the updated workpapers, demonstrated that the revenues from these fees increased even further in 2014. It is ORA’s recommendation that revenues from over four years ago should not be used when calculating a reasonable estimate into the test year. Thus, ORA instead recommends a three year average of 2012-2014 recorded revenues to forecast test year 2016 late payment fees. The 3-yeare average provides a more representative trend of the steady increase in late payment fees. Park forecasts $120,700 into the test year as compared to ORA’s forecast of $133,500. The difference between forecasts is approximately $12,800.

**2. Changes to Excess Capacity Forecast**

a) **Inclusion of Incremental Costs**

Park asserts that the costs associated with the service of NTP&S contracts should be deducted from the revenues received from the performance of said contracts. In testimony the company asserts:

“With the issuance of the Excess Capacity Rules, Park started to allocate 10% of the revenues to ratepayers, but did not change the allocation of the expenses to eliminate the reduction to utility expense or establish the $100,000 sharing threshold. Ratepayers...”
were not harmed by this accounting, since use of the fully-allocated method resulted in reduction to utility expense that generally exceeded $100,000. Commission Staff has reviewed this methodology in prior GRCs and has not taken issue with it. However, Park believes that it is not the appropriate accounting for NTPS and has therefore revised its accounting to include non-incremental costs in utility expense and to allocate the first $100,000 entirely to ratepayers.  

The issue of whether or not to include incremental costs in the NTP&S calculation was fully litigated in Decision 11-10-034. This included uniform guidelines for the use of regulated assets in a non-tariffed capacity. In no uncertain terms this decision states that “no incremental investments, costs, and taxes due to non-tariff utility products & services should be absorbed by the utility shareholders, i.e., not recovered through tariff rates.” This decision clearly states that incremental costs are not to be included in the NTP&S forecast. Therefore, consistent with D.11-10-034, ORA removes these forecasted costs $188,256 from the NTP&S calculation. This has an effect of approximately $18,800 on the 2016 test year.

b) Addition of New NTP&S Contracts

During discovery, ORA learned that Park had entered into an additional operation & maintenance service contract for the City of Bell Gardens. Revenue from this contract amounts to approximately $230,000 received during the test year. Arriving at a more representative forecast for test year 2016, Consistent with the Commission’s treatment of NTP&S, ORA added to its NTP&S forecast the allocation of the revenues associated with the City of Bell Garden’s contract with an effect on the test year of approximately $23,000.

In addition to the new City of Bell Garden’s contract, Park renewed an existing contract with the Central Basin Metropolitan Water District (“CBWMD”)

---

Exhibit B – Revenue Requirements Report.
for the operation & maintenance of their ‘Century System’. This contract was renewed as of March 23, 2015 with projected revenues of $282,000 in 2016.\textsuperscript{204}

ORA also included this in the NTP&S calculation forecast with an effect on the test year of approximately $28,000.

c) Forecasting Methodology

Park developed its excess capacity forecast, also known as Non-Tariffed Products & Services (“NTP&S”), through a series of steps outlined in workpapers filed within this application. The company forecasts five NTP&S contracts into the test year. These contracts specify the finite dollar amounts received for each year that Park renders its services. In workpapers, each contract is presented with the amounts to be received each year over a four year period (2015-2018). By summing the yearly revenues for each contract, the company arrives at a total amount for each year. The totals for years 2016-2018 are then averaged to arrive at Park’s test year estimate; or a three year forecasting methodology.

ORA generally disagrees with the use of Park’s three year average forecasting methodology. Due to the finite & predictable nature of the contracts Park has entered into, revenues can be accurately forecasted into the test year. Also the use of a three year average projects an amount lower than what is purported to be received. With the inclusion of the additional contracts and exclusion of the incremental expenses to calculate the test year forecast; Park projects the ratepayer share of excess capacity in 2016 to be $148,000. ORA instead recommends that the actual revenues to be received from the five contracts in 2016, be the basis of the test year forecast; or a ratepayer share of $186,000. This recommendation has an effect on the test year of approximately $38,000.

\textsuperscript{204} See Email Exchange Between ORA & Rate Analyst Tiffany Thong “RE: Park GRC 2016 – Miscellaneous Revenues” Dated April 20, 2015.
3. Reconnection Fees

In the initial application workpapers, Park had forecasted the test year reconnection fees by annualizing eight months of data from 2014. Applying this most recent data to test year 2016 resulted in an estimate of $183,242. Upon following up with a rate analyst employed with Park, she provided updated 2014 recorded data via email. Reconnection fee revenue in 2014 was slightly higher than initially forecasted in the workpapers. Park had explained that the company used the most recent recorded year to determine the test year due to the implementation of a reconnection fee increase in mid-2013. Overall, ORA does not disagree with this methodology. However, ORA recommends that the more recent recorded data available for 2014 be used to calculate the forecast. The effect on test year 2016 is a revenue reduction of approximately $5,200.

D. CONCLUSION

ORA thoroughly reviewed the estimates and calculations provided for miscellaneous revenues. Working with a counterpart at Park, a highly reliable forecast was created that accurately portray the revenues likely to be experienced in the test year. Considering the above, ORA recommends that the Commission adopt ORA’s estimates for miscellaneous revenues.

\[205\] ‘CB Miscellaneous Revenues 16’ Cell L7.
\[206\] See Email Exchange Between ORA & Rate Analyst Tiffany Thong “Park GRC 2016 – Miscellaneous Revenues” Dated February 24, 2015.
CHAPTER 14: RATE DESIGN

A. INTRODUCTION

This chapter presents ORA’s analysis and recommendations on Park’s proposed rate design. This includes a request to continue its conservation rate design program. Additionally, the company requests updating the breakpoint delineation between Tier 1 and Tier 2 for residential metered service. The monthly breakpoint currently stands at 10ccf, and Park requests this be updated to the lower 9ccf to reflect current consumption levels.

Park currently provides service under the following tariff schedules:

<table>
<thead>
<tr>
<th>Schedule No.</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>PR-1-R</td>
<td>Residential Metered Service</td>
</tr>
<tr>
<td>PR-1-NR</td>
<td>Nonresidential Metered Service</td>
</tr>
<tr>
<td>PR-4F</td>
<td>Non-Metered Fire Sprinkler Service</td>
</tr>
<tr>
<td>PR-5</td>
<td>Fire-Flow Testing Charge</td>
</tr>
<tr>
<td>PR-6</td>
<td>Reclaimed Water Service</td>
</tr>
<tr>
<td>PR-9CM</td>
<td>Construction and Other Temporary Meter Service</td>
</tr>
<tr>
<td>LC</td>
<td>Late Payment Charge</td>
</tr>
<tr>
<td>UF</td>
<td>Public Utilities Commission Reimbursement Fee</td>
</tr>
<tr>
<td>CARW</td>
<td>California Alternative Rates for Water</td>
</tr>
<tr>
<td>CARW-SC</td>
<td>California Alternative Rates for Water Surcharge</td>
</tr>
</tbody>
</table>

B. SUMMARY OF RECOMMENDATIONS

For the residential tariff, ORA agrees that the current conservation rate design in place achieves desired conservation goals. ORA recommends that this rate design remain in place. Additionally, Park requested updating the monthly breakpoint between tier 1 and tier 2. ORA contends that this request is reasonable and does not contest the change of breakpoint from 10ccf to 9ccf monthly.
For the non-residential tariff, Park contends that an increasing block rate design would not send appropriate price signals to customers due to variations in usage. Therefore, Park recommends that the single quantity rate design be continued.

ORA generally agrees that the rate design methodology developed by Park is reasonable, however the exact quantity rate for each tariff needs to be updated to reflect the revenue requirement determined in this proceeding.

C. DISCUSSION

1. Residential Customers

Park currently provides water service under the residential customer tariff using an increasing block rate design. This design includes two blocks, or tiers, to promote conservation. Specifically, the two tiers are implemented based on seasonal consumption patterns. The Tier 1 rate block is based on the approximate winter usage. The use of this dataset during this time period demonstrates indoor water use as it typically does not include lawn and garden applications. The Tier 2 block rate includes all consumption above this level, usually consisting of outdoor water usage. Currently the two tiers are set with a price differential of 15%. These two tiers comprise the quantity charge that is set such that it amounts to 75% of the revenue for each bill. This practice satisfactorily applies the best management practices outlined by the California Urban Water Conservation Council.\(^\text{207}\) The company asserts that this rate design methodology adequately results in promoting conservation measures while refraining from being punitive in nature.

Park is currently requesting that the general rate design methodology remain the same, but the numerical tier breakpoint be updated. As conservation efforts have driven total consumption downward, it requests that the breakpoint be

\(^\text{207}\) CUWCC BMP II.
updated to more recent 2013 data. This midpoint according to workpapers in
monthly usage is 9.16 ccf\textsuperscript{208} after adjusting for outdoor water use. Park asks that
this tariff be updated to a rounded 9 ccf monthly in the tariff. This is compared
with the current breakpoint of 10 ccf.

Overall, the current rate design in place has satisfactorily promoted
conservation efforts. The company has seen a dramatic reduction in water
consumption since this rate design methodology has been implemented in the last
quarter of 2008.\textsuperscript{209} Since implementation it has led to an approximate decrease of
18.6\%\textsuperscript{210} in total water consumption by the residential customer class. ORA
reviewed the most recent Department of Drinking Water’s regulatory framework
tiers to implement Governor Jerry Brown’s April 1, 2015 Executive Order for
mandatory 25\% urban water use reductions.\textsuperscript{211} Park’s residential Gallons Per
Capita Per Day (GPCD) for the June 2014-February 2015 period stands at 55.6
GPCD. At this level of consumption, Park falls in Tier 2 at which DDW has set a
Conservation Standard of 8\%. Park’s achieved conservation from the 2013 base
level to 2014-2015 is at 8\%.\textsuperscript{212} This means that Park is not required to cut back
any further, but must maintain this level of reduction and not exceed it during the
mandatory conservation period which would end in February 2016, unless
extended\textsuperscript{213}. Therefore, ORA believes that maintaining the same rate design
methodology will continue to produce the desired conservation effects.

\textsuperscript{208} CB Bill Tabulation 16-r.
\textsuperscript{209} Conservation OII (1.07-01-022).
\textsuperscript{210} Central_Basin_Forecast_oct15 (Final) ‘3) Res Forecast’ Cell F2 as reference point.
\textsuperscript{211} Urban Water Suppliers and Proposed Regulatory Framework Tiers to Achieve 25\% Use
Reduction.
\textsuperscript{212} It’s ORA’s understanding that this reduction was calculated by DDW based on Park’s total
water production (gallons) from 2013/2014 (Jun-Feb) and 2014/2015 (Jun to Feb). These
reductions would capture all customer classes and unaccounted for water.
\textsuperscript{213} Proposed Text of Emergency Regulation Article 22.5 Sec. 865 Mandatory Actions by Water
Suppliers paragraph (c)(3).
When consumption levels decrease, it is necessary to modify the tariff to reflect this change. As a result of conservation efforts, the midpoint in winter consumption has fallen, so it is reasonable to investigate updating the breakpoint between the two tiers. The workpapers supporting Park’s request provided water use per bill on a monthly basis. Based on this data, the calculation used in arriving at the breakpoint average was an accurate 18.32ccf bi-monthly (9.16ccf monthly).

ORA does not contest Park’s update of the breakpoint between Tier 1 and Tier 2 volumetric rates. The result of this recommendation is outlined in Table 14-1.

<table>
<thead>
<tr>
<th></th>
<th>Current Tariff</th>
<th>Park</th>
<th>ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>0-10 ccf</td>
<td>0-9 ccf</td>
<td>0-9 ccf</td>
</tr>
<tr>
<td></td>
<td>$4.787</td>
<td>$5.310</td>
<td>$5.310</td>
</tr>
<tr>
<td>Tier 2</td>
<td>Over 10 ccf</td>
<td>Over 9 ccf</td>
<td>Over 9 ccf</td>
</tr>
<tr>
<td></td>
<td>$5.505</td>
<td>$6.107</td>
<td>$6.107</td>
</tr>
<tr>
<td>Price Differential</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
</tbody>
</table>

2. Non-Residential Rate Design

Park proposes retaining a single quantity rate for non-residential customers in its service areas because developing increasing block rates is not currently feasible. It is further added that to adequately implement a block rate design would likely require customer reclassification coupled with other intricate rate design methodologies. The company continues to assert that by setting the quantity rate at 75% of the total bill, as is currently the case, it sends adequate price signal to promote conservation. The service charges for meter size are currently the same as the residential tariff.

ORA evaluated the total consumption for this customer class to demonstrate conservation. Workpapers demonstrated that this rate design did

---

satisfactorily encourage conservation with an approximate reduction of 14% over a five year period for Bi-monthly users, and a 44% reduction for monthly water users. It is generally agreed that this rate design methodology has created the desired conservation effect. ORA does not contest Park’s rate design methodology for the non-residential rate tariff.

3. Other Rate Tariffs

The Reclaimed water tariff is determined by calculating the differential between MWDSC treated water and CBMWD recycled water rates. In effect, this applies the same rate design methodology as the non-residential tariff, but the savings between the two water classifications are passed onto ratepayers.

For tariff schedule fire service, Park proposes increasing the monthly charges as a percentage of the overall rate increase granted in this GRC.

ORA does not contest either the reclaimed water tariff nor the fire service tariff rate design methodology.

D. CONCLUSION

With an overall aim of meeting water conservation targets, and considerations given to the overall affordability of water service across all customer classes; the rate design recommendations outlined above are both sensible and practical. Thus it is recommended that the commission adopt ORA’s recommendations for rate design.

---


CHAPTER 15: ESCALATION YEARS INCREASE

A. FIRST ESCALATION YEAR

As required in the Rate Case Plan, Park is required to file its Escalation Years 1 and 2 rate increase by requesting by Tier 1 advice letter no later than 45 days prior to the first of the escalation year. The advice letter filing should include all calculations and documentation necessary to support the requested rate change. The requested rate increase should be subject to the pro forma earnings test, as specified in D.04-06-018. The Commission’s Water Division and Audits (“DWA”) will review the requested step rates to determine their conformity with the decision in this GRC. These rates will go into effect upon DWA’s determination of compliance. DWA will inform the Commission if it finds that the proposed rates are not in accord with the GRC decision. The Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than January 1, 2016. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year, the Commission will grant an attrition adjustment for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues. The revenue change shall be calculated by multiplying ORA’s forecasted inflation

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]

\[ \text{OR} \times \text{Inflation Rate} \]
rate and operational attrition plus financial attrition times adopted rate base in 2017 times the net-to-gross multiplier.

C. ESCALATION YEARS’ REVENUE REQUIREMENTS

Table 15-1 below shows the Summaries of Earnings for Escalation Years 2016 and 2017. To obtain the increases in these years, D.04-06-018 and D.07-05-062 require water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 15-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility’s advice letter.
<table>
<thead>
<tr>
<th>Item</th>
<th>ORA</th>
<th>ORA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>(A)</td>
<td>(B)</td>
</tr>
<tr>
<td>Operating Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Metered Water Svs. Revenue excluding</td>
<td>34,180.0</td>
<td>34,770.0</td>
</tr>
<tr>
<td>PUC Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Other Water revenue</td>
<td>497.6</td>
<td>497.6</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>34,677.6</td>
<td>35,267.6</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation &amp; Maintenance</td>
<td>14,108.7</td>
<td>13,615.3</td>
</tr>
<tr>
<td>Administrative and General</td>
<td>8,322.8</td>
<td>8,591.5</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>2,514.9</td>
<td>2,514.9</td>
</tr>
<tr>
<td>Taxes Other Than Income</td>
<td>63.7</td>
<td>63.7</td>
</tr>
<tr>
<td>Taxes Other Than Income</td>
<td>1,195.9</td>
<td>1,272.0</td>
</tr>
<tr>
<td>CCFT</td>
<td>445.9</td>
<td>493.9</td>
</tr>
<tr>
<td>FIT</td>
<td>1,570.1</td>
<td>1,767.5</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>28,222.0</td>
<td>28,318.8</td>
</tr>
<tr>
<td>Net Income</td>
<td>6,455.6</td>
<td>6,948.8</td>
</tr>
<tr>
<td>Ratebase</td>
<td>71,143.2</td>
<td>76,604.7</td>
</tr>
<tr>
<td>Rate of Return</td>
<td>9.07%</td>
<td>9.07%</td>
</tr>
</tbody>
</table>

(Dollars in Thousands)

**Table 15-1**

PARK WATER COMPANY

SUMMARY OF EARNINGS (Escalation Years @ Proposed Rates)
QUALIFICATIONS AND PREPARED TESTIMONY
OF
VICTOR CHAN

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

A1. My name is Victor Chan and my business address is 320 West 4th Street, Suite 500, Los Angeles, California. I am Senior Utilities Engineer Specialist, in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from Cal Poly, Pomona with a Bachelor of Science in Mechanical Engineering. I am a registered mechanical engineer with the State of California.

Q3. Briefly describe your professional experience.

A3. I have been employed by the Commission since August 1996. From 1996 to 2003, I worked as an utilities engineer for the Transportation and Utility Safety Enforcement Division where I performed safety audits on various gas, electric, telephone and cable utilities. From 2003 to present, I have been working as a Senior Utilities Engineer for the Water Branch of ORA and served as a project manager for general rate cases of various water companies in California.

Q4. What is your responsibility in this proceeding?

A4. I am the project lead in the Park GRC. I am also sponsoring the Memorandum, Executive Summary, Chapter 1- Summary of Earnings, Chapter 4- New Positions, Chapter 8- Taxes Other than Income, Chapter 9- Income Taxes, Chapter 12- Special Requests (Level Payment Plan), and Chapter 15- Step Rate Increase.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.
QUALIFICATION AND PREPARED TESTIMONY
OF
JEFFREY ROBERTS

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

A1. My name is Jeffrey Roberts and my business address is 320 W 4th Street, Los Angeles, CA 90028. I am a Public Utilities Regulatory Analyst (PURA) in the Water Branch of the Office of Ratepayer Advocates (ORA).

Q2. Please summarize your educational background and professional experience.

A2. I received a Bachelor of Science Degree in Finance from the Richard Stockton College of New Jersey in 2011. In April of 2013 I joined the Commission, where I worked as a Regulatory Analyst on a variety of assignments including advice letters, application filings, and general rate case proceedings. My experience includes duties as project coordinator for Great Oaks Water Company application for debt issuance (A.14-01-023), analyzing portions of A&G expenses and payroll for the Cal-Am GRC (A.13-07-002), and review of payroll, income taxes, and memorandum accounts for the Suburban GRC (A.14-02-004). Prior to my role at the commission; I worked as an analyst preparing investment prospectuses for an early-stage green energy company.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 2- Water Consumption and Operating Revenue, Chapter 12- Special Requests (Low Income Assistance Program, Sales Reconciliation Mechanism for Escalation Years, Modifications to WRAM/MCBA), Chapter 13- Miscellaneous Revenue, and Chapter 14- Rate Design.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.
QUALIFICATIONS AND PREPARED TESTIMONY
OF
LAURA KRANNAWITTER

Q.1. Please state your name and business address.
A.1. My name is Laura Krannawitter. My business address is 320 West 4th Street, Suite 500, Los Angeles, CA 90013.

Q. 2. By whom are you employed and in what capacity?
A. 2. I am employed by the California Public Utilities Commission as a Senior Utilities Engineer, specialist.

Q. 3. Please briefly describe your educational background and work experience.
A. 3. I graduated from San Francisco State University with a Bachelor of Science Degree in Engineering with honors, and a Master of Business Administration, with an emphasis in international business. I have a Professional Engineering license in mechanical engineering (#M27421)
I have been employed by the CPUC since 1987. Over the 27 plus years, I have worked on Electric, Gas, Telecommunications, Transportation, and Water matters.
I have worked predominantly as a ratepayer advocate on energy matters, but I have also worked in an advisory capacity to the Administrative Law Judge Division in the energy division (formerly known as CACD), and as an advisor to three Commissioners (Duque(energy/transportation), Kennedy(energy/transportation), and Bohn (water)). I have written resolutions for advice letters, alternate decisions for Commissioners and advocacy testimony for DRA/ORA as well as suggested language for various OIR’s. As of September 2010, I, work on energy, telecommunications and water matters for the Office of Ratepayer Advocates.

Q. 4. What is your area of responsibility in this proceeding?
A. 4. I am responsible for the Chapter 3- Operations & Maintenance, Administrative & General Expenses.
Q. 5. Does this conclude your prepared testimony?

A. 5. Yes, it does.
QUALIFICATIONS AND PREPARED TESTIMONY
OF
MEHBOOB ASLAM

Q.1. Please state your name and business address.
A.1. My name is Mehboob Aslam. My business address is 320 west 4th Street, Suite 500, Los Angeles, CA 90013.

Q. 2. By whom are you employed and in what capacity?
A. 2. I am employed by the California Public Utilities Commission as a Utility Engineer.

Q. 3. Please briefly describe your educational background and work experience.
A. 3. I graduated from the University of Engineering & Technology, Lahore, Pakistan with a Bachelor of Science Degree in Mechanical Engineering, and also graduated from Western Kentucky University with a Master of Science Degree, in Business Administration with an emphasis in Accounting and Finance.
I have been employed by the CPUC since 2001. From 2001 through 2002, I was a member of the Consumer Protection and Safety Division, where I studied energy utilities’ operating practices to enforce the rules and regulations relating to safe use of the plant and workforce. I performed engineering reviews, and conducted incident investigations for both gas and electric utilities. I have also helped resolve customers’ complaints.
From 2002 through present, I have been working for Office of Ratepayer Advocates in its Water Branch; mostly dealing with Class-A water utilities. I have performed evaluations of public utility plant and properties, regulation of utility tariffs and rates, studies of cost of service, and studies of the utility’s operating practices to enforce the rules and regulations relating to ratemaking. I have presented my findings and recommendations as an expert witness at public hearings before the Commission. I have also been actively involved with few of Commission’s OIR/OII proceedings.

Q. 4. What is your area of responsibility in this proceeding?
A. 4. I am responsible for Chapter 5- Utility Plant in Service, Chapter 6- Depreciation Reserve and Depreciation Expenses, and Chapter 7- Ratebase.

Q. 5. Does this conclude your prepared testimony?

A. 5. Yes, it does.
QUALIFICATIONS AND PREPARED TESTIMONY
OF
HANI MOUSSA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).
A1. My name is Hani Moussa and my business address is 320 West 4th Street, Suite 500, Los Angeles, California. I am a Program and Project Supervisor in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.
A2. I graduated from the University of California at San Diego, with a Bachelor of Science Degree in Electrical Engineering. I am a registered electrical engineer in the State of California.

Q3. Briefly describe your professional experience.
A3. I have been employed by the Commission for many years and have testified and worked on many proceedings. I have been employed in the ORA Water Branch since 2005.

Q4. What is your responsibility in this proceeding?
A4. I am responsible for Chapter 10- Water Quality and Customer Service, Chapter 12- Special Requests (Perchlorate Memo Account Request, Include of Subsequent Offset, and Phase-In of Test Year Increase).

Q5. Does this conclude your prepared direct testimony?
A5. Yes, it does.
QUALIFICATIONS AND PREPARED TESTIMONY
OF
JOSE R. CABRERA

Q.1 Please state your name and address.
A.1 My name is Jose R. Cabrera. My business address is 505 Van Ness Avenue, 3rd floor, San Francisco, California 94102.

Q.2 By whom are you employed and in what capacity?
A.2 I am employed by the California Public Utilities Commission as a Public Utilities Regulatory Analyst V in the Office of Ratepayer Advocates’ Water Branch.

Q.3 Please briefly describe your educational background and work experience.
A.3 I am a graduate of California State University, Sacramento, with a Bachelor of Science Degree in Accounting. I also hold a Master of Science Degree in Taxation from Golden Gate University, San Francisco. Prior to the Commission, I worked for the Department of the Treasury, Internal Revenue Service, for 5-1/2 years as an Internal Revenue Agent, and in public accounting with a certified public accountancy firm.

I joined the Commission in 1985, and participated in financial and compliance examinations as well as performed a variety of financial analysis and advisory work in the former Commission Advisory and Compliance Division for three years. From 1988 to 1992 I was a part-time Lecturer of Accounting in the Department of Accounting, School of Business, at California State University, San Francisco. I joined ORA in 1988 and since then have worked on a variety of water, telecommunication and energy matters in general rate cases and other formal proceedings. I have served as the sole lead regulatory tax witness responsible for federal & state income forecasts and tax policy recommendations in general rate cases, advocated regulatory tax policy in other proceedings, as well as provided a variety of advisory work for other divisions within the Commission on matters related to Commission regulatory tax policy. I have been in the Water Branch since 2006, and participate in the analysis of test year expense forecasts.
and policy issues in general rate cases, policy issues in merger and acquisition
applications, and a variety of other matters of Class A Water Companies.

Q.4 What is your area of responsibility in this proceeding?
A.4 I am responsible for the preparation of Chapter 11- Memorandum and Balancing
Accounts.

Q.5 Does that complete your prepared testimony?
A.5 Yes, it does.
QUALIFICATIONS AND PREPARED TESTIMONY

OF
RAYMOND CHARVEZ

Q.1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).
A1. My name is Raymond Charvez. My business address is 505 Van Ness Avenue, San Francisco, CA 94102, I am employed as a retired Annuitant in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.
A2. I graduated from Armstrong College of Business Administration in 1971 with a Bachelor of Science degree in Accounting and have completed subsequent graduate studies in business administration.

Q3. Briefly describe your professional experience.
A3. Since joining the Commission staff in 1971, I have worked on formal matters involving electric, gas, telephone, and water utilities.

Q4. What is your responsibility in this proceeding?
A4. I am sponsoring Chapter 12-Special Requests (Employee and Retiree Healthcare Balancing Account and Group Pension Balancing Account).

Q5. Does this conclude your prepared direct testimony?
A5. Yes.